Effects of Internal Revenue Generation on the Performance of Local Government: A Study of Billiri Local Government, Gombe State

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Abstract
This study was carried out to examine the effects of internal revenue generation on the performance of local government units, using Billiri local government area of, Gombe state, Nigeria. Questionnaire was used in gathering information. All the data collected was organized presented and analyzed using both descriptive and inferential statistical tools. The opinion of the respondents was presented in Tables and percentages. Chi-square (χ2) distribution was employed as analytical statistical tools to test the validity of the hypotheses at 95% level of confidence to determine the nature and strength of the relationship between effect of revenue generation and performance of the local government. The study found that effective generation of local government revenue positively impact on the performance. Other findings include; over dependence on statutory allocations emboldens laziness and hinders local government internal revenue generation as well as performance". The study, consequently recommends that local government councils must have a keen eye in their peripheral environment, searching for opportunities that will enhance the improvement of their revenue base and reduce their excessive dependence on statutory allocations from the federation account as well as improve performance.
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JEL Classification Codes: M12, H750, J580, H20

1. Introduction

In fields like agricultural extension, education, health care, social welfare, security, and others, government entities at all levels—National, State, and Local—are regularly involved in the creation and delivery of

public goods and services, all of which require significant financial investments (Mello & Lago-Penaas, 2011). Governmental authorities now have a significant duty to bear in the mobilization of financial resources or revenue to satisfy the different welfare demands of the populace. This duty entails the creation of revenue and the distribution of it among competing demands**.**

As the third tier of government and a public sector institution, local government is charged with maintaining itself and performing its statutory mandated activities for its constituents while also managing its financial resources (Uguru, 2011). In Nigeria, local government authorities serve as the third tier of government and play a crucial role in the implementation of both central government policies and initiatives. It is the closest government to the people and deals with their issues. It serves as a strong connection between state and federal governments. The Federal Republic of Nigeria's 1999 constitution recognized it, designating the federal government as the supreme authority over the states.

The provision of social services and rural infrastructure that directly affects the masses at the grass roots is one way that local government finance works to bring the impact of government closer to the people at the grassroots by transforming their lives. This is one of the aspects of public finance that local government finance deals with. Revenue accruing to any tier of government may be classified as recurrent or capital. While recurrent revenue, also described as internal source, is generated on a day to day basis throughout the year. Capital revenue on the other hand, is described as external source and is realized once in a while and in a larger proportion.

The principal sources of local government revenue are statutory allocation and grants from the Federal and State governments while the locally generated revenue also known as internal source of revenue are summarized into the following heads: Taxes; Rates; Local Licenses; fines and fees; earnings from commercial undertakings; Rent on Local Government property; Interest payments and dividends; and miscellaneous receipts. Effective internal revenue mobilization and generation at the Local Government level have become central issues on its performance and successful operations, this is because most of them are insolvent and unable to finance their programs, projects and even sometimes unable to pay staff salaries due to the decline in their allocations from the federal accounts. It is based on the above background that this study is put in place to assess the effect of internal revenue generation on the performance, using Billiri local Government in Gombe state as case study. The study therefore seeks to answer the following research questions.

i. To what extent does the amount of revenue generated affect the performance of Billiri Local Government?
ii. Does over reliance on statutory allocation affect the effort of the local government in internal revenue generation.

2.   Literature Review
2.1   Conceptual Review
2.1.1   Concept of Local Government

Local government is defined as the exercise of certain authorities within predetermined boundaries by representative councils constituted by legislation at the local level (Agagu, 2011). These powers that be should grant the council considerable control over local affairs, including employment, as well as institutional and financial authority to plan and oversee the delivery of services and to choose and carry out projects that will complement local, state, and federal government efforts in the region (Federal Republic of Nigeria, 1996), Additionally, they should guarantee that local initiative and responses to local needs and conditions are made with the active involvement of the community and its traditional institutions.

The provision of services to the populace is significantly influenced by the local government. Any local government's success depends on its capacity to use both human and financial resources to fulfill its mission, which is to provide the community with the services it needs. According to Egonmwan (1990), a unit of government must be sufficiently autonomous to be able to claim the title of government; otherwise, it may be mistaken for an administrative division of the sponsoring government. The rising tide of poor revenue collection for the tier of government most efficiently tasked with grassroots development has made rural development a serious concern in recent years. The local government system is usually seen as being more efficient because of its proximity to rural communities.

The main responsibility of the local administration is to guarantee that the hinterlands grow quickly. To achieve this goal of rural development and ensure efficient local government administration and governance, local government finances must be greatly improved both internally and externally. This is possible thanks to the local government executives' strong political resolve and administrative prowess, as well as another relevant personnel council. In order to decentralize government, bring it closer to the populace at large, and make social services essential to the growth of the nation, local governments were founded in Nigeria as a third-tier administrative organization. Local government control about 70% of Nigeria's estimated population and are strategically located. They are therefore in a unique position to compile and express the desires of the

majority of Nigerians and to assist rural development by utilizing the required human and financial resources in their operations.

