

# Political Decentralisation and Natural Resource Governance in Nigeria

Presentation at the CSEA Research Seminar,  
Abuja, Nigeria

Vanessa Ushie, Ph.D.  
CSEA

May 8, 2013

# Outline

---

## Part 1

- ▶ Background and rationale of the study
- ▶ Nigeria's political, social and economic structure
- ▶ Fiscal federalism and subnational oil revenue management

## Part 2

- ▶ Case studies of Akwa Ibom and Bayelsa states
- ▶ Policy recommendations
- ▶ Conclusion

---

# Part 1



# Background

- ▶ Nigeria is a federal country with a tripartite administrative structure – national govt. + 36 states + 774 local governments, each of which has constitutionally defined functions
- ▶ Since 1999, political decentralisation has given subnational governments greater autonomy over their fiscal affairs
  - ▶ Low public accountability – very little is known about how subnational governments are using their oil revenues.
- ▶ In the resource-rich Niger Delta, this contradiction between power and unaccountability is most extreme
  - ▶ Oil producing states receive 13% monthly oil revenue ‘derivation’ payments for territorial oil production, in addition to constitutionally entitled revenues
  - ▶ This has quadrupled the size of state budgets and expenditures
- ▶ Problem:
  - ▶ Academic and policy scholarship tends to focus more on *centralised* than *decentralised* political corruption in Nigeria
  - ▶ Poverty and corruption cannot be addressed without improved sub-national accountability in the use of natural resource revenues

# Research methodology

---

- ▶ **Natural resource revenue management as a subset of governance**
  - ▶ How are subnational oil-producing governments in the Niger Delta using their revenues?
- ▶ **Research Methodology:**
- ▶ **A review of subnational public expenditure for two core oil-producing states in Nigeria's Delta region (namely Bayelsa and Akwa Ibom states)**
  - ▶ Using fiscal data – analysis of oil revenue management; independent revenue generation; social sector spending; budget performance and transparency (2008-2012).
  - ▶ Data: Federal Budget Office, Federal Ministry of Finance, Central Bank of Nigeria, grassroots civil society group (Niger Delta Citizens and Budget Platform NDCBP), World Bank WDI.

# Nigeria: Africa's giant?



- ▶ Africa's most populous country – 162 million people (World Bank, 2012)
- ▶ Africa's 2<sup>nd</sup> largest economy, which received 24% (US\$ 8.9 bn) of total FDI inflows in 2011 – UNCTAD
- ▶ 10<sup>th</sup> highest net oil exporter in the world; holder of Africa's largest reserves of crude oil and natural gas
- ▶ Nigeria has earned over US\$600 billion from oil exports since its independence in 1960
- ▶ UNDP HDI 2012 – 153<sup>rd</sup> out of 187 countries. Extreme poverty amidst bountiful resource wealth
- ▶ Nigeria has great potentials to be a success story in Africa, but is often held up as an example of the 'resource curse'

# Nigeria: Political developments

---

- ▶ Nigeria: colony of Britain after the amalgamation of the Northern and Southern protectorates of Nigeria by Lord Frederick Lugard in 1914.
- ▶ Gained independence from Britain in 1960.
  - ▶ In 1963, Nigeria became a federal republic and remained under civil rule till the first military coup in 1966.
- ▶ Between 1960 and 2012, Nigeria had 8 military leaders and 7 civilian rulers.
  - ▶ A total of 28 years was spent under military rule, with frequent coup d'états.
  - ▶ Return to democracy in 1999. Current democratic regime led by Goodluck Jonathan (minority Ijaw) since 2010.

# Socio-economic structure

---

- ▶ Nigeria is structurally dependent on petroleum: Up to 96% of total exports and 80% of state revenues are generated by oil and gas.
  - ▶ Non oil exports (e.g. cocoa, rubber, machinery and entertainment) make up 5% of total exports.
- ▶ Sharp distinction between the oil and non-oil economy ('dualism')
  - ▶ Agriculture contributes 30% of GDP and employs 70% of the labour force
  - ▶ Oil and gas dominate state revenues and contribute 43% of GDP
  - ▶ Informal economy is estimated to be 90% of official GDP (*shadow economy*)
- ▶ Ethno-religious diversity within a federal, democratic system
  - ▶ Over 250 ethnic groups, almost evenly split between Islam (mainly in the Northern region), and Christianity (in the South), with a small number of indigenous religions.
  - ▶ *Federal Character* principle: federal institutions must reflect proportional representation of the 36 states, and balance between the six geopolitical zones.



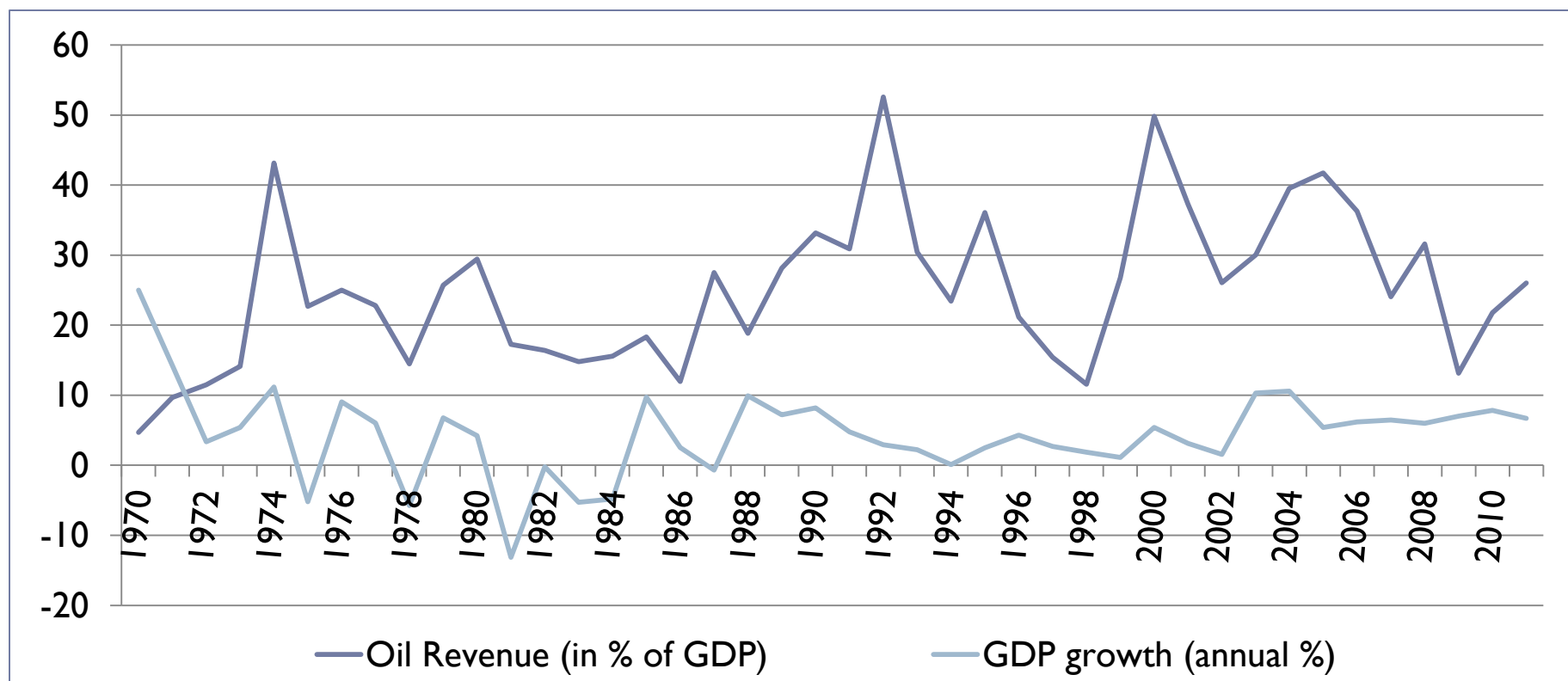
# Nigeria and the *paradox of plenty*

---

- Resource abundant countries perceived to suffer from a ‘resource curse’. The theoretical channels of causation are threefold;
  - Firstly natural resources generate rents which lead to predatory, *rentier* behaviour
    - Nigeria - weak institutions, corruption, low public transparency and accountability
  - Resource dependence exposes countries to commodity price volatility –
    - Nigeria - macroeconomic instability, pro-cyclical fiscal policy, debt overhang
  - The *Dutch Disease* – overvaluation of the real exchange rate due to commodity price ‘booms’ and the contraction of the non-booming tradable sector.
    - In Nigeria, decline of agriculture and manufacturing as a result of oil dependence. Deindustrialisation, slow growth, poverty and income inequality.

