



Local Government Internally Generated Revenue And Administrative Costs: A Question Of Efficiency

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DOI: <https://doi.org/10.30880/jts.2018.10.02.004>

Abstract : Internally generated revenue is one the sources of revenue open to the local governments. These revenues are generated within the confines of the local government mostly through services provided to the local population. This source of revenue required some efforts to carryout such as administrative expenses like consultancy fees and stationeries. In the past, little efforts have been geared towards investigating the efficiency of revenue collection and the cost involved, as efficiency is a major criterion in the revenue collection. Therefore, this paper dwells into the relationship between the internal source of local government revenue, and the costs involved in the generation of the revenue to measure the degree of efficiency in the revenue administration. The study used survey questionnaire administered to the revenue section of local governments in North Central Nigeria to seek their opinion on the research question of whether the administrative cost of revenue impacts on the rate of revenue generated. The study applied chi-square statistical method to analyse the result of the questionnaire. From the result, where the null hypothesis was rejected shows that there is a relationship between the rate of administrative cost and revenue generated. Therefore, the study concludes that it becomes necessary for the local government to become more efficient in their revenue generating capacity due to the dwindling nature of funds from the center.

Keywords : Local Government, Internally Generated Revenue, Efficiency

1. Introduction

Over the years, there have been interests in the decentralization of fiscal powers in developing countries (Richard Miller Bird, 2014; Richard M Bird & Vaillancourt, 2008). Public institutions in developing countries perceive decentralization as one of the means of evading the shackles of inefficient and ineffective governance, public services delivery and attainment of equity (Braun, 2018).

Resource control and mobilization, decentralization of fiscal powers, cost efficiency and effectiveness as well as the empowerment of sub-national governments have all been identified as ways to decentralize. Evidence from the developed countries with empirical facts suggest that a number of countries have decentralized powers to locally controlled sub-national governments to energize the delivery of essential public goods to the taste of the citizenries at the grassroots (Lewis, 2006).

To this end, developing countries like Nigeria devolved powers from the central government to the sub units of the central governments. Local governments in Nigeria have existed even before the colonial era. In the pre-colonial era, there used to be locally controlled units in separate colonies, ethnic and tribal affiliations where people exist in kingdoms and chiefdoms (Agba, Akwara, & Idu, 2013). During this period, there were no formally constituted authorities. The colonial era brought about native authorities where governments have become formal and have responsibility to administer the collection of local taxes (Diejomaoh & Eboh, 2012; Ukiwo, 2006). After independence in 1960, there was another system of local governments that were modern but a reflection of their respective regions- north, east and south. The local governments in the Northern region had similar characteristics in terms of administration, control, finance, functions and operations. Same applies to the two other regions i.e. Eastern and Western regions. In this era, local governments were autonomous and act as a powerful organ of government in development from the grassroots (Agagu, 2004).

In 1976, local governments were restructured nationally in a bid unify their operations and objectives across the country which forms the present structure of local government in operation. This was a deliberate effort to reenergize the local government for greater efficiency in revenue management and service delivery most especially to the local areas (Oviasuyi, Idada, & Isiraojie, 2010). This reform was inclusive that it offered the local government a constitutional role to join the central government in revenue management, national development, service delivery and grassroots participatory democracy. As argued by Idike (2014), this efforts were geared to make the local government represents a part of an identified effort at solving perceived problems of rural development and the economic marginalization of the rural poor. Therefore, the local government became an integral part of the national government structure.

Despite the aforementioned reforms, local governments have been criticized for poor performance in the delivery of local services; this is often attributed to financial constraints among other problems (Chukwuemeka, Ugwuanyi, Ndubuisi-Okolo, & Onuoha, 2014; Okolie & Eze, 2006; Oyedele, Osezua, Abdulkareem, & Ishola, 2017). Financial challenge faced by the local governments is not a new phenomenon in the literature, as scholars of local government and decentralization have expended energies on seeking for ways to improve it (Oyedele et al., 2017). Been the lowest level of government in the federation, the amount of resources allocated to it is smaller compared to the state and the federal governments in the revenue sharing arrangement. State governments are authorized by law to open a Joint Account to distribute the share of the local governments' fund to them. This allows the state governments to have overriding powers over the local governments by subjecting their funds to multiple deductions. Studies in this regard conclude that majority of local governments in Nigeria are left with trivial funds and also rely heavily on this for any developmental project. Often times this have some serious implications such as serious challenges in the payment of salaries to their employees and carryout other developmental projects.

