

## **THE CHALLENGES OF INTERNAL REVENUE GENERATION AND INCLUSIVE DEVELOPMENT OF LOCAL GOVERNMENT AREAS IN CROSS RIVER STATE, NIGERIA**

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### **ABSTRACT**

It is most commonly expected that inclusive development as evidence of good governance will guarantee easy access of the local people to “welfare programmes” like health, education, portable water, security and transportation, etc. Where this is not the case, one cannot talk of development. Over the years, LGAs in Cross River State have not been able to fulfill this mission due to limited funds especially from internal sources. What accounts for this shortage was the concern of this study. The study adopts the participant observation method and also source data from the secondary sources. The paper holds that usurpation of revenue points of local government by state government, corrupt tendencies of council functionaries, and evasion of tax as protest against poor handling of public funds by government functionaries among others contribute to poor internal revenue generation by local government. On the basis of this, the paper recommends among others that state government should hands off revenue points of local government as well as invest council funds in real productive ventures for sustainable internal revenue generation.

**Key words:** Revenue Generation, Inclusive Development, Local Government Areas, Cross River State.

### **INTRODUCTION**

The era where government merely carries out the responsibility of maintaining law and order in the society is over. In contemporary period, government whether local or international is oriented towards providing “development” or “welfare programmes” for the people with assurance that all citizens without discrimination (the basis of inclusive development) will have easy and free access to health services, portable water, electricity, education, security, housing, transportation and good roads. These public programmes as common in most welfare states of Western Europe, however

small, require government intervention through financing by the method of redistributing the Gross National Product (GNP) for common good.

However, in Cross River State, the LGAs as units of government at the grassroots are perennially faced with series of challenges in an attempt to provide internal security, local health services like dispensary and primary education, local markets, motor parks, basic infrastructure, burial grounds, slaughter houses, control of pets, prostitutes, destitute and noise pollution. These challenges may arise from leadership failure, ecological problems, lack of political will to address the corruption at the administrative and political cadre, as well as limited amount of money available to local governments. When important needs and services are not provided, and facilities lacking in the LGAs, one cannot talk of development at the grassroots even if a country's per capita income experiences a progressive increase. The effect of this lamentable situation is that the LGAs lack the capacity to develop and therefore earn up with "bad image" that tend to worsen the existing level of co-operation between the people and government. This lack of confidence in the government at the grassroots can be restored by a "sustained positive growth trajectory" (Ekpo, 2012) that can trigger growth and development to an upward proportion.

In spite of the above condition, inclusive development process at the grassroots can become quicker by the availability of a strong revenue base that is capable of providing the ground for structural changes and fulfilling the expectations of the people within a short possible time. This is an important engine for development that needs immediate attention.

Unfortunately, over the years the LGAs have not been able to experience a strong revenue base nor possess a buoyant purse. A number of factors contribute to this poor revenue situation which continues to threaten the stability and development of the LGAs in the pursuit to meet the aspiration of the people. This challenge has brought pressure upon the local governments in the attempt to meet the constitutionally assigned responsibilities to the people. Very often there is general public demand for service delivery at the grassroots. Therefore, to execute the functions specified in the Fourth schedule of the 1999 Federal Constitution, local governments require the boosting of their Internally Generated Revenue (IGR) base. Similarly, there is need for adequate financial enhancement in their Statutory Allocation from the Federal government.

Since the local governments are lower level governments created to serve the people and provide linkages between the grassroots and the state or federal government, this study will therefore investigate the challenges of internal revenue generation and suggest the way forward to development at the grassroots.

### **REVENUE GENERATION: WHAT IS THE PROBLEM?**

Local government councils have two main sources of revenue generation. These are the external and internal sources. The external sources include Federation Account Allocation, 10% of internally generated state revenue; special grants (state and federal) to finance ecological/environmental challenges; valued-added Tax (VAT), and special Grants from international agencies (EU, UNICEF, World Bank) for health, social activities and Environmental problems. The internal sources include Tenement rates; licenses, fees; fines, flat rates/community (poll tax, cattle tax); grants, rents, earnings from commercial undertakings; capital investment, stocks, shares, and Term Deposits with banks, etc.

However, despite these possible sources of revenue to the councils, the LGAs still suffer from slim and inadequate purse to execute development projects in their domain. These financial constraints have often been attributed to the slim nature of their allocation from the federation account and non-implementation of the 10 percent state internally generated revenue to local governments. These are issues dealing with external sources of local government revenue. Internal sources of revenue generation seem highly ignored and could contribute to low revenue base of local governments.

