Nigeria's Low Tax Collection and Poor Quality of Government Expenditure: Political and Administrative Impediments to Improvement

Festus O. Egwaikhide

Abstract

This study examines the political and administrative barriers to domestic resource mobilization in Nigeria, whose tax ratios are significantly lower than those of neighboring countries. In 2000–2002 and 2014–2017, respectively, the ratio of domestic tax to gross domestic product averaged 5.8 percent and 3.9 percent annually, and value-added tax ratios were 1.0 percent and 0.8 percent. Uncoordinated, sweeping tax exemptions, the multiplicity of taxes, inadequate infrastructure, and political considerations are key factors contributing to low domestic tax collection. The quality of government spending also suffers immensely from persistent delays in budget approval, erratic releases and low utilization of funds, weak procurement practices, and the influence of electoral cycles. Development partners have supported capacity building through training programs aimed at increasing tax revenues and enhancing expenditure efficiency. More work needs to be done in areas such as continuous tax reforms, greater use of digital technology, human capital development, and effective delivery of services.

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Foreword

Nigeria is the largest economy in Africa and is an engine for economic activity throughout the continent, but particularly in West Africa. Rich in natural resources with a large, dynamic, and rapidly growing population, Nigeria has the potential to provide enormous wealth for the continent. But Nigeria's domestic revenue mobilization is not only very low but has also been diminishing as a percent of total output. While oil revenue has provided some cushion for the government, it cannot make up for the weakness in the national tax systems. Combined domestic tax revenue collected by Nigeria's three levels of government (local, state, and federal) averaged 5.8 percent of gross domestic product (GDP) in 2000–02 and only 3.9 percent of GPD in 2014–17. This impedes the needed physical and social investment that would allow Nigeria to accelerate growth within its own borders and beyond: expenditure across all three levels of government fell from 18.5 percent in 2000-02 to 10.7 in 2014-17.

Tax exemptions have been a major driver of the poor tax revenue performance. The implementation of duty waivers and tax exemptions is wide-ranging and rarely transparent. Tax expenditures do not reflect a thoughtful consideration of how taxes can be used as incentives, but instead are a result of complex legislation and the exertion of political personal influence. They tend to favor institutions, companies, and individuals that are influential, which, in turn, fuels political corruption. The VAT was established in 1994 and the rate has stayed at 5 percent. While there is a proposal pending to raise the rate to 7.5 percent, the tax authorities are underusing an important tool of revenue mobilization. But to do this, a substantial effort to build political support will be needed. Equally, property taxes could be beefed up substantially with investment in data collection on land property values, although the political resistance in powerful quarters will be strong.

Nigeria spends about 1.5 percent of GDP on education and health, although this constitutes just over 16 percent of government spending. Nonetheless, social expenditures remain woefully inadequate for a country whose literacy rates hover just over 50 percent and with a life expectancy of less than 55 years. In terms of the efficiency of government expenditure, a major effort is needed to rein in the civil service wage bill and improve tracking of current and investment spending.

This study on the impediments to enhanced revenue mobilization and efficient spending in Nigeria has been carried out by Dr. Festus O. Egwaikhide. It is one of the five country studies (of which four are from sub-Saharan Africa) commissioned by the Center for Global Development to go deep into the political and institutional constraints to raising more revenues domestically. Dr. Egwaikhide lays out an agenda for reform for the Nigerian government that focuses on the political constraints to putting in place a fiscal system where citizens can see the benefits of paying taxes through improved government services. The analysis presented in the paper and policy prescriptions provide a basis for the political dialogue needed to transform Nigeria into the engine of growth needed in West Africa and the entire continent. The lessons Dr. Egwaikhide draw will be of interest to students of development economics and public finance elsewhere.

Sanjeev Gupta | Mark Plant

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Abbreviations

AFRITAC West 2	Regional Technical Assistance Center in West Africa
ATAF	Africa Tax Administration Forum
BPP	Bureau of Public Procurement
CIT	Company income tax
EU	European Union
FIRS	Federal Inland Revenue Service
GDP	Gross domestic product
GIFMIS	Government Integrated Financial and Management Information System
GNI	Gross national income
ICT	Information and communications technology
IGR	Internally generated revenue
IMF	International Monetary Fund
IPPIS	Integrated Personnel and Payroll Information System
ITAS	Integrated Tax Administration System
JTB	Joint Tax Board
MDAs	Ministries, departments, and agencies
N	Nigerian naira
NCPP	National Council on Public Procurement
NCS	Nigeria Customs Service
NILS	National Institute for Legislative Studies
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PAYE	Pay-as-You-Earn

PERL-ARC	Partnership to Engage, Reform and Learn–Accountability, Responsiveness and Capability
PIT	Personal income tax
PPP	Purchasing power parity
SARA	Semi-autonomous revenue authority
TADAT	Tax Administration Diagnostic Assessment Tool
TAT	Tax Appeal Tribunal
TIN	Tax identification number
TSA	Treasury Single Account
USD	US dollars
VAT	Value-added tax

1. Introduction

This study examines the institutional, political, and administrative reasons for, and possible solutions to, Nigeria's low rates of tax revenues, as well as the related poor quality of the country's public expenditures. As an illustration of these issues, the combined domestic tax revenue collected by Nigeria's three levels of government (local, state, and federal) has remained persistently low, in 2000–2002 and 2014–2017, respectively, averaging 5.8 percent and 3.9 percent of gross domestic product (GDP). These ratios are significantly lower than the figures recorded recently by near neighbors Burkina Faso (15.3 percent in 2015), Côte D'Ivoire (14.0 percent in 2015), and Ghana (14.9 percent in 2010). As with tax revenue, the share in GDP of consolidated expenditure by all three levels of government fell from 18.5 percent in the first period to 10.7 percent in the second period. Moreover, the relative shares of the expenditure categories included in the consolidated expenditure—namely, goods and services, compensation of employees, capital expenditure, and interest—have changed over time, not always for the better. Interest payment, for example, is now nearly comparable to the combined government expenditure on education and health.

A historical approach is employed. This involved collection and interpretation of hard data on macroeconomic aggregates, tax collection and expenditure, and relevant information. Content analysis of published works, policy documents, and archival materials on the subject matter, together with views of officials of the Budget Office of the Federation, under the Federal Ministry of Finance, Ministry of Budget and National Planning, and Federal Inland Revenue Service on efficiency of expenditure management, role of development partners in building capacity and tax collection was undertaken. Inferences and policy proposals are drawn from the interpretation of the data and information collected.

To examine the institutional, political, and administrative barriers to tax collection and beneficial public expenditure, the rest of the paper is organized into six sections. Section 2 briefly reviews the country's macroeconomic developments since 2000, followed, in Section 3, by a look at the performance of the major tax revenues and key expenditure categories. Section 4 discusses the political and administrative factors that shape tax collection. Section 5 considers the efficiency of expenditures, especially those on education and health, and Section 6 discusses the role of development partners in building capacity for improved tax collection and expenditure management. Section 7 concludes with some policy proposals.

2. Recent Macroeconomic History of Nigeria

Several measures of the Nigerian economy started strong in the first years of the 21st century but have fallen more recently. For example, the mean annual real growth rate, which was 7.7 percent over the decade 2000–2009 and 6.1 percent for 2010–2014, fell to less than 0.6 percent in the period 2015–2017 before rising to about 2.0 percent in 2018[1]. The

[1] Nigeria rebased its GDP in 2014, using 2010 as the base year, an exercise that increased GDP considerably, relative to the path it would have followed otherwise. Specifically, the percentage increases between the old and

country's economy went into a recession in 2016, with a negative growth rate of 1.6 percent (Table 1, Column 1) that was attributed to a plummet in crude oil prices on the world market, from US$111.3 per barrel in the first half of 2014 to less than US$50.0 per barrel in the first half of 2015, with continuing low prices in 2016–2017. Accordingly, Nigeria's GDP, used as the basis of the government's non-oil (that is, tax and other) revenue, increasingly shrank[2]. The country's per capita income, measured at purchasing power parity, increased annually for most of this same period, jumping from US$3,067.7 in 2000 to US$5,684.5 in 2015 (an increase of 85.2 percent), but then falling to US$5,315.8 in 2018 (Table 1, Column 2; the annual rate of this growth is shown in Column 3).

rebased GDP series are 59.5 percent (2010), 69.10 percent (2011), 75.58 percent (2012), and 89.22 percent (2013, the forecast as of 2014 when the rebasing was carried out). The development reduced the variables that are expressed in relation the GDP.

[2]A disaggregation of the total GDP into oil and non-oil components is informative. The non-oil sector accounted for 86.4 percent of the GDP in 2000-2002 and 91.3 percent in 2014-2018, while the oil sector contributed 13.6 percent and 8.7 percent in the first and second periods, respectively. The average annual real growth rate of oil GDP went from 3.9 percent in 2000-2002 to -3.6 percent in 2014-2018 and that of the non-oil GDP fell from 11.2 percent to 2.7 percent.

Table 1. Selected Nigerian macroeconomic indicators, 2000–2017

Year	(1) Real annual growth rate	(2) Real annual GDP per capita (USD, PPP)	(3) Real annual GDP per capita growth rate	(4) Inflation	(5) Government deficit (% GDP)	(6) General government gross debt (% GDP)	(7) Current account balance (% of GDP)	(8) ODA received (% of GNI)
2000	5.0	3,067.7	2.4	6.9	-1.5	57.9	10.7	0.3
2001	5.9	3,168.7	3.3	18.9	-2.7	51.6	3.3	0.2
2002	15.3	3,563.4	12.5	12.9	-2.7	45.0	1.1	0.3
2003	7.3	3,729.4	4.7	14.0	-1.5	43.7	3.2	0.3
2004	9.3	3,971.5	6.5	15.0	-1.0	36.1	12.3	0.5
2005	6.4	4,119.3	3.7	17.9	-0.7	19.0	20.7	3.9
2006	6.1	4,256.3	3.3	8.2	-0.4	7.7	15.5	4.9
2007	6.6	4,419.0	3.8	5.4	-0.4	7.9	10.0	0.7
2008	6.8	4,594.6	4.0	11.6	-0.1	7.3	8.6	0.4
2009	8.0	4,833.5	5.2	11.5	-1.8	8.6	4.8	0.6
2010	8.0	5,083.0	5.2	13.7	-2.0	9.6	3.6	0.6
2011	5.3	5,211.5	2.5	10.8	-1.8	10.4	2.6	0.5
2012	4.2	5,288.5	1.5	12.2	-1.4	12.3	3.8	0.4
2013	6.7	5,492.5	3.9	8.5	-1.4	12.5	3.7	0.5
2014	6.3	5,685.8	3.5	8.1	-0.9	12.6	0.2	0.5
2015	2.7	5,684.5	0.0	9.0	-1.7	13.4	-3.2	0.5
2016	-1.6	5,448.1	-4.2	15.7	-2.2	17.1	0.7	0.6
2017	0.8	5,351.1	-1.8	16.5	-3.2	19.1	2.8	0.9
2018	1.9	5,315.8	-0.7	12.1	-2.8	21.3	2.3	1.3

Notes: GDP = gross domestic product; GNI = gross national income; ODA = official development assistance; PPP = purchasing power parity; USD = US dollars.

Sources: Government budget deficit and general government gross debt, respectively, are from Central Bank of Nigeria, *Annual Statistical Bulletin* (2018) and National Bureau of Statistics (2018); all remaining data are from World Bank (2018).

As shown in Table 1, Column 4, high inflation has generally characterized the Nigerian economy over the past two decades. Double-digit inflation was the rule for most of the period, with the exception of 2000, 2006–2007, and 2013–2015. This high inflation was due principally to money growth from around 2000 to the period 2010–2012, as well as structural influences in which exchange rate depreciation was a major factor. The high inflation meant rising macroeconomic uncertainty, with deleterious effects on investment and output growth.

During periods of high inflation, revenue collection tends to lag behind government expenditure.[3] Accordingly, Nigeria's budget balance was persistently in deficit during the last two decades (Table 1, Column 5). As a percentage of GDP, the deficit reached 3.2 percent in 2017 (the last year for which data are available), the highest in any single year in the last two decades, suggesting a lack of sustained commitment to the 3 percent maximum specified in the Fiscal Responsibility Act of 2007. Exacerbating matters, until quite recently, a significant fraction of the deficit was monetized, thereby fueling the already high inflation that was driving the deficit. The debt-to-GDP ratio fell from high double digits during 2000–2005 to single digits in 2006–2010, but it has been rising rapidly since then, to 21.3 percent in 2018 (Table 1, Column 6).

Externally, the current account balance was continually in surplus throughout the period, except for 2015. The ratio of the current account to GDP saw considerable fluctuation over the period (Table 1, Column 7): It declined sharply early in the period, from 10.7 percent in 2000 through 3.3 percent in the following year, to 1.1 percent in 2002; but then it rebounded strongly, to 20.7 percent in 2005, before falling for the next six years, experiencing a small bump in 2012 (to only 3.8 percent) and then sliding to its lowest of the period, -3.2 percent in 2015. It saw a slight recovery in 2016–2018. In terms of composition, the current account is dominated by oil export income that is largely exogenously determined. Therefore, excluding oil export, the current account is decidedly weak.

The figures for overseas development assistance (ODA) relative to GDP have been negligible, far less than 1.0 percent in every year except 2004 and 2005, which saw 3.9 percent and 4.9 percent, respectively (Table 1, Column 8). The country depends little on ODA, possibly because of oil revenue, making it hard to conclude that this form of grant income has weakened the development of local tax bases or revenue collection, as posited by the "flypaper effect" hypothesis.[4]

[3] This is the Olivera-Tanzi effect, which Egwaikhide, Chete, and Falokun (1994) empirically showed to be operable in Nigeria. The articles by Tanzi (1977), and Aghevli and Khan (1978) provide additional insight on this phenomenon.

[4] Rodden (2002). In addition, several other authors have shown negative effects of foreign aid on domestic revenue (see Collier 2006; Crivelli and Gupta 2014).

3. Revenue and Expenditure Developments

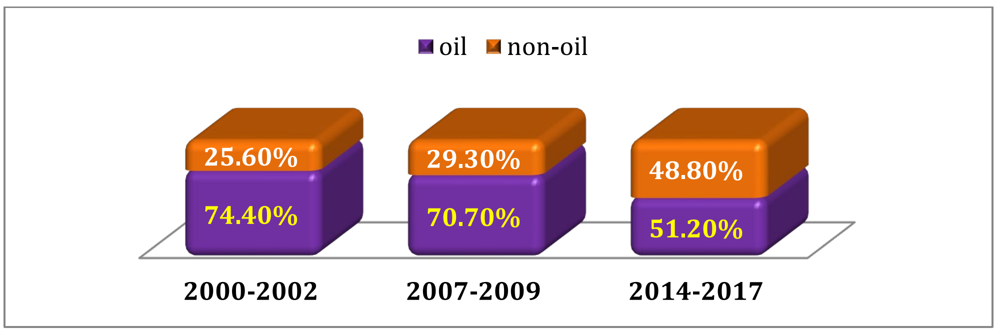
This section examines the performance of revenue and expenditure. Each is discussed in turn.

