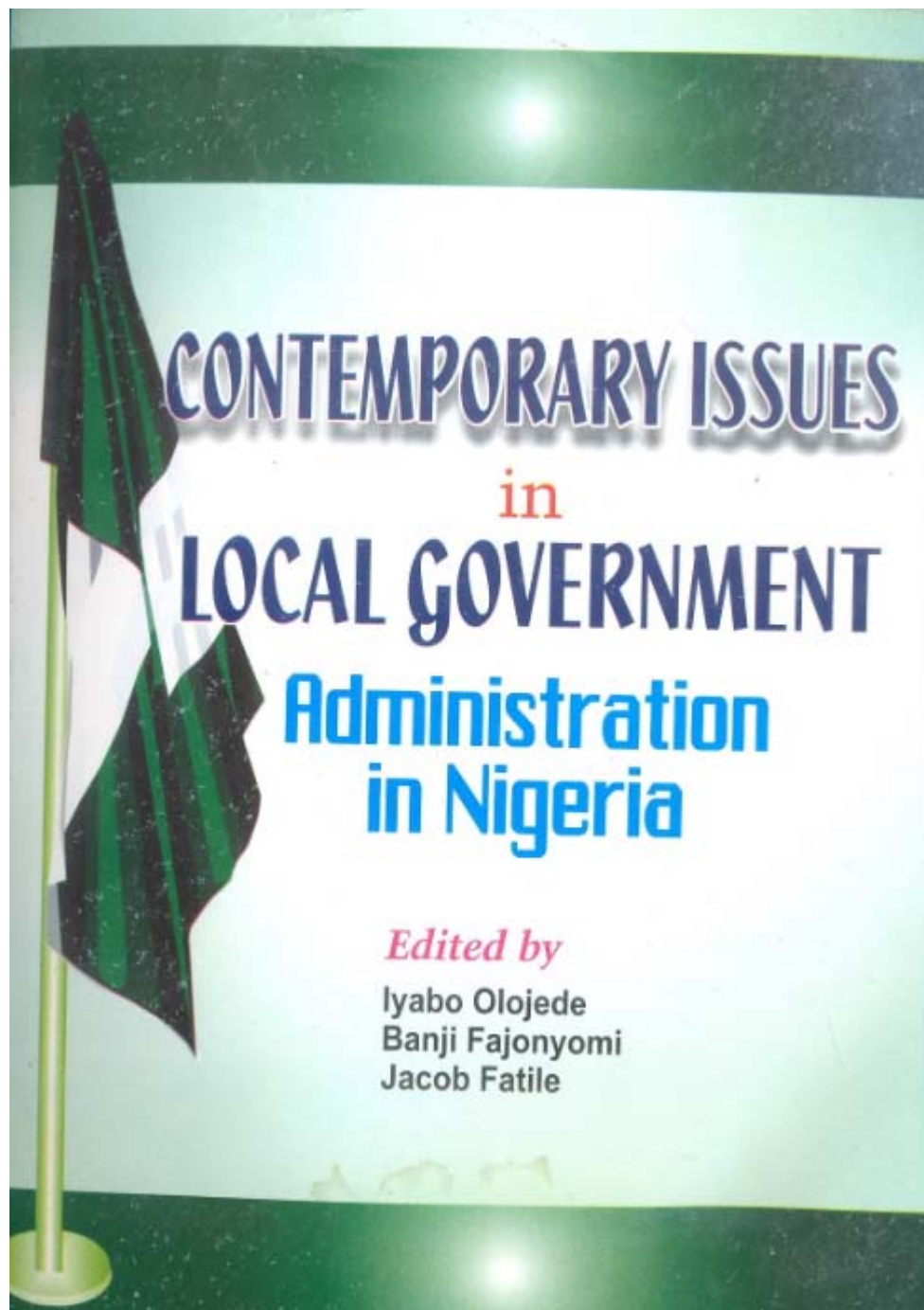


CONTEMPORARY ISSUES IN LOCAL GOVERNMENT ADMINISTRATION IN
NIGERIA—I. OLOJEDE, B. FAJONYOMI, J. FATILE



ISBN 978-978-082-476-1

All rights reserved, no part of this publication may be reproduced or transmitted, in any form or by any form or by any means without the prior permission of the author and the publishers.

