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Externally Generated Revenue (EGR) Sources And The Rural Developments Of Local Governments (LGs) In Nigeria

Onuorah, A.C. (f. CFIAN Ph.D.)[1*], Ehiedu, V.C. (Ph.D.)[2], & Nwajei, C.A. (M.Sc., Ph.D. Scholar)[3]

Department of Banking and Finance,
Delta State University, Abraka, Nigeria

ABSTRACT
The paper examined the effect of externally generated Revenue (EGR) Sources (Statutory Allocation from Central/Federal Account, Statutory Allocation from State Account, LG Borrowings, and LG Grants) on rural development in LGs in Nigeria. The study focused on the 774 LGs in Nigeria. The sampling technique adopted is the census sampling. The study spanned from 1999 to 2021. The technique for analysis is the ARDL methodology. This technique is appropriate for series that exhibit mixed integrations. Various confirmatory tests considered are Unit root (ADF) test, ARDL Bounds (Cointegration) test, Ramsey Reset Test (RRT), AND Normality Test. The paper established that, SAFA, and LGB exerted negative (-0.3880 and -0.4018; -0.2324 and -0.4609) and significant (0.0452 and 0.0428; 0.0415 and 0.0128) effects on RUDV. Meanwhile, SASG was found to be highly statistically significant factor which improved the RUDV in Nigeria with coefficient values of 0.8748 on the short run and 0.5265 on the long run. However, LGGR did not exert any considerable effects on RUDV. Hence, the paper concludes that, externally generated revenues are yet to meet it desired RUDV goals in Nigeria even till date. On this wise, the paper submit that, LG administrators should pay more close attention on grants and Statutory Allocation from State Account while proceeds from borrowed funds and from the Central/Federal Account should be used for productive ends and must not be used for personal purposes.
Keywords: Externally Generated Revenue Sources, Rural Developments, Local Governments

INTRODUCTION

Revenue generation (REV) remains a major tool through which local government administrators uses to provide quality health care services (Onuorah, Barbar, & Agbogun, 2022). To further strengthen the efficacy of the REV sources, the federal government in 1976 enacted the Local Government Reform. Since then, the role of revenue generation sources in improving the level of development of LGs in Nigeria remained one of the most dominant issues in the Nigerian political system.

Orji, Worika, and Umofia (2017) opined that, the inability of the IGR to meet the development plans of the LGs in Nigeria spurred LG administrators to seek for other sources of funding. These sources are generally termed "externally generated revenue". Notable externally REV sources include Statutory Allocation from Central/Federal Account, Statutory Allocation from State Account, LG Borrowings, and LG Grants. Usually, both the state and federal government are bound by constitution to allocate funds to the 774 LGs in Nigeria at an agreed sharing formula. This is to ensure that each of the LGs in Nigeria develop at equal pace. Specifically, non-repayable donations given to LG administrators in the form of grants serve as one of the most popular externally generated revenue (Owolabi, & Awoyinka, 2020). This is because it enables LG administrators to discharge their constitutional duties particularly in the provision of certain basic amenities/infrastructure to those residing in the rural areas. Some of these

amenities include provision of pipe borne water, electricity, building of health facilities and schools (educational arena) and constructions of good road networks (Mbah, & Onuora, 2018).

Furthermore, the prevailing argument in support for and against local government borrowings (LGBR) is that, wherein local government borrowings (LGBR) are not serviced generally it becomes a debt burden which in turn reduces rural development (RUDV). However, if the debt profile is low and well accounted, it increases RUDV. This signals that, when external debts are efficiently serviced, RUDV will not be compromised (Ndubuisi, 2017; Meteke, Ehiedu, Ndah, Onuorah, 2022; Obaro, Onuorah, Evesi, & Ehiedu, 2022). By implication, LGBR is not entirely a bad economic policy.

Major critical challenges that have beclouded externally REV sources other time are attributed to mismatch between statutory functions of LG administrators and the flow of financial resources available. Another prevailing issue is attributed to dishonesty on the part of public office holders. Another indisputable/incontrovertible fact lies in the fact that, REV sources are fare below expectations possibly due to poor supervisions on the part of LG administrators.

