



CHALLENGES OF REVENUE GENERATION IN LOCAL GOVERNMENT GOVERNANCE: THE CASE OF KABBA/BUNU LOCAL GOVERNMENT, NIGERIA.

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ABSTRACT

Revenue generation is the nucleus and the path to modern development. Thus, the study set out to assess the challenges of generating revenue at the Local Government level and the effect of these challenges on the overall development of the local government area. This is because local government as the third tier of government and the closest tier of government to the people needs adequate revenue to carry out its Constitutional responsibilities to the people.

Some of the myriads of challenges the Local Government Administration in Nigeria faces include the dishonesty on the part of officers collecting the revenues, the machinery put in place for collection of revenue is inadequate hence, most of the government money are not collected, tax avoidance and delinquencies and a lack of transparency and mismanagement, not to mention the cancer of corruption. That is why there is need to review these challenges, the impact and proffer solutions.

Primary and secondary methods of data collection were used to generate the needed data from Kabba/Bunu Local Government Area of Kogi State. The Finding revealed embezzlement and delay of the Federal/State allocations as some of the major challenges resulting in poor revenue generation which has in turn hindered the Local Government Administration from performing its constitutional responsibilities. The study therefore concludes that the local government should not only put in adequate measures and campaigns to increase revenue but should also provide basic social amenities that would lead to the general development of the rural area and encourage tax compliance.

Keywords: Local Government Area, Revenue Generation, Development, Nigeria, Fund, Tax, Governance

1.0 INTRODUCTION

Nigeria has three tiers of government; federal government, state government and local government. The essence of this division of government into federal, state and local levels is to enable the government exercise her administration easily and effectively. The very objective of having local representation is in order that those who have an interest in the governance of their countrymen may manage that joint interest by themselves. This is why every state finds it desirable to create local government area councils to provide and deliver local public goods and services to hasten development (Abba, 2011) and bring government closer to the people.

However, the 1979 constitution spells out the functions of each level of government. Generally, it can be said that the local government is responsible for the provision of the collective goods and services on a non-commercial basis as well as the provision of other

social and economic services. In order to meet up with the foretasted goals and services, the government needs to generate adequate revenue.

Development is a '*sine qua non*' for modern civilization. In the struggle to ensure development at all nooks and crannies of the society, the local government as the tier of government that is nearest to the people is saddled with the responsibility of direct development of the people to some extent. Development is highly associated with funds, as much revenue is needed to plan, execute and maintain infrastructures and facilities at the local government level. According to Adesoji and Chike, (2013) the needed revenue generated for such developmental projects, like construction of accessible roads, building and maintenance of public schools, health care centers, construction of bridges among others are solely generated from taxes, royalties, haulages, fines and grants from state, federal and international governments. Thus, the Local government cannot embark, execute and possibly carry out the maintenance of these projects and other responsibilities without adequate revenue generation. This is the basic reason why development is skeletal at some Local Governments in Nigeria.

1.1 STATEMENT OF THE PROBLEM

The problems that confront most local governments on revenue generation cannot be over-emphasized. These problems affect mostly its internal sources of revenue: tax avoidance and delinquencies are at the fore front as most rural dwellers device some means to ensure maximum reduction in the amount to be paid, in cases where they even pay, this is in addition to their inability to pay up amount due for rent and rates on local governments properties. Revenue generation also requires awareness creation and mobilization but most LGA Councils do not have enough vehicles, which would enable them to move easily from one part of the LGA to another for the collection of various fees.

Despite the desirability of finding out the challenges and prospects of revenue generation in the local government area, few studies have focused on such an issue

1.2 RESEARCH AIM AND OBJECTIVES

The aim of this study is to examine the challenges and prospects of revenue generation and its impact on the development of Kabba/Bunu local government area of Kogi state. The research objectives include but not limited to the following:

- To examine challenges of revenue generation by Kabba/Bunu LGA Council.
- To explain the reason for non-tax compliance by the people of Kabba/Bunu local government.
- To determine the impact of the generated revenue on the lives of the people of the Kabba/Bunu LGA.
- To examine how LGA Council members and staff of local government contribute to the challenges of generating revenue.

1.3 SIGNIFICANCE OF THE STUDY

The significance of any human endeavor is measured by its relevance to solving human problems. The findings of this study would help Kabba/Bunu LGA to identify the challenges associated with revenue generation and its impact on development.

The inhabitants of the various local government areas of the nation (Nigeria) will have the course to enjoy the affirmative results if all or part of these challenges to revenue generation in local governments are properly tackled. This will become a tool for most local government areas to set-up some strategies which will enable them to generate their revenue easily, and as well as execute their projects effectively. Finally, it will enable the researcher to have an in-depth knowledge of the study. Therefore, the significance of this study is by no virtue, exhaustive.

