

Internally Generated Revenue and Local Government Performance in Nigeria: Implications for Rural Development

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Abstract

The local government represents a unit of government below the central and state government established by law to exercise political authority through a representative council within a defined area. One of the objectives of local government administration is to enhance rural development. The viability of the local government revenue is a major determinant of this function. The objective of this paper is to examine the internally generated revenue base of local government areas in Nigeria and its implications for rural development. The qualitative research methodology was used to develop this paper. Data were collected primarily from secondary sources; extant literature, documentary, and new reports. The study adopted content analysis in discussing issues raised. The paper established that local governments in Nigeria are faced with poor revenue capacity and this affects their efforts in the implementation of projects for rural development. The paper, therefore, suggests the need to improve the financial base of the local government by granting the system full autonomy, among other things.

Keywords:

Internally generated revenue, Local government performance, Rural development

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Background to the Study

One of the primary objectives for the creation of local government system in Nigeria is for grassroots development. Local governments operate at the grassroots. They are established to bring governance closer to the people thereby promoting political participation. It is the closest form of government to the people in a federal state like Nigeria. Also, the local government is created to enhance rural development. Their development initiatives compliment that of the state and federal government. However, the extent to which local government can go in accomplishing its goals largely depends on its revenue strength. Despite all these, the local governments still encounter mirage of difficulties in generating revenue.

Extent literatures have shown that local governments in Nigeria are faced with the challenge of inadequate funding (Shar, 2007; Armstrong, 2009 and Olusola, 2011) According to Olusola (2011), the failure of the Local government in the area of service delivery has made the citizens lose trust in government as an institution. In some areas, council officials are better known for the harassment of citizens than service delivery (Shar, 2007). This is basically due to the difficulty in generating revenue for its operations, as well as fulfilling its constitutional responsibilities. As a result of this development, many Nigerians have advocated for change in the local government system as presently constituted in order not only to bring in conformity with the present day realities but also to make it live up to the expectations of the people who have been yearning for development and a sense of belonging.

The problem of revenue mobilization is complicated with the absence of qualified revenue collectors, corruption, insensitive governance with lack of political will, poor access to most rural areas to collect revenue, communication and security logistics as well as lack of transparency by revenue collectors. The Nigerian rural populaces are cynical about tax, fee or ratepaying because there is no corresponding impact on rural transformation. This significantly affects the development of local government areas in Nigeria. The objective of this paper is to examine the internally generated revenue base of local government areas in Nigeria and its implications for rural development.

Methodology

The qualitative research methodology was used to develop this paper. Data were collected primarily from secondary sources; extant literature, documentary, and new reports. The study adopted content analysis in discussing issues raised.

Theoretical framework

The Efficiency School

Mills and Bricks (1988) (cited in Mackenzie, 1964) are the proponents of the efficiency school of thought. According to them, the main purpose of local government is to provide services to the local people. Sharpe (1970) provided a very strong case for local governments on the grounds that it is the most efficient agent for providing essential services necessary to improve the social and economic well-being of the rural populace.

The local government should be able to coordinate activities at the federal and state level in such a way that the gains of government are decentralized to the rural areas. The main functional responsibility of local governments, therefore, is to efficiently carry out local duties allocated to it, at the highest efficiency rate. The local government is an agent of rural development. It has emerged as "a strategy designed to improve the economic, social and cultural life of a specific group of people as well as living in rural areas" (Anam, 2014). Increased employment, higher productivity, and higher income as well as ensuring minimum acceptable levels of food, clothing, shelter, education, and health in the main objectives of rural development. Thus, the local government must be efficient in the provision of these services in the nation.

Literature

There is extant literature on the concept of local government administration. According to Agagu (1997), the local government is government at the grassroots level of administration meant for meeting some peculiar grassroots need of the people. Appadorai (1975) defined it as a government exercised by popularly elected bodies charged with administrative and executive duties in matters concerning the inhabitants of a particular district or place. Lawal (2000) maintained that the local government is a tier of government closest to the people, vested with certain powers to exercise control over the affairs of its domain. For Olisa (1990) the local government represents a unit of government below the central, regional or state government established by law to exercise political authority through a representative council within a defined area.