Painstaking perusal into extant/prior empirical studies is that, most of the existing studies focused less on RUDV and are mostly either conducted at state level or the overall economic growth level. For instance, Tanko and Shishi (2020) centered on Taraba State, Owolabi, and Awoyinka (2020) focused on Ogun State while Sylvester, and Ade (2018) focused on the whole Nigerian economy. Again, Onuorah, Barbar, and Agbogun (2022) focused on Bomadi LG. The inabilities of the aforementioned empiricists to look at the 774 LGs in Nigeria constitute a major gap which the current seeks to address.

Arising the underlying motivating issues, the paper examined the effect of Externally REV Sources (Statutory Allocation from Central/Federal Account, Statutory Allocation from State Account, LG Borrowings, and LG Grants) on rural development in LGs in Nigeria.

The rest parts of this paper are structured into four (4) major sections which are (i) literature review; (ii) methodology (iii) empirical analysis; and (iv) conclusion and recommendations.

LITERATURE REVIEW

Despite the many empirical documentations devoted to explaining the concept of local government, there seems to be no universal definition of the constructs. Odoemene (2021) LG is simply a representative of those residing at the local (grass root) areas. They are empowered by law to meet the needs of those residing at the local (grass root) areas. Oluwatobiloba, Idowu, and Fadeke (2022) added that, they are constitutionally empowered to bring the state and federal government closer to those residing at the local (grass root) level. Since those at the local (grass root) level contribute over 70% of the 152 million Nigerian populations, the federal and state government should be able to meet their diverse needs. Evidently, the Nigerian LGs have passed through three (3) major historical developments which are pre-colonial historical developments, colonial historical developments, and post-colonial historical developments (Idehi & Uzonwanne, 2021) has followed very closely the pre-colonial, colonial and neo-colonial political developments. Meanwhile, the distinguishing features of LGs according to Ogah and Aliyu (2019) include: - Localness, legal existence, autonomy, geographical composition, functional powers; and departmentalization.

To boost the revenue base of LG areas in Nigeria, LG areas source for funds externally. The external REV sources include statutory allocation from the federation account, grants and loans from federal, state and other sources, and LG borrowings especially at a low exchange rate (Bayem, Ehiedu, Agbogun, & Onuorah, 2022).

Ohiomu and Oluyemi (2019) opined that, the basic tenets/principles which guides statutory allocations (SA) from the federation/central accounts are derivation principle (i.e. derivation on the basis of each state's contribution to the central account), Principle of need (i.e. derivation on the basis of states that are more endowed should be given more than states that are not); Principle of national interest (i.e. derivation should be on the basis of promoting national unity/equal level of development), and Principle of independent revenues (i.e. each states should introduce revenue/income-yielding taxes) (Egungwu, 2018). Currently, the revenue sharing formula from the Federation Account is as follows:

Table 1: Revenue Sharing Formula
(a) Federal Government (FG) = 50%
(b) State Government (SG) = 24%
(c) Local Government (LG) = 20%
(d) Special Funds (SF) = 6.5%
Total = 100%
Meanwhile, the Valued Added Tax (VAT) is also currently distributed as follows:
(1) FG = 15%
(2) SG = 50%
(3) LG = 35%
Source: Federal Office of Statistics, Benin City (2022)

Apart from the aforementioned sources, the LG administrators still borrow from funds from other states, LGs, FG, and others at a cost. Again, donors still grants aids to LGs. At the same time, the SG also grants SA to the LGs. It is therefore expected that, if these REV sources alongside the internal sources are efficiently used, the LG areas will be improved upon (Figure 1). Accordingly, rural development is therefore the improvement in the economic wellbeing and quality of life of those at the grassroots (rural) areas. These people are popularly recognized as those politically excluded and most vulnerable groups. Through the provisions of quality pipe borne water, electricity, good road networks amongst others they can be politically included.