Copyright © 2011.

Published In Nigeria By:

Rakson Nigeria Ltd,
(Educational Publishers)
39, Ladipo Street, Mushin, Lagos.
08023281702.

TABLE OF CONTENT

CHAPTER ONE

Evolution and Development of Local Government in
Nigeria

Jacob .O Fatile

CHAPTER TWO

Approaches to the Study of Local Government

Banji Fajonyomi, Jacob Olufemi Fatile and Ayoade
Adekanbi

CHAPTER THREE

Ecology of Nigerian Local Government

Iyabo Olojede AND Salami Issa Afegbua

CHAPTER FOUR

Local Government Finance in Nigeria

Francis Friday Nchuchuwe

CHAPTER FIVE

Financial Transparency and Accountability at the Grassroot
Level in Nigeria

Stella Toyosi Durowaju, Sehilat Abike Bolarinwa and James
Abiodun Adisa

CHAPTER SIX

Local Government and Intergovernmental Relations in
Nigeria

CHAPTER 4: LOCAL GOVERNMENT FINANCE IN NIGERIA

FRANCIS FRIDAY NCHUCHUWE

Introduction

Finance, otherwise known as money or fund occupies a very prominent position in organizations, be they private or public. Indeed, of the many factors that do affect organizational performances, none is greater than finance. Finance is the engine room of all organizations including local governments. It is the lifeblood of any organization. It is likened to air in the body of human beings without which, no human being can survive. It keeps the administrative machinery of any organization on its wheels. No organization can function effectively without finance. Indeed, it is the life elixir of any organization (Idahosa and Nchuchuwe, 2005). Management scholars see it as the most significant asset in any organization. As Bhagwan and Bhushan (2006) put it, the success of any administration depends upon the availability of finance. In Nigeria, lack of adequate finance is a major cause of the failure of local governments to implement their various welfare and development projects.

In recent years, it has become increasingly difficult for local governments in Nigeria to fulfill their statutory obligations because of the costs involved. It is this trend in the views of Fajonyomi (2005) that has forced the upper levels of government like the state and federal governments in Nigeria to encourage local governments to look for other sources of revenue. Having said this, it must be mentioned that it is not that local governments are too satisfied with their low level of resources but they have been too complacent towards concrete efforts at generating or raising their own revenues. Almost everything government does requires finance. The best policies and plans will come to naught unless funds are available to pay for the personnel and materials/equipments required. Every administrative act has its financial implications. Nothing can be done without the expenditure of money, at the very minimum for buying stationeries or for

the payment of the salary and wages of the officials or employees who perform one duty or the other in the local governments. Unavailable financial resources set a limit on administrative activity as a whole and on each of its separate parts. The finance of local government in Nigeria is not an exception. It is therefore not too surprising that Lloyd George remarked that "Government is finance" (cited in Tonwe, 2008). This according to Bhagwan and Bhushan (2006) is quite correct because the governmental machinery will come to a halt unless funds are available to pay the personnel and purchase the equipments and materials required.

Local government in Nigeria and indeed many elsewhere have found it increasingly difficult to fund their services because their revenues have been declining. It is for this reason that this chapter takes a cursory look at Local government finance in Nigeria and its implication for Local development. The chapter will highlight the main sources of Local government finance in Nigeria; discuss the main challenges and prospects.

Sources of Local Government Revenue

Local governments in Nigeria derive their revenues or finance from a number of sources. Broadly speaking, the sources can be categorized into two: Internal and External.