Development feats are largely tied to the amount of revenue available to a government. The situation with the local government system in Cross River State suggests one with grossly limited resources needed to stimulate development programmes in the rural areas. What factors account for the low level of revenue generated internally by local governments? In the light of this problematique, this paper presents an exegesis of the possible challenges to revenue generation in the Cross River State Local government system.

### **ISSUES IN REVENUE GENERATION**

The effectiveness of local government in terms of providing necessary services to the local populace is largely dependent on improved revenue base and better collection system. Orewa (1986) contend clearly that the power to improve and collect their taxes can lead to effective local government system. The path to modern development therefore, hinges on effective revenue generation for the local government as well as other levels of government. Scholars generally agree that local governments in Nigeria face diverse problems in generating revenue. These problems accounts for why the local government system in Nigeria is hardly celebrated when it comes to providing felt need services to its local people.

The poor outing of local government in the aspect of revenue generation and service delivery is not a recent phenomenon. Adedokun (2007) in canvassing this view traced the problem to the colonial era, blaming it on nepotism pattern of recruiting revenue personnel common at the time. This has been sustained in post-colonial local government of Nigeria. Excessive politicization of the recruitment system exacerbates this problem. Writing from the colonial era, Musgrave (1989) places the blame on the poor auditing system of local government especially as it concerns internally generated revenue. The argument here is that the local government either lacks the system of ascertaining how their local revenue generation pattern is conducted or they criminally ignores it for the purpose of personnel aggrandizement of those involved in the revenue collection chain.

Orewa (1986) while describing various sources of local government revenue points to the direction of ignorance of the councilors of their responsibilities and non-commitment to revenue generation. This view ordinarily assumes that most councilors elected into local government councils are not sufficiently exposed to modern ideas of revenue generation. This corroborates the claim that councilors are elected in most cases in Nigeria not on the ground of intelligence, maturity and exposure but on political patronage. This practice has turned Nigerian political officers into a theatre of myopic scoundrels interested only in ravaging public coffers. Some personnel who find their way into the local government system lack adequate formal exposure. Bello-Imam (1990) clearly traced the problem to shortage of well-trained personnel for revenue collection. This aligns with Adediji (1979) assertion that low quality of staff account for this problem.

Ikeanyibe (2016) traced the problem of local government revenue management to the Nigerian federalism. The argument is that the federal system makes it common for local government to depend largely on statutory allocation due to the fact that the federal structure does not provide adequate options for local governments to generate sustainable revenue internally. The basic idea here is that the revenue sub-head ceded to local governments by the federal system is insignificant to attract the volume of revenue needed to place local governments on sound financial state.

Corruption as a Nigerian factor from time has also been identified as an inhibiting factor in local government revenue generation. Ikejiani-clark (1995), and Ezeani (2004) share this view profusely. They argue separately that there is growing rate of corruption and fraud in the Nigerian local government system. Local governments lose revenue as a result of the moral deficiency of council functionaries. Loopholes created by poor assessment rob the local government of adequate revenue. Ezeani (2004:120) clearly submits that “Corruption remains a major problem which has constrained local government especially in developing countries from contributing meaningfully to the upliftment of the standard of living of the local people. It is rife in the areas of revenue generation and declaration by collectors to embezzlement of local government funds by officers of the local government”.

#### **REVENUE GENERATION PROFILE OF LOCAL GOVERNMENT COUNCILS IN CROSS RIVER STATE**

Local government generates revenue from two main sources. These are the statutory allocation from the federation account. Statutory allocation is the share of the revenue generated nationally and distributed to the tiers of government-federal, state and local on a legally agreed formula. Under this arrangement the local government receives the least percentage of the sharing formula of 20.60 per cent. The federal government in this arrangement receives 52.68% while the state government receives 26.72 percent.

The other source of revenue for local government is the internally generated revenue from their earnings on investments and receipts from taxes, fines, levies, etc. It is from these sources that local governments build their revenue base and discharge their financial responsibilities to the local area.

The table below shows the internally generated revenue of the 18 local government areas from 2011 to 2015.

