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**Problems of Revenue Generation in Local  
Government Administration in Nigeria**

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**A b s t r a c t**

*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. Therefore, the concept of 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. Over the years, it has been observed that massive rural-urban migration and over congestion are heating up lives in the cities. Others have contended that Local Governments are docile in terms of aggressive revenue collection to augment allocations from the federation account which they get on monthly basis. Yet, others 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. In the face of these charges or allegations, it has become pertinent to investigate why Local Governments in the country have poor revenue generation efforts. The thrust of this paper therefore is to find lasting solutions to the financial problems hindering local governments in Nigeria, most especially strategies to ameliorate the over-dependence on Federal Government allocation for the up-keep of the Local Government. The paper also recommends amongst others, that any official who divert local government funds to their personal purse should be punished in accordance with the law of the land, use of council staff for revenue collections should be encouraged and stop using agents who are not council staff. The paper concludes that undoubtedly, for Local Governments to be able to perform these functions creditably, they need sufficient funds.*

**Key words:** Local, Relevant, Mobilize, Revenue, Autonomy, Allocation.

### **Introduction**

It is believed that the only reasonable form of development is the development that comes from within, development that comes through the will and desires of the people. The ideas behind the creation of Local Government in Nigeria are that the people at the local level are assumed to have the fullest awareness of their needs. 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 (Uhunmwuango and Epelle, 2008).

Nigeria runs a federal system of government that consists of three tiers, that is, the federal, state and local governments. Each of these spheres has constitutionally assigned responsibilities to discharge. According to Orewa, (1983:96), it has been generally agreed that no central government can satisfactorily conduct administration wholly from the capital through civil servants, based at the headquarters. Thus, the need for a form of decentralization, according to him, such as will enable the government to reach out to the people at the local level, becomes imperative.

Alluding to the concept of Local Government therefore, Tonwe (2007:1) 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.

Local Governments, which is our focus in this study, are the nearest governments to the people at the grassroots in Nigeria. In fact, 70% of the Nigerian population reside in the Local Government areas. Consequently it has the responsibility to articulate the needs of these people and formulate plans and strategies to realizing them. Even the urbanized cities are broken into Local Government areas such that the activities of State Governments are interwoven with those of the Local Governments.

### **The Problem**

The development ratio between the urban cities and the rural dwellings in this country is abnormally lopsided and highly unacceptable for even and sustainable development of this nation in particular and Africa in general. This lopsided development policy has

created many avoidable problems some of which are massive rural-urban migration thereby over congestion and heating up the lives in the cities, infrastructural decay at the rural areas due to total neglect and abandonment, mass poverty in the country due to lack of proper harmonization of the nation's resources (Ibhawaghele, 2012)

The important question at this juncture thus relates to how much impact local governments have made on the lives of the people in their areas vis-à-vis the high expectations from the latter. No doubt, with the substantial increase in revenue accruing to local governments for quite some time now, some of them have been able to embark on significant projects in various spheres with positive impact on social infrastructure, agriculture, health, industries, and water supply. However, available facts still show that our local governments in Nigeria cannot be counted among the high-performing ones in the world, indeed, not even among the average performing local governments in the third world. Rather, our local governments have been sharply criticized for poor performance in terms of scope, depth and quality of services, particularly in such areas as provision of infrastructure, medical and health services, water supply, waste disposal and many other services listed in the 1999 Nigerian Constitution. In fact, some of the Constitutional functions are not performed at all. And as a former Edo State top government official (Egonmwan, 1984) observed:

With the massive increase in the revenue from the Federation Account following the 1976 reform, many Local governments engaged in reckless spending on grandiose projects which have little relevance to the needs of the local communities. With the oscillation and dwindling of revenue from oil, many of these projects became abandoned leading to colossal waste of resources. There can be hardly any local government area in Nigeria today where corpses of abandoned projects are not found.

The spending of most local governments is not only characterized by waste but also by very pervasive corruption. Although corruption is described as a cankerworm found in every facet of the Nigerian society, it is particularly worrisome at the local government level. Most Nigerians believe that public funds are just shared among government officials, cronies and their political associates. This may appear exaggerated. But what is clear though is that corruption is so entrenched at the third tier of government that it is obvious to everybody that there is not much development to show for the huge financial resources that have accrued to the councils. Thus, the views of Nigerians collated in the Political Bureau Report in 1987 still remain valid up till today: that despite the strategic importance of local government to the national development process, its contribution has been minimal. And only recently, in “*The Guardian*” newspaper, former Governor Ikedi Ohakim of Imo State gave a damning verdict on the performance of local governments:

It is obvious that the council administration is not working. The council system has failed woefully in Nigeria. And if nothing is done to salvage the situation, the country will continue to have problems at the grassroots. We have wasted money to the extent that the council system has become an enterprise of a different dimension where some ‘big men’ try to install their housemaids and houseboys so that they can be making returns ... The council system has enriched only few individuals who are now being chased by the masses on the streets (*Guardian*, 27<sup>th</sup> December, 2007).

