

# Local Government Fiscal Autonomy and Its Impact on the Performance of Small and Medium Scale Enterprises in Nigeria

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**Abstract:** - In the literature on the structure of government and its impact on development in the grassroots there is a resurgence in the focus on the role of Local Government as government in the grassroots level in stimulating economic activities that will significantly improve the general well-being of the populace and contribute to sustainable economic development. Situated within this focus, this study examined the impact of Local Government fiscal autonomy on the performance of Small and Medium Scale Enterprises (SMSE) in Nigeria. Using a questionnaire as instrument the study adopted a survey method and collected data from 248 entrepreneurs from the three senatorial districts of Akwa Ibom State in Nigeria. The correlation analysis of the data showed two insightful results-both the level of Local Government fiscal autonomy and its level of expenditure have significant impact on the performance and profitability of SMSEs. It therefore recommend for higher Local Government fiscal autonomy as an important step to stimulate inclusive economic activities and growth.

**Keywords:** Local Government, autonomy, small and medium sale enterprises, profitability, economic growth.

## I. INTRODUCTION

One of the most recurring theme in the literature on grassroots governance and development administration in Nigeria is the crucial role of the Local Government as a pivotal agent of development. In fact since Nigeria's independence in 1960 there exist an avalanche literature on the subject that attempts to examine the nexus between Local Government administration and economic development (Ekpe et al, 2008; Chijioke 2016; Anyebe, 2001; Obeta & Okide, 2010). This is so because since the Local Government is considered to be the closest administrative structure to the people it therefore has immediate interaction with citizenry and impact on their economic wellbeing (Aborisode, 1989).

According to the United Nations Office for Public Administration, the Local Government is "the political subdivision of a nation (or as found in a federal system) state which is constituted by law and has substantial control of local affairs, including the powers to impose taxes or to exact labour for prescribed purposes" (United Nations, 1992). Similarly, Okafor et al (2015) views Local Government in Nigeria as "an off-shoot of the federal political arrangement which is basically characterized by decentralization of

functions. Decentralization in this context is regarded as process through which powers, functions, responsibilities and resources are transferred from central to local governments and/or to other decentralized entities" (Okafor 2015:43). Such decentralization must pay emphasis to social, economic, geographical, legal, political and administrative autonomy so as to have an effective and efficient machinery of government (Adetoritse, 2011; Hills, 1974).

As noted by Diejomaoh & Ebok (2010) decentralization which includes the creation of autonomous Local Government is imperative considering the size of Nigeria and its social composition. It is therefore based on social, political and economic consideration. Since we are looking at the performances of small and medium scale enterprises here we shall channel more of our attention to the role Local Governments perform in creating a conducive environment for economic activities. Explaining the economic aspect of Local Government Okafor et al (2015:43) observed that:

The economic-side argument (of Local Government) emphasize the advantages in terms of promoting inclusive and broad-based growth, optimal use of local and national resources for economic development while on the political side it is a valid tool for managing in-country heterogeneities, reduce power-sharing tensions and cater for divergent needs of the different nationalities/societies within a country. As such, by devolving functions to local governments, peculiar socio-political and economic needs in the localities are identified and appropriate responses sought.

Agreeing with this position, Imail et al (1997) opined that Local Governments are made to render utilitarian (service rendering) and civic (grassroot governance) functions. It encapsulates "the function of Local Government's ... philosophical commitment to participation in the growing process at the grassroots level" (Ahmad, 2018:50). Hence due to its closeness to the popular base of political and economical interaction Local Governments are engendered to be able to

“perform specific functions and services which bother on the concerns, interest and aspirations of the people in the respective donations” (Okafor et al, 2015:44). Such interest includes importantly the economic aspirations of the people which are encapsulated in their private business in the form of mall and medium scale enterprise (SMSE). As a result, we are faced with the following questions:

- Does Local Government fiscal autonomy affects the performance of small and medium scale enterprise in Nigeria?
- Does Local Government Expenditure affect the profitability of small and medium scale enterprise in Nigeria?

This paper sets out to answer these questions. Our a-prior expectations are that:

1. There is no significant relationship between Local Government fiscal autonomy and the performance of small and medium scale enterprise in Nigeria.
2. There is no significant relationship between Local Government expenditure and the level of profitability of small and medium scale enterprises in Nigeria.

These hypotheses will be tested in the course of this study. They were engineered based on the assumption that since Local Government in Nigeria are structured as the third tier of government and as such empowered to perform economic functions at the grassroots level, its economic policies and activities may have direct impact on Local businesses.