The Internal Sources

The internal sources otherwise known as (IGR) are those sources from which the local governments generate their resources within their territories or boundary. The external sources otherwise known as (EGR) are those sources from which the Local governments generate their resources outside their territories or boundaries. These internal sources can be grouped under the following headings:

- 1 Taxes: Examples of these are; community poll tax, other special taxes e.g. for electricity and water etc
- 2 Rates: Example of these is tenement rates now land use charges in Lagos.
- 3 Licenses, fees and fines: Examples of these are; Bicycle license fees, canoe, Dog, Liquor license, Cart truck fees etc
- 4 Food control: Example of this are; Slaughter fees, Abattoir fees, Eating house license, Cold room license etc
- 5 Security: Example of this are; Auctioneer license fees, Dane gun permit etc
- 6 Social charges: Examples are Marriage registration fees, Entertainment fees, Drumming and hall rent age fees, naming of streets, Radio/TV, Noise permit, Open air preaching etc
- 7 Health charges: Example are Dislodging of septic tanks, night soil disposals, Birth and Death registration, Burial fees etc
- 8 Economic charges: Examples are petty trade fees, tender fees, trade license fees, photo license fees, panel 86 vulganizer fees etc
- 9 Works and Engineering charges: Example are Survey fees, plot fees etc
- 10 Earning from Commercial undertakings: Example are Market fees, Application form fees, Motor park fees etc
- 11 Rent on Local Government properties: Examples are rent of chairs, rent on Local government building etc
- 12 Interests and Dividend on Investments: Example are Interest on Loans, Dividends on stock and shares etc
- 13 Miscellaneous: Examples are Sub charges, sales of seized goods etc

These sources are largely exclusive preserves of the local governments in Nigeria. However, with them, most if not all the Local governments in Nigeria generate less than 10% of their total revenue from IGR. The implication of this is that total revenue is weakened and thus further threatens service provision and development projects.

As Agbakoba and Ogbonna (2004) put it,

IGR is the primary source of local Government Sustenance. It is the livewire of a local government. This is because, it is the only source of money that Local government has control over. As such, the extent to which a local government can go in accomplishing its goal will largely depend on its IGR Strength. The capacity of a local government to general revenue internally should be one very critical consideration for the creation of a local government council.

Barber (1978) once remarked that the principal sources of local government revenue are local rates and fines. Even the 1976 local government reform recognized this fact that if meaningful local government is to be expected in Nigeria, much larger financial resources are needed. One of the main reasons why local government must collect various forms of revenues from its citizens is to use these to provide social services in an efficient possible manner (Orewa and Adewumi, 1983). The fact is simply that most sources of the Local Government IGR for example tenement rates, liquor license, motor parks fees and the likes are not properly tapped. This is no doubt as a result of over reliance on allocations from federal and state governments by the local governments. For instance, Erero, et al (2005) observe that in most local government in this part of the country where the vegetation is highly favourable to agriculture, it is observed pitiable that agricultural initiative that ought to be a major source of unemployment opportunity for our teeming young school leavers has not been recognized and effectively developed. Related cases of neglect, indifference and under utilizations abound with respect to several sources of IGR available to local governments in Nigeria.

The External Sources

The external sources of Local Government revenues are those sources through which revenues are accrued to local governments outside the local community in which they are situated. They are revenues that are accruable to the local government for which they lack own or self control. In Nigeria, these sources include:

1. Allocation from Federation Account

Section 162; sub-section 3 of the 1999 constitution statutorily made it compulsory for the federal government to allocate to the local governments their share from the federation account.

The current sharing formula of revenue from the federation account is as follows

Federal government	48.50%
State government	24.00%
Local government	20.00%
*Other special funds	7.50%
	100.00%

The President usually administers the special fund and it takes care of the federal capital territory (1%) stabilization account (0.5%), ecological problems (2%), development of mineral producing areas (3%), and the derivation fund to be shared among the mineral producing states/Local governments (1%).

No doubt, the issue of revenue allocation has been one of the most politicized issues in Nigeria (Bello-Imam, 2006) and the Local governments have always been at the receiving end.

