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Economic Diversification and Fiscal Sustainability of Oil-Producing States

Case Study: Bayelsa State

About BudgIT

BudgIT Foundation is a civic tech organisation raising the standards of transparency, accountability, and service delivery in the Nigerian government and governance. BudgIT uses creative technology to simplify public information, stimulate a community of active citizens, and enable their right to demand accountability, institutional reforms, efficient service delivery, and an equitable society.

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Executive Summary

This report analyses the economic diversification and fiscal sustainability of oil-producing states in Nigeria, using Bayelsa State as a case study. The global transition from fossil fuels to renewable energy presents significant challenges for economies heavily dependent on oil and gas revenue. In Nigeria, the Federal Accounts Allocation Committee accounts for more than 80% of the income generated by oil-producing states, making them particularly vulnerable to fluctuations in global oil prices.

Bayelsa State, which derives over 90% of its revenue from federal allocations in recent years, faces significant risks as global oil demand declines. This situation underscores the urgent need for the state to diversify its economic base. Recent assessments indicate that Bayelsa's fiscal performance remains concerning, ranking 35th in a 2024 evaluation, with its internally generated revenue (IGR) growing by at least 50% from N18.39 billion in 2022 to N27.20 billion in 2023. Commendably, the State's IGR further improved by 174% to N74.4 billion in the 2024 fiscal year, but a concurrent leap in federal transfers sustained FAAC dependence at about the same level (91.43%). The State's heavy reliance on federal allocations, which accounted for 92.17% of its total revenue in 2023, poses a significant threat to its fiscal sustainability.

The research highlights the importance of including subnational governments, such as Bayelsa, in national discussions on energy transition, as they play a crucial role in fostering local economic resilience. Despite the state's rich natural resources, non-oil sectors such as agriculture, fisheries, and tourism remain underdeveloped and contribute minimally to revenue generation. Efforts to diversify revenue sources are essential for enhancing fiscal resilience and aligning with broader national and global energy transition goals.

Bayelsa State's current economic structure, dominated by the oil sector, necessitates strategic investments in non-oil industries. Opportunities exist in the blue economy, agriculture, information and communication technology (ICT), manufacturing, and tourism. By focusing on these areas, Bayelsa can create new revenue streams, stimulate job creation, and foster sustainable economic growth.

Bayelsa State stands at a pivotal moment, where proactive measures to diversify its economy are crucial to its long-term fiscal sustainability. By investing in non-oil sectors, reforming tax administration, and engaging local stakeholders, the state can mitigate the risks associated with declining oil revenues. This strategic shift will not only enhance economic resilience but also position Bayelsa as a key participant in Nigeria's evolving economic landscape.

1

Introduction

1.1 Background and Context

The global shift from fossil fuels to renewable energy (the energy transition), driven by climate change, is a major driver of declining global oil prices. This decline in global oil prices poses a significant threat to economies that are largely dependent on oil and gas for their revenue. FAAC revenues account for over 80% of the revenues accruing to oil-producing states, which threatens their fiscal sustainability.[1]

The energy transition in Nigeria requires collaboration between the federal and subnational governments; however, the prevailing emphasis on the federal level often neglects the vital contributions of subnational governments, especially in oil-rich states. These subnational entities play a crucial role in fostering socio-economic resilience during the transition, especially given their proximity to citizens and their understanding of local needs.

Bayelsa State is one of the ten oil-rich states in Nigeria, with over 80% of its revenue derived from federal government allocations. The fiscal sustainability of Bayelsa State is severely threatened due to its reliance on federal transfers, which are primarily derived from oil revenue. As renewable energy sources are increasingly adopted worldwide, the oil demand is facing significant threats. This shift highlights the pressing need for local economies, particularly in Bayelsa State, to diversify their economic base. With the traditional reliance on oil revenues becoming less sustainable, Bayelsa State must proactively explore alternative economic avenues.

According to BudgIT's State of States 2024 Report,[2] Bayelsa State's fiscal performance remains a concern, ranking 35th, and its internally generated revenue (IGR) grew from N18.39 billion in 2022 to N27.20 billion in 2023. The state's income profile shows a heavy reliancne on federal allocations, which will significantly threaten the state's sustainability. However, the state maintains that FAAC revenue should be considered IGR because oil and gas exploration falls outside its remit. However, global energy transitions, oil price volatility and Nigeria's fiscal crisis have exposed the state's vulnerability to oil revenue shocks. Despite the potential of non-oil revenue sources, non-revenue sectors such as agriculture, fisheries, and trade remain underdeveloped, contributing minimally to internally generated revenue (IGR).

A further breakdown of the IGR shows that 87% of revenue came from taxes, while the remaining 13% was from non-tax sources. In 2023, FAAC allocation to Bayelsa State amounted to N374.89 billion, translating to 92.17% of total state revenue.[3]

This research focuses on promoting policies that enhance economic diversification and fiscal sustainability in Bayelsa State. The aim is to ensure that subnationals are recognised in national discussions, allowing Bayelsa State to contribute effectively to broader economic and environmental objectives while addressing its unique challenges and opportunities.

Diversifying revenue sources is critical for fiscal sustainability of Bayelsa State. As the demand for oil faces significant threats from the global shift to renewable energy, the state must seek viable non-oil revenue streams to mitigate the risks posed by volatile oil markets. Prioritising economic diversification will not only strengthen Bayelsa State's fiscal resilience but also align with national and global energy transition goals.

This diversification is essential to ensuring long-term economic stability and environmental sustainability in an evolving energy landscape, positioning Bayelsa State as a proactive participant in Nigeria's future economy.

1.2 Methodology and Scope

This research employs a mixed-methods approach, integrating desk research and analysis with focus group discussions to provide a comprehensive understanding of Bayelsa State's economic diversification and fiscal sustainability.

A thorough fiscal assessment of Bayelsa State was conducted to quantify its dependency on oil and gas revenues. This involved analysing financial data from various government sources, including budgets and revenue reports, to identify trends in revenue generation and pinpoint vulnerabilities associated with fluctuating oil markets.

To gather qualitative insights, focus group discussions were held with key stakeholders in Bayelsa State, including community leaders, representatives from civil society organisations, and government officials. These discussions aimed to capture local perspectives on economic resilience and the challenges posed by the energy transition. By engaging diverse viewpoints, the research seeks to highlight the state's unique socio-economic dynamics.

This research focuses on Bayelsa State's efforts to diversify its economy and enhance fiscal sustainability amid a changing energy landscape. Key areas of exploration include identifying viable non-oil revenue streams and assessing the state's financial health, while emphasising the importance of local voices in shaping policies that support economic resilience and sustainable development. This comprehensive approach ensures that the research not only quantifies Bayelsa State's economic dependencies but also provides actionable insights for policymakers and stakeholders to facilitate a successful energy transition.

1.3 Objectives

1. Advance a just energy transition in which oil-producing states mitigate the economic and social transition risks.
2. Provide concrete policy, legislative and regulatory recommendations that enable oil-producing states to respond better to the energy transition.
3. Highlight opportunities for economic diversification to promote fiscal sustainability in subnational governments.

2

National and Sub-national Oil Dependency- Fiscal Sustainability

2.1 Nigeria's Dependency on Oil and Gas Revenue

Oil and gas revenue account for a significant share of Nigeria's income and foreign exchange. In Q4 2022, oil represented nearly 80% of total exports, and by the end of 2021, it accounted for 41% of federally collected revenue. This heavy reliance exposes the country to fluctuations in the international crude oil market. Despite ongoing calls to diversify the economy, Nigeria's dependence on oil and gas has continued for decades. The urgency of diversification has never been clearer, especially amid the energy transition in the coming decades.

Bayelsa State, another crucial oil-producing state, plays a significant role in this revenue stream, hosting numerous oil fields and reserves. The state's fiscal structure is intricately linked to oil revenue, with a significant portion of its budget derived from the Federation Account Allocation Committee (FAAC). This reliance renders Bayelsa vulnerable to fluctuations in global oil prices, leading to fiscal instability during downturns, such as the 2014 commodity crash and the 2020 pandemic, which highlighted the state's limited capacity for generating internal revenue.