3.1 Revenue Performance

3.1.1 Nigeria's Tax System

Nigeria operates a three-layered (federal, state, and local) government fiscal arrangement. The tax system is dominated by oil revenue, which accounted for 74.4 percent of total revenues during 2000–2002 and 70.7 percent in 2007–2009, but fell to 51.2 percent in 2014–2017 (Figure 1). This dominance began in the mid-1970s with the country's oil boom. The emergence of oil in the Nigerian economy influenced a structural shift in government revenue from indirect to direct taxes.[5] The volatility of oil revenue due to world oil price fluctuations has remained one of the greatest challenges to Nigeria's fiscal policy management.

Figure 1. Oil and non-oil revenues in Nigeria (consolidated), 2000-2017



Also revealing is the assignment of the most buoyant taxes[6] to the federal government,[7] which therefore collects the bulk of the tax revenue. States and local governments are often advised to explore alternative sources of revenue, leading to multiple taxes at these levels,[8] including levies on business premises, development levies, ground rent charges, and parking

[5] Egwaikhide (1988).
[6] Tax buoyancy is the change in revenue yield arising from the change in the tax base.
[7] The federal government makes laws on the major taxes and also collects these taxes. The major taxes are trade taxes and excise duties, mining rents and royalties, value-added tax, petroleum profits tax, and company income tax. State governments collect and spend the revenue from personal income tax, motor vehicle tax and drivers' license fees, stamp duties, and capital gains tax. However, the federal government determines the rates of these taxes. State governments also collect revenue from other taxes and levies over which they do have legislative authority, such as business licenses, road taxes, and lease fees on land owned by the state. Local governments collect property tax, fees charged for refuse disposal and sewage, and motor park fees. The legislative authority determining the rates and bases of these taxes is the state or local government.
[8] Nigeria Governors' Forum (2015).

charges.[9] Of course, such multiple taxes have severely impeded business, a situation that is not in agreement with the national objective of using taxation as a potent instrument of fiscal policy for rapid economic growth.

3.1.2 Total Revenue and Tax Revenue

During the period under review, the mean annual ratio of total revenue to GDP fell from 23.8 percent in 2000–2002 to 16.9 percent in 2007–2009 to 8.4 percent in 2014–2017 (Table 2, Panel A). The ratios of tax revenue to GDP in the three periods likewise fell, from 5.8 percent to 4.7 percent to 3.9 percent (Table 2, Panel A). However, the share of tax revenue in total revenue increased, from 25.6 percent in the first period to 48.8 percent in the last period (Table 2, Panel B). By way of comparison, recent tax-to-GDP ratios for Burkina Faso (2015), Côte D'Ivoire (2015), Ghana (2010), and Mali (2015) were 15.3 percent, 14.0 percent, 14.9 percent, and 13.5 percent, respectively. Therefore, Nigeria's tax-to-GDP ratio is comparatively quite low.

Table 2. Nigeria's revenue performance (consolidated)

	Panel A. In relation to gross domestic product (%)						**Panel B. In relation to total revenue (consolidated), %**					
	2000–2002		**2007–2009**		**2014–2017**		**2000–2002**		**2007–2009**		**2014–2017**	
Revenue	**Mean**	**Median**	**Mean**	**Median**	**Mean**	**Median**	**Mean**	**Median**	**Mean**	**Median**	**Mean**	**Median**
Total revenue, gross	**23.8**	**27.6**	**16.9**	**17.5**	**8.4**	**7.1**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Tax revenue	**5.8**	**5.2**	**4.7**	**4.6**	**3.9**	**3.6**	**25.6**	**25.7**	**29.3**	**26.3**	**48.8**	**50.2**
Personal income tax[a]	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.9	0.9
Company income tax	0.8	0.8	1.1	1.1	1.2	1.2	3.5	3.0	7.2	5.5	14.2	15.0
Property taxes[a]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.2
Trade taxes[b]	1.7	1.6	0.7	0.7	0.5	0.45	7.5	7.4	4.3	4.0	6.5	6.6
Value-added tax	1.0	0.9	1.0	1.0	0.8	0.8	4.3	4.0	6.3	5.2	10.6	12.0
Other taxes	2.4	2.1	1.8	1.8	1.3	1.2	10.3	11.2	11.5	11.6	16.2	16.2
Total resources revenue	**18.0**	**20.7**	**12.2**	**12.9**	**4.4**	**3.5**	**74.4**	**74.3**	**70.7**	**73.7**	**51.2**	**49.8**

Notes: [a] The data on these taxes are for the federal government. [b] Trade taxes = customs and excise duties.

[9] Phillips (1995).

Sources: Author's computations based on data from Central Bank of Nigeria, *Annual Report and Statement of Accounts*, various years; FIR (data were obtained from FIRS, not from a published source); and World Bank (2018).

3.1.3 Personal Income Tax

Individuals in Nigeria pay personal income tax (PIT). Examples of incomes taxable under PIT are those from employment and vocation, profit from trade, dividends, interest, and royalties. Currently, taxable income is subject to a six-bracket progressive rate schedule, with the lowest marginal rate at 7 percent and the highest at 24 percent.[10] Tax compliance is high only for those employed in the formal sector. State governments in Nigeria collect and spend the revenue from PIT, also known as Pay-as-You-Earn (PAYE), and the federal government determines the rate of the tax. The federal government collects PIT revenues only from members of the armed forces and the police; residents of the Federal Capital Territory, Abuja; employees of the Nigeria Foreign Service; and those who do not live in Nigeria but earn income or profit in the country.

Accurate data on sales, turnover, number of employees, size of companies, and assets, which are key to the calculation of taxable income, are rarely available. As a result, assessment is based on estimates, which do not correctly reflect the tax liabilities of individuals and businesses. The administration of self-assessment places a huge burden on tax authorities due to the tax evasion and avoidance games played by individuals and businesses. Nevertheless, the 2012 National Tax Policy[11] advocates use of presumptive taxation in place of self-assessment to reach the hard-to-tax informal sector.

3.1.4 Company Income Tax

Company income tax (CIT) remains one of the country's main sources of non-oil revenue. It is driven largely by the tempo of economic activities, and the companies that are registered in Nigeria pay the tax. The current statutory tax rate is 30 percent, though it has changed over time, with the highest being 45 percent and occurring between April 1979 and March 1986.

Nigeria's corporate landscape is dominated by small and medium enterprises, but CIT is paid primarily by large business enterprises. Most of the small businesses fail to register with the government and are thus invisible for tax purposes. Those that do register often do not keep proper business records, making tax calculation and assessment difficult.

The thinking among officials is that the tax rate should be reduced to 20 percent to increase tax compliance and also to promote investment in the country. The federal government

[10] The 2012 National Tax Policy (which held until a revised policy was enacted in 2017) specified that the top marginal rate for personal income tax would be reduced to 17.5 percent of taxable income.

[11] Although this is not explicit in the 2017 National Tax Policy document, it is understood that the use of presumptive tax will replace self-assessment.

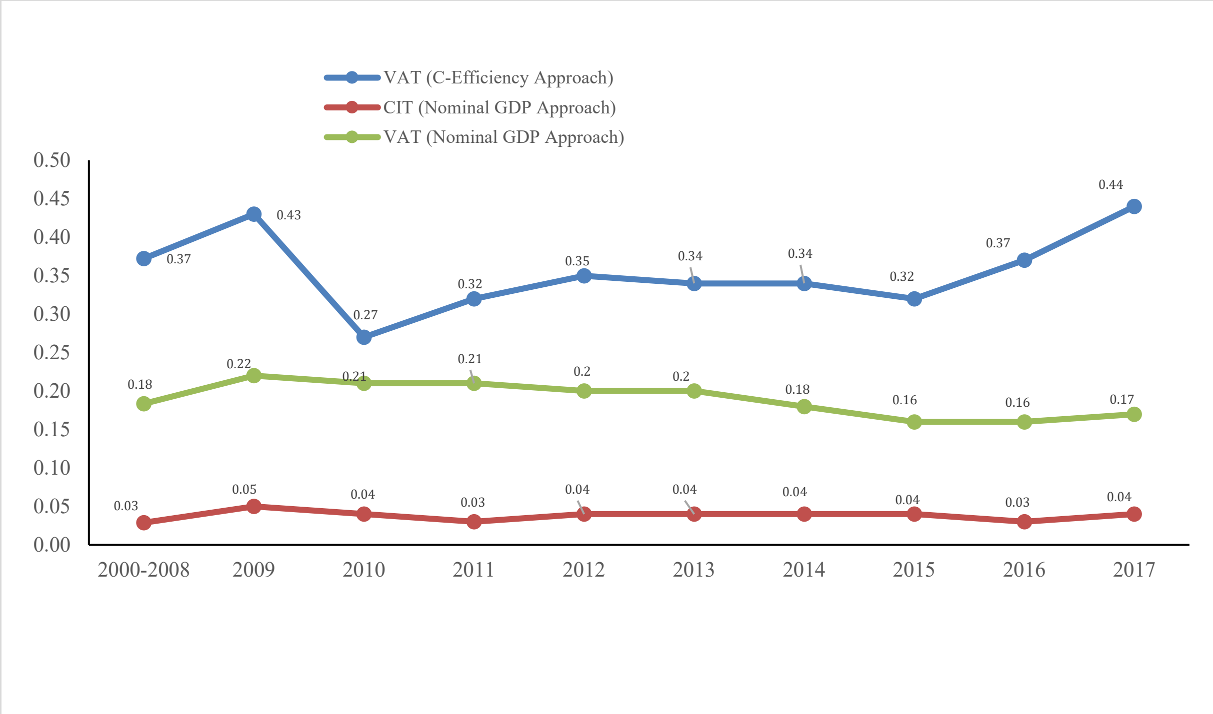
changes the CIT rate to reflect the prevailing rates in countries of foreign investors. Thus, the tax serves partly as an instrument to attract foreign investment.

Statistically, the revenue from CIT as a share of GDP is low, at 0.8 percent, 1.1 percent, and 1.2 percent, respectively, in the periods 2000–2002, 2007–2009, and 2014–2017 (Table 2, Panel A). However, in relation to total revenue, the share of CIT has leaped from 3.5 percent to 7.2 percent to 14.2 percent over the three reference periods (Table 2, Panel B).

Estimates of annual CIT revenue productivity (defined as the share of CIT revenue in GDP divided by the CIT rate) are depicted in Figure 2. As shown, the productivity of this tax is small and static, at around 0.03 over time. Many factors account for this low productivity: First, firms' profitability largely determines the government's CIT revenue, and in turn, the internal and external environments influence profit. Externally, operating costs are high for firms in Nigeria due to the intermittent supply of electricity, inadequate water supply, poor roads, and high lending rate (above 25 percent), among other factors.[12] Thus, this tax base has eroded due to poor economic performance in recent years. In addition, the government has enacted certain tax exemptions and tax holidays that benefit only the influential and politically connected—reducing federal income while providing no value to many of those who do pay CIT. Finally, the CIT rate—at 30 percent—is one of the highest in the world. A reduction in the tax rate (the denominator in the CIT revenue productivity equation) is desirable to raise the productivity of this class of revenue.

[12] Some of these points are in BudgIT (2017).

Figure 2. Productivity of Nigeria's value-added tax (VAT) and company income tax (CIT), 2000-2017



3.1.5 Property Tax

The revenue from this source is extremely small. The legislative authority for this tax rests at all three levels of government, and each layer also has a right to the revenue collected under its own laws. The property tax revenue reported in Table 2 is for the federal government. Property tax revenue data are not systematically available for the other two levels of government. Indeed, many states and localities do not currently collect property tax. However, some state tax administrators have expressed the belief that a property tax would be a buoyant tax if an effective and efficient administrative capability were developed for it. For instance, in 2005, Cross River state, one of the states in Nigeria's South-South geopolitical zone, introduced an urban development tax (a tax imposed on properties based on their value) that is backed by law. The state's revenue authority is gradually building its capacity to administer this tax effectively.

3.1.6 Customs and Excise Duties

Indirect taxes, led by trade taxes, accounted for the lion's share of Nigeria's total revenue in the 1960s, a trend that persisted until the early 1970s, when oil changed the revenue landscape. However, consistent with worldwide trends, the dependence on trade taxes has diminished following trade liberalization, which promoted significant reductions in the average tariff rates. Published official statistics tend to combine the revenues from both customs and excise duties, making it difficult to peep into the performance of each of these two taxes. Excise duties are an established part of the tax system and are imposed on an ad valorem basis. Export taxes were abolished more than 30 years ago. As with the other taxes, the performance of the revenue from customs and excise duties in relation to total revenue oscillated over the period, from 7.5 percent in 2000–2002 to 4.3 percent in 2007–2009 to 6.5 percent in 2014–2017 (Table 2, Panel B), and as a percentage of GDP, they were 1.7 percent, 0.7 percent, and 0.5 in those periods, respectively (Table 2, Panel A).

3.1.7 Value-Added Tax

Currently, the value-added tax (VAT) represents a major source of revenue from domestic goods and services. Introduced in 1994 with the main objective of increasing non-oil revenues, the revenue from this tax has been on the increase since then. The revenue from VAT relative to total revenue has more than doubled over the period studied, rising from 4.3 percent in 2000–2002 to 6.3 percent in 2007–2009 and on to 10.6 percent in 2014–2017 (Table 2, Panel B). However, the ratio of VAT revenue to GDP was 1.0 percent in the first two periods and then 0.8 percent in 2014–2017 (Table 2, Panel A). Judged by the latter indicator, the revenue from VAT is still quite low.

Nigeria's VAT is a single rate of 5 percent, as against two or more rates levied in several countries. Some goods and services (e.g., medical and pharmaceutical products, books and educational materials, basic food, and medical services) are exempt from VAT, while non-oil exports are assigned a rate of 0 percent. At 5 percent, Nigeria's VAT rate is relatively lower than those of its neighbors (the current rate for Benin, Côte D'Ivoire, Senegal, and Togo is 18 percent, Ghana's is 17.5 percent, and Mali's, 19 percent). There is little desire to complicate the administration of Nigeria's VAT by imposing multiple rates, a tactic that can also weaken revenue collection and lead to distortionary taxes.[13] The 2012 National Tax Policy[14] envisioned a gradual increase in the VAT rate in its document. However, in 2006, when the government contemplated the idea of increasing the rate to 10 percent, federal legislators, labor unions, and interest groups—particularly the Manufacturers Association of Nigeria—sternly opposed the move. The objection may be fueled in part by the unbalanced exchange of taxes and services, in which the government looks to generate more revenue to continue to finance what many might see as a poorly run and inefficient public sector.

3.1.8 Other Taxes

Other taxes include internally generated revenues (IGRs) of the state and local governments, and education tax. As a share of GDP, total revenue from other taxes fell from 2.4 percent to 1.3 percent between 2000–2002 and 2014–2017 (Table 2, Panel A). However, relative to total revenue, it increased from 10.3 percent to 16.2 percent in the same period (Table 2, Panel B).