### **Local Government and Socio-Economic Development**

In many countries, Nigeria included, the local government is widely acknowledged as a viable instrument for rural transformation and for the effective delivery of social economic services to the people. According to Obadan (2008):

the local government in Nigeria is a well-recognized third-tier of government. It is administration or government at the grass roots or local level. At this level, government is expected to be very close to the people, both in the villages, settlements and towns, and to impinge on the day-to-day life of the common-man. Furthermore, local government is expected to be actively involved in the overall national development objective of achieving a broad-based social and economic development and securing an optimum utilization of manpower.

Local governments are strategically located to deliver on the functions spelt out for it for three main reasons:

- proximity to the people;
- greater responsiveness to the needs of the local populace; and
- simplicity of operation in that local government organizations are usually not complex.

Although local government has existed in one form or the other in Nigeria for quite some time, it was after a number of reforms, particularly the 1976 reforms and the subsequent ones, that it acquired the respectable status it now enjoys today. One compelling reason for the reforms was the need to make local governments perform their economic development functions better.

Some major developments in the local government system since the 1976 reforms are as follows:

- (i) Unlike previously, local governments have now been assigned and guaranteed certain specific developmental roles in the 1979, 1989 and 1999 Constitutions of the Federal Republic of Nigeria.
- (ii) In order to enable local governments perform their functions, a constitutional backing has been provided for them to receive

a statutory proportion of funds in the Federation Account as well as the states who are to contribute a proportion of their internally generated revenue to local governments in their domain. Accordingly, the revenue share of local governments in the Federation Account has progressively increased from 10 percent in the early 1980s to 15 percent in 1990. As at 2012, this proportion stood at 20 percent.

Currently, the revenue sharing formula from the Federation Account is as follows:

**Table 1: Revenue Sharing Formula**

|                        |   |             |
|------------------------|---|-------------|
| (a) Federal Government | = | 50%         |
| (b) State Government   | = | 24%         |
| (c) Local Government   | = | 20%         |
| (d) Special Funds      | = | <u>6.5%</u> |
| Total                  | = | <u>100%</u> |

The Valued Added Tax (VAT) is also currently distributed as follows:

|                        |   |     |
|------------------------|---|-----|
| (1) Federal Government | = | 15% |
| (2) State Government   | = | 50% |
| (3i) Local Government  | = | 35% |

**Source:** Federal Office of Statistics, Benin City

### **Sources of Local Government Revenue in Nigeria**

Ola and Tonwe (2005:2) 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 stated the functions and provisions for ensuring adequate human and financial resources. The revenue that accrues to Local Governments in Nigeria according to Olaoye et al (2009:24) 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.
- c. Federal grants –in –aid.
- d. State grants-in –aid
- e. Borrowing from State Government and financial institutions.
- f. Local government share of value added tax (VAT).

### **Internal Sources**

The internally 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 2011:71).

Apart from the foregoing sources, other sources of revenue could be by donation from public spirited individuals or philanthropists, with a view to assisting the Local Government to carry out a particular project or programme. However, it should be noted that out of the major internal revenue sources statutorily allocated to Local governments, the combination of rates, local license, fees and fines, and earnings from commercial undertaking account for upwards of 75% of Local Government internally generate recurrent revenues. Ola and Tonwe (2005:122), on the other hand, noted that statutory allocations from the federal and state government constitute the major source of revenue of local governments in the country. (Ugwu 2000:41).

Having outlined the vital areas of revenue generation to local governments in Nigeria, there is needed to examine the problems of revenue generation in local administration.

