NIGERIA GOVERNORS' FORUM

Internally Generated Revenue of Nigerian States –Trends, Challenges and Options

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The opinions expressed in this report are those of the authors and do not necessarily represent the views of the Nigerian Governors Forum.

Contents

Abbreviations and acronyms

CSOs	Civil Society Organization
DFID	Department for International Development
FAAC	Federal Accounts Allocation Committee
FEPAR	Federal Public Administration Reform Programme
FGN	Federal Government of Nigeria
FMF	Federal Ministry of Finance
GEMS	Growth and Employment in States
LGA	Local Government Authority
LIRS	Lagos Inland Revenue Service
MDAs	Ministries, Departments and Agencies
NGF	Nigeria Governors' Forum
SAVI	State Accountability and Voice Initiative
SPARC	State Partnership for Accountability, Responsiveness and Capability
WB	World Bank
IGR	Internally Generated Revenue
USD	United States Dollars
PAYE	Pay As You Earn
BIR	Board of Internal Revenue
GDP	Gross Domestic Product
NBS	National Bureau of Statistics
NGFS	Nigeria Governors' Forum
DMO	Debt Management Office
FCT	Federal Capital Territory
JTB	Joint Tax Board
CGT	Capital Gains Tax
PoS	Point of Sale
NGOs	Non-governmental Organisation

Executive Summary

Discussions about internally generated revenue are not only topical, but likely to heighten in the coming years. This is particularly so among hitherto commodity-dependent countries hit by falling prices. With commodity prices falling below what is required to balance budgets in many countries, the search for alternative and/or complementary sources of revenues is likely to intensify in the years ahead. This is more so for Nigeria and the component States. Given that they do not have the leverage of monetary policy and that debt instruments are more limited, the need for subnational governments to evolve options to increase internally generated revenue is more stringent.

Fiscal realities of the months since June 2014 seem to increase the urgency of the matter. Consequently, as part of efforts to support the process of the search and the interactions that broaden the options for Internally Generated Revenue (IGR), the Nigerian Governors' Forum (NGF) plans a peer-learning workshop to assist States to boost internal revenue generation. This report is the summary of a scoping study meant to serve as input into the process.

The report is based mostly on desk study, but also incorporates information and data from interaction with public officials in six States of the federation, one from each geopolitical zone. An underlying premise of the discussions in the paper is that with the current fall in oil prices, there are challenges with resource mobilization among Nigerian States and that these challenges are likely to deepen should nothing be done about the State of IGR in the States. Consequently, the work begins by x-raying the current fiscal realities facing States, pointing out that these are quite similar to the realities of an earlier fiscal crisis in 1978/79 which led to a broader range of socio-economic difficulties in the country.

Section V examines broad trends in IGR, relating these to selected indicators – total revenue, State budget and per capita income. The performance of States varies widely across indicators. Total IGR collection over the five year period (2010 – 2014) ranged from N1.2 trillion in Lagos (N20.5 billion monthly collection or 62 percent of total revenue) to only N1.2 billion in Jigawa (N1 billion monthly collection or 1.6 percent of total revenue). Broadly, States in Nigeria get barely one-eighth of the revenue they utilize for running the affairs of government from within. IGR also has little bearing on budgets; being about 7.9 percent of budgeted receipts. Per capita revenue based on population estimates is only about N2,800 (or USD[1]14.14). This is less than a 100th part of what many developed countries get from their citizens and even when differences in income are taken into account, Nigerian States still get much less than they ought to get from within.

Likewise, the section observed that there has been overall positive growth in IGR across States although this growth is unstable – rising in one year and falling in the other. It attributes this instability to lack of stable structures, instruments and institutions. Measures for generating IGR have been very ad hoc in many States.

[1] United States Dollars

Besides, fluctuating political and economic environments of States reflect on IGR outcomes, in part because institutions and structures (including database) that drive IGR collection and remittance are unstable, weak or altogether non-existent.

The Section also examines components of IGR. Available data has limited classification of the revenue into only four components – pay as you earn (PAYE) (contributing about 47 percent on the average nationally), Direct Assessment (contributing 3.8 percent), Road Taxes (contributing 2.1 percent) and Other Revenue (contributing 25 percent). The data has significant gaps. But it also reveals that most States rely on direct (PAYE) deductions for tax revenue and that processes (and outcomes) of non-directly deductible taxes are weak. This is partly on account of the nature of the economies, where informal sectors are excluded. The data also shows that recording system is still weak, with a large proportion of revenues lumped into 'other' or 'miscellaneous' revenues. This is a misnomer, a management and accounting challenge that complicates IGR tracking, utilization and potential reforms.

Section VI examines some of the challenges facing IGR management in Nigerian States. It lists such well known issues like inadequate tax information and data, poor cooperation from taxpayers, poor perception of the use of tax funds, complexity and multiplicity of taxes and the tax system, poor capacity and limited training for tax officials among others. But it also notes the use of agents and touts in the collection of revenues as a critical challenge facing the system. The Boards of Internal Revenue (BIRs) and Ministries, Departments and Agencies (MDAs) have found a way to reduce their interaction with taxpayers by contracting out the responsibility of tax collection to agents. The result has been an increase in the environment of tension and mutual suspicion between government and the people as these agents work to maximize their own gains at the expense of both parties. The political cost of such situation is inestimable and has been one of the reasons why citizen attitude to the payment of taxes is perennially negative.

As they use crude collection measures, they also serve as leakages to collected ones, giving governments less than the people pay. They also concentrate on a few visible tax avenues where extraction is easy. One of the outcomes of this development is that, in many instances, **there is little (if any) correlation between the amount of taxes collected and the revenue that comes to State coffers. Thus,** while citizens complain of being overtaxed, government accounts do not witness an overflow of funds so much so that available figures indicate a negative correlation coefficient of -0.24 between number of taxes collected and amounts received as revenue. One of the reasons why States retain tax agent despite the fact that they are counter-productive is that there are capacity issues in the Boards of Internal Revenue. This needs to be urgently restored.

Section VII examines some of the measures that have been undertaken by States at a broad level to improve internal revenue generation. Some of the measures noted include application of technology in revenue generation, formulation of IGR strategies, strengthening of the Boards of Internal Revenue, improvement in remittance infrastructures and better stakeholder engagement, revamping of revenue heads that were hitherto not collected and the introduction of Presumptive Taxes, which allows the introduction of new tax heads. Other measures include State-wide electronic taxpayer enumeration surveys and improvement of the business environment to attract investment. The section also examines measures taken by Lagos State in re-engineering its IGR and extracts some lessons for other States. It observes that like other BIRs, Lagos had significant problems just a few years ago, but decided to tackle these headlong. Interestingly, Lagos' reforms were also partly spurred by a fiscal challenge emanating from the withholding of its FAAC[2] allocations for LGs for a number of years by the Federal Government. As Lagos turned its challenges into opportunities, so can other States turn the present fiscal difficulties into opportunity for improved internal revenue systems.

The measures were grouped into four broad areas – (i) tax harmonization, empowerment and restructuring of the Inland Revenue Service, (ii) enlightenment and technology, (iii) stakeholder engagement, and (iv) process reengineering and payment simplification. Underpinning these measures was an unusual political commitment, where the leadership supported reforms that were not very popular at the time they were introduced.

The section also discusses other requirements for improved IGR, including the need not to sacrifice long term vision for short term needs. In particular, as States face the pressures to meet obligations, the tendency is to push forcefully, but arbitrarily, to raise internally generated revenue. Where such moves are not properly coordinated and planned, they may become counterproductive in the long run. Thus, there is need for long term plan as opposed to ad hoc processes engendered by immediate pressures. This is necessary to change the current situation of high instability in IGR generation common among States. But in addition, there is need to understand the unique IGR environment of each State. This requires studies that outline the specific problems and needs of each State and how to tackle and solve such problems. This is important to help frame expectations and projections.

In addition, there is need for each State to deliberately grow the private sector now for future revenues. This definitely requires improving the business environment in general and ensuring that businesses do not die on account of arbitrary actions of governments. It may also require making concessions or giving direct support to businesses. Where such measures are carefully planned and taken, they hold huge prospects for revenues in the future. The section ends by examining the data challenge affecting IGR in the country, noting that different data sources bear different figures, sometimes for same items. This is the case even within same State documents. Data integrity is generally weak and raises the need to strengthen the data generation and management system, which underpins a strong IGR system.

The work concludes in Section VIII, pointing out that States have capacity to generate more revenue internally than they are currently doing. But this requires changing the environment, attitude and processes, including, but not limited to IGR base, data and capacity of available institutions that should tap the resources. At the broader scale, it notes that IGR improvement (which involves not only generation, but also management and expenditure) extends to the wider challenge of improving overall public finance management across Nigeria. Where and when one is healthy, the other will most likely be also.

[2] Federal Account Allocation Committee

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Section 1: Motivation

The rebasing of Nigeria's Gross Domestic Product (GDP) by the National Bureau of Statistics (NBS) in April 2014 to better reflect the structure of the economy led to an increase of the GDP by 89 per cent in 2013. Following this, Nigeria became Africa's largest economy with an estimated GDP of $510 billion in 2013 (compared to the $270 billion reported previously). But the country continues to face challenges relating to its fiscal federalism. The tax revenue to GDP ratio declined from about 20 percent to 12 percent and non- oil tax from 7 percent to 4 percent. These are some of the lowest ratios in the world. Anchored on a revenue sharing formula that first pools all resources to the centre and thereafter allocates to each tier of government (local, State and federal) according to a specified sharing formula, it has been a source of friction among federating units since the country transited into full scale federalism in the 1960s.