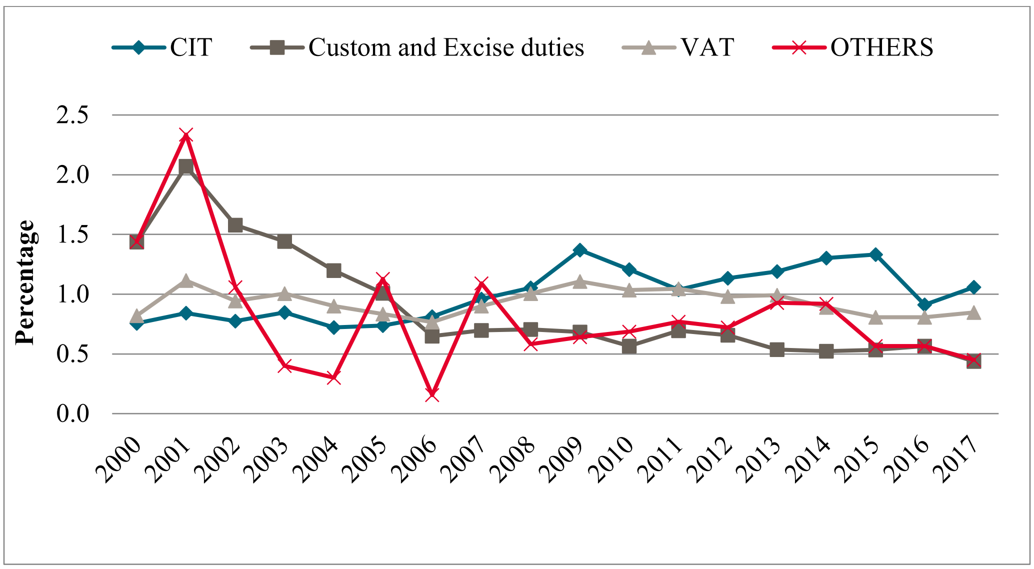
IGRs account for the bulk of the revenue classified as "other taxes." The revenue from PIT is the most significant of the IGRs of state governments; others are fines and fees, licenses, rent on government properties, and so on. Until the early part of this decade, IGRs had a

[13] See, for example, Stotsky and WoldeMariam (2002).
[14] The 2017 National Tax Policy is not elaborate and, therefore, this idea is not made explicit.

strong mathematical relationship with the amount of revenue shared with state governments from the Federation Account, a central pool into which all revenues collected by the federal government are paid (more than 70 percent of the revenue paid into the Federation Account comes from oil). Years of huge revenue allocations from this account have been generally associated with low IGRs, implying reduced state and local taxation and collection efforts in those years.[15] In short, lower IGRs are the income effect of revenue allocations from the Federation Account.

Figure 3 shows the historical evolution (as a share of GDP) of the consolidated domestic taxes between 2000 and 2017. The combined ratio of customs and excise duties exhibited a declining trend throughout the period, the opposite of CIT, though neither trend was strong. The VAT ratio generally fell below 1.0 percent. Further, the contours have been largely flat since 2008. These trends fittingly suggest that the country is trapped in a low-level equilibrium of tax collection.

Figure 3. Domestic taxes as share of GDP, 2000-2017



3.2 Trends in Expenditure

3.2.1 Goods and Services

The country's mean expenditure-to-GDP ratio for goods and services was 1.4 percent in 2000–2002, 3.3 percent in 2007–2009, and 1.7 percent in 2014–2017 (Table 3, Panel A). Goods and services include stationery, consultancy services, staff training, and the tools required for the effective and efficient functioning of ministries, departments, and agencies (MDAs). The costs of these items change over time, due partly to inflation and partly to

[15] The negative effect of hydrocarbon revenues on nonhydrocarbon revenues can be found in Bornhorst, Gupta, and Thornton (2009); McGuirk (2013); and Crivelli and Gupta (2014).

exchange rate depreciation. Many who work in Nigeria's public sector postulate that this item of expenditure is prone to over-invoicing by suppliers of goods and services, thereby increasing the cost of governance.[16] In most cases, whereas capital expenditure is only partially distributed, the total amount budgeted for goods and services is released and cash-backed by the federal government.[17]

Table 3. Expenditure in Nigeria (consolidated)

Type of expenditure	**Panel A. In relation to gross domestic product (%)**						**Panel B. In relation to total expenditure (%)**					
	2000–2002		2007–2009		2014–2017		2000–2002		2007–2009		2014–2017	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Goods and services[a]	1.4	1.5	3.3	3.3	1.7	1.6	7.6	7.8	19.0	19.0	15.8	15.1
Compensation of employees[b]	4.2	4.3	4.2	4.2	3.5	3.6	23.0	23.0	24.5	23.3	32.8	35.9
Interest payments	2.1	2.0	1.0	0.9	1.4	1.4	11.5	10.5	5.7	5.9	13.4	13.5
Capital expenditure	7.0	6.5	6.3	6.4	2.3	2.3	37.4	37.7	36.6	38.4	21.7	20.9
Other outlays[c]	3.8	3.3	2.4	2.2	1.7	1.4	20.6	19.6	14.2	14.1	16.2	14.4
Total expenditure	18.5	17.2	17.2	16.8	10.6	10.7	100.0	100.0	100.0	100.0	100.0	100.0

Notes: [a] There are missing values for state governments in 2000–2004 and for local governments in 2000–2001. [b] There are missing values for state governments in 2000–2004. [c] Other outlays include transfers to special funds and other expenditures.

[16] Both serving and retired civil servants made this point in personal communications with the author.
[17] The cash-backed amount is the actual amount received by MDAs.

Sources: Author's computation using data from Central Bank of Nigeria, *Annual Report and Statement of Accounts* (various years); Federal Ministry of Finance (Data were obtained from the ministry, not from a published source) FIRS (Data were obtained from FIRS, not from a published source); and World Bank (2018).

3.2.2 Compensation to Employees

The consolidated compensation to employees of the three levels of government is a relatively high share of expenditures (Table 3). In the period 2000–2002, the mean annual wage bill was 4.2 percent of GDP, but it fell sharply, to 3.6 percent by 2014–2017 (Table 3, Panel A). In relation to total expenditure, mean employee compensation rose from 23.0 percent in the first period through 24.5 percent in 2007–2009 to 32.8 percent in the third period, while the median figure was in the range of 23–36 percent (Table 3, Panel B). On the country's return to civil rule in 1999, the federal government implemented a number of reforms to check the growth of recurrent expenditures. Consistent with the spirit of downsizing the public sector, many workers were laid off. However, the policy was ineffectual because at the same time, the president's office was vastly expanding, with numerous advisers, special advisers, senior special advisers, and special assistants, leading to the payment of huge salaries and allowances.[18]

Also in 1999, the government began an upward review of the wages and benefits of civil servants to placate restive organized labor. Because it was an election year, the usual political pressures played an important role in the wage review, whose full implementation commenced in 2000. Further reviews occurred in 2005–2006 (increasing the public-sector wage by about 300 percent) and again in 2011.

In any government, a huge wage bill is inclined to weaken control and increase corruption. Indeed, in Nigeria, the phenomenon of ghost workers[19] has prompted a number of payroll audit and head count verification exercises. Recently, the minister of finance reportedly said that the federal government had saved the sum of 500 billion naira (N)—more than US$1.5 billion (using an exchange rate of N305 = US$1)—following the implementation of the Integrated Personnel and Payroll Information System (IPPIS).[20]

Another major implication of a huge wage bill is its capability of crowding out other important expenditure categories. It certainly reduces the amount that is allocated to capital expenditure (investment). The rising relative share of compensation to employees alongside a falling share of capital expenditure reveals this asymmetry (Table 3). Similarly, budgetary allocations to the social services sector (to provide water, education, and health care) may be

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[18] Phillips (2005).

[19] For recent allegations of ghost workers, see Ekwaelor (2018); "Ghost Workers" (2018).

[20] "FG Recovers N500 Billion" (2019). IPPIS is a centralized payroll system, introduced by the federal government in 2007, to monitor the payment of workers' emoluments. The IPPS is currently applicable to selected federal agencies (for example, federal universities are not part of the platform). It is expected this would be tended to all MDAs. Also, states and local governments should be encouraged to adopt the IPPS or a similar platform.

cut because of the huge wage bill.[21] As a result, the financial resources available to effectively address the challenge of absolute poverty in the country wane.

3.2.3 Interest Payment

The interest payment reported in Table 3 is on both domestic and foreign debt. From a share of 11.5 percent of the aggregate government expenditure in 2000–2002, interest payment fell to 5.7 percent in 2000–2009 but climbed again, to 13.4 percent in 2014–2017 (Table 3, Panel B). Debt service in relation to GDP fell from 2.1 percent to 1.0 percent and then rose to 1.4 percent (Table 3, Panel A), the lowest level found in any of the expenditure classifications in Table 3.

Nigeria had accumulated huge external debt by 2000 that imposed a severe burden on the economy.[22] The efforts of the federal government, under the Heavily Indebted Poor Countries Initiative of the International Monetary Fund and the World Bank, yielded debt relief that saw the reduction of external debt by about US$18 billion in 2006.[23]

Just as the excruciating external debt burden lessened, however, the federal government increasingly accumulated domestic debt stock that had to be serviced. The outstanding domestic debt of the federal government, which was N898.3 billion in 2000, rose to an annual average of N1,360.4 billion in 2001–2006, and leaped steeply through N8,660 billion in 2013 to N16,630 billion in 2018[24]. However, when related to GDP, the increase does not appear phenomenal, with domestic debt rising only from 13.4 percent of GDP in 2000 to 10.8 percent in 2013 and 14.5 percent by 2018. Side by side with this increase, however, was another accumulation of external debt, which was US$9.711 billion in 2014 for federal and state governments combined, and US$25.27 billion in 2018. Figure 4 shows the relative shares of domestic and external debt to GDP from 2010 to 2018. With the rising total debt ratio, the burden of debt service will soon manifest given the low level of domestic revenue collection. A second era of external debt overhang seems to be looming.

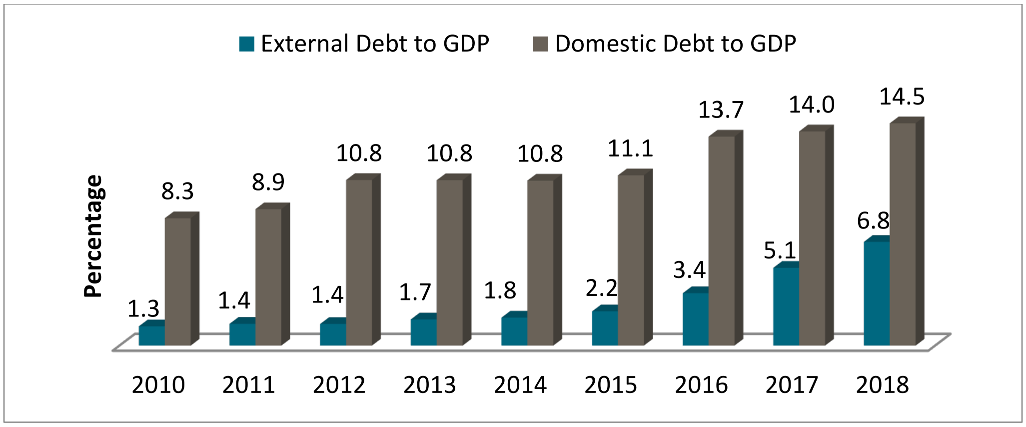
[21] This finding has been reported for Kenya by the International Monetary Fund (IMF 2014).

[22] A sampling of studies on Nigeria's external debt confirmed the debt overhang hypothesis; see Ekpo and Egwaikhide (1998) and Aluko (2005).

[23] Dijkstra et al. (2011).

[24] The figures for 2013 and 2018 are for both the federal and state governments

Figure 4. Percentage shares of domestic and external debt in GDP, 2010-2018



3.2.4 Capital Expenditure

Capital expenditure as a percentage of the GDP, which averaged 7.0 percent annually in the period 2000–2002, declined considerably over the 20 years under study, to 2.3 percent in 2014–2017 (Table 3, Panel A). In the same time frame, the mean annual share of capital expenditure in total expenditure also fell, from 37.4 percent to 21.7 percent (Table 3, Panel B). These figures are low in comparison with those of other countries, and trending lower.

Why the downward trend in already low capital expenditure? First, the return to party politics on May 29, 1999, shaped the federal government's balancing of priorities between recurrent and capital expenditures in the intervening years. A peep into annual approved budget estimates for various years shows that the share of capital expenditure in total expenditure was less than 40 percent. Another political factor shaping capital expenditure at the federal level is the push and pull between executive and legislative branches, often resulting in delays in budget passage. On occasion, the president may even be reluctant to implement the budget (the capital expenditure component in particular) as revised and approved by lawmakers. Further, the primary focus of federal budgeting appears to be on recurrent expenditures, making the capital component a residual. Therefore, any shocks (oil shocks, in particular, as in 2014–2016) that negatively affect revenue collection in the course of budget implementation have a greater impact on capital expenditure than on other budget categories.

Added to all of these factors are frequent delays in the release of funds for project execution, due in part to inadequate funds and in part to administrative bottlenecks. Relatedly, only a fraction of the funds released for budget execution are cash-backed, and the utilization rate of these cash-backed funds (that is, the proportion utilized) is habitually significantly less than 100 percent.

Finally, the GDP was rebased in 2014 using the base year of 2010, an exercise that substantially increased the GDP beyond its historical level. The rebasing may also have contributed to the diminishing share of capital expenditure in GDP between 2014 and 2017.

4. Political and Administrative Barriers to Tax Collection

4.1 Institutional Reform

In 2007, the Federal Inland Revenue Service (Establishment) Act, 2007, was passed into law. The legislation removed the Federal Inland Revenue Service (FIRS) from the core civil service, which is severely constrained by red tape and inefficiency, and granted it greater autonomy to the extent that it has the power to appoint, fire, promote, and discipline its own staff, as well as determine the terms and conditions of service of its employees.[25]

Lack of sustained funding had been a major hindrance to the effective operation of FIRS. The 2007 act attempted to remedy this shortcoming by permitting FIRS to retain 4 percent of the total non-oil tax revenue collected in any fiscal year. Thus, the annual budget of FIRS is statutorily funded. A similar condition had earlier been spelled out in the Customs and Excise Management Act, 2004, for the Nigeria Customs Service (NCS), which collects trade taxes and excise duties. The NCS receives 7 percent of the total revenue collected.[26] In consequence, the financial constraints of the revenue collecting agencies have been considerably eased. This development has had salutary effects on the remunerations, work environment, and morale of workers, resulting in the ability of FIRS to recruit professional staff.

