**Taxation, Governance, Democracy and Development**

A paper presented by Chude Jideonwo, Managing Partner, RED, at the Inaugural Conference of the Ibadan School of Governance and Public Policy, on February 1st, 2016.

When I received this topic and started thinking about what my remarks would be, I was transported back in time, to another life. One in which I was a law student. Back then, Tax Law was my worst course. I thanked God that I would never have to deal with this again.

If only I had known that as a business person, tax law would once again be my worst course. Only this time, the exam is forever.

**Taxation**

The subjects of taxation, governance, democracy and development are very tightly woven together. Modern governments need money, lots of money, in order to run nation states. Where and how they get this money has a profound effect on the political economy of a society.

For much of its life, Nigeria has been run on oil money. Our oil addiction took off fully in the 1970s, and we have not looked back. Like a junkie who sells all the family jewels to sustain its habit, Nigeria gradually abandoned the things that made it great, on the altar of oil.

Even with the periodic destruction of that altar through price collapses of the 80s and the low prices for nearly all of the 1990s, we were not shaken out of our addiction. Now, over 18 months into the most recent bust, the long and short of the times we live in now is this: Low oil prices mean our government is looking for money. Everywhere. From everybody. At once. They are running after those who stole our commonwealth, plugging leakages, and they are also talking about raising Value Added Tax, stamp duty and expanding the tax base.

Our petro economy meant that Nigeria has never really bothered with taxes as a nation. It has always been much easier to simply drill a hole in the ground, sell oil, and have finance commissioners from the 36 states gather in Abuja once a month to share the proceeds. The resulting intellectual laziness spread from the Federal government down to the states, and gave us a bloated government that remains with us to this day, one that is so bloated, it sucks the life out of everything else around it.

It is from this near lifeless mass that the government wants to extract taxes. Currently, Nigeria’s tax to GDP ratio is about 6 or 7%, one of the lowest in the world. You see, the fact that our government has always been able to extract oil rents, is one of the reasons why it has forgotten how to be a real government. A real government ensures that it provides an atmosphere for its people to prosper, knowing that you can’t tax poverty. You can only tax wealth that is created, and wealth is not created by accident.

For example, let’s look at Nigeria’s position on the World Bank’s Doing Business Index. We currently rank 169th out of 189 countries, and in the ‘Starting a business’ measure of that Index, Nigeria ranks 175th out of 189 countries. 175th! If you have ever tried to register a company in this country, you are likely to agree with that ranking and attest to the disaster that is the Corporate Affairs Commission. How can you tax companies you do not know exist? How many have been put off from registering their businesses as a result? I know many of my friends who have simply decided to run their businesses from their homes, rather than wear themselves out with ‘government wahala’. The result is a potentially huge loss of value. What’s worse is that nothing has come out of repeated statements from government officials to reform the CAC. Perhaps the real CAC (Christ Apostolic Church) needs to do a deliverance session for them. I am not holding my breath though. My solution would be to sack half of them tomorrow if I could.

When it comes to paying taxes, Nigeria ranks 181st out of 189 countries. The sheer number of these taxes and the time it takes to file them serves as a disincentive to any business that decides to be fully tax compliant. As a business owner, I pay a dozen different taxes and contributions – VAT, PAYE, Company Income Tax, Tertiary Education Tax, Business Premises levy, Development Levy, National Social Insurance Trust Fund, Industrial Training Fund, National Housing Fund, Pensions and Lagos State Signage ‎Act – so it is really no wonder that most people would rather dodge taxes. One of the most urgent things the federal, state and local governments need to do is streamline the taxes and those collecting them.

Multiple taxation is one of the things businesses complain about the most, and there have been no steps taken by the federal and state governments to address these issues. These are things that businesses have to deal with on a daily basis, and whether or not this or that former government official stole money is less important. There is also the need to for the assessment and payment process for these taxes to be simplified, and for the use of these taxes to be more transparent.

