

AN EVALUATION OF THE VOLATILITY STRUCTURE OF THE INTERNAL REVENUES GENERATED BY THE STATES OF NIGERIA

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Abstract

There has been drastic reduction in the revenue base of Nigeria due to oil price volatility and this in turn affects the amount of money that the three tiers of government get from the federation account. This therefore compels both the states and local governments to emphasize more on internal revenue generation strategies in order to complement the shortfall from the federation account. The study attempts to investigate whether there has been substantial improvement in internal revenue generation by Nigerian states both in aggregate and on a state by state basis when cross-sectionally compared. The study utilizes secondary data for the period of five years ranging from 2011 to 2015. The period is chosen because it is within the period volatility in oil price appeared more frequent and also various tiers of government in the country claimed to have instituted strategies of diversifying revenue source. The techniques employed for the purpose of analyses are descriptive statistics and ANOVA. Based on the data analysis and hypotheses testing, the results provide evidences for the failure to reject null hypothesis one. As for the second hypothesis, the decision is rejecting the null hypothesis. Hence, the study concludes that some states appeared more aggressive in internal revenue generation than others and also despite the increment in revenue figures on yearly basis; the amount generated was not significant enough to be considered to have material difference in the trend. The study, therefore, recommends that Nigerian states should concentrate more on internal revenue sources and employ feasible strategies that could lead to more revenue generations. Finally, future researches in this area should be conducted to consider evaluating strategies put in place

for revenue generations by various states in order to establish how effective or ineffective they are.

Keyterms: Federation Account, Fiscal Federation Theory, Internal Revenue, Oil Price Volatility, State

Introduction

In Nigeria, there are three tiers of government and these include federal, states and local government. The States are thirty six in number and the Local governments are seven hundred and seventy four. The main reason behind categorizing the government into the tiers is to speed up growth and development of the country. This becomes possible as a result of functions that are clearly defined for each of the tier to carryout. The discharging of the functions by the tiers to create meaningful development hinges on the availability of funds and revenue generating capacity.

Revenue, according to Section 162 subsection 10 of the constitution of the Federal Republic of Nigeria 1999 CAP. C23 L.F.N. 2004 means any income or return accruing to or derived by the Government of the Federation from any source and includes any receipt, however described, arising from the operation of any law; any return, however described, arising from or in respect of any property held by the Government of the Federation; and any return by way of interest on loans and dividends in respect of shares or interest held by the Government of the Federation in any company or statutory body.

As far back as the early 1970s, Nigeria relies heavily on the revenue generated from the sales of crude oil and pays little attention to

other revenue generating avenues that were mostly on the exportation of agricultural products. Due to the prominent role that oil revenue plays, it is used as the threshold in the preparation of the national budget and as a result serves as the principal budget limiting factor. The volatility nature of the oil price makes it difficult for the government to accomplish its developmental plan.

The causes of the volatility are in various forms but the most notable ones include reductions in the demand of the Nigerian oil by the major importing countries especially the United States of America. The other reason has to do with the discovery of proven oil reserves by other African countries which also make them part of the exporting countries. The increment in the concentration of crude oil suppliers worldwide makes the supply by far exceeding the demand and this led to the reduction in oil price substantially.

Another issue of serious concern that affects Nigeria's oil supply to the world market is insurgency in the Niger Delta area where the explorations take place. Due to pipelines destructions and kidnapping of oil companies' workers, the quantum of crude oil explore and exported reduced drastically.

The effect of the reduction in the quantity of oil exported and the corresponding falls in price appears very devastating as most of the states in the country rely on the revenue allocated to them from the federation account which basically comes from oil exportation. In fact, there are some states that get over 85% of their revenues are from that source without putting effort to explore other alternative sources (Agu, 2011).

According to the Central Bank of Nigeria (2006), the share of the federation account to states constitutes 57.9% in 2002 and this was raised to 65.82% in 2006. When compared to the internally generated revenue of the corresponding years, the revenue declined from 13.38% to 8.11% respectively. On the average, the percentage of the internally

generated revenue in relation to the federation allocation was between 5-9 percent in most of the non-oil producing states.

