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TAX REGIMES IN INDIGENOUS NIGERIAN SOCIETIES: LESSONS FOR SUSTAINABLE TAX ADMINISTRATION IN CONTEMPORARY GOVERNANCE

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Abstract

This study surveyed tax regimes in indigenous Nigerian societies in order to understand how the indigenous administrations funded provision of common facilities and services in pre-colonial era. Secondary archival sources and other existing literature were reviewed to show that taxation was successfully practiced by indigenous administrations in Nigeria before the advent of colonial rule. This study revealed the positive inclusive features of indigenous tax system and concluded that modern tax reformation efforts should adopt inclusivity principles to achieve broad based consensus in taxation process by Nigerians. Unanimous buy-in into tax administration by the citizens will make for improved public revenue generation in this era of low national earnings due to global decline in crude oil prices which is the major income earner for the country. The paper finally recommended tax reforms in Nigeria to reflect similar positive features like those of indigenous tax system so that the people will accept and support the modern taxation system the same way as they supported indigenous tax regimes in pre-colonial era.

Keywords: Indigenous, Indigenous Societies, Tax, Tax Regimes, Nigeria

INTRODUCTION

Tax is a veritable means of funding public governance, and tax was practiced in indigenous administrations of Nigerian communities long before colonial rule. However, after colonization, much was not known about this fiscal practice which indigenous leaders used extensively in a manner acceptable to community members. This loss of vital knowledge was caused by the fact that governance structures of indigenous Nigerian societies were set aside at the advent of colonial rule rather than building upon them for seamless sustainable growth. According to Nwagbara (2012) and Basheka (2015), the African continent has a difficult history from foreign conquest, colonialism, neo-colonialism and foisting of western style of administration and leadership practices upon the indigenous societies. Nothing may be wrong in restructuring and improving an existing socio-political system of a people for it to cope with the demands of modernization, however, it could be less desirable for the entirety of an acceptable system that

worked in many areas of a society including communal revenue drive (taxation) to be totally jettisoned for an altogether alien taxation practices in a new governance style created by the colonial administration. It is important to find out those vital elements of indigenous taxation system which were abolished by the colonial administration in Nigeria, and how these tax regimes worked for the indigenous people. The objective of this paper is to examine the various tax regimes which funded provision of common facilities and services in indigenous societies in Nigeria with a view to articulating vital lessons from indigenous administrative practices which could assist the repositioning of modern taxation practices in Nigeria.

METHODOLOGY

This study adopted content analysis of relevant archival sources and review of existing literature as two secondary data collection procedures that guided this research work. The succeeding sections of this paper are structured into literature reviews: First, an overview of leadership services delivery systems in indigenous Nigerian societies was first presented. Thereafter, the communal services in indigenous communities and the administrative systems used in providing them were identified. The review went further to identify the types of taxes that existed during the indigenous era. Going further, the twin challenges of tax evasion and tax avoidance confronting tax revenue managers in modern tax administration system were also investigated in literature to determine the extent to which such practices constituted a challenge in indigenous tax administration process.

LITERATURE REVIEW AND CONTEXTUAL ISSUES

Before colonization, indigenous societies in Nigeria had existed with different levels of organised leadership frameworks and governance systems which derived from the culture and beliefs of the people. The socio-political arrangements were understood and supported by the people such that the system worked for all major areas of human needs in the communities during that era. For instance, Okodo (2012) observed that inadequate housing was never a societal issue as we have it today because home ownership under the indigenous housing delivery system was accessible to most community members through the use of age grade and trade guilds as social capitals.

Also, most of the Nigerian social problems of today could not have arisen under the indigenous leadership/administrative arrangement. For example, the problem of corruption among the ruling class may not have manifested or if it ever did, could have been promptly resolved since the system had effective means of dealing with such social deviations irrespective of who was involved. It is well known in literature that in indigenous societies; Kings in southwestern Nigeria, for example could not become autocratic because *Oro* cult served as the traditional way of regulating political administration, judicial system, and religious cleansing. In addition, it was the means of calling everyone to order within the limits of the laws of the land (Akanji & Dada, 2012).