Not only are there concerns about the sharing formulae for Federally Collected Revenues, there are challenges emanating from the mono product nature of the source of funding, with up to 70 percent coming from oil. Oil (and other commodity) prices are known to be unstable and such instability is often transmitted first to revenue and thereafter to the rest of the domestic economy. The instability of oil revenues as a result of the volatile global oil market is one major source of concern for such dependence of Nigerian State governments on revenues accruing to the federation account.

There are issues with the options, capacity and opportunities for some of the federating units (particularly the States and local governments) to raise internally generated revenues. A number of the revenue line items assigned to States by the Constitution are yet to be developed enough to yield robust revenues to them. Likewise, the capacity to harness the revenue sources and collect what is needed is limited almost in all States. With significant revenue sources in the hands of the federal government therefore, many States depend on transfers from the Federation account for as much as 80 percent of their fiscal resources. This has affected the capacity of the States to run the most basic machineries of government without the monthly allocation.

As the price of crude oil in the global market plunges, moving from about $115 in June 2014 to less than $60 in September 2015, governments across the three tiers are experiencing fiscal crunch. Federally collected revenues and consequently amounts of federal transfers to States have significantly reduced. This poses significant challenges to the State governments in managing their budgets as a significant reduction in revenue hampers the ability of State governments to deliver basic public services (education, health, and others) to citizens. The situation is particularly acute in States where internally generated revenue is low. Such States have been in arrears of civil servants' salaries, pension, suppliers and contractors' payment for several months. Recently, States using the NGF platform requested for urgent financial support from the federal government. While the request was granted, they were advised to improve efficiency of public spending by cutting waste and duplications as well as mobilizing internally generated revenue. Furthermore, the fall in global oil prices has now made diversification of the Nigerian economy from over-dependence on oil a crucial policy move.

But while many State governments are genuinely eager to grow their internally generated revenue base, they seem largely unable to harness available opportunities to do so. Many legitimate sources of revenue remain unexploited, while procedures for collecting, remitting and accounting for the ones exploited often fall short of expectations, giving room for avoidable leakages. Similarly, many States adopt revenue collection approaches that stifle instead of promote business competitiveness. In some instances, exigencies and need seem to override rationality and care in the design of processes for collection of internally generated revenue. Many lack the database for taxation, leading to reliance on unscientific procedures for tax collection and over-taxing of the few individuals and firms that are accessible to government institutions and representatives.

The Nigeria Governors' Forum Secretariat (NGFS), the administrative and technical arm of the NGF, which has facilitated various reform programs across Nigerian States in the past, has been tasked by Governors to explore ways of supporting various States' efforts towards improving their internally generated revenue system. In collaboration with its partners – SPARC, GEMS3, FEPAR SAVI, the World Bank and Federal Agencies - it proposes to organize a learning event on the management of internally generated revenue in States with the ultimate goal of assisting State governments to address the present severe fiscal crunch caused by dwindling revenues resulting majorly from the prolonged decline in global oil prices. The event will offer States the chance to learn about replicable good practices in IGR mobilization and management from each other and from the Federal Government.

This paper is an input towards the event. Beginning with an overview of the global and national fiscal environments, it summarizes the State of IGR among States in Nigeria, outlining the regional nuances and line item contributions of IGR among States. It also tries to look into some of the challenges in IGR collection across States and examines some of the requisite measures that States should take in order to improve IGR.

Section 2: Objectives, Scope and Limitations of the Project

The primary objective of the peer learning event is to assist States to boost internal revenue generation in their struggle to deliver the dividends of democracy. It will provide a platform for sharing practical and effective lessons and distilling best practices in IGR mobilization for the federal and State governments which if adapted could boost domestic revenues both in the short and long term. This will help reduce their reliance on federation accounts transfers to fund development needs. Thus, the IGR lessons to be shared will be from selected States in Nigeria and elsewhere that have brought about progress in mobilizing IGR. It is expected that these will form critical inputs for participating States in the formulation of their IGR action plans.

A major limitation is non-availability of reliable and consistent data. States statutorily send internally generated revenue data to the National Bureau of Statistics (NBS). But the data from NBS (2010 to 2014) does not contain the various IGR components required for a detailed study of States' IGR. The World Bank has IGR data from the States as well. But while the World Bank databank contains these components, there are variations between the two databases. Given that this is a report for Nigerian States, it relied on the NBS data and made references to the World Bank data where necessary.

Section 3: Methodology for Data Collection and Analysis for the Report

Given the scope of the assignment, the methodology of this research is broadly two-fold – desk reviews and fieldwork. The desk reviews involve data and documents from government agencies, reports and previous works on internally generated revenue, approaches and outcomes as well as government legislations and policy documents on taxes. Information from websites of the relevant agencies of the States IGR administration were also reviewed. These yielded broad indications of operations and funding of agencies involved in IGR generation and the various measures taken by States to increase IGR in recent times. Time series data covering five years (2010 – 2014) were obtained from the National Bureau of Statistics (derived from States' submissions to the Joint Tax Board). Data was also obtained from the World Bank, but used for comparison and discussions of inconsistency in the datasets. Attempts were also made to outline IGR growth as well as relate States' IGR with population, budgets and other indices of public finance.

The fieldwork involved visits to six States, one from each geopolitical zone. The selected States are ones in which specific, identifiable measures on IGR improvement have been initiated, either on their own or with support from Development Partners. Yobe, from the North East, was however taken to share experiences on the challenges facing IGR mobilization in periods of conflict, a situation faced by a number of other States in the North East. Respondents to the interviews were mostly functionaries of government agencies involved in revenue collection, collation, remittance and accounting. They include coordinating agencies like the Ministry of Finance, the Board of Internal Revenue, and State Planning Commissions as well as other revenue generating agencies including the Ministries of Commerce and Industry, Agriculture, Lands and Housing, Transport among others[3].

The interviews were aimed at cataloguing the experiences, challenges and suggestions of various stakeholders. The interviews made use of open-ended questions to elicit personal and institutional experiences on the administration and collection of IGR in selected States. Enquiries were structured to deepen discussions on issues raised in the course of the interviews. A template was designed and sent to all States and the Federal Capital Territory (FCT) to elicit information on quantity and modalities for internally generated revenue. In addition to value and composition of IGR over the 2010 – 2014 period, the template elicits information regarding the legal framework, the operational status and modes of "operation" of revenue agencies as well as specific innovations by each State to increase IGR. Based on IGR performances over the period, six States were selected for an in-depth analysis. Findings on IGR position and supporting infrastructure for these six States are

[3] This scoping report is based on light interaction in the field and is not detailed. Deeper understanding of IGR in States of Nigeria will require more indepth analysis which should factor in experiences and views of the private sector, civil society and other stakeholders in the IGR system of States.

contained in separate reports that will be presented at the plenary of the IGR event. The rest of the States would also complete the template as input into the status compilation by the Nigeria Governors' Forum Secretariat and present the contents at the learning event.

Section 4: States' IGR – Why Bother?

Calls and efforts to improve internally generated revenue across Nigerian States have been on for many years. Different governments at all times and across all regions of Nigeria have shown interest in improving their revenues. Some have worked more deliberately with varying results while others merely discussed the need to work on it. However, while oil prices and sales remained favourable, States could afford to be laissez-faire about improving non-oil, internally generated revenue. Given Nigeria's current fiscal position, and the short to medium term financial forecasts, improving internally generated revenue is no longer an option among many; it is currently the only one available.

For one, Nigeria's current unfavourable fiscal position has an eerie similarity with the 1978/79 fiscal crisis equally occasioned by an oil price crash. The boom preceding the 1978 crisis had seen different tiers of government extensively borrow for 'development projects', increase both the size and wages in the public sector and generally ratcheting up public expenditure on the optimism of the oil boom. A significant proportion of these expenditures were based on debts (both foreign and domestic). Consequently, the onset of the oil price crash quickly transmuted the international commodity price crisis into domestic debt and fiscal crises. The first indicator was the inability of the Federal and State Governments in the country to meet wage obligations. As wages floundered, employment stalled. The private sector was one of the first to be hit. Unable to recover credits extended to government, it also shrank in both employment and productivity. Government's inability to meet its debt obligations led to penalties and sharp rise in the overall indebtedness "a vicious spiral in increasing indebtedness". Nigeria joined the rank of other developing countries who took the same course and became known as the group of 'heavily indebted poor countries. Poverty rose sharply and the middle class disappeared, almost overnight. The Government of the day began a series of austerity measures that eventually paved the way for Structural Adjustment Programme. Reference to economic difficulties quickly replaced corruption as the reason for military groups. By 1999, Nigeria had lost nearly two decades of economic growth. As social infrastructure depreciated, and health and education subsidies were withdrawn, a generation of educational opportunities was lost and many died as they could not access health services. The best minds found their way out of the country, further depreciating what was already a lean stock of human capital. The struggle for survival elevated corruption as the public office became about the only significant means of material comfort. One good outcome of the seemingly dark days that followed through was that Nigeria emerged in 1999 a private-sector oriented (if not driven) economy. The country's appreciation of democratic ideals and returns also went up significantly.

The choices of 1979 through 1999 still impact the country. And presently, the governments of the day, at all tiers, have opportunity of taking trajectories that would inevitably affect the present and future generations both positively and negatively. The earlier debt crisis was a product of heavy reliance on high, but volatile oil prices. When hit by the earlier crisis, governments reduced overall activity, pulled out from critical sectors and generally crippled the economy. The resources obtained from both commodity sales and debts were used for projects with questionable economic values, sustainability and accountability. Unable to switch from oil to internal revenue and faced with inability to meet its obligations, most States took recourse to cutting social (and economic) spending, influencing similar reductions in the private sector. The most singular factor responsible for the depth of impact of Nigeria's first generation fiscal crisis was the reliance on oil revenue.

