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The Next Frontier

Extractive Industry Reforms





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Founded in 2011, BudgIT is a civic organization that applies technology to intersect citizen engagement with institutional improvement, to facilitate societal change. A pioneer in the field of social advocacy melded with technology, BudgIT uses an array of tech tools to simplify the budget and matters of public spending for citizens, with the primary aim of raising standard of transparency and accountability in government.

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Table of Contents

1	Introduction	1
2	What are the outstanding issues and what should be the urgent priorities?	13
3	Political Economy Analysis	28
4	What are the solutions and who is currently working to implement them?	35
5	What should be the long-term intervention strategy?	43
6	What should be the outputs and outcomes?	47
7	What should be the outputs and outcomes?	52



1

Introduction



Introduction

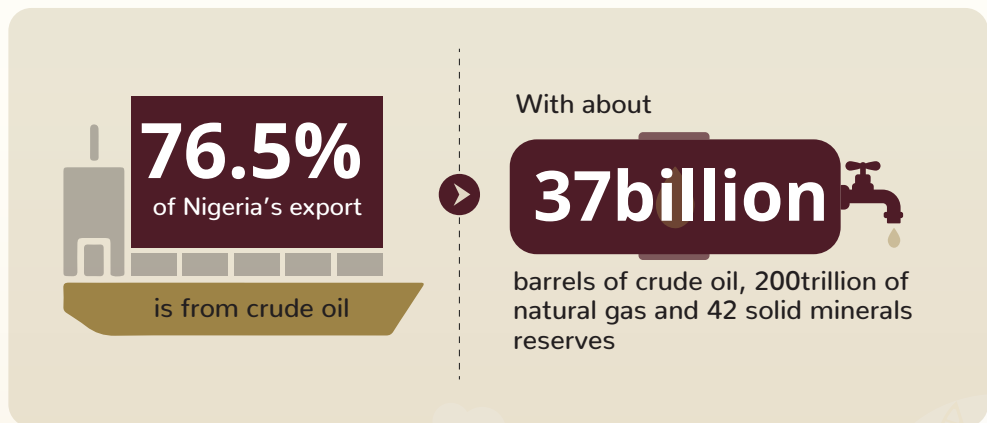
a. Overview

It is no news that 76.5% of Nigeria's export is from crude oil¹, disproportionately exposing the country's fragile economy, its foreign exchange reserves and local currency value to shocks in the international crude oil market.

Blessed with 37billion barrels of crude oil reserves², 200trillion cf of natural gas³ and over 42 solid minerals in commercial quantities, Nigeria has unfortunately not been blessed with the most forward-thinking political elites who, for the past 52 years, have failed to transform Nigeria's resource wealth to a better quality of life for the majority of the country's 200 million people⁴.

Without a doubt, Nigeria needs to urgently diversify its export earnings from crude oil, but it also needs to simultaneously maximise its wealth from the entire spectrum of Natural Resources especially non-renewable energy sources like crude oil which will ultimately run out in less than 5 decades at the current low daily production rate - or be replaced by other cheaper and cleaner energy sources sooner.

Crude oil (along with a combination of several other factors) retired Whale oil as the dominant energy source of the industrial revolution in the 19th century - sending the entire whaling industry into extinction.



¹Foreign trade in Goods statistics

²<https://economicconfidential.com/2020/02/nigeria-oil-reserves-depleted-49years/>

³<https://www.dpr.gov.ng/nigerias-gas-reserves-rise-to-200-79-trillion-cubic-feet-dpr/>

⁴<https://knoema.com/atlas/Nigeria/Population>

Clean energy sources - solar, wind, wave etc, are now loudly threatening to make crude oil extinct even before countries like Nigeria exhaust their entire Oil Reserves - it is only now a matter of time. Indeed, it is difficult to fight an energy source whose time has come.

In this light; non-state actors - CSOs, international development organisations, donors, working together with state actors must engage in a final lap in the race to help Nigeria make hay while the sun shines, even though it is now dangerously close to sunset for crude oil.

Indeed, COVID-19 has changed the world as we know it. A crisis of this scale has its way of jolting

leaders into reality - potentially spurring them to implement appropriate policy responses - that is if they do not waste the crisis.

In this document, we highlight outstanding natural resources issues that will not go away on their own and hence need emergency and long-route intervention, we discuss which issues should be priority and propose intervention strategies non-state actors can adopt to catalyse appropriate policy response from state-actors in a post COVID-19 world.



b. Brief History of Oil in Nigeria

Greed of the masters

The British colonial masters, like successive governments after them, had appropriated to themselves all rights to minerals found beneath the soil, laying the foundation denial of land rights to indigeneous people across Nigeria.