2.0 LITERATURE REVIEW

2.1 Evolution of Local Government Administration in Nigeria

The evolution of local government in Nigeria has under gone lots of changes. These are all geared towards making the local government a system that could serve the purposes for which they are created, before the emergence of the British Colonial/Administration; various communities in Nigeria were governed through the instrumentality of their traditional political Institutions. These institutions were anchored on the people's habits of thought, prestige and custom which are adapted to meet the new conditions for general development of their areas.

In the 1950s, election was introduced according to the British model in the Western and Eastern parts of the Country with some measure of autonomy in financial, general administration and in personnel that gave rise to tide of progress, growth and development experienced in the local government. Prior to this period, the British introduced Native Courts chaired by Chiefs, Native Treasuries where taxes collected from people were paid in for use by the local government. Native authorities were created with Traditional Rulers as the Head.

The local government Reform of 1976 provided the guidelines for local governments in Nigeria. The reform created large-sized local government areas throughout the federation based on a certain minimum population requirement, this informed uniformity. The local government was made a third tier of government, which means the local government has its own powers. There were about 301 local government councils as at 1976.

In 1986, the Babangida Administration made local government an effective third tier of federal system, introduced reforms aimed at enhancing their autonomy and strengthening their administrative framework. All elected Council Members now constitute legislative arm of the local government which the executive arm consists of the Chairman and Vice-chairman and Supervisory Councils.

The federal government established the Local Government Service Commission aimed at preserving the independence of the local government. The federal government also increased the local government share of the federation account to Twenty Percentage (20%). The 1999 Constitution of Nigeria, not only recognizes, but also guarantees the existence of a more powerful and independent LGAs. Section 162 of the 1999 constitution guarantees the right of the local government to receive statutory allocation of the revenue from both the federation account and state resource. The fourth schedule of the same constitution spells out the functions of the local government.

The federal government has since increased the local government share of the federation accounts to twenty-five percent(25%) and the number of LGAs to 774.

Kabba/Bunu Local Government Area is one of the sixteen LGAs in Kogi State. It was cast out of the old Oyi Local Government Area of the then Kwara State in August 1991. The LGA has a land mass of 8, 154m² and a population of 145,446 (NPC, 2006). The LGA is further divided into 15 wards with each ward being represented by an elected Councilor. The predominant occupation within the LGA is farming.

2.2 The Concept of Revenue Generation

The term revenue has been defined by various authors in different ways. Etuk-udo (1973) defined revenue as an income from both the fixed asset and current asset. Oladimeji (1985) described revenue as the total income generated from federal, state and local government. He stated further that what makes LGA as constitutional matter are the revenue sharing perspectives.

Adesoji and Chike (2013) defined revenue as the fund required by the government to finance its activities. These funds are generated from different sources such as taxes, borrowing, fine, fees etc. It is also defined as the total amount of income that accrues to an organization (public or private) within a specified period of time. States revenue comprises of receipt from taxation as well as those which are not the proceeds of taxation, but of either the realization from the sale of government properties or other interests and returns from loans and investment earning.

Osisami (cited in Adesoji and Chike: 421) states that there are basically two types of revenue that accrues to state governments. These are internally generally generated revenue and revenue allocated from the Federation Account. Internally generated revenue are those revenues that are derived within the state from various sources such as taxes (pay as you earn, direct assessment, capital gain taxes, etc), and motor vehicle license, among others. While the statutory allocation from Federation Account, Value Added Tax constitute the external source.

2.3 Sources of Revenue Generation in Local Governments

In an attempt to marshal out the functions of the local government, the fourth schedule of the constitution of the federal Republic of Nigeria 1999, explicitly specified some of the sources of revenue generation to the local government.

However, Ogunna (1996) posited that generally the local government has eight main sources of revenue which includes rates, grants, statutory, allocations, fees and charges, fines, earnings and profits, loans and miscellaneous.

1. **Rate**

As one of the independent sources of revenue, people residing within a local government area pay some money to it in form of rates. Rate is, thus a local tax of the local government which is of three types namely; property rate, special rate and capitation rate otherwise known as poll tax.

2. **Statutory Allocation**

As the third tier of government, the local government receives statutory allocation from the federation account just like the state and federal governments. This share of revenue is as fixed by law, part of it also comes from the mandatory state government total internally generated revenue, statutory allocation is definite and certain.

