CHAPTER SEVEN

BEYOND OIL REVENUE: THE CASE FOR TAX REFORM

Background

The Nigerian economy was largely dependent on agro-products before oil was discovered in commercial quantities in the latter part of the 1950s. The country's major exchange earnings at the time came from cash crops such as cocoa, rubber, palm oil, cotton and groundnuts. Although mining activities such as coal in Enugu and tin and columbite in Jos contributed to foreign earnings, agriculture remained the bulwark of the economy; accounting for about 90 percent of foreign earnings and 70 percent of GDP.[1] In 1956, Shell Petroleum discovered oil in commercial quantities at Oloibiri in Nigeria's Niger delta region. By 1971, the oil production in Nigeria had grown so much that the country became the world's seventh largest producer of petroleum. It was in the same year that Nigeria joined the Organisation of Petroleum Exporting Countries, OPEC.[2] In 1974, there was a dramatic rise in world oil prices leading to unprecedented inflow of oil revenue in what commentators refer to as Nigeria's oil boom period. The oil boom impacted on the role of agriculture in the economy in severely negative ways. First, the search for wage-paying jobs led to a massive wave of rural-to-urban migration by people within the productive age circle resulting in loss of farm labour in the rural areas. Second, oil superseded cash crops as Nigeria's major exchange earner leading to less emphasis on innovations in the agricultural and manufacturing sectors. Third, because the oil revenue was not used to diversify the economic base, unemployment remained high. Between 1972 and 1974 the northern part of Nigeria, which accounted for large production of groundnuts, maize, corn, millet and livestock experienced its worst drought in six decades further undermining an already weakened agricultural sector. In 1975 there was a glut in the global oil market leading to a sudden fall in prices of oil. The fall in oil compelled the military government at the time to take steps to cushion the economic hardships that followed. First, to stimulate local entrepreneurship, the government introduced the indigenization programme which saw the federal government taking up about 60 percent of the equity in the marketing operations of the major oil companies in the country.[3] Second,

to reverse the trend in food importation which was occasioned by the neglect of the agricultural sector, the government introduced programmes such as Operation Feed the Nation (OFN) and the Green Revolution (GR) both aimed at improving local food production.

Programmes aimed at broadening the productive base of the economy did not yield optimal results because they were located within an unstable political context. Between independence in 1960 and the beginning of the Fourth Republic in 1999, the country witnessed 10 changes in leadership at the national level only two of whom were elected.[4] The rest were military dictatorships which were brought into being by series of *coup d' tat*. Planned economic development and continuity in governance were impossible within the milieu of unstable politics. In the face of such persistent political instability and easy petrodollars, other revenue sources, notably taxation, were not fully optimized.

A Dwindling Asset

In 1956, King Hubbert, a geologist with Shell BP, developed a mathematical model to predict the development of oil production in the United States. According to the Hubbert curve (as his illustration became known), oil production from new fields will always rise sharply, then reach a plateau (i.e its peak) before falling into a sharp decline.[5] The geologist predicted that the United States' oil production would peak in 1969.[6] Although his analysis was ridiculed at the time, over time, the peak oil theory has come to gain popularity among scientists and industry players. Scientists at the London-based Oil Depletion Analysis Centre are of the opinion that global oil production will peak out in 2011 and thereafter, there will be a steepening decline. Head of the Centre, Dr Colin Campbell likens the analysis to the consumption of beer: 'the glass starts full and ends empty and the faster you drink it the quicker its gone'. [7] Although a report on statistical review of world energy published in June 2007 by BP posits that there are still enough global reserves to last another 40 years, Dr Campbell dismisses the optimism as a summary of political estimates supplied by world governments to oil companies.[8]

While there may be no consensus on how much longer world oil reserves may last, debaters on both sides of the divide are unanimous that global demand is on the rise. According to estimates from the International Energy Agency, consumption will rise from 85 million[9] to about 113 million barrels per day by 2030. It is only logical that the increase in demand will

affect global reserves even in the most endowed countries. According to Sadad al-Huseini, former chief executive of Saudi Arabia's oil corporation, as at 2002 Saudi Arabia was producing 79 million barrels a day; the figure rose to 84.5 million in 2004 indicating that the country's production rose by between two to three million barrels a day each year. The former industry player concluded that 'that's like a whole new Saudi Arabia every couple of years. It can't be done indefinitely'.[10]

