

Measures to Ensure Effective Revenue Collection in States and Local Governments in Nigeria

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Abstract

The paper examines the profiles and structures of States and Local Governments Revenue as reflected in taxes and levies collected by these two tiers of government in Nigeria. The paper also examines the various challenges facing the states and local governments in the Internally Generated Revenue (IGR) collection efforts. It also enumerated the measures that would ensure effective revenue collection in the states and local governments in Nigeria. The paper adopted the review of extant literature as the main instrument for the collection of relevant information, while participant observation method served as a useful tool for gathering information on the subject matter. The paper finds that the states and local governments depend heavily on revenue from the Federation Account for their survival. The revenue profiles and structures of states and local governments as contained in the 1999 Constitution (as Amended) are not adequate for their constitutional responsibilities. Besides this, there are numerous challenges facing the states and local governments in IGR collection. In spite of these challenges, there are several measures that would ensure effective IGR collection in states and local governments in Nigeria. The paper concludes that the challenges enumerated can be overcome if the right environment, attitude and processes are put in place by the states and local governments. Therefore, for the dream of an effective IGR collection to be realized, the paper further concludes that the states and local governments in Nigeria must put their acts together and develop the political will to overcome all the challenges constraining effective revenue collection in the states and local government in Nigeria.

Keywords: *Revenue, Revenue Collection, Effective, States, and Local Governments*

Measures to Ensure Effective Revenue Generation in States and Local Governments in Nigeria

Introduction

The current downturn in the Nigerian economy generally and in the states and local governments in particular had created serious distortions in the ways and manner that are inconsistent with our developmental aspirations. Nigeria is currently witnessing economic recession with adverse effects on the three tiers of government and consequently on the citizenry. Learning on over 80% of its total annual revenue from the oil sector, the Nigerian economy is said to be dangerously over dependent on oil. This over dependence risk is an outcome of two realities. The first is that oil and gas are depleting asserts in the sense that the sources are exhaustible, thus permanent dependence on them is most disastrous. The second risk factor is that the market for oil and gas is exogenous and highly volatile in terms of predictability of sales. The existence of these risk factors beckons on a compelling need to look away from oil and pay a more focused attention on non-oil sources of revenue, most especially Internally Generated Revenue (IGR). These challenges therefore require states and local governments in Nigeria to urgently seek ways of increasing locally generated revenues to supplement the shortfalls from the Federal Account.

Given this unfortunate turn of events in Nigeria, many suggestions have been put forward by scholars, and practitioners in the field of taxation on how to get out of this mess. There is no doubt that all states and local governments in Nigeria have economic potentials to self-sustaining if they look inwards by exploiting the provisions in the existing tax laws to enhance their revenue base. There is no doubt that the states, and in particular local governments are the closest tiers of government to the people. It therefore beholds on them to strive very hard to improve their internally generated revenues to improve their economic situations. This requires the adaptation of measures to ensure effective revenue collection in states and local governments in Nigeria. This essentially is the task of this paper.

Taxes and Levies collected by the States and Local Governments

This write up on Taxes and Levies collected by the states and local governments arises from the works of Akpa, (2008) and the 1999 Constitution. In order to situate this discussion properly, it is very essential to identify the taxes and levies collected by the two tiers of government in Nigeria under the 1999 Constitution (as Amended). This has to do with the profiles and structures of public revenue sources. When we talk of government revenue profile in general in Nigeria, two

interesting characteristics stand out for recognition. The first is that revenue sources have continued to remain virtually the same over the years, only few additions outside the petroleum sources. The second feature is that the source of bickering between and among the federating units is not so much over who has the legislative power to tax and administer the law as how to share the “cake”. Against this background, we are going to examine the revenue profiles and structures of the two tiers of government in Nigeria currently.