## II. LOCAL GOVERNMENT IN NIGERIA: A CONCEPTUAL OVERVIEW

Local Government in Nigeria is currently different from what is in some climes hence it is imperative for us to conceptualize Local Government in the context of its operational existence in the Nigerian federal administrative system. In some political settings a Local Government most

time works like a parastatal or agency of the central government – it usually do not have its own autonomy but rather acts as a pipeline connecting the government at the center with the populace at the grassroots level. It is seen as an administrative tool of the central government to bring its presence to the political and economic base of the society. On the contrary, in Nigeria the Local Government do not function merely like an agency or parastatal of the government at the center rather the Local Government is an authority of its own that sue or be sued. According to the Guidelines for Local Government Reforms (1976:1) the Local Government is referred to as the third tier of government, it is “government at (the) local level exercised through representative councils established by law to exercise specific power within defined areas”.

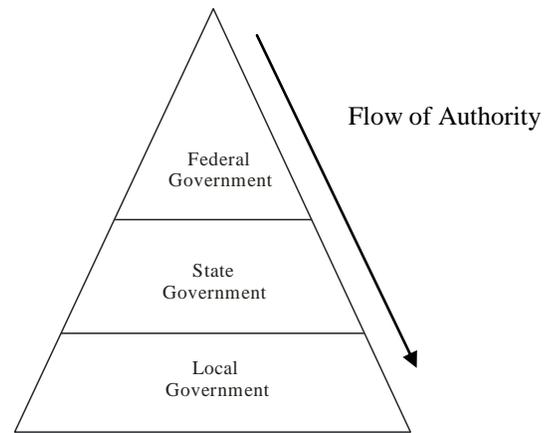


Figure 1: Structure and flow of authority from the central government down to the Local Government in some countries.

Figure 1 above shows clearly the power-structure between the central government, state government and local government but on the contrary as show in figure 2 the Local Government in Nigeria is constitutionally autonomous of the federal (central) governments and the state governments.

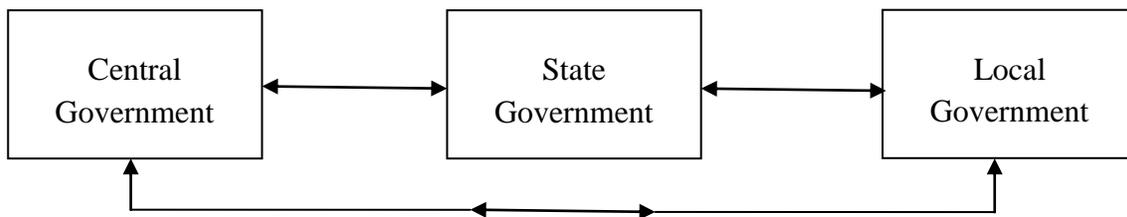


Figure 2: Power Relation Between The Central, State and Local Governments in Nigeria

It is considered as a component unit in Nigeria’s federal structure with a high degree of autonomy over social, political and economic life within its territory. This means that the Local Government has:

Substantial control over the local affairs as well as institutional and financial powers to initiate and direct the provision of services and to determine and implement projects so

as to complement the activities of the state and federal governments in their areas, and to ensure through devolution of these functions to these councils and through the active participation of the people and their traditional institutions, that local initiative and response to local needs and conditions are maximized” (Okafor et al., 2015:46).

In line with this the Local Government in Nigeria following the 1976 reform has been identified with certain key issues in its operationalization. These includes in the words of Okafor et al. (2015:46):

- The recognition of Local Government as the third tier of government free from the grips of the Federal and State Governments;
- Local Government to be administered by democratically elected council personnel;
- Local Governments must have the constitutional powers to perform specific function;
- The Local Government must have the autonomy and space to formulate and implement policies based on peculiar local interest and needs;
- The Local Governments must have powers to control finances, recruit, develop and discipline its one staff.

The centrality of these keys in the operationalization of a Local Government were encapsulated in the definition of Local Government as given by Crewa & Adewumi (1992). To them a Local Government:

Is a system of local communities and towns which are organized to maintain law and order, provide some limited range of social services and co-operation of inhabitants in joints endeavours towards the improvements of their conditions of living.

In a similar vein, the Federal Government of Nigeria (1976) in its “Guidelines for A Reform of Local Government in Nigeria” views the Local Government as:

Government at (the) local level exercised through representative councils established by law to exercise specific powers within defined areas. These powers should give the councils substantial control over local affairs as well as the staff, and institutional and financial powers to initiate and direct the provision of services and to determine and implement projects so as to complement the activities of the State and Federal Government in their areas, and to ensure through active participation of the people and their traditional institutions that local initiatives and response to local needs are maximized.