Improved funding has also significantly boosted human capital development (that is, training and retraining of staff, both in-country and abroad) and reduced the problem of understaffing. From 678 in 2004, the total number of staff trained annually by FIRS rose to 2,150 two years later, and in 2008 the figure was 2,479. In 2014, a total of 10,592 staff participated in the various training programs organized by the revenue agency. This outcome is thanks to the government's recognition that human capital development is key to capacity enhancement for improved tax administration.

The legal requirements for effective tax administration change with a country's level of development, but any good tax administration system is expected to take timely legal action against aberrant taxpayers. Accordingly, the legal independence provided in the FIRS act empowers that body to prosecute tax defaulters speedily, so as to provide a deterrent to potential tax dodgers. The law establishes a tax tribunal as well as administrative dispute resolution mechanisms for taxpayers. When a taxpayer is dissatisfied with the decision of the administrative review, he or she can appeal to the Tax Appeal Tribunal (TAT) or the regular courts, including the highest court of the land.

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[25] Examples of similar semi-autonomous revenue authorities (SARAs) are the Uganda Revenue Authority and South African Revenue Service (see Therkildsen 2004). The arrival of SARAs initially led to increased revenue collection. However, a recent study that accounted for revenue trends both before and after the establishment of SARAs showed that the positive effect of this institutional reform on revenue collection eventually disappeared in sub-Saharan African countries (Dom 2018).

[26] The NCS is, like FIRS, responsible for the appointment, promotion, and training of its own staff.

Unfortunately, the TAT last met in 2016.[27] Moreover, officials of the revenue agencies at the federal and state levels say that tax enforcement for wealthy individuals and large companies is politicized by these taxpayers' webs of connections. Political meddling can hinder not only the agency's accountability but also its overall development in the long run.

Incidentally, because the court system is overburdened with cases, it takes several years before a final tax judgment is made. The slow judicial process makes adjudication expensive for taxpayers (individuals and businesses) who want to seek justice. The full-scale effect of the legal process on tax revenue is not known; however, simplification of the existing tax laws would make taxpayer registration, assessment, and collection easier.

4.2 Tax Exemptions and Duty Waivers

Nigeria's plethora of tax concessions and duty waivers to encourage local producers represents a huge area of lost government revenue. Indeed, the use of tax incentives, which has been part of Nigeria's system since political independence in 1960, remains a major challenge to tax administrators. Sectors of the economy such as manufacturing, agriculture, solid minerals, oil and gas, and the export sector, including export-processing zones, are some of the major beneficiaries. Among the incentives granted by the federal government are tax holidays under the pioneer status (for three to five years), a low tax rate, and an investment allowance. Table 4 shows some of Nigeria's company income tax (CIT) exemptions.

Table 4. Nigeria's company income tax exemptions

Reason	Exemption
Pioneer status	100% tax-free period for five years for pioneer industries that produce products declared as "pioneer products" under the Industrial Development (Income Tax Relief) Act, 2017
Local raw materials utilization	30% tax concession for five years to industries that attain minimum local raw materials utilization, as follows: agriculture 80%, engineering 60%, petrochemical 70%
Labor-intensive mode of production	Up to 15% tax concession for five years; graduated rate based on number of full-time equivalent employees (> 1,000: 15%, > 100: 6%)
Local value added	10% tax concession for five years; applies essentially to engineering industries in which some finished imported products serve as inputs.

[27] It was difficult to obtain the statistics regarding which cases have been tried by TAT and which in the regular courts on an annual basis. However, FIRS (2016, p. 43) reported that judgments were issued in 98 cases in courts across the country in 2016.

	Concession is aimed at encouraging local fabrication rather than mere assembly of completely knocked-down parts.
Export-oriented industries	10% tax concession for five years; applies to industries that export not less than 60% of their products. Aimed at encouraging the preestablishment stage of an export-oriented enterprise.
In-plant training	2% tax concession for five years on the cost of facilities provided for training
Sector-specific tax incentives	Tax breaks for certain sectors do not require any approval: 20% of the cost of providing basic infrastructure such as roads, water, and electricity where they do not exist is tax deductible once and for all.

Source: McKinsey & Company (2013).

The federal government periodically announces duty waivers and concessions on imports in the annual budget. For instance, in the 2013 budget, machinery and spare parts imported for local production of sugar were duty free in order to promote local production. In the same fiscal year, the government announced that all commercial aircraft and aircraft spare parts imported would not be charged customs duties and were also exempt from VAT. This policy was similarly applicable to imported machinery and equipment used in the solid mineral sector and to completely knocked-down components for mass transit buses. Various reports generally point out that the waivers and exemptions tend to favor particular interest groups and politicians,[28] and that, because they are rarely closely and effectively monitored, such waivers and exemptions are generally abused.[29]

A direct consequence of the generous incentives and waivers is a reduced tax base for customs duties, CIT, and value-added tax (VAT). Table 5 shows estimates of the revenue loss to the federal government due to a few selected import duty and VAT waivers, as well as CIT concessions for pioneer status, between 2011 and 2015. In each of these years, the total amount lost was more than US$1 billion using the exchange rate that existed at the time. For the entire period, the lost revenue averaged 0.25 percent of the GDP, quite a huge amount.[30] Some of these waivers, granted by the Nigerian Investment Promotion Commission with involvement from the Ministry of Trade and Industry and the Ministry of

[28] Examples of companies and religious organizations that have benefited from duty waivers and concessions in recent years are "Dangote Industries Limited, Vasmani, Stallion and other rice importers; the Redeemed Christian Church of God, Messrs Western Metal Product Co. Limited, International Hotels, Mandarin Hotels, Le Meridian, Grand Ikoyi Towers and Resort and Federal Palace Hotels. Others are members of the diplomatic corps and companies fronting for top government functionaries, among others" ("NCS Advises FG" 2019). According to news reports, "Assistant Comptroller General of Customs in charge of Zone A, Kaycee Ekekeie, said the federal government was losing trillions of naira on a yearly basis to the granting of import duty waivers to companies and nongovernmental organizations" ("NCS Advises FG" 2019).

[29] See, for instance, Odusola (2006).

[30] The figures are actually significantly larger than reported in Table 5, according to personal communications with tax officials and inferences drawn from various media in the country.

Finance, came to the awareness of the relevant revenue agency only at the point of audit.[31] The various incentives are not effectively coordinated, nor have they significantly enhanced investment; and so they are parsimoniously effective, if at all.[32]

Table 5. Estimates of selected Nigerian tax waivers and concessions, in billions of naira (N)

Year	Import duty waivers, N billon	VAT waivers, N billon	Pioneer status (oil companies), N billon	Pioneer status (non-oil companies), N billon	Total amount, N billon	% of GDP
2011	78.5	52.5	15.74	5.6	152	0.24
2012	128.5	47.1	77.80	5.1	259	0.36
2013	46.1	24.3	107.73	19.4	198	0.24
2014	87.7	22.9	18.22	27.7	157	0.17
2015	162.8	80.9	Unavailable	16.9	261	0.24
Total	503.6	227.7	219.49	74.7	1,027	

Notes: GDP = gross domestic product; VAT = value-added tax.

Source: IMF (2018)

The policy of tax exemptions and waivers should be reassessed. The implementation of the duty waivers and exemptions is poorly coordinated and not transparent. In addition, the exemptions lead to huge revenue losses and fuel political corruption. The exemptions and waivers should be reviewed objectively, and those that are economically unjustifiable should be eliminated.

Collecting maximum revenue from customs duties is constrained by several practices. A principal challenge is the massive smuggling of goods (a few examples are vehicles of various brands and capacities, assorted wines, fish, rice, and wheat) between Nigeria and its neighbors, particularly the Republic of Benin.[33] In addition, to paying a lower tax rate,

[31] This is one of the findings of McKinsey & Company (2013).
[32] Phillips (1967) assessed the effect of import duty relief and approved user programs in Nigeria, reporting that these incentives had led to huge revenue losses and that about 60 percent of the beneficiary industrial enterprises would still have been established, even without the incentives.
[33] The government of Benin constantly keeps vigil on Nigeria's customs duties and adjusts its tariffs to make them attractive to importers of goods in Nigeria. This practice is one source of the booming smuggling activities.

importers misclassify goods or underreport their value—practices that usually involve a network of customs officials and importers, indicating a larger problem in the workforce.

4.3 Adequacy of Workforce

Tax authorities are usually counseled to focus recruitment efforts on both the appropriate mix and an ample number of the different types of highly skilled staff. Thus, an adequate number of competent staff—information and communications technology (ICT) specialists, accountants (including forensic accountants), tax specialists, tax lawyers, tax inspectors, and auditors, among others—must be hired regularly and retained in line with international best practices in tax administration. Since FIRS was granted some degree of autonomy in 2007, it has recruited, trained,[34] and retrained staff, both in-country and abroad. FIRS's total number of staff in 2017 was 7,513,[35] a relatively small number compared with the staff of tax authorities in Japan, India, and South Africa, with 56,315 (2003),[36] 96,600 (2016/17 estimate),[37] and 15,000 (2010/2011)[38] staff, respectively. FIRS's workforce needs to be increased beyond the current figure to adequately administer the various taxes assigned to it. With an improvement in tax administration, collection coverage will expand.

Another major challenge lies in allegations (rarely reported in official documents) that high-ranking government officials and politicians, who are permitted to sponsor candidates for appointments, influence the recruitment process, as in other public-sector entities.[39] If it is happening, such influence undermines thorough scrutiny of the candidates seeking employment to ascertain their competence and suitability, likely weakening the administrative capability of the revenue authority as well as eroding transparency and accountability, and impeding institutional development.

4.4 Tax Rates and Taxpayer Registration

The potential tax gap is partly explained by the existing tax rates, which are relatively low in the case of VAT and comparatively high in the case of CIT. At 30 percent, Nigeria's company (corporate) income tax rate is one of the highest in the world—high enough to be capable of encouraging firms, especially small businesses, to underreport their tax liabilities. On the other hand, the VAT rate, which has been at 5 percent since it was introduced in 1994, is extremely low. An attempt to increase it to 10 percent in 2006–2007 (when the Peoples Democratic Party was the ruling party in the country) was strongly resisted by various interest groups, particularly labor unions and the Manufacturers Association of

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[34] In 2014, 1,0592 participated in various capacity programs (FIRS, 2014); in 2016, the figure was 3,861 (FIRS, 2016).
[35] The figure for 2016, 7,595, was higher with 34.3% of this number being female staff. On this, see FIRS (2016, p.49).
[36] National Tax Agency, Japan (2003).
[37] Thakur (2017).
[38] https://en.wikipedia.org/wiki/South_African_Revenue_Service
[39] See, for instance, "Sponsors of Illegal Federal Inland Revenue Service's Hiring" (2016).

Nigeria. The argument of the latter was that an increase in the VAT rate would raise the prices of manufactured products and compress the demand for goods and services, leading, in turn, to firm closures and job layoffs. Of course, the fear of being punished by voters during elections cannot be overlooked as an additional cause of the federal government's lack of political will to increase the VAT rate at that time.

In recent years, following the fiscal crisis of 2015-2016, partly precipitated by the prolonged sharp fall in crude oil prices, the need to increase the VAT rate reemerged. The federal government's Economic Recovery and Growth Plan, officially launched in 2017, specified that the VAT rate would be increased from 5 percent to 15 percent for luxury goods. Nevertheless, the ruling political party, All Progressives Congress, did not push for a higher VAT rate, most likely due to the implications for winning or losing the 2019 general elections. How long this political constraint will delay action is difficult to estimate.

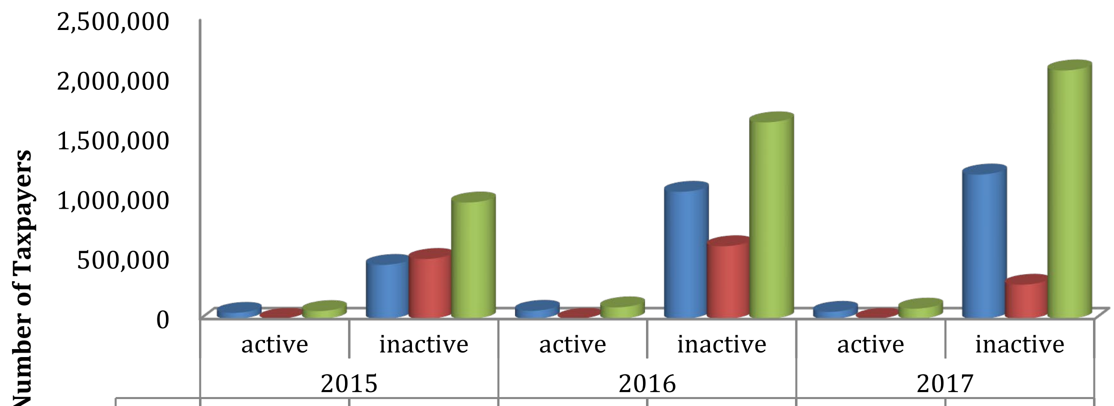
There is a need to go beyond rhetoric and build a consensus on a VAT rate increase. According to some officials of the federal revenue agency, the 2017 National Tax Policy is being used to build coalition for tax reform, and what is needed for a consensus is public tax education from the Federal Engagement Enlightenment Tax Teams.[40] In reality, to increase the VAT rate, existing law must be amended, implying that an amendment bill on VAT must be prepared and sent to Parliament for consideration. This has not been done, perhaps because it is so delicate politically. The bargaining process must include all of the major stakeholders delineated in the National Tax Policy document (representatives of taxpayers, government, revenue authorities, professional bodies, tax practitioners, media, and civil society organizations), for the proposal to pass. The process could commence through public debates, and constructive engagement of the general public on VAT might be useful. A blueprint on such a process remains to be seen.

Tax experts generally agree that the revenue productivity of any tax is a function of how the tax is designed in terms of the rate charged, the coverage, taxpayer compliance, and the effectiveness of administration. The productivity of the VAT is currently low, indicative of a wide scope for increasing its revenue. To gain a deeper insight, we consider two measures of VAT revenue productivity: (1) the share of VAT revenue in final consumption (public and private) divided by the VAT rate, generally referred to as the "c-efficiency" ratio, and (2) the share of VAT revenue in GDP divided by the VAT rate (the "nominal GDP" approach). These computed indexes of productivity are reported in Figure 2 (see Section 3.1.4). Evidently, the productivity of Nigeria's VAT revenue is negligible, averaging 0.36 annually for the c-efficiency ratio and 0.18 for the GDP-based measure. By the latter measure, the highest VAT revenue productivity, 0.22, was achieved in 2009. The low VAT productivity can be attributed to the relatively low VAT rate and the erosion of the base of the tax, due to 0 percent rates or VAT exemptions for some items, combined with the weak administrative capacity of the tax authority.

[40] The teams have been formed to educate taxpayers on their tax obligations and rights so as to make tax administration easier.

