THE POLITICS OF OIL RESOURCES ALLOCATIONS IN NIGERIA (1999-2017)

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ABSTRACT
Nigeria has been a major world oil exporter since 1965. Its oil revenues per capita have increased tenfold over 30 years, but its income per capita has stagnated since independence in 1960, making Nigeria one of the 15 poorest countries in the world. The aim of this study is to a) examine the dimensions of politics of oil resources in Nigeria; b) to assess the implications of the politics of oil resources allocations on Nigeria’s development. This study is situated within the mixed method of research, drawing from both qualitative and quantitative design supplemented by historical and descriptive analysis. The data for this study were drawn largely from secondary sources including books, journals, and other internet sources. The data were analyzed using qualitative content analysis together with quantitative tools such as graphs analysis. On the whole, we discovered that the struggle for resources control has been largely attributed to the regional division of the country which has led to political manipulations and delineations of certain section of the country with the aim of influencing wealth allocation. The implication of this is that it has resulted to underdevelopment.

Keywords: Politics, Revenue Allocation, Oil, Nigeria

INTRODUCTION
All over the world today, it has become a common trend that federal states design what is known in most academic literature as “revenue or resource allocation/distribution” formula that will help them in the distribution of its resources between the central government and other federating units within the federation. Moreover, in most contemporary federal states in Africa, resource allocation have been identify as a challenge confronting federal states that have generated considerable controversies on the appropriate formula that should be used to distribute its resources within the state.

It is undisputed that Nigeria is the most populous country on the African continent that is richly endowed with immense human and material resources that provide the enabling environment for its national development. With these potentials, Nigeria has every capacity for rapid industrialization and development which experts had been recognized before the country’s independence on October 1, 1960.

Besides, Nigeria became one of the major oil exporters as at 1965. It has proven gas reserves are estimated at over 170 trillion standard cubic feet (scf), which is substantially larger in value than oil. Besides,
it has numerous other renewable and non-renewable energy sources (Adedipe, 2004). Its oil revenues per capita have increased tenfold in 35 years, but its income per capita has stagnated since independence in 1960, making Nigeria one of the 15 poorest countries in the world. During this period, the country’s poverty headcount ratios have almost tripled, while the rich have grabbed a much larger part of income (African Development Bank, 2007).

Before 1970s, agriculture was at that time the mainstay of the Nigerian economy. Oil resource accounted for only 0.3% of the GDP and was quite insignificant in foreign earnings. This scenario was to change massively in the 1970s (Adedipe, 2004). Despite Nigeria have enjoyed huge oil exports it has not benefited the average Nigerian. In spite of these huge revenues, the Nigerian economy has not grown nor the standard of living of its citizen improved significantly as the revenues generated have not been judiciously utilized due to corruption on the part of its leaders.

Nevertheless, resource allocation have been problematic in Nigeria because of the failure the government over the years to fashion out a workable and a generally acceptable resource allocation formula that will enhance the equitable distribution amongst the three tiers of government. Past government efforts at achieving an acceptable and equitable resource allocation formula lead to the setting up of resource allocation commission such as The Phillipson commission (1946), The Chicks-Phillipson commission (1951), The Chicks commission (1953), The Raisman commission (1958), The Binns commission (1964), The Dina interim Revenue allocation committee (1977), The Okigbo Presidential commission (1979) and T.Y Danjuma Fiscal commission (1988) (Igbuzor & Amadi, 2009:6).

However, the recommendations of the above listed commissions failed to address the increasing agitations by various states and communities in Nigeria to address their marginalization in the resources allocation formula. Thus, this have lead to states demand for resource control and other agitations that have daring negative consequences on socio-political stability and economic development of the country.

On the whole, studies have shown that there is a variation between the federal government capacities from the other tiers of government in relation to their expenditure. Besides, there are controversies on the acceptable resource allocation formula that will enhance the equitable distribution amongst the three tiers of government. It is against this background that this study seeks to examine the dimensions of politics of oil resources in Nigeria and to assess the implications of the politics of oil resources allocations on Nigeria’s development.

LITERATURE REVIEW
POLITICS OF OIL RESOURCE ALLOCATION AND SHARING IN NIGERIA

In the literature on fiscal federal in Nigeria considerable numbers of studies have been conducted such as Uche and Uche (2004) in their study of “Oil and the politics of revenue allocation in Nigeria” examine the way revenue is shared amongst the component tiers of government in the country. This study shows how the discovery of oil and the enormous revenues derived from it led to the de-emphasis of derivation as the basis for revenue allocation. However, their study does not examine the implications of politics of oil resource control on Nigeria’s development.

