ANALYTICAL COMMENTARY

STATES & LOCAL FINANCE The IGR **Initiative**

MARTIN IKE-MUONSO

Martin Ike-Muonso, a professor of economics with interest in subnational government IGR growth strategies, is managing director/CEO, ValueFronteira Ltd. He can be reached via email at martinoluba@gmail.com

NDEPENDENT REVENUE generation is central to the charge of local governments. The Nigerian three-tier federal structure specifies performance expectations from each level. Because it is the closest to the people, local governments are to champion grassroots development. It has some measure of constitutionally defined albeit nebulous fiscal autonomy to perform this role effectively. That autonomy explains why designated taxes are exclusively collectible by local governments. For instance, local governments possess the prerogative to collect rates on shops and kiosks, levies on the economic activities at the motor parks and tenement rates in rural areas or areas outside the state capital. They should also collect fees from abattoirs, animals, customary burial grounds, radio and television licences and fines for incorrect parking. The list of tax collection opportunities open to local governments is much longer. Additionally, entrepreneurially-minded local government leaders can create other income-earning ventures to improve their internally generated revenue. When the competencies to manage enterprises may be lacking or the fear that corruption may bring down such businesses, the leadership either creates them under a private-public partnership arrangement or facilitates their setup and prioritises them afterwards. There are several ventures that local governments can effortlessly bring into existence, given their revenue sizes. Examples include bakeries, poultry, cattle and pig farms, cosmetics and detergents manufacturing, superstores, etc.

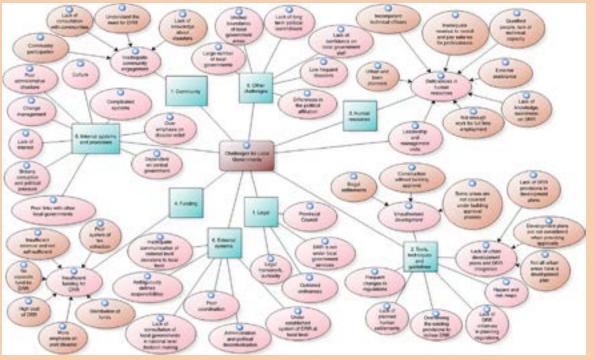
As the closest administrative authority to local people, local governments are the extension of the hand of the state and promote law and order at the grassroots. This responsibility also comprises providing basic social amenities for the well-being of local people. Consequently, they must advise the state governments on economic planning based on their jurisdictional and grassroots experiences. Local governments also have several regulatory functions, including the regulation of slaughterhouses, slaughter slabs, markets, motor parks and public conveniences, the movement and keeping of pets of all descriptions, outdoor advertising and holding, shops, kiosks, restaurants, bakeries and public food businesses, laundry and the sale of liquor. As a regulator for many of these activities, it also charges associated fees, fines and rates where applicable. Others include assessing privately owned homes or tenements to levy them appropriately. Some of their constitutional developmental responsibilities include establishing and maintaining cemeteries and homes for the needy, construction and maintenance of roads, street lights,

streets, drains, etc. Most of these powers exercised by local governments derive from the state Houses of Assembly. It is therefore evident that the 1999 Constitution intended local government areas as a strategic pillar for Nigeria to champion rounded development, including the sustenance of the grassroots.

On average, local governments in Nigeria have failed to meet those expectations. The impact on good governance and citizens' well-being is hardly ever felt in (unofficially) 95 percent of the population across the country. Perhaps, the three main reasons why some people still know that local governments in Nigeria exist are that some members of the society still collect wages from there. Sometimes, these wage earners hardly visit their offices for more than a week within a given month. Indeed, many local government chairpersons only visit their offices when they know the Federation Accounts Allocation Committee (FAAC) disbursements are ready. So even within the institution, there is a scant commitment to its existence and its constitutional expectations. Many local government buildings are decrepit and in pitiable conditions of disrepair. The second reason is that they still receive a reasonable share of the FAAC disbursements. FAAC disbursements are the primary reason we still have a third tier of government. Over the decades, local government areas have demonstrated historical failures in improving their revenue conditions to meet their constitutional obligations. And since over 99 percent of them cannot survive independently, only the FAAC disbursements guarantee their continued existence. The third reason people know that local government areas still exist in Nigeria is their barrage of inconvenient tax collection approaches. Even when most have nothing to offer citizens, they invest in well-oiled machinery for collecting taxes.