This definition according to Obi (2010: 26) captures fully both the meaning and essence of local government. He explained that:

In the first place (the definition) emphasized the fact that the councils are representative in nature, meaning that the officials of the councils should be elected. Secondly, the councils are established by law. The implication of this is that they owe their

existence to the constitution and not to any other level of government. They form therefore a separate level or tier of government. Thirdly, the powers which the councils have are to be exercised within defined areas and over local affairs. Fourthly, the councils are to have substantial powers over the issues of their staff and finances. Fifthly, being a different tier of government they should have the power to determine and also implement projects in their areas. However these projects should complement the activities of both the state and federal governments.

As a result Local Governments in Nigeria is a component unit in the Nigerian federal structure in the same way as the Federal and State Governments and has its autonomy enshrined in the constitution in such a way that it becomes unconstitutional for any other tier and part of government to usurp such autonomy. Local Governments in Nigeria have the character which were opined by Tocqueville (1835), Whalen (1969) and Mawhood (1983) and summarized in a table by Olowu (1988).

Table 1: Characteristics of Local Government

	<b>Tocqueville (1835)</b>	<b>Whalen (1969)</b>	<b>Mawhood (1983)</b>
A	Localness	a) Given territory and population	a) Representative of locality
B	Participative	b) Institutional structure for legislative administrative purposes	b) Authority to allocate substantial resources
C	Relative Independence	c) Autonomy, subject to the limitations of common law and test of reasonableness.	c) Authority to administer a range of function.
D	Authority-especially effective influence community affairs to raise resources.	d) Separate legal identity	d) Separate legal existence

Source: Olowu (1988)

In some vein Local Government according to Okali (2000:10) must possess the following characteristics:

1. A defined area
2. A population
3. A continuity of organization
4. The authority to undertake and the power to carry activities
5. The ability to sue and be sued and to enter into contract to collect revenue and to determine a budget.

Therefore, Obi (2010:27) suggested that:

It becomes imperative that a local government is a legal entity that exercises authority over a defined area with a population. Its existence is guaranteed, it has authority to collect independent revenues with which to carry out its activities.

By this, Local Government in Nigeria unlike in some countries like China and the United Kingdom is embedded with autonomy and compliments other tiers of government as a partner. Its existence is enshrined in the constitution hence it is not under the qualms and caprice of even the central government.

### III. THE MAKING OF THE LOCAL MOVEMENT SYSTEM IN NIGERIA: EVOLUTION AND REFORMS

The Local Government System in Nigeria evolved and reformed through what Obi (2010:36) perceived as “analytical phases”. These are:

- i. The Colonial Era
- ii. The First Republic
- iii. Early Military Era (1966 - 1976)
- iv. The Late military Era (1977 - 1979)
- v. The Second Republic (1980 - 1983)
- vi. The Second Military Era (1984 - 1999)
- vii. The Fourth Republic (1999 - )

#### i. *The Colonial Era (1914 - 1960)*

The Local Government System in Nigeria evolved from the British colonial administration into what exist today. The administration mechanism of the Local Government was set in 1947. Two factors necessitated the need of Local Government. First was the condemnation of the indirect rule system introduced by Lord Lugard. This condemnation was championed by Donald Cameron and Lord Haily, both argued that the existence of indirect rule system and its maintenance leaves no room for an effective British style administrative system in Nigeria. Furthermore, the none existence of a nation-wide administrative system that reaches the grassroot means that Nigeria remains a mere geographical conglomeration of isolated ethnic groups. Another factor was the consciousness created by the experiences of Second World War to stimulate socio-political and economic activities in Nigeria by the colonial government. Ekpe et al (2018:14) brought this to the fore in their argument that:

The antecedent and history of Nigerian Local Government System dates back to 1947... the subsequent end of the Second World War triggered off the consciousness on the part of the British Colonial power to rekindle interest in providing essential services through the instrumentality of the modern efficient and democratic local government, instead of indirect rule.

In line with this drive the British Secretary of State for the Colonies Sir Arthur Creech Jones in 1947 set in motion the machinery of the Local Government by sending a dispatch to

the various colonial officials concerning the establishment and sustenance of a Local Administrative units. He wrote as quoted by Ekpe et al (2018:14) that:

The encouragement of local political interest and the building up of a system of efficient and democratic (later changed to representative) local government is a cardinal feature of British policy in Africa. It is now recognized that the political progress of the territory is dependent on the development of responsibility in local government that without a sound local government a democratic political system at the centre is not possible and that its social services are to be built upon and expanded. There must be efficient organs of local administration, directly representative of the people to control and operate them.

