Journal of Political Discourse

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LONG TERM INVESTMENTS FOR LOCAL GOVERNMENTS: INNOVATIVE AND STRATEGIC REVENUE OPTIONS

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Abstract
The imperative of a sound local government system in Nigeria instrumentalized by a strong and sustainable revenue stream is the focus of this piece at a time that the very existence of the relevant bearing of the essence of the third tier of governance is being questioned as a democratically administered tier of government. Grassroots inhabitants whose lives and livelihoods should be impacted by the local government administration seem to have lost memory of the reality of this all-important tier of government in Nigeria. Documentary evidence suggests that inadequate funding from both internal and external revenue sources compounded by malfeasance have rendered ineffective service delivery by local government authorities. Closely related to this is the undemocratic nature of recruitment of leadership for local councils which produce visionless and no incentivized and unmotivated individuals to drive administration as well as the constitutional constraint on the autonomy of local councils. Creative and innovative revenue strategies through investment in profitable enterprises holds the promise to guarantee sustainable revenue yields for local councils to be able to resume effective and efficient service delivery without over reliance on external sources of revenue like the federation account allocation.

Keywords: Revenue, leadership, innovation, creativity, governance

Introduction

Sound local government finance has become imperative in Nigeria for two compelling reasons. First, the promise of decentralization since 1976 re-enforced in 1991 is severely threatened by the indisputable non-performance of the local government as a third tier of government in line with the expectation that it could contribute to economic growth and poverty reduction through the elaboration of its functions as codified in the 1999 constitution as amended. The charge to deepen decentralization through long overdue fiscal reforms in the local government system may evaporate should the system continue to fail to contribute to economic growth and enhance sustainable local incomes. The local government is also fast losing its relevance to people as a level of governance closer to local communities in the face of its poor performance (Eme, 2014).

Second, the rapid urbanization has reinforced the necessity for improved existing, albeit poorly maintained infrastructure and to meet the sustained demand for housing, education, water supply, sanitation, sewage disposal, solid waste management and public transport. These areas of the local economy require massive and sustained investment which can be guaranteed by the local government. These investments are long term strategic decisions against the backdrop of rapid expansion in urban populations to be effectively and efficiently covered by local revenues by means of local taxes and user charges (de Vera & Kim, 2003).

Local governments were designed to play an essential role in the provision of public services and goods to citizens. The efficiency of local governments has been attested to from the colonial era through the First Republic (Imoode, 2004; Obaro, 2004). Post independence

reforms sought to consolidate this performance through constitutional engineering that provided clear definitions of local government functions. Being functionally active is key to developing the financial capacity of the local governments by improving local revenue yielding sources and collections for infrastructure investments and delivery of basic services. It is argued here that the constitutional constraint on local government autonomy and limited electoral control have vitiated the resilience and creativity of local governments. This weakness is a challenge for innovative and strategic long-term investments in the quest for re-inventing a functional local government system.

Instrumental Essence of the Local Government as a Tier of Government

As a third tier of government, the local government is conceived as an entity within a decentralized federal arrangement as a functional unit to deal with services required by the people at local levels of existence. It is expected that the system will leverage local knowledge and cultural proximities to understand the basic needs of the people and respond accordingly by maximizing time and other local resources and general conditions in fulfilling this obligation. These expectations informed its definition in the 1976 reforms as a unit of administration with a representative council with substantial control over local affairs, for the provision of services and implementation of projects in their localities to complement the efforts of both state and federal governments as the rationale for decentralization (FGN, 1976). This characterization in definitional terms underscores the essence of local governments as necessary institutions required for "accelerated development that emphasizes improvement in the productivity and welfare of the majority of the rural people" (Esman & Upholf, 1984, p. 29). The local government will be incapacitated in delivering on its essence without some substantial autonomy. This realization informs the United Nations notion of the local government as "a political subdivision of a nation or (in a federal system) state, which is constituted by law and has substantial control of local affairs including the powers to impose taxes or to exert labour for prescribed purpose. The governing body of such an entity is elected…" (UN, 1996, p. 20).

