

## **Issues and Challenges of Revenue Generation at the Local Government Level in Taraba State, Nigeria**

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### **Abstract**

This study is aimed at examining the issues and challenges of Revenue generation at the local government level in Taraba State. Among the problems facing local governments in Nigeria today is insufficient funds to meet the required demands of its citizens and these problems emanate from poor revenue collection, tax evasion, poor record-keeping and local governments nowadays mostly depends on statutory allocation from the federation account. A fifty two items validated questionnaire was administered to the seventy-five (75) staff of some selected local government councils in Taraba state and the respondents were drawn from revenue units in the departments of Admin, Works, Primary Health and Agriculture of the respective local government councils. The time-frame of this study is five years (2008-2012). The methodology used was survey design and hypothesis was tested using chi-square. Finding were made that over dependence on the externally generated revenue (i.e: statutory allocation from the federation account), lack of accountability in revenue administration and complete absence of skilled staff that will ensure adequate record keeping are the major problems hammering revenue generation by local government councils. And this study recommended that revenue collectors should be trained and re-trained; and they should also be compelled to keep records of all collections made; as this will ensure accountability in revenue generation at the local government level not only in Taraba State but in Nigeria in general.

**Keywords:** *Issues, Challenges, Revenue generation, Local Governments, Statutory Allocation*

### **Background to the Study**

Interestingly, the source of funds for local government administrative authorities in Nigeria have continued to dwindle over the years with the ascendancy of both the central and state as the key actors in the Nigerian political economy, as a result; revenue generation by local government councils in Nigeria is relegated to the back stage. It was in light of this view that Adedokun (2012), clearly made this situation explicit by observing that the federalism of the Nigerian political structure has continued to constraint local governments' ability to mobilize and use revenue to meet their obligation in a sustainable manner. Adedokun (2012), further noted that one of the recurrent problems of the three tier system in Nigeria is the dwindling revenue generation as characterized by annual deficits and insufficient funds for meaningful growth and viable project development. And that local government is the nearest government to the people at the grassroots in Nigeria, they are strategically located to play a pivotal role in national development.

One might posit that in recent times, local government councils has failed to provide services, facilities and amenities need by the citizenry at the grassroots level and their inability is largely related to insufficient funds available to them to meet the increasing demands of the public. In particular, the expenditure requirement to meet the demand of the public at the grassroots level has been increasingly unproportionate to revenue (income) of the government. It can be seen that local government councils in Nigeria are the most hardest-hit. This research therefore, attempts to examine the issues and challenges of affecting revenue generation at the local government level in Taraba state. This work has become imperative in view of the fact that in recent time, the role of the local governments as a veritable instrument for rapid development of rural and even the urban areas have taken a center stage, but without a corresponding access to prerequisite financial resources to meet this expectation.

### **Scope of the Study**

Due to the large number of local governments in Nigeria, the researcher did not intend to cover all the 774 local government councils in Nigeria and all areas of revenue but confided the study to the sixteen (16) local government councils in Taraba State. However, in the course of the study, attention is focused on the internal sources of revenue in the local governments which includes income from statutory sources; income from permissible sources and income from incidental sources. These cut across income from motor parks, shops and kiosk rate, taxes on domestic animals, customary right of occupancy, bicycle license fees, slaughter slabs, etc. This research analyzed internal revenue generated from statutory, permissible and incidental sources in some selected local government councils of Taraba State for a period of five (5) years (from 2008-2012).

### **Literature Review and Conceptual Issues**

Buhari (2001), opined that local governments suffers from inadequate resources most prominently finance and this leads to shortage of basic infrastructures. Similarly, Balarabe (2005). As a result local governments have find it increasingly difficult to carry out their statutory and other responsibilities imposed on them because of this financial constraint. In a related development, Ude (2002) posited that as a result of low revenue generated, most local governments are underutilizing other resources of internally generated revenue, hence this leads to their absolute reliance on externally generated revenue; particularly the statutory allocation from the federation account. It is therefore on the basis of the assertions of Buhari (2001), Balarabe (2005) and Ude (2002) that literatures related to the issues and challenges of revenue generation were reviewed.