Another factor in the ineffectiveness of the VAT is the small number of active taxpayers registered for VAT payment. (Active taxpayers are those that are registered, file returns, and are expected to make payments. This definition excludes taxpayers that are registered but have not filed returns in at least one year. Inactive taxpayers are those that are in the taxpayer register but do not file returns,[41] for they have not been deregistered, thereby cluttering the taxpayer register.) Considering Nigeria's large population (around 200 million), it seems incredible that, as Figure 4 shows, the active taxpayers in the taxpayer register for VAT payment were some 65,000 in 2015, 96,000 in 2016, and 86,000 in 2017 (active taxpayers for CIT in these same years were even fewer, partly suggestive of the weak administration of that tax). One reason for low taxpayer activity for the VAT is that the tax currently has no registration threshold.

Figure 5. Active and inactive taxpayers, Nigeria, 2015-2017



	2015 active	2015 inactive	2016 active	2016 inactive	2017 active	2017 inactive
CIT	50,785	451,709	67,789	1,063,007	59,242	1,207,275
PIT	1,677	501,209	1,728	607,940	1,874	286,010
VAT	65,719	973,369	96,676	1,643,788	86,129	2,077,940

Notes: CIT = company income tax; PIT = personal income tax; VAT = value-added tax.

Also decreasing the VAT's effectiveness is the fact that several eligible goods and services escape the tax through exemptions and the like. Finally, the personnel and infrastructure of FIRS are inadequate to effectively monitor the business turnovers that trigger VAT.

One way to improve VAT administration for increased revenue generation would be to introduce registration thresholds for the turnover of taxable goods and services. Such thresholds would certainly free resources for productive use elsewhere in the operations of the revenue authority. It will also make the tax register tidy. Available statistics indicate that only a tiny proportion of VAT payers, about 3 percent, accounted for 97 percent of the revenue from this tax in 2017. Therefore, the introduction of a VAT threshold would

[41] On this, see TADAT (2017)

considerably prune the number of inactive taxpayers in the tax register. Correspondingly, efforts should be intensified to compile a comprehensive register for VAT, and enforcement should be strengthened. Conceivably, narrowing the exemptions on VAT will enlarge the base for the tax.

4.5 Inadequate Tax Administration Infrastructure

Table 6 summarizes some of the key administrative challenges of FIRS found in a 2013 McKinsey & Company diagnostic exercise.[42] FIRS has attempted to develop the requisite infrastructure for tax collections, stressing the use of technology—ICT in particular. As part of any tax modernization process, it is well known that a comprehensive taxpayer register is basic to tax administration. Accordingly, Nigeria introduced a unique tax identification number (TIN) in 2008; individuals and businesses are required to register for a TIN.

Table 6. Some challenges of the Federal Inland Revenue Service (FIRS), 2012

Type of challenge	Narrative
Core processes conducted manually	Excluding payments, all FIRS core processes were carried out manually. The output associated with this laborious process is quite low in volume and paper-intensive. An interviewee reported that there were only three staff members to administer a large central registry.
Inefficient information technology infrastructure	Field offices did not have a constant electricity supply, and Internet service was slow and functioned intermittently.
Understaffed; lack of trained professional personnel	Some key areas, such as auditing, were grossly understaffed. In addition, many of those employed did not have adequate professional training and experience. An interviewee reported that a team of four auditors handled more than 1,000 taxpayer cases and that due to the large number of cases, they were not able to monitor properly, especially high-risk cases.
Complex and inefficient process	The audit process was generally long (audit cycles typically greater than two months), and standard and pragmatic tools were rarely employed.
Low quality and enforcement	Audits were largely preoccupied with basic analytical checks of information. Legal instruments to enforce audit assessments were ineffective and slow.

Source: Data from McKinsey & Company (2013).

Registering for a TIN, however, does not guarantee that a person or company will pay taxes. However, not registering for TIN allows companies either to completely avoid paying taxes or to underpay them. Dishonest tax officials may also conspire with taxpayers to underreport

[42] McKinsey & Company (2013).

their tax obligations. Even with all these shortcomings, FIRS increased the total number of taxpayers (individuals and businesses) on the tax roll to 14 million in 2017[43] (a number that nevertheless is quite low out of an estimated economically active population of 69.9 million). A substantial proportion of the national tax roll comes from Pay-As-You-Earn and the formal sector.[44] The informal sector, the hard-to-tax sector, is not captured in these data.

Relatedly, FIRS has begun automation of the various tax collection processes. Indeed, both a manual ledger system and ICT are used to manage taxpayers' declarations. The Tax Administration Diagnostic Assessment Tool (TADAT)[45] assessment report for 2018 stated that all the core taxes (CIT, VAT, and withholding tax) were being paid electronically in 2015–2017.[46] The Integrated Tax Administration System (ITAS) has been rolled out, making it possible for taxpayers to file tax returns electronically. ITAS is expected to reduce contact between taxpayers and officials (saving officials time and taxpayers anxiety) and foster efficiency by ensuring a proper, timely, and complete account of revenue collection. In spite of this positive development, available statistics show that e-filings by active CIT and VAT taxpayers were, respectively, 3.0 percent and 2.3 percent in 2017—up from 2015 figures.[47] Major challenges are poor Internet connectivity and generally low use of computers by small businesses.

The FIRS (Establishment) Act, 2007, empowers FIRS to collaborate with the various concerned entities in order to strengthen its administrative capacity for improved tax collections. FIRS recently commenced working with banks, and the Government Integrated Financial and Management Information System (GIFMIS) links FIRS to the Office of the Accountant General of the Federation for exchange of data and information. FIRS also has interconnectivity with NCS, the Central Bank of Nigeria, and the Corporate Affairs Commission. The efficacy of these relationships is hard to determine as yet; some of these innovative programs are still in their infancy and therefore limited in scope. Further, although the idea is being debated, FIRS has yet to develop ICT systems that interface with those of other entities such as the Nigeria Immigration Service, the Federal Road Safety Corps, and several other state and private actors.

The proper operation of ICT systems typically requires a huge cadre of skilled personnel: network administrators, system administrators, and data entry and management officers, among others. Because wages and salaries in the ICT industry are so high, revenue authorities (FIRS and the revenue agencies of the state governments) are unable to attract and retain workers with competent ICT skills because of the relatively low remuneration packages they can offer. Adequate funding of ICT for improved tax administration is basic to the functioning of the tax authorities; without adequate funding, the country's tax ICT

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[43] This figure is from *Gauge*, a quarterly publication of the Federal Inland Revenue Service (FIRS 2017).
[44] FIRS 2017, 17.
[45] The European Union, Germany, the International Monetary Fund, Japan, the Netherlands, Norway, Switzerland, the United Kingdom, and the World Bank support TADAT.
[46] TADAT (2018). Also see Muyangwa, M., H. K. Gaperi, A. Hunt, F. Bosch, and M. Hewetson (2018)
[47] TADAT (2018).

will not be up-to-date and competitive. An enabling law is needed to support the launch and staffing of tax ICT. The current relatively low application of ICT suggests that the revenue agencies are still plagued by capacity challenges.

4.6 Some Key Political Issues

Property tax is largely unexploited in Nigeria. Because this tax falls heavily on wealthy individuals, it has the potential to serve as an effective instrument of income redistribution. Moreover, property tax ought to be easy to administer because it is imposed on resources that are not mobile. The technology required involves cadastral surveys employing geographic information systems to assess the values of land and improvements in various locations. Presently, this technology is known and deployed only in Abuja (the Federal Capital Territory) and Nasarawa state. Perhaps state governments are reluctant to focus on property tax because it involves wealthy individuals who may be able to exercise a tremendous web of political influence. The intense competition for political power requires huge financial resources, which come partly from these wealthy landowners. Increasing the prospect of raising revenue through property tax requires effective bargaining with these actors to unearth the political economy of this tax and chart a path toward implementing it.

The point was made earlier that the core taxes are assigned to the federal government. Even for the taxes that are assigned to the state governments, it is the federal government that determines the rates. For instance, PIT is the most significant tax revenue of the state governments. However, there is a limit on the revenue a state government can raise from PIT because the law imposes uniform PIT rates across the country. Moreover, when the federal government increases the different categories of allowances to give relief to workers, less income is chargeable to tax, often making the revenue from PIT less than predictable. Because the federal government has the exclusive power to legislate on PIT, there is little or no room for state governments to adjust their tax rates for the purpose of generating adequate revenue. Although the federal government uses PIT as a fiscal "handle," or foothold for taxation, there is a need to reexamine the role it can play as a potent revenue-enhancing tool for state governments.

Nigeria's intergovernmental fiscal system is a major political constraint to tax collection. The federal government collects the most productive taxes and pays the revenue into a common pool—the Federation Account—for distribution to the three levels of government (federal, state, and local) in accordance with constitutionally prescribed factors and weights. During the country's various military regimes in the 1980s and 1990s, states and local governments were created arbitrarily, partly to mobilize political support and hold on to power. The principle of equality of states[48] carries a weight of 40 percent in the formula for allocating the revenue paid into the Federation Account. The equality-of-states factor alone accounts for more than 50 percent of the total revenue allocated to most state and local governments.

[48] This principle began to feature in the 1970s, emphasized at the expense of the derivation principle. The strengths and weaknesses of these revenue-sharing criteria can be found in Phillips (1975).

Many states are able to underwrite all of their recurrent expenditures with the revenue from this principle. Without it, the states would wither economically. Still, this revenue allocation formula has two unintended effects. First, the creation of more states or local governments from a particular region or geopolitical zone means that more revenue is allocated to the affected areas,[49] an effect that has fueled an agitation to create more states and local governments without necessarily considering their economic viability. Second, as more states have been created, the fiscal capacity of the country has weakened. This effect is reminiscent of the argument by Due and Friedlaender that for both administrative and economic considerations, the larger a taxing jurisdiction, the more effectively it can operate a tax.[50] Political restructuring of the current federal system, in which the assigned functions and tax powers are aligned, stressing the ability of lower levels of government to generate adequate revenue to finance their own activities is desirable.[51] This issue may be hard to resolve, largely because a significant proportion of the highly influential politicians and individuals from the north, who control the levers of power at the center, are not keen about the matter.

4.7 Effect of Oil Revenue on Non-oil Revenues

Several authoritative studies have looked at the impact of natural resources on an economy. The early argument was that natural resources provide the scarce financial resources for development of infrastructure (such as roads and electricity) and social services (health and education). Partly for this reason, some scholars posited that the exploitation of hydrocarbon (oil and gas) spurs growth and is therefore a boon. The competing hypothesis is that natural resource rents have led to corruption, have reduced perceived tax effort and accountability, and have promoted weak institutions and conflicts, among other ills. Accordingly, this latter line of research concludes that hydrocarbon is a curse.[52]

We do not pursue the relative strengths of the different schools of thought, but only draw on what they say about nonhydrocarbon revenues. Estimates (from various techniques, time periods, and data sets) have shown that hydrocarbon revenue has negatively affected domestic (nonhydrocarbon) revenues in many countries.[53] In the case of Nigeria, the Keynesian public expenditure–led growth strategy of the 1970s, engendered by oil revenue, precipitated a "Dutch disease," a phenomenon with regressive effects on agricultural and

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[49] This subject matter is thoroughly examined by Omorogiuwa (1980).
[50] Due and Friedlaender (1977, 463).
[51] There has been increased agitations for a review of the revenue allocation formula that will favor the state governments since 1999 without success. Strong proponents of political restructuring are mostly from the south east and south south and south west geopolitical zones.
[52] On these theories, see Davis and Tilton (2005), Ross (2001), and Sala-i-Martin and Subramanian (2003).
[53] The articles by Bornhorst, Gupta, and Thornton (2009), and Crivelli and Gupta (2014) are instructive on this theme. In addition, using micro-level data from 15 nascent democracies in sub-Saharan Africa, McGuirk (2013) confirmed the hypothesis that in countries with huge resource rents, political elites tend to reduce tax enforcement, which in turn reduces accountability.

industrial output.[54] Also, with increased oil revenue, fiscal centralization intensified,[55] fueling interregional competition for political power at the federal level. As a result, little attention, if any, was paid to the development of non-oil revenues and revenue authorities. Recall that Nigeria implemented a structural adjustment program[56]in the second half of the 1980s. This reform stressed but did not increase the relative share of non-oil revenues. Thus, the emergence of oil revenue and its poor management have adversely altered the sociology of the tax culture, resulting in Nigeria's being practically trapped in low tax collection.

4.8 Poor Exchange of Taxes and Services

The tax compliance culture is generally poor in Nigeria, with the public broadly defiant toward paying taxes. This attitude partly explains the narrow tax base. A number of factors have influenced the poor taxpaying culture. The long-term dependence on oil revenue, since the early 1970s, is one major stimulus. Another is the poor reciprocity of taxes and services between taxpayers and the government: electricity supply, where available, is erratic; a significant proportion of the population does not have access to potable water; roads are decrepit; and the health care system is poor, just to mention a few. These conditions have created a strong perception among taxpayers that the government of the day is dishonest and not trustworthy.

A third factor in the poor taxpaying culture is the low likelihood of being detected and prosecuted for tax evasion. A fourth argument concerns the relationship taxpayers have with the police and other security apparatuses of the state. Ordinary citizens often feel that police and security agencies regularly violate their rights through extortion and intimidation. Thus, a general despondency is driving the resistance to paying taxes. It follows that even when significant positive efforts are being made to improve tax collection, the attitude among taxpayers certainly stresses the capacity of the tax authorities.

Developing a good reputation and credibility so as to appear trustworthy to the taxpayers[57] is one important strategy tax authorities can use to enhance tax administration for improved revenue collection.[58] When tax authorities are seen as fair and just in carrying out their statutory functions, the membership of the honest taxpaying community will grow. One way to monitor public perception of tax authorities is through periodic surveys concerning the

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[54] On the Dutch disease in Nigeria, see Oyejide (1986). Shatz (1984) argued that excluding the oil sector, Nigeria's economy has no internal dynamism. A theoretical insight on the Dutch disease phenomenon can be found in Corden and Neary (1982).

[55] Here, increased fiscal centralization means that the federal government's share of the Federation Account is more than 50 percent. The current vertical revenue allocation formula assigns 52.68 percent to the federal government, 26.72 percent to state governments, and 20.60 percent to local governments. Mbanefoh's (1986) faculty lecture has demonstrated how various military regimes in the country have fostered fiscal centralization.

[56] See Federal Republic of Nigeria (1986). A comprehensive assessment of the impact of the structural adjustment program is in World Bank (1993).

[57] The submission of Bird (2003) on this and related important tax compliance elements is instructive.

[58] For instance, in the last 15 years, the Lagos state government has significantly increased its internally generated revenue (by more than 1,500 percent between 2000 and 2015) and simultaneously improved service delivery.

degree of fairness and burden of taxation. Nigeria's FIRS last carried out a perception survey in 2011.[59] This is not frequent enough monitoring of public perception.