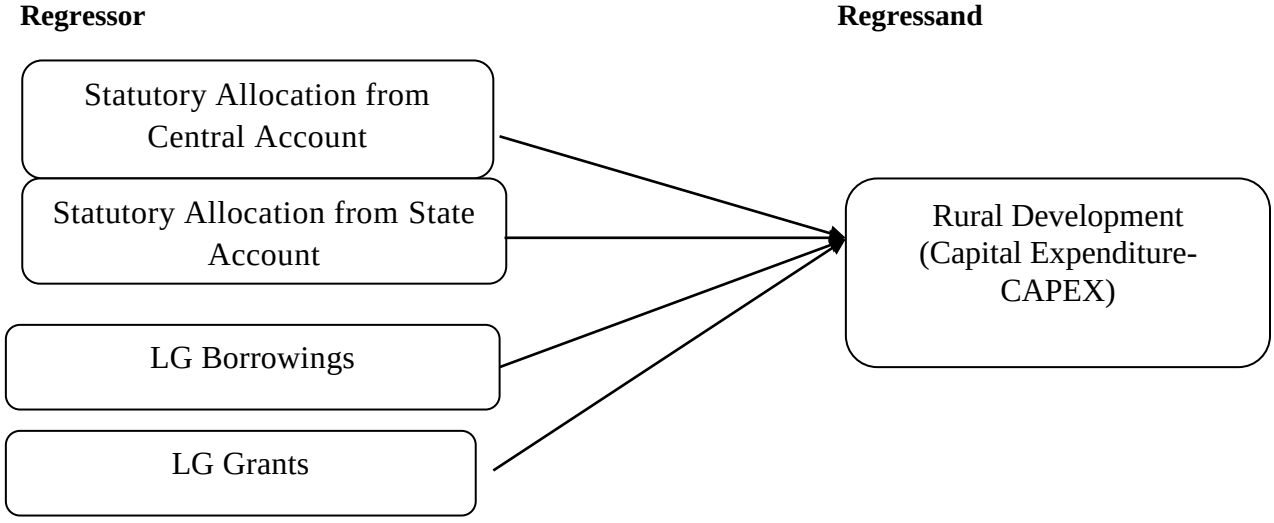

Figure 2: REV Sources and Rural Development Model
Source: Authors' Conceptualization, 2022

This study anchored on the development theory. This theory was propounded by Alexander Gerschenkron in 1951. The theorist argues that, the only way an underdeveloped LG can be developed is through the interventions of both the state and the Federal/central government.
Empirically, Tanko and Shishi (2020) examined the effect of REV on infrastructural development-IFRD in Taraba State, Nigeria from 2010 to 2019. The study reaffirmed that, allocation receipts, LGGR, and IGR improved the level of development of Taraba state to a great extent. Similarly, Konboye, Ejokor and Nteegah (2018) found that, allocation receipts, LGGR, and IGR improved the state of the Nigerian economy to a considerable extent. In like manner, Sylvester, and Ade (2018) reported that, having controlled for lending and inflation rate, allocation receipts, LGGR, and IGR improved the state of the

Nigerian economy. Conversely, Ogbonna and Osadume (2017) reported that, statutory allocations to the six (6) Niger Delta states did not improved the state of Niger Delta from 2007 to 2015.

As regards grants, Ogah and Aliyu (2021) evidenced that, it distorts the economic growth (ECG) of Nigeria from 2010 – 2015 considerably. However, Hamidu, Jelilov, Isik and Akyuz (20200 evidenced that; grants reduced the poverty index of Nigeria. Meanwhile, Isiaka and Makinde (2020) evidenced that, foreign assistance/aids reduced the level of development of Nigeria from 1990 to 2017. However, Ewubare and Ozigbu (2019) evidenced that, other development assistance bolster the level of development of Nigeria.

In regards to Getinet and Ersumo (2020) evidenced that, borrowings distorts ECG of Ethiopia while Onwuka (2021) reported that, debt burden improved the level of IFRD of Nigeria 1981 to 2020 using the ARDL Approach.

METHODOLOGY

The study patterned after the expost-facto research design since the study variables are secondary in nature and thus cannot be manipulated. The study population and sample size are the 774 LG areas in Nigeria. The sampling technique adopted is the census sampling. The study spanned from 1999 to 2021. The technique for analysis is the ARDL methodology. This technique is appropriate for series that exhibit mixed integrations. Various confirmatory tests considered are Unit root (ADF) test, ARDL Bounds (Cointegration) test, Ramsey Reset Test (RRT), AND Normality Test. The ARDL model is presented in equation 1:

$RUDV = \beta o + \beta_1 SAFA + \beta_2 LGBR + \beta_3 SASA + \beta_4 LGBR + \mu it$ ---------- (1)

βo = Constant

β_1-β_4 = Estimation parameters

μit = Error term

Note: Table 1 accounts the measurement of study variables:

Table 1: Variable Measurements

S/N	Study Variable	Symbol	Measure	Apriori Expectations
1.	Statutory Allocation from Central/Federal Account to LGs	SAFG	Annual Federal Allocations to the 774 LGs in Nigeria	Positive
2.	Statutory Allocation from State Account to LGs	SASA	State Government Allocations to the 774 LGs in Nigeria	Positive
3.	Local Government Grants	LGGR	Grants to the 774 LGs in Nigeria	Positive
4.	Local Government Borrowings	LGBR	Borrowings to the 774 LGs in Nigeria	Negative
5.	Rural Development	RUDV	Care Expenditure to all the 774 LGs in Nigeria	Nil