The philosophical roots of the essence of local governments are traced to Jean Jacques Rosseau who was impressed by the emerging Swiss democracy and noted that the local government was the training ground for democracy given the emphasis of political participation at the local level of citizen territorial existence. Alexis DeTocqueville's' discovery of the importance of local citizens and their emerging municipal governments in sustaining the newly emerging American democracy also boosted the philosophical foundations for local governments.

There is a huge diversity in the existence and operation of the local government system from country to country. Areas of contrast range from the functions to the sources of revenue and the basis of relationship between the state and the local government on different fundamental principles. Other grounds for differentiation in local governments accentuated by the fragility of democracy and development are the nature of rural-urban migration as well as the constant changes in the structure of local governments. It is indeed difficult to find two countries with nearly the same organizational structures of governance (UN, 1996). It is important to illustrate some of these differentiations in specificities for a nuanced understanding of the basis of efficiency and effectiveness of local governance from country to country.

Comparatively, functional tasks for local governments vary a great deal from one country to the other. In Nigeria, the functions of the local government are contained in the Fourth Schedule of the 1999 constitution as amended. In broad summary, local governance involves provision of social services, engendering development and infrastructure provisioning (Ugwu, 2004). The social service delivery function of the local governments includes

maintenance of cemeteries, provision of amusement and recreational facilities, transport services, solid waste management and maintenance of public washrooms. Others include numbering of houses and naming of roads, maintenance of slaughterhouses, motor parks and licencing, regulation and control of liquor sales. The second category of functions deals with infrastructure provisioning to enhance mobility, the quality of life and human development. In specific terms, local governments are to construct and maintain roads, drains, parks and gardens. In addition, they are responsible for primary, adult and vocational education services as well as the maintenance of health care and childcare facilities. The provision of rural water supply and sanitation facilities are within the purview of local government (Lawal, 2004). Local governance makes meaning when local people perceive the institution as the instrument of rural development with bearing on their daily lives. To activate these functions, local governance requires funding. The collection of taxes and levies is a function imposed by the necessity of the preceding tasks. So, when the local governments provide markets and other facilities, the ensuing services have to be paid for by citizens. The user charges and taxes imposed are then collected to support maintenance of facilities and services rendered to the local people.

Local governments in the Organization for Economic Cooperation and Development (OECD) countries essentially provide many complex tasks covering welfare issues and public services, healthcare, education, housing, planning and building issues, and environmental protection (Asquith, 2012). In New Zealand, a unitary state with a two-tier system of local government, it consists of 11 regional councils and 67 territorial authorities including 11 city councils, 50 district councils and 6 unitary councils. New Zealand has no written constitution, but the functions of the local governments are defined in the Local Government Act of 2002 as amended in 2014. Regional councils have responsibility for flood control, air and water quality, pest control, public transport, regional parks, and water supply. Municipal responsibilities include local roads, water supply and sewerage, waste, culture (libraries and museums), parks, recreation services and sports, tourism, town planning, social housing, community and economic development. Others include ports, airports and urban roads etc (OECD, 2022). The local government is financially, administratively, and politically independent. The local government Act of 2002 gave the system a dual purpose "to enable democratic decision-making and action by, and on behalf of, communities and to meet the current and future needs of communities for good quality local infrastructure, local public services and performance of regulatory function in a way that is most cost effective for households and businesses" (LGA, 2002). The democratic imperative of the local government operation is shared by Nigeria without independence of action and therefore remains in intention. The local governments in New Zealand therefore enjoy an enviable status with the power of "general competence, is financially autonomous and employs highly skilled and competent strategic managers" (Asquith, 2012, p.1).