### **The Concept of Revenue**

Adams (2006), defined revenue as the funds required by the government to finance its activities. The funds are generated from different sources such as taxes, fine/ fees and borrowing. Hassan (2001) conceived revenue as tools, taxes import rates, fees, royalties rent and other receipt of government from whatever source arising over which the government has power to appropriation, including proceed of loans raises. Revenue can also be defined as income collected by public authorities with proper jurisdiction of compulsory from persons or body to finance expenditure. Ojo (1997) and Carls and Philip (1986) concurred on their conception of revenue as the amount charge through the instrument of taxation by the government to finance its activities and such sources including borrowing, fines, fees and income from public understanding, rent and royalties, etc. Dandago and Olabede (2000) describe revenue as an income require by government to finance its growing expenditures. Chapter 162 (10) of 1999 Constitution of Federal Republic of Nigeria defines revenue as any income or returns accruing to or derived by the government from any sources and these sources includes: - any receipt however derived from or in respect of any property held by the government; any receipt however derived arising from the

operation of any law and any returns by way of interest on loan dividends in respect of shares or interest held by the government in any company or statutory body.

Dean and Koleade (2010), in their contribution conducted a research on the challenges of revenue generation and were view that “the local government and state face the problems of imbalance” as their expenditure is greater than their revenue. That is about 10% of expenditure from internal revenue source while the rest of the money comes from statutory allocation from the federation account and this imbalance in recent times, seriously affect their autonomy.

### **Strategies for Improving Local Government Revenue Generation**

John (2000) posited that Nigeria as a developing country has bright future if all things being equal. The issues of the increasing of revenue generation at the local government can be said to be bright. Despite the fact that the federal government just recently increased its statutory allocation to all local government councils, as a result of this increase of statutory allocation, local governments across the country have increased the wages of its workers (via the minimum wage campaigns by the labour unions).

This calls for increase in revenue generation capacity of local governments in order to meet the challenges of increased wages for workers at the local government level. This can only be achieved through the following:

1. Increased business capacity at the local government level which will in turn give rise to higher taxable profits. Babalola, Yao and Emeka (2005) also stated that increased business capacity will increase tax collection from individuals and corporate entities.
2. Imposing penalties. The necessary penalties should be imposed on any individual that does not comply with the necessary tax provisions. Where the penalty is imposed and enforced, this will make individuals to be alive to their civil responsibility and hence could help to improve tax collection.
3. Public enlightenment:- To enable individuals to be aware of necessary tax they need to pay, the tax authorities need to engage in local government wide public enlightenment on the need to pay tax and the types of taxes they need to pay. This could be through leaflets and circulars. The used to which tax collected are put for the benefit of the local government should be disseminated.
4. Better use of Revenue Generated: Revenue generated should be properly utilized as the most complains of individuals who refuse to pay their taxes is that they do not see where the tax money goes. For example, they complain about lack of good roads, no electricity, no water etc. In order to appropriately convince tax payers, tax assessed and collected should be put to good public use in order to justify tax payment.
5. Technology: Tax authorities need to improve on the use of technology in their various offices. Instead of maintaining manual files in the offices that takes ages to locate when needed, computer systems should be procured to maintain the records of the tax payers. This will make retrieving information faster and quicker.
6. Local governments must be given all the political power to enable them formulate and implement programmes of socio-economic and political development as desired by the local populace whom they owe their service to.

7. Qualified accounting personnel should be appointed into local government councils. The politics of God-fatherism should discourage. Staff should be appointed on the basis of knowledge and experience (merit). Also hard work and achievements in taking the local government to higher level of performance should be adequately compensated.
8. Audit Alarm should be given its proper place in the local government settings. Any acts or commission of fraud should be exposed immediately and a whistle should be blown in that direction. In addition, anti-corruption and other related offences agencies must also be kept abreast of such developments in local government councils in Nigeria.

### **New Sources of Revenue Generation at the Local Government**

Local governments in Nigeria have enormous responsibilities to perform. These include the mobilization of local resources, promoting social and economic development as well as national integration. In addition, they are expected to carry out regional policies with respect to agriculture and selected industries, thereby helping to ameliorate unemployment Obinna, (1988). Ojo (2009) added that local governments should revolve round revenue generation, budgeting development planning, provision of services and community mobilization on new source of revenue generation such as investment in raw materials development and production. Local governments can individually or jointly produce large quantities of raw materials for industries operating in Nigeria. Solid Waste Recoveries and use for Agriculture: They should encourage the mobilization of solid organic waste mater for Agricultural production, as this would be a potential source of generating revenue for local governments. Financial investments: Local governments should not shy away from making financial investments. This is a potential source of generating more funds. Individually or in collaboration with others, they should mobilize resources required to initiate ventures like building of bakeries, petrol filling stations, block-making industries, car dry cleaning facilities, recreation centres and transportation services.