Similarly, local governments are empowered by law to generate revenue internally to compliment the external source of revenue from wide array of services. However, the local governments' revenue generating capacity and administrative efficiency have come into question where for example, between 2007 and 2017, the percentage of local government IGR to the total revenue is less than 5 per cent every year (table 1). It is therefore important to beam searchlight into the efficiency of the local governments IGR as to why they spend so much to generate little which is against the principle of efficiency in revenue generation. Governments that is reliant on external source of funding are typically less responsive, accountable and efficient (OECD, 2008). It is important to establish in this study that efficiency in local government IGR is key in this current time of economic downturn where there is shortfall in the proceeds from the federal statutory allocation and augmentation from the state governments which constitutes the major sources of financing the activities of local governments (Adenugba & Ogechi, 2013; Nnanseh & Akpan, 2013; Olusola, 2011). Similarly, there could be change in narrative in the nearest future due to clamour from different stakeholders for restructuring, resource control and financial autonomy for the local governments.

Table 1: Summary of Local Government Finance (2007 – 2017)

| Time | Total Revenue | Internally Generated Revenue | IGR Percentage of Total Revenue |
|--------------|----------------------|-------------------------------------|--|
| Units | Naira Billion | Naira Billion | Percentage |
| 2007 | 832.27 | 21.30 | 2.56 |
| 2008 | 1,378.97 | 23.11 | 1.68 |
| 2009 | 1,069.36 | 26.06 | 2.44 |

| | | | |
|------|----------|-------|------|
| 2010 | 1,237.52 | 26.15 | 2.11 |
| 2011 | 1,636.15 | 31.60 | 1.93 |
| 2012 | 1,648.25 | 26.62 | 1.61 |
| 2013 | 1,810.05 | 29.29 | 1.62 |
| 2014 | 1,614.76 | 36.49 | 2.26 |
| 2015 | 1,245.64 | 24.03 | 1.93 |
| 2016 | 1,054.58 | 30.04 | 2.85 |
| 2017 | 1,353.58 | 44.22 | 3.27 |

Source: Central Bank of Nigeria Statistical Bulletin (2017)

2. Literature Review

2.1 Local Government and Administration of Internally Generated Revenue

Local government is the smallest administrative unit of a country usually created for the ease of administration and effective service delivery (Ajayi, 2003; Kuppusamy, 2008). The inhabitants of the different units or localities concerned play a direct and full part through their elected representatives who exercise power or undertake functions under the general authority of the central government (Batley & Stoker, 2016). There are three classic justifications for the existence of local government: the promotion of grassroots democracy and participation, the efficient delivery of public services and the development of local areas (Idike, 2014; Ola, 1984). The policy guide for the modern local government in Nigeria, the 1976 Local Government Reform, defined local government as:

Governments at local level exercised through representative council established by law to exercise specific powers within defined areas. These powers should give the council substantial control over local affairs as well as the staff and institutional and financial powers to initiate and direct the provision of services and to determine and implement projects so as to complement the activities of the State and federal governments in their areas, and to ensure, through devolution of these functions to these councils and through the active participation of the people and their traditional institutions, that local initiative and response to local needs and conditions are maximised. (Federal Republic of Nigeria, 1976, p. 1)

By this, the local government enjoys substantial control over local affairs within its areas of jurisdiction including financial powers and control. Also, the local government is responsible for the wellbeing and provision of local services to the people at the grassroots as emphasized in the second justification of its existence (Chidiebere & Ndaguba, 2018).

Financial resource is unarguably a functional necessity in any organization. For organizations, to meet their commitments in terms of structure, function and responsibilities like the delivery of services, they require a substantive level of finance. Therefore, for the local governments to effectively deliver services, finance is central (Abba, Bello, & Aliyu, 2015; Bello-Imam, 2001). According to Nassar (1995) there are many sources of revenue open to the local government including financial transfer or statutory allocation, Value Added Tax, grant and others, community tax, market fees, motor part fees, tenement rates, property taxes, commercial undertaking among others. For Enero, Oladoyin, and Elumilade (2004); Mohammed, Ahmed, and Salihu (2015); Oyedele et al. (2017), revenue accrued to the local governments in Nigeria can be classified into two major sources- external and internal. The External source of revenue based on Section 7(6) of the Constitution of the Federal Republic of Nigeria (1999) and the Revenue Allocation Act of 1981 specified that the local government be granted 20 per cent statutory allocation from the federal government and 10 per cent of the internally generated revenue of the State governments. Other external sources include Federal Grants-in-Aid, State-Grants-in-Aid, Borrowing from state government and other financial institutions. The internal source of revenue as defined in the Constitution of the Federal Republic of Nigeria (1999) is:

any form of return or income accruing to or derived by the government which includes; any receipt however described from or in respect of any property held by government, and any returns by way of interest on loans and dividends in respect of shares of interest held by government in any company or statutory body.

