INTERNATIONAL JOURNAL OF RESEARCH AND SCIENTIFIC INNOVATION (IJRSI)
ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XI Issue IV April 2024

# Revenue Leakages and their Implications on the Nigeria's Economic Development

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**DOI: https://doi.org/10.51244/IJRSI.2024.1104042**

**Received: 27 March 2024; Accepted: 10 April 2024; Published: 15 May 2024**

## ABSTRACT

This seminar paper examines revenue leakages and their implications on Nigeria's economic development. Government revenue includes income from both oil and non-oil sources. Despite being one of the most developed and blessed countries, Nigeria is still grappling with persistent poverty and weak economic growth. The study investigates the major sources of revenue in Nigeria and explores the causes of revenue leakages affecting the country's economic development. It also assesses the consequences of these leakages on the Nigerian economy. The paper applies the Keynesian theory proposed by John Maynard Keynes, suggesting that to achieve economic growth through taxing and government spending, policies need to be in place to generate necessary revenue for the country. Using an ex-post facto research design and relying on secondary sources of data like government and non-government publications, magazines, and journals, the study reveals that revenue leakages in Nigeria can hinder economic development by reducing government revenue, burdening citizens, and fostering corruption and inefficiency. The research also uncovers various methods through which revenue contributes to the economy. As a result, the study recommends the implementation of better governance and transparency policies to enhance financial transactions, budgeting procedures, and public procurement processes. These measures are crucial for addressing the identified challenges and promoting a more robust economic environment in Nigeria.

## INTRODUCTION

Federal, state, and local governments receive their revenue from a variety of sources, including taxes, asset income, and transfer revenues. The money received by the government from the many resources it uses to carry out its duties is known as government revenue. Government funding comes from a variety of sources. They consist of income from oil and oil-related sources, independent revenue, non-oil sources (such as taxes, federation accounts, and levies), and other sources (Proshare, 2016). The government projects how much money it will bring in and spend through the budget in order to fulfill its macroeconomic goals and eventually reach development status (Onuchukwu, Kalagbor & Nzor, 2012).

Nigeria is a federation of 36 independent states, plus the Federal Capital Territory, that is multiethnic and multicultural. Nigeria has the biggest market in Africa, with a population of over 200 million, according to the International Trade Administration (2023). Nigeria therefore has an abundance of labor at rates significantly lower than those of high-income and some middle-income nations. Natural resources found in large quantities throughout the nation include minerals, oil, and precious stones. It is one of the major oil-producing regions of Africa, supplying high-quality, low-sulfur crude oil. The economy's extreme reliance

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XI Issue IV April 2024

on oil has lessened a little bit in recent years.

Positioned in the western African region, Nigeria is situated between latitudes 4 and 14 degrees and longitudes 3 and 14 degrees. It covers 923,768 square kilometers of land. The Republic of Benin shares borders with it to the west, the Republic of Cameroon shares its eastern borders all the way down to the Atlantic Ocean, which defines the southern boundaries of Nigerian territory, and it is bordered to the north by the Republics of Niger and Chad. The country has the potential to be a maritime force due to its 800 km of coastline. Nigeria possesses an ample amount of land suitable for commercial, industrial, and agricultural purposes.

Nigeria has two distinct economies: a traditional agriculture economy and a contemporary sector reliant on oil earnings. When the country gained its independence in 1960, agriculture produced the majority of its GDP, exported goods, and government money. Originating in the 1960s and becoming solidly entrenched in the 1970s, the oil industry has grown to such an extent that it is now overly dependent on it, accounting for 20% of GDP, 95% of foreign exchange earnings, and roughly 65% of budgetary revenues. Politics in Nigeria have always been rooted in rivalry between ethnic and regional groupings over access to the nation's oil resources and positions of authority.

The mostly subsistence agricultural sector has not been able to keep up with the tremendous increase in population. Despite the introduction of extensive policy attempts by President Umaru Musa Yar'Adua's administration to buck the trend and achieve national food self-sufficiency, Nigeria, which was previously a major net exporter, now imports food. Nigeria has a 40.1% poverty rate, placing it among the 50 poorest nations in the world, according to the World Population Review (2024), which is based on GNP per capita. Since the early 1970s, the world oil market's swings have been the main cause of the uneven growth in the economy. Nigeria had increasing economic collapse and declining living standards in the 1980s and 1990s, which was a result of political unrest, corruption, and subpar macroeconomic management (most notably, the inability to diversify the economy). The Olusegun Obasanjo administration implemented fundamental economic changes that led to a stable macroeconomic climate and debt alleviation.

