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Highlights

Economic and Political Future

Elite and Educated Population

Discovering Thoughts, Inventing Future

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Efficacy of Credit Risk Management on the Performance of Banks in Nigeria A Study of Union Bank PLC (2006-2010)

By Abdullahi Sani Rufai
Kogi State University, Anyigba Kogi State, Nigeria

Abstract - Adequately managing credit risk in financial institutions is critical for the survival and growth of the Financial Institutions. The study aimed at assessing the efficacy of credit risk management on banks performance. Also to determine if credit risk have effect on the profitability and examining the relationship between interest income and bad debt of the Union Bank. Secondary sources of data were used for the study. Time series and trend analysis are used for the analysis. Correlation coefficient and regression analysis were used in testing the hypotheses. The study conclude that credit risk affect the performance of Union Bank PLC and that to maintain high interest income, attention needs to be given to credit risk management especially regarding the lending philosophy of Union Bank. The study recommends that union bank PLC should ensure that loans given out to customers should be adequately reviewed from time to time to assess the level of its risk such loan should be backed by collateral security.

Keywords : *credit, risk, performance, management.*

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Abdullahi Sani Rufai

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I. Introduction

Adequately managing credit risk in financial institutions is critical for the survival and growth of the Financial Institutions. In the case of banks, the issue of credit risk is of even of greater concern because of the higher level of perceived risks resulting from some of the characteristics of clients and business conditions that they find themselves in. According to Dwayne (2004) banks originates for the main purpose of providing a safe storage of customer's cash. He argued that since this money received from the customers was always available to the bank, they later put it to use by investing in assets that are profit earning. Thus, the practice of advancing credits. Banks are in the business of safeguarding money and other valuables for their clients. They also provide loans, credit and payment services such as checking accounts, money orders and cashier's checks.

Banks also may offer investment and insurance products and a wide whole range of other financial services (in accordance with the 1999. Financial Services Modernization Act by the US congress) which they were once prohibited from selling (by the Glass-Steagall or Banking Act of 1933 in the USA).

According to Ayo (2002), in modern economy, there is distinction between the surplus unit and the deficit unit in economy and inconsequence a separation of the saving investment mechanism. This has necessitated the existence of Financial Institutions whose job includes the transfer of finds from savers to investors. One of such institution is the money deposits banks, the intermediating roles of the money-deposit banks places them in a position of "trustee" of the saving of the widely dispersed surplus economic units as well as the determinant of the rate and the shape of economic development. The techniques employed by banks in this intermediary function should provide them with perfect knowledge of the outcomes of lending such that funds will be allocated to investments in which the probability of full payment is certain.

But unarguably, financial institutions have faced difficulties over the years for a multitude of reasons, the major cause of serious banking problems continues to be directly related to lax credit standards for borrowers and counter parties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counter parties. This experience is common in both G-10 and non G-10 countries. Credit risk is one of great concern to most authorities and banking regulators. This is because credit risk is those risks that can easily and most likely prompts bank failure.

Therefore, credit risk management needs to be a robust process that enables Financial Institutions to proactively manage facility portfolios in order to minimize losses and earn an acceptable level of return for shareholders Dandago (2006).

Credit risk management is a structured approach to managing uncertainties through risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources (Nnanna, 2004). The strategies include transferring to another party, avoiding the risk, reducing the consequences of a particular risk. The objective of risk management is to reduce the effects of different kinds of risks.

a) Statement of the Problem

The advent of the Financial Services Modernization Act of 1999 was embraced with a lot of excitement by all in the banking sector. The present possibility for banks to diversify into broader range of

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services and products make life really cool for banking entrepreneurs and managers. But this diversification advantage is a once in a life opportunity that should be consumed with some cautions and prudence as this involves a great deal of risk.

The very nature of the banking business is so sensitive because more than 85% of their liability is deposits from depositors (Saunders, Cornett, 2005). Banks use these deposits to generate credit for their borrowers, which in fact is a revenue generating activity for most banks. This credit creation process exposes the banks to high default risk which might lead to financial distress including bankruptcy.

Starting from 1990, the Nigeria financial system has utilized various reforms such as: the Universal Banking 1992; Bank Consolidation Reserve 2005; Bank Credit Reforms; Interest Rate Reforms and so on.

In spite of all those measures, the CBN has found some banks to be distressed in poor credit risk management which explains a high level of non-performing loans in most Nigeria commercial banks. The pervasive incidence of non-performing loan is one of the prime causes of failure in the banking system.

The CBN last three years released the lists of debtors some of those loans are uncollateralized and run into billions of naira. The internal exams to ascertain if loans are will collateralized and self-liquidating could not be held accountable. Although the recent CBN audit uncovered those large non-performing loans, these should have been flagged by previous audit report if adequate checking were made.

Another serious problem is the customer's default in repayment of credits which causes a reduction in the bank's earnings for the period. Hence, this in turn reduces the amount of credits which the bank can grant to prospective loan applicants. All the same, beside other services, bank must create credit for their clients to make money, grow and survive stiff competition at the market place.

The principle concern of this project is to ascertain to what extent bank can manage their credit risk, tools or techniques are at their deposit and to what extent their performance can be augmented by proper credit risk management policies and strategies.

b) Objectives of the Study

The main objective of the study is to examine credit risk management on the performance of banks in Nigeria. More specifically, the study aimed at achieving the following objectives:

1. To determine if credit risk have effect on the profitability of Union Bank plc and to what extent.
2. To examine the relationship between interest income and bad debt of Union Bank plc.

c) Research Hypotheses

1. Ho: Higher loan losses does not have negative significant effect on the profitability of Union Bank plc (ROE, ROA).
2. Ho: There is no significant relationship between higher interest income and lower bad loans in Union Bank plc (NPL).

d) Significance of the Study

The significance of this study is that, it will enable banker to appreciate the appraisal of their lending and control mechanism now that they are expected to lend under tight monetary conditions. In essence, finding from the study will assist management and regulatory authorities in ensuring a safe banking since development of country's economy is tired to performance of financial institutions of such country.

This work will in no doubt will add and contributed to the already similar literature in abound. It will help researcher who will work further on this problem to afford him with material and act as a searchlight for those who are interest to duel on it for practical application.

e) Scope of The Study

The study will be conducted on Union Bank plc, being specifically targeted and it covers period of five (5) years from 2006-2010. Therefore, most references sorted through secondary data are related to Union Bank of Nigeria plc.

II. Conceptual Frame Work

One of the most important and profitable business of commercial banks is lending or rather advancing credits to boost economic activities. Bank optimizes utilization of deposits by deploying funds for developmental activities and productive purposes through credit creation process Dandago (2009). Deposit mobilization and Credit deployment constitute the core of banking activities and substantial portion of expenditure and income are associated with them. According to Dwayne (1961) banks originates for the main purpose of providing a safe storage of customer's cash. He argued that since this money received from the customers was always available to the bank, they later put it to use by investing in assets that are profit earning. Thus, the practice of advancing credits. Banks has grown from being a financial intermediary, in the past, to a risk intermediary, at present. In credit, risks are co-related and exposure to one risk may lead to another having deeper ramification and hence, the real mantra for prudent banking lies in successfully managing the risks in an integrated and pro-active manner to optimize the exposure already taken or to be assumed by the bank. Adherence to standards of quick decision and providing adequate and need based financial assistance on attractive but safe terms, without losing the sight of the associated risks involved therein, appears to be a difficult proposition. There is an implicit understanding on the part of the planners that in the post nationalization era, banks will meet what is called

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social obligations through directed lending Mandel (1974). Pitcher (1970) stressed that it is very much essential to conduct credit investigation before taking up a proposal for consideration. This preliminary study should lead to valuable information on borrower's integrity, honesty, reliability, credit worthiness, management competency, expertise, associate concern, guarantor, etc. A due diligence report shall invariably accompany the credit proposal evaluation. Banks have to strictly adhere to the KYC (Know Your Customer) norms to ensure bonafide identification of borrows and should also follow the prescribed Fair Practice Code on Lenders Liability, by evolving their own best practices to be followed by the field functionaries, so as to avoid complaints from customer at a later date Raghavan (2005).Whenever those cautions above are not observed, is always obvious that banks record a high rate of debts annually, delay in repayment of borrowed fund from bank and experience high operational cost. From the record and researches kept, Adewumni (2005) calculate bank fraud in Nigeria to be #200million annually out of which #40million were successfully carried out.

These problems have frustrated most bank's effort to encourage growth through lending. Failure of some of the banks has placed the entire system under great distress resulting to default transactions.

Thus, the 1990's can be rightly characterized as a period of upheaval for the banking industry. With the directive issued to commercial banks by the CBN in July 2004 of the 25 million minimum capital base, it is obvious that a lot of bank were not able to meet up the directive issued out. Hence banks were gone to either liquidation or marginalization by December which was the deadline (Oseyameh, 1986).Apart from the aforementioned above reason that constituted a stumbling block on the effective performance of the credits of commercial banks, it has also been recognized through studies that the numerous government controls have contributed to these problems.

The main objective of CBN's various control measures over the commercial banking system is the promotion of the efficiency of the system. There is therefore no doubt that governments all over the world have at one time or the other tried to intervene to correct the imperfection of the banks and ensure that credit allocations are in line with national priorities but sometimes these might not appear helpful to the problem of risk exposure faced by the banks (Chazen, 1985).

a) Credit Risk

As observed by RBI (2005), Credit Risk is the major component of risk management system and this should receive special attention of the Top Management of a bank. Credit risk is the important dimension of various risks inherent in a credit proposal, as it involves default of the principal itself.

According to Raghavan (2005) Credit risk consists of primarily two components, viz. Quantity of risk, which is nothing but the outstanding loan balance as on the date of default and the Quality of risk, which is the severity of loss defined by Probability of Default as reduced by the recoveries that could be made in the event of default. Thus credit risk is a combined outcome of Default Risk and Exposure Risk. The elements of Credit Risk are Portfolio risk comprising Concentration Risk as well as Intrinsic Risk and Transaction Risk comprising migration/down gradation risk as well as Default Risk. At the transaction level, credit ratings are useful measures of evaluating credit risk that is prevalent across the entire organization where treasury and credit functions are handled.

b) Bank Credits/Credit Facilities

Traditionally, bank lending could in broad term be categorized into two: overdraft and loan but according to Osayemeh (1981) he described credit facilities as the types of loans portfolio that are available to customers in the banking industry especially in commercial banks. He further classified these credit facilities into four major categories; Short term credit, Medium term credit, Long term credit, Secured and unsecured credits.

i. *Short Term Credit*

This type of credit facility is due for repayment after one year. It is used to meet working capital requirement i.e expansion of current business operation. Examples are: Commercial credits, Overdraft, and Demand/call credit.

ii. *Medium Term Credit*

Osayemeh (1986) described medium term credit as bank credit whose maturity is over one year, but not more than five years. It is required to finance or acquire capital assets which yield a commensurate return within the credit period. Examples are: Consumption credit and Letter of Credit.

iii. *Long Term Credit*

According to Onouha (2007), this is a credit facility that is used to finance the expansion of fixed assets. It is usually a large sum of money which is due for repayment after five years of grant. Examples are; Industrial Credit, Equipment leasing credit, Stock replacement credit.

iv. *Secured and Unsecured Credits*

Banks grant credits against the securities of tangible pledges by the borrower in favour of the lending bank. The assets so pledge are known as collateral securities'. Therefore credits granted with respect to provision of such collateral securities are known as' SECURED CREDITS.' On the other hand, 'UNSECURED

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CREDITS' are those credits granted to customers without any requirement of collateral securities.

In addition to these Ajayi (1997) submits that at the long-run, these credit classifications would be in two categories i.e performing loans and Non-performing loans. He described performing loans as those loans/credits that are well serviced by the customers as at when due i.e they do not default in loan repayment. Graham (2007) described non-performing loans as those loans/credits that are not well serviced by the customers as at when due i.e they delay/default in loan repayment. He identified the types of such non-performing loans as follows; Doubtful Debts, Bad Debts and Loss.

c) Factors Responsible for Credit Risk

According to Taxxman, (2006) some of the important factors which cause credit risk and have adverse impact on credit quality highlighted in various studies conducted by expert communities/groups are: Deficiencies in appraisal of loan proposals and in the assessment of credit worthiness of financial strength of borrowers, Inadequately defined lending policies and procedures High prudential exposure limits for individuals and group of borrowers, Absence of credit concentration limits for various industries/business segments, Inadequate values of collaterals obtained by the banks to secure the loan facilities, Liberal loan sanctioning powers for bank executives without checks and balance, Lack of knowledge and skills of officials processing loan proposals, Lack of information on functioning of various industries and performance of economy, Lack of proper coordination between various departments of banks looking into credit functions, Lack of well defined organizational structure and clarity with respect to responsibilities, authorities and communication channels, Lack of proper system of credit risk rating, quantifying and managing across geographical and product lines, Lack of reliability of data being used for managing credit and risks associated with lending.

d) Credit Risk Management Strategies

Graham 1997 stated "it is quite obvious that greater percentage of most banks earning come from the interest earned from loans and advances (credits) granted to customers. Banks should therefore employ policies and strategies that would ensure effective management of banks loan portfolio. Graham therefore suggested the following strategies.

i. *Policy Strategy*

Banks and other financial institutions should endeavour to have a credit policy manual which should be updated regularly to meet the changing business environment. Such credit manuals should provide rules and regulations guiding the important aspect of work being performed within their credit department. The reason for the manual is to understand and recognize important issues and to ensure consistent thinking and action on these issues by people inside the department. One of the fundamental things to remember is that the work being done by the credit department affects many people and departments within the organization. Because of this, it is therefore vital that the manual be agreement of written off after mutual agreement of policies from the management, sales and other departments have been affected.

