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Impact of Internally Generated Revenue (IGR) on the Growth of Local Governments in Nigeria

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ABSTRACT

The study focuses on the Impact of Internally Generated Revenue (IGR) on the growth of Local Governments in South western region of Nigeria. Efforts of building a realistic econometric model for Local Government Growth with regards to core Local government activities have been undertaken. The work involves the use of Pooled Ordinary Least Square (OLS) Regression technique to fit a realistic model into the collected panel data, and several model's validity techniques such as Coefficient of determination (R2), Correlation coefficient(r), Durbin-Watson and F-statistic were employed to validate this model. Hypothesis was also tested to validate our theoretical background on IGR. The result revealed that IGR had impacted significantly on the growth of local government has observed in the R2 of 31.7%, Correlation coefficient of 0.563, Durbin-Watson of 2.02 and F-result of 4.060 with significance value of 0.008.

Keywords : Internally Generated Revenue, Pooled Ordinary Least Square Regression Estimate, Local Government Growth, Panel Data

INTRODUCTION

Local government is a government at the grassroots level of administration meant for meeting the peculiar needs of the rural people (Ajayi, 2003). In concrete terms, Agagu (1997) sees local government as government by popularly elected bodies charged with administration and executive duties in matters concerning the inhabitants of a particular district or place. This explanation is not significantly different from the definitional construct by the United Nations and the White Paper on the 1976 Local Government Reforms in Nigeria. Eneaya (2010), Bello-Imam (1990) and Ekpo (1999) also corroborate this fact and further traced the origin of Local government to the colonial era.

Local government growth has been found not to be too effective in Nigeria and the ineffectiveness has been traced to many factors which includes low funding from the central government, Adedeji (1970) cited by Adedokun (2011). Adedeji further opines that these problems led the local governments into a vicious circle of poverty because inadequate functions and powers lead to inadequate funding which result in the employment of low skilled and poorly paid staff. He stated that finance represents the point at which the vicious cycle may be broken or possibly reversed. In other words, local governments should not relent in their pursuit for financial buoyancy so as to break the vicious cycle of poverty of the rural populace.

One of the recurrent problems of the third-tier system in Nigeria is dwindling revenue generation as characterized by annual budget deficits and insufficient funds for meaningful growth and viable projects development. Local governments are the nearest government to the people at the grassroots in Nigeria; they are strategically located to play a pivotal role in national development. Since they are responsible for the governance of about 70 percent of the population of Nigeria, they are in vantage position to articulate the needs of the majority of Nigerians and formulate strategies for their realization (Adamolekun,1985).

The existence of local government system is not an end in itself. There are varied reasons attributable for its establishment. One, the complexity of the modern day government has made establishment of local governments an administrative expediency. The modern states are confronted with more political, economic and social problems than ever before. First is the issue of demographic explosion particularly in the developing countries. For instance, the population of Nigeria which stood at about 56 million in 1963 rose to about 80 million in 1991 and the current estimation has projected the population in the country to be about 160 million people (Ebert, 1997).

As presently contained in the 1999 constitution, local governments receive 20 per cent of the Federation Account. In addition, proceeds from the Value Added Tax (VAT) are also allocated to them. The 1976 local government reforms state that internal revenue sources of local governments to include:

(a) Rates, which include property rates, education rates and street lighting.
(b) Taxes such as community, flat rates and poll tax.
(c) Fines and fees, which include court fines and fees, motor park fees, forest fees, public advertisement fees, market fees, regulated premises fees, registration of births and deaths and licensing fees; and
(d) Miscellaneous sources such as rents on council estates, royalties, interest on investment and proceeds from commercial activities.

According to Magaji (1994), the above stated are sources through which local governments generate their revenues through their own efforts.

There have been significant increases in the number of Local Governments over the years. There were 96 divisions in 1967. By 1976, these had increased to 300. The number was increased to 774 after five years precisely 1981 (Adedokun, 2004).

In view of these prevailing circumstances, this study is set to investigate the impact of Internally Generation Revenue on the Growth of Local Government in Nigeria using some selected local governments in the western region of Nigeria.