In a similar vein RH James Griffitt the Secretary of State for the Colonies after Sir Arthur Jones was quoted by Ekpe et al (2018: 15) to remark “let me now make one or two points about Local Government... our policy now is to build up efficient and representative local government institution. All the three words – efficient, representative and local. They are the keys to what we are trying to do”. With this in mind the British colonial government introduced the Local Government System known as the native authorities. Describing this system Oyediran (1988) looked at it as been “characterized by a military-like chain of responsibility extending from the Governor and Lieutenant Governor down to the President Officer, District Officer, Chief or Emir, District Head or Chief and Town or Village Head: The Native Authority System as this became known simply reserved the indigenous political system in the base of the political structure and only introduce an administrator that only served as a superior director above the local political structures. For example in Northern Nigeria the emirates were preserved exactly the way they were in the pre-colonial period, what was introduced was the District Officer whose only practical function is to act as the physical presence of the British Colonial Government and to ensure that government policies are followed by the locals to the latter. Only in occasion were it is against the qualms and caprice of the British government that changes are implemented. Ikime & Crowther (1970) conceptualized this fact in their argument that:

The use of indigenous political institutions for the purpose of local government was contingent on certain modifications. These modifications fall into two categories: modifications of aspects of traditional government that was repugnant to European ideas of what constituted good government and modifications of the colonized country.

The Local Government having maintained the old pre-colonial structures are conservative and did little in the development of the society. Rather it barely served as instruments of colonial exploitation. The Local Government served as a machinery through which resources are extracted from the populace through taxes, levies and other mechanisms that the government sees fit.

*ii. The First Republic Era (1960 - 1966)*

Following independence there existed a disparity between the Local Governments across Nigeria. Due to the regionalization of the country, the various regional governments had control over the Local Governments. The Local Governments during this period were not an autonomous entity rather like the Westminster Unitary System the Local Governments were created by the regions and served the purposes of the regional governments. Thus, each region created a Local Government system that reflects the political aspirations and cultural heritage of the people in the region. For example, in the Hausa/Fulani dominated Northern Region the Native Authority System introduced by the British was continued. At the political base are the Emirs that already have a Feudal/Theocratic System that has been operational since the Usman Dan Fodio jihad of 1804 and the Caliphate structure he introduced afterwards. This was so because the regional government headed by the Northern Peoples Congress was ultra conservative and highly influenced by the Emirs.

In the Eastern region there was a two tier system in the rural areas and a three tier system in the urban areas. In the rural area there were the District and Local Council System. In the urban areas there were the municipal, urban and country councils. These councils were supervised by the Local Government Service Board and membership was by election.

The Western Region and the Mid-West both operated a three tiered structure. But the crisis in 1962 elections that led to the declaration of a State of emergency affected Local Governments as its powers were usurped by the regional government.

*iii. Early Military Era (1966 - 1976)*

This era witnessed the emergence of the military as a political force in Nigeria. The January 1966 military coup swept the political class out of the scene. The military government following the July 1966 coup created twelve states to replace the regional government that existed before this time. This era witnessed several changes in the Local Government in Nigeria. The Local Government completely lost its autonomy as military governors dissolved the local councils and appointed care-taker committees which are appointed and dissolved at will. According to Egurube (1991) the Local Government was so dependent on the military governors:

To the extent that local government policy actors derived their legitimacy not from the people but from

state governors during this period, the conclusion that they served more as watch dogs for their military bosses at the State level can hardly be faulted. Local Government institutions were thus from all intents and purposes governed for predominantly instrumental and penetrative objectives.

*iv. Late Military Era (1976 - 1979)*

In 1976, the General Olusegun Obasanjo administration took a massive reform of the Local Government System in Nigeria. In the "Guideline for Local Government Reform", the Federal Government of Nigeria (1976) averred that

Local Governments have over the years suffered from continuous whittling down of their powers. The State Governments have continued to encroach upon what would normally have been the executive preserves of (the) Local Government.

Hence, it recognizes the "local government as the third tier of governmental activity in the nation... local government should do precisely what the word government implies – governing at the grassroot or local level" (Olasupo 2013; Diejomaoh & Eboh, 2010). This reform was necessitated by what Oluwu (1990) and Adeley (1978) both referred to as the vicious cycle of poor local governance. This was characterized by effective and cumbersome structure, inadequate finance, low caliber and poorly paid staff, low administrative efficiency and corruption, poor performance or even total neglect of functions and transfer of functions to State/Federal Governments. To King (1988) the reform was engineered on the assumption that the Local Government should be:

Responsible to the local needs, yearnings and aspiration by virtue of their proximity, generate knowledge of local conditions and therefore, greater capacity to react quickly to these needs... Local governments should become more efficient in resource allocation by virtue of their superior ability to identify and rank priorities in terms of different services the community needs.... to develop potential leadership capable of mobilizing the community articulating and aggregating its interests.