The Profile and Structure of Revenue of the State Governments

Profile

The revenue sources of the 36 states of the federation are similar between themselves and those the federal government. What may be different is the yield from each source. The profile includes the following sources:

- I. Taxes e.g. direct income tax (PAYE), direct assessment, community tax, stamp duties, VAT, sales tax, entertainment tax, urban building tax etc.
- ii. Fees, fines, levies, charges and penalties. About 90 types of fees, 4 types of fines, many types of hire and rental charges for government and portable machinery and equipment and more than 3 types of penalties.
- iii. Licenses (about 25 types of them)
- iv. Earnings and sales (from about 40 sources of certain goods and services produced and delivered)
- v. Government property (from no less than 12 sources of rental revenues)
- vi. Interest, dividends from quoted and unquoted shares in companies, staff revolving loans, repayment of loans etc.
- vii. Reimbursements (e.g. for gratuities and pensions etc.)
- viii. Miscellaneous revenues (e.g. contract deductions, development levies, tribunal recovered public funds, impounded money etc.)
- ix. Stationary allocations and grants-in-aids; statutory allocation from the Federation Account and VAT are today the lifeline of all the states in the federation. Grants-in-aids are usually given by the federal government on the basis of the prevailing conditions, e.g. to boost agriculture, education, commerce and industries, health etc. (Akpa, 2008).

Structure

The structure of the revenue profile shows statutory allocations from the Federation Account as the lifeline for the state governments as alluded to earlier (accounting for over 74 percent of each state's total revenues in any particular year). In respect of the internal revenue sources, they yield

from them is about 17 percent of the total revenues for the year, although there are differences in actual amount as between the states. (Akpa, 2008).

The Profile and Structures of Revenue of the Local Governments

Profile

The layout of the local government revenue sources consists of the following:

- i. Community tax (i.e. an annual flat rate per taxable adult). It is also called capitation.
- ii. Rents: These are property taxes charged on landed property. It is assessed on either capital value, rental income or location of the property. The rates vary depending on whether the property is residential or commercial. For example, a modern commercial building is assessed at the rate of N200 per annum. Other categories are modernized local and local buildings.
- iii. Licenses, fees and rents (about 76 license-based sources, 50 business permit types, about 8 sources of rental charges about 18 other outside rents, licenses and permit).
- iv. Investment revenues (e.g. interest on deposits and dividends from shares).
- v. Commercial services revenue (e.g. mass transit, water selling, catering rest houses, petroleum product distribution etc.).
- vi. Statutory allocation (e.g. Federation Account, VAT and State Joint Local Government Account).
- vii. Special Departmental Revenue: The federal government, NGOs and development agencies may give money to a local government in support of development projects to be carried out at the local government level under departments especially set up for them e.g. UN Sanitation Project, World Bank, ORT, National Mass-Literacy Campaign etc. The import here is that local government councils must endeavour to seek out and attract such funds from both domestic and foreign donor agencies rather than wait for them to come on their own.
- viii. Grants: Grants that come to local government councils usually do so from the following sources: federal and state governments in the form of aid in meeting constitutional duties. Such grants come in a variety of forms such: general assistance grants, equalization grants, staff salaries grant, special emergency grant, road grant, etc.
- ix. From other local governments: Money can flow between local governments as a result of several processes such as the following:
Political – When a new local government is created out of an old one, the asset-liability-sharing process can result in fund flow.

Economic – Borrowing from other councils to carry out an economic project.

Financial – When a council launches a public appeal for fund in support of its programme. (Akpa, 2008, 1999 Constitution).

Structure

The structure of local government revenue sources shows that most of the 774 councils today depend heavily on statutory allocations for survival as about 80 percent of the total public revenue come from this source. This is to say that internal revenue sources contribute insignificantly to the total revenue pool available to the councils. This cannot in any manner be said to be a healthy situation (Enyi, 2014).

Challenges facing States and Local Governments in Internally Generated Revenue (IGR) Collection

Most of the challenges facing IGR collection and management among states and local governments are well known and have been documented by many researchers. The underlisted challenges are cued from Nigeria Governors Forum Documents (October, 2015).

