

STRATEGIES TO ENHANCE LOCAL GOVERNMENT FINANCE IN NIGERIA

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How to cite: UGOH, S.C., ISINKAYE, K.A., & UKPERE, W.I. (2022).
“Strategies to Enhance Local Government Finance in Nigeria.” *Annals of Spiru
Haret University. Economic Series*, 22(2), 189-199, doi: <https://doi.org/10.26458/22211>

Abstract

This study adopted historical approach to political research and used secondary sources of information. This paper focuses on assessing financial challenges facing local governments in Nigeria. The study observed that insufficient allocation from the federation account, lack of effective revenue generation drive, mismanagement of funds, intrusion of the state government into local governments use of funds, amongst others are the major challenges confronting local governments. Nevertheless, if right strategies such as effective planning, accountability, transparency, curbing of financial mismanagement, sound business undertaking, increased fund allocation from federation account are adopted, local Government may be in better position to accelerate the pace of infrastructural development in Nigeria.

Keywords: *infrastructural development; local government; mismanagement; sources of fund.*

JEL Classification: H75 & H76

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Introduction

The Local government has been variously defined by scholars as a political authority under the state and federal centre for authorities. It is also an administration, which is saddled with the responsibility of maintaining law and order as well as providing a wide range of social services at the grass-root (Fajobi, 2004). It is the grass-root level of government that touches people's life by meeting their needs and stimulating their participate at the grass-root level. Local government is also close to the people, in terms of touching their lives, more than other levels of government (Sharma 2012). In fact, the significance of local government cannot be over-emphasized with regards to promoting greater understanding, peace and progress of the locality (Omotosho 2013). Local governments derive their financial income for their needs from internal sources, such as internally generated revenues from business undertakings as well as permits granted to businesses among others. They also generate revenues from external sources such as statutory allocation, grants and other sundry sources to meet up with myriads of local government needs. There are so many challenges confronting local government systems in Nigeria. These challenges seem to have become insurmountable in the face of poor revenue generation by local governments in Nigeria, in addition to poor infrastructural development of the locality from which the revenue is to be sourced, as well as the reckless financial spending of local governments' officials. Hence the paper explores the financial constraints facing local governments in Nigeria and suggests strategies to enhance their finances.

Objectives

The paper therefore aims to explore the operations of local governments in Nigeria, with regards to autonomy. Also, the paper looks at the attitudes and behaviours of the local government personnel in terms of revenue generation. The study will consider amongst others multiple sources of income of the local government system and the encroachment of the state government in manipulating their allocated resources. A critical look at the relationship between the local and state government will be interrogated.

Research Approach

This paper as earlier mentioned has utilized historical data. Secondary data obtained from published and unpublished academic sources were used. The paper is a conceptual paper which relied on thick literature reviews, theory building and authors' viewpoints.

Conceptual Clarification

According to Hickey (1996) the local level of government manages the services as well as regulatory roles through locally elected representatives who are accountable to the people. These officials supervise the resources and make policies towards the infrastructural development of the locality.

Aransi (2012) considers local government as a subunit of national government that is administered by a body (either appointed or elected), created by law over a well-defined geographical jurisdiction with authority to generate as well as utilise funds for the development and wellbeing of citizens. Oyediran (2003) argue that this level of government is closest to the grass-root and has great responsibilities.

Imam (2010) contends that the system is essentially an organised social unit founded on the spirit of oneness and entails the governance of a specified local administrative area, which constitutes a political sub-section of a country, state, or some other key political entities. These powers represent the legal concept that substantially oversees local activities, in addition to employees and institutional mandates. According to the 1976 Constitution of Nigeria, the local body is empowered to guarantee, through decentralisation of roles the full participation of the people along with their traditional institutions (FRN, 1976).

Furthermore, the United Nations Division of Public Administration (1961) considers local government as a political sub-unit of a state within a federal system of governance that is established by law, and significantly take responsibility in managing local activities, such as the authority to collect taxes or commit worker towards specific activities related to the locality.

