The Impact of Internally Generated Revenue on Economic Development in Nigeria

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Abstract

The study investigated the impact of internally generated revenue (IGR) on economic development of Nigeria. The inability of States and Local governments in Nigeria to generate enough revenue to cope with their expenditure responsibilities has been a serious challenge. The improper use of IGR and corruption have remained a setback to economic development in Nigeria, hence the clamour from the citizens. This study made use of ex-post facto research design to specifically examine the impact of total IGR (TIGR), Federal Government Independent Revenue (FGIR), States IGR (SIGR) and Local IGR (LIGR) Governments IGR on the Real Gross Domestic Product (RGDP) i.e. proxy for economic development of the country. The time series data employed covered a period from 1981 to 2016 and were gathered from the Central Bank of Nigeria (CBN) Statistical Bulletin. The statistical tool used for the data analysis was the multi-regression and t-test for test of hypotheses. The findings of the study revealed that TIGR, SIGR and LIGR have robust and significant positive impact (p-value = 0.000 < 0.05) on RGDP, while FGIR also indicated positive and significant influence on RGDP. There was an existence of high correlation between the dependent and independent variables. The study concluded that the positive impact of IGR is not out of place but the physical evidence is apparently lacking and therefore government policies that could eradicate sharp practices in the government system are required. The study also recommends that government official with corruption history should not be allowed to continue to handle responsibilities rather; people with outstanding integrity should be given opportunity to occupy government positions that are sensitive and could help achieve economic development objectives.

Keywords: economic development, real gross domestic product, internally generated revenue, sharp practices, sustainability

1. Introduction

Internally Generated Revenue (IGR) denotes the revenue that the federal, state and local governments generate within their respective areas of jurisdiction (Abiola & Ehiogbua, 2014). IGR for state governments has also been described as revenues that are derived within the state from various sources such as taxes (pay as you earn, direct assessment, capital gain taxes, etc.) and motor vehicle license, among others (Adenuga & Chike, 2013). According to Aisimiyu and Kizito (2014), economic development and sustainability of states in Nigeria depend on the ability of such states to generate revenue internally to supplement the revenue allocation from federation account. In other words, federal allocations are not sufficient to guarantee economic development of states and local governments, hence the emphasis on local generation of revenues to sustain the economy of the nation locally and at the federal level.

The specific objective of this study is to assess the extent to which Total IGR (TIGR), Federal Government Independent Revenue (FGIR), States IGR (SIGR) and Local governments IGR (LIGR) influence economic development in Nigeria as measured by real gross domestic product (RGDP). IGR is the primary source of local government sustenance. Ola and Tonwe (2003) described IGR as the live wire of a local government, which implies that, the existence and sustenance of a local government area depends on their ability to generate sufficient revenue. Considering the fact that local governments have control over IGR economic development is made possible and faster. However, the capacity of a local government to receive IGR is one of the criteria and critical consideration for
the creation of a local government (Olusola & Siyanbola, 2014). Looking at the theoretical and empirical evidence on how state governments could increase IGR capable of absorbing increasing recurrent and capital expenditures of states, Ekankumo and Braye (2011) submitted that economic development and viability of states in Nigeria depend on the ability of a state to boost IGR which is not only dependent on tax, but through entrepreneurial options which will help to complement the revenue from statutory account.

Kiabel and Nwokah (2009) in their investigation on what could help states generate more IGR argued that the use of External Tax Consultant provides the solution since states could collect more tax through the consultant’s efforts and initiatives. With the persistent economic situation globally and locally, there have been urgent needs for Nigerian government to diversify the economy and stop concentrating on oil and gas. Regrettably, Nigeria’s reliance on the oil sector is too critical and the adverse effect of Nigeria’s declining oil revenue has had such negative impacts that the Federal Government can no longer handle. State governments who solely depend on the allocations from the federation account are finding it difficult to meet with their obligations such as payment of salaries, provision of public goods and services, provision of affordable and qualitative education and healthcare services.

One of the major challenges the present administration encountered on assumption of office was the non-payment of salaries by some states to their workforce. The federal government managed the situation through granting of bailout funds to the affected states to settle payroll costs and other recurrent expenditure (Delloite, 2016); but despite this intervention by the federal government, many states are still in arrears of salaries to their workers. It is only Rivers and Lagos States that possess the capacity to pay salaries if there are no federal allocations. Balogun (2015) stated that Nigeria’s revenue in the 1970s was majorly from Agricultural sector. The four regions that made up Nigeria (North, East, West and the Mid-West) were giants in exporting agricultural products. The North was known for its groundnuts, cotton, hides and skin; the East for its palm produce and coal; the West for its Cocoa and the Mid-West for its rubber and timber. The individual regions made use of the revenues to develop their areas while revenue balance is remitted to the Federal Government.

