Internally Generated Revenue Revolution in Kaduna State Nigeria: Emerging Revenue Sources and Strategies

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Abstract:- Government at both the Federal and State levels in Nigeria battles massive development challenges, including the need to reduce the dependence on oil for revenues, close the infrastructure gap and build strong and effective institutions. This deteriorating economic environment is leaving millions of Nigerians in poverty, and the government has to work proactively to meet the needs of its citizens and also create a conducive environment for growth and development. It is a conceptual paper that has identified the sources and strategies used by the Kaduna State Government to cause a marked revolution in its internally generated revenue, causing it to be ranked 6th in 2021 from 11th in 2016 behind Lagos, Rivers, FCT, Ogun, Delta, and ahead of Kano the commercial nerve centre of the north and the most populous country in Nigeria as at 2019 census. Data used for this study were sourced from journals and published articles in the dailies and other media platforms. Is concluded that the Kaduna state government adopted an all-encompassing strategy to source IGR by revamping the whole Government system, working on the tax law, restructured and rejigged all its Ministries, Departments, and Agencies, developing and empowering its human capital, and creating an agency that has ensured a conducive atmosphere to attract investments in the state; It made a revolution in IGR in Kaduna State, Nigeria inevitable. It is therefore expected that the newly elected Government of Kaduna State led by Mall Uba Sani, who took over on 29th May 2023 should sustain and develop the enormous potential handed over. Investments already attracted should be supported as their success will build more confidence in the minds of other potential investors. Automated revenue collection platforms must always be up and running to ensure taxpayers and other revenue sources do not face challenges at the point of payment. Government has to be performance-driven, and heads of relevant revenue centres must work with the mindset of entrepreneurs to sustain this growth trajectory.

***Keywords*:-** *Internally Generated Revenue (IGR), Personal Income Tax, Direct Assessment.*

I. INTRODUCTION

As blood is to the body, so is revenue to the Government; it is a necessity for governance, and it is fundamental to human resources development, i.e. healthcare and educational facilities, infrastructure, and services to facilitate and create a conducive atmosphere for citizens and businesses to thrive. Several states in Nigeria depend on allocations from the Federal Government before they can take care of their needs because they are unable to harness their potential. Nigeria is the most populous nation in Africa, and according to the United Nations (2023) projections, Nigeria's population will rise to 223.8 million by mid-2023 from 216 million in 2022. Population growth causes an increased demand for food, water, housing, energy, healthcare, transportation, and more. All the consumption contributes to ecological degradation, increased conflicts, and a higher risk of large-scale disasters like pandemics if not planned and prepared for. The World Bank (2023) has captured that Nigeria's population growth has continued to outpace poverty reduction, number of Nigerians living below the national poverty line will rise by 13 million between 2019 and 2025. The Government at the Federal and State levels battles massive development challenges, including the need to reduce the dependence on oil for revenues, close the infrastructure gap and build strong and effective institutions. The deteriorating economic environment is leaving millions of Nigerians in poverty, and the Government has to work proactively to be able to meet the needs of its citizens and create a conducive environment for growth and development.

Most states in Nigeria are not economically viable as many states cannot pay salaries using their own Internally Generated Revenues. The states have become so heavily dependent on federal allocations that they cannot do the most basic tasks of governance (Ogundare, 2021). Kaduna State is the former political headquarters of Northern Nigeria and a major industrial city in the north accommodating several manufacturing industries and commercial activities as well as several State and Federal government agencies and parastatals. This platform places the State at an advantage considering the vast potential that can be explored in the form of tax collection and other revenue-generating activities. Despite the high potential of the state to generate revenue, revenue generation has been suboptimal due to poor administrative processes and several other issues, as pointed out by different studies like in Omodero, Ekwe & Ihendinihu (2018), Agu (2011), Omoigui-Okauru (2012), etc. The Kaduna State Government enacted an Edict known as Edict N0. 5 of 1985, which created the Kaduna State Board of Internal Revenue with the Sole responsibility of administration of Taxes following the various legislation. The Board had the singular responsibilities of collection and accounting for all internally generated revenue due to the Kaduna State Government within and outside the State (Kaduna State Board of Internal Revenue, n.d). The edict obviously had some loopholes that did not allow for effective and efficient revenue generation, as such, it was repealed in 2016 with the passage of the Kaduna State Tax (Codification and Consolidation) Law No. 3 of 2016. This was subsequently still substituted in 2020 with the Kaduna State Tax (Codification and Consolidation) Law, 2020. reviewing rates, levies, and taxes in the State and for matters incidental to that and establishing the Kaduna State Board of Internal Revenue Service (KDIRS) to consolidate, control and administer the various taxes. Gaps that existed in the old law will be bridged with the newly codified law and internally generated revenue will be enhanced. Investments attracted, are expected to boost economic activities leading to more business and employment opportunities, which will subsequently spiral into revenue in the form of taxes and other levies.

