

## **Fiscal federalism and Development of the Neglected oil Producing Niger Delta Region of Nigeria**

G.O. Demaki (Fcis)

*Department of Business administration Delta State University Abraka*

*1<sup>st</sup> Regional Conference on The Impact of Crude Oil Exploration In The Niger Delta*

*Theme: Environmental and Techno-Socio-Economic Impact of Crude Oil Exploration In The Niger Delta*

---

**ABSTRACT:** *Despite the increased revenue from oil accruing to the Federal Government of Nigeria, the Niger Delta area has witnessed a transformation in the negative direction as the region is still poor, backward and neglected. The problem has grown worse. The constant heat and absence of darkness has damaged humans, animals and plant life. The prolonged oil exploration in the Niger Delta has led to increases of respiratory illness, asthma and often causes bronchitis, decreased lung function, blindness, impotence, miscarriage and premature death. To develop the Niger Delta, a long term clean up of the region should begin immediately. The Federal Government should establish a Direct Oil Producing Area Development Agency for the Niger Delta through which the existing 13% derivation fund can be accessed directly by the oil producing communities. The agency should supervise the massive infrastructural development of the Niger Delta to avoid another round of upswing of militancy in the oil producing Niger Delta that knocked down the nation's oil production to the detriment of economic development.*

---

### **I. INTRODUCTION**

The World Bank Report warning that 40% of habitable terrain in the Niger Delta is on the brink of extinction in 20 years is a confirmation of government and oil exploring corporations abdication of a business of social responsibility requiring serious attention. The World Bank claim that palmgroves, shorelines, creeks and other habitable areas will be washed away by erosion as well as spills due to vandalism, system failure and crude oil theft.

Adesina (2012) disclosed particularly that gas flaring constitutes a veritable hazard. It causes acid rains which acidifies the lakes and streams and damages crops and vegetation. It reduces farm yields and harms human health, lives and livelihood, increases the risk of respiratory, illness, asthma and cancer and often causes bronchitis, decreased lung function, blindness, impotence, miscarriages and premature death.

According to Ugochukwu (2001), the Willink Commission (1958) set up by the colonial administration identified the Niger Delta as a peculiar area that is poor, backward and neglected which needed special attention by deliberate government policy to infuse more development. The Willink Report led to the creation of the Niger Delta Development Board in 1961.

Other commissions that were subsequently created for the development of the Niger Delta area included the Oil Mineral Producing Areas Development Commission (OMPADEC), 1992, the Niger Delta Development Commission (NDDC), 2000 and the Ministry of Niger Delta Affair 2008.

#### **Definition of Terms and Theoretical Framework**

To proceed further and for the purpose of conceptual and operational clarity, it will be necessary to define the concepts used in this paper and disclose the theoretical foundation on which this article is rooted.

### **II. FISCAL FEDERALISM**

Fiscal Federalism means the revenue right of the Niger Delta Communities within the Nigeria's federal structure. But such communities in Nigeria has no fiscal jurisdiction like the power to levy tax and collect or generate revenue and pay tax to the Federal Government of Nigeria.

Section 16 (2) of the 1999 constitution of the Federal Republic of Nigeria (FRN) provides that: The president upon the receipt of advice from the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) shall table before the National Assembly proposals for revenue allocation from the Federation Account and in determining the formula, the National Assembly shall take into account, the allocation principles especially the population, equality of states, internal revenue generation, land mass terrains as well as population density provided that the principle of derivation shall be constantly reflected in any approved formula as being not less than thirteen percent of the revenue accruing to the Federation Account directly from any natural resources.