2.2 Impact of Energy Transition on Oil and Gas Demand

The global energy transition, driven by climate goals and the shift to renewable energy, is reshaping oil and gas demand. The International Energy Agency's (IEA) 2022 World Energy Outlook projects a decline in oil demand from 95 million barrels per day to under 25 million by 2050, under a net-zero emissions scenario, with natural gas demand dropping from 4.2 billion to 1.2 billion cubic meters.[4] Key export markets for Nigeria's oil, such as India and Spain, have committed to achieving carbon neutrality by 2030–2050, which is expected to reduce demand for Nigerian crude. Since January 2025, Brent crude has traded between $60 and $78 per barrel, according to Intercontinental Exchange (ICE) benchmarks. After peaking in the second quarter, prices have fallen around 15%, settling in early October between $62 and $67 per barrel. This, however, poses a fiscal risk for oil producers such as Nigeria and Bayelsa State. For Bayelsa, a state heavily dependent on oil production, this transition poses considerable risks. The exit of international oil companies from Nigeria in favour of greener portfolios threatens foreign investment in the region.

Moreover, environmental degradation from oil activities has already strained local livelihoods, with pollution affecting agriculture and fishing. If not managed effectively, the energy transition could exacerbate these challenges. However, it also presents an opportunity for Bayelsa to explore investments in renewable energy, utilising its natural resources to create new economic avenues.

2.3 Projected Impact of Falling Oil Demand on Revenue in Nigeria

The projected decline in oil demand is expected to have a profound impact on Nigeria's fiscal landscape, with significant implications for Bayelsa. Analysis indicates that oil and gas revenues could decline sharply in the coming years. For Bayelsa, which relies heavily on FAAC allocations and a 13% derivation principle (mandating 13% of oil revenue to be allocated to oil-producing states), this translates to a severe fiscal shortfall. Historical data show that oil-producing states have benefited significantly from FAAC distributions, but a continuous decline in oil demand could jeopardise these allocations.

This would result in budget cuts and reduced public services, disproportionately impacting vulnerable populations. The state's limited internal revenue and a weak tax base further exacerbate its fiscal vulnerability. Strengthening fiscal resilience and diversifying revenue sources are critical for Bayelsa to navigate these challenges.

2.4 Impact of Fading Oil and Gas Revenues on Subnationals

The decline in oil revenues will profoundly affect Nigeria's subnational governments, particularly those in oil-producing regions like Bayelsa. With over 90% of its budget reliant on federal allocations, Bayelsa faces significant risks to its fiscal sustainability. Unlike states that have diversified their economies, Bayelsa remains heavily dependent on oil revenue, limiting its financial flexibility.

The implications include:
Fiscal Instability: FAAC allocations to state governments have increased in recent years. However, the reverse is equally probable and can be triggered by shocks beyond the control of the federal or state governments, as evidenced by previous upsets in 2008 (global recession), 2016 (oil supply glut), and 2020 (COVID-19). Reduced FAAC allocations could strain Bayelsa's ability to meet essential expenditures, leading to potential social unrest.

Socioeconomic Challenges: High unemployment rates, particularly among youths, could worsen, fueling discontent and instability. Historical instances of unrest in the state underscore the risks associated with economic decline.

Environmental Legacy: Continued reliance on oil has resulted in environmental degradation, with pollution affecting local agriculture and fisheries. A drop in revenue may limit funds available for remediation efforts, perpetuating cycles of poverty.

Inequity: The unequal distribution of oil wealth has historically marginalised many residents in Bayelsa. As revenues decline, the risk of deepening socioeconomic disparities increases.

Bayelsa stands at a critical crossroads as global energy transitions threaten its fiscal stability. The state's heavy reliance on FAAC allocation underscores the urgency for a comprehensive fiscal reset. By enhancing internal revenue generation, investing in diverse economic sectors, and reforming fiscal governance, Bayelsa can build resilience and chart a path toward sustainable development, reducing its vulnerability to fluctuations in the oil market.

3

Energy Transition Risk

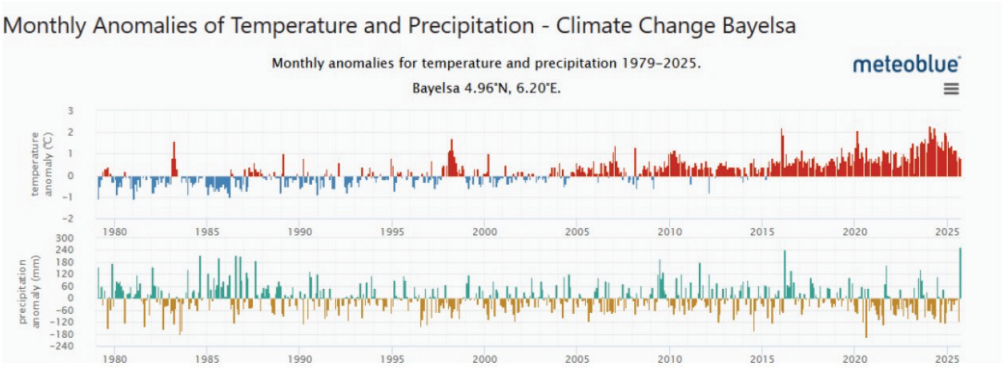
For decades, Nigeria has built its economic strength around oil, relying on the sector for most of its export earnings and a substantial share of government revenue. By Q4 2022, crude oil accounted for nearly 80% of the country's exports, and in 2021, it generated over 40% of federal income. This narrow revenue base leaves Nigeria highly exposed to global price swings and market disruptions. With the world steadily moving toward renewable energy and reduced reliance on fossil fuels, the need to broaden Nigeria's economic foundation has become urgent.

Bayelsa State, rich in natural resources and strategically located along the coast, plays a vital role in Nigeria's oil and gas sector.

In 2020, over 90% of Bayelsa's income came from FAAC revenues, yet this reliance poses significant risks amid the accelerating global shift towards renewable energy. Potential declines in oil revenue, stranded assets, and reduced federal allocations threaten the state's economic stability. Coupled with infrastructure deficits and high youth unemployment, these challenges highlight the pressing need for a transition towards more sustainable and inclusive development. Preparing for the energy transition is not just an opportunity for diversification; it is essential for mitigating fiscal risks and ensuring long-term economic resilience in both Nigeria and Bayelsa State.

Effects of Climate Change

Figure 1: Bayelsa State monthly anomalies for temperature and precipitation, 1979-2025



Source:https://www.meteoblue.com/en/weather/historyclimate/change/bayelsa_nigeria_13315957

The top graph in Figure 1 displays the temperature anomaly for each month from 1979 to the present. This anomaly indicates the extent to which temperatures were warmer or cooler than the 30-year average from 1980 to 2010. Red months signify warmer temperatures, while blue months indicate cooler ones. Across many regions, there has been a trend of increasingly warmer months over the years, highlighting the global warming linked to climate change. The implications are numerous. Local biological and aquatic ecosystems are significantly affected.

Apart from the reduction in fish capture due to the migration of sea animals, local marine ecosystems are threatened by the imbalance created by the chain of linkages to rising temperatures.

The lower graph illustrates the precipitation anomaly for every month since 1979. This anomaly reveals whether a month received more or less precipitation than the 30-year climate mean from 1980 to 2010. In this graph, green months represent wetter conditions, while brown months denote drier ones.

Warmer temperatures also translate to increased precipitation, resulting in floods that strain existing drainage infrastructure, cause erosion, damage buildings, destroy crops and increase exposure to health risks, especially for vulnerable populations.[5]

A 2024 flood situation report[6] identified 218,210 individuals in 36,345 households affected by the floods in various ways, including damage to houses and disruption of livelihoods.

Revenue Composition

Bayelsa State ranked 35th out of 36 in the State of States 2024 Fiscal Performance Index, maintaining its 2022 position. Despite a 47.87% increase in IGR from N18.39 billion in 2022 to N27.20 billion in 2023, the state remains heavily dependent on FAAC, which accounted for 92.17% of its total revenue of N374.89 billion. IGR and grants made up just 6.69% and 1.13%, respectively.[7]

While the state argues that FAAC should count as IGR due to its oil production, the revenue is not the result of domestic resource mobilisation. As global efforts to transition to renewable energy grow, Bayelsa must diversify its revenue sources to reduce its vulnerability to oil-related shocks.