Source: Researcher's Collation (2022)

EMPIRICAL ANALYSIS

Table 2 presents the raw data; figure 1 to 6 presents the trend analysis, while table 3 presents the confirmatory test

Table 2: Raw REV Sources and Rural Development Data

YEAR	SAFA	SASA	LGGR	LGBR	RUDV
1999	43.87	0.42	2.27	13,656.87	18.83
2000	118.59	1.92	10.30	15,483.77	59.96
2001	128.50	1.60	15.30	18,481.66	48.66
2002	128.90	1.67	12.43	19,477.77	45.12
2003	291.41	2.12	16.82	19,706.36	150.08
2004	375.66	3.63	20.62	21,403.96	165.40
2005	493.00	3.24	21.14	24,183.79	213.46
2006	550.80	3.43	20.88	250,063.69	267.66
2007	568.30	3.00	7.51	25,363.78	143.80
2008	722.26	6.82	4.71	2,906.13	562.57
2009	529.31	19.74	31.70	63,745.92	363.00
2010	716.00	12.70	127.60	12,813.21	533.00
2011	940.03	35.21	228.98	52,450.03	352.15
2012	977.40	8.74	131.55	56,755.51	299.39
2013	1,106.97	12.79	94.01	8,290.36	392.95
2014	1,125.08	4.13	91.02	39,685.57	181.23
2015	822.87	6.88	83.21	12,027.66	95.90
2016	595.96	9.76	26.37	19,129.26	90.80
2017	828.95	12.87	14.09	220,196.64	144.07
2018	1,243.14	16.05	5.60	179,220.18	319.77
2019	1,221.74	18.35	9.84	33,325.12	316.69
2020	999.00	20.19	9.35	33,298.80	289.18
2021	1,035.22	21.93	8.88	35,000.89	314.02

Source: CBN Bulletin (2021)

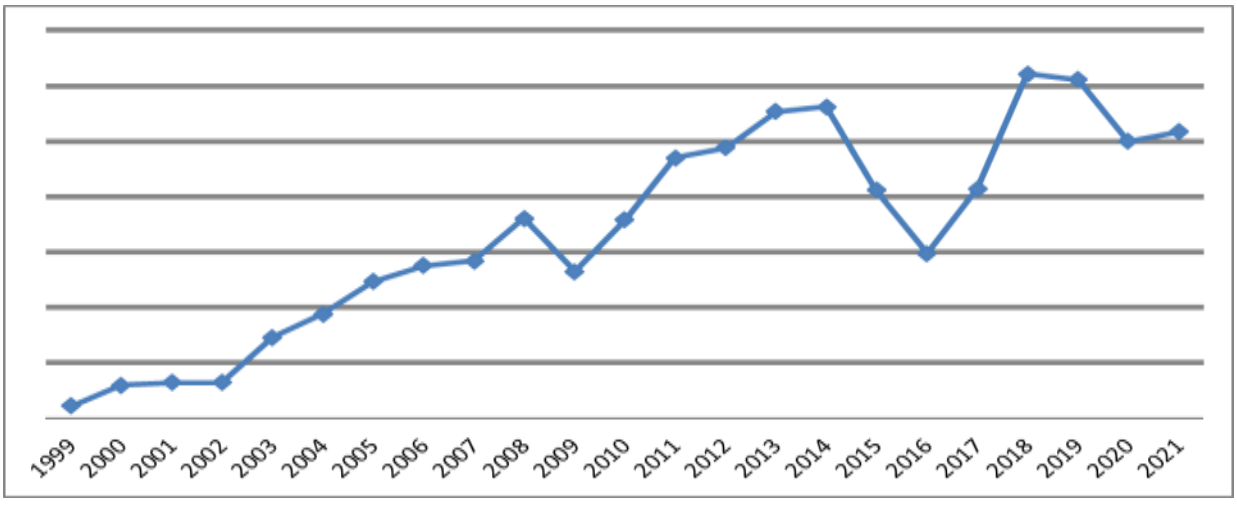

Figure 1: Federal Allocations to LGs
Source: Researcher's Collation (2022)

Figure 1 reveals that, federal allocations to LGs move in upward-downwards trends though it moved in upward trend from 1999 to 2008 but later dropped. However, it was at its peak in 2018 but later moves in zig-zag fashion from 2018 to 2021.

