

RELATIVE EFFECT OF INTERNAL GENERATED REVENUE, VALUE ADDED TAX AND GOVERNMENT BORROWING ON BUDGET IMPLEMENTATION IN NIGERIA

Dr Olaoye Festus Oladipupo and Alabadan Dinatu Nna

Department of Accounting, Ekiti State University, Ado-Ekiti, Nigeria

Department of Accounting, Federal University, Oye-Ekiti, Nigeria

Abstract: This study examined the combine effect of internal generated revenue, value added tax and government borrowing on budget implementation in Nigeria, the specific objectives were the effect of value added tax, internal generated revenue and external borrowing on budget implementation in Nigeria

Data for this study were sourced from CBN Statistical Bulletin 2019 and data sourced were subjected to unit root co-integration, augmented dickey fuller to establish the stationary and non-stationary of the data

The study found a positive and statistically significant relationship between the independent variable (value added tax, internally generated revenue and government borrowing) and the dependent variable (budget implementation) in Nigeria. The study concluded that in other to boost revenue generation, government should give priority or pay more attention to policies that could boost tax and non-tax revenue into the country and use this avenue to generate more tax for infrastructural development, consistent power supply and protection against external aggression to address the issues of Boko Haram and their incessant killing in some part of the country, kidnapping, Militancy and civil unrest.

This study recommended that money borrowed through external source should be budgeted into right proportion which will enhance economic growth in the country as this will encourage developed countries to establish more subsidiary company in the countries which will create more job opportunities for the unemployed youth and which will curb crime rate, poverty in the country and improve the economic growth of the country

Keywords: value added tax, internal generated revenue and external borrowing. budget implementation

Introduction

The basic responsibility of every government is to provide for the welfare of her citizens. The citizens expect the government to provide basic infrastructure and amenities that would support their economic activities. For the government to fulfill the welfare responsibility as enshrined in the constitution financial commitment is required and that could only be provided by the government. According to Batte and John, (2016) “the political, economic and social development of any country

depends on the amount of revenue generated for the provision of infrastructure in that given country” and the level of compliance by the citizen to pay their tax promptly.

Value added tax is one of the major source of government revenue all over the world and governments use tax proceeds to render their traditional functions, such as: the provision of goods, maintenance of law and order, defense against external aggression, regulation of trade and business to ensure social and economic maintenance (Udoffia & Godson, 2016). A system of tax avails itself as

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a veritable tool that mobilizes a nation's internal resources and it lends itself to creating an environment that is conducive for the promotion of economic growth (Ugoh & Ukpere, 2009). Therefore, value added tax plays one of the major role in assisting a country to meet its needs and promote self-reliance (Unegbu & Ireferin, 2011).

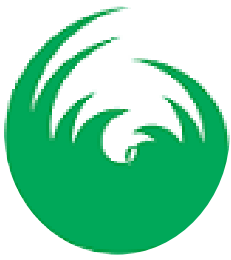
Studies by Olaoye and Akintayo, (2019), Akinleye and Ogunmakin, (2016), Abdulrahman and Mary, (2015) to mentioned a few offer greater insight for a deeper understanding of the nexus between tax revenue and budget implementation. Other studies believed improving in transparency and accountability could be determined by budget implementation factors (Onyiah, Ezeamama & Mgbodile, 2016). These factors which include value added tax, consumption tax, personal income tax, capital gain tax ,company income tax and petroleum profit tax (Igbara et al, 2016).

Budget implementation entails ensuring that both revenue projections and expenditure framework contained in the approved budget document are achieved within the fiscal years. According to Olaoye et al, (2019) budget implementation at any level of government reflects a large extent of the measure of accountability and transparency in the systems. The budget implementation has become an essential tools playing a vital role in economic prosperity by fostering accountability and transparency in sustaining economic growth in most economies across the world. Budget implementations are more than monitoring and control of how government spend internal revenue generation; they operate as facilitator to monitor government revenue and to ensure that government revenue is properly manage to enhance the economic growth of the country Budget is an instrument of fiscal policy, which reflects government control over size and relationship between government receipts (revenue) and

expenditures, usually designed to cover a specified period of time. Budget in modern times, therefore means the document which contains estimates of revenue and expenditure of a country usually for one year. Budget is an instrument stipulating policies and programmes aimed at realizing the development objectives of a government (Igbara et al, 2016). The primary objective of government expenditure through value added tax, internal generated revenue and external borrowing should be to maximize the value or sustain the economic growth of the country. The success or failure of budget implementation can be evaluated only in the light of the impact of economic growth which can be measured by value added tax, internal generated revenue and external borrowing among others.

