**INNOVATE OR PERISH: BUILDING INTERNALLY GENERATED REVENUE**

**THROUGH ECONOMIC GROWTH AND DEVELOPMENT – LESSONS FROM**

**CROSS RIVER STATE**

**PRESENTED BY**

**HIS EXCELLENCY**

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**1. INTRODUCTION**

Revenue in Nigeria was introduced before the advent of the colonial masters. Then, taxes were in the form of farm produce for the sustenance of traditional rulers and community soldiers as an unwritten norms and tradition of the people. After independence, precisely 1961, a more organized tax reform was carried out, which led to the enactment of Income Tax Management Act (ITMA). Further reforms were carried out culminating in the Personal Income Tax Act (PITA) of 1993 as amended. Prior to the discovery of crude oil, Nigeria depended largely on taxes and exports of its primary produce to finance the developmental programmes. But with the discovery of oil in the 70’s emphasis was shifted from Agriculture to petrodollars with all its price uncertainties in the world market, it became imperative that we must look in-wards to generate the much needed revenue to sustain the burgeoning bureaucracy and finance developmental programmes at all levels of government.

With the global economic crisis, Nigeria is facing a significant challenge that is affecting the economy through decreased international financial flows – direct foreign investment, private foreign lines of credit, and remittances – as well as lower price of oil, which has a large impact on Nigeria’s trade and fiscal balances. Cross River State as the fastest growing economy in Nigeria is not an exception to the consequences of the global economic meltdown on the State economy.

The increasing cost of running government coupled with dwindling revenue has left various state governments in Nigeria with formulating strategies to improve the revenue base. Moreso, the near collapse of the National Economy has created serious financial stress for all tiers of government. Hardest hit are the state governments all of whom have experienced unusual reduction in their share of the National Revenue from the Federation Account. Despite the numerous sources of revenue available to the various tiers of government as specified in the Nigeria 1999 Constitution, since the 1970s till now, over 80% of the annual revenue of the three tiers of government come from petroleum. However, the serious decline in the price of oil in recent years has led to a decrease in the funds available for distribution to the states. The need for state and local governments to generate adequate revenue from internal sources has therefore become a matter of extreme urgency and importance. This need underscores the eagerness on the part of state and local governments and even the federal government to look for new sources of revenue or to become aggressive and innovative in the mode of collecting revenue from existing sources. To meet the inescapable need for increased revenue, the use of an Accelerated Revenue Generation (ARG) Programme is necessary to boost revenue generation.

Prior to this period, Cross River State is known to receive one of the least allocations from the federation account. It Internally Generated Revenue (IGR) is very low, and less than 10% of government annual expenditure. Although, we have recorded marginal growth in IGR over the last few years, we are still far below optimum potential. Hitherto, Cross River State depends largely on revenue from the federation account. The economic meltdown and dwindling oil prices have further worsened our financial condition and posed a slim prospect for attainment of budgetary expectations. Therefore urgent need for innovative IGR programme through economic growth and development cannot be accentuated.

**2. OVERVIEW OF NIGERIA’S REVENUE ARCHITECTURE**

In the 1963 Constitution taxing powers of federal and regional governments was clearly demarcated to reflect their negotiated/assigned tasks and the Regions had complete jurisdiction over a broad range of well performing taxes which include:

* Personal income tax (PIT), and capital gains tax
* Sales and purchase taxes on produce, hides & skins, motor spirit, diesel oil for road vehicles, and for non-industrial use
* Motor vehicle tax and drivers license fees
* Entertainment tax, football pools and other betting taxes
* Cattle tax.

Regional legal and administrative jurisdiction over their taxes and Regional revenues was sufficient to sustain them.

Agricultural produce was the mainstay of the Nigeria economy Sales and purchase taxes on produce particularly significant. Each region specialized produced and exported particular cash crops:

* The Northern Region produced groundnuts, cotton and hides and skin
* The Western Region concentrated on cocoa
* The Eastern Region was famous for palm produce
* The Midwestern region produced rubber.

