

**EVALUATING SUB-NATIONAL IGR  
PERFORMANCE:  
*THE TECHNIQUES AND POLICIES***

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# OUTLINE

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- ➔ SNG MODELS AND IGR IMPLICATION
- ➔ IGR PERFORMANCE EVALUATION TECHNIQUES(IGR-PET)
- ➔ THE IMPLICATIONS OF THESE TECHNIQUES
- ➔ WAY FORWARD

# INTRODUCTION

- The negative impact of Covid-19 pandemic coupled with rising public debt, insecurity, unstable macroeconomic ecosystem and crude oil theft has dealt a heavy blow on government's fiscal position.
- SNGs finances is already dwindling because of over dependence on the revenue transfers or allocation from the Centre.
- SNGs(Sates and Local Governments) are under pressure to bridge the funding gap.
- They either "look inward" for Internally Generated Revenue(IGR) or resort to borrowing as we are already witnessing now.
- Most states have exceeded the Debt Sustainability threshold set by DMO. That is ,debt not exceeding 50% of Gross Revenue



# INTRO CONT'D

- ➔ IGR refers to income(inflow) generated by Sub-National Government(SNGs) excluding transfers from the Centre, external grants and borrowings.
- ➔ Poor performance evaluation and management of subnational finances can entail huge economic and social costs not only at the SNG levels but even in the country as a whole

# INTRO CONT'D

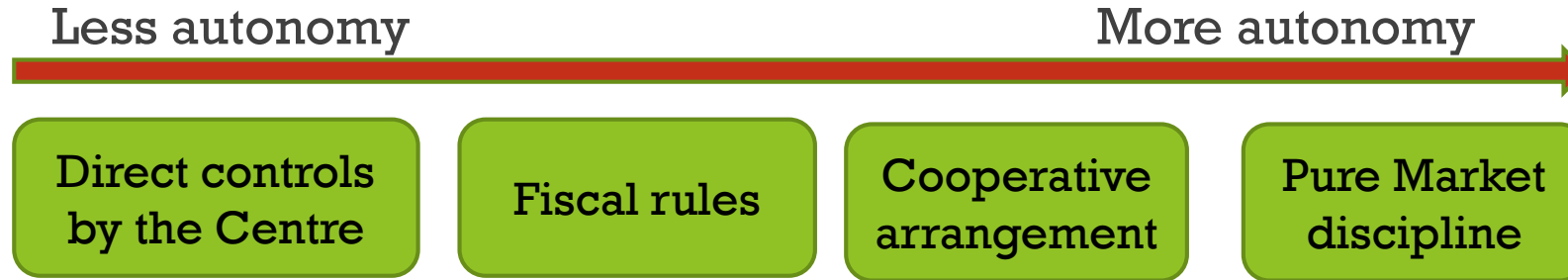
- ▶ History offers many examples of bailouts of SNGs by the Federal Government.
- ▶ In a bid to mitigate this subnational fiscal risk, countries often resort to institutional fiscal measures to control the SNGs by limiting its powers
- ▶ The effective management of SNG lies in the ability to reach a tradeoff between risk mitigation and realization of its full potential.
- ▶ More fiscal autonomy or devolution of power to SNGs could potentially expand their IGR base as well as make them spend more responsibly

# INTRO CONT'D

- ▶ Devolution of fiscal powers to SNGs should not only focus on expenditure assignment but also revenue assignment.
- ▶ Having more capacity to generate own-revenue(IGR) has been found to enhance transparency and accountability
- ▶ it has also made SNGs more responsive to service delivery to the citizens when using taxpayers money rather allocation of economic rent from the Federal Government.

# SNG MODELS AND THEIR IMPLICATIONs

The IMF identifies four models of control over SNG finances as follows;



# SNG MODELS AND THEIR IMPLICATIONs

- ❑ Direct control by the Centre: the central government sets numerical or other limits on the finances of SNG e.g. taxes, debt etc. Brazil uses top-bottom approach whereby there is a centralized system.
- ❑ Fiscal rule: fiscal policies and laws are used to control SNGs. Though similar to direct control however, SNG could also have some autonomy to make its rules e.g. US States, Nigeria and Canadian Provinces

# SNG MODELS AND THEIR IMPLICATIONs

- ❑ Cooperative arrangement ; involves a synergistic approach whereby both national and SNG collaborates in both policy and implementation.
- ❑ Pure market discipline : SNGs are fully autonomous, hence they attract investments through enhanced investor confidence.