**TABLE 1: INTERNALLY GENERATED REVENUE OF 18 LGA OF CRS 2011-2015**

S/N	LGA	2011	2012	2013	2014	2015	TOTAL
	ABI	23,658,880.00	27,812,611.00	13,681,334.03	19,945,912.55	17,417,780.66	102,516,518.24
	AKAMKPA	73,554,177.33	144,216,793.02	284,580,614.17	362,891,824.05	278,115,901.14	1,043,359,309.71
	AKPABUYO	7,434,034.18	50,684,501.97	21,472,671.17	379,523,793.09	332,085,710.45	791,200,710.86
	BOKI	15,091,669.10	31,053,962.24	17,797,799.17	16,896,961.00	14,227,980.00	95,068,371.51
	BEKWARA	11,286,829.74	14,409,597.11	21,587,401.09	22,387,844.98	16,093,161.77	85,764,834.69
	BIASE	19,500,757.29	17,184,351.96	41,088,180.25	28,140,881.20	14,288,927.67	120,203,098.37
	BAKASSI	5,354,704.96	6,276,941.00	10,754,474.45	8,283,775.00	6,106,849.18	36,776,744.59
	CAL SOUTH	24,086,329.41	33,756,488.33	13,476,111.36	21,702,654.17	15,005,870.60	108,027,453.27
	CAL MUNI	24,959,601.58	32,421,570.51	41,100,712.42	97,613,224.86	68,396,637.20	264,491,746.57
	ETUNG	12,918,057.15	20,059,525.92	4,886,336.75	9,841,848.95	3,587,379.79	51,293,148.56
	IKOM	21,856,538.06	28,615,638.74	23,911,437.92	29,670,040.94	32,331,221.31	136,384,878.97
	OGOJA	15,052,758.13	11,310,045.59	12,656,051.32	23,589,439.75	34,293,976.58	96,902,271.37
	OBUDU	19,418,193.86	13,696,850.00	14,989,598.60	12,885,945.31	11,816,284.97	72,806,872.74
	OBANLIKU	14,152,076.39	12,399,320.02	7,473,862.02	21,549,380.36	7,378,011.48	62,952,650.27
	ODUKKPANI	4,945,742.70	9,802,712.41	12,993,097.20	11,491,960.43	12,631,139.29	51,864,652.03
	OBUBRA	30,134,743.95	27,003,658.00	22,742,101.49	18,071,474.27	24,584,109.98	122,536,087.69
	YALA	14,987,830.53	12,025,590.00	7,886,554.00	26,117,434.36	20,733,004.92	81,750,413.81
	YAKURR	18,860,083.92	18,616,538.29	20,730,524.92	30,003,750.00	42,085,738.00	130,296,635.13
	<b>Total</b>	<b>357,253,008.28</b>	<b>511,346,696.11</b>	<b>593,808,862.33</b>	<b>1,140,608,145.27</b>	<b>951,179,684.99</b>	<b>3,454,196,398.38</b>

**Source: fieldwork, 2018**

Table 1 shows that the total amount of money generated in five years by the 18 local government areas of cross River state, Nigeria was ₦3,454,196,398.38

The distribution shows that in 2011, about ₦357,253,008.28 was generated. In 2012, the figure was ₦511,346,696.11 and about ₦593,808,862.33 was generated in 2013. The year 2014 recorded an income generation of ₦1,140,608,145.27 while 2015 had ₦951,179,684.99 as income generated internally. The least internally generated revenue within this period was recorded in 2011 and the highest was generated in 2014. The progression in terms of revenue performance is quite encouraging, suggesting that there is no substantial effort in improving internally generated revenue in Cross River State. In terms of performance, Akampka local government area recorded the highest internally generated revenue of ₦1,043,359,309.71 (about \$5,216,796.55) within the period under review. The least within the period was Bakassi local government area with a total internally generated revenue of ₦36,776,744.59 (about \$183,883.72).

The meager figure presented above especially in the case of Bakassi local government area shows that no meaningful intervention can be carried out by the local government especially in providing minimal basic needs of the locality. However, 36 million and some fractions as shown cannot provide

standard and meaningful water facilities talk less of providing other services as required of them by law.

