REVENUE GENERATION AND PERFORMANCE IN LOCAL GOVERNMENT COUNCIL AREAS IN NIGERIA

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Abstract

Local governments in Nigeria are faced with many difficulties in generating adequate finance to perform their constitutional responsibilities; such problems are a cog in the wheel to the smooth running of local government administration. The objective of the study is to examine revenue generation and performance in local government council area in Nigeria. Local governments should strive towards improving internally generated revenue and instilling transparency and accountability in their management structure. It was recommended that there should be adequate supply of social and economic services. Efforts of local governments should not only be directed towards the revenue yielding activities alone, but also to the provision of social services like good roads, basic health facilities, environmental sanitation, town halls, street light, water supply etc.

Key words: Local Government, Revenue Allocation, Revenue Base; Financial Management.

Introduction

Local governments in Nigeria are potentially very important for social and economic roles that the constitution bestows on them as they generate revenue and encourage civil involvement, as well as creating a visible link between taxes and service delivery. According to Uhunmwuangho & Epelle (2008), every local jurisdiction has its unique economic, social and physical characteristics and its historical tradition which are better understood by its people. Thus, the Local Government Areas are created to provide the services which the Federal and State Governments cannot easily undertake due to their remoteness from the local communities. Fosu (2012), outlines the importance of local revenue to Local Governments as follows: Financing administration costs; Financing maintenance costs and thus promoting ownership of projects; Permitting collection of localized and low yielding revenues; Guarantying sustainability of service delivery and autonomy of local governments; Regulating businesses and providing important infrastructure and services such as markets and public conveniences at a charge; Reducing pressure on central governments and reliance on donors.

Revenue generation is an important issue for Local Government Councils. It is through this activity that the Councils source the finance for funding their operations, thus to
a large extent, determining the quantity and quality of services provided to the generality of people within their domain. These reasons, coupled with the fact that Local Governments are engines of growth and development, make imperative the need for Local Governments to map out strategies for improved revenue generation, emphasising especially the internal sources which are more flexible, and could be in the total control of the Local Governments.

Local governments in Nigeria are faced with many difficulties in sourcing adequate revenue; such problems are in the cog wheel to the smooth running of the local government system. With the local government reform of 1976, local governments in Nigeria became recognized as the third tier of government, vested with the statutory powers to discharge the duties and responsibilities of government. To achieve this, no doubt, efficient and effective revenue generation and management become germane. The revenue issues, particularly the problem of generation, are well documented.

This paper focuses on revenue generation and performance in local government council areas in Nigeria. It discusses the concept of local government, revenue generation, role of local governments, local government revenue generation, sources of local government revenue in Nigeria, problems of revenue generation in local government administration in Nigeria, conclusion and recommendations.

Concept of Local government

The concept of local government, as observed by Dumadu (2008), involves a philosophical commitment to democratic participation in the governing process at the grassroots level. This implies legal and administrative decentralization of authority, power and personnel by a higher level of government to a community with a will of its own, performing specific functions as within the wider national framework. Lawal (2000), also defined local government as that tier of government closest to the people, which is vested with certain powers to exercise control over the affairs of the people in its domain.

The idea of local government is intuitively self-evident and simple. Hence, most writers on local government pay little attention to the issue of its definition. This, however, does not guarantee mutual agreement on a definition of this concept. The absence of mutually agreed definition may not be explained as arising from the vagueness of the idea conveyed by the concept but more significantly because of the series of postulations regarding the reason for the existence and objectives of local government (Akhaine, 2009).

Alluding to the concept of Local Government, therefore, Tonwe (2007), states that with the amount and variety of work to be done country-wide by government, it is impossible for a single authority to undertake directly their performance and the government too does not have the requisite knowledge of all the diverse problems which are local in nature. Therefore, one of the recurrent problems of the tiers of government in Nigeria is the ever-dwindling revenue generation, discernible from budget deficits and paucity of funds for robust economic growth and development.