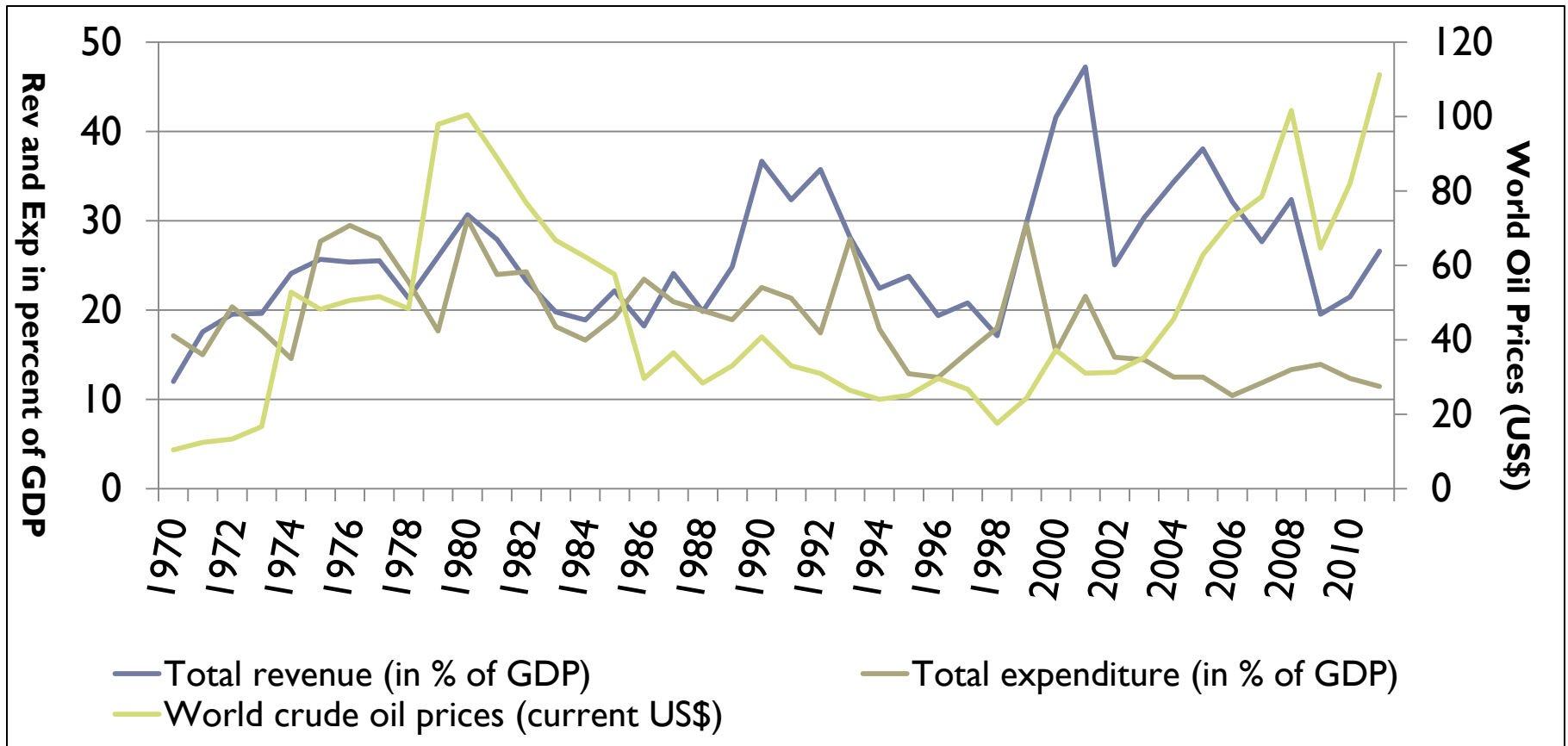
# Nigeria's oil dependence

- ▶ The diagram below shows the relationship between oil revenues and GDP growth over time. We see the impact of volatile oil revenues on growth. The 2003 fiscal reforms have slightly delinked oil related volatility from the economy...



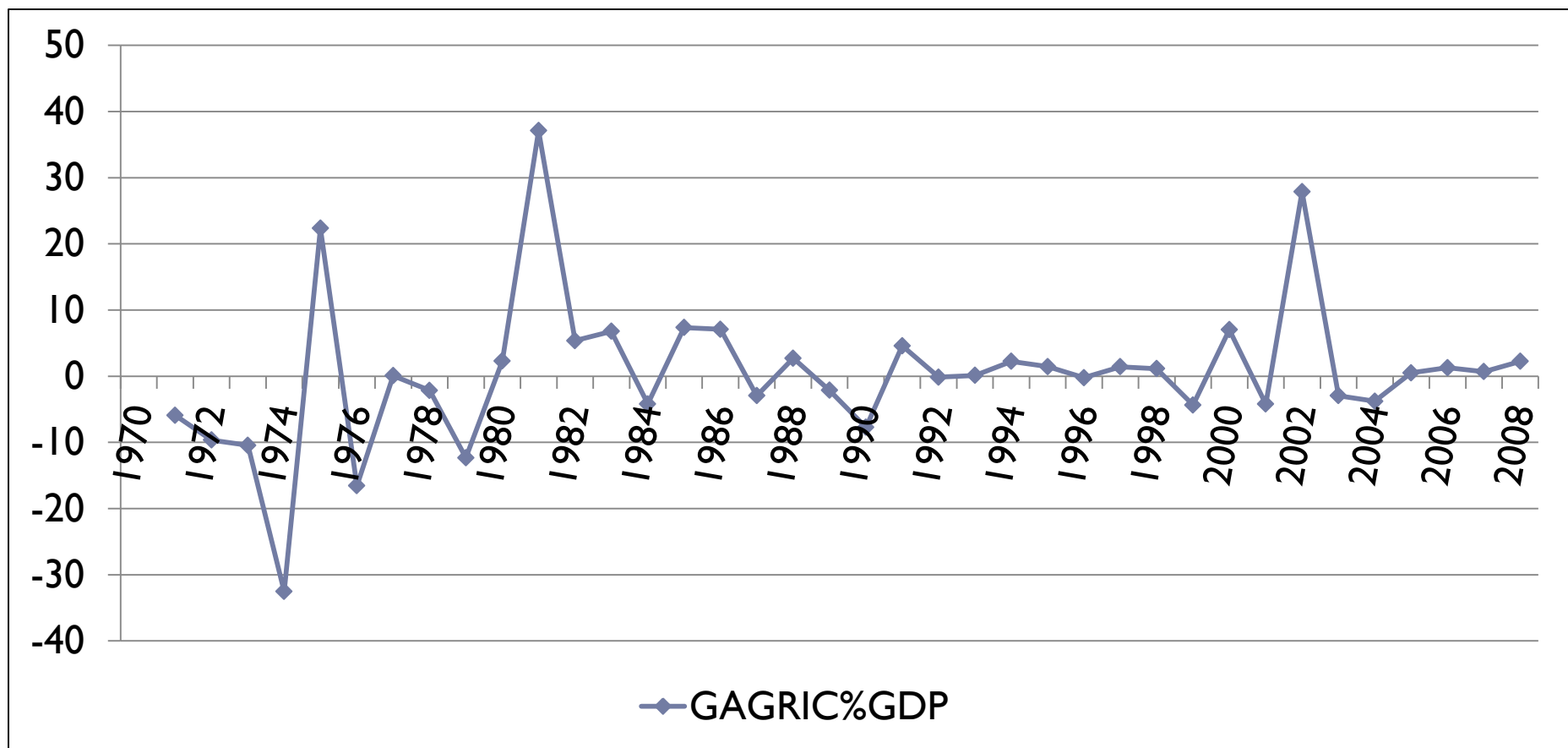
# Nigeria's oil dependence

- ▶ The diagram below shows the relationship between oil prices and fiscal trends over time. We see the effects of volatility in govt. revenues and expenditure. Again, the 2003 fiscal reforms have slightly reduced volatile public expenditure



