

ADDRESSING REVENUE LEAKAGES IN NIGERIA

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Abstract

Worried by the high rate at which resource-rich African countries lose huge revenues through corruption, illegal transfers of profits and money laundering abroad, the African Union, AU, has asked President Buhari and other African leaders to openly declare their assets and subject their wealth to public scrutiny. A report on Illicit Financial Flows from Africa, compiled by an AU panel led by former South African President Thabo Mbeki, said Africa loses an estimated \$60billion (about N10.08trillion) annually through such transfers. The report was presented in April at a summit in Addis Ababa, Ethiopia. The report has stirred massive concerns in Nigerian, which is said to account for over \$40.9billion (about N6.87trillion), or 68 per cent of the total figure. Cumulatively, Nigeria also topped the list of ten African countries with highest incidence of illicit financial transfers between 1970 and 2008, recording about \$217.7billion (about N36.57trillion), or 30.5% of the total in the continent. The issue of accountability and probity by top government officials has always been a source of serious concern in Nigeria, particularly with President Goodluck Jonathan repeatedly refusing to publicly declare their assets. Mostly recently the government the Buhari regime has continued to reel out figures of unaccounted revenues. These include N3.8 trillion allegedly withheld by the Nigerian National Petroleum Corporation (NNPC) out of the N8.1 trillion the country earned from crude oil sales between 2012 and 2015. Others are N109.7 billion royalty from oil companies, allegedly not remitted by the Department of Petroleum Resources (DPR); unaccounted N183 billion by the Niger Delta Development Commission (NDDC) and other \$13 billion dividends from the Nigeria Liquefied Natural Gas (NLNG). Also on the seeming endless list are unapproved withdrawals of \$2.1 billion from the Excess Crude Account (ECA); \$1 billion allegedly withdrawn from public treasury for Jonathan's campaign and an alleged \$6 billion stolen by a former minister, among others. This paper seeks to address these challenges and suggest ways forward.

Keywords: Revenue Leakages, Excess Crude Account (ECA), Treasury Single Account, Corruption and Financial Mismanagement.

Introduction

Even before recent startling disclosures about alleged missing \$48.9 billion oil revenue was made by the former Central Bank Governor, Mallam Sanusi Lamido Sanusi, one issue that has never been lost in public discourse thrusts on good governance and judicious utilisation of the country's resources is the need for tax payers to get value for fulfilling their own part of the governance social contract. As a country reputed for unbridled profligacy in managing its resources, the last few years of international oil market uncertainties, threats of macroeconomic instability in many developed economies, deepening poverty, growing youth unemployment level, insecurity as well as paucity of infrastructure that ordinarily should drive growth in the economy, the need for Nigeria to raise tax revenue and ensure its judicious utilisation for accelerated development cannot be over-emphasised.

Unfortunately, several years of ceaseless advocacy for fairness and transparency in the utilisation of earned incomes from taxation by fiscal policy experts, civil society organisations (CSOs) and other stakeholders have not translated to concrete gains as the needed commitment of political leaders and their public servant collaborators at all level of governance to plug leakages in tax revenue generation, remittance and utilisation is missing still. This is despite the sundry tax reform measures, particularly policy and regulatory guidelines, including the streamlining of the hitherto complex and multi-layered system, being adopted by federal and state governments, with a view to broadening the scope of the country's sources of tax revenues. In order to attain this objective, the Office of the Accountant General of the Federation (OAGF) in 2014 gave all Ministries Departments and Agencies (MDAs) of the Federal Government yet to embrace the Treasury Single Account (TSA) regime domiciled at the Central Bank of Nigeria (CBN) and regulated by the OAGF a deadline of February 28 to close all their revenue accounts maintained in different money deposit banks across the country and beyond and transfer same to the TSA. The directive was in keeping with the promise on December 17, 2014 by the then Coordinating Minister for the Economy and Minister of Finance, Dr. Ngozi Okonjo Iweala, that government would block all leakage as part of measures to rev up revenue to make up for the shortfall caused by fall in oil prices at the international market.

Accordingly, all internally generated revenue of the Federal Government by MDAs is immediately henceforth to be made directly to the Federal Government's Consolidated Revenue Fund (CRF) at the CBN, using electronic channels. Failing to comply, according to the directive released that year at a forum to sensitise MDAs desk officers in charge of electronic –collection, would attract very serious sanctions. The Accountant-General of the Federation (AGF), Mr. Jonah Otunla, who gave the directive said the failure to fully implement the Federal Government's financial management reforms which aim at unifying the operations of government accounting system to ensure transparency and value for money had remained a very big challenge as the Federal Government continues to borrow from banks and other sources at very high cost whereas much of its revenue remain fallow at commercial banks' vault which the government does not have access to.

The AGF gave more insight why it has now become compulsory to compel every MDA to cue into the Federal Government's new accounting model:

By April 2012, the GFMIS and the TSA were launched and there has been a tremendous impact on the system. At inception, 93 agencies got enrolled. But now, we have 551 agencies already enrolled. But we are yet to realize the full potentials of the reforms because we still have big time spenders, MDAs, such as the National Assembly and the Armed Forces that have been reluctant to key into the system. The implication is that a substantial amount of our resources are still lying fallow in commercial

banks accounts when we need much of it to execute budgetary plans, forcing the government to go a borrowing. This is a new revenue enhancing strategy aimed at freeing up funds for implementation, particularly now that we are passing through a turbulent financial period. It is meant to ensure that government's internally generated revenue is well accounted for because emphasis in the past has been on expenditure instead of revenue generation profile."(Lucsas, 2014 :10).

Through his recent action and pronouncements, President Muhammadu Buhari has indicated his administration's keen interest in the financial affairs of state owned oil company – the Nigerian National Corporation (NNPC). This is understandable because the President as a former petroleum minister had been particularly miffed that unlike what was a functional, efficient corporation he presided over several years ago with accounts in one or two banks, the NNPC of today operates too many bank accounts, thereby complicating financial reconciliation. Sadly, NNPC is not the only agency of government that runs such loose accounts. Several Ministries, Department and Agencies (MDAs) of government are also guilty, a development that has not only made it difficult for government to track its revenue, but also hampering government's effort in aggregating revenue for project execution.