Current financial statistics on States indicate causes for concern. In the one year from June 2014 to June 2015, FAAC revenue pool has shrunk by nearly 45 percent to ₦409.3 billion following a sharp drop in the price of oil. Nigerian States and the FCT Abuja jointly account for $14.1 billion in both domestic and external debts, against an aggregate of N780 billion ($3.9 billion) raised in internally generated revenues, a deficit of over N2 trillion ($10 billion)4. Over ₦700 billion ($3.5 billion) of these debts are in commercial bank loans, mostly anchored on Nigeria's very abnormal and volatile interest rates. Currently, 78 percent of the States rely solely on the FAAC allocations for 80 percent of revenue. About 40 percent are presently insolvent, with high risk of defaults and working to reschedule debts. The Federal Debt Management Office (DMO) has already packaged lifelines totaling N575 billion for 23 States to help them meet recurrent obligations (staff salaries and contractual arrears). Two factors further compound the financial position of States. The first is that recourse to short term commercial bank loans is constrained by CBN's directive to banks not to give loan to States without clearance from the Federal Ministry of Finance. While this is driven by the legitimate fear of the federal government to forestall potential defaults and moral hazard, it has meant that even capacity for short term liquidity options is limited among States. The second factor is that access to long term loans is constrained by the crowding-out effect of FGN[5] bond issuances in the domestic debt market on the one hand, and by States' weak book keeping, accounting and auditing infrastructure. Instances exist where States wishing to borrow from the capital market are unable to present either admissible audit reports or acceptable project proposals.

Clearly, the current fiscal situation of governments in the country is unsustainable and anti-growth. Sharp drops in expenditures, whether capital or recurrent, have social, economic and political implications. But also, governments in Nigeria presently have the opportunity to take the same set of measures taken in 1979/80 and 1985/86 (certainty with similar outcomes) or seek innovative means of increasing their capacity for sustainable financing. The latter will come through simultaneous cuts in the cost of governance, reduction in wastes (through better book keeping and other measures), enforcement of compliance through courts and increasing internally generated revenue.

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[4]The debt crisis is not limited to States; the Federal Government is also highly indebted. In the first 6 months of 2015, it borrowed ₦473 billion (more than half of its N882 billion debt budget). Interestingly, it was not able to release funds for capital projects from these. But whereas the Federal Government has been able to borrow from both domestic and external sources, to fund recurrent expenditure, the options facing most States are not many. Most have to contend with difficult trade-offs between meeting recurrent and debt obligations (particularly salaries and servicing existing debt obligations) and implementing capital projects.

[5] Federal Government of Nigeria

Section 5: Situation Analysis of States' IGR

Broad IGR Trends

Appendix Table 1 shows the positioning of Nigerian States according to various benchmarks of IGR. In the Table, IGR is benchmarked to a number of indicators – total State revenue, State budget and population estimates. The table has 12 columns. The first column is the reference column which shows where each State stands on each benchmark. The third shows total IGR collection for the five years under consideration (2010 – 2014), while the fourth column shows the average monthly collection (both in billions of Naira). The 6th column shows IGR as a proportion of total revenue that comes into the State while the 8th column shows average annual growth of IGR within the five years. Column 10 relates States' IGR to budgets while column 12 shows IGR per capita. For each indicator/benchmark, States are arranged in descending order and the position of each State on each indicator relative to other States can be quickly ascertained by looking at the number corresponding to the State's position in column 1.

As the Table shows, the performance of States varies widely across all indicators. For example, total IGR for the 5-year range (and average monthly collection) range from N1.2 trillion (and N20.5 billion in Lagos) to only N1.2 billion (and N 0.1 billion in Jigawa). And while Lagos State's IGR is a whopping 62.3 percent of its total revenue, IGR in Jigawa represents only 1.6 percent of its total revenue. Interestingly, unweighted average IGR of States in the country is a meagre 12.5 percent of total revenue, implying that States barely get one-eighth of the revenue they utilize for running the affairs of government from within.

Consistent with this trend, IGR has little bearing on budgets. On the average, IGR is only 7.9 percent of budgeted receipts for the 5 years under consideration. While Lagos' IGR is more than half of the amount it budgets, Jigawa gets less than 2 percent of what it budgets from within. Based on population estimates, States are able to, on the average, get only N2,800 (approximately USD14.14 at exchange rate of $1=N198) from each resident within their border. Even though income in Nigeria is very low compared to those of developed countries, this amount still seems way off mark. For example, similar figures for some developed countries were calculated by Greg Mankiw6. The results are as follows: France, $15,556; Germany, $13,893; UK, $13,714; US, $13,097; Canada, $12,789; Italy, $12,478; Spain, $11,014; and Japan, $8,992. At approximately $3,000 per capita GDP, per capita income in the United States is about 10 times what it is in Nigeria, but the per capita tax is about 914 times[7]. But the gap is much narrower for Lagos as US tax per person is only 117

[6]http://gregmankiw.blogspot.com.ng/2010/03/taxes-per-person.html

[7] This calculation excluded oil and used only States' IGR for Nigeria, but used gross outputs of the developed countries. Thus, actual differences may be much lower when all revenues are included. However, this back-of-the-envelope calculation is meant to help appreciate the fact that there are huge gaps between what the States currently get and what they can get.

times that of Lagos - N22,089 (approximately $111.6) tax per person, implying that if other States were to get closer to doing what Lagos did, they might also be able to better close the gap with the rest of the world.

Lagos tops the list on almost all indicators except for average growth of IGR within the period, where it was displaced by Taraba. However, the average growth figures covering 5 years as displayed in the table veils significant variations within and across States and years. For example, Taraba's 46.8 percent average growth consists of 123 percent growth in 2011, 19 percent growth in 2012, negative 2 percent growth in 2013 and no data in 2014. This variation is not limited to Taraba. Nasarawa had a 123 percent jump in IGR between 2010 and 2011, but had no data for 2012. By 2013, IGR shrank by -2.9 percent and only managed to grow the next year by a paltry 1.8 percent. Thus, its 30.6 period average growth was driven only by one year (a 123.3 percent growth between 2010 and 2011). A number of other States are in the same situation, so much so that those that managed not to be were the exception (A full table of annual growth rates of IGR across States between 2011 and 2014 is presented in Table 2 under Appendices). Indeed, only Kogi, Kwara, Ogun, Ondo and Anambra States could be said to have any modicum of stability in IGR growth. Even Lagos is not spared in this variability.

Clearly, the data shows that IGR instruments and institutions in nearly all States in Nigeria are still poorly structured. Fluctuating political and economic environments of States reflect critically on IGR in part because institutions and structures (including database) that drive stability in IGR collection and remittance are weak or altogether non-existent. It seems that where a forceful measure is taken (maybe by a powerful political figure or technocrat), a State witnesses a surge. But this is neither sustained, nor indeed sustainable. Across nearly all States, it is clear that due care is not taken to build structures like databases, professionalized and properly equipped Internal Revenue Services, technologically driven collection, remittances and accounting mechanisms and even a functional private sector from where taxes can be collected. Thus, IGR programmes are sporadic, unscientific and vested on a few persons that are determined at any point in time. When such human zeal and factors fizzle out, IGR drops accordingly. Institutional mechanisms that should drive steady growth are simply not there. Most States try to compensate for this by hiring tax consultants to manage aspects of IGR, but this merely either extends the day of reckoning or altogether compounds the problem. Unfortunately, IGR improvement has to be a structured program, not one approached on ad hoc basis.

Components of States' IGR

The components (sources) of IGR to States include tax revenues, non-tax revenues, and other miscellaneous sources. Tax revenues include PAYE, direct assessment, withholding tax, property tax, capital gains tax for individuals, sales or consumption tax, pool betting taxes, lottery and casino taxes, business premises and registration fees, development levies for taxable individuals, fees for right of occupancy on urban land owned by the State government, market taxes and levies. Non Tax revenues include earnings and sales, fines and fees, licences, rent on government properties and interest repayment and dividend.

Unlike the World Bank data8, NBS/JTB[9] data does not have detailed composition of tax and non-tax revenues. Instead, available data are broadly grouped into four namely PAYE, direct assessment, road taxes and other revenue. But equally, the different components of revenue listed do not equal total revenue reported by the States, an indication that there are items left out. Of course, there are revenue (both tax and non-tax) items not reflected among the four components reported in the table. For example, other forms of tax revenue aside of PAYE like withholding tax, sales tax (where they exist) and property tax are not captured except either in direct assessment or as 'other revenue'. The same goes for non-tax revenue items like earnings and sales, fines and fees, interest repayments, etc. However, some States tried to lump these into 'other revenue'. Others left out these items altogether and merely summed up the four or included only a part of left-out revenues under 'other revenue'. Column 6 in Table 1 below shows the proportion of IGR accounted for by these four. States that capture all revenue items using the four groups are highlighted in the table. In some States like Edo, Ekiti, Gombe, Kano and Osun, less than 50 percent of total IGR are accounted for under these headings.