- * Lack of adequate information on taxpayers. Taxpayers can easily avoid reporting their income to the state.
- * Lack of cooperation from the taxpayers. Many Nigerians (even within the tax net) do not feel obligated to government; therefore they do not consider paying tax as a civic responsibility. In addition, there is insufficient information on the logic and significance of taxes implying that certain taxpayers who might be willing to pay are not motivated to do so. Governments often are accomplices as they fail to deliver on basic services that the citizens require, leading to a sense that tax funds do not generate any benefits to the citizens.
- * Lack of uniformity in the incidence of taxation. Most taxpayers believe that they are unfairly levied. There are no standard structures and modalities for tax assessment in Nigeria, and the problem has created distrust between collectors and payers.
- * Complexity of the tax system and a lack of explanation with respect to tax obligations by the Nigerian government. Most taxpayers do not understand what is required of them. Many taxpayers cannot distinguish between PAYE, Withholding Tax or Value Added Tax. This is the case even among the elites; and these have difficulty calculating tax liabilities.
- * Inadequate training and preparation of tax inspectors. Most tax officials tend to be poorly educated and lack the basic knowledge and techniques to communicate. Many tax inspectors tend to be aggressive, thereby putting the taxpayer on

the defensive. This situation seems to get worse, the lower the tier of government.

- * Weak civic education on the issues of IGR linked to services from government.
- * Use of Consultants, Agents, Touts – this challenge is further explained below.

In nearly all states, with potential tax payers consisting mostly of informal operators, governments try to minimize its own challenges by reducing interface with individuals. This they try to achieve by engaging tax consultants. Thus, whereas there are Boards of Internal Revenue, actual revenue collection in many sectors is farmed out to agents and touts, sometimes as political settlement and patronage, interestingly, these agents not only have their own objective functions, they also help complicate the relationship between the tax payer and tax administrators. Their mode of operation often paints the government in very bad light before the tax payers. Most of these agents are engaged ad hoc and some even on the strength of verbal authority only. Thus, overlapping areas of coverage, poor role assignments, crude approaches to tax collection are only a few of the many challenges that emanate when tax collection is not organized by a government with a sense of responsibility towards economic agents within its domain. Each authorized group of agents simply print own receipts for revenue collection, and molest potential taxpayers with a view to extracting maximum rent. As there are no strong checks, leakages remain high and collection efforts are concentrated on a few sectors where heavy investments are not needed before milking. These include stalls, markets and parks where potential taxpayers can easily be found and molested, and where extraction is easy because the taxpayer has high incentives to want to keep his business running.

The use of tax agents creates a major problem - that of information asymmetry. Indeed, because of the very poor level of awareness of tax obligations, laws and rights, tax agents exploit the taxpaying public to the maximum possible while, at the same time, under-reporting (where possible) tax potentials to policymakers. They do not only act to collect revenue, they serve as the link between government and the people and therefore provide information to both parties on the needs and demands of the other. This way, they are a cost to both the people and the government, but in different ways. For the paying public, they can multiply payable taxes, inflate tax rates and demand double payment on the same tax. In part, they are aware that there are no alternative routes for channeling grievances to government. Where monitoring is weak, as is the case in many states, they can exaggerate or underestimate the opportunities for taxation depending on what utility function they face at any time. For the government, they can withhold a large part of the resources obtained from taxes as they government has no information on the tax base in the first place. Thus, they often aggravate the negative

perception of the taxpaying public about taxation. This is a major cost on political goodwill because agents undermine the social contract between politicians and citizens. While the circumstances that led to the emergence of use of agents for tax collection may have varied among states, the impacts on the tax system have been similarly negative.

The revenue agent challenge is by no means a major one. Some MDAs (and LGAs) in states and local governments contract out all revenue points to agents, this is convenient, but costly. One of the challenges is that the amounts to be paid by these agents are neither scientifically determined, nor even judiciously enforced in some of sectors, their connections in government and a host of other unscientific (indeed, unsocial) indicators are the means through which their benefits and liabilities are defined.

One of the outcomes of this development is that, in many instances, there is little (if any) correlation between the number of taxes collected and the revenue that comes to state coffers. There are huge discrepancies between what the people pay and what the governments get. In many states of the country, while citizens complain of being overtaxed, government accounts indicate that tax revenue are not flowing in. Without doubt, the concentrated extraction of tax from a small tax base and few taxpayers is a factor. The engagement and operations of agents may actually be an even bigger factor. In regions where there use is rife than in others, the difference between levies on taxable entities and revenues to government can be staggering.