Graham suggested that the credit manual policy should be details; guidelines give in respect of the following:

Documentation required; department of credit analysis and format to be used; statutory requirements; approval process; credit procedure; Communication channels between headquarter, the branches and customers; Penalties for defaulters, e.t.c .

e) Risk Based Audit System

Risk-based internal audit system (RBI) has advised banks to put in place system which should play an important role in bringing effectiveness in credit risk management and control system as also to help in ensuring regulatory compliances by providing high quality counsel to bank's management. The banks internal audit systems have been concentrating on transaction testing, ensuring accuracy and reliability of accounting records and timely submission of control returns.

According to Taxxman, (2006) for effectiveness of risk-based credit audit, it is suggested that banks should formulate risk based audit policy and establish a proper set-up clearly indicating their role/responsibilities' and communication channels between risk-based internal audit staff and to management which encourages reporting of negative and sensitive findings so that it help in initiating corrective actions to remedy the ills. Banks should consider merging credit inspection and auditing functions to avoid duplicity.

f) Managing Credit Risk Using Ratios

An analysis of the financial statement of the customer is always helpful, financial statement constitute an important source of information for appraising the financial health of a business venture. For purpose of compassion, the audited figures are expressed as ratios computed from audited figures of two consolidated years immediately preceding the request for loan will help to determine the credit worthiness of the customer and his ability to repay the loan. In short the ratio helps the banker to assess the degree of risk being taken-emphasis being placed on earning capacity and operating efficiency (Dandago 2010).

Mather (1979) grouped financial ratios into five categories are as follows:-

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Liquidity ratio, Leverage ratios, Efficiency ratios, Profitability ratios and Equity related ratios.

i. *Liquidity Ratios*

This is a measure of short term solvency. It indicates the extent to which claims of the creditors are covered by assets that are expected to be converted to cash in a period roughly equal to the maturity of the claims. The two commonly used liquidity ratios are the current ratio and the quick ratio.

$$\text{Current ratio} = \frac{\text{Total current Asset}}{\text{Total current liability}}$$

$$\text{Quick Ratio} = \frac{\text{Total liquid Asset}}{\text{Total current liability}}$$

Some creditors argue that under adverse conditions, stocks may not have sufficient liquidity. Therefore the quick ratio is a modified version of the current ratio which measures the firm's ability to pay off current liabilities without relying on the sale of stock. Obviously an important factor to watch closely here is the underlying quality of the debtors.

ii. *Leverage Ratios*

The debt/equity ratio is the most important of the leverage ratios. It measures total claim on a business of all forms of creditors in relation to owners equity.

$$\text{Debt/Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Network (shareholders equity)}}$$

All other debt ratios are complementary to this one and are designed to measure the appropriateness of the capital structure.

iii. *Efficiency Ratios*

As indicators of managerial efficiency in the use of the firm's assets, efficiency ratios are very useful in judging the performance of the firm. They help in explaining any improvement or decline in the solvency of a business and may also help to explain underlying changes in profitability. Some of the ratio includes:

A. Average period of credit taken $= \dfrac{\text{Average creditors X 52 weeks}}{\text{Purchase} \quad 1}$

B. Average period of credit granted $= \dfrac{\text{Average debtors x 52 weeks}}{\text{Sales} \quad 1}$

C. Fixed asset turnover $= \dfrac{\text{Net Sale}}{\text{Assets}}$

D. Stock Turnover $= \dfrac{\text{Net sales}}{\text{Stock}}$

iv. *Profitablity Ratio*

The profitability ratios are important to the banker, the creditors and the shareholders of a business. This is because if sufficient profits are not made, it would be difficult to meet operating expenses, pay interest charges or loans and pay dividend to shareholders. Profitability ratios include:

A. Gross profit margin $= \dfrac{\text{Gross profit x 100}}{\text{Assets} \quad 1}$

B. Return on Total Assets $= \dfrac{\text{Net profit x 100}}{\text{Sales} \quad 1}$

C. Net profit Margin $= \dfrac{\text{Net Profit}}{\text{Sales}} \times \dfrac{100}{1}$

D. Return on equity $= \dfrac{\text{Net profit after tax}}{\text{Equity}}$

v. *Equity Ratio*

These measure the values and earning of the firms common stock. They include

A. Dividend yield $= \dfrac{\text{Dividend paid}}{\text{Market Price}}$

B. Price Earning Ratio $= \dfrac{\text{Market Price}}{\text{Earnings}}$

g) Credit Risk Models

Credit scoring models use data on observed borrower characteristics either to calculate the probability of default or to borrowers into different default risk classes (Saunders and Cornett, 2007). Prominent amongst the credit scoring models are as follow:

i. *Altman's Z-Score*

The Z-score formula for predicting Bankruptcy of Dr. Edward Altman (1968) is a multivariate formula for measurement of the financial health of a company and a powerful diagnostic tool that forecast the probability of a company entering bankruptcy within a two year period with a proven accuracy of 75-80%.

The Altman's credit scoring model takes the following form;

$$Z = 1.2X21 + 1.4X2 + 3.3X3 + 0.6X4 + 1.0X5 \qquad (1)$$

Where, X1 = Working capital/ Total assets ratio

X2 = Retained earnings/ Total assets ratio

X3 = Earnings before interest and taxes/ Total assets ratio

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X4 = Market value of equity/ Book value of long-term debt ratio

X5 = Sales/ Total assets ratio.

The higher the value of Z, the lower the borrower's default risk classification. According to Altman's credit scoring model, any firm with a Z-Score less than 1.81 should be considered a high default risk, between 1.81-2.99 an indeterminate default risk, and greater than 2.99 a low default risk.

a. *Critics*

Use of this model is criticized for discriminating only among three borrower behavior; high, indeterminate, and low default risk. Secondly, that there is no obvious economic reason to expect that the weights in the Z-Score model – or, more generally, the weights in any credit-scoring model- will be constant over any but very short periods. Thirdly the problem is that these models ignore important, hard to quantify factors (such as macroeconomic factors) that may play a crucial role in the default or no-default decision.

ii. *Kmv Credit Monitor Model4*

In recent years, following the pioneering work on options by Merton, Black, and Scholes, we now recognize that when a firm raises funds either by issuing bonds or by increasing bank loans, it holds a very valuable default or repayment option (Black and Scholes, 1973) and (Merton, 1974). The KMV Model is a credit monitor model that helps to solve the lending problems of banks and further look at the repayment incentive problem (Gilbert, 2004). To try resolving the problems, the KMV Model uses the structural relationship between the **volatility of a firm's asset** and the **volatility of the firm's equity.**

The KMV Corporation (purchased by Moody's in 2002) has turned this relatively simple idea into a credit-monitoring model now used by most of the large US banks to determine the Expected Default Frequency (EDF) that is the probability of default of large corporations (KMV Corporation, 1994).

The expected default frequency that is calculated reflects the probability that the market value of the firm's assets will fall below the promised repayments on debt liabilities in one year. If the value of a firm's assets falls below its debt liabilities, it can be viewed as being economically insolvent. Simulations by the KMV have shown that this model outperforms both accounting-based models and S&P ratings (Saunders and Cornett, 2007). The relevant net worth of a firm is therefore.

The market value of the firm's assets minus the firm's default point. (1)

Net worth= (Market Value of Assets) - (Default Point) (2)

A firm will default when its market net worth reaches zero.

$$\text{Distant to Default} = \frac{(\text{Market Value of Assets})\ (\text{Asset Volatility})}{(\text{Market Value of Assets})\ (\text{Default Point})} \quad (3)$$

(Source: Moody's KMV; Modeling Default Risk, 18th December 2003.)

The KMV's empirical EDF is an overall statistics that can be calculated for every possible distance to default (DD) using data either aggregated or segmented by industry or region. To find the EDF for any particular firm at any point in time, one must look at the firm's EDF as implied by its calculated DD. As a firm's DD fluctuates, so do its EDF.

For firm's that are actively traded, it would be possible in theory to update the EDF every few minutes (Gilbert, 2004).

a. *Critics*

The KMV EDF Model has been criticized on the basis that they are not true probabilities of default. This is reflected in the poor results obtained using KMV empirical EDFs in order to replicate risky bond prices (Kao, Eom et al, 2000).

iii. *Risk-Adjusted Return on Capital (Raroc) Model*

An increasingly popular model used to evaluate the return on a loan to a large customer is the **R**isk-**A**djusted **R**eturn on **C**apital **(RAROC)** Model. This model, originally pioneered by Bankers Trust (acquired by Deutsche Bank in 1998) is now adopted by virtually all the large banks in Europe and the US, although with some differences among them (Saunders and Cornett, 2007). The essential idea behind RAROC is that rather than evaluating the actual promised annual cash flow on a loan as a percentage of the amount lent or (ROA), the lenders balance the loan's expected income against the loan's expected risk.

The RAROC Model is basically represented by,

RAROC = (one year net income on loan)/ (Risk adjusted assets) (4)

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For denominator of RAROC, duration approach can be used to estimate worst case loss in value of the loan:

$$DLn = -DLnx\ Ln\ x\ (DR/\ (1+R) \quad (5)$$

Where, DR is an estimate of the worst change in credit risk premiums for the loan class over the past year.

Ln= Loan

DLn= Change in loan class

R=Interest Rate

According to James (1996), the immediate purpose of the RAROC risk measurement systems is to provide bank managements with a more reliable way to determine the amount of capital necessary to support each of their major activities and, thus, to determine the overall leverage for the bank as a whole. The RAROC system provide a uniform measure of performance and management can, in turn use this measure to evaluate performance for capital budgeting and as an input to the compensation system used for senior managers.

iv. *Value at Risk (Var)*

This is a technique used to estimate the probability of portfolio losses based on the statistical analysis of historical price trends and volatilities.

Value at risk is commonly used by banks, security firms and companies that are involved in trading energy and other commodities. VAR is able to measure risk while it happens and is an important consideration when firms make trading or hedging decision (Simon and Robert, 2001).

Some people have described VAR as the **"new science of risk management"**, but one do not need to be a scientist to use VAR. Here, are the idea behind VAR and the three basic methods of calculating it. Basically, VAR is represented by;

$$VAR = (\text{naira value of position})(\text{price sensitivity})(\text{potential adverse move in price/yield}) \quad (5)$$

For financial institutions, risk is about the odds of losing money given out as loans, and VAR is based on that common-sense fact. By assuming financial institutions care about the odds of a really big loss on loans, VAR answers the question, **"What is my worst case scenario?"** or **"How much could I lose in a really bad month?"**

To be more specific, a VAR statistic has three components: a time period, a confidence level and a loss amount (or loss percentage). Some examples of variations of the questions that VAR answers are:

- What is the most I can - with a 95% or 99% level of confidence - expect to lose in default on loan repayment over the next month?
- What is the maximum percentage I can - with 95% or 99% confidence - expect to lose over the next year?

We can see how the "VAR question" has three elements: a relatively high level of confidence (typically either 95% or 99%), a time period (a day, a month or a year) and an estimate of lose on loan default (expressed either in naira or percentage terms) (Harper, 2008).

III. Methodology

The research work employed non-experimental design. Secondary sources of dates are used in which bank prospectus, annual reports and accounts, central bank of Nigeria bulletin on prudential guidelines are the major components. The study population of the twenty-one (21) commercial banks in Nigeria. The sample size is union bank in which judgmental or purposive sample technique was used to select the bank. Linear graph will be used to give a clear graphical relationship between credit risk and bank performance. Simple linear regression and Pearson coefficient for correlation method are used to test the nature of the relationship and the strength of such relationship as its partially affected by other factor.

IV. Data Presentation and Analysis

The objective of this chapter is to present, analyze and interpret the data collected for the purpose of this study. The data covers the information collected from secondary sources (i.e annual reports and accounts). Regression analysis is used to anayse and presents the findings for easy understanding.

a) Data Presentation

Table 1 : Total loans & advances and total assets

Year	TLA	TA
2006	45835	214885
2007	61962	275194
2008	70959	329584
2009	97643	367798
2010	95356	398271

Source : Annual reports and accounts of union banks plc (2006 -2010).

Table 2 : Non-performing loans, Performing and loans provisions

Year	NPL	PL	LP
2006	10254	35581	8910
2007	15804	46158	16476
2008	18262	52697	16399
2009	22730	74913	19305
2010	18588	76768	16672

Source : Annual reports and accounts of union bank plc (2006 -2010).

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Table 3 : Profit, Income and Capital

Year	(PAT)	SHARE EQ	NET INT.	TOTAL INCOME	CORE CAPIT.
2006	5035	5588	27282	35394	1 2,293
2007	4726	21398	25602	31846	28,809
2008	6600	21692	29003	34712	3 1,237
2009	7750	23414	33474	39185	34,492
2010	9375	25566	38311	44791	37,636

Source : Annual reports and accounts of union bank plc (2006-2010).

