

# CRUDE OIL REVENUE AND THE POLITICS OF ALLOCATION IN NIGERIA (1956-2012): IMPLICATIONS FOR THE NIGER-DELTA

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**Abstract:** Oil has been the backbone of the Nigerian economy for decades. The Nigerian oil industry continues to generate foreign exchange earnings for the nation's economy, serving as a vital source of revenue for the Nigerian state. The study examines Nigerian crude oil revenue since the start of oil activities in the Niger Delta region. It critically analyses the politics surrounding the distribution of oil revenue to the states of the Federation, with particular emphasis on the Niger Delta states. While several studies explore general aspects of the oil industry, particularly regarding over-exploitation and environmental impacts, this research differs in its focus on the flow of oil revenue and the politics involved in its redistribution to both the broader Nigerian states and the Niger Delta region. It employs a qualitative research approach, utilising interviews, archival materials, and secondary sources such as books, book chapters, and journals, alongside analytical methods to interpret the data. The study finds that the initiation of oil activities profoundly

altered Nigeria's history, notably transforming its economy from being primarily reliant on agriculture. A key finding highlights the politics of redistributing oil-derived revenue, which can foster feelings of neglect among oil-producing communities and threaten the peace and stability of the Niger Delta. The study concludes that the ongoing politics of revenue allocation, which often ignores the needs of oil-bearing communities, is a major factor behind persistent attacks and sabotage of oil facilities in the Niger Delta.

**Keywords:** NNOC, NNPC, Oil-bearing Communities, Royalties, Revenue Allocation

### **Introduction**

Revenue accruing from oil exploration and exploitation has been a mainstay of many economies worldwide, particularly in countries that have vast oil reserves. In the case of several countries that experienced an oil boom in the 1970s, such as Nigeria, Saudi Arabia, and Venezuela, oil revenue contributed significantly to their economic growth and development. Governments in these countries have heavily relied on oil revenue to fund their budgets, improve infrastructure, and provide social services to their citizens. Despite the fluctuation in oil prices over the years, oil revenue remains a crucial part of government earnings in many oil-producing nations (Eduvwie & Ntukogu, 2021).

Nigeria's quest for oil exploration dates back to 1908 when the Nigerian Bitumen Company, a German firm, began exploring petroleum in the old Western Region. Despite their efforts, the company did not achieve any significant breakthrough and was forced to shut down during the First World War. In 1937, the Anglo-Dutch Consortium, Shell D'Arcy, resumed oil exploration activities. However, their attempts also proved futile, and exploratory activities were halted again during World War II. After the war, the search for oil continued, and in 1956, the breakthrough finally arrived. In the Otuakeme region of Oloibiri District, Ogbia Local Government Area, oil was discovered, marking the beginning of commercial oil production in Nigeria (Eduvwie *et al.*, 2025). Two years later, the company began exporting oil, fuelling the country's economic growth and development.

After successful exploratory activities and the construction of oil facilities in the Niger Delta region, the Nigerian government recognised the oil industry as a

potential revenue source. To ensure the industry's smooth operation, the British colonial government enacted laws that granted Shell Petroleum Company exclusive rights over the exploration, production, and transportation of oil in Nigeria. The Mineral Ordinance Act of 1914, which was later amended in 1925 and 1946, gave Shell D'Arcy the exclusive right to explore minerals (Eduvwie & Ntukogu, 2021). This Act authorised the Federal Government to issue exploration, prospecting, and mining licenses, establishing the terms and conditions for preliminary exploration, drilling, and oil exploitation. Consequently, the Nigerian government has the sole authority to collect royalties, taxes, and a share of oil revenue in the Nigerian oil and gas industry.

The majority of literature in the oil industry has predominantly concentrated on the impacts, as well as the exploitative and explorative dimensions of oil, particularly concerning multinational and national oil companies, governments, and other stakeholders within the sector. There is a notable scarcity of studies that investigate the accumulation of revenue and its redistribution to the Niger Delta in particular and to Nigerian states more broadly. This research stands out as one of the few that documents the collection of oil revenue and its distribution across the Niger Delta States, with a wider focus on Nigerian states as a whole. It aims to evaluate the methods employed in oil revenue collection and to analyse the processes involved in revenue distribution.

