A New Petro-Dollar Windfall?

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As the civil war in Syria intensifies and the prospect of external, great power intervention in the Middle East heightens, world peace is ominously threatened. Of serious concern for all peace-loving peoples is survival, security and safety, as well as the protection of the material existence of the poor and the underprivileged, not only in Syria, but also in other parts of the world. In a globalized world, war in one country brings deprivation and hardship to all countries. Based on historical experience, one of the immediate predictable consequences of the escalation and internationalization of the civil war in Syria is renewed dimension of the global energy crisis and the attendant aftermath.

For petroleum exporting countries like Nigeria, it is tempting to anticipate another era of petrodollar windfall—what some might cynically regard as the sweet side of a global energy crisis. Already, there are reports that the price of crude oil is on a temporary but steep rise. The price of crude is said to have upped to US$112 a barrel in early trading on Wednesday, last week (28-09-2013). Thereafter, the price of Brent crude reportedly increased by 1.5 per cent and peaked at US114.34. Although Nigeria's oil production has, according to OPEC sources, fallen from about 2.03million, per day, at the beginning of the year to 1.871 million per day in June and then to 1.610million, per day, in July 2013, Nigeria has, apparently, already begun to reap the effects of the escalating crisis in Syria. It has been stated that if the Government of the United States of America makes good its threat to intervene in the Syrian civil war, the price of crude oil will rise even higher.

Nigerians at home and abroad are wondering if, and how, the Governments of Nigeria would manage the latest Middle-East-crisis-induced extra crude oil revenue. Would the windfall be mismanaged again as it was in the past. Nigeria is now a member of the Extractive Industries Transparency Initiative (EITI) Association, and there is a move to have it become committed to the implementation of the Natural Resource Charter (NRC), will the Governments of Nigeria choose to put into practice the principles of EITI and the precepts of NRC relevant to the management of oil revenue volatility?

The very first principle of EITI is a shared belief that the prudent use of natural resource wealth constitutes an important machine for sustainable economic development and poverty reduction. Conversely, if resource revenue is not managed properly, it will create negative economic and social impacts on the nation. Similarly, the first precept of the NRC is that what constitutes the highest rationale for extracting crude oil and converting it into revenue is using the wealth to secure the greatest social and economic benefits for the mass of the people of an oil-bearing country. Furthermore, both EITI and NRC highlight the principles of transparency and accountability as key and indispensable tools of petroleum revenue management. Mainstreaming the twin principles is the very definition of prudent revenue management. More specifically, the NRC goes further to demonstrate that it is a global best practice for governments of resource-rich countries to institute measures and take action to insulate their oil-derived revenues and expenditure from cyclical changes in crude oil prices and volumes of production. This is done by sweeping extra oil revenues aside, and saving and investing it for the rainy day.

Nigeria has so far toyed with several measures in that direction: first, the Oil Price Fiscal Rule; then the Extra Crude Account; and now the National Sovereign Wealth Fund(NSWF). None of these, however, measures up to the best of the global best practice. There is for instance the Norwegian State Petroleum Fund (NSPF). Established in 1996, by 2001, the NSPF had accumulated US$80 billion, amounting to 45 per cent of the Norway's Gross Domestic Product. It is treated strictly as a stabilization and investment fund. It is invested in such a way as to enhance the international purchasing power of Norwegian kroner. The guiding principle in managing the Fund in Norway is to strike a balance between medium term macroeconomic stabilization and short term, measured, gradualist, incremental budgetary expansion. The financing of non-oil budget deficit in Norway is done by using the yield of the invested capital fund, which is about 4 per cent per annum. The Fund is managed by the Norwegian National Bank and made accountable to the national legislature.

Compare that with the Nigerian NSWF. The initial capital was US1 billion, which is "allocated" into various buckets: US$325 million to infrastructure projects; US$200 million to Stabilization; US$325 million as Future Generation Fund; and the balance to be allocated as "we go". The Nigerian NWSF is managed by a new bureaucracy and advised by foreign "experts". Surely, we can do much better.