Local government is different from local administration, in the sense that local government is the general involvement both in the choice of those making decision and in the process of decision making. While recognizing the supremacy of other levels of government, local government can be accountable for the decision it takes. Local administration on the other hand is the management of rural communities principally through the help of rural agents employed and accountable to an external agent of the state, which may be state of regional government (oyediran, 2003).

Theoretical Framework

According to Ola (2004), the school of thought holds that the constitutional roles of this grass-root government is the provision services to the people within their locality in an efficient manner. The officials are meant to achieve this goal through the provision of services based on national standard. This school also sees

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local government from the enviable position for the efficient performance of assigned functions based on closeness to the people. Thus, it is expected that speed and efficiency will reflect in the provision of basic social amenities at the rural level. Traditionally, it is expected that decision and policies of government are easily and quickly arrived at because targets of policies are easily consulted, and their responses could be known simultaneously (Omotosho 2003). In addition, the nearness a local government is to the people the better information that are necessary for policy decision by the local government, which supports the national government to stimulate initiative, and inculcate the feeling of national consciousness (Omotosho 2003).

Expectedly, local government is nearer to the citizens and renders the essential services more effectively to the people through the local level of government, which results in the allocation of fund to that level of government with the result that service delivery forms a bulk of the function of the local government system (Agharere, 1997).

Hence, the paper is contextualized within the efficiency theory of local government because finance have great implications on the performance of local governments. With sufficient funds and effective management of their operations, local governments could be able to fulfill their mandate within the local operational areas that are mandated to them.

Local Governments' Sources of Finance in Nigeria

Ugoh (2016) outlines two major sources of finance for local governments in Nigeria. They include internal Sources such as taxes (market tax and levies, rating tax on property, etc.), fees from local licenses, fines from local courts, earnings from business undertakings, interest payments and dividends, reimbursement, miscellaneous income such as slaughter fees, motor parks, burial ground etc. The external sources of revenue include federation account, donations, grants and gifts, miscellaneous income from non-governmental organizations and other trust funds. He further maintains that every constitutional sharing of revenues to the local government councils by the federal in addition to state authorities fall under the 1982 Revenue Allocation Act (RAA) as amended in 1986, 1988 and 1989. Also, Paragraph 162(3)(5) of the 1999 Constitution gives credence and support to these laws (ibid). He further noted that, the federal government has agreed since January 1992, to be allocating 20% of Federation Account Allocation to be disbursed and distributed to the various 774 local government councils in Nigeria. The 1999

constitution made a partial increment of 20.6% of the same allocation and 10 percent of the internally generated income of the state and local government account is divided and allocated various local government councils within the states of the federation.

Hassan (2011) notes that the internally generated revenue include miscellaneous items combined to deliver the necessary funds to finance the huge activities assigned to local authorities as the third tier of government. He further explains that the main reasons local councils exist is to gather different forms of government revenue from people within a locality and utilise those funds in providing efficient social service delivery based on the guiding principles of prudent financial management, on the basis of efficiency, effectiveness, and equity. Efficiency stresses the need to achieve maximum results at the lowest cost, while effectiveness ensures relevance of expenditure. However, equity focuses on justice and fair play. In local government, the objectives of financial management are in consonance with these components stressed and it is the activity, which involves revenue generation and subsequent disbursement, which focuses on expenditure pattern plans to be accomplished. He adds that financial management tends to be beneficial only when activities are properly planned and executed to the extent, that when a unit of it is defective, the whole structure is adversely affected.

