Board decision on the Validation of Nigeria

Decision reference: 2017-02/BC-224
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The Board's decision

The Board took the following decision regarding Nigeria's status:

The Board agrees that Nigeria has made meaningful progress overall in implementing the 2016 EITI Standard. In taking this decision the EITI Board commended the efforts of the Nigerian National Stakeholders’ Working Group (NSWG) to play a proactive role in the national natural resource governance debate and to follow up on recommendations from the EITI reporting process. The EITI Board also noted the NSWG’s active engagement with stakeholders such as the Nigerian National Petroleum Corporation (NNPC) to increase the impact of implementation, as well as the efforts to go beyond the EITI’s requirements on bringing transparency to in-kind revenues. The EITI Board highlighted that the EITI has provided a positive platform for discussion and debates about oil and gas sector management, involving stakeholders and the wider public. The EITI Board was encouraged by the government’s efforts to make government systems more transparent and accountable and urged the NSWG to work towards further mainstreaming EITI disclosures.

The Board’s determination of Nigeria’s progress with the EITI’s requirements is outlined in the assessment card, below. The EITI Board agreed that Nigeria had not made satisfactory progress on requirements 1.3, 1.4, 1.5, 2.2, 2.3, 2.4, 2.6, 3.2, 3.3, 4.1, 4.3, 4.4, 4.6, 4.8, 4.9, 5.2, 6.1, 6.2 and 6.3. The major areas of concern relate to civil society engagement (#1.3), MSG governance (#1.4), workplan (#1.5), license allocations (#2.2), license registers (#2.3), contract disclosure (#2.4), state participation (#2.6), including quasi-fiscal expenditures (#6.2), production data (#3.2), export data (#3.3), comprehensiveness (#4.1), barter and infrastructure agreements (#4.3), transport revenues (#4.4), direct subnational payments (#4.6), data timeliness (#4.8), data quality (#4.9), subnational transfers (#5.2), social expenditures (#6.1) and contribution to the economy (#6.3). The EITI Board disagreed with the validator on the following requirements: company engagement (#1.2), workplan (#1.5) and in-kind revenues (#4.2).

Accordingly, the EITI Board agreed that Nigeria will need to take corrective actions outlined below. Progress with the corrective actions will be assessed in a second validation commencing on 11 July 2018. Failure to achieve meaningful progress with considerable improvements across several individual requirements in the second Validation will result in suspension in accordance with the EITI Standard. In accordance with the EITI Standard, the Nigerian National Stakeholders Working Group may request an extension of this timeframe, or request that Validation commences earlier than scheduled.

The Board’s decision followed a Validation that commenced on 1 July 2016. In accordance with the 2016 EITI Standard, an initial assessment was undertaken by the International Secretariat. The findings were reviewed an Independent Validator, who submitted a Validation Report to the EITI Board. Nigeria’s National Stakeholders Working Group was invited to comment throughout the process. The National Stakeholders Working Group’s comments on the report were taken into consideration. The final decision was taken by the EITI Board.

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### EITI Requirements

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#### EITI Requirements

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<th>Level of Progress</th>
<th>No Progress</th>
<th>Inadequate</th>
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### Corrective actions

The EITI Board agreed the following corrective actions. Progress in addressing these corrective actions will be assessed in a second Validation commencing on **11 July 2018**:

1. In accordance with requirement 1.3a, the NSWG should ensure that civil society is fully, actively and effectively engaged in the EITI process. In accordance with requirement 1.3eii, civil society should ensure that civil society organisations outside the multi-stakeholder group are substantially engaged in the design, implementation, monitoring and evaluation of the EITI process.
In accordance with requirement 8.3.c.i, the civil society constituency is requested to develop and disclose an action plan for addressing the deficiencies in civil society engagement documented in the initial assessment and validator’s report within three months of the Board’s decision, i.e. by 11 April 2017.

1. In accordance with requirement 1.4.a.ii, the NSWG should ensure that its procedures for nominating and changing multi-stakeholder group representatives are public and confirm the right of each stakeholder group to appoint its own representatives. In accordance with requirement 1.4.b.ii and 1.4.b.iii, the NSWG should undertake effective outreach activities with civil society groups and companies, including through communication such as media, website and letters, informing stakeholders of the government’s commitment to implement the EITI, and the central role of companies and civil society. Members of the NSWG should liaise with their constituency groups. In accordance with requirement 1.4.b.vi, the NSWG should ensure an inclusive decision-making process throughout implementation, particularly as concerns industry.

2. In accordance with requirement 1.5.a, the NSWG should maintain a current work plan that sets EITI implementation objectives that reflect national priorities for the extractive industries. In accordance with requirement 1.5.b, the work plan must reflect the results of consultations with key stakeholders. In accordance with requirement 1.5f, the NSWG should ensure that the work plan is reviewed and updated annually.