Ekpe et al, (2018:40-42) summarized the main features of the 1976 reform in six (6) key aspects which includes:

1. The recognition of the Local Government as the Third Tier of Government: Hence, the local government as the third tier of government in its own right was entitled to adequate, veritable and reliable sources of external and internal funding. This also meant that the local government as a tier of government enjoys some measure of autonomy within the sphere of its competence. The autonomy

of the local government was later entrenched in the 1979 and 1989 constitutions respectively.

2. **Uniformity of Structure:** The reformed local government has basically uniform structure throughout the country. Provisions are made for chairman, elected and nominated councilors, fixed number of committees with Finance and General Purposes Committee (FGPC) serving as the cabinet of the local government.
3. **Fixed Size:** In terms of size, the reformed local government provided that no local government should have a population of less than 150,000 except with special permission granted by the Federal Government. Besides, an upper limit of 800,000 persons was stipulated, but this, however could vary in exceptional geographical circumstances, and provided further that there should be no upper limits to the size of local governments covering major towns within single units.
4. **Fixed Tenure:** The reformed local government has fixed tenure of three to four years.
5. **Common Institutions** such a Local Government Service Boards or Commission were established.
6. **Establishment of one percent (1%) training fund** for the training and retraining of local government staff to be administered by the Local Government Service Commission (Nwosu 1989:91). Apart from ensuring that the above provision and objectives are enshrined in the 1979 and 19889 constitution other significant steps adopted between 1976 to 1979 included:
  - (a) The promulgation of the Land Use Decree, 1978 which vested the land in rural areas in the local government.
  - (b) The decision to allocate 10% as at 1977, now it is 20% of Federation Statutory Allocations to local governments.
  - (c) The inauguration of management training for local government secretaries and treasurers.
  - (d) Establishment of a pension fund into which all the three levels of government should make contributions in 1979, (Cua, 1984; Onah, 1995; Awofeso, 2004; Aluko, 2000; Egonmwan, 1984).

#### v. *The Second Republic (1980 - 1983)*

The 1978 Local Government reform reached a watershed when in 1979 the status of the Local Government was enshrined in the constitution which provides the framework for the operation of the second republic. Section 7(1) of the 1979 constitution stressed that:

The system of local government by democratically elected local government councils is under this constitution guaranteed; and accordingly, the Government of every State shall ensure their

existence under a law which provides for the establishing structure, composition, finance and functions of such councils.

But in practice, the Local Governments were not allowed these statutory rights in the second republic therefore thwarting the efforts of the 1976 reforms. Examining this challenge, Egurube (1995) asserted that “the reform (of 1976) was more symbolic than real and the changes it introduced were more cosmetic than a decentralist logic. He went further to stress that:

It is a seeming paradox that under authoritarian and military regimes using between 1976 and 1979 as an example, attempts were made to democratize (the) local government institutions whereas supposedly non-authoritarian regimes, using the second republic as an example, rather than build on the heritage of democratic local institutions, these are destroyed (Egurube 1991).

In fact, in the second republic no election was held in any Local Government Council in Nigeria and the powers of the Local Governments were usurped by the state governments. Ekpe et al (2018:39) argued that:

Between 1979 and 1983, the Shehu Shagari’s administration provided a benchmark and litmus test for the implementation of the provisions of the 1976 Local Government Reforms. During the period, there were no election, the local governments made up of either handpicked or nominated members were directly under the sole administratorship of State governments assisted by their State officials. (Futhermore) the provisions of the 1976 local government reforms were either blatantly perverted or abused. The State Ministry of Local Government meddled extensively with the affairs of local governments.

#### vi. *The Second Military Era (1984 - 1999)*

The December 1983 coup toppled the Shehu Shagari administration for a second military era in government led first by General Mohammed Buhari and later by General Ibrahim Babangida. To tackle the problem of Local Government in Nigeria the Alhaji Dasuki Committee was setup which submitted its report in 1985 titled “Nationwide Committee Report of 1985”. The emphasis of the Dasuki report was the lack of autonomy of the Local Government due to the over-arching interferences by the State government. Based on this, there were several reforms by the Babangida administration that were aimed at increasing local government

autonomy. Seven (7) features of this reform were identified by Obi (2010:43-44) to include:

1. The abolishing of State Ministries of Local Governments and the termination of State-Local Governments joint services (Offoze 1997; Oboli, 2005).
2. Creation of new Local Governments and boundary readjustments to solve the discrepancy in the size of local government areas in the country as well as other logistic and ethnic consideration. The number of local governments was increased to 453 in 1988 and to 500 in 1991.
3. The Statutory share of the Local Government in terms of allocation was increased from 10% to 15% in 1989 and then 20% in 1992.
4. The release of a National Scheme of Service for Local Government employees in 1988 afforded the Local Government with the instrument to promote its employees up to level 15. This afforded the Local Government with the capacity to employ professionals such as engineers, architects, health officials, etc.
5. Local Government Chairman was given full powers to appoint their own secretaries. The creation of a council with legislative power gave the Local Government functional power to function as a government (Mohammed, 2010).
6. The Local Government Service Commissions were scrapped in January 1992 made the local government autonomous with regard to issues such as discipline, promotion of staff and development. It effectively removed from the State government the instrument through which it controls the local government (Corewa, 1991; Orekoye & Agbugba, 2001).
7. The remitting to states by the Local Government annually was stopped. As a result of this mechanism the Local Government began to enjoy a high degree of autonomy (Olowu, 1999; Jbodje 1999; Ezekital 1994; Awofeso, 2004).

#### vii. *The Fourth Republic (1999- Date)*

In the Fourth Republic the major reform that took place in the structuring of the Local Government was the 2003 Local Government Reforms. According to Obi (2010) the need for this reform was as a result of what was referred to as the “three disturbing trends” among others. These were:

- i. The non-performance or gross under-performance of the local government.
- ii. The high cost of government and near-prohibitive cost of electioneering campaigns to individual political contestants in Nigeria and
- iii. Atomization and continual fragmentation of local government councils including impractical division of towns and cities into unworkable mini-local governments (Obi, 2010:46).

One remarkable thing about the existence of the Local Government in the Fourth Republic is that although it faced the same problem of State encroachment it nevertheless enjoys certain degree of autonomy. The problem of the Local Government autonomy in the Fourth Republic has its basis on the ambiguous nature of the 1999 constitution which although made provision that the system of local government by democratically elected local government councils as guaranteed it subsequent to Section 8 puts the burden on the State Governments the task to “ensure (the Local Government’s) existence under a law which provides for the establishment, structure, composition, finance and functions of such councils”. By this, it is the State Governments that has the right over the Local Governments and not the Federal Government. A reference case to this was an amendment of the Electoral Act 2001 by the National Assembly based on the wish of the Association of Local Government Chairman of Nigeria (ALGON). The amended Act extended the tenure of the Local Government Chairman from three to four years. In response, the State Government went to the Supreme Court to question the legality of such action by the National Assembly. The ruling captures the legal interpretation of the nature of State-Local Inter-government relations in the Fourth Republic. The court ruled on the 28<sup>th</sup> of March 2002 that:

No law by the National Assembly can validly increase or alter the tenure of elected officers of local government; the National Assembly has no power except in relation to the federal capital territory to make any law or division of councils for election purposes, qualification of candidates and date of elections among others; the National Assembly has no powers to make laws to qualify or disqualify candidates for election under the 1999 constitution. The National Assembly can only make laws on the registration of voters and procedure regulating election of a local government council; it is the House of Assembly that has power to make laws on election for the posts of Chairman, Vice Chairman or Councilors of Local Government; Section 15-73, 110-122, excluding section 16, 26-73, 115, 97, 117 and 118 of the Electoral Act 2001, are inconsistent with provisions of the 1999 Constitution and are accordingly null and void and in operative.

But despite this setback pockets of reforms have been made that restates the autonomy of the Local Government from the control of the States. For example the ability of the Local Government to generate and use its own Internally Generated Revenue, and also the stoppage of the concept of joint State and Local Government account. In the Joint State and Local Government account system, the statutory allocation meant

for the Local Governments usually is first posted into the State account before it is then redistributed to the Local Governments in theory. What is usually done is that the State Governments usurps the revenue given to the Local Government (Obali 2005; Awofeso, 2004).

Having conceptualized the Local Government and its current operationalization in Nigeria the latter part of this paper will carry out a quantitative analysis of the impact of Local Government fiscal autonomy on the performance of local businesses.

IV. RESEARCH METHODOLOGY

A survey method was adopted for this study. The survey was carried out among small and medium scale enterprises in Akwa Ibom State, Nigeria. Akwa Ibom State is one out of the thirty-six states that forms the component federating units of Nigeria and the richest in terms of crude oil derivations. The State was created by the General Ibrahim Babangida administration on the 23<sup>rd</sup> of September 1987 and is located in Latitude 4.32 and 5.53 North and Longitude 7.25 and 8.25 East. The State covers a total land mass of 8,412 square kilometer and according to the 2016 estimate has a population of 11,000,000 people. The population are predominately Christians and animism and are made up eight (8) major ethnic groups which are the Ibibio, Annang, Eket, Oron, Ibeno, Mbo, Okobo and the Andoni.