The above factors coupled with increasing cost of running government by all the three tiers make it imperative to begin intensively exploring for internal sources of revenue generation. This is in line with 1999 constitutional provision which specifically described various internal revenue sources that can be explored by the tiers of government. For instance, according to the constitution CAP C23 L.F.N. 2004, Nigerian local governments are given the mandate of internally generating revenue from tenement rates, fines and renewal of licenses, among others.

There is no gainsaying the fact that diversification in revenue generation by tiers of governments can assist in reducing insufficient funds problem, but the major concern is, are the tiers taking all precautionary measures to ensure that they aggressively and innovatively explore all these internal sources available to their disposal? To what extent does the diversification leads to improvement in revenue generation especially by the states government?

The objective of this study is to investigate whether significant variation exists in the internal revenue generation of the states of Nigeria. More specifically, the study intends to ascertain whether there has been substantial improvement in internal revenue generation by Nigerian states both in aggregate and on a state by state basis when cross-sectionally compared. This is with a view to finding out whether claim made by the state governments on revenue diversification strategy is yielding desired outcome or not.

The other rationale behind conducting the study is to serve as a pioneering effort in filling a gap that past studies have not addressed. Most of the previous studies on internal revenue generations are descriptive

in nature and they concentrate on studying local government revenue generations from taxation and disregarding other available avenues that they may explore and also most of the studies are case study based. This approach may not be able to give a comprehensive picture on whether on a trend or comparative bases substantial improvement is recorded on revenue generation potentialities of the Nigerian states. This study considers the whole states in the country and also employs both descriptive and inferential analysis.

The period under study is from 2011 to 2015. The period is chosen in order to have reasonable verification time of the revenue generation capabilities of the various states and this will greatly assist in determining the real effect of the situations. It is within the period volatility in oil price appeared more frequent and also various tiers of government claimed to have instituted strategies of diversifying revenue source. Both events are expected to play significant roles in stimulating internal revenue generations.

On the basis of the above background, the study formulated the following hypotheses for testing:

H₀₁: There exists no significant difference in internal revenue generations of the states of Nigeria taking into consideration yearly trend pattern.

H₀₂: There exists no significant difference in internal revenue generations of the states of Nigeria when cross-sectionally compared.

The remaining part of this paper is divided into the following sections. Review of related literature and theoretical framework are in section 2. The methodology adopted for the purpose of the study is dealt with in section 3. Section 4 addressed data presentation and analysis, and section 5 presented summary, conclusion and recommendations.

Review of Related Literature and Theoretical Framework

There are basically two sources of revenue accruing to the states and local governments in Nigeria. These are external and internal sources. The external source deals with revenue that comes from the federation account and the internal comes from the states and local government sources allowed by the constitution.

In an effort to ascertain the viability of these sources, a lot of studies were conducted, but out of the total number of the studies, majority of them investigate the effect that taxation has on revenue generating capabilities of either state or local government. Conflicting views also exist as to what plays significant role between direct and indirect tax when it comes to the revenue generations. For instance, while researchers like Chelliah (1989), and Baunsgaard and Keen (2005) are of the view that direct tax impacts positively on the economic growth and development, others like Lee and Gordon (2005), Emran and Stiglitz (2005), and Avi-yonah and Margoloth (2006) are in favour of indirect tax.

Olatunji, Asaolu and Odewoye (2009) conducted a review on the modalities of revenue generations in Ekiti State and by means of descriptive analysis, the study established lack of effectiveness and fraudulent activities on the side of tax collectors. The study also found lack of awareness and convincing mode on the part of tax payers as to why they must have to pay tax. The findings of this study confirmed the findings made by Orewa and Adwoma (1992), in which tax collectors were found fully responsible for generating smaller amount of revenue in relation to the expectation.

Arisoy and Unlukaplan (2010) by means of econometric analysis tested the effect of direct-indirect tax composition on economic growth in Turkey. The empirical finding of the study holds that direct taxes have no significant effect on the economic growth of

Turkey and as a result suggests concentrating on indirect tax.

In a study carried out by Ilaboya (2012), influence of indirect tax on the economic growth of Nigeria was investigated. The study utilized time series data for the period of 32 years ranging from 1980 to 2011 and by means of cointegration and error correction tests, the study established the relevance of indirect tax on the economic growth of Nigeria.

