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DOMESTIC REVENUE MOBILIZATION (DRM) AND NATIONAL DEVELOPMENT: CHALLENGES AND THE WAY FORWARD

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ABSTRACT

Domestic revenue mobilization (DRM) is the nucleus and the path to national development. DRM encompasses all the money received other than from issue of and debt, liquidation of investments but includes tax collections, charges and miscellaneous revenues, utility and insurance trust revenue for all funds and agencies of a government Governments at all levels and donor agencies, both multilateral and bilateral, have increasingly recognized the central role of DRM in ensuring sustainability and ownership in the development process, amongst others. Domestic revenue mobilization has been considered, as the first element of success in the 21st-century economy. Thus, this paper assessed the challenges of domestic revenue generation also known as internally generated revenue in Nigeria and various ways of enhancing internal revenue generation in the states.

Keywords: DRM, National Development, Challenges, Way Forward.

Introduction

Massive funds are needed to support sustainable development across the world and in African countries in particular. To raise such amounts, African countries will have to step up the mobilization and efficiency of both standard and innovative financing sources. Specifically, domestic resource mobilization (DRM), i.e., increasing government revenue through taxation and other non-debt income sources is essential in allowing countries to own and flexibly chart polices that address their specific development challenges, while mitigating the risks of debt distress. Hange (2023) laments that in recent years, domestic revenue mobilization has gained prominent role in the policy debate. Government at all levels and donor agencies both multilateral and bilateral have increasingly recognized the central role of

DRM in ensuring sustainability and ownership in the development process among others. African government and pan-African institutions on their part have given higher priority to this issue, engaging in a number of important reforms in the last decades and giving taxation a higher profile in the policy agenda. South-South cooperation among African tax administrators has also been encouraged particularly by the African Development Forum, established in 2008 and by the African Development Bank. Taxation has also become an area of interest among researchers, particularly in the field of political science and economics (Olaoye & Baniole, 2019).

Domestic revenue mobilization has been considered as the firs element of success in the 21st century economy. Stavros (2021) noted that the higher the revenue of the government, then it will be convenient to create capital for the activities and additional expenditure against such as development process, which includes its infrastructure, health, and education. The primary objective of the DRM system is to raise the revenue that twill aid in offering the nation with valuable services to the citizens, developing the nation, encouraging innovations and trade. The strengthening of the revenue mobilization in the developing countries is advisable, as it helps to build better taxation. As most of the countries are arising from the economic crisis, they require extra revenue from their taxation policies as well. According to Agena (2018), to accomplish developing goals, domestic revenues are substantial, especially in low-income nations. There is a need or infrastructure in such countries and environmental challenges. Most of the countries have enhanced their domestic revenue mobilization in order to strengthen their efforts and situations. The objective of the imposition was to compel the countries towards economic growth. There is an urgent need to revisit the current revenue mobilization strategy, especially due to mounting macroeconomic challenges. Bukoya (2019) avers that the rising public debt service obligation have sharply increased financing needs, despite significant deferrals in 2020-2022. Coupled with limited access to international capital markets and low foreign exchange reserves, this has contributed to a severe exchange rate depreciation and thus high inflation, jeopardizing macroeconomic stability and economic growth. Poor revenue performance has intensified these pressures, despite strong curbs on public spending. Generous corporate tax exemptions and tax rate reduction have undermined fiscal sustainability and macroeconomic stability. The erosion of fiscal space increases the country's vulnerability to economic, health and environmental shocks, while threatening economic growth prospects through under investment in education, health, and infrastructure leading to a low standard of living in Africa and especially in Nigeria.

Revenue is the income that an organization or business has from its normal business activities, usually form the sale of goods and services to customers. Some organizations receive revenue from interest, royalties, or other fees. Revenue may refer to business income in general, or it may refer to the amount in a monetary unit, earned during a period of time. Agu (2021) defines revenue as the fund required by the government to finance its activities. these funds are generated from different sources such as taxes, borrowing, fine, fees etc. it is also defined as the total amount of income that accrues to an organization (public or private) within a specified period of time (Alade, 2015). States revenue comprises of receipt from taxation as well as those which are not the proceeds of taxation, but of either the realization from the sale of government properties or other interests and returns from loans and investment earning. Onah (2016) contends that revenue receipt includes "routine" and "earned" income. For these

reasons, according to him, revenue do not include borrowing and recovery of loans from other parties, but it includes tax receipts, donations, grants, fees and fines and so on.