Revenue: Since it is one of the main objectives of this paper to establish a nexus between local government revenue and its level of performance, it is, therefore, incumbent upon us to take the pain in going through the conceptual explorations of Revenue and Performance. Since local government falls within the confines of the public sector, it will be more rewarding at the level of this study to also limit ourselves to what revenue means within the
public sector domain. Revenue could be defined as the funds generated by the government to finance its activities. In other words, revenue is the total fund generated by government (Federal, state, local government) to meet their expenditure for a fiscal year. This refers also to the grand total of income received from the source of which expenses are incurred. Revenue could be internal or external revenue (Adejoh & Sule, 2013).

Aborisade (1988), describes revenue as the total income generated from federal, state and local governments. He states further that what makes local government a constitutional matter is the revenue sharing perspectives. Hepworth (1976), describes revenue as an income or funds raised to meet the expenditure. He states further that revenue is a raising resource needed to provide government services. He also states that there are two aspects of finance – Income and Expenditure. In other words, finance encompasses both the sources of fund and its utilization. Specifically, Fayemi (1991), defines revenue as all tools of income to government such as taxes, rates, fees, fines, duties, penalties, rents, dues, proceeds and other receipt of government to which the legislature has the power of appropriation. He further classifies government revenue into two kinds – recurrent revenue and capital revenue.

In Nigeria, it has been largely established that local government depends very heavily on external source of funding especially from the federation account. This must have informed submission by Mbanefo and Bello-Imam (2010), that if the instability in federal government revenue as a result of the changing fortunes of oil price in the international market is not to be allowed to introduce greater instability in the budgetary process of the local governments, then, there is an urgent need for the local governments to explore and exploit their own independent revenue sources.

**Performance**: The term performance has really suffered from the problem of acceptability of suitable criteria for measurement because it is a non observable construct which can be quantified if the nature of performance being measured is clearly defined. Nevertheless, its meaning tends to depend on individual scholar or author’s perception of performance. In theory and also in practice, it is almost impossible for us to measure performance, without recourse to efficiency and effectiveness (Mikhelovba, 2011). These two concepts are germane in understanding or measuring performance of any organization or individual. According to Balogun (1972), efficiency can be categorized into three typologies, these are: technical, economic and operational efficiency. However, his position on performance appears to be capitalistic as it attempts to measure performance per input-output ratio.

It is worthy of note to state that local government in a socialist-oriented state and even to a large extent, in a mixed economy state like Nigeria, may be performing without necessarily making profit margin, since the goals of such states, in most cases, are to provide welfare services for their citizens. In such states, effectiveness rather than efficiency comes into play. In most developing worlds, local government can only be assumed to be performing if and only if projects and services delivered meet the local demands of its citizens (Salahu, 2012). In essence, performance at the local government level could be measured in terms of specific developmental projects such as kilometers of rural roads constructed or rehabilitated, number of boreholes and deep well sunk. It could also be expressed in terms of improved quality of
life the citizenry enjoy as epitomized in the primary health-care programmes provided, procurement and distribution of fertilizers to farmers at subsidized rate; effective management of primary education as well as quality of public enlightenment programmes provided and enjoyed by the citizens.

Revenue Generation

The term revenue generation in Nigeria local governments is basically derived from tax and non-tax sources. Agya, Ibrahim and Emmanuel (2015), Abubakar (1999), state that revenue is a general term for all monetary receipts accruing from both tax and non-tax sources, as well as fees; grants and contributions constitute the live wire of the local government. Olaoye (2008), views tax as a system of imposing compulsory levy on all income, goods, services and properties of individuals, partnership, trustees, executors and companies by the government.

Tax itself is an amount of money that you must pay to the government according to your income, property, goods; this is what is used to pay for public services and perform other social responsibilities (Olatunji, Olaleye & Adesina, 2001). While non-tax is the revenue accruing to the government other than tax and which is supported by law of the Federation. The history of man has shown that man has to pay tax in one form or the other, that is, either in cash or in kind, initially to his chieftain and later to a form of organized government (Ojo, 2003). Based on the above clarification, no system or rule can be effective, whether foreign or native unless it enjoys some measures of financial independence.

Role of Local Governments

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 expected to carry out regional policies with respect to agriculture and selected industries, thereby helping to ameliorate unemployment (Obinna, 1988). Ojo (2009), add that local governments at work also revolve round revenue generation, budgeting, development planning, provision of services and community mobilization.