Nigerian oil reserves have not been unaffected by the depletion reality. As at June 2010, Nigeria's reserves stood at 31.81 billion barrels while condensate reserves stood at 5.35 billion barrels bringing total oil and condensate reserves to 37.16 billion barrels.[11] According to Andrew Obaje, a director in the Department of Petroleum Resources, compared to the same period in 2009, Nigeria's oil reserves depleted by 1.6 billion barrels. This shortfall was occasioned by the reluctance of oil producing companies in the country to make investment in oil exploration activities, a trend that would have boosted the country's reserves, preferring instead to concentrate on drilling and production. Oil companies on their part have hinged their reluctance on unresolved issues regarding taxes and royalties in the petroleum industry bill pending at the National Assembly. Furthermore, as at June 2010, Nigeria's oil reserves depletion rate stood at 2.81 percent (based on estimated annual production volume of 894.79 mmbbls) while the remaining reserves indicated a life index of 35.55 years.[12] The implications of the foregoing statistics for the Nigerian economy are grave. First, the federal government had based the successful implementation of Vision 20:20:20 on achieving a target of 40 billion reserves by the end of 2010. The shortfall therefore puts the successful implementation of the Vision in jeopardy. In any event, even if there is a reversal of the trend by future investment in exploration activities, resulting to increased reserves, the fact still remains that oil is an exhaustible commodity. To use the words of the editorial of an online publication, 'no matter how much we try, Nigeria's oil resources will one day finish'.[13]

Price Fluctuations

Until the 1970s, empirical studies show that oil prices were relatively stable. Oil prices at the time were determined by major oil companies. Between 10 and 14 September 1960, Iraq, Iran, Kuwait, Saudi Arabia and Venezuela met at the Baghdad Conference to form the Organisation of Petroleum Exporting Countries (OPEC).[14] Between 1961 and 1971, Qatar, Indonesia, Libya, United Arab Emirates, Algeria and Nigeria also joined OPEC, bringing

the total number of OPEC member-nations to 11. The expansion of OPEC membership conferred on the organisation the capacity to wrest from the major oil companies the balance of power to control crude oil prices. On 6 October 1973, Syria and Egypt attacked Israel in what is variously called the *Yom Kippur* war, the *Ramadan* war or the October war. The United States and many western countries supported Israel and as a result, Arab oil exporting nations imposed an embargo on the countries supporting Israel.[15] In addition, OPEC used its newly acquired clout to repeatedly raise prices such that from about USD 3.12 per barrel in October 1973, the price reached USD 11.65 per barrel by January 1974.[16] Within this period, the six Gulf members of OPEC (Iran, Iraq, Saudi Arabia, Kuwait, Qatar and UAE) announced a reduction in production. The combined factors of production cuts and price increase led to unprecedented boom in oil revenues to OPEC members. Although the Arab oil embargo was lifted in 1974, the experience alerted western nations and especially the United States as to the dangers of relying on foreign energy supply. This realisation triggered series of initiatives in the United States and within the framework of the Organisation for Economic Co-operation and Development (OECD) towards addressing and possibly avoiding future oil shocks.[17] By 1975, partly as a result of initiatives undertaken by non-OPEC countries and partly as a result of increase in production by some Gulf OPEC countries, global supply outstripped demand as a result, oil prices crashed.

In January 1977 OPEC introduced a two-tier pricing system whereby Saudi Arabia and UAE used a price regime of USD 12.09 per barrel while the rest of OPEC used a price regime of USD 12.70 per barrel. In July however, Saudi and the UAE adopted the OPEC price regime and collectively, OPEC raised the price to USD 13.66 per barrel. From 1978 to 1979, political events in Iran culminated in the storming of the US embassy in Tehran on 4 November 1979 by a group of militant Iranian youths. Over 60 Americans were held hostage in an ordeal that lasted for 444 days. Following the embassy invasion, United States President Jimmy Carter ordered cessation of Iranian imports into the United States. In return, Iran cancelled all contracts with US oil companies. This crisis set a stage for unprecedented increase in oil prices. In September 1980, the stage was triggered off with the outbreak of hostilities between Iraq and Iran which in the course of its eight-year duration led to mutual bombing of oil installations. From the time of the US embassy invasion in November 1979 to December 1980, Saudi Arabia had increased the price of its light crude three times; first to USD 24 per barrel in December 1979; second to USD 28 per barrel in May 1980 and third, to USD 32 per barrel in December 1980. By December 1980, other OPEC nations

pegged the price benchmark at USD 36 per barrel.[18] In October 1981, OPEC reached a collective agreement to unify crude price at USD 32 per barrel and set USD 38 per barrel as the ultimate price ceiling. By 1982, a decline in oil prices again appeared imminent and by 1983, glut took hold of the world oil market and lasted for much of the remaining 1980s. To stem the consequences of the glut, OPEC initiated production cuts by reducing members' production quotas. In spite of these initiatives, OPEC appeared to have lost control of global oil dynamics as there was an increase in conservation methods and the use of other fuels. The oil crisis was further deepened by general recession in the mid 1980s. Nigeria responded to its crippling economic situation by introducing the Structural Adjustment Programme (SAP). SAP was conceived and aimed at streamlining public expenditure and re-positioning the private sector as the engine of economic growth.