Regional commodities/produce marketing boards were effective and efficient and the Regions had jurisdiction over key service delivery sectors such as Agriculture, Education, and Health; Transport, except those of interregional significance: railways, aviation, trunk roads, waterways as well as Regional and local police and security.

Gradual (but permanent?) alteration of Nigeria’s fiscal landscape: political architecture, fiscal federalism, et al manifested in the following areas:

Creation of Federal Ministry of Agriculture in 1966 and Decrees 14 and 15 of 1967 abolishing of the four region structure and replacing with 12 states:

* Northern Region was broken into 5
* Western and Eastern regions divided into 3 states each
* Only the Midwest Region (Bendel State) survived.

Fiscal bases of states became smaller than their mother regions; Smaller land mass, population and fiscal & administrative propensities but with same responsibilities but shrinking resources, revenue bases, and administrative capacities.

Thereafter, fiscal arrangement through series of constitutional amendments generated fiscal deficits with attendant complaints arising from different sources. Some States became fiscally weak and demanded more revenues. The weak administrative and managerial abilities of some States resulting from various fiscal reforms through further centralization of state revenues into the DPA for collective sharing. The fiscal distress deepened in when 1976 Federal Government reformed Local Government and make them a separate tier of government with direct funding allocation from the DPA.

**3. STATES’ IGR PERFORMANCE IN NIGERIA**

Figures contained in the Central Bank of Nigeria (CBN) annual report for 2008 just published and obtained by THISDAY shows that the IGR of Lagos and Sokoto stood at N139.2 billion and N34.8 billion in 2008 respectively, while their allocations from federation account were N80.16 billion and N39.67 billion.

According to the report, the IGR by 36 states and FCTA was N441.1 billion representing 1.8 per cent of national gross domestic product (GDP) or total output of goods and services amounting N24 trillion at current basic prices. This contrasts with total IGR of the states and FCTA of N305.7 billion in 2007 representing 1.5 per cent of national GDP of N20.9 billion, a decrease of N3.2 trillion.

The CBN data further showed that the total revenue of the state governments and FCTA increased by 42.1 per cent to N2,934.8 billion or 12.2 per cent of GDP, compared with N2,065.4 billion or 9.9 per cent of GDP in 2007. The analysis of the sources of revenue indicated that allocations from the Federation Account (including the 13.0 per cent Derivation Fund and the drawdown for Budget Augmentation) was N1.709 billion or 58.2 per cent; VAT Pool Account, N198.1 billion or 6.8 per cent; IGR, N441.1 billion or 15.0 per cent; Stabilization Account N53.4 billion or 1.8 per cent; the share of excess crude account N354.1 billion or 12.1 per cent; and grants/others N179.0 billion or 6.1 per cent.

According to the report, the performance of the IGR improved over the level in 2007 as it increased from 1.5 to 1.8 per cent of GDP. States with relatively high performing indices included Ogun, Osun, Oyo, Borno, Ondo, FCTA, Jigawa, Kaduna, Kogi, Anambra, Kwara, Kano, Gombe, Edo, Abia and Rivers which recorded 10 per cent and above in their IGR.

However, Taraba State, which generated only N1.3 billion (2.3 per cent) from internal sources occupied the lowest rung of the ladder, followed by 12 other states with revenue percentages lower than 10. States such as Niger, Delta, Imo, Kebbi, Cross River, Zamfara, Enugu, Plateau, Nassarawa, Ebonyi, Bayelsa, Adamawa, Akwa Ibom, Katsina, Benue, Bauchi and Yobe were among those which relied heavily on federally allocated revenue for its fiscal operations in 2008.

