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## The Aftermath of Over-Dependence on Oil in the Nigerian Economy

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**Amangwai Josiah Monday**

*Bursary Department, Federal University, Lafia Nasarawa State, Nigeria*

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### Abstract

This write-up discusses the structure of government revenue in Nigeria for a period of twelve years (1999 – 2010). Within this period a total of N50.8 trillion accrued to the Nigerian Government (N40.3 trillion came from oil and N10.5 trillion from non-oil). Generally, oil revenue accounted for greater proportion of the revenue collected throughout the years with the highest figure in 2008. Between 1999 and 2010, oil revenue had contributed 83.5% while non-oil sector 16.55 to the GDP. With the huge revenue from oil then, other sectors of the economy were neglected and relegated to the background to the disadvantage of other non-oil sectors and instead of using the fortune to diversify the nation's economy, money was squandered with highest level of recklessness by successive governments leading the country to where we are today (unemployment, crime, insecurity, infrastructural deficit, low standard and high cost of living etc.) .

*Keywords: Aftermath, Over-dependence, Oil, Nigerian economy*

### Background to the Study

Government revenue is a key component of public finance which is crucial in the expenditure of the public sector as well as servicing debts of the government (Federal, State and Local Governments.) Revenue signifies inflows of resources in monetary terms into the coffers of an organization. Revenue on the side of the government is income accruable to government monthly and yearly from the economic activities of the State grouped into recurrent revenue and capital revenue. Recurrent revenue comprises of tax and non-tax receipts accruable to the government within a given period. While capital revenue are receipts from non-financial assets used in production process for more than one year. Knowing the profile and sources of revenue available to

the Nigerian Government is important as this enables one appreciates such sources and whether they are worth depending. The structure of government revenue in Nigeria since 1999 - 2010 is mainly made up of oil revenue and non-oil revenue. In 1999 a total of N949.1 billion was collected as revenue while in 2010 the revenue leaped to N7.3 trillion. The trend of total government revenue under the years under review did not maintain any constant directional movement. It fluctuated throughout the period but experienced growth, oil accounted for over 76% while non-oil 23.6%. There was a continued dominance of oil sector over other sectors and the implication of this is that there was government reliance on oil revenue to the detriment of other non-oil revenue sources thereby depending oil. In the following pages, discussion would be on the structure of government revenue in Nigeria from 1999 to 2010, the trend of total government revenue since 1999 to 2010 and its contribution to the GDP, brief background on oil in Nigeria, its implication to the Nigerian economy and the way forward out of the present economic downturn.

The structure of government revenue in Nigeria since 1999 to 2010: Given the period under review, the approved sources of revenue of the Federal Government of Nigeria are classified into Oil and the Non-Oil Revenue as spelt out below:

#### Oil Revenue;

- i. Revenue from export sales, taxes on petroleum products, rents etc.
- ii. Petroleum profit tax and royalties

#### Non-Oil Revenue

- i. Company Income Tax;
- ii. Custom and Excise Duties;
- iii. Value-Added Tax (VAT);
- iv. Federal Government independent revenue comprises of interest repayments, rents on government properties, personal income tax of Armed Forces and Para-Militaries, External Affairs etc;
- v. Custom Levies and Education Taxes etc.

From the table below, federal government revenue experienced tremendous improvement over the years as in 1999 the total revenue collected was N949.1 billion while in 2010 the revenue leaped to N7.3 trillion. There were however, some slight downward but remarkable upward variations in the revenue generation from both sectors. The structure is tilted in favour of oil revenue; this shows that the Federal Government of Nigeria depends on oil as its major source of revenue.