Unfortunately, this rich source of IGR in the Nigerian regions providing unlimited economic development has been sacrificed at the dwindling ‘altar of oil’. The undue dependence on statutory allocations has become a major constraint why most Nigeria States cannot perform basic functions (Balogun, 2015). Nnanseh and Akpan (2013) believe that IGR is capable of providing adequate basic infrastructures in a state citing Akwa Ibom State as case where IGR contributed so much in the provision of water, roads and electricity. Oseni (2013) posit that IGR is mainly used to offset the high cost of governance by the second and third tiers of government. Therefore, mismanagement of IGR by political leaders and local government officials remains a serious challenge as it affects the economic development in local government areas.

2. Literature Review

2.1 Conceptual Review

2.1.1 Economic Development

Economic Development is the development of economic wealth of countries, regions or communities for the well-being of their inhabitants (Salmon, 2011). From the policy viewpoint, Economic Development can be referred to as efforts that seek to improve the economic well-being and quality of life for a community by creating and/or retaining jobs and supporting or growing incomes and the tax base (Salmon, 2011). The scope of economic development includes the process and policies by which a nation improves the economic, political and social well-being of its people (O’Sullivan & Sheffrin, 2003).

The goals of economic development policies are to seek economic growth through higher productivity, establishing political systems that represent the preferences of its citizens as accurately as possible, extension of rights to all social groups, creating opportunities for institutions/organizations to function properly, such that they will be capable of handling complex technical and logistic tasks. These tasks involve raising revenues through taxes and utilizing it to provide public service (Bayly, 2008; Bingham, 2000; Brautigam, 2002; Daron & James, 2012; Kenneth & Mark, 2010; Simon, 1966).

2.1.2 Real Gross Domestic Product (RGDP)

This is a macroeconomic measure of the value of goods and services produced by a country for a given year which has been adjusted for inflation or deflation. RGDP is known as inflation-adjusted gross domestic product, measuring the value of finished goods and services at constant base year prices (Investopedia, 2017; My Accounting Course, 2017).
2.1.3 Internally Generated Revenue (IGR)
Adam (2006) defined revenue as the fund required by the government to finance its activities. Internally generated revenues (IGR) are revenues or funds generated by states within the Nigerian federation, independent of their share of revenue from the federation account (Deloitte, 2016). There are challenges that have affected IGR collection in Nigeria. These challenges have been identified below:

- **Lack of Adequate Information on Taxpayers.** Taxpayers can easily avoid reporting their income to the State (Nigerian Governors Forum, 2015).
- **Lack of Cooperation from the Taxpayers.** Many taxpayers in Nigeria do not see payment of tax as their civic responsibility and an obligation to the government. This is because, they believe that on the part of the government, there is no adequate provision of public goods and services that the citizens need as part of their benefit from their tax payment (Okafor, 2012).
- **Lack of Uniformity in the Incidence of Taxation.** It is obvious that the principle of fairness and equity in taxation do not apply in the Nigerian tax practice and administration. As a result most tax payers feel unjustifiably levied as there are no benchmarks for proper tax assessment in Nigeria (NGF, 2015).
- **Incompetence of Tax Inspectors.** Most tax official lack adequate training and communication skills. The uncivilized manner with which they relate with tax payers does not encourage them to make payments that are due. They approach their job with selfish interest and aggression, thereby giving a taxpayer the option of defending his civic right (NGF, 2015).
- **Complex Tax Laws and System.** Tax laws in Nigeria have not been brought to the layman's understanding. Even among the elites it is still very complicated, such that tax liability becomes a difficult task to compute (Illyas & Siddiqi, 2010).

The conceptual review provides comprehensive definition and concept of economic development, real gross domestic product, internally generated revenue from other authors and scholars as well as the IGR inherent challenges.

2.2 Theoretical Review

2.2.1 Endogenous Growth Theory

Endogenous growth theory propounded by Romer (1994) holds that economic growth depends on investment in human capital, innovation and knowledge management. The theory also supports government policies that could boost economic growth in a nation. These policies include all measures governments take to encourage exploitation of IGR opportunities within the domain of every state and local government in a nation. There is no homogeneity in IGR sources and opportunities existing in states and local governments, but the government at the center gives states the privilege to harness all available resources within the ambit of the law and constitution of the country.

