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Improved Internally Generated Revenue and Sustainable Budget Implementation: A Comparative Study of Lagos and Oyo States

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Abstract

Internally generated revenue is one of the ways through which Nigeria, particularly the State governments can be assisted to overcome their constraints in budget implementation and ensure adequate and responsible public service delivery. Yet, despite its importance, many states, but Lagos, are still not taking the advantage to improve on their Internally Generated Revenue (IGR). By way of comparative study and to fill the gap on the need to improve IGR for better budget performance, this paper examined the impact of IGR on sustainable budget implementation in Lagos and Oyo States. Using data on specific categories of IGR and Gross Domestic Product (GDP) of the selected states and applying ex-post facto analysis, the study assesses whether IGR has any significant impact on sustainable budget implementation. The findings of this study reveals that the persistent shortfall in estimates of earnings has inevitably affected the sustainability of budget implementation at both federal and state levels in Nigeria. It further shows that there is a direct relationship between improved IGR and sustainable budget implementation. In view of the above, the study concludes that state governments could achieve sustainable budget implementation through improved IGR; and therefore recommends that there should be a purposeful attitudinal change towards improving IGR at State level in Nigeria as this is evidently seen in the case of Lagos. Therefore, given the Nigerian government current fiscal position improving IGR is no longer an option among many; it is currently the only one on top.

Keywords: *Public budget, Sustainable Budget Implementation, Revenue,* Internally Generated Revenue *(IGR) and* Gross Domestic Product (*GDP)*

1. Introduction

A budget is an essential tool of national resource mobilization, fiscal apportionment and economic management. It is an economic instrument for facilitating and realizing the vision of the government in a given fiscal year. Budget is the life blood of governments. Therefore, the role of budget in any economy cannot be overstated. However, if a country's budget is to function as an effective mechanism for stimulating the growth and development of that country, proper and sustainable implementation is necessary. But again, it is a well-known fact that without adequate income (revenue), budget implementation cannot be meaningfully achieved. Revenue is what finances a budget. So, a budget heavily relies and is developed on the basis of revenue projections. These projections are meant to guide policy choices.

To be sure, revenue effort or what is usually referred to as Internally Generated Revenue (IGR) has continued to be a burning issue in Nigerian public financial management, probably as a result of the evolving challenges faced by the various tiers of government in funding their budgets. A fiscal capacity and expenditure need of a particular state is very important for sustainable budget implementation. Thus, a consistent and stable source of revenue makes the implementation of budget very easy and goes a long way in the stabilization of key indicators of economic growth (Igyo, Simon and Iorlumun, 2016) This emphasizes the paramount importance of IGR to sustainable budget implementation of state government in Nigeria. The IGR of the various state governments and even the federal government have not been properly harnessed possibly because of the huge foreign exchange earnings from oil revenue and hence less efforts are being made by the various levels of government in Nigeria to harness the enormous potentials of IGR collections from tax revenue (Uviomo, 2009).

Nigeria is a country widely acknowledged with significant governance problems which have been exacerbated by dwindling revenue. Most Nigerian annual budgets, either at federal or state level, have been described as poorly/under-implemented or even no implemented due to funding difficulties. Inebriated with oil revenues, federal as well as all state governments, except Lagos, have been handling all other sources of revenue with lackadaisical attitude. Thus, ever declining revenue is one of the persistent problems of the public financial management in Nigeria. This has, for long, resulted to yearly deficit budgeting as inadequate funds makes the nation to take loan for implementing viable and development projects. According to analysts, a greatest challenge this problem portends for many states in Nigeria, is the inability to fund their budget for smooth running of the economy and government. Most Nigerian states' budgetary goals remain largely unachievable and unrealisable due to dearth of funds. No wonder, the country fell among the poorer performers on the 2016 open Budget Index, scoring 24 out of 100 possible points, putting it at a point less than half the average country score of 50 (Uwaleke, 2016).

This problem has been exacerbated simply because most states in Nigeria today heavily depend on federal allocation. The most recent report from Nigeria's chapter of the EITI found that oil and gas revenues account for 77 percent of total government revenues (World Bank, 2008) but as a result of decrease in oil revenues, federal allocation to state governments have decreased dramatically. These challenges are not something that happened unexpectedly as they closely reflect Nigeria's governance challenges that have always associated with public financial management. For example, if there is no money to fund the budget, it means there will be no implementation of capital projects and workers' salaries will be difficult to be paid and teachers will be out of schools and schools will be closed (Nweze, cited in Ugwuanyi, 2015).

Despite the glaring difficulties of getting more revenue from federal allocation, most state governments in Nigeria are not seeing the need to improve their internally generated revenue, even when such improvements have shown consistently to be a good step in the right direction, at least, as evidenced by Lagos sustainable budget implementation. There is therefore, the dire need for the state governments to source for fund through internally generated revenue.