As Table 1 shows, PAYE (a tax revenue) accounts for a large part of taxes in nearly all States. Indeed, for States where the reported line items account for 98 percent or more of IGR, PAYE account for 56.7 percent. But even when those that did not report the entire revenue range are included, PAYE still accounted for 46.6 percent of all revenues. In such cases as AkwaIbom, Bauchi, Borno, Delta, Kogi, Plateau and Rivers, it is more than 70 percent of all revenues. In the three South South States of AkwaIbom, Delta and Rivers, it is more than 80 percent of revenues. Interestingly, the other two tax items listed (direct assessment and road taxes) form minute proportions of all taxes, almost in every State. For example, on a national average, while direct assessment represents only 3.75 percent of revenues, road taxes form only 2.12 percent of taxes. Even when only States where 100 percent revenues are reported, they still respectively amount to 4.6 percent and 2.8 percent of all revenues collected.

By implication, States rely mostly on direct deductions for tax revenue meaning that instruments and processes for non-directly deducted taxes are weak; so weak that they collectively form less than 10 percent of all revenues for States. One of the most critical challenges facing internal revenue generation in States is the structure for collection of non-direct, deductible taxes. Given the highly informal nature of persons, institutions and businesses in the country, this means that a large proportion of taxable entities are left out of the tax net in virtually all States of the federation. And the revenue data of the States promptly reflect this. Consequently, supports to States towards improving the tax base should clearly aim to support their capacity to bring in these excluded entities into the tax net. This does not only have capacity to improve the revenues, but can also help make the tax system more inclusive.

[8] The World Bank data grouped all IGR into tax and non-tax revenues. The tax revenue include other taxes, Pay As You Earn (PAYE), Withholding Tax, Sales Tax, Property Tax and Capital Gains Tax while the Non-tax revenue items include Earnings and Sales, Fines and Fees, Interest Repayment & Dividends, Licences and Rent on Government Property. The other tax group fall into what it termed Miscellaneous IGR which has classifications that try to capture taxes peculiar to States.

[9] National Bureau of Statistics/Joint Tax Board

Many States lump a sizable chunk of revenues under 'other revenues'. This is both a management and accounting challenge. High proportion of 'other' or 'miscellaneous' revenue to overall revenue, more often than not, signals poor record keeping and weak classification of revenues during remittances and accounting. Usually, with the exception of retained earnings, most of the items that fall under miscellaneous are such as the State could not functionally and fully classify. In some States like Adamawa (48.7), Anambra (41.5), Cross River (44.8), Ebonyi (85.1), Enugu (69.1), Kwara (62.3), Ondo (45.9), Sokoto (42.3) and Yobe (49.9), 'other revenue' forms more than 40 percent of all revenues. Clearly, such (mis)classification not only makes for poor tax management and does not support the goal of improving IGR.

Table 1: Components of IGR in States, 2010 – 2014

State	PAYE	Direct Assessment	Road Taxes	Other Revenue	Proportion ofRevenue Accounted for
Abia	0.00	0.00	0.00	0.00	0.00
Adamawa	46.45	4.10	0.79	48.67	100.00
AkwaIbom	86.98	8.10	1.26	2.66	98.99
Anambra	32.24	5.62	1.26	40.48	79.60
Bauchi	70.68	2.04	7.80	19.48	100.00
Bayelsa	36.51	0.49	0.19	13.69	50.87
Benue	39.09	2.69	1.61	32.56	75.95
Borno	82.14	2.14	8.23	7.49	100.00
Cross River	47.31	4.60	3.33	44.76	100.00
Delta	90.59	3.63	0.50	5.17	99.89
Ebonyi	13.19	1.64	0.08	85.09	100.00
Edo	24.62	4.01	1.94	16.19	46.76
Ekiti	32.40	1.30	1.37	4.68	39.76
Enugu	26.13	2.97	1.83	69.08	100.00
Gombe	22.21	0.92	0.96	24.61	48.71
Imo	56.15	7.22	1.76	5.61	70.74
Jigawa	0.00	0.00	0.00	0.00	0.00
Kaduna	66.16	5.26	2.84	25.74	100.00
Kano	11.90	0.26	0.43	3.38	15.98
Katsina	44.56	6.83	1.00	21.32	73.70
Kebbi	43.80	23.04	0.60	32.56	100.00
Kogi	84.25	0.17	2.22	13.37	100.00
Kwara	31.59	3.92	2.20	62.28	100.00
Lagos	41.56	1.82	0.46	15.98	59.81
Nasawara	61.08	0.74	3.65	5.28	70.75
Niger	55.97	1.52	4.71	12.10	74.30
Ogun	53.81	7.71	2.19	8.63	72.34
Ondo	49.34	1.77	2.98	45.91	100.00
Osun	25.53	2.62	3.10	5.72	36.97

Oyo	55.25	5.90	4.90	33.95	100.00
Plateau	72.52	0.36	3.79	23.33	100.00
Rivers	81.97	2.68	0.21	15.13	99.98
Sokoto	56.26	0.17	1.26	42.31	100.00
Taraba	56.14	7.16	2.50	34.20	100.00
Yobe	40.95	5.83	3.28	49.94	100.00
Zamfara	39.78	5.71	1.09	30.09	76.66
National Average	46.64	3.75	2.12	25.04	77.55

Source: Computation Based on Data from the National Bureau of Statistics, 2010 – 2014
Note: Two States (Abia and Jigawa) have no entries for components of IGR in the JTB/NBS data. They only have total IGR figures.

Section 6: Challenges Facing IGR among States

Most of the challenges facing IGR collection and management among States are well known and have been documented by many researchers. ;

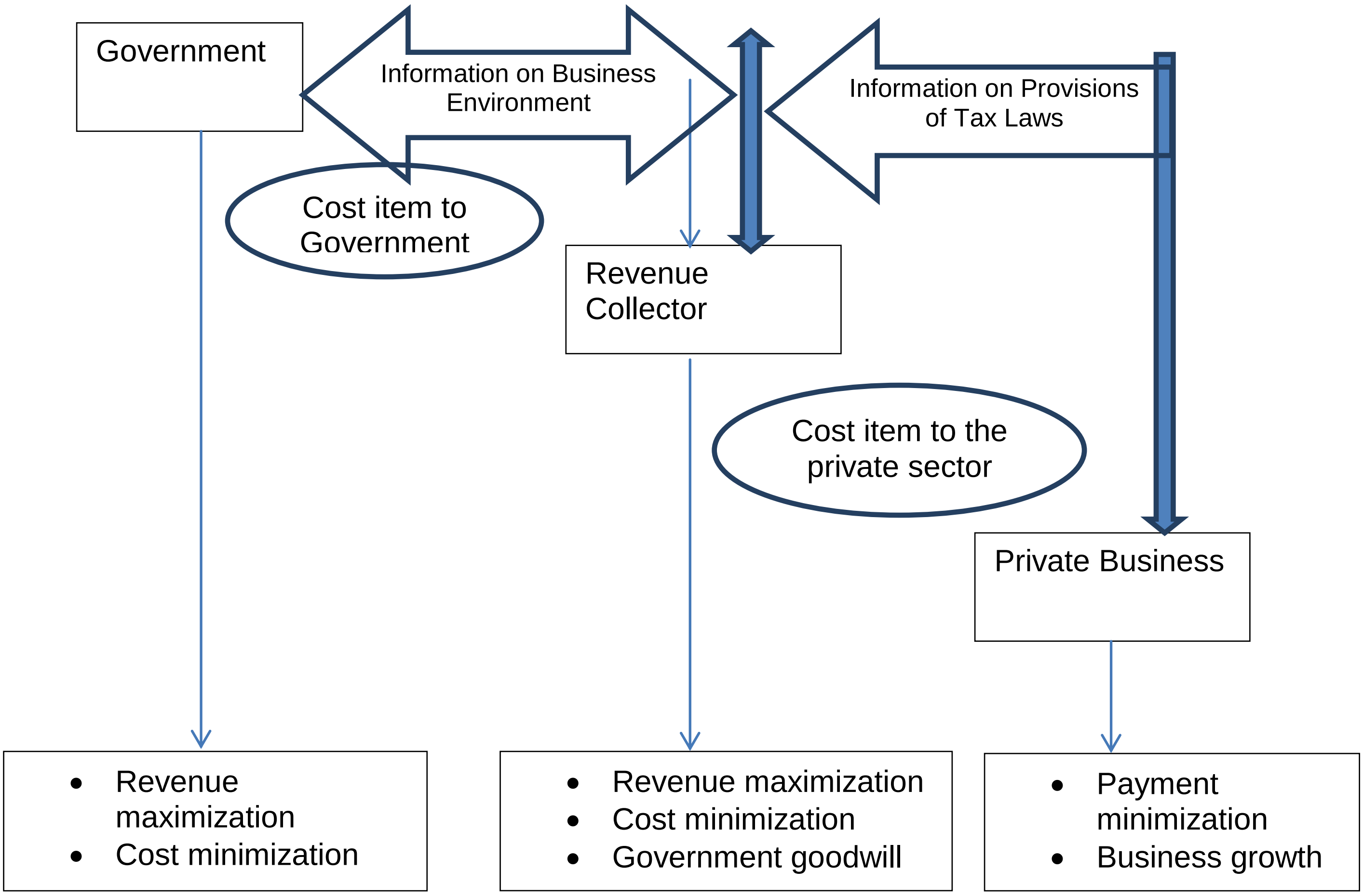
- Lack of adequate information on taxpayers. Taxpayers can easily avoid reporting their income to the State.
- Lack of cooperation from the taxpayers. Many Nigerians (even within the tax net) do not feel obligated to Government; therefore they do not consider paying tax as a civic responsibility. In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

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

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

Figure 2 depicts the challenge emanating from the use of agents for tax collection by examining the utility function facing the three groups – government, the tax payer and the revenue agent. Given that the objective function of the agent is not the same as those of either the government or the taxpaying public, agency complicates taxation by maximizing objective functions that are unrelated to either growth of businesses and long term economic stability or increases in government revenue. In fact, even short run political objectives suffer on account of these agents. The diverse objective functions as represented in the diagram have implications for communication and mutual understanding among the different actors in tax payment and IGR generation.