Igbuzor and Amadi, (2009) in their study of “Reform of revenue allocation and fiscal federalism in Nigeria” argued for the imperatives to reform the existing revenue allocation formula. Similarly, Igbuzor and Amadi, (2009:6) argued that the position of the various commission set up to review past revenue allocation formula “have tended to shift to suit particular constituencies, and that their analyses were not informed by logic but by preconceived self or sectional interests that were rationalized and justified by theories”. However, their study does not examine the implications of politics of oil resource control on Nigeria’s development.

Jega, (2007) in his study of “Resource control: Issues, contradictions, paradoxes and implications for in Nigeria’s development” examine the historical context of revenue agitation in Nigeria. However, their study does not examine the politics of resource control in Nigeria and explore the implications of the government failure to develop a workable resource allocation formula on socio-political and economic development in Nigeria. However, Jega’s study does not examine the implications of politics of oil resource control on Nigeria’s development.
From the above literature review, we discovered that there is a gap in the literature as no study have been conducted on the implications of politics of oil resource control on Nigeria’s development. It is against this background this study seeks to fill this gap and make contributions to this research endeavour.

THE POLITICS OF OIL RESOURCES ALLOCATIONS IN NIGERIA

One of the most protracted and controversial debates in literature on the Nigerian economy are on how government revenue especially oil revenue is shared amongst the levels of Government in the country. Section 163 (2) of the 1999 Constitution (as amended 2011) states in clear terms that:

“The President, upon the receipt of advice from the National Revenue Mobilization Allocation and Fiscal Commission, shall table before the National Assembly proposals for Revenue Allocation from the Federation Account. In determining the formulae, the National Assembly shall take into account, allocation principles especially those of Population, Equality of States, Internal Revenue Generation, Land Mass, Terrain as well as Population Density provided that the principle of derivation shall be constantly reflected in any approved formula as being not less than 13 percent of the revenue accruing to the Federation Account directly from any natural resources, so however, that the figure of the allocation from derivation shall be deemed to include any amount that must be set aside for funding any special authority or agency for the development of the State or States of derivation.”

By implication Section 163 (2) of the 1999 Constitution (as amended 2011) gives the President the power to present before the National Assembly proposals for revenue allocation from the federation account. It also empowers the National Assembly (The Senate and House of Representatives) to power to determine the formulae of revenue allocation. The 1999 Constitution (as amended 2011) defines the mechanism for collecting and sharing resources among the three tiers of government (federal government, state government and local government). Revenues from all natural resources (including oil) are to be deposited into a “Federation Account” and distributed on the basis of a formula, which allocates 13% to oil producing states, upfront as derivation grants. The remaining 87% is distributed to the Federal Government (FG), 52.7%, States, 26.7%, and Local Governments (LG), 20.6%.

Figure 1 Revenue distribution and sharing formula in Nigeria

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<th>Revenue Distribution and Sharing in Nigeria</th>
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<tr>
<td>Federal Government</td>
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Figure 1 show that the Federal Government of Nigeria (FG), 52.7%, States, 26.7%, and Local Governments (LG), 20.6%. Revenues are distributed on the basis of 13% to oil producing states while the outstanding 87% is distributed on the basis of the above percentage.

As at March, 2004, the Federal Government receives 47%, the 36 State Governments and the Federal Capital Territory (FCT) receive 24.2% and Local Governments receive 18.4% from the Federation Account, plus respective receipts of 15%, 50% and 35% from the Value Added Tax account. This is a major shift from the position in the 1960s and 1970ies, when the Federal Government received between 60% and 70% of the total Federally Collectible Revenue (FCR) (Adedipe, 2004).

Since 2004, the Federal Government of Nigeria reached a political agreement with State Governments and Local Governments on an “Oil Price-Based Fiscal Rule”, which made it possible to exercise macroeconomic prudence, through judicious management of oil revenues. Each year, a budget oil price and volume of production benchmarks are agreed upon. Oil revenues in excess of the budget benchmarks are deposited into an “Excess Crude Account” (ECA) at the Central Bank of Nigeria (CBN) in the names of the three tiers of government (DFID, 2016:16).

Today, Nigeria’s oil producing states in the South accrue 13% of federally collected revenues this is based on what is known as the “derivation principle”, for states that generate revenue from their territorial resources. After this, the federal government keeps 52.68% of all revenues from oil exports, duties and corporation taxes. Nigeria’s 36 states then share 26.72% and its 774 local government areas are allocated 20.60% (Lukpata, 2013; DFID, 2016:16).