Some of the available literature found in Nigeria have some shortcoming here and there and left some gaps to be filled. For example, Ugoh and Ukpere, (2009) focused on tax revenue with the variables used include: value added tax, company income tax, custom and excise duties and petroleum profit tax. Zinaz and Samina, (2009) used government budget implementation as proxy for budget implementation while the contemporary independent variables are value added tax, pay as you earn ,capital gain tax and withholding tax

Furthermore, these studies made use of secondary data with the focus of tax revenue, the study concentrated on a particular source of revenue and the findings appear too lean and specific. There is a need to consider other source of generating funds to the government to enhance economic growth with common characteristics attributed to each sector. Thus, measuring value added tax, internal generated revenue and external borrowing will give a true picture of the relationship between government revenue and budget implementation. It is on the basis of these that the study is considered essentials attempt to fill these



literature gaps by taking these as measures to stimulate budget implementation

The primary objective of this study is to examine the effect of government revenue, government borrowing on budget implementation in Nigeria.

The specific objectives are to:

- i. determine the effect of value added tax on budget implementation in Nigeria;
- ii. ascertain the significant influence of internal generated revenue on budget implementation in Nigeria;
- iii. examine the significant relationship between external borrowing and budget implementation in Nigeria

Literature Review

Budget implementation entails ensuring that both revenue projections and expenditure framework contained in the approved budget document are achieved within the fiscal years. According to Ojo,(2009) budget implementation at any level of government reflects a large extent of the measure of accountability and transparency in the systems. As observed by Adesopo,(2011), budgeting process has gone beyond an annual ritual; it is today known to be very strategic in nature and all-encompassing as it is through it the government scarce resources are allocated to programmes and services for governmental operations. This makes budget process a powerful tool for participatory governance. Budgeting is a serious business that sets the tone for development in a polity, usually for a 12-month period, and a government without a financial plan is walking blindfolded (Oniore, 2014). Budget is an instrument of fiscal policy, which reflects government control over size and relationship between government receipts (revenue) and expenditures, usually designed to cover a specified period of time. Budget in modern times,

therefore means the document which contains estimates of revenue and expenditure of a country usually for one year (Oniore, 2014)

Internal generated revenue is principally derived from tax. Tax is a compulsory levy imposed by government on individuals and companies for the various legitimate function of the state (Ianna, 2016). Tax is a necessary ingredient for civilization. The history of man has shown that man has to pay tax in one form or the other that is either in cash or in kind, initially to his chieftain and later on a form of organized government (Adekunle, 2014). No system or rules can be effective whether foreign or nature unless it enjoys some measures of financial independence. Appah. E (2004) defined value added tax as a multi stage tax imposed on the value added to goods and services as they proceed through various stages of production and distribution and to services as they are rendered” which is eventually borne by the final consumer but collected at each stage of production and contribution chain. This definition brings out the three characteristics of value added tax which are:

VAT is consumer tax

VAT incidence is on the final consumer

VAT is a multi-stage tax

Abata (2014) also describes VAT as a tax levied at each stage which supplies changes hands. In the case of manufactured items, this could be at the primary producer, manufacturer, wholesaler and retailer stages. It is ultimately borne by the consumer who being registered for VAT purposed is unable to reclaim it. The above definitions of VAT by Jones suggest that there are intermediaries through which goods must pass before they reach the final consumer. Each time goods are passed from



one stage to the other, intermediary value is added to it. it is this value that is being taxed and borne by the final consumer

Government borrowing is mainly used to supplement the domestic sources of funds for supporting development and other needs of a country. Usually external debt is incurred by a country which suffers from shortages of domestic savings and foreign exchange need to achieve its developmental and other national objectives (Ayeni *et al*, 2017). However, if the external debt is not used in income-generating and productive activities, the ability of a debtor nation to repay the debt is significantly reduced. It is often argued that the excessive debt constitutes an obstacle to sustainable economic growth and poverty reduction (Aguolu, 2004; Ugoh and Ukpere, 2009)

Government borrowing is acquired in order to finance budget deficit and speed up economic activities; hence, government borrowing should result to economic growth of a nation. Countries can have heavy external borrowing along with relatively higher level of exports that may help to sustain their level of external debt. But government borrowing, if not sustainable, imposes higher risk to the economic prosperity, as its servicing which is also an indicator of higher current account deficit, may lead to debt overhang in a country (Ojo, 2009).