3. **Fines**

These are penalties imposed by the customary courts on individuals for the contravention of the bye-laws of the local government to regulate and control services allocated to them within their areas of jurisdiction. The revenue accruing to the local government through this source is relatively very insignificant.

4. **Earning and Profits**

These are profits, interests and premiums accruable to the local government from its investment of funds in private or public economic ventures. In other words, they are monies realized by the local government from commercial ventures and industrial establishments, such ventures include mass transit services, soap industry, bakery, Agricultural farms, shares owned in companies. If such business is effectively managed with minimum local government interference and political influences, a higher revenue could be realized.

5. Fees and Charges

Revenue is generated through payments for the services which the local government provides such fees are in some cases designed to regulate and in other cases to maintain these services. Fees and charges are imposed and revenue realized from the issuance of various types of licenses like bicycle, wheelbarrow, canoe and cart license, others are charges on bakeries, sale of liquor in restaurant and public places, erection of sign-boards, registration of births and marriages, motor parks and markets, personal identification, public urinary and toilets etc.

6. Grants

The federal and state governments often give grants called grants-in-aid, to the local government to enable it discharge its functions effectively particularly in the area of the provision and maintenance of certain basic amenities for the people like water and electricity supply, building of educational and health facilities. The four main types of grants are general or block grant, specific grants, equalization grant and matching grant.

7. Loan and Miscellaneous

Local governments are empowered to obtain loans from the federal, state and other local governments. They are also allowed to raise loans from financial institutions like bank and from individuals. They raise loans for incurring capital development projects that are within their statutory functions. While gifts and donations from individuals, philanthropists and corporate bodies form the miscellaneous sources of revenue of the local government. Finally, local government is empowered to generate revenue to enable them carry out their statutory and permissive functions. It is therefore necessary to enhance revenue generation of the local government to enable them, carry out their duties.

2.4 Functions of LGA Councils

The local government constitutes the third tier of government in Nigeria. It is in partnership with the federal and state government to engender governance at the rural level.

According to the Nigeria year book of 1981, it is believed that local government is fundamental to building a stable government not just at the state but also at the federal level through representative councils established by law, the councils exercise, specific responsibilities within defined areas. Udonsi (1978) states among other things that the local governments have wide statutory power to enable them discharge their functions effectively. He explained that the functions are discharged through the headship of different departments and supervisory councilors. He further maintains that the functions are divided into two: mandatory and permissive areas.

The fourth schedule of the constitution of the Federal Republic of Nigeria, states that the function of local government council shall include participation of such council in the government of a state “as” regards the following matters:

- a. The provision and maintenance of primary, adult and vocational education

- b. The development of agricultural and natural resources other than the exploitation of minerals.
- c. The provision and maintenance of health care services and
- d. Such other functions as may be conferred on a local government council by the house of Assembly of the state.

2.5 Spending and Control of Local Government Revenue

As stated earlier, the Constitution of the federal republic of Nigeria (1999) and bye-laws in Nigeria are explicit on the spending modalities of the council.

Local government revenues are spent on such areas as payment of staff salaries and allowances, provision of infrastructures both in the local government secretariat and other amenities for the people.

According to Hassan (2003) the financial memoranda is an important financial instrument regulating the finances of a local government. He states that the treasury of a local government, headed by a Treasurer is the engine room for all receipts and disbursements of the local government revenue. Also, Nwankwo (2003) holds that the revenue officer who is under the treasurer is in charge of revenue collection unit of the finance department. He organizes revenue collectors.

By law, all revenue and other monies due to a local government are to be received either by the cashier in the treasury or by a revenue collector who may be a staff of the local government.

The local government bye-laws in Nigeria also provide for the office and services of an internal audit. It states that there shall be established in each local government an internal audit headed by a qualified accountant to provide a complete and continuous audit of the accounts and records of revenue, expenditure, plants, allocated and unallocated stores where applicable.

From the above discussions on the spending and control of local government revenue, it is clear that if such control measures are strictly adhered to, local government revenue will be administered prudently.

2.6 The Problems of Revenue Generation

Local government in Nigeria has enjoyed improved revenue from 1976 till date due to reforms introduced by different regimes and governments, all aimed at making local government autonomous, effective and efficient in discharging statutory responsibilities to the people. The following problems have held back the local governments from generating adequate fund.

1. Mismanagement and Misappropriation of Local Government Funds

This is one of the major problems of revenue generation in local government; in most cases the local government funds have been mismanaged. Many local government officials embezzle local government funds through all sorts of manner like inflating contracts or embanking on white elephant projects or outright siphoning of funds which has affected the developmental process of LGAs.