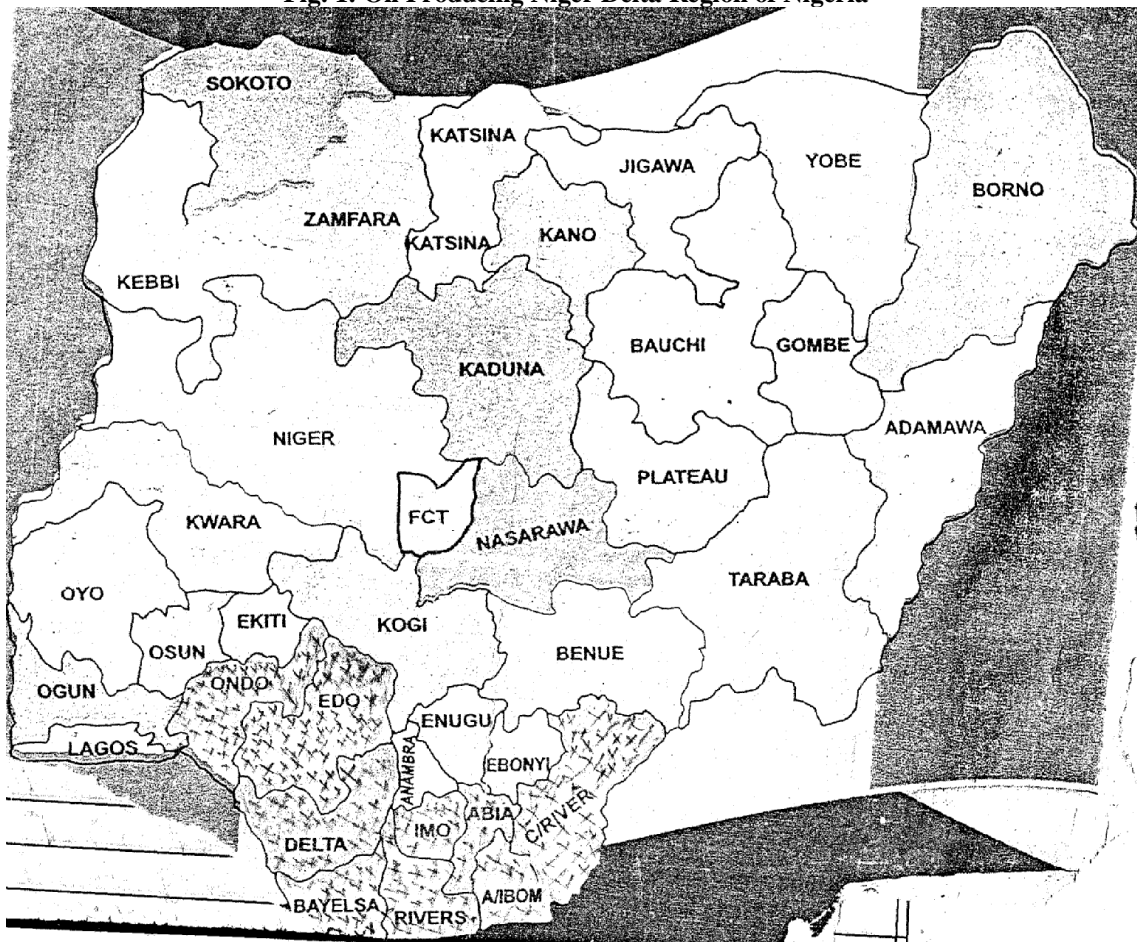
Section 162 (2) of the 1999 constitution provides for revenue allocation which must be followed in the distribution of revenue from the Federation Account in accordance with the underlisted principles:

- Population density
- Equality of states
- Internal revenue generation
- Land mass (terrain)

It also states that an allocation of not less than 13% of the revenue accruing to the Federation Account should be paid by way of derivation percentage to the states of the Federation where the natural resources is derived. This section of the constitution is very important for the development of the Niger Delta. Literally, appropriate percentages ought to be allocated to the oil bearing areas or communities and not to the states of the Nigerian Federation where the natural resources are derived.

It must be recognized that many of these states, especially those in the Niger Delta region, under the disguise of the above provision have been collecting the sum due to the oil producing communities and re-distribute same by other political consideration than for the development of the oil bearing areas for which it is actually meant for.