3. In accordance with requirement 2.2.a, the government should ensure annual disclosure of which mining, oil, and gas licenses were awarded and transferred during the year, including in the Nigeria- São Tomé and Príncipe Joint Development Zone, highlighting the technical and financial requirements and any non-trivial deviations from the applicable legal and regulatory framework governing license awards and transfers. In accordance with requirement 2.3, the government should also ensure that the dates of application and coordinates for all oil, gas and mining licenses are publicly available.

4. In accordance with requirement 2.4, the NSWG should document the government’s policy on disclosure of contracts and licenses that govern the exploration and exploitation of oil, gas and minerals. This should include relevant legal provisions, actual disclosure practices and any reforms that are planned or underway. The next EITI Reports should provide an overview of the contracts and licenses that are publicly available, and include a reference or link to the location where these are published.

5. In accordance with requirement 2.6, the NSWG should provide an explanation of the prevailing rules and practices related to SOEs’ retained earnings and reinvestment. The government should also ensure annual disclosure of any changes in government ownership in SOEs or their subsidiaries, and provide a comprehensive account of any loans or loan guarantees extended by the state or SOEs to mining, oil, and gas companies. In accordance with requirement 6.2, the NSWG should consider the existence and materiality of any quasi-fiscal expenditures undertaken by SOEs and subsidiaries in the extractive industries and ensure that all material quasi-fiscal expenditures are disclosed.

6. In accordance with requirements 3.2 and 3.3, the NSWG should ensure future EITI Reports provide disaggregated production values as well as export volumes and values for all key minerals produced including crude oil and natural gas.
7. In accordance with requirement 4.1.b, the NSWG should ensure that future EITI Reports clearly include all revenue streams listed under requirement 4.1.b in the scope of reconciliation. In accordance with requirement 4.1.c, the NSWG should also ensure that the Independent Administrator assesses the materiality of non-reporting companies and government entities as well as provide its opinion on the comprehensiveness and reliability of the EITI Report.

8. In accordance with requirement 4.3, the NSWG should assess the existence of infrastructure provisions in oil and gas contracts during the scoping phase to ensure that companies’ disclosures are categorised according to strict definitions.

9. In accordance with requirement 4.4, the NSWG should assess the materiality of any transportation revenues and disclose such revenues should they be assessed as material.

10. In accordance with requirement 4.6, the NSWG should assess the materiality of direct subnational payments and ensure that any material direct subnational payments are reconciled.

11. In accordance with requirement 4.8.b, the NSWG should ensure that data in EITI Reports be no older than the second to last complete accounting period, e.g. an EITI Report published in calendar/financial year 2016 must be based on data no later than calendar/financial year 2014.

12. In accordance with requirement 4.9.b.iii and the standard Terms of Reference for the Independent Administrator agreed by the EITI Board, the NSWG and Independent Administrator should:

a. examine the audit and assurance procedures in companies and government entities participating in the EITI reporting process, and based on this examination, agree what information participating companies and government entities are required to provide to the Independent Administrator in order to assure the credibility of the data in accordance with Requirement 4.9. The Independent Administrator should exercise judgement and apply appropriate international professional standards\(^1\) in developing a procedure that provide a sufficient basis for a comprehensive and reliable EITI Report. The Independent Administrator should employ his/her professional judgement to determine the extent to which reliance can be placed on the existing controls and audit frameworks of the companies and governments. The Independent Administrator’s inception report should document the options considered and the rationale for the assurances to be provided.

b. ensure that the Independent Administrator provides an assessment of comprehensiveness and reliability of the (financial) data presented, including an informative summary of the work performed by the Independent Administrator and the limitations of the assessment provided.

c. ensure that the Independent Administrator provides an assessment of whether all companies and government entities within the agreed scope of the EITI reporting process provided the requested information. Any gaps or weaknesses in reporting to the Independent Administrator must be disclosed in the EITI Report, including naming any entities that failed to comply with the agreed procedures, and an assessment of whether this is likely to have had material impact on the comprehensiveness and reliability of the report.
1. In accordance with requirement 5.2.a, the NSWG should assess the materiality of subnational transfers prior to data collection and ensure that the specific formula for calculating transfers to individual states and Local Government Areas be disclosed, to support an assessment of discrepancies between budgeted and executed subnational transfers.

2. In accordance with requirement 6.1.a, the NSWG should agree a clear distinction between mandatory and voluntary social expenditures prior to data collection. Where beneficiaries of mandatory social expenditures are a third party, i.e. not a government agency, the NSWG should ensure that the name and function of the beneficiary be disclosed.

3. In accordance with requirement 6.2, the NSWG should agree on a reporting process on quasi-fiscal expenditures from state owned enterprises with a view to achieving a level of transparency commensurate with other payments and revenue streams, including subsidiaries of state-owned enterprises and joint ventures.