Nigeria's debt dropped dramatically from over US$36 billion in 2004 to just US$3.6 billion in 2008 as a result of a significant debt agreement. Building on the work of his predecessor, President Umaru Musa Yar'Adua has expanded economic reforms. With an astounding growth rate of 7%, the nation's GDP doubled to $209.5 billion between 2004 and 2008. With a performance over the 6% regional average, this was the best in recent years. Between 2006 and 2008, there was an average growth rate of 6.3% in the GDP of the nation. This was mostly caused by the expansion of the non-oil industry as well as the extraordinary rise in crude oil prices prior to their precipitous 2008 collapse, which was exacerbated by the global financial crisis. The non-oil GDP is predicted to stay at 6.3% by the end of 2009, with a 5% GDP growth rate in 2009. The Central Bank of Nigeria's governor, Sanusi Lamido Sanusi, stated that inflation decreased gradually from 15.1% at the end of 2008 to 11.1% at the end of July 2009.

**Statement of Problem**

Africa's most populous country, Nigeria, has suffered from ongoing poverty and sluggish economic development. Among the few development indicators that are available are low income, which is characterised by low per capita income, poor health, and a short life expectancy; low human development rating (index); low levels of education; high rates of inflation; inadequate infrastructure and human capital development; and, in actuality, a recession following years of sluggish economic growth. The nation is able to accomplish all of these things because of the enormous amount of money it receives from both oil and non-oil sources, such as value-added tax and other levies. There has been a noticeable increase in expenditure in recent years, and there has been significant disagreement on the ultimate depletion of the

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surplus crude account and its reserves (Abubakar, 2016).

As a result, some elites have demanded a leadership transition, while others have linked systemic corruption to the myriad problems plaguing earlier regimes and their leaders. In spite of this, the majority of people continue to live in poverty. There have been arguments made for and against the theory that Nigeria's recent recession is the result of low oil prices leading to lower revenue (Agu, Okwo, Ugwunta, & Idike, 2015). This call seems reasonable when looking at the current pattern of variations in petroleum revenue, but does it still make sense when looking at longer time periods and trends? During the 2008 oil price boom, global financial institutions were able to amass almost $20 billion in excess crude accounts (World Bank, 2013). This is where the difficulty lies.

Despite the boom, tax revenues could not keep up with the rate of economic growth. The lack of money raised as a result of leakage and governments' failure to fulfill their social duty to levy taxes has also been a problem; this issue persists even in the absence of incentives for equitable contributions. Tens of billions of Naira are lost each year as a result of tax evasion, avoidance, and noncompliance (Ironkwe, U. I., & Ordu, 2016).

### Research Questions

The following questions are raised to guide the study

1. What are the sources of Nigeria's revenue leaks?
2. What are the implications of revenue leakages on Nigeria’s economic development?
3. What are the causes of revenue leakages on Nigeria’s Economic development?
4. How do revenue leakages impact Nigeria's economic development?

### Research Objectives

The broad objective of the study was to examine the implications of revenue leakages on the Nigeria’s economic development. The specific objectives are to

1. Examine the are the sources of Nigeria's revenue leaks?
2. Investigate the implications of revenue leakages on Nigeria’s economic development.
3. Examine the causes of revenue leakages on Nigeria’s economic development
4. Explore the impact of revenue leakages on Nigeria’s economic development

## REVIEW OF LITERATURE

### Conceptual Clarification

### Concept of Economic Development

One common substitute for economic development is an increase in per capita income. The gross domestic product (GDP) of a country increases in lockstep with its overall output of goods and services. According to Gbosi (2007), economic growth is "the proportionate increase in the output of goods and services over a period of time." Put simply, it's the increase in the value of all commodities and services offered in an economy as a result of technological improvements and improved resource quality.

