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Overview

This report summarizes the second benchmarking of Nigeria’s petroleum sector governance against the twelve precepts of the Natural Resource Charter (NRC). The benchmarking systematically catalogues critical aspects of the governance of natural resource wealth in Nigeria, and identifies changes that have taken place since 2012, when the first benchmarking was completed.

The twelve precepts represent the various components of good natural resource sector governance, and are mapped to the extractive industry decision chain. Nigeria Natural Resource Charter (NNRC) scores performance on each precept using a “traffic light” system, where a positive answer to the benchmarking question scores green, a negative answer red, and where an answer is neither a definitive “yes” or “no”, an amber light. The research process found that the situation in Nigeria didn’t change dramatically during the 2012-2014 period, so all of the traffic light colors remain the same. But there has been some movement, and so the arrows with each score indicate the trend or direction of travel observed over the two years; an equal sign indicates no movement at all.

The full report of the 2014 NNRC benchmarking contains the research that underlies the scores presented below, including answers to dozens of questions used to gauge performance. The full report and other NNRC resources are available at www.nigerianrc.org.

The 2014 benchmarking exercise is not just another index of information; rather, its goal is to help Nigeria improve governance of the oil and gas sector and provide key stakeholders with a tool for action.

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BACKGROUND

The NRC is a set of principles for use by governments, civil society and the international community. It outlines how best to manage natural resource wealth for the benefit of current and future generations of citizens. The charter’s twelve precept cover the different kinds of decisions and policies that are required to successfully govern a petroleum sector.

In Nigeria, the NRC is implemented by the Nigeria Natural Resource Charter (NNRC). The first NNRC benchmarking exercise was conducted in 2012.

The NNRC is led by an independent, multidisciplinary expert advisory panel of 14 members including former government officials, industry representatives, civil society actors and leading academics:

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This panel of experts oversees the biennial assessment and the more frequent discussions on governance in the natural resource sector. For the 2014 edition, the NNRC entered into a partnership with the Lagos-based think-tank, the Centre for Public Policy Alternatives, which carried out much of the assessment’s research. For its review of changes in the sector since the first benchmarking exercise of the industry in 2012, CPPA interviewed industry experts, practitioners and civil society organizations, and conducted a comprehensive literature review to provide further evidence and assess facts for consistency.

The NNRC is supported by the Natural Resource Governance Institute (NRGI), an international non-profit policy institute that promotes the effective, transparent and accountable management of oil, gas and mineral resources for the public good. NRGI supports the use of the charter in resource-rich countries around the world.
NIGERIA NATURAL RESOURCE CHARTER: Summary of the 2014 Benchmarking Report

CHANGES SINCE 2012

Before describing Nigeria’s performance against the individual precepts, we note several important cross-cutting trends that defined the 2012-2014 period.

Since 2012, there has been no progress made with respect to the Petroleum Industry Bill (PIB), the bill seeking to comprehensively reform the entire governance and regulatory framework of the oil and gas industry in Nigeria. The bill’s provisions are not in the most ideal form, and it is stalling for a number of reasons including disagreements over its fiscal provisions, especially allegations of being a revenue bill; lack of resolution of challenges of policy discretion; and other regulatory issues with its proposed institutions. If the bill is eventually passed with the most optimal provisions for the management of the sector, the achievement of its reform objectives will largely depend on proper implementation. Alternative options for reform have been suggested by experts, such as decoupling the PIB into at least two component parts—administrative/institutional reforms on one hand, and the revenue generation/fiscal/tax regime on the other—so as to effectively reform these parts independently.

It is also unclear whether Nigeria is executing a deliberate and forward-looking response to shifts in the global oil market. The shale oil revolution in the United States and new oil discoveries in neighbouring African countries have led to glaring declines in Nigerian oil exports to the US. US oil imports from Africa plunged to a 40-year low in 2014 by virtue of higher US domestic yields of shale oil. By June 2014, first-quarter reports compared to that of the same period in 2013 showed that the drop in US oil imports from Nigeria alone were valued at $2.7 billion (476 billion naira). The emerging situation has pushed Nigeria towards alternative export markets. Key questions are now: Will Nigeria profit from its increasing exports to India and China? Will China’s approach to Africa help Nigeria to prosper?