### **Challenges of Revenue Generation at Local Government**

Ezejeule (2001), Identified some challenges in revenue generation at the local government level in Nigeria. Ezejeule (2001) further opined that the number and caliber of personnel to oversee the operations of local governments in Nigeria is grossly inadequate, as most of the revenue committees of local governments are understaffed, the qualification and experience of existing staff are nothing to write whom-about. Short (1997), observed that some of the challenges in revenue generation at the local government level is that most revenue collectors (and indeed officers) use fake receipts or under asses the tax payer in order to short-charge that revenue source. In the same vein, Bello (2001) noted that revenue generations of

local governments are grossly inadequate due to poor records. As earlier stated, there is shortage of well trained and qualified personnel and the few available are not properly trained.

Another challenge is the problem of siphoning collected revenues into private pockets or failure to remit the generated revenue in good time, as this give room for non-remittance of revenue within the local government system. Similarly, local government accounts are not properly kept and monies meant for the local authorities are not properly accounted for. In fact, monthly subventions from the federation account are viewed by most council chairman and councilors as part of their share of the national cake. Consequently, no body raises any audit alarm so long as the money goes around every month. This situation is worsened by most stated governors who see local government as extension of their political and administrative domain. In fact, since the governors and others top party leaders, in most cases “put them in office”, the governors believe that chairmen of local government councils owe them a duty to 'deliver' whatever their monthly subvention are to them to partake in how they are appropriated. We have cases where deduction are mandatorily made from local government accounts in the name of taking their own share of counterpart funding, by the state governments to fund their own projects. In some cases such deductions end up in either the ruling party purse, groups or individual private pockets.

Corruption has also taken the central stage in most local governments. This tendency is obviously a national malady. Most internally generated revenues do not go to the local government account. It is viewed by patrons of ruling parties as their political reward for faithfully enabling the party to win or remain in office.

### **Materials and Methods**

In achieving the objectives of this study, the materials and methods used are briefly highlighted below:

#### **Population of the Study**

The population of the study was drawn from the number of Revenue Collectors in Six Local Governments Areas of Taraba state. The sample for the study is made up of 600 Revenue Collectors selected from Sardauna, Gassol, Ardo-Kola, Zing, Donga and Takum LGAs. A total of 600 questionnaires were distributed and only 398 were returned, representing a response rate of 66.3%. The research was conducted between 5<sup>th</sup> July, 2014 to October 25<sup>th</sup> 2014. From the collected 398 responses, 72 were from Sardauna, 75 from Gassol, 65 from Ardo-Kola, 58 from Zing, 66 from Donga and 62 from Takum LGAs. These local Governments were selected purposively for their significance in internal revenue generation. However, a stratified sampling

method was used in selecting them as the LGAs in the state were first classified into three strata; i.e: according the three senatorial districts. From each senatorial district, two (2) LGAs were selected, to enhance even spread and coverage of the LGAs in the state. For the purpose of this study a total numbers of sixty (60) staff of the revenue units constitute the population of this study as shown in the table below.

### Technique for data Analysis

In research, there are many tools for analyzing data collected among which is correlation analysis, Regression analysis, Variance analysis, Simple percentage, Inferential statically tools but simple percentage and chi-square will be used for this study because it will give a better interpretation of the results and finding, while the hypothesis will be tested using chi-square. 5 points likert scale is used for rating the responses thus: 1= Agree 2= Disagree and 3 Undecided with the number of statements in the questionnaire.

$$\text{Formular} \quad X^2 = \sum \frac{(F0 - Fe)^2}{Fe}$$

Where        Fo =    Observe frequency  
                  Fe =    Expected frequency  
                   $\sum$  =    Summation Notation.

**Source:**        **Monga (2002)**

### Data Presentation and Analysis

The researcher based the data presentation analysis and discussion of this study on the data collected from mainly questionnaire distributed to the employee's of Zing Local Government Staff Revenue units and oral personal interview conducted to cross check fact obtained from the other data source. Out of fifty two (52) questionnaires distributed forty (40) were recovered and the remaining twelve (12) were not returned. The analysis will be based on the number of the questionnaire that were returned that is forty (40) data analyzed through simple percentage and pie chart. The questionnaire use for the study is classified as data presentation.

