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INTERNALLY GENERATED REVENUE UTILIZATION AND INFRASTRUCTURAL DEVELOPMENT IN ONDO STATE, NIGERIA

BY

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Abstract

This paper examined the effect of internally generated revenue and infrastructural development of Ondo states in the south – west geo-political zone of Nigeria between 2012 and 2021. Secondary data were extensively used using the Ordinary Least Squares (OLS) method with in-depth analysis of E-Views version 10.0 for analysis. The result of the analysis showed a P-value of (0.3595 > 0.005) level of significance which implied that the IGR portion of the revenue in the state has a relatively low impact on infrastructural development in the states as the amount used on infrastructure of the state revenue from IGR were very low, This is complimented by 72.5% response from the respondents. The study concluded that there are no significant effects of IGR on infrastructural development and that less than 10% were utilized for developmental purposes in the studied states. Based on this, the study recommends ta positive correlation between revenue generation and its utilization on physical infrastructural development, periodic monitoring and cost-benefit effect focus on internally generated revenue to justify the taxes paid by taxpayers in the state.

Keywords: *Revenue, Infrastructure, IGR, Regulation, Financial.*

1 Introduction

The responsibility of every state government to provide the necessary amenities cum necessities of life ranging from social amenities to general welfare for its citizens depends largely on the amount of revenue available for utilization. Meeting up with these challenges necessitates that the government should source for funds internally aside the monies collected from the revenue that are centrally allocated to state from federal government. The internally generated revenue are meant along that from federation account to provide infrastructure that will enhance the efficient economic growth of the state. According to Ifeanyi and Ernest (2016), infrastructure is the physical assets and services that are fundamental to the growth and development of an economy. By this assertion, infrastructure is considered to be a facilitator of the growth and development process vis-à-vis the industrial transformation of a state. Ironkwe and Ndah (2016) summarized that infrastructure is referred to as the oil in the wheel of progress of a nation's economy. This means that no government can talk of growth and development without having a good impact on the provision of infrastructural projects. Infrastructural projects include the construction of bridges, road networks, hospital facilities, building of school projects, construction of markets, provision of electricity and pipe-borne water, among others. It therefore follows that any state that wants to grow and develop must make infrastructure a priority on its agenda.

According to the United Nations (2010), 884 million people lack access to portable water and 2.6 billion people lack access to basic sanitation services. For developing countries, investments in infrastructure have benefits as well as costs associated with them. In areas where transportation, communication, and power generation are inadequate, increased supplies can do much to boost productivity and growth. Providing appropriate infrastructure in developing countries can play a vital role in the economy. The denser a population is in a given area, the higher the demand will be for infrastructure. There are two types of infrastructure: 1social infrastructure, which includes schools, affordable housing, and hospitals 2: economic infrastructure (roads, sewage, water, airports, and power).Annually, the government makes budgetary allocation for infrastructure development as a result of inadequate funding coupled with the high cost of these services and the increasing prices they require to complete a capital project. Financing is the process of raising funds or capital for any kind of expenditure. It is the process of channeling various funds in the form of credit, loans, or invested capital to those economic entities that most need them or can put them to the most productive use. Finance is one of the most important aspects of infrastructural development. For the government to finance infrastructure, it needs to generate revenue internally and from external sources. Mbah and Onuora (2018) say revenue generation is said to be a cornerstone for infrastructural development in today's globalized world. To build a viable infrastructure, a stable source of funds is needed. The major sources of funds for any state in the Federal Republic of Nigeria come from federal revenue allocation (FRA) from the federal government and internally generated revenue (IGR), which is those funds generated internally by the state.

However, it is one thing to place much emphasis on the development of infrastructure and another thing to generate adequate revenue to finance the infrastructure, Mbah and Onuora (2018). Due to the high cost of infrastructure, the state government needs a large amount of review to plan and execute infrastructural development at the state level. There are two forms of revenue accrued to the state government: externally generated and internally generated revenue. However, this study focused on infrastructure financing and revenue utilization with special consideration to Nigeria states. The external sources of revenue for the state include federal government allocations as enshrined in the 1999 Federal Government Constitution (CBN, 2010), individual or corporate donations, grants and aids etc. During the era of the oil