The country’s ongoing electricity reform and privatization exercise has received much attention in public discourse over the last two years. The reforms indicate that change is possible, and bode well for eventually driving positive change in the economy. New private companies have emerged to take ownership of the distribution end of the industry, while there is a management contract for a company for electricity transmission. Despite the positive feel of the reform, there are many challenges, especially in power generation: domestic gas development targets to feed the electricity generation plants have not been met. This, among others, has meant that the benefits of electricity reform are yet to be well distributed.

Finally, the gross domestic product (GDP) re-basing exercise of 2014 measured the size of the country’s economy at $510 billion (89.7 trillion naira), the largest in Africa. The exercise provided new evidence of diversification within the country, with the oil sector constituting just 14 percent of GDP. However, the new figures also show how heavily Nigeria relies on oil for both export earnings and government revenue. Petroleum exports still account for over 90 percent of the total value of exports, and petroleum revenues bring in about 75 percent of total government receipts.
Precept 1: Securing the greatest social and economic benefits for the people of Nigeria

What is assessed?
The development of a country’s natural resources should be designed to secure the greatest social and economic benefit for its people. This requires a comprehensive approach in which every stage of the decision chain is understood and addressed:

- Does the development of oil deliver significant economic and social benefits to citizens?
- Are there critical “leakages” in the sector in terms of overall revenue or benefits accruing to the country?

Highlights of the 2012-2014 benchmarking:
Nigeria has consistently pursued a transactional approach to the development of its natural resources. A broad look across current sector policy suggests that the transformation of sub-soil assets into benefits for the people of Nigeria remains unlikely. Such a transformation cannot be achieved without a robust and active socio-economic strategy for asset development, including the inclusion of a social development perspective in all policy discussions at every stage of the decision chain, thereby going beyond the simple pursuit of short-term commercial gains for all extractive activity.

Several factors illustrate how the overall approach to the sector may be falling short. Government has repeated its ambitions to increase crude oil production to 4 million barrels per day and reserves to 40 billion barrels by 2020. However, rig count, a practical measure of exploration activity in the industry, has been on the decline over the past two years, falling from 43 active rigs in 2013 to 33 in April 2014. Proven reserves declined from 37.2 billion barrels in 2011 to 35 billion barrels at the end of 2012, and climbed back in 2013 but remained well below government aspirations. Production also remained below the government’s target levels.

Such performance, when taken as a proxy, indicates ineffectiveness in the regulation of the exploration process. Moreover, government is yet to execute a sound strategy for gas, despite the commodity showing higher potential for new income when compared to crude oil. Efforts to actively study reserves have been weak.

Downstream, the continued decline in the productivity of Nigeria’s four petroleum refineries has meant an unsustainable reliance on petroleum imports. This dependence combined with the costly subsidy on petroleum products places a significant economic burden upon the government.
With respect to the economic influence of the oil sector, the industry itself directly employs an estimated 20,000 people, and about 100,000 when indirect labor is included. Although the oil sector is not a major employer of labor, it has capacity for significant social impact. This could be in the form of supporting reduction in income inequalities by bringing more people out of poverty—particularly women and youth in oil exploration communities. Unfortunately such expectations have not been met, meaning that the distribution of benefits to the majority of citizens remains inequitable.

**Figure 1: Reserves**

Reserve levels remain below government target

- **Target**
- **Proven oil reserves**

**Figure 2: Oil production**

Production has stagnated around 2 million barrels a day, approximately half of the government target

- **Target**
- **Oil production**

Information source:

- Production: [http://www.eia.gov/countries/cab.cfm?fips=ni](http://www.eia.gov/countries/cab.cfm?fips=ni)
- Proven reserves 2014: [http://petroleuminsights.blogspot.co.uk/2013/12/worlds-top-23-proven-oil-reserves.html#.VG3TifmsWPs](http://petroleuminsights.blogspot.co.uk/2013/12/worlds-top-23-proven-oil-reserves.html#.VG3TifmsWPs)
Precept 2:
Transparency and accountability

What is assessed?
Successful natural resource management requires government accountability to an informed public.

• What are the shortfalls in availability of information or disclosure requirements?
• Are clear standards set for all actors involved in the natural resources industry?
• Does investigation into whether or not actors abide by these standards take place? If actors do not
meet the standards, are they subject to sanction?

Highlights of the 2012-2014 benchmarking:
Scarce or inadequate information, insufficient audits, and poor financial reporting standards for public enti-
ties like the NNPC continue to undermine industry processes. Former central bank governor Lamido Sanusi
alleged that NNPC failed to remit about $20 billion (3.5 trillion naira) in oil proceeds to the federation account
over a period of 18 months, prompting conflicting accounts around the state of revenue transfers. This level of
confusion exposed the need for best-practices financial reporting standards (e.g., IFRS) and increased infor-
mation sharing both across government and with the public.