One of the reasons why states retain tax agents even when they appreciate that they are counter-productive, is that the Boards of Internal Revenue are perceived as weak and lacking in both qualified manpower and apparatus. Again, this is partly a product of the history of relegation of non-oil revenue where under successive administrations; the Boards of Internal Revenue are known to deliver nothing. Consequently, they were turned to dumping ground for political loyalists in search of employment. Many BIRs in the country are not manned by tax professionals. Until recently, appointments of the Chair of the BIRs are hardly based on merit or tax management experience and (s) he is surrounded by those who are not. With the renewed interest in IGR, this is changing in many states, but there is need for more momentum in ensuring that this legacy is completely done away with. And to do so, the BIRs need significant technical and material support to rebuild themselves and put in place the sort of hard and soft infrastructure required to collect and manage resources on behalf of the government. The roles of the BIRs have been abandoned or farmed out to MDAs or agents for too long, and this has raised conflicts in responsibilities and role assignment in most states. The MDAs and agents, used to collecting funds, are quite unwilling to give back the roles to BIRs. Even where they

is weak. As a result, to effectively deal with the challenge of tax agents and multiplicity of taxes, it is important to adequately support the BIR to be more effective. This will involve mandate mapping, corporate planning, IT support, human resource programming and succession planning, among others. (Nigerian Governors Forum Document, (October, 2015).

Reform of the Board of Internal Revenue remains a central part of the reforms that enabled Lagos to achieve the miracle it did in IGR. An independent, professional board devoid of political interference will most likely perform better in terms of defining mission and following same. Only a few states in Nigeria have been able to legislate or approve complete independence of the BIR for revenue. In the vast majority of cases, the BIR depends on the State's Ministry of Finance for its funding, appointments and operations. Provisions for operational efficiency of the Board continue to matter for performance. A key indicator is the extent to which the operations are computerized or made compatible with information technology. The method of tax collection and remittances in many states is mostly manual. Such manual operations in addition are based on poor or no database.

Apart from the Nigerian Governors' Forum Document (2015), other scholars and practitioners have contributed to this discussion. According to Kabiru (2005), the challenges of revenue collection in government are:

- * Too many baskets/pockets collecting generated revenue. Block the leakages
- * Neglect of many revenue sources, especially those at MDAs. Produce more rev-centers.
- * Under capacity utilization of some revenue sources. Utilize them optimally
- * Poor staffing or poor training for updating knowledge on assessment and collection
- * Weak structural, institutional, legal and personnel commitment. Strengthen them!

Also, according to Elekwa and Okechukwu (2014), it is no exaggerate on or over-statement if we say, based on our experience and records available, that the actions and inaction of personnel of revenue departments have denied the local governments opportunity to raise reasonable amount of revenue from their different internal sources. This is because it is the revenue collectors that are directly responsible for most of the internal leakages in the local government because they collude with the members of the public (rate payers) to deprive the local governments of the revenue that should accrue to them. Although corruption in the local governments is not limited to personnel unit or revenue collectors; unfortunately their own is more noticeable because

Available records and experience shown that most revenue collectors in the various local governments often violate the approved rules and regulations to connive with some rate payers in order to deprive the local governments of the actual revenue that should occur to them for share personnel gains. The revenue collectors, for example, sometimes exempt their wives, children, relations, friends and church members from paying revenue to the local government, if they are, for instance occupying market stalls or hawking goods. They do this because of other personal gains they hope to enjoy from them in future. This behaviour of most revenue collectors is a practical manifestation of corruption, which is of different dimension in the local governments, with its concomitant effect, which is revenue leakage.

We can enumerate other challenges as set out below.

- a. *Collusion with Proper owners:* Some revenue collectors apart from colluding with some property owners so that their tenants are under-assessed or they completely escape valuation and rating, also collect revenue without issuing receipts, while others issue fake receipts to the payers and the revenue so collected is not paid into the council's confers.
- b. *Lack of Adequate and well-qualified Financial Officers:* Most of the revenue officials like market managers, valuation officers and host of others lack professional training. The Finance Department of most local governments are not adequately staffed with well qualified and experienced financial managers, accountants, auditors and property valuation officers.
- c. *Lack of Adherence to Financial Memorandum:* The most crucial figure in the financial management of the local governments is the local government Chief financial officer, generally known as the treasurer. He is responsible for formulating plans and devising strategies for effective revenue generation and accounting. As the Chief Financial Officer of the local government, he is expected to ensure that all the financial transactions of the local government are made in accordance with laws and the Financial Memorandum (FM). A Financial Memorandum as the name implies is a body of financial rules and regulations which governs all financial transactions of the local government. A serious investigation reveals that these financial rules and regulations are violated with impunity. Lack of strict adherence to FM is a contributory factor to internal revenue leakage.
- d. *Irregular/Improper Auditing:* Auditing of local government accounts is a crucial aspect of the financial management as well as an effective financial control mechanism. The final accounts

