Natural Resource Governance Institute

Resource Governance Index

2021 Resource Governance Index Nigeria

Oil and Gas

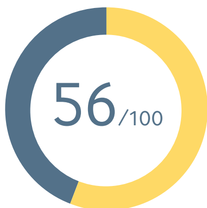
Nigeria's oil and gas sector scored 53 points in the 2021 Resource Governance Index (RGI), placing it in the "weak" performance band. Despite an 11-point score increase since the 2017 RGI, petroleum resource governance has largely stagnated in that time, with the bulk of the increase driven by the first-time inclusion of the Nigeria Sovereign Investment Authority (NSIA) in the assessment. Barring this inclusion, significant governance challenges remain, with deep-seated, and long-standing issues hampering possible improvements.

- The governance of licensing remains "failing," due to an absence of a centralized cadaster and rules governing the pre- and post-licensing process and contract disclosures.
- The lack of disclosure of public officials' financial interests in extractive companies and limited disclosure of significant beneficial ownership information remain a concern.
- Governance of state-owned Nigeria National Petroleum Corporation (NNPC) improved by 25 points since the 2017 RGI, driven mostly by enhanced commodity sales disclosures.
- The Nigerian Sovereign Investment Authority was assessed for the first time, and placed in the "good" performance band for sovereign wealth funds due to strong rules and disclosures governing the fund.
- Nigeria's "poor" enabling environment hinders its petroleum resource governance, with subcomponents related to control of corruption, political stability and government effectiveness all receiving "failing" scores.

Nigeria oil and gas: 2021 Resource Governance Index and component scores

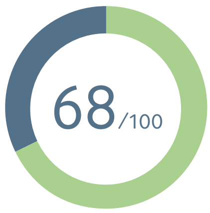
PERFORMANCE BANDS

GOOD Scores over 75
SATISFACTORY Scores 60-74
WEAK Scores 45-59
POOR Scores 30-44
FAILING Scores under 30



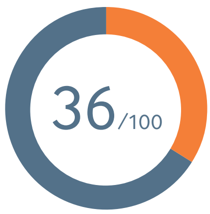
VALUE REALIZATION

Measure of the quality of governance regarding allocating extraction rights, exploration, production, environmental protection, revenue collection and state-owned enterprises



REVENUE MANAGEMENT

Measure of the quality of national budgeting, subnational resource revenue sharing and sovereign wealth funds



ENABLING ENVIRONMENT

Measure of the general quality of governance in the country

RESOURCE GOVERNANCE INDEX RESULTS SUMMARY

Nigeria's oil and gas governance is weak, falling short in key measures of transparency and accountability

Nigeria is the largest oil and gas producer in Africa, with production reaching almost 2 million barrels per day in 2020. The hydrocarbon sector accounts for over 85 percent of Nigeria's merchandise exports, with export revenues accounting for approximately $55 billion in 2019, and about 65 percent of fiscal revenues. Nigeria's governance of its critical oil and gas sector has been concerning, with cases of corruption, fiscal mismanagement and environmental degradation of the Niger Delta all reported in the six decades since production began. Even prior to the coronavirus pandemic and the 2020 oil price shock, the sector was stuck in a cycle of high uncertainty, boom-and-bust spending and diminishing returns. Production has mostly stagnated, foreign direct investment has declined, and oil revenues have come up short of what has been budgeted.

NIGERIA'S NEW PETROLEUM INDUSTRY ACT

The 2021 RGI assessed the state of Nigeria's oil and gas sector until December 2020, when data collection ended. In August 2021, the National Assembly passed, and President Muhammadu Buhari signed into law, the Petroleum Industry Act (PIA), which creates new governing institutions for the sector. The PIA also repeals and replaces much existing legislation and lowers some company fiscal obligations in hopes of attracting new investment. While it is still unclear how the act will affect the governance and performance of the petroleum sector, **the legislation is not reflected in this 2021 RGI assessment.**

Nigeria's oil and gas sector scored 53 points in the 2021 RGI, up by 11 points since the 2017 RGI. The sector has largely stagnated, with few tangible improvements observed across most dimensions of governance. While improvements were registered in the governance of NNPC, which started disclosing more detailed commodity sales information, the governance of licensing remains "failing" and the lack of disclosures related to social and environmental impacts is typical of the lack of transparency across the petroleum sector. Nigeria's enabling environment remains "poor," with subcomponents assessing perceptions of political stability, corruption and government effectiveness receiving "failing" scores.

