

Revenue Generation and Nigeria Local Government System: Issues and Prospects

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Abstract

The purpose of this study is to evaluate revenue generation and Nigeria local government system: Issues and prospects. Revenue generation is a major source of income to Nigeria, States and local government in general, even though it is said to be dwindling due to weak controls in the systems of revenue generation. It has remained the most policy critical issue in the local government system in Nigeria. This study, seeks to examine revenue generation in the local government system in Nigeria. The study is descriptive and adopted the desk research approach, using secondary sources of data such as journals, text-books, government papers. The resource mobilization theory was applied in the research. It was concluded that our political leaders have chosen not to put the local government system on the right footing to generate enough revenue. The researcher recommended that to guarantee full financial autonomy of the local government under review and to remove or militate the abuses of the system by the state government, local government should be seen as a sovereign tier of government.

Keywords: Revenue, Local government, Development, Financial Autonomy, Critical Policy

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Introduction

Local government operates at the lowest level of human society. It works at the grass root level close to the people, touching their everyday life. This is because no other level of government whether federal or state is as near to the people as the local government. It is a level of government that is older than the other levels of government because governance in human society started with the organization of the people into small communities.

However, one of the major reasons for the creation of the local government system in the world over is for the provision of public goods to the people at the grass root. It helps to improve on socio-economic and political life of the rural people. To Igbokwe, (2012:69) no human society is assumed to be developed unless some of the important indicators of good living conditions which will enhance their ability and capacity for a positive change in their ways of life are evident and present at the grass root level where about 70% of Nigerians resides. Also, no country in the world can claim to have developed, when greater number of her citizens is living below poverty level. Based on the above postulations, in order to ensure the provision of public goods at the rural areas to alleviate the suffering of the vast majority of the people, there is need for an efficient and effective revenue generation system in the local government to provide the needed service to the people. To achieve this objective of making the local government to be effective, government carried out a uniform reform in 1976. With this, the 1979 local government reform could be said to have laid the foundation for the emergence of a modern local government system, that serves as a machinery for accelerated development and democratic processes at the grass root. It is therefore, a deliberate attempt to ensure greater participation of the local people in the development process, promote balanced process, so that the third tier of government will be more responsible to the development initiatives of the rural communities and also encourage the people to take part in managing their local public affairs. Apart from the 1976 local government reforms aimed at making the local governments to be effective in delivering social services to the people, the 1999 constitution of the federal republic of Nigeria (as amended) also recognized the existence of the third tier of government.

Statement of Problem

Without any doubt, the issue of revenue generation has remained the most dominant contentious issues in the relationship between local governments, as the third – tier of government and the other two tier within the parameters of Nigerian federalism. The 1976 local government reform that was referred to as a great and real breakthrough gave prominence to local government making it possible for them to have legal entities which in turn entitled them to perform certain functions. These functions are contained in the 1976 guidelines for local government reform and 1999 constitution of the federal republic of Nigeria. Even though the reform clearly articulated the idea of a three-tiered federation in Nigeria, its consequence recognition of revenue sharing and administration arrangement has led to many problems which, according to Adamolekun, (2017:40) can be broadly classified into six categories: inter-governmental conflicts, structural organizational problems, financial problems, shortage of qualified manpower and political and bureaucratic corruption. This problem of revenue generation of local government largely remained un-resolvable within the Nigerian political landscape even during this period of the fourth Republic; these problems have been more compounded by the 1999 constitution which makes the institution of local government in Nigeria in general, a residual matter for state governments. However, it is quite clear that the most recurrent problems of local government are finance and mismatch between their statutory functions and responsibilities; the flow of financial resources available to them; and constraining limits of their tax-raising powers or fiscal jurisdiction.

Review of Related Literature and Conceptual Clarification

Local Government

Local government has been conceived and constituted in different ways by various scholars. To this end, the United Nations division of Public Administration defined local government as a political subdivision of a nation (or in a federal system, a state) which is constituted by law and has substantial control of local affairs, including powers to impose taxes or exact labour for

prescribed purposes. It is seen as a branch of government that is close to the people. It is seen as a medium through which the people participate actively in grass root government and for the provision of social services to the people (Mukoro, 2017:50); initiate, determine and implement projects so as to complement the activities of the state and federal government in their areas and ensure through devolution of functions to those councils and through the active participation of the people and their traditional institutions and local initiative and response to local needs and conditions are maximized.

