

GENERATING REVENUE FOR LOCAL GOVERNMENTS THROUGH THE USE OF LOCAL RESOURCES: LESSONS FOR LOCAL GOVERNMENTS IN CROSS RIVER STATE, NIGERIA

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ABSTRACT : This paper deals with the strategies for generating revenue for local government self-reliance through the use of local resources. It observes that in spite of the significant revolution in financial allocations to local government from the Federal Funds, local governments nationwide are still known to face severe financial stress in meeting their constitutional responsibilities for urban and rural populations under their jurisdiction. From the cross River state experience, local governments are observed to generate less than 5% of their revenue from internal sources. This paper analyses the dangers of local government relying too heavily on the central purse for development funds, a situation which results from very low performance in generating revenue from internal sources. It identifies critical financial resource areas from the local resource base, and proposes relevant strategies for their development, utilization and management.

INTRODUCTION

The local governments represent the most recent and potent strategy of initiating grassroots development in Nigeria. They have been so recognised in the National Guidelines for local Government Reforms of 1976 which stipulates that they be given statutory powers to perform certain functions and services which are of central concern to the rural and urban populations under their jurisdiction (Odunfa, 1986).

An important objective of the Local Government Reforms stipulated in the 1976 Guidelines and central to our theme is :

“the mobilization of human and material resources through the involvement of the members of the public in their local development” ... (Nigeria 1976).

Local governments have thus been given substantial control over local affairs as well as the personal, institutional and financial powers to initiate and direct the provision of services and determine and implement development projects so as to complement the activities of the state and federal governments in their areas of jurisdiction. Their financial self-reliance is thus imperative if rural development is to be self sustaining.

CONSTITUTIONAL FUNCTIONS OF LOCAL GOVERNMENTS

The 1979 Constitution of the Federal Republic of Nigeria standing on the heels of the local government Reforms of 1979 accords local governments the following Functions :

A. Mandatory Local Government Functions:

1. Collection of rates (including tenement rates) radio, television and non-mechanically propelled vehicle licences.
2. Establishment and maintenance of cemeteries, burial grounds, homes for the destitutes, in firm, markets, motor-parks, public convenience, roads, drains and recreation facilities (including playgrounds and parks).
3. Control and regulation of outdoor advertising, pet shops, kicks, restaurants and laundries.
4. Registration of all births, deaths and marriages.

B. Participatory Services:

1. State economic planning and development.
2. Provision and Maintenance of Primary Education.
3. Development of Agriculture and natural resources (other than the exploitation of minerals).

C. General:

Any other function that may be conferred by the state assembly. Other functions included in the draft are sewage Disposal, maintenance of feeder roads, rural health, social welfare, cooperative and crafts/small scale industries.

A number of financial provisions were made in the local government reforms aimed at their meeting with the stated obligations. Not only were local revenues required to be fully tapped

and utilized by local governments, 10 per cent of state and 5 per cent of Federal revenues were to be distributed to local governments on the basis of equality and population. This position was further improved under the revenue allocations law of 1982, where local governments were allocated 10% of federally collected revenue and 10% of state revenues (Olowu, 1985; king, 1988). Today, the fiscal allocations from the Federal to local government have been reviewed upwards as local governments now enjoy 20% of revenue from the federal statutory funds with effect from January 1992. In addition, their autonomy from state controls have been enhanced with the abolition of the local government service commission. Local governments are more than ever now required to chart their respective developmental, fiscal and tax policies along the lines of the stipulated guidelines.

It must be stated however that the improved financial provision to local governments from the federal statutory funds springs from the heels of increased constitutional responsibilities accorded to local councils. Local governments nation wide are still known to face severe financial stress with respect to achieving their objectives and meeting their constitutional responsibilities to the rural and urban populations under their jurisdiction. The following section will therefore be devoted to an analysis of the nature and problems of local government finances with a view to identifying critical financial resource areas for local governments and proposing relevant strategies for their development and management.

Structure of Local Government Revenue Sources and Problems:

Four main sources of revenue to local governments can be identified, these are :

1. Statutory Allocations : Externally controlled and regulated (from Federal and state Governments).
2. Grants : Federal and State Governments make grants to local governments outside the statutory allocations. They are usually tied to particular expenditures of programmes. The local governments that benefit are those earmarked for that assignment.
3. Loans : These unlike statutory allocations or grants have to be paid back at a later date. Loans are limited by an absence of institutional arrangements for financing Local Governments.
4. Internally Generated Revenue : Largely unexploited.