Complexity and opacity in public revenue procedures also continue to undermine the oversight efforts of
civil society actors. Oil account payments including remittances to the federation account are not publicly
available. Nor is there accurate measurement of the total volume of oil produced. The commencement of oil
metering by an adequate flow control system has yet to occur. While the Nigerian Extractive Industries Trans-
parency Initiative (NEITI) has produced valuable reports that have expanded transparency in the sector, the
initiative has struggled to deliver accountability as government agencies have not addressed many of the
problems and recommendations revealed in the reports.

Figure 3: Reporting practices
In 2013 Nigeria scored a 38/100 on oil sector reporting practice,
ranking 42nd out of 58 countries.

Source: RGI. 2013 Score 38/100, rank 42/58. http://www.resourcegovernance.org/countries/africa/nigeria/overview
Precept 3: Fiscal regime and contractual terms

What is assessed?

Fiscal policies and contractual terms should ensure that the country gets full benefit from the resource, subject to attracting the investment necessary to realize that benefit. The long-term nature of resource extraction requires policies and contracts that are robust to changing and uncertain circumstances.

- Does the fiscal regime deliver value for the country over the long term?
- Do the contractual terms provide value, robustness to changing circumstances?

Highlights of the 2012-2014 benchmarking:

Fiscal policies for petroleum production contracts in Nigeria, especially the production sharing contracts (PSCs) that govern deep water operations, have failed to ensure that the government receives a rising share of revenue in periods of potential increased profitability. This is partly because of the long-term nature of the required investments, as well as the different conditions that characterized the petroleum market in the 1990s when many of the contracts were signed. Since then, an unprecedented rise in the price of crude oil (notwithstanding recent declines) has necessitated a review of all the contracts, but this has failed to take place in a comprehensive way.

According to experts, opportunities to renegotiate the fiscal and other contractual terms of PSCs exist today with the recent expiration of a number of contracts, despite the non-passage of the PIB. Even for some contracts that have not expired, all three re-opener conditions are in place, including: the price of oil rising above $20 per barrel, mega discoveries of reserves above 500 million barrels, and ten-years passing since the contract was signed. It is unclear if political considerations are responsible for maintaining the status quo.

Experts also recount extensive revenue losses due to weak cost regulation. For instance, at the time of signing the 1993 PSCs, industry costs were much lower than they have been in the past decade. Investment tax credits (ITCs) were given at a 50 percent rate in 1993, and transmitted the wrong signal to petroleum sector investors. To date, the country is yet to overhaul these fundamental components to reflect contemporary market conditions, resulting in revenue losses to the state. Other elements of the prevailing fiscal system for assessing and collecting oil revenues, such as the k-factor computations contained in MOUs between the NNPC and its partners, also remain either outdated or too complicated for the Federal Inland Revenue Service (FIRS) to effectively administer.

From 2002-2011, Nigeria lost $22 billion (3.8 trillion naira) to trade mis invoicing. Weak cost regulation in the oil sector is one cause.

Source: http://www.gfiintegrity.org/issues/data-by-country/
Precept 4: Awarding of contracts and sector roles

What is assessed?

Competition in the award of contracts and development rights can be an effective mechanism to secure value and integrity.

- Are there clear and well-suited roles set for all actors involved in the natural resources industry?
- Are there clear rules and procedures to allocate licenses?
- Are there clear contract terms and conditions?

Highlights of the 2012-2014 benchmarking:

There remains a high degree of uncertainty, political influence, and potential for corruption and collusion in awarding the various contracts and licenses associated with oil sector activities. For instance, where a company is perceived to have the best qualifications, based on the criteria set by, for example, the Department for Petroleum Resources (DPR), such a company may not emerge as the final bid winner. The predictability of the contractual process is significantly diminished as a result.

Some licensing activity took place during the 2012-2014 period. On 28 November 2013, the Federal Government of Nigeria (FGN) through the minister of petroleum announced the opening of second marginal oil field licensing round, with a total of 31 fields on offer - 16 of them located onshore, and the remaining 15 on the continental shelf. The first marginal field round happened in 2003, and 24 licenses were awarded. The format utilized in 2013 included a two-week awareness-raising road show by the DPR in different parts of the country, and was meant to be followed by three and half months of bidding. However, these preparatory stages did not lead to any allocations as the government chose to repeatedly delay the proceedings and ultimately to postpone the round all together.