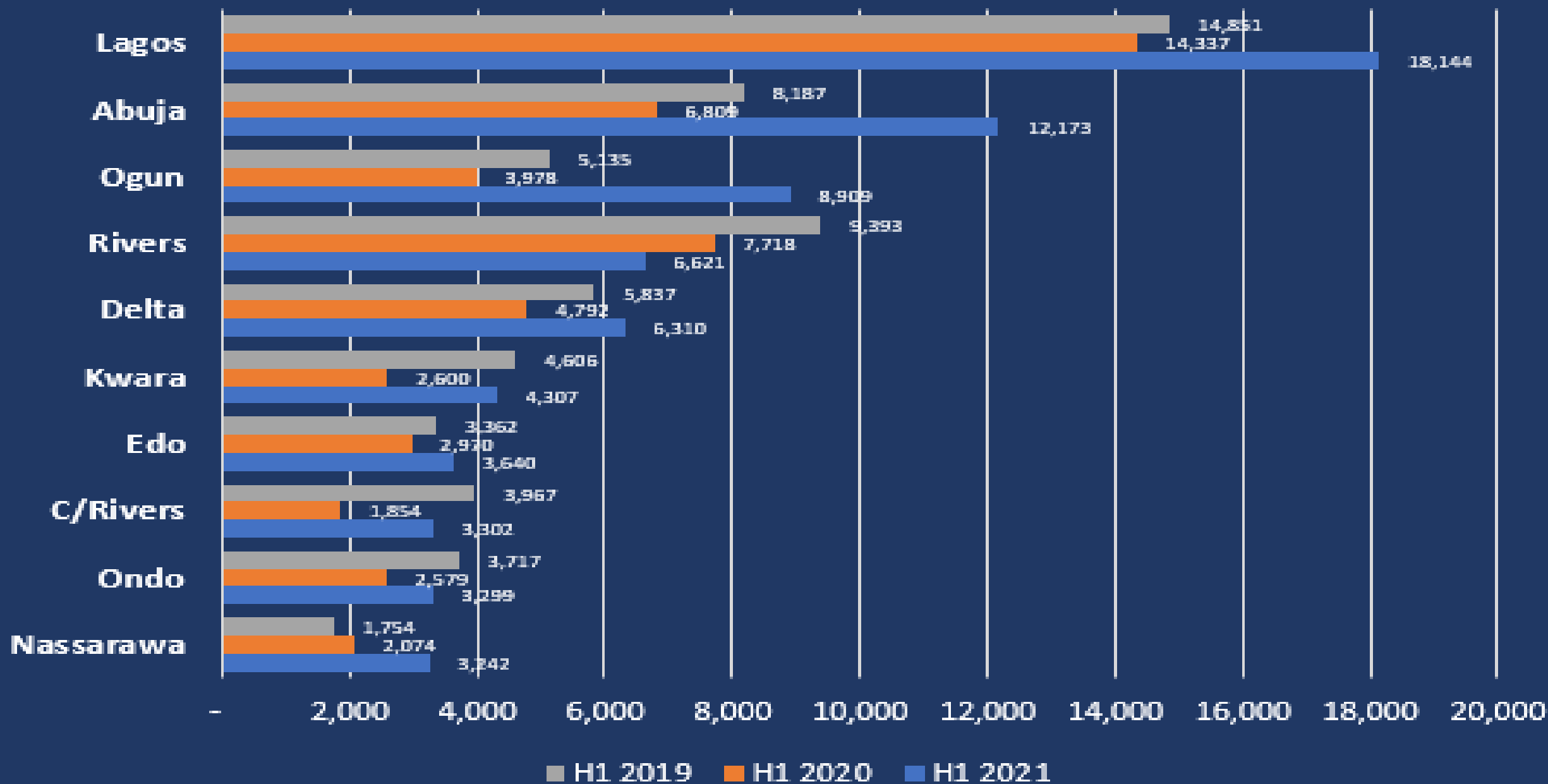
# IGR PERFORMANCE EVALUATION TECHNIQUES(IGR-PET)

