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THE RELATIONSHIP BETWEEN INTERNALLY GENERATED REVENUE AND GOVERNMENT FINANCING IN KWARA: A CRITICAL EVALUATION

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Key-words: Internally Generated Revenue (IGR), Total Revenue (TR), Recurrent Expenditure (RE) and Federal Allocation..

Abstract:

Overreliance on federal allocation by Nigerian States placed them in an invidious financial position that led to agitation for consistent review of allocation formula as well as call for increased funding of the states. This study evaluates the extent to which internally generated revenue could finance Kwara State expenditures between 2002-2011 using secondary data relating to Internally Generated Revenue (IGR), Total Revenue (TR), Total Expenditure (TE), Capital Expenditure (CE) and Recurrent Expenditure (RE). A ratio/ trend analysis of the relationship among the variables was carried out to determine the ability of the state to meet its capital project financing while satisfying employee demands in the absence of federal allocations while a regression analysis to measure the relationship among the variables is also carried out. The study reveals that IGR is insufficient to either finance RE or CE individually not to talk of combining the two while its reliance on federal allocation is perilous, IGR constitute an insignificant proportion of TR and contribute minimally to economic growth of the state. The study therefore recommends effective capturing of existing revenue base, identification of other revenue sources while effective revenue administration should be entrenched to ensure maximum revenue collection and remission with a view to block tax avoidance/revenue leakage for effective deployment of IGR towards government financing

1.0   INTRODUCTION

Since the oil boom of the 1970s and the subsequent influx of oil revenue, the different tiers of government have been clamoring for increase in the allocation of their federal share oil revenue allocated to them. Furthermore each state complains of inequity in the revenue allocation formula and undergoes a consistent agitation for a revision that will favour an increase in their federally allocated revenue. With each review of the revenue allocation formula came more complaints of low revenue allocation to the other two tiers of governments by the federal government, unfair principles of allocation and accusation of favouritism in setting the revenue allocation formula. This was due to the fact that most states now depend almost wholly on the federal allocations to finance their activities due to their relative inability to generate enough funds internally (Agu, 2011).

This is a radical departure from the pre-oil era when state governments contribute towards the finance of the federal government. Such funds were generated from agriculture principally cocoa in the west, groundnut in the north as well as rubber in the east. Not only were states able to effectively finance their recurrent expenditures wholly from internally generated revenues, but they were also able to execute various laudable capital projects including the construction of the first television station in Africa (NTA), Cocoa House in Ibadan, the University College Hospital (UCH), several tertiary institutions as well as roads, dams, railways and bridges of such quality that most still exist today (Oseni, 2013).

Nowadays, state governments find it virtually impossible to finance their activities from their IGR which constitutes only a minute and relatively insignificant portion of the revenue/ resources needed for developmental purposes especially keeping pace with the continuous demand of the ever increasing population (Adesoji and Chike, 2013).

The level of IGR in a state is affected by several factors that include availability of infrastructural facilities that can attract investors, location, security, available human and natural resources as well as the fiscal responsibility of those that are entrusted with revenue collection. (Onuora, 2012) Okpala, 2012). This is due to the fact that revenue collectors rarely remit all revenue collected as government pays little cognizance to such funds Okpala, 2012).

Oil revenue, though provide a veritable and substantial source of funds to drive economic development, and has caused more harm than good (Oseni, 2013). It has led to a downward spiral in the value of the Naira and the dependency on such funds has led to the continuing neglect of other sectors that could have equally contributed to economic development. It has also brought an increased embezzlement of public funds, violent tribal agitations, corruption and lack of accountability on the part of elected officials. Its influence on the attitude of state government towards internally generated revenue does not bode well for their economic development and if this trend is not checked could worsen the poverty level and diminish the standard of living.

With the recent Global financial meltdown and the consequent negative effects on economic activities of government leading to a drastic fall in standard of living, rising unemployment and amplification of poverty level, it is necessary to determine the extent to which Kwara state government could finance its activities (CE and RE) using only IGR while also determining the impact of over-reliance of state on federally allocated revenue. Is it feasible for the state government to handle its civic responsibilities to its citizens using only IGR?. This scenario is presented in statement of the problem that follows.

