

Analysis of The Determinants of Local Government's Internal Revenue for Sustainable Development

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Abstract

Internal revenue in Local governments is not given the adequate attention needed because there is a major source from Federal Allocation every month. Literatures in Local Government revenue is deficient of the emphasis on the Local government working on and improving their internal generating efforts and its determination in boosting of their revenue base. This study remedies the deficiency by exploring the determinants of Internal Revenue of local government and how it could boost their revenue base. It finds that there is underutilisation of this revenue bases (IR) and considers ways by which these underutilized revenue bases could be boosted.

Keywords: Revenue, Local Government, Revenue Efforts, sustainable development

Introduction

How local governments are financed may appear to be a rather small and unimportant issue, one that is easily lost from sight amidst the swirling clouds of international financial crises and the headline claiming activities of national politicians and governments (Bird, 2012). Financing in local government does not attract much attention because it is seen to be more dependent than self-sustaining. The federal government allocates a share of the Federal Allocation monthly which is now 20.60 % which it uses mainly on recurrent expenditure rather than capital projects as financial statements of these LG shows. LGs prefer to wait for this Allocation (which sometimes may not be released on time) than working on its own generating efforts which if given due drive could sustain and meet recurrent expenditures. The viability of any local government depends on its internal revenue generation efforts. The extent to which a local government can go in accomplishing its goal depends on its Internal Generated Revenue (IGR) strength. The capacity of local government to generate revenue internally is one very crucial consideration for the creation of a local council but what exists today is that state governments are clamouring for more local governments which has necessitated the creation of Local Council Development Areas (LCDA) without giving due consideration to how the local government to be established would sustain itself without having to depend on the centre. Local government Internally generated revenue internal revenue is mostly underutilised and not effective enough. Comparing the actual revenue with the expected revenue, the variance achieved is of a lesser

percentage. The right mix of high yielding revenue items is not given enough attention. In Nigeria, some states cannot survive without federal allocation as evidenced by non-payment of salaries as and when due and poor/less infrastructural development as a result, local governments in these states feels the crunch of the states over reliance. Local government suffers inadequate funding and therefore needs to re-strategise on it's IGR drive efforts to sustain with or without monthly state allocations. Hence, it is against this backdrop that this study is carried out to analyse the determinants of IGR for sustainable development. The objective of this study is to:

- (i) Analyse the determinants of IGR of LGs
- (ii) Examine the revenue mix of high yielding revenue items
- (iii) Identify revenue items that are being underutilised
- (iv) Examine ways of increasing the IGR base of LGs for sustainable development

Literature review

IGR and Sustainability

IGR is soon becoming the influencing factor for sustainability of local governments. Nigeria as a nation is faced with numerous developmental challenges at the federal, state and local levels. Therefore each level are expected to increase their revenue drive to meet up with the expectations of their stakeholders. As posited in Obal and Basariah, 2016 that the financial condition of local government is an important element in the sustainable development of communities. When Local governments cannot generate enough revenue to meet their stakeholders'

needs, sustainable development cannot be achievable.

Sustainable Development

Brundtland report defines sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainability in community development means continued improvement in current needs of communities while guaranteeing future community developments. (Obal and Basariah, 2016). Local government IGR sustainability development is re-strategise and restructure the determinants of IGR, improving on them and developing or devising new revenue generation sources that can sustain the future of local governments.

Revenue Instruments of local governments in Nigeria

Ideally, the sources of revenue can be classified into two broad categories namely: Internally generated Revenue and Externally generated revenue. (Erero, Oladoyin and Elumilade, 2004). Local government is no longer expected to render basic services only, but also to serve as an agent of development.

A principal feature of the local government revenue structure in Nigeria is its wide range of items. List of revenue instruments is numerous. (see table 3). Despite the extensive nature of local government revenue sources, it is surprising to note that most of these sources are generally unproductive. Akindele and Olaopa, 2002 reported that Head 1003 – fines, fees and licences for instance, covers an extensive range of items or subheads, 101 in all. Interestingly however, revenues from these internal sources amount to 'a less than significant portion of LGs total recurrent revenue'. Darison, (2011), says a universal fiscal misapprehension centered on the idea that the more revenue instruments utilized the higher the returns in terms of revenue generation from the local level. The above demystifies the fiscal notion that the more items employed, the higher the increment in local revenue generation. It was however noted through the survey that irrespective of the several revenue instruments available, the local governments greatly depend on statutory allocation from the federal government and this contribute about 63 percent of the total revenue. It was however reported in Pimhidzai and Fox, 2011 that when well

administered, these revenue instruments can provide substantial and reliable revenues.