**4. CROSS RIVER STATE REVENUE PROFILE**

Today, Cross River State is one of the 36 States in Nigeria that was created out of the then Eastern Region. Financial resources available to Cross River State are mainly from four sources; namely, accruables from FAAC, IGR, Value Added Tax (VAT), and remittances and other capital receipts. The State also receives grants, aids, and loans from development partners to supplement these major sources of revenue. FAAC accounts for over 80 percent of the State’s revenue, followed by IGR, which accounts for about 12 percent. Table 1 shows projected and actual revenue from FAAC and IGR, 1999 – 2008. As indicated below, the average forecasting performance of IGR and FAAC for 1999 – 2008 shows 98.21 percent for IGR, and 115.55 percent for FAAC. But situations changed in 2009 as indicated in the half-year poor IGR performance (31.34 percent).

In realization of the need to imbibe the spirit of innovation and apply same to internally generated revenue programme, Cross River State has introduced the Direct Bank Lodgment System, e-payment, automation of tax activities, e-tickets and registration of taxpayers and issuance of TINs which have collectively produced the following results:

**Table 1: Performance Profile**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year  (a) | IGR (N)  (b) | Growth Rate of IGR (%)  (c) | FAAC (N)  (d) | (b) as % of (d)  (e) |
| 1999 | 245,301,560.70 | NA |  |  |
| 2000 | 620,776,408.20 | 153 |  |  |
| 2001 | 1,116,375,968.00 | 80 |  |  |
| 2002 | 1,039,292,138.00 | (7) |  |  |
| 2003 | 1,180,107,272.00 | 14 |  |  |
| 2004 | 1,784,494,236.00 | 61 |  |  |
| 2005 | 2,236,726,255.00 | 57 |  |  |
| 2006 | 2,716,635,921.00 | 5 |  |  |
| 2007 | 3,341,876,034.00 | 8 |  |  |
| 2008 | 6,447,975,865.96 | 90 |  |  |
| 2009 (Jan - Sept) | 4,922,527,558.46 |  |  |  |

Source: Ministry Of Finance, Calabar

**Fig. 1: Internally Generated Revenue in CRS, 1999 - 2009**

***SOURCE: CRS INTERNAL REVENUE SERVICE, 2009.***

The rock bottom realities of 2009 cast doubts on performance of FAAC in the last quarter of 2009 and beyond. Nigeria’s major export, crude petroleum, is a primary produce whose market conditions are volatile, and vulnerable to external shocks. The petroleum sector provides 20 percent of GDP, but is neither capable of generating employment (due to its high capital intensity), nor able to generate adequate forward and back ward linkages to other sectors (due to its high import dependence). Currently, activities of militants in the

Events worsened further from the last quarter of 2008 with the global meltdown and its attendant impact on oil prices and oil export revenue. Oil prices fell abysmally from a peak high of $150 per barrel in 2008 to as low as $40 per barrel, causing the oil prices benchmark for 2009 budget to be lowered from $ 65 to overall reduction in what each state receives in 2009 to less than 50 per barrel. This led to reduction in the size of FAAC, and overall reduction in what each state receives 2009 to less that 50 per cent of 2008 figures. Accruable to Cross River State from FAAC in 2009 is further reduced by stoppage in payment of the State’s share of 13 percent crude petroleum derivation. Given that FAAC accounts for over 80% of State revenue, projections based on 1999-2008 optimism was no longer realizable, as it ignores the rock bottom realities of 2009. Projections of IGR provided in table 2 is equally unrealizable because IGR performance is linked to accruable from FAAC nation-wide.

**5. MAJOR INNOVATIONS IN IGR STRATEGY IN CROSS RIVER STATE**

In response to recent economic realities resulting from global recession, some forward-looking States Government in Nigeria have been very aggressive in persuading their citizens and their businesses to pay taxes to the governments’ coffers. For more than a decade, Cross River State had consistently suffered a severe revenue shortfall due principally to lack of private sector presence in the State and inadequate innovative ideas towards internally generated revenue effort. To circumvent this problem, Cross River State Government has introduced some IGR innovations designed to:

* Increases the internally generated revenue base of Cross River State
* Provides easy administration, monitoring and co-ordination of all revenue activities in the State
* Assists to identify fraudulent debit, diversion of funds and excess charges on the State accounts

