

Local Government Funding: Entrepreneurial Perspective to Internally Generated Funds (IGR)

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Abstract: *Effective governance at the third tier level (local government) requires regular funding coupled with ability to locally raise additional funds. This position has become necessary because of the inadequacy of funds statutorily allocated from the federal and state governments. It is therefore our proposition that local governments in Nigeria should explore the entrepreneurial perspective to raising additional funds to ensure regular funds flow. It is therefore posited that local government can become entrepreneurial via direct involvement in entrepreneurial activities or making it possible for private entrepreneurs to invest within the local government and thus receive tenements and other levies. A mix strategy of public private partnership (PPP) can be adopted depending on the level of social development in the local government area.*

Keywords: *Funding, Local Government, Entrepreneurship, Entrepreneurial Perspective, Internally Generated Funds (IGR)*

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1. INTRODUCTION

The socio-capitalist (mixed) economy has never made governments to be mere umpires but active players on the field of economic transformations across national frontiers. The abysmal state of the economy is breath-taking, employment opportunities are on geometric decline, dependency ratio is skyrocketing, pressure on public services and infrastructure is unprecedented, the population growth is uncontrollably increasing at 2.8 percent of 168.8 million Nigerians (World Bank, 2012).

True federalism seems illusionary; the centre is holding more than necessary, grassroot people are wallowing in abject poverty, there is a wide disconnect between the leaders and the led. The third-tier government cannot adequately provide for the yearnings of its people, Central allocation is becoming inconsistent, uncertain and has turned badly affected operators at the local government. The challenges for good and responsive governance is pronounced, social awareness and information on the rights and privileges of the citizenry is in the air, the quest for a performance-driven government seems unquenchable and the demands for dividends of democracy is becoming perfectly elastic.

Local government being a prime element of democratic structure that demonstrates the intrinsic values of democracy irrespective of the services it provides; offers the closest touch to widespread consultation and participation of people (Olubukunola, 2011). The 1976 Local Government Reforms Guidelines in Nigeria defined local government as “government at local level exercised through representative council established by law to exercise specific powers within defined areas”. The local governments serve as grassroots governments, therefore, a lot of social services expenditure burden is placed on them.

The failure of local governments in the area of service delivery has made citizens to lose trust in government as an institution. Many Nigerians crave for change in the local government system as presently constituted in order not only to bring it in conformity with present day realities but also

to make it live up to the expectations of the people who have been yearning for grassroots development.

The ongoing global financial crisis which has extended to every part of the world has worsened the regional, national and global economic environments. This has a significant negative consequence on the economic activities of the local governments as the economy witnesses not only drastic fall in standard of living, but also amplifying the poverty level, since governments are financially incapacitated to discharge their mandates to the people (Ekankumo, & Braye, 2011). In this wise, when money does not come from the centre, local councils are always in a terrible mess. It was in this sense that determination to change this ugly trend is indispensable at the moment. Calls for local governments to supplement their various allocations from the Federation Account and state subvention through diversification of their Internally Generated Revenue (IGR) are quite timely. It would be a welcome development for each to identify its potentials and take effective advantage.

It is in this context that this paper focuses on the review of:

- Concept of Internally Generated Revenue (IGR) to local Governments
- Constitutional Framework of Internally Generated Revenue available to Local Governments.
- Contemporary studies on IGR to Local Governments
- Entrepreneurial options to IGR
- Indispensability of Entrepreneurial-driven IGR
- Entrepreneurial IGR and Its Policy Implications
- The clog of corruption to entrepreneurial IGR

2. CONCEPT OF INTERNALLY GENERATED REVENUE TO LOCAL GOVERNMENTS

Internally Generated Revenue (IGR) is the revenue the local government generates within the area of its jurisdiction. The primary source of local government sustenance is from Federal Allocation. It is the live-wire of a local government. The extent to which a local government can go in accomplishing its goals will largely depend on its IGR strength (Olubukunola, 2011). Incontrovertibly, IGR is not limited to the resources generated within a geographical territory but also include returns on capital investment from offshores and beyond local confinement. The bottom-line is a diversified initiative of generating income outside federal allocation.