### **Problems of Revenue Generation in Local Government Administration in Nigeria**

Source of finance has been one of the major problems of Local Governments in Nigeria. In the past, Local Government relied on internally generated revenues which were hardly sufficient to meet their needs. This led to the slow pace of development in Local Government Areas, especially in the rural areas (Uhunmwuangho and Epelle, 2008). The fact that Local Government requires finances to perform its statutory assigned responsibilities needs no emphasis. While revenue from the federation account is certain, though actual amount may not be determinedly certain, that of internally generated revenue is always fraught with myriads of problems, resulting in meager collections by local council. Some of such problems are as follows:

- 1. Macro Level of Government:** Internal revenue generation is impaired as a result of the macro – level of governments (Federal and State) holding on to those functions the performance of which yields high revenue returns. For

instance, the State Government cannot devolve to local councils such areas as water supply, motor vehicle licensing, approval of building plans, etc that are very lucrative.

2. Failure to remit 10% to Local Government by State Governments is yet another problem associated with revenue generation of Local Governments. Ola and Tonwe (2005:203) noted that although the constitution provided that 10 % of the total revenue of state should be disbursed to their local councils, the state governments had in most cases paid in only a small fraction of the 10% to their local government councils, and in some cases, nothing at all was paid to the local government councils by the State Governments. This still remains the position today. Most councils cry to get their statutory allocation paid into the State Joint Local Government Account (SJLGA) from State Government talk less of getting 10% as state revenue to the councils.
3. **Misuse of state might on State Joint Local Government Account (SJLGA):** The constitution provides that funds from the federation account for State and Local government account should be maintained by the State Government. In most cases, the State Governments make several deduction, such as counterpart funding of projects, income tax (upfront) by Local Government employees (payee) etc. before remitting to councils whatever it deems fit. This situation is worsened under transition committee chairmanship of Local Government Councils. As usual, no transition committee chairman has the guts to question the governor of a state that magnanimously appointed him. This is another sorely situation that have had negative effect on the revenue profile of Local Government Council in the country.
4. Another factor as noted by Gunman (1984:106-7) which has been significantly responsible for low internal revenue generation is that, for fear of incurring the anger of the communities in the constituency they represent, quite a

number of councillors prefers to play it safe by dissociating themselves from any move by the council to revise taxes upward, even when desirability of such revision is obvious (Ola and Tonwe 2005:262).

5. Another problem that has been identified is citizens' cynicism and reduction/refusal to pay rates, charges etc. due to poor record of performance of Local Government in Nigeria (Ojofeitimi, 1998:3). This view point was corroborated by Ola and Tonwe (2005:278) when they said that there have been incidents by violent attacks by angry villagers on tax collectors of Local Government because of their opinion, Local Government's officials are only seen when they want to collect taxes and not return to render any services. There have been organized agitations to boycott the payment of taxes, with the slogan 'no service no pay', such as an anti-tax campaign by agitators in Epe Local Government Area of Lagos State (Gunman 1984:108).
6. Embezzlement of revenue by Local Government revenue collectors have also resulted in widespread unwillingness by communities to pay taxes. There have been reported cases of revenue collectors helping themselves with funds collected for the councils, thus discouraging would-be tax payers' from taking this civic responsibility seriously. Thus, tax evasion becomes common place.
7. Orewa and Adwoman (1992:92) posited that one of the factors responsible for Local Government poor revenue collection is the casual attitude of the revenue collectors and other treasury staff. They labour under the illusion that (no matter) whatever revenue they collect directly, the 'father charismas' of Federation Account will provide adequate funds for the payment of personal emoluments of the staff. This assumption is deceptive in that with poor revenue generation efforts, some council have found themselves unable to pay salary after deductions made by the State Governments. For

example, Oreo Local Government Council more often finds itself in this situation, sometimes leading to unpaid salaries for upwards of two or three months.

8. Misplacement of council funds by Local Government chairmen is yet another problem. Some Local Government chairmen deposited Local Government allocations into private savings account and loan companies in which the Local Government had no Account. This is done with the intention to collecting the accruable interests on such funds on maturity. These ugly practices well described by Ugwu (2009:49) when he states that leadership failure and bad governance at all levels of government inhibits attracting external development assistance. This is also coupled with the high level of corruption levelled at local government functionaries of handling local government funds.
9. Another constraint is imposed to Local Government revenue mobilization capacity through state control over Local Government budgets, which is made to pass through many levels of approval in the hands of State Government. Even after approval, the post – budget control still imposes further restrictions which may be removed when the local government council greases the palms of the powers that be. All of this tells on the financial capability of the councils.
10. There is also the lack of commitment and dishonesty on the part of some revenue collectors. Some under-collect rates and levies after being tipped by the rate payers. Some revenue collectors print their own receipt booklets for use, thus depriving the council authorities of the much needed funds. Consequently local government authorities pay more in terms of salary to collect less revenue. (Edoyugbo 2012:46)
11. Another problem negating revenue generation efforts of Local Governments is the practice of farming out of revenue sources to persons on the basis of political patronage. These revenue