1. **Direct Bank Lodgement System:** Under this system, taxes and revenues accruing to the State Government are paid directly to government designated banks whereby electronic tickets are issued as acknowledgement for payment.
2. **Centralization of Issuance of Tax Clearance Certificate (TCC):** Tax Clearance Certificates issuance are centralized at the headquarters of CRS Internal Revenue Service as a control measure. Taxpayers only need to apply in writing as provided by the enabling law (PITA No. 104, 1993 as amended).
3. **Automation of Operations:** Computerization of the tax system helps to eliminate waste and tremendously improve efficiency and transparency in collections and accountability.
4. **Automated Revenue Collections and Monitoring System (ARCMS):** Under the ARCMS, we Leveraged on InterSwitch PAYDirect System for collection of taxes and revenue accruing to the State Government. This ensures instant tracking and notification of payments, online real-time reports of all tax payments, elimination of frauds that pertains to cheques, and consolidated view of tax payments.
5. **Taxpayers Registration and Issuance of Taxpayers Identification Numbers (TINs):** We have developed a robust database by the registration and issuance of unique Taxpayers Identification Numbers (TINs) to taxpayers.
6. **Strengthening of Enforcement Criteria through the Instrumentality of the Law:** More revenue courts have been established including mobile revenue courts to instantly dispose of all revenue defaulting cases.
7. **Automated Revenue Receipts and Tax Clearance Certificates:** This is a migration from the use of manual Revenue Receipts to a centralised secured system generated receipts with enhanced security features to minimize error, fraud and forgery. We have also migrated from use of manual Tax Clearance Certificates to electronic Tax Clearance Certificates to block revenue leakages through forgery and fraudulent activities of touts.
8. **Automated Motor Vehicle Administration System (AMVA):** A web based online payment services system for vehicle registration and other Motor Vehicle Administration services which replaces the cumbersome and fraud prone manual method of vehicle administration. The AMVA allows vehicle owners to register their vehicles online and make payment directly to government and provides a platform for control and standardisation of registration process.
9. **Human Resource Development:** Capacity and skills building has been undertaken to groom tax operators in Cross River State. this has enhanced attitudinal change in the tax system. This will be further encouraged to ensure full maximization of our human resource base.
10. **Effective Monitoring and Collection of Revenues from Ministries, Departments and Agencies (MDAS):** Revenue officers from Internal Revenue Service are stationed in the various MDAs to ensure effective monitoring of all collectible revenues and lodgement of same in the designated revenue accounts of Government. The Revenue Officers also carry-out regular reporting of MDAs revenue.
11. **Taxpayer Education and Sensitization:** Professional and qualified hands have been engaged while existing revenue staff are trained regularly. Massive campaign and sensitization of taxpayers through jingles, seminars, workshop, hand bills and bill boards.
12. **New Revenue Legislations:** Cross River State Government enacted Laws No. 5 of 2004 for the introduction of Urban Development Tax (UDT) and Law No. 20 of 2007 as amended by Law No. 5 of 2008 for Tourism Development Levy (TDL). This is in realization of the firm belief that Cross River State has the potential for greatness, sound financialand economic management team, great aspiration for world class economic and infrastructural development projects like Tinapa Business and Leisure Resort, Calabar Energy City, Theme Park, International Convention Centre, Calabar Monorail, Calabar International Market, Airport and Seaport, Relative peace and security etc. These have added together to lay a solid foundation for the vision and mission statement of our revenue expectation (To achieve 300% increase in Internally Generated Revenue(IGR) by the year 2012).

**6. LINGING IGR AND ECONOMIC DEVELOPMENT**

Generating funds for development was different in the days before the civil war. In the years before independence, each of the three regions: North, East, and West had aggressive internally generated revenue schemes. In Western Nigeria in particular, payment and collection of taxes were crucial to the development of the region, as much as collection of tariffs on the region’s main agricultural product: cocoa. So were tariffs on palm produce and cotton important to Eastern and Northern regions’ government and economy. In the days before 1966, the people mattered as taxpayers or as farmers laying the golden egg for each of the three regions.