boom, the Nigerian government depended solely on oil revenue to meet its financial needs. It is clear that most state governments depend largely on federal government allocations to finance their recurrent and capital expenditures, which are no longer sustainable in building modern infrastructure. Considering the severe economic depression in Nigeria due to the drop in oil prices in the international oil market, the federal allocation accruing to the state government has drastically dropped below what it used to be. Mbah and Onuora (2018) opined that the instability in the oil revenue market is one major source of concern for the dependency of the state government on revenue accruing to the federation account. Therefore, the state government should try to find a way of boosting its internally generated revenue in order to augment the federation allocation. Olayinka and Irewole (2019) confirmed that in recent times, the mobilization from the federation account is hardly enough to meet the immediate needs of the states. Therefore, it is the responsibility of the state government to look inwards for ways to mobilize more revenue generated internally facilitate the above statement, state governments should upgrade their methods of internally generated revenue collection from manual to digital methods of collection. According to Oyetaki and Yahyan (2017), the following are the benefits of using internally generated revenue funds in infrastructure development: internally generated revenue does not cause hyperinflation, it does not impose the burden of interest repayment like domestic borrowing and loans, it serves as a nerve centre of social contracts, it makes the government more responsible and responsive to the needs of the people, it serves as a tool for economic development, and it helps SMEs. This is because as the government gets more and commissions more projects, more money is put into circulation, creating more employment and business opportunities that impact positively on the entire social economic growth. The revenue also serves as a tool for financing infrastructure in the state. State governments cannot meet their infrastructure development needs without adequate funding. It is obvious then that the importance of revenue to nation building cannot be overstated, but more often than not, the revenue generated from taxpayers does not reflect in the physical infrastructural development hence there is a need to analyses and assess the revenue correlation cum structure of the states and the utilization pattern to allow for articulation and sustainability of development of states infrastructure wise in Nigeria..

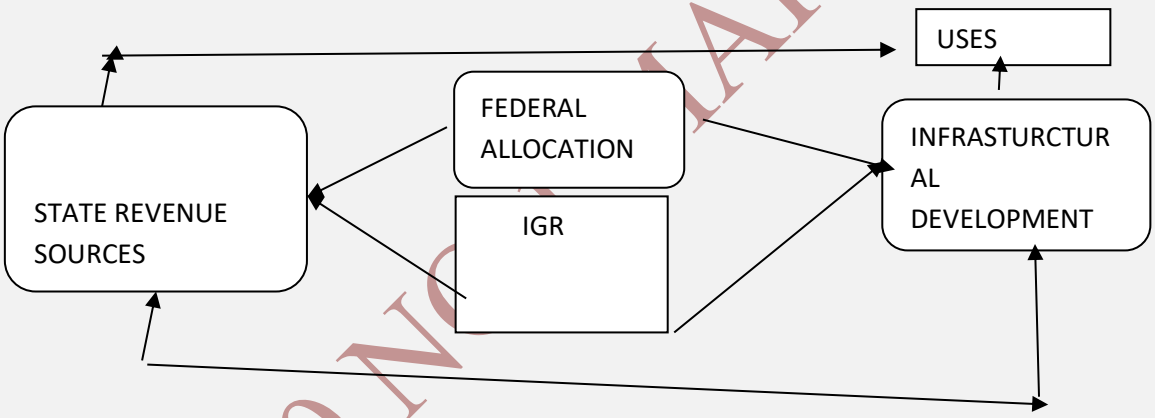
2. Theoretical Framework

Revenue

Different authors have defined revenue in their own different perceptions. Nightingale (2002), defined revenue as fund needed for governance in the public sector to finance government activities, adding that these funds is to be generated from non – oil sources such as income and other forms of tax, royalties, fines, fees, rates and aids from the federal government and foreign financial institutions and countries. Udo and Nkeanor (2016) stated that internally generated revenues are those revenues generated within the state e.g. taxes, motor vehicle licensing, and royalties among other. Revenue comprises of receipt from taxes as well as those which are not the proceeds of taxation but either the realization from the sale of government properties or other interests and returns from loan and investment earnings. Two types of revenue accruing to state government are internally generated revenue and externally generated revenue i.e. statutory allocation from state government (Olayinka, and Irewole, 2019) asserts that it is those sources of government finance generated majorly by federal state and local contacts, which keep breading and decoding the overall none oil revenues. Infrastructural development can enhance the agricultural production and productivity of Ondo State since Ondo people engage more in agriculture. Infrastructure development can increase the comparative advantage of Ondo State if infrastructural investment is made available. If the state government can provide good infrastructure, such as good roads, for people to easily transport their farm