To Awotokun, (2015:70) local government was not only accorded its place of pride in the socio-economic wellbeing of the people, but was also seen as a way of bringing government close to the people. It is a political authority which is purposely created by law or constitution. Emezi, (1984) opined that local government is a system of local administration under local administration under local communities that are organized to maintain law and order, provide some limited range of social amenities and encourage cooperation and participation of inhabitants towards the improvement of their condition of living. With this, it provides the communities with a formal organizational framework which helps them in no small ways to conduct their affairs efficiently for the general good of the people. To Okafor, (2005:110), local government is defined as a political subdivision of a state which has a legal; existence under the law and is run by elected representatives of the local people, with substantial autonomy in administrative and financial affairs.

To the political Bureau (2016) local government is widely seen as a viable instrument for rural transformation and for delivery of social services to the people. This level of government is designed to perform this function because of its nearness to the people at the grass root. Those at the grass root are only able to understand and recognize local government since they are able to feel the impact of their everyday life. The 1976 guideline for local government reform defines local government as government at the local level exercised through representative councils established by law to exercise powers within defined areas. These powers should give the council substantial control over local affairs and institutional and financial power to initiate and to determine and implement projects.

The above view however suggests that the local government in Nigeria is established as the tier of government which is protected by the constitution composed of democratically elected representatives of the people whose main purpose is to provide essential goods to the people at the grass root. To Appadorai (2006) local government is seen as a government by the popularly elected bodies charged with administrative and executive duties in matters concerning the inhabitants of a particular distinct or place. Indeed a complex nation such as Nigerian with its ethnic groups within a divergent and diverse culture requires a high degree of decentralization which can only be achieved through the establishment of local authority. Nevertheless, the justification for the establishment of local government is based on the socio-economic and political mobilization towards solving the problem of the rural people. Due to its far distance from both state and federal government, this level of government is established to bring governance closer to the people since it is believed that governments that are close to the people are more likely to understand the challenges of their existence.

Revenue Generation System

Revenue is one of the sources of income generation. Hassan (2001) defined revenue as tolls, taxes, rates, fees, penalties, rents, forfeitures, dues and other receipts of government from whatever source arising over which legislature has power of appropriation including proceeds of loans raised. Section 160 (9) of the 1989 Federal constitution and section 5, 162 (10) of 1999 constitution defined revenue as any income or returns accruing to, or derived by the government from any property belonging to government, any return by way of interest on loans and dividends in respect of shares or interest held by the government, in any company or statutory body incidental sources resulting from a particular environment, permissive sources from normal operations and statutory sources recognized by the Nigerian constitution.

For a successful revenue generation, revenue control is put in place to ensure timely collection of government revenue, and ensuring that amount due are actually collected as well as ensure that revenue generated are paid to the coffers of government.

Local Government Revenue Generation

Finance, as they say, is the life wire of any human organization. Ogunna, (2017:114) pointed out that revenue is the lubricating element which greases and makes the administrative machine of any government move. This is very important as local governments have numerous functions to perform in order to provide social services to the rural dwellers so as to enhance their living conditions. According to Ogunna, (2017), the three major factors responsible for determining the availability of revenue to the local government are dependent on the following i:e, the size of the local government and the policy of the national government on the role of the local government in community development.

Revenue Generation in Nigeria's Local Government.

This is the first issue that readily comes to mind. By definition, Revenue generation implies the amount of money that gets into the coffers of the Local Government from time to time. Basically, they come from two major sources and these are:

- (i) Internal Sources
- (ii) External Sources

(i) The Internal Sources are those sources from which the Local Governments can raise or generate funds for their use internally. Funds raised through these sources are generally referred to as Internally Generated Revenue (IGR). The 1999 constitution of the Federal Republic of Nigeria and others before it, vests some exclusive rights on the Local Governments to generate funds from these sources for its various tasks. These can be classified into the following eight Heads as outlined by the local governments themselves.

(1) Various Taxes (Head 1001)

They include:

1. Community poll tax (flat rate)
2. Development levy

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3. Taxes on Special Services such as (Electricity, Water, Night guards among others as provided from time to time.

(2) Rate (Head 1002)

This includes:

1. Tenement
2. Penalty
3. Ground Rent
4. Government (Federal and States) grants in lieu of tenement rates.

(3) Local License Fees and Fines (Head 1003)