1.1   Statement of the Research Problem

State governments need funds to finance government activities. These are sourced both internally through the imposition of taxes and levies and externally through allocations from the federal government, levy and grants both locally or internationally.

These funds are used in financing both the capital and recurrent expenditures of the state governments. However in most states in Nigeria, heavy reliance is placed on the federally allocated revenue which often constituted as high as 85% dependency by some states (Oseni, 2013). With the current decline in the world market of oil prices, loss of oil revenue due to theft and bunkering and increased security spending due to extremist activities, most state governments have been forced to formulate other means of improving their revenue base to supplement their federal allocation (Banabo and Koroye, 2011). He went further to say that most often resort to increasing tax and other levies in other to accomplish this. Unfortunately, their efforts are however frustrated by lack of fiscal responsibility by revenue collectors, inadequate machinery for effective collection and mismanagement of funds that eventually gets into the hands of elected official due to lack of accountability to the public(Agu, 2011). Others also resort to loans and grants which often come with terms that render them hazardous to economic health of the state. The cost of debt servicing may well exceed the loans acquired and, even then, such funds are often misappropriated and mismanaged by political office holders (Khalil and Adelabu, 2011).

With the trend in world oil prices, and economic downturn, rising poverty level and falling standard of living as well as the fact that oil deposits are non-renewable and not infinite, it is necessary to examine and evaluate the ability of state governments to finance their activities if there is a shortfall in federally allocated revenue.

This study therefore examines the ability of internally generated revenue to finance state government activities and determine the possible effects of any unsuspected sudden decrease in federal allocation on state governments' financial capabilities.

1.2. Research Hypotheses

i. H_0: There is no significant difference between the level of internally generated revenue and total expenditure in Kwara state.

ii. H_0: There is no significant difference between the level of internally generated revenue and total revenue in Kwara state.

iii. H_0: There is no significant difference between the level of internally generated revenue and recurrent expenditure in Kwara state.

1.3. Justification for the Study

A number of studies including Agu, (2011), Adesoji and Chike (2013), Atakpa and Nwankwo (2012) as well as Banabo and Koroye (2011), Khalil and Adelabu, (2011) have been identified in the literature with different objectives, study area and methodologies on IGR and government financing. Atakpa and Nwankwo (2012) evaluated the various options for maximizing internal revenue generation in the Nigerian local governments and finds that most of the local governments have abandoned their hitherto viable internal revenue sources in preference to statutory revenue.

Khalil and Adelabu, (2011) examines fiscal planning and local government administration in Nigeria and finds that less than 5% of statutory allocations to local governments were expended on infrastructural development while Internally Generated Revenue (IGR) although highly insufficient but were mainly used to offset the cost of governance. It was in this spirit that Agu, (2011) concludes that most states rely on allocations from the Federation Account as their basic operations cannot go on without the monthly allocations.

Adesoji and Chike (2013) assessed the effects of IGR on infrastructural development in Lagos State and finds that revenue generation is inadequate despite Lagos topping the list of states in revenue generation in Nigeria.

Oseni, (2013) examines IGR as panacea for state development in Nigeria using the six geo-political zones as case studies and finds a comparatively small IGR compared to statutory allocation. The summary of all these studies is such that IGR is insufficient in each state.

The gap identified is such that no study has empirically compared IGR with: capital expenditure, revenue expenditure, total expenditure and total revenue as undertaken in this study. Specifically, our study resulted to the use of Kwara State as case study as it coincides with the 1st quadrant (state) of all the 36 states in Nigeria if arranged in order of IGR generation (See Appendix 1). More so, Kwara state became our focus as it top the list of

revenue generation in the North Central geopolitical Zone. This constitutes an exigent scholarship endeavour which is yet to be seen in the literature but not just an academic futility.

This study also examines the relationship that exist between the internally generated revenue of the state and the total expenditure in other to highlight how a sudden sharp and sustained decline in oil revenue may impact on the economic well being of Kwara state indigenes over a period of ten(10) years between 2002-2011.