Figure 2: Actions and Objective Functions of Revenue Agents



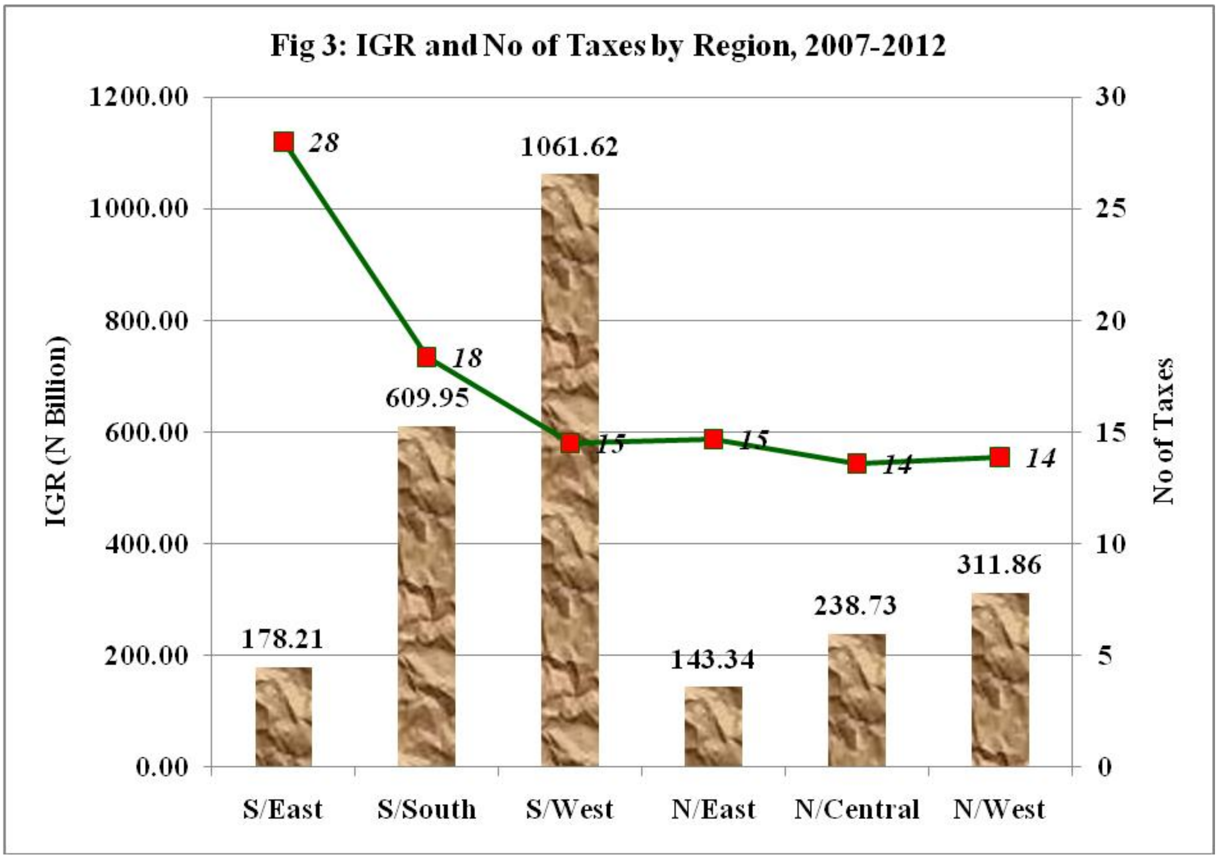
Source: Authors

The revenue agent challenge is by no means a minor one. Some MDAs (and LGAs[10]) in States contract out all revenue points to agents. This is convenient, but costly. One of the challenges is that the amounts to be paid by these agents are neither scientifically determined, nor even judiciously enforced in some cases. Thus, their ability to negotiate or under-declare the revenue yielding capacity of sectors, their connections in government and a host of other unscientific (indeed, unsocial) indicators are the means through which their benefits and liabilities are defined.

One of the outcomes of this development is that, in many instances, there is little (if any) correlation between the number of taxes collected and the revenue that comes to State coffers. There are huge discrepancies between what the people pay and what the governments get. In many States of the country, while citizens complain of being overtaxed, government accounts indicate that tax revenues are not flowing in. Without doubt, the concentrated extraction of tax from a small tax base and few taxpayers is a factor. But the engagement and operations of agents may actually be

[10] Local Government Areas

an even bigger factor. In regions where their use is rifer than in others, the difference between levies on taxable entities and revenues to government can be staggering. In Figure 3 we show the diversities in number of taxes across regions and revenue to governments.



Closely related to the challenge of agents and touts is tax rationalization, a policy move that aims to not only reduce but merge and define taxes in a manner that makes their appreciation and payment easier. It appears that in many States, the multiplicity of taxes remains a problem and tax policies and rates are yet to be reviewed and simplified. From the numbers in Figure 3 above, the correlation between the number of taxes and amounts obtained from taxes is negative (-0.24), implying that areas with higher number of taxes tend to get less revenue from the people. Tax agents clearly thrill in such multiple taxation as it not only ensures they are employed, it serves as a major facilitation to their ability to extract maximum rent from both government and people without detection. Under such circumstances, the tax collection and remittance systems have such significant leakages as to ensure that though the private sector is bled in taxes, the resources do not get to the public sector. Without doubt then, efficient internally generated revenue system is not so much about the number of taxes allowed or provided for in the law, as much as it is about the system put in place to collect it.

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

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

Section 7: As States Think to Improve IGR

What Has Been Done

Many States in Nigeria are currently making efforts to diversify and increase internally generated revenue. Measures range from extensive tax policy reforms to administrative measures like improved remittances and recording. Some of these measures which cut across the States can be summarized as follows:

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

- Introduction of Land Use Tax Law (incorporating Property Tax, Ground Rent and Tenement Tax);
- Expanding base for Capital Gains Tax (CGT) and Stamp duties through land registration “amnesty” window and reduction in CGT and stamp duty rates;
- Issuance of new Regulations and Guidelines for conduct of lottery, pools betting, casino and gaming activities;
- Identification of revenue that was not being collected or enforced;
- Expansion of tax base by bringing more persons and activities into the tax net including taxing of the informal sector (Presumptive Tax initiative);
- Enhanced procedures for assessment of tax liabilities;
- Enacting new Revenue Administration Law establishing the States’ Internal Revenue Service as an autonomous Revenue Service;
- Major organizational restructuring and business process re-engineering of IRS including automation of processes and HR capacity development;
- Point of Sale (PoS) terminals at tax offices linked to the IGR accounts;
- Introduction of e-filing system;
- New coding system for PAYE;
- New website to support online tax payment;
- Specialized taxpayer service units in tax offices;
- Electronic TIN registration kits deployed in tax offices;
- State-wide electronic taxpayer enumeration survey;
- Improvement in the business environment to attract private capital investments that positively influences IGR. For States that have undertaken far-reaching reforms on the business environment, there are significant potentials for highly improved IGR generation in the years ahead.

Learning from the Lagos Success Story

However, for a large proportion of States, a whole lot still needs to be done to improve IGR. Many States seem to rather implement reforms piecemeal and in quantities that are incapable of leading to the quantum change needed in their IGR fortune. Admittedly and particularly given the history of taxation in many States, IGR reforms could be politically expensive, but it does not seem as though there are many options left to States presently. In improving IGR among States though, it is fortunate that examples do not need to only be about what foreign governments have done. Domestically, Lagos presents a very good case study of how process and institutional reforms in IGR could lead to significant changes in outcomes. However, when many other State officials consider Lagos, the perception is usually that Lagos is different and that the large concentration of firms in the State is the major reason it could achieve the quantum leap in revenue numbers it had experienced in recent years. While this is correct to the extent that Lagos’ PAYE would be much higher than that of any other State, it has to be borne in mind that profit taxes of corporate limited liability firms go to the Federal Government. Interestingly as shown in Table 1, Lagos PAYE receipts are not structurally different from those of other States. Though the State did not report 100 percent of its revenues, average PAYE receipts by Lagos represent only 41 percent of revenue as against a national average between 46 percent and 56 percent. Thus, while the reforms included aspects that impacted on PAYE, there were other segments that aimed to improve other revenue items and indeed the entire process of IGR generation and management.

Under the President Obasanjo administration, Lagos experienced a major fiscal shock with the withholding of its share of FAAC allocation to Local Governments owing to non-recognition of new Local Governments created by the State. This affected the State's overall revenue flow. But to its credit, it turned this negative shock into a positive development by looking inwards and re-engineering its internal revenue system. This was a major catalyst to the IGR reforms and drive initiated by Lagos State. By the time the LG revenue conflict was resolved, a couple of institutions and processes had been established and brought to irreversible points. In effect, what kicked off as negative development ended up bringing some positive effects. The same way, the current negative fiscal shock affecting States may well be the needed catalyst to permanently restructure the revenue systems to make them more functional. Thus, without prejudice to the case study report on Lagos, this section highlights a few of the steps taken by the State and lessons that can be learnt by other States in aiming to reform internally generated revenue system.