With these types of effective socio-economic mutually dependent system and leadership control mechanisms, deprivation of people in any quarters from leadership benefits was significantly curtailed, while no leader could manipulate the system in order to possess absolute power as exists among the neo-colonial and neo-liberalized despots in modern political arrangements. The

argument in the above discussion is that under indigenous administration, equity, human rights and respect for human dignity were accorded effective protection in the scheme of things and community members in different socio-economic classes pursued their economic aspirations within the limits of resources available to all.

Indigenous Administrative System and Public Services they Provided

Indigenous administration existed in pre-colonial Nigerian societies just as it did in other parts of Africa (Osei-Hwedie & Osei-Hwedie, 2000; Fashoyin, 2005; Martin, 2012 and Osakede & Ijimakinwa, 2015). There were Kings/Queens, Chiefs, Family Heads and Chief Priests of Deities, King Makers, Trade Guild Leaders, and Age Grades each of which performed specific functions assigned to their offices according to the traditions of the people. All these put together provided the indigenous administration for the society with a duty to develop the community, maintain order and harmonious inter-communal relationships. Indigenous societies in different parts of Nigeria were actually developing although, at different rates when forces of colonial rule overran these communities, set aside the gains of indigenous development and foisted alien governance style upon the society. Works of many scholars including Atolagbe (2010); Okoeguale and Oladipupo (2015) corroborated the preceding statement and agreed that each of the diverse tribes and cultures in Nigeria was technologically self-sustaining long before the beginning of colonial rule. Cultural groups that formed Nigeria had distinct leadership style, laws, military, security, financial, technology, land tenure, health care, religious and social systems, etc. which were all working when western powers arrived in Africa. The indigenous administration needed to mobilize resources from community members for the provision of essential communal services listed above, for community development projects and entertainment of guests in the Kings' palace during annual festivals such as Ofala festivals in southeastern Nigeria, among those of other ethnic groups in Nigeria.

In view of the needed resources for effective indigenous governance, indigenous administrations were arranged in such a way that Kings and Chiefs required their subjects to contribute resources towards the development of the community in form of tax. Thus, just as the history of taxation reported that ancient Greeks, Romans, and Egyptians used different types of tax revenues to fund military projects, provide public services and to ensure sustainable provision of food supplies through buffer stock practices, Musonda (2016) recorded that indigenous societies had tax systems which supported their administrations and facilitated the provision of common facilities and services within the kingdoms. However, the most striking feature of Nigerian indigenous tax system was that it characterized a common humanity approach which made revenue mobilization easy and cost effective. So, borrowing beyond the financial capacity of the community members was a rare option contrary to the present situation where some dubious leaders mortgage the future generations of their country to huge borrowings. And communal expenditure was based on what was available to a community from the community members. The system worked because the people trusted their leaders and as individuals they willingly paid taxes towards promoting the common good and development of the community.

Indigenous Tax Regime Typologies

Different types of taxes existed in indigenous Nigerian societies, however, more often than not each of the various tax typologies were surcharged for different purpose. For instance, contributory labour was employed both as tax (a civic duty) as well as an investment currency for strategic wealth creation among peers in age grades and colleagues in trade guilds. Okodo (2012) stressed that communal labour tax (sweat tax) was used to construct and maintain: roads, village square, Kings' palace, and community water streams in addition to making preparation for festivals in the community.

Livestock and agricultural products were other types of tax currencies used in indigenous Nigerian societies. In the system, a prescribed portion of individual's harvest is submitted to the King /Chief as tax based on a relationship model as depicted in Figure 1.