1. Capital Adequacy
   - Non-Performing Loans/Capital — NPL/C
2. Asset Quality Standards
   - Non- Performing Loans/Total Loans — NPL/TL (credit risk)
   - Loans Provisions/Non-Performing Loans — LP/NPL
   - Loans Provisions/Total Loans — LP/TL
   - Total Loan/Total Assets — TP/TA
3. Profitability Standards
   - Net Profits/ Average Shareholders' Equity — ROE
   - Net Profits/Average Total Assets — ROA
   - Net Interest/Total Income — NI/TI
   - Net Interest/Total Asset — NI/TA

Table 4 : Calculation of credit risk and Union Bank performance in percentage. (2006-2010)

Year	ROE	ROA	NPL/TL	TL/TA	NI/TA	NI/TI	NPL/C
2006	90.10	2.34	22.37	21.33	12.69	77.08	83.41
2007	22.08	1.71	25.50	22.51	9.30	80.39	54.46
2008	30.42	2.00	25.73	21.52	8.79	83.55	58.46
2009	33.09	2.10	23.27	26.54	9.10	85.42	65.89
2010	36.66	2.35	19.49	23.94	9.61	85.53	49.12

Source : Researcher's computation of ratio on Union Bank reports and accounts (2006-2010).

b) Data Analysis

Return on equity indicates how well the firm has uses the resources of owners. The ratio of net profit to owner's equity reflects the extent to which objective of wealth maximization has been accomplished (Pandey 2002). That is, the profitability to owners investment. In the year 2006, the bank maintains the highest return on equity which stood at 90.10 compared to 2007 when the ratio dropped to 22.08. For the years following these, the ratio picked up slowly, recovering at a decreasing rate with 30.42 in year 2008, 33.09 in 2009 and 36.66 in 2010 respectively. These results shows that Union Bank plc is positively disposed to information value added management in addressing difficult moment almost immediately.

Return on assets indicates the overall profitability and efficiency in the utilization of financial resource and assets used in sustaining the operation of the business. This ratio shows a great fluctuation and poor pattern of movement over the five years of the Union Bank activities with 5th year giving the highest return as 2.35. Year 2006 to 2007 was 2.34:1.71 and 2.00:2.10 in year 2009 to 2010 respectively. Though there is no standard level set as an indication of good performance. The standard level may varies and greatly depend on the nature of industry and level of fund committed.

Non-performing loan over total assets shows the level of banks exposure to credit risk. If the ratio goes above 25%, is an indication that the bank is getting into the zone of weak credit risk control system (Agborade 2002). For the Union bank plc within the period of the study, the bank shows a minimum tolerable level of risk exposure exception of year 2007 and 2008 when the risk level was 25.50% and 25.73% respectively indicating weak moment in their risk management.

Total loan over total assets indicates the percentage of bank assets advanced to the public as instrument of credit because it sees banking being a business of credit advancement. This shows the level of its operation in a particular year. The higher the ratio, the higher the level of its operation and the higher the risk level of risk exposure. The data from the table above shows that Union Bank plc maintain almost one fourth to one fifth of its assets as loan with 2009 and 2006 showing the highest and lowest in its operation during the five years of review at average of 26.54% and 21.33%. it shows that the bank, despite interest income accrued to the bank as main source of income, the management is informatively aware of its associated risk. Thus, maintaining a precautionary risk control measure.

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Net interest over total assets shows that bank being a financial intermediary that mobilized fund from surplus to deficit unit incurred cost in keeping and maintaining the fund the surplus unit while income is accrued from advancement of such fund to the deficit unit. The percentage of what is left as a net income over the total assets employed in the operation of these activities shows how efficient and effective the management toward administration of the risk involved. The performance of the Union Bank plc over these years understudy maintain a fair return almost constant within 2007 to 2010 with 9.30, 8.79, 9.10, 9.61 respectively exception of year 2006 when the return was at the highest value as 12.69.

c) Testing of Research Hypothesis

(Using the annual reports of union bank plc as a case study)

i. *Hypothesis One*

Ho: A higher loan loss (Non-performing loans/total loans) does not have negative significance on profitability of Union Bank plc (ROE).

Table 5 : Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.349[a]	.122	-.171	29.39139	1.320
a. Predictors: (Constant), CREDIT RISK					
b. Dependent Variable: PERFORMANCE INDICATOR (return on equity)					

Sources : SPSS 17

Table 6 : ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	359.750	1	359.750	.416	.565[a]
	Residual	2591.562	3	863.854		
	Total	2951.312	4			
a. Predictors: (Constant), CREDIT RISK						
b. Dependent Variable: PERFORMANCE INDICATOR (return on equity						

Sources : SPSS 17

Table 7 : Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	128.894	134.566		.958	.409
	CREDIT RISK	-3.710	5.750	-.349	-.645	.565
a. Dependent Variable: PERFORMANCE INDICATOR (return on equity)						

Sources : SPSS 17

Adjusted R^2 = -0.171, t_{cal} = 0.958, t_{tab} = 2.132

$F_{(3,1)}$ = 0.416, F_{tab} = 10.1, D.w = 1.320. 5% level of significance

The result of SPSS data analysis reveals that the Credit Risk can be held responsible for 17.1% (R^2) decrease in variation on the Return on Equity with reference to 2006-2010 year of study.

The F-statistics (ANOVA) of the model indicates that the model has closeness of fit which means that the model is negatively significant at 5% level of significance. The $F_{(3,1)}$ = 0.416 is less than the F_{tab} =10.1. Therefore, the estimated parameter is negatively significant at 5% level of significance.

The autocorrelation between the variables under consideration is indicated by Durbin-Watson value of 1.320, which further confirms that the estimate is negatively significant.

To test for the negative significance of the estimates, the student's t-test is employed. The t_{cal} = 0.958 < t_{tab} = 2.132 for the parameter estimate, this means that the null hypothesis that Higher loan losses (Non-performing loans/total loans) does not have negative significance on profitability of banks (ROE) should be rejected, while the alternative hypothesis should be accepted.

The estimated regression model is

ROE = 128.894 – 3.710cr (credit risk)

ii. *Hypothesis One*

Ho: A higher loan loss (Non-performing loans/total loans) does not have negative significance on profitability of Union Bank plc (ROA).

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Table 8 : Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.838[a]	.703	-604	.16717	2.895
a. Predictors: (Constant), CREDIT RISK					
b. Dependent Variable: PERFORMANCE INDICATOR (return on assets					

Sources : SPSS 17

Table 9 : ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.198	1	.198	7.098	.076[a]
	Residual	.084	3	.028		
	Total	.282	4			
a. Predictors: (Constant), CREDIT RISK						
b. Dependent Variable: PERFORMANCE INDICATOR (return on assets						

Sources : SPSS 17

Table 10 : Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.129	.765		5.395	.012
	CREDIT RISK	-.087	.033	-.838	-2.664	.076
a. Dependent Variable: PERFORMANCE INDICATOR (return on assets)						

Sources : SPSS 17

Adjusted R^2 = -0.604, t_{cal} = 5.395, t_{tab} = 2.132

$F_{(3,1)}$ = 7.098, F_{tab} = 10.1, D.w = 2.895. 5% level of significance

For the ROA, the result of SPSS data analysis reveals that the Credit Risk can be held responsible for 60.4 % decrease in variation on the Return on Assets with reference to 2006-2010 year of study.

The autocorrelation between the variables under consideration indicated by Durbin-Watson value 2.895.320 further confirms that the estimate is negatively significant and the student's t-test shows that The t_{cal} =5.295 < t_{tab} = 2.132 for the parameter estimate, this means that the null hypothesis should again be rejected, while the alternative hypothesis is accepted.

The estimated regression model is ROA = 4.129 – 0.087cr(credit risk)

iii. *Hypothesis Two*

Ho: There is no positive significant relationship between higher interest income (net interest/Average total assets, interest net /total income) and lower bad loans of Union Bank plc (NPL).

Table 11 : Correlations

		INTEREST INCOME (net int. over total loan)	BAD LOAN
INTEREST INCOME (net int. over total loan	Pearson Correlation	1	.934*
	Sig. (2-tailed)		.020
	N	5	5
BAD LOAN	Pearson Correlation	.934*	1
	Sig. (2-tailed)	.020	
	N	5	5
*. Correlation is significant at the 0.05 level (2-tailed).			

Sources : SPSS 17

The result of the Pearson coefficient (r^2) is 0.934 with its p-value of 0.05, therefore the coefficient of determination (r) the strength of association is 0.966 (96%) which is r (5) 0.966; p<.05. r^2 = 0.934. Since 96.6% of the variance is share, the association is obviously very strong.

Therefore, based on the test, alternative hypothesis will be accepted that there is significant positive relationship between high interest income and lower loan losses.

V. Conclusion and Recommendations

a) Conclusion

This study shows that there is a significant relationship between bank performance (in terms of profitability) and credit risk management (in terms of loan performance). Better credit risk management results in better bank performance. Thus, it is of crucial importance that banks practice prudent credit risk management and safeguarding the assets of the banks and protect the investors' interests. The study

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summarizes that banks used different credit risk management tools, techniques and assessment models to manage their credit risk, and that they all have one main objective, i.e. to reduce the amount of loan default which is a principal cause of bank failure.

The study also reveals that banks with good or sound credit risk management policies have lower loan default ratios (bad loans) and higher interest income (profitability). The study also reveals banks with higher profit potentials can better absorb credit losses whenever they crop up and therefore record better performances.

Furthermore, the study shows that there is a direct but inverse relationship between profitability (ROE, ROA) and the ratio of non-performing loans to capital (NPL\C).

These results are in line with our expectations and actually tallies with conventional wisdom. This has led us to accept our hypothesis and conclusion that banks with higher interest income have lower non-performing loans, hence good credit risk management strategies.

b) Recommendations

Based on the result from the research hypotheses, the following recommendations should be given consideration by Union Bank plc for effective credit risk management and good performance:

1. Policies already put in place for the management and measurement of credit risk should be reviewed from time to time to ensure its effectiveness i.e there should be policy consistency.
2. Establishment of credit policies and standards that conform to regulatory requirements and the bank's overall objectives to further reduce the level of there credit risk exposure.
3. The bank should work harmoniously in keeping aggregate credit risk well within the bank's risk taking capacity (risk tolerance).
4. Developing and maintaining Credit Approval Authority structure to ensure appraisal of only worthy credit facilities.
5. Granting approval authority to qualified and experienced individuals to ensure job competence.
6. Reviewing the adequacy of credit training across all the 379 bank branches to ensure of good credit risk management.
7. Setting systems to identify significant portfolio indicators, problem credits and level of provisioning required.
8. There should be system established for presentation of information about the bank's exposure to credit risk and its management and control over such credit risks in time.
9. Assessment and the continuous monitoring of counterparty and portfolio to know when loan is becoming non-performing.
10. Interest earnings constitute a great proportion of the gross earning of banks, the bank should be caution in increasing the rates charged on a loan.
11. Ensure that the wholesale portfolio, which includes corporate, and commercial are ideally collateralized by cash equivalents, fixed and current assets including property plant and equipment, and land.
12. Loans to individuals should be accordingly secured e.g autos for car loans and private or income producing real estate should be secured by a mortgage over the relevant property
13. Borrowers should be adequately informed of the procedures involved in getting a loan and the penalties given for defaulters

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Revenue Generation: It's Impact on Government Developmental Effort (A Study of Selected Local Council in Kogi East Senatorial District)

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Abstract - Local government is faced with varieties of difficulties to source adequate revenue from federal government, state government and internally generated revenue; such problems are cogwheel to the smooth running of local government administration. Thus, the objective of the research was to analyze the extent to which revenue generation had affected the development of the selected local Governments. The researcher used both primary and secondary methods of data collection to generate the needed data. The data obtained through secondary data were analyzed using simple least square regression method (spss version17). The following were some of the findings which included the following; there is a significant relationship between revenue generated and developmental effort of government, poor development of the areas, lack of basic social amenities to the rural people and lack of revenue to maintain the existing infrastructures. The researcher therefore recommended that the local government should provide basic amenities of high quality. By doing so, the people's interest would be geared towards giving their maximum support to the local government which would lead to the development of the rural area?

Keywords : *development, projects, revenue, generation, government.*

GJMBR-A Classification : *JEL Code: E42*

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Revenue Generation: It's Impact on Government Developmental Effort (A Study of Selected Local Council in Kogi East Senatorial District)

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Abstract - Local government is faced with varieties of difficulties to source adequate revenue from federal government, state government and internally generated revenue; such problems are cogwheel to the smooth running of local government administration. Thus, the objective of the research was to analyze the extent to which revenue generation had affected the development of the selected local Governments. The researcher used both primary and secondary methods of data collection to generate the needed data. The data obtained through secondary data were analyzed using simple least square regression method (spss version17). The following were some of the findings which included the following; there is a significant relationship between revenue generated and developmental effort of government, poor development of the areas, lack of basic social amenities to the rural people and lack of revenue to maintain the existing infrastructures. The researcher therefore recommended that the local government should provide basic amenities of high quality. By doing so, the people's interest would be geared towards giving their maximum support to the local government which would lead to the development of the rural area?

Keywords : development, projects, revenue, generation, government.

I. Introduction

a) Background to the Study

Revenue generation in Nigeria local governments is principally derived from tax. Tax is a compulsory levy imposed by government on individuals and companies for the various legitimate function of the state (Olaoye, 2008). Tax is a necessary ingredient for civilization. The history of man has shown that man has to pay tax in one form or the other that is either in cash or in kind, initially to his chieftain and later on a form of organized government (Ojo, 2003). No system or rules can be effective whether foreign or nature unless it enjoys some measures of financial independence.