Furthermore, the guidelines for reform of local government in Nigeria (1967) defined local government as government at the local level exercised through representative council established by law to exercise specific powers within defined areas. These powers should give the council 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 respond to local needs are maximized. Local government administration is established by law as a political subdivision of a country to enhance the development of the local area. The powers and functions of local governments are exercised through elected or otherwise locally selected personnel.

The 1976 reforms of local government system by General Olusegun Obasanjo, the then Head of State of the Federal Republic of Nigeria stirred up concern in the administration of local government in Nigeria. The reform marked the emergence of a concerted effort on the part of the federal government to brighten the future of local government. The provisions of the reform repositioned the local government and accorded its pride of place in socio-economic well-being of the country. It was a way of bringing government closer to the people. Consequently, a uniform system known as single tier structure was adopted throughout the country. The uniformity was defined in terms of;

- i. The functions of local government;
- ii. The structure of the local governments;
- iii. The financial resources of the local governments;
- iv. Relationships with state government; and law enforcement processes and procedures (Ola: 84, 87).

Local governments in Nigeria have enormous responsibilities to perform. These include the mobilization of local resources, promoting social and economic improvement and development as well as national integration. In addition, they are carried out regional policies with respect to agriculture and selected industries, thereby helping to ameliorate unemployment (Obinna, 1988). Ojo (2009) presents a comprehensive list of the functions of local government areas in Nigeria to include,

- a) Collection of rates, radio and television licenses;
 - b) Establishment and maintenance of cemeteries;
 - c) Licensing of bicycles, trucks (other than mechanically propelled trucks), canoes, wheelbarrows, and carts;
 - d) Construction and maintenance of roads, streets, street lights, drains, and other public highways;
 - e) Naming of roads and streets and numbering of houses;
 - f) Provision and maintenance of public conveniences, sewage and refuse disposal;
 - g) Registration of all births, deaths, and marriages;
 - h) Provision and maintenance of primary, adult and vocational education;
 - i) Provision and maintenance of health service amongst others.
 - j) Formulation of economic planning and development schemes for the local government area;
 - k) Establishment, maintenance, and regulation of slaughterhouses, slaughter slabs, markets, motor parks, and public conveniences;
 - l) Assessment of privately owned houses or tenements for the purpose of levying such rates as may be prescribed by the Houses of Assembly of a state;
- i. He added that the local government also controls and regulates:
- a) Outdoor advertising and hoarding;
 - b) Movement and keeping of pets of all descriptions;
 - c) Shops and cooked food sold to the public;
 - d) Laundries;
 - e) Licensing, regulation and control of the sale of liquor;
 - f) Participation in:
 - g) Provision and maintenance of health services;
 - h) Any other functions that may be conferred by the state House of assembly (Ojo, 2009).

The above-itemized functions of local government are broad, demanding, and critical for ensuring the overall growth and development of various local areas. These developmental imperatives further reinforce the case for viable revenue and efficient

financial management for local governments. Aborisade (1988) describes revenue as the total income generated from federal, state and local government. He added that what makes local government a constitutional matter is the revenue sharing perspective. For Hepworth (1976), revenue is an income of funds raised to meet the expenditure. While Fayemi (1991) defines revenue as all tools of income to the government such as taxes, rates, fees, fines, duties, penalties, rent, dues, proceeds and another receipt of government to which the legislature has the power of appropriation.

Constitutionally, the local government in Nigeria are funded from two major sources; internal and external sources. Internal sources or local revenues are those within the tax jurisdiction of local government. Such jurisdictions are constitutional in some systems and conventional on others. The Nigerian case specifies both function and tax jurisdictions in the constitution. There are tax laws to support revenue generation. The Fourth Schedule of the Nigerian Constitution specifies the functions of local government in which our earlier analysis found out that a lot of these exclusive (mandatory) functions have revenue sources attached to them. Generally, local government internal revenue can be classified as:

- a. Local tax revenues,
- b. User charges and
- c. Administrative revenues.

