FINANCING NATIONAL DEVELOPMENT THROUGH DOMESTIC REVENUE MOBILISATION AT THE NACOFED, 2024

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Abstract

Development is intrinsic to any organization or nation. Nigeria is one nation that is still developing after many years of independence. But development is highly reliant on funding. And a nation's financial capacity can only come from revenue generation. This study using secondary and some level of primary sources for data collection, concluded that there are diverse sources of domestic revenue generation in Nigeria. However, the study also uncovered that there are numerous untapped or potential sources for Nigeria's revenue generation especially from the tourism sector, innovative technology and creative arts and culture. The study while acknowledging Nigeria's challenges for revenue diversification hinged to oil export proceeds, recommended the need for policy reform to enhance Nigeria meeting sustainable development goals.

Introduction

National Development in Nigeria hinges critically on the government's ability to mobilise and manage domestic revenues effectively. As the global economic environment becomes increasingly uncertain marked by fluctuation in oil prices, rising debt burdens, and demands for improved social services, the need to boost domestic revenue has become an urgent national priority.

Unlike reliance on external borrowing, domestic revenue mobilisation (DRM) offers a sustainable financing pathway that secures financial independence and creates a more predictable foundation for planning and implementing development programs (Federal Inland Revenue Service, 2024).

Domestic revenue mobilisation is the country's ability to generate funds internally through taxes, fees, levies, and state-owned enterprises. This revenue serves as the backbone for public investment in essential sectors such as infrastructure, healthcare, education, and social welfare, directly contributing to socio-economic growth and poverty reduction.

Sources of Domestic Revenue in Nigeria

Nigeria's domestic revenue sources can be divided into tax revenue, non-tax revenue, and revenue from public enterprises.

1. Tax Revenue: Taxation remains the primary source of domestic revenue in most economies, and Nigeria is no exception. However, the Nigerian tax system is heavily reliant on a few core sources:

- Personal and Corporate Income Taxes: These are levied on individuals and corporations operating within Nigeria. Corporate income tax is particularly significant due to the country's large corporate sector, including banks, oil companies, telecommunications firms, and other major enterprises.
- Value-Added Tax (VAT): VAT on goods and services is an important source of indirect tax revenue, contributing significantly to non-oil tax collections.

- Customs and Excise Duties: These taxes are imposed on imported goods and certain locally manufactured goods. Customs duties, in particular, are essential due to Nigeria's high import dependency.

2. Non-Tax Revenue: Non-tax revenue includes fees, fines, licensing payments, and levies collected by government agencies. For instance, oil royalties, licenses, and registration fees are major non-tax revenue sources in Nigeria. In recent years, efforts have been made to increase revenue from non-tax sources by improving the efficiency and transparency of government agencies responsible for collecting fees (Tax Justice Network, 2024).

3. Revenue from State-Owned Enterprises (SOEs): Nigeria's state-owned enterprises, especially in sectors like oil and gas, power, and transportation, have traditionally been expected to contribute to domestic revenue. While the Nigerian National Petroleum Company Limited plays a significant role in revenue generation, other state-owned entities can generate additional revenue if effectively managed.

Untapped Revenue Streams

1. Tourism

Nigeria is rich in cultural and natural resources, which could be developed into a vibrant tourism industry. With an abundance of national parks, historical sites, and cultural heritage, Nigeria has the potential to become a leading tourist destination in Africa. However, inadequate infrastructure, poor marketing, and security concerns have hindered the growth of the tourism sector.

Investing in tourism infrastructure, promoting Nigeria's attractions globally, and implementing policies to ensure security in tourist areas will help unlock the economic potential of tourism. As a revenue-generating sector, tourism can significantly contribute to Nigeria's national development by creating jobs, attracting foreign investment, and boosting local economies.

2. Technology and Innovation

The technology sector in Nigeria has grown rapidly, with fintech, e-commerce, and digital services becoming significant contributors to the economy. However, the potential for the technology sector to drive revenue is far from fully realized. To capitalize on this growth, Nigeria needs to invest in digital infrastructure, encourage innovation, and support tech startups through policies that promote research and development.

Incentives such as tax breaks for tech companies, subsidies for research initiatives, and investment in digital education and skills development can foster innovation and attract global investments. Additionally, expanding access to broadband internet and improving connectivity in underserved areas will enhance the tech ecosystem and increase its contribution to national revenue.

3. Renewable Energy

Nigeria's energy sector needs reform, and renewable energy presents an opportunity for the country to diversify its energy sources and reduce dependence on fossil fuels. Solar, wind, and hydroelectric power hold immense potential to address Nigeria's energy deficit while contributing to revenue generation.

By investing in renewable energy infrastructure, offering incentives for green projects, and encouraging private sector participation, Nigeria can harness the potential of renewable energy to meet its domestic energy needs and create export opportunities.

This sector presents an untapped revenue stream that can also help combat climate change (Ezeani, E. J. & Nwaobia, A., 2023).
4. Cultural and Creative Industries
Nigeria's creative industries, including Nollywood (film), Afrobeats (music), fashion, and the arts, have gained significant global recognition in recent years. However, the full potential of these industries has not yet been fully realized. By improving intellectual property rights protection, offering tax incentives, and investing in creative infrastructure, Nigeria can develop these industries into major revenue generators.
Promoting Nigerian culture internationally through entertainment, music, and fashion can help unlock new revenue streams while creating jobs and increasing foreign exchange earnings. With the right investment and support, Nigeria's cultural and creative industries could become a driving force for national development.