The 1990s was perhaps the most volatile period in history of oil pricing. Another gulf war which started with the invasion of Kuwait by Iraq in August 1990 initially sent prices soaring. After OPEC met and agreed to increase output to make up for shortfalls occasioned by the invasion, prices crashed. Reports in September 1990 that refinery-related problems will lead to production loss in US sent prices skyrocketing again. Developments in the Persian Gulf continued to dictate fluctuations in oil prices for the first half of the decade. Generally, prices during the 1990s hovered around USD 15 to USD 25 per barrel.[19] The 2000s witnessed an upsurge in oil prices with an all time high recorded by mid-2008 at over USD 140 per barrel. A downward trend set in thereafter, partly as a result of the global financial meltdown, causing prices to drop to around USD 30 to USD 40 per barrel.

The historical analysis is intended to demonstrate two lessons. First, that oil prices are highly volatile; second, that the fluctuation is usually as a result of factors completely external to Nigeria. After comparing the effects of global fluctuations in oil prices and how these affected the Nigerian government's take under the 1993 and 2005 Production Sharing Contracts, Onaiwu submits that 'when oil prices increase and costs remain the same, the profitability associated (with) any oil development increases. When prices fall, profitability reduces.'[20] Fluctuations in oil prices therefore, have profound effect on 'government take' which refers to the share of profits from an oil project accruing to the host government.[21] This in turn, has concomitant implications on Nigeria's economic growth. Umar and Kilishi examined the impact of oil price fluctuations on four macroeconomic variables and conclude

that whereas the trend has no serious effect on consumer price index, its effect on GDP, unemployment and money supply is significant. In their words:

> The study concluded from the findings that crude oil prices have significant influence on three key macroeconomic variables in Nigeria- GDP; money supply and unemployment. This constitutes serious implication for macroeconomic management of the country because; money supply is a major macroeconomic policy instrument, while GDP and unemployment are key macroeconomic policy targets. If these key macroeconomic variables are influenced by a volatile, almost unpredictable exogenous variable like crude oil prices, then the economy becomes highly vulnerable to unpredictable external shocks. The way to minimize this is to diversify the economy so as to make it less oil dependent.[22]

The case for diversification of the economy is particularly apposite in the face of the World Bank's situating Nigeria amongst the oil-dependent nation in the world.[23]

Militancy in the Niger Delta

A major concomitant effect of oil production is environmental degradation. Gas flaring and oil spillages have destructive effects on both terrestrial and aquatic life within the host environment. In the case of Nigeria's Niger delta region, environmental degradation resulting from activities of oil companies has, over time, led to loss of vocations such as fishing and farming which hitherto, provided means of sustenance to the indigenous communities. At the same time, the people of the region are of the opinion that investment in infrastructure and human development in the region is not commensurate with gains accruing to government and the oil companies; neither does it adequately compensate for damage to the environment nor the impact of such damage on the lives of the people of the region.

The first organised resistance to the activities of the oil companies and the perceived role of government occurred in 1966 under the banner of an organisation called the Niger Delta Volunteer Force (NDVF). On 23 February 1966, the founder and leader of the NDVF, Isaac Boro, mobilized about 150 youths and marched on Yenogoa, present day capital of Bayelsa State, where they attacked a police station and raided the armoury. The militants blew up oil pipelines and declared the Niger Delta an independent republic. The revolt was

eventually suppressed and Boro and his followers were arrested and tried for treason. Although he was found guilty and sentenced to death by hanging, the military Head of State at the time, General Yakubu Gowon granted him state pardon.[24]

In 1990, famous writer, Ken Saro-Wiwa, an indigene of Ogoniland, one of the many nationalities that make up the Niger delta region, founded the Movement for the Survival of the Ogoni People, MOSOP. The Movement drafted an 'Ogoni Bill of Rights' in which it demanded, among other things 'a fair proportion of Ogoni economic resources for Ogoni development.'[25] Although MOSOP was an avowedly non-violent organisation, the Movement was soon pitched against the military government under General Sani Abacha. In 1994, the government alleged Saro-Wiwa and eight other MOSOP leaders were responsible for the murder of some Ogoni chiefs who were supposedly pro-government. The nine MOSOP leaders were arrested, tried and convicted for murder in circumstances that were condemned by local and international human rights groups. The Federal Military Government ignored pleas for clemency and executed the 'Ogoni Nine' on 10 November 1995.

