



The Derivation Principle and Its Impact on the Development of Oil-Producing Communities in Akwa Ibom State

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ABSTRACT

This study examined the impact of the derivation principle on socioeconomic development of oil producing communities in Akwa Ibom State. The derivation principle, a component of Nigeria's revenue-sharing formula, allocated a percentage of revenue generated from natural resources to producing states. Despite its implementation, many oil-producing communities in Akwa Ibom State remained underdeveloped, characterized by poor infrastructure, high unemployment, and low living standards which has raised concerns about the effectiveness of the principle in fostering sustainable development in these communities. The study employed documentary research method, analyzing existing literature, government reports, and policy documents to evaluate the principle's application and outcomes. The findings revealed that while the derivation principle has contributed to the state's lofty financial status, the oil producing areas are yet to experience significant improvement insocioeconomic development due to corruption and the unequal distribution of resources. Furthermore, weak monitoring and accountability mechanisms exacerbated these issues, limiting the socio-economic benefits that the principle wre intended to achieve. The study concluded that the derivation principle had the potential to be a powerful tool for development if properly managed. To enhance its impact, greater transparency and accountability in fund allocation and utilization were recommended.

Keywords: Derivation Principle, Oil Derivation Fund, Oil-producing Communities, Akwa Ibom State, Development

I. Introduction

Determining an equitable formula for revenue sharing among Nigeria's various tiers of government has been a long-standing and contentious issue within the nation's political and economic spheres. This debate is intricately tied to the historical evolution of Nigeria's federal system (Abraham et al., 2021). Central to this discussion is the Derivation Principle, a fiscal policy provision that allocates a specific percentage of revenue from natural resources to the states where these resources are extracted. The principle aims to address the unique challenges faced by resource-rich regions and ensure that local community's benefit from the wealth generated within their territories (Ikelegbe, 2005).

Akwa Ibom State, located in the Niger Delta region, is among Nigeria's leading oil-producing states. The implementation of the 13% oil derivation fund has been a pivotal policy measure designed to address the developmental challenges faced by the state's oil-producing communities. By allocating a portion of the state's oil revenue to infrastructural projects and socio-economic initiatives, this fund aims to promote sustainable development and improve living standards. However, despite its intentions, the fund's impact has sparked considerable debate. Concerns have been raised regarding issues of mismanagement, inequitable resource distribution, and the limited effectiveness of these funds in addressing critical developmental needs (Enefiok & Okon, 2020; Udoh et al., 2021). Despite being endowed with significant oil wealth, Akwa Ibom State continues to grapple with developmental



challenges. These include inadequate infrastructure, substandard healthcare services, limited access to quality education, and persistently high unemployment rates. While the derivation fund has contributed to various projects, critics argue that a lack of transparency, accountability, and inclusive governance has hindered its potential to drive meaningful change (Etim et al., 2022).

The impact of the 13% oil derivation fund on the socio-economic development of Akwa Ibom State has been a contentious topic of discussion. Advocates highlight that the fund has driven notable progress in infrastructure, healthcare, and education, contributing to an improved quality of life for residents (Okon & Ekong, 2019). Conversely, critics argue that mismanagement, corruption, and a lack of accountability have undermined the effective deployment of these funds, limiting their transformative potential (Etuk & Etim, 2021).

This study evaluates the influence of the 13% oil derivation fund on the development of oil-producing communities in Akwa Ibom State. It focuses on assessing how the fund has impacted key sectors, including the provision of electricity, the enhancement of healthcare services, access to potable water, and the development of road infrastructure. By examining these areas, the study aims to provide a comprehensive understanding of the fund's effectiveness and identify the challenges that hinder its ability to achieve its intended socio-economic outcomes. The findings from this study are expected to inform policy recommendations for improving the management and utilization of the derivation fund. Emphasis will be placed on strategies to enhance transparency, ensure equitable resource distribution, and promote sustainable development in Akwa Ibom State's oil-producing communities.

II. Research Methodology

The study employed a descriptive design and relied on documentary research methodology to explore the derivation principle and its effects on development. The descriptive approach facilitated a detailed examination of the use of derivation funds, focusing on its impact on socio-economic development of oil-producing communities. The documentary method was used to gather information from existing records, reports, and literature related to the derivation principle and its implementation. The analysis was structured around key themes, including governance, resource allocation, community involvement, and the socio-economic impact of the derivation principle. This thematic approach ensured a comprehensive

understanding of the issues and highlighted patterns and relationships within the data. By integrating descriptive and documentary methods, the study provided an in-depth and well-rounded analysis, offering insights into the challenges and opportunities associated with the derivation principle in fostering development in oil-producing communities.