2.0 LITERATURE REVIEW.

2.1. Conceptual Framework

Government Revenue

Revenue, according to Section 162 subsection 10 of the constitution of the Federal Republic of Nigeria 1999 CAP. C23 L.F.N. 2004 means any income or return accruing to or derived by the Government of the Federation from any source and includes – any receipt, however described, arising from the operation of any law; any return, however described, arising from or in respect of any property held by the Government of the Federation; and 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. A special account to be called "the Federation Account" shall be maintained by the Federal Republic of Nigeria and all revenues collected by the Government of the Federation except the proceeds from the personal income tax of the personnel of the armed forces of the Federation, the Nigeria Police Force, the Ministry or department of government charged with responsibility for Foreign Affairs and the residents of the Federal Capital Territory, Abuja shall be paid into that account. (LFN, 2004).

Sources of Government Revenue in Nigeria

The sources of government revenue in Nigeria are diverse. In the pre-oil era, this is mainly derived from agriculture and tax. However, with the advent of the oil boom of the 1970s, over 85% of federal revenue is now derived from oil revenue. This sources according to the Ojo and Owojori(2011) includes Company income tax, Petroleum profit tax, Taxes from members of the armed forces, foreign missions and residents of Abuja, Royalties from the sales of oil and gas as well as custom and excise duties.

However, these sources are exclusively administered by the federal government. The revenue thus collected is remitted into the federation account pursuant to the relevant laws. From this, allocation is made to each state monthly in accordance to the prevailing revenue allocation formula. This accounts for over 85% of the income of most states in Nigeria especially the oil producing areas (Oseni, 2013).

However the law also provides other sources of funding for the other two tiers of government. These sources includes individual taxes from residents in the state, fines and fees such as tenement rates, water rates, traffic offence fees and vehicle registration fees.

The Revenue Mobilization and Fiscal Commission.

The Revenue Mobilization Allocation and Fiscal Commission (RMAFC) is charged with the responsibility of allocating revenue to the three tiers of governments was established to also monitor the accruals to and disbursement of revenue from the Federation Account and reviewing, from time to time, the revenue allocation formulae to ensure conformity with changing realities. Presently, the sharing formula stipulates that the federal government is to be given 52%, the states shall go with 26% while the local governments are given 20%. This is excluding the 13% derivation which the oil producing states have to share.(Oseni, 2013).

Internally Generated Revenue (IGR)

According to FIRS (2008), Internally Generated Revenue in normal day to day parlance refers to those revenue sources that are generated solely by the State and Local Governments. However, FIRS pointed out that the real focus should be on deepening and widening the entire revenue base (especially non-oil revenue base) as collected by all tiers of government and not just internally generated revenues as defined, as what is of utmost importance is that additional revenues are generated for the State and Local Government regardlessof how it is collected.

More focus should be placed on the quantum of collection and how to grow that quantum and allocate it, than on merely who collects it. As such, narrow focus sub-optimizes what can be collected, and how monies are utilized. Indeed, it accentuates the challenges of multiple taxation which is not only unconstitutional, but exacerbates the problems of the tax payer and electorate who increasingly get frustrated at the numerous amount of taxes borne – formal and informal for which a clear solution needs to be articulated and implemented by all of the State Governors on behalf of both State and Local Governments as provided for in the Constitution.

Taxation

In advanced economies, taxation is the mainstay of revenue generation. While revenue generation is not the only aim of taxation, it provides a veritable source of funds for government financing and being uses as income redistribution instrument.

2.1 The Quest for Improved Tax Administration

FIRS (2008) emphasized the importance of political and administrative factors which led to the amalgamation of Northern and Southern Nigeria in 1914. The fiscal and economic

forces were even more compelling. The article goes further to suggest that Amalgamation of the protectorates was a solution to the economic inequalities of the two protectorates and the need to ensure sustainable funding for government with an economically integrated Nigeria. In achieving this solution, the article indicates that both the governments of Northern Nigeria Protectorate and of the Colony and Protectorate of Southern Nigeria had separate and widely different fiscal systems which had to be integrated to create true amalgamation.

Even though Amalgamation resulted in the revenue of the Southern Nigeria protectorate falling from 2.5 million pounds to 0.2 million pounds as most of its revenues accrued to the central government (that of Northern Nigeria was 0.5 million pounds), by making possible the integration of the economies of both parts of the country, an impetus was given to trade and development. The value of domestic exports rose from 6.78 million pounds in 1913 to 14.5 million in 1919 (an increase of 214%), while the value of imports increased from 6.28 million to 10.8 million pounds (an increase of 172%) during the same period.

