Economic Diversification and Fiscal Sustainability of Oil-Producing States

A Case Study of Delta State.

01

OVERVIEW

The global shift from fossil fuels to renewable energy (the energy transition), driven by climate change, is a major driver of declining international oil prices. This decline in global oil prices poses a significant threat to economies that depend primarily on oil and gas for revenue. Oil revenues account for between 50% and 80% of the revenues accruing to oil-producing states, which threatens their fiscal sustainability

Oil revenues account for between
50%
and
80%
of the revenues to oil-producing states

Source: Nafi Quarshie, Tengi George-Ikoli, 2022. Ending Nigeria's Oil Dependency: Not If, But When…and How. Available at https://resourcegovernance.org/articles/ending-nigerias-oil-dependency-not-if-whenand-how

02

FISCAL PERFORMANCE

According to BudgIT's State of States 2024 Report, Delta State ranked 11th in its fiscal performance, and its internally generated revenue, IGR, grew from N79.87 billion in 2022 to N99.98 billion in 2023.

A breakdown of the IGR reveals that approximately 87% of the revenue was generated from tax sources, while the remaining 13% came from non-tax sources. In 2023, FAAC allocation to Delta State amounted to N580.60 billion, translating to 85.31% of total state revenue and a year-on-year increase (of FAAC) of

FAAC allocation
in **2023**

N580.60 billion

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

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DELTA'S FAAC REVENUE

Over 80% of Delta State revenue is derived from the Federation Account Allocation Committee (FAAC), which distributes oil rents among federal, state, and local governments. This reliance has exposed Delta State to oil price volatility, as seen during the 2014 commodity crash and the 2020 pandemic-induced crisis, leading to fiscal instability and limited internally generated revenue (IGR).

80%

of Delta's revenue is **derived from FAAC**

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DELTA FISCAL RISK

While oil revenue is a significant source of revenue for the country and the state, it is vulnerable to external shocks, such as global oil price fluctuations, which can affect state revenues and budget management.

For instance, in 2021, a decline in oil prices resulted in a significant drop in the state’s revenue from the Federation Account Allocation Committee (FAAC). There is, however, an increasing recognition of the importance of diversifying into other economic activities that can

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In January 2025, Brent crude traded between $60 and $78 per barrel, according to Intercontinental Exchange (ICE) benchmarks. 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 Delta

Oil prices have fallen around

15%

Source: The IEA Forecasts a Global Oil Surplus in 2026 as OPEC+ Increases Production. Abdel-Latif Boureima, Ange Jason Quenum. 16 October 2025. Available at Outputhttps://www.ecofinagency.com/news-industry/1610-49610-the-iea-forecasts-global-oil-surplus-in-2026-as-opec-increases-output#:~:text=The%20International%20Energy%20Agency%20(IEA,$62%20and%20$67%20per%20barrel.

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WHY NON-OIL REVENUE?

Delta State must diversify beyond Oil to ensure fiscal sustainability. By investing in infrastructure, supporting agriculture, and reforming policies, the state will unlock its non-oil sectors and strengthen internal revenue growth.

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Delta state IGR increased slightly from N79.88 billion to N99.98 billion, but remains inadequate to cover the rising operational expenses, with personnel and overhead expenses making up 69% of operational costs. This financial strain indicates that the State faces challenges in sustaining public services and capital projects without a more robust revenue base.

Delta's IGR increased from **N79.88 billion** to **N99.98 billion**

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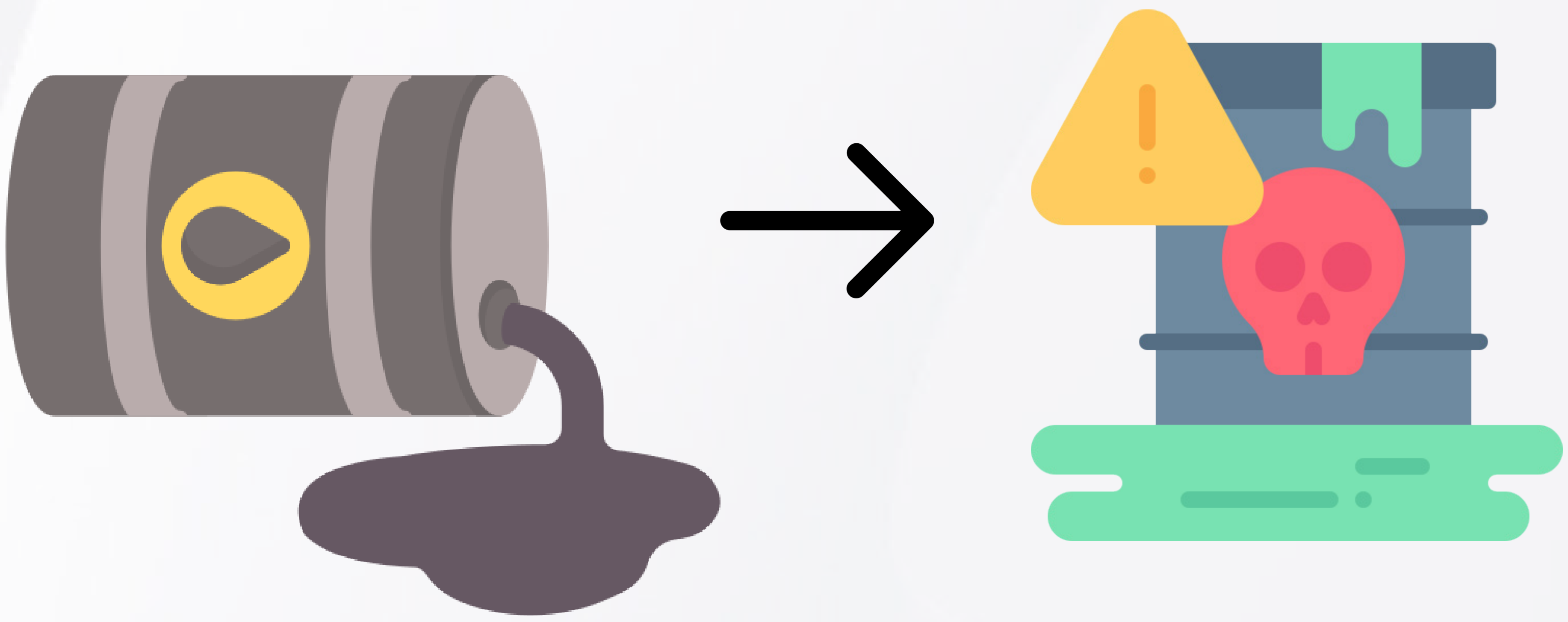
OIL SPILL IMPACT

Environmental degradation from oil activities, such as spills contaminating farmlands and rivers, has already strained local livelihoods. This has fueled poverty, health crises, and social unrest, as communities lose access to clean water and arable land.



09

DELTA'S BLUE ECONOMY POTENTIAL

Delta State's coastal resources offer significant opportunities for a thriving Blue Economy. investing in sustainable fisheries, aquaculture, and eco-tourism initiatives. Developing port infrastructure and promoting maritime trade will attract investments and create a dynamic economic environment.

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DIGITAL REVENUE TRANSFORMATION

Digital tax systems boost efficiency, transparency, and accountability. Transitioning from cash-based systems to digital platforms reduces corruption and strengthens revenue management.