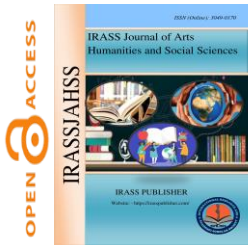
IRASS Journal of Arts, Humanities and Social Sciences
Abbriviate Title- IRASS J Arts Humanit Soc Sci
ISSN *(Online) 3049-0170*
https://irasspublisher.com/journal-details/IJAHSS
Vol-2, Iss-5 (May-2025)



THE CONTRIBUTION OF NON-OIL REVNUE IN PREPARATION OF 2025 BUDGET OF NIGERIA

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Article History

Received: 18 / 04 / 2025

Accepted: 03 / 05 / 2025

Published: 07 / 05 /2025

Abstract: This paper examines the role of non-oil revenue in the preparation of Nigeria's 2025 budget estimates. Nigeria, a country historically reliant on oil exports, faces the challenge of diversifying its economy to reduce dependency on oil revenue, especially as global oil prices fluctuate. The study analyzes the significance of non-oil revenue sources such as taxes, agriculture, telecommunications, and services, while highlighting their impact on Nigeria's fiscal policy, budgetary planning, and sustainable economic growth. Using a review of literature and fiscal data, this paper explores how non-oil revenue contributes to government budgets, suggesting ways to enhance its effectiveness in achieving the country's financial goals.

Keywords: Non- Oil Revenue, 2025 Budget Estimates and Diversification.

How to Cite: SUNDAY, V. V., Pillah, T. P., Ayeh, R. I., (2025). THE CONTRIBUTION OF NON-OIL REVNUE IN PREPARATION OF 2025 BUDGET OF NIGERIA. *IRASS Journal of Arts, Humanities and Social Sciences,2(5)39-43.*

INTRODUCTION

As Nigeria continues to grapple with the challenges of oil price volatility, the country's government has increasingly turned to non-oil sources to sustain its fiscal space and finance national projects. The 2025 federal budget preparation is a significant milestone in Nigeria's long-term efforts to reduce over-dependence on oil revenue and achieve a more diversified, resilient economy. Non-oil revenue is playing an ever-larger role in the country's fiscal framework, with an expectation to contribute about 40-45% of total revenue, up from previous years. This shift in focus comes at a time when Nigeria's oil sector has faced fluctuations in prices and production, along with challenges such as oil theft and mismanagement of resources. The sustained growth of non-oil revenue is, therefore, essential for achieving fiscal sustainability, reducing budget deficits, and creating a more stable financial outlook for the country.

Nigeria, the largest economy in Africa, has traditionally depended heavily on oil revenues to fund its national budget. However, with the global volatility of oil prices, the overreliance on this sector has become increasingly unsustainable. As a result, the Nigerian government has focused on diversifying its sources of revenue, emphasizing non-oil sectors. These include agriculture, taxes (VAT, income tax), telecommunications, manufacturing, and services, among others. This paper focuses on the role that non-oil revenue will play in the preparation of Nigeria's 2025 budget estimates. It examines how the Nigerian government is responding to fiscal challenges by shifting its focus to more stable and sustainable sources of income. The paper explores the potential for growth in non-oil revenue and its implications for national economic planning.

CLARIFICATION OF TERMS

- **Non-Oil Revenue**: Revenue generated from sources other than the extraction and sale of crude oil. This includes taxes (income tax, value-added tax), customs duties, agriculture, mining, telecommunications, and other services.
- **2025 Budget Estimates:** A fiscal plan prepared by the Nigerian government for the year 2025, detailing expected government expenditure and projected revenue sources, including both oil and non-oil revenues.
- **Diversification**: The process of broadening the economic base beyond oil and gas by promoting other sectors like agriculture, technology, manufacturing, and services.