These issues of the whole being larger than the sum of the constituent parts remains with us today as tensions continue to exist as to whether States should handle fiscal issues on their own or whether we should do so as one working together for the interest of the other. Some of the issues related to this, pertain to the unresolved issues of revenue allocation and how this should be handled justly for the benefit of all. These issues are yet to be fully addressed (Ninety Four) 94 years after the amalgamation.

2.2 Theoretical Framework

Local government systems in Nigeria need a moderate amount of financial autonomy to be able to discharge its responsibilities effectively. Public revenue in a federal system assumes that there are benefits to be derived from decentralization and public revenue decentralization occurs when lower tiers of government have statutory power to raise taxes and carry out spending activities within specified legal criteria.

The only identified theory in relation to revenue generation is called the Overlapping Authority Model propounded by Wright (1978) on intergovernmental relationships. This theory addresses Public revenue decentralization which occurs when a large proportion of the funds are raised at the central level and a portion of it is allocated to lower levels of government through some revenue-sharing formula otherwise known as administrative decentralization. This theory is in line with what operate in Nigeria where a significant portion of the total country's revenue is collected federally and from this pool, allocations are made to the state and local government respectively. This is in addition to the power possessed by these other tiers of governments to generate revenue on their own.

2.3 Empirical Studies

The reliance on statutory allocation to perform basic functions by some states in Nigeria is total. Many states rely almost exclusively on this handout from the federation account as basic operations cannot go on without the monthly allocations. This has partly helped government officials to pay little attention to growing the economic base that would help them to become financially independent (Agu, 2011). He went further to note that modern technology is yet to be incorporated in IGR planning and collection approaches. Officials rely mainly on physical visitation, memos and letters to notify tax payers. The taxes collected are mainly in cash thereby creating opportunities for embezzlement. These shortcomings often lead to multiple payments of tax and harassments. The internally generated funds in local government councils are mainly used to offset the cost of governance by these third tiers of government. The cost of governance has gone up astronomically that capital projects are insignificant in proportion to recurrent expenditure. The central government regularly gives enough funds to these third tiers of government in order to provide infrastructural development to the citizens in the local areas.

However, according to Khalil and Adelabu (2011), these public revenues are being mismanaged by political leaders and local governments' officials. In their findings, less than 5% of the statutory allocations accruing to local governments under study were being expended on infrastructural development, while more than 10% were used for personnel expenditure. The choice of internal revenue collected by the states and local government councils do not help matters. This lopsidedness according to Egonmwan (1984), was compounded by the fact that the state governments have acquired the more lucrative, elastic and collectable revenue sources (e.g. water rates, motor vehicle license fees, building plan fees) leaving local governments with taxation with low ceilings, revenue which are administratively and politically difficult to exploit in an environment where the vast majority of the people are poor, self employed and dispersed in rural areas. Coupled with this is the attitude of tax rate collectors in local governments which falls short of expectation. Fraud and embezzlement were rampant in all revenue centers.

In a study of how internally generated revenues of some selected local governments in Ogun state can be boosted, it was found out that rates, fines, fees, licenses and rent sources significantly influenced internally generated revenue (Olusola, 2011). Banabo and Koroye (2011) were of the opinion that Nigerian economy has to be diversified from a single oil revenue sustaining economy to a multiple revenue economy. The dependence on taxation alone by federal, states, and local governments may not be the way out of solving the consistently increasing capital and recurrent expenditures of the governments. They went further to assert that increasing cost of governance has forced some states to formulate other means of improving their revenue base due to dwindling oil revenue in 2009.

Many states are not enhancing their capacities to collect or expand their tax bases. Every year the same figures were projected as total internally generated revenue in their budgets while their personnel costs are increasing. As a result of this, without any statutory revenue being collected from the federation account, personnel costs will remain unpaid and these states are dependent states which are not economically viable for independent existence (El Rufai, 2012).

Contrary to concerns in some quarters that some states of the country are glorified local governments, Omoigui-Okauru (2012) is of the opinion that all states of the federation have potentials to survive on tax revenue if the right parameters are set out for them. This will be a sharp contrast to the present arrangement where virtually all state administrations depend on monthly Federal Government statutory allocations for the implementations of their capital and recurrent expenditure programmes.

