Country Strategy Note
August 2016

Natural Resource Governance Institute

Nigeria

EXECUTIVE SUMMARY

Nigeria is Africa's largest oil exporter, and the world's 11th largest oil producer, accounting for more than 2.2 million barrels a day in 2011. Nigeria's oil sector contributes 15 percent to the GDP and the export values of crude oil now accounts for over 90 percent of the export earnings. Oil a huge factor that continues to dominate the economy faces a myriad of governance challenges that have inhibited the country and its people from benefiting from subsoil wealth.

A recent assessment and benchmarking by the Nigeria Natural Resource Charter notes that's there has been no progress since the introduction of the Petroleum Industry Bill (PIB) that was re-introduced into the National Assembly in 2012 in an effort to turn the industry around and address the current legislative and regulatory framework's inadequacy. The bill's provisions, in its current state, do not offer ideal solutions to the myriad of regulatory challenges of the sector or a clear pathway to the effective management of state owned oil company, and proposes the creation of new companies without justification or transitional arrangements. If the bill is to be passed, considerable support will be required to manage transitional arrangements as its success will largely depend on proper implementation.

Over and above these challenges, Nigeria's economy has recently suffered a major shock of falling global oil prices, and experts predict oil prices to average around $60 per barrel in 2015. This represents a forty percent drop from 2014 prices. Nigeria's recent poor saving record left the government trying to face this fiscal crisis with depleted reserves. The drop has also weakened the value of the naira, and led to a fall in the Nigerian stock exchange.

With the conclusion of a peaceful presidential election with a winning opposition, the incoming Buhari government will meet very high expectations for oil sector reform. An active media during this period will be essential to generate a well-informed public debate on the best path for reform, and to ensure that it advances on course and in a manner that addresses the most grievous current challenges.

Using the Natural Resource Charter (NRC) framework, this strategy note outlines the key challenges and opportunities Nigeria faces in harnessing extractive resource wealth for development. This assessment forms the basis for NRGI's strategic objectives and related reform targets from 2016 to 2018.

ABOUT THIS DOCUMENT

This country strategy note summarizes an NRGI analysis of country context and reform priorities. It also outlines NRGI's engagement in Nigeria, complementing the work of other actors. Developments will naturally affect the assessments and objectives described herein. Updates to this synopsis may be made as events require.

CONTENTS

CONTEXTUAL ANALYSIS

1. Overview of the political and economic context

Five decades after becoming a leading oil producer, Nigeria remains a prime example of the resource curse. A political culture of mismanagement, waste and a lack of accountability has left roughly two-thirds of the population living on USD 2 or less per day. Oil rents have been siphoned off to strengthen the social and political standing of individuals and their networks while holding public office in Nigeria has become almost synonymous with rent-seeking. This focus on self-interest and on the short-term is a feature of Nigeria's political economy and its greatest governance challenge. Corruption and fraud are present throughout the value chain, and the country's dynamic and crowded political economy drives competition for looted resources. No clear figures exist on the value of mismanaged oil wealth, but ten years ago the head of the anti-corruption police estimated that elites had stolen or wasted USD 380 billion of oil revenues in four decades.

Outside of these long-term issues, the government of President Goodluck Jonathan (2010 – 2015) managed the extractive sector particularly poorly. During these years they failed to attract new investment or boost production and reserves; tolerated, and participated in organized crude oil theft; spent in an uncontrolled and undisciplined manner; oil sector (as with many other sectors) contracting was mired in secrecy and massive corruption; and spent billions of dollars annually in questionable deals and financial movements by NNPC. External foreign reserves and oil savings actually fell during the 2011 – 2014 oil price boom, and to levels that had not been seen in over a decade. Meanwhile, sovereign debt stock grew. It will take some time for the sector and country to recover from—or even fully comprehend the extent—of this mismanagement.