products to market and other states, agricultural production and productivity will increase. If there are tractors, if there are water supply channels to give ground for dry season farming, which will be provided by the government, and aid is being provided by the state government to farmers, this will enhance agricultural production. When Ondo State gains comparative advantage in terms of agricultural activities, the outcome will be an upsurge in the production and productivity of agricultural goods and services (Ironkwe & Ndah, 2016). The main source of revenue to the state government in Nigeria is revenue from the Federation Account (FAAC), while Internally Generated Revenue (IGR), borrowing, and others have significant roles in the total revenues of the states. Funds collected from taxes, levies and federal allocation are used in the current dispensation to finance infrastructure. Due to the reduction in the price of crude oil and the conditions attached to borrowing because of the economic meltdown, the state government needs to look inward as internally generated revenue (IGR) is the only alternative and reliable source of revenue to sustain and finance the infrastructural need of the states. It is evident that no infrastructure can be built without revenue, be it at the federal, state, or local government level, and therefore, state revenue comes from two main sources: the federal allocation and the internally generated revenue (tax and levies). The revenue, when collected, is expected to be used to build infrastructure (road construction projects) across all the local government areas in the state. The sources and infrastructural-related concepts are as depicted below:

Figure 1: *Conceptual Framework on Infrastructural Financing*



Source: Author's Design, 2022

Revenue Allocation

The revenue of a state is defined by the total amount of internally generated revenue (IGR) and funds received from federal allocation. The federal allocation refers to funds shared by the federal government with state and local governments from a federation account to supplement their internally generated revenue. The revenue is expected to be judiciously utilized for capital expenditure to promote economic growth in the state. Oyetakin and Yahya (2017) opined that internally generated revenue (IGR) has a significant positive impact on the infrastructural development of the state aside that of federal allocation and federal government level which have a clear objectives for the sharing of such money which is always based on federal allocation formular. Therefore, the main purpose of this study is to assess the contribution of revenue to the infrastructural financing of Ondo State. The applicability of this revenue to finance relevant capital expenditure on infrastructural developments in order to improve

economic growth and poverty alleviation, especially in Ondo State become essential in the present dispensation.

Infrastructures

Infrastructure is the productive capital structures that develop the economy and society and contribute over time to the achievement of its economic and social goals. Infrastructure development can be defined in many ways as the relatively permanent and foundational capital investment of a country, firm, or project that underlies and makes possible all its economic activities. They include: administrative, telecommunication, transportation, utilities, waste removal, and processing facilities. Development: Development is a sine qua non for modern civilization. In other words, the government uses the funds generated from revenue to fund those projects like the construction of roads, the building of public schools, health care centers, the construction of bridges etc. Omodero, Ekwe, and Ihendinihu (2018). Joseph & Omodero (2020) hold that economic growth depends on investment in human capital, innovation, and knowledge management. It also supports government policies that could boost economic growth in a nation. These policies include all measures governments take to encourage exploitation of IGR opportunities within the domain of every state and local government in a nation. There is no homogeneity in IGR sources and opportunities existing in the state and local governments. Industry activities necessitate not only raw materials, machinery, and equipment, but also infrastructure to facilitate product movement. Private investors will not establish an industry without good and sound infrastructure in a particular location. Infrastructure facilities like transport, good roads, and production machinery, among others, serve as a booster for industrial development (Onwuka and Christian, 2019). If infrastructure is available in Ondo State, it will attract investment and industry to establish in the state .sound infrastructure also increases the competitiveness advantage of the industrial sector over competitors and it also saves time and effort. In this global village, in this globalized and computerized generation that we find ourselves, it is important for infrastructural facilities to be in place in Ondo State. Infrastructure facilities have a vital function in attracting foreign investors. Foreign direct investment as well as portfolio investment will flow to any state or country where there are adequate infrastructure facilities for utilization (Deloitte, 2016)

Typology of Infrastructure

Soft Infrastructure: This type of infrastructure is the institution that helps maintain the economy. It requires human capital and helps deliver certain services to the people, e.g., the health care system, financial institutions, governmental systems, etc.

Hard Infrastructure: These types of infrastructure are assets defined by the government as essential to the financing of society and the economy, such as facilities for shelter and heating, telecommunication, public health, agriculture, etc.

The term "infrastructure" could be defined as the provision of essential services and amenities to industry and households in a society (Onwuka & Christian, 2019). Hence, investment in infrastructural development projects is a key input in the development of the economy and the economy's panacea for economic activity and growth.