2. Allocation from the State Governments

The Revenue Act of 1981 stipulates that the State Governments in Nigeria allocates to the Local Governments ten percent (10%) of their internally generated revenue monthly as a form of assistance so as to help them meet up with their various functions and responsibilities. However, it is pertinent to mention that most of the State Governments in the country have not been meeting up with this provision.

3 Stabilization and General Ecology Fund

The Federal Government is in custody of this account. It is part of the special funds reserved by the Federal Government for stabilization purposes and shared among the three tiers of government in Nigeria. For example, between 1999 to 2004, the percentage allocation of the funds over the total revenue of the Local Governments stand as follows - 1.7% in 1999, 3.6% in 2000, 7.6 % in 2001, 1.2% in 2003 and 1.3% in 2004 (Nchuchuwe, 2007).

4 Income from Value Added Tax

Owing to the poor yield of the erstwhile State sales tax, the Federal Government changed it to Valued Added Tax (VAT) and made it a federally collected revenue source from 1994 (Bello - Iman 2006). It was designed essentially to be levied on imported goods, locally manufactured goods, hotel services, Bank transactions among others. A uniform rate of five percent (5%) was fixed on all affected items while the proceeds are to be shared by the three levels of Government in the country.

Since then, the source has become the second highest income earner for Nigerian Local Governments (Bello–Iman 2006).

The sharing formula has also been so adjusted to favour the Local Governments over the years. For example from 20% in 1995, it was increased to 35% in 1999, and has been so till date.

5 Income from Privatizations/GSM Proceeds

Since the introduction of the GSM operations and the privatization of government companies, it has been serving as a source of Local Government revenue in the country. The proceeds from both have been serving as a source of revenue to all the tiers of government in Nigeria. There is no clear formula for sharing the proceeds for now.

6 Grants from Federal and State Governments

Grants are special funds usually given to governments for specific purposes. There are different types of grants, for example, we have specific grants, general grants, conditional grants and unconditional grants. Specific grants are usually given for specific purposes. It is usually predetermined. General grants are grants that are given without a specific need in mind. The onus lies on the benefactor to use it as deemed fit. The conditional grant is a grant that is given with spelt out conditions or rules as to how it must be utilized. The unconditional grant is a grant given without any stringer attached. It can be used as deemed fit also.

The Local Governments have been benefiting from various grants from the Federal and State Governments. Since 1993 the percentage of grants to Local Governments over their total revenue is as follows - 1993, 1.4%, 1994, 1.2%, 1995, 0.9%, 1996 nil, 1997 0.8%, 1998, 0.04%, 1999, 1.9%, 2000, 3.2%, 2001 1.4%, 2002 1.5%, 2003, 2.2% 2004, 3.1% (Nchuchuwe, 2007).

An example of grant that the Local Government benefits more from is re-imbursement grant, for example as a result of vandalization.

They have generally served to enhance the external sources of Local Government revenues in the country.

7 Donations

Donations also come as a source of revenue for the Local Governments. It could come from individuals, groups, associations, clubs, companies, foreign bodies etc. Philanthropists do donate to governments and Local government is not an exception. However, it may not be without some implications. The thinking is that whoever donates has ulterior motives or better still, is doing so for some gains or benefits.

8 Loans

This is yet another source of revenue to the Local Governments. Loans can be obtained from any financial institution such as Banks, Insurance companies etc. or from individuals or fellow Local Governments or other tiers of government. However, one major problem with loans is that it requires a lot of collaterals and where this is not available or adequate, it will hinder such loans. Over the years, procurement of loans has not been frequent with the Local Governments. Some reasons for this: lack of confidence in the Local Governments as most of them may not be able to pay back or use the money for productive projects that will regenerate the money so obtained. Secondly, most of the assets of the Local Governments are dilapidating and cannot serve as a meaningful collateral. Thirdly, there is fear to grant loans by the Banks because of the unstable nature of political offices and fear that successors may not be willing to pay attention to the loans so obtained by their predecessors and for which they did not negotiate. Similarly, successors may not be willing to continue with the project for which the loan was obtained and this may pose hindrance for its pay back.