Local governments in Nigeria have developed over a number of years. Historically, the development of direct taxation in local government in Nigeria can be traced the British pre-colonial period Under this period, community taxes were levied on communities (Rabiu, 2004) recently the revenue that accrues to local government is derived from two broad sources, viz the external sources and the internal source

An effective Local Government system rests majorly on the availability of human and material resources which the nation could mobilize and harness for local governments development. In 1976, the Federal Military Government then issued guidelines on local governments reforms. The reforms which gave recognition to local governments as the third tier of government whereby government activities at the local level were taken care of. In 1988, another reform of local government was established. This gave a substantial and unprecedented reform of autonomy to the local governments in the country. With this autonomy, greater responsibilities devolved on the local government therefore, became a common knowledge that most of the local government are finding it difficult to cope with the present level of responsibilities. The principal aims of creating local governments were as follows:

1. To serve as the third tier of government through which appropriate services and development are made in response to the wishes of local community through their representatives.
2. To serve as an intermediary between government at the center and local communities.
3. To mobilize and utilize both human and material resources by engaging the people at the local level in the government activities.
4. To facilitate the exercise of democratic self – government closer to the grass root of the society and to exchange initiative and leadership potential.

Mostly, all local governments in Nigeria do no longer perform their responsibilities simply because of poor finances arises from adequate revenue generation drive. The bad financial situation is further aggravated by the prevailing inflationary situation in this country which erodes the value of funds available to render essential social services to the people. Development is highly associated with fund, much revenue is needed to plan, execute and maintain infrastructures and facilities at the local government level. The needed revenue generated for such developmental projects like construction of accessible roads, building of public schools, health care centers, construction of bridges

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among others are sources generated from taxes, royalties, haulages, fines and grants from states, national and international governments. Thus, the Local government cannot embark, execute and possibly carryout the maintenance of these projects and other responsibilities without adequate revenue generation. This is the basic reason why development is skeletal at some Local Government councils in Nigeria. The generation is not exceptional to Kogi East Senatorial District. This has been one of the problems encountered by Local Government in Kogi State.

b) Statement of the Problem

The local government is faced with myriads of problems ranging from corruption and embezzlement, poor financing, mismanagement of funds to poor leadership. This has deterred the development of local government in Nigeria. The major issues are; what has contributed to the non-performance; is it because of total dependence on federal and state statutory allocation? Is it as a result of poor internally generated revenue drive? Is it because of ineffective utilization of available scarce resources or mismanagement by public office holder? Among others, certain percentage of the statutory allocation has always been deducted by the state government thereby causing the local government to underperform which includes;

i. Dilapidated infrastructural facilities
ii. Unavailability of social services to rural populace.
iii. Underdevelopment of local communities.

Based on the above stated problems, it has become necessary to conduct an analysis on revenue generation in the Kogi East Senatorial District, Kogi State.

c) Objectives of the Study

The broad objective of this research is to evaluate the relationship between the total revenue generation by the local government and rural development.

The specific objectives are;

- To examine the relationship between statutory allocation to the local government and government developed effort.
- To ascertain the extent which value added tax has contributed to government developmental effort.
- To assess the benefit of allocation of excess crude Account to Local government projects.
- To evaluate the extent to which internally generated revenue has contributed to the Local government developmental and it various sources

d) Significance of the Study

From the outlook, there is need for the local government to improve their performance. However, the research is significantly considering the closeness of local government to the grassroots' people and the need to utilize substantial revenue for its various sources in addition to federal and state statutory allocation for developmental purpose. The study will help to identifying some means of generating revenue that has been neglected over years. It will also be beneficial to the grassroots because improved revenue generation means improved standard of living in form of provision of social amenities such as road, hospital, park, drinkable water, rural electrification etc. The study will be educative as it will be a reference point for researchers.

e) Research Hypotheses

A hypothesis is a theoretical conceptualization or an idea or guest regarding how researcher thinks the result of his study will look. It consists of a set of assumptions accepted previously as a basis of investigation. It is a proposition that is yet to be tested for its validity. For the purpose of this research study, four null hypotheses were formulated.

- $H0_1$: There is no significant relationship between statutory allocation to the Local Government and developmental effort.
- $H0_2$: Allocation from Value Added Tax (VAT) does not significantly contribute to government developmental effort.
- $H0_3$: Allocation to Local government from excess crude account does not have significant effect on Local government development projects.
- $H0_4$: There is no significant relationship between internally generated revenue and developmental project of the local government.

f) Scope of the Study

The study would appraise the revenue generation for the period of five years (2006-2010) in three local governments in the Kogi East Senatorial District. The research is intended to be carried out using secondary data. Secondary data will be obtained from the monthly allocation from the office of Accountant General of Kogi State.

g) Limitation of the Study

This study has some limitations most especially in the area of data collection which is to be covered and has time duration of five years (i.e. 2006–2010). Financial constraints as well as time available for the completion of the study are among other factors that would limit the scope of the study.

h) Operational Definition of Terms

Some concepts require proper explanations to enhance our understanding of the theme where necessary opinion of scholars will be cited to explain the terms. The researcher will also give some fundamental definition of terms.

i. *Local Government*

According to Lawal (2000) Local Government as a political sub-division of a nation in Federal system

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which is constituted by law and has substantial control of local affairs which includes the power to impose taxes or exact labor for prescribed purpose. According to William Robson (2006) Defined Local Government as involving the conception of territorial, non-sovereign community possessing the legal right and the necessary organization to regulate its own affairs.

ii. *Revenue*

Public revenue could be defined as the funds generated by the government to finance its activities. In other words revenue is the total fund generated by government (Federal, state, local government/ to meet their expenditure for a fiscal year. This refers also to the grand total of money of income received from the source of which expenses are incurred. Revenue could be internal or external revenue.

iii. *Generation*

This is the process of sourcing revenue for the local government in carryout their aim and objectives.

iv. *Expenditure*

Public expenditure refers to the expenses which the government incurs for its own maintenance, in the interest of the society and the economy in order to help other countries.

v. *Tax*

Tax can be defined as a compulsory levy by government on goods, services, income and wealth. It provides definite source of revenue for government expenditure. (Udeh 2008). It is the way by which government obtain extra money. It spent from income of individual and companies. Tax could be direct or indirect tax. A tax is a payment made by the taxpayers and used by the government for the benefits of all the citizens.

vi. *Tax Evasion*

Tax evasion means illegal reduction in one's tax liabilities, thereby paying less than the appropriate amounts and not paying at all.

vii. *Tax Avoidance*

Tax avoidance is the act of streamlining one's financial affairs within the law so as to minimize the tax liabilities.

viii. *Development*

According to Ake (2001) Development is thus the process by which people create and recreate themselves and their life circumstances to realize higher levels of civilization in accordance with their own choice and values. It also a type of social change in which new ideas are introduces into a social in order to produce higher per-capital income and levels of living through more modern production methods and improved social organization.

II. Literature Review

a) Introduction

Etuk-udo (1973), defined revenue as an income from both the fixed asset and current asset. He further describe fixed asset as an asset which is expected to last more than one year and it is for future benefit, the current asset as it is defined by Etuk-udo (1973) means those assets that last for less than a year and can be converted to cash immediately.

The Longman dictionary of contemporary English (1995), defined revenue as money that a business or an organization receives over a period of time especially from selling goods or services. It also described revenue as money that government received from tax.

Advance learning dictionary of current English (1992), defined revenue as the total annual income of the state collected for public use. It further described it as income, derived from taxation.

Oladimeji (1985), described revenue as the total income generated from federal, state and local government. He stated further that what makes local government as constitutional matters is the revenue sharing perspectives.

Hepworth (1976) described revenue as an income or funds raised to meet the expenditure. He added further that revenue is a raising resources needed to provide government services. He also stated that there are two aspect of finance – Income and Expenditure. In other words, the sources of fund and utilization.

Fayemi (1991) defined revenue as all tools of income to government such as taxes, rates, fees, fines, duties, penalties, rents, dues, proceeds and other receipt of government to which the legislature has the power of appropriation. He further classified government revenue into two kinds – recurrent revenue and capital revenue.

b) Theoretical Framework

Local government system in Nigeria needs a moderate amount of financial autonomy to be able to discharge its responsibilities effectively. Public revenue in a federal system assumes that there are benefits to be derived from decentralization. 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 Wright (1978) on Intergovernmental 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

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are sensitive to regional of local conditions are likely to be more effective in encouraging economic development than centrally determined policies that ignore these geographical differences" There is a great relationship between decentralization and economic growth and behaviour 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 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 capita during 1974-1989 period. Prud'homme (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 governments). He also argues that "when these preferences vary among geographical area, a uniform package chosen by a nation's government is likely to force some localities to consume more of less than they would like to consume.

According to Tanzi (1995) the interpretation of both Oates and Prud'homme 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 rate of inflation, level of unemployment, etc. are better handled at the centre, while other activities that will affect social welfare are more efficient if undertaken by sub national governments. Theoretically, 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 government. 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 (2001), Studies on tax and public revenue mobilization in Nigeria have shown a high degree of centralization. According to Emenuga (1993), the allocation of revenue to the tiers of government has no adhere strictly to the expenditure requirements of each tier, thus the federal government has become a surplus-spending unit while other functions, he proposes the determination of a tier's share through the aggregation of its basic expenditure needs. To reduce the gap between tax power ad responsibilities, two types of revenue sources are allocated to each tier. These are independent revenue sources and direct allocation from the federation to which centrally collectable revenues are paid. Local government also receives allocations from state Internal Revenues. An agreed formula for vertical revenue sharing is used in sharing funds 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 governments, and the special fund. The allocation to the Federal Capital Territory (FCT) is accounted for under the special fund which is administered by the federal government.

Public revenue mobilization is one of the most keenly contested issues in Nigeria. A comprehensive review of the reports of the various commissions and government policies from the 1946 Philipsons commission to the activities of the National Revenue Mobilisation, allocation and fiscal commission established in 1989 could be found in Kayode (1993), Emenuga (1993) and Ekpo (1994). Local governments in Nigeria receive statutory allocations from the two higher tiers of government (federal and states). At the present, revenue sharing formula, local governments receive 20 per cent from the federation account. They are also statutorily entitled to 10 per cent 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 per cent): population (30 percent) and derivation (20 per cent). In 1999, local governments received 35 per cent 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 tax among other revenues sources. 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 different tiers of government

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using the vertical revenue 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.

The federal allocation to local governments for the period 1976 to 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%. During the structural adjustments programme (SAP), federal allocation to local governments increased remarkably by 45.7%. This jump could be as a result of the increase in the number of local governments.

Hofer and Schedal (1978), described strategy as a game plan through which aims and objectives of an organizations are achieved. They further defined strategy as revenue generation as the fundamental pattern of present and planned resources department, and environmental interaction that indicate how the organization will achieve its aims and objectives. They added further that it is the skill employed in managing any affairs, which includes the local government affairs especially in the means of generating revenue.

According to Hofer and Schedal (1978), depicted that strategy of revenue generation must aim on the following:

i. Ensuring the survival of local government as it relates to determine priorities and decision making.
ii. Enhancing the viability of local government objectives.
iii. De-emphasizing on federal and statutory allocation.
iv. Tapping all available opportunities in their areas.
v. Ensuring effective and efficient management of financial resources.
vi. Maximizing revenue while minimizing the cost of collection.

However, for effective revenue generation, Hofer and Schedal (1978), suggested the following strategies:

i. Introduction of additional sources of revenue.
ii. Providing an incentive for extra efforts of the revenue generation staffs.
iii. Tapping all available opportunities in the areas.
iv. Periodic raiding by officer of the revenue generation.
v. Efficient and effective collection of existing taxes.
vi. Taking advantages of business or commercial opportunities in their local areas.
vii. Public enlightment and campaign that will educate the tax payer on the importance of prompt payment.

According to Adeosun (1991), stated that strategy to generate more revenue should be given an adequate attention in local government system. This is because the federal and state statutory allocations are prone to external influence. He finally stated that the local government should respond promptly and adequately to the changing in the needs of their communities, decides the relative priorities, articulate plan and programmes, set target and standard, monitoring measures and mobilize financial resources with emphasis on those generated internally to accomplish agreed goals. He concluded that the failure of strategy of revenue generation would be blamed on the following:

i. That the caliber of people employed for the task in terms of their education, status, mentality, knowledge, sincerity honest and experience.
ii. The type of training and orientation given to the people on field of revenue generation.
iii. Remuneration or reward and other benefit enjoyed by the staffs.
iv. How committed are the people to taxes, fees and other dues, because some of the tax payer sees government facilities as free goods to be enjoyed by all at no cost rate, while other people believed that government should provide those sequestration basic amenities before asking people to pay for such services.
v. The actual remittance of revenue generated to the local government account. This is because not all revenue generated will be remitted to the account of local government.
vi. Doubts the people on whether the payment are actually go into government purse or not, because there are several fraudulent practice by revenue officials.

Adeosun (1991) described the strategy of revenue generation as the bed-rock of any local government. The viability of any local government to the level at which the services are rendered and the quality of those services are inextricably linked with the financial resources available to them. He equally believed that if there is fund, then the ability of local government to perform will depend on the quality of staffs and equipment need to be recognized as the third tier of government – as the one which is closer to the people, therefore things at the local level can be easily noticed and perhaps has some impact on the people. If this idea is constantly brought, the consciousness of officer and members of the local government council, then there is tendency for them to act more responsibly and feel accountable to the public.

However, for local government to perform their statutory functions both the executive and the legislative arms of the local government have to meet and share ideas, opinions, set goals and objectives through which strategies to revenue are developed and enduring the implementation of such strategies so that the targeted revenue are achieved.