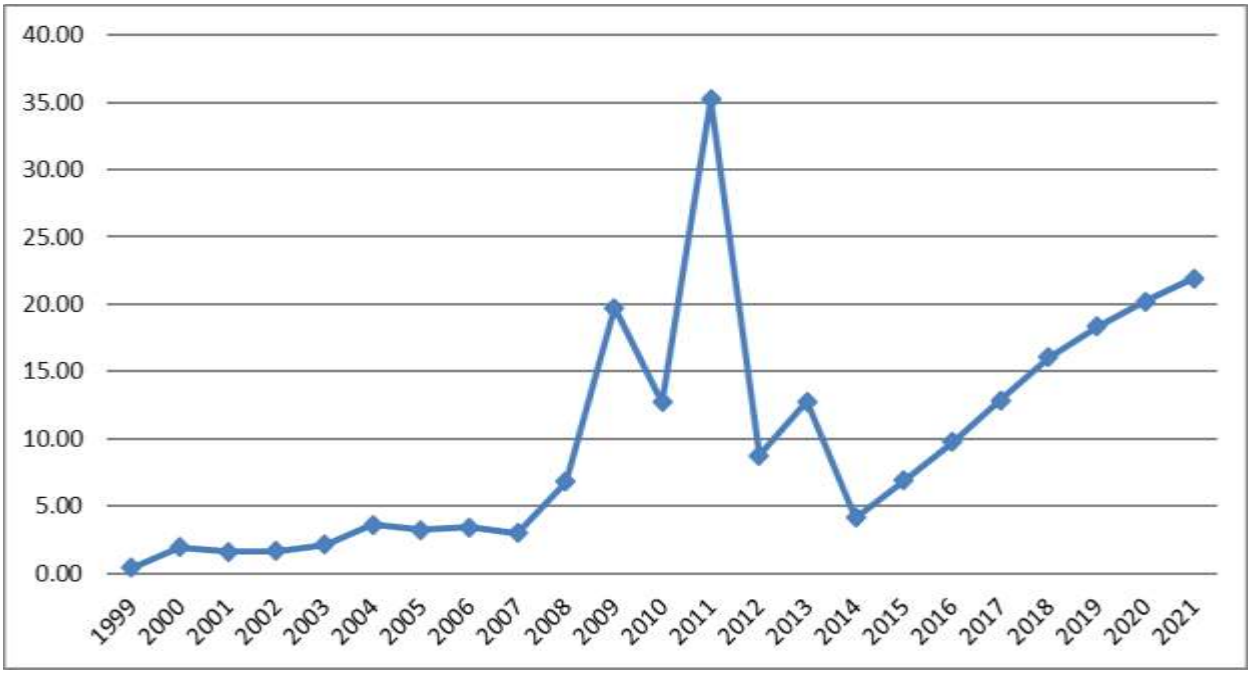

Figure 2: State Government Allocations to LGs
Source: Researcher's Collation (2022)

Figure 2 revealed that, state Government Allocations to LGs moves in upward-downwards trends though it moved in upward trend from 1999 to 2008 but later dropped. However, it was at its peak in 2018 but later moves in zig-zag fashion from 2018 to 2021.