While there are several studies that have looked at the rationale for improved IGR, there is hardly any quantitative empirical evidence on its impact; especially for sustainable budget implementation. It was because of this difficult of sustainable budget implementation due to dearth of public revenue that this study sought to examine the impact of an improved state IGR on sustainability of public budget implementation. This study discusses the capability of IGR by comparing revenue structure and mobilization in Lagos and Oyo states, and summarizes the governance challenges identified in relation to generation of internal public revenue in Nigeria: negligence, poor financial management, corrupt practices on the part of revenue collectors, porous sources, human resource problems, non-remittance of revenue collected, uncontrolled internal measures, poor accountability mechanism, etc. The problem raised by this study therefore, is, why has the public budget implementation failed to achieve the desired objectives? And also how can an improved IGR help to facilitate sustainable budget implementation. So, the paper aims to interrogate the under listed research questions;

(i) What is the performance of Internally Generated Revenue in Lagos and Oyo States between 2011 and 2016?

(ii) Is there a significant variance in the capacity of IGR to finance recurrent, capital and total expenditure between Lagos and Oyo states?

(iii) Is there a significant relationship between an improved IGR and sustainable budget implementation?

The scope of this study covers two states (Lagos and Oyo) both selected from the south west geo-political zone in Nigeria. The study, using an ex-post factor design, employed secondary source of data collection. So, data were collected from annual reports of Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS) and the Ministries of Economic Planning and Budget of the two selected states respectively. Majorly, descriptive statistics including averages, percentages, tables and charts were used in analysing data. A major limitation of this study is non-availability of reliable and consistent data. States statutorily send internally generated revenue data to the National Bureau of Statistics (NBS). Thus, we cross check these data with the view of getting the originality.

This study is intended as a contribution to the on-going efforts at finding lasting solution to the economic recession in the country in order to put its public financial management including the sustainable budgetary implementation in better position. The purpose of this study is to examine the impact of IGR on sustainable budget implementation at state level in Nigeria. The paper summarizes the State of IGR among States in Nigeria, outlining the general nuances and line item contributions of IGR among the two selected States. It also looked 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.

2. Conceptual Definitions

There are two main concepts central to this study, these include sustainable budget and internally generated revenue. Here, we shall briefly explain these concepts before we move on to other discussions in the paper as follows:

a). ***Sustainable Budget:*** The term “sustainable budget” is defined at its most basic level, by Finnegan in Farmer (2014, par. 2), as one where “normally occurring revenues are equal to normally occurring expenditures. Alternatively, it is a situation where “extraordinary sources of revenue are used for extraordinary, one-time expenditures.” It therefore means that for a national budget to be sustainable, the income must be equal to expenditure.

b). ***Internally Generated Revenue (IGR):*** Generally, revenue is the total sum of income accruing to a government from various sources within a specified period of time (Olusola, 2011). State government, like federal and local governments, has several sources and uses of revenue. Basically, there are two types of revenue that accrues to state governments in Nigeria. These include internally generated revenue (IGR) and revenue from Federation Account usually refers to as Federal Statutory Allocation. However, we are more concerned about the revenues that are internally generated by the States. Internally Generated Revenue (IGR) is the revenue that state governments generate within the areas of their jurisdiction. The various sources of internal

revenue available to state governments includes taxes, fines and fees, licenses, earnings & sales, rent on government property, interests and dividends, among others. Table 2 shows the sources and challenges of internally generated revenue of state governments in Nigeria.

3. Theoretical Foundation

There are several theoretical foundations which have provided explanations for public finance in the literature. These theories are usually categorised according to peculiarities and perspectives of each phenomenon. Some are economic, some bureaucratic and some others are political. However, this study is anchored on the *Pecking Order Theory*. This theory, which was developed by Brealey and Myers (1996), views organizations as preferring internal to external finance. The major challenges that face successive state governments in Nigeria is perpetual financial crisis. Particularly, the total dependence of most of them on federal statutory allocations is giving rise to unending annual budget deficits as the monthly statutory allocations are usually insufficient for meaningful growth and viable projects developments. Thus, the pitiable pecuniary situation of the state governments has been worsened by the continuous diminishing of statutory allocations from federation account (Udeh, 2002).

A thorough scrutiny of Lagos State's revenue profile shows that its IGR rose to N302bn in 2016. It further shows that this figure alone is greater than the total sum of IGR from 30 other States put together. The remaining six States which are Edo, Ogun, Kwara, Rivers, Delta and Lagos State itself, were the ones whose IGRs were very remarkable, as they generated above 30% each of their federal allocations. Moreover, the exercise also reveals that Lagos and Ogun States only were able togenerate IGR higher than their statutory allocations by 169% and127% respectively and apart from these two states, none of them has up to 100% of IGR to the statutory grant from federation account. However, the income profile of Oyo State shows that its IGR is lessthan one third of the total income accruing to the state. Inverse relationship appears to exist between efforts being made to boostinternally generated revenue performance and actual revenue realized internally. In the light of the above, the paper sets to evaluate strategies of compliance enforcement, assessment as well as the best collectionmethod available in Lagos state for generating internal revenue. This is done with a view to identifying the contributions the strategies willmake to ameliorate inadequate IGR being experienced in Oyo state atthe time of this study.