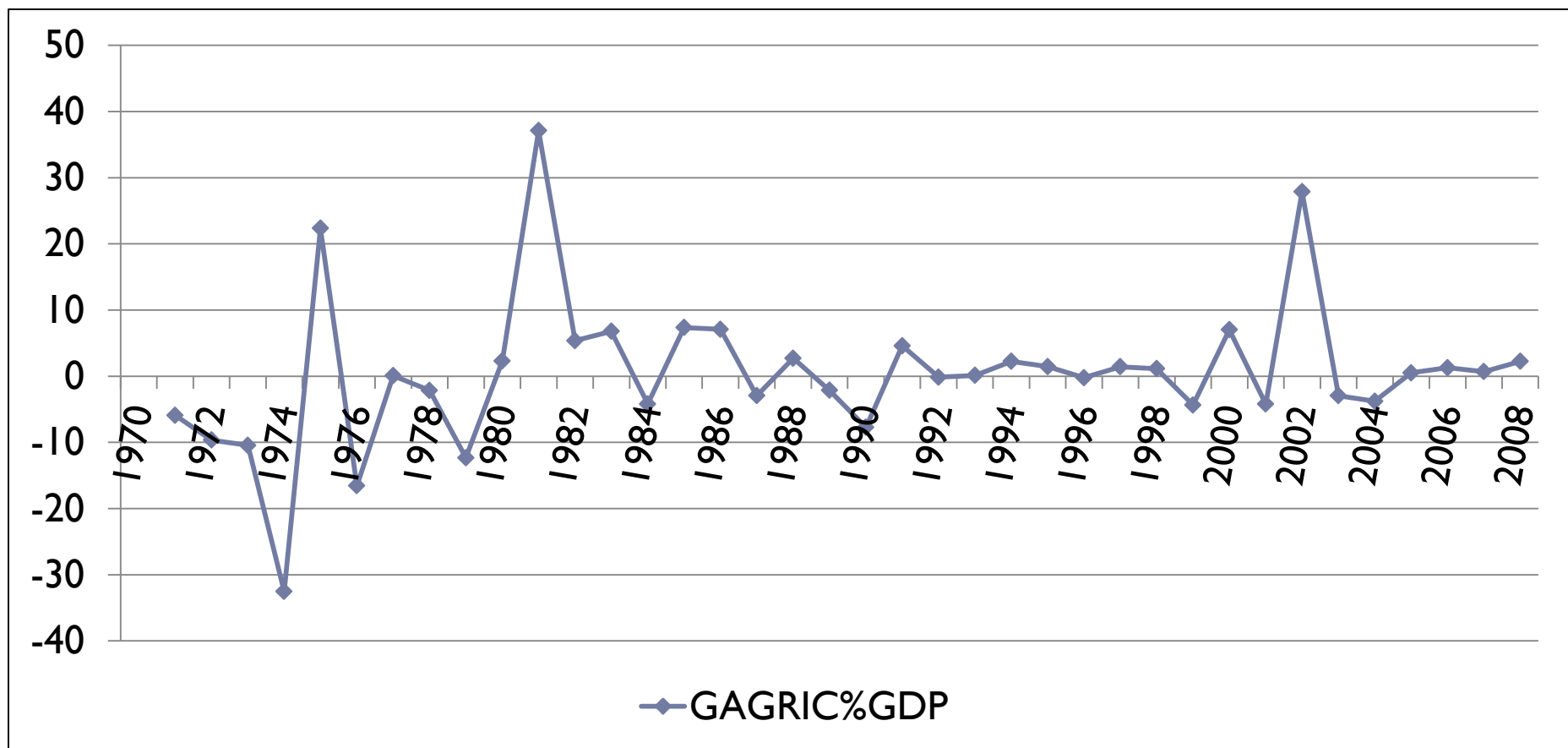
# Nigeria's oil dependence

- ▶ The diagram below shows the growth in agricultural output as a share of GDP over time. We see the effects of the 'Dutch Disease' in the volatile and low agricultural growth rates.



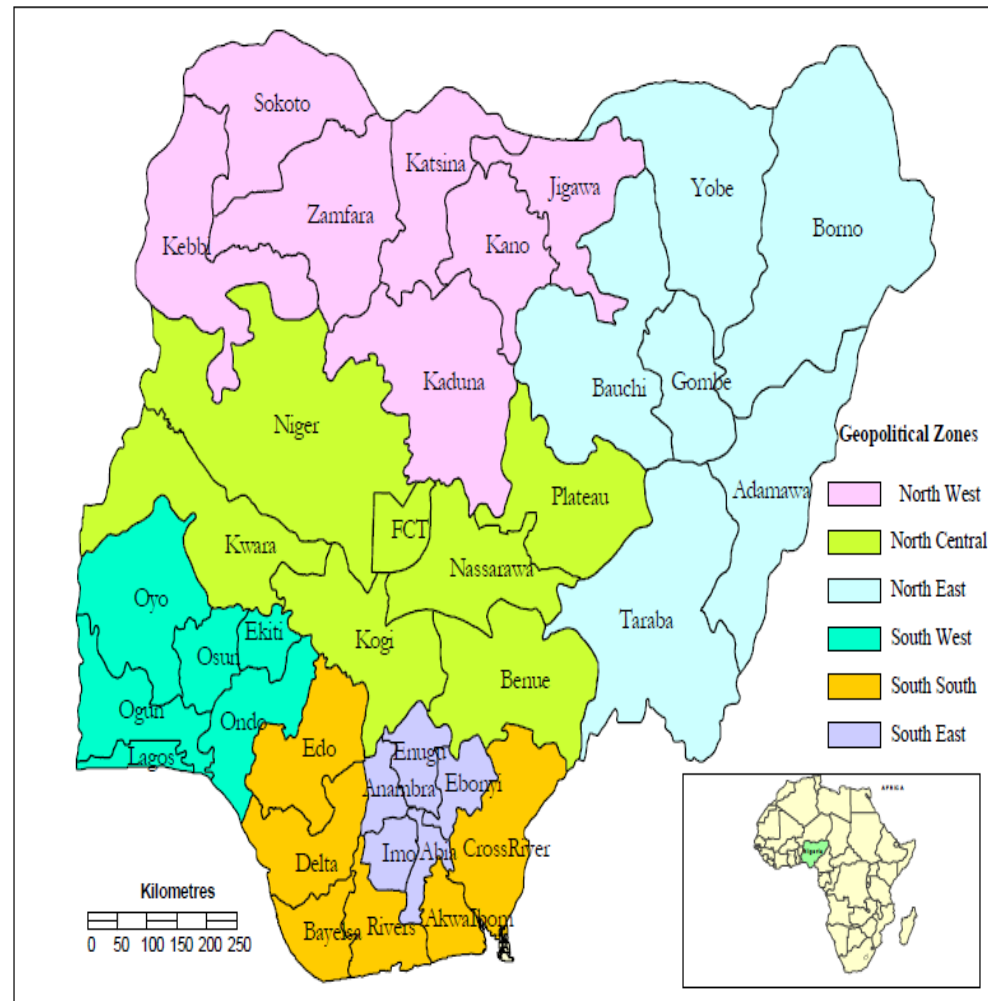
# Nigeria's oil dependence

- ▶ The diagram below shows the growth in agricultural output as a share of GDP over time. We see the effects of the 'Dutch Disease' in the volatile and low agricultural growth rates.



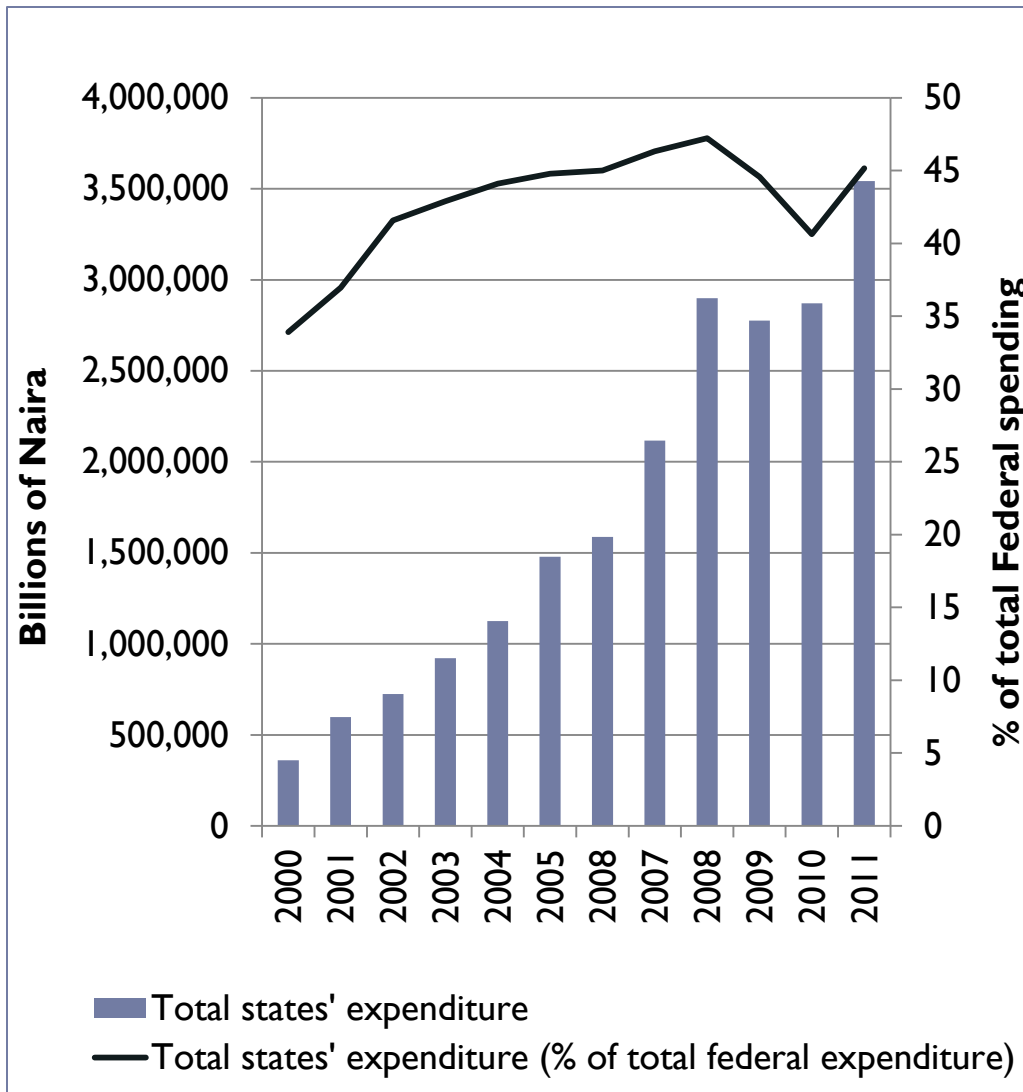
# Fiscal Federalism and Oil Revenue Management in Nigeria