Several other contractual activities appear to have taken place under the radar. One such instance came to light in the allegations made by Sanusi. According to a report, the NPDC (NNPC’s production subsidiary) entered into strategic alliance agreements (SAAs) with two business partners to develop the fields which had been recently sold through Shell's divestment from some of its Nigerian onshore assets. Information on these SAAs continues to be very complex, making it difficult to ascertain their legality and whether the process for selecting the recipients followed due process.

Sector roles under the Ministry of Petroleum Resources are either not explicitly known or are so fluid that the same function may cut across multiple agencies, giving rise to confusion and conflict of interests. In monitoring and regulating the industry, for example, the DPR is not effectively independent and empowered to execute its oversight functions. Its decisions often conflict with the interests of NNPC especially since NNPC is involved in both the regulatory and commercial aspects of the industry. For other companies operating in the industry, regulatory complications and compromises arise from the lack of adequate influence and capacity for the DPR to carry out its duties without bias.

67% of marginal fields allocated in the 2003 licensing round have not produced a single barrel of oil 10 years later.

Precept 5:  
Managing local impacts

What is assessed?
Resource projects can have significant positive or negative local economic, environmental and social effects which should be identified, accounted for, mitigated or compensated for at all stages of the project cycle. The decision to extract should be considered carefully.

- Are positive impacts of natural resource extraction on local communities enhanced and negative impacts mitigated?
- Are the potential economic, social and environmental impacts of extraction assessed and considered before resource extraction takes place?

Highlights of the 2012-2014 assessment:
Local impacts are assessed based on three dimensions: economic, social and environmental. On the social and economic dimensions, the government’s local content policy has added more jobs within the sector for citizens and also catalyzed an increase in participation of indigenous companies. Recent reports show that over 65 percent of total industry spend have been domiciled to reduce capital flight. As a result, capital retention has been recorded at about $191 billion (3.3 trillion naira) in the era of local content implementation. This is significant when compared to the $380 billion (6.6 trillion naira) capital flight that was recorded prior to the implementation of the local content policy, reducing to about $168 billion (2.9 trillion naira) post-implementation.

On the environmental front there are mixed developments, with weak regulation at both federal and state levels. The data on pipeline breaks and the cost of oil spills help to illustrate the scale of the environmental challenges facing Nigeria’s oil-producing region. After declining to a low in 2010, pipeline breaks have again risen since 2012 as shown in the chart below.

Very few mechanisms exist for host communities to seek redress in situations where they perceive injustice by operating companies. In the same vein, compliance with environmental regulations by companies is mostly voluntary and scarcely enforced although there are new indications of alternative dispute resolution (ADR) clauses for oil, gas and maritime contracts. Host communities still seek redress from courts abroad when local courts cannot deliver justice on peculiar issues. In January 2013 a Dutch court ruled that Royal Dutch Shell’s Nigeria operation compensate one Mr. Friday Akpan for an oil spill on farmland that caused him huge financial losses.
Figure 4: Number of pipeline breaks

NNPC reports that environmentally-costly pipeline breaks remain endemic.


Figure 5: Costs of oil spills

The cost of oil spills has steadily risen since 2011

Source:
Precept 6:
Nationally owned resource companies

What is assessed?
Nationally owned resource companies should operate transparently with the objective of being commercially viable in a competitive environment.

• Is the role of the national oil company clearly defined and free from conflicts of interest?
• Does the national oil company operate in a commercially viable manner?
• Does the national oil company operate in a transparent manner?

Highlights of the 2012-2014 assessment:
Commercial viability of NNPC remains a challenge. The corporation has repeatedly failed to meet the cash call obligations associated with its joint venture operations. The transparency of NNPC’s operations has also been repeatedly questioned. In a recent senate committee probing the corporation on allegations of unremitted funds, the Committee on Finance accused it of deducting from its payables to the Federation Account without appropriate cause. These include deductions for its own operational expenditures, deductions for gross lifting under third-party financing, and deductions for payment of kerosene and petrol subsidies. Thus, when in April 2014 NNPC sought legislative approval for a forward “sale agreement” loan, it was met by strong protests.