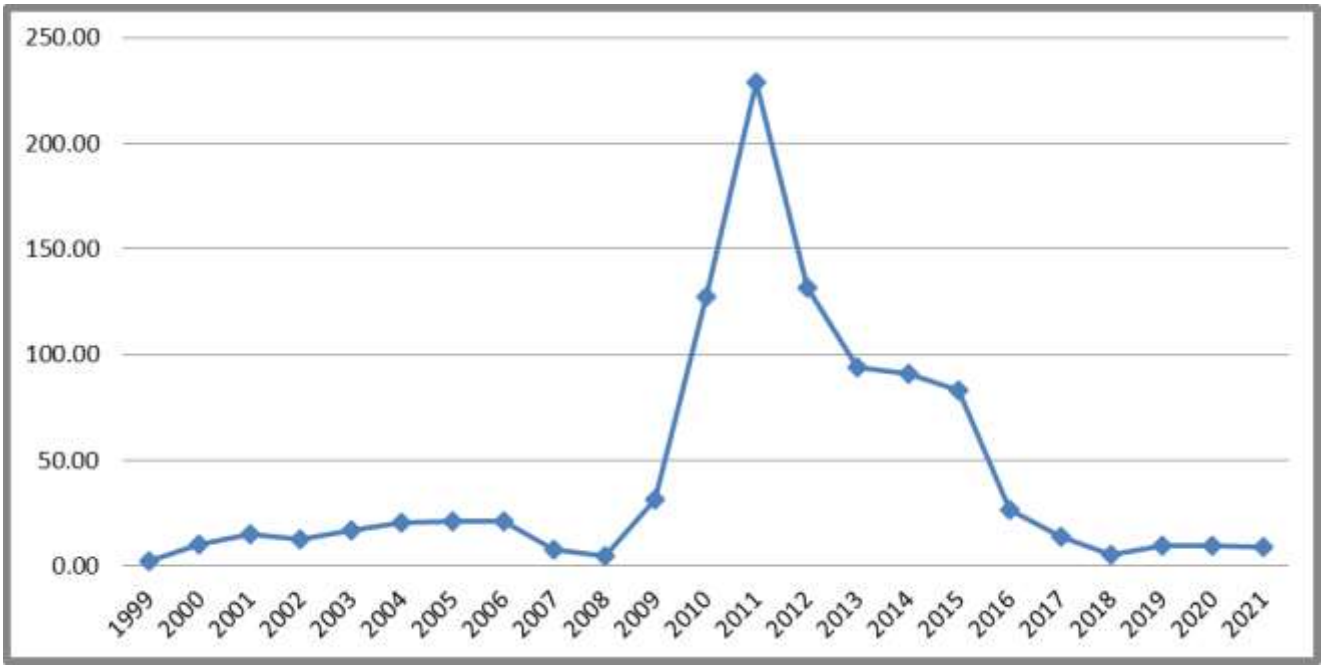

Figure 3: Local Government Grants
Source: Researcher's Collation (2022)
Figure 3 revealed that, Local Government Grants moves in upward-downward trends though out the reviewed periods.

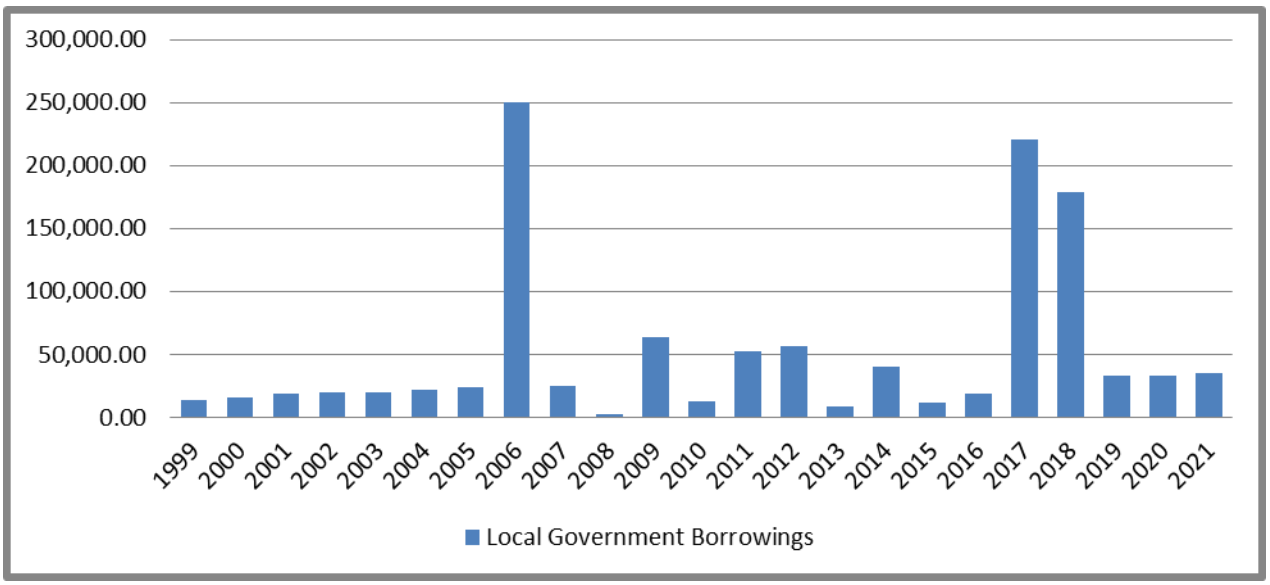

Figure 4: LG Borrowings
Source: Researcher's Collation (2022)
Figure 4 evidenced that, LG borrowings moves in upward-downward trends though out the periods reviewed. However, it was its peak in 2006.

