

Internally Generated Revenue and Local Government Sustainability in Nigeria

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ABSTRACT

This paper examined the impacts of internally generated revenue on the Nigerian local government sustainability using Ilorin west local government area, Kwara state as a case study. To achieve the above objective, the paper adopted both the primary and secondary data. The primary data were sourced with questionnaires from the entire 68 staff in the revenue section of Ilorin west local government area, while the data were analyzed using Chi square Test of independence. The study found a strong positive relationship between internally generated revenue and local government sustainability with ($X^2 = 62.629$, $p < 0.05$). The study concluded that internally generated revenue is a prerequisite for local government sustainability in Nigeria. It is therefore recommended that all areas of Local Government Internally Generated Revenue be expanded as the major funding from the monthly Federal allocation cannot guarantee the expected Local Government sustainability.

Keywords: Generation, Internally generated revenue, Local government administration, Local government, Revenue management, Revenue, Sustainability

INTRODUCTION

The current local government structure in Nigeria emanated from the colonial era where local governance and administration is left to the care of the traditional rulers whose major source of finance were taxes and levies. During colonialism, British colonialists especially in the Northern area introduced a system of indirect rule; this system introduced direct taxes which were paid in various local communities for the running of their affairs. After the attainment of independence in 1960, more responsibilities were accrued to the local government by the Constitution. For instance, section 6 of the 1979 Constitutions of Nigeria made provision for substantial funds to

be given to the local councils; this is as a result of the role of a sound financial base in facilitating effective performance of the roles, duties and functions assigned to local government. For many years, the financial resources made available to various local governments does not correspond with the need of the local government area thus the need for local government to internally generate its revenue to ensure its impact on the sustainability of the local government area.

There exist countries across the world that practice federalism and in a federal system powers in the state are shared among the federal and other levels of government in the states. Nigeria practices Federalism where the levels of government are three namely federal, state and the local government. The constitutional provisions of Nigeria allocate resources to the tiers of government to facilitate the effective performance of their duties. However, the ability of the local government to utilize its human and material resources such as finance is paramount to the success of local government since local government is closer to the people and is a government at the grass root level, it tends to sense the crucial needs of the citizens and maintain orderliness in addition to social service delivery at the grassroots. Thus, articulating the needs of the people is crucial to the local government as well as the formulation of plans and procedures to achieve them. Sequel to the paucity of fund that has characterized the Nigerian states and local governments (LG), and further curtail their capability, state governments have set up internal revenue boards in collaboration with local government to boost their revenue profile. Among the pioneer states in this rush is Kwara State that began in the year 2015. In collaboration with various local government officials, the Kwara State Government established the Kwara State Internal Revenue Service (KWIRS) to generate revenue across the Kwara state. Funds generated by Ilorin west local government area were remitted to the Kwara state internal revenue service. However, despite the revenue accruable to the local government from the statutory federal allocation as well as its internally generated revenue, local government still suffers from inadequate developmental projects (Ikeanyigbe, 2016) and non-availability of funds to cover the basic needs of the local government area.

The implication of internally generated revenue not facilitating local government sustainability tends to result in a negative attitude from the citizens from whom the internally generated revenue are being sourced from. The unavailability of prerequisite social infrastructures has been one of the reasons cited by would-be investors as part of the determinants of their business location.

Internally generated revenue not facilitating local government sustainability would create a sense of distrust from the citizens as lack of impact of internally generated revenue tends to create in the mind of the citizens inefficiency, lack of management, and incapability of the local government to ensure sustainability in the local government area. In view of the established little influence that internally generated revenue has on local government sustainability in Nigeria, this paper seeks to investigate the nexus between internally generated revenue and Local

Government sustainability in addition to the challenges confronting the effective internally generated revenue management in Nigeria.

LITERATURE REVIEW

Conceptual Review

The dynamic approach to the use of every social science concept in the social sciences research has made it impossible for a static definition to exist for a concept. Instead, varied perspectives have characterized social concepts among which are the following concepts germane to this study. In view of these, the following concepts shall be reviewed.

- Local government
- Sustainability
- Internally generated revenue

Local Government

There exists broad conceptualization of local government, it is often termed as the government closer to the grassroots (Essien, 2010:3), also a linking institution between the local populace and the central government (Robson, 1978). Similar to the last description, LGs are also viewed as a subdivision of the central government established by law to deliver local services (Akpan, 1956:50). In furtherance, the 1976 Local Government Reforms defined local government as: Government at local level exercised through representative council established by law to exercise specific powers within defined areas (FRN, 1976). According to Nico (2008), local government involves the active participation in local democracy to allow for a closer government-citizen relationship and facilitating the involvement of minority and disadvantaged groups. The United Nations Office for Public Administration quoted in Ola and Tonwe (2009) defines local government as “a political subdivision of a nation or (in a federal system) state, which is constituted by law and has substantial control of local affairs, including the powers to impose taxes or to exert labor for prescribed purpose. The governing body of such an entity is elected otherwise locally selected”.