- ▶ Actual Revenue to Target Ratio
- ▶ IGR to Population ratio (IGR per Capita)
- ▶ IGR to GDP Ratio
- ▶ IGR to expenditure Ratio

# IGR PERFORMANCE EVALUATION TECHNIQUES(IGR-PET)

- ▶ **Actual revenue against target** e.g. 2022 half-year report from some states like Lagos shows 83.1% IGR performance, while Taraba reported 41% (IGR target of 406.67b and N10b respectively).
- ▶ **IGR to Population ratio (IGR per Capita).** Unlike per capita income which measures status, this measures focuses on the contribution made by individuals resident in states or LGs.

## Top 10 states in Nigeria with highest IGR per population



# IGR-PET CONT'D

- ▶ **IGR to GDP Ratio.** This is undoubtedly one of the widely used barometer. It measures the revenue collected relative to the aggregate economic activities or productivity of the entity.
- ▶ SNGs results are aggregated with that of the FG to arrive at the paltry 6% tax to GDP ratio reported over the years in Nigeria.(SSA average is 17%).

# IGR-PET CONT'D

- ▶ **IGR to Expenditure Ratio.** This involves matching revenue assignment with expenditure assignment. That is, is the SNG generating sufficient revenue to finance its budget ? This is a good measure of the ability of an SNG to be independent. The SNG is seen as a profit Centre rather than cost Centre.

# THE IMPLICATIONS OF EACH TECHNIQUES

- ▶ **Actual revenue against target-** the targets are often not data driven or based on scientific projections but a simplistic approach whereby the past IGR figures are used as a basis for projection ignoring socio-economic realities. Doesn't take cyclical shocks into accounts.
- ▶ **IGR to Population ratio (IGR per Capita).** Though this approach offers a more realistic outcome but could be misleading due to the variations in the demography and income level of the residents. For e.g., there will be need to adjust for unemployment, children, aged people etc.

# THE IMPLICATIONS....

- ▶ **IGR to GDP Ratio.** The evaluation process using this approach requires clearly identifying factors outside SNGs' administrative or legislative control but forms part of the GDP. E.g., Oil & gas production is considered in arriving at the GDP of River State but it does not have power to tax the income or profit.
- ▶ Having addressed factors outside their control, measures can be taken to address other controllable factors e.g. the informal sector, tax evasion and avoidance, poor capacity of Tax Revenue Administrations and corruption.

# THE IMPLICATIONS....

- ▶ **IGR to Expenditure Ratio.** This approach is suitable where there is high degree of fiscal autonomy . The US for example favours this approach. It will examine the aspect of the budget financed by own-revenue (IGR.) rather than allocation. This indeed will showcase sustainability of the state without external funding.

# CONCLUDING THOUGHTS

- ▶ There is no one-cap-fit all approach to performance evaluation of SNGs
- ▶ The fiscal framework or level of autonomy should be taken into account to give the best outcome
- ▶ The appropriate measure of SNGs performance rating should be able to tie IGR to spending on welfare of the citizens.
- ▶ Unlike IGR, allocations allow states to exist in a grey area of accountability, where they are neither fully bound to the center or the people

# WAY FORWARD

- ▶ Within the existing framework, SNGs can improve performance by embarking on the following :
  - Spending on people-oriented projects
  - Gaining trust through transparency and accountability in spending
  - Developing the capacity of revenue officers to act professionally
  - Reviewing obsolete tax legislation within their purview
  - Streamlining tax incentives and exemptions granted to taxpayers
  - Automation of the tax administration processes. This will eliminate leakages arising from human interface (tax officials

**THANK YOU FOR YOUR ATTENTION**