Distribution of Bayelsa State Revenue Stream

Source: BudgIT state of states report: 2018 to 2023

Year	IGR (NGN'bn)	FAAC (NGN'bn)
2018	13.64	159.21
2019	16.34	157.58
2020	12.18	134.53
2021	18.59	196.53
2022	18.39	327.46
2023	27.20	374.89

Dependency on Oil and Gas Revenues

Bayelsa State's economy has historically been deeply reliant on oil and gas revenues, primarily sourced from federal allocations via the Federation Account Allocation Committee (FAAC). From 2018 to 2023, FAAC allocations surged from N159.21 billion to N374.89 billion, reflecting an increasing dependence on federal transfers. This trend underscores the state's growing vulnerability to external shocks, especially as global energy markets transition toward decarbonisation. In contrast, Internally Generated Revenue (IGR) has grown from N13.64 billion in 2018 to N27.20 billion in 2023, but it still accounts for a small share of total income. This imbalance highlights Bayelsa's limited fiscal independence and its constrained capacity to sustain public services and infrastructure without oil-related revenues.

With projections indicating that up to 60% of Bayelsa's revenue could be at risk due to declining global fossil fuel demand and stricter climate policies, the state faces substantial fiscal threats. A drop in oil prices or demand could severely impair its ability to fund essential services and development projects. The Energy Transition Risk Assessment reveals deep-rooted vulnerabilities in Bayelsa's revenue structure. To mitigate these risks, the state must urgently diversify its economy by expanding IGR and investing in alternative sectors such as renewable energy, agriculture, and technology. Strengthening internal revenue and reducing dependence on oil are critical to ensuring long-term economic stability and resilience for Bayelsa's future.

4

Demographic, Economic, and Social Overview

4.1 Population

Bayelsa State, created on October 1, 1996, is located in Nigeria's Niger Delta region and is divided into eight Local Government Areas (LGAs): Brass, Ekeremor, Kolokuma/ Opokuma, Nembe, Ogbia, Sagbama, Southern Ijaw, and Yenagoa. As of 2024, the estimated population of Bayelsa State is over 3.7 million, though estimates vary. For instance, some reports suggest a population of approximately 2.7 million in 2023, while others project about 2.5 million for 2022.

According to the 2022 projections from the Nigeria Population Projections and Demographic Indicators report[8] released by the National Population Commission in July 2020, Bayelsa's demographic data offers valuable insight into the population's age structure and its implications for the state's development and planning. The youthful population is of particular interest, particularly individuals aged 15-39, who comprise a substantial share of the state's population. According to the report, over 0.99 million people fall within this age group, accounting for roughly 39.1% of the total population. This significant figure highlights the youth's dominance in Bayelsa's population structure.

Distribution of Bayelsa State Revenue Stream

Bayelsa State Projected Population by Age and Sex	Total	Male	Female
0-4	332,742	167,851	164,891
5-9	327,683	163,974	163,709
10-14	330,833	165,146	165,687
15-19	233,027	117,762	115,265
20-24	207,007	107,116	99,891
25-29	203,040	106,819	96,221
30-34	185,627	96,226	89,401
35-39	162,395	78,749	83,646
40-44	138,601	64,691	73,910
45-49	110,085	49,548	60,537
50-54	88,979	40,152	48,827
55-59	73,962	36,543	37,419
60-64	57,455	29,817	27,638
65-69	38,000	20,311	17,689
70-74	24,041	13,065	10,976
75-79	13,908	7,316	6,592
80 and Above	9,990	5,191	4,799
Total	**2,537,375**	**1,270,277**	**1,267,098**

Source: Nigeria Population Projections And Demographic Indicators, National Population Commission, July 2020

In comparison, the population aged 40-59 years is much smaller, totalling 411,627 people, or 17.3% of the population. This sharp contrast emphasises the state's youthful demographic composition. The large youthful age group represents both an opportunity and a challenge for Bayelsa. The sheer size of the youth population presents a potential workforce that can drive economic growth, innovation, and development. Furthermore, women account for 53% of the population in Bayelsa. It is therefore practical to ensure that policies and planning are not gender-blind and that the state's transition preparedness plans deliberately cater to women. This is also critical in preparing for the types of jobs that will be available or need to be created in the changing global and domestic economy, especially as younger age groups mature into the workforce.

As the transition threatens oil and gas-related jobs, deliberate steps must be made to ensure the population can participate competitively in the new paradigm. This demands significant investment in education, healthcare, employment opportunities, and infrastructure to harness the full potential of this demographic.

Proper policy planning is essential to ensure that the women and youth population contributes positively to the state's socio-economic progress rather than becoming a source of unemployment and social instability. The population data from the National Population Commission underscores the importance of prioritising this demography as a key component of Bayelsa State's future development strategy.

4.2 Current Economic Structure

Bayelsa State, rich in natural resources—particularly oil and gas—faces significant challenges in translating these resources into direct benefits for its indigenous population. While the state is home to the Oloibiri Oilfield, where Nigeria's oil discovery began, and contributed about 30-40% of the nation's oil production as of 2015, the reliance on the oil economy does not equate to equitable economic development for local communities.

Agriculture remains a critical sector, with crops such as cassava, rice, and yam providing sustenance for many households. However, the sector suffers from inadequate infrastructure, limited market access, and insufficient support for modern agricultural practices, resulting in low productivity and income for local farmers. Similarly, fishing is vital for both local consumption and commercial activities, yet challenges such as overfishing and pollution from oil activities threaten the sustainability of fish stocks. Local fishermen often face diminished catches and income due to environmental degradation linked to oil exploration.

Despite being a major contributor to Nigeria's oil production, Bayelsa's local communities experience significant inequities. Environmental degradation from oil extraction has led to pollution, adversely affecting both agriculture and fishing, thus diminishing livelihoods and health. Additionally, the oil sector employs only a small fraction of the local population, with most jobs held by individuals from outside the state, leaving many indigenes without direct employment opportunities.

The economic framework in Bayelsa is heavily influenced by the national revenue allocation system, which is perceived as inequitable. Over 90% of the state's revenue comes from federal allocations through the Federation Account Allocation Committee (FAAC). In 2023, FAAC allocations amounted to N374.89 billion, while the state's Internally Generated Revenue (IGR) was only N27.20 billion. This reliance on federal allocations has resulted in Bayelsa ranking 35th in fiscal performance, indicating challenges in revenue generation and management compared to other states.

The inequities in the revenue-sharing formula stem from several factors. The distribution of revenue is heavily skewed towards states with larger populations, often leaving resource-rich states like Bayelsa with less than their fair share despite their contributions to national revenue. Furthermore, the funds allocated to Bayelsa through FAAC are often insufficient to address local infrastructure needs, resulting in inadequate facilities for agriculture and fishing. There is also a lack of targeted policies to promote local industries and entrepreneurship, which could help diversify the economy and reduce reliance on federal allocations.

In summary, while Bayelsa State is endowed with significant natural resources, their benefits are not equitably distributed among its indigenous population. The heavy reliance on federal allocations, combined with environmental challenges and inadequate investment in local sectors, has created a cycle of inequity. Addressing these issues requires a reevaluation of the revenue-sharing formula and targeted investments in agriculture, fishing, and local businesses to foster sustainable economic growth.

4.3 Breakdown of GDP contributions (oil vs. non-oil sectors)

Bayelsa State's economy is significantly shaped by its abundant natural resources, particularly oil. More than 90% of oil and gas revenues, 80% of Nigeria's GDP, and 95% of the national budget are generated in the region.[9] However, the critical need for economic diversification has emerged to ensure long-term fiscal sustainability and resilience against external economic shocks.

Fluctuations in global oil prices lead to unpredictable revenue streams, adversely affecting the state's budget and economic planning. Additionally, oil extraction activities have caused significant environmental damage, including oil spills and ecosystem degradation, thereby impeding sustainable economic activities. Furthermore, the phenomenon known as the "resource curse" suggests that over-dependence on oil will stifle growth in other sectors, leading to a lack of diversification and reduced innovation within the economy.[10] Bayelsa is home to two of the three giant oil reservoirs in the Niger Delta, with the potential for significant oil production, accounting for approximately 15% of the country's total oil fields.[11] Despite the oil sector's dominance, there is a pressing need for economic diversification to foster resilience and sustainability.