### **Sources of Crude Oil Revenue in Nigeria**

Throughout its history as a colony and an independent nation, Nigeria has employed various methods to generate revenue from its oil reserves. During colonial times, oil rents and taxes were collected by government departments such as the Geological Survey of Nigeria. In the post-colonial era, the Department of Hydrocarbons and the Department of Petroleum were established in 1963 and 1970, respectively, to manage revenue generated from oil sales or exports. Moreover, the Nigerian National Oil Company (NNOC) and Nigerian National Petroleum Corporation (NNPC) emerged as key players in the petroleum industry after their establishment in 1971 and 1977.

### **Royalties and taxation in the oil industry, 1956-1971**

Between 1956 and 1971, a levy was imposed on all oil produced at the wellhead in the Niger Delta region of Nigeria. This levy, known as royalty, was payable to the

Regional Government and was then paid to the Mid-Western state. The levy was originally set at 12.5% of the oil produced. However, in practice, a monetary payment was made instead. The monetary payment was calculated based on the field-storage-tank value of the crude, which was determined by the world market price for crude oil during that period, after deducting the expenses involved in moving the oil from the oilfield to the refinery.

Throughout history, land and subsoil resources have been the preserve of communities and states. These communities and states have the right to tax or demand contributions in kind, rescind granted property rights, and police or regulate. In countries rich in oil and minerals that are under colonial rule, these rights may be overridden to favour transnational companies (Mommer, 2002). However, even in such cases, these companies are expected to pay royalties or taxes to the colonial government or collaborating chiefs (Rutledge, 2005).

After Nigeria gained independence, the government showed little interest in the oil industry, except for collecting rent, royalties, and taxes. This was because the focus was on regional economies, which were mainly agro-based. This arrangement was instituted during colonial administration. Most of the transnational companies operating in Nigeria had 100% equity in their operations (Geological Survey of Nigeria, 1958), and the government's entitlement was mainly on two benefits (NNPC, 1990): a 12.5% royalty and a 45% company profits tax (Shell BP, 1956).

### **Nigeria's involvement in the nation's oil industry, 1971-1979**

In 1971, the Nigerian National Oil Corporation (NNOC) was established with the primary objective of marketing Nigerian crude oil (NNPC, 1990). However, the Nigerian government didn't become directly involved in oil marketing until two years later. This marked the beginning of the government's acquisition of participation interest in oil companies and the direct sale of equity crude.

The Nigerian National Oil Company's (NNOC) responsibilities were limited to calculating prices for the state's participating oil, assessing market prices, negotiating contracts, and monitoring operational costs (Terrisa, 1980). The Nigerian government's involvement in the oil industry started on April 1, 1973, with a 35% equity stake. This equity increased to 55% with companies like Shell, Elf, and Agip due to pressure from the Organisation of Petroleum Exporting

Countries (Tedheke, 1984). OPEC had challenged multinational companies that had operated unchecked by the Nigerian State for years.

The settlement with American majors fell short by 5% of OPEC's 60% equity minimum and became effective on April 1, 1974. The same was true for Shell-BP, Safrap, and Agip-Phillips. However, Mobil, Gulf, and Texaco failed to sign the agreement in March. These events marked a significant shift in Nigeria's oil industry, with the government taking a more active role in oil marketing and production.