2.1.2   Concept of Revenue

The constitution of the Federal Republic of Nigeria (1999) defines revenue as any income or returns accruing to or derived by the government from any source, including any receipts however described arising from the application of any law and receipts however described from or in respect of any property held by government, as well as any returns by way of interest or loans and any dividends in respect of shares or interest held by government in any company or statutory body.

Additionally, Revenue is the term used to describe the funds that the government earns to pay for its operations. In other words, revenue is the total sum of funds raised by the federal, state, and local governments over a fiscal year to pay for all of their costs. Furthermore, the entire sum of money that is produced from the source from which expenses are incurred is referred to in this. It is feasible to generate income from either source. Fayemi (1991) views revenue as all tolls, taxes, impress, rates, fees, duties, fines, penalties, forfeitures, rent, dues and all other receipts of government from whatever source arising over which the Legislature has power of appropriation. Procter (1995) defines revenue as the income that a government or company receives on a regular basis.

Therefore, the word revenue will be used in the context of this research to mean any amount of money coming into the local government from whatever sources and which the local government has power of appropriation. However, it is important to note that revenue is classified into two types. The internal sources of local government revenue refer to income realized by a local government from local taxes or commercial undertakings. Hassan (2001) called it recurrent revenue and went further to explain that it comprises of many major and miscellaneous items aggregated together to provide the required fund to finance the enormous functions ascribed to local government as a third tier of government. While the external sources of Local Government revenue in Nigeria are mainly statutory allocation from the joint Federal Account, share of Value Added tax, allocations from State Internal Revenue and Grants received from State or Federal Governments and from external countries. Hassan (2001) refers to this type of revenue as financial transfers.

2.2   Empirical Review

Olaoye, Asaolu and Adeoye (2009) also reviewed internally revenue generation in the Nigerian local government with a focus on Ekiti State. Their study found that there exist effective internal control measures for the collection and management of the generated internal revenue. However, they recommended that it is necessary for income-oriented enterprises to be created to boost the revenue profile of local governments in Ekiti state. Oyetunde and Oyedele (2017) study on local government, local government found it difficult to carry out its developmental programs; this position can be tailored to the fact that the local government primarily depends on federal allocation (Olaoye 2019).

Abdulkareem *et al.,* (2018) in a study of local government internally generated revenue and administrative cost of which 500 questionnaires were administered to 40 local governments in Nigeria. They found that internal revenue generation rate depends on the extent to which seriousness and dedication is channeled to the collection process in the Nigerian local governments. Equally, Akinlo (1999) finds that state and local governments' public expenditures are influenced by federal grants during the period of study using ordinary least squares (OLS) tech-unique. Similarly, in the study of Akujuobi and Kalu (2009), using the same econometric technique (OLS) finds significant effects of statutory allocation on financing states' real assets investment.

Emengini and Anere (2010) find no influence to socioeconomic status of states and local councils by the level of revenue accruing to them from the federation account. Usman (2011) finds that both shares of federal government and local governments' revenue from federation account contribute to economic growth process in the local, state and Nigeria in whole. Ironkwe and Ndah (2016) deliberated on the influence of internally generated revenue (IGR) on the performance of local governments in Rivers State Nigeria. Their findings suggest that locally generated revenue cannot adequately enhance performance. Ehule (2015) studied the relationship between internally generated revenue and performance; the results show that permits and rates have a positive significant relationship with performance of Obio/Akpor Local Government Council. Edogbonya and Ja''afaru (2013) studied the impact of revenue generation on government developmental efforts. Findings reveal a positive relationship between internally generated revenue and government capital projects.

The above empirical studies deal with how internally generated revenue affects local government performance, most of the studies had a positive correlation between internally generated revenue and performance of local government variables.

2.3   Theoretical Framework

Structural Functionalism theory serves as the foundation for this investigation. The goal of structural functionalism theory, also known as simply the functionalism theory, is to view society as a network of interconnected structures, each of which has a specific purpose (Milton, 2007; Offer, 2010; Coser, 2017). When one structure fails, the system becomes dysfunctional or disorderly. Almond and Powell (1966) both structural-functionalists, proposed that in order to properly understand the structures (institutions) in the society, it is necessary to set them in a rich and dynamic historical context.