Under this Head, the revenue sources are as much as 100 (one hundred) and they are grouped under the following subheadings: General License Bicycle licence fee, Canoe licence fee, Dog licence fee, cart/Truck licence fee, Hackney permit fees, Bus/Commercial vehicles fees, Taxi/Motor-cycle fees, liquor licencefees,palm wine Taper/Sellers licence fees, Native liquor fees, Beka cigarette licence fees, Staughters Hawker permit fees, Wart landing fees, Alternative medicine fees, etc. Food Control Slaughter fees, Abatoir fees, Eating House fees, kiosk licence fees, Bakery House licence fees, Registration of meat van fees, Cattle Dealers licence fees, Dried fish/meat licence fees, Cold room licence fees, Batches licence fees etc. Security Autionlicence fees, Gold Smith and Gold Seller licence fees, Hunmtinglicence fees, Social Marriage registration fees, entertainment, drumming and temporary boot fees, control of noise permit fees, Cinema graph licence fees, Naming of Streets/House registrationfees, Tent of sea/Beach permit fees, mobile sales promotion licencefees,Radio/Television fees, Beggars ministratation fees, Open Air preaching permit fees, social organisation registration fees, etc. Health Dislodging of Septic tank charges, Night soil Disposal/Depot fees, Registration of Septic tank dislodging licence fees, Registration of Night so9il contractors fees, Impounding of animal fees, pest control and disinfectant charges, Birth and Death registration fees, Burial fees, vault fees, dispensary and Maternity fees, Laboratory test fees, Earning from Environmental

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Sanitation services, etc. Others include: General contractor registration fees, Tender Fees, Sand dredging fees, Minor industry licence fees, Trade licence fees, Petty Licence fees, Sand Granite, Iron rod and seller licence fees, pit sewing licence fees forestry and fuel exploitation fees, sawmill licence fees, felling of three fees, Produce biuyoing fees, Rice/Mill Cassava grinding licence fees, Ingredient grinding mill licence fees, corn grinding Mill licence fees, Brown sugar machine licence fees, painting, spraying and sign writing workshop fees, workshop licence fees, photo studio licence fees, welding machine licence fees, Electric Radio and TV workshop licence fees, Wood making/Carpentry workshop licence fees, Blacksmith workshop licence fees, Battery charges licence fees, printing press licence fees, panel beater licence fees, Vulcanizers licence fees, Vehicle spare parts licence fees, Cloth driver licence fees, clock-watch repairer's licence fees, Registration of laundries and dry cleaner fees, Motor Mechanic and Car Wash Depot licence fees, Building materials licence fees, Photostat typing institute fees, Block making machine licence fees, sewing institute licence fees, Hair Dressing/ Barbing salon licence fees Advertisement licence fees, miscellaneous. Housing/Works Engineering and Services Workshop receipt, Sale of unserviceable store Hire charges, Sales of market Store, Survey and plot fees, Mortgage sublease approval, Customary sight of occupancy fees, commission on transfer of plots, approval of Building plans etc. Fines This includes fines as a result of vehicle/car parking violations, vehicle/cars towed among others.

(4) Earning from Commercial undertakings (Head 1004)

This includes:

Market fees, Motor park fees, shops and shopping centre fees, cattle market fees, Abattoirs slaughter house fees, proceeds from sales of consumer Agric, Transport services, etc.

(5) Rent on Local Government Property (Head 1005)

This includes:

Rent on Local Government Chairs and Canopies, Rent on other Local Government Buildings etc.

(6) Interest payment and Dividend on Investments (Head 1006)

This include Interest on Vehicles and Bicycle Advances, Interest on Loans to other Local governments, Interest on Loans to Parastatals and other limited liability companies, Dividends and Interest from other Investments, Interest on Staff Housing and other Loans.

(7) Grants/Donations (Head 1007)

This can come from wealthy Individuals, groups, or industries within the Local Government. It could be specific or general and it is meant to assist the Local Government as the Donors deem fit.

(8) Miscellaneous (Head 1008)

This entails other avenues/opportunities open to the Local Councils from which they can derive some revenue within the local Government. Examples are: Gains from the sale of blocks, Recovery of losses or over payments, payment in lieu of notice of resignation, etc. The above items are the various sources through which the local governments in Nigeria can raise or generate funds or revenues internally and there is no gainsaying the fact that they are enormous. However, generating funds internally has remained at low and become one of the biggest problems plaguing Nigeria's Local Governments over the years.

External Sources

These include:

- (i) Statutory allocations from the federation account.
- (ii) Statutory allocations from the State governments (10% of their internally generated revenue).
- (iii) Foreign Aids and Grants.
- (iv) Loans from financial Institutions.
- (v) Donations: The statutory allocations from the federation account to the local governments are 20% of the total amount distributed monthly and this has remained so since 1st June 1992.

Similarly, in addition to the above, the local governments of a State are to receive 10% of the internally generated revenues of the State Government. Further to this, Local governments are entitled to 30% of the total amount accrued to the value added Tax (VAT) pool account with the States and Federal government having 50% and 20% respectively. Other revenues, which are shared to the local governments, include: Privatization proceeds, GSM proceeds, Fertilizer subsidy and Stabilization fund and General ecology. The local governments also do have foreign aids and Grants, which help a great deal in Developmental projects, social services, and security among others. The councils can also seek for the obtain loans for specific projects which they must pay back before the expiry of their tenure. Donations do also get to the councils as the Donors may deem fit or are persuaded to do. These are the various external sources of local government revenues for now in Nigeria.

