

## **A Review of Revenue Generation in Nigeria Local Government: A Case Study of Ekiti State**

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**Abstract:** Local government is faced with varieties of difficulties to source adequate revenue from federal government, state government and the internally generated revenue, such problems are cogwheel to the smooth running of local government administration. They are; the dishonesty on the part of officers collecting the revenues, such as cases of printing receipts by the officers had been the major problem in releasing the expected revenues. The machinery put in place for collection of revenue is inadequate hence, most of the government money are not collected and this is in case of the internally generated funds that is while, there need to review the revenue generation in Local government in Nigeria. The objectives of the study are: to review the revenue collection in local government, to analyze the machinery of internally generated revenue, to determine the impact of revenue generated in Nigeria local government, to review the various sources of internally generated revenue. Data were collected from ten local governments in Ekiti State for this study and the analysis is through descriptive and inferential statistical methods. The descriptive analysis involve the use of percentage, tabulation and counts while inferential statistical method employs chi-square. keeping of appropriate accounting records and books (c) Supply of social and economic services: Establishment of Projects: Staff motivation: workers should be encouraged so that they can put in their maximum services and when this is done, there will be increase or solid improvement in revenue generation.

**Key words:** Machinery, estimate, tax, tariff, zero allocation, IGR

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### **INTRODUCTION**

Revenue generation in Nigeria local governments is principally derived from TAX. Meanwhile tax is a compulsory levy imposed by government on individuals and companies for the various legitimate function of the state (Olaoye, 2008). Tax is a necessary ingredient for civilization. The history of man has shown that man has to pay tax in one form or the other that is either in cash or in kind, initially to his chieftain and later on a form of organized government (Ojo, 2003). No system or rules can be effective whether foreign or nature unless it enjoys some measures of financial independence.

Local governments in Nigeria has developed over a number of years. Historically, the development of direct taxation in local government in Nigeria can be traced to the period before the British pre-colonial period. Under this period, community taxes were levied on communities (Rabiu, 2004) recently the revenue that accrues to local government is derived from two broad sources, viz: the external sources and the internal sources.

### **External sources of local government finance includes:**

Statutory allocation from the Federal Account in accordance with section 160 (2) of the constitution of the Federal Republic of Nigeria (Promulgation) Decree 1989. Statutory allocation from each state government to the local governments in its areas of jurisdiction, Federal Grants-in-aid, State-Grants-in-aid, Borrowing from state government and other financial institutions, Local Rates on markets and shops, while internally generated source of finance includes; local rates, markets taxes and levies excluding any market where state finance is involved, Bicycle, truck canoe, wheelbarrow and cart fees, other than a mechanical propelled truck, Permits and fines charged by Customary Courts Local Government Business Investment, Tenement Rate Fees from schools established by the local governments Shops and kiosks rate, on and off Liquor Licence fees, Slaughter slab fees, Marriage, birth and death registration fees.

Naming of street registration fee, excluding any street in the state capital, Right of occupancy fees on lands in the rural areas, excluding those collectable by the federal

and state governments excluding the state capital, Cattle tax payable by cattle farmers only, Merriment and road closure levy, Religious places establishment permit fees.

Signboard and advertisement permit fees, Radio and Television licence fees (other than radio and television transmitter), Vehicle radio licence fees (to be imposed by the local government of the state in which the car is registered), Wrong parking charges.

Public convenience, sewage and refuse disposal fees, Customary burial ground permits fees, Fees collected from amusement centers established and operated by the local authority and that of Tourist centers and Tourist attractions, Rents, Fees on Private Institution, Motor park levies, Domestic and licence fees etc. In spite of the above sources of revenues, Local government is faced with varieties of difficulties to source adequate revenue from federal government, state government and the internally generated revenue, such problems are cogwheel to the smooth running of local government administration.

They are the dishonesty on the part of officers collecting the revenues, such as cases of printing receipts by the officers had been the major problem in releasing the expected revenues.

The machinery put in place for collection of revenue is inadequate hence, most of the government money is not collected and this is in case of the internally generated funds.

Meanwhile, as government is the means by which the common problems and needs of a community constituting a country are economically catered for, so as local community revolves jointly those common problems and needs, which could have been difficulty to solve individually.

The very objective of having local representation is in order that those who have an interest in body of their country men may manage that joint interest by themselves. This is why every state find it desirable to create local government councils to provide and deliver local public goods and services hasten development (Olaoye, 2006) and bring government closer to the people.

**Objectives of the study:** To review the revenue collection in local government, to analyze the machinery of internally generated revenue, to determine the impact of revenue generated in Nigeria local government and to review the various sources of internally generated revenue.

