Accountability and Transparency:
Fiscal rules & responsibility; budget integrity; national oil companies; checks & balances

The Case of Nigeria
By Wumi Iledare & Rotimi Suberu
NIGERIA OPERATES A FEDERAL SYSTEM OF GOVERNMENT WITH 36 CONSTITUENT UNITS
PRESENTATION OUTLINE

- Political & Economic Indicators
- Overview of the Oil & Gas Sector
- Petroleum & Nigeria Economy
- Accountability & Transparency
  - Sources of corrupt practices
  - Abating of fraudulent practices
  - Impact of the PIB 2009
- Concluding Remarks
POLITICAL & ECONOMIC INDICATORS

• Population: 140,431,790 (2006 Est.)
• GDP: US$319,572 Million at PPP (2008)
• GDP per Capita: US$2,162 at PPP (2008 est.)
• Federal government has the exclusive power & proprietary rights over petroleum management.
• The expansion of the oil and gas industry since the 1970s has produced fundamental changes in the structural configuration and fiscal architecture of the Nigeria Federation.
• The nine oil producing states in the federation enjoy significant advantage in access to federal revenue transfers because of the 13% derivation principle invoked since 1999.
THE PETROLEUM INDUSTRY IN NIGERIA

• Nigeria ranks among the top 10 nations in proved oil and natural gas reserves, worldwide.

• The largest oil producer in Africa, 6th in OPEC, currently the fifth biggest oil supplier to the U.S.

• As of January 1, 2009, the estimated crude oil and natural gas reserves are 36.2 billion barrels and 184.2 trillion cubic feet (TCF).

• Nigeria plans to expand its proven oil reserves to 40.0 billion barrels and increase its production capacity to 4 million barrels per day by year end 2010.
NGERIA IS WORLD 10\textsuperscript{th} LARGEST IN PROVED CRUDE OIL RESERVES

Nigeria:
Proved oil reserves 36.2 Billion
Sweet high grade crude
10\textsuperscript{th} World’s largest

Top 20 Proved Oil Reserves Nations at 01/01/2009
NIGERIA IS WORLD 7TH LARGEST IN PROVED NATURAL GAS RESERVES

Top 20 Proved Gas Reserves Nations at 01/01/2009

- Proved Gas Reserves 184.2 Tcf
- 7th World’s Largest
- High Grade GAs Quality
- Zero % Sulfur
- Rich in NGL
Nigeria’s economy is currently very highly dependent on the capital intensive oil sector accounting for about 30% of its GDP.

Oil currently accounts for about 95% of foreign exchange earnings, 98.8% of total exports, and 83% of government budgetary revenues.

Nigeria has the potential to become a highly prosperous economic power with its large reserves of human and natural resources.

Lack of good institutional governance remains a hindrance to growth.

The Federal character doctrine emphasizing equity over efficiency and effectiveness in recruitment and resource allocation is also a barrier to national development.
The aspiration of the Federal Government in Nigeria is to be among the top 20 economies of the world by 2020.

Fulfilling the mandate to expand the economy at about 10 -12% growth rate in GDP is dependent on significant energy and power availability.

The engine to propel the economy to the expected end in 2020 is primarily the oil and gas sector.

But, the slow growth in natural gas development and utilization must be reversed in order to get the full multiplier impact of oil and gas.

The Petroleum Industry Bill (PIB) seeks to restructure the oil and gas institutions and fiscal provisions to reenergize the industry.

The PIB also aspires to reposition the national oil company for greater efficiency and effectiveness.
DISTRIBUTION OF GROSS REVENUE INCLUDING PETROLEUM REVENUE AMONG FEDERAL UNITS

- Oil and gas revenue in 2008 (N6,531 billion) consists of:
  - Taxes, rentals, bonus, & royalties (43.1%)
  - Petroleum exports (34.5%)
  - Domestic sales (22.4%)

- The nine oil-producing states received over 50% of shared revenue in 2008 though they accounted for just 22.3% of population in 2006.