She opined that it was against this background that new amendments to the tax laws have clearly defined what could be recognized as tax in the various states of the federation. She further asserted that states are often considered poor in the areas of internally generated revenue because most of them don't have a comprehensive data on who should pay tax or the key economic activities that can generate tax income, stressing this has always affected the revenue flow from internally generated sources. If government can identify who the tax payers are and what their businesses are higher taxes would be generated.

Naiyeju (2011) is of the opinion that states and local governments have continued to demonstrate total lack of interest in improving their lots towards improved revenue generation by preferring to use consultants to administer taxes, rather than modernising their tax systems for enhanced revenue yield, and less dependency on allocation from the Federation Account. The preference for tax consultants in the collection of revenues negates the ongoing reforms in the country's revenue generation system.

The causes of poor internally generated revenue according to Ojo and Owojori (1998) are lack of adequate resources such as vehicles and personnel for mobilizing IGR at local government levels, the potential sources of IGR at each local government not being adequately tapped and the potential payers of taxes, rates and charges not willing to pay due to biases and other personal reasons.

3.0 METHODOLOGY

The secondary data used for the study was sourced from the annual report of the Kwara State Accountant General for the relevant years while a ten-year trend analysis was carried out using relevant accounting ratios. The variables considered relevant to this study include the

internally generated revenue for the ten-year period ending 2011 as well as total expenditure, total revenue, recurrent expenditure as well as capital expenditure for the same period.

The data was analysed using both descriptive and inferential analysis. The descriptive analysis included the use of ratio/trend analysis and simple percentages while the inferential analysis is premised on the ordinary least square analysis. A regression equation was formulated to evaluate the effect of internally generated revenue on the total revenue, total expenditure, recurrent expenditure and capital expenditure. The equation is given as thus:

$$y = f(x) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots(i)$$

$$Y = \beta_1 X + \varepsilon \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots(ii)$$

Where X = internally generated revenue

   Y= total revenue, total expenditure or recurrent expenditure.

   ε = Error terms

The computed ratios are:

   i.   IGR/TR expressed as a percentage

   ii. IGR/RE expressed as a percentage

   iii. IGR/TE expressed as a percentage

   iv. IGR/CE expressed as a percentage

   v.   RE/TE expressed as a percentage

   vi. CE/TE expressed as a percentage

   Where:

   IGR= Internally generated revenue, RE= recurrent expenditure, TE= Total expenditure and CE= capital expenditure

In addition, Granger causality test was carried out to test the significance between the internally generated revenue and total revenue as well as between total expenditure and recurrent expenditure. The analyses in this study covers a ten years period between 2002 and 2011.

4.0   FINDINGS AND RESULT

The results of the analysis is shown in table 4.1

Table 4.1   Performance Evaluation based on Trend/ Ratio Analysis

Year	IGR N'm	% change	TR N'm	TE N'm	RE N'm	CE N'm	IGR /TE (%)	IGR/TR (%)	IGR/RE (%)	CE/TE (%)	RE/TE (%)	IGR/CE
2002	1831	-	14770	12407	10362	2045	15	12.4	17.7	17	84	89.5
2003	1641	-10.4	14001	13759	11773	1986	12	11.7	13.9	14	86	82.6
2004	2009	22.4	19239	19915	15659	4256	10	10.4	12.8	21	79	47.2
2005	2734	36.1	26997	25585	17671	7914	11	10.1	15.5	31	69	34.6
2006	3202	17.1	29515	30511	21456	9055	11	10.8	14.9	30	70	35.4
2007	3659	14.3	39905	40762	27982	12780	9	9.2	13.1	31	69	28.6
2008	16,557	352.5	58594	53900	34010	.19890	31	28.3	48.7	37	63	83.2
2009	6204	-65.2	59709	53950	24352	29598	12	10.4	25.5	55	45	21
2010	7259	17.6	44888	57283	31344	25939	13	16.3	23.3	45	55	28
2011	8817	20.9	66830	66678	45525	21153	13	13.2	19.4	32	68	41.7

Source: Kwara State Accountant General's Report (Several Years)

A review of table 1 above shows that the highest amount internally generated in kwara state in the period under review was ₦16.56 billion representing 28.3% and 30.7% of the total revenue and expenditure respectively. However, the average rate of the IGR to total revenue for the period was 13.28% which was only slightly lower than the national average of 13.5% (Oseni, 2013). Further review shows that the percentage contribution of IGR to total revenue was lower than the average in seven out of the ten years reviewed 12.4, 11.7, 10.4,10.1 and 10.8 percents for 2002, 2003, 2004, 2005 and 2006 respectively falling to 9.2% in 2007. These ratios were 28.3% and 16.3% respectively in 2008 and 2010 respectively.