This mismanagement has been compounded by the global oil price slump, which has drastically reduced earnings from oil sales (the country's largest revenue stream). At the same time, market demand for Nigerian crude has fallen dramatically, owing to a glut of light sweet oil in the Atlantic market; weaker refining margins; growing price competitiveness of other crudes; and the collapse of the US market for Nigerian oil. All of this comes as Nigeria faces stagnating oil production and decimating reserves; rising upstream sector costs; and a rapidly growing, young and underemployed population of more than 170 million people.

These crises, coinciding with the emergence of a new government (President Muhammadu Buhari was elected in 2015) have created the strongest incentives and opportunities in years for reforming Nigeria's oil sector. Indeed, President Buhari promised to make petroleum sector reform a key priority of his administration and ran on a strong anti-corruption platform. Last August Buhari appointed Emmanuel Kachikwu as head of the Nigerian National Petroleum Corporation (NNPC) and both men claim to be intent on pursuing much-needed reform of the company. However, there have been concerns over Buhari's slow decision making and autocratic tendencies. Furthermore, despite announcing some positive changes, Buhari's administration has yet to articulate its plans for the future of Nigeria's extractive sector.

2. Overview of the extractive sector

The Nigerian oil industry continues to dominate the economy, pumping approximately .015 bpd for every Nigerian in 2011, yet the oil sector accounts for 96 percent of export earnings and 87 percent of government revenues. Nigeria is perhaps the best known case of "resource curse."[1] Due to a lack of diversification and low revenue from other sectors, this situation is unlikely to change any time soon, despite the decline in extractive sector revenues. Despite having some mineral wealth, oil will remain the focus of economic policies for some years to come.

The Nigerian oil industry is highly complex, this complexity deriving from the paradox of plenty—despite having witnessed a progressive growth in investment and production quota over the years, it still continues to be riddled with challenges drawing from gross mismanagement of the sector. The country has witnessed a continued increase in oil production over the last six decades. In February 1958, Nigeria exported 5,100 barrels. Today, daily oil production now oscillates between 2.2 million and 2.4 million barrels per day (barring associated cases of militancy, sabotage and outright theft). The country's proven reserves is put at 37.3 billion barrels.

Starting with its enlistment as the 11th member state of the Organization of Petroleum Exporting Countries (OPEC) and the setting up of the Nigerian National Petroleum Company in 1971, Nigeria has progressed from an upstream oil industry regulator into an active participant in its operations. This direct involvement of Nigeria in oil industry operation has since translated into equity control in the Nigerian companies of seven oil majors—Shell Nigeria (55 percent), Mobil Nigeria (60 percent), Chevron Nigeria (60 percent), Agip Nigeria (60 percent), Elf Nigeria (60 percent), Texaco Nigeria (60 percent) and Pan Ocean (60 percent). In total this accounts for 93.9 percent of Nigeria's oil production.[2]

Nigeria's oil production derives from joint ventures (64 percent) and production sharing contracts (36 percent) with international oil companies (IOCs). The period, which also coincided with the era of offshore and deep-water acreage development, witnessed a gradual shift from a joint operating agreement (JOA) regime to a production sharing contract (PSC) regime. The shift to PSCs, in 1993, is the result of factors including the complexity of offshore terrain operation and the inability of the Nigerian government to meet its cash call obligations. Indeed, the successes recorded with the PSC model is now the basis for encouraging the government to extend PSC arrangements to other areas of the industry that had before now operated under JOAs.

As a result of the government's policy to encourage participation from indigenous companies, the country's oil industry has also witnessed significant asset transfers resulting in the emergence of indigenously-led companies that operate marginal field concessions.