But the increase in petroleum production after the civil war changed the character of the role of the citizen in governance and in the economy. The government only needed to wait for huge returns from petroleum once the multinational oil companies such as Shell did not fail to do their own part of the bargain: explore, drill, pump, and export the new golden egg to western countries that needed the product for development. So endless was the money from oil that Nigeria quickly moved within twenty years from the twelve-state structure set up to weaken Biafra during the war to 36 plus the FCT. If the petitions from different states in the country are taken seriously, the number of states may go to 45 by the end of the current decade, except oil revenue goes down to ten dollars per barrel.

Because state governments received budgetary allocations as manna from oil revenue, the governments at the federal, state, and local levels left no role for citizens in revenue generation, before now. Multinational oil companies dispensed money to the federal government which in turn dispensed some to the states and local governments to pay salaries to workers, keep minimum level of infrastructure, and service socio-political structures. In effect, citizens themselves acted as if there was nothing else to do, apart from petitioning for new states or local governments that would bring additional oil money to leaders to spend as they deem fit. Citizens could not act as stakeholders in regular democratic settings.

Cross River State government is embarking on aggressive tax drive to increase the dwindling revenue from federal allocations funds from petroleum. Businesses and individuals not used to paying taxes under the government of manna for over three decades are experiencing difficulty in responding to states’ demand for tax payment. In addition, citizens and businesses are unable to trust governments with their money, having failed for decades to reap dividends of petroleum drilling. State governments are however right to now demand taxes from citizens for development projects.

The relative fall in oil revenue is now waking many governors up from their slumber to send emissaries to Lagos on how to develop strategies for increasing revenue. Asking people and businesses to pay taxes is recognizing their centrality to governance. It is the people that respond to IGR drives by governments across the country that must imbibe the values that accompany taxation of human activities. Like many things in life, State Governments’ aggressiveness in tax collection may generate some unintended consequence: political empowerment of the citizenry, especially if the citizens are ready to pluck the courage to put their money only where their mouth is or put their mouth where their money is.

Lagos State has shown that more revenue can come to states from sources other than oil. When such funds come from taxation, taxpaying citizens will be empowered more than ever before. They can choose, as Thomas Paine once preached, to refuse to pay unjust taxes or to pay taxes to unjust governments. The consciousness engendered by the feeling of efficacy on the part of citizens that pay taxes is likely to put a bad government on collision cause with its citizens. But it is such governments that will lose at the end, because the leverage to make money available for the exercise of political power is now shifting to the citizen.

States’ reliance on internally generated revenue is also likely to warn agitators for infinite number of states that there may be no money to fund the bureaucracies of such states if they lack actual population to support IGR. In addition, revenue from personal income and consumption tax may put an end to census controversy, as it is likely to reveal the actual demographic strength of existing states and local governments. Professional petitioners for new local governments may now have to look elsewhere for high-paying sinecures.

More importantly, one challenge to come from revenue mobilization efforts thrown up by dwindling resources from petroleum is that citizens will be moved to the centre of governance as taxpayers. It is better for citizens to sacrifice some of their meager resources for a new stake in governance. There is a need for the middle-class to assist in forming local associations to make citizens realize the incipient power that may grow phenomenally from acorn to oak status in a political space in which governors now need financial support of their constituents. Although it is a significant act of sacrifice to pay taxes from meager incomes, citizens and businesses should not refuse to pay taxes. The decrease in petroleum revenue may be a blessing in disguise for tax-paying citizens. They may finally get to the position to dictate the tune of development, because they now (not petroleum revenue) pay most of the piper.