Infrastructural financing

Infrastructural financing is the funding of long-term infrastructure, industrial projects, and public services using a non-resource or limited recourse financial structure. It is the process of funding infrastructural projects. There are various ways of financing infrastructure projects. 1. public-private partnership agreement (PPP Arrangement), 2. Contracts for civil works and services, 3. Afterimage contracts and leases, 4. Management/Operation and Maintenance contracts, 5. Concessions, BOTs, and DBOs, 6. Joint Ventures/Government Shareholding in the Project Company and 7. Complete Divestiture/Privatization. In addition to federal grants, state governments pay for infrastructure investments out of their own budgets, either through taxes or levies (Udo and Nkannor 2016).

Economic: Infrastructure financing can be for purely economic reasons. For instance, when a new road network is constructed in a state, it enables more foreign trade. These projects are generally funded using a public- private partnership (Oti and Odeh ,2017). This is because these projects have net positive value. Hence the value created can be shared between the government and the private parties. Economic infrastructure project provide benefits to the larger economy of a region instead of providing benefit only to specific industries or people.
Social: Infrastructure funding is also given too much institution for a social cause. For instance, several projects are undertaken to provide clean water to the people. Similarly, project are undertaken to provide healthcare and education services to the people of a region. These projects are different because they have to be undertaken regardless of the fact that they might have a negative net present value. Hence, under other modes of financing, these projects would be left out (Mbah and Onuorah, 2018). However, when it comes to infrastructure financing; the government does spend funds on these projects even though there may not be any immediate returns. Since these projects may have a negative net value, they are undertaken mostly by the government.
Commercial: commercial project are just like economic projects except, these project provide benefits to a set of people that can be directly identified. For example, toll roads and metro rail projects are considered to be commercial infrastructure projects they are funded by charging the people who utilize the service .Sometimes, the case is for the expenditure to be larger than the revenue generated making them largely than dependent on inter-governmental fiscal transfer especially from the central government. These range from analyzing revenue and expenditure decentralization and fiscal autonomy of the various tiers of government. The research also discovered that the infrastructural development in Lagos state is a result of adequate internally generated revenue and that revenue generated are used supports infrastructural development (Daniel, 2019).

3. Methodology

The study examines infrastructural financing and revenue allocation in Ondo State, Nigeria for a period of ten (10) years (2012 – 2021). Secondary sources of data were collected from the state Budgetary Estimate for the period under review. Ordinary Least Square (OLS) method was adopted to analyze the collected data; with its in depth analysis through E-Views version 10.0.

4. Data Analysis and Results

The secondary data obtained from Ondo state and their sources which comprises of federal allocation, state taxes, levies that sums to be the total estimated internally generated revenue and the amount expended on infrastructures between 2012 and 2021.are as presented the table below:

Table 1: Revenue Heads and Infrastructural Expenditures of Ondo state from 2012 - 2021

Year	Fed. Alloc. (₦ b)	Taxes (₦b)	Levies (₦b)	Total (IGR) ((₦b)	Exp Infra ((₦b)
2012	86.800	58.112	38.781	96.953	96.517
2013	85.122	55.504	37.002	92.507	92.507
2014	71.423	49.005	32.670	81.675	93.330
2015	83.130	55.886	31.257	93.144	84.232
2016	72.203	48.537	32,358	80.896	89.643
2017	65.533	45.876	30.584	76.461	98.472
2018	78.662	62.069	41.379	103.449	93.994
2019	45.737	45.523	30.349	75.872	95.416
2020	126.589	90.862	60.575	151.438	91.355
2021	95.741	75.945	50.630	126.575	98.567

Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
Infrastruc~t	10	3.64e+10	2.35e+10	1.33e+10	9.25e+10
Total IGR	10	9.79e+10	2.42e+10	7.59e+10	1.51e+11
Inflation Rate	10	11.682	2.798	8.06	16.52
Growth Rate	10	2.659	.032	2.6	2.71

Source: Author's Compilation (2022)

CORRELATION MATRIX

Pairwise correlations

Variables	(1)	(2)	(3)	(4)
(1) Infrastructures de~t	1.000			
(2) Total IGR	0.221	1.000		
(3) Inflation Rate	-0.104	-0.123	1.000	
(4) Growth Rate	0.139	0.105	-0.440	1.000