Fig. 1: Oil Producing Niger Delta Region of Nigeria



**Key:** xxxx – States of the Nigerian Federation in which oil producing communities are located.

**Source:** Okirika, W. (2012). “What oil communities, Abacha and Northern Leaders agreed on derivation”. In Amaize E. Oyadonga and Omafuaire S. (Ed.) [www.vanguardgr.com](http://www.vanguardgr.com)

The oil producing Niger Delta region as illustrated in Figure 1 above comprises of the following states in Nigeria; namely; Abia, Akwa Ibom, Bayelsa, Cross River, Delta, Edo, Imo, Ondo and Rivers. It is not the entire land mass in the aforementioned states that are oil bearing. There are geographically defined oil producing communities or areas in the above states. They are areas or communities where oil and other mineral resources are located.

**Fig. 2: A neglected oil producing community.. has it benefited from the derivation fund?**



**Source:** Okirika, W. (2012). “What oil communities, Abacha and Northern Leaders agreed on derivation”. In Amaize E. Oyadongha and Omafuaire S. (Ed.) [www.vanguardgr.com](http://www.vanguardgr.com)

Figure 2 above depicts a typical oil community in the Niger Delta and inhabitants crying for development.

Ugochukwu (2001) describes the oil producing Niger Delta region of Nigeria as:

The world third largest wetland covering a vast coastal plain estimated at 70,000 square kilometer in the Central Region of Southern Nigeria. It is the third largest mangrove forest with the most expansive fresh water swamp forest characterized by high concentration of biological diversity and endemism and endowed with vast renewable natural resources particularly hydrocarbon deposits with oil and gas. It is a region of critical economic and ecological significance.

Omene and Ugochukwu (2001) stated further that Niger Delta region:

Accounts for 90% of the national export earnings. 70% of the revenue accruing to the Federation Account comes mainly from oil production and exportation. But the region has witnessed transformation in the negative direction as a result of natural and human induced changes. It is the least developed region of the federation.

### **Theoretical Framework – Corporate Social Responsibility Theory (CSR)**

Corporate social responsibility (CSR) is the theoretical foundation on which this paper is rooted. The theory posits that all those who have made good fortune and are obliged to show gratitude by investing in some activities or services that confers benefits on the needy or else addresses some felt needs are socially responsible. When these activities or services are undertaken by corporate organization, they are often described as Corporate Social Responsibility (Adesina 2011).

There are several reasons why corporations should be socially responsible. According to Steiner and Steiner (1997), if the stakeholder concept of business is held, then “the public” is the stakeholder in business or governance actions.

A business or governance can only succeed because it is or they are part of a wider society. Giving back to society is in a way of encouraging relationship. Charitable donations and social cultural sponsorship, e.g. football, cricket and swimming competition etc, are useful medium of public relations. It can be regarded then as another form of promotion which like advertising serves to enhance consumer awareness of business, while not encouraging the sale of a particular brand.

The oil firms prospecting for oil in the Niger Delta can make strategic gains from successful management of stakeholders relationship that will promote peace and stability in the restive Niger Delta.

Furthermore, business strategic decisions have wider social consequences. Corporations produce two output, namely;

- 1) Its goods and services and
- 2) social consequences of its activities, e.g. despoliation of the oil producing communities.

Therefore, the exercise of social responsibility is a way of compensating for business actions. Business like the oil corporations do receive a lot of government support. The public pay tax to government for the construction of road, infrastructure, education and health of which business benefit from.

Although business or corporations pay tax, the public again ultimately pay through high prices like the increase of petrol pump price from N65 to N97 in Nigeria.

### Anecdotal Studies of Fiscal Federalism and the Development of the Niger Delta

Okirika (2012) disclosed that the Revenue Mobilization and Fiscal Allocation Commission (RMFAC) recommended 13% derivation fund from the Federation Account should be paid directly to the oil producing communities through oil commissions established for that purpose. Only a few of such commissions have been established in some states of the Niger Delta where oil producing communities are located, namely; Delta, Edo and Ondo states respectively, through which 50% of the 13% derivation fund are supposed to get to the oil producing communities. But Bayelsa, Rivers, Imo, Abia, Akwa Ibom and Cross Rivers are yet to comply with the RMFAC recommendation for developing the Niger Delta oil producing communities.

Ndujihe (2012) in his study reported how Nigeria earned N50.696 trillion from crude oil in 53 years but the oil producing states of the Niger Delta (not the oil producing communities) got only N6.577 trillion derivation fund for the same period as disclosed in Figure 3 below but never got to the oil producing areas.

