



## STATES &amp; LOCAL FINANCE

## The IGR Initiative

MARTIN IKE-MUONSO

*Martin Ike-Muonso, a professor of economics with interest in subnational government IGR growth strategies, is managing director/CEO, ValueFrontiera Ltd. He can be reached via email at martinoluba@gmail.com*

**G**RANTED THAT THE ECONOMIC vibrancy and leadership of Lagos State compared to others may be attributable to its previous federal capital territory status and the presence of seaports, the role of its enterprising managers in sustaining it is incontrovertible. Unlike other states in the country, Lagos State has benefited from governors that functioned as if they presided over a sovereign entity. The fruits of this sovereign entity mindset manifest in its relative fiscal successes and comparably high-quality governance. The age of central governments playing the role of the father is fast disappearing in progressive societies, particularly those with better-structured and effective federalism. Post-independence regional governments operated very much in that mode, with each region tapping into their fiscal capacities and comparative advantages to independently raise revenues and unleash regional economic prosperity. The developmental legacies of that era still stand out as outstanding testaments. Under the current federal arrangements, great governance expectations from subnational governments are no different. The challenge lies in how their leaders perceive themselves, which determines the extent of the exploitation of constitutionally granted fiscal, political and administrative autonomy.

Excellent leaders always exhibit high levels of entrepreneurial thinking. Similarly, a sound sovereign-entity mindset must incorporate astute entrepreneurial thinking critical to satisfying fiscal autonomy expectations. Fiscal autonomy is one of the three legs of subnational independence, which entails satisfying revenue expectations and covering expenditure requirements substantially. The other two legs are political and administrative independence. It is, therefore, a no-brainer that only leaders who can most effectively identify and innovatively convert system gaps into opportunities for enhanced revenue and good governance can successfully satisfy the fiscal autonomy requirements. Of course, the innovative system gap conversion process must leverage the constitutional advantages offered by political and administrative independence.

The beauty of federalism is that the underlying shared rule platform confers some measure of independence on states and local governments and the incentive structure for experimentation and open-mindedness. Under the law, state governments have the authority to enact laws, raise tax revenue, and perform other fiscal duties to serve the best interests of their respective citizens. Power-

sharing, interdependence and independence [fiscal, political and administrative] of the component units ensure that each possesses the enablement for managing the needs of their respective sub-nations without necessarily depending on the federal government. To that extent, sub-nationals should not be mere components or political appendages of the federal or state government but possess substantial autonomy to represent a sociocultural and geographical jurisdiction. On the political front, there is a pantheon of properly elected political officeholders with whom they rule themselves and have the authority to preside over local matters. In general, each government enjoys reasonable measures of independent existence without other governments' control.

Unfortunately, yet-to-be-resolved issues around revenue-sharing continue to challenge the claims of subnational fiscal independence. Three of these concerns comprise the vertical sharing ratio, horizontal revenue-sharing, and derivation principle. Regardless of the constitutional backing of the process that created the current revenue-sharing formula, the vertical sharing ratio still lopsidedly favours the federal government. And combined with federal government management and control of natural resources and hydrocarbon exploitation granted by the constitution, they have created weak and dependent subnational governments. First, state and local governments depend on the federal government for the right to exploit their natural resources for development and revenue generation. Therefore, crude oil resources that should otherwise be a revenue source for some oil-producing sub-nationals become federally or collectively owned. Second, for over five decades, many state and local governments denied the primary rights over their natural resources, have no option but to make recourse to statutorily shared revenue to meet the bulk of their obligations. Third, with the eyes of most subnational governments focused on the centre for financial support, they invariably lose not only portions of their fiscal capacity and independence but also their political autonomy. For instance, using the proportion of subnational IGR to total revenue and as a percentage of total expenditures, only about three state governments in Nigeria satisfy the fiscal autonomy criteria. Sadly, fiscal autonomy is a satisfying condition for factual claims on political and administrative autonomy.

The local government system is a typical case of subsumed subnational authority. In a technical sense, it is not a third tier of gov-

# Sovereign-entity mindset for subnational IGR growth

ernment but seemingly in existence for the administrative convenience of state governments, a chunk of which lies within the whims and caprices of the state legislature. Instead of seeing local governments as a different level of government, the states treat them as extensions for conducting administrative functions. Statutory allocations to local governments as "third tier" governments similar to the states and the federal government pass through the former in a joint account. But state governments determine the distribution of these allocations to local governments through their legislature. Again, in the guise of harmonisation of tax revenue, most state governments have hijacked many constitutionally designated revenue sources open to local governments and have indirectly crippled them financially to explore their fiscal capacity.