The death of Saro-Wiwa and eight others opened a new vista in the Niger delta conflict. Several other groups such as the Niger Delta Peoples Volunteer Force, NDPVF, under the leadership of Asari Dokubo and the Movement for the Emancipation of the Niger Delta (MEND), under Henry Okah took up arms against the federal government. Several other groups also took up arms and moved into the creeks where they engaged the country's security forces. As part of its combat strategies, the militant groups constantly bombed oil installations and kidnapped expatriate oil workers who were released only in return for ransom. The activities of the militants did not only scare off investors in the region, they also affected the country's oil production capacity. By June 2009, the activities of militants had reduced the country's production to 1.3 million barrels per day; 700,000 barrels short of its OPEC quota.[26] In the same month, late President Umaru Musa Yar'Adua offered amnesty to the militants. The terms of the amnesty included presidential pardon, rehabilitation programmes, education and training of erstwhile militants in return for disarmament. About 1500 militants accepted the offer and laid down their weapons. However, in November 2010, in what appeared like a threat to the amnesty programme, the Movement for the Emancipation of the Niger Delta resumed hostilities by the bombing of an ExxonMobil facility in Akwa Ibom State. While different schools of thought continue to advance reasons behind the impending collapse of the amnesty programme; the nation

continues to lose revenue through bunkering of pipelines, bombing of oil installations and divestment.

Nigeria and the Challenges of Development

The distortions in the oil industry have adverse effect on government planning. In 2006, forecast for crude oil sales was placed at 3.26 trillion naira but actual sales at the end of the fiscal year was 3.24 trillion naira; petroleum profits tax forecasts were put at 1.99 trillion naira but actual tax receipts stood at 1.44 trillion naira (representing a 13 percent shortfall); royalties were forecasted at 675 billion naira while actual receipts from royalties stood at 597 billion naira. In all, total oil projection in 2006 was 5.93 trillion naira but actual oil revenue was 5.28 trillion naira representing a shortfall of 12.2 percent.[27] This trend continued into the 2007 fiscal year such that total projection of crude oil proceeds (including sales, taxes and royalties) of 3.1 trillion naira fell to 2.31 trillion naira.[28]

In the face of debilitating finances, governments at all levels are faced with increasing pressures to provide critical infrastructures that are necessary to create the enabling environment for economic growth and development. These infrastructural requirements, discussed below, make an eloquent case for the diversification of the revenue base to include non oil sources.

Electricity

In 1999 Nigeria, with an estimated population of 140 million people was generating a total of 1500 megawatts of electricity out of an installed capacity of 6000 megawatts.[29] As at 2011, the country was oscillating between 3000 and 4500 megawatts of electricity a day for an estimated population of 162 million people. In twelve years, therefore, only between 1500 and 3000 megawatts have been added to the 1999 levels. This pales into insignificance when compared with South Africa's 40,000 megawatts a day for a population of about 50 million people.[30] In the face of unstable financial fortunes, government investment in this critical sector has also declined in the last two years. In 2010, the total allocation to the Ministry of Power and Energy was 151 billion naira. In 2011, the Ministry received 91 billion naira in allocation indicating a shortfall of 60 billion naira.[31]

Railways

The railways which the colonialists started building around 1898 (the Lagos-Ibadan rail line) have not been upgraded to meet the dictates and requirements of modern rail transport. In 2011, Nigeria is still saddled with the narrow gauge system when even some Third World countries have moved from the narrow gauge to the standard gauge system. According to former Director General of the Bureau for Public Enterprises, Mallam Nasir el-Rufai, Nigeria needed 45 billion USD to modernize its rail system as at 2005.[32]

Roads

With a moribund railway system and an aviation sector that is beyond the means of majority of Nigerians, about 90 percent of all domestic travel is done by road. With a total of over 180,000 kilometers of road network, Nigeria is reputed to have the largest road network in West Africa and the second largest South of the Sahara. Unfortunately, only 15 percent of the total road network is paved and of this, only 28 percent is easily motorable.[33]

Housing

The small percentage of the citizenry that manages to acquire houses do so either through payment of prohibitive prices in self purchase or through mortgaging of entire life savings. The Federal Housing Authority was established in 1973 and vested with the statutory responsibility of providing houses for Nigerians but in its 38 years of existence, the authority has built only 43,700 houses.[34] By the admission of the Federal Housing Authority itself, there is a deficit of about 16 million houses in Nigeria as at 2011; although some commentators consider this figure as conservative and suggest a deficit of between 16 million and 25 million houses and estimate that about 66 trillion naira in mortgage funding is required over a 10 year period to bridge the housing deficit.[35]

Telecommunications

A lot of progress has been made in the telecommunications sector since 1999. Deregulation of the sector enabled the entry of major investors in the industry ensuring the provision of basic telephony services in most parts of the country. However, at least two challenges have remained persistent in the sector which need to be addressed. The first challenge is the sub-optimal quality of voice service which compels subscribers to acquire multiple phones

to be assured of alternative service. The second challenge is the cost of telephony services.[36] It must be pointed out that the high tariffs on mobile telephone services in Nigeria, relative to other countries, is mostly as a result of deficits in other infrastructure requirements such as electricity, security and transportation. The cost of making alternative provisions for these infrastructures is naturally built into the production cost and passed unto subscribers.

