

CHECKMATING THE INTERNALLY GENERATED REVENUE (IGR) COLLECTION PROBLEMS IN OGBOMOSO SOUTH LOCAL GOVERNMENT

Adeoti, Johnson O. Ph.D.

Department of Business Administration
Faculty of Management Sciences
University of Ilorin, Ilorin Nigeria
drpastorjoadeoti@yahoo.com, 08035846546

Olawale, Y.A.

Department of Business Administration
Faculty of Management Sciences
University of Ilorin, Ilorin Nigeria
olayinus4sure@yahoo.com, 08035929883

Asabi, Oludele Matthew.

Department of Business Administration
And Management,
Osun State College of Technology, Esa-Oke
asabidele@gmail.com, 08033627672

Abstract

The study addressed the challenges faced in the collection of internally generated revenue in Ogbomosho South Local Government of Oyo State, by examining internally revenue generation problems. Also, it determined whether or not some factors such as mobility, level of Education of public, Government presence in terms of project and misappropriation of fund by enforcement agents etc. have significant relationship with internally generated revenue. Questionnaire was administered to one hundred and fifty staffers of Ogbomosho South Local Government as respondents. The Data was analyzed using Linear Regression Statistical Method.

The finding of the study revealed that mobility is (28.0%), level of education is (91.3%), government presence in terms of project is (81.8%) and misappropriation of fund by enforcement agents of (90.4%) had direct bearing on internally generated revenue of Ogbomosho South Local Government. All the tested hypothesis were significant at p value of 0.05. It is concluded that expenditure assignment should match with revenue generation powers in order for local governments to discharge their functions effectively. The study recommends that the management of Ogbomosho South Local Government should pay serious attention to those factors that can engender internally generated revenue in the interest of their revenue collection performance.

Introduction

The federal structure in Nigeria constrains Local Government's ability to mobilize and use revenue to meet their obligation in a sustainable way. Local government system as the third tier of government deserves adequate

finance to enable it cope with numerous developmental activities within its jurisdiction.

One of the recurrent problems of the third tier government in Nigeria is dwindling revenue generation as characterized by annual budget deficits and insufficient funds for meaningful growth and viable projects development. Local Government are the nearest government to the people at the grassroots in Nigeria, they are strategically located to play a pivotal role in National Development. Since they are responsible for the governance of about 70 percent of the population of Nigeria, they are in vantage position to articulate the needs of the majority of Nigerians and formulate strategies for their realization.

This paper therefore examines checkmating the internally generated revenue collection problems in Ogbomosho South Local Government.

The development in the local government in Nigeria particularly in Oyo State is bedeviled with a lot of intractable problems. These problems ranges from stiff opposition on the part of the public to the enforcement agent and outright beating since the enforcement agent does not have the power to arrest dissidents. This paper investigates these difficulties in internally generated revenue collection by examining the factors that is dominant in terms of obstacles and proffers a solution to overcoming them. The objective of this study is to examine the constraints to the internally generated revenue collection in Ogbomoso South Local Government.

Literature Review

Conceptual Framework of Local Government

Local government system in Nigeria needs a moderate amount of financial autonomy to be able to discharge its responsibilities effectively. Public revenue decentralization occurs when lower tiers of government have statutory power to raise taxes and carry out spending activities within specified legal criteria. This is referred to as the overlapping. Authority model propounded by Deils Wright (1978) on inter governmental relationships. Public revenue decentralization occurs when much of the money is raised centrally but part of it is allocated to lower levels of government through some revenue sharing formula otherwise known as administrative decentralization.

The main reason for decentralization is anchored on allocation sharing or efficiency grounds so it is possible to advance argument for decentralization in Nigeria where there are many ethnic groups.

Oates (1993) contends that “there are surely reasons, in principle to believe that policies formulated for the provision of infrastructure and even human capital that are sensitive to regional or local conditions are likely to be more effective in encouraging economic development than centrally determined policies that ignored these geographical differences” There is great relationship between decentralization and economic growth and behavior for economic fundamentals within the decentralized jurisdiction is a matter that remains an empirical issue and discussions must be country specific.