The dominant and most promising of this three is tax revenue. The principles of taxation are efficiency, equity, and revenue productivity. Tax administration may be much easier to manage at the city or urban level than the rural. Some taxes are however suitable for urban local government than rural ones. These include sales tax and tax on property. In rural areas, community taxes may be very suitable. The tax structure is related to person, property or transactions. The external sources of revenue represent the revenue from external sources as specified in accordance with constitutional provisions of revenue sharing formula between the federal, state and local government namely:

- a) Federal statutory allocations in percentage (20-25%); monthly allocations of value-added tax (VAT) now increased from 25% in 1997-30% in 1998;
- b) Statutory allocation which is 10% of the total internally generated revenue of the state government.
- c) Loans, bonds, and debentures
- d) Grant-in-aid from federal and state government.

The above external sources of revenue available to local government areas in Nigeria are further classified as grants and they are two main types of grants:

- a. General revenue or unconditional grants;
- b. Specific or conditional grants;

The general revenue or unconditional grants are statutory allocations to the local government from the Federation account. Presently, local governments receive 20% of revenue accruing from the Federation Account as its share of statutory allocation while

State governments are to pay to local government 10% of their own internally generated revenue. The revenues fund more especially the concurrent functions of local government and very importantly personnel and overhead costs. Besides this, the local government can borrow funds to meet its administrative and development needs.

Challenges of local government administration in Nigeria and rural development Rural development means the overall improvement of the quality of life for rural people. The concern is centered on the reduction of poverty, increasing productivity, providing basic services like health, education, drinking water, sanitation, creating a viable infrastructure that supports development, among other things. Rural development strategies are concerted efforts made to narrow the poverty gap between urban and rural areas. Local government, as the third tier of government in a federal state, is designed to be an agent of development. These include creating an enabling structure for a sustained increase in per capita output and incomes, expansion of productive employment and greater equity in the distribution of the benefits of growth.

With the Local Government Reforms of 1976 and subsequent reforms to improve the structure, capacity and performance of the local in Nigeria, this third tier of government have not performed maximally. This has left a negative impact on rural underdevelopment in the country. Some of the issues advanced against the poor performance of the local government in Nigeria include,

- i. Corruption/Abysmal mismanagement of funds by local government administrators. Corruption is a multidimensional act and it takes a central stage in the mismanagement of local government funds in Nigeria
- ii. Lack of local government autonomy in Nigeria. Political and administrative autonomy to local government is provided in section 7 of the 1999 constitution to enable local governments to take initiatives in the administration of their localities. These autonomies also include the rights to revenue drives and other economic activities. Unfortunately, this constitutional provision has become a mere rhetoric as local governments in Nigeria has been reduced to puppets and political instrument in the hands of state governments. The practice of State-Local Joint Accounts further limits the power of the local government in resource distribution.
- iii. Political interference by the Federal and State government affects the performance of local government areas in Nigeria. Appointment or elections into the local government has become a tool for a political settlement and this affects the competence of leaders at this level of government. This again, creates a problem of diversion of local government funds, as this elected official must constantly pay homage to their boss or “godfathers”.
- iv. Lack of skilled manpower, which affects the effectiveness of the machinery of policy formulation and implementation at the grassroots.

- v. Illiteracy and inadequate sensitization of locals. Most rural people are illiterate. This social condition makes them oblivious of the need to pay tax, rate or fees and to renew their licenses. Avoidance of tax by individuals due to illiteracy and lack of adequate sensitization affects internally generated revenue and the viability of local government performance in Nigeria.
- vi. Often, federal government allocations to local governments are intercepted by the state government and this affects the implementation of local government projects in Nigeria.

The above-mentioned problems remain a bane to rural development. Dwindling revenue base of local government councils in Nigeria poses a major constraint to the viability and performance of the third tier of government. The objective of local governments as a veritable tool for rapid development of rural and even the urban areas have been hindered because of inadequate revenue. Coupled with the challenges of lack of autonomy, the local government is relegated to the backstage. Local government needs adequate funding to achieve its constitutionally assigned functions.

Conclusion and Suggestions for Improvement

The paper is clear on the fact that local governments in Nigeria are faced with daunting challenges in their revenue drive and this affects their efforts in the implementation of projects for rural development. The problem of dwindling finance and the inability of the local government administration to perform its functions deny the people the benefits of the local government system. The paper, therefore, suggests the need to improve the financial base of the local government by granting the system full autonomy. This must be complemented with good governance, especially at the local level, transparency, public enlightenment, meritocracy, and efficient personnel management and sustainable efforts towards rural transportation.

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