Federally Collected Revenue Figures From 1999 – 2010

Year	Oil	Non-Oil	Total
1999	724,422.50	224,765.40	949,187.90
2000	1,591,675.80	314,483.90	1,906,159.70
2001	1,707,562.80	903,462.30	2,611,025.10
2002	1,230,851.20	500,986.30	1,731,837.50
2003	2,074,280.60	500,815.30	2,575,095.90
2004	3,354,800.00	565,700.00	3,920,500.00
2005	4,762,400.00	785,100.00	5,547,500.00
2006	5,287,566.90	677,535.00	5,965,101.90
2007	4,462,910.00	1,200,800.00	5,663,710.00
2008	6,530,630.10	1,335,960.00	7,866,590.10
2009	3,191,937.98	1,652,654.37	4,844,592.34
2010	5,396,091.05	1,907,580.50	7,303,671.55
TOTAL	40,315,128.93	10,569,843.07	50,884,971.99
Average	3,359,594.08	880,820.26	4,240,414.33

**Source:** Statistical Bulletin, Central Bank of Nigeria, Volume 21, December, 2010

The trend of total government revenue since 1999 to 2010 both in absolute terms and as a proportion of the GDP: The trend of total government revenue over the years under review did not maintain any constant directional movement. It fluctuated throughout the period but experienced growth. Generally, oil revenue accounted for greater proportion of the GDP throughout the years. The highest revenue was collected in 2008, amounted to about N7.8 trillion with oil revenue accounted for about 83% while non-oil revenue accounted for approximately 16%. Also, during this year, oil revenue recorded highest at N6.5 Trillion. Non-oil revenue had a steady rise since 2007 and continued to rise in its contribution to the total GDP. The details are shown in the table below.

**Federal Government Revenue Since 1999-2010 ('N' Million) and Percentage Contributions of each Sector to the Total GDP**

Year	Oil	Non-Oil	Total	GDP – Oil (%)	GDP – Non-Oil (%)
1999	724,422.50	224,765.40	949,187.90	76.32	23.68
2000	1,591,675.80	314,483.90	1,906,159.70	83.50	16.50
2001	1,707,562.80	903,462.30	2,611,025.10	65.40	34.60
2002	1,230,851.20	500,986.30	1,731,837.50	71.07	28.93
2003	2,074,280.60	500,815.30	2,575,095.90	80.55	19.45
2004	3,354,800.00	565,700.00	3,920,500.00	85.57	14.43
2005	4,762,400.00	785,100.00	5,547,500.00	85.85	14.15
2006	5,287,566.90	677,535.00	5,965,101.90	88.64	11.36
2007	4,462,910.00	1,200,800.00	5,663,710.00	78.80	21.01
2008	6,530,630.10	1,335,960.00	7,866,590.10	83.02	16.98
2009	3,191,937.98	1,652,654.37	4,844,592.34	65.89	34.11
2010	5,396,091.05	1,907,580.50	7,303,671.55	73.88	26.12
Total	40,315,128.93	10,569,843.07	50,884,971.99	76.32	23.68
Average	3,359,594.08	880,820.26	4,240,414.33	83.50	16.50

Source: Statistical Bulletin, Central Bank of Nigeria, Volume 21, December, 2010, but the analysis of sectors' contribution to the GDP was done by the writer

Background of Oil in Nigeria, its implication to the Nigerian Economy: Petroleum was discovered in Nigeria in commercial quantity in 1956. It became an important product in the country after the civil war in January, 1970. By May, 1970, Nigeria's production became significant enough that she joined the league of the oil exporting nations (OPEC – Organization of Petroleum Exporting Countries). During this period, petroleum export was 27% of the country's total exports value. In the 1970s, particularly 1975, the share of petroleum in total exports had risen to over 90%. The product became not only the major foreign exchange earner but also the major source of government revenue. Since then, petroleum assumed significant and enviable position in the Nigerian economy. Petroleum has played an appreciable role towards the growth of the nation's economy.