**Governance**

Governance is about institutions, and the type of governance in a society is based on what type of political institutions exist and how these institutions are configured. These institutions also determine how wealth is created, how resources are allocated, and in whose hands the created wealth remains.

In their book: “Why Nations Fail”, the authors Daron Acemoglu and James Robinson examined the reasons why some countries are rich and others poor, and come to the conclusion that rich countries have inclusive political institutions, while poor ones have extractive political institutions. According to them, inclusive political institutions lead to inclusive economic institutions which support economic growth, and extractive political institutions often lead to extractive economic institutions, which restrict economic growth.

Extractive political institutions concentrate power in the hands of a narrow elite and place few constraints on the exercise of this power. Inclusive political institutions on the other hand, distribute power broadly in society.

Nigeria’s brief period of optimism as a nation came to an end with the 1966 coup, after which power was taken from the regions and vested in the center in a unitary system of government. This created a highly extractive political system which was manned by the military unto whom political power was concentrated, along with their civilian collaborators.

The oil boom of the 1970s put the final nail in the coffin. Since all favours came from the center, the military doled these out to themselves, the political class and the civil service in the form of things like the Udoji Awards. They determined who did and did not succeed in business, and were accountable to no one.

In addition, the contest for these resources at the center brought things like 'federal character' and 'zoning' into our national lexicon. Everyone had to have the opportunity to get their nose in the trough. Such a belief is also behind the clamour for more states, never mind the fact that most of those we have now are merely names on a map.

Under Babangida, you could make that case that this patronage system became fully and finally entrenched, and till this day, many parts of our national life are conducted like they were in the military era, i.e. "We will do what we want, and there is nothing you can do about it. How dare you question us? How dare you criticise us?"

It will take a long time to rid ourselves of these extractive political institutions and consequently improve governance. Between 1966 and 1999, 33 years, we only had democracy for 4 years. Currently, Nigeria places 39th out of 54 African countries in the Mo Ibrahim Index of Governance.

When oil was the means by which government got its money, bad governance was not acceptable, but it could be overlooked. It became: ‘Just leave us alone, and we will leave you alone’. However, a country run with money generated by the taxes on economic activity is likely to look very different from what it looks now.

A focus on taxation often brings with it increased calls for accountability. If the government thought there was ‘noise’ from ‘social media people’ before, they are probably not prepared for what will happen with a renewed tax drive. It is therefore the responsibility of governments at all levels to be more responsive, more open, as they make more demands of Nigerians. Through this, governance is strengthened and both the leaders and the led benefit.

A significant part of what caused the unrest that led to American Revolution, was taxes. The Englishmen who settled in the US were subject to laws by the British Crown, without having any say in how those laws were passed and taxes were imposed. One of the slogans became, ‘No taxation without representation’ and soon enough, it led to a revolt.

One example of the military era mentality that is still very rampant, is that in Lagos, the 2016 budget is currently not available by line items anywhere. Only the summary is available. It is the same in most states. This kind of thing is unacceptable, and rather than empowering the people, it disempowers them and leaves the budgeting process open to serious abuse, because you cannot monitor whether funds are going to where they are supposed to go. It also leaves open room for speculation about what the budget will be used for. The Lagos government and other state governments should be moving toward more transparency, not less. In a state run largely by the Internally Generated Revenue, it is a mistake to assume that people will not care about these things.

All over the world, the move is toward transparency. These days, it is too easy for anyone to make anything up about a government official when there is a lack of information. In those situations, rumour mongers thrive, and before you know it, something has ‘stained your white’, and you have to do double the work to wash it off.