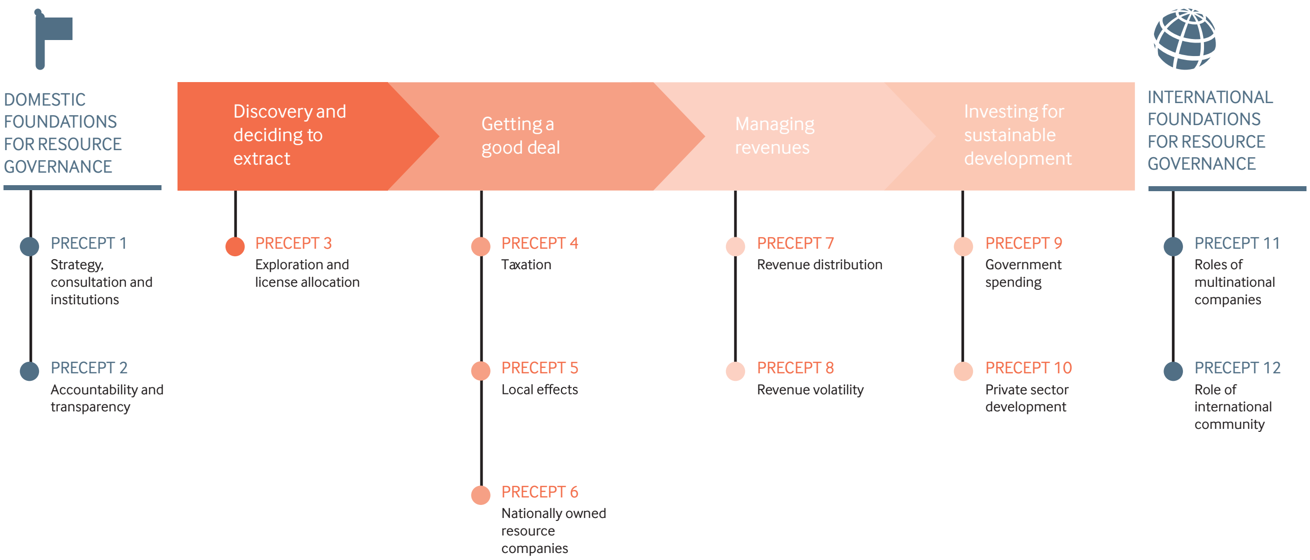
The midstream and downstream sectors of the Nigerian oil industry face significant challenges including huge cost recovery deficits in its four refineries; 21 depots and 5,120km of crude and products pipelines that are poorly maintained and subject daily to vandalism.

1 United States Energy Information Administration: Nigeria Analysis
2 www.opec.org

The gas sector has the potential of generating a huge amount of revenues for Nigeria, having recorded a "historic sale of 4.3 billion cubic feet per day in 2011"[3] and with the last and present government pledging to support a steady growth of the gas sector. However, Nigeria has been unable to meet its gas supply obligation to its West African neighbors, while its plan to build the Trans-Sahara gas pipeline to Europe is still pending.

For its part, the solid minerals sector remains minor, accounting in 2012 for 0.02 percent of total export earnings and 0.14 percent of new employments in the country. It is for this reason and others highlighted in the assessment of oil sector governance below, as well as the significant impact oil has on the economy of Nigeria, that NRGI has chose to focus its interventions on the oil sector.

3. Assessment of oil sector governance



The Natural Resource Charter's twelve precepts outline the decision-making and governance environment required for effective resource development. This section provides a brief assessment of the governance environment across each of these precepts.

3.1.1 Domestic foundations for resource governance

Precept 1: Strategy making and public participation. Resource management should secure the greatest benefit for citizens through an inclusive and comprehensive national strategy, clear legal framework and competent institutions.

In 2007, Nigeria adopted the National Oil and Gas Policy, which was the result of the work of the Oil and Gas Implementation Committee instituted in 2000 and based on a long-term projection of 4 million barrels of oil production per day and 40 billion barrels of proven reserves by 2020. In the same year, the Petroleum Industry Bill was conceived by a presidential committee set up in keeping with the then president's intention to carry out overall oil sector reforms. The draft Petroleum Industry Bill came in 2008 as a comprehensive bill covering those important issues of oil and gas exploration,