Kaduna state, in the past eight years, has been able to cause a revolution in internally generated revenue as it grew its revenue from N12 billion in 2015 to N52 billion in 2021, ranking 5th highest revenue-generating state in Nigeria ahead of Kano state, which is the commercial nerve centre of the North (National Bureau of Statistics, 2023). It is a remarkable fit relative to the revenue-generating trend of the state and other states in Nigeria. What did the state do differently to cause this revolution, what are its emerging revenue sources, and how can the growth trajectory be sustained and enhanced? It is an exploratory study and reviews several pieces of literature related to the study as well as other secondary data from different sources available to highlight the strategies deployed by the Kaduna State Government to cause a revolution in its revenue generation as well as make recommendations to support the already existing strategies put in place for more growth in the state internally generated revenue.

II. LITERATURE REVIEW

Revenue is monies mobilized or generated in the economy through activities of individuals or businesses to form the source and bulk of the Government's financial resources. The International Monetary Fund (n.d), has also explained revenue as an increase in net worth resulting from a transaction. Revenue is also defined as public receipts, which the government collects from all sources, except loans and borrowing (Ihimodu (1995) in Obiechina (2010)). To sum it all up, the 1999 Constitution of the Federal Republic of Nigeria under section 162 subsection 10, defined revenue as any income or return accruing to or derived by the Government from any source, and it includes: (a) Any receipt, however, described arising from the operation of any law; (b) Any return, however, described arising from to in respect of shares or interest held by the government of the federation; (c) Any return by way of interest on loans and dividends in respect of shares or interest held by the government of the Federation in any company or statutory body. There are two significant sources of revenue to State governments; revenue from the statutory allocation from the federal government through the Federal Account Allocation Committee (FAAC) and IGR. Internally generated revenues (IGR) are revenues or funds generated by states within the Nigerian federation, independent of their share of the revenue from the federation account (Deloitte, 2016). The Kaduna State Bureau of Statistics (n.d) has, on the other hand, defined IGR as the revenue that the state government generates within the areas of its jurisdiction. The various sources of IGR available to the Kaduna state government include taxes, fines and fees, licenses, Earnings, and sales general as well as revenue collected from fifty-six revenue-generating MDAs in the state. IGR collection has been an issue of concern for state governments and the administrative machinery appears to be at a loss on what to do. Lack of a correct and up-to-date database of taxpayers, issues of taxpayer non-compliance, multiple taxations, absence of equity and fairness in the tax administration process, incompetence of tax administrators, and complex tax laws are amongst several reasons adjudged by different studies to be responsible for the challenges of internal revenue generation (Fasoye, 2020). IGR for the purpose of this study and in line with the National Bureau of Statistics (2023) reporting is classified as Pay as you earn (PAYE), Direct Assessment, Road Taxes, other taxes, and MDAs revenue. PAYE is a form of personal income tax, it refers to tax deducted directly from the wages and salaries of employees operating in the formal sector and usually forms the major chunk of the total IGR in all states in Nigeria (National Bureau of Statistics, 2023). All employers in Nigeria are responsible for deducting Pay As You Earn (PAYE) taxes from their employee's earnings. Direct assessment may relate to a form of personal income tax used to assess tax for self-employed individuals. With the self-assessed tax, a new taxpayer can assess him/herself, and pay the calculated amount. Direct assessment may also relate to those imposed on businesses especially (informal) by the state authorities based on the size of their activities. Road Taxes are also another revenue source for states, these are daily levies paid by commercial transporters operating within the state. Other taxes include various taxes Such as levies on market traders, land registration and other land-related fees, and development. Revenue from MDAs relates to revenues generated administratively by State MDAs during the course of providing various services to residents in the State (National Bureau of Statistics, 2023).