The allocation from the federal account is presented on table 2 below:

**Table 2: STATUTORY ALLOCATION FROM THE FEDERATION ACCOUNT 2001-2015**

S/ N	LGA	2011	2012	2013	2014	2015	TOTAL
	ABI	996,995,566.76	1,220,625,196.98	1,191,183,624.18	1,441,485,686.90	996,255,681.51	5,846,545,756.33
	AKAMKPA	1,226,178,640.72	1,529,737,919.12	1,493,216,217.20	1,820,502,100.05	1,252,281,305.59	7,321,916,182.68
	AKPABUYO	1,185,001,525.52	1,474,202,767.53	1,438,200,011.52	1,741,569,839.83	1,198,801,968.18	7,037,776,112.58
	BOKI	1,264,068,802.10	1,539,908,347.27	1,498,920,565.17	1,770,973,300.13	1,218,648,568.22	7,292,519,582.89
	BEKWARA	871,115,338.07	1,070,136,784.13	1,049,413,786.70	1,334,415,288.44	923,986,818.23	5,249,068,015.57
	BIASE	1,077,362,698.44	1,316,703,220.21	1,283,767,117.28	1,540,339,010.51	1,062,978,298.78	6,281,150,345.22
	BAKASSI	746,592,985.58	980,884,137.25	920,740,184.89	1,111,442,829.82	773,488,021.80	4,533,148,159.34
	CAL SOUTH	993,800,590.57	1,250,505,957.44	1,221,179,882.10	1,489,926,911.46	1,028,951,854.14	5,984,365,195.11
	CAL MUN	941,953,723.66	1,211,377,426.79	1,179,808,600.74	1,395,707,939.10	965,357,264.83	5,694,204,955.12
	ETUNG	834,696,710.06	1,026,488,612.41	998,499,162.08	1,159,180,622.28	224,863,204.29	4,243,728,311.12
	IKOM	1,097,850,174.13	1,341,195,877.35	1,309,320,760.82	1,594,268,878.03	1,099,379,117.39	6,442,014,807.72
	OGOJA	1,046,144,496.69	1,279,382,195.73	1,249,643,599.10	1,529,024,692.47	1,055,341,520.67	6,159,536,504.66
	OBUDU	1,183,720,464.92	1,264,584,395.57	1,229,649,983.66	1,432,160,635.95	989,961,590.31	5,209,077,070.05
	OBANLIKU	964,843,284.60	1,182,187,707.09	1,152,048,364.89	1,371,091,475.58	948,741,991.72	5,618,912,823.88
	ODUKPANI	1,080,841,501.44	1,351,072,865.59	132,520,008.11	1,629,129,244.07	1,122,908,675.38	5,316,472,300.59
	OBUBRA	1,083,501,926.35	1,324,046,171.31	1,288,586,274.12	1,514,676,571.00	1,045,657,028.39	6,256,467,971.17
	YALA	1,157,845,654.96	1,259,606,903.31	1,380,370,196.45	1,696,536,937.67	1,168,406,564.00	6,662,766,256.39
	YAKURR	1,108,435,068.37	1,343,090,481.23	1,307,000,244.86	2,094,729,184.68	1,656,633,455.00	7,509,888,434.14
	<b>Total</b>	<b>18,860,949,152.94</b>	<b>22,965,736,966.31</b>	<b>21,324,068,583.87</b>	<b>27,667,161,147.97</b>	<b>18,732,642,928.43</b>	<b>108,659,558,784.56</b>

Source: field work, 2018

The table above indicates that the total amount of money allocated to local government in Cross River State within the period under study was ₦108,659,558,784.56. The highest allocation came in 2014 and the least was recorded in 2015. Yakurr local government recorded the highest within the period with a total collection of about ₦7,509,888,434.14 (about \$37,549,442.17) while Etung local government received the least allocation of ₦4,243,728,311.12 (about \$21,218,641.56).

Over sixty percent of this allocation goes to overhead cost which include salaries and allowances of local government personnel. The left over is controlled by the state government and are hardly released to the local government councils. Given the rising needs of the local areas, the revenue available to local governments after salaries and allowances have been paid are grossly inadequate to transform the rural communities from obscurity to limelight. The paltry sum received by Etung local government is an indication that hardly can the local government address the basic needs of its local areas. The justification for this presentation is to show that the local government system faces serious financial glut capable of obstructing their effort of performing optimally. This glut stems

from series of challenges it faces in generating revenue for effective performance of its responsibilities.