By using a variety of economic indicators, the economy's development or improvement can be seen. A country's GDP growth over a given period of time is referred to as economic growth (Berembo & Igonikon, 2020). On the other hand, a continuous increase in the gross national product, or national output per person,

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is often referred to as economic development. As a result, the rate of increase in overall output must be higher than the rate of population growth. These indicators show how prosperous an economy ultimately becomes. There are other indicators as well, such as the unemployment rate, inflation, GDP, and PCI (per capita income).

Economic development, broadly understood, is the structural change of an economy through the introduction of more modern and mechanized technology to raise labor productivity, employment, earnings, and the population's standard of living. To support economic change, infrastructure development should go hand in hand with advancements in social, political, and institutional elements (Myint and Krueger 2016). It is believed that economic progress, which offers more jobs, greater earnings, better products and services, and the newest manufacturing technology, is crucial for a nation to eliminate poverty.

**Concept of Revenue Generation**

No matter how big or developed an economy is, its ability to produce income is still essential to its management since it establishes the source of the funds needed for government spending. According to the 1999 constitution (as amended), Nigeria is a federation whose federally generated income is divided between non-oil and oil revenue. While revenue from the production of oil and gas is recorded as "oil revenue," all other types of revenue are included in "non-oil revenue" (Ogenyi & Agada, 2020).

The financial resources of the government, which are mostly derived from taxes or subsidies, account for a sizable amount of the total revenue. Government revenue is the total amount of public invoicing that the government receives from all sources, maybe excluding loans and borrowing (Ihimodu, 1995). It is not to be confused with public receipts, which are related to government borrowing and revenues. This implies that government revenues are not the only section of public income; non-revenue portions are also included, increasing the overall amount of government debt. As a result, in addition to taxes, grants, gifts, and borrowings, public receipts also comprise corporate and administrative revenue.

Taxation and non-tax revenue are the main sources of government revenue in Nigeria. The primary goal of taxing is to raise the money needed to run governments. Because of the distinctive characteristics of the economy as a whole, the sources come from both oil and non-oil revenues. Both oil and non-oil revenues make up the tax revenue, notwithstanding this discrepancy.

**Concept of Revenue Leakages**

The management of natural resource money is presumably becoming more transparent as more people support it. This is due to the fact that, despite the region's oil and gas businesses producing enormous amounts of revenue, the people who live there do not profit from these abundant resources. "A fundamental obstacle to creating an investment climate that is favorable, improving the management of public resources, and reducing poverty is a lack of transparency".

According to Investopedia (2011). "Leakage" is defined as the process by which funds leave the economy and create a disparity between supply and demand. Businesses have to go elsewhere for revenue if customers spend their earnings outside of their nation or town. According to Keynesian economics, if leakage results in a capital deficit, governments may need to add money to the system. Stated differently, it is a state in which revenue or capital leaves a system or economy rather than staying there. Leakage, as used in economics, describes the departure of a circular flow of revenue model. When products and services are bought, all individual revenue is returned to the employers under a two-sector model. It is also returned to the employees in the form of wages and dividends. When revenue is diverted by imports, savings accounts, and taxes, leakage takes place.

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Leakage in retail refers to customers who make purchases outside of their local market. Money that has been earned but not collected is referred to as revenue leakage, usually as a result of a business's ignorance of the situation. Revenue leakage has been a global phenomenon, according to Hariharan (2009), and it has been eating away at the profit margins of transaction- and service-based businesses. Inaccurate pricing, ineffective operations, incomplete or unpriced transactions, uncollected revenues, etc. can all result in income leakage.

The term "revenue leakage" describes the loss of prospective income as a result of fraud, inaccuracies, or inefficiencies in a business's operations. It happens when money that ought to be collected and held onto is misplaced or ignored. It speaks to the process that permits income to leave an organization rather than coming in. Within the discipline of economics, leakage refers to the disbursement of cash within a closed institution. All consumer spending is transferred as salaries and dividends to firms and employees in a two-sector economy. An income leak occurs when money is lost to savings, taxes, imports, and other costs. In the retail industry, consumers who purchase outside of their surrounding area are viewed as leaks (Eme, Chukwurah & Iheanacho, 2015).