The Netherlands is also another unitary state with a decentralized two-tier system of local government like New Zealand. It is characterized by an elaborate decentralization programme which began in 2007 transferring new responsibilities from the national to provinces and additional responsibilities moved from provinces to municipalities in 2015. Municipal tasks include urban development and land use planning, employment policy, social welfare, public health, social housing, public order and safety, local roads and public transport, primary and secondary education, local economic development, culture and recreation. Those tasks transferred in 2015 include youth health care, long-term care and employment for young disabled people (OECD, 2022). The Dutch system pays respect to the elaborate welfare system prevalent in the OECD countries and takes responsibility for secondary education absent in Nigeria.

It is important to review variations in tasks in local authorities from a federal state. Belgium is such one state which constitutional reforms have effectively transformed the state from a unitary to a federal arrangement since 1970. The last of the federalization reforms began in 2011 and became operational in 2014. The country has three tiers of government: 6 federated states, including 3 regional governments and 3 community governments, 10 provinces and 589 municipalities. Provincial and municipal competences are not clearly defined in the legislation that has created multiple overlaps. For instance, Provinces have over the years develop competences in education, social and cultural infrastructure, environment, roads and waterways, preventive health, transport, public works, housing etc. Municipalities have extensive tasks including those assigned by the states considered to be in municipal interest (OECD, 2022). The performance of these functions is tied to a complex but revenue guaranteed mechanisms to make sense of local council delivery of essential services to communities and citizens.

Local Government Revenue and Expenditure Competencies

Sources of local government revenue consist mainly of tax and non-tax revenues, grants in aid, loans from the central government, and own-market borrowing. Tax revenues are derived from agricultural produce, property, sales, registration, motor vehicles, roads, and rates. Non-tax revenues include receipts, cost recovery charges for various services, profits, and dividends from state owned enterprises. In many countries, central governments make transfers to local governments as grants or loans for specific purposes (de Vera & Kim, 2003). The taxable efficiency of the local government and level of autonomy in expenditure decisions determines the degree of functional capacity of local authorities.

Itemized sources of revenue for local governments in Nigeria consist of statutory allocations from the federation account at 20% of the prevailing revenue sharing formula, 10% of state internal revenue, federal and states' grants in aid, borrowings from state government and financial institutions and 35% as the share of value added tax. These sources are considered external to the local government to the degree that its volume and availability is beyond the determination of the council. The sources of revenue within the control of local authorities considered internal consist of rates or user charges. These include rates and commission received for assisting the state in collecting certain taxes, market rates and levies, fees charged on bicycles, truck, canoe, wheelbarrow and carts, permits and fines charged by customary courts, business investments and tenement rates and fees from schools established by local governments. There are also a wide range of rates and fees from shops and kiosks, liquor licence, slaughter slabs, marriage, birth and death registration, naming of street registration and right of occupancy on rural lands. Other fee sources include advertisement and sign board permits, vehicle and radio licence, burial permits, amusement parks and tourist sites, private institutions, and motor parks levies (Uhunmwuangbo & Aibiyi, 2013). These external and internal sources of revenue are designed to be complimentary but far important are the opportunity for local governments to tap into their creativity in raising revenue through items under their control. This is premised on the understanding that knowledge of local economic conditions can be leveraged to assess taxable opportunities that may enhance revenue yields.

Revenue accruing to local governments has increased over the years in absolute terms with regards to statutory federal allocations; the performance of internal sources has remained unsatisfactory (Edet, 2021). Four reasons account for this poor performance in internal revenue yields. First are the inefficiencies associated with the collection machinery by local authorities. There are corruption issues associated with revenue collection through under collection and embezzlement accentuated by cash handling and the lack of incentivization of local people to pay taxes in the face of deteriorating quality of service delivery and provision