Conceptualizing Revenue Leakages

It is axiomatic to posit that there has been increased awareness and advocacy towards transparency in the management of revenue from natural resources, especially from oil rich nation is like Nigeria which is an oil and gas producing nation is immersed in 'resource curse' phenomenon. This is because despite the huge revenue from oil and gas activities its citizens do not get much benefits accruing from such enormous resources. Aderinokun (2010) also concluded that: "Lack of transparency is seen as a major hindrance to the creation of a favorable investment climate, better management of public resources and poverty reduction". In the words of Ugolor (2009), "Efficient, transparent governments, closely watched by citizens with access to accurate, timely information on state spending can help restore trust in public institutions and strengthen democracy". Transparency ensures that information available can be used to measure the authorities' performance and guard against any possible miss-use of power. In this sense transparency seeks to achieve accountability. Without transparency trust will be lacking therefore, adequate transparency is critical to ensuring that resources\wealth is managed for the benefit of the whole population (Nicholas 2009)

In some nations, the lack of accountability and transparency in these revenues can exacerbate poor governance, leading to corruption and conflict and increasing inequality. Hence the argument that an abundance of natural resources more often becomes a "curse" than a "blessing" for developing nations (Katsouris: 2009). Strengthen transparency and accountability in the oil and gas sector in Nigeria is an opportunity to reduce revenue leakage and stem corruption, firming the governance of the sector and thereby reducing the many incentives for the abuse of power and capture of revenues which distort policy and politics in Nigeria and undermine the potential for oil revenues to be used to accelerate economic and social development. (Muller;2010).

The world over, it is generally accepted that greater transparency is needed in natural resource rich states to entrench accountability, curb corruption and strengthen good governance. (NEITI, 2009). The Principle of transparency which goes with openness requires government to provide the citizen with a right to know what is going on in the governance. With regards to fiscal transparency this includes clarity of roles and responsibilities; public availability of information; open budget preparation execution and report and independent assurances on integrity. Davis (2009) said: Transparency in revenue is a forceful arrow in the quiver to

combating corruption and fraud, improve productivity and output and also increase accountability in the oil industry.

According to El-Rufai (2003) Revenue Transparency will act to increase accountability in both the executive and legislative branches of government at all levels (Federal, State, and Local Govt.), reducing opportunities for corruption and the potential for waste of public funds. Revenues from extractive industries (oil, gas development and mining) are sources of income for governments of producing nations. When properly managed and developed with the participation of affected communities, these revenues should serve as a basis for poverty reduction and economic growth. Too often, though, these revenues are squandered, fueling corruption, conflict and social divisiveness. The petroleum industry is the most strategic industry all over the world. The role of oil and gas in the Nigerian economy cannot be over emphasized. Transparency calls for mandatory disclosure of the payments made by oil and gas companies to the government for the extraction of natural resources. Transparency is seen as a necessary step towards a more accountable system for management of natural resources in Nigeria. Furthermore according to (Ezekwesili, 2010) transparency in revenue leads to proper management and financial accounting, without which processes and cost cannot be mapped, reported, reviewed and benchmarked. In addition transparency in revenue generation reduces waste of resources by its insistence on the utilization of minimum input, cost reduction and process improvement. (El-Rufai 2003). In Nigeria, the reverse is the case because of revenue leakages. Investopedia(2011) explains 'Leakage' as the exit of money from the economy through leakage results in a gap between what is supplied and what is demanded. If consumers spend their income outside of their community or country, then businesses must look elsewhere to make up for the loss of funds. In Keynesian economics, governments may have to inject cash into the system if leakage causes a shortage of capital.

Put differently, it is a situation in which capital, or income, exits an economy, or system, rather than remains within it. In economics, leakage refers to outflow from a circular flow of income model. In a two sector model, all individual income is sent back to employers when goods and services are purchased, and back to employees through wages and dividends. Leakage occurs when income is taken out through taxes, savings and imports. In retail, leakage refers to consumers who spend money outside of the local market.

According to Hariharan(2009), Revenue Leakage has been a universal phenomenon, gnawing up the profit margins of service and transaction-based industries. Service providers in industries such as telecom have effective revenue assurance solutions to counter this threat. Although executives and managers in the banking industry acknowledge the prevalence of revenue leakage, they are not able to pinpoint its source or quantity. Banks need help in identifying the sources/points of leakage, quantifying the volume of revenue loss and also in minimizing/avoiding revenue leakage. Establishing adequate control mechanisms and reporting facilities to predict potential leakage points is another critical requirement for them. Revenue Leakage can occur due to incorrect pricing, operational inefficiencies, missing transactions, unpriced transactions, uncollected revenues, etc. In various stages of the customer relationship life cycle, such as prospecting, on-boarding, transaction processing, billing and recovery, monitoring and service closure, there can be cracks that give rise to revenue leakage. However, there is no one-step solution to fix these cracks. Apart from regular revenue audits, system integration reviews, tracking of customer performance and eradication of manual processes, most importantly banks need a "Centralized Pricing and Billing Platform" to plug the leakage loopholes. This white paper proposes how banks can convert revenue assurance into a huge opportunity, by leveraging centralized relationship-

based pricing and billing solutions to ensure profitability, customer loyalty and fee revenue inflow.

He went on to posit that a typical telecom operation consists of a long and complex chain of interrelated operations that work together to deliver telecommunication services to customers and then track the services delivered and bill the customers for the services delivered. This long and complex chain is very often referred as a Revenue Management Chain. A typical Revenue Management Chain pertaining to any operator in the world is comprised of:

- (1) The network and the network operations ensuring the fact that the services are being rendered properly to the subscribers
- (2) Operations which are associated with the delivery of this information to the mediation system for processing
- (3) Mediation systems
- (4) Different billing systems, for example, prepaid, postpaid, interconnect and roaming and
- (5) The core process related to billing, for example, tracking, collection, dunning and credit control.