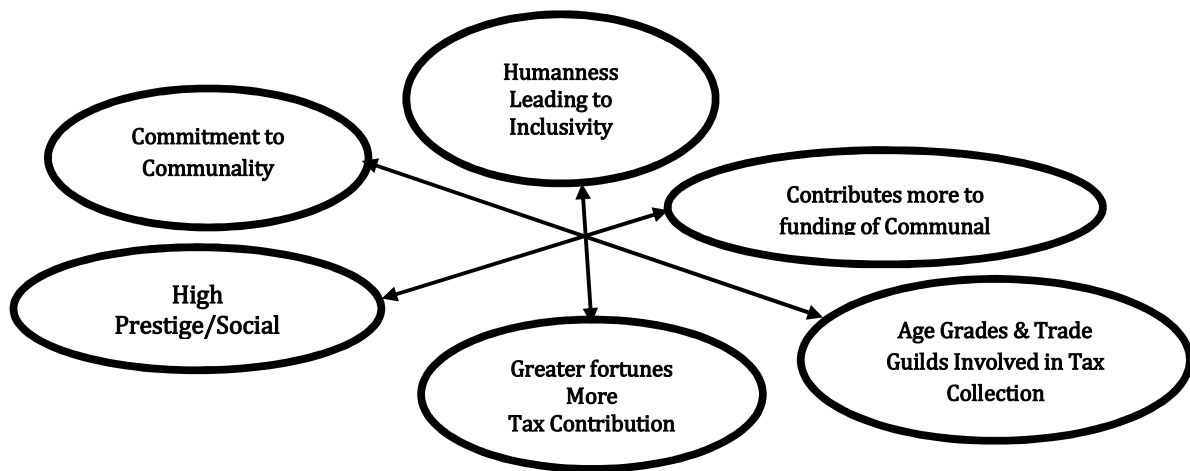


Figure 1: Indigenous Tax Administration Relationship Model

Tax administration in Nigerian indigenous society particularly in the Southeastern region was largely by a relationship model as shown in Figure 1. Under this model, tax administration stood on a tripod of commitment to communality, social status and fortunes. The corresponding philosophies to the highlighted tripods are age grades and trade guilds were adopted as agencies for tax collection, since they know their members better than the local authority, those occupying higher social status bore higher incidence of tax than those on lower social latter, moreover, those in control of higher economic opportunities also paid more than others. These tenets of indigenous tax system promoted inclusiveness. People paid their taxes without any form of compulsion and neither the unpatriotic act of tax avoidance nor the fraudulent act of tax evasion was rampant as are presently the bane of the fiscal system of Nigeria and other neo-colonial independent states of Africa. The peoples' willingness to pay taxes in indigenous administration could be as a result of well-defined norms of the community nurtured by communal consensus.

Otumfuo (2004) in Muo and Oghojafor (2012) identified two characteristics of most indigenous leadership systems in Nigeria as comprising of: (a) well-defined norms despite the absence of written laws and in some instances hierarchical sovereign head and (b) direct pronounced participation of the people in decision making, which in turn yields visible democratic process. In other words, the people perceived that they have a voice in the affairs of the land, so they felt

committed and claimed ownership of policies that promote the common good of the community. But such is hardly the case in modern administration system in Nigeria and in other parts of Africa in which some fraudulent bureaucrats may easily collude with some dubious people to subvert the revenue mobilization process through sharp practices, often with impunity.

Tax Avoidance and Evasion, the Bane of Modern Governance

Under the modern-day administration, most individuals and business organisations deploy all manner of financial acuity to pursue tax avoidance agenda not minding the cost of public infrastructure that support their businesses, for example, urban infrastructure and security. This was never the case in indigenous tax system. Worse still is the case of those that try to avoid paying for the negative externality effects of their production processes or lifestyle activities. They do so with the business mind-set that tax avoidance is tolerated in law, but they fail to count the moral cost of such extremely individualistic pursuit without counting its impact on neighbours and the neighbourhood. Onyeka and Nwankwo (2016) noted that tax avoidance is legal or at least not illegal since one is most probably using the tax laws to limit his tax liability under the same laws.

A look at the global business practices in the world economy shows that Nigeria is not alone in public concern for tax avoidance and evasion issues. For instance at the international scene, a Committee of Experts on International Cooperation in Tax was set up in 2011 to review the challenges of international tax evasion and avoidance (UCEICT, 2011), while at a national level, the United States (US) is continuously strategizing to block legal loopholes in tax laws. These loopholes were said to be responsible for the loss of about \$3trillion to the government in two decades in US economy (Demos, 2011). Loss of tax revenue limits national development since the government will have less money to spend. International Tax Compact (2011) tagged this phenomenon the tax gap – or tax revenue gap (difference between the hypothetical tax revenue and the actual tax revenue) which should be avoided for effective governance to take place in an economy. Although, the administrative fight against evasion and avoidance in a country is often pursued at huge cost due to the need to constantly monitor individuals' and organisations' financial earnings and activities. It is important to note that in indigenous taxation practices such cost problems did not occur in revenue drive. This fact is a great advantage of indigenous tax system in Nigeria as there was a reduced cost of mobilizing tax revenue in indigenous settings as against the existing high cost of public revenue drive.