4. Empirical Evidence

In Nigeria, many authors have attempted to examine the role of the internally generated revenue in budget financing. Findings from copious studies on IGR of Subnational governments in Nigeria indicates that average performance of many states in most financial capacity questions is not impressive (Onodugo, Onodugo,

Benjamin, Asogwa and Ayandike, 2015; Adeoti, Olawale and Abdulraheem, 2014; Luke and Onuoha, 2013; Olusola, 2011). These scholars discovered that the earnings from States' IGR in Nigeria were poor. The results of their studies further showed that there are several factorshindering IGR and the system of generation need to be reformed.

Nasar and Fasina (2005) examined the revenue outlines of Oyo state and assessed the impact of personal income tax on the income accruable to the state from the Federation Account. Using secondary data collected from the Oyo state budgets 2000-2006, the study adopted stepwise regression technique to select the revenue source that has the greatest impact on Internally Generated Revenue (IGR) in the state. Multiple R, R^2 and Rc^2 (R square and Adjusted R square respectively) were determined to analyse the individual, cumulative relationship and effect of the revenue sources on IGR respectively. Result shows that personal income taxes contributes a higher effect of about 68.4% on internal revenue in the state. License and tax revenues accounted jointly for about 68.8% variation in IGR in the state. Hence, any improved strategy on taxes will boost Oyo state IGR. The study recommends an improved strategy through the use of Electronic Revenue Assessment, Collection and monitoring technique together with Unique Taxpayer Personal Identification Number (UTPIN) database to attract both the self-employed and salary earners into the Personal Income Tax net.

Recently, Ali, Simon and Ashami (2016) carried out a study in Benue State to critically evaluate the influence of Personal Income Tax on IGR. This, they did with a view to ascertain the viability of IGR and independence of the State beyond the Statutory Federal Allocation. Using the technique of multiple regressions through (E-view statistical package), the study found a positive relationship between the variables i.e. Pay As You Earn and IGR. This implies that, an increase in the PAYE will increase IGR of the State. Similarly, a positive relationship exists between Direct Assessment and IGR. An increase in it will also lead to increases in the IGR. They then recommend that if the various states in Nigeria harness personal income revenue sources effectively and efficiently by blocking the linkages, and also harness the enormous untapped Personal Income Tax sources in the private sector, the states will surely generate sufficient revenue to be self-sufficient.

Other studies that have also been conducted on how to improve IGR have given some policy recommendations. Some of these recommendations include general ways to improve efficiency in collecting public revenue, intensifying efforts in the rate of existing taxes and widening the revenue base by introducing new taxes, snowballing fiscal transfers and additional revenue sources from thenational to subnational governments, loftier fiscal discipline, among other recommendations to improve revenue for governments at sub national level (Ekpo, 1999 Alade, 1999; Anyanwu, 1999; & Agu, 2010).

The key summary in the little empirical review above is that state governments performed so poor and far below the bar in their IGR. So, there is urgent need to improve internally generated revenue IGR for better and sustainable budget implementation. Thus, the focus of the present study is on the viability of the IGR for

better and sustainable budget implementation and to know the capacity of states' IGR in financing their recurrent expenditures.

5. State of Subnational IGR in Nigeria

Generally, in Nigeria, the low level of internally generated revenue IGR) has been held as the bane of sustainable budget implementation at the state level. Most governments at subnational level in Nigeria are confronted with increasingly rising deficits in their annual budget owing to a slope in oil price in 2015 from its uttermost price of about $140 a barrel to something below $40 a barrel, which is the lowest level since early 2009. State governments collect and control all revenues generated from personal income tax, property tax, road tax, among others. In 2016, Lagos State accounted for approximately 37% of total internally generated revenue collected by states. Lagos, Ogun and Rivers states lead in terms of Internally Generated Revenue uptake per capita. Collection efficiency in Kano is abysmal; despite its huge market size, it could only collect N2, 367 per head, whichis approximately 9.8% of Lagos collection per head.

