

Implementing the Extractive Industries Transparency Initiative (EITI): The Nigerian Experience

By

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Order of Presentation

- Introduction
- The Global EITI Perspective
- Nigerian EITI in the Context of a Holistic Anticorruption Agenda
- The NEITI Audit Procurement Process & Audit of the Sector
- Remedial Measures
- Specific Reforms in the Solid Minerals Sector
- Next Steps
- Experiences & Challenges
- Need for Regional Agenda
- Concluding Thoughts

Introduction

- Paradox of natural resource endowment: does not always translate into sustainable development & improved welfare for citizens
- Indeed, some studies have found the exact opposite: resource-rich countries found to:
 - grow more slowly (Gelb, 1988);
 - Dutch disease issues, macroeconomic volatility, etc.
 - Have higher corruption, greater income inequality, poverty & conflict (Palley, 2003; Hoeffler, 1998, 2001), etc.
- Numerous examples of this in Africa in terms of further under-development, environmental despoliation & resource-related conflicts
- Transparent management of the payments and receipts from the sector are an essential step in trying to reverse this trend

The Global EITI Perspective

- Prime Minister Tony Blair took the EITI proposal to the WSSD in South Africa in 2002
- British DFID facilitated a workshop on the 17th June 2003 attended by 70 governments including Nigeria, Ghana, DRC, Sierra Leone and Equatorial Guinea
- Delegates agreed to the following principles to guide the implementation of EITI globally:
 - Regular Publication of Receipts and Payments
 - Independent Audit applying International Standards
 - Active Engagement of Civil Society
 - A public and financially sustainable Work plan

Nigerian EITI as part of a holistic reform Agenda

- Government in 1999, commissioned a World Bank study of the management of the oil & gas sector.
- Report revealed serious shortcomings in:
 - **crude oil output and disposal;**
 - **funds inflows;**
 - **funds outflow; and**
 - **institutional effectiveness.**
- It became imperative to institute a culture of transparency to clean up the system
- Full reform program underway
 - Macro-fiscal reforms
 - Better public expenditure management
 - Structural reforms
 - Public service reforms
 - Anticorruption reforms

Nigerian EITI in the context of a holistic Anticorruption Agenda.....(cont'd)

- Nigeria was the first country to sign up to EITI membership in the Q4, 2003.
- NEITI reform process which is a homegrown integral of the anticorruption program with constitute the major thrust of the Obasanjo administration
- President Obasanjo set up the National Stakeholders Working Group (NSWG) inaugurated in February 2004
- NSWG is made up of 28 members drawn from:
 - Government
 - Private Sector and
 - Civil Society.

NEITI Audit Procurement and Audit of the Sector

- In compliance with the global EITI Principles, NSWG procured the services of an independent auditor through an open international competitive bidding
- Engaged an international consultant to advise NSWG
- Hart Group, a British firm with Nigerian Partners was selected to conduct a Financial, Physical and Process audits of the Nigerian Extractive Sector from 1999-2004
 - Financial Audit: Who paid money? How much? To whom?
 - Physical Audit: A mapping of oil and gas produced; Refined; exported; lost, etc.
 - Process Audit: Examination of EI processes in licensing, capital expenditure proposals etc
- Most comprehensive audit ever conducted in the history of Nigeria

NEITI Audits – The Results

- The final reconciled audit results were released to the public in December 2006
- 99.99 percent of revenues accounted for
 - Taxes
 - Royalties
 - Other payments (e.g. gas flare penalties)
- Physical flows up to terminal reconciled
- All crude sales accounted for
- Key processes examined reveal important systemic weaknesses

NEITI Audits Results – 2

■ Financial Audit:

- No Revenue loss; just 0.01% of aggregate revenue unaccounted for, for the period.
- Weak interface amongst relevant government entities.
- Poor data keeping system; e.g. in some years, CBN showed less revenue in Govt. accounts than companies said they paid with the reverse for other years.