Table 1 below shows the summary of local government revenue and sources in the Cross River State. The table indicates that most local governments in the state derive less than 5% of their revenue from internal sources. Data from the internally generated revenue are presented in two sets, the budgeted estimates and the actual revenue generated. If we are to compare the two sets of data from internally generated revenue with the total revenue accruing to local governments in the Cross River State, an average of 95% of total revenue will be shown to come from external sources (Federal and State Allocations).

Table 1 :

**Summary of Budgeted revenue and sources in percentages by
local councils in cross river state**

Local Government councils	1991		1990	
	Internally Generated revenue (%)	Federal and state allocations (%)	Internally generated revenue (%)	Federal and state allocations (%)
AKAMKPA	Estimate 1.94 Actual 1.46	98.06	Estimate 6.44 Actual 4.83	93.56
CALABAR	Estimate 12.70 Actual 9.52	87.30	Estimate 15.86 Actual 11.90	84.14
IKOM	Estimate 8.08 Actual 6.06	91.92	Estimate 8.84 Actual 6.63	91.16
OBUBRA	Estimate 4.34 Actual 3.26	95.66	Estimate 3.35 Actual 2.52	96.65
OBUDU	Estimate 2.64 Actual 1.98	97.36	Estimate 2.98 Actual 2.24	97.02
ODUKPANT	Estimate 2.41 Actual 1.80	97.59	Estimate 2.69 Actual 2.02	97.31
OGOJA	Estimate 5.11 Actual 3.84	94.89	Estimate 3.60 Actual 2.02	96.40
UGEPI	Estimate 2.87 Actual 2.15	97.13	Estimate 3.45 Actual 2.58	96.55
TOTAL	Estimate 5.01 Actual 6	94.99	Estimate 5.90 Actual 4.43	94.10

Depending on the central government for such a large portion of finances has severe disadvantages. These can be itemized as follows:

1. External sources of revenue are not subject to local controls and are therefore unpredictable.
2. The political map of Nigeria is still being drawn. This dynamic state in our socio-political evolution whereby new local governments are being created with the evident prospect of more to be created sooner or later as a result of endless agitations, further proves the point that revenue from the central purse cannot be stable. This is because all local governments new or old will have to draw from the same central fund which may not be growing. The implication is that revenue accruing to each local council drops as more local governments are created, as they all must be spooned from the 20% of the Federal Statutory Fund.
3. The Federal government receives the bulk of its revenue from petroleum, any substantial adverse change in the oil market will be reflected in the revenue available to local governments.
4. A situation where local councils heavily rely on external financing which in their nature is unpredictable, fluctuating and not subject to local controls creates uncertainty in local government budgeting system. This results in difficulties in the ability of local government to initiate sustainable programmes for rural development.

Local authorities more than ever should look more and more to the local people and the resources within their regions for the generation

of revenue rather than depend almost entirely on the central government for finances.

It is pertinent at this point to look into the common sources of internal revenue for local governments with a view to highlighting their inherent problems and proposing appropriate strategies for efficient revenue generation for local councils.

SOURCES OF INTERNAL REVENUE:

The main sources of internal revenues for local government are:

- (1) General or Community Tax
- (2) Property/Tenement Tax
- (3) Local Rates/Personal Tax
- (4) Fees, Fines and Charges
- (5) Business Premises Tax

The above list is by no means exhaustive of all potential sources of tax revenue to local government. The focus in our drive to raise local government revenue should not entirely be skewed towards new sources of raising revenue but in addition should focus on devising an efficient strategy for collecting revenue from the already familiar sources. This statement can be justified on the grounds that a good number of the revenue sources stated above remain largely unexplored and consequently unexploited.

From the foregoing, six broad outlines are proposed which should constitute the basic framework in our attempt at increasing local government revenue. These are:

- (1) Improvement in the efficiency of revenue collection so that more revenue can be collected from existing taxes.
- (2) Widening the revenue base through the introduction of new charges/taxes.
- (3) Mobilizing the local population through the involvement of the members of the public in their local development.