4. In accordance with requirements 6.3, the NSWG should ensure that the size of the oil and gas sector in absolute terms, the solid mineral sector’s share of government revenues in relative terms, the value of oil and gas exports in absolute and relative terms and the size of solid minerals employment in absolute terms for the year(s) under review.

The NSWG is encouraged to consider the other recommendations in the Validator’s Report and the International Secretariat’s initial assessment, and to document the NSWG’s responses to these recommendations in the next annual progress report.

[1] For example, ISA 505 relative to external confirmations; ISA 530 relative to audit sampling; ISA 500 relative to audit evidence; ISRS 4400 relative to the engagement to perform agreed-upon procedures regarding financial information and ISRS 4410 relative to compilation engagements.

News

Nigeria: EITI recognises progress in addressing natural resource governance

First Validation under the EITI Standard concludes meaningful progress, but more is needed.

Wednesday 11 January - Nigeria’s efforts to improve natural resource governance through the EITI Standard were recognised today by the international EITI Board. The recognition followed the recently published Nigeria EITI Validation report, as a result of which the EITI Board decided to extend Nigeria’s EITI membership. Validation is the EITI’s independent evaluation mechanism.

- View the full decision including the scorecard and supporting documentation

The first country in Africa to implement the EITI, Nigeria has helped shape the EITI Standard and developed one of the most extensive EITI reporting processes globally. Over more than a decade of implementation, Nigeria’s EITI (NEITI) has gone well beyond the initial requirements of the EITI.
including assessments of physical and process flows alongside the reconciliation of financial payments. Nigeria was also the first country to enact legislation institutionalising the EITI in the country and NEITI has been repeatedly recognised for its efforts to put into effect recommendations from EITI reports. As a result of these efforts, NEITI is said to have led to the recovery of more than USD 2.4 billion for the Federal Government of Nigeria, while increasing multi-stakeholder collaboration and leading to improved governance in the extractives sector.

The EITI Board agreed that Nigeria had made meaningful progress implementing the EITI Standard and highlighted efforts to go beyond the basic requirements in areas including disclosures of the sales of the state’s in-kind revenues and the EITI’s contribution to public debate. The EITI Board also decided on a set of corrective actions that Nigeria will need to address in order to make a full transition to the EITI Standard. The full Board decision is available here.

Referring to Nigeria’s progress, former Swedish Prime Minister and current Chair of the EITI Board Fredrik Reinfeldt said:

“Nigeria has repeatedly demonstrated how the EITI process can be used to achieve important, tangible results for its citizens. Swiftly addressing the corrective actions identified through Validation should help Nigeria continue to demonstrate regional leadership and make a full transition to the EITI Standard.”

Nigeria’s first Validation under the EITI Standard shows that although the Government of Nigeria has taken steps to address all the requirements of the EITI Standard, there is still room for improvement. Areas where further work is needed include data quality assurance and improving the comprehensiveness of reporting by both government and industry as well as state-owned enterprises. In addition, the EITI Board raised questions as to whether the industry and civil society constituencies were sufficiently engaged in EITI implementation, highlighting gaps in effective oversight by the National Stakeholders Working Group.

Having been compliant with the EITI Rules since 2011, Nigeria was tested against the EITI Standard for the first time in July 2016. Nigeria is one of the first 15 countries to undergo Validation against the EITI Standard. In accordance with the Board’s decision, Nigeria now has until 11 July 2018 to implement corrective actions addressing the EITI Board’s concerns, when a second Validation is scheduled to commence.

Validation scorecard

Notes

- The EITI is a coalition of governments, companies, civil society groups, investors and international organisations. Learn more at eiti.org.
- EITI is chaired by Fredrik Reinfeldt. Mr Reinfeldt was the Prime Minister of Sweden (2006-2014).
- 51 countries are members of the EITI. No country has yet made satisfactory progress with the 2016 EITI Standard. See the list of countries at www.eiti.org/countries.
• **Validation** is the EITI’s independent evaluation mechanism. It assesses countries against progress made in meeting the 2016 Standard.

• The **Board decision** in full, including corrective actions and impact of the EITI in the country, can be found here: [https://eiti.org/validation/nigeria/2017](https://eiti.org/validation/nigeria/2017)

• The reports giving an extensive review of Nigeria’s extractive sector can be found here: [https://eiti.org/document/validation-nigeria-2017-documentation](https://eiti.org/document/validation-nigeria-2017-documentation)

• The Board has taken decisions on the status of three more countries on 11 January: [Mongolia](#), [Peru](#) and [Timor-Leste](#)

• See here for a full explanation of the various levels of progress under the EITI Standard.

For further information about the EITI Nigeria, please visit the [country page](#) on the EITI website and the [national EITI website](#).