Table 1: Nigerian Participatory Interests in the Oil Industry, 1973-1977

S/N	Company	Participation %	Date Acquired	No. of OML/OPL	Production (Barrel/Day)
1.	Shell-BP/SPDC	35	01/04/1973	58	1,240,000
		55	01/04/1974	58	1,380,000
		60	01/07/1979	58	1,360,000
		80	01/07/1979	58	1,360,000
		60	1989	58	n.a
2.	Elf	35	01/04/1971	4	40,000
		55	01/04/1974	4	85,000
		60	01/04/1979	4	78,000
3.	Agip/Phillips	33/half	01/04/1971	4	30,000
		55	01/04/1974	4	125,000
		60	01/04/1979	4	230,000
4.	Gulf	35	01/04/1973	10	368,000
		55	01/04/1974	16	390,000
		60	01/07/1979	16	380,000
5.	Mobil	35	01/04/1973	4	210,000
		55	01/04/1974	4	245,000
		60	01/04/1979	4	380,000
6.	Texaco	55	01/05/1975	6	10,282
		60	01/07/1979	6	56,000
7.	Pan Ocean	55	01/05/1975	1	10,000
		60	01/07/1979	1	10,000

Source: NNPC Joint Venture Department, 2020

The table presented above depicts the Nigerian government's involvement in the oil and gas industry from 1971 to 1979, which remained unaltered until 1986 when the government implemented the International Monetary Fund (IMF) and World Bank's Structural Adjustment Programmes (SAPs). Before the SAPs,

companies like Shell, AGIP/Phillips, Gulf, Mobil, Texaco, and Pan Ocean had complete control over the concessions awarded to them. However, with the Nigerian government acquiring participating interests, the relative holdings of these companies were reduced. At a particular point in time, the Nigerian government holds a minimum of 60% participatory interests in each of these companies. The Joint Venture Department of the Nigerian National Petroleum Corporation (NNPC) is responsible for effective monitoring of oil company operations and safeguarding the government's interests in Joint Venture (JV) operations (NNPC, 1988).

Initially, the government sold most of its participating oil to foreign oil operating companies through a buy-back arrangement. This arrangement involved the government selling 50% of its equity crude oil to other companies at a concessional price, which helped cushion the effect of its participation and enabled the firms to meet previous long-term commitments. The government also sold another 25% of its oil to the companies as option oil, while the remaining 25% was sold to third-party customers without any stake or concession in the country (NNPC, 1990).

#### **NNPC and joint venture partnership in the nation's oil industry, 1977-1990**

In 1977, the Nigerian National Petroleum Corporation was formed by merging the Nigerian National Oil Corporation (NNOC) and the Federal Ministry of Petroleum Resources (NNPC, 1991). The NNOC primarily handled operational tasks, while the ministry was responsible for regulatory duties. The goal was to optimise the government's available human and infrastructural resources to create a more efficient oil agency. To ensure effective operation and regulation, the Corporation was divided into multiple divisions.

Over time, the NNPC has worked to become an international oil company and has partnered with multinational oil companies through joint ventures to market its products (John, 1991). However, acquiring technology for its operations has required heavy reliance on foreign expertise, limiting the Corporation's control over the Nigerian oil industry since most of the mining and transportation technologies are procured from abroad. To access Nigeria's crude oil, prospective customers must demonstrate a commitment of capital resources, equipment, and manpower to the Nigerian oil industry (Etiebet, 1993). Consequently, the Nigerian

government, through the NNPC, established three channels in 1988 to dispose of its oil. These are:

- a. Joint Venture Oil producing companies: These companies would be obliged to put off their share of crude oil produced under the existing fiscal terms. For instance, the market collapsed in 1986 and again witnessed a shift back to the oil-producing companies, averaging about 61% of all sales, while third-party and government-to-government dropped to 28% to 12%, respectively.
- b. Direct Sales to Refineries and their Associated Market Outlets: NNPC is in charge of crude oil sales within refineries in Nigeria and other industries to service the industrial needs of the country. Such companies must make their application to the NNPC for the purchase of crude oil.
- c. Direct Sales to Indigenous and Multinational Oil Companies: To qualify for the purchase of crude oil, such a company must have acquired an Oil Prospecting License (OPL) and must have completed the minimum seismic data acquisition and exploratory drilling programme (NNPC, 1990).