DISCUSSION

Literature has shown that taxation practices in indigenous societies of Africa were developed around well understood and universally accepted cultural ideology of the communities. For example, among the Zulus, tax practice revolved around the *Ubuntu* ideology (Basheka, 2015). The Zulus so much appreciate consideration for others and so, *Ubuntu* which is a universal ideology that means being human or humanness in dealing with what affects other people and the environment was adopted by their leaders in developing acceptable taxation policy and practice for their subjects. Similar ideologies have been identified as constituting the building blocks which were used for indigenous tax practices in various parts of Nigeria too. According to Oghojafor, Alaneme and Kuye, (2013) in Southeast Nigeria, indigenous tax system was largely driven by the concepts of *Njiko ka* (consensus makes us great) and *Onye aghana nwanne ya*

(prosperity for all). The ability of these concepts to propel tax administration in indigenous African region was based on the fact that the people believed that working consensually together as a group avails greater and better benefits to all than working in sole efforts.

The implication of not designing tax regimes after an acceptable socio-cultural concept of the people is that incidence of avoidance and evasion could be high and realized tax revenue low. The greatest challenge to national development for Nigeria and most other African countries is that tax revenue is not enough to fund public governance and public development projects. Taxable entities (private and corporate) often have the notion that tax revenues are subject to mismanagement and so proactively scheme for tax avoidance and even evasion in some cases.

The issue of endemic corruption and fraudulent practices in government circles tends to justify those that hold such negative notions about tax administration in a modern state. So, in Nigeria, tax revenue has accounted for a small proportion of total government revenue over the years compared with the bulk of revenue needed for development purposes that is derived from oil (Otu & Adejumo, 2013 in Okoeguale Oladipupo, 2015). Nevertheless, Nigeria has great potential for tax revenue which is yet to be explored. Until the coming of Value Added Tax (VAT) and Withholding Tax in Nigeria, it used to be said that wage earners were the only group that pay tax in the country. Thus it appears the government has not accurately captured the immense tax opportunities in Nigeria even as Besley and Persson (2014) warned that in many countries the power to tax is taken for granted in a great deal of mainstream public finance to the extent that tax revenue outcome is sub-optimal with serious economic implications for realization of national aspirations for attainment of sustainable economic development programmes.

The centre of the discussion is that, after gaining political independence, African countries including Nigeria could have adapted some of the good aspects of the political ideology and governance system of the indigenous administration and effectively blended them with what was handed over to Nigeria by the colonial governments. Taxation system is certainly one of the areas for such paradigm shifts which could have yielded huge economic benefit for national development if we had built the modern tax system around the acceptable norms of indigenous tax practices. In the arguments of Ahiauzu (1999), Zoogah (2009) and Adeleye (2011) in Oghojafor, Alaneme and Kuye (2013) application of Western management methods often proves less effective when transplanted elsewhere, hence every nation's tax policy and practice, needs to be as much as is possible rooted in its contextual cultural value system.

CONCLUSION

With the recent persistent decrease in crude oil prices, funding of public governance has become exceptionally challenging and this state of affairs urgently calls for significant paradigm shift in reworking the tax policy of Nigeria for improved revenue generation that will closely match fund requirement for sustainable national development. Consequently, continued dependence on oil as the major source of revenue in Nigeria is no longer beneficial for sustainable economic growth, and is even risky in the contemporary knowledge-based globalizing economy. The risk is that the search for non-carbon source of fuel is steadily making an inroad into the world energy supply system. Perhaps, sooner than later, technological innovations may bring about a re-classification of crude oil into an economically inefficient energy source, and petro-mono-economies like Nigeria will be in very big trouble. So, it is important for the government through the relevant

authorities to urgently start up public enlightenment campaign programmes to re-orientate Nigerians' behaviour and thinking towards taxation, in addition to making some necessary tax reforms in the country so that the Nigerian will accept and own modern taxation the same way as they owned and successfully supported indigenous tax regimes in pre-colonial era.

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