### Presentation of Data

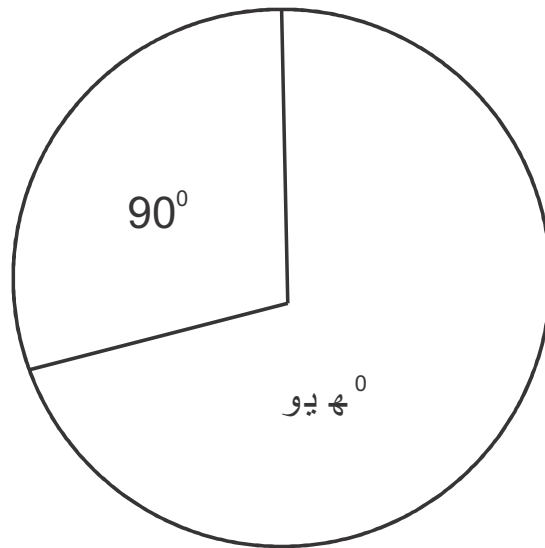
The data was presented using descriptive statistics, where tables and pie-chart were applied. The analysis was based on the number of the questionnaires that were completed and retrieved which was analyzed through simple percentage and pie chart.

**Table 4.1: Distribution of Respondent by Bio Social Data**

Sex Variable	No of Respondent	Percentage	Degree (O°)
Male	30	75	270
Female	10	25	90
<b>Total</b>	<b>40</b>	<b>100</b>	<b>360</b>

Source: Field Survey, 2013

**Figure 4.1 Pie Chart showing the degree of responses**



About 75% or 270° are man and 25% or 90° are woman, the analysis shows that man are more than women in the local government Revenue units.



**Table 4.2: Chi-Square Test Computations**

FO	Fe	(Fo-Fe)	Fo-Fe) <sup>2</sup>	(Fo-Fe) <sup>2</sup> /Fe
36	31	5	25	0.81
32	31	1	1	0.03
30	31	-1	1	0.03
26	31	-5	25	0.81
4	5.75	-1.75	3.96	0.53
4	5.75	-1.75	3.06	.053
5	5.75	-0.75	0.56	0.09
10	5.75	4.25	18.06	3.14
4	3.75	0.75	0.06	0.01
5	3.75	1.75	3.06	0.94
4	3.75	0.25	0.06	0.01
<b>Total</b>				<b>6.93</b>

**Source: Researcher's Computation, 2013**

From the calculation above it could be observed that the calculated value (6.93) of the testing statistics is less than the critical value 12.592. Since the calculated value is less than table value the null hypothesis should be accepted which means there is no challenges of Revenue generation at the local government Revenue unit.

**Hypothesis II**

There is no effort of Revenue generation at the local government.

In testing the above hypothesis table 4.12 was used and the component of the table as displayed below.

Ch	C <sub>o</sub>	(C <sub>o</sub> -Fe)	(C <sub>o</sub> -Fe) <sup>2</sup>	(C <sub>o</sub> -Fe) <sup>2</sup> /Fe
		1.25		
		6.25		
		1.75		
		1.75		
		0.75		
<b>ΣC<sub>o</sub><sup>2</sup></b>				

Source: Researcher's Computation, 2013

### Hypothesis III

There is no Accountability of Revenue generation at the local government level. In testing the hypothesis

Table 4.13 Was Used and the Component of the Table as Displayed Below:

FO	Fe	(Fo-Fe)	Fo-Fe) <sup>2</sup>	(Fo-Fe) <sup>2</sup> /Fe
34	31.5	2.5	6.25	0.20
30	31.5	-1.5	2.25	0.07
26	31.5	-5.5	30.25	0.96
38	31.5	6.5	42.25	1.34
4	6	-2	4	0.66
5	6	-1	1	0.17
9	6	3	9	1.5
4	6	-2	4	0.66
2	3	-1	1	0.33
5	3	2	4	1.33
5	3	2	4	1.33
<b>Total</b>				<b>8.55</b>

Source: Researcher's computation (2015)

Table 4.14 Local Governments Internal Generated Revenue for Five (5) Years

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a arriage/Birth and 5 ó Ē ŷ° ě/A Ē ĀŌ	30,000	20,000	60,000	40,000	50,000
Liquor licence fees	20,000	10,000	60,000	45,000	50,000
Radio and Television fees	30,000	25,000	80,000	69,000	70,000
Right of occupancy	70,000	50,000	100,000	80,000	95,000
Market stall fees	100,000	90,000	140,000	110,000	130,000
Domestic animal fees	13,000	12,000	20,000	15,000	17,000
Lorry passing charges	20,000	19,000	25,000	22,000	25,000