SCOPE

This study is confined to an examination of Nigeria's fiscal and budgetary policies relating to non-oil revenue. It considers data and trends from previous budget estimates, government reports, and available academic literature. The focus is on non-oil revenue streams and their influence on fiscal planning in the context of the 2025 budget, rather than broader economic issues

METHODOLOGY

The study uses a qualitative approach, reviewing academic papers, government reports, and available data on Nigeria's budgetary processes. Comparative analysis is employed to assess the growth of non-oil revenue in recent years, with particular focus on the fiscal years leading up to 2025. Key sources include:

- Government fiscal reports (Ministry of Finance, National Bureau of Statistics)
- Academic research on Nigeria's economic diversification
- Reports from international organizations like the World Bank and IMF
- Literature from platforms like ResearchGate, Google Scholar, and Academia

LITERATURE REVIEW

Several studies have addressed Nigeria's economic reliance on oil revenue and the need for diversification:

- **Oil Revenue Dependency**: According to a study by Olayemi et al. (2020), Nigeria's dependence on oil revenue has hindered sustainable economic growth, making the country vulnerable to global oil price fluctuations.
- **Taxation and Non-Oil Revenue**: Nwachukwu (2019) highlighted the significant role of taxation in non-oil revenue, advocating for reforms in the tax system to expand the revenue base and enhance fiscal stability.

Nigeria's economy has long been heavily dependent on oil revenues, which historically accounted for a significant portion of the federal government's budget. However, due to fluctuating oil prices, oil production challenges, and the need for economic diversification, the Nigerian government has increasingly focused on growing non-oil revenue to achieve fiscal sustainability and reduce vulnerability to oil price volatility. This literature review explores the key aspects of Nigeria's non-oil revenue, with a focus on its contribution to the 2025 budget and the policies intended to strengthen this revenue stream.

Non-Oil Revenue: Significance and Rationale for Diversification

The literature on Nigeria's non-oil revenue highlights the country's urgent need for economic diversification. Nigeria's reliance on oil has led to economic instability, particularly during periods of declining oil prices. Okoro and Nwachukwu (2021) argue that Nigeria's over-dependence on oil has created a fiscal vulnerability, making the country susceptible to external shocks. They emphasize that for Nigeria to achieve long-term economic stability, it must reduce this dependency by investing in sectors such as agriculture, manufacturing, and services, which are more resilient to global price fluctuations. Udo and Nwachukwu (2021) extend this argument by discussing the importance of non-oil revenue for sustainable fiscal policy. They note that Nigeria's tax-to-GDP ratio remains low by global standards, which has hindered the country's ability to finance development goals effectively. Their review suggests that boosting tax collection and diversifying revenue sources are crucial to ensuring fiscal sustainability in the long term.

Tax Reforms and Their Impact on Non-Oil Revenue

Tax reforms have been a central focus in Nigeria's efforts to enhance non-oil revenue. The Finance Act introduced annually since 2019, has significantly restructured the country's tax system. According to Adebayo and Oladipo (2022), the reforms have aimed at increasing tax compliance and broadening the tax base. This includes the introduction of new taxes such as digital taxes on international tech companies, a move that has sparked a considerable debate on its effectiveness.

Obaseki (2023) suggests that the primary goal of these tax reforms is not just to increase government revenue, but also to reduce Nigeria's reliance on oil income. A key feature of these reforms is the drive to formalize the informal sector, which remains a large part of Nigeria's economy but contributes minimally to government revenues. For instance, the introduction of the Voluntary Assets and Income Declaration Scheme (VAIDS) was intended to encourage the wealthy and businesses to declare previously undeclared income (Adebayo & Oladipo, 2022). However, despite the positive intentions of these reforms, Oluwatoyin (2023) highlights the significant challenges in achieving widespread tax compliance. High rates of tax evasion and an underdeveloped tax administration system continue to undermine efforts. The implementation of reforms has often been inconsistent, and enforcement remains a key issue.