In raising revenues, Lagos State faced the same challenges that most other States in the country face namely multiple taxation, pervasive illegal fees, arbitrariness of revenue collectors, lack of a central tax complaint and resolution center, low level of compliance, lack of concise and up-to-date tax payer database, massive tax revenue leakages and losses, poor information system about tax obligations, and obsolete tax laws. There were also constraints to the tax administration system, including lack of required facilities for tax administrators, low remuneration and morale, Lack of skills comparable to those of taxpayers, under assessments, arbitrary assessments and non-assessments, diversion and non-remittance of revenues, and inconsistencies in the application of enforcement standards. However the response of the State to these challenges was unique in very many ways. It generally went about reforms in six steps – harmonization of tax laws and empowerment of the Lagos Inland Revenue Service (LIRS), enlightenment of the taxpaying citizenry, engagement of stakeholders, organizational restructuring of the LIRS, process reengineering of the tax system and improvement in transparency of the use of tax resources. These are taken in turns.

Tax Harmonization, Empowerment and Restructuring of the LIRS

Like other Boards of Internal Revenue in Nigeria, LIRS was in disarray as at 1999, with poor role definition and liable to political manipulation. However, as the State saw the need for reform, it passed a law making LIRS independent and provided for engagement of professionals in the budget. The professionals were removed from the civil service pay structure and placed on scales determined by their respective qualifications. In addition, professional development services were offered to employees. The LIRS engaged professionals from all backgrounds, offering them competitive remuneration. The empowerment of the LIRS was followed by efforts to harmonize, streamline and simplify taxes (especially identified double or multiple taxes) to make them easier to understand by target groups. Tax incidence and payment processes were also very clearly defined to improve clarity in the tax burden and increase ability to reach the target groups. Tax items belonging to different tiers of government were clearly delineated and collection responsibility assigned accordingly. Overall, attempts were made to reduce (if not completely remove) ambiguity, which plague tax systems across the country. The LIRS was restructured and upgraded along two components – hardware (or facility) and software (process and human infrastructure). The first involved renovation of tax offices and deployment of IT infrastructure. Mini tax offices were also established in major markets. The process and human resource upgrade comprised development and adoption of vision and mission Statements, harmonization of the operational directorates, recruitment of and competitive wages for professionals in relevant fields and regular capacity building through its training school, participation in conferences, seminars, off shore training among other forms of exposures calculated to help them improve their skills.

Enlightenment and Technology

The State also saw the need to reduce information asymmetry between public officials and private operators, which is a major impediment to tax collection. Thus, it undertook massive advocacy campaign and unprecedented tax payer sensitization and education, in the form of tax campaigns using all aspects of the media. Traditional rulers and respected citizens of the State, religious leaders, celebrities etc, were commissioned to provide commissioned testimonials and mobilization. The LIRS collaborated with CSOs[11], NGOs[12] and other Government Agencies to organize tax awareness road shows and participate in trade fairs to increase awareness and visibility of its activities. Over 40 Tax Education and Enlightenment Teams were set up to ensure accelerated and full coverage of the State's tax jurisdiction. These go into markets, offices and business places every day to educate individuals and corporate entities on their tax liabilities, help in assessment and support information provision. The campaign was taken to Schools where essay competitions on tax related civic responsibility were instituted. This was followed by Task Force Operations charged with checking tax compliance among eligible private and corporate entities. The Task Force has helped in forming a robust and ever increasing tax payer database for the State. The Service also set up a robust and functional website (www.lirs.net) with up to date information on its activities as well as rights and responsibilities of tax payers, downloadable forms for potential taxpayers and portals from where tax clearance certificates can be issued automatically upon meeting required conditions. The Service also used both local and international media extensively to outline applicable tax rates for different groups of taxpayers, location of tax offices and the LIRS website.

Stakeholder Engagement

The enlightenment process described above was not allowed to just deliver fruits on its own. The Service followed up with engagement of the stakeholders through yearly Stakeholders' Tax Conferences that bring together professionals, traditional rulers, traders and public officials in the State. This conference seats the State Governor

[11] Civil Society Organisations
[12] Non-Governmental Organisations

and Executive Committee with members of the public to interact on taxation concerns in the State. The meeting increases buy-in and features awards to distinguished taxpayers by the Government, thereby incentivizing appropriate behaviour. There were also Town Hall meetings and Focus Group discussions aimed at stakeholder engagement, the latter mostly involving professional groups. In these meetings, the government showcased its achievements and the roles taxpayer funds have played in them. They also tried to account for utilization of such funds to increase confidence of the taxpayer in the capacity of the system to deliver results with the resources coming into the hands of government. There were also strategic partnerships with Banks (to reduce turnaround time for payment), Nigeria Employers' Consultative Association (to deduct and remit requisite taxes), State MDAs (to conduct mandatory confirmation of tax compliance as condition for doing business with the State) and Development Partners (to support research and advocacy plans).

Process Reengineering and Payment Simplification

A number of measures were taken to simplify the interface of the taxpayer with the taxation system. The LIRS fully implemented electronic tax clearance certificate (e-TCC), reducing manipulation of tax clearance certification and revenue leakages as well as increasing speed of processing. Following this, the State initiated Accelerated Tax Audits. This involved over 1000 professionals and yielded over 9000 tax audits between 2006 and 2008, with liabilities recovered. It also initiated direct bank lodgement linking over 1200 bank branches online; with automated receipts. Other IT options like PoS and ATM were also made available for tax payments. Then it established central tax complaints resolution centres to help resolve grievances. This was followed by prompt management of accounting reports, creation of accounts relationship management unit to monitor industry remittances, strengthening of internal control with continued taxpayer enumeration and database updates. The State also defined minimum tax for firms in the informal sector. But even more importantly, the State instituted a transparent fiscal and revenue management system that convinces the average resident in Lagos that the resources are judiciously utilized for the provision of public goods and services; the State Government goes to great lengths to show that it is transparent. This has increased confidence in the system and led to improved voluntary compliance.

From the above, some of the measures States can take include:

- Reviewing and reforming tax laws to conform with current realities. Some States have already done this while others are in the process. Publish list and rates of approved and authorized taxes and levies collectible by States and Local Governments. Enlighten and engage the public on payment procedures and the benefits of compliance;
- Deepen the automation of the entire tax administration and processes with a view to eliminating leakages and ensuring ease of payment.
- Improve tax audit, investigation and compliance;
- Create tax database through tax payer enumeration and registration. Continue to enrich this database through all interactions with potential taxpayers;

- Improve operations of the BIR through training and retraining of revenue officers, improved funding of BIR, better remuneration and welfare packages and by improving administrative machinery to eliminate bottlenecks and bureaucracy in process flows;
- Improving taxpayer service and education and creating friendly service environment, including adjudication machinery;
- Improving taxpayer-tax authority relationship through public private dialogue forum (e.g town hall meetings).

In addition, it must be borne in mind that Lagos approached IGR reforms very holistically as against the piecemeal approach in many States. While the latter has capacity for improvements in IGR, it does not yield the same results as the former. However, holistic reforms imply significant political will, which though difficult to obtain, can be engineered through enlightened public service support to the political class.

Long Term Vision Versus Short Term Needs

But there are other issues that may not have been very evident in the Lagos story, but which are necessary ingredients to effective IGR reforms. First, there is need for long term vision for IGR as opposed to the ad hoc processes engendered by the current, immediate pressure for resources facing States and which is driving the current attention on IGR. While there may be immediate pressures, States would have to exercise great restraint to be able to face the responsibility of long term reforms that would yield improved revenues, not only for the moment, but also for the long term. Growth rates in IGR over the 2010 through 2014 period as shown in earlier sections indicate that most States use ad hoc measures that improve IGR in the short run (sometimes for only one year) and do not have capacity for sustaining such improvements. Most often, deep implosions follow high growths. This has to change. Besides the need for a plan as indicated from the Lagos experience, changes in approach are required at two levels at the minimum – understanding the unique IGR environment of each State and deliberately growing the private sector. We take these in turn.

Understanding the IGR Environment

There is the assumption that problems of IGR are well known. While this may be true of the generic, the peculiar challenges facing IGR in each State and how to overcome those challenges are mostly not known, or at least not scientifically evaluated. Most States easily hand over revenue generation to tax consultants, but these are without studies of possibilities. Even where the State BIR is in charge of revenue management, they often work without much scientific research and estimates. In many instances, State officials consider research as expensive and irrelevant. However, without them, projections and expectations are often framed on very loose and unrealistic grounds, putting the revenue system in jeopardy. Every State Government owes itself and its people the responsibility of understanding its private sector, potential revenue sources and options for tapping them in a sustainable manner. State IGR measures have to be anchored on empirical evidence and such can only come through scientific studies. Such studies may be relatively expensive, but they yield invaluable results.

Growing the Private Sector

- Internally generated revenues are obtained from the private sector; government does not pay itself. Even where government institutions pay taxes (like PAYE and withholding taxes), they are obtained from private agents or engaged employees. Consequently, there is need to keep an eye on growing the goose that lays the golden egg. In many States of Nigeria, governance is conducted as though it is about government institutions. In reality, government is not set up for itself, but for the private sector.

  Tax administration in many States actually set out to make business very unattractive and confine agents to rent-seeking activities which are less susceptible to multiple or arbitrary taxation. For example, manufacturing businesses complain more about tax arbitrariness than they do about infrastructure deficiency. While many producing firms are already saddled with the responsibility of self-provision in virtually all facilities that should have been provided by government, they also have to endure the same government coming back with demands for multiple payments for services not rendered. This is not only frustrating; many businesses have closed as a result, often without an iota of care and response from government officials when they go under.