4.9 Multiplicity of Taxes

A major constraint to revenue generation in Nigeria is the multiplicity of taxes.[60] Subnational governments impose taxes and levies that hurt both businesses and revenue collection. The results of an authoritative 2006 survey on Nigeria's multiple taxation by the Security, Justice and Growth Programme of the Nigeria Economic Summit Group are illuminating.[61] The inquiry covered large companies, small and medium enterprises, and microenterprises. A significant proportion of respondents said they perceived a multiplicity of taxes and considered them harmful to business performance. The businesses surveyed paid some 40 different taxes and regarded the audit processes of the various tax authorities as cumbersome and onerous.[62] The study has two important implications: First, it is difficult to generate maximum revenue from the various taxes in an environment of widespread multiple taxes. Second, the existence of multiple taxes is likely to drive businesses to the underground economy, resulting in a huge loss of revenue to the government. Inadequate revenue, of course, reduces the capacity of the government to provide social and other services. Also, the existence of multiple taxes, together with high corporate tax rate and poor infrastructural facilities hinders Nigeria's goal of being among the top 100 countries of ease of doing business[63].

In addition, some state governments are using revenue consultants,[64] appointed via Nigeria's pork-barrel politics, whereby state governors and cabinet members dispense favors ("settlements") in exchange for political support. The states set unrealistic revenue targets for these consultants, who sometimes employ the coercive apparatus of the state, as well as their own task forces and touts, to enforce tax payments, in the process breaching taxpayers' rights.[65] Accordingly, the politics of patronage and distributional struggles for resources

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[59] The tax authorities of the state governments have rarely carried out such a survey.

[60] One source of the multiplicity of taxes is the unequal fiscal capacity created by Nigeria's fiscal decentralization. There is a mismatch in the assignment of tax power and expenditure functions, which constitutes a noncorrespondence problem in Nigeria's multilayered fiscal system. As a result, states and local governments decide to impose several fees and levies to increase revenue generation. The Taxes and Levies (Approved List for Collection) Act of 1998 attempted to address the issue, but both the states and local government councils ignore the provisions of this legislation.

[61] See also Nigeria Governors' Forum (2015).

[62] Security, Justice and Growth Programme (2006).

[63] In the last decade or so, Nigeria has consistently ranked above 100, at 125 in 2010, 170 in 2015 and 146 (out of 190 countries) in 2019 in World Bank's Ease of Doing Business Index.

[64] Nigeria Governors' Forum (2015).

[65] This point is made clearly by Fjeldstad and Moore (2007) and by Therkildsen (2004) in relation to developing countries. For Nigeria, consider the following: On Tuesday, October 14, 2008, *Business Day*, a Nigerian business newspaper, reported on page 17 that the Lagos State Tax Enforcement Team had sealed 20 companies and 41 shops because of their refusal to remit over N1.4 billion (US$11.81million at N118.5=US$1:00) to the government. This amount was for PIT collected from their employees. Task forces have also been known to confiscate the goods of traders illegally.

exacerbate the challenge of multiple taxation. Further, the use of revenue consultants undermines the development of the state governments' revenue authorities.

The institutional frameworks through which such an important subject as multiple taxation can be resolved, the National Council of States and the Nigeria Governors' Forum,[66] are only advisory and have no power to enforce any decision agreed upon. The Joint Tax Board (JTB), chaired by the executive chairman of FIRS and including as members the heads of the revenue agencies of the 36 states of the federation and the Federal Capital Territory (Abuja), also considers the problem of multiple taxation. However, the role of the JTB is also advisory, as state governments cannot be compelled to implement its decisions, including those on multiple taxation. Two steps that might help eliminate multiple taxation are enforcement of the Taxes and Levies (Approved List for Collection) Act of 1998 and constructive engagement of stakeholders for improved intergovernmental fiscal coordination.

4.10 Large Informal Sector

The existence of a large informal sector is a major barrier to raising revenue in Nigeria. Recent estimates indicate that between 1996 and 2015, Nigeria's informal sector averaged 56.7 percent of the GDP;[67] for comparison, agriculture accounted for 27 percent of the GDP in 2015. The hard-to-tax informal sector harbors millions of small-scale businesses that do not keep accurate records of transactions; that principally participate in informal, cash-based dealings; and that are, for the most part, unregistered with the appropriate government authorities. The large size of the informal market implies a substantial loss of revenue to the government and a proportionate reduction in its capacity to provide services.

A deliberate effort must be made to bring a substantial part of the informal sector into the tax net. The use of presumptive taxation, whereby tax authorities determine the taxable income of businesses based on certain criteria, may be considered. Currently, for example, the Lagos state government imposes on self-employed individuals an average flat rate of N7,550 (less than US$25 using an exchange rate of N358 = US$1—a low rate that merits upward revision) and issues an electronic proof of payment.

5. Quality of Government Spending

5.1 Expenditure on Education, Health, and Defense

Education is a concurrent matter in the Nigerian constitution—that is, all three levels of government are involved in its provision. From an annual average of 1.3 percent of GDP in 2000–2002, Nigeria's total expenditure on education declined to 1.1 percent of GDP in 2014–2017 (Table 7, Panel A). In relation to total expenditure, education increased from 7.3

[66] The Nigeria Governors' Forum is not a constitutional creation, but it is influential.
[67] Medina and Schneider (2018).

percent to 10.3 percent between the two periods (Table 7, Panel B). These percentages can hardly compare satisfactorily with the 26 percent of total expenditure recommended by the United Nations Educational, Scientific and Cultural Organization (UNESCO). The proportion of recurrent expenditure on education is more than the capital expenditure component, with the former annually accounting for 78.5 percent, on average, over the entire period. The implication is that new investment in education for the production of new knowledge, represented by the annual capital expenditure, is negligible. There is considerable scope for an improvement in education, as statistics suggest. The percentages of literate adults in Nigeria were 54.8, 53.5, and 59.6 in the years 2003, 2009, and 2012, respectively. In the three selected years, primary school enrollments stood at 84.0 percent, 90.5 percent, and 93.0 percent, respectively. Of course, the performance of these socioeconomic indicators varied widely across space.

Table 7. Government expenditure trends in Nigeria (consolidated)

	Panel A. In relation to gross domestic product						**Panel B. In relation to total expenditure**					
	2000–2002		2007–2009		2014–2017		2000–2002		2007–2009		2014–2017	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Education[a]	1.3	1.4	1.0	1.0	1.1	1.0	7.3	8.4	6.1	5.9	10.3	10.2
Health[b]	0.7	0.6	0.7	0.7	0.5	0.5	3.7	3.1	4.3	4.1	5.1	5.2
Interest payment	2.1	2.0	1.0	0.9	1.4	1.3	11.5	10.5	5.7	5.9	13.4	13.5
Defense	0.6	0.6	0.2	0.2	0.3	0.3	3.3	3.6	1.1	1.1	2.8	2.9

Source: Author's computation using data from Central Bank of Nigeria, Annual Report and Statement of Accounts, various years.

Notes: [a] There are missing values for capital expenditure on education for state governments in 2000–2002, and for both recurrent and capital expenditure on education for local governments in 2000–2002. [b] There are missing values for capital expenditure on health for state governments in 2000–2002; and for both recurrent and capital expenditure on health for local governments in 2000–2002.

Expenditure on health is also at the lower end of the government's expenditure distribution ladder. The expenditure on health by the three levels of government averaged 0.7 percent of GDP yearly in 2000–2002, was unchanged in 2007–2009, and fell to 0.5 percent in 2014–2017 (Table 7, Panel A), appreciably below the 5 percent of GDP target recommended by the World Health Organization. In contrast, the mean annual share of health expenditure in total expenditure (3.7 percent, 4.3 percent, and 5.1 percent) increased from one period to another (Table 7, Panel B). As with education, recurrent expenditure dominated, with a mean annual share standing at 68.5 percent for the 18-year period. Health indicators for Nigeria show that progress has been sluggish. For instance, statistics from the World Development Indicators database[68] show that life expectancy rose from 47 years in 2003 to 53 years in 2015, and in the same time frame, maternal mortality fell from 1,040 per 100,000 live births to 820, while the infant mortality rate[69] declined from 103 per 1,000 live births to 72. However, more than 50 percent of the population still does not have access to modern health care facilities. Greater government intervention in the health sector, through its expenditure programs, is desirable for improvements in these and related key health indicators.

The ratio of defense spending to GDP was less than 1.0 percent in each of the three reference periods. Specifically, it was 0.6 percent in 2000–2002 and 0.3 percent in 2014–2017 (Table 7, Panel A). Its mean proportion in total expenditure declined only from 3.3 percent to 3.0 percent, and the median values were 3.6 percent and 3.2 percent (Table 7, Panel B). It may be informative to note that not all defense expenditures are tracked in the budget. It is generally known that Nigeria's federal government has partly funded the purchase of defense equipment from the Excess Crude Account (an account into which is paid the revenue above the benchmark oil price used for the budget estimate). In recent years, there have been increased terrorist attacks and banditry, leading to several deaths in the North East geopolitical zone of Nigeria and imposing huge expenditure on the government. However, official statistics appear inconsistent with this reality.

An important conclusion from Table 7 is that interest payment expenditure (discussed previously in Section 3.2.3) exceeds the expenditure on health; it comes close to the combined shares of expenditure on education and health. These numbers bolster the argument made earlier that the accumulation of debt stock and the rising share of interest payment has a crowding-out effect on the social services sector.

5.2 Budget Passage and Embellishment[70]

Expenditure control to improve the quality of government spending should, of necessity, begin with legislative scrutiny of the proposed budget. This fact suggests that the budget must be prepared and submitted on time to enable Parliament to consider it in detail[71]. On-time release of funds is expected to avoid or minimize delays in project execution. The ministries, departments, and agencies (MDAs) are required to spend the funds released to them in conformity with the authorizing legislation. Further requirements are that the

[68] World Bank (2018).

[69] The under-five mortality rate declined from 170 deaths per 1,000 live births in 2003 to 109 in 2015.

[70] The discussion in Sections 5.2 through 5.5 focuses mainly on the federal government because of the availability of data.

[71] The government is expected to harvest ideas from the general public, including civil society organizations. This is hardly done thoroughly. Nigeria has vibrant civil society groups. However, the extent to which they have impacted on the budget process is hard to ascertain, for this is beyond the scope of this study.

procurement system work well to ensure value for money and that the audit system be operational to confirm that funds are used in line with extant financial regulations and treasury circulars. Transparency and accountability are demanded at every stage of the budget cycle.[72]

One source of budget leakage is the unhealthy competition among MDAs to have control over a larger share of the available financial resources. Thus, it is common for MDAs to pad the budget, overstating the expenditure estimates presented for approval.[73]

By constitutional provision, the implementation of the budget is expected to commence on January 1 of a given fiscal year, be it a federal or state/local budget. In recent history, however, the federal budget has generally been presented to Parliament for consideration between mid-November and December,[74] too late for approval by the first of the year. In fact, by the time Parliament passes the appropriation bill and sends it to the president for a signature, the new fiscal year has often gone beyond the first quarter. Thus, since 2000, the annual budget has habitually been ready for execution considerably late. Moreover, the quality of legislative debate on the budget is poor due to the rush, and often the budget is used simply as a tool to hamstring the executive.

In addition, legislators routinely change the budget estimates, adding "constituency projects" not originally included. In fiscal year 2000, for instance, federal lawmakers raised the expenditure estimate by 21.1 percent by adding budgetary provisions for perks for the lawmakers in the upper house (the Senate) that could hardly be justified. President Olusegun Obasanjo insisted he would not sign the appropriation bill into law. In June 2000, in response to the ensuing criticisms, the Senate president[75] told the "noisy public" on a national television program that members of Parliament were not in the Federal Capital Territory, Abuja, to "spread poverty."[76] Legislative changes and additions have been an area of disagreement between the legislators and the executive to the extent of hampering budget implementation.

In the period 2000–2007, the budget policy was characterized by a number of shortcomings. A notable illustration was the persistent recourse to supplementary budgets. As soon as the substantive budget was passed, the executive returned to Parliament with a supplementary budget for approval.[77] Tracking the budget thus became extremely difficult. Another

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[72] These ideas are articulated in PEFA (2005).

[73] The National Institute for Legislative Studies highlighted the issue of budget padding in its review of the 2017 budgeting process (NILS 2017, Appendix II).

[74] The various dates when the federal appropriation bill were presented, passed by Parliament, and signed into law can be found in the annual publications of NILS on budgets. Since 2000, only once, in the 2002 budgeting cycle, has the budget been ready for implementation by January 1.

[75] Dr. Chuba Okadigbo (of blessed memory) was then president of the upper house of Parliament, the Senate.

[76] *Tell* 14 (April 2005), p. 36.

[77] On November 7, 2006, less than two months before the end of the 2006 fiscal year, President Olusegun Obasanjo submitted a supplementary appropriation bill of about N242.11 billion (US$1.88 billion at N128.65=US$1.00) to lawmakers for consideration. This supplementary budget proposal was to enable the government to liquidate the debts owed to the London Club of creditors (*Nigerian Tribune*, November 8, 2006, front page).

disturbing trend is that, since early in the 2000–2007 time frame, implementation of the capital component of the budget has been running well into March of the following fiscal year instead of being completed by December 31. This extension could have severe repercussions on the quality of expenditure because it strains the administrative capacity of MDAs; furthermore, is a violation of the constitution.[78]

5.3 Procurement Process and Release of Funds

In 2001, the federal government established the Budget Monitoring and Price Intelligence Unit, generally referred to as Due Process Unit. This was part of the public-sector reform program to achieve efficiency in the use of resources. It was mandatory for MDAs to comply with the requirements of the Due Process Unit in contract awards and procurement procedures, guarantee value for money, and above all, maintain budget discipline. However, MDAs were generally unable to access the bulk of the funds released for project execution on time because of the difficulty in obtaining the requisite certificate from the Due Process Unit. In 2004, for instance, the Federal Ministry of Education was able to access only 30 percent of the amount released to it by the Federal Ministry of Finance, and the Federal Ministry of Agriculture could access only 56 percent of the amount released to it.[79]

Although several reasons are advanced to explain the poor execution of the capital budget, the Due Process Unit carries the biggest blame. It is generally known that the bureau was unduly centralized as well as endowed with little capacity to handle the volume of work it received.[80] For that reason, there were long delays in project execution, which in turn escalated the cost of project completion. The Appropriation Committees of the National Assembly reached this same conclusion when they monitored the performance of the 2004 budget and actually discussed scrapping the agency.[81] Notwithstanding its weaknesses, in the period 2001 to early 2005, the Due Process Unit reportedly saved a cumulative amount of about N140 billion (US$1.066 billion, using the 2005 average exchange rate of N131.63 = US$1) from inflated contracts for the federal government.[82]

Among the legislation passed by the federal government in its quest for good public financial management is the Public Procurement Act, 2007. The law provides for the establishment of

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[78] Constitutionally, the fiscal year runs from January 1 to December 31.

[79] The data presented here were obtained from the Office of the Accountant General of the Federation, Abuja, in December 2004. The total capital budget approved for the Ministry of Agriculture in the 2004 fiscal year was N10.55 billion (US$79.03 million at N133.50=US$1.00).

[80] The unit did not have adequate professionals from diverse fields to scrupulously scrutinize the submissions of MDAs.