It can be seen from the same table that the percentage contribution of IGR to total revenue was slightly lower than its contribution to total expenditure. This was due to the fact that the state usually maintains a surplus or balanced budget which is characteristic of a government spending within it means. However, since these ratios IGR to TR and IGR to TE are averagely below 15% percent, the contribution of IGR to government financing and hence economic growth in Kwara State is adjudged to be minimal.

The state utilizes an average of 32% of its budgeted expenditure on capital project while over 68% usually been used for recurrent expenditure. These recurrent expenses basically include the salaries of both civil and political employees of the state, maintenance of state infrastructures including public schools and utilities. However, a ratio analysis of the IGR to recurrent expenditure shows that only an average of 21% of the recurrent expenditure of the period could have been financed by the internally generated revenue, the remaining 79% are derived from federal allocation. This means that should there be a shortfall in the federally allocated revenue probably due to fall in world oil prices, government activities in

Kwara State will be critically affected. Specifically, the government activities will be grounded to a halt since the IGR cannot even pay the salaries of state employees not to talk of embarking on any capital project which are visible symbols of economic development.

However, assuming the state government is to be run by the Executive Governor alone using only IGR of the state, the economic development possibilities would have been no recurrent expenditures at all at all but execution of capital projects up to the tune of 89.5%, 82.6% and 83.2% in 2002, 2003 and 2008 respectively. Such capital projects would have been executed between 30% and 50% in 2007, 2008 and 2010 while execution would have been below 30% in years 2007, 2009 and 2010. This scenario can be likened to existence of a man without the head (the recurrent expenditures) but with other body structures which an impossible style of any state of government.

Summarily therefore, independence on IGR for government activities in Kwara State will make the state inhabitable since the head (recurrent expenditures) cannot be financed by IGR. This translates to mean that there will be no education, health or agric sector not to talk of other auxiliaries like local government arms, ministries, securities and/or agencies. Even if all IGR is directed towards CE exclusively, only few sectors will be covered leaving other sectors in terms of structural edifice and nobody (recurrent expenditures) to manage those structures. Contrarily, if the state government faces only RE, there will be no road, no buildings at all not to talk of electricity, or water to drive the government functions.

Hence, the state government will not exist in the absence of federal allocation which is like survival on a borrowed life jacket, the moment the owner calls for the life jacket, life will be lost.

Figure 1. Graphical Representation of the Relationship between the study Variables
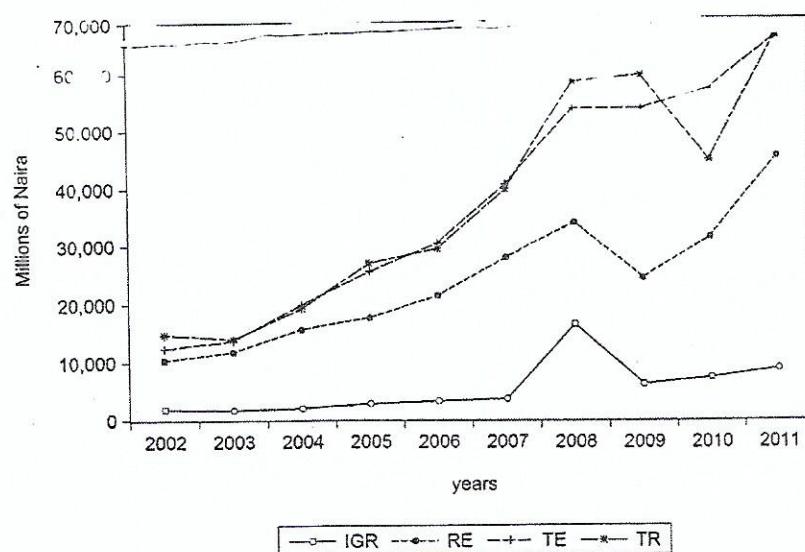
Figure 1 above shows a graphical rendering of IGR, recurrent expenditure, total expenditure and total revenue. It can be seen that at no point was there a correlation between IGR and the other variables. The level of IGR was insufficient to finance any of the other variables. Though the level of capital expenditure is rising, a significant portion of the total budgeted expenditure is still been spent on recurrent expenses.