Uche and Uche (2004) assert that:

“Revenue allocation or the statutory distribution of revenue from the Federation Account among the different levels of government has been one of the most contentious and controversial issues in the nation’s political life. So contentious has the matter been that none of the formulae evolved at various times by a commission or by decree under different regimes since 1964 has gained general acceptability among the component units of the country. Indeed, the issue, like a recurring decimal, has painfully remained the first problem that nearly every incoming regime has had to grapple with since independence. In the process, as many as thirteen different attempts have been made at devising an acceptable revenue allocation formula, each of which is more remembered for the controversies it generated than issues settled” (Uche & Uche 2004:6).

By implication, since Nigeria’s independence in 1960 Revenue allocation has been one of the most contentious and controversial issues as several efforts at fashioning a workable and equitable formula for revenue sharing by the Federal government have not been accepted by other tiers of government. Between 1960 till date as many as thirteen different attempts have been made by past administrations in Nigeria at devising an acceptable revenue allocation formula, although, each of this attempt is marked by controversies that often generated from it than the issues been revolved (Obinna, 1985:109).

Hicks-Phillipson Report, (1951:68) assert that:

“Throughout the whole of this period [1901-1914] Northern Nigeria was dependent on outside assistance in order to balance its budgets. Each year it received a large grant from the Imperial Government; without these grants it would not have been able to pay its way. It also received contributions from Southern Nigeria, but these were contributions in lieu of customs revenue, not grants or gifts of any kind. This apportionment of customs revenue was the only link between the Budgets of the South and of the North”.

This position was further buttressed by Letton and Phillips, (1980:7) who remarked that:

“The principle of derivation has dominated revenue sharing in this country since [the 1940s].... when we began moving from a unitary to a federal system of Government. Thus the Phillipson Commission of 1946 applied, effectively, only the principle of derivation. Hicks -Phillipson (1951) proposed derivation as one of three principles while Chick (1953), adopted
derivation only; but, for the first time, extended it to cover 100 percent of mining rents and royalties to the Region of origin. Mining rents and royalties since have remained with us in varying degrees, as a derivation principle of revenue allocation... This principle, be it in the glorious days of cocoa in the West and groundnut pyramids in the North or the oil boom seventies in the Rivers and Bendel States, has always aroused envy not because it is illogical or unjust to give more to him that contributes more: but simply and solely because it gives more money to these states. The situation has been aggravated by the sudden dominance of the economy by the oil sector, resulting in much larger sums of money accruing from rents and royalties, being shared essentially between two minority states. After reducing the factors from 100 percent to a mere 20 percent (Decree Number 6. of 1975) and the residue was still sizable, we had to look for reasons why it should not exist at all”

It was against this background that based on the diversities of the various sections of the protectorate that the colonial government, after World War II, decided to move the country from a unitary system towards a federal system. The struggle for resources control has been largely attributed to the regional division of the country which more often than not sometimes led to political manipulations and delineations of certain section of the country with the aim of influencing wealth allocation. Late Chief Obafemi Awolowo, the former Premier of the old Western Region ones argued that “It is dishonest to the extreme for a relatively poorer state to expect to have a share from the revenue derived from a relatively richer state” (cited in Obinna, 1985:113).

This position was buttressed by Obi, (1998) who assert that:

“The nature of oil wealth spawned a political culture in which emphasis was on how to share the providential wealth, rather than how to engage in the production of renewable and viable alternatives. As such, other sources of revenue were neglected in the rush for oil resources at the center, thus giving the federal government a lot of leverage, which unfortunately was channeled into unproductive pursuits. Although oil fed into the rapid expansion of the economy and the import dependent private sector, the economy did not undergo any real structural development. A lot of energy was dissipated on the destabilizing struggle for federal power, while the economy remained dependent on a single commodity whose fortunes were externally determined. Under oil, fiscal federalism in Nigeria and the revenue allocation system has gone through several convulsions which culminated in the tightening of the grip of federal power over the entire process, with the concomitant increase in the struggle for access to, and control over federal power” (Obi, 1998:265).

Though, since the country return to democratic rule the quest for acceptable and equitable revenue distribution have been heightened such that there was a dispute between the Federal Government of Nigeria and the eight littoral States of Akwa Ibom, Bayelsa, Cross-River, Delta, Lagos, Ogun, Ondo and Rivers States from the Southern part of the country over oil revenue allocation. On the part of the Federal Government of Nigeria it argues that disputed states which comprises of Akwa Ibom, Bayelsa, Cross-River, Delta, Lagos, Ogun, Ondo and Rivers States.