2.3 Empirical Review

2.3.1 Selected Empirical Foreign Studies on the Impact of IGR on Economic Development

Ho1: The TIGR does not have significant influence on RGDP.

Akai and Sakata (2002) used a cross-section research design to investigate the impact of fiscal decentralization on economic growth at States level in the United States. The study employed data from 50 States of the United States. Despite other factors that affect economic growth, the study provided evidence that fiscal decentralization plays important role in economic growth. The study rejected the null hypothesis above and proved that total IGR received by 50 states in the US affect economic growth positively.

Ho2: The FGIR does not impact on RGDP significantly.

Bodman, Campbell, Heaton, and Hodge (2009) studied the impact of fiscal decentralization on the economy of Australia both at the aggregate and state levels. The focus was not only on economic growth but attention was also drawn on important macroeconomic variables that could influence growth. The dependent variables used were the gross state product (GSP) per capita, per capita GDP and inflation. The independent variables were the expenditure and revenue shares. Time series data were collected for all the variables from 1972 to 2005. Revenue decentralization was found to increase medium term economic growth, improve budget balance and price stability, but there was no relationship with the size of the public sector. Therefore, the null hypothesis above was also proved wrong from the findings of Bodman, et al. (2009).
Ho4: The LIGR does not affect RGDP significantly.

Yulindra (2012) examined the effect of fiscal decentralization on Local economic growth of Sumatera Barat Province in Indonesia. The paper adopted a descriptive research design using Pooled Ordinary Least Squares Method, fixed effect and random effect methods. The study made use of a sample of 15 local regions which consisted of 9 regencies and 6 cities in province of Sumatera Barat. The results obtained from the analysis indicated a positive relationship between fiscal decentralization and local economic growth in Sumatera Barat. The study therefore, provided evidence that fiscal decentralization measured by revenue could enhance economic growth in the local government areas in Indonesia. That means the Ho4 above has been rejected.

Ho4: The LIGR does not affect RGDP significantly.

Owusu (2015) carried out an assessment of the contributions of Internally Generated Fund (IGF) in the development of Metropolitan Assemblies in Ghana, using Kumasi Metropolitan Assembly (KMA) as a case study. The specific objective was to investigate the contribution of various revenue sources towards the development of KMA. The data generated for the study covered a period of six (6) years from 2009 to 2014. The revenue sources examined were rate, lands, licenses, rent, fees, fines and other income. The study employed a descriptive research design while simple percentage contribution was used to establish the extent of IGF contribution to economic development in KMA. The result showed that IGF contribution to Education was 26%, Health 1%, Environment 20%, Administration 15%, Economic 12%, Human Resources 5%, Office Equipment 5%, Project Management 9%, and other Miscellaneous 7%. Therefore, the null hypothesis which says that locally generated revenue does not significantly affect the economy could be accepted in this study which revealed that KMA IGF could not adequately contribute to the socio-economic needs of the citizenry.

2.3.2 Selected Empirical Studies in Nigeria on the Impact of IGR on Economic Development

Ho3: The SIGR has no significant effect on RGDP.

Nnanseh and Akpan (2013) investigated the effects of internally generated revenue on infrastructural development in Akwa Ibom State in Nigeria. The study made use of ex-post facto research design and secondary sources of data spanning from 2000-2012 which were obtained from Akwa Ibom State Government Annual Budget Appropriation and the State Board of Inland Revenue (SBIR) Annual Report and Statement of Accounts. The regression result revealed that IGR contributed positively and significantly to the provision of water, electricity and roads but the road construction was most favoured. In this study, there is evidence that Ho3 is not accepted.

Ho4: The LIGR does not affect RGDP significantly.

Ironkwe and Ndah (2016) studied the impact of internally generated revenue (IGR) on the performance of local governments in Rivers State Nigeria. The study adopted the ex-post facto research design and made use of a population size of 23 local government councils in Rivers State. The secondary data employed were from 2005 to 2014 and were collected from the authorities of Obia/Akpor/Ndoni Local Government Council. The findings of the study revealed that TREV and NTRV had no significant impact on Local Government road construction (LGRC) in Obia/Akpor/Ndoni Local Government Councils within the period studied. The p-value were (0.26 > 0.05 and 0.43 > 0.05) for TREV and NTRV respectively. The result also showed that NTRV had a significant negative impact (p-value = 0.03 < 0.05; t-statistics = -3.980) on local government staff salaries and wages (LGSW) while the TREV had a significant positive impact (p-value = 0.02 < 0.05; t-statistics = 2.228) on LGSW. The study indicated that locally generated revenue cannot adequately enhance economic development, therefore the Ho4 is accepted.