* Shows significance at the 0.05 level Diagnostic Test Results

Test Statistic	F-Statistics	P-Value
Serial Correlation	0.266069	0.7898
Heteroscedasticity	1.468122	0.3595

Source: Author's computation (2022)

Table 2: Augmented Dickey-Fuller Test for unit root

VARIABLES	LEVEL	t-statistic (5%) First Difference	Order of Integration
INFR	-4.201138	-4.201138	I(0)

IGR	-2.098804	-3.775192	I(1)
INF	-2.855386	-2.699148	I(1)
GROWTH	-1.499982	-2.950753	I(1)

Table 3 ARDL RESULT

ARDL Long Run Form and Bounds Test

Short Run Estimate

Conditional Error Correction Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGIFRADEV(-1)*	-1.396654	0.362211	-3.855917	0.0182
LOGIGR**	0.144248	0.473913	0.304375	0.7760
INFLATION_RATE(-1)	0.143684	0.100597	1.428311	0.2264
GROWTH_RATE**	11.95530	3.123107	3.828016	0.0186
D(INFLATION_RATE)	0.058821	0.089095	0.660207	0.5452

* p-value incompatible with t-Bounds distribution.
** Variable interpreted as Z = Z(-1) + D(Z).

Case 1: No Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGIGR	0.103281	0.287125	0.359706	0.7373
INFLATION_RATE	0.102877	0.065319	1.574988	0.1904
GROWTH_RATE	8.559962	0.450590	18.99722	0.0000

EC = LOGIFRADEV - (0.1033*LOGIGR + 0.1029*INFLATION_RATE + 8.5600 *GROWTH_RATE)

F-Bounds Test — Null Hypothesis: No levels relationship

Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	3.767357	10%	2.01	3.1
K	3	5%	2.45	3.63
		2.5%	2.87	4.16
		1%	3.42	4.84

t-Bounds Test — Null Hypothesis: No levels relationship

Test Statistic	Value	Signif.	I(0)	I(1)
t-statistic	-3.855917	10%	-1.62	-3
		5%	-1.95	-3.33
		2.5%	-2.24	-3.64
		1%	-2.58	-3.97

The Autoregressive distributed lag model (ARDL) results presented in the table shows a short -run IGR linking to the lagged(previous) value of cost of infrastructural development which is significantly driven by federal allocation but negatively drive by the IGR in the related period. This could be adduced to poor continuity in project that pervades beyond an accounting year which IGR of the related period could not be sufficient to off set. However, IGR was noted to exert positive but insignificant effect on infrastructural development cost on general infrastructure. This aligns with the findings of Okolo, Edeme, & Emmanuel,(2018) who reported that some receipts in the states had positive but insignificant relationship with capital expenditure. Similarly, this coincides with the findings of (Ifeanyi & Ernest 2016) who shared the same view on the relationship. The relationship between IGR and infrastructural development was consistent in the long run and the bound test to affirm the existence of a long run relationship between the two variables reveals both variables move together in the long run(F-stat -3.85 is greater than the upper bound value of -3). Lastly, the study controlled for both inflation and population growth rate. However, only population growth rate consistently positively and significantly affects infrastructural development. Meanwhile, the R-square value of the model of 0.3019 as contained in the regression table indicate around 30% of the variation in cost of infrastructural development is explained by the explanatory mix(independent variables) while the remaining 70% will be in the stochastic disturbance.

5. Conclusions and Recommendations

The study examined the internally generated revenue of Ondo state and its utilization on infrastructural development. This study was carried out to established revenue generation utilization potentials on infrastructural development of states so that the allocation coming from the federal can be less over-burden. From the study, it is clear that poor financing and poor revenue generation and utilization by State governments have affected the spread of infrastructure development at state levels in Nigeria. The study concluded that the revenue generated by the State governments fall into different categories and they are all tax-payers money which should reflect in the developmental trend if adequately managed. Thus, inclusive of statutory allocation, internally generated revenue, and the grant needed to have significant effect on development of infrastructure in the state as expected. The study however observed that the States are overwhelmed by political merchants that often use public funds to their own advantage and invariably acting as a bane to developmental growth of states especially the developing states in the economy . The study recommends that the State government should strategically plan on proper measures to generate revenue and allocate higher funds to infrastructure as to meet their constitutional functions as provided by the constitution of the Federal Republic of Nigeria. The government should make efforts to widen the economic base of the state through infrastructure execution and maintenance by investing in local government, since the local government has abundant natural resources and could generate more revenue back to the purse of the government.

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