Kim (1995) quoted in Oates (1996) has shown that in his mode of explaining rates of economic growth, revenue decentralization that there are positive and statistical significant change using a sample of countries. His results also shows that, other things being equal, more public revenue decentralization was associated with more rapid growth in GDP per capital during 1974 – 1989 period. Prud’ home (1995) on the other hand, argues that decentralization can increase disparities, jeopardize stability, undermine efficiency and encourage corruption. He maintains that local authorities, for example, have few incentives to undertake economic stabilization policies. The instrument of monetary and public revenue policies are better handled by the central government.

Oates (1993) opines a contrary view that the principles of centralization is costly because it leads the government to provide public goods that diverge from the preferences of the citizens in particular areas (regions, provinces, states, local government)

He also argues that “when these preferences vary among geographical area, a uniform package chosen by a nation’s governments is likely to force some localities to consume more or less than they would like to consume.

According to Tanzi {1995} the interpretation of both Oates and prud’ home assumes that subnational government levels already exist hence the crucial problem becomes which of the existing government levels ought to be responsible for particular forms of spending.

The function of government can be divided into three allocation, distribution and stabilization function {Musgrave 1959} using this stratification, stabilization and distribution functions are expected to be under the peripheri of the central government while lower government undertakes allocative functions. Hence, any spending and taxing decisions that will affect the rates of inflation, level of unemployment, e.t.c. are better handles at the centre, while other activities that will affect social welfare are more efficient if under taken by subnational governments.

Recent development shows that 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.

Conceptually, the scope of benefit is the basis for allocating responsibilities governments. Public goods and services which are national in nature (Foreign affairs, environment, immigration and defense) should be provided by the central government while those whose benefits are mainly localized should be assigned to the lower levels of governments.

Quasi-private goods or intermediate goods and services such as administration, health and welfare services should on account of efficiency delivery, be assigned to lower levels of government Vincent O. (2001).

To reduce the gap between tax power and responsibilities, low types of revenue sources are allocated to each tier. These are independent revenue sources and direct allocation from the federation to which centrally collectable revenue are paid. Local government also receives allocation from state internal revenues. An agreed formula for vertical revenue sharing is used in sharing fund from the federation account. Another key issue in the practice of public revenue mobilization in Nigeria is how to distribute the bloc share from the federation account among the constituent units of each tier i.e among the 36 states and the 774 local governments. This is called horizontal revenue sharing.

In Nigeria, there are four categories in the vertical allocation list- federal, state, local government, and the special fund. The allocation to the Federal Capital Territory (FCT) is administered by the federal government.

Local Government Finances and Revenue Utilization

Public revenue generation is one of the most keenly contested issues in Nigeria. A comprehensive review of the report of the various commissions and government policies from the 1946 Philipsons Commission to the activities of the National Revenue Mobilization, Allocation and Fiscal Commission established in 1989 could be found in Kayode (1993), Emenuga (1993) and Ekpo (1994).

Local Governments in Nigeria receive statutory allocation from the two higher tiers of government (federal and states). At the present, revenue sharing formula, local government receives 20 percent from the federation account. They are also statutorily entitled to 10 percent of states internally generated revenue. As regards to Value Added Tax, local governments receive 30 percent in 1998. This was shared to local governments on the following basis: equality (50 percent): population (30 percent) and derivation (20 percent). In 1999, local governments received 35 percent of the VAT proceeds.

The federal government controls all the major sources of revenue like import and excise duties, mining rents and royalties, petroleum sales tax, petroleum profit tax and companies income among other revenue sources (see table 1). Local Government taxes are minimal hence this limits their ability to raise independent revenue and so they depend solely on allocation from the federation account.

Much of the revenue collected by the federal government and distributed among the federal government and distributed among the different tiers of government using the vertical allocation formula is from the federation account. But the federal government seems to exercise too much control over its distribution. So many deductions are made from the total revenue collected before the rest is distributed according to the sharing formula.