On the part of the Federal Government of Nigeria, it maintains that natural resources located within the Continental Shelf of the Federal Republic of Nigeria are not derivable from any State in the Federation. The eight littoral States do not agree with the Federal Governments’ contentions. Each of the disputed states claims that its territory extend beyond the low-water mark onto the territorial water and even unto the continental shelf and the exclusive economic zone. They further contends that the natural resources derived from both onshore and offshore are derivable from their respective territory and in respect thereof each is entitled to the “not less than 13 percent” allocation as provided in the provision to subsection (2) of section 162 of the Constitution” (Judgment by the Supreme Court, 5 April 2002).
Lastly, the inability of almost all the regimes that have existed in Nigeria to resolve the contentious issues that evolve from the politics of oil revenue distribution in the country have been a challenge facing each regime.

IMPLICATIONS OF POLITICS OF OIL RESOURCES ON NIGERIA’S DEVELOPMENT

Oil wealth has fundamentally altered politics and governance in Nigeria. Despite the rapid accumulation of physical capital, Nigeria has suffered a declining Total Factor Productivity (TFP), and capacity utilization of manufacturing hovers around a third. Thus, Nigeria rich oil resources have been described in some quota as a curse to the nation rather than a blessing. As successive administrations in Nigeria have plundered oil wealth and many suspect transfers of funds of undisclosed amounts have occurred in foreign banks. Other oil exporting countries in the world such as Iran, Venezuela, Libya, Iraq, Kuwait, and Qatar have also experienced negative economic growth (African Development Bank, 2007).

In contrast, Botswana has managed to beat the resource curse. Forty percent of Botswana’s Gross Domestic Product (GDP) stems from diamonds. It has the second highest public expenditure on education in Sub-Saharan Africa and has enjoyed one of the world’s highest growth rates since its independence in 1965. Also, Botswana GDP per capita is ten times that of Nigeria. The Botswana experience is worthy of emulation by Nigeria (African Development Bank, 2007).

The United Arab Emirates also seems to have turned the resource curse into a blessing. The UAE accounts for close to 10 percent of the world’s crude oil and 4 percent of the world’s natural gas reserves. The UAE’s government debt is very small, inflation is low, and hydrocarbon wealth has been used to modernize infrastructure, create jobs, and establish a generous welfare system. Major strides in life expectancy and literacy have been made through universal and free access to education and health care (African Development Bank, 2007).

However, the politics of Oil resources allocations in Nigeria has had adverse negative effects on the Nigerian quest for national development. One of the implications of the politization of oil revenue in Nigeria is that it has lead to underdevelopment of some sections of the country. Uche & Uche, (2007) argues that the politization of oil revenue in Nigeria has led to the proliferation of unviable local and state governments, neglect of other productive sectors of the economy and widespread corruption.

In a related development, the way the Federal Government of Nigeria allocates some projects in some states in the country has also proved to be very unjust, and favoring mainly the regions that dominate the center. Uche & Uche (2004) have argued that Rivers State a major oil producing State in the country but it has attracted little federal presence. Again, Uche & Uche (2004) posit that the joint proposal submitted by the 11 states of the South-South and South-East, to the former Chairman, Revenue Mobilization, Allocation and Fiscal Commission in the Presidency in which the states remarked that:

“The Federal Government has so far spent about N42.1 billion to build dams in six arid states in the North while neglecting the massive gully erosion menace and severe environmental degradation of the States of the South-East and South-South…. [Furthermore] the PTF [Petroleum Trust Fund] intervened massively in the rehabilitation of social infrastructures in many non-oil producing States but there was little or no presence of the PTF in the States of the South-East and South-South” (Uche & Uche (2004: 35-36).

This is a clear indication of how the wealth of Nigeria arguably has not been “justly” allocated to meet the needs and aspirations of Nigerians.

Furthermore, the lack of transparency and existence of obsolete laws in the Nigerian oil sector have created platform for monumental corruption. The petroleum industry Act of 1969 gives the power to the minister of petroleum to allocate oil blocks in Nigeria who is under, and answerable to the president. This explains why since independence, bidding process and allocation of oil blocks had been abused by the executive arm of government. For instance between 1999 and 2007, President Olusegun Obasanjo allegedly sold ten oil blocks without proper bidding process to his political allies and business associates. This was necessitated by the lack of transparency and accountability that has existed in the Nigerian oil sector. In a related situation, it was alleged that in 2004, a South African based new print reported that a former president
of Nigeria awarded a $ 1 billion oil block in the Niger Delta region to his wife’s hair dresser (Business Times, October 31, 2004).