In this Revenue Management Chain it is observed that in some cases the subscribers are not billed in spite of the necessary services have been provided, which is defined as a 'revenue leakage'. So a 'revenue leakage' is when a service is delivered but not billed yielding into non-collection of payments for the services not billed. Unfortunately many telecom operators are finding more leakage in their operations and not less. Whenever any network or information technology component is passing some data to the other, some data loss is observed which yields into revenue loss. Another area is telecom fraud where operators are facing revenue loss. Fraud can be viewed as an intentional revenue loss.

Whitepaper(nd) adds: Revenue leakage reflects the profit companies actually lose from their transactions. Transaction price management doesn't receive attention in many organizations as it pertains to the lowest level of detail for profitability management. Better price management can stop revenue and margin leaks and lead to material improvements. Particularly during an economic downturn, given the complexity of decision making and the pressures associated with the pursuit of sales volume, there's a natural tendency to become even less disciplined in granting discounts and exceptions to basic pricing, policies, terms and conditions. Effectively analyzing transaction pricing enables companies to identify the hidden sources of revenue leakage and to achieve improved pricing opportunities and profit. A price or pocket margin waterfall analysis provides a measure of the achieved net and pocketed prices or margins against defined price or margin targets. This can be done by gathering, organizing and synthesizing price and cost-related data and can be pictorially represented. Companies experience a wide range of actions that contribute to profit decline that include:

- 1) Standard discounts
- 2) Unapproved discounts: discretionary discounts, distributor discounts, end-customer discounts, preferred customer discounts, bill backs & deductions, growth programs and cash discounts.
- 3) Promotions & rebates: volume rebates, inventory rebates, advertising and merchandising allowances
- 4) Errors: bill of material-uncosted items and invoice
- 5) Freight: shipping & handling
- 6) Other costs: tooling, technical support, other "special costs" to serve and cost of carrying receivables.

This pricing “looseness” not only allows precious percentage points of price to slip away, but can also set a dangerous precedent with customers who will expect that same pricing flexibility under improving economic conditions. Park (2005:2-4) explains taxation matters for development. They include:

- Urgent need to mobilize resources to maintain and provide even the most basic social services in many developing countries
- In reality, those with political power and economic ability are few, and they would not want to pay taxes
- Those with little political power and economic ability would resist paying taxes, too
- For poor and open economies, it gets harder to raise domestic revenues.

Supporting the above theses with data based on Comparison of tax to GDP Ratio using 2004 figures, Park (2005) summarized as follows: Sweden: 50.7%, Denmark: 49.6% United States: 25.4%, Korea: 24.6%, Mexico: 18.5%, Tanzania: 11% in 1997 and Uganda: 10% in 1997. For some European countries, overburden of tax is a problem, while, for developing countries, suffer from revenue leakage due to various reasons which include:

- Complicated tax system
- Too much discretionary power of tax officials
- Non-transparency leads to corruption and revenue leakage
- Inefficient and corrupt tax administration
- Lack of infrastructure
- Scarcity of qualified tax officers
- Low incentives for tax officers
- Low tax morale due to “culture of corruption (Park,2005:8).
To address the above,
- Broadening tax base & flattening the tax rates
- Introduction of value-added tax
- Lower personal and corporate income taxes
- Simplification of tax bands and broadening of the bases for personal and corporate income taxes
- Reduction of import duties and simplification of the rate structure
- Abolition of export taxes (Park,2005:7).

Some of the failed attempts on Tax reforms tried in some African countries in the last two decades include:

- Uganda established semi autonomous revenue authority in 1991,
- Tanzania followed in 1996.
- Reform programs
- Simplification of tax structure
- Remove discretionary tax exemption
- Improve tax administration
- Harmonize central and local tax system

Tax revenue rose initially but it went down, in Uganda, it rose from 7% of GDP in 1991 to 10% in 1997. In Tanzania, it rose from 10% in 1996 to 11% in 1997. However, it has declined thereafter. They failed because:

- Political influence eroded the autonomy of revenue authority
- Too many taxes and complicated tax system despite tax reform
- Too weak legal sanctions for tax payers and collectors

- Corruption networks took over tax administration.

Proshare (2015,1-6), has articulated these revenue leakages in the under stated analysis. According to their effort, a top priority of the new federal government administration will be how to cover the huge fiscal gap created by the plunge in oil revenues and massive election spending in the 2015 general elections. This must be addressed in order to finance development programs and facilitate the day-to-day running of government and economic activities. To shore up government revenues, options available to the government include: raising the tax rate, blocking existing leakages and borrowing. While many have agreed that there is need for borrowing, there are differing views when it comes to blocking leakages and increasing taxes. With an estimated population of 170 million and GDP of \$568.5 billion, Nigeria's tax to GDP ratio was 5.23% in 2014 (See Table 1).

Table 2 : Actual Tax Revenue Collection and GDP figures in Nigeria for 2013/2014

2014					
	Petroleum Profits Tax (PPT) (N' bn)	Non-Oil Tax (N' bn)	Total (N' bn)	GDP (N' bn)	% of Total Tax to GDP
Q1	638.09	418.29	1056.37		
Q2	639.27	815.90	1455.17		
Q3	594.80	604.43	1199.23		
Q4	581.79	421.99	1003.78		
Total	2,453.95	2,260.61	4,714.56	90,137.00	5.23%
2013					
Q1	802.94	403.79	1206.73		
Q2	793.43	643.08	1436.51		
Q3	520.48	635.25	1155.73		
Q4	551.81	454.87	1006.68		
Total	2,668.66	2,136.98	4,805.64	81,010.00	5.93%

Source: FIRS, NBS, EIU

This is quite low compared to tax-to-GDP ratio of over 20% in most countries (See Table 2). In fact, the tax revenues collected in Nigeria in 2014 was lower than in 2013 despite an 11.3% in-crease in GDP (See Table 1).

Table 3 : Tax-to-GDP ratio of some countries in 2013

Country	Tax-to-GDP Ratio
OECD Average	34.1%
Brazil	38.9%
Iraq	44.7%
South Africa	25.0%

Source: OECD, CIA World Factbook, FDC Research

A high level of tax leakage, the difference between tax potential and tax collection, accentuated by the non-transparency of the current tax structure, has often been cited as one of the reasons for low tax revenues in Nigeria. The Minister of Finance noted that blocking leakages is expected to add several millions to Nigeria's revenues³ while the new federal administration expects over N1 trillion to be recovered. Evidence from other countries also shows the negative effects of fiscal leakages. A study of fiscal leakages in Kerala, India found that almost 35% of the total tax potential of general sales tax was not tapped in the

state. Furthermore, the study shows that the amount of tax leakage was enough to eliminate the primary account surplus from the economy and could affect fiscal sustainability.