In a similar study, Worlu and Emeka (2012) investigated the relevance of tax revenue on the economic growth of Nigeria. The study utilized time series data for the period of 28 years, which were analyzed by means of least square estimation technique. The finding of the study revealed the relevance of tax revenue in inducing economic growth by means of infrastructural development.

Adesoji and Chike (2013) examined the relationship between internally generated revenue and infrastructural development in Lagos state. The findings of the study revealed positive relationship between the variables under investigation, and also in spite of the various sources of revenue generation of the state, there are still the needs to have more improvement more especially on the revenue generation agency. In a similar study, Oko and Omini (2014) investigated how effective and efficient revenue generation agencies are in Cross River State; the analytical findings show the need for subjecting the tax agency into more training in order to become more updated to current existing trend in tax administration.

Other studies that attempted to investigate revenue generation and how it is utilized and whether the utilization has created meaningful development include Olusola (2011), Banabo and Koroye (2011), Okafor (2012), Success *et al.* (2012), Worlu and Emeka (2012), Atakpa, Ocheni and Nwankwo (2012), Edogbanya and Ja'afaru (2013), Oseni (2013), Akintoye and Tashie (2013), Uhunmwangho and Stanley (2013), Agba, Stephen and Nnamani,

(2014), Anyaehie and Areji (2015), and Uzonwanne (2015).

In spite of various studies conducted on investigating revenue generation in Nigeria, we have not come across a study that attempts to study trends pattern of internal revenue generation by Nigerian states on an annual basis, and at the same time taking into consideration aggregate amount generated with a view to ascertaining whether significant variation in terms of improvement exists or not. We are therefore of the view that conducting this study would be very relevant as it would provide evidence as to whether claims made by Nigerian states that because of reduction of revenue from federation account, they have taken up measures and strategies on improving revenue generation internally.

The underpinning theory of the study is fiscal federation theory. According to the theory, there are three roles that government is expected to play. Musgrave (1959) stated the roles as correcting various forms of market failure, ensuring an equitable distribution of income and seeking to maintain stability in the macro-economy at full employment and stable prices. Thus, governments and their officials as argued by Ozo-Eson (2005) are considered as the custodians of public interest who would seek to maximize social welfare based on their benevolence or the need to ensure electoral success in democracies. The theory is adopted in order to test whether Nigerian state governments as custodian of public interest put their best in internal revenue generation in order to ensure social welfare maximization of their subjects.

Research Methodology

The study employed descriptive and historical research methods. The data used are extracted from secondary source and the instrument adopted is documentation. The data have to do with internally generated revenue by various states of the federation for the period of five years ranging from 2011 to 2015.

The population of the study comprised all the states of the federation and they are thirty-six in number. The sampling design employed by the study is census approach, in which case the data from all the thirty-six states are used for the purpose of the analysis.

The techniques utilized for the purpose of analysis are both descriptive and inferential statistics. The descriptive statistics are used in order to ascertain the features of the data under investigation. The descriptive statistics used include mean, median, variance, standard deviation, coefficient of variation, skewness and kurtosis values.

As for the inferential statistic, the study used One Way Analysis of Variance (ANOVA). It is used in testing the hypothesis formulated in section one. The analysis enabled us to find out whether significant variations exist among the various computed figures or not. The equations that are used by the technique are presented thus:

$$SS_{Total} = \sum X^2 - (\sum X)^2/n \dots\dots 1$$

$$SS_{Treat} = \sum (Tc^2/n_c) - (\sum X)^2/n \dots\dots 2$$

$$SS_{Error} = [\sum X^2 - (\sum X)^2/n] - [\sum (Tc^2/n_c) - (\sum X)^2/n] \dots\dots 3$$

$$F_{Statistic} = \{ \sum (Tc^2/n_c) - (\sum X)^2/n \} \div \{ [\sum X^2 - (\sum X)^2/n] - [\sum (Tc^2/n_c) - (\sum X)^2/n] \} \dots\dots 4$$