- Collection of rates, radio and television licenses;
- Establishment and maintenance of cemeteries;
- Licensing of bicycles, trucks (other than mechanically propelled trucks), canoes, wheel barrows and carts;
- Construction and maintenance of roads, streets, street lights, drains and other public highways;
- Naming of roads and streets and numbering of houses;
- Provision and maintenance of public conveniences, sewages and refuse disposal;
- Registration of all births, deaths and marriages;
- The provision of primary, adult and vocational education;
- The provision and maintenance of health services amongst others;
Formulation of economic planning and development schemes for the local government area;

Establishment, maintenance and regulation of slaughter houses, slaughter slabs, markets, motor parks and public conveniences;

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;

Control and regulation of:
- outdoor advertising and hoarding;
- movement and keeping of pets of all descriptions;
- shops and kiosks;
- cooked food sold to the public;
- laundries;
- licensing, regulation and control of the sale of liquor;
- participation in:
  - provision and maintenance of health services;

Local Government Revenue Generation

Tax is a compulsory levy imposed by government on individuals and companies for the various legitimate functions of the state (Olaoye, 2008). Revenue generation in Nigeria local governments is principally derived from tax. Meanwhile Tax is a necessary ingredient for civilization.

Local governments in Nigeria have developed over a number of years. Historically, the development of direct taxation in local government in Nigeria can be traced to the period before the British pre-colonial period. Under this period, community taxes were levied on communities (Rabiu, 2004); recently, the revenue that accrues to local government is derived from two broad sources, viz: external sources and internal sources. There is no gain saying that internally generated revenue has a lot of benefits people enjoy at the local government level.

- Provision of clean water for the people in the local government area
- Construction of good roads for easy movement of transportation
- Provision of a well-equipped health centre in the community to reduce the death rate of the people
- Provision of free education in the community to reduce the level of illiteracy in the society.
- Stability of electricity in the community

Sources of Local Government Revenue in Nigeria

Ola and Tonwe (2005), had noted that the dearth of finance had always been one of the major handicaps that hinder local governments in the performance of their functions in the country. Interestingly, though the 1976 Local Government reform does not only streamline Local Government functions but also clearly state the functions and provisions for ensuring adequate human and financial resources. The revenue that accrues to Local
Governments in Nigeria, according to Olaoye (2009), is derived from two broad sources, namely:

a) External sources and

b) Internal sources

**External Sources:** The external sources of Local Government revenue/finance include:

a. Statutory allocation from federation account in accordance with section 162(3) of the 1999 constitution of the Federal Republic of Nigeria.
b. Statutory allocation from State Government to the local governments in its area of jurisdiction.
d. State grants-in –aid
e. Borrowing from State Government and financial institutions.
f. Local government share of value added tax (VAT).

**Internal Sources:** Internal sources of government revenue of Local Government includes the following:

a) Local rates and commission paid to Local Government for assisting in the collection of some taxes or dues on behalf of the state government.
b) Market rates and levies excluding any market where state finance is involved.
c) Bicycle, truck, canoe, wheel-barrow and cart fees, other than mechanically propelled truck.
d) Permits and fines charged by customary courts;
e) Local Government business investment
f) Tenement rates, fees from schools established by the local government.
g) Shops and kiosk rates.
h) On and off liquor license fees.
i) Slaughter slab fees.
j) Marriage, birth and death registration fees and street in the state capital.
k) Naming of street registration fee, excluding any street in the state.
l) Right of occupancy fees on lands in the rural areas, excluding those collected by the federal and state governments. Excluding the state capital.
m) Cattle tax payable by cattle farmer only.
n) Merriment and road closure levy.
o) Religion places establishment permit fee.
p) Signboard and advertisement permit fees.
q) Vehicle radio license fees (to be imposed by the local government).
r) Radio and television license fees (other than radio and television transmitter)
s) Wrong packing charges.
t) Public convenience sewage and refuse disposal fees.
u) Customary burial permit fees.
v) Fees collected from amusement centre established and operated by the local authorities and that of tourist centre and tourist attraction.
w) Rents, fees on private institutions
x) Motor Park levies.
y) Domestic and license fees, etc. (Aibieyi 2011).