Onaolapo, Aworemi, and Ajala (2014) looked into the impact of value-added tax on Nigeria's revenue generation. For the secondary source of data, the Federal Inland Revenue Service Annual Reports, the Central Bank of Nigeria Statistics Bulletin, and the Journal of the Chartered Institute of Taxation of Nigeria were consulted. The data analysis method employed was stepwise regression analysis. The results show that the value-added tax has a statistically significant effect on Nigeria's capacity to make money. The following recommendations are made by the report: all VAT agents should be dedicated to collecting and paying VAT, and they should appear honest in doing so; the government should endeavor to improve the value-added tax collection process.

Gwa and Kase (2018) investigated the relationship between tax income and Nigeria's economic growth. Determining the contribution of the petroleum profit tax (PPT), value-added tax (VAT), and corporation income tax (CIT) to Nigeria's economic growth was the study's primary objective. Examining the PPT's effect on the nation's economic expansion was the second objective. Secondary sources provided the vast majority of the study's data. The Federal Inland Revenue Service and the CBN statistical bulletin provided the time series data for these analyses. The impacts of independent factors on the dependent variable were estimated using the ordinary least squares approach in multiple regression models. The findings showed that two key factors influencing Nigeria's economic growth are value-added tax (VAT) and company income tax (CIT). Additionally, the findings demonstrated that the Petroleum Profit Tax (PPT) had no discernible effect on the growth of the Nigerian economy.

In 2016, Akhor, Atu, and Ekundayo examined the manner in which indirect tax collection has impacted Nigeria's economic growth. In this study, the real gross domestic product is utilized as a proxy for economic growth, whereas value-added tax revenue, revenue from customs and excise duties, and economic growth are employed as independent variables. The study employs secondary data from the Central Bank of Nigeria's statistical bulletin for the years 1993 to 2013 for the empirical analysis, employing practical sampling techniques. Descriptive statistics, correlation, unit root test, cointegration test, and regression error correction model were utilized to assess the data in the time series research design. The results demonstrated that the value added tax had a substantial and negative impact on the real gross domestic product. Similarly, prior customs and excise taxes had a modestly negative impact on real gross domestic output. The Error Correction Model (ECM (-1)) coefficient had a sign that was both properly negative and statistically significant. This illustrates how quickly a short-run divergence can be resolved. There is no autocorrelation in the model, as indicated by the Durbin-Watson value. Since that before value-added taxes as well as customs and excise fees had a considerable impact on economic growth, the study recommended fixing tax

administrative loopholes in order to considerably enhance tax revenue and encourage economic growth.

The 2014 study by Samuel and Tyoko so focused on the Federal Capital Territory (FCT) and a few other states to investigate how taxes affect income generation in Nigeria. Understanding the notion, goals, tax classification, and principal taxes in Nigeria was the goal of the study. Regression analysis was performed using SPSS version 17.0 and primary and secondary data sources were employed in the study. It was discovered that taxes had a substantial impact on GDP, revenue creation, and tax evasion. In order to deter tax evasion and avoidance, the report suggests creating a robust database for taxpayers, making sure tax collection procedures are free from corruption and embezzlement, and enforcing strict penalties.

Okoye, Amahalu, and Obi (2018) examined the economic impact of tax leaks in Nigeria from 2008 to 2017. Three hypotheses were examined using secondary data from the Federal Inland Revenue Service, the World Bank Statistical Bulletins, the Central Bank of Nigeria, and the National Bureau of Statistics. In Nigeria, tax evasion substantially impeded economic growth, the study found, at a significance level of 5%. According to the findings, the federal government should make prudent use of tax resources to fund necessary infrastructure, lower the infant mortality rate, and encourage individuals to file their taxes.

## Theoretical Framework

### The Keynesian Theory

The John Maynard Keynes' classical theory, which was published in 1933 during the Great Depression that rocked western economies around the world, is still a topic of discussion among economists and academics today. Because it clarifies the idea and effects of government revenue and expenditure on the economy, the theory is especially contentious. According to Keynesian theory, the government can affect macroeconomic productivity through fiscal policy by changing tax rates (revenue levels) and public expenditures. It went on to add that changing these factors would have the effect of keeping prices low, boosting employment, and reducing inflation.