Education

The problems in the education sector are both quantitative as well as qualitative in nature. In quantitative terms, Nigeria currently boasts of about 299 higher education institutions comprising of 117 universities, 63 colleges of education, 72 polytechnics and 47 monotechnics. The United States has a total of 5,758 higher institutions of learning, an average of 115 higher institutions per state;[37] an average that almost equals the total number of our federal, state and private universities put together.

According to the British Council post primary school enrollment in Nigeria ought to have been around 16 million at 2008 but as at that date, secondary school enrollment was a mere 5.8 million indicating a shortfall of 10.2 million. This means 63.75 percent of children who ought to be in secondary schools are not. The situation at the primary school level is only slightly better with only about 64 percent of school children enrolled as at 2009.

In qualitative terms, a recent study conducted by the World Bank among pupils of 22 African countries, pupils in Nigerian primary schools were ranked lowest with national mean scores of 30 percent, behind poorer countries like Mali which scored 51 percent. In 2006, only 20 percent of students who sat for the West African Examination Council and National Examination Council senior school certificate examinations passed their papers. Only 2 percent of students who sat for the senior school certificate examinations in 2009 passed with up to five credits including English and Mathematics. According to the Consortium for Advanced Research Training (CARTA) the minimum number of teaching staff required by the Nigerian universities is 45,000 but there are only about 33,000 teaching staff employed in our universities today, indicating a shortfall of 12,000 academic staff.[38]

There is interplay of several factors as to the sorry state of education (and other infrastructures) in the country but at the heart of all the problems is the challenge of sufficient funding. This has been a recurrent point of friction between government and teachers at all

levels of the educational strata. While not holding brief for the government, the reality is that as it stands today, Nigeria cannot afford the funds required to move the sector to where it should be without first deepening and widening its revenue base. A case in point: Harvard University, which is just one private university in the United States, boasts of over 37 billion USD in endowment funds. Nigeria's total external reserve as at 2011 stood at 33.5 billion USD and investment in education in the 2011 budget is a mere 3 percent of the total budget.[39]

Health

The importance of the health sector is underscored by the fact that a healthy population is required to drive the other sectors of the economy. Health infrastructure covers hospitals, pharmacies and health insurance and other ancillary services such as provided by Health Management Organizations, HMOs. The deplorable condition of our health infrastructure is evident in the national health statistics index. In 2011, the life expectancy for Nigerian males is 46.76 while that of females is 48.41 placing the country at an unenviable 220 position in terms of life expectancy in the world[40] behind other African countries such as Ghana (59.78 for males and 62.25 for females) and Kenya (58.91 for males and 60.07 for females). According to the United Nations Population Fund, UNPF, in 2010, the maternity mortal rate per 100,000 was 840 compared with 608 in 2008 and 473 in 1990. This means that rather than improve, the maternity mortality rate in the country is getting worse.

In 2008, a demographic health survey showed that only 35 percent of live births took place at a health facility and of this, 65 percent were in urban areas while 28 percent were in rural areas indicating an obvious imbalance in health demographics.[41] A UNDP mid-point assessment of the Millennium Development Goals, MDGs, in Nigeria in 2008 showed that only 42.9 percent of Nigerians had access to basic sanitation a figure that went down to 30 percent in 2011.[42] There are 35,000 registered physicians in Nigeria for a population of about 162 million people meaning the doctor to population ratio is 21.6 doctors per 100,000 people. This figure does not take into account the disparities existing between the southern and northern parts of the country or between urban and rural areas. South Africa, with a population of about 50 million has a ratio of 74 doctors per 100,000 people.[43]

These statistics are not meant to disparage or frighten; rather they are meant to underscore the challenges facing Nigeria in the area of infrastructure development. At the centre of

these challenges is paucity of funds to finance the levels of investment required to address the deficits. In the light of these, therefore, the argument for deepening and widening the revenue base of the government cannot be overstated. For example, between June 1999 and May 2007, a total of 16.5 trillion naira was shared among the three tiers of government. Using the 1999 population estimate of 140, it means that the total money jointly available to the three tiers of government to spend on each Nigerian for an eight year period was less than 118,000 naira. This comes to less than 15,000 naira per year per capita! Further, oil and oil related revenue accounted for about 85 percent of the sum allocated among the various tiers of government within the same period. Omoigui Okauru summarizes the implication of the above trend as follows:[44]

a. government depends on oil almost entirely;
b. the taxpaying public is not contributing to the development of Nigeria;
c. accountability (in government) is low because rather than taxpayer's money, the revenue accruing to government comes from the 'outside';
d. lack of accountability in government in turn leads to sub-optimal utilisation of oil revenue (thereby creating a vicious cycle).