Table 2: Petroleum Sector's Contribution to the Nigerian Economy from 1958-1990

S/N	Fiscal Year	Fed. Govt. Revenue (-N-060)	Revenue from Petroleum (-N-000)	Shell of Petroleum in Total Revenue (%)
1.	1958/1959	154,632	122	0.08
2.	1959/1960	177,648	1,776	1.00
3.	1960/1961	223,700	2,452	1.10
4.	1961/1962	228,962	17,070	7.46
5.	1962/63	231,638	16,938	7.31
6.	1963/64	249,152	29,175	4.04
7.	1964/65	299,132	44,976	5.38
8.	1965/66	321,870	41,884	9.06

9.	1966/67	339,196	29,175	18.26
10.	1967/68	300,176	44,976	13.95
11.	1968/69	299,986	41,884	13.95
12.	1969/70	435,908	29,582	17.31
13.	1970/71	756,605	75,444	25.99
14.	1971/72	1,410,611	196,390	52.46
15.	1972/73	1,389,911	740,185	41.45
16.	1973/74	2,171,370	576,151	71.36
17.	1974/75	5,177,370	1,549,383	80.81
18.	1975/76	5,861,600	4,183,816	78.70
19.	1976/77	7,070,400	5,965,500	77.70
20.	1977/78	8,358,900	5,965,500	71.40
21.	1978/79	7,252,400	4,809,200	66.30
22.	1979/80	12,273,400	10,100,400	82.30
23.	1980/81	15,813,100	4,936,900	31.20
24.	1981/82	10,143,900	8,847,800	67.50
25.	1982/83	10,811,400	7,253,00	67.00
26.	1983/84	11,738,500	8,209,700	69.93
27.	1984/85	15,041,800	10,915,100	72.56
28.	1985/86	12,302,000	8,107,300	65.90
29.	1986/87	25,000,800	19,027,000	75.80
30.	1987/88	27,310,800	20,933,800	76.65
31.	1988/89	50,272,100	41,334,400	82.22
32.	1990	47,657,000	46,244,000	97.24

Source: Compiled from National Planning Office: *The Nigerian Economist* Various Issues, 2020

In Table 2, there is a comprehensive overview of how petroleum resources have impacted the Nigerian economy throughout history, starting with Nigeria's first petroleum export in 1958. Prior to the oil boom and burst, Nigeria relied heavily on agricultural exports like cocoa, rubber, palm nuts, kernel, and palm oil, which were predominantly produced in the Western Niger Delta region. Groundnuts and other agricultural commodities were mainly produced in the Northern region, while coal was abundant in the Eastern region. These formed the foundation of the Nigerian economy, with oil being a relatively insignificant

commodity. However, the collapse of the regional economy and the Nigerian Civil War shifted the nation's focus to the petroleum industry, as oil became the primary commodity used to finance the war. This shift was made apparent by General Yakubu Gowon's claim that Nigeria's problem was not a lack of money, but rather a scarcity of it. As a result, the oil economy overtook the Nigerian political and economic landscape, leading to the collapse of other economic sectors as the nation became increasingly reliant on oil revenues. In fact, oil revenues accounted for 97.24% of the nation's revenue in 1990.

### **Revenue generated from crude oil lifting in terminals, 1998**

In Nigeria, oil petroleum terminals serve as specialized ports that receive large petroleum tankers for exporting crude oil products to other countries. Delta State boasts four fully operational oil terminals - Escravos Oil Port Terminal, Forcados Terminal, Port of Pennington, and Ukpokiti Marine Terminal - all of which are situated offshore along the coastline. These ports are integral to the Nigerian economy, contributing significantly to the revenue generated by the Nigerian Ports Authority. Additionally, multinational oil companies, NNPC, and oil servicing companies operate functional private jetties in Delta State. These private jetties, including NNPC, Shell, Westminster Dredging, NBTC, Chevron, Texaco Overseas, DBN, McDermott, Elf, Nigerian Dredging and Marine, and Julius Berger (NPA, 1998), are vital to the oil industry as they facilitate the transportation of crude oil products and other related materials.