- Where:
- SS_{Total} = Sum of Squares Total
 - SS_{Treat} = Sum of Squares Treatment
 - SS_{Error} = Sum of Squares Error
 - F_{Statistic} = [SS_{Treat}] ÷ [SS_{Error}]
 - ∑X² = X values squared and then summed
 - (∑X)² = X values summed and then squared
 - n = Total number of observations
 - Tc = Column Total for each Treatment
 - n_c = Number of Observations for each Treatment

The F_{Statistic} computed is compared with a critical value (F_{Critical}) at 5 percent level of significance to give us the basis of rejecting or failure to reject the null hypotheses formulated earlier on. The decision criteria are F_{Statistic} > F_{Critical} reject the null hypothesis and vice versa. SPSS 15.0 is used for the purpose of analyzing the data.

Data Presentation and Analysis

As earlier stated, the source of data was secondary and the data have to do with internally generated revenue by various states of the federation for the period of 5 years ranging from 2011 to 2015. The following table presents the descriptive statistics of the revenue data for the period of 5 years.

Table 1: Descriptive Statistics of the Revenue Data

	2011	2012	2013	2014	2015
Mean	13,621,570,60	16,233,274,19	18,390,159,03	19,662,722,17	18,963,153,43
Standard Error	9	3	4	8	9
Median	5,640,217,129	6,148,203,215	6,737,279,545	7,746,836,248	7529013868
Standard Deviation	5,163,542,803	7,264,721,833	8,609,203,276	8,398,849,674	7,058,135,993
Sample Variance	33,841,302,77	36,889,219,29	40,423,677,26	46,481,017,48	45,174,083,20
Kurtosis	6	1	8	9	9
Skewness	1.14523E+21	1.36081E+21	1.63407E+21	2.16048E+21	2.0407E+21
	29.89278691	27.94684073	25.63063522	28.35789363	28.30580117
	5.317825652	5.108507944	4.877253722	5.169933412	5.148432448

Source: Excel Analysis Output

From the table 1 above, on the average, the revenue figure has been increasing from

2011 up to 2014 where it reaches its highest value with a figure of 19,662,722,178 and

then it declined to a figure of 18,963,153,439. The percentage of the increment from 2011 to 2014 was roughly 44% taking 2011 as the base year. It is worthy of noting that because of the huge variation in the revenue generation profile between the states, the average figures on an annual basis cannot appropriately represent the situation. For instance, at the year 2011, when on average, the figure was 13,621,570,609, on one extreme side; Lagos state generated internal revenue of up to 202,761,061,679.60, and on the other side; Jigawa State generated a ridiculous sum of only 1,482,918,912.88.

Throughout the study's duration period, the pattern of the revenue generation feature has been similar both vertically and cross-sectionally. Another feature revealed by the table and also by the raw data is the year 2015 showed decline in the revenue figure. From the raw data, apart from some few state that recorded increment in the revenue at non-substantial rate, all others revealed decline in the level of the income. This therefore makes the average figure less useful in explaining the pattern of the revenue generation. It can also be clearly seen that states in the south with the exception of few cases generate more revenue than the northern states. For instance, revenue generated by Rivers state alone at the year 2014 which was

89,112,448,347.58 out weight the total revenue generated by all the Northern states (see Appendix 1)

The fluctuation pattern of the revenue figure is clearly shown by the standard deviation values. It can be seen from the table that the standard deviation has been increasing indicating the variability pattern of the data. The highest standard deviation figure occurred at the year 2014 with a figure of 46,481,017,489. The more the variability of the figures, the more it indicates non-normality in the revenue generation and by deduction the fragility of the strategy the various states claimed to have put in place.

The non-normality pattern can further be confirmed by inspecting skewness and kurtosis values of the distribution. Theoretically speaking, a distribution with a skewness value of close to zero and a kurtosis value of close to three are what are required to consider pattern of the distribution as normal. In the case of this data the lowest skewness value is approximately equal to five and the lowest kurtosis value is equal to twenty five, which are both by far different from the standard ranges.

The following table presents ANOVA values of the variables under study which is used for testing hypothesis one.

