

APPRAISAL OF THE CHALLENGES IN REVENUE COLLECTION AND THE IMPACT ON THE ECONOMIC DEVELOPMENT OF NIGERIA

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Abstract

Revenue collection is an integral component of fiscal policy and administration. It is the fuel of every government; the main instrument through which government funding is ensured. With growing donor fatigue and dwindling domestic revenue reserves in Nigeria, the need to strengthen revenue collection systems has become particularly imperative. Yet, devising efficient means of collecting revenue remains a daunting challenge in Nigeria. Among the challenges confronting revenue collection include corruption, poor attitudes of the revenue collectors and among others. The paper revealed that there is a positive relationship between revenue collection and economic development. The paper also identified the various sources of revenue which include taxation (non oil revenue) and oil revenue. The paper recommended that public enlightenment campaigns should be embarked upon so that indigenes could be informed of the policy of government as regards revenue generation.

Keywords: Challenges, Revenue, Impact, Economic Development

Introduction

Right from the evolution of the Nigerian economy to the first decade of colonial emancipation, Nigeria derived its revenue from the export of primary agricultural products such as cocoa, groundnut and palm kernel. The discovery of oil in the 1970s encouraged over-reliance on oil revenue to the neglect of these traditional sources. Consequently, the non-oil revenue sources were no longer of major concern to the federal and state governments. According to Odusola (2006) ever since then, oil has dominated Nigeria's revenue structure, and its share in total federally collected revenue rose from 26.3% in 1970 to 81.8% in 1979 and 72.6% to 76.3% in 1989 and 1999 respectively. Today, oil and its rapid monetization provide the federal and state governments in Nigeria revenue for the expansion of their economic activities. This gave added filling to the establishment of several public enterprises. However, as Anyanwu (1997) notes, there is increasing volatility in the revenue profiles of state governments, which instills great fears in the proper coordination of fiscal policy and threatens the sustainable existence of some states, making them susceptible to technical bankruptcy and heavy debt burden due to complicated tax policy and low tax compliance. The lack of strong fiscal discipline worsened by heavy government expenditure in the economy necessitated the Federal Government economic and budgetary reforms such as diversifying the revenue base to non-oil and reducing the volatility of public finance (FGN, 2004).

Nigeria has been one of the most backward developing countries in terms of harnessing revenue owing to weak standard of good governance. According to Okwori and Sule (2016, p. 113), in recent years, the most worrisome about Nigeria's economy is that corruption and mismanagement prevented the strait of the country's resources from taxation and other sources into lasting improvements in self-sustaining economy. The Central Bank of Nigeria (CBN, 2012) opined that despite increasing revenue generation that supposedly have been plough into productive ventures, the economy is still characterized with high rate of unemployment of 21.4% and 23.9%, high rate of inflation of 11.8%, and 10.3%, high interest rate of 22.51% and 22.42%, low capacity utilization of oil industry of 24.33% and 24%, in 2010 and 2011 respectively. There

also exist low investment, high level of corruption, weak institutions, low per capita income, poor infrastructure, deteriorating economic activities, accumulated debt, still prevail. It is with a great dismay that the poor indices stated above is lack of provision of public goods as enshrined in theory of public goods popularized by Samuelson in 1954. As stated by Sanni (2007):

Nigeria's fiscal operations over the years have resulted in varying degrees of deficit; financing of which has had tremendous implications for the economy. Hence the country is faced with increasing budget deficits year in year out creating an ever increasing gap between public expenditure and the revenue generated. According to CBN (2010) Deficit financing remains high at N 117.2 billion, N 47.4 billion and N 810.0 billion in 2007, 2008, and 2009 respectively. Statistics shows that Nigeria's oil GDP growth rate stood at 7.84% between 1986-1993, fell to 0.51% between 1994-1999, 4.75% between 2000-2002, and rose to 6.40% between 2003-2008 while non-oil GDP growth rate within the same period stood at 5.77%, 3.00%, 3.55% and 8.80% respectively with corresponding total GDP growth rate between 1986-1993 stood at 6.23%, 1994-1999 at rate of 2.33%, 2000-2002 at 4.75% and 2003-2008 at 6.40%. It is pertinent to note that, total oil revenue generated between 2000 and 2009 amounted to N34.2 trillion while non-oil was N7.3 trillion, representing 82.36% and 17.64% respectively.

