The Role Of Internally Generated Revenue In Local Government Administration In Nigeria

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Abstract
This study, the role of internally generated revenue in local government administration in Nigeria, was conducted using three out of twenty recognized local government councils in Ogun State, South Western part of Nigeria, as case study. Local government, also referred to as local council, is the third tier of the government which is seen to be closer to the people. They are vested with the responsibility of catering for the economic, social, infrastructural and educational needs of the common populace in areas in which the state governments could not be felt. It is however disheartening to discover that most local governments have failed woefully to meet these needs due to dwindling subventions that are always late in coming from the Federal government, through the supervising state governments. It is only those local governments that are able to generate enough internal revenue that could perform the task of fulfilling their social obligations to the citizenry. The study used both primary and secondary methods of data collection. Econometric technique, through Ordinary Least squares (OLS) regression, was used through the aid of E-views Software Statistical package. The findings of the study of the local governments’ financial statement over six years period, using the above techniques, reveal that miscellaneous sources of revenue such as fines, fees licenses, earnings, rent, interest, dividend payments, grants are statistically significant at 5 per cent level of significance while rate is statistically insignificant, due to inadequate remittances to the treasury by rate collectors. Since rates and taxes, ordinarily constitute a greater percentage of what should be internally generated by local governments, we recommend that the local government councils should intensify efforts towards carrying out aggressive collection of these sources and at the same time block every loopholes that have made the collections to be insignificant.

Keywords: internally generated revenue, statutory allocation, local government, rates and taxes, miscellaneous revenue

Introduction
The various reforms of local administration embarked on by the government since 1976 were aimed at making local governments viable, solvent and self-sustaining. Also the fourth schedule of the constitution assigns local governments such profitable functions that will enable them generate enough internal revenue to fend for themselves. The reforms also provide scope for local governments to generate funds through utility concerns and commercial undertakings. Nworaoh, N.P. (1994). 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 local governments are just springing up without giving due consideration to how the local government to be established would be able to sustain itself. It is therefore important that the local government work on their internal revenue efforts to be able to accomplish its goals in the local community. The revenue collectible by a local government are varied and numerous and is guided by bye-laws that are applicable in each of the local government areas. This paper is looking into the role of internal generated revenues in local government administration using three local governments in Ogun State. It also looks into how the sources could be improved upon to generate more finance for the local governments.

Theoretical Review
Internally Generated Revenue (IGR)
These are revenues accruing to the local government from local initiatives of local government officials and backed up by the constitution as contained in the first schedule of the 1999 constitution of the Federal Republic of Nigeria. It refers to the money sourced by the local government within its area of operation or jurisdiction. (Akindele, S.T, O.R, Olaopa, A.S. Obiyran. 2002). It varies from such money as taxes of different categories, levies and money secured through the grant of licenses of various kinds. The internally generated revenue as the name implies is the revenue that the local government generates internally within the area of its jurisdiction. (Adebayo, A and Rowland, L 1974). The revenue collectible by a local government are varied and numerous and is guided by bye-laws that are applicable in each of the local government areas. Generally, these sources are classified under the following sub-heads:

Head 1001 – Taxes
Head 1002 – Rates
Head 1003 – Local licenses, fines and fees
Head 1004 - Earnings from commercial undertakings
Head 1005 – Rent on local government property
Head 1006 – Interest, payments and dividends
Head 1007 – Grants
Head 1008 - Miscellaneous

According to Ola and Tonwe (2003), IGR is the primary source of local government sustenance. It is the live wire of a local government. This is because it is only the source of money that the local government has control over. As such, the extent to which a local government can go in accomplishing its goal will largely depend on its IGR strength. (Adebayo, A and Rowland, L. 1974). The capacity of a local government to generate revenue internally is one very critical consideration for the creation of a local government council.

Local Government means different thing to different people as reflected in various school of thoughts, while some scholars argues that local governments exist essentially as democratic institutions as their job is to foster representative and participatory democracy at the local level of governance, others feel the local governments should focus more on service delivery for those tangible things communities required. These two schools are hereby reviewed.