3 www.nnpcgroup.com/PublicRelations/NNPCinthenews/tabid/92/articleType/ArticleView/articleId/457/The-Future-of-Nigerias-Petroleum-Industry.aspx

production, transportation and marketing, and also includes fiscal issues, safety and regulation, health and environmental issues, issues of state participation and control, and also community relations. About a decade after, the oil and gas sector continues to experience hiccups, compounded by an inability to sustain the earlier link between the National Oil and Gas Policy and the 2008 PIB, from which a 2012 version represents a radical departure. According to the NNPC, the Buhari administration had planned to draft and push a new PIB within the first year of its administration. This bill is expected to take on a different name and would build on the items in the old PIB but going further to include important topics as to distinguish it from the controversies of the past versions of the PIB. The new PIB is also being discussed to capture public participation in the process to ensure inputs from relevant civil society units and should review the fiscal terms to be consistent with the current realities, locally and globally.

Precept 2: Accountability. Resource governance requires decision makers to be accountable to an informed public.

Nigeria's natural resource management is characterized by opacity, a rentier mentality, state bureaucratic inefficiency and weakness, and widespread corruption. Despite civil society's sustained push for transparency and accountability in the sector, little has been achieved. Oil payments and remittances to the Federation Account, for instance, are not publicly reported, giving room for mismanagement of the huge proceeds from oil sales. Nigeria joined the Extractive Industries Transparency Initiative (EITI) in 2003, and while there have been comprehensive and robust audit reports by the Nigeria EITI (NEITI), NEITI's recommendations have rarely been implemented. This open demonstration of inaction is the result of a lack of political will and institutional weakness of oversight bodies, including the National Assembly.

The Obasanjo administration (1999 – 2007) made some progress on transparency by adopting an open bidding process for oil block licenses. However, that progress has since stalled, with licenses under the Jonathan administration (2010 – 2015) being issued behind-the-scenes, including to politically exposed persons.

This lack of transparency and brazen mismanagement of the treasury has left Nigeria with a depleted Excess Crude Account (ECA) thus making it impossible for Nigeria to mitigate the risks associated with falling oil prices which started in mid-2014. As of June 2016 the ECA stands at $2.26 billion, from a $6.5 billion the Jonathan administration inherited.

Buhari's administration has already taken some steps—including a shakeup of the NNPC and a promise to publish monthly earnings from crude oil sales—that bode well for the improvement of transparency and accountability in Nigeria's extractive sector.

Precept 3: Exploration and license allocation. The government should aim to reduce geological uncertainty under a transparent licensing regime that allocates rights efficiently.

Nigeria's licensing regime—poorly managed and vulnerable to political interference—has contributed over the years to loss of revenue; declining investor interest and confidence; incomplete deals; wins by unqualified companies (many of which squatted on their assets or "flipped" them); and lower signature bonuses, among others.

Nigeria awards oil licenses through an open bidding process and the Department for Petroleum Resources (DPR) is responsible for conducting upstream licensing rounds, although the petroleum minister and president have ultimate legal and political power to approve awards. DPR also issues various other licenses and permits—e.g., for drilling, oil lifting and fuel importation—but actual decision-making authority in these areas has tended to rest with the minister (who has broad statutory award powers); NNPC (which awards contracts and has a range of approval and preemption rights); or other executive branch officials such as presidential advisers.

While the country's last five licensing rounds, between 2000 and 2007, appeared well organized and transparent, they were undermined by behind-the-scenes dealing by the president, petroleum minister and presidential advisors. The Jonathan administration assigned interests in oil blocks to arguably unqualified entities, some of whose beneficial owners were reportedly politicians.

The DPR is responsible for maintaining and administering the National Data Repository (NDR) and has an official geodata repository; however, government officials and private companies ran a costly and confusing black market for geodata, partly superseding DPR's repository.

Precept 4: Taxation. Tax regimes and contractual terms should enable the government to realize the full value of its resources consistent with attracting necessary investment, and should be robust to accommodate changing circumstances.