- Fiscal federalism is highly politicised in Nigeria. The revenue sharing formula changed once in every three years, or eighteen times between 1946 and 2003.
- Six geopolitical 'zones' created after 1999 for political purposes
- Revenue allocations linked to population, leading to ethno-regional competition over demographic data
- Currently, 52.7% of pooled revenues claimed by the federal government, 26.7% to states, and 20.6% for local governments
- Nigeria's model of fiscal federalism poses constraints for prudent management of oil revenues



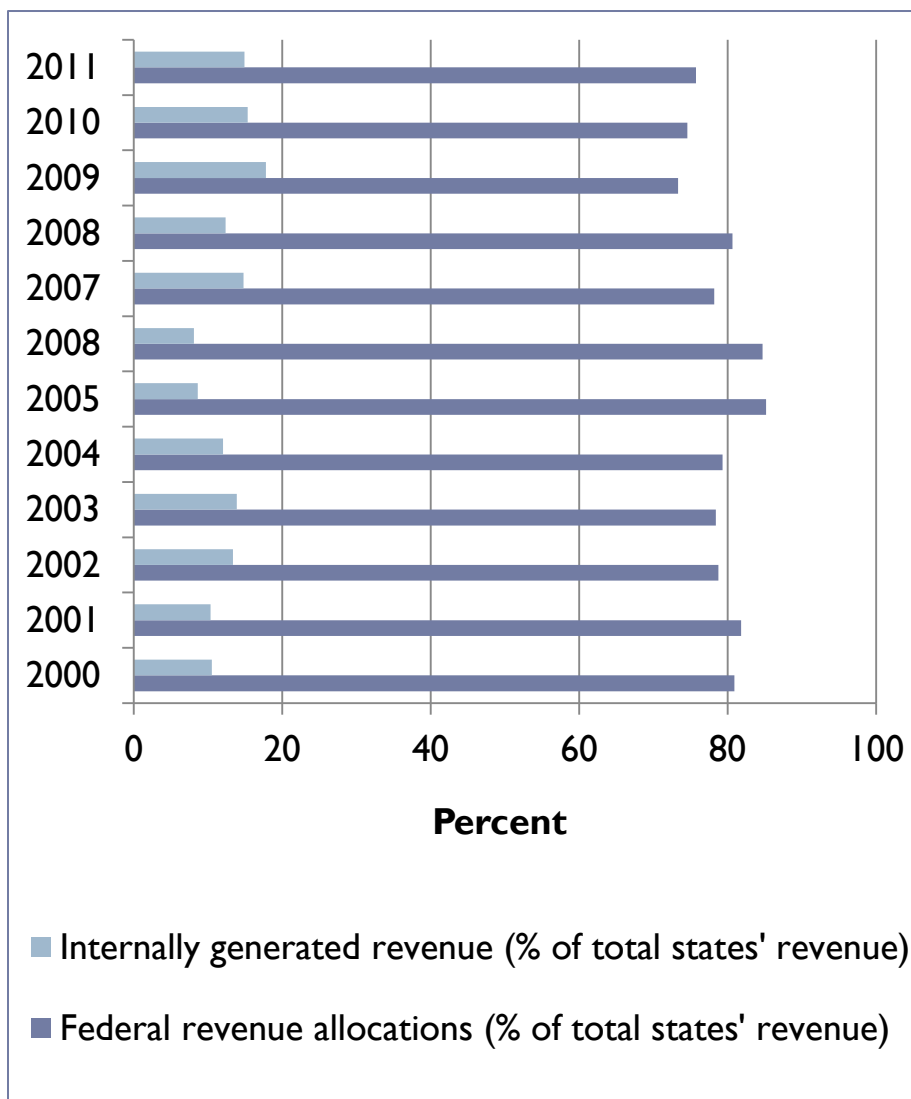
Note: 'South-South' is the oil producing Niger Delta region in Nigeria's political lexicon

# States' are spending enormous sums



- ▶ Total spending by the states has trebled between 2000 and 2011, and the share of states' spending in overall Federation spending is very significant (around 50%)
- ▶ This growing fiscal clout of the states has resulted in: an explosion in public debt, higher fiscal deficits, and general macroeconomic instability, which have served to undermine economic growth
- ▶ State governments have also corralled resources for local councils and effectively stripped them of their powers

# But are still dependent on the centre ...



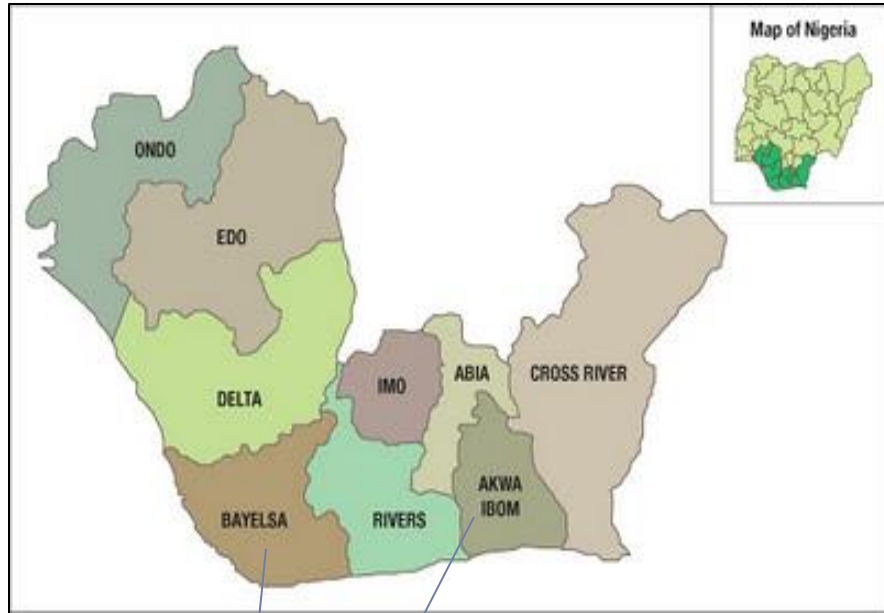
- ▶ Between 2000 and 2011, in the post-democracy era, an average of 70% of total state governments' revenue originated from federal revenue transfers
- ▶ Less than 20% of all state governments' revenue has been independently generated from non-oil activities.
- ▶ Fiscal autonomy has strengthened the clout of subnational governments, but at a huge cost
  - ▶ Distributive patronage and political corruption
  - ▶ Fiscal profligacy, waste and poor use of (resource) revenues



---

# Part 2

# The Niger Delta



The two case-study states:

Akwa Ibom

Bayelsa

- ▶ The Niger Delta is a mangrove swamp that extends over 75,000 square kilometres, making it the largest wetland in Africa.
  - ▶ Produces all of Nigeria's oil and gas.
- ▶ 68% of the residents of the Delta are classified as poor, and the region's unemployment rate of 27% is six points above the national average of 21%
- ▶ There are nine states in the region – the core delta states of Akwa Ibom, Bayelsa, Delta and Rivers, and the outlying Abia, Cross River, Edo, Imo, and Ondo states.
- ▶ Population of 31 million, or 23 % of national total
- ▶ The region has been gripped by a popular insurgency against the Nigerian state and multinational oil companies due to environmental pollution and widespread poverty