Local governments by their nature are strategically positioned in the federating units of government. They have an edge in accelerating development programs in their territorial jurisdiction with a high degree of political visibility and economic development that is likely to generate more media coverage and public attention (Amelita, 2005). Even though national economic development is principally the task of national government, it is now expected that LGs play a key role in national economic strategy in the midst of regional and global competition for markets and resources. Thus, local economies being the building blocks of national economy cannot be refuted.

Osborne and Gaebler (1992) cited in Amelita (2005) propounded an alternative paradigm to bureaucratic governance of local governments with a motive to establish an entrepreneurial government which is in search of a better and efficient way of managing local governments. Their view of government is not simply based on collecting taxes and spending it, but rather, one that generates income other than the traditional dole out mode. The new paradigm was described as system that is willing to abandon old programs and methods. It is innovative, imaginative and creative. It takes risks. It turns city functions into money-makers rather than budget busters. It eschews traditional alternatives that offer only life-support systems. It works with the private sector. It employs business sense. It privatizes. It creates enterprises and revenue generating operations. It is market oriented. On the contrary, most of the state and local governments do not demonstrate much creativity in improving on their internally generated revenue (IGR). Tensions arising from any delays are palpable across the country.

3. CONSTITUTIONAL FRAMEWORK OF IGR AVAILABLE TO LGS

The fiscal chapter of the 1999 Constitution of the Federal Republic of Nigeria stipulates the inter-governmental fiscal relations and sources of IGR available to Local governments. The constitution maintains an erstwhile division of functions between the various levels of government. However, the state governments, out of its own powers and responsibilities, assign certain functions and duties to the local councils (Rapu, 2006).

Nigeria’s Tax Jurisdiction 1999

	Federal Government	State Government	Local Government
1	Companies Income Tax	Personal Income tax (on residents of the State)	Tenement rate
2	Petroleum Profits Tax	Capital Gains Tax (on individuals only)	Shop and Kiosk Rates
3	Value Added Tax	Stamp Duties (on individual only)	Liquor Licence Fees
4	Education tax (on Companies only)	Road taxes e.g. vehicle Licenses	Slaughter slab fees
5	Capital Gains Tax (on Corporate Bodies and Abuja Resident)	Betting and Gumming Taxes	Marriage, Birth and Death Registration Fees
6	Stamp Duties (on Corporate Bodies)	Business Premises and Registration levy	Street name Registration Fees (excluding state and capital)
7	With-holding Tax (on Companies)	Development levy (Max of N100 per annum on taxable individuals only)	Market/Motor Park Fees (excluding State-owned markets)
8	Personal Income tax (on personnel of the Armed Forces, Police, External Affairs Ministry and Residents of Abuja)	Street Name Registration Fees (State Capital Only)	Domestic Animal Licence Fees
9	Mining rents and royalties	Right of Occupancy Fees (State capital only)	Bicycle, Trucks, Canoe, Wheelbarrow, Carts and Canoe Fees
10	Customs Duties (i.e. import Duties and Export Duties)	Market fees (where market is financed by State Government)	Right of Occupancy fees (excluding State Capital)
11	Excise Duties	Miscellaneous revenues e.g. rents on property)	Cattle Tax
12	Miscellaneous revenues (e.g. Farming from Oil states. Rents on property etc –Largely Independent Revenue of the Federal Government.		Merriment fees
13			Radio and TV license fees
14			Vehicle Parking Fees
15			Public Convenience, Sewage and refuse Disposal Fees Burial Ground and Religious places permit fees
16			Signboard and Billboard Advertisement Permit Fees.

Source. *CBN Economic and Financial Review, 2006.*

The Schedule of Levies in the Nigeria’s tax jurisdiction table above details sixteen (16) items that are taxable by local government authorities; in addition to allocations from federal government and subventions from the state. Generating revenue through taxation has been the most widely acceptable source of government revenue in modern times (Ekankumo, & Braye, 2011). On the contrary, it is relatively true that payment of taxes would always be unpopular particularly in

Nigeria, where vast majority are living below the poverty line. Some Libertarians see it as “government aggression.” Thus, the question is what are the viable, unconventional and seemingly irresistible sources of IGR available to the local governments? How does it raise the much needed fund to meet its obligations, if it does not impose taxes? It must be noted that taxes alone can never provide the entire revenue that any government needs.

