Economic Diversification and Fiscal Sustainability of Oil-Producing States

A CASE STUDY OF **BAYELSA STATE**

Bayelsa State is one of the ten oil-rich states in Nigeria. The state, which derives over 90% of its revenue from federal allocations in recent years, faces significant risks as global oil demand declines.

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.

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Revenue Growth

Historical Revenue Trends: From 2018 to 2023, FAAC allocations surged from N159.21 billion to N374.89 billion, reflecting an increasing reliance on federal transfers and making the state vulnerable to fluctuations in oil prices.

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Source: BudgIT State of States Report 2024. Available at: https://budgit.org/post_publications/state-of-states-2024-report-2/

Fiscal Performance Ranking

According to BudgIT's State of States 2024 Report, Bayelsa ranked 35th among Nigerian states, indicating limited capacity to generate revenue. Its internally generated revenue (IGR) grew from N18.39 billion in 2022 to N27.20 billion in 2023, which accounted for only 7.83% of total revenue.

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Source: BudgIT State of States Report 2024. Available at: https://budgit.org/post_publications/state-of-states-2024-report-2/

Internally Generated Revenue

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.

Tax Revenue:
87%

Non Tax Revenue:
13%

Impact of Energy Transition on Oil and Gas Economy

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.

Oil demand is projected to decline from **95 million barrels per day** to under **25 million barrels per day**

Source: BudgIT State of States Report 2024. Available at: https://budgit.org/post_publications/state-of-states-2024-report-2/ International Energy Agency (2022). World Energy Outlook 2022. Available at: https://iea.blob.core.windows.net/assets/830fe099-5530-48f2-a7c1-11f35d510983dependentheavilydependent/WorldEnergyOutlook2022.pdf

Energy Transition Risks

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.

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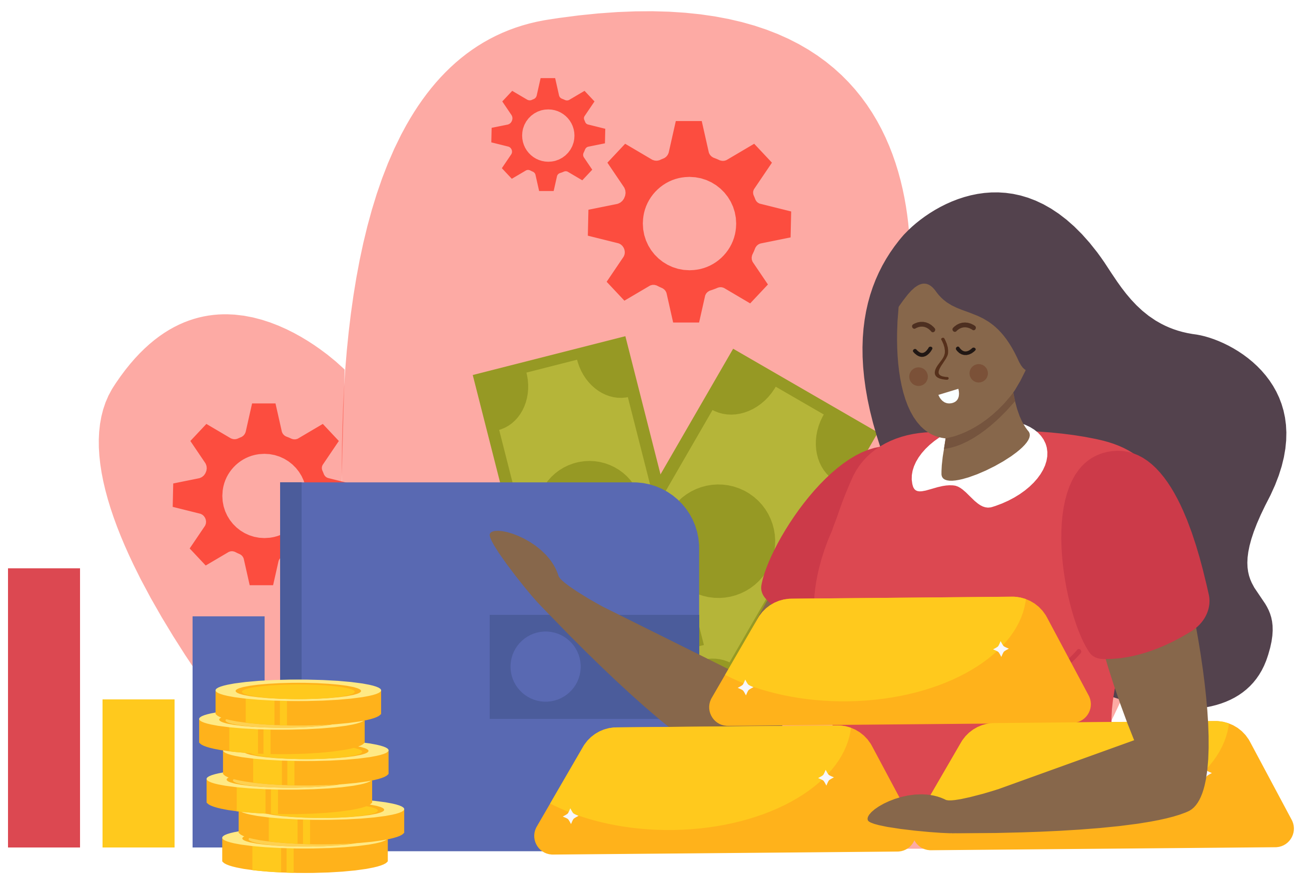