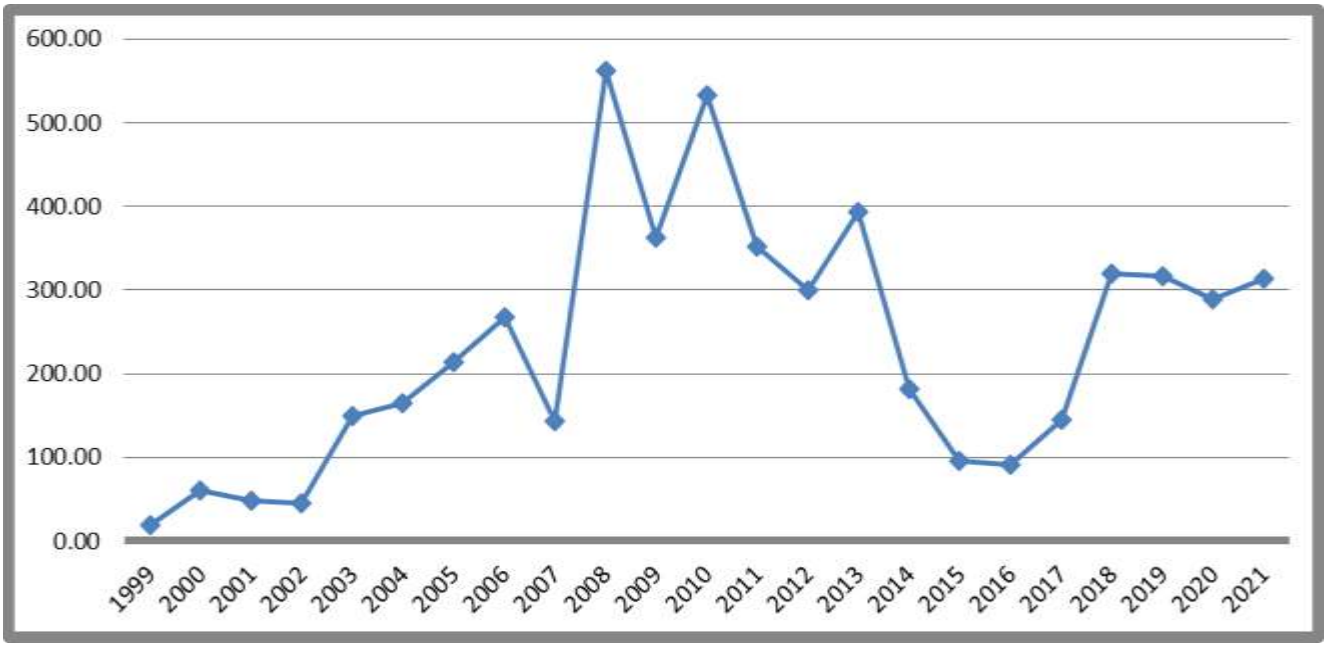

Figure 5: Rural Development

Source: Researcher's Collation (2022)

Figure 5 revealed that, rural development moves in upward-downward trends though out the reviewed periods. However, it was its peak in 2008.

Table 3: Confirmatory Test Estimates

Unit (ADF) Root Test At Levels					
Variables	**Add t-statistics**	**MacKinnon test critical**	**Prob. Value**	**Order of integration**	**Decision**
RUDV	-2.579541	-3.004861	0.1120	1(0)	**Non-stationary**
SAFA	-1.573388	-3.004861	0.4788	1(0)	**Non-stationary**
SASA	-1.132401	-3.004861	0.6827	1(0)	**Non-stationary**
LGGR	-2.267323	-3.004861	0.1907	1(0)	**Non-stationary**
LGBR	-4.495314	-3.004861	0.0020	1(0)	**Stationary**
Unit (ADF) Root Test at First Difference					
Variables	**Add t-statistics**	**MacKinnon Test critical**	**Prob. Value**	**Order of integration**	**Decision**
RUDV	-7.366991	-3.012363	0.0000	1(1)	**Stationary**
SAFA	-5.196671	-3.012363	0.0005	1(1)	**Stationary**
SASA	-8.757918	-3.012363	0.0000	1(1)	**Stationary**
LGGR	-3.515887	-3.012363	0.0179	1(1)	**Stationary**
LGBR	-7.752124	-3.012363	0.0000	1(1)	**Stationary**