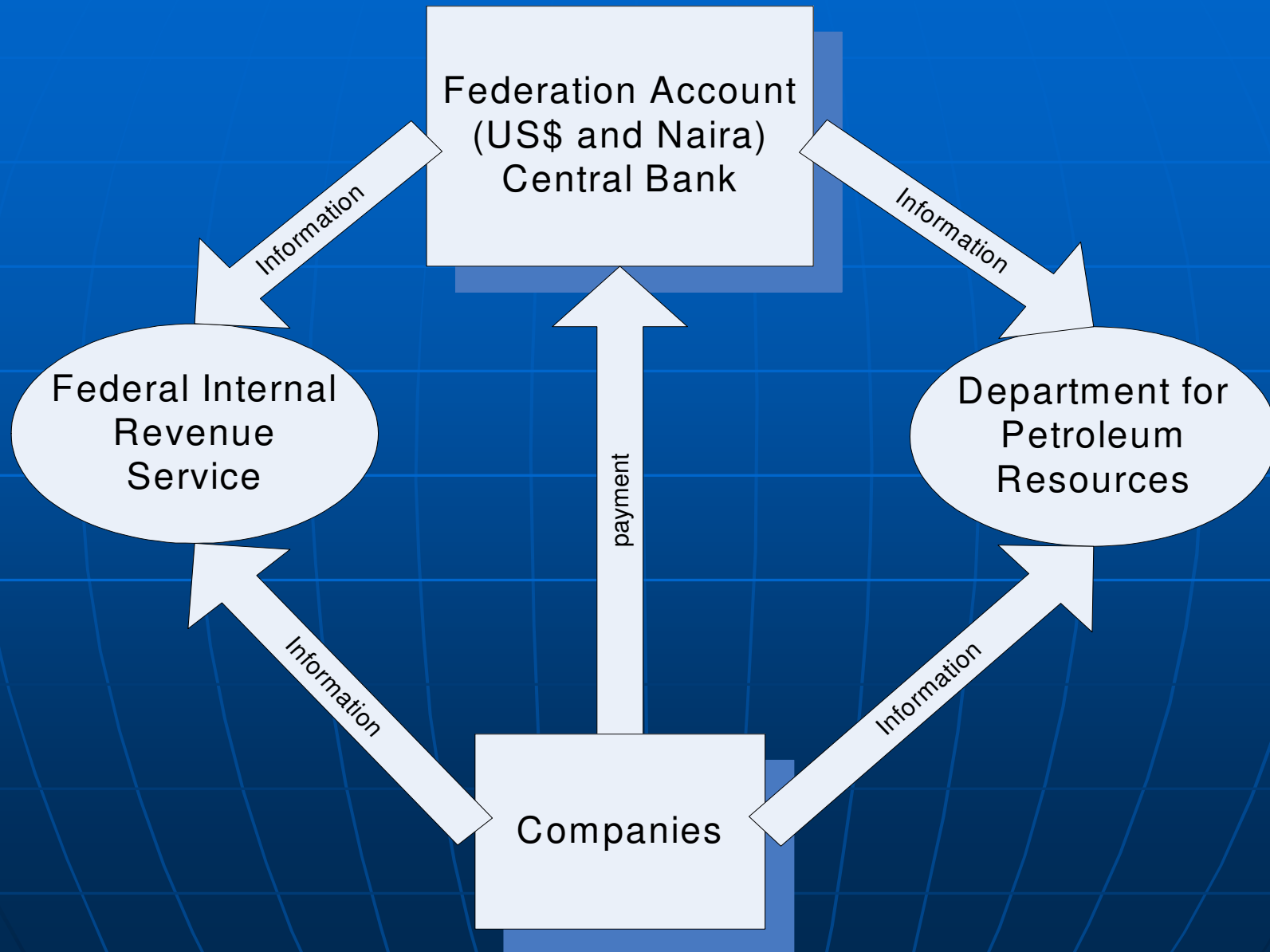
■ Physical Audit:

- systematic loss of crude oil between the wellheads and the export/metering terminals
- Flow rate at night was lower than during the day, suggesting theft activities during the hours of darkness
- Poor metering infrastructure infringing on gross volumes
- Lack of standardized industry procedures for calculating royalty liabilities
- Also some issues with the handling of the imports of petroleum products