4.4 Major Non-oil Industries (e.g., agriculture, trade, services).

The non-oil sectors—agriculture, manufacturing, trade, and services—are integral to Bayelsa's economic diversification strategy. Agriculture, for instance, is vital for food security and employment. Key crops such as cassava, rice, and palm oil offer significant potential for both local consumption and export.[12] The manufacturing sector, although currently underdeveloped, shows promise, particularly with investments in processing facilities for agricultural products and other local goods. Additionally, the services sector, which encompasses retail, hospitality, and financial services, is steadily growing.

In addition to traditional crops, given Bayelsa's extensive riverine and coastal resources, these activities not only diversify

local farmers' income sources but also enhance food security by providing a rich source of protein. With the right investments in technology and infrastructure, the agricultural sector can significantly boost the state's economy, reduce poverty, and promote sustainable practices.

The manufacturing sector, although currently underdeveloped, shows promise, particularly through investments in processing facilities for agricultural products and other local goods, including solar-powered facilities. By establishing processing plants, Bayelsa can add value to raw materials, create jobs, and reduce dependency on imported goods. The establishment of a robust manufacturing base could also stimulate related industries, such as logistics and transportation, further contributing to the state's economic growth. Moreover, encouraging local entrepreneurship through training and support programs will also foster innovation and competitiveness within the manufacturing sector.

Additionally, the services sector, which encompasses retail, hospitality, and financial services, is steadily growing. This growth is driven by increasing local consumption and service demands, fueled by a rising middle class and urbanisation. As more people move to urban areas, the demand for retail and hospitality services expands, creating opportunities for local businesses. The financial services sector is also evolving, with increased access to banking and microfinance institutions, enabling entrepreneurs and small businesses to thrive.

Furthermore, the tourism industry offers significant growth opportunities. Bayelsa's rich cultural heritage, beautiful landscapes, and unique ecosystems will attract both domestic and international tourists. Investment in tourism infrastructure, such as hotels, restaurants, and recreational facilities, will create jobs and stimulate economic activity.

4.5 Employment Trends: Link between Non-oil Sectors and Job Creation.

The employment landscape in Bayelsa State is intricately linked to the performance and growth of non-oil sectors. As the state seeks to diversify its economy away from oil dependency, the potential for job creation within agriculture, manufacturing, trade, and services becomes increasingly significant.

Agriculture approximately contributes 2.1% to the state's GDP. With a large portion of the population engaged in farming and related activities, agricultural expansion will create increased employment opportunities. Initiatives to improve agricultural productivity, such as adopting modern farming techniques, will increase yields and create jobs across the value chain from farming to processing and distribution. Furthermore, as demand for food security rises, the need for skilled workers in areas such as aquaculture and sustainable farming practices will grow, creating additional employment opportunities.

The manufacturing sector, while currently underdeveloped, has immense potential for job creation. As Bayelsa invests in processing facilities for agricultural products and local goods, the demand for labour in manufacturing will increase. These facilities not only create direct employment opportunities but also stimulate related sectors, such as logistics and transportation. The establishment of small and medium-sized enterprises (SMEs) within manufacturing can further enhance job creation, as these businesses often require a diverse workforce, from production to marketing and sales.

The services sector is another vital component of employment trends in Bayelsa. As urbanisation continues and the local economy grows, the demand for retail, hospitality, and financial services is increasing.

This sector accounts for a significant share of employment, driven by rising consumer spending and lifestyle changes. The growth of tourism, in particular, presents a unique opportunity for job creation. By investing in tourism infrastructure and promoting the state's cultural and natural attractions, Bayelsa will create numerous jobs in hospitality, guided tours, and recreational services.

Moreover, the expansion of the financial services sector plays a critical role in supporting job creation across all sectors. Increased access to banking services and microfinance can empower entrepreneurs to start new businesses, which in turn generate employment. By facilitating access to credit and financial literacy programs, the state should encourage the establishment of SMEs, further bolstering job opportunities.

In summary, the link between non-oil sectors and job creation in Bayelsa State is clear. By focusing on agricultural expansion, developing the manufacturing sector, and enhancing services, the state can create a diverse range of employment opportunities. This not only addresses the immediate need for jobs but also fosters economic resilience and stability, ultimately improving the quality of life for Bayelsa's residents. As the state continues to implement diversification strategies, job creation will be a fundamental outcome, driving both individual and collective prosperity.

5

Fiscal Outlook

	2020	2021	2022	2023	2024
Revenue Trend	180,086,387,797	188,392,582,077	217,638,452,235	353,607,714,696	406,761,540,060.31
Expenditure Trend	180,086,387,797	188,392,582,077	217,638,452,235	353,607,714,696	406,761,540,060.31
State Debt Profile	180,086,387,797	188,392,582,077	217,638,452,235	353,607,714,696	406,761,540,060.31

Source: BudgIT State of States report (2020-2024)

5.1 Revenue Trend (comprises IGR, Gross FAAC, and Aids & Grants, capital receipts)

Over five years, Bayelsa's revenue has shown a generally positive trend. Starting at N180.09 billion in 2020, revenue increased by 1.82% to N188.39 billion in 2021. This modest growth may reflect a recovery from economic disruptions. The revenue trajectory took a more significant leap in 2022, with a 15.50% increase to N217.64 billion. This growth suggests improvements in economic activities and possibly better tax collection mechanisms.

In 2023, revenue soared by an impressive 62.23% to N353.61 billion, indicating a strong rebound and likely boosted by increased federal disbursements and fiscal reforms.

The trend continued into 2024, with another increase of 15.03%, bringing the total to N406.76 billion. While these increases are promising, they highlight a dependency on external factors, particularly federal allocations supported by oil revenue. This dependency raises concerns about revenue stability, as fluctuations in oil prices could significantly affect future FAAC allocations.

5.2 Expenditure Trend (Personnel, Overhead, Capital Expenditure, and Debt Service)

Bayelsa's expenditure was more volatile than its revenue. The state began with N208.81 billion in 2020, which slightly decreased by 11.51% to N184.81 billion in 2021. This reduction suggests a cautious approach to spending, possibly in response to economic uncertainties.

However, expenditures surged by 27.00% to N234.73 billion in 2022, reflecting a significant investment push or increased operational costs.

This was followed by a dramatic decline in 2023, where expenditure fell by 11.76% to N207.12 billion, possibly indicating a strategic shift or response to fiscal constraints. In 2024, expenditures rose sharply to N467.24 billion, marking an increase of 125.70%. This rise raises concerns about sustainability and the state's ability to manage such high spending levels effectively.

5.3 Debt (Foreign, Domestic, and Total Debt)

Bayelsa's debt profile shows a gradual increase over the years. Starting at N166.15 billion in 2020, debt rose by 1.09% to N168.06 billion in 2021, indicating stable borrowing practices. In 2022, debt increased to N180.27 billion, reflecting a 7.27% rise, possibly to finance increased expenditures.

In 2023, the debt decreased to N173.55 billion, a 3.98% decline, suggesting proactive debt management or repayments. However, the trend reversed in 2024, with debt rising significantly to N204.53 billion, an increase of 17.88%. This resurgence in debt levels could pose challenges for future budgets, especially if not matched by corresponding revenue increases. High debt servicing costs may constrain resources available for critical sectors such as health and education.

Overall, Bayelsa's fiscal outlook presents a mixed picture. While revenue trends are encouraging, expenditure volatility and rising debt levels require careful monitoring and management to ensure long-term fiscal sustainability. The state must develop a more stable revenue framework to mitigate the risks posed by external economic factors.