9 Foreign Grants, Aids and Assistance

These are also external sources of Local Government revenue. It could come from foreign governments or other international bodies or agencies. The grants could be specific, general, conditional or unconditional as the case may be. Foreign aids and assistance are simply to render financial supports for a proposed or an ongoing project. These various form of revenue source can come as solicited or unsolicited. Nigerian Local Governments have one way or the other benefited from these sources. For example, for channelization, epidemic etc.

10 Share of Fertilizer Subsidy

This is yet another external source of revenue for the Local Governments in Nigeria. It is derived from fertilizer operations used purely for farming.

11 Derivation Funds (13%)

This is another external source of revenue for the Local Governments. Though the fund is basically for such areas from where the federation generates its resources into the federation account, Local Governments utilize 40% of the amount leaving 60% for the particular areas that yield the source of the funds or revenues.

The problem with this source is that it is limited to only those Local Governments from which there are derivations. Thus by implication, while some Local Governments will become richer, some will remain poor depending on their geographical location in the federation.

In Nigeria today, most beneficiaries of this source of revenue have been those Local Governments in the oil producing areas and others who have one thing or the other to offer or provide for the nation's economic growth.

In a nutshell, all these are the various external sources of Local Government revenues in Nigeria at present. It is the bulkiness of these revenues that has given rise to the low interest of the Local governments in efforts at internally generated revenues.

Expenditure Allocation Pattern of Local Government

The local government expenditure can be classified into three. This includes recurrent expenditure, capital expenditure, and special expenditure.

Recurrent expenditures: - As the name implies, they are expenditures that are always occurring. It has been taking a lion share of Nigeria local government expenditure made up of mostly personnel and overhead costs.

Capital Expenditures: -These expenditures are embarked upon to bring about development and they usually attract huge capitals with long durations. They are expenditures that are made under the following sectors: Economic sector including agriculture, manufacturing, rural and urban electrification, commerce, finance, transportation etc; Social services sector, consisting of education, health, sports, culture, etc; Area development, which summaries environmental sewage, drainage, town planning, etc.

Special expenditures: - These are expenditures that come up on special requests, instructions or directives. They fall under the general administrative powers of the executive of the local governments. Examples are monies released to special nongovernmental organizations (NGOs) like the ones owned by wives of presidents or Governors etc.

Problems of Local Government Finance

The problems of local government finance in Nigeria are numerous. However, the followings are highlighted:

- i) Low internally generated revenue
- ii) Abuse of the joint state and local government account, and
- iii) Fiscal indiscipline (corruption, mismanagement etc).
- iv) Fiscal autonomy

Low internally generated revenue:

Most of the Local governments do not possess viable sources of generating funds especially the rural ones; they therefore depend heavily on the allocations from the federation account for purposes of carrying out their basic responsibilities. As Ekweremadu (2009), puts it, over dependence on the federal allocation is the bane of most local governments in the country today. Nothing is done to increase the IGR level of the local governments. As a result, most of local governments are found to be in dire financial mess whenever the statutory funds are not forthcoming (Agbakoba and Ogbonna, 2004). They attribute this abnormality to political considerations and also posit that unreliable external revenues have hampered the Local governments' ability to meet the needs of their people.

State Local Government Joint Account:

Section 162, sub-section 6, of the 1999 constitution of Nigeria provides for a state-local government joint Account. This has been grossly abused by some state governments as a result of unlimited and inordinate influences exerted by states on local government funds. As a result, local governments have continued to suffer fiscal emasculation in the

hands of the state governments and this has virtually rendered the local governments financially impotent.