- (4) Utilizing the available opportunities for creating investment enterprises as a drive towards achieving financial independence and self-reliance in the local government system.
- (5) Effective financial management, prudence and accountability in the local government system.
- (8) Misappropriation, misallocation and embezzlement of local government funds by some of the irresponsible council officials.
- (9) Absence of a clear cut development plan which serves as an aid to the guided allocation of resources.

The revenue generation strategies discussed hereafter should logically fall under one or more of the above categories. These must however be understood in the context of the following stated problems of local governments in their attempt towards becoming internally self sufficient in the achievement of their development objectives. These are :

- (1) Shortage of capital finance - sometimes local authorities are pressurised to meet capital projects from recurrent budgets due to the absence of capital funds.
- (2) Lean tax base significantly less than needed to finance desirable projects.
- (3) Weak rural economies that can hardly generate reliable and dependable tax due to poor earnings.
- (4) Inadequate loan facilities channelled to the needs of local governments that can be used for productive ventures.
- (5) Low calibre and poorly paid personnel resulting in low efficiency.
- (6) Corruption and exploitative tendencies of revenue collectors.
- (7) Disillusioned rural population who have no confidence that the tax so collected would be used to enhance their welfare and thus do not cooperate with the tax collection process.

The above and many more difficulties do constitute common local government problems in their attempt to becoming financially self sufficient. The next section will be devoted to exploring appropriate strategies for the generation of local revenue.

REVENUE GENERATION METHODS AND STRATEGIES FOR LOCAL GOVERNMENT COUNCILS:

Community Tax:

It has been said that an effective local government system cannot exist, where local councils have no power to impose and collect taxes (Rowland, 1979). Taxes are therefore a legitimate source of local government earnings and have been accorded such rights in the constitution of the Federal Republic of Nigeria and the Local Government Reforms of 1976.

Community or 'flat rate' tax otherwise known as "polltax" form the largest source of revenue for local authorities. Community tax in northern Nigeria is called 'haraji' and in combination with cattle tax called 'Jangali' they form 60 - 70% of total revenue accruing to local authorities. This aspect of taxation is largely unexploited in many southern states. Political councillors in particular fight shy of collecting this tax because they suspect it may make them unpopular (Ndekwa, 1980). The era is past for such naive attitude from political councillors. The local populace desperately yearning for development should be enlightened on the benefits of improving resources for development through this means of taxation.

Three fold strategies are here suggested to Local Councils to ensure maximum yield from this tax method.

- (1) The present flat rate fixed at 5.00 per head collected annually should be reviewed upwards in the light of present realities. The local governments should ensure that the payment time should closely coincide with the time convenient for the rural population in particular to pay. This is necessary because rural incomes seems to change with seasons.
- (2) Village heads, clan heads and community leaders should be involved in the collection process as they can give a fair account to every taxable adult in their areas of jurisdiction. Backed up by the relevant council officials, a nominal roll of all tax payers in their areas of jurisdiction should be compiled and annually updated. The members of the local team responsible for compiling the nominal roll and assisting in the collection of tax should be reasonably remunerated by any agreed formula from the local council. Orewa (1983) recommends that they could be made to share 5% of the actual proceeds from the year's collection made by them. This arrangement would have the advantage of encouraging such persons to place as many eligible tax payers as possible on the roll.
- (3) Poor collection of local taxes is often due to the fact that people suspect that the money demanded will not be wisely spent or may be fraudulently misappropriated or may worst of all have no relevance in solving any of their immediate or perceived developmental needs. The strategy which can be adopted by the local council to allay this fear and which is here highly recommended as a useful development strategy is to ensure that a substantial part

of the tax proceeds about 5% here suggested should be kept in the rural communities where they are generated from, to attend to their immediate needs. This will evidently have double advantage of encouraging all rural communities to have a development fund, and to be enthusiastic about paying taxes as they are sure it would be used to solve some of their immediate problems. This partly accounted for the remarkable success of the community and cattle taxation in northern Nigeria by the state governments, as 75% of the total proceeds were left in the hands of the native authorities for their development (Rowland, 1983).