which are given in annual statements of accounts of the local government are subject to audit. In Nigeria, in the past, this was carried out by the state government Auditor General and his staff but accounts of local government Auditor General and his staff but accounts of local government auditing general of a state and his staff. The auditors have duties and power of semi-judicial nature. They conduct audit of local government accounts, annually our investigations revealed that the process of careful examination of the local government accounts to ensure that all expenditures are made according to Law are no longer being carried out satisfactorily. As a result of that, it has not been possible to detect embezzlement, irregular payments, loss of local government funds, fraud and general misappropriation of local government funds. The auditing of local government funds is powerful financial control mechanism which ensures that scarce financial resources are prudently and judiciously managed to effectiveness fulfill the functions allocated by the local governments.

- e. *Appropriate Supervision:* Most revenue collectors are not closely supervised and controlled. They are allowed to be with the council's money longer than the law permits. There is temptation in money and such collectors will not know when he/she has crossed from personal to local government money. It is this failure to supervise, monitor closely and control effectively personnel of revenue department that has led to internal revenue leakage.
- f. *Obsolete Laws dealing with Perpetrators of Financial Fraud:* Law dealing with perpetrators of financial frauds are not harsh or not instill enough fear into the minds of such offenders. This has failed to prevent perpetration of atrocious financial frauds.
- g. *Attitude of Nigerians towards Wealth:* In Nigeria, the tendency is for everyone to get rich quickly. The reason is that wealth is highly regarded and worshiped in the country. Infact, wealth in Nigeria is not only the basis for recognition and respect for an individual, but also an index for measuring his hardwork and success. The attitude of Nigerians towards wealth is one of the reasons why most revenue collectors are not content with their job.

Measures to ensure Effective Revenue Collection in States and Local Governments in Nigeria

The Nigerian Governors' Forum in her Document as well as two scholars have enumerated measures that would ensure effective revenue

collection in the states and local governments in Nigeria. These will be treated in detail as outlined below.

According to the Nigeria Governors' Document (2015), many states in Nigeria are currently making efforts to diversify and increase internally generated revenue. Measures range from extensive tax policy reforms to administrative measures like improved remittances and recording. Some of these measures which cut across the states can be summarized as follows:

- * The introduction of cutting-edge technology which simplified revenue collection and tax administration through
- * Elimination of sources of revenue leakages
- * Creation and improvement of tax database
- * Generation of projected revenue from different sources
- * Generation of reports showing revenue distribution
- * Institutionalization of far-reaching tax reforms with formulation of IGR strategies and action plans which resulted in improvements in tax collection
- * Strengthen land administration
- * Setting up of better functioning tax institutions potentially opening up opportunities for more direct appropriation of revenue
- * The establishment of autonomy for states' internal revenue service
- * Improved tax planning, professionalism, and staff morale rapidly improved tax collection and tax compliance among large companies.
- * Outreach and monitoring capacities of revenue staff who regularly visit formal businesses and informal sector organizations to identify potential taxpayers. Explain the tax payment process, and check for payment certificates
- * Improvement on compliance and strong commitment to enforcement, including sealing delinquent businesses
- * Strong commitment on the part of governments to improve the tax environment through improvement in collection and remittance infrastructures, improvement in the collection processes and the better engagement of the taxpayer through town hall meetings, education and enlightenment.
- * Introduction of Hotels and Events Centers Occupancy and Restaurants Consumption Law thereby introducing consumption tax on hospitality industry goods and services
- * Introduction of Land Use Tax Law (incorporating Property Tax, Ground Rent and Tenement Tax)
- * Expanding base for Capital Gains Tax (CGT) and Stamp duties

through land registration “amnesty” window and reduction in CGT and stamp duty rates