Advertisement permit	30,000	25,000	30,000	30,000	35,000
Shops & kiosks rate	15,000	10,000	25,000	20,000	19,000
Cattle tax	30,000	20,000	50,000	50,000	48,000
Tankers permit fees	20,000	15,000	30,000	20,000	25,000
<b>Total</b>	<b>548,000</b>	<b>354,000</b>	<b>700,000</b>	<b>538,000</b>	<b>619,000</b>

**Source: Zing Local Government Treasury (2015)**

From the above table shows that clearly that revenue generated from 2008-2012 increasing and decreasing throughout the period, due to the problems emanate from poor revenue and collection, and the generated at the local government caused by major factors such as Tax Evasion and Avoidance, poor record keeping of revenue collected, on the issue of decreases in revenue generated from various sources, some source were neglected due to inadequate manpower, other reasons for the decrease are that the tax payer in adequate records of their transactions, the amounts spend in the process of collection sometimes exceed the actual amount of revenue to be generated which regards to rent on land and governments properties some government officials make use of government properties without making any payment, this leads to decrease in revenue generated from this sources. Another reason raised by prior researchers, such as Adam (2005) in the character of Revenue Collectors, qualification and also inadequate records of tax payers that affect the actual collections some revenue collectors are not acting in a good faith some are not even qualified to be in that position.

**Table 4.15 Local Government External Generated Revenue for Five (5) Years**

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**Source: From Zing Local Government Treasury**

The above table clearly shows that the External Generated Revenue from the Federation Account Allocation from 2008-2012 are not consistently increasing throughout the period, there is increased and decreased like 2009, there is increase of N567,6098.18 and 2010 there is decreased of N156,118.35 from the above table it shows that not constantly, consistently increasing.

**Table 4.16 External and Internal Generated**

S/NO	Year	Internal	External
1.	2008	548,000	484,263,163.5
2.	2009	354,000	595,563,246.9
3.	2010	700,000	583,973,214.8
4.	2011	538,000	535,408,789.4
5.	2012	619,000	542,809,059.4

**Source: Zing Local Government Treasury.**

The above table clearly shows that the internal generated revenue is insignificant, nothing to write about, and it cannot be compared with the external generated revenue, which the local government is solely depend on external source of revenue this also among other reasons leads to the underutilization of internal source is something Revenue collectors possess inadequate skills, qualifies and experience to locate, assess and collect revenue. There are among the major reasons why local government is not achieving its target on internally generated revenue.

**Summary**

This project has been divided into five chapter, chapter one deal with introduction of the study, (project) it also discuss in brief among others the statement of the problems, mains objectives, Research Hypothesis, Research questions, Significance of the Study, Score of the Study, it cover period of five years (2008-2012) and limitation. Chapter two centers of the literature review and concepts of Revenue Adam (2006) defined revenue as the funds required by the government to finance its activities. In chapter three the study choose survey research design and the sample size was fifty two (52) Respondents out of which forty (40) were selected. Both primary and secondary data were used questionnaire with 40 items validated were administered. In chapter four data were presented in a tabular form analyzed using liker scale 1,2,3 simple percentage pie chart chi-square and interpretation made accordingly.

## **Conclusion**

Based on the forgoing discussions and analysis of the various source of the revenue in Zing Local Government, the researcher conclude that there is challenges facing revenue generation among them are over depending on the externally generated revenue, in adequate records keeping by tax payer and revenue collectors, Tax evasion which make the revenue base of the local government to be insufficient.

## **Recommendations**

Based on the conclusion reached the following recommendations will assist in no small measure in reviving the issues and challenges of Revenue generation at the local government level.

1. Tax payer should be encouraged to keep records of their transactions up to date Revenue collectors should also keep records of all collections made, this will ensure transparency and accountability in the local government.
2. Financial control should be checked to ensure its standard and soundness in all Revenue sources.
3. Competent and qualified staff needs to be employed by the local government to ensure maximum collection of Revenue, those that have technical knowledge of locating assessing and collecting and accounting for revenue collected should be recruited. Training of staff should be institutionalized in all the revenue units in the local government.
4. The issues of problems of Tax Evasion and corruption needs to be addressed in the eyes of revenue officers as well as collectors. They should be people of integrity, honest and God fearing, all this can be done through organizing seminars, workshop on ethical issues in revenue generation.

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