Commercial decisions of the NNPC executive management and board are not separated from political and other conflicting interventions. The corporation must make political contributions and this has affected the manner in which it conducts its accounts. In addition to the cash call obligation problems, annual audits are not commonplace, and the public disclosure of information falls short. There is a default tendency to shroud its operations in secrecy. As a result of the intrigues within the NNPC, there have been allegations that it is set up specifically to fund the political machinery of government.

NEITI’s latest report points out NNPC’s shortcomings
Note: This data covers the 2009-2011 period, but the problems remain relevant today.

• 9 of the 16 recommendations made by NEITI for improving sector governance relate to NNPC
• Nigeria collected $76 billion (13 trillion naira) in crude sale revenues, but the Federation Account only received $48 billion (8.4 trillion naira) of this due NNPC financing issues.
• NNPC carried debts to the Federation of over $6 billion (1 trillion naira) each year.
• Flouting due process, the NNPC withdrew $1.746 billion (308 million naira) from its cash call accounts to finance ad hoc measures, including $600 million (105 million naira) for military operations in the Delta.

Precept 7: Investing for growth

What is assessed?
Nationally owned resource companies should operate transparently with the objective of being commercially viable in a competitive environment.

- Is the role of the national oil company clearly defined and free from conflicts of interest?
- Does the national oil company operate in a commercially viable manner?
- Does the national oil company operate in a transparent manner?

Highlights of the 2012-2014 assessment:
There is still a disconnect between the country’s macroeconomic expenditure model and the strategy for development planning. The National Development Plans (NDPs) should be the tools for coordination of economic affairs of the various governments of the federation. However, in practice, the Ministry of Finance coordinates the economy with the Medium-Term Expenditure Framework (MTEF). This means that there is no coordinated NDP covering federal, state and local governments, and on which yearly budgets at all levels of government are based.23

Even the medium-term sector strategies (MTSS) appear to have been abandoned with preference for other budgeting and expenditure techniques. Moreover, there is the developing trend of expenditure switching, whereby the rising state of insecurity has necessitated more government spending on defense than development.

Also, a rise in recurrent expenditures indicates that the government prioritizes short-term agendas over longer-term developmental aims. In 2012, payrolls and overheads consumed about 82 percent of federal government revenue. By 2014, the figure had climbed to 112 percent of federal government revenue.24 Capital expenditures have however declined, meaning that the government is not yet investing a reasonable proportion of revenues for growth.

Figure 6: Government expenditure
From 2000, the federal government spends significantly more on recurrent expenditure than public investment

Precept 8: Stabilizing expenditure

What is assessed?

Effective utilization of resource revenues requires that domestic expenditure and investment be built up gradually and smoothed to take account of revenue volatility.

- Does the government have effective instruments in place to smooth the volatility of resource revenues?
- Does the government take adequate steps to manage the influx of resource revenues?

Highlights of the 2012-2014 benchmarking:

Nigeria’s sovereign wealth fund (SWF) has so far been in existence for about three years. Aside from the public knowledge that its total account value is a little above $1.5 billion (263 billion naira) today, there is additional information, albeit scarce, on how its sub-funds are being managed.25 The pre-existing Excess Crude Account (ECA), which contained $9.7 billion (1,725 billion naira) at the end of 2012, has declined to $4 billion (713 billion naira) in 2014. The continued existence of the ECA and its disputed legal status also means that the SWF still struggles for legitimacy among the tiers of government.

On the positive side, in the period of high oil prices between 2012 and 2014, the country maintained a relatively effective monetary policy evidenced, among other variables, by a contractionary interest rate policy, strong growth rate, and inflation rate averaging 8 percent over the period.26 However, with the recent slide in global oil prices towards the end of 2014, there are indications of exchange rate depreciation that may affect the stability of domestic prices. As the exchange rate becomes volatile, its effect seems to have punctured the accretion of Nigeria’s external reserves. On 20 November 2014, governors called for the withdrawal of $2 billion (352 billion naira) from the country’s remaining $4.11 billion (711 billion naira) Excess Crude Account.27

Figure 7: Rate of inflation

During recent years of high oil prices, inflation has been kept under better control.

Precept 9:
Efficiency and equity of public spending

What is assessed?
Government should use resource wealth as an opportunity to increase the efficiency and equity of public spending and enable the private sector to respond to structural changes in the economy.
- Is public spending effectively allocated and controlled?
- Is misallocation avoided in spending and are opportunities for corruption minimised?

