

Government Revenue and Economic Performance of Nigerian Economy (2000 – 2019)

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Abstract: The government of Nigeria has of recent encountered dwindling revenue generation due to the global economic crisis and COVID-19 pandemic, thus making it difficult for the government to finance its expenditures and subsequently not achieving the desired economic growth. This paper therefore examined the correlation between government revenue and economic performance of the Nigerian economy. The paper employed a mix of descriptive cum historical approach. Time series data spanning 2000 - 2019 were obtained and used. The sources of data were the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS) and Federal Ministry of Finance. Data were subjected to analysis and testing by means of Ordinary Least Square (OLS) multiple regression technique. Results revealed that significant positive relationship exists between the explanatory variables and explained variable. Arising from the findings, the paper made recommendations which include, among others, government's intensification of its policy of economic diversification from the oil sector to non-oil sectors so as to increase and sustain non-oil revenue; formulate enabling tax policy that will increase tax revenue as well as strengthening the anti-corruption institutions with a view to alleviating corruption which constitute monumental leakages in the revenue generation process.

Keywords: Government Revenue, Economic Performance, Expenditure, Tax, Revenue

1. Introduction

In the public sector, one major determinant of expenditure and economic performance of any economy is government revenue. Government revenue which is one of the components of fiscal policy can be defined as the total amount of money that the government receives from tax and non-tax sources within a fiscal year to enable it undertake its expenditures. Government revenue refers to all monetary receipts from state-owned corporate enterprises and external aid Joseph & Omodero, [12]. Section 162 (10) of Nigeria's 1999 Constitution [10] upholds revenue as "any income or return accruing to or derived by the Government from any source and include: (i) Any receipt however described arising from the operation of the law, (ii) Any receipt however described from or in respect of any property held by the government, and (iii) any return by way of interest or loans and dividends in respect of shares or interest held by the Government in any company or statutory body". According to Chaudhry and Munir [7] amounts accruing to all public

agencies, commissions and boards would qualify as government revenue. Similarly, any funds earned by or allocated to establishments that depend on government for operations further still constitute government revenue. Considering conventional accounting procedures that classify or distinguish funds, accounting traditions designate receipts from all government bodies as revenue. Three key sources of income are identified as: (i) raw petroleum (ii) non-petroleum and (iii) external borrowing. These are all expressed in the Nigerian national budget of 2018. However, some other principal avenues constitute other external sources of revenue to the country. Furthermore, there is the introduction of charge income. A charge is a duty issued by a public authority against which citizens cannot violate Asagunla & Agbede, [4]. In more technical terms, Ahmed [2] conceives government revenue as proceeds originating from outside government circle, including returns from sale of government ventures, and other transactions that generate funds to government entities.

A critical examination of the definitions ascribed to

government revenue shows diverse sources from which governments derive revenue and the resultant volume of revenue is expectedly high to finance expenditures. Revenue sources are classified broadly into oil and non-oil revenues Salawu, [19]. According to Salawu [19], the oil revenue sources include petroleum profit tax and royalties while non-revenue sources include taxes (excluding petroleum profit) and company income among others. Economic performance of a nation, proxied by economic growth relies essentially on budgeted expenditures and government political will. Thus, impact of government revenue which constitutes a major determinant of expenditure and subsequently economic growth cannot be undermined in the equation of economic growth.

Economic growth is synonymous to improvement in the value of the goods and services in any economy at a particular time. Simply put, it equates to increase in production within an economy at a period. Traditionally, economic growth is a reflection of performance of the national economy. Economic growth of an economy therefore has a significant relationship with the government generated revenue. Adedokun [1] empirically revealed that revenue from oil export has a positive significant impact on economic growth in Nigeria in the short and long terms. It was further revealed that change in oil price at the international market is a significant determinant of external earnings. Aregbeyen [3] concluded that oil revenue has been a very important variable that propelled government spending and economic growth in Nigeria. In another empirical investigation, Oladipo and Fabayo [17] found a negative and significant correlation between GDP and oil consumption. However, as a result of recession, a significant decline occurred in oil revenue earnings.