4.3   Hypothesis Testing
Table 4.2:   Result of Test of Hypotheses

Result of Test of Hypothesis I			
Coefficient of IGR	3.30537	Durbin Watson	2.366208
Constant	19624.5401	R-Squared	0.167523
t-statistics	6.7777766	Adjusted R-Squared	0.167523
Result of Test of Hypothesis II			
Coefficient of IGR	3.16414	Durbin Watson	2.02858
Constant	20416	R-Squared	0.077982
t-statistics	6.331067	Adjusted R-Squared	0.077982

Source: Authors Computation (2014)

The result of the t-statistics shows that the calculated value of 6.777 is significantly higher than the table value of 1.96 and 2.58 at both 95% and 99% level of significance. Thus, the null hypothesis is rejected and the alternate hypothesis accepted. It can thus be concluded that there is significant difference between the level of IGR and the total revenue of kwara state. This was further confirmed by both the adjusted coefficient of determination and the coefficient of determination which explained that only 16.75% of the variations in the level of total revenue can be accounted for by changes in the level of IGR. The regression equation shows that even if the level of IGR were to be equated to zero, there will still be almost ₦20 billion in the government purse (fund from federal allocation) to finance government activities. This is almost 25% higher than the IGR at its highest and 11 times at its lowest.

The test of hypothesis II in table 4.2 also reveals the calculated t-statistics value of 6.331 to be significantly higher than the table value of 1.96 and 2.58 at both 95% and 99% levels of significance. This leads to the rejection of null hypothesis which translate to mean that there is significant difference between the level of IGR and the total expenditure of kwara state. This was further confirmed by both the adjusted coefficient of determination and the coefficient of determination which explained that only 7.79% of the variations in the level of

total expenditure can be accounted for by changes in the level of IGR. Assuming no income from IGR at all the, the state government will still have about 20 million left from federal allocation to finance its activities.

Table 4.3   Result of Test of Hypothesis

Dependent Variable: RE
Method: Least Squares
Date: 09/12/13   Time: 15:04
Sample: 2002 2011
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
IGR	3.370661	0.556492	6.056981	0.0002

R-squared	-0.243913	Mean dependent var	24013.40
Adjusted R-squared	-0.243913	S.D. dependent var	10979.95
S.E. of regression	12246.03	Akaike info criterion	21.75843
Sum squared resid	1.35E+09	Schwarz criterion	21.78869
Log likelihood	-107.7922	Hannan-Quinn criter.	21.72524
Durbin-Watson stat	1.609192		

The result in table 4.3 is also in the same direction as those of hypotheses I and II, here, the $t_{cal} > t_{tab}$ (6.07> either 1.96 or 2.58) at both 95% and 99% level of significance. Summarily therefore, it can thus be concluded that there is significant difference between the level of IGR and the recurrent expenditure of kwara state. These significant differences are better seen in figure1 where the IGR graph is below either TR, TE and RE.

Table 4.3: Granger Causality Test

Pairwise Granger Causality Tests
Date: 09/12/13   Time: 15:06
Sample: 2002 2011
Lags: 1

Null Hypothesis:	Obs	F-Statistic	Prob.
RE does not Granger Cause IGR	9	14.5577	0.0088
IGR does not Granger Cause RE		13.2008	0.0109
TE does not Granger Cause IGR	9	5.08237	0.0650
IGR does not Granger Cause TE		5.21370	0.0625
TR does not Granger Cause IGR	9	3.70247	0.1027
IGR does not Granger Cause TR		0.02617	0.8768

The granger causality test results in table 4.3 shows a two way causality (14.5, 13.2) between the RE and IGR meaning that the amount spent on RE depends on how much is collected from IGR and the magnitude of expenditure on RE determines the level of income from IGR.