Nigeria uses a tax-royalty system for its oil sector. The Petroleum Profits Tax Act covers the upstream sector, providing the framework for how the federal government obtains revenue from oil and gas operations by way of signature bonuses, royalties and taxes. Downstream gas operations, including transporting, marketing and servicing, are taxed under the Companies Income Tax Act. The current rate of petroleum profits tax is 50 percent for deep offshore operations and in the inland basin, and 85 percent for operations onshore and in shallow waters. However, in applying the act, relevant sections can be amended through a memorandum of understanding (MOU) between the oil producing companies and the government.

Due to the decline in oil revenues, the government initiated a process to review the existing incentive regime, in particular the pioneer status which exempts companies from corporate tax. In practice this tax relief has been awarded to companies that do not meet the pioneer status, for instance to companies that are more than five years old. All new applications for pioneer status have been suspended pending the outcome of the review.

Over recent years transparency in the oil sector's taxation has improved, thanks to the EITI process and the NEITI reports. The NEITI reports revealed important ways in which different states collects their revenue and the overall audit process has helped states to further proactively put their books in order. This progress coincided with a raised global awareness of, and increased efforts to curb, tax avoidance by multinational companies. While combating tax avoidance remains a significant challenge, the government has engaged in OECD-led efforts to put in place measures to curb some of these practices (e.g., profit shifting to avoid taxation at source).

When it comes to tax revenue collection, Nigeria faces a range of challenges. These include:

- **Discretionary reliefs including pioneer status:** Reports suggest that the total revenue loss to the government, on the basis of returns filed by the companies to the Federal Inland Revenue Service (FIRS) and an extrapolation of the figures of 12 companies to cover 22 companies, stands at USD 2 billion.[4]

- **Tax evasion and avoidance:** Global Financial Integrity estimated that illicit financial flows from Nigeria are the largest in Africa, totaling an estimated USD 240.7 billion in losses between 1970 and 2008. Given its prominent contribution to the economy, the oil sector is likely to account for a sizeable amount of these losses.[5]

- **Pricing methodology:** Ambiguity and inconsistency in pricing methodology continues to exacerbate the lingering pricing dispute between the IOCs and Nigerian government and this has resulted in revenue loss of over USD 4.04billion in the last 7 years[6]; this has also mainly affected royalty computation and enhanced under-assessment on the fiscal valuation on chargeable oil. Sadly there is no significant improvement yet.

- **Inefficiencies and inconsistencies** in the regulation of the upstream sector contribute to IOC behaviors that pose problems for revenue assessment and collection. DPR lacks the capacity to independently measure and monitor production or confirm projections of all the factors necessary to compute royalty; Therefore companies "self-regulate" to a large extent. The Federal Inland Revenue Services (FIRS) is also unable to manage and administer the complex tax regime hence there is weak enforcement of tax collection from indigenous companies.

Precept 5: Local effects. Opportunities for local benefits should be pursued, and the environmental and social costs of resource projects should be accounted for, mitigated and offset.

Oil exploration and production in Nigeria has had visibly negative effects on local communities, including health hazards, pollution of the environment and the resultant loss of livelihood, e.g. fishing, among others. Rather than address these issues and protect communities from the impacts of extraction, the government has traditionally dealt in a highhanded way with community protests. The opportunities for redress for communities have been very slim—other than in the few cases where local civil society, supported by international organizations, can provide professional, pro bono and paralegal assistance that includes initiating litigation against a number of IOCs in their home countries.

In May 2012, the Hydrocarbon Pollution Restoration Project (HYPREP) was established as a response to an environmental assessment report on Ogoniland (Niger Delta) by the United Nations Environment Programme (UNEP). However, by the end of the Jonathan administration in May 2015 no action had yet been taken. The Buhari administration approved a USD 10 million takeoff grant to begin the fast-track implementation of the report's recommendations, but it may take time to yield results.