2. Review of Literature

2.1. Theoretical Basis

In traditional economics various revenue theories are propounded to explain the maximization of a firm's objective. Revenue, in the theory of firm, is a firm's income arising from product sales after the deduction of other costs. Basically, the goal of every strategic firm is to maximize revenue. The government in the context of this paper maximizes her revenue by employing measures and strategies of minimizing the cost of collecting her various revenues with a view to maximizing revenue. The study therefore is based on the firm's theory and theory of endogenous growth. The latter theory posits that economic growth is the direct outcome of internal processes in a system. It is assumed that government policies and determination to raise growth rate result in market competition which could stimulate productive innovation. The theory emphasizes enhancement of available stock of human capital for economic growth through the application of technology and more reliable methods of production. By implication, where government improves the human capital and technology, the revenue generated will significantly

improve thereby enhancing the financing of her expenditure which will eventually impact positively on growth of the economy.

2.2. Conceptual Review

2.2.1. Sources of Government Revenue in Nigeria

Sources of government revenue are basically same in all countries. The difference is the capacity and policy of different governments to harness the various sources. The source of oil revenue according to CBN [6] is significant to the economy. It is about 82% of overall revenue generated. It was N7.3 trillion in 2017 but increased to N13.3 trillion in 2018. In a similar vein, Ihedinihu, Jones and Ibanichuku [13] are of the view that taxation could be a more reliable fiscal option to generate increased revenue to the government. Accordingly, taxation tends to provide a stronger mechanism to regulate the economy. Okafor [16] posited that taxation could have a positive or negative effect on both the individual and on government. To the individual, low income tax rate constitutes an incentive to work or save, while high income tax rate represents a disincentive to work or save. To the government, high tax rates provides the most reliable, important and dominant source of government revenue, for promoting the economic development of the nation. Onaolapo, Aworemi and Ajala [18] in their assessment of the impact of Value Added Tax, observed dwindling revenue generation as characterized by annual budget deficits and insufficient funds for economic growth and development, and went on to reveal that there is statistical significant effect of VAT on revenue generation in Nigeria. In order to design taxation as the main source of revenue for government, an equitable set of principles should be in operation. The non-oil revenue source comprises taxes (a compulsory levy on all taxable individuals and business organizations), loans from both internal and external, statutory allocation from the Federation account, grants and aids, government investment, sales of confiscated goods and properties, licenses, rent from public assets, interests on loan repayment, fees as well as fines. Revenue sources can also be structured into tax and non-tax revenues. Receipts from tax revenue include personal income taxes, company income tax and petroleum profit tax. On the other hand, non-tax revenue includes rents on government physical assets, reimbursements, interests, dividends, and revenue from social services.

2.2.2. Problems of Revenue Generation by the Nigerian Government

There are many problems militating against revenue generation in Nigeria. These include:

1. State and local governments in Nigeria over-depend on the Federation Account. Such over-dependence exerts pressure on the federal government, which tends to deplete the account in no time.
2. Presence of incompetent and dishonest manpower. Most revenue collectors are not faithful. Competence, character and technical knowledge are sacrificed at the altar of tribalism, nepotism, favouritism and political ambition.

3. Inadequate and infrastructural facilities. There are no better public roads that can enhance the mobility of revenue collectors around town. Apart from good roads inadequacy, serviceable vehicles at times are not available for use. All these reduce the revenue generating capacity of the government.
4. Evasion of tax and tax avoidance. Self-employed people commonly practice tax evasion; while tax avoidance is practiced by the educated elite.
5. Political interference. Instability in the political environment discourages loans, foreign aids and grants from advanced nations, international financial donors and institutions.
6. Rate of illiteracy and low standard of living. Illiterate people view payment of tax as victimization. Low income and economic depression, which have crippled many people financially, tend to affect revenue generation.
7. Problem of bye-laws and lack of clear act jurisdiction.
8. Absence of enlightenment programme. Majority of the people in the rural areas are not enlightened on the rationale for tax payment.