# Managing oil revenues in Akwa Ibom state



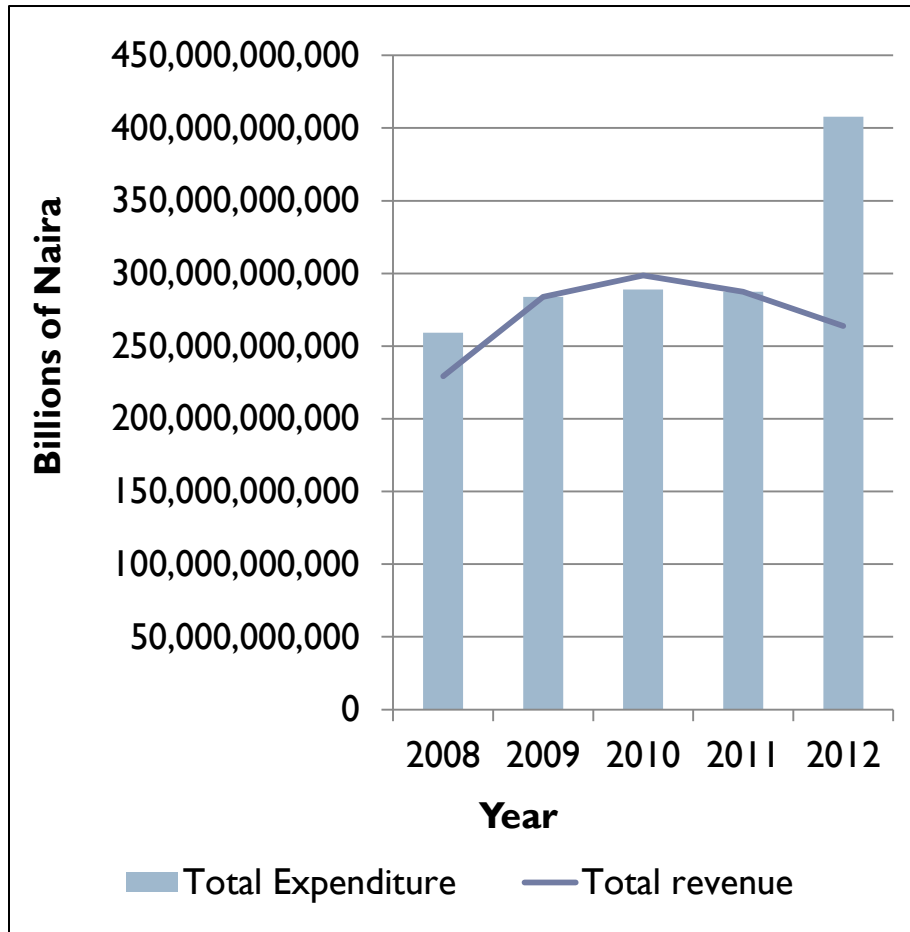
Unemployment rate of 27% is among the highest in the Niger Delta.

63% of the population is considered to be 'poor', with 53.6% living on US\$1 a day.

- ▶ The state has a population of 3.9 million and is rich in natural resources, including oil and gas, solid minerals and rich, fertile farmland.
- ▶ With an estimated GDP of US\$11.8 billion, the petro-based economy of this small state is larger than those of several West African countries including Mali, Chad, Burkina Faso and Niger.
- ▶ Currently the leading oil producer in the Nigerian federation, and receives the highest statutory oil revenue allocation
  - ▶ As an illustration, between January and September 2012, Akwa Ibom received N163 billion (US\$1.03 billion) in revenues from the Federation account, or 9.4% of the total revenue allocated to all the 36 states.
- ▶ High adult literacy rates of 89%, and reasonably high primary school completion rates of 96%.

# Akwa Ibom - Fiscal profile

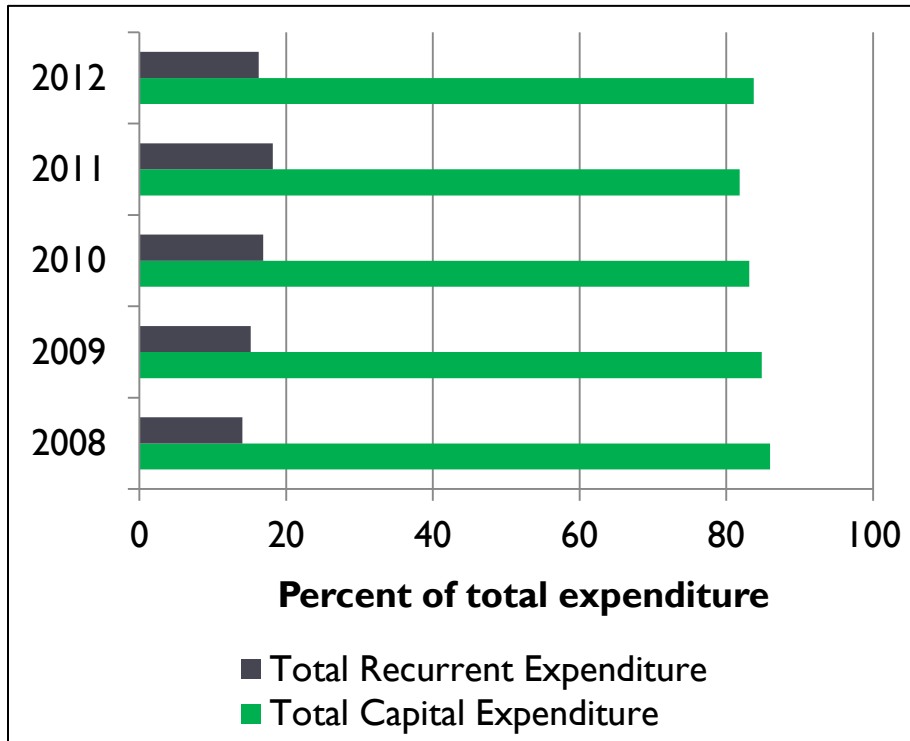
Akwa Ibom: Public Revenue and Expenditure  
2008-2012



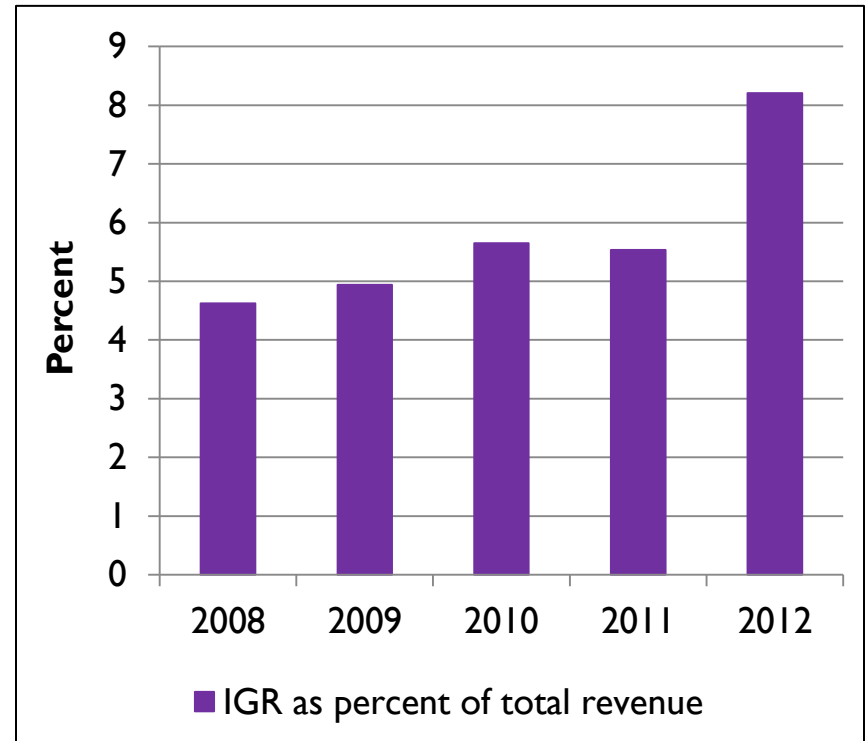
- ▶ Public expenditure has largely tracked oil revenue inflows, mirroring the overall cyclicity in (federal) fiscal policy
- ▶ The scale of the sums involved is mind-numbing
  - ▶ Public expenditure between 2008 and 2012 was N1.5 trillion, an average of N305 billion per year, or approximately US\$9.8 billion in total
- ▶ Rising public spending has created fiscal deficits, which raises concerns over rising public debt and oil revenue dependence