Contribution of Agriculture, Manufacturing, and Services Sectors

Agriculture, manufacturing, and the services sector are seen as the primary drivers for diversifying Nigeria's revenue base. Okoro (2022) reviews the role of agriculture in this regard, arguing that the sector offers enormous potential for generating non-oil revenue. With Nigeria being one of the largest producers of agricultural products like cocoa, cashew, and sesame seeds, there is untapped potential in expanding both local consumption and exports. However, Obaseki (2023) points out that the challenges of infrastructure deficits, poor access to finance for farmers, and inadequate policy implementation are hindering agriculture's full potential.

Adebayo and Oladipo (2022) further explore the role of manufacturing in non-oil revenue growth. They note that Nigeria's manufacturing sector, though underdeveloped compared to other emerging markets, holds significant promise in reducing reliance on oil by producing exportable goods and creating jobs. However, the sector faces constraints such as a lack of industrial infrastructure, high energy costs, and regulatory challenges. To address these, the government has been working to attract more foreign direct investment (FDI) and to promote public-private partnerships (PPPs) in infrastructure development.

In the services sector, telecommunications and financial technology (fintech) have seen rapid growth in recent years, contributing significantly to non-oil revenue. Udo and Nwachukwu (2021) argue that Nigeria's burgeoning tech ecosystem, particularly in fintech, has become a key contributor to the country's non-oil revenue. Adebayo (2023) notes that tech companies are increasingly subject to taxation, which provides an additional revenue stream. Nigeria's success in these sectors could serve as a model for other African countries seeking to diversify their revenue base.

Privatization and Public-Private Partnerships (PPP)

Privatization and PPPs are central to the government's strategy for generating revenue outside the oil sector. Fayemi and Okoro (2022) discuss the Nigerian government's ongoing privatization initiatives aimed at offloading stakes in state-owned enterprises (SOEs) such as Power Holding Company of Nigeria (PHCN) and the National Maritime Authority (NMA). They argue that these privatization efforts, while controversial, have the potential to unlock substantial non-oil revenue and improve the efficiency of these sectors.

Moreover, public-private partnerships (PPPs) in critical infrastructure development, including roads, railways, and ports, have become a key strategy for addressing Nigeria's infrastructure deficit without overburdening the government's finances. Obaseki (2023) asserts that PPPs can stimulate economic growth by leveraging private sector investment, thereby freeing up public funds for other priority areas.

Challenges in Achieving Revenue Diversification

Despite the significant strides made in diversifying Nigeria's revenue base, several challenges remain. Adebayo and Oladipo (2022) note that Nigeria's governance issues, including corruption, inconsistent policy implementation, and the lack of infrastructure, continue to undermine efforts to boost non-oil revenue. They highlight the need for greater institutional reform to support the revenue diversification agenda. Oluwatoyin (2023) further highlights the challenges of developing a robust tax system in Nigeria. Tax collection in the informal sector remains an uphill battle, and many Nigerians view tax payment as an unnecessary burden. This cultural challenge, combined with administrative inefficiencies, makes it difficult to increase tax compliance rates.

Additionally, Adebayo (2023) identifies the quality of governance as a central determinant of the success of revenue diversification efforts. He suggests that improving transparency, strengthening institutions, and fighting corruption are crucial for making the non-oil revenue strategy successful. Agriculture and Manufacturing: Research by Adeyemi (2018) discusses how agriculture, a historically significant sector in Nigeria, can contribute to non-oil revenue growth by increasing exports and supporting local industries.

Telecommunications and Digital Services: According to a 2021 World Bank report, the telecommunications sector has become a major contributor to Nigeria's GDP, providing a substantial source of non-oil revenue. These studies suggest that although oil still accounts for a large share of government revenue, significant strides have been made in expanding non-oil revenue streams. However, more work is needed to ensure these sources are sustainable and equitable.