Following the many clamour for restoration of the Niger-Delta region, and government after trying different approaches, set up the Niger Delta Development Commission (NDDC) to facilitate the rapid, even and sustainable development of the Niger Delta into a socially stable, ecologically regenerative and politically peaceful region. But

4 FOSTER, Review of the administration of pioneer status in the Nigerian oil and gas sector, 2015
5 FOSTER, Assessing transfer pricing risks and mitigation opportunities in the Nigerian Upstream Petroleum Sector, September 2013
6 NEITI Oil and Gas Report 2012

NDDC is both underperforming and mired in scandals. A NEITI Fiscal Allocation and Statutory Disbursement (FASD) audit report covering 2007-2011 revealed various breaches by the Commission. These breaches included the absence of updated financial statement from 2009-2012 in contravention of the provision of Section 20(1) of its enabling Act 2000 (Amended) and a N7.442 billion worth of small ticket projects allocated to the nine state offices of the NDDC declared as “neither identifiable nor scheduled for monitoring and proper management.” A more recent report from the Office of Accountant of the Federation (OAGF) also carpets the Commission as unaccountable to the tune of N188.7 billion expended on contract mobilization payment, abandoned/unexecuted contracts, extra-budgetary expenditure, non-deducted taxes from contractors, unremitted tax deductions to FIRS, transfers to unauthorized accounts and unaccountable advances to staff. These sharp practices contribute to the Niger Delta of today where the social and environmental effects of extraction are still as real as before the NDDC was set up.

Precept 6: Nationally owned resource companies. Nationally owned resource companies should be accountable, with well-defined mandates and seek to be commercially efficient in the long-term.

The Nigerian government through the NNPC regulates and participates in the country’s petroleum industry. NNPC owns a majority share of the six substantive joint ventures currently operating in Nigeria. The company operates as an autonomous entity, with little information available on its finances, internal controls, or quasi-fiscal obligations. Its controversial administration of fuel subsidy payments resulted in an estimated USD 13 billion in losses between 2006 and 2011.

NNPC dominates the Nigerian oil sector, touching on nearly all aspects of its operations; crude sales, management of the joint venture between the Nigerian federal government and a number of foreign multinational corporations, which include Shell, Agip, ExxonMobil, Chevron, and Texaco. Given the severe governance and financial challenges facing the corporation, its widespread influence has generally been negative. A library full of reports, many commissioned by government itself, catalogues these weaknesses in compelling detail. The main problems include the following:

- **A tradition of patronage and politicization.** Above all, NNPC suffers from being a long-established tool for Nigeria’s leaders to distribute benefits to the country’s large and competitive political elite. The previous administration also used the NNPC as a means to capture rents and enrich itself.

- **An expansive role and conflicts of interest.** Both influence and expertise are concentrated in NNPC, particularly when compared to the weak Ministry of Petroleum (the minister excluded) and regulatory bodies (DPR chief among them). Conflicts of interest include NNPC’s role as a fiscal regulator, where it monitors work programs and costs for projects in which it has a majority interest, and its role as both buyer and seller of the domestic crude account oil.

- **Staggering debts.** NNPC is heavily indebted to three parties: fuel importers, due to its management of a large portion of the country’s fuel subsidy; JV partners, due to its habitual inability to cover its cash calls; and (most controversially), the Federation Account, due to its retention of domestic crude revenues and other earnings.

- **Poorly performing subsidiaries.** NNPC is bloated with non-performing entities which serve no commercial purpose (but are used for patronage purposes). These include its trading subsidiaries which have no trading capacity, and its massively expensive and fraud-riddled downstream operations.

- **Rules, accountability and oversight.** NNPC's roles are ill-defined, especially when it comes to which revenues it can retain and how those revenues can be used. The few *de jure* governance and oversight mechanisms that do exist, such as annual budgets and audit systems, are broken. The NNPC does report to the president and minister, but this accountability line has protected the interests of those individuals more than it has the public interest. Crucially, NNPC is not held accountable for its performance, nor for how it spends public funds.