Non-Oil Revenue Potential

Revenue Security Risks:
With projections suggesting that up to 60% of Bayelsa's revenue could be at risk due to declining oil demand, economic diversification is essential.

Future Oil Demand Decline:
The global transition toward renewable energy could significantly reduce oil demand, posing risks to Bayelsa's revenue streams from this sector.

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).

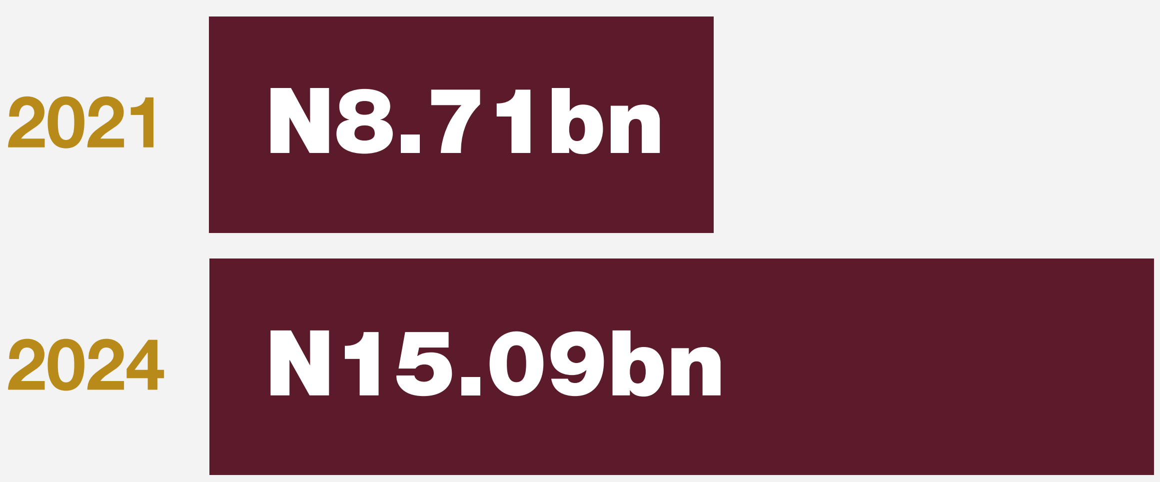
Coupled with infrastructure deficits and high youth unemployment, these challenges highlight the pressing need for a transition towards more sustainable and inclusive development.

Key non-oil industries, such as fisheries and tourism, remain largely untapped despite the state's rich ecological and cultural resources.

Agricultural Potential

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.



The Total Allocation for Agriculture

Recommendations

1 Opportunities for Diversification

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.

2 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.

3 Demographic Advantage

The state has an estimated population of over 3.7 million, with a youthful demographic that could drive economic growth if adequately supported with education and job opportunities.

4 Strengthen Tax Policy

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.