6

Analysis of Government Spending

6.1 Health

	Personnel		Overhead		Capital Expenditure		Total Allocation	
Year	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
2021	8,320,721,547.00	6,457,957,978.51	1,918,900,000.00	533,133,920.00	5,027,000,000.00	2,635,858,767.73	15,908,621,547.44	10,250,950,666.24
2022	6,457,483,787.46	5,955,508,120.79	760,100,000.00	465,387,500.00	3,050,000,000.00	2,846,526,154.14	10,267,583,787.46	9,267,416,774.93
2023	6,533,936,675.92	6,818,042,083.01	1,800,000,000.00	1,225,760,690.81	5,405,000,000.00	3,779,767,140.28	13,738.936,675.92	11,823,569,914.10
2024	11,063,424,471.40	9,052,847,444.97	3,750,000,000.00	2,246,838,215.99	15,880,000,000.00	12,659,522,372.53	30,693,424,471.40	23,959,208,033.49

Source: Bayelsa State Approve Budget (2021-2024). Available at: http://openstates.ng

The financial allocations for the health sector from 2021 to 2024 show a consistent rise in personnel costs, from N6.25 billion in 2021 to N9.46 billion in 2024, a 51% increase over the four years. This indicates either a larger workforce or increased salaries, which, although beneficial for service delivery, should be associated with performance outcomes. Overhead expenditures exhibited significant fluctuations, rising by 32% in 2022, soaring by 74% in 2023, and then decreasing by 18% in 2024. Such volatility highlights a lack of consistent planning and underscores the necessity for stricter budgetary controls.

Capital expenditures declined slightly in 2022 but recovered strongly in 2023 and 2024, signalling a renewed emphasis on infrastructure development. However, the minimal 1.7% growth in 2024 suggests the need for ongoing investment to prevent stagnation.

Total allocations increased from N9.46 billion in 2021 to N13.99 billion in 2024, with the most significant increase (33.6%) occurring in 2023, possibly due to policy changes or emergency funding. The limited growth in 2024 indicates a degree of stabilisation, but it may not adequately address the sector's needs.

To enhance efficiency, personnel expenditures should be linked to performance, overhead costs should be stabilised through improved forecasting, and capital investments should be maintained consistently. A multi-year funding approach would provide predictable growth and facilitate better planning. In summary, while funding has risen, aligning strategies effectively is crucial for achieving lasting results.

6.2 Education

	Personnel		Overhead		Capital Expenditure		Total Allocation	
Year	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
2021	13,202,437,371.84	10,255,750,507.81	2,441,692,860.00	1,150,754,250.00	3,830,000,000.00	2,992,008,903.86	32,383,709,730.84	23,711,907,028.87
2022	10,651,959,495.22	9,622,176,396.77	1,947,100,000.00	720,781,510.00	11,600,000,000.00	9,512,161,977.64	36,121,859,495.22	30,365,943,546.46
2023	10,623,194,757.30	10,551,270,620.26	3,303,200,000.00	1,513,034,122.00	16,450,000,000.00	7,764,387,490.62	43,041,239,817.30	29,794,396,772.97
2024	14,803,138,352.84	12,547,990,383.96	3,796,625,500.00	1,969,067,861.65	21,700,000,000.00	16,416,181,090.94	56,307,138,352.84	45,836,094,916.38

Source: Bayelsa State Approve Budget (2021-2024). Available at: http://openstates.ng

Between 2021 and 2024, the education sector saw significant changes in its financial allocations. Personnel expenses increased steadily, rising from N3.20 billion in 2021 to N4.25 billion in 2024, a 32.8% increase. This trend indicates increased investment in staffing, which is promising but should be linked to improvements in educational outcomes; conversely, overhead expenses experienced fluctuations. After a steep decline from N2.44 billion in 2021 to N1.55 billion in 2022 (a 36.5% reduction), spending recovered to N3.15 billion in 2023, only to fall again to N2.56 billion in 2024. These variations underscore the necessity for a more stable operational budget.

Capital expenditures exhibited robust growth. Starting from N2.09 billion in 2021, it increased to N3.06 billion in 2022 (a 46.4% increase), then jumped to N7.65 billion in 2023 and N9.07 billion in 2024, more than quadrupling over the four years. This demonstrates a commendable commitment to infrastructure and long-term growth. The total allocation mirrored this pattern, rising from N7.73 billion in 2021 to N16.89 billion in 2024, representing a 118% increase. Implementing a long-term funding strategy would improve predictability and efficacy.

6.3 Water Supply/Sanitation

	Personnel		Overhead		Capital Expenditure		Total Allocation	
Year	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
2021	343,340,257.44	326,263,359.24	250,500,000.00	26,325,500.00	300,000,000.00	20,500,000.00	893,840,257.44	373,088,859.24
2022	248,675,727.24	297,641,924.41	120,000,000.00	23,490,000.00	500,000,000.00	412,301,000.00	868,675,727.24	733,432,924.41
2023	364,354,392.44	324,578,563.33	350,000,000.00	12,400,000.00	600,000,000.00	472,062,450.12	1,314,354,392.44	809,041,013.45
2024	296,661,691.70	263,169,937.65	150,000,000.00	50,470,000.00	1,500,000,000.00	61,350,000.00	1,946,661,691.70	374,989,937.65

Source: Bayelsa State Approve Budget (2021-2024). Available at: http://openstates.ng

Between 2021 and 2024, the water supply/sanitation sector demonstrated erratic financial performance, with notable discrepancies between the planned and actual spending. Personnel expenses varied, starting at N326.26 million in 2021, peaking at N297.64 million in 2022, and then declining to N263.17 million in 2024, reflecting a 19.4% drop from the 2022 peak—indicating possible instability in staffing or changing priorities. Overhead costs were irregular and consistently underutilised, with actual amounts ranging from N26.33 million in 2021 to merely N12.4 million in 2023, despite increases in the budget. This indicates poor implementation or budgeting misalignment.

Capital spending rose briefly in 2022 and 2023, reaching N412.3 million and N472.06 million, respectively, but plummeted to N61.35 million in 2024 —a staggering 87% drop. This significant decline jeopardises infrastructure development and suggests a potential shift away from capital projects. The total actual funding reached its highest in 2023 at N809.04 million but fell drastically to N374.99 million in 2024, even though the budget was almost N2 billion. To enhance outcomes, the sector needs to align budgets with realistic execution capabilities, stabilise planning for personnel and overhead costs, and reaffirm its commitment to capital investment.

6.4 Environmental Protection

	Personnel		Overhead		Capital Expenditure		Total Allocation	
Year	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
2021	3,301,634,307.84	3,277,611,048.79	1,773,500,000.00	1,471,452,000.00	3,316,332,423.00	2,076,290,000.00	8,392,466,730.84	6,825,353,048.79
2022	3,339,480,994.00	3,099,514,140.86	1,719,000,000.00	1,366,454,500.00	500,000,000.00	412,301,000.00	7,009,480,994.00	5,732,820,640.86
2023	3,492,798,660.84	3,510,330,098.79	2,150,000,000.00	1,895,526,600.00	5,400,000,000.00	3,302,758,900.00	11,042,798,660.84	8,708,615,598.79
2024	4,590,993,359.68	4,272,529,683.78	4,850,000,000.00	3,737,368,574.60	4,080,000,000.00	663,822,000.00	13,520,993,359.68	8,673,720,258.38

Source: Bayelsa State Approve Budget (2021-2024). Available at: http://openstates.ng

Between 2021 and 2024, Bayelsa state allocated N14.7 billion for the environmental protection sector. The sector saw consistent increases in budget allocations, growing from N8.39 billion in 2021 to N13.52 billion by 2024. Spending on personnel and operational costs was effectively managed, with actual expenditures closely aligning with budget plans. This demonstrates effective administrative planning and sound execution in day-to-day operations. On the other hand, performance in capital expenditures was much more inconsistent. While 2023 experienced a high in both projected (N5.4 billion) and actual (N3.3 billion) capital expenditures, 2024 witnessed a significant drop—only N663.82 million was spent out of the N4.08 billion budget, resulting in a disappointing 16.3% execution rate. This shortfall in capital projects had a significant impact on the overall execution rate, which decreased to 64.1% in 2024 despite the largest total allocation during this period.

The gap indicates possible systemic challenges in project completion, such as delays in procurement, subpar contractor performance, or insufficient oversight.

