

Government revenues from natural resources have too often been badly managed, veiled in secrecy and fraught with corruption. A coalition of 50 countries, civil society organisations and 60 of the largest oil, gas and mining companies is now working together to change this. 35 countries are now implementing the EITI (Extractive Industries Transparency Initiative), the global standard for improving transparency of revenues from natural resources. Citizens in these countries can find out how much their governments receive from their natural resources, and hold them to account.

Nigeria EITI: Making transparency count, uncovering billions

Nigeria is among the top 10 oil producers in the world and the leading producer in Africa. At more than \$50 billion last year, oil alone accounts for as much as 90% of government revenue. Meanwhile, valuable lodes of aluminum, gold, tin, iron ore, coal, niobium, lead, and zinc mean Nigeria is benefitting handsomely from the global commodities boom. But, partly because government does not rely on taxpaying citizens for its funding, accountability has been weak for decades and public services are weaker still. Over half of all Nigerians – 70 million people – live in poverty.

Starting from scratch

Africa's most populous country, Nigeria, was ruled mainly by the military following independence in 1960. Except for a brief period of civilian rule from 1979-1983, Nigeria has only pursued the democratic process uninterrupted since 1999. As a result, Nigeria has had to build not only the mechanisms but also the culture of accountability. Nigeria EITI – "NEITI" – is at the very heart of that process.

How it all started

After decades of military rule and no real post-Independence public scrutiny, corruption was virulent. And it was worst in the oil sector. The situation was so bad that a report in 2003 -- just before Nigeria signed on to EITI -- declared, "(s)o overwhelming is mismanagement and rent-seeking that Nigeria has become virtually synonymous with corruption," (*Bottom of the Barrel*).

Recognising the need for transparency to reduce corruption, stimulate foreign investment, bolster financial independence, reduce donor assistance and, above all regain the trust of Nigerians, the then-President Olusegun Obasanjo launched the Nigeria Extractive Industries Initiative (NEITI) in 2004. In doing so, Nigeria became the first African country to follow the EITI global standard for improving transparency of resource revenues.

From the start, NEITI set itself an ambitious agenda. Just five years on, while many countries had backtracked in combating corruption, Nigeria was one of few countries

to have made "statistically significant improvements in the last year." *Transparency International 2008 Report*.

In 2010, Nigeria became one of the first countries to achieve EITI Compliant status. That took hard work and represents a major step forward. However, there is still a long way to go before rampant corruption is reigned in and the sector delivers the benefits Nigerians deserve from their country's abundant oil wealth. Becoming EITI Compliant is not the end point of good oil sector management, it is the beginning. Nigeria is regularly disclosing oil revenues. Translating that added transparency into greater accountability is the next step.

How Nigeria did it

A National Stakeholders Working Group (NSWG) -- including representatives from government, civil society, and oil companies -- was created to oversee activities and implement the NEITI process effectively.

To immediately address the perceived lack of Nigerians' trust in the extractives sector, among the NSWG's first initiatives was to commission a comprehensive audit of the entire oil sector value chain -- from the lifting of the oil to depositing revenues from their sale at the Central Bank -- to verify that all payments were correct and settled.

This entailed financial, physical and process audit of the entire oil and gas industry for the period 1999-2004, a massive undertaking in a country of 36 federal states with little digitalised data, poor infrastructure, a frightful

history of record-keeping, and scores of officials with entrenched interests in the status quo.

The audits identified several weaknesses related to the management of oil revenues and oil and gas sector governance more broadly. Public release of the report touched off intense media interest and public attention. Indeed, an Inter-Ministerial Task Team (IMTT) was tasked to put together a comprehensive remediation plan subsequently approved by the Government.

According to the World Bank, the 1999-2004 audit “remains in scope and detail the gold standard of global EITI.”

Uncovering major irregularities: US\$ billions missing

Nigeria EITI proceeded to the next audit, which was released in August 2009. NEITI’s second report identified unprecedented financial discrepancies, mispaid taxes, and system inefficiencies. It identified over US\$800m of unresolved differences between what companies said that they paid in taxes, royalties and signature bonuses against what the government said it received. That sum exceeded the 2009 individual budgets for the Ministries of Education, Health and Power.

Of the \$800 million, US\$560m was shortfalls in taxes and royalties owed to the government and around US\$300m in payment discrepancies relating to signature bonuses, payments of dividends, interest and loan repayments. The largest amount owed to the government in the report was an estimated US\$4.7bn by the state-owned Nigerian National Petroleum Corporation (NNPC), for payments of domestic crude. The NNPC disputes that figure, claiming that the subsidies are explicitly authorised by the Government and that NNPC is owed US\$1.7bn in subsidies from the government. A detailed forensic audit by KPMG in 2010 evaluated “major irregularities” at NNPC and found discrepancies totalling hundreds of millions of dollars.