In addition to leakages, Nigeria also has one of the lowest VAT rates (5%) in the world. The IMF recently advised, in its Article IV report, that there is an urgent need for Nigeria to increase its VAT⁵. It is believed that increasing the VAT rate will boost revenues, which will help to create the fiscal space necessary to implement developmental projects in spite of declining oil revenues.

While increasing tax rates will go a long way in boosting government revenues, we believe it should be done with caution to pre-vent a backfire. Higher taxes have often been found to encourage tax avoidance and evasion. This is all the more likely in an environment where a lack of transparency with the tax structure discourages people to trust the taxation system or voluntary comply with payment.

Table 4: Comparison of tax Rates in Developing and Developed Economies

Country	Corporate Income Tax	Personal Income Tax	Sales Tax/ VAT
Nigeria	30%	24%	5%
Ghana	25%	25%	15%
Angola	35%	17%	10%
South Africa	28%	41%	14%
China	25%	45%	17%
Indonesia	25%	30%	10%
UK	21%	45%	20%
US	40%	35%	0%

Source : Trading Economics, CIA Factbook

Hence, it seems more reasonable that the government block leak-ages as an immediate step to recovering revenues rather than increasing the existing tax rate. In the medium to long term, we believe as the government undertakes more developmental projects and put a better tax structure in place that encourages transparency, it can convince the people to accept a higher tax rate.

Proshare(2015) went on to explore how are Tax Leakages Encouraged in Nigeria.

The overarching belief is that leakages are the major reason for low tax revenues in Nigeria. The Federal Inland Revenue Service (FIRS) has improved a lot since 2004 by investing in staff training, re-organizing some of its operations and automating part of its processes. However, these have been inadequate to block leakages. The presence of tax leakages are seen to be a reflection of a culture of corruption and the inefficient tax administration. Several factors have facilitated leakages including:

Weak legal sanctions for defaulters: Government does not follow through with punishment for tax defaulters, thereby encouraging involuntary compliance

Narrow tax base: The informal sector is not properly captured. Petroleum tax revenue collection remains higher than non-oil tax revenues (See table1).

Double taxation: Lack of collaboration between all tiers of government often lead to duplication of taxes, which is a disincentive for investment

Illicit financial outflows: Funds illegally earned are transferred to other countries

Use of political influence: Potential tax revenues have been lost to unnecessary waivers and exemptions.

In an effort to Strengthening the Nigerian Tax System, Proshare (2015) adds that: a good tax system should have at least five basic qualities: fairness, adequacy, simplicity, transparency, and administrative ease¹⁰. To boost tax revenues in Nigeria, there is need for a re-view of the existing tax structure to imbibe these basic qualities, especially transparency. This will encourage voluntary compliance since people will know what tax funds are used for. Other measures that may be taken to strengthen the tax structure include:

- Improve quality of tax information system to determine the accurate number of eligible tax payers.
- Enforce penalties for tax evasion and strengthen tax audits
Greater collaboration between the tiers of government to harmonize taxes.
- Encourage international collaboration to combat illicit out-flow of funds from the country.

An Analysis of Instances of Revenue Leakages in Nigeria

In 2014, Mrs Okonjo-Iweala expressed fears that the revenue projection may not be achieved following competition from emerging oil-producing countries in Africa, listing other factors that may pose a threat to the country's revenue to include oil theft, and pipeline vandalism. The then Director-General of Budget Office, Dr. Bright Okogu, equally shared this fear, affirming that the threat to oil earnings in 2013 was enormous. He warned that the oil supply-demand gap for crude oil in Nigeria has unpalatable implications on sales. To avert such negative implications, Okogu pressed for an increase in the Internally Generated Revenue in the 2013 budget. Therefore, revenue generating agencies, such as the Nigerian National Petroleum Corporation (NNPC), the Nigeria Customs Service (NCS) and the Federal Inland Revenue Service (FIRS), were to ensure proper remittance of all revenues collected on behalf of the government to the last kobo. His position is understandable. The 2014 budget envisaged a Gross Federally Collectible Revenue of N10.88 trillion from which N3.73 trillion of the expected collectible revenue will be used to fund the budget. Total expenditure for the year is N4.64 trillion. This figure is underpinned by the parameter of oil benchmark of 2.39 million barrels per day at a price benchmark of \$77.5 per barrel, using an exchange rate of N160 to a dollar. It projects a Gross Domestic Product (GDP) of 6.75 per cent (Lucas,2014:9).

Mrs Okonjo-Iweala's and Okogu's fears on the threat to oil are, however, not the only factor that affected the 2014 revenue. Going by the antecedents of the government's revenue generating agencies, beneath financing the 2014 budget laid deafening worries. This was because, from 2011 to 2013, the government has failed to meet its revenue projections, a trend that has cast doubt on government's ability to meet the N4.64 trillion budget proposal for 2014 fiscal year. This was blamed on the revenue generating agencies of government, said not to have been meeting their target for revenue collection, and in some instances, touted not to be forthright with regards to the full disclosure of their earnings. Recent events have shown that some revenue-generating agencies have turned out to be drainpipes on the much needed revenue. There are about 36 of these agencies, prominent amongst which are the NCS, FIRS, Nigerian Maritime Administration and Safety Agency (NIMASA), Nigerian Ports Authority (NPA), Bureau of public Enterprise (BPE), NNPC and Department of Petroleum Resources (DPR), amongst others. Initially, agencies such as the Federal Road Safety Commission (FRSC), were not established to generate revenue into the government coffers, but their activities, such as issuance of vehicle number plates, have changed the setting; hence, they are now mandated by law to remit 20 per cent of their operating profit to the government.