Fiscal Indiscipline

The 1999 constitution did not confer enough discipline on the handling of local council's funds. As at today, there is weak fiscal discipline in the management of the resources available to the local governments. The availability of federal allocation has made it possible for persons of dubious character to engage in fraudulent activities with local governments funds (Agbakoba and Ogbonna 2004). Most times, monies meant for the payment of staff wages and execution of local government projects are snatched away in private accounts of council officials where they yield interests for personal enrichment. Despite the beneficial nature of local licenses to improve revenue of local government; it is bedeviled with deep rooted corruption. A greater percentage of the revenue collected is always not accounted for. The precise details of how many licenses are issued in any year by the councils are not usually provided. In fact, no actual record of existing traders exists in most of the local governments. This has led to loss of revenues that should have accrued to the local governments.

The high level of corruption which has eaten deep into the society, has affected performance of most local governments. A high percentage of revenue generated is either diverted to private pockets or traceable to projects that are of no direct benefit to the society. Elected officials often serve as stumbling blocks to the installation and operation of proper financial records. It is their belief that it is abnormal to tax the populace that voted them into power and also refused to comply with rules and procedures for disbursement of funds (Hassan 2002).

Fiscal Autonomy

Fiscal or Financial autonomy can be regarded as a spinal cord of any organization. In the words of Meyer (1996), the backbone of local government is financial autonomy. As soon as local governments have to live on income derived primarily from the federal government, the future of local government does not seem bright.

In Nigeria, one of the nagging problems of Nigerian federalism is the persistent failure to grant fiscal autonomy to local government as a third tier of government. Under a true federalist structure, the autonomy of local government should be adequately guaranteed (Akinboye 2007). The issue of autonomy and control of the local government by the state governments constitute a cog in the wheel of progress for local government in Nigeria. Such controls like lack of financial autonomy weigh heavily against the progress and growth of local governments as a third tier of government and hamper the efforts of the council in providing sustainable development (Aworawo and Akpan, 2003). According to Materu (2002), lack of fiscal autonomy is due to the inadequacy of legal framework and constitutional provisions to guarantee the autonomy of local government. While it is true that local governments need a measure of checks, they should be such that would allow them function properly and carry out their constitutionally prescribed roles.

Coucluding Remarks

Local government is recognized as a fundamental instrument for promoting development and popular participation at the grassroots level of any society. In Nigeria, local governments, had, for several years before the 1976 nation-wide reform, suffered from the persistent whittling down of their powers and emotional encroachments upon these powers that would have been their exclusive preserves for bringing about fundamental changes in the structural management and funding capabilities of the local government (Akinboye, 2007).

Local government finance in Nigeria has remained a perennial problem and has hindered the local governments from performing their roles in the country. The federal and state governments need to give total and sustained commitment to ensure the survival of the local governments. To improve the financial viability of local government, their revenue earning base should be expanded by allowing them the right to set, regulate and reverse tax and rates properly within their domains. Local government's revenue generation in Nigeria needs some restructuring so that the taxing powers given to the local authorities are enhanced and also they should be allowed to share from the major tax bases in the country.

Local government should strive towards improving internally generated revenue and instill transparency and accountability in the management system. There is also the need for a new fiscal policy to regulate revenue allocation to local governments. On the part of the state government, stricter control measure should be put in place to check financial recklessness that has become the hall mark of contemporary local governments in Nigeria.

Efforts should be intensified to recruit specialized manpower for the treasury and Accounting departments so as to improve the financial performance of the local governments. Improvement in the level of efficiency, engagement of required manpower and reorientation through training of officials to minimize corruption must be urgently undertaken.