Concept of Derivation Principle

The derivation principle is a constitutional mechanism that dictates how revenues from natural resource extraction are distributed, particularly in nations with decentralized governance. This principle ensures that a portion of the income generated from resource exploitation is allocated to the regions or states where these resources are located. It is founded on the belief that communities hosting natural resources should directly benefit from their use (Tom & Ataide, 2021). The primary goal of the principle is to promote fair wealth distribution, encourage development in resource-rich regions, and address historical inequalities in resource allocation.

By allocating a share of resource revenue to producing regions, the derivation principle aims to foster socio-economic growth, reduce poverty, and improve living standards in these communities. The percentage allocated varies depending on the legal and policy frameworks of each country and can be influenced by factors such as the quantity of resources extracted, the environmental consequences, or historical agreements (Abubakar, 2016; Akinola, 2008).

Beyond addressing economic disparities, the derivation principle serves as a strategy to enhance inclusivity and mitigate conflicts in resource-rich areas. However, its effectiveness relies on transparent management, equitable distribution, and accountability to ensure the funds are used to drive meaningful development in the affected regions.

The derivation principle, first introduced by the Phillipson Commission in 1946, remains a cornerstone of Nigeria's revenue-sharing framework. This principle mandates that the share of revenue allocated to state governments from the Federation Account should be proportional to their contributions to that pool (Abubakar, 2016; Ashwe, 2016). As a fiscal policy tool, it ensures that a percentage of revenue from natural resources, such as oil and gas, is returned to the regions of extraction. The principle embodies equitable resource distribution, aiming to mitigate the environmental and social challenges associated with



resource exploitation. It also seeks to foster local development, bridge regional disparities, and improve living standards in resource-rich areas often plagued by economic disadvantages.

In Nigeria, the derivation principle is integral to fiscal federalism, particularly in managing oil revenues. The 1999 Constitution stipulates that 13% of revenue from oil production should be allocated to oil-producing states. This policy addresses issues such as environmental degradation, infrastructural deficits, and socio-economic instability. The funds are intended to support development projects, enhance public services, and foster sustainable economic growth (Akinola, 1992; Funmi, 2021). According to Attah (2018), the derivation principle ensures that a specified portion of revenue from resource exploitation remains with the state of origin, while the remainder is pooled into the Federation Account for redistribution. Specifically, the Constitution mandates that at least 13% of revenue from resource exploitation be allocated to the producing state, with the remaining 87% distributed among all federating units.

The objectives of the derivation principle include:

1. Allocating a fair share of resource-generated revenue to oil-producing states.
2. Promoting infrastructural development, such as roads, electricity, and public facilities, in oil-producing regions.
3. Improving access to essential social services, such as healthcare and education, by funding facility upgrades and new developments to enhance community well-being.

Concept of Oil Producing Communities Development

Oil-producing communities are regions where the extraction of crude oil and natural gas plays a central role in the local economy, directly influencing the livelihoods of residents (Ojatorotu & Gilbert, 2010). These areas are often geographically situated near significant oil fields, where oil extraction occurs both onshore and offshore, impacting local infrastructure, demographics, and community life (Akinola, 1992). The economic activities in these communities heavily rely on the revenues generated by the oil sector, which forms the backbone of their financial sustainability (Akinyele & Adebayo, 2017). However, oil-producing communities often face environmental challenges such as soil erosion, water contamination, and deforestation, which are a result of oil extraction activities, negatively

affecting the health and well-being of local populations (Abubakar, 2016).

Development on the other hands is multifaceted and has evolved over time, encompassing economic, social, political, and environmental dimensions. At its core, development refers to the process of positive change aimed at improving the well-being and quality of life of individuals and communities. While traditionally equated with economic growth and industrialization, contemporary understandings of development emphasize broader objectives, including poverty reduction, social equity, environmental sustainability, and good governance (Ake, 1996; Onuoha, 1999). It is a process of growth, progress, or forward movement towards a better, more complete, or more modern state. It refers to the gradual advancement and improvement in various aspects of human society, such as economic, social, political, and cultural spheres (Umoh, 1985).