The accumulation of government borrowing is a common phenomenon of the developing countries where domestic savings is low, current account payments deficits are high, and imports of capital are needed to augment domestic resources to accelerate economic growth and poverty reduction. This becomes effective as long as borrowed funds are properly utilized for productive investment, and do not suffer from macroeconomic instability, policies, that distort economic incentives (Oke, 2013)

Every country need funds to achieve dual major macroeconomic goals such as infrastructural facilities, developmental project and also to provide enabling environment which will encourage cross boarding business, higher investment or higher consumption i.e. education and health or to finance transitory balance of payment deficit, to lower nominal interest rates abroad, lack of domestic long term credit or to circumvent hard budget constraint. Thus economy indulges in tax value added tax, internal generated revenue and government borrowing to boost economic growth, reduce poverty and limit the suffering of people from macro-economic instability policies that distort economic incentive or sizeable adverse shocks (Oniore, 2013; ZInaz and Samina 2009). As a result of this, growth is likely to increase and allow for timely debt payment. When the circle is maintained for a period of time, growth will affect per capital income positively which is a prerequisite for poverty reduction. The predictions are known to hold even in theories based on the more realistic assumption that countries may not be able to borrow freely because of the risk of debt denial (ibid). In Nigeria, the quest for rapid growth and development in a resource constrained economy characterized by low domestic savings and investment, low tax revenue and meager foreign exchange earnings inspired foreign borrowing to finance critical investment projects that will bring about a rapid economic growth to the country.

The study is grounded upon the harrod Dommar theory and external borrowing effect theory. The Harrod Dommar theory propounded by Graham and Dodd (2015) surmises specifically on issues of making governments efficient to enhance economic growth of the country. The Harrod – Domar models are based on economic growth on the experiences of advanced economists. They are primarily addressed to an advanced capitalist economy and attempt



to analyze the requirements of steady growth in such an economy. Harrod –Domar assign a key role to investment in the process of economic growth

External borrowing Effects Theory was popularized by Adesopo (2011), and it reported that developing countries engaging in reasonable levels of borrowing are likely to improve their economic growth. Such enhancement is believed to occur through capital formation and increase in output Igbara et al (2016). According to the traditional neo-classical model, debt increases transitional growth, since the model permits capital mobility, and the ability to involve foreign sources in the process of both lending and borrowing. This gives capital-scarce countries an incentive to get a loan and invest since the marginal output of capital is greater than the global interest rate (Onyia et al.2002).

Ugoh and Ukpere (2009) study the effect of external borrowing on the budget implementation of Nigeria using budget participation as the endogenous variable measuring budget implementation as a function of ratio of external debt to export, inflation and exchange rate proxy as the exogenous variable. Data were gathered covering 1970-2010. Analysis of data was done using the econometric technique of ordinary least square. The result showed that external debt has positive relationship with budget implementation. This was supported by Onyia, Ezeamama, and Mgbodile, (2016) who examine the relationship between Nigeria’s external debt and economic growth between 1975-2006, with an error correction approach. Error correction estimate revealed that external debt has negative relationship with economic growth in Nigeria. Similar research was done by Igbara, Tordee, and Abuba (2016) with the same result. Ugoh and Ekpere (2010) examined the impact of tax burden on the budget implementation using time series data from 1970-2007. Ordinary least square (OLS) was used to test the

relationship between debt burden and budget implementation of the Nigeria economy. The result showed a negative relationship between tax burden through tax avoidance; and gross domestic product, meaning that an increase in debt stock will lead to a reduction on the growth rate of Nigerian economy

Udeh, Ugwu & Onwuka (2016) study internally generated revenue and budget implementation: the Nigeria experience from 1980-2013. The study used a secondary data and analyzed the data using ordinary least square. The study discovered that internally generated revenue had a positive relationship with budget implementation at short run, but a negative relationship at long run. Peter, Meriel and Peter (2012) study the interplay between foreign aid, external debt and economic growth through budget implementation: Nigeria experience from 1970 to 2008. Secondary data were sourced and analyzed using multiple regressions. The study revealed that, external debt has a negative impact on economic growth through budget implementation in Nigeria. Ocampo (2004) proclaims that the value added tax situation for number of low-income countries, mostly in Africa has become extremely different. For these countries, even fill use of traditional mechanism of rescheduling and tax administration together with continued provision of confessional financing and purist of sound economic policies may not be sufficient to attain sustainable revenue generation through value added tax within a reasonable period of time and without additional external support. Despite the efforts made by countries themselves and the commitment made by the international communities; they are failing behind in their endeavor to achieve the “Millennium Development Goals”.