Table 3: NPA Revenue Generated and Expenditure from Oil Port Terminal, 1998

Month	Revenue (N)	Expenditure (N)	Balance (N)
January	62,418,631.72	23,344,457.13	39,074,174.59
February	82,792,852.78	33,777,985.31	49,014,867.46
March	101,237,700.20	40,682,504.42	60,555,195.78
April	55,271,555.00	24,305,756.48	30,965,798.52
May	84,761,321.39	51,971,118.34	32,790,203.04
June	80,236,607.01	24,169,656.43	56,066,950.58
July	50,767,291.53	72,140,555.42	-21,373,263.89
August	80,820,758.13	78,730,782.66	2,089,975.47
September	112,549,042.10	104,381,364.85	8,167,677.30
October	131,192,909.48	30,597,722.64	100,595,186.7
November	128,599,068.80	26,156,716.83	102,443,351.9

December	300,013,189.32	67,298,548.60	232,714,640.7
Total	1,270,750,927.46	444,960,141.91	693,104,757.7

Source: Compiled by Authors, 2020

Above is a table detailing the significant monetary contribution of various oil port terminals to the Nigerian economy through the Nigerian Port Authority. The oil port terminals located in the Niger Delta alone contribute N1, 270 million to the revenue of the Nigerian Port Authority. The total expenditure of the port amounts to approximately N444 million, which results in an operating surplus of N693 million.

It's crucial to highlight that the Delta Port Authority was found to be excessively lavish in its spending, which has jeopardized the revenue-generating potential of oil terminals in the federation account. Additionally, it's worth noting that the funds generated from port activities, specifically oil petroleum terminals and jetties are not included in the 13% Derivation Fund designated for States. Instead, these funds are distributed across the Federal Government, 36 States, and 774 Local Government Areas of the federation.

### **The Flow of Oil Revenue into Federation Account**

In the Nigerian oil and gas industry, crude oil and gas are classified into two categories for lifting and export: Equity Export and Domestic Utilisation. The Nigerian National Petroleum Corporation (NNPC) markets and lifts these categories, with the proceeds being remitted into the Federation Account. According to the NNPC Monthly Report, Equity Export receipts are paid directly into the Federation Account after Joint Venture (JV) Cash Calls are adjusted. Domestic Crude Oil is allocated for refining and is mainly assigned to the NNPC's three refineries in Warri, Port Harcourt, and Kaduna to meet domestic product supply. However, there is currently no evidence of these refineries functioning. NNPC pays the Federation Account for Equity Export and Domestic Supply after adjustments for crude oil and product losses, as well as pipeline repairs and management costs incurred during the period.

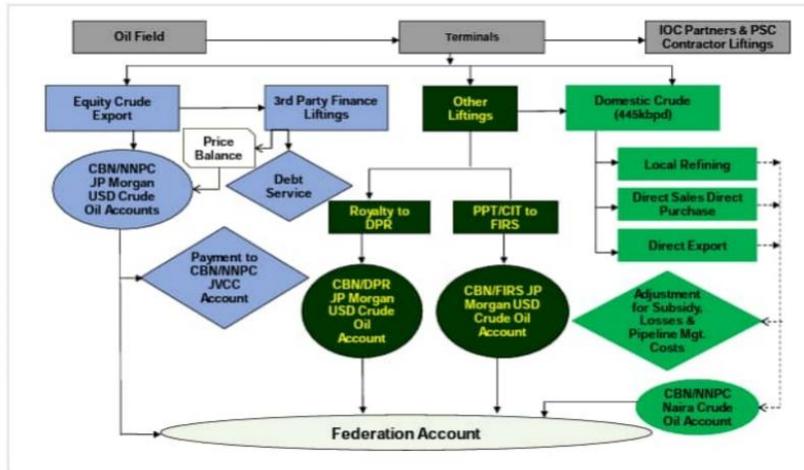


Figure 1: Flow of Oil Revenue into Federation Account

Source: NNPC Monthly Report 2019

The diagram provided illustrates how revenue generated by Nigeria's oil industry is channelled into the Federation Account. Apart from lifting crude oil and gas for its own use, NNPC can also do so on behalf of the Department of Petroleum Resources (DPR) and Federal Inland Revenue Service (FIRS). The funds generated from these activities are then remitted into the Federation Account. Third-party finance lifting, on the other hand, refers to crude oil and gas lifted from fields that have been financed using an alternative loan facility. Before remitting the balance into the Federation Account, the debt liabilities of this type of lifting must be serviced.