**Democracy**

Since governance is about institutions, there is a spectrum along which these institutions operate, ranging from authoritarian systems to democratic systems. The rise of China has challenged the notion of whether Western style democracy is a necessary requirement for good governance. The end of the Cold War appeared to have settled the argument in favour of democracy as the best form of governance but the world’s second largest economy, having attained that position from a standing start in the late 1970s, is not a democracy. Countries like Singapore under Lee Kwan Yew, South Korea after the Second World War under Syngman Rhee and his successor, General Park, the Soviet Union from the late 1920s to the 1970s, give one pause. Even Rwanda, one of the few genuine success stories in Africa over the last 20 years, is barely a democracy any longer, if it ever was.

Acemoglu and Robinson try to explain these occurrences by saying that extractive political institutions can indeed permit inclusive economic institutions, but that economic growth is not sustainable under these types of arrangements if there is no greater political participation going forward, and eventually comes to a halt.

Is greater political participation synonymous with democracy? Is good governance synonymous with democracy? Acemoglu and Robinson think so, but Francis Fukuyama, most notably, does not. He views governance as simply the ability of the state to deliver public goods and services, and the actual system is less important. He even contends that in some situations, the quality of governance could be hurt by institutions of democratic accountability.

One of the contributions the Ibadan School of Government and Public Policy could make, is to arrive at, perhaps, an ‘Ibadan Consensus’, regarding whether democracy is the best alternative for Nigeria, what modifications need to be made, and to actively promote these alternatives in public discourse.

**Development**

There are many who are of the view that Nigeria is not yet ready for democracy, because the population is not sufficiently educated and comfortable enough. Reading stories of unemployed youth being used to subvert the electoral process through election violence, people lining up to sell their votes for rice and other things, can easily convince one of this viewpoint.

There are other examples as well. After rebasing its economy, Nigeria became Africa's largest. The country it replaced, South Africa, is an example of a country whose democracy has not brought development in its wake. South Africa has remained one of the most inequitable countries in the world. All that happened with the fall of apartheid is that the personalities in charge of its extractive economic systems have changed, but the systems remain very much in place.

It is much the same in Nigeria, even though to a slightly lesser extent. The economy remains firmly oriented to the oil and gas sector, and by and large, it is the same characters in charge operating through fronts.

A report by Ernst and Young on Nigeria in 2014, showed that 52% of foreign direct investment inflows went to the oil and gas sector since 2007, and even domestically, loans to oil and gas firms by Nigerian banks also crowd out other sectors of the economy. Even though oil contributes 11.2% to GDP, bank loans to that sector make up an average of nearly 30% of total loans, while other sectors like manufacturing receive far smaller shares.

There cannot be any genuine development without a reallocation of resources toward manufacturing for export, which will generate employment and create a more resilient economy, one immune to the ups and downs of the global oil markets. It will also create wealth for a broader section of Nigerians, not just a few people.

Taxation is much more than just revenue for keeping the government in business. It should be a tool for development. The purpose of taxation is for government to provide the public services – security, electricity, health care, water, roads, schools and a social safety net – that make development possible and sustainable. When applied judiciously to public infrastructure, these taxes can help create wealth, by having a healthier, better educated, better connected society that is secure and gives people the platform to become the best version of themselves. The social welfare programmes of this administration are worthy of commendation especially in a country with so many poor people, but only a focus on wealth creation will make those programmes sustainable in the long run. Going after corrupt people is good, but it is not enough.

**Conclusion**

The current challenges with crude oil prices offer yet another opportunity for the Nigerian state to change the focus of its economy and make it more resilient, but a lot depends on whether the inevitable opposition to those changes can be surmounted. We have gone through the pain of low oil prices before, but have not learnt any lessons, and there have been opportunities to diversify from positions of strength, but these opportunities have not been taken. It is not yet sure that this time can be different, that we can finally take advantage of a crisis. Before anything changes, our politics must change, because that determines everything else. A shift to a taxation based economy will require a lot of political will and come under a lot of opposition, but once achieved, it can lead to better governance and a stronger democracy, which makes development possible. It can be the gift that keeps on giving.

Thank you very much.