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c) Means of Government Revenue

i. *Sources of Revenue to Federal Government*

According to Oladeji (1995), stated that the main sources of government revenue could be broadly classified as follows:

Petroleum Profit Tax: This form the major source of revenue to the Nigeria government. It is the revenue or income derived from crude oil which represent more that 75% of the source of revenue to the government of recent time, the excess proceed from crude oil were been shared between the three tiers of government.

Taxation: This is also one of the important sources of government revenue. In a capitalist world like Europe, tax is the major source of their revenue. Unlike the developing countries like Nigeria, Ghana, Gambia where tax evasion and tax avoidance prevail. Therefore, tax does not form the major source of revenue to government. The tax includes – direct and indirect taxes.

Rent, Royalties and Profit: These are income derived from the use of government properties, profit from government business enterprises and income from mining right.

Fees, Fines And Specific Charges: These are incomes derived from payment for the use of government services like vehicle licenses, water rates, stamp duties, tax clearance etc. It is income generated by federal Inland Revenue department (FIRD).

Grants: These are income received in form of aid from other countries or from international organizations like the World Bank, IMF etc. Within a country, government may also receive grant from another government e.g. local government council receives grants from federal and state government.

LOANS: These are incomes generated by borrowing from private individuals or from foreign countries to finance projects.

The local government in Nigeria was established for the purpose of rendering services and supplying amenities to the people in both rural and urban area according to the document establishing the local government reforms 1976.

Federal government cannot perform all the activities of the rural areas by themselves, but this can only be done 4w the people elected in that, does not prevent or stop the federal government from implementing their roles by providing all the social amenities. Such as construction of roads, provision of pipe borne water, hospitals, good education for the youth, stadium, electricity and museum etc. All these social amenities are made available from the revenue generated from the people.

Moreover, 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. Whereas, the following responsibilities are assigned to local government in Nigeria

Economic Planning and Development, Health Services, Land use, Control and Regulation of Advertisements, Pets, Small business Markets, Public Conveniences, Social Welfare Sewage and Refuse Disposal, Registration of Births, Deaths, Marriages, Primary, Adult, Vocational Education, Development of Agriculture and Natural Resources (Olaoye, 2008).

ii. *Impacts of Internally Generated Revenue in Local Government*

There are a lot of benefits people enjoy from the internally generated revenue of the local government;

- Provision of clean water for the people in the local government area.
- Construction of good roads for easy movement of transportation.
- Provision of a well-equipped health centre in the community to reduce the death rate of the people.
- Provision of free education in the community to reduce the level of illiteracy in the society.
- Stability of electricity in the community.

iii. *Ways of Improving Local Government Revenue Generation*

Many of the problems facing the generation of revenue in the local governments are those that can be corrected to improve their generation.

According to Herbert, a dependable tax base for the local authorities is essential shortage of framed valuation staff will make taxes on real property difficult to assess for sometime to come. The system of graduated tax has been in unjustifiable dispute in recent years Olaoye (2008) also suggested the possibility of a Native Authorities' Loan Authority (NALA) as an agency to provide capital loam for the local government. However, some of the strategies for improvements are;

iv. *Good Infrastructure*

A location with good road net work will have every access to the coming and going out of the local government's cars and people, if they get to the local government and see good wads, 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 that will definitely increase the revenue generation because more people will be paying tax, if the government can provide good infrastructure for the local government, there will be more business and people will see reasons to pay tax.

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v. *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 stimulate 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 improvements 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 the outside world.

vi. *Establishment of Projects*

The local government should embark on the establishment of some minimize industries, which will provide employment opportunities to the people. It is happy to note that Lipakala farm industry has helped to solve some of the employment problems within the community. There should also be development and improvement in agricultural ventures like crop farming etc. the participation in agriculture will encourage the inhabitants of this local government are to improve their standard of living.

vii. *Revenue Management*

There is a general trend going about most governmental establishment, there are mismanagement and embezzlement. The revenue so collected are mismanaged by the officer 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.

viii. *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 suppose 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.

Oladeji (1995), stated the major sources of revenue to local governments; these are as follows:

- 20% of Federal Government statutory allocation.
- Internally generated revenue
- VAT – value added tax
- Loans and Advances
- Special capital grants
- Proceeds from Investment
- Financial aid and assistant from individual and organization.

The internally generated revenue are further grouped into the following headings:-

Market Sources:

- Market Stall fees
- Shop charges
- Hawking fees
- Motor parks charges

Social Sources:

- Registration of social organization
- Street naming registration fees
- Entertainment permit fees such as night and day parties.

Health Sources:

- Birth and death registration fees
- Dispensary and Maternity fees
- Burial fees
- Toilet fees
- Slaughter fees

Economic Sources:

- Traders' fees
- General Contractor registration fees
- Trade license fees
- Hotel registration fees
- Business Centre registration fees
- Bakery house fees
- Head tax
- Cattle tax
- Advertisement permit fees
- Restaurant registration fees
- Association registration fees
- Survey fees
- Barbing Salon license fees.

Statutory allocation from the Federal Account in accordance with section 160(2) of the constitution of the Federal Republic of Nigeria (Promulgation) Decree 1989, Statutory allocation from each state government to the local governments in its areas of jurisdiction, Federal Grants-in-aid, State-Grants-in-aid, Borrowing from state government and other financial institutions, Local Rates on markets and shops, while internally generated source of finance includes; local rates, markets taxes and levies excluding any market where state finance is involved, Bicycle, truck canoe, wheelbarrow and cart fees, other than a mechanical propelled truck, Permits and fines charged by Customary Courts Local Government Business Investment, Tenement Rate Fees from schools established by the local governments Shops and kiosks rate, on and off Liquor Licence fees, Slaughter slab fees, Marriage, birth and death registration fees.

Naming of street registration fee, excluding any street in the state capital, Right of occupancy fees on lands iii the rural areas, excluding those collectable by the federal and state governments excluding the state capital, Cattle tax payable by cattle farmers only, Merriment and road closure levy, Religious places establishment permit fees.

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Signboard and advertisement permit fees, Radio and Television licence fees (other than radio and television transmitter), Vehicle radio licence fees (to be imposed by the local government of the state in which the car is registered), Wrong parking charges.

Public convenience, sewage and refuse disposal fees, customary burial ground permits fees. Fees collected from amusement centers established and operated by the local authority and that of Tourist centers and Tourist attractions, Rents, Fees on Private Institution, Motor park levies, Domestic and licence fees etc. In spite of the above sources of revenues, Local government is faced with varieties of difficulties to source adequate revenue from federal government, state government and the internally generated revenue, such problems is cogwheel to the smooth running of local government administration.

They are the dishonesty on the part of officers collecting the revenues, such as cases of printing receipts by the officers had been the major problem in releasing the expected revenues.

The machinery put in place for collection of revenue is inadequate hence, most of the government money is not collected and this is in case of the internally generated funds.

Meanwhile, as government is the means by which the common problems and needs of a community constituting a country are economically catered for, so as local community revolves jointly those common problems and needs, which could have been difficulty to solve individually.

The very objective of having local representation is in order that those who have an interest in body of their countrymen may manage that joint interest by themselves. This is why every state finds it desirable to create local government councils to provide and deliver local public goods and services hasten development (Olaoye, 2006) and bring government closer to the people.

d) Functions of Local Government

According to Oke (2004), the basic responsibilities of local governments are classified into two – exclusive functions and concurrent functions. The exclusive functions are task attached to the local government. These functions are as follows:

- Sanitary inspection, refuse and night soil disposal.
- Registration of births, deaths and marriage acts.
- Building of markets and motor parks.
- Naming of streets roads, and numbering of plots and buildings.
- Collection of vehicle parking charges, collection of properties charges and other rates.

The concurrent functions on the other hand are those tasks which are concurrently combine the federal, state and local governments. These functions are as follows:

- Maintenance of laws and orders.
- Control of water and atmospheric pollution.
- Information and public enlightment.
- Building and maintenance of health; and maternity centres.
- Provision of scholarship and bursary awards.
- Nursery, primary and adult education.
- Provision of homes for destitute, in firms and orphans.
- Control of beggars or prostitution and repatriation of destitute.

e) Utilization of Revenue Generated By Local Government

Since there are revenue coming to the local government, there must be expenditure on which these revenue would be expended.

Oke (2004), considered local government expenditure under two major headings:

- Recurrent expenditures and
- Capital expenditures

Oke (2004), added further that the expenditure of local government can be considered from the point of its functions. The local government spent money in carrying out its functions, be it the function in the exclusive list or the functions in the concurrent legislative list.

Oke (2004) noted further that the recurrent expenditures of the local government are money spend on:

- Salaries and allowances of its workers, it is the duty of local governments to pay the salaries and allowances of its workers both administrative and political appointees.
- Each department in the local government are given imprest for its day to day running i.e. administration and general, treasury, education, medical and health, town planning and estate developments.

Oke (2004) stated that under capital utilization of local government revenue, the local government spends money on the execution of new projects for the development of the local government areas. Examples of such project includes building of new primary school, maternities and health centers, new feeder roads, culverts, boreholes and wells, new markets and motor parks etc.

f) Problems of Local Governments

The reason for establishing local governments cannot be over emphasized, but the extent to which they have justified the above assertion is left to be desired. Ordinarily, party politics should be an umbrella under which people can discuss development. But the Nigerian experience is far from the issue. Rather party politics is used as an instrument to create acrimony.

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Subair and Oke (2005), described how federal government inaugurated a 10-man technical committee under the chairman of late Alhaji Umaru Ndayako to review the structure of local governments in Nigeria. The committee which composed a representative from the six geo-political zones of the country had a four-point terms preference which include examining the revenue generated and how it's been utilized in the last four years. The committee inaugurated on June 25, 2003, came out with the following problems:

i. Weak financial base due to lack of independent sources of fund.
ii. Embezzlement of funds, contracts and improper keeping of books of account.
iii. Bribery and corruption are the scene of the day in some local councils and misappropriation of funds.
iv. Poor leadership of local councils or absence of good leadership also constitutes problems.
v. Dilapidated infrastructural facilities such as road, water, rural electrification etc.
vi. Local government conditions of services are not attractive enough for the highly qualified staff that can turn round the local governments.
vii. The machinery for tax or rate collection is grossly inadequate and inefficient.
viii. Lack of independence in the traditional jurisdictional functions of the local governments for example primary education should not be ounces of the state nor federal governments.
ix. Low caliber of the political functionaries in the local governments whereby most councilors are not better than illiterates.
x. Political instability in the country lead to frequent changes in structure and functions of local government in Nigeria.
xi. Uneven distribution of resources in the local governments. Some local government especially in urban areas find it easier to generate adequate revenue than those in the rural areas.
xii. Too much interference from the federal governments whereby the true federalism is not applied in the relationship between the local government and other governments.

g) Strategies Adopted in Curtailing Revenue Generation Problems

There have been many debates, seminars and workshop put together to improve revenue generation. Scholars have suggested some useful strategies, which include the following: Okwoli (1983).

1. Retraining already employed personnel.
2. Selection of competent revenue collectors.
3. Undertaking in properly development.
4. Up word review of the share of the federation account.
5. Establishment of revenue monitoring committee and task force.
6. Procurement of modern communication gadgets, vehicles motor cycles and boats.
7. Enactment of clearly defined bye-laws.
8. Establishment of proper infernal control and check of curtail fraud.

III. Research Methodology

a) Introduction

This chapter attempts to provide information on general method and procedure for data collection, research design, instrument used, sample selection, administration and method of data analysis.

b) Research Design

The research design used in this thesis is descriptive design which seek to describe the existing status of what is being investigated and it will also help the researcher to know where the variable are gotten and how the objectives could be achieved. The research design includes the research population, research sample plan, method of data collection, procedure for data collection and technique of data processing and analysis.

c) Population of the Study

The targeted population for this research work was the entire nine local governments that made up the Kogi East Senatorial District.

d) Sample Size and Technique

Three (3) local governments were sampled from the total population to serve as a representative of the remaining local governments. Stratified sampling is used in the selection of the sample. The sampled local governments were Dekina, Omala and Bassa Local Government council representing the urban, semi urban and rural local government respectively.

e) Method of Data Collection

Secondary source of data were embarked upon, comprises of the revenue books, research work on similar subject, text books, newspapers. Information was also collected from Board of Inland Revenue in the Local Government and published allocation to local government from federation account sourced from office of Accountant General of Kogi State.

f) Method of Data Analysis

The model adopted for this study is the Ordinary Least Square (OLS) Method to test all the hypotheses formulated. The SPSS package version 17 was employed.

The formula for the method is Y= a+bx
Where Y= dependent variables
A= the vertical intercept of the line.
B= variable unit of activities
X= independent variables.

This model could be summarized as follows y = bx_i, bx_{ii}, bx_{iii}, bx_n. In specifying the model for this

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research the regression analysis was used, that is simple regression where the revenue generated and the total capital expenditure were related.

IV. Data Presentation and Analysis

This chapter deals with the presentation of data collected in the course of the study. In analyzing the data collected, tables were used in the presentation of data and simple statistical method of frequencies and percentage were applied in analysis of the table and simple least square in analyzing the data presented.

a) *Data Presentation*

Revenue Generated by the Following Selected Local Government from Federation Account.