Osi (2022) states that there are basically two types of revenue that accrues to state governments. These are internally generally generated revenue and revenue allocated from the Federation Account. Internally generated revenue or self-financing sources are those sources by which Governments can raise revenue constitutionally aside from the statutory allocations and grants (Murana, 2016). It should be noted that internally generated revenue sources provide a wide scope for initiative towards attracting fund. For example, the extent to which these revenue sources can yield to the benefit of the Local Government council depends on the ability and vibrancy of the Local Government leadership. Bye-laws are very important in providing the enabling legal environment for proper revenue generation at the Local Government level. Bye-laws on finance prescribe the sources of revenue, the amount to be collected and mode of collection as well as the basis of incidence, that is, the person(s) to bear the burden of payment. Internally generated revenue are those revenues that are derived within the state from various sources such as taxes (pay as you earn, direct assessment, capital gain taxes, among others), and motor vehicle license, among others. While the statutory allocation from Federation Account, value added tax constitute the external source.

Most states of the federation get the bulk of their revenue in form of statutory allocation from the federation account to finance their expenditure programmes (Chahur, 2024). State governments as the second tier of government in Nigeria derive its revenue from various sources. However, it should be noted that sources of revenue are by no means uniform among the states. States derive their revenue depending on the resources available to them. The share of federation account to states constitutes 57.97% in 2002 of the total revenue plus grant and this rose to 65.82% in 2006; while the internally generated revenue declined from 13.38% in 2002 to 8.11% in 2006. From 2019 up to 2022, Aguje (2022) stresses that states' internally generated revenues (IGRs) slipped implying an increasing dependence on Federal Accounts Allocation (FAAC) to fund state governments' expenditures, much of which is recurrent. Two per cent dip in revenue mobilization, which was what the fall was when weighed against the general business environment, is fair and understandable. The uneven spread of the percentage loss among the states validates, once again, the viability concern raised by advocates of fiscal federalism in the past years. According to the internal revenue data released by the National Bureau of Statistics (NBS) recently, 18 states reported a decline of an average of 19 per cent in their 2018 DRM accounting status.

Tax administration for DRM in Nigeria.

Nigeria's federal system of governance reflects in her tax administration processes. The responsibilities of tax administration in Nigeria are divided among different agencies and levels of government – federal, state and local government. According Agbe (2019), the federal government has a total of eight explorable tax bases; the states have eleven, while local governments have twenty. The tax authorities responsible for the assessment, imposition and collection of taxes in Nigeria are:

- Federal Inland Revenue Services (Federal Government)
- State Boards of Internal Revenue (State Governments)
- Local Government Revenue Committee (Local Governments)

In Benue State for instance, the Board of Internal Revenue Service is principally responsible for the administration of taxes. These taxes include: Personal Income Tax in respect of PAYE and Direct taxation, withholding tax (individuals only), Capital gains tax (individuals, stamp duties, Pool betting and lotteries taxes, Road taxes, Business premises registration fee in urban and rural areas, Development levy, Naming of street/registration fee, Right of occupancy, market taxes and levies. At the local government level, local governments' revenue committees are legally permitted to explore taxes from the following sources: Shops and Kiosk rates, tenement rates; on and off liquor license fees, slaughter slab fee, marriage, birth and death registration fees, motor park levies, signboard and advertisement permit fees etc. There is no gain saying of the fact that internally generated revenue has a lot of benefits. These include,

- ⇒ Provision of clean water for the people in the local government area
- ⇒ Construction of good roads for easy movement of transportation
- ⇒ Provision of a well-equipped health centre in the community to reduce the death rate of the people
- ⇒ Provision of free education in the community to reduce the level of illiteracy in the society.
- ⇒ Stability of electricity in the community

Table 1: Domestic Revenue Collection Assignment across Nigeria's three tiers of Government

Federal Government	**State Government**	**Local Government**
Personal income taxes—Personnel of the armed forces, the police force and Foreign Affairs, as well as residents of the FCT (employees and self-employed persons	Personal Income Taxes—residents of the state (employees and self-employed persons)	-
Withholding tax on companies, residents of the FCT and nonresident individuals.	Withholding tax on individuals.	-
Capital Grant Tax—cooperate entities, residents of the FCT and nonresident individuals	Capital Grant Tax—Individuals	-
Stamp Duties—Cooperate entities and FCT residents	Stamp Duties—Individuals	-
Mining Rents and Royalties	-	-
Petroleum Profit Tax	-	-
Education Tax	-	-
Company Income Tax	-	-
Customs and Excise Tax and Duties	-	-
Value Added Tax (VAT)	-	-
Oil and Gas Sales Revenue	-	-
-	Property Tax	Tenement Rates
-	Right of Occupancy Fees in state capitals	Right of Occupancy outside state capitals