In addition, a system of "matching grants" from the local government council could be tied to this fund, i.e. any amount raised by the local populace from the tax revenue particularly that which is kept back in their development account can be supported by a 100% 'matching grant' from the council to promote desirable development programmes of the various communities.

By this strategy, the local governments would be truly seen to be mobilizing the various communities towards their own development. And above all, development would be seen as a joint responsibility between the governed and the government.

Local Rates/Personal Tax:

Local rates are personal taxes imposed by each local authority for a specific service or for a project in the local community. This could be used to supplement community taxes or 'flat rates' as they are target levy or levies ear-marked for specific projects like education levy, community health projects, electricity and water projects etc. They are not likely to be resented by the

populace since they know in advance the use to which money is to be put (Mbanefoh, 1980; Orewa & Adewumi, 1979).

Property/Tenement tax :

Property taxation holds great promise in substantially increasing the size of locally raised revenues. This has supplied well over 80% of local government revenue in many parts of the world - developing countries alike. Local governments in Nigeria have been empowered by law and through constitutional provisions to collect property tax and tenement rates. It is however sad to note that many urban and semi-urban councils in Nigeria have not exploited this provision to boost their internally generated revenue. It is however encouraging to note that a number of urban and semi-urban councils in Nigeria have already set a precedence by utilizing this fruitful resource area. Councils such as Lagos, Ibadan, Port Harcourt, Benin and Enugu are in the forefront in the collection of property rates. In most of the north, including Zaria and Kano, the tax only applies to certain sections of the local government areas like sabon Garis. A Systematic strategy for collecting property taxes ought to be initiated by all local councils in Nigeria.

The land and buildings of an urban area are the basic elements that make up the physical existence of the area (Whittam, 1979). They therefore fall within the sphere of local government responsibility and should thus be incorporated into the taxing system. The benefits that stand to be derived from property taxation are as follows:

- (1) Revenue from this source is expected to grow substantially given the rising rate of urbanization leading to more structures and the rising income levels that will encourage the erection of better and more expensive buildings.

- (2) A suitable property taxation is needed to enable urban government to meet the rising demand of urban services such as street maintenance, drainage, waste disposal etc.
- (3) The stability and predictability of urban revenues are assured since property is largely immobile.
- (4) Difficulties in recovering the unpaid tax are minimized by the immovable nature of real property.
- (5) Tax goes further than income tax in ensuring that all parties who enjoy the benefits from urbanization contributes to its cost and development.
- (6) A given revenue target can be easily attained under this system of taxation.
- (7) It has logical appeal to the ordinary person as its structure can be easily understood and applied.
- (8) Property tax makes much appeal on equity grounds. Tax capacity depends on amount of wealth already accumulated.
- (9) Wealth is largely more unevenly distributed than income. Most Nigerians also do translate their wealth into landed property. Property taxation is thus a sure way of assessing the wealthy. Tax evasion is difficult if not impossible under this system.

Technically speaking, two types of property tax could be imposed and administered.

- (1) A tax on houses and buildings and
- (2) A site value tax on vacant or undeveloped plot. (Ntemere, 1985)

A tax on structures is necessary because many urban services such as refuse disposal, street and drainage maintenance etc. are site oriented and benefit property owners.

A site-value tax is on rents collected on undeveloped or vacant land. This tax serves as an incentive to promote a more efficient use of land resources. It reduces the economic rent that landlords make by speculating on land. In some urban centres in Cross River for example, there are many land speculators who have acquired large acreage for future development or to sell at higher prices as the value increases due to the rapid rate of population growth, urbanization and economic development. Such presently vacant or unused lands can be taxed not only for the purpose of generating revenue but to promote their development.

A common question that arises is that who should the incidence or burden of taxation rest on? In other words, who should pay the property tax, is it the property owner or the occupier? Whittam (1979) has provided a few useful structuring. He posits that the property tax structure should distinguish between a tax "ad rem" which is a levy on the 'thing' or property and other additional charges which may be made by local authority solely in respect of services rendered. The services themselves are of two kinds: town-planning, surface drainage and road provision are service type supplied to the property whether occupied or not. While water supply, street lighting and sanitation are benefits enjoyed by the occupants of the property. Thus three separate elements for property tax structuring can be identified.