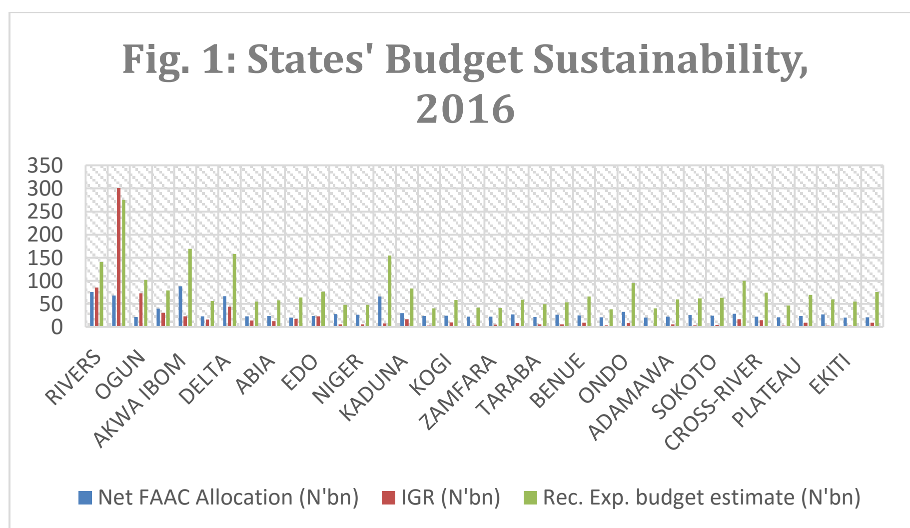
Table 1 demonstrate the position of 2016 IGR in aggregate revenue of states and then show proportion of the recurrent expenditure that is financed by IGR. This further provides background for conclusions and the detailed case studies of the two states.

Table 1: *Rankings of States' Budget Sustainability 2016*

Rank	State	Net FAAC Allocation (N'bn)	IGR (N'bn)	Rec.Exp. budget estimate (N'bn)	% (IGR/ Rec. Exp.)
1	RIVERS	75.89	85.29	141.00	60%
2	LAGOS	67.84	301.19	275.65	109%
3	OGUN	22.01	72.98	102	71%
4	KANO	39.38	30.96	79.43	40%
5	AKWA IBOM	88.49	23.27	169.3	13%
6	ANAMBRA	23.35	16.19	56.6	28%
7	DELTA	66.55	44.06	158	27%
8	ENUGU	23.18	14.24	55.2	25%
9	ABIA	23.92	12.69	57.4	22%
10	KWARA	20.41	17.25	64.28	26%
11	EDO	24.05	23.04	76.56	30%
12	KATSINA	28.17	5.55	47.73	11%
13	NIGER	26.35	5.88	48.00	12%
14	BAYELSA	66.11	7.91	155.1	5%
15	KADUNA	30.18	17.05	83.47	20%
16	KEBBI	23.69	3.13	40.23	7%

17	KOGI	24.59	9.57	58.71	16%
18	YOBE	22.15	3.24	41.9	7%
19	ZAMFARA	22.61	4.78	41	11%
20	BAUCHI	26.92	8.68	58.85	14%
21	TARABA	21.65	5.9	49.3	12%
222	IMO	26.56	5.87	53.73	11%
23	BENUE	25.39	9.56	66.3	14%
24	NASARAWA	20.71	3.4	38.6	8%
25	ONDO	32.93	8.68	95.16	9%
26	EBONYI	20.45	2.34	40.17	5.8%
27	ADAMAWA	22.7	5.79	60.06	9%
28	JIGAWA	25.53	3.54	61.88	5%
29	SOKOTO	24.74	4.55	63.33	7%
30	OYO	28.38	16.54	100.31	16%
31	CROSS-RIVER	22.71	14.78	74.52	20%
32	GOMBE	21.27	2.94	46.89	6%
33	PLATEAU	23.58	9.19	69.36	13%
34	BORNO	27.4	2.68	59.66	22%
35	EKITI	20.44	2.99	55.03	5%
36	OSUN	21.34	8.88	75.8	11%

Souce: BudgIT (2017) State of States, the 2017 Edition.



For a large proportion of States in Nigeria, as shown in the above table, a whole lot still needs to be done to improve IGR. In comparing 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. The finances of many States (excluding Lagos) have been severely impacted by the decline in statutory receipts, worsened by their low levels of IGR and high expense ratio. In order to reduce the current strain on those States, the Federal government established a new N90bn credit facility to be accessed upon meeting 22 stringent conditions (Ogundijo, 2017).

Following from the above, several 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.

Crucial to sustainable budget implementation is a deliberate and prolonged approach to tangibly boost IGR. The state governments need to accelerate their growth levers and ensure such levers are explored and maintained beyond monthly statutory allocation from federal. As federal government in Nigeria can do little in terms of guiding the pricing of the hydrocarbon commodity its economy relies on (Atiku, Akinbo, Oladunjoye, Faleye, Olaniyi, & Cole, 2017). State governments will have to boost their chances in the area of IGR with investments in the sector, to prevent the likelihood of unprecedented fiscal shocks.

Clearly, the current fiscal situation of state governments in the country is unsustainable and it is an anti-growth. Lagos has been able to generate more IGR from tax but by being innovative and proactive about issues. However, when many other State officials consider Lagos, the perception is usually that Lagos is different and that the large concentration of firms in that State is the major reason it could achieve the quantum leap in revenue numbers it had experienced in recent years.

Table 2 indicates and briefly explains various sources of IGR for governments at subnational level. The table further explains challenges of improving IGR through each source. Among sources identified for revenue generation, tax is the first and the most veritable tool for a sustainable economy. Thus, taxation is a very good way to improve and it can form a very large part of IGR. 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 the State presently.