Method

The techniques and the procedures used in undertaking the study are presented in this section. The study design adopted for the research is the case study which seeks to analyse the determinants of local government internal revenue for sustainable economic development. Yin (1984 cited by Zucker 2001) also viewed a case study research design as an empirical enquiry that investigates a contemporary phenomenon within a real –life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used. A case study approach was employed in undertaking the research because the phenomenon under investigation is a contemporary one and the study is based on a real life situation. Also, the case study allows the use of multiple sources of evidence, therefore enhancing the quality of data for the research as it permits the validation of one source of data by another source. In addition, the case study research method brings the investigator and the case being investigated into direct contact. This leads to a better conversance with the circumstances of a case and helps to assess the reactions of a group or a community to questions and issues raised in the course of the investigation (Kumekpor, 2002). The case study afforded the researcher an opportunity of studying the evolution of the local government system in Nigeria with respect to revenue generation and improving internal revenue generation.

The entire population of the study consists of all twenty local governments in Ogun state. It does not capture the thirty seven newly created LCDAs.

Secondary data were used for the study. The secondary sources of data which includes journals, publications and Annual Financial Statements of the selected Local Governments used to analyse the determinants of the internal revenue sources.

The purposive sampling method was used to choose the four local governments namely Ijebu-Ode, Ijebu-North, Odogbolu and Abeokuta South all in Ogun State based on the availability of data. Data were collected for three LGAs. Descriptive analysis was also employed using tables, percentages and variance analysis.

Results and Discussions

Revenue Performance Index (RPI)

This is one of the methods used in assessing revenue performance of local governments in Nigeria. Revenue Performance Index is the proportion of the total actual revenue collected or mobilized to the total estimated target over a period

of time. The data gathered during survey presented the revenue performance index of the selected LGA over a period of ten years. The higher the collection index the better the revenue instrument in determining local governments IGR.

Revenue Performance Index (2000-2010)

YEAR/ REVENUE HEADS (HEAD 1001- 1008)	ACTUAL REVENUE (IGR) ₦	APPROVED ESTIMATE (IGR) ₦	VARIANCE	Collection index
2000	13211966.23	35260500	22048533.77	0.374
2001	13783573.25	38658851	24875277.75	0.366
2002	13216542.15	29292500	16075957.85	0.451
2003	16850904.77	30000000	13149095.23	0.561
2004	17911091.76	24910000	6998828.24	0.719
2005	17559041.55	33897000	16337958.45	0.512
2007	13,686,252.42	21,510,000.00	118,23747.6	0.636
2008	8,483,277.00	25,581,680.00	17,098,403	0.332
2009	18,586,702.31	37,836,300.00	19,249,597.7	0.491
2010	19,016543.24	33,199,000.00	14,182,456.8	0.573

Source: Computed from Annual Financial Statements for various years.

Revenue performance as shown in tables above increased from 2000 to 2004 and 2008 to 2010 due to increasing activities within the LGA, enhanced collection methods and strict supervision. Also, the LGA failed to give enough consideration to some of the tax item particularly investments. However, in 2007 the revenue performance increased and the LGAs attributed to the efforts made to keep proper records and also ensure transparency in the mobilization of local level revenue. But in general the revenue performance index has not been that bad. This performance could have been better and can be attributed to ineffective ways of record keeping. Stemming from table above, it is important, therefore, for the LGAs to put in place effective mechanisms such as adoption of modern technology in their revenue generation so as to improve the revenue performance of the local government while ensuring efficient economic environment for businesses to thrive.

Table 1.1 – 1.4 depicts the level of contributions of the major revenue sources to internally generated

revenue in the selected local government as well as the grants from the government. Earnings from sales and Fees, Fines and Licences as a local revenue source are the most contributors of funds within the ten years under consideration. License as a revenue item is the highest contributor to local revenue with percentages ranging from 11% to 56% over the period of ten years. The highest being in LGA 1-2002, LGA 2- 2002 & 2003, LGA 3- 2000 and LGA 4- 2009 with corresponding percentages of 68%, 30%, 66% and 38% respectively. The percentage contribution of the local revenue source (Fees and Fines) as the second highest contributor ranges from 13% to 28% the highest being in LGA1- 2004, LGA2 – 2003, LGA 3 – 2003 & 2004, LGA 4 – 2008 with the corresponding percentages of 19%, 42%, 32% and 33% respectively, the lowest being in LGA 1-2000, LGA 2- 2002 & 2003, LGA 3- 2000, LGA 4-2010 with the contributing percentage being 8.4%, 20%, 19% and 12%. The third contributing revenue item with percentages ranging from 2.3% to 6% is Rates. The least contributing revenue item is interest on repayment of dividend and grants.