The Nigeria Sovereign Investment Authority was assessed for the first time in the 2021 RGI—the 2017 assessment examined the Excess Crude Account—meaning that the scores for the index's sovereign wealth fund subcomponent are not directly comparable.

Nigeria oil and gas sector 2017 and 2021 Resource Governance Index scores

	2017 RGI Score	2021 RGI Score	Trend
RGI COMPOSITE SCORE	42	53	11
VALUE REALIZATION	50	56	6
Licensing	17	25	8
Taxation	80	71	-9
Local impact	58	57	-1
State-owned enterprises	44	69	25
REVENUE MANAGEMENT	44	68	24
National budgeting	70	70	0
Subnational resource revenue sharing	57	57	0
Sovereign wealth funds	4	78	74
ENABLING ENVIRONMENT	31	34	3
Voice and accountability	55	58	3
Government effectiveness	27	24	-3
Regulatory quality	39	31	-8
Rule of law	24	33	9
Control of corruption	21	23	2
Political stability and absence of violence	10	8	-2
Open data	40	64	24
LAW	57	65	8
PRACTICE	39	59	20
GAP (PRACTICE LESS LAWS)	-18	-6	12

VALUE REALIZATION

Nigeria's ability to realize value from its oil and gas sector remains weak

The licensing subcomponent scored a "failing" 25 points, with a general lack of transparency in this part of the sector. There is currently no publicly accessible cadaster or registry of licenses, or any disclosures relating to the location and ownership of the various oil and gas licenses. Major governance challenges were found in the licensing process itself. Regarding the pre-licensing process, the 1969 Petroleum Act does not require the minister or any other actor to establish criteria by which companies become qualified to participate in licensing, and there is no requirement to disclose biddable terms or rules governing the process under that act. The Department of Petroleum Resources typically does issue guidelines for formal bid rounds, but not for one-off awards outside of a formal process. The law doesn't require that the licensing authority discloses the list of companies that submitted bids for a license. Researchers found no rules requiring the government to disclose the contracts signed with extractive companies, and the Nigerian government has not made these contracts public. Contract transparency is crucial in allowing citizens, parliamentarians and other oversight actors to analyze whether the country is getting a good deal for its resources, and the Nigerian government should disclose contracts in a timely manner.

The lack of financial interest disclosures is another area for concern. While public officials and politically exposed persons are required to declare their assets, including in oil and gas companies on a regular basis, this information is not made public, limiting possible oversight of improper dealings or holdings or conflicts of interest in the licensing or negotiation processes. No information has been published relating to public officials' holdings in extractive companies, despite evidence that officials, including a former president of the senate, falsely declared their assets and commercial interests.

Regarding beneficial ownership, while the 2020 Companies and Allied Matters Act does establish provisions for the disclosure of the real human owners of extractive companies (and other companies as well), during the 2019-2020 period of assessment of the RGI, only disclosures containing legal ownership information were found, falling short of the disclosure of the real beneficial owners of extractive firms.

The governance of social and environmental impacts also merits attention. The Environmental Impact Assessment (EIA) Act of 1992 requires extractive companies to commission environmental impact assessments and environmental mitigation management plans (EMMPs), and for the government to make these available for public interrogation. Nonetheless, neither the government nor extractive companies have routinely disclosed EIAs or EMMPs, with only a few exceptions. The 1992 EIA Act is also silent on the commissioning of social impact assessments (SIAs), and therefore companies rarely commission these for upstream projects. Given a long history of oil spills, pollution and environmental degradation in the Niger Delta, the lack of disclosures of EIA/EMMPs and complete absence of SIAs means that citizens, civil society organizations and key stakeholders are unable to properly interrogate the damage the sector might inflict on the environment and livelihoods, and are therefore unable to hold the government or extractive companies to account.

The state-owned Nigeria National Petroleum Corporation (NNPC) scored 69 points in the 2021 RGI, up by 25 points since the 2017 assessment. Improved resource governance was driven by enhanced disclosures of NNPC's annual reports and financial statements, and in 2019 the company commissioned an audit of its subsidiary financial statements, which it subsequently published. NNPC also regularly published data regarding the sales of its oil and gas production, with disaggregation of information down to the level of each sale. This information also included the volume, value, dates and names of buyers.

While this level of disclosure is commendable, there are no rules mandating these disclosures, meaning that they could stop at any time. NNPC also lacks rules mandating regular publication of its annual report and there are no laws in place mandating legislative review of the published documents. If Nigeria is to keep improving petroleum resource governance, it is fundamental to enshrine disclosure requirements in the legal framework, to ensure greater oversight and accountability.