and maintenance of facilities. The leakages in the process of revenue collection are overwhelming and have taken a toll on council resources (Ahmad & Singh, 2003). Second is the lack of creativity by local councils in identifying new avenues of raising taxes and opportunities for investments that can yield additional revenue. Third is the prevailing over reliance on the federally allocated revenue (Orewa & Adwoman, 1992). Local governments have entrenched an almost exclusive reliance on federal transfers that has reinforced lack of accountability. Councils lay back and wait patiently for federal allocation that has kept the councils running ever since. This tendency has sustained a lazy culture that has diminished the creativity to raise revenue. This lame attitude to revenue issues is borne out of a long-established notion in administration that public resources must be generated by other units then distributed for expenditure. This thinking has prevailed to the detriment of a managerial culture to generate resources and expend. This management paradigm is the new reform direction for local governments in Nigeria. Fourth, the state has an overbearing control over local governments to the extent that no pretense to autonomy for the councils, an independence of action that is required for creativity in functional arena of revenue yield. In a sense, local governments function as administrative extensions of the state governments in Nigeria. This tendency has wiped off any shed of autonomy envisaged by the 1999 constitution as amended. This encumbrance was initiated by the very constitution when it empowered the state governments to enact legislations regarding the "establishment, structure, composition, finance and functions" (The 1999 Constitution, Article 7) of the democratically elected local government councils. Excessive control by state governments requires seeking approvals for nearly every administrative decision including raising taxes or introducing levies as measures to raise revenue. The failure of local governments in Nigeria to perform statutory functions in service delivery and in response to the development needs of the citizens at local levels is squarely blamed on lack of funds without a question about how to raise revenue. The suffocating effect of state governments' control of local governments extends to the political arena by undermining the democratic feature of councils emphasized by the constitution. The implication of lack of democratic content in formation of government at the local level is the absence of competition and accountability in local governance. Kosec & Mogues (2020, p. S52) underscored the value of democracy at the local level where "a high degree of electoral control leads to intergovernmental competition and citizen benchmarking of local governments' performance against one another". The competition among local governments and demand for accountability from citizens are requisite pressure for council authorities to perform which include finding creative solutions to revenue problems.

There are wide differences in the level of autonomy of local governments to raise taxes from country to country. Regional governments in Belgium enjoy financial autonomy following the Reform of the Financing of the Communities and Regions introduced in 2014 (OECD, 2020). The country has an open system of local taxes where local governments can create new local taxes with a huge leeway over rates and bases. Municipalities and provinces are free to borrow to fund investment projects. This freedom to borrow for investment purposes is referred to as the "golden rule" (OECD, 2022, p.1). Local governments in Belgium receive a wide range of federal financial transfers including specific allocations from regional governments. One of these is the financial equalization mechanism that supports areas with lower revenues. Subsidies are also paid to finance capital and current spending responsibilities.

The Dutch revenue mix of earmarked and general-purpose grants and taxes and fees weighs more in favour of grants from the central governments which is 74% of local government revenues. The capacity of the local governments to raise taxes is weak but stronger than in

Nigeria and account for 17% of total revenue to local governments. The major source is property tax that contributes the largest share of local tax revenue (OECD, 2022). The Dutch principle of subsidiarity "local if possible, central if necessary" shapes intergovernmental relations through tax raising power allocations and public services provisioning. It is therefore the capacity of level of government to collect a given tax that determine which level does so and provide a given service.

In New Zealand, local governments have high revenue and spending autonomy even though there is a limit placed by law. It is important to stress that local governments in the country are largely funded by communities within. Here too like in Netherlands, property tax constitutes about half of local government revenue. Sales and user charges account for 25% of local revenue while dividends from investments in long term projects like airports and ports forms another source of local government incomes. Services fees are another strong source of revenue and maintained in line with New Zealand's "benefit principle" which states that "those who benefit from, or cause the need for, a service should pay its costs" (OECD, 2022, p. 7). This principle promotes intergenerational equity by ensuring that those who benefit from a given infrastructure should contribute to its cost. In addition, when borrowing funds for investments, benefits must match cost over their lifetime. To create a balance between raising revenue and expenditure, councils must have general competence which means they have ability to choose activities that ensure they fulfil their functions and roles in community life. The choice of activities and expenditure is done in wide consultation with the public underscoring the essence of electoral control of local governance.