2.3. Empirical Review

In the empirical literature, as reported the correlation between government revenue and economic growth, using different methodologies may result in dissimilar findings and conclusions. Odularu's analysis [15] of the correlation between crude oil sector and Nigeria's economic performance revealed a positive contribution. Findings showed a significant contribution from crude oil consumption and exports to the improvement of the Nigerian economy. Egbadju and Oriavwote [11] adopted the co-integration technique and the granger causality methodology in their study and found that the oil revenue was not statistically significant in explaining the level of agricultural output. The study concluded that the diversification programmes by successive governments has not resulted in any increase in output in the agricultural sector of the Nigerian economy.

Nwoba and Abah [14] investigated the impact of crude oil revenue on Nigeria's economic growth using data from 1960 to 2010. The study discovered that multinational oil companies exerted significant impact on economic growth in Nigeria during the period of review. Their findings empirically established that crude oil proceeds and the presence of multinational oil companies in Nigeria have impacted positively and significantly on economic growth and development in Nigeria through oil production activities including employment generation both directly and indirectly through value-chain additions.

Asogwa and Okpongette [5] carried out a research to ascertain the effects of oil revenue on the macroeconomic

performance of Nigeria. The researchers made use of secondary data covering the period 1981 to 2014. They used the Ordinary Least Squared (OLS) technique and the Granger Causality tests to test the effect of oil revenue on Nigeria macroeconomic performance. The result shows that oil revenue is statistically significant to economic growth in Nigeria, revealing a positive relationship. Co-integration result shows evidence of long run relationship between oil revenue and economic growth in Nigeria. However, the Granger causality test result indicates to the contrary that oil revenue does not Granger cause economic growth.

3. Model Specification

Model to investigate the impact of government revenue on the economic growth of Nigeria is stated below. The variables used in the model are based on extant studies and the theoretical position discussed above. In specifying the explanatory variables, this study made use of the theoretical framework from the sources of revenue of the government in the economy. Thus the explanatory variables in the model are oil-revenue and non-oil revenue while the dependent variable is Gross Domestic Product. The functional form of the model adopted for this study is as follows:

$$GDP_{it} = f(LRe_{it}, NRe_{it}) \quad (1)$$

Where: GDP_{it} = Gross Domestic Product,

LR_{it} = Oil revenue, and

NR_{it} = the non-oil revenue.

In its econometric linear form, the model is expressed in this order:

$$GDP_{it} = \alpha_0 + \alpha_1 LR_{it} + \alpha_2 NR_{it} + e_{it} \quad (2)$$

α_0, α_1 , and α_2 = Parameters of the regression equation

e_{it} = Error terms

Where: α_0 is the intercept depicting economic growth when the explanatory variables are equal to zero and GDP_{it} is economic growth/performance of the economy, α_1 , and α_2 , are the coefficients or parameters of the explanatory variables. The inclusion of the stochastic or error term (e_{it}) in the above model is to capture the impact of other variables that are not included in the model. The *a-priori* expectations can be written as: $\alpha_1, \alpha_2 > 0$.

Using E-view computer software on the data above, result of analysis is presented as shown below:

Dependent variable: GDP

Method: Least Square

Date: 19/11/2021

Sample: 2000 2019

Included Observation: 20

Table 1. OLS Regression Estimation Result.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-57355.06	201688.6	-0.2844374	0.7782
LRe	8.021418	0.744556	10.77434	0.0000
NRe	0.041141	0.077522	0.530704	0.0599

R-Squared	0.923498	Mean dependent var.	1009574
Adjusted R-Squared	0.912569	SD dependent var.	1729658
S. E of regression	511438.2	Akaike Info. Criterion	29.26657
Log likelihood	-477.8984	Schwarz Criterion	29.49331
F-statistic	84.50067	Hannan-Quinn Criterion	29.3428
Prob (F-statistic)	0.0000	Durbin-Watson stat.	1.3478

4. Discussion of Result

This section presents the estimation results of the multiple regression analysis in order to ascertain the impact of the government revenue on the economic growth as well as establishing the relationship between the revenue and economic growth.