Table 4.1 : Statutory Allocations (2006 – 2010)

Year	Dekina	Bassa	Omala
2006	648,895,799.06	515,740,231.06	485,326,130.48
2007	808,207,865.27	622,352,472.62	567,994,259.72
2008	1,430,016,045.50	860,078,419.77	672,009,709.78
2009	758,678,2566.1	615,812,530.10	524,721,045.44
2010	789,576,128.29	628,676,312.81	582,624,112.45
Total	4,435,374,094.73	3,240,659,966.36	2,832,675,257.87

Source : Statutory Allocation, January 2006-December, 2010

Table 4.1 shows the total amount of revenue generated from federation account as statutory allocation to the local government under study. The total amount to Dekina, Bassa and Omala, were N4, 435, 374,094.73, N3,240,659,966.36, N2,832,675,257.87 respectively.

Table 4.1.2 : Vat from Federation Account (2006-2010)

Year	Dekina	Bassa	Omala
2006	91,346,446.82	56430,159.4	58,423,506.55
2007	115,961,680.47	74,821,111.11	82,318,598.05
2008	154,432,205.47	97,212,620.05	103,108,418.63
2009	210,820,540.99	141,002,112.5	151,476,372.10
2010	235,209,220.14	165,019,009.1	179,921,465.16
Total	807,770,093.89	534,485,012.16	575,248,360.49

Source : Allocation from VAT (January 2006-December, 2010)

Table 4.1.2 shows the total amount of revenue generated through from federation account as VAT allocation to the local government under study. The total amount to Dekina, Bassa and Omala were N807,770,093.89, N534,485,012.16, 575,248,360 respectively.

Table 4.1.3 : Excess Crude Account's Allocation From Federation Account (2006-2010)

Year	Dekina	Bassa	Omala
2006	132,684,118.16	94,509,057.01	89,389,926.39
2007	188,430,850.87	131,045,051.47	93,418,753.24
2008	560,941,298.48	426,700,652.81	431,498,216.14
2009	267,298.348.89	143,401,157.0	305,403,886.11
2010	275,080,099.11	228,000,115.11	201,317,181.51
Total	1,424,434,715.51	2,314,266,446.4	1,121,027,963.39

Source : Allocation from Excess Crude Account (January 2006-December,2010)

Table 4.1.3 shows the total amount of revenue generated through from federation account as VAT allocation to the local government under study. The total amount to Dekina, Bassa and Omala were N1,424,434,715.51, N2,314,266,446.4, N1,121,027, 963.39 respectively.

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Table 4.1.4 : Internally Generally Revenue

Year	Dekina	Bassa	Omala
2006	30,000,000	15,000,000	16,000,000
2007	34,287,481	17,280,000	21,000,000
2008	45,000,128	19,290,000	25,000,290
2009	61,000,248	25,000,000	27,281,982
2010	75,821,210	30,000,000	32,000,000
Total	246,109,067	106,570,280	121,282,270

Source : Board of Internal Revenue (2001-2010)

Table 4.1.4 shows the total amount of revenue generated through from federation account as VAT allocation to the local government under study. The total amount to Dekina, Bassa and Omala were N1,424,434,715.51, N2,314,266,446.4, N1,121,027, 963.39 respectively.

Summary from all Sources of Revenue (2006-2010)

Local Govt.	Statutory Allocation	Vat	Excess Crude Acct	Internal Revenue	Total Revenue
DEKINA	4,435,374,094.73	807,770,093.89	2,424,434,715.00	246,109,067.00	7,913,687,970
BASSA	3,240,659,966.36	534,485,012.16	2,314,266,446.64	106,570,280	6,195,981,704
OMALA	3,724,129,906.26	575,248,360.49	1,121,027,963.39	121,282,270	5,541,688,499

Table 4.1.5 : Capital Project Undertaken By The Below Local Government Between (2006 – 2010)

PROJECT	DEKINA	BASSA	OMALA
No of PHC built	8 beg capacity PHC in eight villages, 3 cottage Hospital	4 health centres	3 health centre
No of schools built	4 block of class room in 15 villages	4 block of class room in 5 villages	2 classroom constructed
No of mkt built	200 unit built in 4 districts.	Nil	100 unit mkt built
Housing programme	Ultra modern legislative storey building. Housing for legislature and Head of Dept.	Legislative chamber build. Secretariat renovated	Modern legislative chamber built. Housing scheme for employee
Provision of water	3 borehole drilled	1	1
Electricity.	7 villages electrified. Transformers to 15 villages	Nil	Transformer to 2 villages
Scholarship	200 students benefit from UTME fees	Nil	Nil
Training of employee	10	5	5
Total Development Expenditure 2006-2010 (in Billions)₦	6.2	3.1	4.2

Source : Field Survey, 2012

b) Data Analyses

This section is concerned with the analysis of data collected from various sources of revenue to the local government.

YEAR	Y	SRA	EXCESS	IGR	VAT
2006	2.900000	2.800000	0.517000	0.101000	0.356000
2007	3.600000	3.300000	0.689000	0.126000	0.449000
2008	2.600000	3.800000	2.300000	0.164000	0.611000
2009	5.000000	9.900000	1.100000	0.186000	0.718000
2010	4.500000	3.200000	0.967000	0.224000	0.968000

Regression Result from all the Parametre
Dependent variable: Y

Variable	Coefficient	Std Error	T-Statistics	Prob
SRA	0.91905	0.013800	6.659685	0.0949
EXCESS	1.201855	0.058925	20.39650	0.0312
IGR	71.97584	3.547486	20.28925	0.0314
VAT	11.10879	0.785830	14.13638	0.0450

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R-SQUARED (R2) 0.998927
Durbin Watson Statistics 2.443913
Recall that:

Y= Development effort
SRA = Statutory Revenue Allocation
Excess = Excess Crude Revenue
IGR = Internally Generated Revenue
VAT = Value Added Tax

c) Discussion of Findings

From the regression result, the Durbin Watson (DW) of 2.443913 shows that there are no positive autocorrelation among all the variables. The coefficient of determination (R2) at 99% indicates a positive relationship between the dependent variables (the development effort of government) and the explanatory variables. This suggests that 99% of the changes in development efforts of the government are explained by the changes in the Statutory Revenue Allocation, Excess Revenue, Internally Generated Revenue and Value Added Tax (VAT). The remaining 1% is explained by the variables not included in the model.

With regards to Statutory Revenue Allocation, a unit change induces 0.09 unit increase in development effort of government. A unit change in excess crude revenue induces 1.2 unit increases the development efforts of the government while a unit change in Internally Generated Revenue induces 71.9 unit increase in the development efforts of the government. As for Value Added Tax (VAT), a unit change induces 11.1 unit increases in the development efforts of the government.

d) Testing of Hypotheses

Essentially worthy of note in the result is that there is generally significant positive relationship between all the independent variables and the development efforts in all the sampled local governments as indicated by t-statistics deductively, most of the development efforts in the local governments are purely a function of all this important variables. Hence all the null hypotheses are thus rejected while the alternative stands accepted.

e) Summary of Findings

Based on the analysis carried out in this study, the following findings were made.

1. It empirically showed that there is a significant relationship between statutory allocation to local government and the government developmental effort.
2. Revenue from Value Added Tax has significant impact on government capital projects.
3. Government development project is strongly influenced by allocation from excess crude account.
4. There is also a relationship between internally generated revenue and government capital projects.
5. It showed also that government could generate more internal revenue if proper machineries are put in place to complement statutory allocation.
6. It shows that employees of local government need to be trained in revenue generation area.

V. Summary, Conclusion and Recommendations

a) Summary

This research on the revenue generation in the local council and rural development in the kogi East Senatorial District is opened with an introduction; it is followed by the statement of the problems, purpose and significance of the study and some relevant terms as used in the study. The importance of revenue to the overall development of the local government in Nigeria cannot be over emphasized. The study indicated that there is a relationship between revenue and developmental effort of the local government. It also showed that government could generate more internally generated revenue if monitoring is put in place.

b) Conclusion

This study has examined local governments' tax mobilization and utilization in Nigeria. Local Governments in Nigeria receive statutory allocation from both the federal and state governments. They also generate internal revenues through taxes and fees, etc. It is opined that expenditure assignment should match with revenue generating powers in order for local governments to discharge their functions effectively. In essence, revenue and expenditure decentralization must support local government public revenue profile. Local government's 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 enable enough independent funds for development Local governments 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. Local governments which constitute the areas mostly endowed with natural resources should be allowed to woo foreign investors for the development of their abundant resources. This will improve their revenue generation base and create job opportunities for the people.

c) Recommendations

The Local Government as the tiers of government constituted by law has certain obligation to offer to the people at the grass root level. In order to fulfill such obligation the 1999 constitution has made available source of revenue to local government. In spite of this constitution provision the Local Governments still suffer much problem of revenue collection, hence; the following are therefore recommended from the study.

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i. Machinery should be set to draft bye – laws with expediency for possibly legislation.
ii. The local government chairman should ensure that machinery be in place to generate more revenue internally to enable them do more development projects.
iii. The local government authorities should not be over dependent on statutory allocation from the federal government.
iv. Training and re-training programmes for the revenue officials should be organized to enable them meets the challenge of the new millennium.
v. Competent hands should be employed in the revenue section.
vi. Enlightenment campaigns on the revenue to be paid by individual should be carried out.
vii. Control measure should be put in place to check possible frauds and embezzlement.
viii. Communication gadget, vehicle and motor cycles should be provided for the revenue personnel.
ix. Revenue monitoring committee should be formed to check revenue collection.
x. PROVISION OF GOOD INCENTIVE AND REMUNERATION TO WORKERS: This will encourage and boost their morale in discharging their duties. Also, there is need for adequate training of revenue staff so as to know how to manage public funds.
xi. The management need to establish a good internal control system to monitor and control the activities of the organization. This will also ensure that all money collected are accounted for and all money are expended for the purpose which it meant to serve.
xii. The management should also exploit all revenue sources to the local government.
xiii. There should be periodic monitoring of project so as to ensure that contractors do what is expected of them. And also, political consideration in the allocation of contracts should be discouraged.
xiv. Local government should embark on meaningful project so as to improve the standard of living of the community level or the local populace. This can be done through the provision of bore-hole, portable water, health services, schools and libraries e.t.c.
xv. The local government can also parties with big manufacturing companies to establish factories, this not only in increasing it revenue drive but provide employment opportunities for the indigenes of the local government.
xvi. Financial regulations, financial instructions and procedures should be kept as simple as possible. As an interim measure, a massive and short duration training packages designs for the various cadres within the hierarchy and aimed at improving knowledge base and enhancing performance at higher level should be provided.
xvii. Finally, state government should however adopt policies of consciously involving more budgetary power and responsibilities to local authority and develop a sense of political control of the local people by making them aware of the important of local prudent financial management and their welfare. With these numerous suggestions and recommendations, the researcher believes that the performance of local government can be highly improved and this will go a long way to contribute to the economic development of the country.

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Afghanistan's Younger, Elite and Educated Population: A Cultural Assessment and Possible Implications for the Economic and Political Future of the Country

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Abstract - This paper is an exploration of the cultural values of the younger, elite segment of Afghani culture using the Hofstede-Bond typology. Afghanistan was not included in Hofstede's original or subsequent studies, and there is a dearth of empirically-based literature on the cultural classification of this country. The results of this study indicate that this segment of the Afghanistan population is low in power distance, highly masculine, slightly individualistic, somewhat accepting of uncertainty, and possesses a short term orientation towards time. The paper also compares these values with other cultures in the region and beyond, and explains how these cultural differences could hold some promise for this war-torn country. Implications for economic and political development are discussed.

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AFGHANISTANSYOUNGERELITEANDEDUCATEDPOPULATIONACULTURALASSESSMENTANDPOSSIBLEIMPLICATIONSFORTHEECONOMICANDPOLITICALFUTUREOFTHECOUNTRY

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Afghanistan's Younger, Elite and Educated Population: A Cultural Assessment and Possible Implications for the Economic and Political Future of the Country

Charles Rarick [α], Gregory Winter [σ], Gideon Falk [ρ], Inge Nickerson [ω] & Casimir Barczyk [¥]

Abstract - This paper is an exploration of the cultural values of the younger, elite segment of Afghani culture using the Hofstede-Bond typology. Afghanistan was not included in Hofstede's original or subsequent studies, and there is a dearth of empirically-based literature on the cultural classification of this country. The results of this study indicate that this segment of the Afghanistan population is low in power distance, highly masculine, slightly individualistic, somewhat accepting of uncertainty, and possesses a short term orientation towards time. The paper also compares these values with other cultures in the region and beyond, and explains how these cultural differences could hold some promise for this war-torn country. Implications for economic and political development are discussed.

An Exploratory Study of the Culture of Afghanistan Using Hofstede's Value Dimensions.

I. Introduction

One of the most popular and far-reaching cross-cultural research is that of Geert Hofstede. Hofstede was employed as an industrial psychologist and head of the Personnel Research Department for IBM-Europe during the late 1960s and early 1970s. His administration of a "values" survey to IBM employees in the 72 national subsidiaries of the company changed our view of managing across cultures. Based on the data analyzed, Hofstede concluded that management theories are culturally bound, and what may be appropriate management behavior in one culture may be inappropriate in another (Hofstede, 1980a; Hofstede, 1980b; Hofstede, 1983; Hofstede, 1993; Hofstede, 1994; Hofstede, 2001). Hofstede's research has been widely cited in numerous academic studies (Kirkman, Lowe & Gibson, 2006) and often forms the basis for cross-cultural training and analysis. Hofstede worked with data from his original countries surveyed and produced an analysis of forty national cultures. Later research by Hofstede and others provided for the addition of ten more countries and three regions – East Africa, West Africa, and the Arab world (www.geert-hofstede.com, 2012).