In other words, he maintained that letting market forces take their course would ultimately result in an equilibrium condition of underemployment and a stable level of economic activity, and that government intervention in fiscal policy would have the effect of a countercyclical measure. They firmly believe that governments can set themselves up for growth and progress if they properly control public finances and spending. It also implies that governments could be able to meet their budgetary goals by increasing taxes or spending (Onuchukwu, Kalagbor, & Nzor, 2012).

Put differently, more spending may encourage investment and production, which would result in noticeable economic activity like rising incomes and job creation. In addition, exports decrease and imports increase as production increases. As mentioned, higher government spending will accelerate economic growth and vice versa, according to the Keynesian paradigm. According to Abu and Abdullahi (2010), raising revenue should likewise raise spending. If not, a deficit situation could occur, jeopardising the accomplishment of macroeconomic objectives. Through adjustments to tax and spending policies, the government preserves equilibrium between the actual supply and demand of goods and services.

However, investments in expanding the productive sector of the economy are necessary to support this degree of economic stability. Untargeted spending has little effect on the macroeconomy. Having said that, Keynesian theory serves as the foundation for this study because it is consistent with public finance theory and emphasizes the challenges it raises about government revenue and economic growth. According to this view, implementing policies that would allow the government to raise the required funds for the nation is the best approach to creating economic growth through taxation and spending.

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# METHODOLOGY

An ex-post facto research design was used for the purpose of this research. In order to determine the components connected to a certain occurrence, scenario, event, or behavior, ex-post facto analysis searches for possible causal elements in earlier occurrences or data (Kothari & Garg, 2014). Secondary data made up the bulk of the data used in the present study. To ensure that the empirical result is valid, the study's borders were extended from 2019 to 2023. The Budget Analysis Report, World Bank Statistical Bulletin, Federal Inland Revenue Service (FIRS), Central Bank of Nigeria (CBN), and National Bureau of Statistics publications and time series data (NBS) were the secondary sources of data collection used.

# DISCUSSION OF FINDINGS

### Nigeria's revenue sources

Nigeria receives funding from a variety of sources. The composition of revenue may change in response to government efforts, international market conditions, and economic policies. Oil and non-oil profits are the government's primary sources of funding; since the 1970s, oil money has dominated. It provides for more than 70% of federal revenue. Between 1970 and 1980, there was a significant change in the makeup of federally collected money due to favorable developments in the world oil market. The revenue of the Federation Account increased from N634.0 million in 1970 to N15, 233.5 million in 1980; however, by 1986, it had dropped to N12, 595.8 million, or 17.2% of GDP. The rise in gross collections was primarily driven by higher revenue contributions from the non-oil and oil sectors.

However, the oil sector has been the main source of foreign exchange earnings since the mid-1970s. Due in large part to sharp price rises starting in the mid-1970s, oil's share of nationally collected revenue rose dramatically from 41.4% in 1970–1972 to 73.9% in 1973–1979, with an average of over 70% for most of the 1980s. Obiechina (2010) states that the sources of government revenue can be divided into

### Tax Revenue

The two primary sources of government revenue are taxes and non-tax revenue. Taxes are nonreturnable gifts of money or, on occasion, goods and services that private individuals, institutions, or organizations provide to the government (Anyanwu, 1993). It may also refer to mandatory or non-voluntary payments given to the government by people, groups, companies, etc. to meet administrative costs and the costs associated with providing products and services. The core principle of taxes, according to Mbanefor (1990), is that people who profit from public goods and services ought to foot the bill for their provision.

Taxes are one of the primary sources of funding for the government and are mandated by law, regardless of the exact amount of services delivered to the taxpayer in exchange. Since paying taxes is required by law, there will be repercussions for those who are able to yet choose not to. Taxpayers provide this payment to the government, which is used for the benefit of all citizens. The government finances hospitals, schools, public utilities, and other infrastructure improvements via tax revenue. It is not, however, imposed in return for any specific benefit the taxpayer receives from the government.