By and large, the foregoing statistical analyses disclose certain economic, social and political implications that the possession of vast oil resource reserves has had on Nigeria. These implications can be summarised thus:

a. The influx of petrodollars resulted in the neglect of the agricultural and manufacturing sectors, resulting among other things, in impoverishment of the rural population.

b. Oil revenues displaced more stable and sustainable revenue flows. For example, as a result of huge oil revenue flows, the country tended to de-emphasize income taxes as a source of government revenue. Besides, low tax ratios and high consumption expenditures (typically on imported goods) reinforced inflationary tendencies. With regard to expenditure, no use was made of openings for diversifying the economy, enhancing infrastructure or expanding educational systems.

c. Over reliance on mineral resource production led to what some scholars refer to as the *'Dutch diseases'* effect.[45] On the one hand, resource booms tend to cause real

exchange rates to rise due to the large inflows of foreign exchange generated by the increased oil exports; on the other hand, labour and capital tend to migrate to the booming resource sector from other productive sectors. Together, these two effects have resulted in higher costs and reduced competitiveness for domestically produced goods and services, thereby reducing agricultural and manufacturing exports.

d. Volatility of oil prices makes planning difficult, hampers growth, and undermines investment conditions.

e. Foreign debt accumulation: after the oil market glut in the 1970s, borrowing by many oil-exporting countries rose dramatically in order to cover shortfalls from expected oil revenues.

f. Oil dependence has been linked with unusually high poverty rates, poor health care, high rates of child mortality, reduced expenditures on social services and poor educational performance. Besides, mineral dependence has strongly been correlated with income inequality.

g. Natural resources tend to considerably diminish the willingness of governments to pursue reforms; increase a tendency towards corruption and rent seeking; and provide a fertile ground for civil conflicts.

h. Environmental degradation, pollution of land and rivers tend to increase with oil production leading to loss of income-earning opportunities for the local population. In addition, oil extraction activities can also induce large migrations into oil producing areas, placing strains on community infrastructure and threatening public health.

Not all countries have necessarily suffered from the *"Dutch disease"* syndrome associated with mineral wealth.[46] It may therefore, be argued that these negative outcomes are not inevitable as they can be avoided or at least minimized when good governance, public accountability, transparent resource management and a willingness to transform oil revenues into positive development outcomes are prevalent. In any event, it is indisputable that non-mineral revenue sources, namely taxes, are more sustainable sources of revenue. As a result, strategies aimed at correcting the distortions in the economic sector that have been occasioned

by over-dependence on oil wealth must take into account the vital need to deepen and widen non-oil revenue sources. President Umaru Musa Yar'Adua acknowledged this as a fact when he said:

> Nigerian economy cannot continue to depend on petroleum as the main source of revenue to finance its budget; success in carrying out basic functions of government and pursuing development programmes such as VISION 20-20 and the Administration (7 Point Agenda) requires a stable, predictable and sustainable source of revenue.[47]

Deepening and Widening Government's Revenue Base

There are four major accounts that form the pool from which revenue is allocated to the three tiers of government in Nigeria:

a. The Federation Account: this account consists of all monies collected by the Nigerian National Petroleum Corporation (crude oil sales); FIRS tax proceeds (from petroleum profits tax, companies' income tax, stamp duties and capital gains tax); Department of Petroleum Resources, DPR (from royalties) and Nigeria Customs Service (from custom duties);

b. VAT Pool Account: proceeds from value added tax are paid into this account and shared among the three tiers of government on a ratio of 15 percent to the federal government, 50 percent to the states and 35 percent to the local governments;

c. Consolidated Revenue Fund Account: proceeds from personal income tax collected by State tax authorities and the FIRS (in respect of FCT residents, members of the armed forces, employees of ministry of foreign affairs and non-residents) under the PAYE scheme are paid into this account and shared on the basis of derivation;

d. Education Tax Fund Account: education tax revenue is collected by the FIRS and paid into this account to be administered by the Education Trust Fund which administers it to eligible educational institutions

In addition to the above sources, the three tiers of government also derive funding from loans and grants from multilateral agencies, banks and credit financing.