The original dimensions of culture identified by Hofstede originally were power distance, individualism, masculinity, and uncertainty avoidance. Power distance is the degree to which members of a society expect power to be equally or unequally shared in that society. Individualism is the extent to which people look after their own interests as compared with collectivism, in which people expect the group to look after and protect their interests. Masculinity is the extent to which people value assertiveness, competition, and the acquisition of money and goods. This is contrasted with femininity as a cultural dimension, which values nurturing, relationships, and a concern for others. Uncertainty avoidance is a society's reliance on social norms and structures to alleviate the unpredictability of future events (Robbins & Coulter, 2012). In essence, uncertainty avoidance is a measure of people's collective tolerance for ambiguity.

Later research (Hofstede & Bond, 1988) added a fifth dimension called long-term orientation. This dimension, originally called Confucian Dynamism, is the extent to which a society encourages and rewards future-oriented behavior such as planning, delaying gratification, and investing in the future. It is a cultural preference for thrift, perseverance, tradition, and a long term view of time (Robbins & Coulter, 2012).

Hofstede's popularity attracted a number of critics, some expressing concerns about the ability to generalize the results of his research and the level of analysis, as well as the use of political boundaries (countries) as culture. The validity of the instrument has also been challenged (Mc Sweeney, 2002; Smith, 2002). The homogeneity of culture, or in other words, the assumption that people are all the same in every culture has also been called into question (Sivakumar & Nakata, 2001). Relative to this study, there have been questions raised concerning the validity of grouping a number of Arab countries into one culture, because there are significant differences among Arab nations (Alkailani,

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Azzam & Athamneh, 2012; Sabri, 2012). The additional dimension of long-term orientation (LTO) has been challenged on the grounds of conceptual validity (Fang, 2003). Grenness (2012) points out the inherent problem of the ecological fallacy in Hofstede's work in which the predominant traits of a group are generalized to the majority of individuals within that group. In 2010, the *Journal of International Business Studies* (JIBS) published a special edition issue devoted to the improvement of cross-cultural research. Of particular mention were the Hofstede and GLOBE studies. This paper does not address those issues, and instead recognizes that all attempts to classify culture may have limitations. Even in the opening article of the JIBS series, Tung & Verbeke (2010) point out the "undeniable" impact of Hofstede's research on the theories and practice of management and international business.

This paper provides a preliminary look into the cultural assessment of a country not included in the Hofstede's data set. Afghanistan is a complex country consisting of both tribal and nontribal groups which influence national culture (Barfield, 2010). It is a country divided by rural and urban cultural values and one that seems to be always at war internally or with outsiders. An accurate empirical assessment of the totality of Afghan culture is nearly impossible. However, one can obtain some insight into the subset of Afghani culture that is perhaps most relevant for business and closely resembles the cultural findings of the Hofstede studies.

II. Method

a) Respondents, Survey Instrument, and Procedure

The assessment of cultural dimensions was made using a sample of 46 Afghani students studying business and economics at a university in Afghanistan. The sample consisted of 37 male and 9 female respondents. It was primarily, though not exclusively, comprised of urban dwellers. The survey respondents ranged between 19 and 23 years of age and represented the more elite segment of Afghani society.

In this study we used Hofstede's Values Survey Module 1994 (VSM 94), a questionnaire containing items developed for comparing the culturally determined values of people in five areas. The items measured respondents' perceptions of Afghan culture on the value dimensions of power distance (PDI), masculinity (MAS), individualism (IDV), uncertainty avoidance (UAI), and long-term orientation (LTO). Twenty items on the questionnaire measured the five cultural dimensions and six items assessed demographics.

The questionnaire was administered during class periods by the course instructor who asked students to voluntarily participate in the survey. Students completed the survey questionnaire anonymously and returned them to the instructor for analysis. The surveys were analyzed using the index method developed by Hofstede. This involved computing a separate score for each of the five value dimensions. The scores for the value dimensions obtained in this study were compared to the scores obtained by Hofstede in other countries of the world (www.geert-hofstede.com, 2012). Comparisons were made to seven select countries: Brazil, Denmark, Germany, Indonesia, Israel, Turkey, and the USA. Scores for each value dimension from the current study were also compared to those from respondents living in countries within the region to better understand the relative values. There were five countries included in this regional analysis: Iran, Iraq, Pakistan, Saudi Arabia, and the United Arab Emirates.

III. Results

The results of the survey indicate that, in general, the culture of Afghanistan is low in terms of power distance, high in terms of masculinity, somewhat individualistic, moderately accepting of uncertainty, and short term in its orientation toward time. These results are surprising in that the value dimension scores for Afghanistan are different from other countries in the region. A typical values portrait of countries in the region would be high power distance, moderate in terms of masculinity, collectivist, and high in uncertainty avoidance. At this point in time people in Afghanistan appear to value the sharing of power, a higher degree of masculine behavior, a more individualistic perspective, and a greater acceptance of uncertainty. Long term orientation is difficult to compare since this dimension was studied in only 23 countries (Hofstede & Bond, 1988). The Afghani people have an even lower long term orientation than people from geographically-proximal Bangladesh and India, the only two countries in the region studied on this cultural dimension. The data indicates that Afghanis have a short term orientation to time. Interestingly, people from the U.S. have an even shorter orientation to time. Figure 1 shows the cultural values of Afghanistan relative to the Hofstede-Bond model.

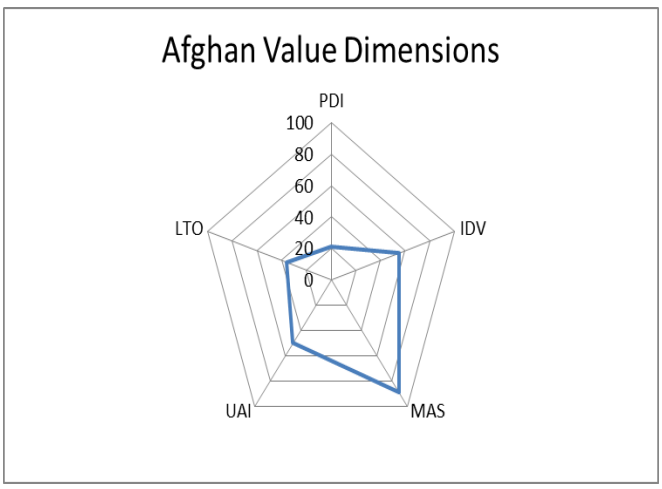

Figure 1 : Plot of the five cultural value dimensions in Afghanistan

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a) Power Distance

The data indicate that Afghanistan's PDI is 21. This score suggests that Afghanis have a low level of acceptance of inequality among societal members. Figure 2 shows the PDI scores for Afghanistan and select other countries. The data reveals that with respect to power distance, Afghanistan's culture is more similar to Denmark than it is to Turkey.

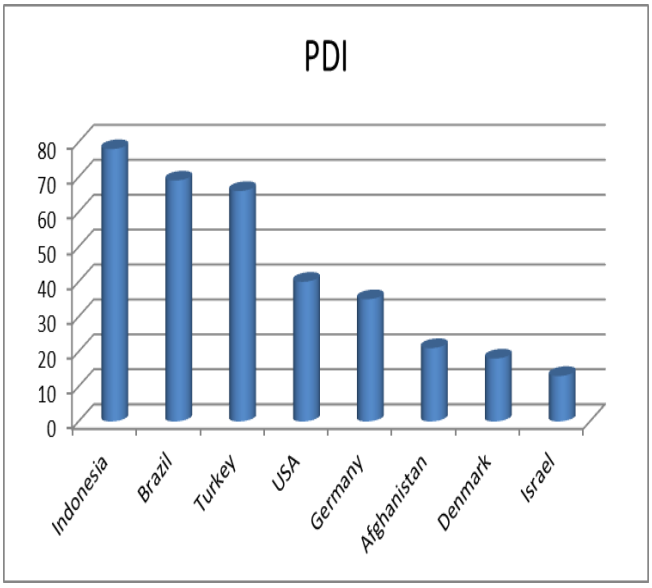

Figure 2 : Scores for power distance in Afghanistan and select countries

Figure 3 shows that within the region, Afghanistan's PDI is most similar that of Pakistan, but markedly different from other countries. The average PDI score for the region is much higher than that found in Afghanistan.

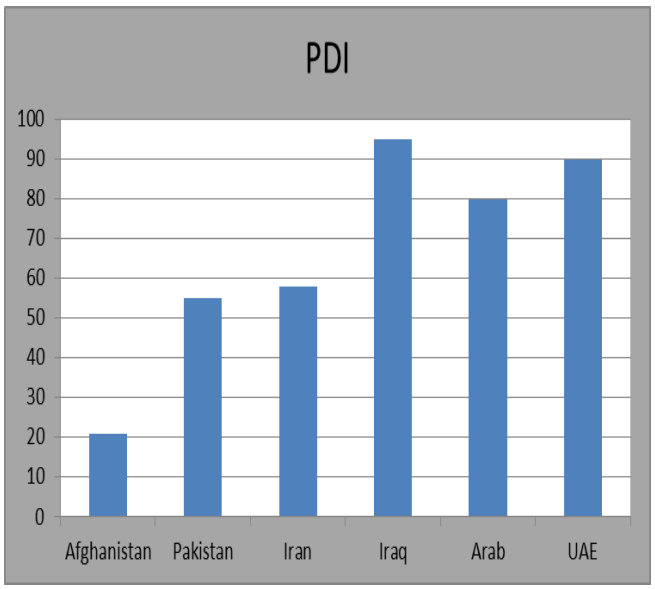

Figure 3 : Scores for power distance in Afghanistan and countries in the region

b) Masculinity

The data indicate that Afghanistan's MAS is 89. This score suggests that Afghanis have a culture that values dominant, masculine behaviors. Figure 4 shows the MAS scores for Afghanistan and select countries. The data reveals that Afghanistan's culture is more masculine or dominant than Germany and most other countries in the world.

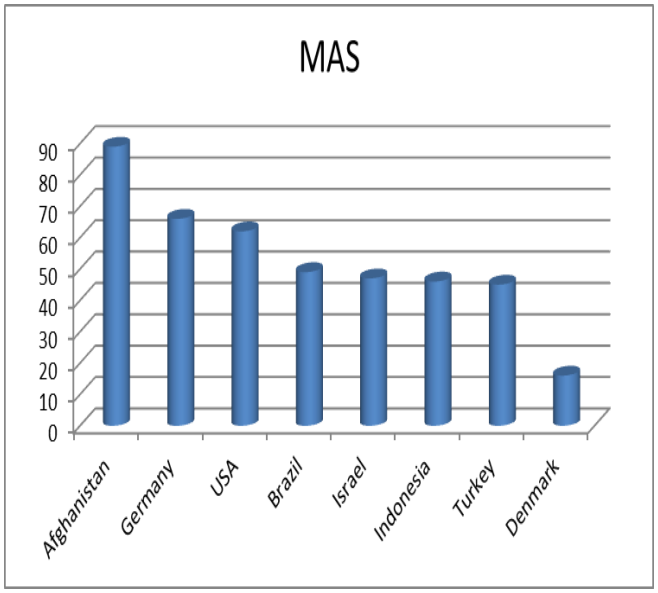

Figure 4 : Scores for masculinity in Afghanistan and select countries

Figure 5 shows that Afghanistan's MAS score is also higher than most other countries in the region. Only Iraq's MAS score is similar to that of Afghanistan.

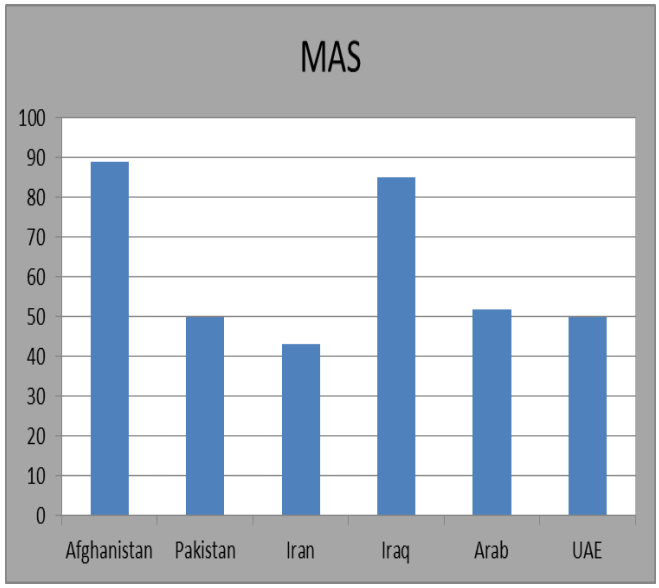

Figure 5 : Scores for masculinity in Afghanistan and countries in the region

c) Individualism

The data indicate that Afghanistan's IDV is 55. This score suggests that Afghanis are individualistic as a

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culture, placing it at odds with countries in the region, whose cultures are mostly collectivistic. Figure 6 shows the IDV score for Afghanistan and select countries. The data reveals that with respect to individualism, Afghanistan's culture is more similar to Israel than to Indonesia or neighboring Turkey, whose cultures are less individualistic and more collectivistic.