**Figure 3: Crude Oil Productions and Revenue in Nigeria (1958-2011)**

Year	Prod (M b)	R (N)	Dertn (N)
1958.	2	0.2M	50% (0.1M)
1959.	4	3.4M	50% (1.7M)
1960.	6	2.4M	50% (8.5M)
1961.	17	17M	50% (8.5M)
1962.	25	17M	50% (8.5M)
1963.	28	10M	50% (5.0M)
1964.	44	16M	50% (8.0M)
1965.	99	29M	50% (14.5M)
1966.	152	45M	50% (22.5M)
1967.	117	30M	50% (15.0M)
1968.	52	-	-
1969.	196	75.4M	-
1970.	396	167M	-
1971.	559	510M	-
1972.	655	764M	-
1973.	719	1.016B	-
1974.	823	3.724B	-
1975.	660	4.272B	-
1976.	758	5.365B	-
1977.	766	6.081B	-
1978.	696	4.556B	-
1979.	846	8.8881B	-
1980.	760	12.354B	-
1981.	526	8.564B	-
Year	Prod (M b)	R (N)	Dertn (N)
1982.	471	7.815B	1.5% (117.9M)
1983.	451	7.253B	1.5% (108.795M)
1984.	508	8.264B	1.5% (123.96M)
1985.	547	10.915B	1.5% (163.725M)
1986.	536	8.107B	1.5% (121.60M)
1987.	483	19.027B	1.5% (285.05M)
1988.	529	20.934B	1.5% (314.01M)
1989.	628	39.131B	1.5% (586.96M)
1990.	661	55.216B	1.5% (828.24M)
1991.	689	60..314B	1.5% (904.71M)
1992.	711	115.392B	3% (3.462B)
1993.	695	106.192B	3% (3.204B)

1994.	692	160.142B	3% (4.830B)
1995.	715	324.548B	3% (9.736B)
1996.	682	369.190B	3% (11.0758B)
1997.	855	416.811B	3% (12.504B)
1998.	806	289.532B	3% (8.686B)
1999.	775	500.0B	13% June (32.5B)
2000.	828	1.34T	13% (174.2B)
2001.	860	1.7076T	13% (221.91B)
2002.	726	1.2309T	13% (160.017B)
2003.	844	2.0743T	13% (269.659B)
2004.	900	3.3548T	13% (436.124B)
2005.	923	4.7624T	13% (619.112B)
2006.	814	6.109T	13% (794.17B)
2007.	880	6.70T	13% (871B)
2008.		3.96T	13% (514.8B)
2009.		2.22544T	13% (289.307B)
2010.		9.15T	13% (1414.91B)
2011.		5.561T	13% (722.9B)

**TOTAL 50.696T6.577T**

**Source:** Petroleum Inspectorate, NNPC (CBN Annual Report and Statement of Account 2008 and Saturday Vanguard's Research).

From the above, the Niger Delta Development Board (NDDDB) was established in 1960 on the recommendations of 1958 Willink Commission to tackle the developmental needs of the region. The Board achieved little or nothing in its seven years of existence (1960-1967) before it was consumed by the military coup in 1967.

However, the Federating units (the regional governments) on the basis of fiscal federalism still retained 50% of revenue derived from their area and contributed the rest to the central pool until when the 50% derivation principle was also set aside by the military in 1967. Part of the proceed from crude oil earning were used to prosecute the Nigeria-Biafra civil war from 1967 to 1970. The military created numerous states and local councils which were also funded with oil money. The oil producing areas remained stagnated and neglected.

A presidential task force in 1980 was set up that allocated 1.5% of the Federation Account to tackle the developmental problem of the Niger Delta. Discontents continued unabated and in 1990 the Oil Mineral Producing Area Development Commission (OMPADEC) was established which allocated 3% of the federally collected oil revenue to address the developmental needs of the area. Like its forbear, the OMPADEC also failed to deliver because of inefficiency and corruption. The Petroleum Trust Fund (PTF) that was subsequently set up also failed to solve the problem of the Niger Delta. At the 1994 constitutional conference, 13% derivation was approved and entrenched in the 1999 constitution of the Federal Republic of Nigeria. The Niger Delta Development Commission (NDDC) was also established in 2000 to undertake the rapid development of the oil producing Niger Delta region. At the National Political Reform Conference in 2005, the South-South geopolitical zone predominantly the oil bearing region, insisted on 25% derivation and had to walk out on the gathering when the other geopolitical zones failed to approve more than 18%.