The revenue earned by these agencies shows that much more is desired. In2013, of its N1.3 trillion revenue target, the NCS could only collect N833.4 billion, representing 59.52

per cent of its target for the year, or a revenue shortfall of N480.7 billion between January and November 2013. In 2012, the Service recorded N850.9 billion as revenue, falling short of the N872 billion set target by the government; in 2011, the NCS ended the year on a N741.836 billion revenue earning, surpassing the set target of N596 billion, after falling short of its 2010 set revenue target of N561 billion when it struggled to rake in N546.64 billion (Balogun, 2015).

Going by its strategic position as the major contributor to the nation's revenue, and the wheel on which the economy revolves, the expectations from the NNPC, is understandably high. This is because a distortion in the earnings from the Corporation will naturally translate to a distortion in the economic survival of the country; presupposing that when the NNPC sneezes, the economy catches cold. Annually, the country's budget proposal is tied to the performance of the oil sector and NNPC's ability, alongside some other agencies like NCS and FIRS, to rake in huge revenue. In the 2014 budget, government projects that gross federally collectible oil and gas revenue to hit N7.16 trillion. But setting such targets has become a hollow ritual. For instance, in the 2012 budget, based on a \$75 oil price benchmark, the government projected gross federally collectible revenue to hit N9.406 trillion. Of this figure, proceeds from oil and gas, were expected to hit about N6.4 trillion. In 2013, the NNPC had a revenue shortfall of N1.93 trillion (The Guardian Editorial, 2014).

While the NNPC and the NCS has had fluctuations in their revenue collections over the years, the FIRS has on the other hand has been able to sustain its revenue, surpassing its targets yearly, thus, faring better than other government revenue collection agencies. Consistently, the agency's revenue has been on a steady increase over the years. In 2008, the agency earned N2.97 trillion; 2009 it was N2.197 trillion; 2010, N2.83 trillion surpassing government's set target of N2.5 trillion; in 2011, in spite of the N2.7 trillion target set for the agency, going by the record from the Federal Ministry of Finance, the FIRS generated N4.62 trillion revenue exceeding that year's budget by about N140 billion. In 2012, N5.007 trillion was generated by FIRS, surpassing its N3.6 trillion federal government set target for the year. As at November 2013, the FIRS had a surplus of N3.48 billion collected. Under the 2014 budget, N2.2 trillion was set as target for the highflying agency (Akinmutimi, 2014).

But, the concerned agencies have not failed to shout themselves hoarse in trying to defend their inability to meet their set revenue targets. For instance, the NNPC easily blames the shortfall on increased crude oil theft, and a drop in crude oil production as a result of force majeure declared at the Brass and Bonny Terminals, and an increase in pipeline vandalism. Similarly, the NCS blames her below par performance on reduction in imports as a result of government policies, and also due to revenues forfeited from various concessions and waivers. Comptroller General of Customs, Dikko Inde Abdullahi, while admitting that the 2014 fiscal year would be full of challenges for the Service, especially with the N1.2 trillion revenue target set for it that year, fingered the by the Federal Government's new policy on rice, fish and the automotive industry as reasons for the substantial drop in volume of cargoes from where the NCS realizes a huge chunk of its revenue from duty and levies payable. He explained that with the imposition of a 10 per cent import duty on rice and increased rice levy from 50 per cent to 100 per cent in 2013, the Apapa Area One Command, which is the highest revenue collector for the Service, has progressively lost 70 per cent of its annual revenue. Rice imports, most times, constitute up to 70 to 96 per cent of its monthly revenue generation between 2011 and 2012. Figures of import waivers over a three-year period of 2011, 2012 and 2013 were put N55.9 billion, N55.3 billion and N59.4 billion respectively (Lucas, 2014:11).

The NNPC, which has come under public scrutiny, especially with the revelation by the suspended Central Bank of Nigeria (CBN) Governor Sanusi Lamido Sanusi that the Corporation did not remit \$10.8 billion to the federation account, has severally been criticised for lack of transparency in recent years. The NNPC was said to have lost \$720 million in potential revenue to crude oil theft and production disruption during in January 2013, and incurred \$1.22 billion in the repair and maintenance of its 5,000 kilometers of oil pipelines. But if the words of Okonjo-Iweala is anything to go by, then the days of accountability for the State oil Corporation may just be around the corner. "We need to see the justification, with receipts, where the money has been spent. Where this is not so, NNPC will need to account for the money. We need all the money due to the Federation Account and reconciliation with NNPC on the money is under way,"(Sun Editorial,2015:17) she insisted. Okogu had also expressed concern over the leakages in revenue from collecting agencies, disclosing that revenue generating agencies were in the habit of spending a large percentage of their earnings to match their revenue. For instance, he said that in 2009, a certain agency generated N85 billion but spent N83.2 billion, while in 2010, another agency which generated N1.7 billion increased its spending to N1 billion. To curb this, revenue-generating agencies must now remit at least 25 percent of their gross revenue, and tie their budget on the balance after remittance (Musa &Dauda,2011).

But from Chief Anthony Ani's disclosure, the leakage of revenue through these agencies predate the democratic dispensation. As a former minister of finance under the late General Sani Abacha's administration, Ani obviously had his facts. He revealed that in 1997, of the federally collected revenue of N452 billion, only N208 billion was paid into the Federation Account, while in 1998, of the N424 billion collected, only N189 billion was remitted to government purse (Ezekwesili,2006).

Former Speaker, House of Representatives Aminu Tambuwal, while presiding over a meeting of revenue generation and remittances with revenue generating agencies and the House Committee on Finance in December 2012, decried frequent revenue leakages from government coffers, saying it was unlawful for any government agency to spend monies not appropriated by the National Assembly. Represented at the meeting by his then deputy, Emeka Ihedioha, he revealed that 50 per cent of Federal Government revenue is illegally spent outside the annual budget. "A situation where actual government revenue and expenditure is unknown because revenue earning agencies of government spend the funds as they deem fit can no longer be tolerated. A situation where over 50 per cent of actual government revenue is spent outside the national annual budget has put Nigeria in a fiscal crisis,"(Lucas,2014:11) he said,

Buttressing the Speaker's position, Chairman of the committee, Abdulummin Jibrin, alleged that two of the revenue agencies-the Nigerian Ports Authority (NPA) and the National Airspace Management Agency (NAMA)- jointly generated N210 billion in 2012 and spent all the money without remitting a dime to the Federation Accounts(Anumuihe,2015).