  In other instances, government set up its processes in ways that inhibit operations of businesses. For too long, much has been said about the need to improve the business environment in Nigeria. But the actual improvements have been much less – land acquisition systems remain very cumbersome, multiple taxes continue to plague businesses and minor services that could make huge differences in the operations of the private sector are perennially unavailable. In growing the private sector and deliberately helping to minimize the constraints facing their operations, government grows its own revenue. --- and this relationship has to continually be borne in mind as States move to seek options for increasing revenue. Such grooming of the private sector might involve long term plans on how to help businesses grow and might require patience on expecting returns from them as well. In particular, attempts to help informal businesses formalize their operations, supporting entrepreneurs on elementary book-keeping education among other measures to help them grow, would ultimately prove helpful.

Dealing with the Data Challenge

One of the most critical challenges facing IGR in Nigeria is data. Data integrity is weak across board, in part because of weak IGR coordination and in part because of poor data management and dissemination. In several instances, data available at the States differ (sometimes very significantly from those available to the JTB/NBS even though the latter would insist that all figures are from the States. In fact, in some cases, even within a State, different official documents, sometimes produced by the same agencies possibly across different years, would bear different figures on tax revenue. This is not surprising given the arbitrariness that sometimes accompanies tax administration and management in many States in Nigeria. In many instances, different documents of the State (like Budgets and audited accounts) report different figures for the same tax items for the same year. And it gets worse when such data are across institutions and agencies. One of the biggest challenges that faced this work was data reconciliation. World Bank data (which the group indicates came from States) largely differ from those from the Joint Tax Board (which also they indicate were obtained from the States). In the course of this work, it was found that World Bank data was more comprehensive in disaggregating components of taxes, but since the NBS and JTB are agencies authorized to keep tax data in Nigeria, it was thought that data from them should be used for the study. Appendix Table 3, shows discrepancies observed between the two datasets for the years 2010 through 2013. Efforts were also made to calculate annual differences as well as end period average differences between the two data sets. Despite covering many years, average difference for some States are very high, too high to be explained by minor lapses in recording. Some of the more notable differences (those above 50 percent) include Anambra (94.6 percent), Benue (56.95 percent), Ekiti (151.07 percent), Gombe (155.87 percent), Imo (135.96 percent), Jigawa (71.01 percent), Kaduna (297.97 percent), Katsina (55.72 percent), Ogun (89.17 percent), Ondo (82.49 percent), Osun (86.85 percent), Sokoto (154.51 percent) and Zamfara (96.43 percent). These differences are by no means negligible and indicate a fundamental problem with data on IGR.

While much of these discrepancies in tax data may come from the disparateness associated with tax institutions and processes in States, it may not be altogether impossible that sometimes, States report wrong figures, particularly during periods of collation at national levels. This could be the case when there are federal incentives tied to high IGR from the State. Thus, while improvement in tax data management and consistency is urgently needed, and may need technical support for States to achieve, it is equally important that States be encouraged to maintain data integrity. Where necessary and possible, national data agencies may require proofs of figures given before they can be accepted or published as a means of reducing such discrepancies.

Conclusion

Institutions and processes supporting internally generated revenue among Nigerian States face significant challenges. Behind the low revenue numbers and the inability of States to meet obligations from internal sources are series of constraining factors. Though difficult, these challenges are not altogether insurmountable. Indeed, given the State of State finances and the global downturn in commodity prices, it seems there are no options to overcoming them. Fortunately, the Nigeria Governors' Forum Secretariat seems determined to support the search for options to overcome them. The present report is a scoping study, aimed at raising broad issues for IGR management among Nigerian States. It is intended to help initiate discussions in the IGR workshop involving key officials of revenue coordinating agencies of States. It is neither in-depth nor extensive. To fully appreciate the challenges facing IGR in Nigeria, more detailed, possibly differentiated studies may be needed for regions and States.

While questions have been raised about the viability of some Nigerian States in the past, the reality is that most States in the federation can generate much more revenue internally to meet government expenses than they are doing right now. However, this requires that the right environment, attitude and processes be put in place. In some instances, there are questions about the capacity of the IGR base to generate the required resources, but in most instances, the bigger challenge seems to be about the capacity of institutions that should tap these resources to do so. For as long as there are no data on eligible taxpayers, leading to arbitrariness in tax collection, States would continue to act in ways inimical to private sector growth. Tax potentials would then not translate to actual government revenue.

The deficiencies in IGR generation and management in the States affect most other aspects of public finance. In effect, full fiscal reforms that aim to curb constraints to IGR generation and management must also engage processes for resource management in other ways. For example, poor accounting and auditing processes in the State may not look like issues for IGR, but they ultimately limit the capacity of the government to retain what it has generated. They generate doubts in the minds of potential taxpayers about the essence of taxes and the integrity of government in managing resources. Thus, as States worry about options for IGR improvement, they equally need to pay attention to other aspects of public finance management that ultimately impinge on their capacity, not only to generate revenue, but also utilize same for public good.

Appendices

Table 1: Position of States on Selected IGR Indices, 2010 – 2014

1	**2**	3	4	**5**	**6**	**7**	8	**9**	10	**11**	12
		IGR/Rev (%)	**Period Growth**		**IGR/Budget (%)**		**IGR pc (N)**				
Position	**State**	**Total IGR**	**Monthly IGR**	**State**	**Value**	**State**	**Value**	**State**	**Value**	**State**	**Value**
1	**Lagos**	1,232.35	20.54	**Lagos**	62.31	**Taraba**	46.76	**Lagos**	50.66	**Lagos**	22089.48
2	**Rivers**	296.01	6.17	**Edo**	21.86	**Kano**	40.69	**Ebonyi**	18.10	**Rivers**	10734.30
3	**Delta**	93.03	3.88	**Ebonyi**	21.32	**Osun**	37.23	**Enugu**	17.28	**Delta**	7949.15
4	**Akwa Ibom**	66.40	1.52	**Rivers**	20.71	**Bayelsa**	32.34	**Rivers**	14.33	**Ebonyi**	5477.38
5	**Enugu**	65.46	1.36	**Abia**	20.65	**Kogi**	32.19	**Kwara**	13.35	**Edo**	4198.63
6	**Cross River**	57.51	1.21	**Enugu**	20.29	**Nasarawa**	30.55	**Abia**	12.95	**Abia**	4042.82
7	**Oyo**	55.07	1.17	**Ogun**	19.28	**Ekiti**	30.52	**Edo**	11.21	**Enugu**	3685.97
8	**Edo**	54.80	1.15	**Kwara**	17.67	**Plateau**	26.59	**Delta**	10.93	**Kwara**	3670.58
9	**Kaduna**	45.03	1.11	**Delta**	17.28	**Abia**	24.07	**Anambra**	8.96	**Bayelsa**	3377.42
10	**Ogun**	43.71	1.10	**Oyo**	17.12	**Kwara**	23.83	**Benue**	8.73	**Cross River**	3312.16
11	**Abia**	39.64	0.97	**Kaduna**	16.84	**Lagos**	22.62	**Ogun**	7.91	**Akwa/Ibom**	2757.58
12	**Benue**	36.23	0.96	**Cross River**	16.68	**Ogun**	22.35	**Cross River**	7.87	**Ogun**	2703.50
13	**Kano**	34.81	0.94	**Benue**	14.51	**Enugu**	20.28	**Oyo**	7.77	**Ondo**	2245.42
14	**Bayelsa**	34.78	0.94	**Anambra**	12.68	**Cross River**	20.20	**Kaduna**	6.68	**Oyo**	1900.28
15	**Anambra**	34.44	0.93	**Osun**	11.14	**Katsina**	20.05	**Ondo**	6.07	**Benue**	1694.17
16	**Imo**	34.03	0.75	**Ondo**	11.00	**Jigawa**	19.40	**Kano**	5.62	**Plateau**	1658.66
17	**Kwara**	33.97	0.72	**Plateau**	9.97	**Rivers**	16.49	**Plateau**	5.54	**Anambra**	1634.82

18	**Ondo**	22.22	0.70	**Kano**	9.71	**Ondo**	16.35	**Adamawa**	5.42	**Nasarawa**	1617.15
19	**Osun**	20.82	0.58	**Imo**	9.65	**Niger**	16.09	**Sokoto**	4.92	**Kaduna**	1544.93
20	**Sokoto**	19.63	0.58	**Kebbi**	9.40	**Oyo**	15.04	**Osun**	4.91	**Osun**	1511.98
21	**Bauchi**	18.32	0.57	**Adamawa**	8.37	**Delta**	14.95	**Kebbi**	4.79	**Imo**	1422.81
22	**Katsina**	18.11	0.50	**Nassarawa**	7.40	**Edo**	14.16	**Yobe**	4.70	**Gombe**	1210.23
23	**Adamawa**	17.88	0.41	**Sokoto**	7.40	**Zamfara**	13.74	**Katsina**	4.65	**Adamawa**	1166.12
24	**Kogi**	17.62	0.38	**Gombe**	7.28	**Akwa Ibom**	11.68	**Gombe**	4.21	**Yobe**	1150.98
25	**Niger**	16.89	0.37	**Yobe**	7.12	**Bauchi**	10.50	**Imo**	4.20	**Kebbi**	1086.63
26	**Plateau**	16.77	0.37	**Katsina**	6.85	**Sokoto**	10.10	**Taraba**	4.03	**Sokoto**	1055.38
27	**Nasarawa**	16.36	0.35	**Bauchi**	6.80	**Anambra**	9.63	**Nasarawa**	3.72	**Taraba**	1005.30
28	**Yobe**	16.28	0.34	**Niger**	6.05	**Gombe**	9.58	**Niger**	3.70	**Kogi**	984.70
29	**Ebonyi**	14.06	0.32	**Ekiti**	5.99	**Imo**	9.32	**Bauchi**	3.63	**Ekiti**	936.66
30	**Taraba**	10.92	0.28	**Kogi**	5.43	**Benue**	8.96	**Kogi**	3.18	**Kano**	906.41
31	**Zamfara**	10.85	0.27	**Taraba**	4.87	**Ebonyi**	8.20	**Akwa Ibom**	3.03	**Niger**	846.65
32	**Ekiti**	9.59	0.27	**Akwa Ibom**	4.72	**Adamawa**	5.05	**Ekiti**	2.82	**Bauchi**	758.20
33	**Kebbi**	7.57	0.23	**Borno**	4.05	**Kaduna**	3.55	**Zamfara**	2.58	**Katsina**	727.23
34	**Gombe**	6.83	0.23	**Zamfara**	3.67	**Kebbi**	2.57	**Bayelsa**	2.52	**Zamfara**	627.58
35	**Borno**	2.13	0.18	**Bayelsa**	2.69	**Borno**	0.86	**Borno**	1.89	**Borno**	445.95
36	**Jigawa**	1.24	0.10	**Jigawa**	1.55	**Yobe**	-3.25	**Jigawa**	1.84	**Jigawa**	273.87
	National Average	17.48	1.46		12.5		17.87		7.91		2,844.75