There is a total of thirty-one (31) Local Government Areas in Akwa Ibom which are Abak, Eastern Obolo, Eket, Esit Eket, Essien Udim, Etim Ekpo, Etinan, Ibeno, Ibesikpo Asutan, Ibiono Ibom, Ika, Ikono, Ikot Abasi, Ikot Ekpene, Ini, Itu, Mbo, Mkpato-Enin, Nsit Atai, Nsit Ibom, Nsit Ubium, Obot Akara, Okobo, Onna, Oron, Orun Anam, Udung-Uko, Ukanafun, Uruan, Urue-Offong/Oruko, Uyo. These local governments are grouped into three senatorial districts which represent the commercial nerve-centers of the State.

Table 2: Senatorial Districts and Commercial Nerve

Senatorial District	Main City/Commercial Centers
Uyo Senatorial District	Uyo
Ikot Ekpene Senatorial District	Ikot Ekpene
Eket Senatorial District	Eket and Ibeno

Source: Authors

Since the study focuses on small and medium scale enterprises, survey data was drawn from entrepreneurs and business owners in the main city/commercial nerve centers in the three senatorial districts. 300 business owners (100 per senatorial district) were pooled and administered with questionnaires that was designed for the purpose of obtaining information from them regarding the activities of the Local Government and its impact (if any) on the respondent’s business performance. The available response option on a 5-point likert scale are Strongly Agree (SA), Agree (A), Undecided (U), Disagreed (D) Strongly Disagreed (SD). Out

of the 300 questionnaires distributed 248 were returned completely filled and suitable for this study. The data obtained was analyzed using Pearson’s correlation.

V. DATA ANALYSIS AND DISCUSSION

The analysis of the data obtained from the survey will be used to test the two hypothesis that were formulated in the beginning of the study in response to the two research questions that shaped this study. The research questions are:

1. Does the level of Local Government fiscal autonomy affect the performance of Small and Medium Scale Enterprises (SMSE) in Nigeria?
2. Does the level of Local Government expenditure affect the profitability of Small and Medium Scale Enterprises in Nigeria?

The hypothesis formulated which shall be tested are:

1. There is no significant relationship between the level of Local Government fiscal autonomy and the performance of small and medium scale enterprise in Nigeria.
2. There is no relationship between the level of Local Government expenditure and the level of profitability of small and medium scale enterprises in Nigeria.

Table 3: Case Processing Summary of the Survey

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Local Government Fiscal autonomy and its impact on the performance of SMSEs	248	100.0%	0	0.0%	248	100.0%

Source: Field Survey, 2018

The Table above shows that the 248 questionnaires returned was considered to be complete and valid. The responses obtained are presented and analyzed below for the testing of the hypothesis.

Table 4: Response to the Question – Do Local Government Fiscal Autonomy Affect the Performance of Small and Medium Scale Enterprises in Nigeria?

Responses	f	Percentage
Strongly Agreed	62	25%
Agreed	65	26.2%
Undecided	39	15.74%
Disagreed	30	12.1%
Strongly Disagreed	52	20.96%
<b>Total</b>	<b>248</b>	<b>100%</b>

Source: Field Survey, 2018

From the data obtained out of 248 entrepreneur, 62(25%) Strongly Agreed that Local Government Fiscal Autonomy affect the performance of Small and Medium

Scale Enterprises in Nigeria, 65(26.2%) Agreed while 39(15.74%) were Undecided. Furthermore, 30 (12.1%) Disagreed and 52(2.96%) Strongly Disagreed.

Table 5: Correlation Analysis of Data in Table 4 at >0.05 Significance Level

	Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Interval by Interval Pearson's R	.022	.063	.338	.736 <sup>c</sup>
Ordinal by Ordinal Spearman Correlation	.032	.064	.498	.619 <sup>c</sup>
N of Valid Cases	248			

Source: Field Survey, 2018

- a. Not assuming the null hypothesis
- b. Using the asymptotic standard error assuming the null hypothesis.
- c. Based on normal approximation

The correlation analysis in the table above shows a high level of relationship between Local Government Fiscal autonomy and the performance of small and medium scale enterprises in Nigeria hence we reject  $H_0$  which states that:

There is no significant relationship between Local Government Fiscal autonomy and the performance of small and medium scale enterprise in Nigeria. We therefore conclude accepting an alternative hypothesis that:

*Alternative Hypothesis I:* There is a significant relationship between the level of Local Government fiscal autonomy and the performance of Small and Medium Scale Enterprises in Nigeria.