Methodology



This study adopted an ex-post Facto research design (after the fact research) which uses data that are already in existence. Data for this study were sourced from CBN Statistical Bulletin 2019 and data sourced were subjected to unit root co-integration, augmented dickey fuller to establish the stationary and non-stationary of the data and to know if the data are spurious. The data were therefore analyzed using multiple regressions

3.1 Model Specification and Estimation

This study adopted a model from Olaoye and Akintayo (2012) on tax revenue and budget implementation and modified for the purpose of this study.

The Model $GE = f(VAT, CIT, CED, PPT)$
(1)

The adapted model specified government expenditure as a function of aggregated tax revenue see Equation

The new functional model for the study will be written as

$$GE = \beta_0 + \beta_1 VAT + \beta_2 IGR + \beta_3 EXB$$

(11)

This study modified the model by disaggregating value added tax and internally generated revenue into tax revenue which was captured with personal income tax, company income tax, custom and excise duties and petroleum profit tax and sub-setting government borrowing with domestic borrowing and foreign borrowing while budget implementation was proxied with government expenditure

The new Model $GE = f(PIT, CIT, CED, PPT, DOB, FOB)$

Where:

BEXP=Budget Expenditure being proxied by Government Expenditure

PIT=Personal Income Tax

CIT=Company Income Tax

CED=Custom and Excise Duty

PPT=Petroleum Profit Tax

DOB=Domestic Borrowing

FOB=Foreign Borrowing

A Priori Assumptions

The a priori assumptions of this model suggested that foreign direct investment had a positive sign and coefficients, which implied a positive relationship between the variables. Thus the following is the a priori expectation of the model: $\beta_1, \beta_2, \beta_3 > 0; \mu = 0$.

3.3. Presentations and Analysis of Empirical Results

For proper Examination of the impact of value added tax, revenue generation and external borrowing on budget implementation in Nigeria, the researcher employed some macroeconomic variables that determine the relationship value added tax, internal generation, external borrowing in Nigeria economy using personal income tax, company income tax, petroleum profit tax, and sub-setting government borrowing with domestic borrowing and foreign borrowing custom and excise duties and petroleum profit tax

The augmented Dickey-fuller (ADF) and Phillips-Perron (PP) unit root tests at constant level were employed in this study in order to eliminate the spurious content in those



variables. Thus, below are the figure and value of ADF-statistic at 5 and 10 percent critical value.

Table 1: Augmented Dickey Fuller and Phillips-Perron Unit Root Test

Series	ADF Test Statistic	5% critical value	10% critical values	Order	Remarks
EXTB	6.349291	3.3678	3.1678	1(1)	Stationary
CIT	6.349564	3.3678	3.1678	1(1)	Stationary
PPT	6.432940	3.3678	3.1678	1(1)	Stationary
PIT	5.678764	3.3678	3.1678	1(1)	Stationary

Sources: E-view Regression Output (2021)

Table 2: Phillips-Perron Unit Root Test

Series	PP Test Statistic	5% values critical	10% critical values	Order	Remarks
EXTB	12.3758	3.3678	3.1678	1(1)	Stationary
CIT	6.35678	3.3678	3.1678	1(1)	Stationary
PPT	6.68719	3.3678	3.1678	1(1)	Stationary
P1T	6,56934	3.3678	3.1678	1(1)	Stationary

Sources: E-view Regression Output (2021)



The above empirical test shows that EXTB, CIT, PPT and CIT are integrated of the same order one I(1). From the above tables (i.e. table1 and table2), it was found that both ADF and PP Test with trend and intercept indicated that time series are integrated of the same order (i.e. ADF and PP t-statistic in absolute values terms 6.349291EXTB,6.349564COT,6.432940PPT,6.56934CIT for ADF, and 12.3758EXTB, 6.35678CIT, 6.68719PPT and 6.56934PIT respectively, are greater than their ADF and PP critical values at 5% (3.3678) and 10% (3.1678) percent significance level. The result reflect linear combination of series integrated of the same order are said to be perfectly co-integrated. The integrations indicate the number of time series have been differenced once before Lags interval: 1 to 1

their stationarity is induced. Thus, the series were stationary at that first level.