Highlights of the 2012-2014 benchmarking:
In terms of public spending, two of the government’s flagship programs help to illustrate some of the challenges when it comes to the quality and equity of government expenditure.

First, the Subsidy Reinvestment and Empowerment Programme (SURE-P) has been assessed as ineffective mechanism for advancing development, despite its huge infrastructure budget. It is perceived as a “political disbursement to government cronies.”

While the amnesty program that channels resources to former militants in the Niger Delta region for various training and skill acquisition is scheduled to end in 2015, it will likely be renewed despite also failing to deliver effective job creation for beneficiaries. As noted by former central bank governor Sanusi, the program gulped $1 billion (176 billion naira) between 2009 and 2013. Yet few youth have benefited from the programme while those that have graduated are yet to be gainfully employed.

Also related to spending efficiency and accountability, Nigeria’s budget transparency performance remained weak. In the Open Budget Index, Nigeria ranked 52nd of 59 countries in 2006 and 80th of 98 countries in 2012.

Figure 9: GDP growth by sector

The federal government continues to allocate the largest share of its resources for security

Source:
Precept 10:
Private sector investment and diversification

What is assessed?
Government should use resource wealth as an opportunity to increase the efficiency and equity of public spending and enable the private sector to respond to structural changes in the economy.
- Is public spending effectively allocated and controlled?
- Is misallocation avoided in spending and are opportunities for corruption minimised?

Highlights of the 2012-2014 benchmarking:
There are plaudits for the divestments by international oil companies of Nigerian oil assets which has facilitated the growth of local content performance. This is seen as a positive development for increasing the participation of indigenous players in the upstream sector of the industry. However, the quality of participation and the processes by which indigenous companies are chosen to participate in the sector both require careful observation.

In the downstream sector, Dangote Group’s investment in a $9 billion (1.5 trillion naira) refinery, fertilizer and petrochemical complex is also seen as a positive development for private sector investment. But will this investment provide the required job opportunities for Nigerians? Will it rather operate as a “foreign” company by virtue of its strategic location in an Export Processing Zone?

Outside the oil sector, there appears to be some large-scale investment in other sectors which could further economic diversification. Some of these investments include Dangote’s $2.3 billion (405 billion naira) investment in sugar cane and rice production in the northern part of Nigeria, and various other investments in agriculture amounting to $1.6 billion (282 billion naira) over two years. In manufacturing, private sector investment in the cement industry hit $7 billion (1.2 trillion naira) in 2014.30,31,32 Again careful monitoring should accompany optimism: will the deals come through? Will government be able to tax the non-oil economic sector to end its overwhelming reliance on petroleum revenues?

Figure 9: New GDP Figures

New GDP Figures Affirm Importance of Non-Oil Economic Sectors

Source: Central Bank of Nigeria
Precept 11:
Role of home governments of extractive companies

What is assessed?
The home governments of extractive companies and international capital centres should require and enforce best practice.

- Are home governments and the governments of capital centres acting to require, enforce and propagate best practice in a way which supports efforts at the host country level?
- What is the role of international institutions? What are the non-tariff barriers and trade policy?

Highlights of the 2012-2014 benchmarking:

While Nigerian laws and regulations are the most effective avenue for influencing company behavior, many of the companies operating in Nigeria are also subject to their home governments’ policies.

European and American companies still produce a large majority of Nigeria’s oil, and contribute the lion’s share of corporate royalty and tax payments to the government. The European Parliament approved new reporting requirements after about a year ago with focus on “three T’s”: tax, trade and transparency. Under the new laws, European oil, gas, mining and logging companies are obliged to report payments of more than €100,000 (218 million naira) made to the government in any country in which they operate; this, includes taxes levied on their income, production or profits, royalties, and licence fees. Europe-based companies that operate in Nigeria, such as Shell, Total and Agip, will have to comply in the coming years. The companies have to disclose the payments they make at a project level, as opposed to just the country level, which should help reveal the sources of taxable government income from the extraction. An oil company working in Nigeria, for example, will have to disclose the royalties paid to the Nigerian government relating to every project it operates in that country.

In the US, home base of companies with operations in Nigeria like ExxonMobil, Chevron and ConocoPhillips, a similar law was passed in 2012, but has not come into force due to a lawsuit brought by a collection of American oil companies. The law aimed at curbing corruption by requiring oil, gas and mining companies listed on US stock exchanges to disclose the payments that they make to governments on a country-by-country and a project-by-project basis to the U.S Securities and Exchange Commission. US reporting is on hold until the Securities and Exchange Commission issues new regulations that reflect the outcome of the lawsuit. The opposition of oil companies, including those active in Nigeria, to this transparency measure means that they will not disclose this useful information in the near future.