Table 2: *Showing the sources and challenges of internal revenue of state governments in Nigeria*

S/N	IGR Sources	Description	Challenges
1	Taxes	These are compulsory levies imposed by the state government on individuals, institutions, corporate bodies, expenditures, etc, for which no direct benefits are received. Taxes/Levies Collectible by State Governments includes: Personal income tax: Pay-As-You-Earn (PAYE); Withholding tax (individuals only); Capital gains tax; Stamp duties (instruments executed by individuals); Pools betting, lotteries, gaming and casino taxes; Road taxes, etc. These constitute major sources of internal revenue to state governments.	Mismanagement of Tax Collected. Lack of public awareness. Human Resource problem. Bribery and corruption. Non-remittance of income collected. Lack of public awareness.

2	Charges & Fees	These are imposed on goods and services provided by the state government and they include tuition at state-owned colleges and universities, tolls and transportation charges, hospital charges, parks and recreation fees, solid waste charges, and other fees for the use of government services.	Bribery and corruption. Non-remittance of income collected. Lack of accountability.
3	License	These include money state governments charge individual for obtaining various types of licenses such as vehicle licenses and other certificates. Licenses have to be obtained to operate hotels, pool- betting, Casinos, etc.	Poor internal control measures. Lack of accountability.
4.	Earning & sales	These include the incomes or profits which state governments derive from their investments or business ventures such as state owned hotels, transport business, production outfits, etc. They also include incomes government derive from the sale of government property such as land, houses, vehicles, equipment, etc	Poor internal control measures. Lack of accountability. Bribery and corruption. Non-remittance of income collected.
5.	Interest & dividend	State governments also get revenue from interests on capital which they lend out to individuals, institutions or Local governments. They also receive dividends on state-owned shares and stocks.	Bribery and corruption Non-remittance of income collected
6.	Interest & dividend	State governments also get revenue from interests on capital which they lend out to individuals, institutions or Local governments. They also receive dividends on state-owned shares and stocks.	Bribery and corruption Non-remittance of income collected
7.	Fines	These include money imposed on law offenders/breakers in the state. Fines are paid in courts and they form part of government revenue.	Bribery and corruption. Non-remittance of income collected
8.	Miscellaneous	Apart from the sources of revenue mentioned above, state governments also get revenue from other means. These include agriculture, tourism, transportation, etc.	Porous sources. Poor internal control measures

Source: Abiola & Ehigiamusoe (2014); Olusola (2011); Douglas (2010) and Omotoso (2009).

The above table thus examines some critical sources and ways through which states can improve on their performance in terms of their efforts in generating revenue internally for development financing and sustainable budget implementation.

6. Data Presentation and Analysis

The discussion in this section is based on the research objectives as stated earlier in the introduction of the study.

Research Question/Objective 1: What is the performance of Oyo and Lagos state governments' IGR?

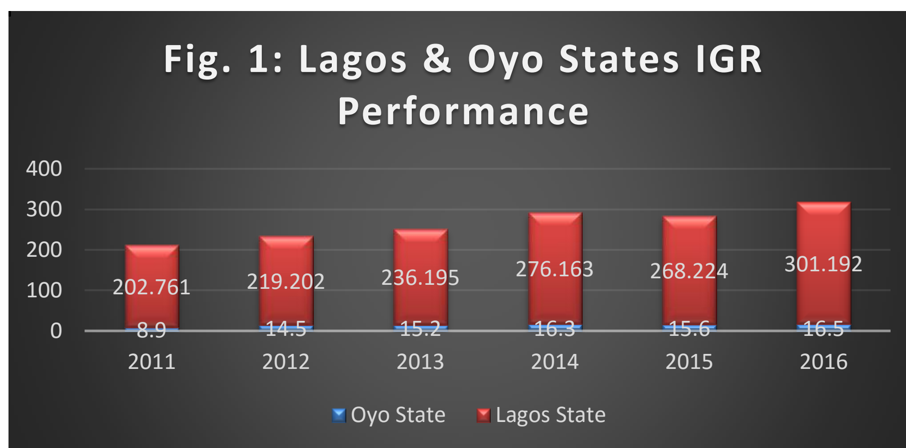
Table 3 *The Growth rate of Internally Generated Revenue & Expenditure Needs of Lagos and Oyo States*

Year	Oyo			Lagos		
	IGR (N Billion)	Recurrent Expenditure (N Billion)	Capital Expenditure (N Billion)	IGR (N Billion)	Recurrent Expenditure (N Billion)	Capital Expenditure (N Billion)
2011	8.915	69.03	79.67	202.761	198.182	252.593
2012	14.598	77.50	95.03	219.202	227.471	257.821
2013	15.251	85.01	79.60	236.195	229.729	269.876
2014	16.307	97.96	110.40	276.163	234.665	255.025
2015	15.663	86.72	55.05	268.224	241.977	247.713
2016	16.544	100.31	73.11	301.192	275.655	386.933

Source: NBS, Joint Tax Board & State Boards of Internal Revenue (2017).