These include proceeds from local rates, markets taxes and levies, bicycle, truck canoe, wheelbarrow and cart fees, other than a mechanical propelled truck, Permits and fines charged by Customary Courts Local Government Business Investment, Tenement Rate Fees from schools established by the local governments shops and kiosks rate, on and off Liquor license fees, slaughter slab fees, marriage, birth and death registration fees. Naming of street registration fee, excluding any street in the state capital, Right of Occupancy fees on lands in the rural areas, excluding those collectable by the federal and state governments excluding the state capital, Cattle Tax payable by cattle farmers only, merriment

and road closure levy, religious places establishment permit fees. Signboard and advertisement permit fees, Radio and Television license fees (other than radio and television transmitter), vehicle radio license fees (to be imposed by the local government of the state in which the car is registered), Wrong parking charges. Public convenience, sewage and refuse disposal fees, Customary burial ground permits fees, Fees collected from amusement centers established and operated by the local authority and that of Tourist centers and Tourist attractions, Rents, Fees on Private Institution, Motor park levies, Domestic and license fees etc.

2.2 Local Government Revenue Rights

Revenue right is the product of the fiscal federalism which states the statutory arrangement relating to the assignment of functions and allocation of tax raising powers among the different levels of government (Alo, 2012; Onwubioko, 2014). The issue of fiscal federalism and tax raising powers among the levels of government has remained contentious for many years in the study of federalism in Nigeria's history (Akindele, Olaopa, & Obiyan, 2002). Therefore, a constitutional arrangement for the allocation of revenue raising powers and jurisdiction becomes necessary to avoid over concentration of tax raising powers with the central government. By this arrangement, there is a statutory provision for revenue sharing among the different levels of government. Also, this arrangement makes it possible to allocate centrally collected revenue on the basis of given principles or criteria between the levels of government (Arowolo, 2011; Ewetan, 2012).

Although there are some critical issues with this kind of arrangement such as administrative efficiency, lopsidedness in tax allocation rights and fiscal independence (Bello-Imam, 2007, p. 35). For instance, market fees and motor park charges are exploited by the local government but the levying of the rates will have to be prescribed by the state house of assembly (Alo, 2012). According to Akindele et al. (2002), the ironic feature of the revenue allocation rights in the Nigerian fiscal federalism is there is lopsidedness in the arrangement, in their view, they assert that "this lopsidedness is without regards (by the federal government) to the fact that almost 80 per cent of Nigerians live in the rural areas which rightfully fall within the governmental aegis of the local government while it has jurisdictions over minor and poor-yielding revenue sources". This fiscal arrangement gave dominance of centrally generated revenue to the federal government where it allocates a substantial percentage of the revenue to it. A paltry 8 per cent of the centrally generate revenue are allocated to 774 local governments that houses over 80 per cent of rural poor Nigerians (Alo, 2012). This therefore shows a fiscal imbalance or incongruity both in revenue generation by the tiers of government in Nigeria most especially at the local level.

2.3 Local Government Revenue Administration and Efficiency

Revenue generation is important to all levels of government, local government inclusive. A viable local government rests upon the pillar of availability of robust revenue bases and efforts where it can always exploit to generate sufficient funds for the delivery and sustainability of essential public goods, promote ownership of local projects and autonomy of the local governments (Adejoh & Sule, 2013; Olusola & Siyanbola, 2014). The main goal of revenue generation at the local government level is to collect what is owed and increase the available cash for developmental activities, engage in accountability and achieve efficiency.

In the course revenue generation, certain costs are incurred generally referred to as cost of collection (Ndan, 2007). There is no consensus on how much should be the cost of collection, factors that determined the cost of collection and what should constitute the costs of collection. However, what is generally agreed to is that the cost of collection should not be outweigh the total revenue generated (Litvinova, 2019; Villar-Rubio, BarrilaoGonzález, & Delgado-Alaminos, 2017). Ndan (2007) noted that it is expected that the cost of collection and administration be kept low to the barest minimum. Studies in this regard measure collection costs of revenue in terms of cost per amount of revenue collected. This invariably means that the lower the cost of collection the higher the efficiency of such collection system (Blumenthal & Slemrod, 1992). Olowononi (2004) argues that efficiency in revenue generation have serious implications for social and economic justice. The economic justice here refers to the fact that revenue must be administered at the least cost of its benefit; hence the proceeds from the revenue shouldn't be frittered away in the process of its generation.