In the meantime, the Extractive Industries Transparency Initiative has strengthened as more countries join, including the UK and the US—positive moves by countries where so many oil companies are domiciled. In Nigeria, the further strengthening of the EITI (and other domestic regulatory systems) will be crucial as indigenous companies take up larger roles in the upstream sector.
Precept 12:
Role of private sector companies

What is assessed?
The home governments of extractive companies and international capital centres should require and enforce best practice.

- Are home governments and the governments of capital centres acting to require, enforce and propagate best practice in a way which supports efforts at the host country level?
- What is the role of international institutions? What are the non-tariff barriers and trade policy?

Highlights of the 2012-2014 benchmarking:

In addition to the role of governments in supporting best practice, opportunities exist for operating companies to emulate best practices, such as by joining the United Nations Global Compact (UNGC) and the Global Reporting Initiative (GRI). These initiatives bring companies together to develop and report on a wider spectrum of their operations, beyond narrower corporate social responsibility (CSR) programmes.

Companies can shore up their social license to operate by assuming a view of sustainability through the lens of the “triple bottom line” – examining the economic, social and environmental impacts of operations. While large international oil companies have felt pressure to attend to these areas for decades, there is some evidence that growing indigenous companies are also taking notice. Oando Nig. Plc, arguably the largest Nigerian player, has made efforts at achieving international best practices. In 2009, Oando became a signatory to the Global Compact in Nigeria. The company is also a pioneer member of the Global Compact LEAD platform, a corporate sustainability leadership forum linked to the Blueprint for Corporate Sustainability Leadership which was developed and endorsed by a wide range of stakeholders. The company also participates in global anti-corruption initiatives including the World Economic Forum, Partnership Against Corruption Initiative (PACI), Convention on Business Integrity (CBI), and the Fraud Awareness Working Group (FAWG).34

There are currently 26 participants in the UN Global Compact in Nigeria, though most participants are from outside the oil sector. The few exceptions include Atlantic Energy Drilling Concept Nigeria Limited35 and Shell Petroleum Development Company of Nigeria Ltd. In September 2014, the UNGC launched a Business for Peace (B4P) initiative in Nigeria. The global initiative seeks private sector partnership in promotion of peaceful environment for business and other economic activities in host countries and communities, in line with the United Nations’ broader peace goals.
THE WAY FORWARD

Whoever wins the 2015 elections will require a clear roadmap for how to reform the petroleum sector. Through a comprehensive assessment of Nigeria’s petroleum sector, evaluating performance against each of the 12 precepts, this report has exposed those policy areas that require strengthening. Actors within government can use the framework to assess existing practices and identify a step-by-step reform program that can be communicated across government and with the public.

Oversight actors should apply pressure on policymakers for this to take place. Journalists, civil society groups, members of the National Assembly and others can use this assessment of the sector to inform and organize their advocacy both in advance of and following the elections. The findings serve as a reference tool for holding government and key stakeholders accountable for their decision making, with each red score representing costly shortcomings that must not be ignored.

It is the aspiration of the expert panel and others involved in the NNRC exercise that this report contribute to continued innovations in the process of civil society engagement with public officials, such as more structured and consistent efforts to secure commitments from officials to realize reform and then systematically tracking whether those commitments are kept. Also crucial are better informed public debates in the run-up to the general elections and beyond, through political party campaigns, the media, social media, and other channels, about how Nigeria can benefit in more sustainable and equitable ways from its oil wealth.
ENDNOTES

8  Discussion with Ms Lois L. Machunga, NNRC expert panel member and former NNPC official, 2014.
11  ‘Memorandum submitted to the Senate Committee on Finance on the non-remittance of oil revenue to the federation account’ by Lamido Sanusi, 3 February 2014.
12  Nigeria Oil and Gas Intelligence, Local Content 2014 Edition
13  ibid.
23  Discussion with Prof. Assisi Asobie, NNRC expert panel member, 2014
24  FMF and Agusto forecasts (see chart below)
35  UN Global Compact, “Partners in Change: UN Global Compact Advancing Corporate Sustainability in Africa (the Africa Strategy).” www.unglobalcompact.org
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