The data in table 3 above shows the achieved internally generated revenue of Lagos and Oyo state governments from 2011-2016. It also shows the amount of money budgeted for both capital and recurrent expenditures for the period under review. For Oyo state, the IGR performance for the period ranges from ₦8.91 billion to ₦16.54 billion, while the Lagos state IGR performance for the same period ranges from ₦202.76 billion to ₦301.19billion. The data further shows the recurrent and capital expenditure of both States and the general indication is that Lagos was able to generate more revenue(far above either the recurrent or capital expenditure) in most of theyears under review. While Oyo state, on the other hand, generatedrevenue that was far below either its recurrent or capital expenditure.

Figure 2 below show the IGR performance in Lagos and Oyo States for the years under review.



* Compiled by the Author

Research Question/Objective 2: Is there a significant difference in the ability of IGR to finance recurrent, capital and total expenditure between Lagos and Oyo states in Nigeria?

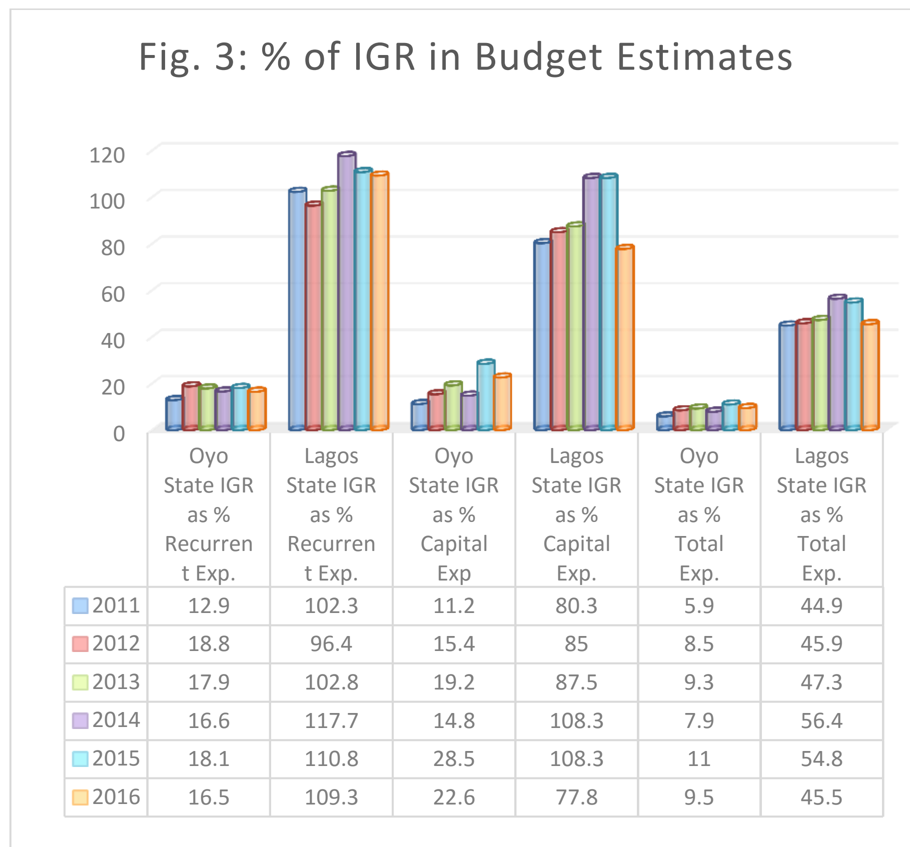
To answer this question, we measure the strength of IGR of each of the selected States in financing its annual budget. Thus we calculate the percentage a particular state's IGR can finance in either recurrent, capital or total expenditure of the selected States.

Table 4 *Capacity of IGR in Recurrent, Capital and Total Expenditures 2011-2016*

Year	**Oyo**			**Lagos**		
	Recurrent	**Capital %**	**Total**	**Recurrent**	**Capital %**	**Total %**
2011	12.9	11.2	5.9	102.3	80.3	44.9
2012	18.8	15.4	8.5	96.4	85.0	45.9
2013	17.9	19.2	9.3	102.8	87.5	47.3
2014	16.6	14.8	7.9	117.7	108.3	56.4
2015	18.1	28.5	11.0	110.8	108.3	54.8
2016	16.5	22.6	9.5	109.3	77.8	45.5

Source: NBS, Joint Tax Board & State Boards of Internal Revenue (2017).

Table 4 above shows the capacity of IGR in financing each components and gross total of annual budget (i.e. recurrent, capital and total expenditures) of Lagos and Oyo states during the fiscal year 2011 to 2016. For Oyo, the capacity of its IGR to finance the recurrent, capital and total expenditures were 12.9% to 18.8%; 11.2% to 28.5% and 5.9% to 11.0% respectively. While Lagos State IGR is capable to finance 96.4 to 117.7%; 77.8 to 108.3% and 44.9 to 56.4% of its recurrent, capital and total expenditures, respectively.