REVENUE MANAGEMENT

Revenue management is satisfactory, but with stagnation in national budgeting and subnational resource revenue sharing

Nigeria's governance of national budgeting scored 70 points, the same as it did in the 2017 RGI: the government disclosed its budget, government expenditure and debt levels in 2019. Additionally, the Central Bank of Nigeria published an overview of both oil and non-oil revenue received, and the Budget Office of the Federation published the 2020-2022 Medium Term Expenditure Framework and Fiscal Strategy Paper, which includes projections of forecasted oil revenues up until 2022. Through Nigeria's Fiscal Responsibility Act, a numerical fiscal rule is in place setting an annual expenditure ceiling, although this is periodically amended. While the government has adhered to the fiscal rule, there is no indication of monitoring or evaluation by the auditor general, a key requirement to ensure continued adherence.

While 2017 RGI examined the Excess Crude Account (ECA), the 2021 RGI assesses the Nigeria Sovereign Investment Authority (NSIA) due to its central role in managing Nigeria's surplus oil revenues. Unlike the ECA, the framework for managing the NSIA is more transparent and accountable, preventing discretionary withdrawals and enabling authorities to use funds to support sustainable economic growth. The NSIA scored a "good" 78 points, placing it as the best assessed subcomponent in Nigeria's 2021 RGI. The Nigeria Sovereign Investment Authority has rules in place governing annual fund reporting, including the obligation to produce a publicly available annual financial report, to commission an external audit, and for the National and State Assembly to review the financial and operational health of the authority. The NSIA has abided by these rules, with an annual report and consolidated financial statements published in 2019, and an external audit being completed during the assessment timeframe.

However, the law does not govern the NSIA's investment rules, with no clearly stated prohibitions on investments in domestic assets, nor any regulations governing its choice of asset classes and investment types. These rules are important for good resource governance, as allowing domestic investment, without budgetary approval, can often lead to politically motivated investments, increasing the risk of corruption.

ENABLING ENVIRONMENT

The index's third component draws on data from external, public sources, including the Worldwide Governance Indicators and the Open Data Inventory. This component covers the broader perceptions of governance in the country at large.

The Nigerian government has made strides in improving open data transparency. In December 2019, President Buhari launched the Open Treasure Portal, which enabled accountability actors to scrutinize government expenditure data. An Open Treasury Compliance Committee was also established with members from state (anticorruption agencies) and non-state actors (civil society).

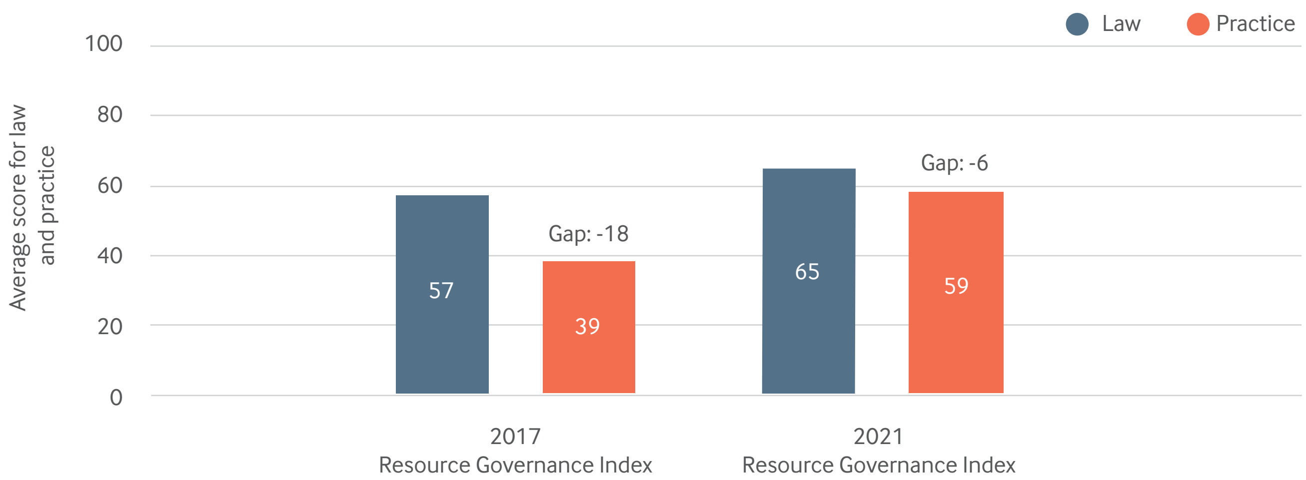
Despite the promising progress made on open data, Nigeria receives a "poor" or "failing" score in five out of the seven subcomponents which form the enabling environment score. Perceptions of broader government effectiveness, control of corruption and political stability and violence all place in the lowest band. These ills are also found in the oil and gas sector, where decades of corrupt practices, environmental and social damage, lack of transparency and conflict hamper governance.