Developing Alternative Source of Revenue for Local Government

The local government in Nigeria was established for the purpose of rendering services and supplying amenities to the people in both rural and urban area.

To achieve this objective, Hofer and Schedal (1978) identify strategy to adopt. The strategy was described as a game plan through which aims and objectives of organizations are achieved. Hofer and Schedal further defined revenue generation strategy as the fundamental pattern of present and planned resources department, and environmental interaction that indicate how the organization will achieve its aims and objectives. They further added that it is the skill employed in managing any affairs, which includes the local government affairs especially in the means of generating revenue.

The strategy of revenue generation must aim on the following:

In ensuring the survival of local government as it relates to determining priorities and decision making the following strategies need to be followed to increase revenue:

- Enhancing the viability of local government objectives.
- De-emphasizing on federal and statutory allocation.

- Tapping all available opportunities in their areas.
- Ensuring effective and efficient management of financial resources.
- Maximizing revenue while minimizing the cost of collection.

For effective revenue generation, the following strategies might be of advantage:

- Introduction of additional sources of revenue.
- Providing an incentive for extra efforts of the revenue generation staffs.
- Tapping all available opportunities in the areas.
- Periodic raiding by officer of the revenue generation.
- Efficient and effective collection of existing taxes.
- Taking advantages of business or commercial opportunities in their local areas.
- Public enlighten and campaign that will educate the tax payer on the importance of prompt payment.

Theoretical Framework

In Nigeria, as in other developing countries, the debate on the nature and purpose of Local government has been long and at times better one. The Nigerian political system is of a federal one which implies that all the three tiers of government should each function to provide good, efficient and effective services to the people so as to bring a better life to them. Many authors as well as scholars have posited that there is no one theory of local governments but rather the formulation of any theory on local governments will be based on its functions or put in other way, the aspect being studied.

The Resource Mobilization Theory

This theory holds that local government is a veritable source for resource mobilization and like any other government (central and intermediate), it is expected to raise its own funds with which to operate and even render some to the central governments. One of the fundamental responsibility of any government is to mobilize enough resources to enable them provide necessary services and secure its people. No government or organization can successfully meet

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its obligation without money. Thus, resource mobilization becomes a paramount aspect of any organization. For local governments to survive, they have to mobilize enough financial resources. However, one thing is to mobilize resources and another is to utilize it in an efficient and effective manner.

Methodology

The study is descriptive and uses only secondary method of data collection. For secondary sources, the study relied on relevant text books, journals, government documents, internet and annual report of the Internal Revenue department.

Summary of Finding

The provisions in the constitution that dictate the power and financial relationship between the various tiers of government, especially the state and local government are deliberate. They are made to serve as checks and balances; and ensure transparency and accountability, and ensure equitable distribution of national wealth to the federating unit. Since the 1976 reforms, however, the local government council has been grappling with a plethora of problems, relating in large measures, to the delimitations of their fiscal jurisdiction and protection of their revenue rights. There has also been a severe erosion of their fiscal autonomy. These, combined with other institutional and structural problems have rendered them functionally important in the areas of revenue generation and effective service delivery. It is therefore obvious that for any meaningful development to take place at the local level, the Nigerian government need to recognize the local government as partners in progress.

Conclusion

It is true that local governments Nigeria have not really fared well because of various problems facing them despite their recognition as the third tier of government. The poor performance of the local government system shield does not prompt all for abrogation of the local government system as it remains that no matter how well the state government functions as an ineffective government at the grass root would mask the actual achievement of the other levels of government. Hence, it is apt to conclude that it is however unfortunate that despite this fact

which is well known, our political leaders have chosen not to put the local government system on the right footing to generate enough revenue.

Recommendation

- Based on the summary of findings and conclusions made in the study; require this study to make suggestions on the things that should be done to put the study area and other local government in the state on the right footing to enable them perform their role as the third tier of government in Nigeria. The under-listed recommendations are therefore made;
- To generate full financial autonomy of the local government under review and to remove or militate the abuses of the system by the state government, local government be seen as a sovereign tier of government.
- The local government, being the nearest to the ordinary peoples should be adequately funded. Thus the revenue allocation and generation should be reviewed upwards from the present twenty percent to at least thirty five percent.
- There should be constitutional provisions barring state government from interfering with the revenue base and the functions allocated to the council area by the Act or decree that established it as a third tier of government.

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