Regardless of these drawbacks, chief executives of sub-nationals can and should still think like leaders of sovereign entities for four important reasons. The first is that sub-nationals are the closest government structure for facilitating citizens' prosperity and well-being. One of the cardinal goals in the deconcentration and devolution of political, administrative and fiscal authorities to sub-nationals is to bring the government closer to the people and to increase transparency and accountability. Every state and local government is unique in many respects, such as culture, occupational tendencies, natural resource endowments, food tastes and preferences, languages, etc. Therefore, the closer the government is to the people, the better they understand these differences that feed into revenue generation, resource allocation and overall decision-making for their well-being and prosperity. Given some elevated levels of awareness, it is also easier to determine whether the utilisation of the resources either generated as revenue or made available to the states and local governments is as required. For instance, it is much easier to determine budget outturns at the local government than at the state and federal levels. Again, the closer the government is to the people, the easier it is to mobilise citizens for action. All things being equal, local and state governments should be better able to mobilise the populace on the payment of taxes than the federal government. Again, only subnational leaders with a sovereign entity mindset will best appreciate these responsibilities.

Secondly, although states and local governments do not possess the actual characteristics of a sovereign country, power devolution still endows them with its core attributes, such as the possession of internal authority, policy autonomy and some measure of non-intervention. These attributes confer quasi-sovereignty of such territories, demanding that those who preside over them should also think as such. Historically, kings and rulers with such authorities have raised revenue through taxation and other non-tax sources



es to provide their subjects with security, justice and other public goods to improve their lives. That is a subsisting expectation from governors and chief executives of states and local governments.

Third, leaders of states and local governments without a sovereign entity mindset would not successfully achieve fiscal autonomy, which is a desideratum for leading sovereign nations. Excellent sovereign entity leaders carefully determine their fiscal needs, capacity and required efforts to attain reasonable fiscal autonomy. Good leaders with a sovereign entity mindset would always carefully identify the financial requirements for meeting the pre-recognized needs of different segments and demographics of their subjects over the medium term. Underscoring this fiscal need identification is to determine the fiscal capacity and efforts required to meet them sufficiently. The fiscal capacity assessment unveils the totality of revenue-generating opportunities and the revenue-maximising constraints to the government. Entrepreneurial thinking and solid fiscal effort innate in successful sovereign entity leaders would naturally enhance opportunity by optimising the identified revenue-maximising and constraint-minimising tendencies.

The uniqueness of every state and local government in terms of socio-economic opportunities, environmental conditions and cultural dynamics also requires leaders appreciative of those peculiarities and who leverage the same to improve their well-being. Leaders with a sovereign mindset tap into these unique opportunities to unearth and exploit those comparative advantages that expand their fiscal capacities. For instance, the leadership of Benue State considered the country's food basket should have expansive agro-processing facilities optimising and adding value to that unique agricultural opportunity. Food production is the forte upon which it orchestrates further socio-economic development of the state.

Finally, despite the numerous advantages, particularly the IGR growth potentials in subnational leaders possessing a sovereign entity mindset, many do not. There are about five possible obstacles that prevent this. The first is the wrong motivations underscoring the quest for leadership positions.

Many so-called chief executives of states and local governments are not interested in going through the rigours of building and strengthening the structures and institutions for independent revenue generation and the provision of good governance. For many, the prevailing motivation is to have the legitimate right to preside over the sharing of the statutorily allocated funds from the centre and whatever revenue is possibly generated within the government. That is why many state governors cannot boast of meaningful additions to the state's assets from the point they assumed office. A second obstacle which is an integral part of the first, is the lack of vision and inadequate preparations upon assumption of office. Leaders with vision know already that they have responsibility for the growth and development of the area under their jurisdiction. Even before the assumption of office, they make adequate preparations to improve revenue conditions and responsibly utilise the same in providing good governance and well-being for their subjects. Weak institutions prevalent in most subnational governments also obstruct the entrepreneurial thinking of subnational leaders.

Regardless of how sound a subnational leader might be, effective institutional structures must be in place to provide the required backbone for desired positive change. Unfortunately, weak institutional structures smother many transformative ideas pushed by excellent leaders. The fourth obstacle is citizens' inability and sometimes apathy to demand accountability from their leaders. Unfortunately, the most secure way of pressuring leaders to act in favour of the masses is when the latter unreservedly demands that the former account for every action and resource. The fifth obstacle is that citizens focus on and demand more accountability from the central leadership rather than subnational governments closer to them. The focus is always more on what the federal government is doing rather than how subnational leaders have utilised the available resources.

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