Ho3: The SIGR has no significant effect on RGDP.

Olaye and Adejeyi (2017) used regression analysis to evaluate the performance benchmarking of selected Southwest States. The three States randomly selected for the study were: Lagos State, Oyo State, and Ogun State. The study was a descriptive research and specifically examined the effect of Internally Generated Revenue (IGR), Federal Statutory Allocation (FGA) and Value Added Tax (VAT) on the States’ economic growth which was represented by Per Capita Income (PCI). The data covered the period of 6 years and were gathered from the Federal Bureau of Statistics and Annual Financial Reports of the selected States. The result indicated that in Lagos State FGA (p-value = 0.001 < 0.05); IGR (p-value = 0.008 < 0.05) and VAT (p-value = 0.007 < 0.05) had positive and significant impact on PCI. In Oyo State VAT (p-value = 0.185 > 0.05) and IGR (p-value = 0.113 > 0.05) had positive correlation with PCI but no significant impact was found, while FGA (p-value = 0.224 > 0.05) had negative and insignificant effect on PCI. In Ogun State, VAT (p-value = 0.902 > 0.05) had negative insignificant impact on PCI but FGA (P-value = 0.570 > 0.05) and IGR (p-value = 0.105 > 0.05) showed not impact on PCI. In the case of Lagos State, the Ho3 is accepted, the result of other states proved otherwise.
2.4 Research Gap

The various studies reviewed above tested the impact of IGR on economic development in different ways and at diverse times. Both the foreign and local studies were focused on specific states and selected provinces/local government councils. The null hypotheses (Ho1; Ho2; Ho3; Ho4) were rejected in the studies of (Akai & Sakata, 2002; Bodman et al., 2009; Yulindra, 2012; Nnanseh & Akpan, 2013) which proved that IGR significantly and positively impact on economic development, while the studies of (Owusu, 2015; Ironkwe & Ndah, 2016) accepted Ho4. In the research work of Olaoye & Adedeji (2009), Ho3 was accepted in the result that emerged from Ogun and Oyo states while the regression result emanating from Lagos state proved otherwise. This study is different because it has been planned to include the IGRs of the federal government, 36 States including the Federal Capital Territory (FCT) Abuja and 774 local government councils in Nigeria and the country’s Real Gross Domestic Product (RGDP). The aim is to empirically establish the effect of IGR on the Economic Development of Nigeria as a nation.

3. Methodology

The study adopted ex-post facto research design which provides empirical solution to research problems by using already existing data. The secondary data were collected from the Central Bank of Nigeria (CBN) Statistical Bulletin from 1981 to 2016. The data were collected on Real Gross Domestic Product (RGDP) being proxy for economic development, and on the predictor variables which were the Total Internally Generated Revenue (TIGR), IGR accruing to the Federal, States and Local Government Councils. The data have been tabulated and statistically analyzed using regression analysis with the aid of Statistical Package for Social Sciences (SPSS).

The model used in the study is:

\[ RGDP = f (\text{TIGR, FGIR, SIGR, LIGR}) \]

This is mathematically specified as follows:

\[ RGDP = \beta_0 + \beta_1 \text{TIGR} + \beta_2 \text{FGIR} + \beta_3 \text{SIGR} + \beta_4 \text{LIGR} + \mu \]

Where

- \( RGDP \) = Real Gross Domestic Product
- \( \text{TIGR} \) = Total Internally Generated Revenue
- \( \text{FGIR} \) = Federal Government Independent Revenue
- \( \text{SIGR} \) = State Governments Internally Generated Revenue
- \( \text{LIGR} \) = Local Governments Internally Generated Revenue
- \( \mu \) = disturbance term
- \( \beta \) = Intercept
- \( \beta_1 - \beta_4 \) = Coefficient of the independent variable

4. Results and Analysis

Table 1. Result on the Impact of TIGR, FGIR, SIGR & LIGR ON RGDP.