Audit Results...3

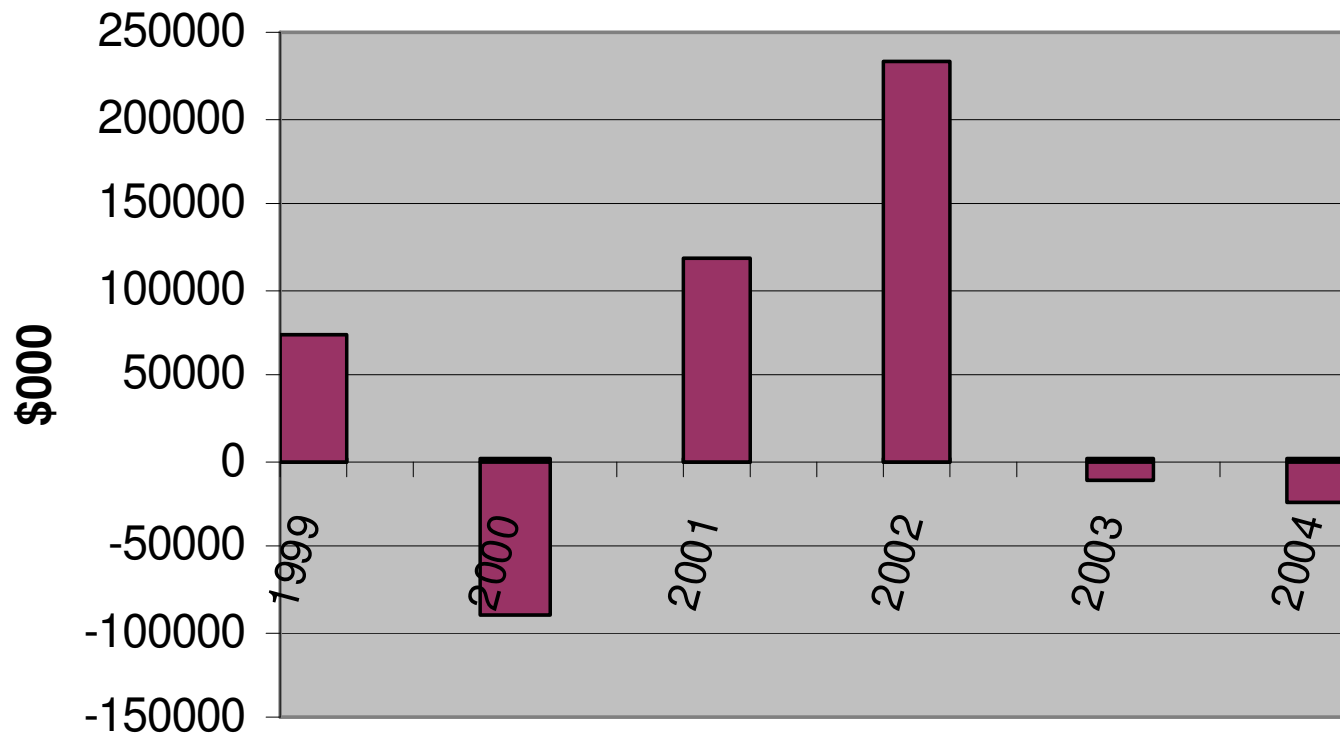
- **Process audit:**
- **Issues raised include:**
 - Abuse of discretionary powers given to the Minister of Petroleum for allocating oil blocks. This power arises from the Petroleum Act of 1969.
 - Poor implementation of the Local Content Vehicle (LCVs) in the 2005 Bid Round.
 - Use of strategic downstream investment considerations tied to upstream blocks raised.
 - Also raised was the procedures for awarding petroleum importing licenses

Reconciliation Illustration



Initial Financial Differences: Now Reconciled to 0.01 Percent

**Company payments in aggregate:
more (less) than CBN Receipts**



Disaggregated Flows

US \$ millions	Reported as paid by companies					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Petroleum Profits Tax	758	3230	3615	1829	3225	6275
Royalty	888	1781	1787	1368	1905	2813
Gas flaring penalty	24	24	28	20	23	21
Reserves Additional Bonus repayments	61	-	-	-	-	274
Signature bonuses on license award	25	-	137	37	235	53
TOTAL	1756	5035	5567	3254	5388	9436

US \$ millions	As Recorded by CBN					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Petroleum Profits Tax	659	3286	3549	1698	3287	6557
Royalty	939	1871	1761	1275	1832	2787
Gas flaring penalty	22	22	25	20	38	28
Reserves Additional Bonus repayments	61	-	-	-	-	-*
Signature bonuses on license award	25	-	137	37	235	53
TOTAL	1706	5179	5472	3030	5392	9425

Reconciliation of differences

Financial differences

Position by December 2006

	Reported by CBN, not by company	Reported by company, not by CBN
	<u>US\$ millions</u>	<u>US\$ millions</u>
PPT	0.9	1.4
Royalty	-	7.9
Gas Flare Penalty	0.5	-
Net difference		7.9

Remediation Measures

- Given the observed discrepancies in the audit results, an Inter-Ministerial Task Team (IMTT) was inaugurated with all relevant government agencies represented.
- Relevant government entities proposed their own remediation measures designed to address identified lapses.
- IMTT has taken the following measures to address lapses
 - Study teams set up in each agency; inter-agency committee to ensure convergence of information/data by all relevant government entities
 - Technical assistance to be provided to enhance institutional capacity.
 - Re-emphasize the importance of adequate budgetary funding for relevant government agencies.