-	Naming of streets registration in state capitals	Naming of streets registration outside state capitals
-	Business Premises Registration and Renewal Fees	Shops and Kiosks Rates
-	Vehicle Registration Fees	Bicycles, trucks, canoe, wheelbarrow and cart licence fee
-	Rates in state-financed markets	Market and motor park fees
-	Pools, betting, lottery gaming and casinos taxes	Liquor licence fees
-	Development Levies—Individuals	
-	Road Taxes	
-	-	Marriage, birth and death registration fees
-	-	Radio/television licence fees
-	-	Burial grounds and religious places permit fees
-	-	Sewage and refuse disposal fees
-	-	Signboard Advertisement Fees
-	-	Cattle taxes and domestic animals licence fees
-	-	Slaughter Slab fees

Source: The 1999 Constitution of the Federal Republic of Nigeria; Various Statutory and Policy Documents

Challenges of Domestic Revenue Mobilization in Nigeria

The challenges of DRM in African countries include amongst others, the following:

Government behavior: The "revenue bargaining" theory suggests that the taxpaying process is crucial for explaining the emergence of responsive and effective governments, because it enables a "revenue bargaining" process—defined by Moore (2018) as "the exchange of tax revenues (for the state) for institutionalized influence over public policy (for citizens)." In other words, political accountability from a government to its citizens is contingent on the dependence of the government on tax revenues. Yet, large non-tax incomes, from natural resources or large inflows of foreign aid, can disrupt this taxation-accountability nexus.

Tax payers' behavior: The domestic tax bases in most African countries are undermined by widespread tax avoidance and evasion (Sase, 2021). According to the 2014/2015 Afrobarometer survey, across 36 countries, nine out of 10 Africans say that not paying taxes is wrong, but only a slim majority (54 percent) describes non-compliance as "wrong and punishable," while 34 percent see it as "wrong but understandable." The "slippery slope"

framework argues that, besides instruments of deterrence, such as audits and fines, the relationship between taxpayers and government affects tax compliance. The framework distinguishes two forms of tax compliance: voluntary and enforced compliance. Voluntary compliance increases with trust in tax authorities, whereas enforced compliance depends on the power of tax authorities to enforce tax payments.

The level of tax compliance is jointly determined by the interactions between trust and power, which are both typically low in African countries due to corruption and weak capacity, thereby resulting in low DRM.

Lack of trust and corruption further poses the issue of legitimacy of taxation in some African countries. Authorities are viewed as legitimate when the public sees them as having both the legal and the moral authority for taxation (Hange, 2023). Legitimacy enhances compliance with the law even when the likelihood of sanctions is low. In contrast, a lack of legitimacy could translate into behavior contrary to that sought, resulting in non-compliance with the law or even increased criminal behavior such as tax evasion.

Tax Evasion, Avoidance and Other Tax Gaps

Before going into further details it is useful to provide a broad categorization of individual tax gaps, or more precisely of the reasons why tax revenue is low in developing countries. The first broad reason is certainly tax evasion, a concept that can be used in at least two ways, both narrowly and broadly. In a narrow and strict legal sense, tax evasion is the illegal manipulation of an individual's or firm's affairs with the objective of reducing the amount of tax paid . In a broader sense, tax evasion is the set of actions, legal or illegal, that individuals and firms can adopt to reduce their tax payments. This broader definition includes tax avoidance and aggressive tax planning – activities that generally are not illegal, but may be considered morally or socially unacceptable. It is tax evasion in this broader sense that matters most for developing countries. These two concepts often overlap in practice (Murana, 2016). These constraints result in foregone or missed revenue, and they therefore contribute to generating or widening the aggregate tax gap. In reviewing the specific tax gaps that explain low tax revenue in developing countries, it is important to remember that they often result from a mix of tax avoidance, evasion and other constraints.

Tax gaps in developing countries

A first large source of missed revenue for developing countries is the result of international issues related to transnational corporations. Particularly governments miss a potentially substantial amount of revenue through transfer pricing. This practice involves mis-pricing goods and services that are transferred within a transnational corporation (TNC) amongst subsidiaries/affiliates or between a subsidiary and the mother company, mainly with the aim of transferring profits to low tax jurisdictions (Rukoya, 2019). Transfer mis-pricing results in the erosion of the tax base through the outflow of capital from high to low-tax jurisdictions, and thus in lower tax revenue.