The Role of Effective Partnerships

The mobilization of domestic revenue for national development cannot be achieved by the government alone. Public-private partnerships (PPPs) play a critical role in financing development projects, particularly in sectors such as infrastructure, energy, and agriculture. PPPs can help bridge the financing gap, enhance efficiency, and foster innovation. Collaboration with international development agencies, financial institutions, and local communities can also provide additional resources, expertise, and technical assistance to support national development goals.

Challenges to Domestic Revenue Mobilization in Nigeria

Despite the clear need and potential for domestic revenue mobilisation, Nigeria faces several complex challenges that hinder the optimal collection and management of its domestic revenues.
1. Heavy Dependence on Oil Revenue: Over the years, Nigeria's economy has been highly dependent on oil revenue, which makes it vulnerable to the volatility of global oil prices. When oil prices are high, government revenues increase, but when they fall, the revenue base contrasts. This heavy reliance on oil revenues also discourages more focused efforts to expand the non-oil revenue base, leading to a structurally imbalanced economy. However, in the last eight years, the Nigerian government shifted the focus from the oil revenue by diversifying the economy into the non–oil revenue. Currently, with the implementation of the Petroleum Industry Act, the Non-oil revenue is the one contributing substantially to sustain the economy (Oyeleke, T. O., 2022).
2. Narrow Tax Base and Informal Sector Dominance: Nigeria's tax-to-GDP ratio is low compared to other developing countries. A significant portion of the Nigerian economy operates within the informal sector, which is difficult to tax. Small businesses, street vendors, and various service providers often operate outside the formal tax net, resulting in a limited tax base. There is a need for a fiscal framework to create more incentives for the informal sector and bring them to the tax net (IMF, 2024).
3. Tax Evasion and Avoidance: Tax evasion and avoidance are pervasive, especially among high-net-worth individuals and large corporations. Limited administrative capacity within tax authorities, coupled with corruption and weak enforcement mechanisms, has made it challenging to curb tax evasion.

Additionally, loopholes within the tax code allow certain companies to exploit tax avoidance strategies legally, further eroding the tax base (IMF, 2024).

4. Inefficiencies in Tax Administration: Revenue collection in Nigeria is hindered by outdated systems, inefficient processes, and capacity constraints within tax agencies. These inefficiencies reduce the amount of revenue collected, increase administrative costs, and undermine taxpayer compliance. For example, the lack of integrated digital systems across different tax collection points has led to high administrative costs and inefficiencies.

5. Public Distrust and Lack of Accountability: The level of public trust in Nigeria's revenue system is low. Many Nigerians are reluctant to pay taxes, partly due to the perception that tax revenues are often misused or diverted. This mistrust is exacerbated by the lack of transparency and accountability in public finance management, which weakens voluntary compliance and makes it challenging to improve tax collection.

6. Insufficient Capacity in Non-Tax Revenue Collection: Non-tax revenue sources are underutilized due to poor management, lack of transparency, and regulatory loopholes. Public enterprises that could generate additional income are often inefficient and burdened with operational inefficiencies, meaning that they contribute far less than their potential to national revenue.

Impact of Domestic Revenue Mobilisation on National Development

A robust domestic revenue base is essential for financing Nigeria's national development goals, as it enables the government to make predictable, sustainable investments in key sectors.

1. Financing Public Infrastructure and Services: Increased domestic revenue can fund critical infrastructure projects, including roads, bridges, schools, and hospitals. These investments improve living standards and create a conducive environment for economic activities. For instance, better transportation infrastructure lowers costs for businesses, which can attract foreign investment and stimulate job creation (Federal Inland Revenue Service, 2024).

2. Enhancing Social Welfare: Domestic revenue is vital for expanding social services, such as education, healthcare, and social protection programmes. By investing in these sectors, the government can address poverty, reduce inequality, and promote social mobility. For example, better healthcare systems reduce disease burdens, allowing citizens to be more productive, while quality education builds a skilled workforce that contributes to economic growth (IMF, 2024)..

3. Reducing External Debt and Fiscal Dependence: Increasing DRM reduces Nigeria's reliance on external debt, preserving fiscal sovereignty and enabling the government to make development decisions based on local priorities rather than donor conditions. With reduced debt obligations, more resources can be allocated to domestic development needs rather than debt servicing.

4. Fostering Economic Stability and Resilience: A diverse revenue base provides fiscal stability and reduces Nigeria's vulnerability to external shocks. By diversifying revenue sources, Nigeria can better manage economic downturns, ensuring that critical development programmes are not halted due to revenue shortfalls (Tax Justice Network, 2024).

5. Promoting Transparent Governance and Accountability: Effective DRM necessitates improvements in governance, transparency, and accountability. As citizens contribute more through taxes, they demand better governance, leading to a virtuous cycle of transparency, efficiency, and improved public trust.

Conclusion

Financing national development through domestic revenue mobilisation is not only a matter of financial necessity but also a critical step toward Nigeria's long-term stability and independence. The path to enhanced DRM requires a combination of policy reforms, institutional strengthening, and public trust-building measures. By addressing challenges such as the dominance of oil revenue, tax base limitations, and administrative inefficiencies, Nigeria can build a sustainable revenue base to support its development goals.

Efforts to broaden the tax base, enhance tax compliance, and utilize technology in revenue collection and explore the tourism sector can position Nigeria to achieve its aspirations of sustainable and inclusive growth. Ultimately, robust domestic revenue mobilisation is fundamental to fostering an economically self-reliant Nigeria, capable of driving its national development agenda with stability, resilience, and independence.

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