4. COMPARATIVE STUDIES OF IGR IN LGS

In the British Columbia, the property transfer tax allows local governments to capture a small return on its investment in infrastructure and services that sustain property values. It also ensures that localized increases in property value can be equalized and shared across the jurisdiction so that all taxpayers benefit. Assessed at the time of sale, this type of tax recognizes that – until a property is sold – an increase in land value does not translate into an increase in income for many homeowners. Sales of services are the next largest category of own-source revenue for local governments. There are significant opportunities for local government to expand their sales of services and take advantage of their existing expertise and infrastructure. The principal areas where local governments could increase their revenues are sales of energy, garbage collection, water and sewer services (Fletcher & McArthur 2010).

As local government own-source revenue growth was more stable over most of the past decade, these revenues grew at a faster rate than provincial own-source revenues and the provincial economy as a whole. These results show that in order to meet the expenditure demands placed upon them, local governments were compelled to impose a more rapidly-growing burden of taxes and goods and service charges on their taxpayers than the provincial government placed on provincial taxpayers. Local government own-source revenues increased by 51.2 per cent from 2000 to 2008, while provincial government own-source revenues increased by only 33.7 per cent from 2000 to 2009 (Fletcher & McArthur 2010).

In Tanzania, Dividends, Interest, Land rent and other domestic property charges are entrepreneurial sources of local governments IGR (Fjelstad, et al., 2004). There is no hard and fast rule as to how big local government revenues should be. Rather than deciding on absolute benchmark, it is important to consider the size of local government revenues, first as a share of national revenue pie, second, as a share of total local budget resources.

Kellam and Kehew (2004) advanced 16 areas that local governments in Rwanda can explore to enhance their revenue generation ability so as to increase their financial and fiscal autonomy. These areas are of two major types which include user charges/fees, and sources related to local economic development. Services or user charges are an important source of municipal revenues in developing countries. Charging the immediate users of infrastructure and services has become a common principle, and user charges are growing in importance. User charges are developed to generate revenues to cover operating and investment costs. Districts and towns in Rwanda improve their financial position and performance by undertaking economic development activities.

These activities have positive fiscal impacts by directly raising the revenue-generation capabilities of the districts and towns via fees and user charges. Second, increasing their productivity broadens the tax base of local authorities. Third, if operated and managed by the local councils, then the profits generated may solve the fiscal deficit problems. Local governments form economic project teams to coordinate and manage income-generating ventures that help in positioning a modern business entity. It also involved common partnership, which is a process in which the districts and towns involve the public in developmental projects in various fields.

5. ENTREPRENEURIAL PERSPECTIVES (OPTIONS) TO IGR

Many local governments have blamed the low IGR in their areas on the fact that most headquarters of industries sited in their states are located in commercial centres. However, should that be the case, it would be economically wise for each local government to put in place enabling environment to attract individuals and boost commercial activities. Note, in this global economic instabilities, no state or local government area should be tagged a civil service state where government is everything to everybody.

There is general increase in the level of economic activities globally. In all sectors of the economy, business is thriving and the structures hitherto unseen and unheard of are springing up everywhere (Etubom, 2009). The entrepreneurial option in generating revenue is becoming the strategic direction available to local governments in recent times as it leads to the development of small and medium scale industries in various communities with adequate manpower that is innovative, goal oriented, skilful, and profitable to his family and society. This option will also show government as an institution that is interested in the welfare of its citizens by creating ample opportunities for business and job creation.

In this ever dynamic, globalised socio-economic and political landscape, “innovate or die” seems to become the watchword for a vast number of sectors. Government are not spared, even in liberal economy, firm commitment to finding a better way of solving a problem is displayed.

Albeit, some authors view entrepreneurship as the act of an individual (Robert and Albert, 2009, Cole 2002), it is important to note that, an entrepreneur could be an organization, a group or a government. Ekankumo & Braye (2011) posits that governments at federal, state, and local government must evolve to become ‘entrepreneurial governments’. The essence of this concept is that governments must embrace the qualities of entrepreneurs in the governance of government controlled enterprises in order to enhance their ability to initiate and nurture new ideas into profitable ventures. These ventures are established using public funds, and hence recruiting indigenes of the communities. As a result, internally generated revenue will be increased, and more revenue through taxations can be generated from the staffs employed. States and local governments must be more innovative and entrepreneurial in their approach to government business if they must continue to face modern realities, (Ekankumo & Braye, 2011).