**Hypotheses that are tested:** We have the null hypotheses as follows:

H<sub>1</sub> = There is no internal control measures put in place to ensure effective utilization of revenue generated

H<sub>2</sub> = There are no lay down procedures for revenue collection

H<sub>3</sub> = There is no town that is too small to approach for revenue generation

**Literature review:** The local government in Nigeria was established for the purpose of rendering services and supplying amenities to the people in both rural and urban area according to the document establishing the local government reforms 1976.

Federal government cannot perform all the activities of the rural areas by themselves, but this can only be done by the people elected in that, does not prevent or stop the federal government from implementing their roles by providing all the social amenities. such as construction of roads, provision of pipe borne water, hospitals, good education for the youth, stadium, electricity and museum etc. All these social amenities are made available from the revenue generated from the people.

Moreover, a lot has been written and said on the finances of local government in Nigeria. Most of the contributors identified inadequate finance as a major problem hindering the efficient performance of the functions of local government in Nigeria (Adedeji, 2006). In fact, the so called independent sources of revenue are not really independent because they require government authorization before they can be collected. No local authorities can increase the rate of local tax (community tax). Independently there must be legal provisions for local fees and all these are approved by government before inclusion in the estimates. Whereas, the following responsibilities are assigned to local government in Nigeria.

Economic Planning and Development, Health Services, Land use, Control and Regulation of Advertisements, Pets, Small Business Markets, Public Conveniences, Social Welfare Sewage and Refuse Disposal, Registration of Births, Deaths, Marriages, Primary, Adult, Vocational Education, Development of Agriculture and Natural Resources (Olaoye, 2008).

**Constitution of local government establishment:** The bye Laws of local government discussed under this study are based on each source of find of the local government as there are no general laws. They are:

**Tenement rate:** The law shall apply to all occupants of various premises in all towns and village that make up any local government areas as the council may by order direct from time to time. It shall be the duty and responsibility of officers of the revenue treasury department to collect the rates prescribed and payable under this law. It shall be the

duty and responsibility of the local government officers appointed for that purpose to enforce and ensure the observance of the provision and purpose of this law.

Tenement rating		
	Payable per annum	
	N	k
Local rate		
(a) Flat rate tax	50	00
(b) Electricity rate	100	00
(c) Water rate	100	00
(d) Town hall	50	00

The tenement rate charge by the rating authority shall be based on the rate-able value of the property and shall be paid by the occupier of owner for each rate period at the beginning of such rate period.

The rating areas shall be classified into urban and rural as the local government council may determine from time to time (Nigeria Local Government Bye-Laws, 1991).

**Abattoir and slaughtering of animals:** No person shall slaughter an animal meant for sale except in a public slaughter house and in accordance with the method specified either generally or especially, in respect of the animal by a health officer.

No person shall slaughter an animal for sale unless he first obtain a permit authorizing the slaughter of the animal from a person appointed by the council to issue slaughter permit.

To fees prescribed in the schedule here to shall be payable in respect of tenement of slaughter house, license/permit issued for the opening of meat shop and slaughtering of animal for sale, though each fee is subject to review from time to time to keep with the prevailing market value.

Schedule		
Fees payable per annum	N	K
Abattoir tenement	2,500	00
Meat shop license permit	2,500	00
Butcher's Registration	2,000	00
<b>Slaughtering fees per head (daily)</b>		
Cow	500	00
Sheep/goat per head	100	00

**Entertainment and blockage of road for ceremonies:** This law shall apply to all celebrants and/or organizers of social parties in all towns and villages that make up the local government areas as the council may by order determine and publish from time to time upon the payment by celebrants/organizers of social parties of the fees prescribe, the collecting officer of the local government shall endorse as appropriate and issue to the paying organizer or celebrant an authentic receipt, as evidence

of payment to be produced upon demand by the officials of the local government appointed for that purpose.

Rates payable	N	K
<b>Chieftaincy celebration</b>		
Band (Amplifier)	1000	00
Funeral ceremony band (life)	600	00
Band (Amplifier)	300	00
Closure of major road fee	5000	00
Blockage of minor road fee	1000	00
Payment for every extra 24 h of continuous road blockage	500	00

**Liquor (licence fees):** The provision of the law shall apply to all town, villages and settlement in local government area. The fees prescribed shall be payable in respect of the licenses set out under this law and may be reviewed from time to time by the council. It shall be the duty and responsibility of officers of the revenue of treasury department of the local government appointed for that purpose to collect the taxes prescribed and payable under this law.