<table>
<thead>
<tr>
<th>Variables/Test Statistics</th>
<th>Test Results (TIGR)</th>
<th>Test Results (FGIR,SIGR &amp; LIGR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>19022.364</td>
<td>17235.164</td>
</tr>
<tr>
<td>TIGR</td>
<td>45.120</td>
<td></td>
</tr>
<tr>
<td>FGIR</td>
<td></td>
<td>22.876</td>
</tr>
<tr>
<td>SIGR</td>
<td></td>
<td>32.068</td>
</tr>
<tr>
<td>LIGR</td>
<td></td>
<td>584.527</td>
</tr>
<tr>
<td>R</td>
<td>0.974</td>
<td>0.990</td>
</tr>
<tr>
<td>R²</td>
<td>0.948</td>
<td>0.979</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.947</td>
<td>0.977</td>
</tr>
<tr>
<td>Std. Error of the Estimate</td>
<td>4185.35563</td>
<td>2732.36635</td>
</tr>
<tr>
<td>Durbin Watson</td>
<td>1.420</td>
<td>1.839</td>
</tr>
<tr>
<td>F-statistics</td>
<td>624.322</td>
<td>504.211</td>
</tr>
<tr>
<td>P-value of F-test</td>
<td>0.000</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Source: Researchers’ Result of Statistical Analysis
The table 1 above shows the existence of a perfect correlation between the dependent variable (RGDP) and the predictor variables (TIGR, FGIR, SIGR & LIGR). The R for TIGR is 97.4% while the R for the FGIR, SIGR and LIGR is 99%. There is a very high association in both cases. Similarly, the co-efficient of determination ($R^2$) of 94.8% and 97.9% of the TIGR and FGIR, SIGR & LIGR respectively indicate the extent to which IGR determine the level of variability in RGDP. This is also very robust. The F-test of all the variables are statistically significant (0.000 < 0.05), indicating that the model is a good fit.

Table 2. Test of Hypotheses At 5% Level of Significance

<table>
<thead>
<tr>
<th>VARIABLES/TEST STATISTICS</th>
<th>TIGR</th>
<th>FGIR</th>
<th>SIGR</th>
<th>LIGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>T-Statistics</td>
<td>24.986</td>
<td>2.776</td>
<td>7.551</td>
<td>7.385</td>
</tr>
<tr>
<td>P-value</td>
<td>0.000</td>
<td>0.009</td>
<td>0.000</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Source: Researchers’ Result of Statistical Analysis

The study earlier hypothesized that internally generated revenue in Nigeria at Federal, State, and Local Governments and total internally generated revenue (TIGR) does not have significant impact on the economic development measured by Real Gross Domestic Product (RGDP). The result on table 4.2 reveals that TIGR, SIGR & LIGR (P-value = 0.000 < 0.05) have positive and robust significant impact on RGDP while FGIR (p-value = 0.009 < 0.05) also impacts positively and significantly on RGDP. Therefore, the null hypotheses earlier formulated have been rejected and the alternative which states otherwise accepted. These findings are in agreement with the study of (Nnanseh and Akpan, 2013; Yulindra, 2012) but conflicts with the findings of (Owusu, 2015; Bodman et al., 2009).

4.2 Discussion on Findings

The results that emerged in this study is an indication that internally generated revenue received by the three tiers of the government in Nigeria impacts on economic development. From the findings of this study, the basic amenities could be adequately provided both at federal and local level. There is an existence of robust significant positive impact of total IGR on the RGDP. This signifies the importance of synergy. If the resources (FGIR, SIGR & LIGR) are pooled together and well utilized, there would a synergy effect on economic development in Nigeria.

Real Gross Domestic Product is a measurement of a nation’s total income/expenditure/ production from the government, firms and individuals. The three ways of measuring RGDP are acceptable. The striking point is that, if measured by expenditure in Nigeria, the government spending does not have much physical evidence due to graft in the Nigeria system leading to diversion of funds meant to provide public goods and service to improve the living standard of the citizenry.

5. Conclusion and Recommendations.

One of the IGR collection hindrances identified in the study is the inadequate provision of goods and services that will benefit common people and also boost economic development. Based on this challenge people do not see payment of taxation and other levies as a civic responsibility (NGF, 2015). The study revealed that the impact of IGR on economic development in Nigeria is robust and positively significant. Everyone believes that government expenditure is high but lacks physical evidence due to corruption. Targets of achievable projects from IGR should be set and vigorously pursued. Further research is recommended on investigation of the physical application of IGR on government expenditure in comparison with the IGR inflows in all the states and local governments in Nigeria.

References