To tackle these issues, the sector needs to conduct a comprehensive review of stalled initiatives, improve monitoring and evaluation processes, and implement performance-based budgeting. Additionally, reallocating unspent funds to more effective programs could boost overall impact. As environmental challenges grow more pressing, it is crucial to ensure that financial resources are efficiently converted into meaningful outcomes to promote sustainable development and maintain public trust.

6.5 Social Protection

	Personnel		Overhead		Capital Expenditure		Total Allocation	
Year	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
2021	619,751,446.00	2,771,303,219.25	515,000,000.00	316,187,200.00	200,000,000.00	179,500.00	1,334,751,446.00	3,087,669,919.25
2022	13,670,148,158.00	14,268,070,008.92	3,150,000,000.00	730,779,100.00	200,000,000.00	99,316,000.00	17,020,148,158.00	15,098,165,108.92
2023	19,075,570,229.22	18,160,444,243.92	2,044,500,000.00	782,737,498.00	130,000,000.00	3,090,000.00	22,250,070,229.22	19,626,171,741.92
2024	16,407,291,432.84	15,731,375,158.55	1,398,200,000.00	718,822,402.99	200,000,000.00		19,217,291,432.84	17,304,073,561.54

Source: Bayelsa State Approve Budget (2021-2024). Available at: http://openstates.ng

The social protection sector in Bayelsa State has seen substantial fluctuations in both budget allocations and actual expenditures between 2021 and 2024. Total allocations increased significantly from approximately N1.33 billion in 2021 to N19.22 billion in 2024. This rise reflects a growing commitment to strengthening social safety nets and support programs for vulnerable populations.

In terms of personnel expenditure, the budgeted amount in 2021 was N619.75 million, while actual spending soared to N2.77 billion. This significant over-expenditure suggests either an urgent need for additional staffing or an underestimation in the budgeting process. The trend of actual expenditures consistently exceeding budgeted figures continued into 2022 and 2023, with actual costs reaching N14.27 billion and N18.16 billion, respectively. However, there was a noticeable drop in 2024, with actual personnel costs at N15.73 billion, suggesting a potential stabilisation in staffing needs or a reassessment of budget priorities.

Overhead expenditures present a concerning picture, as they have shown a trend of underperformance relative to budgeted amounts. In 2021, the budgeted overhead was N515 million, but actual expenditure was only N316.19 million. This pattern persisted in subsequent years, with actual overheads of N730.78 million in 2022 and N782.74 million in 2023, despite higher budgeted allocations. The overhead budget for 2024 was set at N1.40 billion, but actual spending remained low at N718.82 million. This significant gap raises questions about operational efficiency and the management of administrative costs.

Capital expenditure in the social protection sector has been minimal compared to personnel costs. In 2021, the budgeted capital expenditure was N200 million, with actual spending at a mere N179,500. The following years saw slightly increased budget allocations, with N200 million budgeted for both 2022 and 2023. However, actual expenditures remained very low, reflecting a lack of investment in capital projects that could enhance social protection initiatives. The 2024 budget includes N200 million for capital expenditure, but this consistent under-expenditure indicates systemic issues in funding allocation and execution.

The overall trend in total social protection allocations shows a significant increase, rising from N1.33 billion in 2021 to N19.22 billion in 2024. However, the actual expenditures have not kept pace with the budgeted amounts. In 2021, actual expenditure was N3.09 billion, while in 2022, despite a budget of N17.02 billion, actual spending was lower at N15.10 billion.

This pattern continued in 2023 with a budgeted total of N22.25 billion and actual expenditure of N19.63 billion, resulting in execution rates that, while better than previous years, still reveal a gap between budgeted and actual figures.

The data highlights critical implications for the social protection sector in Bayelsa State. The discrepancies between budgeted and actual expenditures, especially in personnel and overhead costs, indicate a need for improved budget forecasting and management. The significant over-expenditure on personnel suggests that the state may need to reassess its staffing requirements and budget estimations.

The minimal actual capital expenditures underscore a concerning lack of focus on long-term development initiatives within the social protection sector. Enhancing capital investments is essential for building infrastructure and programs that effectively support vulnerable populations. The consistent under-expenditure in overhead allocations may reflect inefficiencies in administrative processes or a strategic shift towards prioritising direct support programs over administrative costs. It is critical to ensure that operational needs are adequately funded to maintain effective program delivery.

The substantial increases in budget allocations for social protection present growth opportunities, but realising these potential benefits will require meticulous planning and execution. Addressing barriers to effective spending and ensuring efficient allocation of funds will be essential to maximising the impact of social protection initiatives. While the growth in budget allocations for social protection indicates a commitment to improving support for vulnerable populations, the ongoing discrepancies between budgeted and actual expenditures point to several areas requiring attention. By enhancing budget management, prioritising capital investment, and ensuring operational efficiency, Bayelsa State can better leverage its financial resources to achieve meaningful social protection outcomes, ultimately improving the lives of its residents.

6.6 Agriculture

	Personnel		Overhead		Capital Expenditure		Total Allocation	
Year	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
2021	625,516,360.84	765,291,956.33	1,282,500,000.00	427,534,500.00	6,801,250,000.00	5,278,300,788.20	8,709,266,360.84	6,471,127,244.53
2022	673,280,411.84	639,455,891.12	470,000,000.00	392,870,000.00	4,300,000,000.00	3,725,847,468.17	5,443,280,411.84	4,758,173,359.29
2023	659,035,159.54	685,923,616.43	385,000,000.00	67,324,740.00	6,500,000,000.00	6,198,419,051.28	7,544,035,159.54	6,951,667,407.71
2024	848,927,120.26	688,467,528.88	545,000,000.00	147,191,600.00	13,700,000,000.00	468,931,500.00	15,093,927,120.26	1,304,590,628.88

Source: Bayelsa State Approve Budget (2021-2024). Available at: http://openstates.ng

Between 2021 and 2024, the agricultural sector in Bayelsa State experienced notable fluctuations in budget allocations and actual expenditures, reflecting both challenges and opportunities for growth. The total allocation for agriculture increased from approximately N8.71 billion in 2021 to N15.09 billion in 2024. This significant increase in budgeted allocations underscores the state's commitment to enhancing agricultural productivity and sustainability.

Personnel expenditures demonstrate a mixed performance. In 2021, budgeted personnel costs were N625.52 million, with actual spending reaching N765.29 million, indicating a higher-than-expected investment in human resources. This trend of actual expenditures exceeding budgeted amounts continued through 2022 and 2023, suggesting an ongoing need for staffing or potential underestimations in the budgeting process. However, in 2024, actual personnel costs dropped to N688.47 million, which, while still under budget, indicates a possible stabilisation in staffing needs.

Overhead expenditures present a more concerning picture. In 2021, the budgeted overheads were N1.28 billion, but actual spending fell to N427.53 million. This trend of significant under-expenditure persisted in subsequent years, with actual overhead costs of N392.87 million in 2022 and a drastic decline to N67.32 million in 2023. The sharp decrease in 2023 raises concerns about operational efficiency and may reflect either a reduction in administrative needs or budget management issues.
Capital expenditure is crucial for long-term agricultural development, yet it has been inconsistent.

The budgeted capital expenditure in 2021 was N6.80 billion, but actual spending was only N5.28 billion. This trend of under-expenditure continued into 2022 and 2023, with actual expenditures falling short of budgeted figures. The 2024 budget indicates a significant increase in planned capital expenditure to N13.70 billion, but the actual expenditure remains alarmingly low at N468.93 million. This results in a disappointing execution rate for capital projects and highlights systemic challenges in project implementation, including procurement delays, inefficient project management, and inadequate oversight.

Overall, the execution rate in the agricultural sector has suffered due to a substantial gap between budgeted and actual expenditures, particularly in capital investments. In 2024, despite the largest total allocation during the period, overall execution rates dropped to 8.65% due to the underperformance in capital projects. This gap indicates the need for a thorough review of the factors contributing to stalled initiatives, such as procurement processes and contractor performance.

To address these challenges, the agricultural sector must prioritise improving monitoring and evaluation processes, ensuring funds are allocated effectively, and projects are completed promptly. Implementing performance-based budgeting could enhance accountability and drive better outcomes. Additionally, reallocating unspent funds towards more impactful programs could help maximise the benefits of the budgeted resources.