# Akwa Ibom - Fiscal profile

Akwa Ibom: Composition of public spending 2008 - 2012

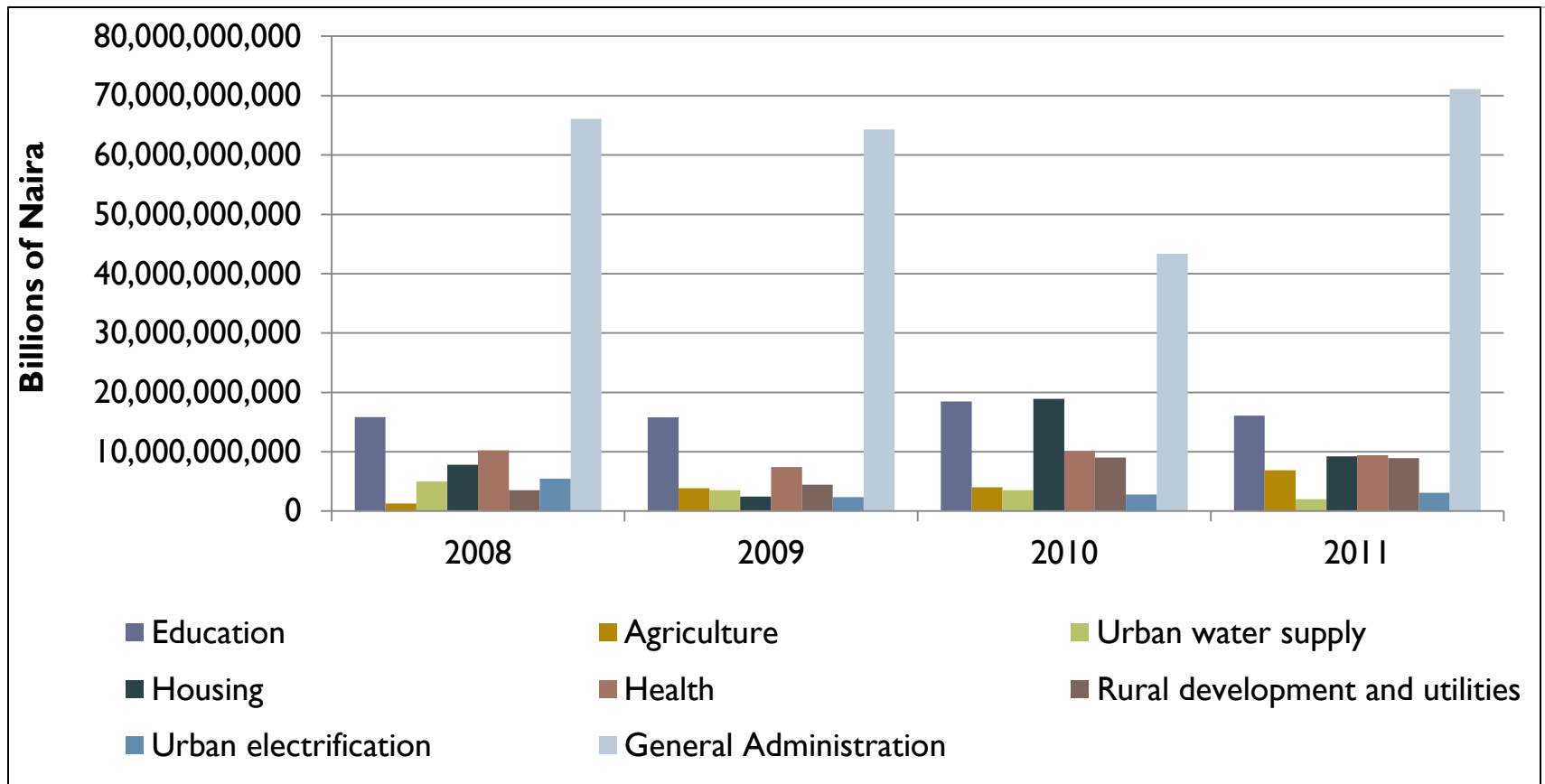


Akwa Ibom: Role of IGR in public revenue 2008-2012



- ▶ Overall public spending has been dominated by capital/development spending (average of 84%) from 2008 to 2012
- ▶ Less than 10% of total revenue has been generated from internal, non-oil sources, meaning that 90% of income is from federal (oil) revenue transfers. Oil rent dependence and extreme vulnerability.

# Akwa Ibom – Allocation of capital spending



- ▶ Sharp annual fluctuations in social sector spending
- ▶ Highest allocation is to 'general administration', which seems to be an overhead cost suited to the recurrent budget

# Akwa Ibom – Distribution of public spending

	2008	2009	2010	2011	Period average
<i>% of annual capital spending</i>					
Education	7.12	6.56	7.68	6.85	7.05
Health	4.60	3.08	4.23	4.00	3.98
Agriculture	0.07	1.60	1.67	0.37	0.93
Urban water supply	2.24	1.45	1.46	0.85	1.50
Rural development and utilities	1.57	1.85	3.75	3.81	2.74
Urban electrification	2.45	0.98	1.16	1.32	1.48
General Administration	29.67	26.71	18.06	30.23	26.17
Security vote	2.69	-	-	3.57	
Governor's office	3.59	-	-	7.95	

- Critical social sectors – e.g. education, health, agriculture, water, are not getting adequate resources
- Spurious items such as ‘general admin.’, ‘security vote’ and the ‘governor’s office’ are receiving substantial public funding!

# Akwa Ibom – how effective is public spending?

---

- ▶ A critical review of budget performance in Akwa Ibom state by a leading Niger Delta civil society group (NDCBP 2009, 2010, 2011) showed a litany of problems with the management of public revenues –
  - ▶ duplicated items in the state's budgets,
  - ▶ vague or dubious expenditure classification (such as the 'general administration' component of capital spending)
  - ▶ unfinished and abandoned public projects,
  - ▶ arbitrary budgeting process that does not involve state citizens, and
  - ▶ failure to release fiscal data and budget information to the public.



# Managing oil revenues in Bayelsa state

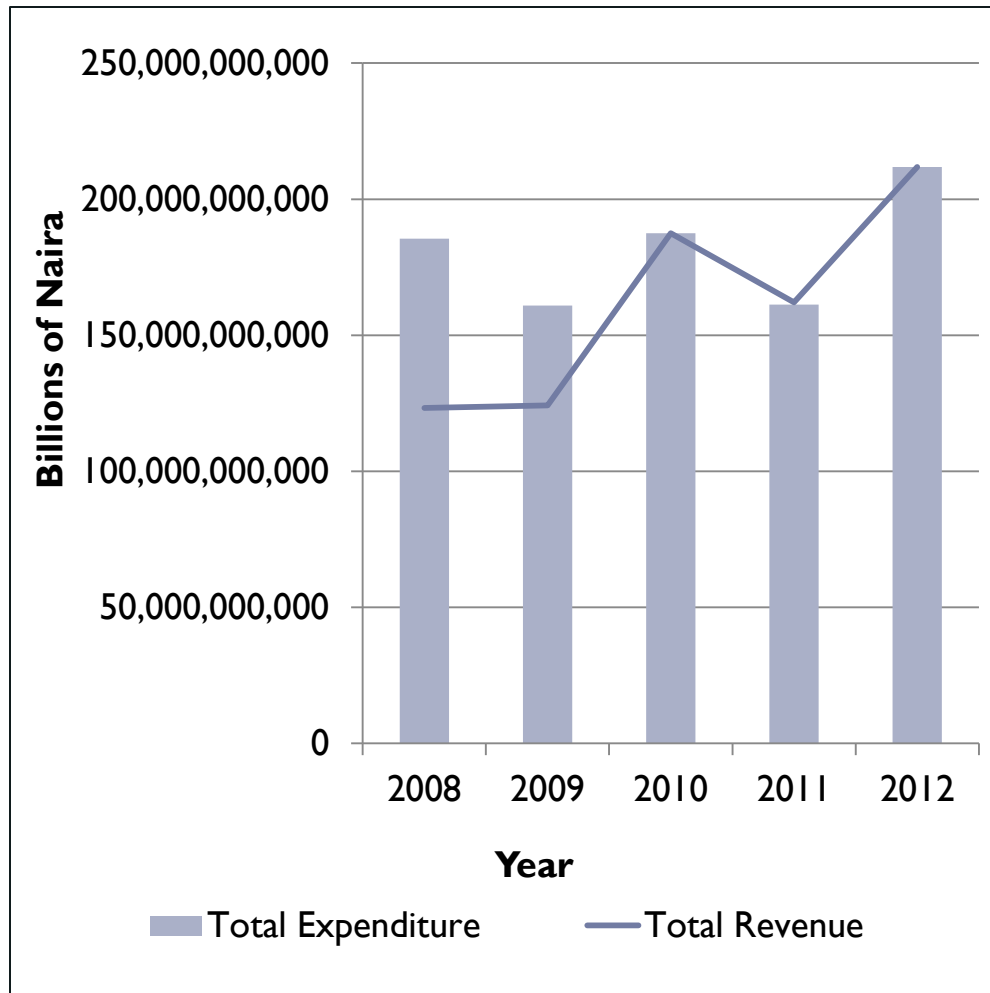


Unemployment rate of 27.4% is very high. 60% of the population is considered to be 'poor', with 47.3% living on US\$1 a day.

- ▶ Small population of 1.78 million, but looms large in Nigeria's economic and political landscape due to its oil and gas endowments.
  - ▶ GDP of US\$7.8 billion and accounts for about 30% of all oil production in Nigeria.
- ▶ It has benefited from the enormous oil largesse that has accompanied the new era of fiscal federalism in post-democratic Nigeria.
  - ▶ Received N98 billion (US\$634 million) in statutory revenue transfers between January and September 2012, or 5.7% of total revenues distributed between the states.
- ▶ Bayelsa performs relatively well in the areas of adult literacy (74.9%), primary school completion rates (97.1%)
- ▶ Reforms: Public Procurement Law, and a Fiscal Responsibility Law in 2009. Bayelsa State Expenditure and Income Transparency Initiative (BEITI).
  - ▶ Rhetoric vs. reality?