[81] This conclusion draws on discussions with some lawmakers of the House of Representatives in Abuja in 2006. Apparently, the idea to scrap the Due Process Unit was based on the views of ministry officials during budget monitoring by the federal lawmakers.

[82] *The Guardian* (Lagos), Monday, March 7, 2005, p. 3.

a Bureau of Public Procurement (BPP),[83] whose main objective is to ensure that the procurement process is fair, competitive, and transparent. It is also tasked with harmonizing existing government policies and practices relating to procurement, and establishing pricing standards and benchmarks to guide procurement. A 2007 World Bank report[84] indicated that Nigeria had made progress in its public financial management reforms based on evidence from the use of the Public Financial Management Performance Measurement Framework tool from the Public Expenditure and Financial Accountability program, an initiative of seven prominent international development partners.[85] However, a more recent study found that BPP officers have inadequate knowledge about procurement in the MDAs, largely because they do not have the requisite training and experience.[86] This inadequacy weakens the quality of procurement and, thus, efficient service delivery. The BPP was reported to have saved the sum of N420 billion (about US$2.67 billon using the 2013 exchange rate of N157.30 = US$1) between 2007 and June 2013,[87] an amount considered relatively small because procurement remains a major channel through which public servants, in alliance with politicians, drain off the federal treasury.[88]

The Policy Analysis and Research Project of the National Assembly, which was transformed into the National Institute for Legislative Studies (NILS), critically examines the annual federal budget. NILS's publications on the budget showed that funds were not being released on time for project execution and that the annual ratio of the amount released to the approved budget estimate remained quite low. Specific reference is made to 2012, one of the most recent years for which data were available, for more insights[89]. The computed ratio of the amount released for the approved estimated budget in 2012 averaged 57.8 percent for all the MDAs. On aggregate, some 14.5 percent of the funds released were not cash-backed.[90] The utilization rate[91] was highly uneven, falling mostly between 43.4 percent and 99.0 percent across the 49 MDAs reported in Figure 6. Quarterly disaggregation showed that the bulk of the funds, 40.1 percent, were released in the fourth quarter of the year, but about 35 percent of funds were released in the first and second quarters of the following fiscal year.

[83] The BPP is the successor of the Due Process Unit. The act is a federal law that also makes provision for the establishment of National Council on Public Procurement (NCPP). This council has yet to be formally constituted and commence functioning. On close examination, the functions of the NCPP, stipulated in the legislation, appear to be being carried out by the Federal Executive Council.

[84] World Bank (2007).

[85] PEFA (2005).

[86] Awosemusi's (2012) survey of a procurement department of a federal ministry with a large capital budget revealed that there were no specialists on procurement and none of the 25 staff members interviewed had any proper training in procurement.

[87] Fritz, Verhoeven, and Avenia (2017, 76).

[88] This information was from personal communication with some retired senior civil servants who prefer anonymity.

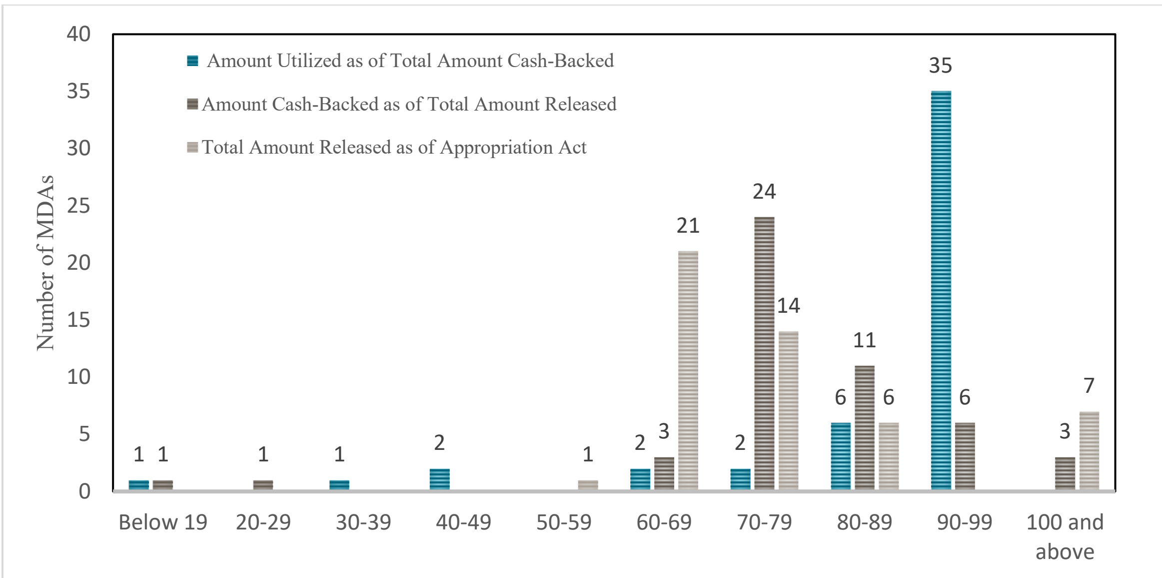
[89] National Assembly Budget and Research Office of the Federal Republic of Nigeria supplied the data for 2012.

[90] Cash-back means the actual amount of money paid into the account of an MDA (by the Accountant General of the Federation) out of the approved warrant by the Federal Ministry of Finance.

[91] The utilization rate used here is defined as the ratio of amount utilized to the amount cash-backed.

The amount released and the cash-backed funds were selective and erratic. A key implication for expenditure control and management can be drawn, however. The capital budget implementation in 2012 was skewed in favor of the third and fourth quarters. One is inclined to infer that this predilection could lead to waste of scarce financial resources. Indeed, the puny amount of funds released for the implementation of the capital expenditure has lingered to date.[92] In 2017, the utilization rate for many MDAs fluctuated between 10 percent and 62 percent, and the percentages for health and education were among the lowest, at 13.0 percent and 19.5 percent, respectively.

Figure 6. Percentage utilization of funds by ministries, departments, and agencies, 2012



Officials have offered some suggestions for improved expenditure efficiency. Among the key proposals are improved predictability of fund releases, increased use of information and communications technology (ICT) in budget monitoring and evaluation, and the adoption of ICT in the automation of public expenditure. Increased use of technology in managing personnel functions, recruitments, promotions, emoluments and a more transparent procurement system would enhance value for money expenditure.

5.4 Treasury Single Account Policy

The federal government introduced the policy of a Treasury Single Account (TSA) in 2012 to consolidate and unify all financial resources from all government agencies into a single account at the Central Bank of Nigeria.[93] Specifically, the TSA was designed to allow MDAs

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[92] NILS (2017).

[93] The idea of a single account started in 2004 as part of the federal government's economic reform, and the

to monitor the payment of revenues into the government's account in real time through Remita, an e-collection platform. It was also intended, in part, to prevent the usual intermediation of multiple banking arrangements, which previously had led to revenue leakages and mismanagement. Further, and perhaps most important, the TSA was designed to keep funds from sitting idle in deposit money banks by making them available for budget execution and to reduce government borrowing. Above all, the TSA was expected to promote greater transparency and accountability in revenue collection and management. This report does not appraise how the policy has fared in achieving its objectives, due to lack of reliable data. However, the policy did lead to the closure of about 10,000 bank accounts operated by MDAs in commercial banks.[94] Several MDAs (around 600) had complied by November 2015, with about US$7.5 billion transferred into the TSA.[95]

5.5 Audit System

Statutorily, the internal audit unit of the Office of the Accountant General of the Federation routinely carries out a preaudit inspection and the Office of the Auditor General for the Federation undertakes a post-expenditure audit. There are timelines for the submission of the accountant general's financial statements to the auditor general for vetting and examination, and from the latter to Parliament (specifically, the Public Accounts Committee) for consideration. The auditor general scrutinizes the accountant general's report to ensure that the spending activities of the government are in conformity with laid-down financial rules and regulations.

The audited reports of the auditor general of the federal government are always late. In the early 2000s, the audited report and statement of accounts were in arrears by three or more years. There is rarely any follow-up on audit queries. At the state level, qualified professional auditors are hard to hire and retain in the civil service because of poor remuneration. Most officers sent for in-service training to obtain the requisite qualifications do not return to government service on completion of their programs. As a result, those with qualifications from allied disciplines are employed to carry out the functions of internal audit. All this sums up the quality of audit report, with severe repercussions on effective expenditure tracking.

5.6 Elections and Government Expenditure

This section considers the impact of elections on the behavioral pattern of government expenditure, exploring the proposition that governments spend big in election years, part of the electoral business cycle thesis. We also hypothesize that elections tend to shift the

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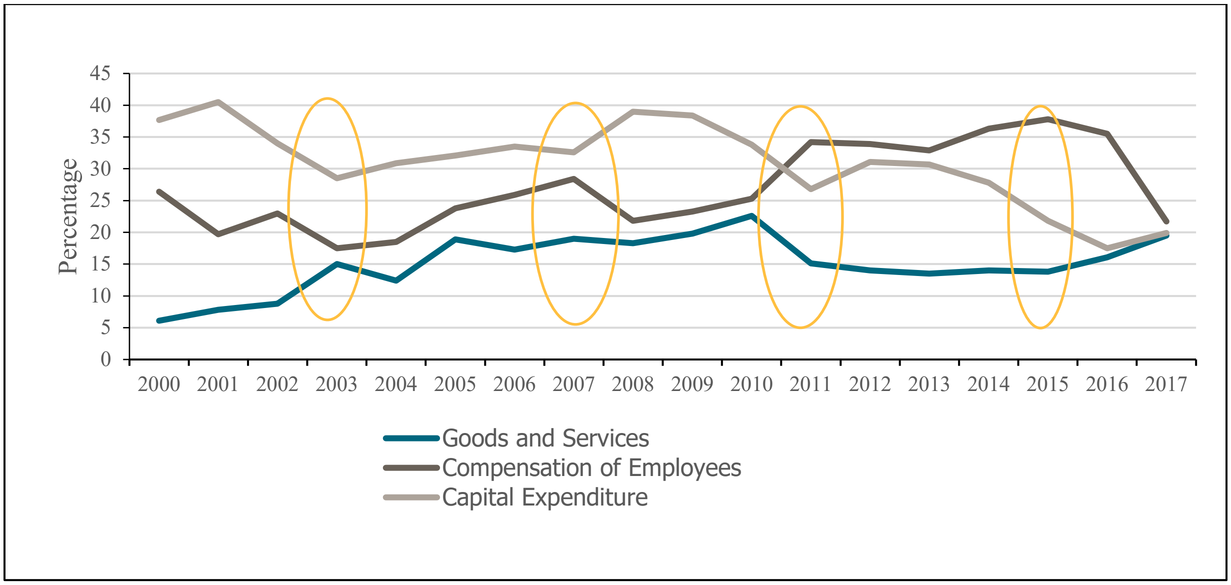
International Monetary Fund and World Bank were involved in its conceptualization. However, the actual implementation began in 2012. The fiscal crisis that began in the second half of 2014 and the general elections that brought in a new government led by President Muhammadu Buhari of the All Progressives Congress party gave the policy a boost. For a brief description of the TSA and its benefits, see "Understanding the Treasury Single Account" (2015).

[94] See Okwe et al. (2016).

[95] See Fritz, Verhoeven, and Avenia (2017, 62).

distributional pattern of expenditure. Indeed, findings in the literature have shown that fiscal transfers to subnational governments are increased in election years.[96] In the period under investigation, general elections have been held in Nigeria four times (2003, 2007, 2011, and 2015; see the ovals in Figure 6 showing the years). Elections are held in the first quarter of each election year. Therefore, it is reasonable to focus on the behavior of expenditure in the year before the general election and the election year itself.

Figure 7. Effects of electoral cycles on public expenditure categories in Nigeria (percentage of total expenditure)

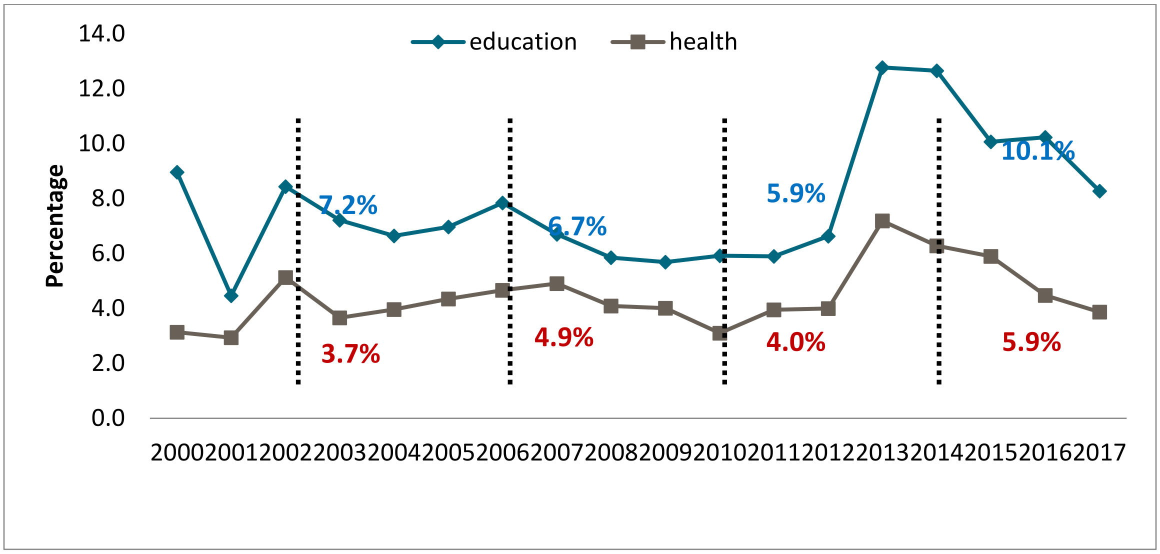


To appreciate how elections have affected the composition of expenditure over time, Figure 7 depicts the annual percentage shares in total expenditure of three key categories of expenditure for the three levels of government. The contours show that capital expenditure led from 2000 to 2010, until it was overtaken by employee compensation. Expenditure on goods and services was the smallest throughout the period. This category of expenditure increased prior to 2010, fell between 2011 and 2015, and increased gradually after the general election in 2015. Capital expenditure appears to dip in every election year, while at the same time employee compensation hits a new high level of expenditure that is not sustained. The mean annual share of wages in total expenditure increased around election years, except in 2003. Labor unions build up strong demands for a new minimum wage prior to elections, and the federal government is generally persuaded to approve it to avoid being punished during elections. Also, both the federal and state governments are inclined to hire workers and to engage in other voter-friendly expenditures during elections (some recent examples

[96] Fumey's (2017) study on Ghana showed that fiscal transfers to swing and aligned district assemblies were increased in election years. Also see Fumey and Egwaikhide (2018). A comprehensive study by Endegnanew, Soto, and Verdier (2017), with data drawn from 156 countries covering the period 1990–2014, showed that elections increase the government wage bill as a percentage of GDP, especially in market economies and low-income countries. Also see Clomp and de Han (2013), Drazen and Eslava (2010), and Ebeke and Olcer (2017).

are TraderMoni, a loan program, and the school feeding program, both of the federal government). It is difficult to conclude from Figure 8 (in which the vertical broken lines show the election years) that elections swing the expenditures on education and health.

