Internal Revenue Generation and Economic Development in Local Government Areas in Nigeria

Ikya Emmanuel Agbe¹, Akaa Samuel Terzungwe² & Ucherwuhe Samuel Igbabee³

¹Department of Accounting and Finance, College of Management Sciences, University of Agriculture, Makurdi, Benue State.
²Department of Management Sciences College of Social and Management Sciences, Kwararafa University Wukari, Taraba State.
³Department of Business Administration, College of Management Sciences, University of Agriculture, Makurdi, Benue State.

ABSTRACT

This study examined internal revenue generation and economic development in local government areas in Nigeria. According to the study, economic development is positively related to revenue generation which is the nucleus and the path to modern development. Local government being the third tier of government and the closest to the people especially in the rural areas need revenue to provide basic social amenities to the people. But it is unfortunate to note that the local government management has not lived up to expectation especially to provide basic social amenities to the rural people. Thus, due to their remoteness from the local communities, the local government is to bring governance closer to the people at the grassroots, with the aim of caring for the socio-economic and development needs of local populace. The study established that the local governments in Nigeria are docile in terms of aggressive revenue collection to augment allocations from the federation account which they get on monthly basis. Other empirical review hinged Local Governments’ abysmal revenue generation on dishonesty on the part of council revenue collectors, who, in most cases, misappropriate collections made on behalf of the council. It was concluded that poor revenue generation by local government in Nigeria has affected the spread of development to all the nooks and crannies of the country. Thus local government councils and their management should strategically plan on proper measures to generate revenue to meet with their functions as provided by the constitution of the country. It was recommended among others that existing laws that abhor the use of tax consultants who take over the responsibilities of the revenue officers should be retained to encourage renewed focus on building the tax institution and having a core of well trained staff within the institution for effective tax collection.

Key Words: Revenue Generation, Economic Development, Local Government, Nigeria.

1.0 Introduction

The evolution of local government in Nigeria has undergone a lot of changes. These are all geared towards making the local government a system that could serve the purposes for which they are created. Before the emergence of the British Colonial Administration, various communities in Nigeria were governed through the instrumentality of their traditional political Institutions. These institutions were anchored on the people’s habits of thought, prestige and custom which are adapted to meet the new conditions for general development of their areas. Local authorities were empowered to charge and collect developmental rates based on a certain percentage of the income of the rate payers. The council enjoyed the social autonomy of providing certain social services to the community, for instance the local government was vested with the responsibility of healthcare services delivery with the transfer of primary healthcare delivery system (Abba, 2008).

Development is a sine qua non for modern civilization. In a crusade and struggle to carryout development at all nooks and crannies of the society. The Local Government as the tier of government that is nearest to the people is saddled with the responsibility of direct development of the people to a certain level. Development is highly associated with fund, much revenue is needed to plan, execute and maintain infrastructures and facilities at the local government level. The needed revenue is generated for such developmental projects in this tier of government. Like construction of accessible roads, building of public schools, health care centers, construction of bridges among others are solely carried out from income generated from taxes, royalties, haulages, fines and grants from states, national and international governments.
Thus, the Local government cannot embark, execute and possibly carryout the maintenance of these projects and other responsibilities without adequate revenue generation. This is the basic reason why development is skeletal at some Local Government Councils in Nigeria. The poor revenue generation has however, pronouncement affected development negatively in many Local Government Councils in Nigeria with the attendant consequences of not being able to bring the much needed development.

2.0 Internally Generated Revenue in the Local Government in Nigeria

Internally Generated Revenue in normal day to day parlance refers to those revenue sources that are generated solely by the State and Local Governments. We should focus more on the quantum of collection and how to grow that quantum and allocate it, than on merely who collects it, as such narrow focus sub-optimizes what can be collected, and how monies are utilized. Indeed, it accentuates the challenges of multiple taxation which is not only unconstitutional, but exacerbates the problems of the tax payer and electorate who increasingly get frustrated at the numerous amounts of taxes they borne.

3.0 Sources of Revenue Generation in Local Government

In an attempt to marshal out the functions of the Local Government, the fourth schedule of the constitution of the Federal Republic of Nigeria 1999 implicitly specified some of these sources of revenue generation to the Local Government. However, Ogunna (1996) posited that generally, the Local Government has eight main sources of revenue which includes rates, grants, statutory, allocations, fees and charges, fines, earnings and profits, loans and miscellaneous.