Next Steps

- Relevant government agencies to receive assistance to strengthen their inter-faces with each other.
- N-EITI procuring experts to conduct training for agencies and Civil Society in critical areas of the sector
- NEITI process being institutionalized through legislation (NEITI bill currently before the National Assembly)
- Road shows ongoing – to deepen message to grassroots level

NEXT STEPS...Cont'd

- Extending the transparency template to the Solid Minerals Sector.
- Solid Minerals sector has been largely restructured; licenses and leases revalidated; IT-based mining cadastre now in place
- Regular data reconciliation for all relevant agencies
- Work to encourage compliance with environmental standards; promote better community and corporate social responsibility
- Have regular interactive sessions with key players in the mining sector and civil society

Extending EITI to the Solid Minerals Sector

- Prior to the discovery of oil, solid minerals sector was a key sector of Nigerian economy
- Neglect reduced total revenue from the sector to a paltry 309.2 million in 2002 from 1102 quarrying licenses & leases
- Sector lacked reliable geological data to guide investors
- Government officials had undue discretionary powers under Mining and Minerals Act
- No Security of mining rights with adverse effect on investment decisions

Specific Reforms in the Solid Minerals Sector

- The new reform in the sector has:
 - Comprehensively reviewed the Minerals and Mining Act of 1999
 - Established transparent mechanisms for granting access to mineral titles
 - Strengthened geological data gathering capability
- Redefined the Solid Minerals Sector specifically for
 - Employment generation
 - Wealth Creation and
 - Poverty Alleviation
 - Avoiding the Mistakes of the Oil Sector

Reforms in the Solid Mineral Sector...cont'd

- Removed discretionary powers of Government officials
- Guaranteed easy access, security and transferability of mining titles
- Globally comparable legal and fiscal regimes
- Autonomous cadastre
- Due recognition of artisanal and small scale miners

Experiences and Challenges

- Strong political will. President Obasanjo at some point during the audit invited the Oil Companies to the Presidential Villa
- Inclusion of the members of the Legislature in NSWG assisted the putting together the NEITI Bill which is awaiting passage at the National Assembly
- Mainstreaming of Civil Society led establishment of independent oversight CSO steering committee and to robust debates at the grassroots level
- A comprehensive communications strategy working with the media has led to a lot of interest and a culture of inquiry among citizens

Experiences and Challenges-2

- Delays in making data available by oil companies unstill the intervention of the President
- Media Backlash: In case of the presentation of the interim report to the President where he ordered a full reconciliation of figures
- A need for a deeper Value for Money Audit of the Sector
- A need to open up contracts entered (Production Sharing Contracts, Joint Venture Agreements) to public scrutiny and best practice.

Experiences and Challenges-3

- Revenue accrual from oil licensing increased to almost one Billion USD
- Extension of the EITI template to the Solid Minerals Sector has led to the establishment transparent mechanisms for granting access to mineral titles through time online process otherwise Cadastre office
- The NEITI Bill awaiting passage in the National Assembly will make the audit an annual mandatory process with strict sanctions in case of non-compliance

Need for a Regional Agenda

- Reforms of sector needed to reverse the resource curse, generate growth & promote peace in W.Africa
- West African countries can use EITI model to achieve this. Strive to do EITI in reality; not just pay lip service
- Need to share experiences & assist each other in implementing EITI
- Nigeria and STP are now cooperating in mainstreaming transparency in the Joint Development Zone; can seek avenues to broaden this model to regional program
- Need to mainstream EITI into broader economic reform & growth agenda for region – e.g. in ECOWAS
- Implementing EITI is a win-win game; for the implementing country, for extractive companies and ultimately for citizens.

CLOSING THOUGHTS

- Nigeria has made substantial progress in implementing EITI
- Audit work exposed weaknesses; these are now being remediated
- Nigeria ready to cooperate other resource-rich African countries as needed in spirit of the African Peer Review Mechanism (APRM)
- Regular regional EITI events
- Growth & development are essential for achieving the MDGs; this cannot happen without transparent management of our resources.

■ **THANK YOU**