Figure 8. The electoral cycle and expenditure on education and health (consolidated)



On the whole, the impact of elections on the distributional pattern of expenditure is not easily discerned. However, it is generally known that a few months before the general elections, effective governance is in abeyance because the ruling party devotes its full attention to campaigning for votes across the country, with the implementation of capital expenditure stalled.

6. Capacity-Building Support by Development Partners[97]

6.1 The Development Partners

In recent years, the Budget Office of the Federation, under the Federal Ministry of Finance; the Federal Inland Revenue Service (FIRS); and ministries, departments, and agencies (MDAs) have received various forms of technical support from development partners to build their capacity in tax administration and public expenditure management. Development partners associated with capacity development on the revenue side are the World Bank, the International Monetary Fund (IMF), the European Union (EU), the Africa Tax Administration Forum (ATAF), and the Organization for Economic Co-operation and Development (OECD) countries. Support for public expenditure management has come from the Korea International Cooperation Agency; the Japan International Cooperation Agency; Indian Technical and Economic Cooperation; the Accountability, Responsiveness

[97] This section is based on information obtained from the Budget Office of the Federation, the Federal Inland Revenue Service (FIRS), and the Ministry of Budget and National Planning.

and Capability (ARC) pillar of the Partnership to Engage, Reform and Learn (PERL) program of the UK Department for International Development, known as PERL-ARC; China; and the EU.

6.2 Program Objectives

Although technical support came from different development partners, the scope and key program objectives were not far from each other. The programs were carried out for different periods, ranging from two weeks to four years, depending on the nature and scope of the support, and the objectives. The program design and implementation were largely collaborative, with the Budget Office of the Federation, FIRS, and development partners providing inputs. The support employed a multi-stakeholder approach to ensure that the programs were congruent with the institutions' needs and priorities. For the revenue authorities, an important aspect was identifying gaps in the processes that support effective implementation of automatic exchange of financial information, information security management, and data security safeguards.

The World Bank, under its Economic Reform and Governance Program, and the IMF, through AFRITAC West 2 (the Regional Technical Assistance Center in West Africa), offered supports to FIRS during 2016–2017. The programs were sequenced, implemented in phases, and targeted at selected operational and technical aspects of FIRS's activities that were weak. The specific objectives of the capacity-building initiative were to (1) build the technical competence of FIRS in the specialized areas of taxation; (2) promote the culture of performance management and organizational goal setting; and (3) strengthen FIRS's capacity in tax administration, project management, and modernization. Overall, the programs were consistent with FIRS's principal objective of modernizing tax administration for increased tax collection, and also in agreement with Nigeria's goal of raising the ratio of tax revenue to GDP to 13 percent by 2020. ATAF is running a program that began in 2015, focusing on building capacity in various aspects of tax administration.

The OECD's technical assistance was related to the peer review of Nigeria by the Global Forum on Transparency and Exchange of Information for Tax Purposes. There is also ongoing technical support for implementing the automatic exchange of financial account information. A major plank of the program is to assist the revenue authority in critically reviewing the processes relating to the implementation of exchange of information on request, in identifying gaps, and in ensuring that the processes are in line with international best practices. Further, the program aims to help FIRS staff adequately understand the information security management system and ensure that the existing processes and policies accurately reflect required data security safeguards. On the expenditure side, the key objective is to help recipient MDAs develop and implement reforms to improve the functional public financial management system. Other aspects to be addressed are the simplification of logistics for the Budget Office of the Federation's internal capacity, and targeted training for specific MDAs in order to enrich the budget process.

6.3 Impact of the Program

Staff of the various beneficiary institutions indicated that the capacity-building programs had contributed significantly to their operational and technical systems and expertise. They acknowledged that the officers who had participated in the programs were able to carry out their functions with greater effectiveness and efficiency. Indeed, participating staff referred to the increased deployment of information and communications technology for improved tax collection in recent years as one valuable benefit of the capacity-building programs. Because FIRS's inputs were sought in designing the programs, there was some degree of ownership. Officials made no explicit reference to any IMF-type or World Bank conditionality for the programs. However, it is well known that tax policy and tax administration reforms, and good governance stressing greater transparency and accountability in the use of public resources, are a *sine qua non* to the programs of support.

In particular, participating officials said the OECD's technical support enabled the revenue authority to successfully undergo Phase 2 of the peer review on transparency and exchange of information. The support also helped FIRS to identify and put in place policies, processes, and infrastructure toward the successful implementation of automatic exchange of information. FIRS personnel said that through the ATAF support, they were able to build FIRS's capacity in forecasting and research methodology consistent with the long-term objective of raising tax revenue collection through improved compliance.

The programs that supported the MDAs are evaluated on their ability to undertake effective expenditure monitoring and on a comparison of budget outcomes before and after the support. Most of the programs were targeted at specific actions, such as refresher training on budget preparation on the Government Integrated Financial and Management Information System (GIFMIS) platform. The direct beneficiary institutions noted that although the programs were effective as designed and implemented, they were grossly inadequate. Their duration was generally short and their coverage small relative to the number of MDAs that required such support. At the moment, the support is continuous and regular. The sustainability of the program lies with the individual development partners.

6.4 Political Commitment and Buy-In by Stakeholders

Capacity-building support for domestic revenue mobilization is usually susceptible to the governance structure of the revenue authority and the political influences in the country. Tax reforms affect the distribution of resources and wealth. Therefore, with a strong commitment from leadership, capacity building to improve domestic revenue mobilization and public expenditure management is likely to succeed. Although political interference (from both the executive and the legislative branches of government) has been cited as a major impediment to effective tax administration in Nigeria, most of the development partners experienced little political meddling while engaged in these activities. For instance, the OECD programs involved direct exchange of information between officials from the OECD and the relevant departments of FIRS.

6.5 Some Challenges

FIRS reported that the support was effective but not adequate. It fell short of what was required to help fill the gaps in specialized operational and administrative functions. Participants proposed an additional intervention in the future to close the existing gaps. The revenue authority identified a number of challenges that partly affected the effective implementation of some aspects of the program: (1) lack of flexibility in terms of objective setting and delivery, (2) improper identification and selection of project champions, (3) weak conceptualization of projects, (4) bureaucratic bottlenecks, and (5) inaccurate data for simulation exercises. Officials indicated that bureaucratic bottlenecks within FIRS had partly hampered the on-schedule completion of some of the modules.

Other challenges were in relation to the nomination and submission of qualified candidates to participate in the programs. In addition to general delays in nomination and submission, when the candidate nominations were submitted on time, the selection process was influenced by nepotism, leading to the inclusion of unqualified candidates. Put more clearly, the selection of candidates was not based largely on merit but at the discretion of political officeholders. Another major challenge is stakeholders' inadequate knowledge of the workings of Nigeria's public service and institutions.

On the EU support, in particular, participants noted that the capacity program for the staff of the Budget Office of the Federation was not adequate because it did not consider the entire staff. They also said the length of time for the training program was too short, making it difficult to absorb all the modules covered. The program was not fully implemented because of inadequate financial resources that made it barely sustainable.

7. Conclusion: Going Forward

Nigeria's current tax-to-GDP ratio is quite low, and at the same time, the country's demographic structure is rapidly changing. Huge revenue is needed to provide infrastructure and such social services as education and health care. The following recommendations are put forward to improve revenue collection and enhance expenditure efficiency.

7.1 Tax Policy Reform

The policy of tax exemptions and waivers should be reassessed. Currently, the implementation of duty waivers and tax exemptions is wide-ranging, rarely transparent, and not properly coordinated. The exemptions generally favor institutions, companies, and individuals that are influential, with a network of connections. Huge revenue loss from this plethora of incentives tends to fuel political corruption. Accordingly, the exemptions and waivers should be reviewed objectively to eliminate those that are economically unjustifiable.

Both tax policy and tax administration affect the productivity of a tax.[98] Tax legislation that provides for many complex exemptions,[99] as currently is the case in Nigeria, is difficult to administer efficiently. Future tax reforms should vigorously pursue simplification of the tax policy, as stressed in the National Tax Policy document.

Since the introduction of value-added tax (VAT) in 1994, 26 years ago, the rate has remained quite low, at 5 percent, one of the lowest in the world. There is considerable potential for a substantial increase. The federal government should consider increasing the VAT rate. Because past attempts to increase the VAT rate have been unsuccessful, the proposal to increase it should be carefully examined through a thoughtful dialogue, given the sensitive nature of the tax. The various interested parties—taxpayers, tax authorities, legislature, judiciary, professional bodies, tax practitioners, civil society organizations, and others—should be involved in the consultation. Among the issues to be well thought out are the new VAT rate (whether a single rate or multiple rates), exemptions, the treatment of the informal sector, VAT thresholds, and VAT audits. However, it is important to note that on September 11, 2019, the Federal Executive Council approved a 50-percent increase in the VAT rate[100] (that is, from 5 percent to 7.5 percent). This was based on the recommendation of the Presidential Technical Committee,[101] constituted on January 9, 2019, to advise on possible sources for raising revenue to finance the minimum wage increase. The proposed VAT increase is subject to approval by parliament. Although the decision to increase the VAT rate appears right thinking, the actual increase is low, and falls significantly short of the expectations of the policy recommendation anticipated in this paragraph.

Property tax is grossly unexploited in Nigeria, making the amount generated from this tax negligible. A major factor inhibiting property tax collection is the lack of reliable data relating to land values and property improvements. The academic literature has documented numerous relatively easy ways of gathering reliable records on land values and property improvements, which could be explored.[102] A key political constraint that has to be overcome, however, is that the money to finance political competition comes partly from the wealthy, who own the lands on which property taxes are imposed. In view of that arrangement, constructive engagement of the stakeholders is essential to make a success of property tax collection. Vigorous and urgent consideration of this advice should be high on the policy agenda of both the federal and state governments.

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98 Tax productivity refers to tax yield, and it is conceptually decomposed into two tax traits, namely, buoyancy and elasticity. Tax buoyancy is the change in revenue yield arising from the change in the tax base, while tax elasticity deals with the revenue yield change due to a change in the tax rate and/or extension of its coverage.

99 See Faria and Yucelik (1995).

100 See "VAT increased to 7.5%, not 7.2%-Minister". *Premium Times*, September 18, 2019. This policy decision of the Federal Government was announced when this report was being finalized.

101 This is an ad hoc committee tasked with identifying ways the government can generate more revenues to finance the new minimum of N30,000 (US$83.79 at N358.0=US$1.0) per month. The minimum wage was N18,000 (US$50.28 at N358.0=US$1.0) previously. Although the new minimum wage law has been enacted, its implementation is yet to commence.

102 Some of these are outlined in Bird and Zolt (2008), with the major example of Google Earth, an Internet-based resource.

7.2 Strengthening Administrative Capacity

There is a need to strengthen the administrative capacity of the tax authorities at the various levels of government. An important consideration is continuous recruitment of high-skilled human capital. Another is the need to maintain an optimal mix of staff capable of delivering on the core mandates of the revenue agencies. In this respect, competent professional staff—information and communications technology (ICT) specialists, accountants (including forensic accountants), tax specialists, tax lawyers, tax inspectors, and auditors—must be continuously hired competitively in line with international best practices in tax administration.

The deployment of digital technology for tax administration is basic. This will certainly complement the effort of a highly motivated staff, thereby increasing the productivity of the revenue authority. Currently, FIRS and the revenue agencies of some states (such as Lagos and Ogun states) have partially deployed such technology. Adequate knowledge of technology for taxpayer registration, filing, and accounting for tax collections in general is required for maximum benefit. The Government Integrated Financial Management Information System (GIFMIS) should be running at full scale for exchange of data and information between the tax authorities and the Nigeria Customs Service, Central Bank of Nigeria, and Corporate Affairs Commission. The data collected from the networks should be thoroughly analyzed to determine the characteristics of taxpayers and to perform monitoring.

For increased tax collection and relatively easy tracking of taxpayers, a comprehensive registration of the taxpayers is necessary. As a complement, the continuous use of the unique tax identification number (TIN) should be intensified. To ensure comprehensiveness, TINs should be linked to important government services such as driver's licenses and national passports; they should be required for opening a bank account, registering a business, and other matters.

The overall management of tax administration is expected to change. The full deployment of modern technology in the conduct of general tax administration, particularly at the state level, is long overdue and will enhance the efficiency and effectiveness of tax authorities. The increased use of modern technology will provide opportunities for administrative functions to be carried out differently for better results.[103] Capacity building is needed for the continuous application of ICT.

7.3 Improvement in Service Delivery

Nigeria's tax-service reciprocity is highly unbalanced. The general perception is that all levels of government are unable to deliver public goods and services to the citizens effectively and efficiently. Disenchantment with the government and its use of public funds has precipitated

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[103] The article by Bird and Zolt (2008) on the relevance of technology to tax administration is comprehensive, deep, and explanatory.

among the people an unwillingness to pay taxes. The basic reasoning behind improved service delivery is that when the taxpayers are reasonably satisfied with public services, there will be better tax compliance. In order to boost tax collection, the government should develop the institutional capacity to deliver goods and services to the people. The reputation and integrity of the government in terms of its ability to deliver goods and services effectively and efficiently will nurture an enduring social contract on taxation. In addition, greater transparency and accountability, and increased participation in the conduct of government business, should be a matter of routine.

7.4 Improved Efficiency of Government Expenditure

There is significant scope for deepening existing programs and platforms, such as GIFMIS, the Integrated Personnel and Payroll Information System (IPPIS), the Price Checker Portal, and i-Monitor to improve the transparency and efficiency of federal government expenditure. Any reform should stress critical evaluation of budget implementation processes and outcomes beyond validation of figures contained in the appropriation releases, as well as institutional performance-based reporting for MDAs. The wage bill constitutes a major component of total expenditure. Therefore, the federal government should focus on reforming recurrent expenditures, particularly personnel emoluments and pensions. Because the huge wage bill is partly due to weak control and corruption, regular update of personnel records and payroll is necessary. This will make it possible to identify ghost workers, identify areas where data gaps need to be filled and identify other weaknesses for corrective measures. Additional technical support is being sought in integration of human and financial resources, payment management on ICT platforms, adoption of e-procurement, and automation of work processes in order to enhance expenditure management. Early preparation of the budget for the consideration of Parliament will eliminate delays in the approval process.

Electoral cycles seem to have had some influence on the behavior of public-sector expenditure management. Officials revealed that huge resources tended to be expended during election periods, driven by political rather than economic objectives. This practice tends to undermine the quality of spending, as resources are diverted from investment spending to less productive sectors. To minimize the effects of political cycles on public expenditures, capacity building for both the legislative and executive branches on efficient resource allocation and utilization is vital.

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