This result is expected given that higher fiscal autonomy means that the Local Government will have access to higher funding through increase in Internal Generated Revenue (IGR) and complete statutory allocation reaching it without state interference. Such increase in funding stimulates economic beneficial activities by the Local Government such as the renovation and provision of social infrastructures that will in turn benefit the Small and Medium Scale Enterprises. Previous studies have also identified local autonomy with increased entrepreneur performance (Newman et al, 2001; Walker, 2006; Mei & Wu, 2016; Yizi, 1995; Yapeng, 2012).

Table 6: Response to the Question – Do the Level of Local Government Expenditure Affect the Profitability of Small and Medium Scale Enterprises in Nigeria?

Responses	f	Percentage
Strongly Agreed	24	9.68%
Agreed	71	28.63%
Undecided	57	22.98%
Disagreed	32	12.90%
Strongly Disagreed	64	25.81%
<b>Total</b>	<b>248</b>	<b>100%</b>

Source: Field Survey, 2018

From the data obtained 24 (9.68%) out of the 248 respondents Strongly Agreed that Local Government expenditure affect the profitability of Small and Medium Scale Enterprises in Nigeria, 71(28.63%) of respondents agreed, 57(22.98%) were undecided, 32(12.90%) disagreed, while 64(25.81%) strongly disagreed.

Table 7: Correlation Analysis of Data in Table 6 at >0.05 Significance Level

	Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Interval by Interval Pearson's R	.002	.063	.031	.975 <sup>c</sup>
Ordinal by Ordinal Spearman Correlation	.020	.065	.310	.757 <sup>c</sup>
N of Valid Cases	248			

Source: Field Survey, 2018

- d. Not assuming the null hypothesis
- e. Using the asymptotic standard error assuming the null hypothesis.
- f. Based on normal approximation

The correlation analysis in the table above shows a significant relationship between the two variables: Local Government expenditure and profitability of Small and Medium Scale Enterprises. As a result we reject the null hypothesis that states that there is no significant relationship between increased Local Government expenditure and the level of profitability of Small and Medium Scale Enterprises and accept the alternative hypothesis which states that:

*Alternative Hypothesis II:* There is a significant relationship between the level of Local Government expenditure and the level of profitability of small and medium scale enterprises.

The Local Government's expenditure affects positively the profitability of small and medium scale enterprises directly. Increased expenditure by the grassroot government increases the purchasing power of the citizenry thereby increasing sales. Furthermore, increase expenditure by the Local Government in infrastructures like road repairs, renovation of markets and others reduces the cost of doing business. For example good road access roads by the Local Government increases accessibility and cheaper transportation to the raw materials in the rural areas and increase access to the finished goods. Previous studies like Ndan (2001), and Bello-Imam (1996) both identified the role that expenditure by the Local Government plays in stimulating local business due to its ability to trigger an increase in local purchases. In their own study, Diejomaoh & Eboh (2010) observed that Local Government through its expenditure stimulate economic growth in the locality due to its direct effect on the common people since it is the government at the grassroot level (see Chijoke, 2016; Aborisade, 1989; Cochrame, 1994).

## VI. CONCLUSION

The issue of the Local Government and its role on socio-economic development of developing countries due to its grassroots constituency is an important subject in the literature. In fact, this paper has brought to the fore the vivid conclusion in the literature that Local Government plays an important role in stimulating economic activities and supporting the policies of the other tier of governments. Armed with these previous observations, this paper contributed to the literature by bringing into limelight the impact of fiscal autonomy of the Local Government on the performance of small and medium scale enterprises in Nigeria. The analysis of the responses obtained from entrepreneurs in Akwa Ibom State in Nigeria revealed that there is a strong relationship between fiscal autonomy of the Local Government and the performance of SMSE due to the ability of the Local Governments to stimulate economic activities within its jurisdiction due to the potential increase of funding available as a result of increase in Internal Generated Revenue (IGR), none interference with its statutory allocation by the State Government and others. This increases the capacity of the Local Government to develop its social infrastructures which makes it cheaper for SMSEs to do business. Furthermore, evidence obtained in this study also suggest that increase in Local Government expenditure increases the profitability of SMSEs due to the positive impact it has on the purchasing capacity of the citizenry which has a direct impact on sales. We therefore conclude that Local Government fiscal autonomy is an important variable in the drive for sustainable development in Nigeria.

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