# Bayelsa - Fiscal profile

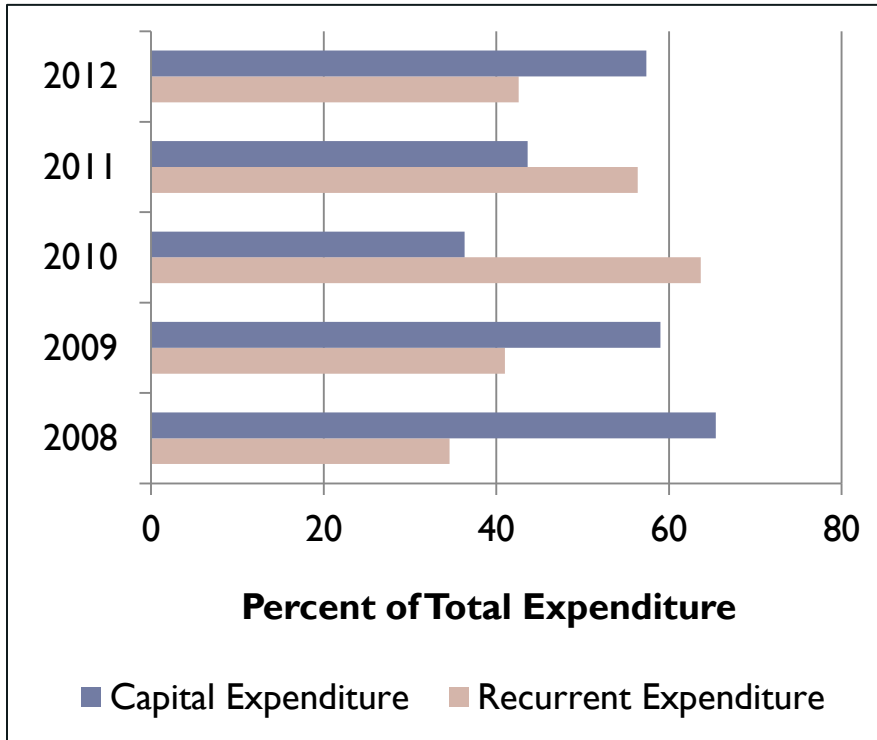
Bayelsa: Public Revenue and Expenditure 2008-2012



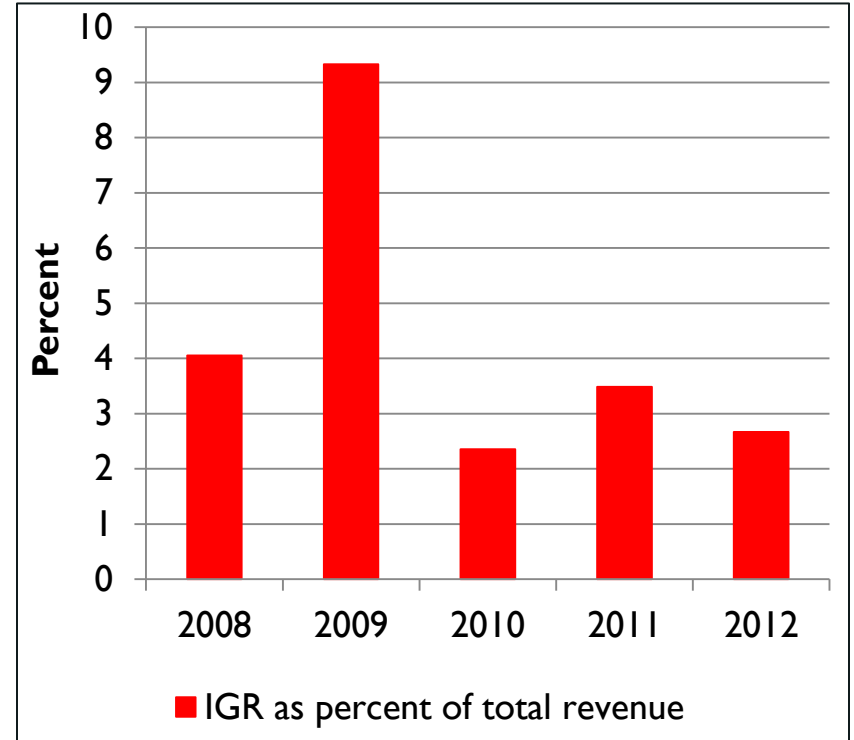
- ▶ In naira terms, a total of N476 billion (or US\$ 5.8 billion) was spent from 2008 to 2012.
- ▶ Annual changes in public spending track revenue fluctuations on a year-to-year basis, again reflecting oil-related volatility in states that are highly dependent on federal revenue transfers.
- ▶ Bayelsa state is also running considerable budget deficits.

# Bayelsa - Fiscal profile

Bayelsa: Composition of public spending 2008-2012

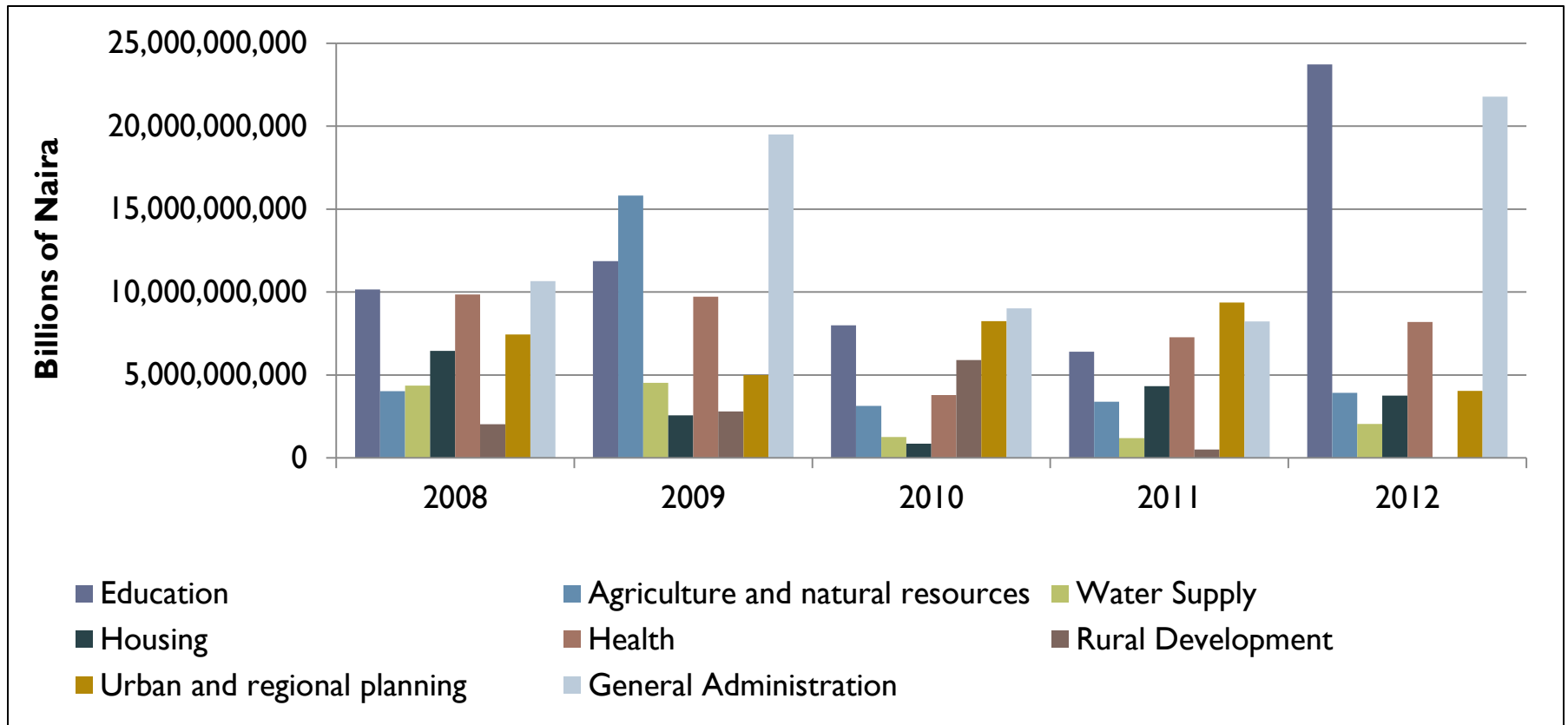


Bayelsa: Role of IGR in public revenue 2008-2012



- ▶ Mixed record of slightly higher capital spending, except in 2010 and 2011 when the recurrent budget was about 60% of the total spending.
- ▶ Again, low independent non-oil revenue generation. In some years (2010), internal non-oil revenue was as low as 3%.