Deriving strength from the above definitions, local government can be seen as government in which popular participation both in the choice of decision makers and in the decision making process is conducted by local bodies. Looking at the concepts from another lens, local government is defined as a unit of government charged with the responsibility of complimenting other levels of government in the provision of essential service to people in the local area.

Sequel to the absence of a unilateral role that local governments are expected to play from the paraded definitions, the categorization of the concept into three perspectives by Ola (1984)

comes handy. However, of the democratic participation, efficient service and the developmental schools he proposed, this paper will adopt the efficient service perspective.

Sustainability

Sustainability is an imprecise concept that everyone tends to understand or grasp based on their intuition but somehow they find it uneasy to operationalize the concept into concrete terms (Gunder, 2006).

In the University of California, Los Angeles Sustainability Committee (2016), sustainability is defined as the physical ability and institutional practices that fulfill the needs of present users without compromising the ability of the future generation to meet theirs, particularly relating to the use and waste of natural endowment and resources (UCLA Sustainability Charter, 2016). Sustainability is the process of maintaining in a balanced fashion, change in fashion, to which exploration of resources, investments, technological development and institutional change are all in accord, which triggers both current and future potential to meet the needs and aspirations of the people (Northmist, 2020).

Arising from the above, when sustainability is used in relation to human societies it is usually taken to imply a paradigm shift to a positive process of change socially such that there is possibility for future progress and positive change. Therefore, sustainability of local government simply refers to the ability of an institution to maintain itself towards attaining development.

Revenue/Internally Generated Revenue

Money is the hub of every administration, the revenue accruable to local government in Nigeria is the wheel used by local government in carrying out their functions. Local government in Nigeria will be at a standstill if not adequately financed, this is equally applicable to other levels of government as well. Revenue are funds required by the government to finance its activities efficiently and effectively (Adam, 2006). These funds are sourced from different sources such as taxes, fees etc. Revenue can also be defined as the amount of proceeds that accrues to an organization within a particular period. Therefore, revenue is defined as earnings or proceeds that result from engaging in some income earning activities.

According to the 1999 Constitution of Nigeria, local governments in exclusion from the statutory monthly allocations from the Federal and States Governments are mandated to explore substantial funds from within its jurisdiction (internal sources). Local government councils in Nigeria are vested with the power to pursue internal revenues from levies, rates, fees, taxes paid by the local people.

Internally generated revenue is not a term peculiar to local government; the state government also generates revenue internally to complement funds from the statutory allocations. Internal source of revenue no doubt tends to strengthen local government autonomy. In the words of Oguonu (2003), “internally generated revenue is the one that usually makes a difference between one local government and the other”. Adesoji and Chike (2013) defined internally generated revenue as those revenues derivable and sourced in various ways within the state. Examples include taxes such as pay as you earn, direct assessment, capital gain taxes amongst others. According to Adeniran *et al.* (2013) and Olusola (2011), internally generated revenue is revenue generated by the local government through their own efforts such as rents, rates, which include property rate, education rate, street lightening and so on. Internally generated revenue is generated independently within the federation aside the funds stipulated in the federation account. This would no doubt reduce the excessive reliance on the federation and state allocations. Thus, the realization of development projects is dependent not only on the allocation from the federation account but from the funds generated internally (Ola and Tonwe, 2009).

Empirical Review

Soba (2010) while investigating the effectiveness of a number of issues prominent among which was the determination of the contribution of IGR to the financial base of Kaduna South local government, collected primary data from a group of respondents using both structured questionnaires and a close ended interview format. Among many of his findings, it was observed that public service delivery in Kaduna South local government was below the per, although this is not linked with the low IGR opportunity in the area but resulted from the poor administration of IGR that has contributed to the decline of the economic base of the local government. In a related effort, Olaoye, Asaolu and Adeoye (2009) also reviewed internally revenue generation in the Nigerian local government with a focus on Ekiti State. Three hypotheses were tested with Chi-square using the generated primary data. Their study found that there exist effective internal control measures for the collection and management of the generated internal revenue. However, they recommended that it is necessary for income-oriented enterprises to be created to boost the revenue profile of local governments in Ekiti state.