Table 2: Average IGR Growth across States, 2011 – 2014

STATE	2011	2012	2013	2014	Average Growth
Taraba	123.32	19.14	-2.17		46.76
Kano	-	66.98	55.11		40.69
Osun	119.10	-32.15	45.10	16.87	37.23
Bayelsa	-22.38	35.65	111.76	4.36	32.34
Kogi	28.46	11.83	57.60	30.87	32.19
Nasarawa	123.30	-	-2.90	1.82	30.55
Ekiti	60.22	52.13	-38.23	47.98	30.52
Plateau	33.01	53.25	22.50	-2.38	26.59
Abia	5.74	42.40			24.07
Kwara	20.85	28.36	22.27		23.83
Lagos	35.20	8.11	75.30	-28.13	22.62
Ogun	36.89	14.76	10.76	27.01	22.35
Enugu	-47.18	67.55	65.47	-4.72	20.28
Cross River	16.37	39.03	-5.75	31.13	20.20
Katsina	34.52	18.63	36.24	-9.19	20.05
Jigawa	19.40				19.40
Rivers	6.21	25.73	32.65	1.36	16.49
Ondo	23.69	26.66	3.40	11.62	16.35
Niger	16.40	-0.23	8.80	39.39	16.09
Oyo	-15.00	63.74	4.47	6.92	15.04
Delta	33.21	31.13	10.19	-14.72	14.95
Edo	38.60	27.88	0.10	-9.92	14.16
Zamfara	-17.13	51.24	17.22	3.63	13.74
Akwa Ibom	15.24	15.74	13.92	1.80	11.68
Bauchi	31.18	-8.94	21.47	-1.70	10.50

Sokoto	7.63	3.07	27.71	1.97	10.10
Anambra	-19.68	23.62	14.87	19.73	9.63
Gombe	6.72	17.88	4.14		9.58
Imo	1.61	17.29	11.35	7.02	9.32
Benue	61.85	-24.21	-0.74	-1.07	8.96
Ebonyi	8.20				8.20
Adamawa	-2.14	12.08	-10.09	20.36	5.05
Kaduna	-15.41	17.89	-5.20	16.93	3.55
Kebbi	17.47	21.28	-31.19	2.73	2.57
Borno	8.23	7.12	-12.75		0.86
Yobe	-59.98	-25.17	72.08	0.06	-3.25

Table 3: Differences in IGR Data between World Bank (Actual IGR Net of BTL) and NBS/JTB Actual State IGR Datasets, 2010 - 2014

	2010			**2011**			**2012**			**2013**			
	NBS/ JTB	WB	% Difference	NBS/ JTB	WB	% Difference	NBS/ JTB	WB	% Difference	NBS/ JTB	WB	% Difference	Average Period Difference (%)
Abia	11.12	6.88	38.13	11.76	11.20	4.79	16.75	11.14	33.49	0.00	0.00		25.47
Adamawa	4.21	6.89	- 63.68	4.12	6.65	-61.47	4.62	6.48	-40.36	4.15	4.15	-	-41.38
Akwa-Ibom	10.13	12.09	- 19.26	11.68	16.55	-41.75	13.52	17.06	-26.21	15.40	15.40	-	-21.80
Anambra	7.66	7.72	- 0.87	6.15	14.75	-139.83	7.60	17.35	-128.21	8.73	18.29	-109.48	-94.60
Bauchi	3.40	3.40	0.00	4.46	4.45	0.22	4.06	4.06	0.00	4.94	4.94	0.00	0.06
Bayelsa	4.71	6.07	- 28.92	3.66	4.45	-21.77	4.96	5.79	-16.73	10.50	11.28	-7.46	-18.72
Benue	6.88	8.41	- 22.21	11.13	5.46	50.99	8.44	30.42	-260.60	8.37	8.37	-	-57.95
Borno	2.11	2.53	-19.86	2.28	2.28	0.00	2.44	2.44	-	2.13	2.13	-	-4.97
Cross River	7.87	7.69	2.35	9.16	9.16	0.00	12.73	12.73	0.00	12.00	12.00	0.00	0.59
Delta	26.09	16.60	36.38	34.75	36.47	-4.94	45.57	47.88	-5.08	50.21	50.21	-	6.59
Ebonyi	13.00	13.00	0.00	14.06	14.03	0.22	0.00	0.00		0.00	0.00		0.11
Edo	10.65	12.38	-16.20	14.76	18.08	-22.49	18.88	16.97	10.12	18.90	21.63	-14.45	-10.76
Ekiti	1.55	6.56	-321.98	2.49	3.51	-41.00	3.79	12.93	-241.28	2.34	2.34	-	-151.07
Enugu	13.80	5.86	57.52	7.29	8.39	-15.13	12.21	5.40	55.78	20.20	19.72	2.40	25.14
Gombe	2.95	8.16	-176.21	3.15	10.15	-221.80	3.72	12.10	-225.47	3.87	3.87	-	-155.87
Imo	5.71	8.92	- 56.17	5.81	22.39	-285.53	6.81	20.58	-202.15	7.58	7.58	-	-135.96
Jigawa	1.24	2.36	- 89.98	1.48	2.25	-52.04	0.00	2.93		0.00	4.33		-71.01
Kaduna	11.56	19.52	- 68.82	9.78	30.48	-211.62	11.53	36.69	-218.20	10.93	86.72	-	-297.97

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Kano	6.62	6.62	-	6.62	14.52	-119.35	11.05	16.39	-48.28	17.14	17.14	-	-41.91
Katsina	3.15	9.98	-216.68	4.24	4.50	-6.20	5.03	5.03	-	6.85	6.85	-	-55.72
Kebbi	3.81	4.98	-30.84	4.47	3.47	22.36	5.42	4.42	18.47	3.73	3.73	-	2.50
Kogi	2.22	2.81	-26.79	2.85	3.68	-29.12	3.19	3.92	-23.11	5.02	5.02	-	-19.75
Kwara	7.30	7.30	-	8.82	8.82	0.00	11.32	11.32	0.00	13.84	13.84	0.00	0.00
Lagos	149.9 7	173.45	-15.66	202.7 6	198.4 6	2.12	219.2 0	224.3 5	-2.35	384.2 6	243.3 1	36.68	5.20
Nassaraw a	1.85	4.25	-129.70	4.13	5.33	-28.98	4.13	4.63	-12.10	4.01	4.01	-	-42.70
Niger	3.26	4.19	-28.60	3.79	4.15	-9.51	3.78	9.54	-152.22	4.12	4.12	-	-47.58
Ogun	7.92	17.94	-126.58	10.84	25.28	-133.24	12.44	24.49	-96.87	13.78	13.78	-	-89.17
Ondo	6.48	9.74	-50.26	8.02	19.42	-142.25	10.15	24.11	-137.43	10.50	10.50	-	82.49
Osun	3.38	7.86	-132.89	7.40	11.69	-58.01	5.02	12.88	-156.49	7.28	7.28	-	-86.85
Oyo	10.49	11.52	-9.88	8.92	14.31	-60.52	14.60	15.29	-4.75	15.25	15.25	-	-18.79
Plateau	3.40	4.10	-20.57	4.52	4.25	5.88	6.93	7.25	-4.58	8.49	7.25	14.60	-1.17
Rivers	49.63	58.94	-18.75	52.71	62.87	-19.28	66.28	72.37	-9.20	87.91	87.91	-	-11.81
Sokoto	3.89	19.43	-399.80	4.19	13.32	-218.23	4.31	4.31	-	5.51	5.51	-	-154.51
Taraba	1.28	3.09	-140.52	2.87	3.54	-23.31	3.42	3.62	-5.76	3.34	2.68	19.79	-37.45
Yobe	5.96	5.96	0.01	2.39	2.39	-	1.79	1.89	-5.59	3.07	3.07	-	-1.40
Zamfara	2.07	9.65	-366.39	1.71	2.00	-16.72	2.59	2.66	-2.61	3.04	3.04	0.00	-96.43

Notes:

Differences are calculated by subtracting WB figures from NBS/JTB figures for each year and taking that as a ratio of NBS figures for the same year.

Average period difference is the average of the differences for the four years covered in the data.

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