As earlier analyses indicate, oil and oil related revenue account for about 85 percent of all government funding. In order to deepen and widen its revenue base and shift emphasis from oil therefore, government must grow its non-oil sources of which taxes are the most sustainable. Omoigui Okauru suggests a three-way strategy for expanding the tax revenue base. This includes developing a medium term plan that sufficiently articulates the expenditure to follow the plan; harmonizing various documents into an effective tax policy to drive forward tax administration at national and sub-national levels; and collaboration by States with the federal tax authorities on ways of boosting federally collected revenues, since States also benefit from these.[48] Another strategy is to increase the rate of value added tax. Although an attempt to do so in 2007 was fiercely resisted, it is desirable to lay more emphasis on indirect taxes for the obvious reasons that they are difficult to evade and easy to collect. The Joint Tax Board has also suggested a number of strategies aimed at boosting government's revenue.[49] These strategies include:

a. issuing an executive order and enforcing same against illegal collectors of taxes;
b. building tax institutions to enhance skills of tax officials;
c. granting administrative and financial autonomy to State revenue authorities;
d. employment of professional and competent staff;
e. training and re-training of staff in international best practices;
f. modernization of tax processes through effective records management, automation of collection and provision of modern equipments, tools and infrastructure;
g. setting up functional bodies for coordination of tax administration at the State and local government levels;
h. setting performance targets for revenue authorities to drive performance;
i. increasing the number of taxpayers through incentives;
j. improved collaboration among the various tax authorities through continuous support to the Joint Tax Board as well as adoption of JTB outputs at Federal and State Executive Council meetings;
k. improving the level of voluntary compliance through taxpayer enlightenment programmes and judicious use of tax revenue

Judicious use of tax revenue entails first, curbing corruption and misappropriation; and second, matching funds to expenditure budget by dedicating certain revenue sources to specific costs. While the first innovation will engender public confidence thereby leading to voluntary compliance, the second innovation will generate creative ideas on raising higher revenues under every subhead each time there is a need to increase funding for that subhead.[50] The need to enlighten the public and ensure it buys into tax reforms cannot be overemphasized. In an interview with the *Financial Standard* newspaper, former chairman of the Federal Board of Inland Revenue and member, Federal Inland Revenue Service Board, Chief David Olorunleke takes the view that part of the reason for non-compliance by taxpayers is the (erroneous) assumption that oil profits are sufficient to meet national targets without the need for income tax.[51] While public education and transparency in government will lead to voluntary compliance thereby creating a robust tax base, a sound and viable tax base will in turn make the country more attractive for donor funding and investments.

Making Taxation the Pivot of National Budget

The national budget is the financial statement of the government's expected revenue and proposed expenditure during a particular period of time, usually a year.[52] It may also be defined as a detailed statement of government revenues and expenditure for the ensuing financial year.[53] Apart from outlining inflows and outflows of revenue, budgets are usually employed to attain the objectives of full employment in the economy, price stability, rising growth in national output, balance of payments equilibrium, and equity in income distribution.

Making taxation the pivot of the national budget is a key vision of the FIRS. This vision is anchored on the following imperatives:

a. working to de-emphasize reliance on earnings from petroleum for national development;

b. developing and growing the non-oil sector taxpayer database;

c. increasing contribution of tax revenue to GDP from about 4 percent to at least 30-40 percent;

d. encouraging all tiers of government to be self-reliant in internal revenue generation through taxation;

e. developing a tax paying culture through friendly, albeit strict enforcement strategies.

Some of these imperatives already form part of the on-going reform process at the FIRS. For example, in its yearly performance targets, the Service usually sets a certain percentage of non-oil revenue to GDP. It is hoped that progress in this regard will lead to raising the percentage benchmark in each subsequent fiscal year. All stakeholders in government and in tax administration at all levels must key into this vision in order to move the country beyond over-reliance on oil revenues.

References

1 Akpan, E. O., 'Oil Resource Management and Food Insecurity in Nigeria', being a paper presented at the European Report on Development Conference, Accra, Ghana, 21 - 23 May 2009. Available at erd.eui.eu/media/akpan.pdf (accessed 22/11/2010).

2 See *Nigeria: Facts and Figures*. Available at http://www.opec.org/opec_web/en/about_us/167.htm (accessed 01/11/2011).

3 Akpan, E. O., *op. cit,* 1.

4 These were the governments of Prime Minister Balewa (1960-1966) and President Shagari (1979-1983).

5 Howden, D., 'World oil supplies are set to run out faster than expected, warn scientists', *The Independent*, 14 June 2007. Available at http://www.independent.co.uk/news/science/world-oil-supplies-are-set-to-run-out-faster-than-expected-warn-scientists-453068.html (accessed 28/11/2010).

6 *Ibid*.

7 *Ibid*.

8 *Ibid*.

9 As at 2007.

10 Howden, D., *op. cit.*

11 *Nigeria: Imperatives of Depleting Oil Reserves*. Available at http://allafrica.com/stories/201008030960.html (accessed 26/11/2010).

12 Shosanya, M., 'Concerns heighten over depletion of oil reserves', *Furtune News*, 11 August 2010. Available at http://www.nigerianbestforum.com/generaltopics/?p=58463 (accessed 26/11/2010).