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Theories have been propounded over the years by different schools of thought to explain or justify the drive for revenue generation by governments. This study hangs on the Fiscal Federalism Theory, theories by development economists, and Wagner's law because they all justify the objective of this study. Odoemene (2020) adopted the Fiscal Federalism theory in the study of IGR which was originally developed by Musgrave (1959) and Oates (1972). The theory dwells on the division of public sector revenues, authorities, and functions based on constitutionally laid down principles among multiple layers of government. This theory is in line with the objective of the study as it justifies the study and emphasized the need for the government at every level to harness its internal resources and mobilize people toward accomplishing the goals of economic development. The theory presupposes that there can be no development of any sort whether infrastructural, political, or economic without financial and material resources, necessitating the continuous need for government to fine-tune its revenue generation strategies. The theory by Development Economist as adopted by Obiechina (2010) and also used to support this study points out that a Government provides infrastructure and public utilities to stimulate the economy for eventual take-off into economic development, this further consolidated by the Wagner's law which also explains economic growth relative to the size of the government. It states that as the per capita incomes in an economy grow, the relative size of the public sector grows. The law argues that as real incomes in the economy increase, government spending on infrastructure; recreation and culture, roads, welfare, education, and health increases. When government revenue is properly invested in infrastructure, it leads to economic growth.

Kaduna State Nigeria has its share of statutory allocation from the Federal government on a monthly basis just like any other state, this is certainly not enough as resources shrink, the population increases, and more pressure is been put on the government to meet their social contract. Izevbigie & Ebohon (2019) pointed out that a major feature of the Nigerian State is the sharing of revenues among the tiers of government vis a vis Federal, State, and Local government. These three levels of government depend to a large extent on this for both recurrent and capital expenditure and over the years, Nigeria has been experiencing fluctuations in revenue generated from Crude Oil (a mainstay of the economy) due to global competition, glut and an incessant slump in price internationally. State governments most certainly will find it difficult to meet up with their responsibility towards citizens if they would have to wait for this, hence will have to be innovative and look for ways to build and generate revenue from other sources. Odoemene (2020) confirmed this position by stating that state governments that depend mainly on statutory allocations from the federation have found their ability to deliver the most basic public services (education, health, and other infrastructural facilities such as motor-able roads, electricity, and potable water) to the citizenry significantly hampered. This unfortunate scenario is more severe in state governments with little or no IGR. Although some states are genuinely eager to grow their IGR base, there seemed to be a general lack of innovative ideas and political will to harness available opportunities for revenue diversification. State governments are therefore expected to create ways of boosting internally generated revenue in order to support their recurrent and capital expenditure. Shabu & Vambe (2019) captured that Nigeria has everything it takes to experience regional development. However, all the states are not equally endowed with natural resources but there is virtually no state that is not endowed with resources. The development of these resources can result in a huge diversification of the Nigerian economy and regional development of the country. In addition to the vast resources, the 1999 constitution (as amended) as summarised by Nwoke (2021) gives the state government power to make and implement laws on tax matters in the Concurrent Legislative List and plenary powers to make Laws on any subject matter that is not on either the Exclusive or the Concurrent Legislative List. Despite all these opportunities offer by nature and nurture, revenue generation is still a problem. This has stimulated several studies on IGR, throwing out different thoughts on ways and strategies the state government can apply to cause a revolution in their internally generated revenue. States like Lagos have done so and have more than 70 percent of their total revenue internally generated (National Bureau of Statistics, 2023). Several suggestions have been put forward to help the drive for internally generated revenue. reasons have been given to explain the reason for the suboptimal or very poor revenue generation driven by most state governments in Nigeria. The tax administrator is seen by many as the problem of revenue collection in Nigeria because he is the enforcer and this view is supported by Osemeke, Nzekwu & Okere (2020) who are of the opinion that Lack of accountability, embezzlement, poor accounting records, a deficit of empowerment programs, and absence of awareness are the key reasons why people and businesses do not pay taxes. Leyira, Chukwuma & Asian (2012) also confirm that the tax administration process is characterized by a lack of statistical data, poor tax administration, an inability to prioritize tax effort, the multiplicity of taxes, and an increase in the underground economy. Awodun (2016) opined that in this age and time, there must be a paradigm shift in the perception of the tax administrator from an enforcer to an entrepreneur. He pointed out that, the administration of tax in the 21st century must take into cognizance the changes in society, particularly the improvement, and advancement in technology, and should therefore consistently innovate to match the pace of innovation of the society. The administrators of tax should be conscious of value creation as the taxpayers are more desirous now than ever before of seeing what their taxes are being used for, thus requesting a value for their money. The administrator must be conscious more than ever before of the efficiency of collection to ensure that the cost of collection is as minimal as possible. The administrator of tax today must be creative in thoughts and deeds to come up with more innovative tax products that are packaged for the convenience of the taxpayers. This is essential if collection must be increased as the convenience of payment is a sin qua none for maximization of IGR. Kiabel & Nwokah (2019) sums it up by suggesting the use of External Tax Consultants instead of administrators to provide the solution to challenges of revenue generation since states could collect more tax through the consultant's efforts and initiatives.