In a previous study, Olusola (2011) as shown in table 1.1 – 1.3 discovered that in all the three LGA understudied, Head 1001 – Taxes is not contributing in any way to the IGR because there were no revenue generated. The Head 1001 – Taxes is universally considered a local tax i.e property taxes and rating which is in reality under the jurisdiction of the state evidenced from the 1999 constitution which provides that tenement rates or private property can be assessed by local governments but the levying of the rates will have to be prescribed by the state house of assembly. Likewise, the study also revealed that the percentage contribution of each of the revenue heads for the 6 years studied, to the TIGR is very low and meagre ranging from – LGA I; 3.62% -rates, 14.3%-fines, 56%-earnings, 3.72%-rent; LG AII; 23%-rates, 13%-fines, 11%-earnings, 5.2%-rent, LG AIII; 6%-rates, 28%-fines, 56%-earnings, 2.3%-rent. Recently another Local government (table 1.4) was also studied which also revealed that rates constitutes 14.6%, fines- 18.3%, Earnings from sales – 20% and rent – 2.0%.

Conclusion

From the analysis so far, it could be concluded from this study that Earnings from sales, Fines, fees and licences are major determinants of local government internal revenue while rent and rates are minor contributors. Earnings from sales and commercial undertakings is the highest contributor to the internal revenue. It is charged on Market toll and stallage, Slaughter house fees, Earnings from sale of water tankers, Earnings from canteen, Motor park tolls, Earnings from Industrial undertakings, Earnings from transportation service and Earnings from agricultural undertakings.

Fees, fines and License are noted to be the second highest contributor of local government revenue. Licenses constitute a major component of the non tax revenue sources and are charged on operating businesses and industries. Licenses have the following to be its major sources: Bicycle license, Liquor license, Native license, Advertisement license, Wheel Barrow & Truck License, Squatter/Hawker Permit fee, Bus/commercial vehicle/taxi emblem license, Business Premises. Darrison, (2011) stated that Market tolls forms the nucleus of this revenue source and this is due to a number of factors which include the following;

The level of investment especially capital investment made in the construction of the markets.

The high cost of building materials used in the construction of the market stalls and stores calls for a higher imposition of tolls on traders. Over the past ten years (2000-2010), the contribution from this source has been remarkable due to the increasing commercial activities in the LGAs. Table 2 throws more light on the contributions of license on local revenue mobilization.

Increasing commercial activities in the LGAs. Marketing activities in the LGAs run on daily basis therefore serving as a major source of revenue for the LGs.

Amount charged and method of collection. Another important factor that influence the fees charged from market tolls is the rate charged in the markets and stalls and stores rentals as well as the method of collection. It was realized from the survey that the method employed in the collection of the revenue is inefficient thus leading to loss of revenue. Other sources of fees and fines include Lorry Park and entry fees, court fines/spot fines, slaughter house fee, on- street parking, slot latrine fees, cemetery burial permit, sanitation and environmental fees and waste disposal fees. The survey analysed the significant role fees and fines play in the generation of internal revenue and therefore the LGAs should not down play the importance of fees and fines. Table 2 highlights on the contribution of fees and fines to the LGAs from 2000 to 2010.

Recommendations

As much as the revenue items allowed for collection to the LGAs are numerous, it does not determine the level of internal revenue. It was seen from the analysis above that there are some major contributors to the revenue while others are underutilised. To this effect, the local government should not down play on these high yielding revenue items but work out a revenue mix. In this case, Earnings from sales and commercial undertakings and Fines, fees and Licenses should given high priority for increased effectiveness. The other areas that are of low yielding status can also be worked upon by increasing awareness and improving the collection methods. The study thereby recommends that:

1. Local governments should diversify into other areas of income sources such as tourism, sports (establishing a sport academy for school children at primary level),
2. Local governments can go into agriculture in various dimensions be it farming or animal husbandry which will serve its immediate

- populace and stakeholders and thereby generate income
3. Local governments should employ technology driven mode of IGR collection as this would reduce cost of collection and remittance rate would improve
 4. Local government should establish vocation and entrepreneurship centers for skill acquisition where youths could enrol and pay stipends lower from what obtains in the community as this would attract more enrolment.
 5. Local government can invest in ICT centers where computer based tests (CBT) are done and different bodies – universities, examination bodies such as Jamb, WAEC could negotiate the use of the facility at a fee.

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