The aforementioned hypotheses, as they relate to the current study, are pertinent to comprehending and analyzing service delivery performance in Nigerian local governments, which is influenced by the resources at their disposal. Nigeria established local governments to carry out particular tasks that would assist bring the government closer to the populace and promote rural development. According to Almond and Powell (1966) a historical examination of local governments in Nigeria, including their traditional political structures, Native Authority systems, and contemporary local governments, has highlighted some of their service delivery responsibilities that are challenging, if not impossible, to carry out without a solid revenue base.

The political will to start the necessary machinery in action is a major factor in determining the efficiency and efficacy of internal revenue generation in the local government (Almond & Powell, 1966). Furthermore, taking into account the interconnected parts or components that allow local governments to not exist in isolation, the notion of dysfunctionalism or disorderliness advanced by structural functionalists could be used to explain the inability of local governments to maximize their internal systems. Departments that make up local government councils in Nigeria include finance, works, land, survey, and housing, as well as departments for agricultural and natural resources, health, education, and social services. The administration, budget, statistics, and treasury are also included. To keep the local government operating and productive, each of these divisions needs to communicate with the others. Additionally, interactions with entities such as the federal government, state local government service commissions, local government councils, rural communities, and others must be maintained in an environment of intergovernmental relations with the goal of providing quality service in a timely, satisfactory, honest, effective, and transparent manner.

3.   Methodology

The study is aimed at examining the effect of revenue generation on the performance of local governments, the study employed the use of quantitative method of analysis. The data for the research was gathered through the use of questionnaires which would be collected through field work.

The questionnaire was designed to capture detailed profile of the respondents in addition to what they consider as the benefits and challenges facing the revenue generation. The questionnaire was administered through the employment of a research assistant that facilitated the process, while others were self - administered by the researcher to the respondents. Though 301 copies of the research questionnaires were distributed to the sampled staff of Billiri local government, only 270 of them or 89.7% were actually returned while 31 of them representing 10.3% were not returned. Of the 270 questionnaires returned, all of them constituted the final sample size of the research work, which shows a good response rate of 89.7% percent. This percentage of the returned questionnaire is considered sufficient for any realistic study based on Sekaran (2005) argued that a 30 percent response rate is suitable for any good survey

In determine the sample size, Yamane (1967) formula and a simple random sampling (SRS) was employed in the selection of the sample size of the study. This will comprise departmental heads, officers in-charge of departmental revenue generation, revenue officers and collectors in the revenue unit of the local government. The sample size of the study and the population size is 1,223 members of staff of Billiri Local Government. (Billiri Local Government records,2023)

The formula is thus;

$$n = \frac{N}{1+N(e)^2} \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots 1$$

$Where$

    n = Sample size

    N = population size

    E = sampling error or degree of precision

If we take the sampling error to be 5% i.e $(0.05)^2$
Then,

$$n = \frac{1223}{1 + 1223(0.05)^2}$$

$$n = \frac{1223}{1 + 1223(0.0025)}$$

$$n = \frac{1223}{1 + 3.0575}$$

$$n = \frac{1223}{4.0575}$$

$$n = 301.417$$

We therefore take 301 members of staff as our sample size. The researcher selected 6 departments namely; Lands, Survey and Housing, Local Government, Women Affairs and Social Development, Works, Youth and Sport Development and Economic Empowerment and Job Creation. 5 departments were given 50 questionnaires, while 1 got 51, making a total of 301

All the data collected will be organized, presented and analysed using both descriptive and inferential statistical tools, percentages and average would be used as descriptive statistical tools, while Chi-square square ($\chi 2$) distribution would be employed as analytical statistical tools to test the hypotheses at 95% level of confidence to determine the nature and strength of the relationship between effect of revenue generation and performance of the local government.

4.   Results and Discussion

This study is intended to look into the relationship between the amount of revenue received by local governments and its performance, The Null and alternative hypothesis formulated for this project shall be tested and chi-square, statistics are used to verify the validity of these hypothesis. The decision rule is to accept the alternate hypothesis if the computed Chi-Square value is greater than the tabulated Chi-Square value otherwise rejects the null hypothesis

Question 1: Do you agree that performance of local government will improve if more internal revenue is generated?

Table 1: Local Government will Improve if more Internal Revenue is Generated?

	Responses	Frequency
a.	Strongly agree	75
b.	Agree	60
c.	Disagree	60
d.	Strongly Disagree	40
e.	Undecided	35
	Total	270

Source: Author's Computation

$$x^2 = \frac{(0 - E)^2}{E} \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots .2$$

Where,

X^2 = Chi Square

O = Observed value

E = Expected value

D. F = Degree of freedom

O = 270

$$E = \frac{270}{5} = 54$$

Degree of freedom (D. F) = 5 – 1 = 4

Then,

Table 2: Chi Square Calculation

O	E	O-E	$(O-E)^2$	$\frac{(O-E)^2}{E}$
75	54	21	441	8.16
60	54	6	36	0.66
60	54	6	36	0.66
40	54	14	196	3.63
30	54	19	361	6.68
Total				19.78

Source: Author's Computation

From the table χ2 0.5,4 = 11.07

Calculated χ2 = 19.78

Decision

Calculated χ2 = 19.78 which is greater than 11.07 and it falls into the critical region, we therefore reject the null hypothesis and accept the alternative hypothesis that ''the amount of internal revenue generated has a significant relationship with the performance of local governments''

Question 2: Do you agree that over reliance on statutory allocations by local governments does not encourage laziness in internal revenue generation?