Entrepreneurship is a craft that demands high level creativity and innovation in exploring all existing or created opportunities (platforms) in generating revenue (Southon & West, 2005). IGR diversification is critical. Aligning with the consensus that economic growth is entrepreneurial-led, thriving sectors should be identified and exploited. The following amongst others are the entrepreneurial alternative sources of IGR that can be available to local governments:

- Real Estates Venture
- Events Facilities (Halls, Open field, rentals, etc.)
- Commercial Farming
- Community and Inter-State Transportation services
- Hospitality Business (Hotels, Resorts and Recreational Facilities)
- Grocery and Shopping Malls
- Business Centres

Moreover, in farming communities, local government areas could establish cassava, yam, cocoa yam, potato, banana farms including plantain plantations. The commercial cultivation of these food crops would not only enhance food production but also turn out to be a genuine source of revenue. The local governments in riverine areas can diversify into fish farming using modern fishing techniques such as vessels, and fishing gear among other technologies.

Local governments must look up to the entrepreneurial option of generating revenue. This option will not only generate revenue for local governments but will also create job opportunities, boost real income, reduce dependence on civil service employment, promote private public partnership, and general development of public infrastructure. It portrays government as being strategic and innovative in leveraging on the opportunities in the business environment through entrepreneurship. This direction could be described as entrepreneurial economic development. Adebayo (2003) posited that it is a climate of instilling and preserving entrepreneurial climate in an economy.

Nevertheless, entrepreneurship development has been identified with the function of uncertainty, risk-bearing and others with the provision of productive resources, the introduction of innovation and the provision of technical know-how (Burnett, 2000 cited in Adegbite 2009). It involves

identifying opportunities within the economic system, generation and developing of business ideas and bringing a vision to life (Penrose 1963, cited by Adegbite 2009).

According to Amelita (2005), there are three major entrepreneurial approaches left open from which local units may choose. The first option is for LG to serve as entrepreneur or producer by engaging in entrepreneurial activities where private sector fails to participate. Local Government enters the entrepreneurial venture in direct production through the establishment of public economic enterprises as industrial parks, enterprise zones, etc. Secondly, Local governments can serve as facilitators, promoters of entrepreneurship among its constituents, more than just inviting them to engage in business in the community. However, the Local Government sets an environment conducive or attractive for an economic enterprise to blossom and nurtured. A way of extending goodwill to investors is to provide tax holidays or exemptions from regulatory burdens. As the enterprises progress, a boom in tax revenues will begin to flow into the coffers of the LGs. Also, Local government can serve as both entrepreneur and promoter. In this case, utmost care should be taken by the LG ensuring that its interests do not jeopardize those of its clientele.

From the foregoing array of options LGs can strategically select to be able to respond to the demands of the community. It is clear that the main objective for adopting any of these options is to bring about more income on the part of the LG and the people. Higher income on the part of the LG means greater chances of providing more efficient and better governance. For the beneficiaries, the local constituents, more income from producers means higher purchasing power (Amelita, 2005).

6. THE CLOG OF CORRUPTION TO ENTREPRENEURIAL IGR

In most cases, taxpayers' unwillingness to pay taxes and fees was reported as a major obstacle to enhancing local government revenues. Fjelstad, et al. (2004) reported some factors that impact on taxpayers' compliance behaviour in Tanzania. Only 28.6% of the respondents see taxpayers' unwillingness to pay to be a problem. In contrast, too high taxes (47.9% of the respondents) and dishonest tax collectors (45.7%) were perceived to be major problems. However, the most serious problem perceived by a majority of the respondents (58.4%) was that the money collected was not spent on public services. Dissatisfaction on poor linkages between taxes paid and service delivery showed no rural urban divide. In general, taxes were widely perceived to be unfair. Firstly, only 9% of the respondents agreed with the statement that 'most of the tax revenues collected in the area is used for reciprocal services'. Secondly, the majority of all respondents (51%) held the view that people should deny paying taxes until services improved. Thirdly, 73% of the respondents said they would be willing to pay more taxes in exchange for improved services.