From the result above, we have the following equation:

$$\text{GDP} = -57355.06 + 8.021418\text{LRe} + 0.041141\text{NRe}$$

From the equation, it is evident that the explanatory variables oil revenue (LRe) and non-oil revenue (NRe) are positively related with the GDP; implying that an increase in the oil revenue and non-oil revenue will result to an increase in the economic growth; and verse versa. The parameters of the regression equation conform to the *a-priori* expectations of the study.

The coefficient of the oil revenue (8.021418) shows that a unit change in the oil revenue (LRe) results in 8.021418 units change in the economic growth (GDP) of Nigeria. Similarly, a unit change in the non-oil revenue (NRe) results in 0.041141 unit change in the economic growth (GDP) of Nigeria. However, testing the significance of the explanatory variables, the t - statistic values indicate that while the oil-revenue is statistically significant at 5% level of significance, the non-oil revenue is statistically significant at 10% level of significance. This is also in conformity with the theories.

The value of the Co-efficient of determination (R^2) = 0.923498 shows that about 92.35 per cent variation in the economic growth (GDP) is due to variation in the explanatory variables while the remaining 7.65% variation in the GDP can be explained by the factors not included in the model. After adjusting for the degree of freedom, the adjusted Co-efficient of determination (0.9125) implies that in reality the variation in the explanatory variables can account for about 91.25 per cent variation in the economic growth (GDP).

The F-statistic value of 84.50067 with its Probability Value confirms that the co-efficient of determination (R^2) is statistically significant; and the regression equation is of good fit. This further shows that the explanatory variables can simultaneously explain the variations in the explained variable (economic growth). The value of Durbin-Watson test statistic of 1.3478 shows the presence of autocorrelation in the data used for the analysis.

From the above analysis and result, the study concludes that there is a significant positive relationship between government revenue and economic growth measured with Gross Domestic Product. This result is similar to the

evidences obtained by Nwoba and Abah [14]; Chimobi [8]; Chimobi and Igwe [9]; Asogwa and Okpongette [5]; and Adedokum [1].

5. Conclusion and Recommendations

The study is an investigation into the relationship between government revenue and economic performance (measured with GDP) in Nigeria (2000-2019). The evidence from the OLS multiple regression analysis shows a significant positive relationship between government revenue and economic performance of Nigerian economy. The *a-priori* expectations of oil revenue and non-oil revenue were met. Similarly, all the explanatory variables were however statistically significant, even though at different levels of significance, based on the values of their t-statistics. The F-statistic value confirms that the co-efficient of determination (R^2) is statistically significant; and the regression equation is of good fit.

Considering findings from the analysis, a number of recommendations become germane.

1. The government needs to fashion out sustainable strategies that could boost revenue collection with positive implication for the economy. Appropriate policy mix such as monetary and fiscal policies should be adopted to enhance revenue generation and capital expenditure that would further facilitate economic activities and income generation.
2. The diversification policy of the Nigerian economy should be vigorously and religiously pursued with a view to developing the non-oil sector alongside the oil sector. This will boost all the sectors of the Nigerian economy.
3. Given the significant positive relationship between the oil revenue and non-oil revenue and GDP, the study equally recommends that the government should embark on human capital development programmes and acquisition of modern and improved technology that would enhance the productivity of the agencies and personnel in charge of revenue collection.
4. The government should put necessary laws such as the Petroleum industry Act (PIA), tax reforms, to mention but a few in places to guide the operation of the sectors.
5. Government should provide enabling environments and intensity efforts in ensuring stability, security and enhance economic activities in all sectors of the economy.
6. The current anti-corruption crusade of the present administration in Nigeria should be sustained, holistically and sincerely pursued to ensure that possible leakages are blocked.

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