It is crucial to keep in mind that the servicing of debt liabilities for alternate funding in the form of loans and Nigeria's equity of 55% are necessary. However, NNPC has not been able to fulfil its share of the liabilities under the JV arrangement. As a result, the partners have had to borrow from foreign banks to maintain oil production. It is believed that Nigerian banks cannot borrow money from investors in the oil industry. Furthermore, since the cost of running oil exploration and production is determined by multinational oil companies and with the inflation of the running cost, Nigeria has been relegated to a junior partner role in the JV partnership (Ezekiel, 2020)



Figure 2: Summary of Oil and Gas Sales and Inflow into Federation Account

Source: NNPC Monthly Report 2019

The figure displayed above provides a comprehensive overview of the sales figures for both oil and gas, in addition to the detailed analysis of the proceeds that have been deposited into the Federation Account. As explained in the preceding paragraphs, these proceeds are a direct result of the sales of oil and gas. This visual representation helps to make it easier to understand the overall sales and payment figures with each other.

### Politics in the Oil Revenue-Sharing Formula, 1958-1998

The Niger Delta region, like other mineral-producing areas, is greatly affected by oil and gas exploration and exploitation activities. Although the government and companies make efforts to mitigate the suffering of the people, the impact of these activities is immeasurable. The SPDC Annual Report of 2005 highlights the numerous challenges faced by the Niger Delta region, including providing basic services, education, employment, and law and order to millions of people in an area that is almost as large as England. It is not new knowledge that the people of the region have been protesting since before the country's independence and even before the discovery of oil, citing neglect due to the area's unique terrain. This was made apparent by the Willinks Commission, which was established in 1958, The Commission, however, posits that:

We were impressed by the arguments indicating the need of those who lived in the creeks and swamps of the Niger Delta are very different from those of the interior. We agree that it is not easy for a Government or a Legislature operating from far inland to concern itself, or even fully understand the problems of the territory where

communications are so difficult, buildings so expensive, and education so scanty (Willink Report, 1958 p.2).

The problems of the Niger Delta were succinctly addressed by the Saudana of Sokoto, Ahmadu Bello, Premier of the Northern Region after the area became an oil-producing area when he argued:

Those who may feel that the problems of the oil-producing areas are not minded that Nigeria is an entity within one environment; decay in one part will ultimately affect the rest of the nation. The fate of oil-producing communities should be a concern for all (The Technical Committee, 2008, page).

Back in 1963, the Nigerian constitution was amended to include a formula for distributing revenue generated from exporting minerals, particularly oil. Under this arrangement, the Federal Government was responsible for paying each region 50% of the royalty or mining rent for any mineral exported from that region. Meanwhile, 30% of the royalties and rents were pooled and shared among the Northern, Western, and Eastern Regions. It's worth noting that the Midwestern Region was established in 1964, comprising Edo and Delta States.

Sadly, the Gowon administration abolished the revenue-sharing formula and section of the Constitution related to the States' finances on July 1, 1969. The decline of the regional economy and the Nigerian Civil War's impact on the nation's economy made this decision inevitable. Notably, Chief Obafemi Awolowo served as a Federal Commissioner for Finance from 1967 to 1971 and is considered an elder statesman, noted:

As a national wealth and gift of nature, no community should lay any claim to crude oil. Nor should the host areas where it is explored and produced merit any special treatment in the form of fund allocation, irrespective of the attendant ecological crises that it gave rise to (Omoweh, 2008, page).

During the period of Yakubu Gowon's administration, crude oil revenues were directed exclusively to the Federal Government. It was believed that this would help the government fund its efforts to win the war at that time (The Technical Committee, 2008). Subsequently, the governments of Murtala Muhammed and Olusegun Obasanjo also followed suit. This meant that all revenues generated

from crude oil were deposited into a central account and not remitted to the states or communities where the resources were sourced.