Table 2 summarizes Federal allocation to local government for the period 1976-1997

The Federal allocation showed steady increases during the periods. In nominal terms, the allocation which stood at N100 million in 1976 jumped to N352.6 million in 1980, reflecting a compound growth rate of almost 29 percent. During the structural adjustments programme (SAP), Federal allocation to local governments increases remarkably by 45.7%. this jump could be as a result of the increase in the number of local government.

Table 1: Jurisdiction of major taxes in Nigeria 1990

S/N	Type of tax	Administration and collection
1	Import duties	Federal
2	Excise duties	Federal
3	Export duties	Federal
4	Mining and royalties	Federal
5	Petroleum sales and profit tax	Federal
6	Companies tax	Federal
7	Capital gain tax	Federal/States
8	Personal income tax(other than listed in 9)	States
9	Personal income tax: armed forces, external affairs officers, on-residents, residents of the capital territory and the Nigerian police.	Federal
10	License fees on television and wireless radio	Local
11	Stamp duties	Federal/States
12	Capital transfer tax (OTT)	States
13	Value added tax	Federal
14	Pools betting and other betting taxes	States
15	Motor vehicle and drivers' licenses	States
16	Entertainment tax	States/Local
17	Land registration and survey fees	States
18	Property taxes and rating	Local
19	Marketing and trading licenses and fees	Local
20	Motor park duties	Local
21	Advertisement fees	Local
22	Gift tax	States

Table 2: Nigeria Federal Statutory allocation revenue to local governments, 1976-1996 (N million)

Year	Fa	Fr	FaFr%
1976	100.0	6765.9	1.5
1977	250.0	8012.2	3.1
1978	150.0	7469.3	2.0
1979	261.4	10913.5	2.4
1980	352.6	15234.0	2.3
1981	1085.0	12190.2	8.9
1982	1081.7	11764.4	9.2

1983	87.9	10508.7	9.3
1984	1061.5	11766.8	9.0
1985	1327.5	14680.8	9.0
1986	1166.9	12837.6	9.1
1987	2117.8	25099.8	8.4
1988	2727.1	27310.8	10.0
1989	3399.8	50272.1	6.8
1990	7680.0	66895.4	11.5
1991	10764.8	100991.6	10.6
1992	16488.0	904453.2	8.7
1993	18316.4	192769.4	9.5
1994	17321.3	201910.8	8.6
1995	17983.4	459987.4	3.9
1996	21590.6	520190.0	4.1
1997	22881.5	452000.0	5.1

Sources: Central Bank of Nigeria, annual report and statement of accounts (various issues)

The internally generated revenue sources of local government consist of taxes, rates, fines, fees and licenses. The study shows that taxes continue to form the bulk of internal revenue, followed by fines and fees. There is also a list of users' charges, royalties and proceeds from stocks and shares.

Value added tax also constitutes an additional source of revenue to local governments. There is a limit to the imposition of taxes on the people in order to provide infrastructures. One should try to strike a balance between aggressive internal revenue sources through increased taxation and the need, to avoid, governance problem.

The viability of local government have implications on the management of the under economy. Budget deficit at the local level may create or aggravate public revenue mobilization problems.

In Nigeria, major tax bases remain under the central government. Some taxes are shared by state and local government for example property taxes and rates see table 1. On the other, licenses and fees on television and wireless radio are shared between the federal and local governments. But the federal government may manipulate tax rate to solve macro-economic problems without bothering about the lower levels since the latter have no major tax bases assigned to them.

Relationship between revenue generation and infrastructural development.

A location with good road network will have every access to the coming and going out of the local government's car 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 governments, there will be more business and people will see reasons to pay tax.

Methodology

This section presents the general procedure used in carrying out this study. It discusses among other things, research design as well as the appropriate methodology employed in carrying out the study. It also presents a description of the population covered by the study. In addition it highlights the instruments used to gather the data for the study and discusses in full the method of data collection.

Research design provides the plan or framework for data collection and analysis. It is a plan for a research work which aims at providing guidelines, where the research work is being conducted.