Equally, Abdulkareem *et al.* (2018) in a study of local government internally generated revenue and administrative cost of which 500 questionnaires were administered to 40 local governments in Nigeria. Out of the 500 questionnaires that were distributed, 387 questionnaires were retrieved and were analyzed using Pearson Chi-Square analysis. They found that internal revenue generation rate depends on the extent to which seriousness and dedication is channeled to the collection process in the Nigerian local governments. This coincided with the effort of Amin (2018) that reviewed the sources and capacity of revenue generation in Asa Local Government area of Kwara State, Nigeria. The study relied on both primary data with 218 questionnaires

returned and analyzed using Statistical Package for Social Sciences (SPSS) software. Finding from the study showed that Tax enforcement is not efficient, and majority of the respondents agreed that local government officers are more efficient than consultants are; he explained that revenue officers are not adequate. As a result, this inadequacy of the revenue collectors gave room for consultants thereby the functions of the treasury department of Asa Local Government were overloaded by the Kwara State Internal Revenue Service.

Indication from the related studies above buttressed the need for a scientific study of the nexus between local government internally generated revenue and the sustainability of local government effectiveness and efficiency in Nigeria.

METHODOLOGY

This study adopted a descriptive and non-experimental design, involving the use of survey. The study focuses on assessing the impact of internally generated revenue on local government sustainability in Nigeria. Using primary data generated from structured questionnaire served to 68 purposively selected revenue staff of Ilorin west local government area of Kwara State, the paper adopted Chi-Square test of independence as the method of analysis. The survey was designed to capture the conceptual nature of local government revenue viability and its sustainability through a 5-point Likert scale agreement of strongly disagree to strongly agree in Table 1.

ANALYSIS AND DISCUSSION

The Result presented in Table 2 showed the relationship between internally generated revenue and local government sustainability. It can be deduced from the table that there is a significant relationship ($X^2 = 62.629$, $p < 0.05$) between internally generated revenue and local government sustainability.

Table 1: The demographic details of the adopted respondents

Grade Level	Number of Staff
GL 13 & Above	19
GL 07-12	46
GL 01-06	3
Total	68

Table 2: Showing relationship between internally generated revenue and local government sustainability

	X	SD	N	X²	Sig.
Internally Generated Revenue	2.46	0.831	65	62.629	0.000

$P < 0.05$

Based on the descriptive statistics, this result also indicated that most (60%) of the staff noted that the internally generated revenue does not cover the basic needs of Ilorin West Local Government Area. The income generated are used mostly in renovations and maintenance as they are not adequate to be tied to any significant huge community project such as building of schools, construction of roads and health care centres as gathered from the survey. This is an indication that the revenue generated internally by the local government is not sufficient to carry out its constitutionally mundane role as the primary provider of basic amenities.

Paucity of funds has also led to the local governments going down on financial distress, hence, the noticeable level of underdevelopment within the communities. Even the roads within the local government under investigation were observed to need to be in bad shape because of potholes and lack of good drainage. Similarly, the condition of some of the earlier constructed classrooms were ill maintained which can be attributed to insufficient fund generation. These findings are in congruence with the study of Usang and Salim (2016) and Olaoye *et al.* (2009). Therefore, due to the current dwindling financial condition of the country, where the external statutory allocations to the local governments have dropped considerably, the sustainability of local government as a tier of government remains a matter of time.

CONCLUSION AND IMPLICATIONS

This paper discussed the impacts of internally generated revenue on local government sustainability using Ilorin west local government as a case study. This paper has adopted the efficient service school of thought in conceptualizing local government as machinery for the delivery of effective and efficient services and as the level of government aimed at promoting development from the grassroots. The findings of this paper reveal that the internally generated revenue is not substantial and as such has not been able to cover the basic needs of the area. The internally generated revenue is not sustaining the local government area to a certain level thus the need to explore other ways in which internally generated revenue can be boosted to ensure sustainability.

Findings from this study present some policy and practical implications for local government administration in Nigeria. First, this study investigated the nexus between local government internally generated revenue and its sustainability. Although examining the sustainability of the local government from the financial capability perspective might be rare, it is expected to contribute to the body of literature on local government administration and internally generated revenue in Nigeria. In line with this thought and findings therein, the study presents a practical implication of this study on the need for the local government to diversify ways of generating more revenue internally through venturing into more rewarding commercial activities such as housing and shopping malls. The constitutionally assigned fiscal responsibilities of the local

governments where they could generate revenue such as televisions and radio licenses, bicycle tax and cattle taxes are old, therefore, updating them will give the local governments more flexibility on carrying out commercial ventures.

More so, the findings from the study have indicated that apart from narrow means of revenue generation, there are unsustainable practices such as poor management accounting process and corruption within the local government system. The implication of this further confirms the need for better and up to date mode of revenue generation to avoid wastages of the little collected. When proper management practices are incorporated into the local government administration, it will guarantee an effective and efficient revenue generation process.

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