Development in oil-producing communities, particularly in regions like Nigeria's Niger Delta, has been a contentious issue due to the complex interplay of economic, environmental, and social factors. While oil production generates significant wealth, the benefits for the local communities often remain limited, with development hindered by factors such as mismanagement, corruption, and insufficient infrastructure investment. Despite their vital role in generating national wealth, these communities often experience high levels of poverty and underdevelopment. The oil revenues are not always equitably distributed or reinvested to address local development needs (Niger Delta Development Commission [NDDC], 2020). Politically, oil-producing communities in Nigeria, especially in the Niger Delta region, are entitled to a share of oil revenues through the derivation principle, which allocates a percentage of the revenue generated from oil extraction back to the host states or local governments (Ikelegbe, 2005). These communities also tend to suffer from infrastructure deficiencies, such as poor roads, inadequate healthcare, and limited access to basic utilities, which further exacerbate their development challenges (Funmi, 2021).

Culturally, the extraction of oil has significantly impacted the traditional ways of life in these regions, leading to social upheavals, changes in social structures, and migration patterns as a result of oil industry expansion (Omotoso & Akinlo, 2010). Additionally, despite their resource wealth, many oil-producing communities are marked by



widespread poverty and underdevelopment, often driven by the mismanagement of oil revenues and corruption (Ojatorotu, 2009). Finally, these communities frequently experience displacement and conflict due to the need for land to accommodate oil-related infrastructure, leading to social instability and economic dislocation (Akinola, 1992; NDDC, 2020). They are often subjected to environmental degradation due to oil exploration and extraction activities. These include soil erosion, water contamination, gas flaring, and deforestation, which negatively impact agriculture, fishing, and other traditional livelihoods (Tom, 2007). The degradation of the environment results in poor living conditions, and local economies that were once based on subsistence farming and fishing are disrupted (Akinola, 1992; Ikelegbe, 2005). This ecological harm is compounded by inadequate infrastructure, such as poor roads, lack of access to clean water, and inadequate healthcare facilities, which further impede development. (Ebong, 2019).

While oil revenues have been a critical source of national income, the allocation of these revenues to oil-producing regions has been a point of contention. The derivation principle, which allocates a portion of the oil revenue back to the oil-producing regions, was intended to ensure that these communities benefit from the resources extracted within their borders. However, the impact of this policy has often been diminished by corruption, mismanagement of funds, and failure to adequately channel resources into the improvement of local infrastructure and services (Omotoso & Akinlo, 2010; Ojatorotu & Gilbert, 2010). Despite the creation of agencies like the Niger Delta Development Commission (NDDC) to promote development, the region continues to struggle with underdevelopment, poverty, and social unrest.

Review of Empirical Literature

Tom, Basse, Ekpo and Ebong (2021) explored the politics surrounding the derivation principle and its influence on the socio-economic development of the Niger Delta region. Their study emphasized that the derivation principle has been a significant point of contention in Nigeria's federal structure. Despite generating considerable wealth for the nation, oil-producing communities in the Niger Delta remain impoverished, grappling with environmental degradation and pollution. These issues have displaced many residents from their traditional agricultural livelihoods, leading to economic challenges. In an attempt to mitigate these problems, the federal government implemented the derivation principle to allocate a portion of oil

revenue from the federation account to states contributing significantly to the national economy. However, the study found that the 13% derivation fund has failed to resolve the region's development challenges. The allocation system suffers from structural flaws, including the absence of a transparent and fair formula for determining allocation rates. The 13% rate, established during the 1995 constitutional conference as a political compromise, lacks a strong technical or economic basis. Legal disputes and the centralization of oil revenue, where the federal government retains approximately 60% of the proceeds, further compound the issue. This centralization limits resources available to state and local governments, fostering wasteful spending and corruption at the federal level. As a result, communities like Mbo, Ibeno, and Esit Eket in Akwa Ibom State remain underdeveloped, lacking essential infrastructure such as clean water, electricity, and healthcare, despite receiving substantial derivation funds. The study recommended improving oversight and monitoring of the derivation fund through regular audits, public access to financial records, and accountability for mismanagement. Additionally, it urged the Akwa Ibom State Government to engage local communities in planning and executing development projects to ensure these initiatives address their specific needs and priorities effectively.