agents are given arbitrary monthly targets to remit to the council, contrary to the Financial Memoranda regulation which states that “where appropriate, a Local Government may appoint a person other than an employee as a revenue collector and such person shall receive an appropriate portion of taxes or fees he collected as commission” (FM 6:2). The implication of not complying with this regulation, as observed by an Audit Inspection Report on Oredo Local Government Council is that the revenue agents cashed on the loophole created by the council to exploit helpless public by fixing rates other than those approved by the council, who could not pay the exorbitant rates. This ugly trend has resulted to loss of dire needed funds to Local Government councils, as lesser targets were often given to the Revenue Agents. (Edoyugbo (2012:46).

12. Political observers have long noted that the present revenue sharing formula does not appear to be favourable to Local Governments in view of the enormous functions and responsibilities constitutionally and conventionally assigned to councils (Ugwu, 2000:49). The poor revenue allocation to the local governments, with the exception of those littoral states, that shares 13% derivation funds, has made them to be dependent on their states for bailout in turbulent times. Even then, the clamour for review of the sharing formula is there. The foregoing features, which are by no means exhaustive, have in combination, impacted on revenue generation of Local Government councils in Nigeria.

### **Local Government Financial Autonomy**

By definition, autonomy is ability to act and make decisions without being controlled by anyone else. For one thing, Local Governments do not have such absolute autonomy. So long as Local Governments exist as a creation of the state and its financial sources are spelt out in the constitution, financial autonomy in terms of generation of revenue is equally not feasible.

For a Local Government to generate funds, it cannot go beyond its revenue bits to raise funds to discharge its responsibilities. Yet, finance is the bedrock of any meaningful developments which exists only for payment of salaries, as they depended on federal allocation, which in most cases are deducted from sources for payment of primary school teachers' salaries. Even the mandatory 10% internally generated revenue of the local government is not forthcoming.

Arising from the above observation, and coupled with the fact that juicy revenue sources are within the preserve of the State Governments, Local Government cannot generate enough funds that would launch her into the much talked about financial autonomy.

Besides, the State Government can sometimes issue directives that could have adverse effect on the revenue generation efforts of a council. For instance, at the inception of office of Comrade Governor Adams Oshiomhole of Edo State in November 2008, a directive was issued which stopped the Oredo Local Government from collecting any form of levies within the council's jurisdiction area. And that position lasted for a number of months before it was relaxed. Since Oredo Local Government exists as a level of government subject to the state, it could not go beyond any such dictate to prosecute its revenue generation programme (Edoyugbo (2012:49).

Consequently, it can be argued that Local Government autonomy in whatever way the concept is understood cannot contribute or enhance the revenue generation efforts of Local Governments in Nigeria. As have been pointed out, the revenue boundaries of the levels of government are spelt out in the constitution and no Local Government can go beyond its assigned revenue sources without due regard to the overall laws of the land.

### **Conclusion**

This study identified and examined various sources of revenue generation as well as the problems of revenue generation in Nigeria. The study revealed that local government in Nigeria are confronted with several problems which include corruption on the part of revenue

collectors, lack of bye-laws on revenue tariff, farming out of revenue base on political patronage and so on.

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 the 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 misappropriate council funds.

The fact that such culprits are not decisively dealt with accordance with extant rules and regulations have encourage other to be the same line of corruption, resulting in the ever more dwindling internal revenue profile of the council.

### **Recommendations**

The following recommendations are proffered for the amelioration of the problems of revenue generation in local government administration in Nigeria:

1. Revenue collectors should be checked on regular basis by the Internal Auditor of the council in consonance with the provisions of financial regulation and any one found guilty of corrupt practices should be punished accordingly.
2. The use of council staff should be encouraged. Enough staff should therefore be employed by the council to man the various revenue units of local government.
3. Adequate legislation on revenue tariff is very necessary. Therefore, the council should ensure that its legislative body makes an up-to-date tariff to forestall instances of use of discretion by revenue collectors.
4. Revenue Agents should be abrogated and replaced with local governments employed staff.



5. In order to avoid tax evasion by some people, local government councils should encourage their indigene by providing them with adequate amenities. This will no doubt spur them to paying their taxes and levies without complaint.

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