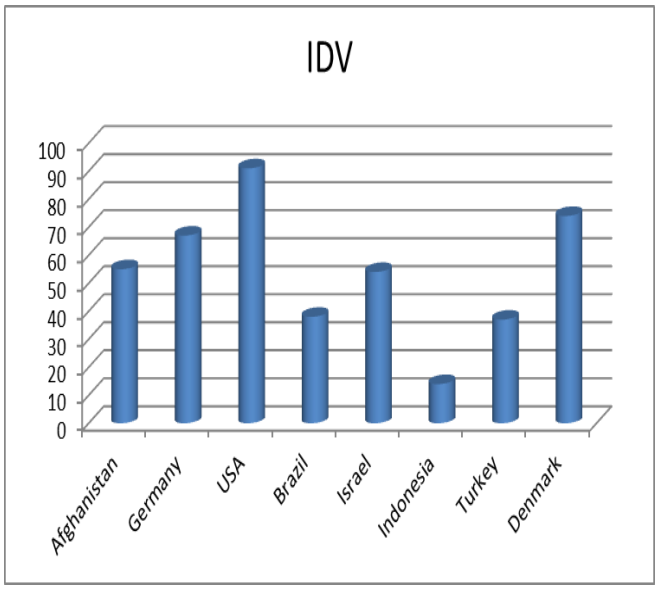

Figure 6 : Scores for individualism in Afghanistan and select countries

Figure 7 shows that within the region, Afghanistan's IDV score is highest, with slightly lower scores found in Iran and Saudi Arabia. It should be noted, however, that while Afghani culture is high on individualism in the region, it is considered only slightly individualistic globally. Individualism in the USA is markedly higher.

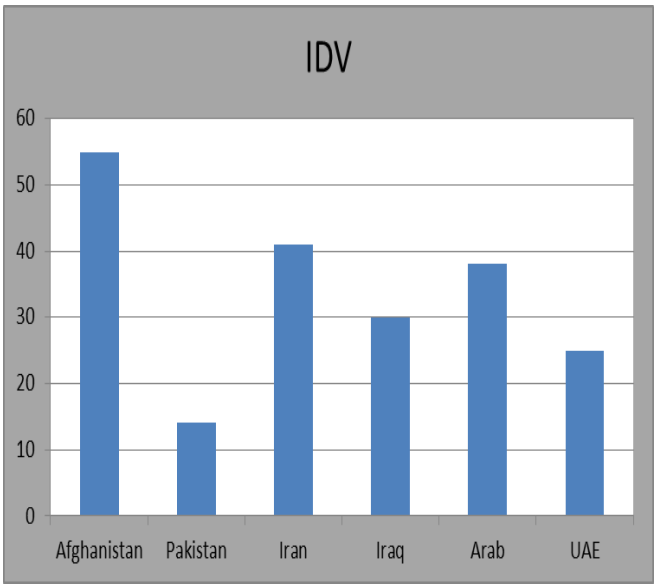

Figure 7 : Scores for individualism in Afghanistan and countries in the region

d) Uncertainty Avoidance

The data indicate that Afghanistan's UAI is 50. This score suggests that Afghani culture has a relatively high tolerance for uncertainty. Figure 8 shows the UAI scores for Afghanistan and select other countries. With respect to uncertainty avoidance, Afghanistan's culture is similar to that of the USA.

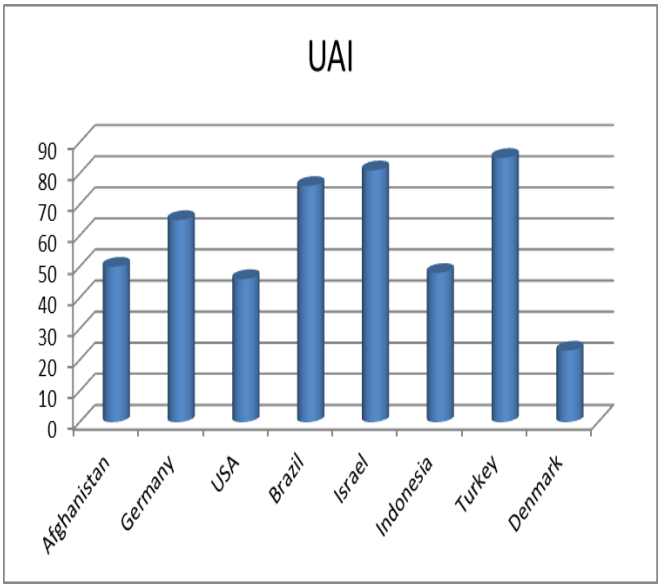

Figure 8 : Scores for uncertainty avoidance in Afghanistan and select countries

Figure 9 shows that within the region, Afghanistan's UAI score is most similar to that found in Iran. Other countries in the region have cultures with a greater uncertainty avoidance, except for Iraq, which has a lower score indicating a higher tolerance for uncertainty.

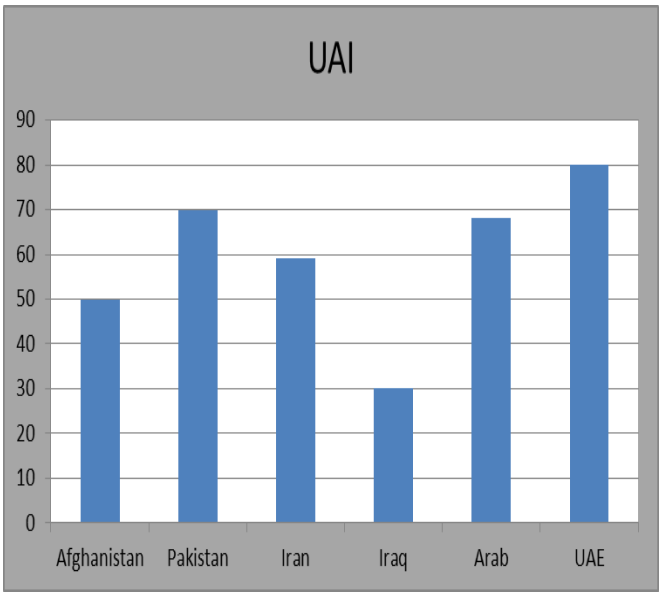

Figure 9 : Scores for uncertainty avoidance in Afghanistan and countries in the region

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e) Long Term Orientation

The data indicate that Afghanistan's LTO is 36. This score suggests that Afghanis have a culture that is short-term oriented. Since this dimension was added nearly a decade after Hofstede's original study, we have comparative LTO data for relatively few countries. As such, comparisons with the Afghani data are difficult. Figure 10 shows the LTO scores for Afghanistan and six other countries from which those data were collected. The current data reveals that Afghanistan's long term orientation is similar to that of Bangladesh, but much lower compared to countries in the East: China, Japan, and South Korea. According to Hofstede and Bond (1988), cultures with low LTOs respect tradition, yet desire quick results. There is also social pressure to keep and advance one's social standing.

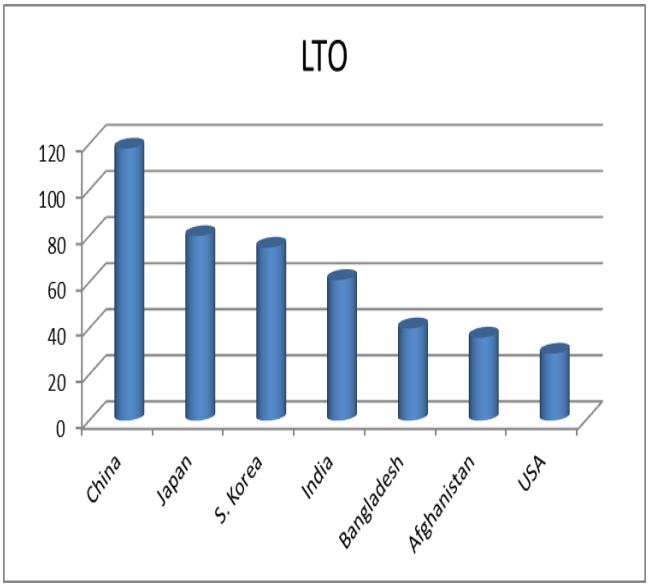

Figure 10 : Scores for long term orientation in Afghanistan and select countries

IV. Discussion

While this study was not unlike the original Hofstede work in terms of sample heterogeneity, it is reasonable to conclude that the unique characteristics of the sample population do not represent the total Afghani population and wider view of Afghan culture. It is believed that the results are an accurate assessment of the urban, wealthier, educated segment of the population. Beyond this exploratory study, additional surveys using the VSM94 with more heterogeneous segments of the population would provide a more accurate description of Afghan culture. While the usefulness of the data reported in this paper for international business and economic development may be limited because of sample size, the findings should not be wholly discounted. Hofstede's initial data sample from Pakistan was limited in size with only 37 respondents.

The most surprising aspect of this study on culture may be the low power distance score found for the Afghani respondents. In the region of central and southern Asia it would be expected to find a much higher PDI score. While the low PDI may be a reflection of the sample, it may also reflect the lasting effect of the country's tribal societal structure. A country once ruled by a king gave considerable power and autonomy to tribes. Those tribes settled disputes and made decisions through a consensual process called jirga (Khapalwak & Rohde 2010). This power-sharing tradition may explain the low power distance score, but further investigation would be necessary to determine its cause.

a) Geopolitical and Economic Implications

Afghanistan, once a little known patch of mountains in a perceived unimportant part of the world, rose in visibility with the invasion of Soviet troops in 1979. With the subsequent withdrawal of Soviet troops and the rise of the Taliban, Afghanistan would once again gain international exposure with the terrorist attacks on America in 2001. Afghanistan remains important to American and allied foreign policy given the potential for additional terrorist activity and its proximity to troubled Pakistan. In addition to its geopolitical importance, the recent discovery of massive quantities of minerals, including the much coveted rare earth minerals in the country (Simpson 2011) make Afghanistan a potentially important economic entity. This potential source of wealth could help transform the country and its culture towards a more modern state.

The cultural values of the educated elite could be quite useful in moving Afghanistan forward. Of particular importance may be our findings related to the Afghani cultural dimensions of individualism and uncertainty avoidance. In order to build a modern economic system based on an entrepreneurial spirit it is helpful for cultural values to stress the importance of self-reliance and the acceptance of change. Individualism has been positively correlated with long run economic growth (Gorodnichenko & Roland, 2011). Afghanistan's moderately high cultural orientation towards individualism is especially promising in a country that is attempting to rebuild economically and politically. Having the ability to adapt to change, which is associated with a high uncertainty tolerance (low UAI score), is another factor working in favor of Afghanistan's desire to rebuild. While it is naïve to assume that massive change will occur overnight in this troubled country, there is some reason for hope that the educated leadership, along with economic resources, can begin to rebuild Afghanistan. In order to facilitate political change in Afghanistan's new democracy, it might also be useful to have leaders who possess a greater concern for power-sharing, especially given the power and influence of the country's tribal leaders.

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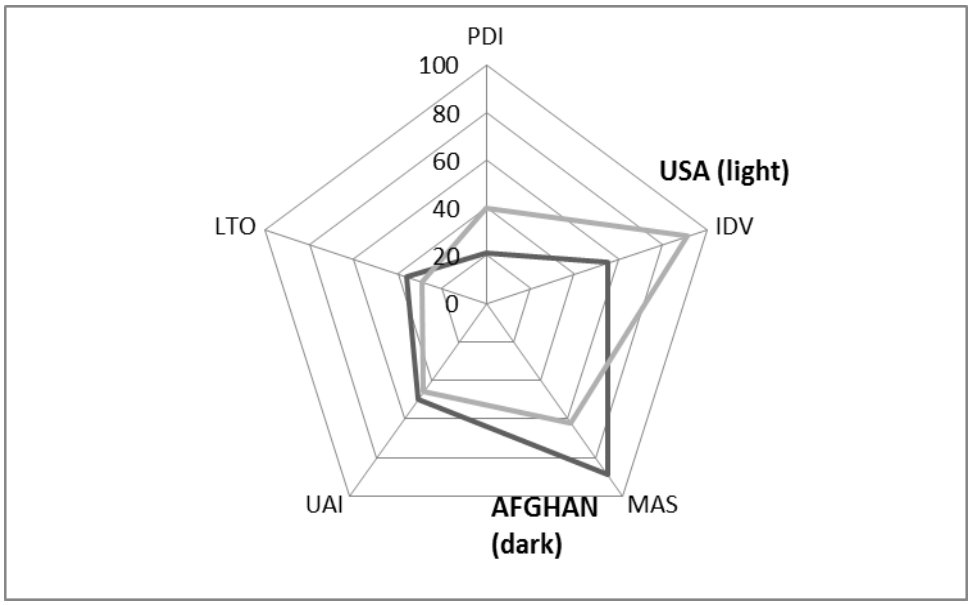

Figure 11 : Plot of the five cultural value dimensions in Afghanistan and the USA

Invaded countries tend to adopt the cultural values of the invaders (Rothkopf, 1997; White, 2001). After more than a decade of occupation by NATO forces dominated by the U.S. military, there seems to be some degree of overlap between the cultural dimensions of Afghanistan and the United States, more so than would be expected. The overlapping is evident in Figure 11, which plots the scores on the five Hofstede dimensions for both Afghanistan and the U.S. While Afghanistan has a more masculine orientation and the United States has a more individualistic orientation, one would expect greater divergence in cultural values between these two countries. In that a discussion of the merits of the American and allied invasion as well as the occupation of Afghanistan is beyond the scope of this paper, it is worthy to note that the values of the Western powers may already have had some influence on the Afghani upper class development. History may teach us another lesson, especially the history of Afghanistan. In the end, there is reason to hope that the cultural values assessed in this survey may help bring about a more developed, tolerant, and peaceful country.

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Approach

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References	Complete and correct format, well organized	Beside the point, Incomplete	Wrong format and structuring

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