There is a long run relationship between the EXTB and the explanatory variables; CIT, PPT, and PIT. Firstly, the summary of the Johansen Co-integration Test is shown in the Table below. The model with lag 1 was chosen with the linear deterministic test assumption.

Johansen co-integration test for the series; EXTB, CIT, PPT, and PIT

Series: D(EXTB) D(CIT,1) D(PPT,1)(PIT)

	Likelihood	5 Percent	1 Percent	Hypothesized
Eigenvalue	Ratio	Critical Value	Critical Value	No. of CE(s)
3.239750	127.3342	22.13	22.83	None **
2.430597	43.56745	18.22	12.15	At most 1 **
1.345679	12.23094	12.42	7.56	At most 2 **
1.204434	13.45367	1.34	4.34	At most 3**

Souece: Researchers Computation (2021)

The condition for significant long-run relationship (co-integration) among the variables such as (EXTB, CIT, PPT, and PIT) is that the likelihood ratio (L.R)), must be greater than the 5 and 1 percent critical value. Second is that the eigenvalue coefficient of these variables must be different from zero. Viewing these results from these conditions stated above, shows that our eigenvalue coefficients of these variables in their absolute term

(i.e.3.239750EXTB, 2.430597CIT,1.34579PPT and 1.204434PIT) respectively, are different from zero, and the (L.R), on its own, are all greater than the 5 and 1 percent critical values. We therefore, conclude that there exists a long-run relationship co-integration among these variables (i.e. C/EXTB CIT, PPT and PIT). Having tested and observed that there is log-run relationship in the model, the next to observe is the nature of this relation



between the independent variables and (BP) the dependent which the eigenvalue coefficient did to indicate, will be determined using the “normalize co-integrating coefficient” (1) to analyze the nature of log-run relationship.

3.4 The long-run Equation

$$3553554,10 \text{ (BP)} = -0.131361 \text{ (CIT)} + 0.345867(\text{PPT})+0.2321334 \text{ (PIT)}$$

The log-run equation above reported that there is a positive log-run relationship between foreign direct investment and revenue generation. The implication is that, in the log-run, a unit increase

(change) in foreign direct investment will increase the revenue generated through Company Income Tax (CIT), Petroleum Profit Tax (PPT), Personal income tax (PIT) in Nigeria by 13 percent which will results to an increase change to the BP, and also enhance the importance of budget implementation in the log-run in Nigeria during the period under review. Finally, in this section, the constant variables (BP) appeared negative; it means that holding these independent variables constant, the value of (BP) in Nigeria will stand at 23%.

3.5. Regression Results by (OLS) Distribution lag Method.

$$1.301523(\text{BP}) = 0.533712(\text{COT}) + 0.716891(\text{PPT}_{t-1}) + 0.435372(\text{PIT})$$

$$\text{T-Statistic} = (-1.301523) (2.349511) (3.443223)$$

$$\text{Std. Error} = (0.633472) (0.239568) (0.443282)$$

$$R^2 = 0.673348$$

t- Critical value at 5% = $\alpha / 2 t_{0,025} = 3.012$ with reference to n-k, where n is the number of observation = 17 and k is the number of parameters =3, $25 - 3 = 22$. f- Statistic = 234.9123, f- critical = k-1 and n-k value. Where k = 4-1 = 3 and k-n = 25: (3, 25) $F_{0,05} = 3.25$, Durbin – Watson stat = 1.654732.

The results of the estimated equation are discussed in terms of the significance and signs on the parameters. Evidence from the results model as contained in equation above, shows that the Company Income Tax (CIT), Petroleum Profit Tax (PPT), and Personal income tax (PIT) independent variables, has a positive linear relationship with Foreign Direct Product (EXTB) the dependent variable. The implication of this positive sign is that 1% change (increase) in (PIT), (PPT) and (PIT) the independent variables will bring an increase in revenue generation through foreign direct investment (EXTB) thereby increase economic growth in Nigeria by 0.203473 and 0.871619 percent respectively, during the period under review. Thus the probability of (PIT) influence on the (EXTB) in Nigeria is 41% while the (PPT) is 0.87%. These variables are in line with their a-prior expectation.