Another challenge is for citizens to extend the culture of IGR to political parties. Politics has become in general a godfather’s business just as governance has been in an economy that meets all of its needs from sale of petroleum. Political godfathers and godmothers are individuals who spend resources at their disposal to form and nurture parties in order to have the power to determine who gets selected to contest for executive and legislative offices. Political parties that go to the grassroots and make citizens pay towards election expenses will gain more democratic mileage than those that depend on donations from political godfathers functioning as governors.

**7. THE WAY FORWARD**

Today, tax authorities world-wide are redesigning their business processes, automating their assessment, collection, monitoring and accounting machineries and use of internet and communication equipment for prompt service delivery. To meet the challenges of revenue generation in the nearest future, the following key strategic initiatives have been adopted:

1. Maximisation of internally generated revenue (IGR) by reviewing, streamlining and strengthening the organisation and Governance structure, reforming business processes and procedures and strengthening management controls (risk management).
2. Promotion of a fair, equitable and transparent tax system by embarking on a taxpayer education and public awareness, enhancing service delivery to taxpayers and all other stakeholders, and refocusing effort on integrity to eliminate revenue leakages and foster a positive corporate image.
3. Promotion of voluntary tax compliance by simplifying taxpayer compliance procedures through harmonisation, standardisation and automation of procedures and processes to minimise compliance costs and ensure uniformity in enforcing the tax laws.
4. Modernisation of Internal Revenue Service by computerising the key operations to reduce human interventions in tax transactions and hence minimise chances of corrupt practices.
5. Utilization and development of physical and IT infrastructure, for a credible tax database and embarking on the process of continuously developing, sustaining and retaining a highly professional, motivated and proactive workforce that will ensure attainment of the strategic vision of the IRS.

The opportunities created by new technologies will facilitate sustainable change in the face of making the payment of taxes easier, faster and cheaper. In addition, there is undisputable need to review and effect necessary changes to the tax system to embrace better and modern technologies of tax administration. This calls for reasonable freedom from the traditional civil service institutional arrangements so as to adopt new ways of working and funding the revenue agencies to cope with the ever growing budgetary demands ahead.

The tax agencies also needs to effect changes in the Human Resource (HR) function in order to achieve the ambitious but attainable objective of developing, sustaining and retaining a significantly competence, motivated and proactive workforce. These changes will entail carrying out significant reforms in the conditions of service, capacity building at technical and management levels and targeting the achievement of high performance from all staff. It will also entail instituting a series of integrity enhancement programmes to enforce high standards of ethics and integrity for all staff to combat graft/corruption. This of course calls for substantial investment in capacity building, exposures and mentoring so as to import best international tax management practices, analysis, planning and budgetary systems into the tax agencies. A highly professional team is required to lead and take full charge of the tax modernisation drive for an exciting future.

**8. CONCLUDING REMARKS**

As earlier discussed, the activities of government world over is funded by its ability to pull all revenues together and this can only be achieved when all necessary modern reforms capable of enabling Revenue Agencies to perform their duties at optimum level are put in place. These reforms or innovations have become very necessary in the wake of the dwindling and unstable prices of crude oil that has been the major source of government funding.

Though, Revenue Agencies in developing countries are confronted with non-compliance attitude of taxpayers which adequate and massive Tax Education and Enlightenment amongst other reforms earlier mentioned will simplify revenue generation. However, Revenue Agencies should carefully study the tax regulations and create additional revenue sources that will ensure an enhanced revenue profile other than absolute reliance on the proceeds of crude oil which may likely dry up one day.

Information Technology (IT) infrastructure is a critical factor in the ability to provide for cost effective delivery of services. As with many other large organizations, tax administrations access to information is critically dependent on the reliability and performance of the network and system infrastructure.

The rapid pace of change and continuous technical innovation will continue. With each new innovation, technical complexity increases. Emphasis should therefore be placed on ensuring that IT infrastructure is scalable and open to adopt new technologies to meet short and long term needs of the tax/revenue related business functions. Therein lies the challenge and the political will that is required to drive the process towards the optimal realization of revenue targets by States in the Country.

Thank you.

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**APPENDIX**