To put it simply, there are two types of taxes: direct and indirect. When classifying, the following elements—which may or may not be transferable—are taken into serious consideration: revenue and expenses, production and expenses, and burden. Regarding taxes, the following categories apply:

a. Direct Tax: The most common type of tax in Nigeria is the direct tax, which also provides the government with its primary source of funding. They immediately affect the assets and income of

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both individuals and companies. Depending on the taxpayer's position, it fluctuates, and the taxpayer usually pays the full amount. It is made up of a number of different taxes, including the Company Income Tax (CIT), Personal Income Tax (PIT), and Petroleum Profit Tax (PPT).

b. Indirect Taxes: Apart from direct taxes, indirect taxes also provide a substantial amount of funding for the government. These taxes are imposed on people or organizations that are meant to transfer the costs and consequences on other people rather than bear them themselves. They usually apply to goods or services, so the final payers are not held directly accountable for them. Included are Value Added Tax (VAT), import taxes (and fees), export duties, excise duties, and so on.
c. additional revenue from taxes Mostly from mining (rents, royalties, and other incidental payments), this covers interest and repayment. Among the different elements are licenses, fees, commissions from sales, and rent for government property.

**Non-tax**

Grants, administrative income, and commercial payments are all considered forms of non-tax revenue. Payment is necessary if the recipient decides to use the services, even though they are free to decline. Revenue from licenses, fees, and other such items is called administrative revenue; revenue from payments made to the government for goods and services—like water rates and school levies—is referred to as commercial revenue. Grants are payments made by one governmental level to another, typically for specific uses such as education, health care delivery, and road upkeep (Ibid.).

**Sources of Nigeria's revenue leakages**

There are several avenues and methods in Nigeria by which revenue could be lost. Researchers including Akinmutimi (2015), Balogun (2015), Eme, Chukwurah, and Emmanuel (2015) have found a number of sources—most notably in the fourth republic—through which revenue in Nigeria is leaked. Some of the primary reasons why revenue leaks occur in the country are as follows:

a. Bribery, kickbacks, and embezzlement are common practices among public officials and people to divert public funds for personal gain, corruption is a major contributor to revenue leakage in Nigeria.
b. Avoiding and Evading Taxes: The extensive tax evasion and avoidance strategies employed by people and businesses to reduce their tax responsibilities cost the Nigerian government a lot of money.
c. Weak Tax Administration: Tax compliance is not enforced strictly enough, tax authorities are not transparent, and tax authorities' competency is reduced. These are some of the factors that lead to revenue leakage.
d. Oil bunkering and artisanal mining: The government suffers financial losses as a result of illicit mining activities when sales and production of natural resources are either underreported or unreported.
e. Underreporting of Revenue: Certain businesses underreport their income or employ transfer pricing techniques to minimize their tax obligations, resulting in financial losses for the administration.
f. Inefficient Customs and Excise Taxes: Revenue leakages from commodities smuggling and underreporting are caused by lax enforcement at border checkpoints and ports, as well as by weak administration of customs and excise levies.
g. Poor financial management practices that result in revenue leaks in Nigeria include inadequate budgeting, improper accounting, and weak internal controls, to name a few.

**The implications of revenue leakage on Nigeria's economic development**

Nigerian revenue leaks can obstruct economic growth in a number of ways. Revenue leakages obstruct

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XI Issue IV April 2024

economic development in the following ways, per Adejumo et al. (2021).

1. Decreased Government Revenue: When there are revenue leaks, the government is unable to collect as much as it should, which restricts its ability to make investments in vital areas like infrastructure, healthcare, education, and other fields that are essential to economic growth.
2. burdening citizens: The government may borrow money or raise taxes in order to make up for revenue losses from leaks, which would burden both citizens and businesses more. This may inhibit the expansion of the private sector and deter foreign investment.
3. Budgetary Restrictions: If the government is unable to reach its spending goals, scheduled development projects may be postponed or cancelled. This impedes economic development and restricts the advancement of critical services.
4. Corrupt Practices and Inefficiency: Tax evasion and ineffective public financial management are frequently linked to revenue leaks. This makes programs intended to promote economic development less effective.
5. Underinvestment in vital areas: The failure to bring in enough money can lead to underfunding of vital areas including healthcare, education, and infrastructure. Consequently, this impedes the nation's total economic advancement.
6. Economic Inequality: Because the cost of maintaining public services may fall disproportionately on some groups of people, revenue leaks can exacerbate economic inequality. This may spread to the disparity between wealth and poverty.
7. Decreased Foreign Investment Credibility: The country's financial management may lose the trust of foreign investors if there are ongoing income leaks. This could result in less foreign direct investment, which would impede the expansion and development of the economy.
8. Increasing Debt: The government may borrow money to make up for revenue shortfalls, which would increase the amount of debt it has. This may result in long-term economic difficulties and a diversion of funds from development projects.