Fatai (2023), carried out a study on fiscal federalism and the challenges of the effective utilization of the 13% oil derivation fund in Nigeria. The study emphasized that while this fund has generated substantial revenue for oil-producing states, development in these areas remains stunted. Using primary and secondary data, the study scrutinized the application of the derivation principle and identified challenges such as withholding of funds by state governments, corrupt practices, poor monitoring, and accountability issues. Based on its findings, the study recommended constitutional reforms, effective monitoring, and administrative improvements to enhance judicious utilization of the oil derivation fund for socio-economic development.

Adangor (2022), examined the principle of derivation and its role in addressing distributive justice in the Niger Delta region. The study highlighted the historical restiveness in the region due to marginalization and inequities in revenue allocation. It argued that the derivation principle, which evolved as a response to such inequities, has been distorted by the dominance of Nigeria's majority ethnic groups. The paper proposed an



upward review of the derivation principle from 13% to 30% with a further progression to 50%, comparing the current rate unfavorably with higher percentages historically allocated to solid mineral-producing regions.

Muhammad (2019), conducted research on fiscal allocation in Nigeria, focusing on the politics of derivation principles. The study utilized a Political Economy approach to analyze how the structure of Nigeria's federalism and reliance on oil revenues shape fiscal allocation. It highlighted the inherent challenges, including disparities in development, and recommended revisiting the fiscal allocation formula. Additionally, the study advocated for investments in agriculture to diversify the economy and reduce dependency on oil revenue.

Solomon (2018), carried out a study on the sustainable management of Nigeria's oil wealth, identifying legal challenges and future directions. The study argued that unsustainable practices, such as corruption, waste, and a focus on revenue sharing over production, have stifled economic performance. It called for stronger legal frameworks and active stakeholder engagement, including input from civil society organizations, to foster sustainable development in Nigeria's oil sector.

Theoretical Framework

The resource curse or paradox of plenty highlights the inability of resource-rich nations to fully utilize their natural wealth for development and public welfare. Contrary to expectations, countries endowed with natural resources often face heightened conflicts, authoritarian governance, and reduced economic stability and growth compared to resource-poor countries (Ross, 2015; Eifert, Fair, Gelb and Midgley, 2003; Gelb, 1988). Political and economic theories attempt to explain why these nations underperform. In many cases, state power operates with minimal restrictions or accountability. Public and private resources are often exploited for the benefit of elites, supported by entrenched, institutionalized corruption and lack of transparency. Under such conditions, oil wealth fails to significantly improve the lives of ordinary citizens. Nigeria, particularly under military rule since 1966 and fractional democracy since 1999 is frequently cited as an example of a country experiencing resource curse (Ohiorhemuan, 1980; Adebanu, 2001).

The Derivation Funds and development in Oil-Producing Communities in Akwa Ibom State

The principle of derivation mandates that the share of revenue allocated to state governments

from the central Federation Account should be proportional to their contribution to the national pool. The underlying rationale is that regions generating significant revenue, particularly from natural resources, should be compensated for the potential economic and environmental costs they incur. This principle applies not only to oil and gas-producing states but also to those with solid minerals that contribute to federal income. In Akwa Ibom State, one of Nigeria's top oil-producing regions, the allocation of 13% derivation funds from the federal government has played a significant role in financing development initiatives. These funds are designed to mitigate the negative impacts of petroleum exploration, such as environmental degradation, by directing a share of oil revenue back to the host communities. The 13% derivation fund has thus become a vital resource for driving development in oil-producing Local Government Areas (LGAs) within the state. Through the allocation of these funds, Akwa Ibom has achieved notable progress in infrastructure development, including improvements in road networks, healthcare services, electrification, and educational facilities (Omotoso & Akinlo, 2010; Akinola, 2008; Funmi, 2021). Scholars from Akwa Ibom State such as Bassey (2015) and Essien (2018), have also highlighted the significance of the derivation fund in addressing the socio-economic disparities in oil-producing communities, though they have called for better governance and accountability in fund management, some of the impacts are presented below:

In area of road infrastructural development, the 13% derivation funds have been instrumental in revolutionizing road infrastructure across oil-producing local government areas (LGAs), significantly improving connectivity and stimulating economic growth. One prominent example is the construction of the Eket-Ibena Road, which serves as a vital link between oil facilities and local communities. This road facilitates the seamless transportation of oil products and enhances local economic activity by providing improved access to ExxonMobil's operational base in Ibena. According to Etim and Enang (2021), this infrastructure has catalyzed business activities in nearby communities by improving mobility and reducing travel costs. Similarly, the Ikot Abasi-LGA roads have undergone substantial upgrades, ensuring smoother transportation and fostering economic exchanges between localities. Ekong and Umoh (2020) highlight that these developments have encouraged investments in agriculture and small-scale industries. In Eastern Obolo, previously



isolated communities now benefit from newly constructed roads that have enhanced trade and movement, addressing decades of inaccessibility. In their observation, Uko (2022) and Ibanga (2021) agree that these roads have significantly contributed to reducing poverty and improving livelihoods in the area.

Further transformational projects funded through derivation resources include the 29-kilometer Etinan-Ndon Eyo Road, which has opened up rural areas by providing efficient transportation links. This has facilitated agricultural activities and economic growth by connecting farmers to broader markets (Ekanem, 2021). In a similar vein, the Ekom Iman-Etinan-Onna Road has emerged as a vital artery linking Uyo to other parts of Akwa Ibom State. This road has reduced transportation costs, improved the movement of goods and services, and provided significant economic benefits to local businesses (Akpan & Johnson, 2020). Furthermore, the completion of the Uyo-Ikot Ekpene Road has drastically reduced travel times and bolstered commercial activity between Uyo, the state capital, and Ikot Ekpene, an economically vibrant area. Research by Akpan, Udoh, and Essien (2022) highlights the critical role of this road in promoting regional trade and integration within the state.

Urban infrastructure has also seen notable improvements due to derivation funds. A key example is the construction of the Ikot Oku Ikono Flyover, a major project in Uyo. This flyover has alleviated traffic congestion at one of the city's busiest junctions, significantly reducing travel times and easing transportation bottlenecks. Reports from the Akwa Ibom Ministry of Works (2021) indicate that this project has enhanced the flow of goods and services, contributing to urban economic development. Additionally, the flyover has improved road safety by streamlining traffic, as observed by Edet and Ekpe (2021). Combined with other projects, such as the Uyo-Abak Road and the Shelter Afrique Interchange, these initiatives underscore the transformative impact of derivation funds on infrastructure development in Akwa Ibom State. As noted by Ibanga (2021), these investments have not only improved transportation but also stimulated economic activities, reduced poverty, and enhanced social integration. Consequently, derivation funds remain a pivotal tool for driving sustainable development in resource-rich areas of Nigeria.

In the area of healthcare infrastructure across the eight oil-producing LGAs, significant improvements have been achieved through the

utilization of derivation funds. In remote areas in some local government areas of Mbo and Eastern Obolo, these funds have facilitated the construction of primary healthcare centers, ensuring that residents have access to essential medical services. This development has addressed longstanding challenges in these communities, where access to healthcare was previously limited. According to Etim and Akpan (2021), these centers now provide basic maternal care, immunizations, and treatment for common illnesses, significantly improving public health outcomes. The Eket General Hospital has undergone extensive renovations funded by the derivation allocation, transforming it into a state-of-the-art facility equipped to deliver modern healthcare services. These upgrades include the installation of advanced diagnostic equipment, the expansion of inpatient wards, and the recruitment of specialized medical personnel (Inam, 2021). These changes have enhanced the hospital's capacity to handle complex medical cases, reducing the need for residents to seek treatment outside the state. Inam and Essien (2021) further emphasize that the hospital's transformation has improved healthcare delivery across Eket and neighboring LGAs.

Other LGAs, such as Ibena and Ikot Abasi, have similarly benefitted from the construction and upgrading of healthcare facilities. These projects have addressed healthcare needs that had long been neglected, including maternal and child health services and emergency care. For instance, the new primary healthcare centers in Ibena now cater to over 5,000 residents annually, significantly improving access to medical services in the area (Okon & Udo, 2022). Additionally, Ikot Abasi's healthcare infrastructure now includes modern outpatient clinics and community health programs, further bolstering public health (Akpan & Etim, 2021).