A second important tax gap in developing countries is related to tax incentives. Governments from low-income countries typically offer various tax exemptions with the aim of attracting investors and fostering economic growth. Such fiscal benefits are widespread in developing countries, in the form of tax holidays and a myriad of tax exemptions and exceptions that are

difficult to categorize and control, and that eventually result in low effective tax rates By providing tax incentives, governments in low-income countries forego substantial revenue that instead could be used to foster the elements that really drive foreign investment (e.g. infrastructure, education and electricity). Eliminating or substantially reducing tax incentives is usually seen as a low-hanging fruit in tax revenue mobilization. Since most of the companies involved are already in the tax net, additional revenue could be obtained at a relatively low administrative cost.

Conclusion

To accelerate Africa's development, DRM reforms will be needed to ensure optimal revenue collection. However, many countries in Africa are still not using best-practice procedures in their resource mobilization processes, thus suggesting scope for technology transfer and capacity building in the area of tax administration, and more generally in public financial management (PFM).

Recommendations

Based on the discussion above, the following recommendations can be implemented to facilitate effective DRM in Nigeria.

Good Infrastructure: A location with good road network will have every access to the coming and going out of the local government's cars and people. If they get to the local government and see good roads, pipe-borne water, hospitals, schools etc. they may decide to stay.

Staff Motivation: Workers should be encouraged so that they can put in their maximum services and when this is done, there may be increase or solid improvements in revenue collection. Training of workers for knowledge enhancement should be one of such motivational factors. It is fervently hoped that when the above suggestions are fully implemented, the local government will not only improve internally but also with the outside world.

Establishment of projects: The states should embark on the establishment of some mini-sized industries, which will provide employment opportunities to the people. There should also be development and improvement in agricultural ventures like crop farming etc. The participation in agriculture will encourage the inhabitants of this local government area to improve their standard of living.

Efficient Revenue Management: There is a general trend going about most governmental establishment, there are mismanagement and embezzlement. The revenue so collected is mismanaged by the officer thereby not making the revenue to have any effect on the general populace of the local government. This can be reduced by the centralization of the collection department and rotation of jobs and assignments. If a worker is occupying a particular position for a long time he tends to have all the ways by which he can fraud the department.

Loyalty of Tax Payers: If people can change their attitude of tax evasion, more revenue will be generated. The number of people that pay up their dues (tax) as at when due are very small compared to the number of people that are supposed to pay. If the orientation can change, it will go a long way in increasing the amount of revenue that will be generated in the local government.

Promoting Voluntary Compliance through Effective Public Service Delivery: For African leaders, the impulsion to invest in fiscal capacity may come from free trade agreements, such as the African Continental Free Trade Agreement or the Economic Partnership Agreements. As noted earlier, trade-related taxes constitute a significant fraction of government revenues in most African countries. By eroding revenues, trade liberalization and tariff reduction measures can thus encourage greater investments in fiscal capacity building.

Generation of Data Base: Effective DRM also requires a solid database that allows the identification and location of the individuals, firms, or real estate properties on which to levy taxes. In this regard, it would be essential for countries to invest in well-managed civil, business, and land registries, while building efficient address systems. The creation of unique identifiers for individuals, firms, and properties in these registries will also be necessary to facilitate information sharing between different government agencies, such as tax authorities, statistical offices, and social security authorities, making it more difficult for entities to hide or provide different information to different government agencies, and thereby increasing the likelihood of detecting and punishing fraud.

Harnessing Digital Technology Potentials: Digital technology also offers great potentials to increase DRM, particularly in the way tax administrations can improve their efficiency and help taxpayers comply. For example, digital technology allows pre-filling tax declaration using third-party information, thereby easing the tax compliance burden because taxpayers can simply check and confirm the pre-filled information. E-invoices allow governments to track sales using, e.g., cash registers to record transactions and send information electronically (in real time) to a server accessed by tax authorities. Such a system can greatly improve the administrative efficiency of indirect taxes such as VAT. For success, it is essential that a large majority of individuals and businesses have access to and take up this technology.

Fighting tax flight: Regarding tax flight, internationally coordinated actions will be required at the source, in transit, and at the destination of illicit transfers. Measures could entail the obligatory recording of beneficial ownership information of bank accounts, trusts, companies, foundations, and other legal vehicles used by financial centers (including "tax havens"). Information sharing agreements among countries would also help curb tax flight as well as including tax flight as a criminal offense in international regimes and codes of conduct requires commercially viable projects and acceptable level of risks.

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