In this vein, Okwori and Sule (2016) opined that this is a clear indication that our revenue generation potential is solely dependent on oil revenue even in the midst of several adjustment and implementation of various forms of tax revenue laws. This is an indication of high level of inefficiency in the tax administration in Nigeria, which is contrary to the tax-and-spend hypothesis put forward by Friedman (1978) which states that changes in government revenue bring about changes in government expenditure with sole aim of bringing growth in the economy.

Besides, Naiyeju (1996) asserted that, the success or failure of any tax system depends on the extent to which it is properly managed; the extent to which the tax law is properly interpreted and implemented. Dickson and Presley (2013) further attribute this shortcoming to high rate of tax evasion, misguided tax exemptions and corruption in the administration of the tax system. Despite the tremendous growth recorded in the oil revenue, there are still reoccurring question as to whether government have fully utilized this revenue for the overall improvement of the economic activities. To this end, Storey (1953) in Okowri and Sule (2016) wrote that "before independence, there have been cases of official misuse of resources for personal enrichment". Iweala (2015) observed that with this persistent variance one may not be wrong to question the outlook of the revenue generation base – the Gross Domestic Product (GDP) and its attendant growth rate in the light of the 2008 global economic recession and recently the fluctuation of crude oil price at the international market with its devastating effect on revenue base where Nigeria government is seeking external loans worth \$5.7bn (N2.97tn) from World Bank, African Development Bank, Islamic Development Bank and China Export-Import Bank to finance 2015 budget in midst of existing debt profile of about N712billion recorded in 2014 and currently stand at N943billion as at January 2015. Excellent fiscal policy as noted by Eita and Mbazima (2008), Wolde-Rufael (2008), and Fasano and Wang (2002) is essential in bring about

improved revenue generation sources and sustainable economic growth. It is also suggested by Wicken and Uctum (1990) that the sustainability of a fiscal deficit profile is essential if it must stimulate growth. Most times when expected revenue exceeds expenditure, it is expected to stimulate growth but in Nigeria, it is the opposite giving excessive and over bloated cost of governance. To this end, Ariyo (1993) expressed the view that given the current trend, Nigeria may not be able to sustain the level of her fiscal deficit in the long-run. Given the above scenario described above, the set to appraised the challenges in revenue collection and the impact on the economic development in Nigeria.

Conceptual Clarification

Revenue Generation and Collection: According to Ahmed (2010) revenue is defined as all amounts of money received by a government from internal and external sources for example those originating from “outside the government” net of refunds and other correcting transactions, proceeds from issuance of debt, the sale of investments, agency or private trust transactions, and intra-governmental transfers. Government Revenue comprises amounts received by all agencies, boards, commissions, or other organizations categorized as dependent on the government concerned. Chaudhry and Munir (2010) stated revenue in terms of the accounting procedures from which these data originate, revenue covers receipts from all accounting funds of a government, other than intra-governmental service (revolving), agency, and private trust funds. Edogbanya and Sule (2013) defined revenue 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.

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 rose 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.

The methodology used to measure revenue involves addressing four issues: refunds and correcting transactions; timing; aggregation and tabulation; and government enterprise activities. In Measuring issues: refunds and correcting transactions, revenue data are adjusted for refunds and other correcting transactions. According to Abiola and Asiweh (2012) the rules for refunds of taxes differ from those for other revenues. In measuring issues in timing, revenue is measured over the full fiscal year of the government. Revenue received at any time during the fiscal year is included in the measurable amounts reported. Illyas and Siddiqi (2010) argue that total property tax revenue reflects such tax collections received by the government over the full twelve months of its fiscal year. Governments often report revenue, and keep their official accounting records, in terms of a modified accrual form of accounting. Where this happens, Census Bureau statistics reflect this accounting approach, even though it does not correspond exactly to the concept of cash received during the fiscal year.