Rural electrification efforts, particularly in off-grid and underserved areas, have made significant strides through the use of derivation funds. For example, several coastal communities in Ibena and Mbo Local Government Areas (LGAs), which had long suffered from persistent power shortages, are now connected to the national electricity grid. This development has had a transformative effect on local economies, especially in areas where fishing is the primary livelihood. With a reliable electricity supply, fishers can now preserve their catches for longer periods, reducing spoilage, cutting economic losses, and boosting household incomes (Achibong, 2022).

In addition to electrifying rural communities, derivation funds have been



instrumental in advancing the state's industrial electrification initiatives. A prime example is Ibom Power Company Limited, along with Metering Solutions Manufacturing Services Limited, both of which were established with the support of derivation funds. Ibom Power generates electricity and supplies it to the national grid, contributing to the state's overall electrification, while Metering Solutions Manufacturing Services Limited produces over 1.2 million electricity meters annually. These meters are supplied to various electricity distribution companies in Nigeria and exported to neighboring West African nations such as The Gambia and Liberia. By facilitating the production and distribution of metering solutions, these initiatives have not only supported local industrial growth but also fostered regional trade integration (Achibong, 2022; West Africa Trade Report, 2021). These efforts align with Nigeria's broader development goals, as outlined in the Rural Electrification Strategy and Implementation Plan, which stresses the importance of leveraging both public and private funding to expand access to electricity. The progress made through these investments highlights the crucial role of derivation funds in promoting economic empowerment and supporting sustainable development in both rural and industrial sectors (Nigerian Energy Policy Review, 2023).

In the area of education, the 13% derivation funds have been instrumental in advancing educational infrastructure in the oil-producing Local Government Areas (LGAs) of Akwa Ibom State. In Esit Eket, Onna, and Uruan, numerous schools have been constructed or renovated, providing students with better learning environments. Significant projects include the establishment of the AKSU/Google Broadband Centre in Eket, designed to enhance digital connectivity in the region, thereby supporting both educational and technological advancement (Etuk, 2021). In Ikot Abasi, public schools have received new classroom blocks and learning materials, narrowing the educational gap caused by years of underfunding. Extensive school renovations have also occurred across various LGAs, such as the reconstruction of classrooms and assembly halls in Urua Inyang, improving the overall infrastructure necessary for effective education. Additionally, scholarships funded by derivation funds have been awarded to students from low-income families, further enhancing educational access and opportunities (Etuk, 2021)

Beyond education, derivation funds have been used to support other critical

infrastructure projects. In Eket, for instance, a modern market complex was constructed to boost trade and local economic activities. In Mbo and Onna, water supply projects have ensured that communities previously facing water scarcity now have access to clean drinking water. In Ikot Abasi, public buildings, including civic centers, have been constructed, fostering community engagement and providing spaces for social events. Notably, the Kings Flour Mill in Onna, which began operations in 2020, was funded through derivation resources. The mill, which produces flour and related products, supports local agriculture and has created employment opportunities, significantly contributing to food security and economic development in the region (Udoh & Asume, 2022).

In area of agricultural development, Derivation funds have also supported agricultural initiatives, such as the Cocoa Revitalization Project, which aims to enhance cocoa farming in the state by providing farmers with improved seedlings and training. Additionally, a public-private partnership (PPP) facilitated the establishment of a poultry hatchery complex at Mbiaya Uruan, with a capacity of 1,000,000 day-old chicks per month. Over 54 million kilograms of maize seedlings were distributed to farmers, and more than 20,000 oil palm seedlings were raised for local cultivation. The state also distributed two million improved cocoa seedlings and established a cocoa fermentation and drying plant at Ananammong Okobo. Further agricultural efforts include the large-scale cultivation of cassava in 15 LGAs through the FADAMA program, as well as the establishment of the Ibom Green House and the planting of citrus, hybrid plantain, and pineapple seedlings in Uyo LGA's Horticulture Garden (Inam, 2021). While the derivation funds have resulted in substantial infrastructure development, improved the quality of life and general wellbeing of the residents oil producing areas in Akwa Ibom State, challenges for effective utilization of derivation funds still persist. Hence, there is need for improvement in terms of ensuring transparency and equitable distribution of these funds. Some of the challenges will be discuss below.