Table 2: ANOVA test

ANOVA

Source of Variation	SS	df	MS	F	P-value	F critical
Between Groups	8.97833E+2	4	2.24458E+2	0.13075865	0.97099236	2.42481
Within Groups	2.91819E+2	17	1.71658E+2			
Total	2.92717E+2	17				

Source: Excel Analysis Output

From the table 2 above, the $F_{Statistic}$ computed value is 0.13 and the $F_{Critical}$ at 5 percent level of significance is 2.42. As the

computed $F_{Statistic}$ is less than the $F_{Critical}$, the decision is failure to reject the null

hypothesis, in other words we are retaining the null hypothesis. This is further confirmed by the p-value which appears to be not statistically significant. This by implications means that despite the changes in increment shown by the absolute revenue figures on yearly basis, on the overall, the variations are not significant to be considered as substantial improvement in the

revenues. This is in line with the finding made by Orewa and Adwoma (1992) and Olatunji, Asaolu and Odewoye (2009).

The following table presents ANOVA values of the variables under study which is used for testing hypothesis two.

Table 3: ANOVA test
ANOVA

Source of Variation	SS	df	MS	F	P-value	F critical
Between Groups	2.48954E+23	35	7.11297E+21	244.2295981	6.43626E-88***	1.532088762
Within Groups	3.1454E+21	10	2.91241E+20			
Total	2.52099E+23	14				

Source: Excel Analysis Output

The symbol*** indicates statistical significance at 1 percent level.

From the table 3 above, the $F_{Statistic}$ computed value is 244.23 and the $F_{Critical}$ at 5 percent level of significance is 1.53. As the computed $F_{Statistic}$ is greater than the $F_{Critical}$, the decision is to reject the null hypothesis, in other words we are accepting the alternate hypothesis. This is further confirmed by the p-value which appears to be statistically significant at 1 percent. This by implication means that despite the claims made by Nigerian states that they are intensifying effort to generate more revenues internally, there exists significant variation in the quantum of the revenue generated between the various states and this by deduction means that some states put more efforts compared to others and also some states appeared to have more internal revenue based that they explore compared to the others. This is exactly what the descriptive statistics portrays. This is in line with the findings made by Adesoji and Chike (2013) and Okoi and Omini (2014).

Summary, Conclusion and Recommendations

The study attempts to investigate whether significant variation exists in the internal revenue generation of the states of Nigeria. More specifically, the study intends to ascertain whether there has been substantial improvement in internal revenue generation by Nigerian states both in aggregate and on a state by state basis when cross-sectionally compared. Based on the data analysis and hypotheses testing, the results provide evidences for the failure to reject null hypothesis one. As for the second hypothesis, the decision is rejecting the null hypothesis. Hence, the study concludes that some states appeared more aggressive in internal revenue generation than others and also despite the increment in revenue figures on yearly basis; the amount generated was not significant enough to be considered to have material difference in the trend. The study, therefore, recommends that Nigerian states should concentrate more on internal revenue sources and employ feasible strategies that could lead to more revenue generations; this is because relying on

federation account could be disastrous as the oil price is facing more uncertainty vulnerability. Finally, future researches in this area should be conducted to consider evaluating strategies put in place for revenue generations by various states in order to establish how effective or in effective they are.

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Appendix 1: Revenue Generation Profile of the Various States