ISSUES OF DISCUSSION

Key Drivers of Non-Oil Revenue Growth

The Nigerian government's increased emphasis on non-oil revenue in the 2025 budget preparation can be attributed to several key factors. These include tax reforms, diversification efforts across various sectors, and improving the efficiency of public financial management. Below, we explore these areas in more detail:

Tax Reforms and Improvements in Revenue Collection

Over the last few years, the Nigerian government has been focused on reforming its tax system to boost non-oil revenue. One of the most significant steps in this regard was the Finance Act, introduced annually, which aims to adjust and update the country's tax policies. The Finance Act addresses issues such as income tax, value-added tax (VAT), excise duties, and tax administration procedures, all of which are designed to enhance tax compliance and broaden the tax base. The tax reforms have included efforts to capture the informal economy, which in Nigeria represents a significant portion of economic activity but is largely untaxed. This is crucial for expanding the tax base and generating additional revenue. Digital platforms, such as the Integrated Tax Administration System (ITAS) and other online tax filing systems, have been introduced to make it easier for citizens and businesses to pay taxes. Furthermore, the government has strengthened enforcement measures to reduce tax evasion and improve compliance. The Federal Inland Revenue Service (FIRS) has also focused on improving the efficiency of revenue collection, increasing the number of taxpayers, and reducing the tax burden on small businesses while ensuring that larger, more profitable entities pay their fair share.

CUSTOMS AND EXCISE REVENUE

Customs and excise duties are another vital component of non-oil revenue. Nigeria's customs authority, Nigeria Customs Service (NCS), has been making strides in enhancing efficiency and improving revenue collection at the borders. Through the modernization of its operations, the Customs Service has increasingly automated its processes, making it easier to track imports, collect duties, and detect smuggling. Nigeria has also been taking steps to streamline the Single Window System, which improves transparency and efficiency in trade and customs operations. In recent years, excise duties on products like alcohol, tobacco, and sugary beverages have been increased as part of the effort to expand the country's non-oil revenue base. These excise taxes not only contribute directly to the federal government's coffers but also act as regulatory tools, promoting public health by discouraging the consumption of unhealthy products.

Diversification of the Economy

For Nigeria to achieve greater non-oil revenue generation, it is essential that the economy diversifies away from oil dependency. Agriculture, manufacturing, telecommunications, and technology are the primary sectors being targeted for growth in the 2025 budget. Agriculture remains a central focus in the quest for economic diversification. Nigeria is one of the largest producers of agricultural commodities in Africa, including crops such as cocoa, sesame seeds, and cashews. The country's agricultural exports have grown in recent years, and the government is keen to encourage investment in agro-processing to add value to raw agricultural products. This would help generate more revenue from the agricultural sector.

Additionally, efforts to encourage greater mechanization and improve agricultural productivity through initiatives like the Central Bank of Nigeria's (CBN) anchor borrowers program are expected to boost output, increase exports, and create jobs.

Manufacturing is another area where Nigeria sees great potential for expanding its non-oil revenue base. By promoting local industries such as cement, textiles, and food processing, the country can reduce reliance on imports, generate employment, and increase tax revenues. The government is also looking to attract more foreign direct investment (FDI) into the manufacturing sector, which will increase the export potential of Nigerian-made goods. The services sector, especially industries like telecommunications, financial technology (fintech), and digital services, has already proven to be a substantial contributor to non-oil revenue. The rise of Nigerian tech companies, particularly in fintech, has placed the country at the forefront of innovation in sub-Saharan Africa. Tax revenue from technology companies, as well as the growing demand for digital services, is projected to increase significantly in the coming years.

Privatization, Asset Sales, and Public-Private Partnerships

Privatization of state-owned enterprises and the sale of government assets is another avenue for enhancing non-oil revenue. The government has expressed its intent to privatize several state-owned enterprises, particularly in the energy, transportation, and infrastructure sectors. Through the sale or leasing of these assets, the government can generate revenue that will be used to fund national projects.

Public-private partnerships (PPPs) have also been emphasized in the 2025 budget as a way to increase non-oil revenue. By leveraging private sector investments in critical infrastructure projects, such as roads, railways, and energy, the government can reduce the fiscal burden on public finances while stimulating economic growth and job creation.