Cross-sectional research design was adopted to analyze, interpret and examine the constraints to the internally generated revenue collection. The population of this study consists of the staff of the finances and supplies department of Ogbomosho South Local Government. This include the junior officer on grade level 01-06; 07-13 for seniors and grade level 14 and above for the management staff. Simple random sampling was used to select one hundred and fifty (150) staff out of 250 which contributes about 60% of the staff strength. Questionnaires were used to elicit information from the respondents.

Research Hypotheses

For the study two hypotheses were formulated to carry out thorough investigation on checkmating the internally generated revenue collection problems in Ogbomosho South Local Government.

These hypotheses are:

- H_{01} : there is no significant relationship between mobility of enforcement agent and revenue collection performance
- H_{02} : there is no significant relationship between misappropriation of fund by enforcement agent and revenue collection performance.

Data Analysis and Discussion of Findings

The approach adopted to analyze the data collected was the use of linear regression statistical method.

Hypothesis 1

Analysis of mobility enforcement agent and revenue collection performance

Variables	Parameter estimates	Standard Error	Beta	Significant levels
Intercept	9.181	2.999		0.003
Mobility of enforcement agent	6.260	0.825	.529	.000

$$R = .529 = 52\%$$

$$R^2 = .280 = 28\%$$

Let X_1 = Mobility of enforcement agent

Y = Revenue collection performance

$$Y = 9.181 + 6.260 X_1$$

Using the linear regression, the table above shows mobility of enforcement agent correlates with dependent variable (revenue collection performance). In all, coefficient 0.529 and r^2 28% was obtained indicating that there is a significant relationship between the mobility of enforcement agent and revenue collection performance. Therefore the local government should endeavour to provide adequate mobility to enhance revenue collection performance.

Hypothesis 2

Analysis of misappropriation of fund by enforcement agent and revenue allocation performance

Variables	Parameter estimate	Standard error	Beta	Significant level
Intercept	3.843	10.771		.000
Misappropriation of fund by enforcement agent	8.760	0.234	0.951	.000

$$R = 0.951 = 95.1\%$$

$$R^2 = .904 = 90.4\%$$

Let X_1 = Misappropriation of fund by enforcement agent

Y = Revenue collection performance

$$Y = 3.843 + 8.760 X_1$$

From the linear regression the table above, shows the misappropriation of fund by enforcement agent correlates with dependent variable (revenue collection performance).

The coefficient 0.951 and r^2 90.4% was obtained indicating that there is a significant relationship between the misappropriation of fund by enforcement agent and revenue collection performance. Therefore the revenue enforcement agents should be rewarded always for upward improvement of internally generated revenue in Ogbomoso South Local Government.

Conclusion

This paper examined internally generated revenue in Ogbomosho South Local Government and how its problem could be checkmated. Local governments in Nigeria receive statutory allocation from both the federal and state governments. They also generate internal revenue through taxes and fees etc. it is opined that expenditure assignment should match with revenue generation powers in order for local governments to discharge their functions effectively.

Local governments revenue generation in Nigeria needs restructuring so that taxing powers be given to local authorities and also she should be allowed to share major tax bases with other levels of government to be able to generate enough independent funds for development.

Local government should strive towards improving internally generated revenue and instill transparency and accountability in their management structure. This can be effectively carried out through community participation in their various activities. Need to carry people along in the execution of the projects would encourage administrative openness and accountability.

The constraints to internally generated revenue of the local government are inadequate mobility and misappropriation of fund by enforcement agents.

Recommendation

In order to ensure adequate internally generated revenue, the following recommendations proffered.

1. Mobility constitutes a great impediment to the revenue generation in Ogbomosho South Local Government. On the other hand, for effective and enhance revenue collection, offices and staff should be equipped with modern communication facilities complemented with functional mobility facilities
2. Another factor which was found to have obvious influence on the collection performance is Revenue management, there is a general trend going about in most governmental establishment, there are mis-management and embezzlement. The revenue so collected are mismanaged by the officers 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.
3. 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 stimulates 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 improvement 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 outside world.

4. 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 supposed 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.

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