Manifestly inadequate revenue is the most touted culprit for these less-than-below-average mances of local governments in Nigeria. Underneath and powering this inadequacy are state government interference and poor leadership. These two factors explain the kindred reasons provided for the inability of most local governments to generate sufficient independent revenue to meet their needs. State government interferences start from the point of installation of local government chairpersons. In Nigeria, the political party in power at the state government level always wins virtually all local government chairmanship seats. Of course, it never happens because of any genuine democratic process. State governments control the state's electoral bodies mandated to organise local government elections. And because in Nigeria and other heavily corruption-laced countries, he who

Local government and the challenges of IGR expansion



pays the piper dictates the tune, state governments always influence the process of 'selecting' the chairpersons of local councils. That also technically gives state governors complete control of these local governments, albeit by proxy. Therefore, the 'selected' chairpersons are technically minions and pawns puppeteered by the governor. That is the genesis of the leadership challenges local governments face.

However, regardless of the underlying leadership issue, local governments have very narrow revenue bases. Apart from those within urban areas, taxable sources do not exist in reasonable sizes to guarantee substantial revenue intakes. For instance, having a sizeable number of shops and kiosks is challenging in many rural areas. Even where they exist, the cost of collecting their rates may far outweigh the collectible revenue amounts. There are many local governments without markets or businesses and other activities that attract vehicular movement on which motor pack levies are chargeable. In most rural areas constituting the mass of most local governments, it is not easy to see people buying land and insisting on obtaining their right of occupancy certificates. Perhaps that may change, but the percentage is still below 10 percent. Apart from states in the northern geopolitical zones, it is also rare to find cattle and other animals to tax. In much the same way, there is enough land for burying the dead in most rural areas, knocking off the possibility of commercialising burial sites. The list is vast. This kind of revenue dead-end would be more pronounced for an average chairperson completely taking instructions from the state governor. Nevertheless, entrepreneurially minded chairpersons can identify low-cost approaches to collecting these taxes from an equally reasonable number of carefully identified sources that generate comparatively high revenue. Such chairpersons can identify areas of need for some of these opportunities and facilitate the emergence of those taxable assets.

Again, the revenue-sharing for-

mula skews against local government areas. All 774 local government areas share 20.60 percent of nationally collected income. The federal government alone receives 52.68 percent. For progressive local government chairpersons, nationally shared revenues, if left in their hands, should provide the capital required for originating and facilitating socioeconomic activities that can give them more income as enhanced taxable assets and direct earnings. But the tragedy is that while their share may not be as much as they would require for the expected services they need to provide, most of their governors hardly leave it in their hands. Last year, the president frontally accused state governors of stealing funds meant for local governments. The president would not have voiced it out if it was not a verifiable reality. Even when he did, only about five state governors put up a show of defence. In contrast to the stealing, local governments are by law supposed to receive 10 percent of the state's internally generated revenue. No evidence shows that state governments reasonably comply with this obligation. In any case, state governors embezzling local governments' money is one of those supposedly public secrets. As a result, state governors significantly contribute to the local government's poverty and lack of growth. Of course, this heist is impossible without the collaboration and cooperation of the Council chairpersons. On their own, being encouraged by the behaviour of their masters, they (chairpersons) consequently dip their hands on the remaining till to perfect the wreck.

Wrecked by those paid to make them prosper, local governments slide into dependency paralysis. They hardly auto-orchestrate any meaningful activity without looking for handouts. Again, being unable to improve the socioeconomic lots of the citizens within their jurisdiction, the poverty level balloons and rebounds in poor revenue receipts. This situation is the unfortunate vicious cycle faced by most local governments. Poverty prevalence, majorly at the rural level, constituting most local governments, means that very little is collectable as independent revenue. And when meshed with corruption at the leadership level, the outcome becomes more depressing.

For some of the reasons already mentioned, local government areas also have predominating proportions of poorly trained workforce and a dire shortage of critical work tools. It is incontestable that more than 90 percent of the local government workforce in Nigeria have not received any additional training since their employment in the commission. At best, the kind of exposure they offer is usually woozy conferences where they primarily gather to share food and money. In some, it is rare to find functional computers in more than four or five offices. It is therefore expecting too much to see local governments significantly perform strongly in independent revenue generation. The forces keeping them on the ground are strong and require a radical

The freedom and eventual high performance in independent revenue generation for local governments can only be in sight when they have reasonable financial autonomy and are conveniently delivered of their umbilical relationship with state governors. An excellent way to start is by including local government chairpersons' elections as part of those handled by the Independent National Electoral Commission. This proposal is the most fundamental that can release chairpersons from the stranglehold of their governors. The second necessary amendment is for the state legislature to actively monitor and evaluate local government chairpersons' performance and the available funds. Part of this oversight function should also ensure they receive 10 percent of state governments' internally generated