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Why are states in Nigeria not paid their share of the oil and gas earnings in the currency it was earned in, i.e., the United States Dollars (USD)?

Crude oil in Nigeria is owned by the Federation — the Federal, State, & Local Govt. Shared as follows: 13% is deducted & paid to the oil and gas producing States; next, the Federal Government (FGN) gets 52.68%; the States get 26.72%, & the Local Governments get 20.60%.

When Nigerian crude oil is sold, the proceeds are in USD and get paid to the NNPC/CBN/JPMorgan Account in the US. The Oil taxes, e.g., Petroleum Profit taxes, are also in USD and are collected by the Federal Inland Revenue Service and paid to the Central Bank of Nigeria (CBN

The same thing applies to the royalty bonus collected by the Department of Petroleum Resources (DPR) and paid to the CBN. The CBN then converts the USD sales proceeds to Naira.

The CBN and Ministry of Finance then fund Federal agencies like NEMA and the Consolidated Revenue Fund in Naira, even the 13% derivation is paid in Naira. In other words, while the CBN retains the USD, the Federal, States, and LGAs get Naira

The CBN thus becomes the biggest player in the Foreign Exchange (Forex) markets, with Forex “earned” from the Federation. Why is this the case? Is it their money?

Why not simply give Abia State its share of oil sales earned in USD? Abia State could sell or save its USD in her State Sovereign Wealth Fund (amen). The state can decide to sell or save her Forex as she desires on the Interbank Foreign exchange market, or sell to the CBN

Why is the CBN deciding what exchange rate to use in remitting to states and LGAs their share of Forex earned from exports? Is Nigeria not a Federation?

Ultimately, the States, as part of the Federation, should get to choose what to do with their Forex earnings. If the CBN wants Forex, let it also bid for it from the States.

Nigeria is a Federation on paper, but a Unitary state in practice. The FGN may receive 56% of the share of fiscal revenues, but it collects above 95% of the major fiscal taxes on behalf of the States, including the VAT, and then redistributes.

States as mere appendages of the FGN, running back and forth for bailouts, unable to build railroads to export, unable to build power plants and sell power, unable to mine solid minerals in their states, or even issue company business licenses without the consent of the FGN.

Nigeria has no business with 35 states and FCT if those states become mere spenders of FAAC allocations, unable to generate their own wealth.

Perhaps the States should consider holding a nonpolitical summit and confronting the Federal Government, as well as passing a constitutional amendment to force fiscal devolution of powers.

There are gold and iron ore sprinkled across Nigeria, yet states cannot touch them. Why? Well, the reason is that those are Federal property. Yes seriously

If states owned those assets, it would be reasonable to assume they would protect them, but gold mining goes on illegally across the nation because the FGN owns the assets on the land but the states own the land without the assets—a mismatch of revenues and responsibilities.

All states, except just a few, cannot meet their obligations from Internally Generated Revenues (IGR). These include States governed by the APC, and PDP political parties.

The states should be allowed devolved power; for instance, allow states to own mineral deposits on their land, thus retaining income of 65% via derivation on Company Income Tax and Mineral Tax generated. States must stop begging for bailouts.

A quick win will be to allow states to register companies via their State Corporate Affairs Commission. This will spur competition via efficiency where states compete to attract companies to list in their states and pay CIT in their State.

In summary, Nigeria needs a devolution of fiscal powers to empower the States fiscally, and then hold them accountable. As Nigeria seeks to diversify the FX earning sources of the Federation, it’s also important that the political economy is considered.