Market reforms strain the Nigerian federation

Nigeria copes with tensions between the oil rich states and the rest.

BY *KINGSLEY KUBEYINJE*

In Nigeria, the oil sector is the chief money-spinner – whatever happens there has a direct effect on the Nigerian federation. Oil provides the bulk of the money that propels the operations of the three levels of government: the federal government, 36 state governments and the 774 constitutionally recognized local councils. So in January, when the federal government announced a policy of accelerated privatization coupled with economic liberalization, the oil sector was the first to feel the effects.

Oil-producing states in the southern part of the country are starting to reap significant benefits from the opening of the sector to greater private investment. This has caused state governments in northern Nigeria — whose areas do not produce oil — to mount heavy pressure on the federal government to ensure the immediate resumption of oil exploration in their part of the country, particularly in the Chad Basin and the Benue trough.

The opening up of the oil sector is steadily translating into more jobs and investment opportunities, provision of more infrastructure and bigger internally-generated revenue — developments which tend to favour states in the oil-rich south, as well as their citizens. The government of oil-rich Rivers state, for example, has gone into partnership with three foreign firms, with the sole objective of acquiring the 51 per cent majority shares in the two federal refineries located in the state. The refineries are among the scores of federally owned public enterprises slated for privatization, under an IMF-World Bank prescribed program. The Akwa Ibom State government, also in the south and an oil-producing state, is set to build a refinery in partnership with some private investors.

Nigeria adopts IMF and World Bank reforms

The federal government agreed to market-oriented reforms to attract more private investment to the various subsectors of the oil industry in 1999, in an agreement with the International Monetary Fund. In January 2004, President Olusegun Obasanjo announced an "accelerated privatization" of the oil industry.

With a US$28-billion debt overhang on coming to power in May 1999 — which has steadily grown to US$32.9 billion early this year — the federal government agreed to the Bretton Woods institutions' guided reform program, which included the opening up of the economy and the privatization of all non-performing state-owned enterprises. Nigeria needed the support of the IMF and the World Bank to keep the cash flow from international

Port Harcourt in the oil-producing region of Nigeria

creditors open and also to get its economy out of the thickets. So far, the federal government has realized about US$310-million from the sale of some of the enterprises, including banks, insurance and cement firms.

As a strictly economic proposition the move to open up the oil subsectors appears to be paying off.

For instance, the Canadian Petroleum Institute was widely reported recently in the Nigerian press as having put together a US$100-million offshore equity fund to assist cash-strapped potential investors to participate in oil exploration and production in Nigeria (as well as in some other African States). Before now, participation in the petroleum sector was in large measure a "closed-door affair", dominated largely by the multinationals with which the federal government had joint venture agreements. In the area of oil exploration and production, only the majors seemed to have the requisite capital, technology and expertise.

Federal government still dominates joint ventures

Under the new policy, the federal government has granted 24 licences to 31 local companies to produce crude oil in officially designated "marginal fields". These are rather small oil fields in the Niger delta in southern Nigeria, each with reserves of up to 17 million barrels of crude oil and capable of producing up to 10,000 barrels daily. The fields were abandoned many years ago by the multinationals because they were considered unprofitable.

The federal government has also granted 18 provisional licences to some firms to set up private refineries. Many states in southern Nigeria, and some of their better-heeled citizens, are substantial investors in some of the companies.

As part of the privatization policy, the federal government is set to privatize the Nigerian National Petroleum Company itself and its almost one dozen fully-owned subsidiaries. While 51 per cent of the shares will be sold to major investors, the remaining 49 per cent will be sold only to Nigerians.

Currently the federal government, through the Nigerian National Petroleum Corporation, has an average 57 per cent equity in all the joint venture agreements it has with multinational oil companies operating in the country. Even after privatization the federal government will keep this

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1. Oil in the constitution

Natural resource ownership in Nigeria is governed by the 1999 Constitution, which also provides for the distribution of oil revenues among all the states. The ownership question is addressed in section 44 subsection (3) which states that : "... the entire property in and control of all minerals, mineral oils and natural gas in under or upon any land in Nigeria or, in under or upon the territorial waters and the Exclusive Economic Zone of Nigeria shall vest in the Government of the Federation..."

The questions of distribution is addressed in section 162, sub-section (2) :"The President...shall table before the National Assembly proposals for revenue allocation from the federal Account and in determining the formula, the National Assembly shall take into account the allocation principles especially those of population, equality of states, internal revenue generation, land mass, terrain as well as population density..."

share. This coupled with its constitutional position will allow it to continue to play a dominating role in the national economy (*see Box 1*).