Impact of Finance Acts and Regulatory Framework

The Finance Acts introduced annually in Nigeria have played a crucial role in aligning the country's tax policies with current economic realities. These Acts include provisions for changes in tax rates, the introduction of new taxes (such as digital taxes), and measures aimed at reducing revenue leakages. The 2025 Finance Act is expected to continue this trend, introducing even more measures to improve the efficiency of the tax system. For example, there is likely to be a continued push to increase taxes on luxury items and international transactions. The government has already been considering measures like a digital sales tax, which would target foreign tech companies operating in Nigeria. In addition, there are expected reforms to tax exemptions for certain sectors, with an eye on creating a more equitable and sustainable tax environment.

Expected Contribution to the 2025 Budget

In the preparation of the 2025 budget, the Nigerian government aims for a revenue mix that reduces the overwhelming reliance on oil revenue. As oil prices remain unpredictable, the country's reliance on non-oil revenue is set to increase significantly. It is projected that by 2025, non-oil revenue will contribute approximately 40-45% of total federal revenue, up from less than 30% in previous years.

This projection highlights the success of the government's diversification efforts, but it also underscores the need for further structural reforms and enhanced policy execution. For the government to meet these targets, the measures outlined above, particularly in tax administration, agriculture, and services, must be successfully implemented.

Challenges and the Way Forward

Despite the positive strides made in diversifying Nigeria's revenue sources, significant challenges remain. These include corruption, inadequate infrastructure, and inconsistent implementation of policies. Tax evasion, particularly among high-net-worth individuals and large corporations, continues to be a major obstacle to achieving the desired revenue targets. Moreover, while agriculture, manufacturing, and services are expected to contribute more to the economy, Nigeria's infrastructure deficit limits the potential growth of these sectors. The government must focus on creating an enabling environment that addresses these infrastructure gaps to fully unlock the potential of the non-oil economy.

SCIENTIFIC RESEARCH ANALYSIS

The ability of Nigeria to rely more on non-oil revenue for its budget largely depends on the success of its economic reforms. A study by Ilemobade (2022) suggests that Nigeria's tax-to-GDP ratio, one of the lowest in Africa, must increase substantially to make non-oil revenue a viable alternative to oil.

Additionally, research by Okunade et al. (2021) demonstrates that increasing investment in technology and innovation can enhance sectors like agriculture, telecom, and services. Investment in human capital and technical skills development is also crucial to supporting the growth of these non-oil sectors. Nigeria's fiscal strategy will need to prioritize enhancing tax administration, improving business environments, and supporting infrastructure development to facilitate the growth of these sectors.

RECOMMENDATIONS

- Tax System Reform: Strengthen the tax system by improving compliance and expanding the tax base, particularly by formalizing the informal economy.
- Sector-Specific Incentives: Provide targeted incentives to sectors like agriculture, manufacturing, and technology to stimulate growth and increase their contribution to non-oil revenue.
- Infrastructure Investment: Invest in critical infrastructure (energy, transportation, ICT) to support the growth of non-oil sectors.
- Public-Private Partnerships: Encourage public-private partnerships (PPPs) to reduce the financial burden on government budgets while enabling sectoral growth.
- Capacity Building: Invest in capacity-building programs to improve the skills of the workforce, especially in non-oil sectors like agriculture and manufacturing.

CONCLUSION

The transition towards a more diversified revenue base is crucial for Nigeria's fiscal sustainability. The role of non-oil revenue in Nigeria's 2025 budget preparation is becoming increasingly important as the country seeks to reduce its dependence on volatile oil markets. Although significant challenges remain, including inefficient tax systems and infrastructure deficits, there is ample opportunity for growth in sectors like agriculture, manufacturing, and services. By implementing targeted reforms and investing in the right sectors, Nigeria can build a more resilient and diversified economy, which will be critical for the long-term sustainability of its budget and national development.

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