NEITI has reconciled most of the discrepancies in payments and is leading the Ministerial-level effort to remedy the identified lapses.

However, NEITI’s reports do not yet cover 2009 and beyond. Delays in producing more timely reports stem in part from operational and resource constraints, but they also limit public accountability.

Enshrining transparency through legislation

Nigeria has continued to establish itself as an EITI groundbreaker. In 2007, the National Assembly passed into law the Nigeria Extractive Industries Transparency Initiative Act – making Nigeria the first country to make reporting of payments by all extractives companies and revenues received by government legally binding under national legislation. The NEITI Act mandates the NEITI Secretariat to promote due process and transparency in extractive revenues as well as ensure transparency and accountability in the use of billions of dollars in revenue every year from the extractive industries. The Act also established the NEITI National Stakeholder Working Group (NSWG) as a permanent body with membership appointed by the President and the NEITI Secretariat as an agency within the Presidency.

Not only does the Act ensure that lawmakers, civil society, the media and citizens have access to the details needed to hold government and companies accountable, but it secures the sustainability of the EITI by creating a formal government agency under the President. The NEITI, in cooperation with Nigerian law enforcement agencies, also ensures that companies and government departments that fail to comply with the audit regulations will face disciplinary measures. For example, unreconciled financial flows are referred to the Economic and Financial Crimes Commission (EFCC) for investigation and possible prosecution. NEITI also heads the Inter-Agency Task Team on corruption, which includes all Nigerian anti-corruption agencies. Following Nigeria’s lead, Liberia introduced a similar law to enshrine the EITI in the governance of its extractives sector.

- Before joining EITI, Nigeria consistently ranked among the two very worst countries on Transparency International’s Corruption Perception Index.
- Every year from 1999-2004, when Nigeria joined EITI, it ranked dead last or second-to-last globally.
- By 2010, the CPI report ranked Nigeria 134th out of 178.

“By placing embarrassing facts and figures about the bulk of Nigeria’s public revenue in the public domain, NEITI has become both an instigator of civic interrogation of public officers and a safety valve – redirecting youthful energies from resorting to violent conflicts to engagement in civil debate on sensitive issues.” PROFESSOR HUMPHREY ASOBIE, CHAIRMAN OF NSWG

Spotlight on deficiencies and corruption

The NEITI audits, although dated, exposed deficiencies in the governance of the sector and of Nigeria’s public finance systems. The reconciliation reports revealed that regulation was incomplete and inconsistent and there was no effective cooperation amongst public bodies. In doing so, it put the spotlight on some of the intricate and never-before-exposed details of corruption in the extractive sector. Without this, it had been impossible to identify and focus public attention on specific issues that needed to be addressed to ensure that the funds would be used for appropriate purposes and that resource wealth would benefit Nigerians.

Triggering vibrant public scrutiny and debate

The EITI process in Nigeria has cracked open a sector previously considered air tight, markedly improving the public’s understanding of the extractive sector and sparking intense debate about larger oil sector reforms. The Petroleum Industry Bill (PIB) is an example. There remains substantial work to be done to build the ability of citizens to use the information in the NEITI reports to hold officials to account. Only in this way, will the oil revenues begin to improve the lives of millions of Nigerians.

Advocating more transparency in Nigeria’s Petroleum Industries Bill (PIB)

NEITI was created to ensure that resource revenues benefit the people of Nigeria and that extractives agreements respect the national interests. The main issue that currently unites NEITI and civil society is engagement to advocate for revisions to the Petroleum Industry Bill which explicitly calls for transparency and accountability in the oil sector.

The proposed law would completely overhaul oil sector governance and is being hotly debated in

the National Assembly. Among the provisions are calls for full transparency of all contracts as well as revenue expenditures, and breaking up the NNPC into autonomous units. The NEITI has become so much a part of the national debate that the NNPC took out four full-page adverts in the country’s most-read business daily in October 2011 to challenge the Auditor General and NEITI’s findings that it had not submitted audited accounts.

NEITI fully supports passage of the PIB, but advocated aggressively against disadvantageous parts of the legislation. The National Coordinator testified before the Assembly. Lawmakers removed what NEITI considered to be potentially damaging provisions and the new draft assigned key roles to NEITI to bolster transparency in the sector. Nevertheless, the prolonged delay in passing the PIB is another indication of resistance to proper governance of the oil sector and accountability for oil revenue management in Nigeria.