In the same vein, corruption was perceived to be a problem in all the local governments in Nigeria. There is a belief across the nation that corruption had to be combated at every opportunity. This reflects that much is left to be done to build trust-relations between the local authorities and citizens. A favoured measure to improve the use of IGR is stronger punishment of government employees and politicians. More information should be given to the public on the allocation of IGR as this will improve the use of revenues.

7. INDISPENSABILITY OF ENTREPRENEURIAL-DRIVEN IGR

Indisputably, local governments must start in earnest to shore up their IGR. This is the only way to ensure self-sufficiency and wean themselves off total dependence on the Federal Allocations. They must open new independent sources of income to guarantee continuity of much-needed development and growth.

Failure to significantly boost internally generated Revenue leaves local governments and their chief executives, with no choice than to approach banks for loans, and the capital market for bonds, to fund projects. Reliance on loans and bonds to fund public projects may not be the best option where it is not properly packaged and invested (against income from entrepreneurial activities), because it mortgages the future earnings from the federation account.

In other to increase the internally generated revenue (IGR) of local governments, this paper is of the opinion that government at this level must re-visit and embrace entrepreneurial options of generating revenue, through employing the qualities of entrepreneurs in the process of running

government and the business of governance. This approach will ultimately lead to the raising of an entrepreneurial generation that are job creators and not job seekers, creation of more organizations that may be owned jointly in a public/private partnership, creation of more jobs to reduce unemployment and its associated vices, and ultimately increase in government revenue through taxation of profits from the organization.

Uninterestingly, in most Nigerian public institutions when opportunity meets discretion, corruption manifests. Every entrepreneurial move on income generation will create opportunity for corruption and leakages. It behoves on the LG to have the capacity to ensure that the good does not become bad. There was a monumental failure at the institutional level and it became a rapacious fostering ground for corrupt officials to go in and abuse the system (Etubom, 2009).

8. ENTREPRENEURIAL IGR AND ITS POLICY IMPLICATIONS

In this setting, fundamental issues to be addressed in the context of local government fiscal reforms include to redesign the current revenue structure and to strengthen financial management. Moreover, measures are required to enhance taxpayers' compliance and to improve the accountability of tax collectors and councillors. This cannot be achieved without substantial and consistent political support from the central government.

A fundamental requirement when further redesigning the local tax system is greater emphasis on the cost-effectiveness of revenue collection, taking into account not only the direct costs of tax administration, but also the overall costs to the economy, including the compliance costs to the taxpayers. In addition, losses through corruption and tax evasion need to be reduced. They are also not allowed to borrow money without the approval of electors by referendum, a democratic safeguard to protect against reckless decision making.

9. CONCLUSION

It is quite imperative therefore, that local government administrators look beyond the borders and think outside the box within the framework of the law by engaging in entrepreneurial and profitable ventures that is becoming popular in local government financing; since the global economy is tending towards entrepreneurship.

There is a need for the political will to diversify the IGR of LGs in Nigeria, putting into consideration that needs and services will continue to increase among the citizens. Urban and rural communities cannot stop the tide of commerce, industry and technology. Leadership in the LGs must rise daringly to meet the challenges of entrepreneurial governance so to be effective and efficient development managers.

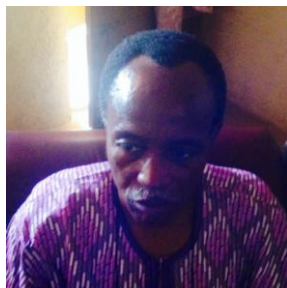
Conclusively, improved revenue generation is vital to the viability and stability of the government. The fundamental issue is achieving optimum revenue capacity of local governments. It is expected that local governments should leverage and exploit the bounties inherent in fiscal federalism. This paper affirms strongly that any local government that cannot optimize its IGR capacity to the tune of 50 percent (and above) of its annual budget-input is not safe economically in the long-run. Such government is likely to be at the mercy of the state or federal government, while her programmes can be sabotaged when conflicts arise.

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