Liquor licensing fee	
Description of license	
Application forms	300:00
All hotel liquor license	20,000:00
General wholesale license	2,000:00
Club licence	1,000:00

**Market and allied matters:** The council may establish a market at any place within the local government as it considers necessary. No person shall sell or attempt to sell any goods or animal or carry on any business or craft or act as a broker in any market unless he has paid to the council the fees prescribed.

	Urban markets (category A)	Rural markets (category B)
Lock up stall	2,400:00	1,200:00
Open stall	1000:00	600:00
Plank sheds	1000:00	600:00
Stands per day	50:00	30:00
Allocation of plots for temporary sheds	500:00	400:00

**Impacts of internally generated revenue in local government:** There are a lot of benefits people enjoy from the internally generated revenue of the local government.

- Provision of clean water for the people in the local government area
- Construction of good roads for easy movement of transportation
- Provision of a well-equipped health centre in the community to reduce the death rate of the people
- Provision of free education in the community to reduce the level of illiteracy in the society
- Stability of electricity in the community

**Ways of improving local government revenue generation:**

Many of the problems facing the generation of revenue in the local governments are those that can be corrected to improve their generation.

According to Herbert, a dependable tax base for the local authorities is essential shortage of trained valuation staff will make taxes on real property difficult to assess for sometime to come. The system of graduated tax has been in unjustifiable dispute in recent years. Olaoye (2008) also suggested the possibility of a Native Authorities' Loan Authority (NALA) as an agency to provide capital loans for the local government. However, some of the strategies for improvements are:

**Good infrastructure:** A location with good road net work will have every access to the coming and going out of the local government's cars and people, if they get to the local government's cars and people, if they get to the local government and see good roads, pipe-borne water, hospitals, schools etc. they may decide to stay (Aderinto, 2005). This will increase the number of people and business that will be paying tax and this will definitely increase the revenue generation because more people will be paying tax, if the government can provide good infrastructure for the local government, there will be more business and people will see reasons to pay tax.

**Staff motivation:** According to Henry Fayol, there are fourteen principles of management of which motivation is among the list. Henry Fayol however defined motivation as a driving force which stimulate a worker in action workers should be encouraged so that they can put in their maximum services and when this is done, there may be increase or solid improvements in revenue collection. Training of workers for knowledge enhancement should be one of such motivational factors (Adebisi, 2005). It is fervently hoped that when the above suggestions are fully implemented, the local government will not only improve internally but also with the outside world.

**Establishment of projects:** The local government should embark on the establishment of some minimize industries, which will provide employment opportunities to the people. It is happy to note that Lipakala farm industry has helped to solve some of the employment problems within the community. There should also be development and improvement in agricultural ventures like crop farming etc. the participation in agriculture will encourage the inhabitants of this local government are a to improve their standard of living.

**Revenue management:** There is a general trend going about most governmental establishment, there are

mis-management and embezzlement. The revenue so collected are mismanaged by the officer thereby not making the revenue to have any effect on the general populace of the local government.

This can be reduced by the centralization of the collection department and rotation of jobs and assignments. If a worker is occupying a particular position for a long time he tends to have all the ways by which he can fraud the department.

**Loyalty of tax payers:** If people can change their attitude of tax evasion, more revenue will be generated.

The number of people that pay up their dues (tax) as at when due are very small compare to the number of people that are suppose to pay. If the orientation can change, it will go a long way in increasing the amount of revenue that will be generated in the local government.

## MATERIALS AND METHODS

In the process of accomplishing the objectives of this study, The method used are; personal interviews, verbal interrogation (interview), questionnaires, library, textbooks, observation inspection of document, journals. The population of this study includes. The federal board of Inland Revenue (FBIR), the state board of Internal Revenue (SBIR), local government Revenue Committee (LGRC). The Joint Tax Board (JTB), Joint State Revenue Committee (JSRC). The sampling techniques method used in selecting the sample is random sampling method which is completely independent of the researcher upon the view that the sample unit that has the quality of true representative and reliability of the Universe of the study. Ten Local governments in Ekiti state were selected at randon there are; Moba, Ilejemeje, Ido-osi, Oye, Ikole, Ado, Ikere, Ijero, Aramoko and Gbonyin, Local governments.

**Method of data analysis:** Data captured for this study is analysed through descriptive and inferential statistical methods. The descriptive analysis involve the use of percentage, tabulation and counts while, inferential statistical method employs chi-square, which is used as a test of goodness of fit where the population and the samples are classified on the basis of a single attribute. It is also used for testing the respond of questionnaire and examining between two variables.