2. Corruption

The internally generated revenue is bedeviled by corrupt practices on the part of revenue collectors. It has been observed that Revenue Collectors have in their possession, unofficial receipts; this enables them to divert local government funds into private use. Corruption manifests in the distortion of revenue return receipts, embezzlement and misappropriation of funds.

3. Over Dependency of Local Government on Federal and State Government Statutory Allocation

The local governments are over dependent on the federal and state government statutory allocation for their expenditure, both recurrent and capital expenditure. This over dependency of local government on statutory allocation of federal and state government have contributed to the financial crisis or delay in the disbursement of allocation, local government run into crisis in the payment of salaries and other recurrent expenditure. The greatest impact of this over dependency on the part of the local government is that it has killed the initiative and the ingenuity to establish independent sources of revenue.

4. Low Borrowing Capacity of Local Government

Every local government borrows money from commercial financial institution to finance capital developmental projects but the local government finds it difficult to pay their debts and as such it has become equally difficult to borrow at cheap rates or attract sufficient private investment.

5. Poor Financial Management

Arising from poor attitude to work as well as lack of integrity of revenue collectors contributes to this problem. These human related factors no doubt negatively affects development at the local government level which is the bedrock for genuine national development.

2.7 The Prospectsof Revenue Generation

With adequately generated revenue and proper management

- a. The local government can afford to provide the rural people with basic social amenities such as provision of clean water, construction of accessible roads for easy transportation, provision of a well-equipped health care centers, dispensaries, maternity homes etc
- b. The local government can ensure the extension of rural electrification to all local communities.
- c. The local government will be able to adequately and promptly pay LGA staff and teacher's salaries and provide educational materials and equipment.
- d. The local government will be able to make significant and positive contributions to increase agricultural production by introducing modernized system of farming and providing the needed support.
- e. Poverty alleviation programme of the local government can help to reduce the poverty level and ensure the total eradication of poverty in Nigeria.

3.0 METHODOLOGY

This research was conducted using both quantitative and qualitative research designs. Data was gathered using questionnaires distributed to staff and residents of Kabba/Bunu LGA Council, statistical method of frequencies and simple percentage were used for data analysis and interpretations with available literature so as to explain the underlying factors that surround the problems that triggered the research and achieve the research objectives

4.1 DISCUSSION OF FINDINGS

The finding revealed that most of the studied respondents fell within the age group of 31-40 years which shows that they are old enough to understand the concept being researched. 66.6% of the respondents think the impact of revenue generated on the development of the LGA is below average. While 50% feel the level of poverty within the local government area is very high. 66.6% of the respondents thinks that poor revenue generated has contributed to rural-urban migration.

All the respondents were of opinion the revenue can be improved in the following ways: increase in federal and state allocation, exploration of local raw materials for small scale enterprises, enlightenment of the citizens and Special grants from the state and federal government.

68% of the respondents agrees there are numerous sources of revenue available within Kabba/Bunu LGA. Over 70% of the respondents strongly agreed that federal allocation and Fines, rates, license fees and taxes are the major revenue sources of Kabba/Bunu LGA. Effective Tax Collectors was identified in this study as the best way to improve revenue generation. Embezzlement of fund by those entrusted with council fund, delay in remitting federal and state allocations and Poor banking facilities were identified as major challenges for revenue regeneration. Only 58.3% thought the revenue generated is inadequate for the provision of basic social amenities within Kabba/Bunu LGA.

From the above data, the impact of revenue generation in the local government was rated below average by the respondents, which has resulted to poor development of the rural areas. The study also found out that the revenue generation within Kabba/Bunu LGA, Kogi State was grossly inadequate for the provision of modern social amenities. Due to lack of funds, the LGA is unable to provide basic social amenities, such as accessible road, schools, portable pipe-bore water, electricity among others thus, the high level of poverty and lack of development.

5.0 CONCLUSION AND RECOMMENDATIONS

It is clear that poor revenue generation by local governments in Nigeria has affected the spread of development to all the nooks and crannies of the country. Thus, LGA councils and their management should strategically implement proper measures to combat the challenges of generating enough revenues that will enable them meet up with their responsibilities as provided by the Constitution of the country. This will enhance their financial ability to implement their constitutional responsibilities to the rural people and bring about grassroot development.

The efforts of the local government should not only be directed towards increasing revenue alone but also towards the provision of social amenities such as basic health facilities, accessible roads, town halls and clean water supply which will help to improve the socio-economic of life of the rural people.

In addition, there should be constant campaign and awareness within LGAs, to enlighten the rural people on the benefits of tax compliance and prompt payment, it will go a long way in increasing internally generated revenue.

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