**Causes of revenue leakages on Nigeria's Economic development**

In Nigeria, revenue leaks have long been a problem, with a variety of root causes. Many European countries suffer from over taxation, but emerging countries are more vulnerable to revenue leakage due to a number of factors, including complex tax structures, excessive discretionary power held by tax officers, corruption, and income leaks brought on by a lack of transparency. dishonest and inefficient tax administration; poor infrastructure; scarcity of competent tax officers; few incentives for tax officers; low tax morale due to "corrupt culture" (Park, 2005:8).

Uadiale (2010) claims that Nigeria's habit of revenue leakage has been connected to several problems. While many of the reasons for tax evasion are specific to a given area, most of them are universal, meaning they affect any country where taxes are collected (Uadiale et al., 2010). Some of these problems in Nigeria, according to Onuigbo (1986), are: unequal access to amenities; inappropriate use or mismanagement of tax monies; taxpayers' estrangement from the government; and a lack of civic duty. Additional contributing factors include, among other things, dealers' weak accounting records, ignorant taxpayers' belief that only wages and salaries are taxable, corruption in public service, and a lack of accountability.

In a similar vein, Obiechina (2010) noted that the following factors contribute to revenue leaks: The tax structure's level. Inadequate enforcement measures and ineffective collection procedures are two examples of tax administration weaknesses. The tax structure grows as the economy does, resulting in a decrease in indirect tax revenue and an increase in direct tax components. This is especially true in economies where the informal sector is significant. According to the idea of tax structure evolution, the economic structure severely restricts the tax system and has an impact on the amount of money collected through taxes. This is

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especially important in economies where the informal sector is significant. Tax avoidance and evasion lower government revenue, which has an impact on programs for economic development.

Bribery and Corruption: Corruption is pervasive in all governmental spheres and public institutions. Economic development is impeded when funds intended for public programs and services are embezzled for personal benefit. The effectiveness of most government efforts has been jeopardized by bribery and unethical activities among those involved in the collecting and distribution of government revenue as well as the construction of infrastructure projects. As a result, the nation has been unable to build the essential infrastructure needed for its economic transformation. It's uncertain if government monies intended for infrastructure improvement are going to Nigeria given how badly damaged the country's infrastructure is (Obiechina, 2010).

Balogun, (2015) asserts that instability and insecurity might result in income leakages by interfering with transportation and oil production, which can cost money and impede economic growth. Furthermore, one of the main causes of revenue leaks is political meddling in procedures that generate revenue. (Akinmutimi, 2015) also identified a key factor contributing to Nigeria's revenue leakages as inefficiencies in public financial management.

**Effects of revenue leaks on the economic growth of Nigeria**

Crude oil prices and production levels affect Nigeria's economy in many more ways than just the oil sector. The oil business provides a significant amount of funding to the government, which in turn helps other economic sectors. The manufacturing, agriculture, and service sectors of the economy could therefore be negatively impacted by fluctuations in the price and production of crude oil (Adejumo et al., 2021). Government revenue has significantly decreased as a result of revenue leaks. This cutback restricts the government's ability to finance social programs, infrastructure improvements, and other public services that are essential to the growth of the economy.

Brown and Nnamaka (2019) looked at Nigeria's economic growth in connection to oil revenue between 1980 and 2017. The GDP, oil income, oil rent, and domestic gasoline price time series data were obtained from secondary sources that were used in the study. Using the augmented Dickey-Fuller approach, the study first looked at the series' descriptive statistics to ascertain whether each time series was stationary. The parameter coefficients were estimated in the short- and long-term using the ARDL model. There is an obvious long-term link between the variables, as indicated by the F-statistics from the co-integration test of the bound. The analysis found that, although not statistically significant, oil income and oil rent had a long-term positive effect on GDP.

The implementation of financial plans is impeded by the loss of money resulting from leakages, as stated by Areg beyen & Kolawole (2015). The government might have trouble carrying out its planned initiatives, which would cause delays in the development of infrastructure, healthcare, education, and other vital services.

