



SUSTAIN DEBATE ON THE OIL AND GAS SECTOR TRANSPARENCY ISSUES WITH CBN'S ALLEGATION AGAINST THE NNPC

The Nigerian Natural Resource Charter convened a Roundtable Discussion in Lagos on the 13th of March 2014, to examine the allegations by the Governor of the Central Bank of Nigeria (CBN) on discrepancies between the receipts of the Nigerian National Petroleum Corporation (NNPC) and the corresponding figures remitted to the Federation Account.

The Nigeria Natural Resource Charter (NNRC) is part of the Natural Resource Charter, a global initiative which aims to support governments and societies of resource-rich countries to harness the economic opportunities of extractive resources. The Charter has developed a set of 12 Precepts for the effective management of natural resources. Members of NNRC expert advisory panel, which includes petroleum experts, industry executives, civil society groups, academics and legal luminaries, partook in the recent roundtable discussion.

On the issue around the remit of funds to the Federal Government, both the CBN and NNPC agree that \$67 billion was realised from crude oil sales between January 2012 and July 2013. Of this amount, \$31 billion was fully accounted for and agreed to by both parties. CBN does not agree with the details provided by NNPC on \$24 billion of the revenue and has requested for further documentation.

The main contention is on \$12 billion of the revenue that NNPC agrees that it did not remit to the government. Rather, it claims to have spent the money on kerosene subsidy (\$8.49 billion), 2011 fuel subsidy (\$1.2 billion), repair of vandalised pipelines (\$1.22 billion), product and crude oil losses (\$0.72 billion) and payment to Strategic Alliance Agreements (\$0.37 billion).

The CBN Governor stated categorically that kerosene is not a subsidised product in Nigeria. He challenged NNPC to provide the government approval authorising it to make any deductions towards 2011 fuel subsidy arrears and show how it spent \$1.22 billion in repairing vandalised pipelines. Furthermore, CBN Governor raised concerns about the Crude Oil Swaps and the Strategic Alliance Agreements.

The Issues – Transparency, Accountability and Lack of Effective Oversight

The main issues are a lack of transparency and accountability in NNPC, inadequate financial reporting mechanism, institutional failures, and ineffective oversight by the National Assembly. The fact that the CBN, Federal Ministry of Finance, Budget Office of the Federation, and NNPC cannot agree on revenue realised from crude oil sales (Nigeria's major revenue source) presents a compelling need to improve transparency and accountability processes in NNPC.

Corporate governance provisions at NNPC are at best sub-optimal. For instance, on what law or on whose authority does the NNPC choose when to remit the crude oil sales revenue or not? What is the penalty for NNPC executives who make decisions that appear to transfer government revenue to personal pockets in the name of financial engineering: Crude Oil Swaps, Strategic Alliance Agreements, etc?

Recommendations

1. The NNRC Roundtable welcomes the forensic audit proposed by the Coordinating Minister of the Economy, however, it strongly suggests that what is required is an operational as well as a financial audit to gain a comprehensive understanding of the failures in the system that have resulted in continued haemorrhage of resources.
2. Industry insiders and experts should be invited review the terms of reference for the audits and suggest areas where the auditors should pay particular attention.
3. The selected auditors should be world-class firms with global franchises at risk; yet, they should be knowledgeable about the inner workings of NNPC.
4. For unfettered access, NNRC Roundtable recommended that the Honourable Minister of Petroleum Resources and the Group Managing Director of NNPC should be asked to proceed on leave for the period of the audit.
5. The current administration needs to win back the confidence of Nigerians in its integrity and that of the proposed audit. NNRC Roundtable recommends that the government should immediately publish the report of the previous audits of the petroleum industry. For instance, the 2009 KPMG Audit Report, as well as, the 1994 Okigbo Report.
6. The 7th National Assembly should deliver more effective oversight of the petroleum sector. There is urgent need to pass the Petroleum Industry Bill to commence the reform of the sector.
7. The National Assembly should ensure it has the technical competence to oversee the sector. There are a number of independent agencies that are willing to offer the support, pro bono or for a fee. The National Assembly should aggressively seek support for its oversight function.
8. The Media and Civil Society Organisations are urged to help Nigerians visualise \$12 billion so they can be sufficiently outraged by this scandal, and hence, demand change. This scandal should not be allowed to fizzle away until fundamental improvements are made to the management of Nigeria's natural and financial resources.

Conclusion

The current scandal presents a unique opportunity for fundamental and lasting change to the administration of Nigeria's natural and financial resources. NNRC is committed to working with its alliance partners to improve transparency and accountability in the management of Nigeria's natural resources.

What the NNRC can do is ask the right questions and have the public challenge the answers received. If the right questions are asked on issues of accountability and transparency in the extractive industry, the National Assembly and civil society groups can take the baton and force the information back into the public domain.

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(nigeriannrc.org)