- * Issuance of new Regulations and Guidelines for conduct of lottery, pools betting, casino and gaming activities.
- * Identification of revenue that was not being collected or enforced
- * Expansion of tax base by bringing more persons and activities into the tax net including taxing of the informal sector (Presumptive Tax Initiative)
- * Enhanced procedures for assessment of tax liabilities
- * Enacting new Revenue Administration Law establishing the States Internal Revenue Service as an autonomous Revenue Service
- * Major organizational restructuring and business process re-engineering of IRS including automation of processes and HR capacity development.
- * Point of Sale (POS) terminals at tax offices linked to the IGR accounts
- * Introduction of e-filing system
- * New coding system for PAYE
- * New website to support online tax payment
- * Specialized taxpayer service units in tax offices
- * Electronic TIN registration kits deployed in tax offices
- * State-wide electronic taxpayer enumeration survey

Improvement in the business environment to attract private capital investments that positively influences IGR. For states that have undertaken far-reaching reforms on the business environment, there are significant potentials for highly improved IGR generation in the years ahead.

Secondly, according to Kabiru, (2005), the measures to improve revenue collection in states and local governments are as follows:

- * Complete overhaul of the SIRS to make it professionally competent and dependent on its performance for the remuneration of its staff
- * Ensure that the staffs of the SIRS are well trained and ethical enough to face the daunting challenges of producing revenue that could substantially shoulder the state budgeted expenditures
- * Institutionalization of Single Revenue Account to capture all tax and non-tax revenues monthly.
- * Make the State Internal Revenue Service (SIRS) the only collecting platform for all the tax and non-tax revenues accruing to the state government
- * Ensure that more projects that would better the lots of the people are executed by the government to fulfill its campaign promises.

* Ensure that the policy thrust of the government is built on the principles of fear of God, transparency, accountability and prudence.

- * Ensure that the business environment and other welfare matters of micro, small, medium and large scale businesses are taken care of by the government to encourage voluntary tax and other non-tax revenue payment compliance. The state's MFBs and other institutions are to be used here.
- * Use of consultants as technical advisers to appropriate departments of the SIRS, in their areas of comparative advantages, so as to enhance the state IGR.

Thirdly, according to Akpa (2008) that given our rate of hurry and hunger to move to the next level of development, Nigeria needs all the monies it can garner both from internal and external sources to be able to finance the enormous expenditure programmes. Some of the measures include the following:

- * **Activation of the Dormant Sources:** Not a few government internal revenue resources are lying dormant due principally to organizational inertia and reluctance of tax payers to pay up. And there are reasons for this. The first is that the trip to the oil-based Federation Account and commercial borrowing is easier. The second is that in refusing to pay their tax calls, the payers are making a state that the levies are unfair considering that the services and goods delivered are either poor or non-existent. There is therefore need to re-activate these dormant sources by addressing the issues raised in the preceding write up.
- * **Review the Existing Rates and Fees:** We are aware that many states and local councils have subjected their revenue rates to an upward review in recent times. Two things however need to be emphasized here about tax increases. The first, as earlier stated, is that the paying public will be willing to pay rates and fees only if services and goods are adequately delivered in return. The second point is that where the rates and fees are recklessly and exploitatively increased and the tax proceeds are stolen and taken out, the local economy would pay negatively for it. In other words, the revenues collected need to be deployed to improve the life of the people.
- * **Diversification of Revenue base via Investment:** Because our brand of politics and democracy is more of self-service than public good. Our political leaders tend to be short-termist in their outlook and therefore hardly invest in opportunities that have the potential to not only boost the treasury but mostly importantly diversify the revenue basket. To rationally do this requires

conducting an environmental scanning so as to identify areas of comparative advantage. In this respect, states would invest their wind fall receipts from excess crude account in non-oil opportunities e.g. solid minerals, micro, small and medium size ventures, etc. as well as in budget stabilization fund to smoothen the unpredictable revenue flows.