The Deprivation Funds Utilisation: The Challenges

The 13% derivation fund allocated to oil-producing states in Nigeria based on their crude oil production, has remained a contentious issue due to widespread allegations of mismanagement, corruption, and inefficiency. Research has shown that funds intended for community development



commissions are frequently diverted or underutilized, exacerbating inequality and neglect within the Niger Delta region (Aigbokhan, 2019; Akpan & Akpabio, 2021). Weak governance frameworks, corruption among public officials, and a lack of robust accountability systems have further deepened developmental challenges in these areas (Omotoso, 2010; West, 2007).

The derivation fund system is fraught with structural deficiencies, including the absence of a transparent and equitable formula for determining allocation rates. The current 13% rate, introduced as a political compromise during the 1995 constitutional conference, lacks a technical or economic foundation (Ikpatt & Ibanga, 2003). Legal disputes have further complicated its implementation. For instance, the 2002 Supreme Court ruling on offshore oil revenue calculations, which excluded states like Akwa Ibom with predominantly offshore oil reserves, significantly undermined their benefits from the fund (Ojo, 2009). Although the 2004 Offshore/Onshore Dichotomy Abolition Act sought to address these disparities, critics such as Ledum Mitee of the Movement for the Survival of the Ogoni People (MOSOP) have argued that it failed to address deeper issues of environmental degradation, resource control, and community marginalization (Ojameruave, 2004).

The centralization of oil revenue at the federal level further compounds the problem, as the federal government retains approximately 60% of oil-generated income. This centralization limits the resources available to state and local governments and has encouraged wasteful spending and corruption at the federal level (Awolaja, 2011). Unlike federations such as Australia, where states manage significant responsibilities like public transportation and policing, Nigeria's centralized approach has undermined efficiency, accountability, and the equitable distribution of resources (Olowu & Erero, 2020). Consequently, communities such as Mbo, Ibeno, and Esit Eket in Akwa Ibom remain severely underdeveloped, with inadequate access to essential amenities like clean water, electricity, and healthcare, despite the substantial inflow of derivation funds.

The derivation fund has negligible effect on the protection of environment. Environmental degradation exacerbates the hardships faced by oil-producing communities. Gas flaring, oil spills, and land degradation have led to severe health problems, including respiratory illnesses and water contamination, yet there is minimal investment in environmental remediation or healthcare

infrastructure (Omotor & Adua, 2013; Nwilo & Badejo, 2006). The persistent poverty, unemployment, and lack of social services in these regions underscore the systemic neglect of oil-producing communities, further highlighting the failure of the derivation fund to achieve its intended objectives (Udonquak, 2020).

III. Conclusion

An analysis of the derivation principle and its impact on development in Akwa Ibom State shows that while the principle has contributed to some infrastructural and socio-economic advancements, its potential has been significantly undermined by corruption, mismanagement, and inequitable resource allocation. The objective of fostering development in oil-producing regions has been only partially achieved, as many communities continue to lack access to critical services and opportunities for growth. Weak governance structures have further hindered the effective utilization of allocated funds, preventing the derivation principle from delivering the transformative outcomes it was designed to achieve. Despite the substantial revenues derived from oil production, most oil-producing communities still grapple with poor infrastructure, environmental degradation, and substandard public services. Issues such as the mismanagement of funds, insufficient transparency, and the exclusion of local communities from decision-making processes have severely limited the effectiveness of the derivation fund. Consequently, areas such as Mbo, Ibeno, and Esit Eket remain largely underdeveloped, with residents bearing the brunt of the adverse effects of oil extraction while reaping few, if any, of its benefits.

IV. Recommendations

i. Increase Transparency and Accountability: Government should Strengthen monitoring and oversight of derivation fund management by implementing regular audits, ensuring public access to financial reports, and holding officials accountable for any misuse of funds.

ii. Promote Local Involvement: Akwa Ibom State Government should actively engage local communities in the planning and implementation of development projects, ensuring that these projects reflect their real needs and priorities.

iii. Address Environmental and Health Issues: The Federal and the state government should focus on cleaning up polluted environments, reducing harmful gas flaring, and improving



healthcare services to mitigate the negative health effects caused by oil activities.

iv. Improve Infrastructure and Encourage Economic Diversification: The state government should invest in essential infrastructure like electricity, water, and schools, while supporting economic diversification through agriculture, small businesses, and other alternative industries to reduce reliance on oil revenues.

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