The primary concern of governments therefore is to minimize the costs of collection as low as possible by been prudential in the pursue of revenue while the cost of collection is not squandered in the process. In essence, the net benefits of revenue should not outweigh the initial costs of collection. Also, it is expected that governments should not choose tax, which after the cost of collection, leave a small portion as the net revenue.

There are certain problems which the local authorities face which revenue collection becomes uneconomical. One those problems include high rate of tax collectors charges, stiff penalties for non-remittance of tax and odious examination of tax dues coupled with bogus receipts, vexation and oppression of tax payers.

3. Methods

This study deals basically with the relationship between administrative costs of revenue collection and the internally generated revenue in the local governments in Nigeria. The research work is only intended for the revenue section of the local governments where it cuts across the middle level cadre staff. The sampling procedure for this study is purposive whereby the revenue section were the only section given the opportunity to be chosen due to the peculiarity of the study. 500 questionnaires with open and close ended questions were distributed in 40 Local Governments in Nigeria. 387 of the questionnaires were completed and return given a 76% return rate. Inferential statistics was used for the analysis of the close ended questions while thematic analysis was used to analysed the open ended questions. Firstly, the non-parametric statistical test chi-square was used to the test the formulated below hypothesis.

H0: There is no significant relationship between the local government cost of revenue collection and the level of internally generated revenue.

With the use of chi square test, the following output was also generated

3.1 Chi Square Statistics

| | Value | Df | Asymp. Sig. (2-sided) |
|------------------------------|------------|----|-----------------------|
| Pearson Chi-Square | 65.527 (a) | 9 | .000 |
| Likelihood Ratio | 74.366 | 9 | .000 |
| Linear-by-Linear Association | 32.321 | 1 | .000 |
| N of Valid Cases | 387 | | |

Given the above result, the chi-square computed value of 65.5 is higher than the tabulated value of 16.92, hence the null hypothesis is rejected and the alternate hypothesis is accepted. Therefore from the foregoing, it can be admitted that there is a significant relationship between the local government cost of revenue collection and the level of internally generated revenue. This position further corroborate the fact that the more efforts local government expend into revenue generation the more likelihood of them generating more revenue which will further improve the rate of developmental projects and provision of basic local needs for the local populace.

3.2 Challenges to Revenue Generation

From the open ended questions, respondents highlighted the main challenges confronting the local government in revenue generation which includes:

- a) No adequate security offered to the revenue staffs and consultants
- b) Too much concentration on tax as the source of internally generated revenue
- c) Excessive whittling down of revenue powers of the local government by the state government
- d) Forging of revenue receipts by consultants to defraud the local government
- e) Insufficient technical staffs and consultants in the field of operation

The following recommendations were offered to solve the challenges highlighted:

- a) The revenue staffs in the local government should be adequately trained in the use of Information and communication technologies (ICT) for revenue generation rather than rely on the crude excessive paper work which are highly inefficient
- b) It is necessary for the local government to increase the level of awareness on the need for the members of the public to pay their tax and other levies
- c) The local governments needs explore other areas of revenue generation rather than rely on local tax such entertainment rates, advertisement rates etc.
- d) The anti-corruption crusade of the federal government should be extended to the local government level also. Local governments must be mandated to publish their accounts and make it available to the anticorruption agencies for scrutiny and verification. This will ensure probity, transparency and accountability in the system of local governments
- e) It is important to carry out a constitutional reform which will reposition the local governments back on the path of a self-reliant level of government that have fiscal and administrative autonomy. This will shut out the undue interference from the state government and give the local government chance to decide its fate in planning and

implementation of policies and programmes. Also, it will afford the local government more substantial revenue to improve the current poor state of welfare of its staffs that has been trampled upon by the state governments.

4. Concluding Remark

This study attempts to examine the relationship between the cost of revenue generation and the level of internally generated revenue in Nigeria with the aim of seeking efficiency in revenue generation. Based on the results of the survey, this paper therefore concludes that it becomes necessary for the local government to become more efficient in their revenue generating capacity due to the dwindling nature of funds from the center. For the local government to be responsive to the needs of the local population, it becomes important for them to generate more from their own base by improving on revenue generation efforts and pursue non-tax income as well to broaden their revenue scope.

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