Several administrations have tried, and failed, to reform the NNPC. Under Jonathan, NNPC's governance problems actually worsened. A few of the factors discouraging reform include: NNPC's highly insular and defensive corporate culture; the value of loose and ill-defined practices for the president and other power brokers; and the many factions of the APC party who expect oil sector rewards.

However, the current context offers some advantages for reform. NNPC is where the largest revenue leakages are found, so is a natural target for a government facing a fiscal crisis and historically low oil prices. Likewise, expectations are high that Buhari's promised battle against corruption will target NNPC and the oil sector. Even small improvements could save billions of dollars in public funds, and chip away at the oil-fed corruption that impairs performance across the public sector.

Precept 7: Revenue distribution. Resource revenues should be invested to achieve optimal and equitable outcomes for both current and future generations.

Despite Nigeria receiving billions of dollars in oil revenues over the decades, poverty and income inequality have remained persistent in the country. Public spending, though sometimes appearing to, is not directed at pro-poor interventions that can generate growth and employment, the budgeting system is opaque, and actual budget implementation is very poor.

To curb wastage and introduce some fiscal prudence, the government established a sovereign wealth fund by the Nigeria Sovereign Investment Authority (NSIA) Act 2011 with strengthened institutional oversight responsibilities. The SWF operates alongside the Excess Crude Account (ECA) where excess oil revenues over the benchmark oil price are deposited.

The constitution determines that all centrally collected revenues be channeled through the Federation Account for allocation to three levels of government—federal, state and local—according to a formula determined by the National Assembly. Currently, oil producing states receive 13 percent of revenue from petroleum production. The remainder of the funds is disbursed on a monthly basis according to the following formula: 52 percent to the federal state, 27 percent to state governments and 21 percent to local governments. This process is administered by the Federal Account Allocation Committee (FAAC) and overseen by the Revenue Mobilization Allocation and Fiscal Commission (RAMFAC). The above sharing formula, as finely spelt out as it appears, is still shrouded in opacity and has not necessarily led to optimal utilization of revenues.

In many cases deficits at state and federal levels of government have required supplementation from the ECA. Subnational governments depend almost exclusively on federal statutory oil revenue transfers, resulting in highly volatile public revenue and expenditure at that level.

Precept 8: Revenue volatility. Domestic spending of resource revenues should be smoothed to take account of revenue volatility.

In order to deal with revenue volatility (the Nigerian economy being one of the most volatile in the world),[7] the government introduced an oil price based fiscal rule in 2004, which was later integrated into the law of the country in 2007 when the Fiscal Responsibility Act (FRA). The rule aims to control government expenditure through oil revenue smoothing, by restraining annual fiscal expenditure through a reference oil price. The benchmark price, a long-run average price that imitates a ten-year average oil price, was the result of prudent analysis. Any surplus revenue collected when the actual oil price is above the benchmark is transferred to the ECA. Withdrawals are made from the ECA when the operating price is below the reference price.[8]

Over the years, ad hoc withdrawals (withdrawals not linked to when the operating price was below the benchmark price) have been made from the ECA and the fund has almost been depleted. In 2008 the ECA played a useful role in cushioning the impact of the global financial crisis when oil prices dropped considerably, but has since been unable to play the same stabilization role.

Precept 9: Government spending. The government should use revenues as an opportunity to increase the efficiency of public spending at the national and sub-national levels and in accordance with national plans, when this is in place.

Various processes linked to public financial management (PFM) in Nigeria are characterized by poor governance and corruption, this includes oversight functions such as internal and external audits, public procurement and monitoring of budget execution. The current weaknesses in the country's PFM system can be attributed largely to the underutilization of accountability and control mechanisms that have been in place for many decades, rather than to deficiencies in the legal framework.[9]

The new government has indicated a great interest in improving public finance management systems, for example introducing the Treasury Single Account (TSA) system. The implementation of TSA by the federal government will improve cash management and control. TSA is also likely to facilitate better fiscal and monetary policy coordination as well as better reconciliation of fiscal and banking data, which in turn improves the quality of fiscal information. The establishment of an effective TSA significantly reduces the debt servicing costs and eradicates financial misappropriation in the public sector which is a critical concern of the government.