The same two way causality (5.08, 5.21) holds for TE and IGR. However, one way causality relationship (3.70, 0.02) is observed between TR and IGR since IGR is a subset of TR. The probability values 0.0088, 0.0650 and 0.1027 further attest to the relative insignificant contribution of IGR to the co-determinants.

Summarily, the study reveals that:

(i) There is significant differences between the level of internally generated revenue and total expenditure in Kwara State.

(ii) There is significant differences between the level of internally generated revenue and total revenue in Kwara State.

(iii) There is significant differences between the level of internally generated revenue and recurrent expenditure in Kwara State.

(iv) all the analyses confirm that internally generated revenue has contributed only minimally to the variables used as co-determinants. This means that a sudden shortfall in oil revenue and thus federal allocation will drastically affect the ability of government to function effectively.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION.

This paper evaluates the ability of internally generated revenue (IGR) in driving state economies in Kwara state of Nigeria. This was done with a view to evaluate the relationship between IGR and state government financing as well as determine the impact of state government reliance on federal allocation (which is majorly derived from petroleum).

Findings indicate that internally generated revenue are not adequate in financing government activities and has contributed only minimally to the development of Kwara state. The state average IGR to total revenue ratio of 13.25% is slightly lower than the national average of 13.5%. The results were in tandem with the findings of Oseni (2013) who carried out a review of all states in Nigeria over a five year period and finds a minimal contribution of IGR to economic development of Nigerian states. The inadequacy of IGR in financing government activities might be due to tax/revenue touting, lack of fiscal responsibility on the part of revenue collectors and the nonchalant attitude of government towards the practice.

More so, the advent of statutory allocation from oil revenue has caused a harmful and undesired trend of over-reliance on federal allocation as well as indisposed attitude of the state government towards IGR. The absence and good and vibrant informal sector coupled with few industries has caused internally generated revenue (IGR) to be low. Furthermore, lack of fiscal responsibility and accountability has led to a further decline in the amount revenue that is internally generated. This was in line with the findings of Okpala (2012).

Based on its findings, this study recommends that all taxpayers in kwara state and the type of businesses they engaged in should be identified in order to determine the actual tax base. Thus, the use of information technology should be introduced so as to have a comprehensive database of taxpayers and effective accounting for revenue collected and that is the Tax Identification Number (TIN) project that is ongoing in the country. Efforts should therefore be made to encourage tax payers to register either by inducement or psychological persuasion. This will increase the tax base and thus probable revenue that is collectable

Also, effective tax administration should be put in place with a view to block tax avoidance techniques which eventually leads to IGR leakage while revenue agents and their activities should be monitored to ensure tax collected are remitted to the government purse.

The State Board of Internal Revenue should also be strengthened so as to provide a one-stop shop for tax collection. Other source of local revenue generation such as traffic /illegal packing charges should also be revitalized and new ways of generating revenue internally should be devised.

Lastly, the state government should provide necessary infrastructure and enabling environment to attract investors and also encourage the use of locally made products to facilitate the growth of local industry thereby generating more income stream that can be taxed.

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APPENDIX 1: IGR AS A PERCENTAGE OF TOTAL REVENUE

S/N	States	IGR/ as a % of Total Revenue
1	Lagos	36.7
2	Sokoto	21.9
3	Ogun	20.1
4	Abia	18.0
5	Oyo	15.5
6	Rivers	15.0
7	Osun	14.9
8	Edo	14.4
9	Kwara	13.6
10	Gombe	12.6
11	Kogi	12.5
12	Kano	11.7
13	Kaduna	10.8
14	Borno	9.6
15	Anambra	9.5
16	Zamfara	9.3
17	Cross River	9.3
18	Benue	9.2
19	Jigawa	9.1
20	Niger	8.8

S/N	States	IGR/ as a % of Total Revenue
21	Imo	8.7
22	Delta	8.1
23	Ekiti	7.9
24	Enugu	7.8
25	Kebbi	7.6
26	Ondo	7.5
27	Plateau	7.2
28	Nasarawa	6.6
29	Adamawa	6.3
30	Katsina	5.8
31	Taraba	5.4
32	Ebonyi	5.1
33	Akwalbom	5.0
34	Bauchi	3.6
35	Yobe	3.3
36	bayelsa	3.3
	Total (IGR as a % of TR	13.5

Source: Source: Central Bank of Nigeria Annual Reports (Several Issues).