Militancy took the upswing in the oil producing Niger Delta and knocked down oil production because of the failure of the plethora of the aforementioned government agencies to deliver on their respective mandates for the development of the Niger Delta.

### **III. CONCLUSION AND RECOMMENDATIONS**

Although oil exploration in the Niger Delta has led to increased revenue accruing to the Federal Government of Nigeria, the Niger Delta area is still poor, backward and neglected. The problem has grown worse.

Adesina (2012) disclosed that the Federal Government in joint partnership with oil prospecting corporations admitted that 40,000 oil spills have occurred in the 50 years of oil exploration. The Niger Delta is the worst affected area. The constant heat and the absence of darkness have done serious damage to humans, animals and plant life. Villages in the area are impoverished. Villagers live with constant unnatural noise of gas flare. The area is covered with thick soot producing rainwater which is unsafe to drink. Oil activities had destroyed the environment because of the destruction of the floral and despoliation of the land. The water, the fish, the air, the mangrove ecosystems have been damaged. A wide ranging and long term effort to clean up the

Niger Delta is required and should begin immediately. The development of the region should be insulated from politics. The Federal Government, without further delay, should establish a Direct Oil Producing Area Development Agency through which the existing 13% derivation fund can be accessed directly by the oil producing communities and not through the proxy of state governors of the federating states where oil communities are located. Such agency should be charged directly with the supervision of massive infrastructural development of the Niger Delta.

The 'occupy' protest of 2011 across the globe were signs of extreme capitalism as manifested by the irresponsible social behaviour and conduct of oil prospecting corporations in the Niger Delta that could trigger sudden social revolution like the emergence of the Niger Delta militants that could destroy the national economy in particular and lead to world economic dislocation in general.

Furthermore, government must also compel oil corporations doing oil explorations in Nigeria to have their headquarters located in the oil producing communities. Agip oil company and Shell Petroleum Development Company Ltd headquarters are located outside the Niger Delta oil producing communities.

### REFERENCES

- [1]. Adesina, D. (2011). "Giving Back to Society". *The Guardian*. [www.ngrguardiannews.com](http://www.ngrguardiannews.com).
- [2]. Adesina D. (2012). "Niger Delta on the Brink of Extinction". *The Guardian*. [www.ngrguardian.com](http://www.ngrguardian.com)
- [3]. Ndujihe C. (2012). "Oily Death: How Nigeria short-changed oil producing areas". *Vanguard*. [vanguardngr.com](http://vanguardngr.com)
- [4]. Okirika, W. (2012). "What Oil Communities, Abacha and Northern Leaders Agreed on Deprivation": In Amaizer, E. Oyadongha, E. and Omafuaire, S. (Ed). *Vanguard*. [www.vanguardngr.com](http://www.vanguardngr.com)
- [5]. Omene, G.E. and Ugochukwu O. (2001). *Niger Delta Development Commission (NDDC) Profile*. Port Harcourt. Neyere Group Ltd.
- [6]. Steiner, G.A. and Steiner, F.S. (1997). *Business, Government and Society: A Managerial Perspective. Text and Cases*. 8<sup>th</sup> Edition. New York: The McGraw-Hill Companies Inc.
- [7]. The Constitution of the Federal Republic of Nigeria (1999). Public Revenue Distributable Pool Account. Part II, Section 162 (2). Lagos: The Federal Government Press.
- [8]. Ugochukwu O. (2001). "Niger Delta Development Commission (NDDC) Conceptual Framework and Strategy for the Development of Niger Delta". An Address presented at the International Conference on Development of the Niger Delta. Port Harcourt, Hotel Presidential. December 10<sup>th</sup>, 11<sup>th</sup> and 12<sup>th</sup>.