However, local governments in Nigeria have suffered from one major challenge of inadequate funding overtime. For example, local government since inception in 1903 till 1976 reforms, received no fund from the central purse, and, depended on local rate, rents, property and tenement rates and various types of grants from the regional or state governments. This appalling situation changed with the reform of 1976 and since then, they have been supported by Federal Revenue Allocation Law which was passed in 1981. Unfortunately, most of the funds allocated to the local government were hijacked by state governments who usually claimed that they have used the fund for projects on behalf of the local governments. This has equally not supported the local government to generate enough resources to run the affairs of their localities (Oyediran, 2003)

Challenges Affecting Funds Generation and Utilization in the Local Government System in Nigerian

According to Abe, et al (2014), the importance of funds for the development and sustainability of any establishment cannot be overemphasized. Specifically, local governments require finance for the maintenance and undertaking of

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developmental programmes. Constitutionally, local government receives certain amount of allocation from the federal as well as the state governments to cover some of their capital and recurrent expenditures. The challenge, however, is that each locality has its own peculiar economic, social and physical challenges in handling the funds. Apart from this, the imposition from the central and state governments greatly hinders the smooth operation of local government system in Nigeria.

Agharere (1997) notes that apart from the inability to generate their own sources of revenue, local governments are known to perpetually dependent on Federal Government for fund, which is a problem in itself. He adds that we are not here denying the fact that some local governments (mostly urban local governments) have not increased their own revenue efforts, but the issue is that they have done this at a rate slower than the rate at which their reliance on outside sources has increased. Despite this perceived increase in revenue, many local governments are at the verge of bankruptcy.

Hassan (2011) posits that the problems facing local government in Nigeria manifested because most of the items making up revenue earning of the local governments are not backed by law, thereby making the collection difficult and sometimes it becomes a legal issue in the court of law. In addition, poverty rate among people within a local government area in the country, particularly in rural areas, also incapacitate local government operations. The situation is equally not helped by the fact that the cost of collecting revenue, at times, is higher than what is collected, owing to pervasive corruption of local government officials. All the above challenges usually hinder the plans and activities of local governments in Nigeria.

Adamolekun (2014) notes that the roles of local governments, in relation to fund generation and utilization as well as efficient service delivery, is usually affected by inadequate lack of trained local government officials. According to him, Sub-Sahara African countries are known for this practice whereby higher authorities assign and delegates functions to local governments without providing adequate finance and manpower to carry out the assignment. For instance, a country like Nigeria has a formal arrangement of allocating 10 percent of national revenue to local governments to perform functions that are clearly spelt out in the country's constitution. Thus, the discretion of local governments to use the funds is constrained for the specific purpose it was meant for.

Adebisi (2012) posits that pervasive corruptive attitude of local government officials have negatively affected the state of local governments in Nigeria. This

situation has been further exacerbated by the state government diversion of local government funds. In most cases, the funds are shared amongst those who are entrusted with the management of local government affairs. Also, the staffing and recruitment in local governments seem to have been hijacked by politician who through political patronages reward their cronies, families, and friends.

Strategies to Enhance Local Government Finances in Nigeria

In the first place, local government councils should be accorded partnership status in the development of local communities, rather than as a co-service political-legal agent of the state that carry out delegated responsibilities. Also, local governments should endeavour to mobilize people within their locality to contribute their quota in terms of finance and labour towards the sustainable development of their locality. In addition, the imposition by federal and state governments on local government should be preceded with adequate financial, logistical and human resources capacity building for effective outcomes (Ugoh, 2017). In addition, Local councils should be designed to execute programmes that generate interest among the population, such as engaging in agro-based industry as well as small and medium scale enterprises as a way of improving internally generated revenues.

There is a need to improve quality work life of staff members of local governments. Improvement of their office organization and information flow as well as efficient management of assessment evaluation systems will go a long way in enhancing the performance of local government staff in terms sound collection of local rates by the local councils (Ologbenla, 1997).

There is a need for research efforts targeted at expanding the present base of rateable items. For example, rates on radio and television are hardly collected even though they are statutory, while rates on the use of some home appliances such as sewing machines, electric grinder, video sets, washing machines, vacuum cleaners, personal computers and jewelleries, electric driers, etc., should attract local rates since they are also insurable by their owners against damages or loss, as part of household items (Ologbenla, 1997).