In aggregation and tabulation, Chaudhry and Munir (2010) were on the view that aggregate statistics for an individual government reflect the revenue of the parent government and all of its dependent agencies. However, flows of funds between these entities are considered internal transfers and are excluded, by definition, from revenue totals. These are treated as intra-governmental revenue and are excluded in much the same way as most intra-governmental service or revolving funds. Tabulated statistics on revenue for multiple governments reflect the fiscal years of the governments being summed. To Abiola and Asiweh (2012) since these fiscal years differ, total statistics such as for all local government in a state or all townships nationally, reflect a mix of fiscal periods. For the annual surveys of government finance, the Census Bureau makes no effort to adjust aggregates so that they represent a standard time period. In government enterprises activities, Revenue of business-type activities of governments (utilities and other commercial or auxiliary enterprises) is reported on a gross basis. That is, related expenditures are not deducted from their revenues to derive net revenue amounts. In this regard; the Census Bureau uses a methodology that differs from that used by some other statistical agencies (Chaudhry and Munir, 2010).

Economic Development: Ayres and Warr (2006) define economic as 'a rise in the total output (goods or services) produced by a country'. It represents an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. Economic development refers only to the quantity of goods and services produced. Economic growth can be measured in nominal terms including inflation, or in real terms, which are adjusted for inflation like by the percent rate of increase in the gross domestic product (GDP). According to Illyas and Siddiqi (2010) economic growth measures growth in monetary terms and looks at no other aspects of development.

Economic development can be either positive or negative. Negative development can be referred to by saying that the economy is shrinking. Negative growth is associated with economic recession and economic depression (King and Levine, 1993). Gross national product (GNP) is sometimes used as an alternative measure to gross domestic product. In order to compare multiple countries, the statistics may be quoted in a single currency, based on either prevailing exchange rates or purchasing power parity. Beck and Web (2003) in order to compare countries of different population sizes, the per capita figure is quoted. To compensate for changes in the value of money (inflation or deflation) the GDP or GNP is usually given in "real" or inflation adjusted, terms rather than the actual money figure compiled in a given year, which is called the nominal or current figure (Ayres and Warr, 2006). King and Levine (1993) and Beck and Web (2003) suggest that financial systems are important for productivity, growth and development. Well-functioning institutions and markets, it is noted, augment technological innovation, capital accumulation and therefore economic growth. They also note that well-functioning financial markets lower the costs of transaction increasing the amount of savings put into investment (Illyas and Siddiqi, 2010). They also allows for capital to be allocated to projects that yield the highest returns and therefore enhance economic growth rates.

Sources of Revenue

Fayemi (1991) classified government revenue into two kinds – internally generated revenue and external revenue. Olusola (2011) using ordinary least square found out that rates, fines, fees and licenses, rent sources of revenue are significant factors influencing internally generated revenue of local governments in Ogun State. It noted

that out of the major internal revenue sources statutorily allocated to local governments, the combination of rates, local license, fees and fines, and earnings from commercial undertaking account for upwards of 75% of local government internally generated revenue. Oseni (2013) found that states getting additional revenue from the statutory allocations as derivation have lower proportions of internal generated revenue to their total revenues than some states. States where insurgency had been threatened with have the lowest IGR for the period. Dependence on the statutory allocations by the states does not necessarily translate to good dividends on democracy as internally generated revenues can be used to develop the states. Agba, Stephen and Nnamani, (2014) identify the following sources, mass transit transportation, petrol filling stations; commercial farms; nursery schools and day-care that has the potential of generating revenue; establishment of endowment funds. According to Danjuma in Lukpala (2013, p. 35) revenue is collected from the following sources:

- (1) Company income tax
- (2) Import Duties
- (3) Export Duties
- (4) Exercise Duties
- (5) Petroleum profit tax
- (6) Mining rents and Royalties
- (7) NNPC Earnings from Direct States
- (8) Pipeline Licenses and fees
- (9) Surpluses arising from the sale of Gas