The first two elements are the natural obligation of the property owner and in that sense make up what is termed "owner's" tax. Any change in the value of the property or in the cost of services rendered to the property accrues to the owner and should thus be reflected in the valuation of the tax base and correspondingly in the owner's tax liability. The third element can be termed the occupier's tax. This is paid

by the occupier for the personal benefits received in the property.

The main limiting factor in the application of property rating in Nigeria is its valuation and assessment. The process of placing value on property for tax purpose is called assessment and the value so placed is the assessed value.

The greatest problems local governments are likely to face in the areas of property valuation will be that of finding suitable local assessors. Employing professional assessors with career status may be too expensive. In the interim, a simplified mode of property evaluation could be adopted until resources are available for a more detailed evaluation of property. Many urban councils in Nigeria have already adopted this simplistic approach. The services of urban Geographers, Urban Land Economists and Estate Valuers could be sought for, to provide the necessary logistics.

User Charges :

User charges are charges made from the provision of public goods. They are largely unexploited tools but can be useful in achieving financial efficiency and management in government investment in facilities in developing countries. Examples are charges made from the provision of market stalls, motor parks, water services, education and public health facilities. The prospects of user charges as a revenue source are bright since many of the functions on the exclusive and concurrent lists assigned to local governments can be regarded as revenue sources. Kano state for instance in 1977/78 derived 6 and 14.3 percent of its revenue from motor parks and market receipts respectively. There seems to be little scope in applying user charges principles to services with welfare undertones such as education and health facilities. We should however concentrate on those services

which hold much prospects. prospects for generating revenue through the adoption of this principle. These are motor parks, market stalls, shopping centres, towns or conference halls etc. The following have however long been traditional sources of revenue for local governments. Although the experience of many councils show that they are run operated with minimal efficiency.

One reason for this can be traced to the inefficient and low calibre of personnels employed in collecting these revenues. In some councils, clerical Assistants, messengers and daily paid workers are given this important assignment. Check-tests carried out at various times in 1960 - 73 in a number of motor parks and markets by Government. Administrative Officers, revealed that under collection ranged from 50 to 75%. (Orewa, 1983).

In councils where these facilities are contracted out to Agencies, it is often without a pre-check-tests to ascertain the expected daily, weekly, monthly or yearly yields from such facilities. It is therefor recommended that whether these facilities are to be contracted out or directly managed by the local councils, pre-checks and test should be carried out at least for a month by competent and trusted senior officials of the local government in order to correctly ascertain the expected revenue from such facilities. It could hereafter be handed over to well trained staff or contracted out. This tests should be periodically revisited and the revenue estimates re-adjusted accordingly as a result of anticipated growth in the economy. This will be necessary if the huge financial investment on these projects will not ultimately be a sell out.

ADMINISTRATIVE REVENUES:

Much of what has been said about user charges applies to administrative revenues. These are

revenues collected in the performance of general administrative functions. They are primarily regulatory and include items such as fees, licences, permits, fines and forfeiture. Radio and Television taxes remains an unutilized revenue source by many local government councils in Cross River State. These revenue sources should be exploited without delay.

REVENUE FROM RESOURCE BACKGROUND

Local governments have been granted constitutional rights to develop agriculture and natural resources (other than the exploitation of minerals) in areas under their jurisdiction. They are thus expected to raise revenues in areas where they have relative strength with respect to proceeds from agriculture and natural resources.

Local Governments in Cross River State have good prospects for this as they are abundantly endowed with agricultural produce in food and cash crops and a sizeable forest reserves with diverse species of trees such as Iroko, Mahogany, Aphara (black and white), Opepe, Pterocarpus, Obeche, Abura Limba etc. The Cross River State is blessed with a forest reserve area of 6, 101.29 sq. kms. There are some forest trees raised by tree culture for their economic value. Examples are gmelina and eucalyptus. Other known species like coecaryon, brachystegia, albizia are also of economic value.

This position of relative strength in the natural resource endowment can be harnessed to yield sizeable revenues through appropriate taxing and direct exploitation as applicable. A few strategies are proposed.