Source: NBS, Joint Tax Board & State Boards of Internal Revenue (2017).

The above data suggests that on the overall average, IGR of Oyo state during the period under review was able to finance 16.8%, of her recurrent, 18.6% of her capital and 8.6% of her total expenditures. For Lagos State, IGR was able to finance 106.5% of her recurrent, 91.2% of her capital and 49.1% of her total

sum of expenditures. The above simple scrutiny indicates that Lagos IGR has capacity to finance a greater part of recurrent, capital and total sum of expenditures in Lagos state than in Oyo state. The study also indicates that internal revenue in Oyo state can only finance less than 20% of her recurrent, less than 30% of her capital and less than 10% of total expenditures (see figure 2 above). This signifies a greater vulnerability in the nature of economy of subnational governments, since they get too little from the federation Account compared to enormous projects they need to execute.

Research Question/Objective 3: Is there a significant relationshipbetween an improved IGR and sustainable budget implementation?

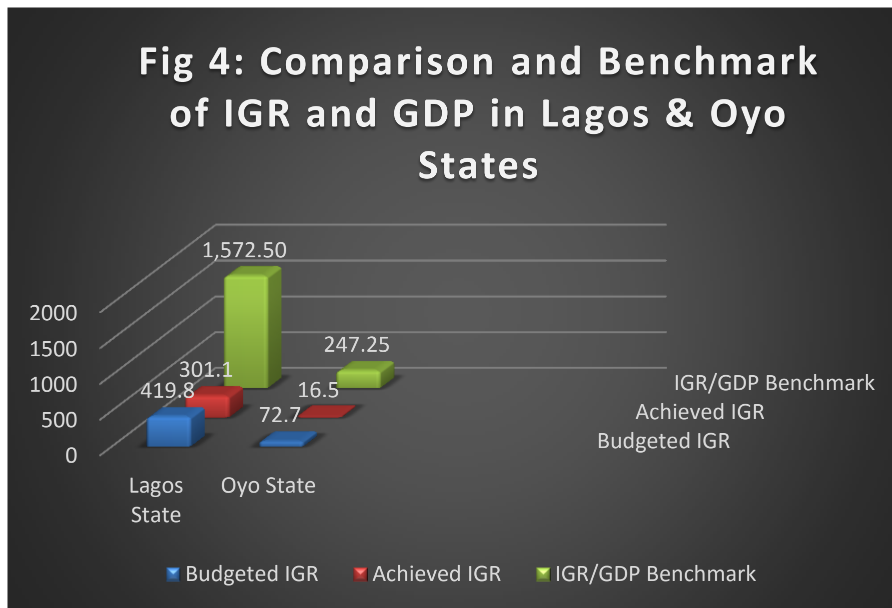
So, when total revenue is considered in the analysis of revenue performance, Gross Domestic Product (GDP) is a very important factor. In this regard, only a few states in Nigeria appear to have met the international benchmark even the Federal government of Nigeria is performing below the international standard at 6.1%. Oyo state is one of those highly dependent on federation account and has to receive its own share statutorily irrespective of the output structure in the state. Relative to GDP, Oyo state has its revenue structure at 30 per cent of GDP while Lagos has its revenue structure at 80 per cent of its GDP (NBS, 2017). The revenue structure of Lagos state at the above mentioned level belies its rigorous tax drive and ingenuity in development programming and financing. A low level of revenue-to GDP ratio implies that revenue growth is much slower than GDP growth and even in nominal terms, revenue is much lower than GDP.Thus, Lagos state is operating at the highest level of revenue generation. Out of the 36 states Lagos recorded the highest revenue figure of N301.19 billion. This high internal revenue figure is recorded within the first six months in 2016.Lagos increased from N201.76 billion in 2011 to N301.19 billion in 2016.

Table 5: *Comparison Based on Budgeted/Achieved IGR and GDP for the 2016 of Lagos & Oyo States*

State	Budgeted IGR 2016 (N Billion)	Achvd. IGR 2016 (N Billion)	% Achvd. (IGR/ Budgeted IGR)	GDP {N400/$1}	% Achvd. [IGR/GDP]	5% IGR/GDP Benchmark (N)
Lagos	419.8	301.1	72%	31,449,962,639,593.90	0.95%	1,572,498,131,979.70
Oyo	72.7	16.5	23%	4,945,007,309,644.67	0.33%	247,250,365,482.23

Source: NBS (2016); Oyo State Board of Internal Revenue

To further explain the Table 5 above, we depict the information in figure 4. Here, it clearly shows that there is a significant relationship between an improved IGR and sustainable budget implementation and Lagos State perfectly provides an example of this prove.