Finally, there is a significant relationship between the growth of a local government and its financial management system. As the local government grows so also will there be need for growth in its financial structure. This can be better encouraged by a formidable financial management system. This chapter also establishes that accountability and transparency are sine - qua non for effective revenue generation and utilization in the local government system. As the federal and state governments have increasingly

financed the local governments, its control over the wide range of their activities also increases. Financial autonomy is therefore required to forestall undue controls. At the same time, the inability of the local governments to generate enough money for their resources to finance expanding services has been one of the reasons for the transfer of certain services from the local governments to the central governments. Thus, the task of providing local governments with adequate independent sources of income is sacrosanct. There is no gainsaying the fact that the performance of any local government is subject to the availability of funds. In recent times, local government administration has generated a lot of interest in the national politics as a result of its strategic influence on the life of the citizens in the grassroots. Local government councils are fundamental as they affect the basic daily lives of the rural and urban dwellers. Local governments in Nigeria have a gamut of functions to carry out and it is only when money is available and sufficient that these functions can be carried out effectively and efficiently (Ugwu, 2003)

REFERENCES

- Agbakoba, O. and Ogbonna, H. (2004); *Local Government Administration and Development in Nigeria: A Capacity Building Manual*, Lagos: Hurilawas
- Akinboye, S (2007); "Reflections on Local Government Reforms in Post-independence Nigeria: The Imperative of a new Agenda for Grass-roots Development", in Anifowose, R and Babawale, T (eds) *An Agenda for a new Nigeria: The imperatives of Transformation*, Lagos: Concept publication
- Aworawo, D. and Akpan, N.E. (2003); "Local Government Administration", in Osuntokun, A. et al (eds), *Issues in Nigerian Government and Politics*, Ibadan: Rex Charles publications
- Barber, M.P. (1978), *Local Government*, London; Macdordal Evans Ltd.
- Bello - Imam I.B. (2006); "Structural evolution of Local government in Nigeria" in Ekpe, A.N (ed), *The Substance of Local Government Administration in Nigeria: Theory and Practice*, Lagos: Asbot Graphics
- Bhagwan, V. and Bhushan, V. (2006), *Public Administration*, New Delhi: S. Chand and Company Ltd.
- Ekweremadu, I. (2009), "Repositioning the Local Government System for Sustainable Development through Competition Review ", Text of a lecture delivered at a seminar on Repositioning Local Government Administration to meet the challenges of vision 2020", Organized by the Association of Local Governments of Nigeria (ALGON) in July 6, 2009, Abuja.
- Erero, J., Oladoyin, A. and Elumilade, D.O. (2005), "Accountability and Transparency in Revenue Generation: The Case of Local Governments in, Nigeria", *International Review of Politics and Development*, Vol 3. No 1
- Fajonyomi, S.B (2005), "Exploring Additional Revenue Potentials of local Governments in Lagos State", A paper presented at 3 Day Workshop on Expanding Revenue Base of Local Government in Lagos State.
- Hassan, M.M. (2002), "Managing the Finances of Local Government in Nigeria", *Journal of Professional Administration*, July-September
- Idahosa, S. A. and Nchuchuwe, F.F (2005); "Local Government Finances in Nigeria: Issues in Generation, Utilization, Accountability and Service Delivery" in the *Nigerian Journal of Policy and Development*, vol 4, pp100 -132.
- Materu, J.S (2002), "Decentralization Policies and Practices in West African", in *United Nations-HABITAT*, Vol. 8, Nol.
- Meyer, E.W (1996), "Local Self Government in Germany", *Civil Affairs, Monthly Journal of Local Government and Public Administration in India*, Vol. 4, No 5.

- Nchuchuwe, F. F. (2007); Financial Inadequacies and service delivery: A case study of some selected local Governments in South-West Nigeria. Being a Doctoral dissertation submitted to the Department of Political Science and Public Administration, University of Benin , Benin - city, Nigeria.
- Orewa G. O. and Adewunmi, J.B. (1983); Local Government in Nigeria: The Changing Scene. Benin - City: Ethiope Publishing Corporation.
- Tonwe, D.A (1995), Local Government and Administration in Nigerian: A Theoretical and Modernizing Federal Perspective, Lagos: Amfitop Book Company
- Tonwe, D.A (2008), Public Administration: An Introduction, Lagos: Amfitop Books.
- Ugwu, S.O (2003), Issues in Local Government and Urban Administration in Nigeria, Enugu: Academic Printing Press