Precept 10: Private sector development. The government should facilitate private sector investments to diversify the economy and to engage in the extractive industry.

The Nigerian energy sector can be a difficult place for private companies to do business. A mix of unclear rules and dense bureaucracy complicates contracting, licensing and permits, and creates high corruption risks. Despite efforts towards economic

7 World Bank. 2013. Country Listing 2013. www.worldbank.org.
8 IMF. 2013 World Economic Outlook, www.imf.org
9 AfDB Country Strategy Paper, Nigeria 2013 - 2017

liberalization and privatization, poor planning and short-term decision-making have kept the country from processing significant amounts of hydrocarbons at home, as evidenced by NNPC's collapsing downstream businesses and the country's inability to turn its sizable natural gas reserves into power. Nigeria has a large, vibrant private sector, including a bevy of oil service contractors. However, the country's history of reliance on IOCs has inhibited knowledge, technology transfer and the growth of genuine national operators.

In what is perhaps the single most important recent trend sector-wide, onshore divestments by Shell, Chevron and others (worth over USD 10 billion by the close of 2014) have given indigenous companies more acreage and rapidly grown their share of total Nigerian production. While there are success stories, many of the firms have had trouble securing consent for license assignments; accessing credit; funding NNPC's share of operating costs; gathering and processing natural gas deposits; controlling field development costs; protecting their assets against theft; and finding fair marketing deals for their crude and gas.

Some of the issues, for example with regards to economic diversification; infrastructure provisions and domestic commodity use, have been well studied and the main obstacles to reform are political rather than technical. Despite recent efforts to develop local content, the oil sector offers no strong solutions to Nigeria's unemployment problem, as it remains an enclave economy with relatively limited employment potential. Nonetheless, the problems facing national exploration and production companies could receive significant government attention, especially given their overlaps with NNPC restructuring and IOC plans to divest more assets.

Precept 11: Roles of multinational companies. Companies should commit to the highest environmental, social and human rights standards, and to sustainable development.

Global standards such as the EITI process have played a major role in improving extractive company transparency. Recent global developments such as the adoption of the EU Accounting and Transparency Directives and Dodd Frank 1504 will further enhance transparency, as IOCs will now be required to report the payments they make to governments in the countries where they operate, including Nigeria.

Reputational risks and recent cases around oil spills and environmental concerns have also played a role in influencing better practices by IOCs companies. However, overall IOCs have taken a narrow approached towards reform, which has mainly been limited to their concerns about the evolving PIB.

Precept 12: Role of international community. Governments and international organizations should promote an upward harmonization of standards to support sustainable development.

International actors have not served as effective advocates for the improvement of Nigeria's oil sector, despite the significant issues faced by the sector. Indeed in general the country has not been a priority for the United States or Europe and, when western international actors have engaged with the country, it has been on issues of security and democracy. A strong global position has not been a priority for the Nigerian government since the 2000s. It is unclear how much Buhari cares about the western audience.

STRATEGIC RESPONSE

The goal of NRGI's program in Nigeria is that citizens benefit from extractive resource wealth. To realize this, NRGI will work toward the objectives and related targets outlined below.

Objective 1: Increased and institutionalized transparency, and better informed public debate on oil sector reform.

- With support from NRGI and other accountability actors, the government will increase the availability of information related to the extractive sector and its management.
- NRGI will help partners in Nigeria better engage with available data, to stimulate a better-informed public debate on oil sector reform and corruption.

Objective 2: An NNPC which more effectively serves the public interest

- NRGI will work with partners to help NNPC eliminate some of its worst practices.
- NRGI will promote and provide support for the effective restructuring of the NNPC.

Objective 3: Improve governance of licensing processes

- There is a reduction in the allocation of licenses to unqualified and/or politically-connected companies.
- NRGI will explore opportunities to work with and support Nigerian private companies operating in the sector.