CASE STUDY

The twenty constitutionally recognized local government in Lagos state, Western Nigeria are arranged in their order of viability using Per Capital Income of each local government as the criterion, and the first four (4) most viable local governments were selected as samples in order to know the impact of Internally Generated Revenue (IGR) on the growth of local government in Nigeria using 2006 as the base year, been the year of last population census. Per capital income is the total national income divided by the member of people in the nation (Google, 2013). Information on internally generated revenue from Rates, Licenses and Permits, Rent collection and Portfolio management were also sourced from the selected Local government to enable us fit an appropriate model.

The model built into this research is tagged Local government growth model designed as:

LGG = f (RR, LP, RC, PM) + ε ……… (1)

Where LGG represents Local Government Growth

RC represents Rates Collection

LP represents License and Permits Collection

RR represents Rent Received

PM represents Portfolio Management

ε represents the error term which as normally distributed with mean zero and variance δ^2.

When this model is written in explicit form, it becomes.

$LGG_{it} = \beta_o + \beta_1 RR_{it} + \beta_2 LP_{it} + \beta_3 RC_{it} + \beta_4 PM_{it} + \varepsilon_{it}$ ---(2)

Where i = 1,2,3 and 4(Number of Local Government)

t = 1,2,3,………10 (Number of years) and

β_o, β_1, β_2, β_3 and β_4 are the regression coefficients whose values will be determined statistically.

POOLED ORDINARY LEAST SQUARE ESTIMATE (OLS)

The analyzed data were pooled as panel data to fit an OLS model presented in equation 2. In this model, the impact of Internally Generated Revenue was examined on the Total Revenue of each selected Local government for period of ten (10) years. The pooled OLS result is presented in the table below.

TABLE - 1

Estimated Result for Impact of IGR on Local Government Growth.

Constant	**Coefficient**	**t statistic**
β0	**2,913,214,044.568**	**7.196**
β1	**24.019**	**2.614**
β2	**-.010**	**-.086**
β3	**-12.665**	**-2.46**
β4	**2.342**	**2.561**

R = 0.563, R^2 = 0.317

F-statistic = 4.060, Durbin Watson = 2.020

The model built in relation to the above table is

$LGG_i = 2,913,214,044.57 + 24.019RC_i - 0.010LP_i - 12.665RR_i + 2.342PM_i$

The Local Government growth model above shows that when all the independent variables considered are held constant, Local Government development can be valued at a total sum of #2,913,214,044.57 (Two billon, nine hundred and thirteen million, two hundred and fourteen thousand and forty four naira, fifty seven kobo only) . Only collection from rents and portfolio management had positive effects on the Local government growth, the other independent variables considered in the model had negative contribution. Thus, a one million increase in rents received and portfolio management will bring about an approximately twenty four million naira and ten thousand naira contributions respectively to the development in Local Government.

The correlation coefficient result (R= 0.563) shows that there is a moderate positive correlation between Local Government growth and all the IGR considered in this research. A coefficient of determination result (R^2 = 0.317) indicates that only 31.7 percent variations in Local Government growth is being explained by the independent variables. This means that the remaining 68.3 percent is due to other important factors/revenue sources apart from the ones considered for Local Government development. Revenue source like statutory allocation may be responsible largely for the unaccounted variation, due to its significant impact on Local government growth.

CONCLUSIONS

In summary, we can say that the combined effect of all the IGR considered in this paper has exerted much significant influence on the growth experienced by local Government over the periods under reviewed, much more than individual effect of each variable examined, using t-statistic. This is reflected in the computed F-value of 4.060 with a significant value of 0.008, which is comparatively smaller to the expected significant value of 0.05.

The Durbin Watson statistic result of 2.020 shows that there is no evidence of serial correlation in the model and this implied that the model is well specified within the context of Local government IGR.

Therefore, Internally Generated Revenue (IGR) has impacted SIGNIFICANTLY on Local Government growth in Nigeria.

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