With the deterioration in local government incomes against the increasing sophistication of its functions and the ever-rising demand for same in the face of urbanization and population increase, exploiting creative options like long term investments common in Belgium for revenue generation is an imperative for councils in Nigeria.

Long Term Investment Options for Raising Revenue

Most local governments in developing countries face the near-impossible task of funding the infrastructure and services required to meet the basic needs of growing urban populations and rural populations (UN, 2015). In Nigeria, citizens have since given up on the local government as an institution capable of meeting basic needs of its inhabitants considering that local governments as a third tier of government is designed to be a governance authority at the local or grassroot level of society. In Benue state as it is in most parts of Nigeria, local governments are truly rural governments for rural people. The headquarters of many of these local governments can simply pass as an upgraded village. The needs of the rural and emerging urban places are basic: water supply, roads and transportation, health care, education, sanitation and waste management. The rural population is a typical expression of poverty. Unfortunately, forward-looking capital investments are also not possible for financial reasons. Local financial management frequently suffers from lacking technological infrastructure and capacity, and opportunities for revenue generation are often restricted by inadequate regulatory frameworks or disadvantageous political structures. Lagging public-sector spending takes a toll on urban efficiency regarding urbanized local governments and local economic activities which then create a vicious cycle of budgetary shortfalls, choking urban conditions, and economic stagnation (UN, 2015).

However, strategic governance and financing systems can provide hope for struggling local governments. There are opportunities for matching local needs with institutional frameworks and revenue-generation tools. Appropriate financial management can tap into strategies that improve efficiency of revenue generation, win public support, capitalize on urban and regional economies of scale, curb land speculation and sprawl, incentivize economic activity,

and improve urban affordability for the poor. The resulting budgetary improvements can allow local governments to make strategic investments for profits in projects that can stimulate revenue generation.

It is important for local governments to develop their own sources of revenue within the limited autonomy allowed on certain items such as transportation, education, housing, and water supply by way of investing in related projects for profits. According to Martinez-Vasquez (2015, p. 14) "own revenues uniquely offer an element of horizontal accountability of public officials to their constituents" from the point of revenue. "This accountability is fundamental to create a fiscal culture of expenditure efficiency". This means that local government officials are constrained from wasting resources and therefore compelled to provide what is needed and wanted by local people with the revenues raised. In addition, the accountability process imposes fiscal responsibility on local officials by means of providing limits to a huge appetite for public spending with continuous pressure for more central transfers from the federal government (Bird, 1995) or a resort to borrowings from commercial banks thereby accumulating public debts. These are arguments about revenue reforms which find rationale and justification in enhancing accountability, efficiency in spending and fiscal responsibility. These objectives cannot be achieved by central or state governments on account of transfers (Steyler, 2013). Suffice to stress that central and state governments are extremely reluctant to devolve taxable powers to local governments for fear of having to compete for the same tax bases or losing control of fiscal policy. In Nigeria, federal and state governments resist constitutional changes in these regards and have engaged in an intense contestation over amendment on devolution of taxable powers since 1999.

The list of own revenue sources for local governments in Nigeria offers creative and strategic opportunities for investments for the purpose of raising sustainable revenue beyond tax and levies or user charges. One such area is in estates. Two options are possibilities. The first is explore a private-public-partnership in which credible private investors can partner with the local government on mutually beneficial and agreed terms of equity and profits to be shared from investment in social housing in urban and rural areas. This option is far more feasible in urban areas where urbanization is expanding rapidly with accompanying unsatisfied demand for housing. It is still not a closed option for rural local governments. On the table for offer as equity for local governments is land with all the title deeds required which can become the collateral for accessing funding facilities from commercial banks. An immediate marketing avenue with a huge promise of sustainability are the existing cooperatives by public and civil servants which on favourable terms will undertake to subscribe for such houses for their members and provide payments in instalments on a monthly or quarterly basis. This investment is at the lowest cost to the local government but holds the promise of a sustained stream of income and repayment of the loan facility and guarantee a steady flow of income.