13 *Nigeria: Imperatives of Depleting Oil Reserves*, *op. cit.*

14 *OPEC: Brief Histor*y. Available at http://www.opec.org/opec_web/en/about_us/24htm (accessed 1/12/2010).

15 *Ibid*.

16 See *Chronology of world oil market events (1970 - 2005)*. Available at http://en.wikipedia.org/wiki/Chronology_of_world_oil_market_events_(1970-2005) (accessed 1/12/2010).

17 *Ibid*. These included the formation of the International Energy Agency under the auspices of the OECD on 15 November 1974 and the signing into law of the Energy

Policy and Conservation Act by President Ford on 22 December 1975. The law established the Strategic Petroleum Reserve.

18 *Ibid*.

19 Onaiwu, E., *How do fluctuating oil prices affect government take under Nigeria's PSCs?* Available at http://www.dundee.ac.uk/cepmlp/gateway/index.php?category=13and sort=authorand pg=14 (21/12/2010).

20 See *Chronology of world oil market events (1970 - 2005), op. cit,* 11.

21 *Ibid.*

22 Umar, G. & Kilishi, A. A., 'Oil Price Shocks and the Nigerian Economy: A Variance Autoregressive (VAR) Model' Vol 5 No. 8 (August 2010) *International Journal of Business and Management,* 6. Available at www.ccsenet.org/journal/index.php/ijbm/article/view/6897 (accessed 2/12/2010).

23 Akpan, E.O., *op. cit.* See also Ross, M., *Natural Resources and Civil War: An Overview with Some Policy Options,* 33. Available at http://siteresources.worldbank.org/INTCPR/1091081-1115626319273/20482496/Ross.pdf (accessed 6/12/ 2011).

24 See *Isaac Adaka Boro and Niger Delta Militancy*. Available at http://maxsiollun.wordpress.com/2008/08/02/isaac-adaka-boro-and-niger-delta-militancy/ (accessed 2/12/2010).

25 See Article 20 (ii), *Ogoni Bill of Rights*. Available at http://www.mosop.org/ogoni_bill_of_rights.html (accessed 2/12/2010).

26 See *Nigeria Offers Militants Amnesty.* Available at http://news.bbc.co.uk/2/hi/africa/8118314.stm (accessed 2/12/2010).

27 Leigh, K., 'Fiscal Challenges of Shortfalls in Budgeted Revenue', *BusinessDay*, 26 September 2007.

28 *Ibid.*

29 El-Rufai, Nasir: "Nigeria's Infrastructure Deficit and Our Future" ThisDay 8 July, 2011

30 *Ibid*

31 *Ibid*

32 *Ibid*

33 *Ibid*

34 el-Rufai, Nasir: "Housing for All under Vision 20:20:20?" ThisDay 30 September 2011

35 el-Rufai, Nasir: "Still on Infrastructure Deficits" ThisDay 6 August 2011

36 *Ibid*

37 el-Rufai, Nasir: "Education Cannot Wait" ThisDay 30 July 2011

38 *Ibid*

39 *Ibid*

40 el-Rufai, Nasir: "No Health, No Wealth" ThisDay 6 August 2011

41 *Ibid*

42 *Ibid*

43 *Ibid*

44 Omoigui Okauru, I., 'Building a Viable State'*, The Nation*, 9 November 2007, 38 – 39; Omoigui Okauru, I., 'Building a Viable State'*, The Nation*, 12 November 2007, 38 – 39, 43 – 44.

45 See Ross, M., *Natural Resources and Civil War: An Overview with Some Policy Options, op. cit.*

46 This phrase originated from the Netherlands after the discovery of vast gas deposits in the North Sea and is used to describe the negative consequences arising from large increases in a country's income from mineral deposits. The major long term consequence of the Dutch disease is that the economy is eventually hurt by the shifting of emphasis from non-resource industries to resource-based industries. See *Dutch Disease.* Available at http://www.investopedia.com/terms/d/dutchdisease.asp (accessed 15/12/2010).

47 Federal Inland Revenue Service, *Gauge*, January- March 2009, 11.

48 Omoigui Okauru, I., 'How Nigeria can generate more revenue', *Daily Trust Newspaper*, 31 December, 2007.

49 Omoigui Okauru, I., 'Building a Viable State', *op. cit.*

50 *Ibid.*

51 'Culture of tax payment in Nigeria is very low', *Financial Standard*, 2 August 2007, 28.

52 Anyanwu., J. C., *Nigerian Public Finance* (Onitsha: Joanee Educational Publishers Ltd., 1997) 250.

53 Siyan, P., *Introduction to Economic Analysis (2nd ed.)* (Abuja: Joyce, 2005) 192.