Similarly, members of the National Assembly Joint Committee on Interior were stunned when the former Comptroller-General of Immigration, Mrs. Rose Uzoma, disclosed that in 2011, the Nigeria Immigration Service generated N10.3 billion, but N3.4 billion was remitted to the federation account. These revelations were made when Mrs. Uzoma appeared before the committee to defend the 2012 fiscal budget. Her defence was that the revenue generated comprises of N8,192,717,842.77 and off-shore earnings of \$13,378,206 (N2,140,512,320).(Lucas,2014:11) In 2013 fiscal year, the House of Representatives also

revealed that 60 revenue generating agencies of the Federal Government generated but failed to remit over N9.4tn to the coffers of the government between 2009 and 2012. The House listed some of the agencies to include the Bank of Industry, Central Bank of Nigeria, Nigerian Port Authority and Power Holding Company of Nigeria. The House report of an investigation it conducted revealed that the agencies either spent the money on their operations or simply failed to remit it to the Consolidated Revenue Fund of the Federal Government. This figure is separate from the N6.132tn, which it said the NNPC and its subsidiaries generated internally from 2009 to 2011 and did not remit to government. It furthered made it known that the figure for the NNPC did not include crude oil sales expected to have been paid into the Federation Account (Musa & Dauda, 2011).

Jibrin, while giving a breakdown of the unremitted funds, said of the N3.06 trillion the agencies generated in 2009, only N46.8 billion, representing 1.53 per cent was remitted to the government; in 2010, the sum of N3.07 trillion was generated, but N54.1 billion or 1.76 per cent was remitted; and in 2011, the generated figure stood at N3.17 trillion, out of which N73.8 billion or 2.33 per cent was remitted; while as at October 2012, out of the N189 billion expected to have been remitted, only N80 billion was remitted, leaving a shortfall of N109 billion. A bitter and shocked Jubrin exclaimed:

In all, the committee found out that the total remittance to government for the three years was a “paltry” N254.7 billion, out of the total revenue of N9.4 trillion generated. The agencies are simply bleeding this country dry. Not until we take drastic steps to stop them, huge funds that we would have used to execute capital projects will continue to go down the drain (Lucas, 2014:10).

The NNPC, still battling to wriggle out of the Sanusi expose of its \$10.8 billion scandal, appears to have more mud rubbed on her. Recently, the Nigeria Extractive Industries Transparency Initiative (NEITI) stunned the country’s legislators, nay, Nigerians, when it revealed that \$22.8 billion oil proceeds did not reflect in the Corporation’s books. This disclosure was made at the Muraina Ajibola led House of Representatives Joint Committees of Petroleum (Upstream), Petroleum (Downstream) and Justice, investigating the allegation by a Swiss-based Non-Governmental and Advocacy Organisation, Berne Declaration, that two Swiss oil trading companies-Vitol and Trafigura- in connivance with the NNPC, skimmed the country of about \$6.8 billion in two years. Shamsuna Ahmed, NEITI Executive Secretary, explained that these transactions, which sum up to \$22.8 billion, are off balance sheet items that are, not disclosed in NNPC’s audited financial statements. “*The implication is that there may be significant contingent liabilities to the Federation that are not being disclosed*” (Lucas, 2014:10) Ahmed warned. NEITI also said \$1.73 meant for Joint Venture cash calls had been diverted by the NNPC (Hart Group, 2009).

The Ministry of Finance had in 2014 secured the services of McKinsey & Co. to help it plug tax leakages in the country, at least to shore up the country’s tax revenue to Gross Domestic Product (GDP) ratio of seven per cent, which is considered low when compared with other middle-income African countries like South Africa and Angola, estimated at about 22 percent. Mrs Okonjo-Iweala also disclosed that over 75 per cent of small scale business operators have consistently been evading tax, in spite of the laudable efforts of the FIRS.

Supporting this thesis, the Africa Union’s (AU, 2015) report that \$40.9 billion or about N6.87 trillion – an amount far in excess of the national budget – is stolen annually from Nigeria, representing 68.1% of Africa’s total revenue loss, came to many Nigerians with little or no surprise. The amount is said to represent illegal transfer of funds abroad. It was the report of an AU High Level Panel on Illicit Financial flows from Africa, headed by Thabo

Mbeki – former South African president. The report says the funds are stolen through corruption, tax evasion and illegal transfer of profits by multinationals. It also identified Egypt and Morocco as the other countries with the largest estimates of illicit financial flows from the continent.

In Nigeria, a country reputed for its high corruption index(Eme,2014,et.al), the activities of the multinational oil companies have always been reported to be in shortfall of globally accepted best practices and transparency. Matters are not helped by a perceivably corrupt agency in charge of supervising the oil and gas industry, the Nigeria National Petroleum Corporation (NNPC). The Nigeria Extractive Industry Transparency Initiative (NEITI) has had cause in the recent past, to accuse the oil majors of irregularities in their financial operations and non-conformity with the statutory laws. The Mbeki report is therefore, only saying the obvious from other quarters. But that is not to foreclose the fact that there are multinationals in other sectors of the economy besides oil and gas.

The report has stirred massive concerns in Nigeria, which is said to account for over \$ 40.9billion (about N6.87trillion), or 68 per cent of the total figure. Cumulatively, Nigeria also topped the list of ten African countries with highest incidence of illicit financial transfers between 1970 and 2008, recording about \$ 217.7billion (about N36.57trillion), or 30.5% of the total in the continent (AU,2015). Okonjo-Iweala said:

One of the areas of weakness has always been in our tax policy. The new move will see the non-oil sector contribute more to the economy through payment of appropriate taxes by relevant organisations. FIRS has really worked hard but we feel that there is still room to do better, (Ogwu,2015)

But for the generality of Nigerians, the target set for these agencies are far too small compared to their earning capacity. This, it is said, accounts for why there is an under declaration of revenue. These targets are said to be peanuts when compared to the actual earning capacity of these agencies. For instance, a clearing agent at the Tin Can Island Port, TCIP, Lagos, is concerned, targets given to the NCS is far too small considering the volume of business carried out at the ports. Based on his own calculations, the TCIP alone is capable of generating the annual target of the NCS if there is no corruption in the system. “Clearing consignments of multinationals like NNPC, Nigerian Breweries, Guinness, etc, run into billions of naira yearly; and yet there are several other importers. So, I am convinced the NCS targets are peanuts and are realised conveniently,”(El-Rufai,2014:8) he said.