More than that, local governments should accelerate their trading activities as a way of raising investible funds. In that case, they should also be involved in long term capital investments which can be used as collateral when mobilizing funds through loans. This includes the building of shopping complex, small scale industries, factories, etc.

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Adetola (2019) has initially canvassed for an increasing revenue allocation to local government and the sharing of funds accruing from the federation accounts among the three tiers of government. He advocated that local government allocation should be adjusted to 22.5% as against 20%. This is indeed necessary because governance should be closer to the people because as resources are available at this component units, their utilization can be better evaluated by the people through effective monitoring, evaluation, and audit. Also, the appointment of special advisers and special assistants to local government chairpersons and other higher level of governments officials should be discontinued as a cost- saving measure to boost financial standing of local governments.

Furthermore, opinions have been expressed about the elimination of the joint state/local government account and adoption of direct payment of allocated funds into the local government accounts. In 2005, the National Assembly legislated that the allocation should go directly to the local authority, instead of the previous arrangement of paying through joint state/local account. Such arrangement will help to prevent the state government undue influence on the joint account towards their favour (Salawu, 2016).

It is also worth taking the advice of Abioro and Muraina (2016), who posited that, local government financial viability should be aimed at ensuring the financial autonomy. They argued that the abolition of the state/local government joint account is highly necessary for the local government to receive their remittances directly from the federation account. They equally advocated for a review of the present revenue allocation formula to ensure equitable distribution of national wealth in their favour as a way of advancing local government financial base. In addition, the tax base of local government should be strengthened to allow for efficient implementation of projects at the local government level in the country.

Corruption is another issue that needs to be tackled in public sector so that workers will no longer feel cheated by the elites and powerful politicians in the society (Akinwale, 2018). From that perspective, reward system should be linked to personnel efforts, and merits need to be enthroned as the basic criteria for promotion and rewards. This will equally advance the financial state of local governments as their resources will be judiciously utilized. Hence, government should setup strong and independent anti-corruption agencies that are politically neutral, and capable of discharging their duties without fear and favour. The anti-corruption agencies and the police services should be able to act without prejudice based on political inclinations or affiliations (Taiwo, 2019). Such agencies will be

able to put local governments on their toes by guiding against mismanagement of funds.

Instilling the attitude of accountability in Nigeria especially at the local government level is a key to strengthen their financial viabilities in the country (Adeyemi, 2012). In that case there is need to remind the local government officials of the existence of Independent Corrupt Practice Commission (ICPC) Act and other anti-graft laws to ensure integrity within their localities. The anti-corruption agencies should adopt best practices and strategies to institutionalize integrity through the establishment of anticorruption with the transparency units. In fact, the enlistment of local peoples into anti-corruption corps is a welcome gesture. The idea is to ensure that Nigerian public institutions are characterized by true professionalism and meritocracy, with a sense of commitment and patriotism to defeat corruption, as well as, ensuring transparency in the generation and utilisation resources by instituting a highly efficient corruption management mechanisms. Also, the age-long values of honesty, integrity, hard work, accountability, due process, and transparency in the public service at all levels should be emphasized (Ijeweremere, 2015).

Recommendations and Conclusion

It is glaringly clear that paucity of funds has negatively hampered the operation of local governments in Nigeria. This can be attributed to overdependence of funds allocation from the centre, inability to venture into businesses, poor financial planning and corrupt practices. This has resulted in poor performance and abandonment of viable projects in most local governments overtime. Hence, there is an urgent need to increase the funds allocated to local governments in Nigeria, in order for them to be able to render effective service to people within their locality. Besides, it will help the local government to operate efficiently at these critical moments. Secondly, an intensive revenue generation drive and a commitment to invest in viable businesses that are permitted by the enabling laws in the country in the current times should be encouraged and supported to enable local governments in Nigeria to make profit in a bid to meet their financial obligations. Finally, prudent management of financial resources of the local government is advocated, with strict adherence to the principles of accountability, responsibility, accessibility as well as transparency in the management of local affairs in Nigeria.

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