**Democratic – Participation School**
The influence on this school has been largely the work of John Stuart Mills especially with his work on Utilitarianism, Liberty and Representative Government. In it, he claims that the good form of government was representative government because it promoted liberty, equity, and fraternity, made men look beyond their immediate interest and recognized the just demands of other men; promote political education, participation and communication. Furthermore, he asserts that local government is a prime element of democracy and demonstrates the intrinsic values of democracy irrespective of the services it provides. Government is truly representative when all types of people can take part. The local government level offers the closest thing to widespread consultation and participation. British and America governments are based on the tenets of democracy and representative government and the local government level is a haven for such activities. Local governments in such entities and indeed other advanced western countries, function to bring about democracy and to provide opportunities for political participation to the citizenry as well as to educate and socialize them politically. Politics and indeed development is about making choices through informed opinion, conflict and conflict resolution and these should be the priorities of local government. According to Panter (1953) "participation is vital to democracy since it is the community that people appreciate and tolerate each other’s views and learn the art of practical politics. Local governments have become the training grounds for political elites or higher level of government parliament”.

A very important part of this democratic role is the opportunity it creates for political activity and social interaction. Such a forum helps to inculcate the ideals of democracy like, election or selection of local government committees and boards, public debates, pressure and interest group activities, and community mobilization. Local governments must continue to buttress democracy through these ideas.

**Efficiency Services School**
The advocates of efficiency services believe that the idea of democracy advocated by Mills and Panter above do not apply to different political system in the same manner especially in the face of modern realities. The crux of their theory is that the main purpose of local government is to provide services to the local people. Foremost among the advocates is the French scholar Langood (1953) who opined that democracy was the affairs of the nation-state as a whole issue of majority rule, equality and uniformity are the norm. Local self government by contrast was parochial and concerned with local differences and separation. The two are opposed and it was only a historical accident that they had developed together in the 19th century. He went on to say that it was equally false to see local government as a setting for political education and democracy. To him, the local arena has only succeeded in breeding few national leaders. Local politics is more likely to reinforce narrow sectional interests than an appreciation of democracy. The citizen is more likely to learn about democracy from national politics and national issues.

Arguing in the same vein, Moulin points out that local government is so restricted while national goals are wider in scale. Local experience and knowledge is hardly appropriate to national affairs. Sharpe (1970) provided a very strong case for local governments on the grounds that it was the most efficient agent for providing those services that are essentially local. He suggested that the efficient performance of these services is so compelling that if local government does not exist, something else will have to be created in its place, meaning the institution is indispensable. Even a decentralized form of national government cannot play this role because of the level of coordination local government can forge cannot be undertaken by such an alternative. The main functional responsibility of local governments therefore is to efficiently carry out local duties allocated to it, at the highest efficiency rate.

**Statement of Problem**
Internally Generated Revenue (IGR) is the revenue generated by local governments within the area of its juris
diction. Internal generated revenue is the primary source of local government sustenance. The capacity of local governments to generate revenue internally is one very crucial consideration for the creation of a local council. Local governments now face more challenges in terms of struggling to be less dependent on the center and the state for financial resources hence the need for them to place, as a matter of urgency, a topmost priority on their internal generation efforts. This study is timely as it evaluates the role of internal generated revenue in local government finances.

Research Questions
The study was guided by the following two important research questions:

a) What is the percentage contribution of rates, fines and fees and earnings from commercial undertakings on total internal generated revenue of local government?

b) How can these revenue sources of local governments be improved?

Methodology
The methods adopted in analyzing data collected for this research work is tabulation, charts and regression analysis. The Annual Financial Statements for six years of the local governments were used. Simple percentages were used to compare and analyze percentage contribution of total internal generated revenue (TIGR) on total revenue (TR) of the local governments over the six years period.

Population Of The Study
Three local governments were purposively selected out of the twenty local governments in Ogun State. Two of the local governments; Ijebu-Igbo LG and Ijebu-Ode LG are homes of three popular state-owned institutions of higher learning – Tai Solarin University of Education, Olabisi Onabanjo University and Tai Solarin College of Education. The third local government is chosen from the state capital- Abeokuta(Abeokuta South).

Instrument
The primary data was employed in gathering information from staff of all cadres. Interviews were also conducted with other stakeholders, including local communities in the local government areas. The questionnaire consists of two sections. Section A elicits demographic information like gender, working experience, while Section B contained structured items relating to the research questions that necessitated this research.

Validity and Reliability of the Instrument
To ensure the validity of this research, the instrument was subjected to criticism by specialist in the areas of educational management aside from peer review conducted by the researcher. The reliability of the instrument was obtained through a test-retest technique to analyse the data collected.