# Bayelsa – Allocation of capital spending



- ▶ Highly volatile social expenditure (reflecting poor fiscal planning)
- ▶ Again, high allocations to 'general administration'. Sharp rise in education spending in 2012.

# Bayelsa – tracking public spending

<i>% of annual capital spending</i>	2008	2009	2010	2011	2012	Period average
Education	8.37	12.50	11.73	9.10	19.52	12.24
Health	8.12	10.23	5.57	10.34	6.74	8.20
Agriculture and natural resources	3.32	16.65	4.62	4.81	3.23	6.53
Housing	5.32	2.71	1.26	6.15	3.10	3.71
Rural Development	1.67	2.95	8.67	0.73	-	3.50
Water Supply	3.59	4.78	1.86	1.71	1.69	2.72
Urban and regional planning	6.14	5.26	12.12	13.32	3.32	8.03
General Administration	8.78	20.53	13.23	11.69	17.91	14.43

- Allocations to social sectors are slightly higher than Akwa Ibom (better prioritisation?)
- Funding for ‘general administration’ is still on the high side

# Bayelsa – budget performance

---

- ▶ Civil society watchdogs have criticized the budget and fiscal performance of the Bayelsa government on many counts (NDCBP 2009, 2010, 2011)
  - ▶ high dependence on statutory oil revenue transfers,
  - ▶ duplication and misclassification of expenditure categories,
  - ▶ uncompleted and abandoned capital projects, and
  - ▶ a very poor budget execution track record. E.g. in the first six months 2011, the Bayelsa state government had spent only N3.5 billion out of the total planned capital expenditure of N70 billion!
  - ▶ For a state that has adopted the right tools, including fiscal transparency laws, and the BEITI, the evidence on its use of oil revenues shows that the rhetoric is far from reality.

# Emerging Issues

---

The case studies of Akwa Ibom and Bayelsa states presented in this section show two similar contexts where:

- ▶ the subnational government depends almost entirely on exogenous oil rent inflows for its income
- ▶ fiscal policy is highly procyclical
- ▶ public expenditure is regressive and not adequately addressing the needs of pro-poor social sectors that can generate growth and employment,
- ▶ the budgeting system is opaque, and
- ▶ actual budget implementation is very poor.
- ▶ Furthermore, even where transparency reforms are introduced (such as the BEITI), there is no significant change in the quality and effectiveness of subnational public expenditure.

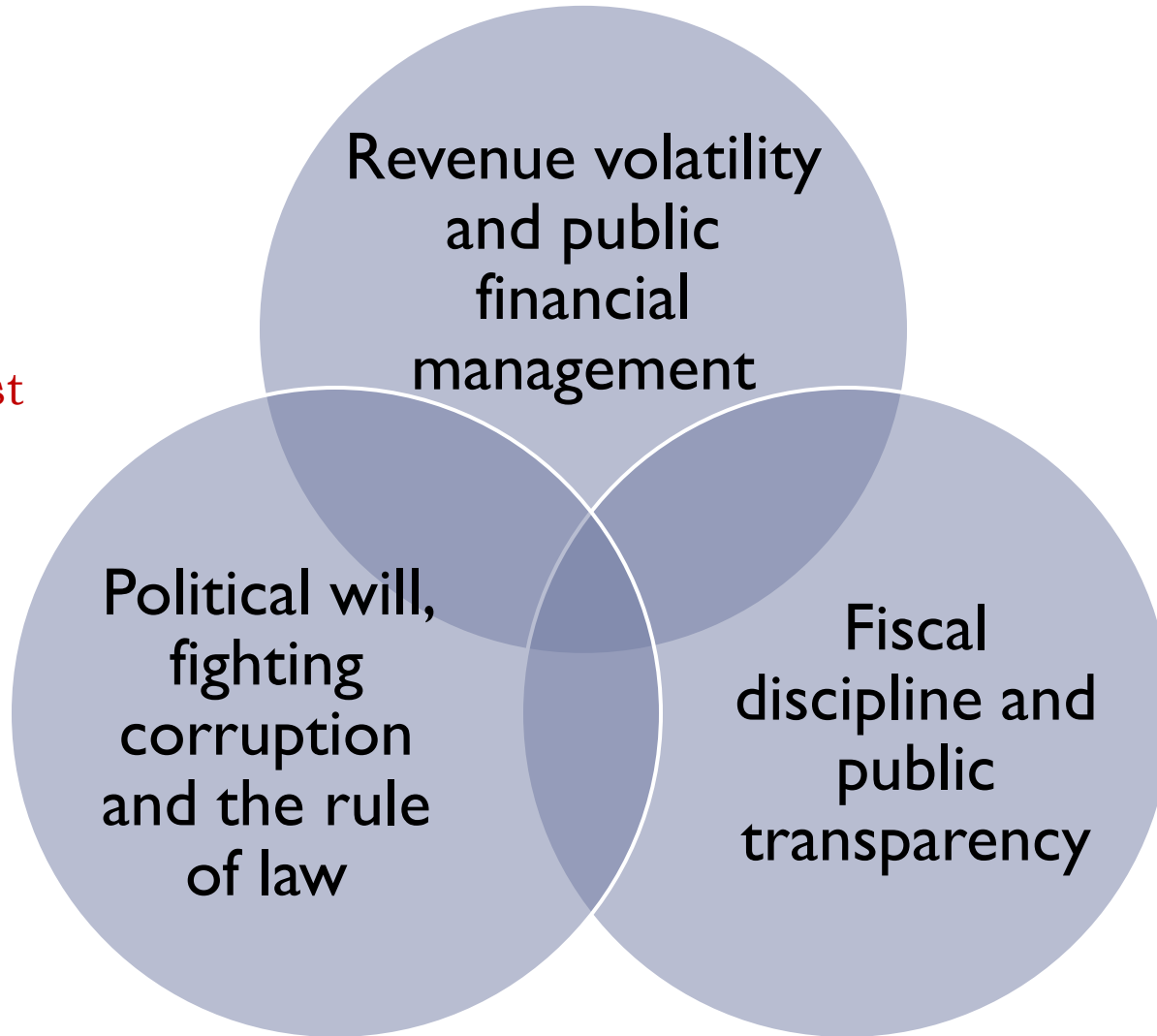
Complex scenario that requires a combination of economic and political reforms

---

# Policy suggestions

---

Economic reforms must take into account the underlying political culture of distributive (state) patronage



Three interlocking policy areas that must be jointly addressed to improve subnational resource revenue management



# Policy suggestions

---

- ▶ **Reducing oil-related volatility and improving the management of oil revenues**
  - ▶ Technical support and capacity building at the state-level for macroeconomic and fiscal policy management
  - ▶ Diversifying the economic and revenue base at the centre and in the states
  - ▶ Use of stabilisation/natural resource funds to reduce volatility and save oil revenues for future use
  - ▶ Assigning oil revenues through conditional grants to subnational governments
  
- ▶ **Incentivising fiscal discipline and subnational public transparency**
  - ▶ States should receive a lump-sum fiscal reward for fiscal transparency. These fiscal incentives should be given a greater weighting than population data in assigning oil revenues.
  - ▶ Binding constitutional rules on a) macroeconomic and fiscal policy coordination b) common standards on public expenditure and service delivery

# Policy suggestions contd.

---

- ▶ **The role of donors and civil society**
  - ▶ Donor interventions should be focused on supporting innovative accountability initiatives at the grassroots (using mobile phones, Internet, social media) to promote local awareness on the use of oil revenues
  - ▶ Building partnerships with strategic state institutions to improve technical capacity in the management of public finances
  - ▶ Identifying ‘progressive’ elements in the state and targeting incremental improvements in natural resource governance
  
- ▶ **Finding the political will to fight corruption and promote ‘good’ governance**
  - ▶ Credible elections that can produce transparent, committed leadership
  - ▶ Fighting corruption more sincerely. Strengthening anti-corruption agencies such as the EFCC, and respect for the rule of law
  - ▶ Strong legislative, judicial and law enforcement systems that can provide checks and balances on political impunity

# Conclusion

---

- ▶ Nigeria is currently facing several internal and external challenges at the same time: an Islamist insurgency (*Boko Haram*), changes in global energy markets, corruption and growing insecurity.
- ▶ Finding a delicate balance between fiscal discipline and the politics of patronage within Nigeria's decentralised federal system
  - ▶ Greater macro-fiscal convergence and political reforms are needed
  - ▶ Subnational oil revenue assignments must be matched with robust checks and balances
- ▶ Political will, and good leadership at the federal and subnational levels is vital for sound management of resource revenues
- ▶ Political decentralisation must be understood as rooted in local 'context' – the socio-political setting, cultural and institutional factors.

---

Thank you