Table 1: Major Revenue Sources in Nigeria

S/ N	TYPE OF REVENUE	ADMINISTRATION & COLLECTION/ BENEFICIARY	REVENUE CATEGORY
1	Import duties	Federal Government	INTERNAL REVENUE SOURCES
2	Excise duties	Federal Government	
3	Export duties	Federal Government	
4	Mining and royalties	Federal Government	
5	Petroleum sales and profit tax	Federal Government	
6	Companies' tax	Federal Government	
7	Capital gains tax	Federal/States Governments	
8	Personal income tax (other than listed in 9)	State Governments	
9	Personal income tax: armed forces, external affairs officers, on-residents, residents of the Federal Capital Territory and the Nigeria Police.	Federal Government	
10	License fees on television and wireless radio	Local Governments	
11	Stamp duties	Federal/State Governments	
12	Capital transfer tax (OTT)	State Governments	
13	Value Added Tax	Federal Government	
14	Pools Betting and other Betting taxes	State Governments	
15	Motor Vehicle and Drivers' Licenses	State Governments	
16	Entertainment tax	States/Local Governments	
17	Land registration and survey fees	State Governments	
18	Property taxes and rating	Local Governments	
19	Marketing and trading licenses and fees	Local Governments	
20	Motor park duties	Local Governments	
21	Advertisement fees	Local Governments	
22	Gift tax	State Governments	
23	External borrowing (Loans)	Federal/States/Local Governments	EXTERNAL REVENUE SOURCES
24	Statutory allocation from the Federation Account	States/Local Governments	
25	Financial transfers (Capitalization)	States/Local Governments	
26	Special grants	Local Governments	
27	Intergovernmental Transfers	Local Governments	
28	Donations	Local Governments	

Source: Adedokun, n.d; Constitution of the Federal Republic of Nigeria, 1999; Uhumwuangho & Aibieyi, 2013.

Revenue Collection and the Economic Development

Revenue collection impacts economic development through meeting the various governmental needs (Illyas and Siddiqi, 2010). Perhaps the most important mechanism through which government expenditure impacts on economic performance are the costs of raising taxes to finance that expenditure because taxes affect the decisions of households to save, supply labour and invest in human capital and of firms

to produce, create jobs, invest and innovate, as well as the choice of savings channels and assets by investors (Johansson, 2008). By lowering the returns to earning income, taxes reduce incentives to work, save and invest, thereby “crowding out” or discouraging private sector activity. Setting the right mix is important, as the distortionary effects of collecting revenue from different sources can be very different. Though all taxes have disincentive effects, taxes that reduce incentives to invest in human or physical capital and innovation are particularly damaging. Consequently, theory and evidence suggest that a shift from taxing incomes or profits to property or consumption can enhance growth (Barrios and Schaechter, 2008; and Johansson, 2008). Consumption taxes may discourage work and investment in human capital but they appear to have a relatively minor impact on the long-run determinants of growth, such as investment, education or technical progress (Bassanini, Scarpetta and Hemmings, 2001). Therefore, endogenous growth models tend to make a simplifying distinction between distortionary taxes that impact on investment decisions and „non-distortionary” taxes that have little impact on investment. While financing expenditure carries costs to economic growth, some types of government expenditure are beneficial to economic performance. Some government expenditure is a prerequisite for a functioning market economy, such as a legal system to protect private property rights (Barrios and Schaechter, 2008). Beyond this foundational level, expenditure initiatives may lift long-run growth rates by increasing investment in physical capital, knowledge, human capital, research and development or public infrastructure, particularly where market failures lead to under-investment by the private sector. For example, government investment in physical capital could boost long-run economic growth if investment stimulates technological progress or if the productivity of businesses is boosted from others’ investment or innovation (knowledge spillovers) (Bassanini, Scarpetta and Hemmings, 2001).

Government can directly invest in physical capital or infrastructure or it can encourage private sector investment. Investments in human capital may have persistent impacts on economic growth if education enables ongoing innovation and advances in technological progress. Individuals and firms may under-invest in human capital from an economy-wide perspective as they will not factor in the positive flow-on effects to other workers and businesses from investment in education and training. This according to Ayres and Warr (2006) can be compounded by problems in accessing capital to finance investment in education, providing a rationale for government funding of education.