Northern states demand their share

All this is creating friction between oil and non-oil producing states — friction that is exacerbated by the practice of allocating 13 per cent of oil revenue to the producing states. This constitutionally prescribed special allocation, which runs into hundreds of millions of naira for each oil-bearing state, is the icing on the cake in the monthly allocation of funds to states from the federation account (*See box 2.*)

Owing to competing demands and ever-declining funds, the federal government, for now, appears not too keen on compelling oil multinationals in the country to embark on another round of oil exploration in the north. Such efforts had been fruitless in the past and had cost a whopping US$374 million. The northern states tend to regard the unenthusiastic disposition of the federal government to their demand as a demonstration of its "insensitivity" to their aspirations.

The northern states believe that oil can be found in large quantities in the Chad Basin, and they can point to its production in the Chad Republic's section of the Basin.

2. Who gets what from Nigeria's oil

Nigeria produces 2.3 million barrels of crude oil daily. Earnings from the sale of crude oil account for 40 per cent of the nation's GDP, 80 per cent of its total revenue and 95 per cent of its foreign exchange earnings. Below are revenue allocations to some selected oil and non-oil producing states.

State	federal allocation	allocation to each state
1. Abia	1,037,347,233.58 naira	262,240,525.56 naira
2. Akwa Ibom	1,062,315,132.97 naira	2,472,435,790.43 naira
3. Bayelsa	840,263,873.01 naira	3,069,322,769.32 naira
4. Borno	1,348,852,300.10 naira	NIL
5. Kano	1,711,666,760.40 naira	NIL
6. Lagos	1,575,021,719.80 naira	NIL

*** Prevailing exchange rate $1 U.S. = 130 naira
Source: Revenue Mobilisation Allocation and Fiscal Commission (RMAFC)

The northern state governments hold the view that the non-discovery of oil in the Benue trough and the Nigerian section of the Chad Basin is, somehow, "deliberate and political", designed to keep the geo-political zone economically and permanently dependent on revenue generated in southern Nigeria.

"What is good for southern Nigeria should equally be good for northern Nigeria." says Adamu Musa, a political activist and a strong voice for the north. "As the federal government is pumping huge resources into the discovery of new oil fields in the south, it should do the same in the north. To deny the north the possibility of enjoying oil wealth is tantamount to robbing Peter to pay Paul."

Governor Modu Sheriff of Borno - whose state would be a principal beneficiary in the event of the discovery of oil in commercial quantities in the Chad Basin – warns that northerners will continue to insist that oil exploration resume in their geo-political zone. He points out that it took a lot of effort before oil was discovered in commercial quantities in Oloibiri in the southern state of Bayelsa in 1956. And he recently reminded the management of Nigerian State-owned oil firm, the Nigerian National Petroleum Corporation (NNPC), of the need to resume the oil search in the Chad Basin without delay. He said it was only fair to give all parts of the federation a sense of belonging in the deployment of resources.

Everybody wants a piece of the action

Even in the south, non-oil producing states are beginning to join the oil bandwagon. For example, Ogun State, a non-oil producing state in south western Nigeria and the home state of President Olusegun Obasanjo, has taken the bull by the horns. Its Governor, Gbenga Daniels, has informed the Nigerian National Petrolem Corporation that it has secured a US$50-million loan to undertake seismic studies on the oil and gas deposits in the state.

"We also want to be an oil-producing state. We believe that oil and gas exist in commercial quantities in Ogun waterside and Tongeji Island. Geological surveys carried out 40 years ago indicated this. Full exploration of the deposits could commence after the studies," he said.

Shortly before his death last year, the King of Lagos, Adeyinka Oyekan, publicly dramatized his desire to see that Lagos also joins the league of oil producers. As if he had no confidence in modern geological maps, the then 85-year-old monarch sent for geological surveys, prepared by the English colonialists at the turn of the 20th century and which, he claimed, indicated that Lagos had oil deposits. He gleefully displayed the maps in his palace and called on federal authorities and the NNPC to ensure the immediate search for oil in the state.

In a politically volatile and religiously divided nation such as Nigeria — where petty quarrels between two cantankerous housewives or unruly school boys could turn into full-scale ethnic clashes — the various rumblings, particularly from the north, could be quite worrisome, more because President Obasanjo is from the south, although not from an oil-producing state.

So important is oil revenue in the politically-fragile Nigerian federation that discerning citizens often admit that it is the umbilical cord that ties the diverse ethnic groups together. "Remove the oil wealth and the Nigerian federation will crumble like a pack of cards", some Nigerians have said.