S/N	STATE	2011	2012	2013	2014	2015
1	ABIA	11,763,510,585.86	16,751,700,375.58	12,512,103,711.18	12,371,194,895.08	13,349,444,263.72
2	ADAMAWA	4,117,975,681.93	4,615,407,803.00	4,149,550,775.70	4,994,481,880.78	4,451,736,117.84
3	AKWA IBOM	11,678,520,984.00	13,516,810,150.00	15,398,828,428.00	15,676,502,423.00	14,791,175,253.00
4	ANAMBRA	6,148,922,395.00	7,601,585,012.15	8,731,599,912.43	10,454,312,316.18	14,793,120,188.67
5	BAUCHI	4,463,780,451.92	4,064,710,425.23	4,937,242,875.83	4,853,453,184.87	5,393,721,996.00
6	BAYELSA	3,655,714,000.00	4,958,806,727.00	10,500,936,262.88	10,958,263,688.00	8,713,516,526.24
7	BENUE	11,131,343,534.58	8,436,560,608.98	8,373,720,592.15	8,284,425,160.72	7,631,789,841.37
8	BORNO	2,282,102,699.76	2,444,613,205.37	2,132,815,258.00	2,760,773,778.99	3,530,261,222.31
9	CROSS RIVER	9,159,651,948.00	12,734,560,333.00	12,002,167,999.57	15,738,850,743.95	13,567,122,507.38
10	DELTA	34,750,081,881.93	45,566,897,481.00	50,208,229,986.91	42,819,209,025.24	40,805,656,911.96
11	EBONYI	2,298,123,877.20	8,234,317,213.01	10,427,861,231.23	11,032,472,512.00	0.00
12	EDO	17,688,679,849.78	18,880,055,380.83	18,899,322,710.47	17,023,595,231.62	19,117,468,369.25
13	EKITI	2,489,797,191.33	3,787,607,515.35	2,339,670,199.77	3,462,341,448.32	3,297,707,703.96
14	ENUGU	7,287,161,299.00	12,209,587,683.00	20,203,802,864.00	19,250,345,593.00	18,081,014,527.00
15	GOMBE	3,153,362,788.35	3,717,188,863.22	3,870,998,757.79	5,196,460,381.93	4,784,605,861.47

16	IMO	5,806,462,989.22	6,810,221,957.04	7,583,501,933.27	8,115,751,385.95	5,472,581,634.18
17	JIGAWA	1,482,918,912.88	7,884,900,135.26	9,755,337,731.73	6,273,310,616.35	5,081,424,105.40
18	KADUNA	9,781,946,157.96	11,531,795,961.69	10,932,071,462.59	12,782,522,514.51	11,536,729,988.59
19	KANO	6,618,936,565.04	11,051,971,481.61	17,142,211,079.94	13,661,853,935.85	13,611,853,935.85
20	KATSINA	4,239,692,674.00	5,029,720,846.00	6,852,511,585.00	6,223,037,599.00	5,791,008,741.00
21	KEBBI	4,472,397,621.47	5,424,015,848.65	3,732,343,145.11	3,834,143,641.95	3,592,406,108.30
22	KOGI	2,848,556,782.15	3,185,459,549.72	5,020,349,740.18	6,569,928,653.47	6,776,580,756.17
23	KWARA	8,816,657,944.50	11,317,269,584.36	13,838,085,972.51	12,460,517,954.55	7,178,922,182.76
24	LAGOS	202,761,061,679.60	219,202,426,843.89	236,195,308,896.71	276,163,978,675.95	268,224,782,435.23
25	NASARAWA	4,132,282,812.68	4,132,282,812.68	4,012,291,835.93	4,085,127,585.70	4,281,701,806.50
26	NIGER	3,791,420,019.57	3,782,827,634.99	4,115,777,679.30	5,737,185,035.88	5,975,149,921.86
27	OGUN	10,838,698,403.20	12,438,765,025.22	13,777,026,969.63	17,497,620,787.52	34,596,446,519.52
28	ONDO	8,015,725,375.26	10,153,042,597.01	10,498,697,469.99	11,718,741,502.49	10,098,000,000.00
29	OSUN	7,398,572,036.48	5,020,250,633.94	7,284,225,003.77	8,513,274,186.67	8,072,966,446.00
30	OYO	8,915,603,182.50	14,598,808,723.10	15,251,369,563.24	16,307,233,700.20	15,663,514,824.73
31	PLATEAUE	4,520,622,617.37	6,927,858,653.07	8,486,806,640.08	8,284,425,159.92	6,937,349,802.70
32	RIVERS	52,711,985,543.27	66,275,698,676.01	87,914,415,268.80	89,112,448,347.58	82,101,298,408.43
33	SOKOTO	4,185,153,701.13	4,313,699,006.03	5,509,132,929.43	5,617,763,260.35	6,224,448,122.53
34	TARABA	2,869,031,498.92	3,418,289,991.33	3,344,006,052.45	3,799,040,873.48	4,155,053,816.15
35	YOBE	2,385,653,776.94	1,785,221,060.95	3,072,006,109.88	3,073,780,160.87	2,251,330,427.39
36	ZAMFARA	1,714,432,462.63	2,592,935,139.95	3,039,396,601.83	3,149,630,553.96	2,741,632,541.03