In 1981, the government of Shehu Shagari changed the allocation formula and created a fund administered by the Federal Government. The fund was designed to develop the mineral-producing areas of the country and was initially funded with 1.5% of oil income. However, in recent years, the allocation has been paid directly to the oil-producing communities as compensation for environmental disturbances and in recognition of their special contributions (NNPC, 1991).

To ensure that the funds allocated to the oil-producing communities were effectively managed, President Ibrahim Babangida established the Armed Forces Ruling Council (AFRC) Committee. The committee was chaired by General Paul Omu and had the mandate to review existing regulations for the disbursement of the fund and recommend more effective methods (NNPC, 1991). The AFRC also formed a presidential committee to implement General Omu's recommendations. As a result, State Task Forces were created, comprising Bendel State, Rivers State, and others, to ensure the full implementation of development projects in the oil-producing areas. Furthermore, the report recommended an increase in the allocation from the Federation Account to the oil-producing communities and the establishment of an intervention agency, the defunct Oil Mineral Producing Area Development Commission (OMPADEC), to manage these funds for the development of the host communities.

In 1991, the Nigerian government reviewed the statutory allocation of funds to oil-producing areas from 1.5% to 3% and the ecological fund from 1% to 2%. The decision was made in response to the agitations of the people who were experiencing the negative effects of oil production on their communities. The government's action showed a willingness to acknowledge the plight of the oil-producing communities and an awareness of the impact that the industry was having on the people living in the area.

Despite this, agitations continued in many parts of the Niger Delta region. Ken Saro-Wiwa, an environmentalist, and Claude Ake, a political economist, were among the leaders who mobilized the people of the Niger Delta against what they saw as environmental poverty. Their efforts, among others, highlighted the need for the government to address the concerns of the people in the region.

In 1994, the people of Erhoike, an oil-producing community in the Kokori clan of Ethiope East Local Government Area, protested against the Shell Petroleum Development Company's (SPDC) operation and treatment of the community (Delta State Government, 2003). This protest happened in the same year that Ken Saro-Wiwa and eight chiefs were executed by the military junta of General Sani Abacha.

Group Captain Kefas, who was a military administrator of Delta State at the time, acknowledged that the whole nation suffered from the crisis caused by these agitations (Response by the Military Administrator, 1994). He argued that the crisis was due mainly to the elites' incitement of the people against the government. However, Colonel Bassey Asuquo claimed that the crisis was a result of the lack of basic facilities such as roads, water, electricity, living accommodation, and transport, which were needed to improve the people's lives in Delta State (Welcome Address, 1995).

The government recognised the need to address these challenges and proposed an increase in revenue allocation to oil-producing communities in the state as a means of settling them. This was seen as a positive step towards addressing the concerns of the people and improving their lives.

### **Oil Revenue Sharing Formula 2000-2012**

The Nigerian Federal Government implemented the 13% Derivation Fund to share oil revenues with joint venture partners, and in the year 2000, it signed a Memorandum of Understanding (MoU) with various oil companies operating in the nation's oil industry. The MoU provided precise terms for sharing oil revenues between the government and the joint venture partners.

The MoU allowed oil companies to receive a fixed margin within an oil price range of \$15 to \$19 a barrel, with the remaining amount shared among private stakeholders. For instance, if the oil price is \$19 per barrel, the government takes in taxes, royalties, and equity shares worth \$13.78 per barrel, while the remaining \$1.22 is left to be shared among the private stakeholders. The government's share increases with an increase in oil prices, and at \$50 per barrel, it comes to \$44.13 (Ugolor, 2005).

Furthermore, the Federal Government allocates 13% of its revenues from extractive industries, such as oil and gas, to the states where such production

occurs. Additionally, it returns a considerable proportion of the revenue it receives to State Governments (31.1%) and Local Government Areas (15.21%). According to a Government Statistical review, the total amount allocated in 2004 by the Federal Government to the 36 States was \$6.2 billion, with a significant proportion coming from the 13% Derivation Fund from the Federation Account. This fund was primarily distributed among the four states (Delta, Akwa-Ibom, Rivers, and Bayelsa) where the SPDC's operations are based.