Constraints to the Potential Sources of Revenue in Nigeria

The Nigeria government device several means to improved revenue collection from the 1970’s till date due to reforms introduced by different regimes all aimed at making the Nigeria government effective and efficient in discharging statutory responsibilities to the people. This was achieved through increased sources of revenue generation; this problem is multifarious ranging from low borrowing capacity, corruption, mismanagement and misappropriation of state government funds, ineffective strategies for enhancing internally generally generated revenue, lack of skilled and technical personnel among others.

Mismanagement and misappropriation of government funds: This is one of the major problems of revenue generation in Nigeria; in most cases the state government funds have been mismanaged. Tax collectors that are charged with the responsibility to collect all the revenue sources do not adequately use their freedom to collect them and exploit other sources of revenue available to the state government. Many state

government officials embezzle local government funds through all sorts of manner like inflating contracts or embarking on white elephant projects or outright siphoning of funds which has affected the developmental process of Nigeria (Uhunmwangho and Aibieyi, 2013).

Corruption: The internally generated revenue which was hoped to accelerate the finance of the state government is bedeviled by corrupt practices on the part of revenue collectors. It has been observed that these revenue collectors have in the possession unofficial receipts; this enables them to divert state government funds into private use. Corruption is the locust that has eaten state government revenue, this manifested in the distorting of revenue return receipts, embezzlement and misappropriation of funds. Afuberoh and Okoye (2014) posit that due to poor rate of voluntary compliance, and low degree of honesty, most taxable persons hide from tax authorities and if possible would give fake address to conceal their identities. The tax collection mechanism used by the officials must be free from corruption and embezzlement, and that if this is not done the revenue collected may not reach the desired point.

Poor financial management: This arises from poor attitude to work as well as lack of integrity of revenue collectors. Orewa and Adwoman (1992) posited that one of the factors responsible for Local Government poor revenue collection is the casual attitude of the revenue collectors and other treasury staff. They labour under the illusion that (no attar) whatever revenue they collect directly, the ‘father charismas’ of Federation Account will provide adequate funds for the payment of personal emoluments of the staff. This assumption is deceptive in that with poor revenue generation efforts, some council have found themselves unable to pay salary after deductions made by the State Governments. Ineffective Strategies for Enhancing Internally Generated Revenue by the government also contributed to poor revenue generation. These human related factors no doubt negatively affected development at the state government level which is the bedrock for genuine national development.

Conclusion

Economic development is characterized by increased GDP, increase indisposable income available to its citizens which is reflected in terms of the per capita income available to them. However, when sufficient revenue is generated, it leads to a beehive of economic activities which ultimately leads to growth in terms of volume of businesses, trade and industry as well as investment opportunities. But this is not always the case as several factors lead to slow economic growth including dwindling revenue base of the nation. Proper or adequate tax administration so as to generate sufficient revenue to trigger economic development is a matter of concern to Government and all stakeholders, as it may have adverse consequences on the systematic stability of the revenue base of the nation at any point in time. The magnitude of this effect depends on specific circumstances of each economy, such as regulatory framework, supervision practices, international financial integration, and policy issues. Furthermore, since taxation as a means of revenue generation for the nation, is likely to continue given its huge impacts on the revenue base, further policy measures may be necessary in order to maintain a competitive environment and strengthen the involved agencies for efficiency and profitability.

Recommendations

Based on the findings in this paper, the following recommendations are made:

- i. There should be capacity building and personnel efficiency among revenue staffs, hence training and retraining of all cadre of revenue staffs will be a welcomed development
- ii. Professional staff should be employed to enhance perfection in the area of revenue collection and suspension of employment of unqualified staff as revenue collectors in the government
- iii. The government should engage in commercial venture that would yield positive net returns on the invested capital such as mass transit buses and Hotel services etc.
- iv. Provision of essential service to populace would have psychological effect on the indigene by feeling that government cares for their welfare and thereby motivate them to response to their obligation to the government
- v. Appointment into government revenue board should be by merit not on the bases of political affiliation with the incumbent government
- vi. Public enlightenment campaign should be embarked upon so as the indigene would be informed of the policy of government as regards revenue generation
- vii. The tax rate should be restructured with the view to adjust it downward or upward and it should be make known publicly to both the tax payers and collectors and base on the ability to pay principles.

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