Rate: As one of the independent sources of revenue, people residing within a Local Government area pay some money to it in form of rates. Rate is, thus a local tax of the local government which is of three types namely property rate, special rate and capitation rate otherwise known as poll tax. Property rate is a fixed percentage amount of the current value of a private property levied on the owner of such property. Capitation rate which is also a fixed amount of money levied on all rateable adults living in the local government. It is not only fixed but equal for every payer and like the property rate, it is paid annually. As a flat rate, it is generally low so that the low income people can conveniently pay. Special rate is a fixed amount meant to be paid by all rateable adults residing in the local government area. Special rate is usually levied for specific and priority projects like education, water supply and rural electrification which the local government has inadequate fund for its provision.

Statutory Allocation: As the third tier of government, the local government receives statutory allocation from the federation account just like the state and federal government. This share of revenue is as fixed by law, part of it also comes from the state government total internally generated revenue based on percentage formula because it is fixed by law, it is not voluntary but mandatory and does not depend on the whims and caprices through a legitimate process of change of the law that provides it. Statutory allocation is definite and certain.

Fines: These are penalties imposed by the customary courts on individuals for the contravention of the bye-laws of the local government to regulate and control services allocated to them within their areas of jurisdiction. Note that revenue accruing to the local government through this source is relatively very insignificant.

Earning and Profits: These are profits, interests and premiums accruable to the local government from its investment of funds in private or public economic ventures. In other words, they are money realized by the local government from commercial ventures and industrial establishments, such ventures includes mass transit services, soap industry, bakery, Agricultural farms, shares owned in companies. If such business is effectively managed with minimum local government interference and political influences, higher revenue could be realized.

Fees and Charges: Revenue is generated through payments for the services which the local government provides, such fees are in some cases designed to regulate and in other cases to maintain these services. Fees and charges are imposed and revenue realized from the issuance of various types of licenses like bicycle, wheelbarrow, canoe and cart license, others are charges on bakeries, sale of liquor in restaurant and public places, erection of sign-boards, registration of births and marriages, motor parks and markets, personal identification, public urinary and toilets etc. The imposition of fees and charges on these services by the local government always requires enabling laws for them to be lawful.

Grants: The Federal and State Government give grants often called grants-in-aid, to the local government to enable it discharge its functions effectively particularly in the area of the provision and maintenance of certain basic amenities for the people, such basic amenities like water and electricity supply, building of educational and health facilities. The maintenance of roads attracts grants. Four main types of grants which include general or block grant, specific grants, equalization grant and matching grant.

Local governments are expected and are indeed meant to embark on certain development projects that are listed as priorities of government. Consequently any local government that embarks on such priority projects is given a matching grant which is designed to simulate and encourage development.

Loan: Local governments are empowered to obtain loans from the Federal, State and other Local
Government. They are also allowed to raise loans from financial institutions like banks and from individuals. They raise loans for incurring capital development projects that are within their statutory functions. Educational, Agricultural and Industrial development Projects, drainage schemes, health and market development are good examples of developmental projects for which loan can be raised. In addition, no Local Government can make any reasonable giant stride in rapid community development without borrowing. It is however important to note that loans are necessity provided that they are prudently applied on capital projects for which they are obtained, on capital projects which are expected to be of immense benefits to the people including the coming generation which incidentally are reasonably expected to pay for such loans in future, our of the rates and other forms of taxes they will pay.

Miscellaneous: Revenue can be generated from the payment of levies like developmental and educational levies. Money can also be realized from rents paid for using any land or building belonging to a local government. Gifts and donations from individuals, philanthropists and corporate bodies also form sources of revenue for the local government. In conclusion, local governments are empowered to generate revenue to enable them carryout their statutory and permissive functions. It is therefore necessary to enhance revenue generation of the local government to enable them, carryout their duties.