Regression Results
Dependent variable is TIGR

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>COEFFICIENT</th>
<th>STANDARD ERROR</th>
<th>T-STATISTIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>RATES</td>
<td>0.0726</td>
<td>0.1304</td>
<td>0.5564</td>
</tr>
<tr>
<td>FINL</td>
<td>0.4480</td>
<td>0.1316</td>
<td>3.4058*</td>
</tr>
<tr>
<td>EARN</td>
<td>0.3523</td>
<td>0.1173</td>
<td>3.0028*</td>
</tr>
<tr>
<td>RENT</td>
<td>0.0909</td>
<td>0.0331</td>
<td>2.7475*</td>
</tr>
<tr>
<td>INTRNL</td>
<td>-0.1016</td>
<td>0.0334</td>
<td>-3.0399*</td>
</tr>
<tr>
<td>GRANTS</td>
<td>4.1196</td>
<td>1.0896</td>
<td>3.7805*</td>
</tr>
<tr>
<td>MISC</td>
<td>0.2364</td>
<td>0.0594</td>
<td>3.9817*</td>
</tr>
</tbody>
</table>

R- Squared = 0.969
Adjusted R- Squared = 0.947
Durbin Washton Statistic = 2.05,
F- Ratio = 42.73
Note * = significant at 5%

In this model, fines, fees and licenses, earnings, rent, interest and dividend payments, grants and miscellaneous sources of revenue are statistically significant at 5 per cent level of significance, while rate is statistically insignificant. This implies that fines, fees and licenses, earnings, rent, interest and dividend payments, grants and miscellaneous sources of revenue are significant factors influencing total internally generated revenue of local governments in Ogun State, while rates is not a statistically factor influencing total internally generated revenue of local governments in Ogun State. However, going by what should constitute a higher source, the total internally generated revenue of local governments, rates is of primary importance. But from the above result, it was discovered that rates was statistically insignificant, this can be attributed to the fact that majority of the revenue realized from rates were not remitted by the collectors of this revenue which questions the accountability and transparency in the system. This implies that a unit change in rates will lead to 7 per cent increase in total internally generated revenue of local governments in Ogun State, while a unit change in fines, fees and licenses bring about a rise of about 44 per cent in the total internally generated revenue of local governments in Ogun State. Also, a unit change in earnings will amount to an increase of about 35 per cent in the total internal generated revenue of local governments in Ogun State. As for rent, a unit increase will make the total internal generated revenue of local governments in Ogun State to rise to about 9 percent; a unit change in interest and dividend payments brings about a fall of about 10 per cent in the total generated revenue of local governments in Ogun State. A unit change in grants will amount to an increase.

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of about 411 per cent in the total internal generated revenue of local governments in Ogun State, and a unit change in miscellaneous brings about a rise of about 23 per cent in the total internally generated revenue of local governments in Ogun State.

The estimated coefficient of the variables included in the model gave the expected signs except interest and dividend payments which gave wrong sign.

Using the rule of thumb to determine whether the coefficients of the coefficients of the standard error are significantly different from zero, it was observed that fines, fees and licenses, earnings, rent, interest and dividend payments, grants and miscellaneous sources of revenue are significantly different from zero because the standard error of each estimated coefficient is less than half of the estimated parameter while rates is not significantly different from zero because the standard error of each estimated coefficients is greater than half of the estimated parameter.

The coefficient of multiple determination [Adjusted R-Squared] shows that the model is of good fit, with approximately 95 per cent of the total internally generated revenue of local governments in Ogun State being explained by the variables included in the model, while the remaining 5 per cent are factors that affect the total internally generated revenue of local governments in Ogun State but were not captured in the model.

The Durbin-Watson value suggests there is absence of serial correlation. The high F-statistic indicates the joint significance of the explanatory variables and high degree to which variations in the total internally generated revenue of local governments in Ogun State are explained by variations in the explanatory variables.

The fixed effects of the model are also statistically significant for three cross sections used in the study. The random effect model could not be estimated because the number of cross sections is less than the numbers of estimated coefficients.

**Discussion**

From the results of data interpretation above, as revealed by the multiple and panel data regression analysis computed, it shows that there is a significant relationship between internally generated revenue and total generated revenue of local governments in Ogun State. The percentage contribution of each revenue heads, though low, cannot be ignored. The local government revenue authorities need to work more on increasing its generating efforts to meet its obligations to the local populace.