The meager revenue available to local government makes them prone to the crises of inclusive development. The little amount available for providing services and projects are only directed to the communities whose sons and daughters are occupying council positions such as Chairman, Vice Chairman, Leaders of the legislative council, and to a limited extent, the councilors. The danger with this limitation is that so many communities are excluded from the benefit of development effort of the local government council. It fertilizes conscious marginalization of some communities within the local government area and exacerbates the already precarious conditions of the poor communities. We argue that adequate financial resources can contribute to inclusive development drive of the local government system in Nigeria. Inclusive development consists of ensuring that all marginalized and excluded groups are stakeholders in development processes ([www.hiproweb.org](http://www.hiproweb.org)). The utility of inclusive development is that it focuses on the social wellbeing of the people (Pouw & Gupta, 2017). Limited financial resources of local government leads to selective application and distribution of public wealth; distributed often to the benefit of community that are 'connected' to those in power. The result of this approach is constant retrogression of local government areas. When excluded groups or marginalized localities gain greater access to basic infrastructure and better services, there is the likelihood of reducing poverty among such people. Carter Becky (2015) writing on the benefits to society of an inclusive societies approach submits that when excluded groups gain greater access to education, employment and business opportunities, poverty and inequality are likely to reduce. The local government requires adequate revenue to address the issue of inclusive development.

## **CHALLENGES TO INTERNAL REVENUE GENERATION IN LOCAL GOVERNMENTS IN NIGERIA**

Improving internal revenue generation in Nigeria is consistently becoming a nightmare. Internal revenue generation outfit of local government in Cross River State is always meager to a point that it can hardly pay for needed infrastructure in the rural localities. This paper argues that there are factors responsible for this poor outcome at least within the context of the Nigerian local government system. We attempt here to establish some of these factors below:

**State government usurpation of revenue points of local governments:** The local governments in Cross River State have standard outfits from which it collects revenue to boost its finances. The emergence of democratic rule since 1999 has seen the sudden withdrawal of those revenue points from the control of local governments in the state. For example, haulage that used to be a veritable revenue points for local governments has been swindled by the state government. Again major markets that were hitherto an exclusive preserve of local government now has the state meddling into how revenue is got from such markets. Revenue from tenement rate has also been taken over by the state government.

**The rural structure of local areas:** Over 70 percent of local governments in Nigeria are predominantly rural. This presupposes that such local governments are not only poor but backward in infrastructure. There are simply no viable revenue generating points in such local governments.

**Poor attitude of politicians:** Politicians who assist council functionaries to win elections beseech such functionaries for a pay back. Councils therefore contract revenue points to politicians at a very

low rate. Remittances to council coffers are hardly done even with this low assessment. Certainly there can be no reprimand because every political office holder in Nigeria is desirous of a second term. Condemnation of such criminal act is an affront on your second term chances. Revenue certainly cannot improve under this condition. The level of dishonesty in dealing with council revenue is alarmingly high. This view is largely shared by Ifeayekwu (2015) and Uahunmuangho and Abibieyi (2013).

**Nature of elected officials:** Many council officials elected do not have an investment intervention for their local governments. This is drawn from the fact that greater portion of those who seek elected offices do so to have access to public funds to alleviate personnel poverty. Planning an investment profile will mean tying down money they would have stolen with ease. They all look forward to allocation from the federation accounts to share without thinking of standard investment for sustainable internal revenue generation.

**Poor capacity of council officials especially revenue and planning officials:** They are bereft of trending ideas for revenue generation. They do not think of new ways to generate revenue. The problem lies largely on lack of adequate training on revenue generation.

**Refusal to pay taxes and levies as a protest over poor handling of government funds by public officials:** The level of evasion of taxes and other charges by members of the public is very alarming. The reason rest on the fact that public officials are fantastically very corrupt. Public funds are diverted for personal uses while neglecting the needs of the local people. The best way to protest this decadence is to evade payment of taxes and other levies.

Given these challenges, the revenue base of local government councils cannot improve to a point where reasonable inclusive development effort can be achieved.

## CONCLUSION AND RECOMMENDATION

The absence of resource mobilization is one of the traumatic challenges in local government administration in Nigeria. Local governments in Cross River State do not generate adequate revenue from internal sources thereby placing them in a precarious financial condition that has made inclusive development difficult.

Several factors have been outlined to show the sources of this problem. This ranges from state government usurpation of internal revenue points of local governments to refusal to pay taxes by citizens as protest over massive corruption in the government. This paper argues that internal revenue generating points have been grossly narrowed and has placed local government councils in a miserable financial condition that has retarded their development efforts.

The paper recommends that the state government should hands off revenue generating points belonging to local governments back to them.

Local councils should begin to invest in real productive ventures as this is likely to improve their revenue.



Finally, council functionaries in the area of revenue and planning should be sourced from those who have background knowledge in the area of revenue mobilization and should also be placed on periodic refresher training to update their knowledge of revenue generation.

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