This view is expressly supported by Boniface Aniebonam, founder, National Association of Government Approved Freight Forwarders (NAGAFF), when he said that 95 per cent of imports and exports in Nigeria do not comply with regulations, leading to revenue loss to government. He warned that unless the NCS plugs the loopholes in the system, the achievement of the 2014 revenue target may be a charade.

But, Olayiwola Shittu, National President of the Association of Nigerian Licensed Customs Agents (ANLCA), added a different twist to blocking of the leakages when he suggested the payment of 0.5 per cent commission on all duties that importers help NCS to generate. He is convinced that if this is put in place, revenue leakages would be blocked as agents would insist on accurate duty payment to government in order to improve the commission accruable. This, he said, would make the federal government realize more than N3 trillion through the Customs annually. He blames some officials of the NCS for aiding some clearing agents to circumvent import rules in order to line their pockets, thereby depriving government of huge revenue (New Telegraph,2015).

Large scale fraud in revenue calculation, collection and remittance has become a cankerworm that has eaten deeply into the fabrics of revenue generating and collecting

agencies. This is better captured in the “Yearly report of the Auditor General for the Federation on the Accounts of the Federation of Nigeria for the year ended December 31, 2009.” The report, sent to the National Assembly, detailed the discrepancies in the figures of revenue remitted to the Federation Account by the NCS obtained from the CBN components. These were observed in the figures for nine months – January, February, April, May, June, July, August, September, and December, which indicated that the NCS remitted less than the revenue collected during the period to the government. While the figures for the three months – March, October and November indicated that the NCS remitted more than the revenues collected during the period to the Federation Account, which gave rise to a total net difference of N11.122 billion (Mullar,2010).

In the report, Auditor-General of the Federation (AGF) Samuel Ukura unearthed the depth of under declaration and remittance of revenue in the oil sector. It revealed that oil companies in the country owed government huge sums of money in local and foreign currencies. For instance, it was revealed that the sum of N1.148 billion was owed government on penalty from gas flared and \$795.309 million on royalties on crude oil were owed by various oil companies as at December 2009. Furthermore, the Ukura report further revealed during the audit examination of accounting and other records at the Department of Petroleum Resources (DPR) for the Federation Account, the computation of royalties payable by oil companies was based on actual crude oil lifted by them and not calculated on actual production figures; this contravenes the provisions of the Memorandum of Understanding, MoU, with the oil companies involved. The MoU provide that payment of royalties should be based on production volume multiplied by the prescribed royalty rates. The AGF was of the view that the DPR had shirked its responsibility of raising the assessments on royalties and sending the demand notices to the oil firms for prompt settlement. “Rather, the oil companies are allowed to engage in the self-assessment of royalties payable by them. This action is obviously detrimental to the interest of the country,” (Katsouris,2009) Ukura noted.

That is not all. In 2010, a House of Representatives Committee on Customs and Excise chaired by Yakubu Dogara, submitted a report which exposes the rot in the system. It also unravels the pressure on the NCS by top government officials to subvert due process. The report indicated that established rules on imports, exports, waivers, pre-releases, among others are breached with impunity, resulting in the loss of billions of naira by the Federal Government (Ezeobi,2010).

For example, the House Committee said it uncovered that in 2006 to 2007, the nation lost N38 billion to illegal granting of Temporary Importations and Pre-Releases. But this amount is dwarfed by the N45.9billion which the NNPC was said to have failed to remit to the NCS as duty payable on imported petroleum products. The House Committee found out that the practice of “Mid-Stream Discharge of Cargoes”, later diverted to private jetties, is a major source of revenue loss. It said the practice was encouraged by importers with the connivance of Customs officials who deliberately hire the services of ships that Nigerian ports have no capacity to berth. The ships are said to stop mid-stream, where the cargoes are discharged to small vessels and taken to private jetties. By regulation, officials of the NCS should be available to assess such goods as they are being discharged for appropriate revenue collection. The committee report listed 27 firms which officials of the NCS reportedly connive with regularly to defraud the country (Lucas,2014:11).

But what has happened to these reports remains unknown. Mayowa Sodipo, a public analyst, says it is appalling that most of these, especially the NNPC and NCS, have become a cartel that is untouchable. He blames politicisation and the desire to continuously oil the

machineries of political office holders for the seeming helplessness to revamp the agencies. Sodipo said:

Because of these interests that these agencies serve, the recommendations of several panels and enquiries into the books of the agencies by successive governments never see the light of day and, by implication, the agencies which are statutorily supposed to rake in huge revenues to government have become drain pipes because of corruption(El-Rufai,2014:8).

For instance, there is widespread allegations that, "*Pioneer status (tax holidays) was granted to companies whose products do not meet the requirements of the list of industries or products specified in the schedule to the Act*" (El-Rufai,2014:8). The wide spread allegation in the public domain puts the amount lost in the region of \$20 billion. Okonjo also alluded in her letter that tax holidays were granted for a straight five year- period, contrary to the provision of Section 10 of the Act which states that the tax relief period for a pioneer company shall commence from the production date of the company and shall continue for a period of three years in the first instance, and may be extended for a period of one year and thereafter for another one year, or for a period of two years subject to the satisfaction of Mr. President that certain requirements such as rate of expansion, standard of efficiency, level of development of company, among others, are met.

