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Performance Benchmarking Of Selected Southwest States Government.

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ABSTRACT

This study examined performance benchmarking of selected Southwest States. Specifically the study examined the effect of internally generated revenue (IGR), federal statutory allocation (FGA) and value added tax (VAT) on State economic growth, (while per-capital income was used to proxy for economic growth). The scope of study covered 6 States of the selected Southwest, over a period of five (6) years (2011 to 2016). The sample consists of three States randomly selected namely: Lagos, Oyo and Ogun. Data used in the study were sourced from the Federal Bureau of Statistics and Annual Financial Reports of selected States. The study employed ANOVA test. Result showed that in Lagos State FGA (p=0.001 < 0.05), IGR (p=0.008 < 0.05) and VAT (p=0.007 < 0.05) has significant and positive increase on per-capital income of the Lagos State respectively. The result also showed that Oyo State VAT (p=0.185 > 0.05) and IGR (p=0.113 > 0.05) are positively related with per-capita income but with an insignificant effect respectively. While FGA (p=0.224 > 0.05) has negative effect and insignificant on per-capita income of Oyo State. While Ogun State showed that FGA (p=0.570 > 0.05) and IGR (p=0.105 > 0.05) exert insignificant positive effect on per-capita income of Ogun State respectively. Conversely, VAT (p=0.902 > 0.05) has negative insignificant indication on per capital income. The study thus recommended that the States should look into tourism center by doing so it will significantly affect per-capital income of the States. While Oyo and Ogun States should increase their internally generated revenue by sourcing for other means through which the government can make more money.

Keywords: Revenue Generation, Internally Generated Revenue (IGR), Federal Statutory Allocation (FGA), Value Added tax (VAT), Economic Growth, Per-Capital income.

INTRODUCTION

Government is charged with the responsibility of ensuring human welfare, development and creation of wealth for the citizens, protection of life and property and promotion of societal good through coordinated and cooperative efforts by the citizens Gacanja (2012). Governments are guided by law as such they can do only what the law allows, and traditionally almost universally committed to fiscal accountability, a process that provides a visible trial as to where resources come from and where they go Muriithi (2013).

There has been significant reforms in the public sector in the Nigeria since 2015. A wide range of Initiatives has affected every area of activity, including Federal Government, the State Government and Local Government. A common feature of these initiatives is the drive to improve government performance (revenue generation) by each States. Policy makers and researchers have long been interested in how prospective changes to the revenue sources impact on the overall economic growth, (Kiabel and Nwokah 2009).

Lagos State's economy has remained resolute, supported by an organised tax collection system, improved infrastructure and increasing efficiency across the various government institutions. The diversified stream of revenues from taxes has provided a base for accelerating development (in all facets), including critical infrastructure, thus, creating an enabling environment for businesses to thrive within the State, (Ihendinihu, Ebieri and Amaps 2014)

Most States have struggled to effectively meet their obligations, as a result of dwindling allocations from the FGN, collections from taxes and other IGRs have been sufficient to effectively meet Lagos' recurrent expenditure and other capex requirements (NLAA, 2016).

The broad objective of this study is to examine performance benchmark of selected Southwest States Government, While the specific objectives are to examine the effect of Internally Generated Revenue (IGR) on economic growth in each States, examine the long-run relationship between Federal Statutory Allocation and State economic growth and to examine the effect of Value Added Tax on State economic growth.

LITERATURE REVIEW

Conceptual Review

Revenue

Revenue is defined as all amounts of money received by a government from external sources for example those originating from "outside the government" net of refunds and other correcting transactions, proceeds from issuance of debt, the sale of investments, agency or private trust transactions, and intra-governmental transfers (Ahmed, 2010). Financial resources of government constitute the bulk of its revenue and this relate to monies mobilized or generated in the economy (Obiechina, 2010). Public revenue consists of taxes, revenue from administrative activities like fines, fees, gifts and grants. State government revenue can be classified into three types including: Statutory Allocation, Internally Generated Revenue and Value Added Tax Allocation. The government collects tax revenue by way of direct and indirect taxes. The internally generated revenue of State Government includes: MDAs (ministries department agencies) revenue, PAYE, road taxes and other taxes. VAT is a consumption tax levied at each stage of the consumption chain and borne by the final consumer of the product or service.