As Bayelsa State confronts increasing demands for food security and agricultural sustainability, it is essential to ensure that financial resources are utilised efficiently to drive meaningful outcomes. This will not only support the agricultural sector's growth but also enhance public trust and strengthen the state's overall economic resilience.

7

Why Non-Oil Revenue?

7.1 Importance of Non-oil Revenue in Fiscal Sustainability

The importance of non-oil revenue for fiscal sustainability in Bayelsa State is particularly critical, given the state's heavy reliance on oil, which has made the economy vulnerable to external shocks and price fluctuations. Diversifying revenue sources is not just a strategic choice but a necessity for the state's economic resilience and aligning with the global energy transition.

Bayelsa's dependence on federal allocations has left it highly vulnerable, especially during periods of declining oil prices. Developing non-oil sectors like agriculture, tourism, and solid minerals is essential. For instance, agriculture has a rich potential, given the state's fertile land and favourable climate. By investing in this sector, Bayelsa will create a more stable income stream that is less susceptible to global oil market volatility.

Tourism also holds promise, with Bayelsa's unique cultural heritage and natural attractions. This diversification will create jobs, stimulate local economies, and reduce the state's reliance on federal allocations.

Moreover, increasing non-oil revenue would improve Bayelsa's fiscal autonomy. Currently, the state's Internally Generated Revenue (IGR) accounts for only 7.83% of its total revenue,[13] primarily reliant on federal allocations and grants. This oil-driven, FAAC-dependence puts the state's ability to fund essential services and respond to community needs at risk to external volatility, which becomes more likely as transition realities gradually materialise.

Ultimately, developing non-oil revenue streams is vital for improving public service delivery in Bayelsa. With increased financial resources, the government can better fund education, healthcare, and infrastructure projects, thereby enhancing citizens' quality of life. This improvement not only fosters public trust but also encourages active civic engagement, further strengthening the state's democratic processes.

Current Status of Contribution of Non-Oil Revenue

Bayelsa State is yet to fully harness the potential of its non-oil sector, presenting significant challenges to its economic diversification and fiscal sustainability. The focus group discussions with key stakeholders, including community leaders, civil society organisations, and policymakers, revealed critical insights into the current state of non-oil revenue generation and the barriers hindering growth. Despite the state's rich natural resources and agricultural potential, there is a glaring absence of strategic investment in alternative sectors.

Internally Generated Revenues (IGR) in Bayelsa State account for only 7.83% of total revenue, primarily from aid and grants, highlighting the state's fiscal fragility and vulnerability to economic shocks and fluctuations in oil prices. Compounding this issue is a weak tax administration system, with inefficient tax collection processes and a lack of comprehensive tax policies, resulting in significant revenue losses. These inadequacies not only constrain the state's ability to fund essential public services but also contribute to increased debt levels and arrears. The compounded effects of low IGR and ineffective tax administration create a challenging environment for public service delivery, limiting the state government's capacity to invest in vital sectors such as healthcare, education, and infrastructure development. Consequently, the inability to generate adequate revenue results in deteriorating public services, widespread citizen dissatisfaction, and a diminishing trust in government institutions.

7.2 Lessons From Other Case Studies on Non-oil Revenue Generation in Nigeria

In exploring non-oil revenue generation in Nigeria, several case studies offer valuable lessons that can inform strategies for states like Bayelsa and Delta. One notable example is Lagos State, which has successfully diversified its revenue streams through robust tax reforms and a focus on internal revenue generation.[14]
Rivers State provides another insightful example, particularly in its efforts to harness tourism and hospitality. By promoting its cultural heritage and natural attractions, Rivers has developed a tourism sector that contributes to local economies and generates additional revenue.

This diversification is critical in mitigating the risks associated with oil dependency.

These case studies illustrate that diversifying revenue sources through targeted investments in taxation, industrialisation, tourism, and agriculture can substantially enhance fiscal stability. By learning from these successful initiatives, states like Bayelsa can develop comprehensive strategies to reduce their reliance on oil revenue, fostering economic resilience and sustainable development.

7.3 Global/National Context: Successful non-oil revenue models from other regions/countries.

The United Arab Emirates (UAE), particularly Dubai, has successfully transitioned from an oil-dependent to a diversified economy, heavily reliant on tourism and trade. The non-oil sector now accounts for 75% of the nation's Gross Domestic Product (GDP), with tourism contributing 11.5% in 2019 alone.[15] Notably, the country's non-oil trade grew approximately 65% between 2013 and the end of 2023. This success highlights that Bayelsa State can leverage its natural resources and cultural heritage to develop a robust tourism sector that attracts both local and international visitors.

Similarly, Singapore has established itself as a global financial hub by fostering a favourable regulatory environment for businesses. This transformation underscores the potential for Bayelsa State to create a conducive business climate that attracts investments in financial services and other sectors, thereby enhancing non-oil revenue generation.[16]

Finland offers another compelling example, having transformed its economy through significant investments in technology and innovation, especially in the IT and telecommunications sectors. The service sector now contributes 72.7% to Finland's GDP.[17] Bayelsa State can take inspiration from this by investing in technology and innovation, supporting local entrepreneurs, and cultivating a vibrant tech ecosystem that diversifies revenue sources.

These global examples demonstrate that successful non-oil revenue models are grounded in diversification, sustainability, and strategic investment in key sectors. By adopting similar strategies, Bayelsa State can enhance its economic resilience, reduce dependency on oil revenues, and pave the way for a more sustainable fiscal future.

7.4 Opportunities for Upscaling Non-oil Revenue

In Bayelsa State, there are significant opportunities to upscale non-oil revenue across sectors to enhance economic resilience and sustainability. By focusing on the blue economy, agriculture, ICT, manufacturing, and tourism, Bayelsa State is set to achieve sustainable economic growth. These efforts will not only reduce reliance on oil revenue but also foster resilience and development for local communities, ensuring a brighter future for the state.

The blue economy is particularly promising, given Bayelsa's extensive coastline and rich marine resources. By promoting sustainable fishing practices and aquaculture, the state can boost local livelihoods while safeguarding aquatic ecosystems. Additionally, developing coastal and marine tourism will attract both domestic and international visitors, generating essential revenue and fostering community development.

Agriculture also holds substantial potential. Bayelsa should focus on diversifying its agricultural output, emphasising crops that thrive in the region's unique environment. Enhancing support for local farmers through training and access to modern farming techniques will improve productivity and food security. Moreover, remediation efforts for communities affected by oil spills are crucial, as restoring degraded lands will provide new opportunities for agricultural development.

The information and communication technology (ICT) sector presents another avenue for growth in Bayelsa. By investing in digital infrastructure and fostering a tech-friendly environment, the state is positioned to encourage the emergence of startups and tech-driven businesses. Initiatives to enhance digital literacy will empower the youth and create job opportunities in this rapidly evolving field.

Manufacturing is critical for diversifying Bayelsa's economy. Establishing industrial clusters focused on processing local resources, such as agriculture and fisheries, will reduce dependence on imports and create jobs. Encouraging small and medium-sized enterprises (SMEs) in manufacturing will stimulate local economies and promote entrepreneurship.

Tourism is an essential sector with untapped potential in Bayelsa. Beyond its natural beauty, the state possesses a rich cultural heritage that can be leveraged to attract visitors. Promoting cultural festivals, historical sites, and eco-tourism initiatives will enhance the overall visitor experience while generating revenue.

8

Summary of Key Findings

Summary of Key Findings

The global shift from fossil fuels to renewable energy is a significant driver of declining oil prices, posing a substantial threat to economies reliant on oil and gas for revenue. In Nigeria, oil revenue accounts for over 80% of the income of oil-producing states. This means any sharp decline could lead to severe financial challenges. Bayelsa State, heavily dependent on federal allocations derived from oil revenue, faces critical risks as the world increasingly adopts renewable energy sources.

Bayelsa's fiscal sustainability is jeopardised by its reliance on federal transfers, which accounted for over 90% of its revenue. The state ranks low in fiscal performance, with its internally generated revenue (IGR) growing modestly yet remaining insufficient at just 7.83% of total revenue.[18] This dependency underscores the urgent need for economic diversification, especially as projections indicate that oil demand will continue to decline.