According to the research of Jayathilaka, Oyewole, and Oloni (2022), revenue leaks are a factor in the dearth of funding for important infrastructure projects. Inadequate infrastructure restricts the nation's total economic potential, hinders corporate expansion, and negatively impacts economic activity.

Revenue leaks affect public expenditures, fiscal planning, and a country's overall financial health, among other things. They also have a significant impact on government budgets and spending. Leaks in revenue have a cascading effect on government expenditures and budgets, resulting in financial difficulties, weakened public services, and postponed development projects.

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XI Issue IV April 2024

Leaks in revenue cause the government's overall amount of accessible funds to drop. This suggests that governments have less money to spend on public services, development initiatives, and other budgeted expenses as a result of income leakages. Similarly, governments may borrow to pay for deficits caused by these "leakages," raising their debt loads and possibly taking money away from development initiatives. High borrowing rates result in increased debt payment requirements, which lowers the amount of money available for future budgets' discretionary spending. Funds that may be used for development initiatives are diverted, according to Ugochukwu and Oruta (2021), which results in the poor distribution and use of resources. The long-term viability of public assets may be impacted if the government is obliged to make compromises or lower expenditures on upkeep and enhancement.

## SUMMARY AND CONCLUSION

The paper concludes that income leaks have a major impact on Nigeria's economic growth, compromising the government's ability to achieve sustained growth in a number of sectors. Nigeria, which is endowed with several avenues for revenue generation, suffers from revenue leaks in a number of areas, including taxes, customs, oil, and non-oil revenue. The system's high levels of corruption, poor tax administration, smuggling, informal economy activities, and weak governance, among other issues, are to blame for these leakages. The study also showed that revenue leaks result in lower government revenue, deficits in the budget, difficult fiscal planning, and inadequate investment for infrastructure and critical services. It should be mentioned that income leakages erode public confidence in government institutions, impede the achievement of the Sustainable Development Goals (SDGs), and add to inequality. Elevated rates of revenue leakage undermine investor trust, deter foreign direct investment, and impair the investment climate's overall competitiveness.

Thus, it can be said that revenue leaks are a serious threat to Nigeria's economic growth since they make it more difficult for the government to enact sensible fiscal policies and set aside funds for infrastructure and other necessities. The core causes, which include issues with corruption and governance, need to be addressed with thorough reforms, more openness, and fortified institutional frameworks.

It is imperative to make efforts to improve tax administration, diversify income streams, and foster economic resilience. In order to promote equitable and sustainable growth, it is also necessary to make strategic investments in infrastructure, healthcare, and education in order to solve social and developmental concerns.

Economic development depends heavily on foreign investment and addressing revenue leaks is essential to boosting trust and fostering an atmosphere that encourages FDI. Nigeria can create a more secure and appealing investment climate and unleash the potential for strong economic growth and enhanced citizen quality of life by taking proactive measures to plug leakages. All things considered, preventing revenue leaks and laying the groundwork for a stronger, more resilient Nigerian economy require an all-encompassing strategy.

## RECOMMENDATIONS

Nigerian revenue leakage needs to be addressed with a thorough and diversified strategy. The following suggestions seek to minimise leakage of revenue and promote economic growth:

1. Strengthen Transparency and Governance: Better governance and transparency policies are needed to enhance financial transactions, budgeting processes, and public procurement. Open-data initiatives also need to be implemented in order to increase accountability and provide information to the general public.

2. Promote economic diversification. In order to enhance the stability of state finances and reduce dependence on oil revenue, the government had to prioritise economic diversification. Support should also be given to the growth of the non-oil sectors, such as industry, services, and agriculture.
3. Public Awareness and Participation: Stakeholders should ensure that the general public is aware of the negative impacts that revenue leaks have on economic progress in order to improve accountability. They ought to promote public participation in budgetary procedures and scrutiny.
4. Frequent Audits and Evaluations: The government ought to endeav our to conduct routine audits of government finances and revenue-collection organisations in collaboration with other ministries, such as the ministry of finance. It is recommended that unbiased committees be established to assess the effectiveness of anti-leakage methods and offer suggestions for enhancements.
5. Eventually, stable policy is necessary to provide investors with a steady environment. Governments should develop and implement long-term economic policies that prioritise sustainable development and inclusive growth equally.

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