The foreign direct investment (EXTB) coefficient stood at 1.301523 percent. This means that holding other factors including (CIT),(PPT) and (PIT) constant, foreign direct investment (EXTB) will be held at 1.3% percent during the period of observation (1991 – 2020).

The coefficient of determination R^2 of this model stood at 0.673348. The implication of the R^2 to this study is that “67% total variation of foreign direct investment (EXTB) during the period of observation, is explain by the change in Company Income Tax (CIT), Petroleum Profit Tax (PPT) and Personal income tax (PIT) while 5% influence out of 100% is as a result of other factor or variables that were not included in the model but was captured by the



error terms of the model. Another implication of this high level of R^2 is that, “it shows that the model specified, used has a good fit to the sample regression line.

However, the F- statistic coefficient of this study ranked 234.9123 very high; this is the group or overall influence of the independent variables to dependent. The high ratio of f-statistic means that it is significant since it is greater than F-critical value (3.37) at 5% level of significance.

3.6 Evaluation of the Working Hypotheses using the individual test of significance and co-integration test from the models.

Decision Rule: if $T_{Cal} > T_{Tab}$ – reject H_0 and accept H_1

If $T_{Cal} < T_{Tab}$ - accept H_0 and reject

Critical Value @ $T_{0.25}$ (0.05 %) =3.012.

The T-statistic for all the explanatory variables (BP), and (EXTB) are (3.491943) (7.685423) respectively, this appears to be relatively high compared to the critical values at .05 % (3.012), and hence we evaluate the hypothesis below.

Restatement of Hypothesis

H_0 : value added tax, internally generated revenue and government borrowing has not significantly impacted positively on budget implementation in Nigeria.

Considering the t-value results above, shows that the (CIT, PPT and PIT) independent variables used in did pass the test of individual significance at 5 % level of significance. The result shows that 1% change (increase) in (CIT, PPT and PIT) , will lead to a increase in (EXTB) in Nigeria’s by 3.49% and 7.68%. However, the values appear to be

significant. We therefore reject the null hypothesis of this study and accept the alternative hypothesis. In other words, budget implementation has significantly impacted positively on the company income tax, petroleum profit tax and personal income tax during the period under review.

4.0. Result of the Findings:

This study analyzed value added tax, internally generated revenue, government borrowing and its impact on budget implementation in Nigeria. The dataset covered a 30-year period from 1990-2020. The ordinary least square regression technique was employed in which T-test, R-Square, Standard Error Test and Durbin Watson test, Augmented Dickey Fuller and Phillips-Perron unit root and co-integration test were used in the data analysis on EXTB yields the following key findings:

- There was a positive and significant impact between the current values of value added tax and budget implementation. It suggested an increase in the Internally generated revenue will create more opportunity to generate more company income tax which would automatically increase revenue generated This agreed with Egwu (2016); Friday *et al.* (2016) and Ibe (2014). This conformed to the a priori expectation.

➤ Value added tax, internal generated revenue and government borrowing has positive and significant relationship with budget implementation in Nigerian economy, hence suggesting the need for strong budget implementation to ensure that government revenue is properly spent in other to enhance economic growth in the country

➤ Value added tax, internal generated revenue and government borrowing have positive and significant



influences on profit petroleum tax being an oil tax revenue, the inflow of the proceed generated through foreign direct investment into Nigeria vis-a-vis signifying the importance of friendly business environment in the country.

5.0.Conclusion

In conclusion, Value added tax, internal generated revenue and government borrowing generated has positive and significant relationship with budget implementation in Nigeria. Therefore, in other boost revenue generation, government should give priority or pay more attention to policies that could boost tax and non-tax revenue into the country and use this avenue to generate more tax for infrastructural development, consistent power supply and protection against external aggression to address the issues of Boko Haram and their incessant killing in some part of the country, kidnapping, Militancy and civil unrest. This study recommended that money borrowed through external source should be budgeted into right proportion which will enhance economic growth in the country as this will encourage developed countries to establish more subsidiary company in the countries which will create more job opportunities for the unemployed youth and which will curb crime rate, poverty in the country and improve the economic growth of the country

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