The revolution in IGR in Kaduna State started in 2015 when the government under the leadership of Mallam Nasir El-Rufai as Governor took over office. To deliver on its mandate, the Government knew that it had to take drastic and fast measures to change the revenue trend, it therefore immediately swung into action and grew its IGR from a mediocre N11.5 billion to N52.8 billion in 2015 and 2021 respectively. This ranked the state 6th in Nigeria behind Lagos, Rivers, FCT, Ogun, and Delta and ahead of Kano, the commercial nerve center of the north and the most populous in Nigeria as of the 2019 population census. This was remarkable, and the steps taken to achieve this fit were strategically intentional. Internally generated revenue was very low relative to the task ahead and effort to make it better was inevitable. According to the Executive Governor of Kaduna State El-Rufai (2018, March 31), on assuming office, the government identified key sources and introduced strategies to boost internally generated revenue. revenue generation in Kaduna state. The government implemented the Treasury Single Account (TSA), closed 470 government accounts in commercial banks, and moved their balances totaling about N25 billion to the CBN. This was a first step and aimed at consolidating government accounts into one major account to enhance the liquidity position of the government and make it easier to trace and audit accounts. Immediately after, the Government took a bold step to repeal the existing tax law by passing the Kaduna State Tax (Codification and Consolidation) Law No. 3 of 2016 and subsequently substituting again with the Tax (Codification and Consolidation) Law, 2020. This was done to create certainty for investors tackle the issues of multiple taxations, administrative bottlenecks, and harassment by tax collectors, and make the tax code easier to understand for the taxpayer. The law consolidated all taxes, charges, fees, and levies and introduced new approaches by the government aimed at optimizing the state's tax potential, by expanding its coverage of eligible taxpayers and increasing the amount of taxes and levies payable in some instances. It also introduced a stiffer penalty for tax default. The Kaduna Internal Revenue Services (KDIRS) was also a fallout of the Codified Law; the agency is mandated to be the sole collector of all revenues and prohibits cash collection of revenues, this step alone doubled the Internally generated revenue of the state (El-Rufai, N, 2018, March 31). The Government did not stop after repealing the law, it took practical steps to ensure it boosted economic activities by attracting investments to the state by developing and attracting new skills, expanding markets, and creating opportunities for the people, It, therefore, created the Kaduna State Investment Promotion Agency (KADIPA) as a one-stop shop to facilitate investments in the state. The logic behind establishing KADIPA stems from the need for an expanded revenue base by leveraging on private sector capital to provide jobs and drive internally generated revenue. Since its inception, KADIPA has been able to put the state on the investment map and has since inception driven business licensing reforms, and attracted $4.3 billion in six years from actual investments and pledges (Aro 2022, Oct 6th). Many notable companies like Olam Feed and Hatchery Mill, Mahindra Tractors Assembly Plant, OCP Fertilizer, and Dangote Peugeot Automobiles. Others are African Natural Resources and Mines Limited and Tomato Jos etc. had been attracted to the state since 2016. These investment opportunities will definitely boost IGR through personal income tax from employment created and other forms of income. Mom (2022, Oct 22) reported that KADIPA in one year has assisted the state in generating revenues of about N800 million ($1.1 million) from payments of premiums by greenfield investors that have been allocated land and brownfield investments via payments received from the privatization of state-owned assets

All of these sources and strategies amongst others were introduced by the Kaduna State Government within a relatively short span of time has caused a noted revolution in its internally generated revenue, attracted multimillion-dollar local and foreign investments, as well as improved the credit rating of the state thereby opening doors for borrowing opportunities for developmental purpose hence more and more IGR.

III. CONCLUSION AND RECOMMENDATION

The steps taken by the government of Kaduna state were very strategic and intentional; it did not see its problem from just one perspective of revamping the revenue services. It revamped the whole Government system; worked on the tax law, restructured and rejigged all its Ministries, Departments, and Agencies, developed and empowered its human capital to change their attitude and approach to work, and created an agency that has ensured a conducive atmosphere to attract investments in the state; its whole system was revamped and necessary tools provided to support performance. This has made a revolution in IGR inevitable.

The platform and opportunities left for the newly elected Government of Kaduna State led by Mall Uba Sani who took over on May 29th, 2023 have to be sustained and developed as the potentials are huge. Investments already attracted must be supported as their success will build more confidence in the minds of other potential investors to invest in the state. The automated revenue collection platforms must always be up and running to ensure taxpayers and other revenue sources do not face challenges at the point of payment. While emerging revenue sources like in the Ebusiness and gaming space are explored and maximized, the government has to be continuously performance driven and heads of relevant revenue centers must work with the mindset of entrepreneurs to sustain this growth trajectory.

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