Making oil revenue work for Nigerians now and in the future

Whilst the debate about NEITI reports and the Petroleum Industry Bill reaches its conclusion, another public discussion has captured the attention of politicians, business and citizens – setting up a Sovereign Wealth Fund that would split oil revenues three ways to address core public finance and development issues. A portion of the funds would be set aside to protect the federal budget against unforeseen reductions in oil prices (or production). A second tranche would be earmarked for infrastructure investments. The third share of oil revenues would be put in an independently managed savings fund for future generations of Nigerians.

If implemented fully and backed by sound budgeting and expenditures, this will go a long way to ensuring that

“[NEITI] reports, which are publicly available, contributed to significantly better transparency in Nigeria’s oil industry, collecting and publishing an array of detailed and useful information for the first time. Nothing remotely like this has been done before, let alone published.

The reports went far beyond the basic core requirements of global EITI; [NEITI] produced not only raw data on the industry and on tax and other fiscal matters; but it also provided crucial and useful insights into processes involved in the industry that have helped many insiders and outsiders to see the oil sector in overview for the first time.”

Nigeria’s Extractive Industries Transparency Initiative: Just a Glorious Audit? Nicholas Shaxson, 2009.

Nigeria's oil revenues contribute more to improved well-being for Nigerians.

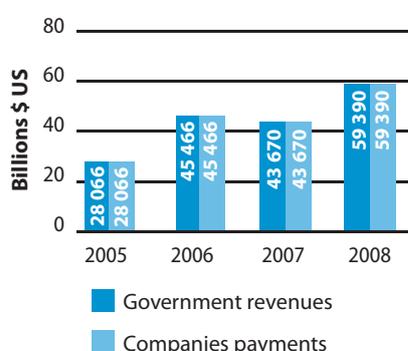
This has sparked off intense opposition and open lobbying by state governors across the country. Some fear reductions in federal disbursements of oil revenues. All this serves to confirm the value of NEITI in raising public debate about issues previously 'off limits' and NEITI's impact on governance in Nigeria.

Following the EITI standard is the first step to greater transparency and accountability. Despite the innovations and persistence of NEITI, Nigerians still have a long way to go before the revenue from the country's natural resources lead to tangible improvement to the well-being of all citizens. The protests against the removal of the government's fuel subsidy in early 2012 add a new layer of complexity to an otherwise, deeply troubled sector. Transparency of revenues in the sector will ensure that the highly charged debate is at least based on sound data.

Nigeria's experience shows that the benefits of the EITI extend well beyond the production and dissemination of revenue reports. Building democratic processes and public trust around a sector with a reputation for deep, institutionalised corruption may well take Nigeria many more years, but NEITI has succeeded in taking the first bold steps to deliver meaningful improvements that translate accounting into *accountability*.

EITI compliance is an early first step to greater transparency and accountability and NEITI is helping deepen that.

EITI reported revenues (2005-2008)



NEITI innovations to broaden or deepen the EITI process in Nigeria		
<ul style="list-style-type: none"> • First country to adopt an EITI Law ensuring that: <ul style="list-style-type: none"> • the EITI process and its work are backed by the force of law • EITI is enshrined in legislation, giving it some protection from political machinations 	<ul style="list-style-type: none"> • Commissioned (1) financial, (2) physical, and (3) process audits, adding crucial levels of detail not required under the EITI Rules <ul style="list-style-type: none"> • More and more countries are looking to Nigeria's example 	<ul style="list-style-type: none"> • Launched value-for-money (qualitative) audit to investigate whether reconciled payments nevertheless hide corruption <ul style="list-style-type: none"> • Including resource disbursement and fiscal allocation audits
<ul style="list-style-type: none"> • Among the first countries to commission a detailed communication strategy for informing and engaging the public in the EITI process. <ul style="list-style-type: none"> • Forging national consensus on the need for extractive revenue transparency through outreach and advocacy activities such as road shows, consultative forums media training and town hall meetings in all major regions across the country's 36 states. 	<ul style="list-style-type: none"> • Published disaggregated data, something many other EITI countries have failed to do 	<ul style="list-style-type: none"> • Expanded the programme to include licensing and bidding, areas historically plagued by cronyism and corruption. • Automating the audit and reporting processes to improve regularity and efficiency
	<ul style="list-style-type: none"> • Advocating for adoption of Petroleum Industry Bill (PIB) to complement EITI law and strengthen accountability • Addition of solid minerals audit to broaden coverage to secondary, yet significant sources of extractive revenue 	

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The EITI (Extractive Industries Transparency Initiative) is a global standard for improving transparency and accountability in the extractives sector. In countries that follow the EITI standard oil, gas and mining companies disclose what they pay to the governments and governments disclose what they receive. These figures are independently reconciled and published in a process that is overseen by government, companies and civil society working together in a multi-stakeholder group.