## RESULTS AND DISCUSSION

The questionnaire (appendix) has been divided into three parts (Section A-C) each section with series of structured questions. Section A consists of eight

questions in which the respondents were ask to fill in spaces provided. The respondents were asked to tick the most applicable item or items in section B and C. The information gathered from the questionnaire are interpreted below. The oral interview was properly recorded as well and the author went further to analyze the data. Some of the respondents gave similar answers, where information is lacking, the author did not make adjustment instead makes recommendations and finally conclude her opinion.

**Analysis of responses to the questions:** However, it should be noted that forty questionnaire were sent out but respondents returned thirty, local government staff were included. Table 1-6 show the data of analysis.

**Analysis of research question**

**Interpretation 1:** The performance of local government is 46.7% excellence according to the respondent, 43.3% of the respondents consented to very good while 10% said the performance was fair.

**Interpretation 2:** About 86.7% of the respondents said Local government is meeting the need of the people while 13.3% said the local government is not.

**Interpretation 3:** About 56.7% of the respondent said the services rendered by Local government to it locality, 33.3% said is good, while 10.0% said it's fairly good.

**Interpretation 4:** Half of the respondents said the people of local government area are suffering from unevenly distribution of social amenities, while half said they are not encountering such problem.

**Interpretation 5:** The economic services rendered by local government is said to be excellent by 5 respondents, 15 of the respondent said it is good, 8 said the economic services is fair while 2 respondents said it is poor.

Analysis of research questions on the local government from the staff

	Strongly		Don't	
	agreed	Agreed	know	Disagreed
There is no internal control measure put in place to ensure effective utilization of revenue generated	-	2	1	27
There are no lay down procedures for collection of revenue in Ondo West local government area.	2	1	3	24
There is no two that is too small to approach for revenue collection	30	-	-	-

The last two questions on the questionnaire reveals that the employee of local government faces a lot of

Table 1: How will you assess the revenue generation in Local government area

Responses	No. of respondents	Percent of responses
Excellent	14	46.7
Very good	13	43.3
Fair	3	10.0
Poor	-	-
Total	30	100.0

Table 2: Is local government meeting the needs of the people?

Responses	No. of respondents	Percent of responses
Yes	26	86.7
No	4	13.3
Total	30	100.0

Table 3: How can you qualify the services rendered to this locality by Ondo West local government?

Responses	No. of respondents	Percent of responses
Excellent	17	56.7
Good	10	33.3
Fair	3	10.0
Poor	-	-
Total	30	100.0

Table 4: Are the people encountering any problem in evenly distribution of social amenities?

Responses	No. of respondents	Percent of responses
Yes	15	50
No	15	50
I don't know	-	-
Total	30	100

Table 5: What can you say about the standard of economic services rendered by local government?

Responses	No. of respondents	Percent of responses
Excellent	5	16.7
Good	15	50.0
Fair	8	26.7
Poor	2	6.6
Total	30	100.0

problems on the field of revenue collection such as inability to differentiate student from others. Uncooperative attitude of landlord, inaccessible roads to the interiors etc.

Moreso, not many people pay money accrued without being forced and just few people pay voluntarily when deemed so.

**Decision rule:** The chi-square tabulated under level of significance of 0.05 @ 3 degree of freedom  $\chi^2_t = 7.82$ . Meanwhile the calculated value of chi-square is more than the tabulated, value ( $\chi^2 > \chi^2_t$ ) in hypothesis I (appendix) so we accept the alternative hypothesis which state that there is internal control measure put in place to ensure effective utilization of revenue generated.

In hypothesis II, also ( $\chi^2 > \chi^2_t$ ) that is the calculated value of chi-square is more than the tabulated value (appendix) we also accept the alternative hypothesis which state that there are lay down procedures for revenue collection.

## CONCLUSION AND RECOMMENDATIONS

The primary aim of this study is to analyze and evaluate revenue generation in Nigeria local governments. In an attempt to give such in depth analysis, the researchers decided to place emphasis on some relevant areas. The different types of revenue generation were clearly enumerated including the amount and the associated problems sometimes faced by the tax collectors were equally emphasized.

Base on the above analysis, the following recommendations are therefore pertinent for the sources of local government in Nigeria.

The researchers of this research saw good development with regards to keeping of appropriate accounting records and books. They should however, endeavour to improve on this by updating other books and record like the tenement rate, evaluation sheet and registers in respect of lock up stalls.

**Establishment of projects:** The local government should embark on the establishment of some mini-size industries which will provide employment opportunities to the people.

There should also be development and improvement in agricultural ventures like crop farming etc. the participation in agriculture will encourage the inhabitants of this local government area to improve their standard of living.

**Supply of social and economic services:** Efforts of local government should not only be directed towards the revenue yielding alone but also to the provision of social services like good wards, basic health facilities, environmental sanitation, town halls, street light, water supply etc.