In the course of the study, in the three LGAs understudied, it showed that the internal revenue sources are statistically significant at 5 per cent level of significance which means these sources have positive impact on the TIGR but for rates which depicts that there is a problem. It is either the LGs strengthen these existing revenue sources or sought for other areas/source that could bring in considerable amount of revenue for their continual existence. The study discovered that in all the 3 LGA understudied, Head 1001 – Taxes is not contributing in any way to the IGR as shown in the table 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 revealed that the percentage contribution of each of the revenue heads for the 6 years studied, to the TIGR, is very low and meager ranging from – LGA I; 3.62% -rates, 14.3%-fines, 56%-earnings, 3.72%-rent; LGA II; 23%-rates, 13%-fines, 11%-earnings, 5.2%-rent, LGA III; 6%-rates, 28%-fines, 56%-earnings, 2.3%-rent.

<table>
<thead>
<tr>
<th>Head</th>
<th>1002</th>
<th>1003</th>
<th>1004</th>
<th>1005</th>
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</thead>
<tbody>
<tr>
<td>Rates</td>
<td></td>
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</table>

From the above, it was also revealed that Heads 1003 and 1004 seem to constitute the mainstay of LGs internal sources as other heads are dwindling and fluctuating between 3%-5% while the former has a large percentage of up to 5%. Though, these heads could be said to be the mainstay of LG’s own or internal revenue, their important characteristic is their low revenue yield. For instance head 1003 – fines, fees and licenses covers an extensive range of items, 101 in all, but revenue from these internal sources amount to a less than significant portion of LGs total recurrent revenue.

The total recurrent revenue above of which 75% constitutes statutory allocation for that year is buttressing the fact in this study that LGs depends largely on statutory allocation and not on taxes. Hence, the need and wake-up call to LGs to improve on their source of internal revenues.

Major LG’s revenue is expended on recurrent expenditure while capital projects are not given required attention. Also, the recurrent expenditure has the largest percentage of 70% while capital expenditure which has to
do with major projects for the betterment of the lives of the local populace is just a paltry percentage of 30%. The inability of local governments to raise substantial portions of their total recurrent revenue requirements from internal sources which according to Adamolekun (1999), undermined the autonomy that is implicit in the idea of a third tier government, has of course becomes common place knowledge. The reasons for this have ranged from the very narrow revenue base imposed on local government by the statutory distribution of tax-raising powers, to the continuous infringement of their revenue rights by state governments in particular.

LGs have a very narrow source of revenue which are not yielding nor contributing to the IGR as it ought to. The local tax head 1001- property rates and taxes does not yield any revenue for all the years of each LG understudied which is a pointer to the fact that this area is being ignored and not tapped probably because of state governments infringement on their tax –right. The LG on its own, also does not have so much a plan or strategy for improved revenue drive because of their large dependence on statutory allocation.

Conclusions
From this research, it is concluded that, the IGR of LGs does have any impact on the TIGR of LGs but it is meager because of the narrow revenue base allocated to them and other tiers of governments’ infringement on their tax rights and more importantly, LGs revenue is mostly expended on recurrent expenditure which has to do with the payment of salaries etc not really for projects that would affect the lives of the populace. This trend has to change because before the populace can be asked to contribute their own quota to the sustenance of LGs, they would want to see and feel what the resources would be used to provide for them or benefit them, hence the need for LGs to work out strategies to increase their revenue base.

Recommendations
From the above findings and in order for the local government councils to fulfill their statutory obligation, they must take the following critical steps:

a) Improve on the internally revenue generated drives;

b) Develop strategies to improve on the sources of internally generated funds by sponsoring bills that would make the national and state assemblies to channel some of their legitimate revenue bases that are presently being collected by state governments;

c) Improve the internal control systems on collections and remittances of rates and taxes that are presently being diverted by collectors;

d) To allocate greater percentage of their earnings to capital expenditure, so as to be able to fulfill their social obligations to the citizens;

e) To train and retrain the revenue collectors on the modern techniques available to stimulate the growth of IGR;

f) To computerise their existing system and adopt a tracking system that would enable them to ascertain areas of inadequate remittances and arrest any act of fraud and malpractices before they get out of hand.

References