Problems of Revenue Generation in Local Government Administration in Nigeria

Many of the problems facing the generation of revenue in the local governments are those that can be corrected to improve their collection. According to Herbert, a dependable tax base for the local authorities is essential. Shortage of trained valuation staff will make taxes on real property difficult to assess for some time to come. The system of graduated tax has been in unjustifiable dispute in recent years. Olaoye (2008) also suggested the possibility of a Native Authorities' Loan Authority (NALA) as an agency to provide capital loans for the local government. However, some of the strategies for improvements are:

Good infrastructure: A location with good road net work will provide easy access to the coming and going out of the local government's cars and people. If they get to the local government and see good roads, pipe-borne water, hospitals, schools etc. they may decide to stay (Aderinto, 2005). This will increase the number of people and business that will be paying tax and this will definitely increase the revenue generation because more people will be paying tax. If the government can provide good infrastructure for the local government, there will be more business and people will see reasons to pay tax.

Staff motivation: According to Henry Fayol, there are fourteen principles of management, of which motivation is among the list. Henry Fayol, however, defined motivation as a driving force which stimulates a worker in action. Workers should be encouraged so that they can put in their maximum services and when this is done, there may be increased or solid improvements in revenue collection. Training of workers for knowledge enhancement should be one of such motivational factors (Adebisi, 2005).

Establishment of projects: The local government should embark on the establishment of some mini-sized industries, which will provide employment opportunities to the people. There should also be development and improvement in agricultural ventures like crop farming etc. Participation in agriculture will encourage the inhabitants of this local government area to improve their standard of living.

Revenue management: There is a general trend of mismanagement and embezzlement in most governmental establishments. The revenue collected is mismanaged by the officials thereby not making the revenue to have any effect on the general populace of the local government. This can be reduced by the centralization of the collection department and rotation of jobs and assignments. If a worker is occupying a particular position for a long time, he tends to master all the ways by which he can de-fraud the department.

Loyalty of tax payers: If people can change their attitude of tax evasion, more revenue will be generated. The number of people that pay up their dues (tax) as at when due is very small compared to the number of people that are supposed to pay. If the orientation can change, it will go a long way in increasing the amount of revenue that will be generated in the local government.
Conclusion

It has become obvious that corruption is the major issue in the developmental study of the local government councils in Nigeria. It is therefore believed that local governments could do better in internally generated revenue if council officials honestly and aggressively do their job. But more often, these officials are involved in corrupt practices by short-changing the council either by printing their own personal receipt booklets or misappropriating council funds. The fact that such culprits are not decisively dealt with accordance with extant rules and regulations has encouraged others to toe the same line of corruption, resulting in the ever dwindling internal revenue profile of the council.

Local governments should strive towards improving internally generated revenue and instill transparency and accountability in their management structure. This can be effectively carried out through community participation in their various activities. The need to carry people along in the execution of projects will encourage administrative openness and accountability. Local governments which constitute the areas mostly endowed with natural resources should be allowed to woo foreign investors for the much desired development at the local level. Local government is the most popular in the three-tier structure in the Federal Republic of Nigeria. Any restructuring of this tier of government must, as a necessity, be done in response to the wishes the generality of the people. The present condemnation of proliferation of local government is highly untenable. Indeed, every autonomous community in Nigeria should constitute a level of governance. This, this researcher believes, will facilitate rapid development of Nigeria and bring about dividends of democracy nearer to the people.

Recommendations

The following recommendations were made in the study:

1. Local government should embark on the establishment of some mini-sized industries that will provide employment opportunities to the people.
2. There should be adequate supply of social and economic services. Efforts of local governments should not only be directed towards revenue yielding activities alone, but also to the provision of social services like good roads, basic health facilities, environmental sanitation, town halls, street light, water supply, etc.
3. There should be incentives to revenue collectors as motivation which will discourage diversion of internally generated revenue. Workers should be encouraged so that they can put in their maximum services.
4. There is an urgent need to revisit the crucial issue of political arrangement that legally imposes serious restrictions on local government revenue mobilization capacity through state control over local government budget.

References