These facilities should be of high quality, by doing this, the people's interest will be geared towards giving their maximum support to the governments at all facts where such cooperation is required. Once, some of their interest are taken care of, the people will feel committed to paying to the local government all revenue due from them and this will improve the revenue strength of the local government in question.

**Staff motivation:** Workers should be encouraged so that they can put in their maximum services and when this is done, there will be increase or solid improvement in revenue collection. Training of workers for knowledge enhancement should be one of such motivational factors. It is fervently hoped that when the above suggestions are fully implemented, the local government will not only improve internally but also with the outside world.

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## QUESTIONNAIRE

### Section A

#### Bio-social Data

1. SEX
  - a. Male
  - b. Female
2. AGE
  - a. 15-30 years
  - b. 31-50 years
  - c. 51 and above
3. MARITAL STATUS
  - a. Single
  - b. Married
4. RELIGION
  - a. Christianity
  - b. Islam
  - c. Traditional
  - d. Others (please specify)
5. STATE OF ORIGIN
6. LOCAL GOVERNMENT AREA
7. LEVEL OF EDUCATION
  - a. WASC/GCE
  - b. OND/HSC/NCE
  - c. HND/BSC/MBA
  - d. Professional Qualification
  - e. Others (please specify)
8. OCCUPATION/PROFESSION

### Section B

#### Information on Local Government Area

9. In your own opinion, how will you assess the revenue generation in local Government Area?
  - a. Excellent
  - b. Very good
  - c. Fair
  - d. Poor
10. Do you think that Local Government is meeting the need of the masses?
  - a. Yes
  - b. No
  - c. I don't know
11. How can you qualify the services rendered by Local Government to this locality?
  - a. Excellent
  - b. Good
  - c. Fairly good
  - d. Poor

### Section C

#### For Local Government Staff Only

12. There is no internal control measure put in place to ensure effective utilization of revenue generated.
  - a. Strongly Agreed
  - b. Agreed
  - c. Disagreed
  - d. Don't know
13. There are no lay down procedures for revenue collection
  - a. Strongly Agreed
  - b. Agreed
  - c. Disagreed
  - d. Don't know

14. There is no town that is too small to approach for revenue generation  
 a. Strongly Agreed   
 b. Agreed   
 c. Disagreed   
 d. Don't know

$$\begin{aligned} \chi^2_c &= 19.2 \\ \chi^2_c &= 19.2 \\ \chi^2_c &> X^2_1 \end{aligned}$$

Please tick whichever is applicable from the following answers.

15. What are the difficulties you encounter in the course of collection?  
 a. Unco-operative attitude of landlord   
 b. Problems of knowing those who are under age   
 c. Problems of identifying those who are student from others   
 d. Un-cooperative attitude of the people   
 e. Wrong locations of markets/motor parks   
 f. Scattered village and hamlets   
 g. Inaccessible roads to the Interiors   
 16. Please tick "Yes" or "No"  
 i. Do you keep tax payer nominal roll?  
 a. Yes  b. No   
 ii. Do many revenue payers come to pay voluntarily?  
 a. Yes  b. No   
 iii. Do you think people will pay without forcing them?  
 a. Yes  b. No

Hypothesis II:

Table	SA	D	DK	DA
Observed	0	2	2	27
Expected	0	10	5	15

	0	E	0-E	(0-E) <sup>2</sup>	(0-E) <sup>2</sup> E
SA	0	0	0	0	0
A	2	10	-8	64	6.4
DK	1	5	-4	16	3.2
DA	27	15	12	144	9.6
					19.2

$$\begin{aligned} X^2_c &= 12.1 \\ X^2_1 &= 7.82 \\ X^2_c &> X^2_1 \end{aligned}$$

REFERENCES

APPENDIX

Testing of hypotheses: It was stated in chapter three that chi-square will be used. The formula is:

$$\chi^2_c = \frac{\sum(0-E)^2}{E}$$

Hypothesis 1

Table	SA	D	DK	DA
Observed	0	2	1	27
Expected	0	10	5	15

	0	E	0-E	(0-E) <sup>2</sup>	(0-E) <sup>2</sup> E
SA	0	0	0	0	0
A	2	10	-8	64	6.4
DK	1	5	-4	16	3.2
DA	27	15	12	144	9.6
					19.2

$$\begin{aligned} \chi^2_c &= 19.2 \\ \text{Degree of freedom} &= (r-1)(c-1) \\ &= (2-1)(4-1) \\ &= 1 \times 3 \\ &= 3 \\ &\text{3 of 5\%} \\ &7.82 \end{aligned}$$

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