ARDL Cointegration (Bound) Test						
Test Statistic	**Value**	**K**	**Significance**	**I0 Bound**	**I1 Bound**	**Decision**
F-statistic	4.12654	6	5%	2.45	3.61	Presence of Cointegration
Ramsey Reset (RER) Test				**Heteroskedasticity (HER) Test**		
F-statistic	0.138177		(1,13)=0.7161	F-statistic	0.923378	Prob. F(7,14)=0.5178

Source: E-Views 23.0 (2022)

The confirmatory tests in table 3 above evidenced that, the series exhibits mixed integrations; they are correctly specified, and Homoskedastic. This reveals that the model is valid, accurate, and reliable. It is in this wise that, the ARDL short and long run (co-integrating) estimate is presented in table 4:

Table 4: ARDL Estimates

Regressand: RUDV

Selected Model: ARDL(1, 0, 0, 0, 0, 0)
Sample: 1999 2021

Included observations: 22

Cointegrating (Long-run) Estimate				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
D(SAFA)	-0.3880	0.1803	-2.1517	0.0452
D(SASA)	0.5265	0.1981	2.6576	0.0187
D(LGGR)	0.1648	0.0921	1.7902	0.0951
D(LGBR)	-0.2324	0.1036	-2.2444	0.0415
Coint. Eq.(-1)	**-0.6018**	**0.1670**	**-3.5404**	**0.0033**
Short-run Estimate				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
SAFA	-0.4018	0.1835	-2.1896	0.0428
SASA	0.8748	0.3632	2.4090	0.0303
LGGR	0.2739	0.1969	1.3908	0.1860
LGBR	-0.4609	0.1645	-2.8011	0.0128
C	9.2164	2.7820	3.3129	0.0051
Model Summary				
R-squared	0.7980	Mean Regressand		5.2754
Adjusted R-squared	0.6971	D-W Stat		2.1615
F-statistic	7.9032	Prob.(F. Statistic)		0.0006

Source: E-Views 9.0. (2022)

The unadjusted R^2 (unadjusted correlation of determination) and Adjusted R-squared in table 4 estimated at 0.7980 and 0.6971 implies that, the model is fit for prediction, valid and also have high predictive power; the D-W Stat of 2.1615 also attests to the fact that, the model is free from auto-correlation problems while the Prob.(F. Statistic) of 0.0006 implies that, the model on the overall/aggregate is statistically significant implying that, externally REV. sources are major rural development predictors. Again, the Coint. Equation evidenced that, the model was able to converge from the past to the present period at 60.18%.

Furthermore, the ARDL estimate evidence that, in the mean-time (short run) and over time (long run), SAFA, and LGB exerted negative (-0.3880 and -0.4018; -0.2324 and -0.4609) and significant (0.0452 and 0.0428; 0.0415 and 0.0128) effects on RUDV. By implication, both SAFA, and LGB reduced RUDV drastically. This is possibly due to LGs over reliance on SAFA coupled with the huge costs associated with LGB. This deviated from the aprioiri expectations of this study.

Additionally, SASG was found to be highly statistically significant factor which improved the RUDV in Nigeria with coefficient values of 0.8748 on the short run and 0.5265 on the long run. However, LGGR did not exert any considerable effects on RUDV. This clearly revealed that, there is still much to be done on the part of the Nigerian government in this respect. This agrees with the aprioiri expectation of this paper.

CONCLUSION AND RECOMMENDATIONS

The paper established that, SAFA, and LGB exerted negative (-0.3880 and -0.4018; -0.2324 and -0.4609) and significant (0.0452 and 0.0428; 0.0415 and 0.0128) effects on RUDV. Meanwhile, SASG was found to be highly statistically significant factor which improved the RUDV in Nigeria with coefficient values of 0.8748 on the short run and 0.5265 on the long run. However, LGGR did not exert any considerable effects on RUDV. Hence, the paper concludes that, externally generated revenues are yet to meet it desired RUDV goals in Nigeria even till date. On this wise, the paper submit that, LG administrators should pay more close attention on grants and Statutory Allocation from State Account while proceeds from borrowed funds and from the Central/Federal Account should be used for productive ends and must not be used for personal purposes.

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