Economic Growth

According to Anyanwu and Oaikhenan (1995) stated that economic growth, simply defined, refers to the increase, over time, of a country's or an economic capacity to produce those goods and services needed to improve the well-being of the citizens in increasing numbers and diversity. The International Monetary Fund (2009) and CBN (2010) agree that economic growth is the increase in the amount of goods and services produced in an economy over time. The Economic Growth for this study is measured in terms of per-capital income. Per-capital income is measured on the amount of money earned per person in a certain area. This are used as a means of evaluating the living conditions and quality of life of individual person. An increase in Economic growth of the state government will lead to increase in per-capital income of individual person in the state.

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. ;

i. Lack of adequate information on taxpayers. Taxpayers can easily avoid reporting their income to the State

ii. 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. (Okafor, 2012)

iii. 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.

iv. 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. (Illyas and Siddiqi, 2010)

v. 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.

THEORETICAL REVIEW

The theoretical framework for this study is hinged on Revenue Productivity Theory (United Nations Summit, 2002). Anyanwu and Oaikhenan (1995) stated that economic growth, refers to the increase, over time, of a country's or an economic capacity to produce those goods and services needed to improve the well-being of the citizens in increasing numbers and diversity. This is the reason why government of many nations, Nigeria inclusive has place more emphasis on ways of boosting their revenue sources given the high expectations from their citizens. Ndekwu (1991) noted that, more than ever before, there is now a great demand for the optimization of revenue from various tax sources in Nigeria. An effective and efficient use of revenue generated by the government will encourage an efficient economy and provide an environment conducive for business, thereby reducing costs and increasing the per-capital income of the citizens, and also promotes revenue productivity.

METHODOLOGY

The study adopted descriptive research design, the data were obtained mainly from secondary sources particularly from Federal Bureau of Statistics and Annual Financial Reports of each State. The study population is the six State of the southwest, Nigeria. The sample consist of three States randomly selected, namely Lagos State, Oyo State and Ogun State, for a period of Six years, from 2011 to 2016. Specifically, the data collected are federal government statutory allocation (FGA), value added tax (VAT) and internal generated revenue (IGR), while per-capital income (PCI) was used to proxy economic growth, The data has been tabulated and further put to statistical analysis. The technique used was the regression analysis.

The model used in the study is *PCI= f(FGA, VAT, IGR)* and can be specified as follows:

$$PCI = \beta 0 + \beta_1 FGA + \beta_2 VAT + \beta_3 IGR + \mu$$

Where:
PCI = Per-capital income
FGA = Federal Government Statutory Allocation
VAT = Value Added Tax
IGR = Internally Generated Revenue

μ = disturbance term
β = intercept
$\beta_1 - \beta_3$= coefficient of the independent variables

RESULT AND ANALYSIS

Statistical analysis was conducted, consequently ANOVA test was applied to develop regression analysis. The ANOVA test result has been clearly elucidated to determine the level of relationship between the federal statutory allocations, value added tax and internally generated revenue and the per-capital income which was used to proxy economic growth of the selected state in Nigeria

Regression Analysis

LAGOS STATE

Table 1

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.996[a]	.993	.982	1540.521

a. Predictors: (Constant), FGA, VAT, IGR

Table 2

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	656057576.020	3	218685858.673	92.148	.011[b]
	Residual	4746409.723	2	2373204.862		
	Total	660803985.743	5			

a. Dependent Variable: PCI
b. Predictors: (Constant), FGA, VAT, IGR

Table 3

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	280254.487	10117.967		27.699	.001
	FGA	5.522E-006	1.070	.628	4.361	.001
	VAT	3.545E-007	2.271	.861	11.132	.008
	IGR	3.058E-007	1.371	1.016	11.787	.007

a. Dependent Variable: PCI

OYO STATE

Table 4

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.935[a]	.875	.687	6427.949

a. Predictors: (Constant), FGA, VAT, IGR

Table 5
ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	578166921.484	3	192722307.161	4.674	.182[b]
	Residual	82637064.259	2	41318532.130		
	Total	660803985.743	5			

a. Dependent Variable: PCI
b. Predictors: (Constant), FGA, VAT, IGR

Table 6
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	241592.052	46628.595		5.181	.035
	FGA	-7.861E-007	1.000	-1.151	-1.631	.244
	VAT	3.861E-006	2.172	1.396	1.991	.185
	IGR	8.132E-006	3.080	.696	2.715	.113

a. Dependent Variable: PCI

OGUN STATE
Table 7
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.919[a]	.844	.611	.008