4.0 Challenges of Revenue Generation in Nigeria
In spite of the above changes in the tax system, several challenges still remain as the country moves to improve tax administration.

a) Agreeing on how to make the Union- Nigeria work: Since the amalgamation, Nigeria is still beset with issues of making our union a lot more productive than it is today. Defining Federal and State relationships, how to effectively distribute centrally administered revenue, how to administer a uniform personal income tax administration system, how to ensure that each of the States can effectively operate interdependently (not independently) remain issues that puts a burden on tax administration as these tensions seldom sufficiently enable the degree of collaboration that should exist between Federal and State and between States to happen as they should.

b) Working within the Constitution (until it is amended, if required) and making the Constitution work: Under the 1999 constitution of the Federal Republic of Nigeria, every citizen is obligated to declare his income honestly to appropriate and lawful agencies and pay his/her tax promptly. The tax system as envisaged by the Constitution (see items 16, 25, and 59 of the Exclusive Legislative List and item D paragraph 7 of part II of the 2nd schedule in the Concurrent Legislative List) places the highest responsibility for ensuring effective taxation or indeed for ensuring good governance on the Federal Government and yet also behooves on the Federal Government to collaborate with the States and Local Governments in this regard. In practice, however, it would appear that the trust levels between Federal and State and between State and Local Government impair the ability of the Federal and the State to collaborate and work effectively together. More time is spent in Court and in dousing tension than in building an effective tax system beneficial to all.

c) Manner of Revenue Allocation and Distribution is affecting issues pertaining to collection of taxes: For as long as perceptions remain as to the level of equity or otherwise in the manner of revenue distribution, the tax administration system may not be as optimal as expected as benefits of collaboration in terms of improved revenue to the State are not directly felt as much as expected.

d) Overdependence on Oil: The above issues need to be addressed urgently to ensure that the tax system required to avoid an overdependence on oil is built in the shortest possible time. Petroleum has been our dominant revenue source for national development over the years. It accounts for about 40% of the entire national economy, 80% of government revenue and 95% of exports. The danger signals observed both within and outside the country underscore the need to move away from total reliance on petroleum related revenue. One of the danger signals is the crisis in the Niger Delta which has interrupted petroleum operations in the past four years. Between 2006 and 2007, crude oil production reportedly declined by an average of 500,000 million barrels per day. Another negative effect on revenues in the near future lies in the movement from Joint Venture Operating Agreement (JV) to Production Sharing Contract (PSC) which has better fiscal terms for the oil companies to the detriment of Government. Another major challenge facing the growth in the generation of revenue nationwide, beyond the typically mentioned administrative challenges being tackled at the revenue authority, is in the nature of our fiscal structure. We still are debating how the fiscal federalism will work and the role of each component part. The Federal Inland Revenue Service (FIRS) in addition to dealing with the day to day challenges of improving tax administration for the benefit of all– Federal Government (FG), State Governments (SG) and Local Governments (LG), is also faced with.

a) working with the Attorney General of the Federation to defend the Federal Government in a suit by the Lagos State Government challenging the constitutionality of the VAT law at the Supreme Court even after decided cases in the lower courts
(note – 85% of VAT proceeds collected by the FIRS is allocated to the SG and LG),

b) Working with the Attorney General of the Federation to defend the Federal Government in a suit brought against the FG by some State Governments at the Supreme Court challenging the basis of the cost of collection mechanism for funding the FIRS and the Nigeria Customs Service (NCS).

c) Working with the State Revenue Authorities to understand that the quest for the uniformity/harmonization of the Personal Income Tax system is in the interest of all to create a national system available to all, and not to centralize tax administration and take away the responsibilities of the State Governments,

d) Working within the Joint Tax Board to address issues of multiple taxation which goes beyond the law as the constitution is clear on not being supportive of multiple taxation etc.

e) having to respond to drafts of bills (and in one case a new tax law which the FIRS was not aware of until it was passed) which still support additional taxation when the focus had been to make sure that the existing taxes work better rather than create new taxes.

f) working with the National Assembly and National Economic Council to get FG, SG and LG, Ministries, Departments and Agencies (MDA’s) to remit taxes collected completely and on time – which they ultimately benefit from

g) having to defend actions taken in the best interest of the Country – for example, why we are seeking interpretation of the law on the use of tax clearance certificates for political office holders at a time when we are battling with solving the hydra headed challenge of a “parallel tax administration driven by fraud” and the review of all tax clearance certificates in the possession of all tax payers by the relevant tax authority is a sine qua non for building an effective compliance oriented database.