The research highlights that subnational governments, such as Bayelsa, must be included in national discussions on the energy transition, as they play essential roles in local economic resilience.

Focus group discussions reveal that, despite the state's rich natural resources, non-oil sectors such as agriculture, fisheries, and tourism remain underdeveloped and contribute little to revenue.

Bayelsa's IGR is primarily tax-based, with a significant portion of revenue stemming from federal allocations. This imbalance creates vulnerabilities during global oil price fluctuations. The state must prioritise diversifying its economy by investing in non-oil sectors to reduce these risks. Opportunities exist in the blue economy, agriculture, ICT, manufacturing, and tourism to foster sustainable growth and resilience.

Ultimately, enhancing non-oil revenue is vital for improving public service delivery and ensuring long-term economic stability in Bayelsa. By adopting successful strategies from other regions and focusing on local strengths, Bayelsa can position itself for a more sustainable fiscal future, aligning with national and global energy transition goals.

9

Recommendations

Recommendations

Bayelsa State should implement several strategic proposals to improve non-oil revenue generation and strengthen economic resilience. These suggestions are based on stakeholder interactions and best practices that are customised for Bayelsa State's particular situation.

To enhance fiscal sustainability and promote economic diversification in Bayelsa State, the following recommendations are proposed:

1. **Strengthen Tax Administration:** Implement comprehensive tax reforms to improve collection efficiency and broaden the tax base. This includes investing in technology to streamline processes and enhance compliance, particularly in the informal sector.

2. **Promote the Blue Economy:** Develop sustainable fishing and aquaculture practices to boost local livelihoods while preserving marine ecosystems. Initiatives should also focus on coastal tourism, leveraging Bayelsa's rich natural resources to attract visitors and generate revenue.

3. **Diversify Agriculture:** Invest in agricultural technology and training programs to help local farmers diversify crop production. Support for remediation efforts in oil-affected areas will also help restore land for agricultural use, enhancing food security and economic stability.

4. **Foster ICT Development:** Create a conducive environment for the growth of the ICT sector by improving digital infrastructure and supporting tech startups. Initiatives to enhance digital literacy among youth will equip them with the skills needed to create jobs.

5. **Encourage Manufacturing Initiatives:** Establish industrial clusters focused on processing local resources, such as agricultural products and fish. Support for small and medium-sized enterprises (SMEs) will stimulate local economies and create job opportunities.

6. **Enhance Tourism Infrastructure:** Invest in developing tourism-related infrastructure, including hotels, cultural centres, and recreational facilities. Promoting cultural heritage and eco-tourism can attract visitors and generate additional revenue streams.

7. **Engage Local Communities:** Involve community leaders and local stakeholders in planning and implementing economic diversification strategies. This will ensure that initiatives are aligned with local needs and contribute to inclusive growth.

8. **Develop a Comprehensive Economic Diversification Plan:** Formulate a strategic plan that outlines specific goals, initiatives, and timelines for diversifying Bayelsa's economy. This plan should prioritise sectors with the highest potential for growth and job creation.

9. **Strengthen Public-Private Partnerships:** Foster collaboration between the government and the private sector to drive investments in non-oil sectors. Incentives for businesses to invest in technology, agriculture, and tourism can enhance economic resilience.

10. **Monitor and Evaluate Progress:** Establish a framework to assess the effectiveness of diversification initiatives. Regular assessments will help identify challenges and adjust strategies accordingly to ensure sustainable growth.

10

Future Research Directions

Future Research Directions

By pursuing these research directions, stakeholders in Bayelsa State will gain deeper insights into practical strategies for economic diversification, ultimately fostering a more resilient and sustainable economy. To further enhance understanding and support for economic diversification in Bayelsa State, the following research directions are recommended:

1. **Impact Assessment of Diversification Strategies:** Conduct studies to evaluate the effectiveness of current and proposed diversification strategies in Bayelsa. This includes assessing the economic, social, and environmental impacts of initiatives in non-oil sectors.

2. **Deep Dive into Non-Oil Sectors:** Explore specific non-oil sectors—such as agriculture, ICT, and tourism—to identify best practices, challenges, and opportunities unique to Bayelsa. Research should focus on local case studies to inform tailored strategies.

3. **Public-Private Partnership Models:** Investigate successful public-private partnership models in similar contexts. Understanding how these collaborations can drive investment in non-oil sectors will provide valuable insights for Bayelsa's economic development.

4. **Taxation and Revenue Generation:** Analyse the potential for improving tax collection systems in Bayelsa. Research should focus on innovative tax models, including digital taxation and compliance incentives, particularly in the informal sector.

5. **Environmental Impact of Economic Activities:** Study the ecological implications of transitioning from oil dependency to non-oil revenue sources. This research should include assessments of sustainability practices in agriculture, fisheries, and tourism.

6. **Youth Employment and Skills Development:** Investigate the relationship between economic diversification and youth employment in Bayelsa. Research should focus on identifying the skills needed in emerging sectors and developing training programs to equip the local workforce.

7. **Comparative Analysis with Other Regions:** Conduct comparative studies with other regions or countries that have successfully diversified their economies. This will provide insights into effective policies and practices that could be adapted for Bayelsa.

8. **Longitudinal Studies on Fiscal Health:** Initiate longitudinal research that tracks Bayelsa's fiscal health over time, focusing on the effects of diversification efforts on revenue generation and public service delivery.

9. **Community Engagement and Local Knowledge:** Explore the role of local communities in economic diversification efforts. Research should assess how local knowledge and practices can be integrated into policy-making to enhance the effectiveness of initiatives.

10. **Technology and Innovation in Economic Diversification:** Investigate the role of technology and innovation in driving economic diversification. Research should assess how digital tools can enhance productivity in non-oil sectors and facilitate the development of new business models.

10.1 Implications for Policy and Practice

The findings and recommendations outlined in this research have significant implications for policy and practice in Bayelsa State. Key areas include:

1. **Policy Formulation for Economic Diversification:** Policymakers should prioritise developing comprehensive economic diversification strategies that outline specific goals, targeted sectors, and measurable outcomes. This will provide a clear roadmap for transitioning from an oil-dependent economy to a more sustainable one.

2. **Investment in Infrastructure:** Enhanced infrastructure is essential for supporting non-oil sectors such as agriculture, ICT, and tourism. Policymakers must allocate resources and create incentives for private sector investment in infrastructure development to facilitate growth in these areas.

3. **Strengthening Tax Policies:** Effective tax policies should be developed to increase internal revenue. This includes simplifying tax administration processes, expanding the tax base, and implementing technology-driven solutions to enhance compliance and efficiency.

4. **Support for Local Enterprises:** Government programs should focus on helping small and medium-sized enterprises (SMEs) access financing, training, and other resources. This support will stimulate local economic growth and create jobs in non-oil sectors.

5. **Environmental Sustainability Considerations:** Policies should incorporate environmental sustainability as a core principle in economic diversification efforts. This includes promoting sustainable practices in agriculture, fisheries, and tourism to protect natural resources while fostering economic growth.

6. **Community Involvement in Decision-Making:** Engaging local communities in the policymaking process is crucial. This ensures that initiatives are aligned with local needs and priorities, enhancing their effectiveness and fostering community buy-in.

7. **Capacity Building and Skills Development:** Investment in education and training programs is essential to equip the workforce with the skills needed for emerging sectors. Policies should focus on aligning educational curricula with market demands, particularly in technology and entrepreneurship.

8. **Monitoring and Evaluation Frameworks:** Establishing robust monitoring and evaluation frameworks will help assess the effectiveness of diversification initiatives. This will enable policymakers to make data-driven decisions and adapt strategies based on feedback and outcomes.

9. **Fostering Public-Private Partnerships:** Encouraging collaboration between the government and private sector can drive investment and innovation in non-oil sectors. Policymakers should create an enabling environment for public-private partnerships that facilitate achieving shared goals and pooling resources.

10. **Promoting Research and Development:** Supporting research initiatives focused on non-oil revenue generation will provide valuable insights and data to inform policy decisions. This should include funding for studies that explore best practices and innovative approaches to economic diversification.

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