The above is a background of petroleum in Nigeria and its contribution to the growth of the country's economy. It is however, sad to note that a considerable damage has been done to other non-oil sectors of the economy due to the development of petroleum that has resulted in the present economic mess the country is passing through as a result of fall of oil price in the world market. Nigerian economy has been and is depending on petroleum to the detriment of other sectors until now (2016) when the price of oil in international market has tumbled below \$38 per barrel that the government is exploring other sources of revenue. As soon as oil became significant revenue source to the government, all other sectors were not given the due attention they deserved.

Nigeria then became a mono-product economy – the country depended on her revenue from a single product, thereby turning the country's economy into a beggar-economy. This is because, Nigeria never fixed price for her crude oil sold abroad but depended on whatever price fixed by international body as what is currently happening.

In a period of twelve years (1999 – 2010) Nigeria Government was able to rake into her coffers a total of over N50 trillion aside what was made before this period. But today where is this money and in which way has it contributed to the development of the nation's economy? The money is no longer there and the economy remained undiversified!! For example, Okeke (2015) when writing on the caption: “Paying the Price for Over-dependence on Oil”, wrote thus: “For many years, Nigeria was the star in the “How to Put All Your Eggs in One Basket 101” class and she is currently reaping the rewards of her success. The Nigerian economy, especially the public sector, has been dependent on revenue from crude oil exports. As one of the top 10 oil producers in the world, previous administrations focused only on the oil sector as they believed that global economic growth would fuel the incessant demand for crude oil which would in turn guarantee sustained high prices. Slowing global economic growth in China, the world's largest importer of crude oil, the Shale oil in the United States and the refusal of the Organization of Petroleum Exporting Countries (OPEC) to cut down on supply have all contributed towards halving crude oil prices, starting from June, 2015.”

The implication for over-dependence and reliance on oil as source of revenue by the Nigerian Government without diversifying the economy in the past is that the government is now faced with a messy economy associated with high level of unemployment, crime and insecurity leading to capital flight from the country. This scenario presents the present administration with an uphill task in revamping the battered economy. President Mohammadu Buhari while appreciating the magnitude and seriousness of the problem on Friday (5<sup>th</sup> February, 2016 – TODAY Newspaper of 7<sup>th</sup> February, 2016 (online)) while in London when addressing members of the Nigerian community in the United Kingdom said he wondered why oil, which used to sell for over \$140 per barrel would reduce to \$30 per barrel during his time as the President. He went further to ask that why didn't he come when the treasury was full? This lamentation of the President means that trillions of naira gotten from oil was squandered and the country remains undeveloped.

### **The Way Forward out of the present Economic Downturn**

It is no longer news that the price of Nigerian oil in the international market has fallen to below \$40 per barrel and that revenue from oil cannot longer sustain the nation's economy. Federal Government is therefore, required to diversify her sources of revenue (it is gratifying to note that the government has started doing that.) Attention should be given to those sectors where there would be sustained quantum of revenue. The monoculture nature of one-product economy is not healthy for any growing

economy. There is the need for the government to urgently identify areas that would require policy attention, such as agriculture, solid minerals, manufacturing and a host of others. However, there are major challenges facing these sectors which include the lingering infrastructural deficit and security problems, slow global economic recovery and dampened world demand for commodities as well as the dismal performance of the non-oil exports sub-sector. Policy should therefore, focus on the diversification of the non-oil export base where items are processed and exported as finished goods.

### **Conclusion**

The Federal Government needs to take aggressive measures to diversify its revenue base in order to absorb the shock from the fall of oil price. Not only that oil price has fallen but that in future there may be no demand for oil as it is facing great threat of replacement with other alternative energy sources that have less carbon emission. Oil too is a wasting asset, it depletes in usage. It is worthy of note and sad to reflect on the past, when non-oil revenue accounted for about 97% as a proportion of total federally collected revenue in the first decade post-independence and 24% in the 1970s. In contrast, oil revenue rose from a mere 3% to 76% over the same period. Between 2001 and 2009, oil revenue stood at 82% of the total federally collected revenue compared to 18% from the non-oil revenue, a situation of over dependence on oil and neglect of other non-oil sectors.

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