These are constant tensions that are making the work of the tax administrator more difficult and do not support collaborative effort and focus that would drive effective internal revenue generation for development. These issues should be behind us so we can build a tax administration system that is a win-win for all parties. The earlier there is clarity in the nature of fiscal federalism supporting the country, and the role of governments in making such fiscal federalism work for the unity, peace and progress of Nigeria, the better.

5.0 Development of Local Government in Nigeria

The 1999 constitution of Nigeria, not only recognizes, but also guarantees the existence of a more powerful and independent local government areas. Section 162 of the 1999 constitution guarantees the right of the local government to receive statutory allocation of the revenue from both the federation account and state resource. The fourth schedule of the same constitution spells out the functions of the local government.

The federal government increased the local government share of the federation accounts to twenty-five percent. In the present local government administration, there are about 774 local government areas in Nigeria with the rights and power of providing certain social services to the communities, such social services like provision of healthcare centers, electrification, and provision of pipe bore water and accessible roads etc. However, the poor revenue generations have been a major problem hindering the efficient performance of the functions of local government and the development of local government areas in Nigeria. Due to poor revenue generation, the local government cannot afford to provide the rural people with basic social amenities such as provision of clean water, construction of accessible roads for easy movement of transportation, provision of well-equipped health centers, dispensaries, and maternity homes in communities in the Local Government.

According to Ugoo (2008) the need for revenue generation cannot be overemphasized, the management of revenue generated in the local government constitutes the crucial and central component in the administrative process of the local government. This is largely so because finance determines the services rendered by the local government. The following gave rise to the need for revenue generation in the local government.

In the same way, where the local government is allocated diverse functions, as it now has in Nigeria, some of which are large in scope like education, health, water supply and rural electrification. The revenue sources to be provided should correspondingly be large in scope, viable and rich in content to match the diverse functions.

Adedji (1979) posit that the success or the failure of the local government depend on the financial resources available to the individual local government and the way those resources are utilized. This fact is further recognized and emphasized in the guideline for local government reforms of 1976 which states that it must be recognized that if meaningful local government is to be expected in Nigeria, much larger financial resources are needed in the development of such local government areas.

6.0 Conclusion

This study has demonstrated that the end to having begins with having a burning desire to build a viable country at the national and sub-national levels. This must be supported with plans which ensures that the expenditure to support the plan is well articulated and to avoid wrong strategies at implementation. It is clear that poor revenue generation by local
government in Nigeria has affected the spread of development to all the nooks and crannies of the country. Thus local government councils and their management should strategically plan on proper measures to generate revenue as to meet with their functions as provided by the constitution of the country. This will enhance their financial ability to implement their constitutional functions or responsibilities to the rural communities.

7.0 Recommendations

Based on the review of relevant literature, the following recommendations have been made.

1. Tax Authority in the local government should have a robust training programme driven by clear nationwide standards that are set in a manner that will ensure focus on the needed competencies for effective and efficient performance, based on proper training needs analysis. Recruitment policies and practices for tax collectors should also be based on needed skills, knowledge and experience. Capacity building should emphasize what it takes to ensure proper and effective administration of the tax and related laws.

2. Existing laws that abhor the use of tax consultants who take over the responsibilities of the revenue officers should be retained to encourage renewed focus on building the tax institution and having a core of well trained staff within the institution.

3. The efforts of local government should not only be directed toward revenue yielding alone but also to the provision of social amenities such as basic health facilities, accessible roads, town halls, electricity and water supply which will help to improve the socio-economic life of the rural people.

4. These facilities provided by the Local government should be of high quality by doing this; the people’s interest will be geared towards giving their maximum support to the government which will lead to the development of their communities.

5. There should be constant campaign and awareness programme within the Local Government to enlighten the rural peoples on the benefits of prompt payment of taxes to the government as when due, this will go a long way in improving the revenue generation.

6. Judicious and transparent use of tax revenue, through visible projects, should be encouraged at all tiers of government. The culture of demanding accountability from the executive arm of government through media briefs and town hall meetings should be developed and sustained and would help build a culture of voluntary tax compliance.

REFERENCE