LAW AND PRACTICE

Gap between legal framework and enforcement remains problematic, especially regarding external audits

In the 2021 RGI, the gap between existing legal frameworks and their enforcement narrowed to 6 points, down from the 18-point gap recorded in the 2017 RGI. Nonetheless, compliance issues remain. While the aforementioned lack of the mandated disclosures of EIAs and EMMPs remains an issue, the lack of prescribed audits also affects implementation. While the Federal Inland Revenue Service is required to submit its accounts and records to an external auditor every year, this has not happened since late 2016. Gaps in enforcement also exist relating to the subnational resource revenue sharing mechanism: although the Allocation of Revenue Act requires the accountant general to produce an annual audit report of revenue transfers, no such audit was conducted in the period of assessment.

Evolution of the gap between law and practice in Nigeria's oil and gas sector



GOVERNANCE OF THE ENERGY TRANSITION

NRGI used the RGI data collection process to survey several emerging topic areas. While these findings do not contribute to Nigeria's overall score in the 2021 RGI, they do enhance the picture of Nigeria's oil and gas sector and its future direction.

While the oil sector has been fundamental to Nigeria's economy, oil revenues are not the solution to Nigeria's socioeconomic challenges. With a population of almost 196 million, total oil revenues for 2018—when prices were much higher—were just $166 per person. As the world shifts away from oil and gas consumption as part of the energy transition, the heavy reliance on the petroleum sector poses risks in terms of the existence of "stranded assets," operations which will be unable to earn an economic return due to decarbonization.

While NNPC's annual statistical bulletin mentions the number of new exploration and appraisal activities, it does not provide information on planned budgeted expenditure on upstream projects, nor the breakeven price required to ensure profitability. As the global energy transition progresses, an understanding of what share of these projects will be viable under various long-term scenarios for fossil fuel prices is crucial for Nigeria. If NNPC spends public revenues on projects that risk unviability in a low-price future, it can increase the country's economic vulnerability to stranded asset risk with negative long-term consequences.

NNPC and the Nigerian government should begin disclosing information on upcoming expenditures to enable civil society actors and key stakeholders to assess the rationale and risks underpinning these decisions, balancing these with the production drawdown needed to combat the climate crisis. While many voices in and outside of government have already acknowledged the need for rapid economic diversification and plans to transition beyond oil and gas, these are still in their early stages.

RECOMMENDATIONS

NRGI recommends the following courses of action for the improvement of oil and gas sector governance in Nigeria:

1. **The Minister of Petroleum Resources** should ensure that the articles of association for any new NNPC entities created by the PIA contain binding obligations to publish audited financials and detailed commodity sale data.
2. **The Ministry of Petroleum Resources**, alongside the **Department of Petroleum Resources, NNPC** and the **Ministry of Environment** should disclose more information on the climate risks and impacts of the country's existing and planned oil and gas sector operations.
3. **The president** should create a multi-stakeholder task force, with representatives from all relevant government bodies, a range of civil society organizations, research institutions and communities, to develop an evidence-based, consultative energy transition plan for Nigeria.
4. **The Federal Government** should consolidate its stabilization mechanisms, utilizing the Nigerian Sovereign Investment Authority (NSIA) which has proven to be more effective than its predecessors.

What is the Resource Governance Index?

The 2021 RGI assesses how 18 resource-rich countries govern their oil, gas and mineral wealth. The index composite score is made up of three components. Two measure key characteristics of the extractives sector – value realization and revenue management – and a third captures the broader context of governance — the enabling environment. These three overarching dimensions of governance consist of 14 subcomponents, which comprise 51 indicators, which are calculated by aggregating 136 questions.

Independent researchers, overseen by NRGI, in each of the 18 countries completed a questionnaire to gather primary data on value realization and revenue management. For the third component, the RGI draws on external data from over 20 international organizations. The assessment covers the period 2019-2020. For more information on the index and how it was constructed, review the RGI Method Paper.

Natural Resource Governance Institute

The Natural Resource Governance Institute, an independent, non-profit organization, helps people to realize the benefits of their countries' oil, gas and mineral wealth through applied research, and innovative approaches to capacity development, technical advice and advocacy.

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