- The significant disparity in per capita transfers in favor of oil rich states is due to the contentious 13% derivation doctrine.
# DISTRIBUTION OF GROSS REVENUE INCLUDING PETROLEUM REVENUE AMONG FEDERAL UNITS

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<td>77%</td>
<td>0.0</td>
<td>74.2%</td>
<td>49.9%**</td>
<td>10,249</td>
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*Conference on Oil and Gas in Federal Systems
TRANSPARENCY & ACCOUNTABILITY IN THE PETROLEUM SECTOR & THE ECONOMY

- Sources of fraudulent practices:
  - Systematic favoritism in the allocation of licenses for hydrocarbon exploration rights.
  - Bidding process for major oil and gas industry projects or contracts.
  - Multiple bottlenecks and inefficiencies in government-company relations.
  - Undue politicization of appointments to key industry institutions, regulatory agencies, and related subsidiaries.
  - Constitutional and statutory funding guaranteed for the three levels of the federal systems with no accountability.
Lack of transparency and accountability has consequences:

- Public discontent over the lack of national development based on the earning potential from the oil sector
- Greed and power struggle among competing elites to control oil revenue sometimes leading to instability of government.
- Public protest over inefficiencies in the oil sector, including domestic fuel shortages.
- Inequitable distribution of petroleum wealth, which exacerbates fraud and corruption.
- Ineffectiveness of national laws, unenforceable contracts, and weak regulatory regimes.
- Inefficient business environment.
TRANSPARENCY & ACCOUNTABILITY IN THE PETROLEUM SECTOR & THE ECONOMY

- Abating corruption & fraudulent practices:
  - Full adherence to transparency and good governance principles in the NEITI Act 2007.
  - Constitutional amendments of ill-considered and politicized intra-tier revenue allocation formula with more emphasis on conditional grants.
  - Sound fiscal policy framework for managing the nation’s mineral wealth—oil based budget rule, excess oil savings, mandated infrastructural dedicated spending, etc.
  - Empowerment and making fiscal responsibility and efficiency mechanisms apolitical.
TRANSPARENCY & ACCOUNTABILITY IN THE PETROLEUM SECTOR & THE ECONOMY

- Abating corruption & fraudulent practices:
  - Enforcement of complementary fiscal responsibility and efficiency mechanisms:
    - Economic and financial crimes commission;
    - Fiscal responsibility, public procurement, as well as extractive industries transparency acts.
- The PIB 2009 is also an ambitious attempt to expunge fraud and inefficiency out of the structure, governance, and fiscal framework of the oil and gas sector.
- National oil company executives to be made wholly responsible to shareholders and not politicians.
TRANSPARENCY & ACCOUNTABILITY IN THE PETROLEUM SECTOR & THE ECONOMY

- Measures required to contain corruption & fraudulent practices include:
  - Credible independent oversight institutions with autonomy to detect, investigate, report and punish fraudulent practices.
  - Truly reliable and competitive electoral environment with incentives for politicians to deliver public goods and services.
  - Public education to change the psyche of the electorate to de-emphasize rewards without service.
  - International cooperation in prohibiting and policing public officials’ illicit offshore assets acquisition.
CONCLUSIONS & POLICY ISSUES FOR FURTHER REVIEW

- Nigerian Federalism has functioned primarily as a mechanism for intergovernmental distribution of centrally collected and controlled petroleum sector revenue.
  - Public officials’ preoccupation is mostly with revenue sharing at the expense of efficiency, effectiveness and equity in resource allocations.
  - Constituent units of the federation lack incentives to raise their own revenues because the central transfers are constitutionally mandated.
  - Virtually no unit feels obligated to account for the monies they received from the federation because the electoral process is too weak and dysfunctional to punish incompetent politicians.
CONCLUSIONS & POLICY ISSUES
FOR FURTHER REVIEW

- Recent experiences with oil sector and broader economic and political reforms underscore the enormity of the impediments to transparency, accountability and good governance
  - The fiscal responsibility framework and the savings of petroleum revenue windfalls continue to face stiff opposition from the state governments.
  - Reforms have been dependent for their effectiveness on the very political class whose abuses and excesses the reforms are designed to contain.
  - Discussions on the Petroleum Industry bill have been convoluted and uninspiring and the timely passage of the bill into an act continues to be elusive, raising concerns about its relevance in the immediate future.
CONCLUSIONS & POLICY ISSUES
FOR FURTHER REVIEW

- The basic framework for intergovernmental sharing of federation revenue is defective and perpetuates leakages in the economy:
  - The application of the inter-unit equality and derivation principles creates significant disparity in per capita federal revenue transfers among sub-national units.
  - But recent federal initiatives on the Niger Delta insurgency through the creation of the Niger Delta ministry and the implementation of an amnesty program are laudable.
  - The proposal for oil communities to have equity shares in the IJV companies is also promising.
CONCLUSIONS & POLICY ISSUES FOR FURTHER REVIEW

- Promote transparent reporting of petroleum fiscal revenue collection and distribution to reduce inept management of the Federation Account.
- Redress the relative absence of operational and strategic autonomy of the national oil company in comparison to other national oil companies.
- Increase institutional empowerment and minimize underutilization of skilled manpower.
- Use conditional grants to constituent units to minimize disparities in per capita revenue after transfers favoring oil rich states.