Ojakorotu, (2008) have argued that the costing of importing petroleum products has been fraudulent in Nigeria, as the cost template contain some dubious items. He further asserts that some multinational corporations that were involved in oil importation were suspect to be in collusion with some NNPC officials to divert part of the fund for petroleum product subsidy. This assertion was buttressed by the June 10th 2004 editorial of The Punch newspaper which posits that the way:

“...A committee that probed the high cost of demurrage on imported fuel cargoes and NGN16 billion unpaid debt of major marketers, found that some NNPC officials deliberately delayed the discharge of the cargoes and falsified the bill of laden. The officials colluded with multinational firms that import fuel to create artificial delays and accumulated false port demurrage, which was creamed into private pockets.”

However, it can be argued that this situation have remained unabated in the Nigerian oil sector. Thus it attendant negative implication is that it increases the cost of the projects which placed heavy financial burden on the final Nigerian consumers.

Thus, a critical assessment of current revenue allocation and sharing formula in Nigeria shows that the proportion of revenue that goes to the federal government, the 36 states and 774 local governments will continue to be in favour of the federal government as several attempt at restructuring the existing imbalance in the resource distribution in the country have been problematic. Although Nigeria is supposed to be operating federalism in practice or in an ideal sense but from all indication base on the way it resources are distributed amongst the three tiers of government it seems to be moving towards a unitary system of government.

On the whole, a close look at the above mention implications of the politics of oil resource in Nigeria, we can say that it has a negative effects on the country’s development such that has led to: corruption, mismanagement, decay infrastructure, collapsed refineries, crippling education, mass unemployment and mass poverty as well as the underdevelopment of the country.

CONCLUSION
Nigeria has been a major oil exporter since 1965. Its oil revenues per capita have increased tenfold in 35 years, but its income per capita has stagnated since independence in 1960, making Nigeria one of the 15 poorest countries in the world. In order to equitably allocated the resources of the country various resource allocation commission such as The Phillipson commission (1946), The Chicks-Phillipson commission (1951), The Chicks commission (1953), The Raismann commission (1958), The Bins commission (1964), The Dina interim Revenue allocation committee (1977), The Otoki Presidential commission (1979) and T.Y Danjuma Fiscal commission (1988) have been set up. However, the recommendations of these commissions have failed to address the increasing agitations by various states in Nigerian federation to address their marginalization in the resources allocation formula. Thus, this have lead to states demand for resource control and other agitations that have dashing negative consequences on socio-political stability and economic development of the country. By and large, the politics of oil resources allocation has lead to monumental corruption and underdevelopment of the country.

RECOMMENDATIONS
From the forgoing we make the following recommendations:

Firstly, there should be a restructure in the present revenue allocation formulae in Nigeria so that the current system based mainly on derivation. This will among other things address the problem of marginalization of one section of the country. This will among other things reduced the ill-feelings of injustice especially from oil producing states on one hand and on the other it will also encourage the non oil producing states in the country to develop other human and natural resources which they have long abandoned in their quest for the allocations they would receive from the oil revenue.

Secondly, the Federal, state and local government in Nigeria in anticipation of the depletion of its oil resource should be thinking of diversification of the economy from been oil driven to Agriculture,
Tourism and other non-oil sectors. For instance, Nigeria can borrow a leaf from Dubai that has diversified its economy into light manufacturing, telecommunications, finance, and tourism, and the other on small-scale manufacturing, agriculture, quarrying, cement, and shipping services.

Thirdly, there is need for leaders at the Federal, state and local government in Nigeria to promote good governance at their respective sphere of influence. This will among other things encourage the effective and efficient use of the resources at their disposal.

Moreover, the National and State Houses of Assembly should pass a law that will abolish the joint account presently in operation that subject the local government to the manipulations and dictatorial control by the state government. This will in turn give the local government financial autonomy from the state government, thereby making the entire local government system in the country more effective in the discharge of their responsibilities.

Lastly, the Economic and Financial Crimes Commission (EFCC) should not rest on its owls in the fight against corruption the Nigerian oil sector. Thus, the EFCC should ensure it investigates every corruption related cases that has affected the Nigerian oil sector and those found guilty should be allowed to face the full wrath of the law.

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