- * **Overhauling of the Tax System:** There is no doubt that the tax system in the country is ripe for a comprehensive overhaul in its laws and administrative infrastructure. The essence is to bring the system in tune with the dynamics of the time.
- * **Transparent and Accountable Revenue System:** A lot of revenue is lost to government due to dishonest behaviours. This is why the Tax Bill sent to the National Assembly by President Bola Ahmed Tinubu is not only timely but highly imperative. For example, ministries and agencies do not report the total amount of revenue collected. Due to delays and or shortages in overhead received, ministries use part of their income to supplement and in so doing report only the net amount to the Office of the Accountant-General or local government treasury. However, you call it, this is obviously in breach of the relevant financial regulations and due process. Furthermore, the Constitution of the land provides that all states shall pay 10 percent of their total IGR to the local councils. In a similar breath, the councils are required to remit their PAYE deductions as well as 5 percent tax on contracts awarded to the state's treasury. Because many local councils don't comply, states withhold all or part of the 10 percent in lieu of what is owed to them. This again, take or leave it, is in breach. It has to be appreciated that the foregoing is only one leg of the overall lack of transparent and accountable revenue mobilization and collection in the land. It appears to us that the collective dream to be a great economy in the near future would require nothing short of transparent and accountable approach to fiscal management in the states and local governments.
- * **Use of Capital Markets:** Many states and local councils in the country have never thought of using the capital market to raise development finance to be deployed in economically viable projects and programmes, if the banking sector is dis-congested to make sufficient room for the real sector to use that medium while government and its agencies resort to alternative sources,

the dividends for the economy would be a lot enhanced.

- * **Cost Saving Strategies:** There is no doubt that the pool of funds available for governance activities can also be enhanced via cost reduction techniques such as the following.
- * **Reduction in Cost of Government Operation:** Sufficient evidence today exists to indicate that not only is the cost of government administration in Nigeria about the highest in the world, a lot of things government spend public money on are simply wasteful in nature. For example, outside the fringe benefits, payroll and overhead spending currently consume no less than two-thirds of total government revenues, excluding the cost of running government hidden in the capital budget. This high level of spending leaves very little to meet debt service and capital programme required for growth.
As a way out, the international best practice is that the cost of running government should not exceed 40 percent of the total government revenues. The cost reduction strategies would therefore focus on the payroll and overhead spending, extra-budgetary spending by the politicians in office, reforming the civil service to make it more open, responsive, transparent and accountable, monetize fringe benefits, and accord the public budget the primacy and sanctity it deserves.
- * **Outstanding Non-Critical Services:** The current global trend in cost-economies is to out-source all non-critical service, thus avoiding waste and saving resources to be deployed to other beneficial opportunities.

Conclusion

Internal Revenue Generation among Nigerian States and local governments face significant challenges. Behind the low revenue numbers and the inability of states and local governments to meet obligations from internal sources are series of constraining factors. Though difficult, these challenges are not altogether insurmountable. While questions have been raised about the viability of some Nigerian states and local governments in the past, the reality is that most states and local governments in the federation can generate much more revenue internally to meet government expenses than they are doing right now. However, this requires that the right environment, attitude and processes be put in place. In some instances, there are questions about the capacity of the IGR base to generate the required resources, but in most instances,

there are questions about the capacity of the IGR base to generate the required resources, but in most instances, the bigger challenge seems to be about the capacity of institutions that should tap these resources to do so. For as long as there are no data on eligible taxpayers, leading to arbitrariness in tax collection, states and local governments would continue to act in ways inimical to private sector growth. Tax potentials would then not translate to actual government revenue.

The deficiencies in IGR generation and management in the states and local governments affect most other aspects of public finance. In effect, full fiscal reforms that aim to curb constraints to IGR generation and management must also engage processes for resource management in other ways. For example, poor accounting and auditing processes in the States and Local Governments may not look like issues for IGR, but they ultimately limit the capacity of the government to retain what it has generated. They generate doubts in the minds of potential taxpayers about the essence of taxes and the integrity of government in managing resources. Thus, as states and local governments worry about options for IGR improvement, they equally need to pay attention to other aspects of public finance management that ultimately impinge on their capacity, not only to generate revenue, but also utilize same for public good. For this dream to be a reality, however, there is a lot to be done in putting our acts together in order to develop the political will to be successful in overcoming all the challenges constraining effective revenue collection in the states and local governments in Nigeria.

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