Other oil companies, both multinational and national, also contribute to the Federation Account through taxes, royalties, and other levies. The 13% Derivation Fund is later shared among the oil-producing States of the Niger Delta.

### **Global Influence on Nigeria's Oil Revenue**

Fluctuations in global oil prices have significantly impacted revenue distribution to Nigerian states, primarily because the country relies heavily on oil exports for government earnings. Nigeria's Federation Account Allocation Committee (FAAC) distributes revenue from oil sales, taxes, and other sources to federal, state, and local governments. When oil prices are high, such as during the 2011-2014 boom when prices averaged above \$100 per barrel, state allocations increase, enabling higher budgets for infrastructure, salaries, and development projects (Central Bank of Nigeria [CBN], 2015). However, during price crashes, like the 2016 dip below \$30 per barrel or the 2020 COVID-19 slump, FAAC disbursements shrink drastically, leading to unpaid salaries, stalled projects, and increased borrowing by states (BudgIT, 2020). This volatility exposes Nigeria's over-dependence on oil and the failure to diversify revenue sources, leaving states vulnerable to external shocks.

The impact of oil price swings is further exacerbated by Nigeria's derivation principle, where oil-producing states receive an additional 13% of mineral revenue. While this boosts earnings for states like Delta, Akwa Ibom, and Rivers during high-price periods, their economies also suffer disproportionately during downturns (Niger Delta Budget Monitoring Group, 2018). Non-oil states, meanwhile, face even sharper shortfalls since they rely almost entirely on federal allocations. For instance, during the 2016 crisis, many states could not pay workers for months, triggering protests and strikes (Premium Times, 2016). The instability underscores the need for fiscal reforms, including a sovereign wealth

fund (like Norway's) to cushion price shocks and stronger internally generated revenue (IGR) mechanisms to reduce dependence on oil (World Bank, 2021).

### **Necessary Measures for Oil-Bearing Communities in the Niger Delta Area**

To address the neglect felt by oil-producing communities in the Niger Delta, immediate and long-term measures must focus on environmental justice, economic inclusion, and governance reforms. First, a rigorous enforcement of pollution clean-up, expanding the Ogoni cleanup to other regions, and holding oil companies accountable for spills and gas flaring through heavy fines and remediation funds is critical. Simultaneously, economic empowerment programmes should prioritise local hiring in oil operations, skills training in renewable energy and agribusiness, and direct revenue-sharing schemes managed transparently by community trusts. Infrastructure development, including clean water, healthcare, and roads, must be fast-tracked, while security reforms should integrate ex-militants through job placements and community policing to curb oil theft and unrest.

Additionally, political inclusion is essential to ensure communities have a voice in resource management. This includes revising the Petroleum Industry Act (PIA) to grant host communities greater control over development funds and advocating for true fiscal federalism to increase revenue allocation. International partnerships with bodies like the UN can provide oversight and funding for sustainable projects, while diversification into eco-tourism and tech hubs can reduce oil dependency. Without these steps, combining accountability, investment, and participatory governance, the cycle of neglect and conflict will persist, further marginalising the Niger Delta's people despite their resource wealth.

### **Conclusion**

There are three primary perspectives from which the distribution of petroleum revenue in the Nigerian political economy can be viewed. The sharing of petroleum revenue with oil multinational companies, who provide financial and technological investments for the effective production of oil and gas, is the most discussed perspective in this context. The Federal Government obtains oil revenue through taxation and royalties from both multinational and national companies. Additionally, oil tankers that dock at most of the port terminals pay duties to the Nigerian Port Authority (NPA). The profits accruing from the production of oil in its Joint Investment Partnership and Production Sharing

contract are not included in the Federation Account as part of the oil revenue. The money received from oil is deposited into the Federation Account, and it is shared with various states of the Federation. The oil-producing states receive a percentage of the revenue, which increases over time. The politics surrounding the allocation of oil revenue to the Niger Delta states without directly involving oil-bearing communities is responsible for militancy and youth restiveness in the area, as the communities often feel unsatisfied with the allocation process.

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