a. Predictors: (Constant), FGA, VAT, IGR

Table 8
ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	586613481.935	3	195537827.312	5.271	.164[b]
	Residual	74190503.808	2	37095251.904		
	Total	660803985.743	5			

a. Dependent Variable: PCI
b. Predictors: (Constant), FGA, VAT, IGR

Table 9
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.154	1.658		3.109	.090
	FGA	.029	.043	.300	.673	.570
	VAT	-.027	.191	-.069	-.139	.902
	IGR	.036	.013	.947	2.843	.105

a. Dependent Variable: PCI

RESULT AND DISCUSSION

The result of the analysis in table 1, 4, and table 7 shows that the correlation coefficient (r) of Lagos, Oyo and Ogun states were estimated to be 0.996, 0.935 and 0.919 respectively which implies that there is a strong positive relationship between federal government statutory

allocation to individual state, value added tax, internal generated revenue and per-capital income. Table 1, 4, and table 7 shows the coefficient of determination (r^2) of Lagos, Oyo and Ogun states were 0.993, 0.875 and 0.844 which implies that about 99.3%, 87.5% and 84.4% variation in per capital income of the selected states can be explained by federal government statutory allocation to individual state, value added tax of individual state and internal generated revenue of the individual state while the remaining 0.7%, 12.5%, and 15.6% were due to other variables outside the regression model which also affect per capita income of the selected states in Nigeria. Table 2, 5 and table 8 respectively shows the overall regression model of (Lagos Oyo and Ogun state) are significant in terms of its overall goodness of fit as F calculated (92.148, 4.674 and 5.271) are greater than F critical (4.67) respectively. This shows that the model is of good fit.

The analysis in table 3 showed that FGA, VAT and IGR significantly and positively increase per-capital income of the state, this implies that a change in reliability of FGA, VAT and IGR brings about 5.522%, 3.545% and 3.058% increases in per-capital income of Lagos state. The analysis in table 6 indicated that VAT and IGR are positively related with per-capita income but with an insignificant effect. This implies that a unit change in VAT and IGR will positively increase per-capital income by 3.8612% and 8.132% respectively. Conversely, FGA has an insignificant negative effect on per-capita income of Oyo state. The implication of this is that a unit change in FGA will bring about -7.861 decrease in per-capital income of Oyo state. More so, the analysis in table 9 explored that FGA and IGR positively and insignificantly influence per capital income in Ogun state, that is 1% contribution to FGA and IGR will yield about 29% and 36% respectively. Conversely, VAT does not contribute to increase in per capita income in Ogun state this is as a result of the negative indication of VAT which is estimated to be -27%.

CONCLUSION AND RECOMMENDATIONS

Base on the findings of this study, the statistical results of this study clearly elucidate that federal government statutory allocation, value added tax and internally generated revenue are essential tools in enriching the lives and wellbeing of the selected states in Nigeria. However, the significant effect of FGA, VAT and IGR on per capital income in Lagos state is not surprising, this indicated that Lagos states is at the core Centre of business arena. The quintessence of this result is that Lagos states has been judiciously using its revenue in promoting good and quality living standard, peace, security and equality for all and sundry, job creation, government capital investment among others for its citizens. The implication of the significant VAT and IGR on per capital income in Lagos states is that when the citizenry evaluates what the government has been able to do to cater for the lives of the public, it enhances the citizen to pay their taxes. As a result it provides no room for tax evasion and avoidance. However, the reverse is the case in Oyo and Ogun states where FGA and VAT insignificantly and negatively affect per-capita income respectively. This connotes that Oyo and Ogun states generate revenue from different sources but have failed to direct it to the right channel where it will yield positive result. Another implication of the insignificant result could be attributed to large government recurrent expenditure such as payment of salaries and wages. Effort should be made by the federal government to increase federal statutory allocation to states in particular Ogun and Oyo that have little revenue sources. More so, a germane implication of the insignificant result may be due to corrupt practices in the states, therefore federal government should set up supervisory committee that will guide the states in effective uses and disbursement of fund.

Furthermore, Oyo and Ogun states should increase their internally generated revenue by sourcing for other means through which the government can make more money. The government are implored to look into tourism Centre by doing so it will significantly affect per-capital income of the states.

Conclusively, federal statutory allocation, value added tax and internally generated revenue in Lagos state is more pronounced to promote per-capita income than Oyo and Ogun states as seen in the result of the study.

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