1. Cross River State is no doubt a bread basket serving various regions outside the state. Food crops leaving the local

government territory in commercial quantities ought to be substantially taxed. The present practice where market women pay some levy on food commodities brought to the market is less desirable. It should be realised that in many villages of Cross River could be found lorry loads of plantain and banana moving out to unknown destinations almost on every market day. Wherever be their destinations, the profits the middle men derive is enormously substantial relative to the prices of the products. The local governments could thus double up in increasing and ensuring a proper collection of haulage fees on every food crop leaving their territory in commercial quantities. A reasonable evaluation scheme could thus be arrived at by council parameters and then implemented. The same principle should be applied to cash crops like cocoa and timber resources.

2. Forestry fees could be implemented if not yet in force. Every tree sawn down should attract a justifiable amount of tax. With effective monitoring of this process, a sizeable amount could be guaranteed. It is necessary to caution that the local government authorities should equally monitor the process of reforestation to ensure compliance with environmental rules.
3. The local government council could purchase modern sawing machines and set up modern Saw Mills to equally participate with other private agencies in the rational exploitation of the forest resources. The financial prospects are very bright and the demand for forest products inelastic in both the domestic and industrial spheres.

EQUITY AND INVESTMENT HOLDINGS

This is perhaps one of the most profound strategies in raising local government revenue along side with the property rating scheme. Rather than taxing property or people, local governments could operate enterprises and invest in productive activities that can ensure streams of regular income. In addition, acting in the manner of the Equity and Investment company of the Cross River State Government which is a major holding company for state government investments, they could source loans with interest to business men to take advantage of the thriving business prospects within the local and state governments.

The enterprises could be financed by 'surpluses' from the local government purse or from loans from commercial houses. The Equity and investment company of the state government successfully took off with a 30 million share capital. It would not be out of place if that for local governments takes off with at least 5 to 10 million share capital. An alternative means of financing the enterprises in the absence of surpluses and loans is by equity participation between the local government, private individuals or institutions (Ndukwn, 1980).

A string of businesses are here suggested for the consideration of the councils and they are by no means exhaustive. Some of them have been even suggested in the Part A, Table I of Guidelines to Local Government Reforms. It will therefore be profitable for local governments to go into one or more of the following :

1. Local Government Mass Transit Programme
2. Hotels and Rest Houses

3. Fuel Filling Stations
4. Agricultural Farms
5. Cottage Industries based on local raw materials
6. A Pharmacy/Drug store
7. Cinemas, etc.

Any of the above items and much more will be a useful source of revenue for Local Governments if carefully managed. The local government also stands to gain in the following areas. The enterprises operating successfully will transform the local areas, create job opportunities for the local people, and give some feeling of satisfaction from the ownership. In addition, the local government enterprises will be provided with management expertise due to the involvement of the capital market institutions.

As a matter of expediency, it is therefore suggested that an Equity and Investment Company be set up in the local governments. This will act as the central holding company for most of the commercial and productive investments embarked upon by the local governments. In addition to its being given a free hand to run strictly along commercial lines with minimal or no bureaucratic interference, the company should be armed with the relevant managerial and technical expertise and given the encouragement to explore, initiate and embark on further productive ventures as deemed appropriate. This will guarantee maximum efficiency and a high rate of returns to investments thus providing a sustainable and profitable revenue base for the Ikom local government.

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SUMMARY AND CONCLUSION

The above has been a review of the basic principles and strategies towards efficient revenue generation for local government. It begins by highlighting the roles and functions of local governments in the development process, assessed the revenue structure of local governments, their basic classification, and how they relate to sourcing capital funds for development. Furthermore, the weaknesses inherent in the revenue structure of local governments with respect to the proportion between external funds and internally generated revenue were highlighted. This became the framework for examining basic sourcing of internally generated revenue for local governments. A number of useful proposals are made dealing with the basic strategies for an efficient revenue collection system. This ranged from improving the efficiency of the already familiar revenue collection sources to exploring other new viable and reliable areas in sourcing local government revenue.

In conclusion, we propose that all these laudable methods and strategies will amount to nothing if an efficient and prudent management system is not put in place with respect to an efficient management of local government finances. A clear cut and well drawn out development plan in accordance with the development objectives of the grassroots population, their perceived needs, council programmes and estimated funds should therefore be put in place and carefully followed. This is one antidote for prudent management and guided allocation of resources for happier rural population.

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