Okonjo-Iweala was alleged to have pointed out in her letter that, in some instances, NIPC granted Pioneer Status in arrears leading to beneficiaries of such demanding refund of the taxes already remitted into the Federation Account. In a joint reaction by the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC), the Federal Inland Revenue Service (FIRS) and the NIPC; they denied fraudulent handling of the tax incentives. They said,

Given that not more than 400 companies benefited from the grant of Pioneer Status Incentive by the NIPC since its inception, it should be pointed out that the savings made by the beneficiary companies of Pioneer Incentive is less than 5% of the alleged revenue loss. Even then, it noted, the cost benefit of the Pioneer Status Incentive granted has enabled these companies to expand and diversify as noticeable in the Cement, Telecommunication, Iron & Steel, Petrochemicals, Agriculture & Agric-business, Automobile Industries etc.(Yusuf & Chiejina,2015:10)

These clarifications notwithstanding, the concern about revenue leakage and illicit financial flows from Nigeria has continued to engage the minds of stakeholders. The law governing the operations of the pioneer companies was first laid out under the Aid to pioneer Industries Ordinance No.10 of 1952. This was repealed by the Industrial Development (Income Tax Relief) Ordinance No.8 of 1958. This ordinance was subsequently repealed by the Industrial Development (Income Tax Relief) Act 1971, otherwise known as CAP 179 LFN, 1990 which is the current legislation governing the operations of the pioneer industries.

The Nigerian Investment Promotion Commission (NIPC) recently released pioneer status incentive regulations. The Regulations have an effective date of 30 January,2014. The Pioneer Status Incentive Regulations provides additional conditions to those contained in the Industrial Development (Income Tax Relief) Act for processing an application for Pioneer Status Incentive. It provides an update on the list of requirements to be provided by applicants in addition to the application forms. More prominent in the regulations, is a service charge of 2% based on estimated tax savings to be paid to the NIPC. Some of these

stakeholders have raised issues with what they refer to as ‘over-incentivization’ of the Nigerian business climate (Proshareng.com, 2015:6).

Apart from bigger firm’s sleaze that occurs in lesser popular revenue generating agencies, which go almost unnoticed because they are obscure. Revenue governance experts therefore canvassed for an effective anti- corruption fight to ensure that such loopholes are blocked. This is because experts warn that except urgent steps are taken the country may be heading for bankruptcy considering the extent of underhand dealings in these agencies. In view of the thesis, President Muhammadu Buhari recently met the head of a leading global watchdog on corruption to see how billions of dollars in oil revenue leakage can be curbed. The head of Oslo-based the Extractive Industries Transparency Initiative (EITI) met Nigeria’s president who made Stamping out corruption one of the main pledges during his campaign.

Clare Short, the head of EITI, had come to see how its recommendations can be implemented and help with long-term reforms. The initiative sets global standards for openness in the natural resources industries. The executive secretary of EITI’s Nigerian arm (NEITI) said that over \$7.5 billion between 1999-2011 still needed to be recovered from oil and gas companies in Nigeria. *“The amount represents clear cases of underpayments, under-assessments of taxes, royalties, rents...which have not been adequately addressed in the past,”*(Sun Editorial,2015:17). Zainab Ahmed said:

NEITI has suggested selling the state oil company’s stakes in producing joint ventures to fix its budget woes, a call echoed by many in the new administration, as well as scrapping the expensive and graft-riddled fuel subsidy. The government relies on oil sales for the bulk of its revenues but there has been little oversight of how these are handled (Sun Editorial,2015:17).

Central bank governor Lamido Sanusi was sacked under former president Goodluck Jonathan after he said that up to \$20 billion in oil revenues between 2012 and 2013 had not been remitted to the government by the state oil company NNPC. Buhari said he would re-examine this allegation. Ahmed also said NEITI audits showed that some \$11.6 billion of dividends between 1999 and 2012 from the government’s investment in the Nigerian Liquefied Natural Gas (NLNG) company were not remitted by the state oil company. *“NNPC was unable to provide any evidence that the funds were remitted to the federation as required by law,”* she said.

NNPC said the issue of reconciling accounts had been raised at a previous Inter-Ministerial Task Team. The team was designed to implement NEITI’s findings. NEITI has also said the sale of eight oilfields to NNPC’s upstream arm in 2010-2011 should be reviewed, as they were sold at \$1.85 billion of which only \$100 million was remitted to the federation account in February 2014. Before his sacking, Sanusi also criticised some of these deals for being awarded non-competitively to companies that supplied no service Lucas, (2014:11).

Recommendations

Just like the AU Report(2015) suggested that the continent’s governments should demand foreign financial institutions to provide details of accounts held by their listed Politically Exposed Persons, preferably as part of the new system of automatic exchange of financial information being created under the Organisation of Economic Cooperation and Development, OECD.

The paper like the AU also proposed the integration of illegal financial transfers as a specific component of its Convention on Preventing and Combating Corruption, adding that its member states should allow the public access to national and subnational budget information, as well as processes and procedures for budget development and auditing in an open and transparent manner.

To eliminate the opportunity for illicit financial flows from national and local government treasuries, Nigerian Government, therefore, should adopt best practices in open contracting to reduce revenue leakages through government procurement processes. Again, the Paper suggests that the Nigerian polity and all of her institutions, including parliaments, take all necessary steps to eliminate secrecy jurisdictions, introduce transparency in financial transfers and crack down on money laundering. The Paper also called for stronger collaboration and consistent engagement between Africa and global players like the G8, European Union, EU and G20 to help ensure greater transparency in the international banking system, with banks being required to ascertain the identity, source of wealth and country of origin of their depositors and their deposits. It also recommends an increase in the degree of penalty on bribery giver, provide incentives for whistle blower and strengthen internal audit of tax authority in Nigeria.

Conclusion

The incoming federal government administration led by General Buhari will likely follow through on its promise to block tax leak-ages based on its anti-corruption stance. This is a step in the right direction but will not come easy since some of the problems are deep-rooted and may require some time to overhaul.

In sum, Nigeria's dependence on oil revenues has exposed the country to oil price shocks. The country's already weak fiscal buffers coupled with huge election spending has created a fiscal gap that must be bridged to enable the new government administration to perform its duties effectively. Whilst borrowing has been embraced as a necessary option to facilitate government spending, there is no consensus on how tax revenues should be increased. In the short term, we believe that blocking leakages is a more viable option to boost tax revenues, rather than raising the tax rates. This is because increasing the tax rates immediately may provoke further ways of avoiding tax. In the medium-to-long term, we advise that government work towards improving transparency in the tax system as a way of building trust. Then, it might become more feasible to raise the tax rate.

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