To confirm whether the local government rely on statutory allocations as their major source of revenue generation, responses reveals that 74 respondents strongly agreed to the assertion.38 agreed,63 disagreed,59 strongly disagreed while 36 were undecided

Table 3: Over Reliance on Statutory Allocations by Local Governments Encourages Laziness

	Responses	Frequency
a.	Strongly agree	74
b.	Agree	38
c.	Disagree	63
d.	Strongly Disagree	59
e.	Undecided	36
	Total	270

Source: Author's Computation

$$x^2 = \frac{(0 - E)^2}{E}$$

Where,
χ^2 = Chi Square
O = Observed value
E = Expected value
D.F = Degree of freedom

Table 4: Chi square Calculations

Responses	O	E	O-E	(O-E)2	(O-E)2 E
Strongly agreed	71	54	17	289	5.35
Agreed	38	54	-16	256	4.74
Disagreed	63	54	9	81	1.5
Strongly disagreed	59	54	5	25	0.46
Undecided	36	54	18	324	6
Total					**14.05**

Source: Author's Computation

Calculated χ^2 = 14.05
From table, χ^2 0.5, 4 = 11.07

Decision

Calculated $\chi2 = 14.05$ which is greater than 11.07, falls into the critical region, we therefore, reject the Null hypothesis and accept the alternative hypothesis that "over reliance on statutory allocations encourages laziness and hinders local government internal revenue generation.

4.   Discussion of Findings

The purpose of this study is to investigate how revenue generating affects performance. Significant legal provisions have been made to position the local government system in Nigeria as a third-tier governmental level within the federal structure in order to define its autonomy and improve its stakes in IGR since the 1976 local government reform and subsequent inclusion of the reform's articles into the constitution. From the socio-political vantage point of any political system, the major purpose of local governments and administrations is to extend governance and development to the grassroots. The study finds that an excessive reliance on statutory allocations from the Federal Account promotes indolence and undermines local governments' efforts to generate internal revenue. This is based on the analysis of the questionnaires and the testing of the hypotheses. According to Olaoye (2019), local government found it difficult to carry out its developmental programs; this position can be tailored to the fact that the local government primarily depends on federal allocation.

It was discovered that the performance was positively impacted by the efficient generation of local government in Nigeria is the level of governance at which the motivation to continue national progress is generated. Abdulkareem *et al.,* (2018) in a study of local government internally generated revenue, argued that, performance in internal revenue generation rate will improve if, seriousness and dedication is channeled to the collection process in the Nigerian local governments. Additionally, Olaoye *et al.,* (2009) also reviewed internally revenue generation in the Nigerian local government with a focus on Ekiti State. Their study found that there exist effective internal control measures for the collection and management of the generated internal revenue.

5.   Conclusion and Recommendations

That local government is supposed to generate more revenue. Therefore, based on this, the higher the revenue the higher the number/quantity of services provided and vice versa. In order to have a good local government system that will be able to perform its constitutional roles and duties without shortage of funds, there is the need to address some vital

issues militating against effective and efficient revenue generation (that is) threats and there is also the need to focus attention on the environment for the identification of opportunities that will improve their revenue base. If this is done, a system of local government administration guaranteed by the constitution of the country shall be in existence without any hindrance. That there are a lot of alternative sources of revenue available to the local government councils if well utilized it will reduce their overdependence on statutory allocations from the federation accounts.

It has also been found that over reliance on statutory allocations from the federation accounts encourages laziness and hinders the internal revenue generation efforts. Consequently, the following recommendations are proffered for effective and efficient internal revenue generation that would serve as ways through which local government revenue generation should be boosted in order to improve the level of service delivery to the local citizenry.

i.   Having recognised that the more the revenue generated the more effective the services are provided to the citizenry, additional revenue sources must be identified and implemented in order to increase and improve the performance of the local governments and reduce over reliance of the federal allocation. The present revenue sources must also be effusively tapped to advance the revenue base of the local government.

ii.   Diversification of income sources should be made in the local government under study. This diversification could be done even in terms of agricultural undertakings, sound policies should be made that can attract investors with regard to commercial farming and food processing through cottage industries. This will help to reduce the over reliance of the federal government allocation

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