The second leg of the investment can take the partnership with state investment companies. There are two opportunities in this engagement. The first is investment in estate development and social housing as outlined earlier on the public-private partnership arrangements. The second is portfolio investments in which the investment company and the local government may pool resources together for investments in stocks of companies that are doing well in the stock market. When the economy is booming investment in stocks has great potential for high yields and may burst when it is not doing well. On many occasions, investors have information about difficulties in the stock market long enough for divestment.

One of the dominant assets of local government is land. While its value varies from urban to rural areas, using land as a resource base for investment by local governments holds indisputable promise for revenue generation. In many urban centres, vast land under the local

governments are lying unutilized or are illegally occupied by private citizens who openly display wares for sale to the public. These traders and petty businessmen and women are exposed to the vagaries of the environment and insecurity of all sorts including extortion and violence that threatens the entire business. For example, in the event of a public scuffle sometimes deliberately instigated by hoodlums to create confusion, panic and fear as an avenue for looting or spontaneous public protest, such small businesses may be destroyed. Considering the economic status of such traders, wholesome damage to their stock represents a major economic loss. Local government authorities can appropriate such lands and built or lease to private investors over a given period. Stores constructed are then rented to small businesses. The management of such investment must never be in the hands of local government officials but the private sector to avoid abuse and corruption associated with public control.

One of the resources that is very scarce in rural areas is running water. Even in many semi-urban centres that are serving as headquarters of many local governments experience acute shortage of running water. In some of these areas private individuals have sunk boreholes from which members of the public obtain water at a fee. In all rural local governments, there are several clustered settlements with concentrated populations that are emerging as towns and semi-urban areas. One thing undermining the quality of life in such areas is lack of running water. This is lucrative investments by all standards. Any settlement with a population of 50 people and above can maintain a borehole through average economic activities and domestic use. Even the remotest settlement let alone towns and semi-urban areas have at least local food vendors and other economic activities that use a great deal of water for domestic and commercial purposes. Given the relative cost of a borehole, local governments can drill at least a borehole in about 5-10 settlements that can be sustained where water can be obtained at a fee within the economic context of the settlement. In addition, with a borehole, water factories can also be established to produce and sell water to residents and reverse the trend where producers of clean water transport the product through long distances for supply to local inhabitants of rural based towns and semi-urban areas. These facilities should not be managed by local government officials but by private individuals contracted to do so on agreed commission.

Conclusion

The demand for local government to meet fundamental needs of residents is rising complicated by increasing chaotic urbanization and climate change induced disasters like floods and violent conflicts. The critical challenge to fulfilling the role of delivering public services is the widening gap between the availability of financial resources and spending needs of local authorities. One of the reasons for this yawning gap is the rapid growth of urbanization and the increasing demand for new public services, public infrastructure, and its maintenance. Local governments in Nigeria are increasingly depending on federal transfers and ignoring lucrative taxable sources like property and service charges. The financial resource drought is compounded by states government reluctance to approve increases in taxes and user charges for fear of losing political support from rural populations. The lack of independent action on own revenue generating sources has put local governments in a difficult situation where they cannot meet residents demands for services due to non-availability of financial resources. This is more challenging when states have refused to bear the cost of decentralization of service delivery in local communities by local governments. These political economy challenges can be navigated through creative and strategic options that do not threaten or undermine state governments control over local authorities by engaging in long term investments for revenue yields. These opportunities include portfolio investments, estate or housing development, water supply projects and creches in partnership

with private investors with expertise in business management. This management component is critical to avoid the pitfalls of malfeasance associated with local government officials regarding revenue sourcing. These creative measures are part of a wide demand for fiscal reforms in local government financing in Nigeria necessary to recover from the threat to loss of public trust in the roles and responsibilities of local authorities as the pessimism over local authorities' relevance in service delivery on fundamental needs is indisputably palpable in rural and urban Nigeria.

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