* Compiled by the Authors

From table 5 and figure 4 above the followings can be deduced:

Firstly, though Lagos state did not achieve 100% of its budgeted revenue but well above 72% of its budgeted IGR for 2016 was realized while Oyo state achieved was only able to achieve less than 25% of her own budgeted revenue (i.e. 23%).

Secondly, none of the states match up to 5% OECD benchmark. In that, Lagos having GDP of N31.4 Trillion, is expected to generate at least IGR of N1.572 Trillion but was able to generate only N301.1 Billion. Oyo on its own having GDP of N4.9 Trillion was expected to generate N0. 247 Trillion but was able to generate only N16.5 Billion.

Thirdly, the above exchange rate review (i.e. 400/$1) has had some effects on the states' economy:

a) From the manufacturing firm point of view, there had been increment in cost of production which has since led toincrease in price of goods and services

b) The increase in price of goods in turn reduces the sales and this would also reduce the tax that would be paid by themto the government.

c) On the overall, the exchange rate review above only inflated the GDP and since then, there are no commensurable review on the other aspects that affect the citizens, the actual IGR to be generated will reduce from the Manufacturing Sector and Direct Assessment.

7. Discussion of Major Findings

Generally, major findings from the results obtained in respect of the examination of the IGR profiles of the state governments in Nigeria shows that about 78 per cent of the States in Nigeria rely solely on the Federal allocations for 80 per cent of their revenue. The result further indicates that Lagos state is the leading revenue

generating states in Nigeria while Oyo may not be the least revenue generating state but performed very poor and far below the average over the sampled period respectively. Available information from Central Bank of Nigeria had referred to Lagos as the heart of Nigerian commerce which is consistent with the result of this study. Going forward, it was discovered that Lagos State's IGR contributed about 72% to revenuein 2016, mainly boosted by the efficient PAYE system. This finding was corroborated by the findings of Iheagwam and Babatunde (2016) which stated that the nucleus of LASG's revenue is PAYE. Furthermore, a recent report by an economic intelligent magazine analyzed the total statutory allocations Nigerian state governments received from June, 2015 to May, 2016. On the IGR, the report reveals that only Lagos State generated more revenue than its allocation from the Federation Account by 150% and no any other state has up to 100% of IGR to the federal largesse (Nigerian Governors Forum, 2015).

Thus, Lagos State can be said that is not heavily dependent on the federation account for its revenue; this is borne out of the fact that its share of IGR averaged about 80 per cent of total expenditure between 2011 and 2016. However, Oyo State whose IGR over the period averaged only 10 per cent of total expenditures, still depends heavily on Federal allocation. Apart from high dependency on federation account, the low share of IGR in Oyo State is a reflection of widespread tax gaps at the state level and this underscores the advisability to intensity tax collection efforts in order to strengthen the financial capacity of the state. The base for most economies lies in tax which is a fiscal instrument for wealth redistribution but both federal and state governments in Nigeria do a very poor job in this regard, with tax-to-GDP pegged at 6% (Atiku, Akinbo, Oladunjoye, Faleye, Olaniyi and Cole, 2017).

It was discovered that the general performance of IGR of Oyo state governments was very low compare to that of Lagos. The reason for this is simply because the State has not fully developed its capacities and competence in the area of tax revenue. However, while the recurrent and capital expenditures of state governments are growing faster than the IGR in Oyo State, the opposite is the case in Lagos where government has been able generate more than the either of the expenditure components of the budget. Thus, in Oyo, it was revealed that IGR has not been able to finance neither recurrent nor capital expenditures of state government. The result of the study also showed that a direct relationship exists between improved internally generated revenue and sustainable budget implementation. The more the state governments' IGR improves, the more the sustainability the budget implementation becomes. It was further revealed that IGR finance a higher proportion of recurrent, capital and total expenditures in Lagosstate than in Oyo state.

8. Concluding Remarks

The integrity of a government is indispensable inline for its revenue generation and service delivery. Virtually all states in Nigeria, except Lagos, tend to be having difficulties with a sustainable implementation of their budget simply because of lack of revenue-raising capacity given what it would cost to provide a standard

set of public services to their citizens. Thus, there is need to improve the internally generated revenue by State Governments to prevent poor budgetary implementation in Nigeria.

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 2011 through 2016 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.

First, State Governments need to 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 Board of Internal Revenue, 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 optionsfor 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.

Second, there should be a deliberate attempt by State Governments to grow 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.

Therefore, tax administration at State level should actually be ready to make business very attractive by jettison activities of multiple or arbitrary taxation. For example, 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 growing the private sector and deliberately helping to minimize the constraints facing their operations, government grows its own revenue.It has to continually be borne in mind that as States move to seek options for increasing revenue, they must also be willing to grow private sector. 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.

Finally, State Governments should put more efforts at improving their IGR by considering institutional restructuring and repositioning of the Board of Internal Revenue. It is hoped that this will help to put the institution in a very good shape and the effect of this will be evident in the much desired improved IGR in promoting sustainable budget implementation for State Governments in Nigeria.

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