Contrary to several notions that if the British knew we had oil, they might not have given us independence on a “platter of gold”, oil exploration⁵ began in 1908, drilled from the heavy oil seeps which occur in the cretaceous Abeokuta formation, 200 kilometres east of Lagos.

The company, Nigeria Bitumen Corporation actually drilled 14 wells in Lagos before they ended operations due to emergencies of World War 1. In 1937, two years before the Second World War, Shell D’Arcy (later Shell-BP), an Anglo-Dutch conglomerate received the colonial mandate to explore oil in any area of Nigeria. Early chance to fully explore was punctured by another five years of World War II. Restarting again in 1946 with geological surveys, Nigeria drilled its first oil in 1951. It came up with nothing. In November 1955, Mobil Exploration Nigeria Incorporated carried out a preliminary geological survey of Sokoto province in the Northern Region.

Commercial oil found

After a few misses in the foot of the Delta, on August 3, 1956, an attempt at the Oloibiri led to a commercial discovery. Oloibiri started production with 5,100 barrels per day of crude. As at then, Nigeria was Shell D’Arcy’s blank state till it reduced its concession to 40,000 square miles in 1957 and finally 15,000 square miles in 1960s, holding firmly the Oil Mining Lease, right to mine oil. On February 17, 1958, Nigeria joined the class of oil-producing countries as the first oil shipment left the Port Harcourt Harbor. An 18,000-ton Hemifusus tanker left the shores of Nigeria, destined for Shell Haven Refinery, located at the mouth of River Thames. Shell-BP went ahead to sink 17 more wells, an area that produced oil for more than 20 years.

Landmark Timeline



⁵<https://nnpcgroup.com/NNPC-Business/Business-Information/Pages/Industry-History.aspx>

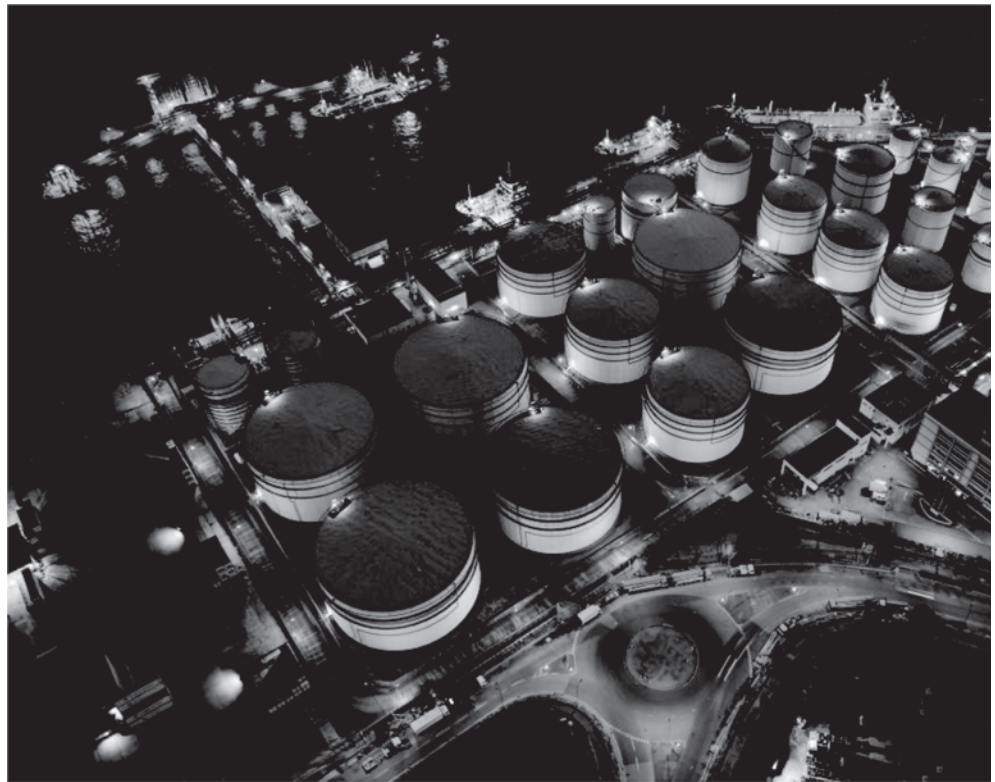
Nigeria's oil was a quick magnet for the developed countries with the ease of access to Europe and the increasingly "belligerent" attitude of Egypt tied to the nationalization of the Suez Canal as well as alignment to USSR. Nigeria's sweet crude blend with its low sulphuric content (0.3%) made refining cheaper in contrast to oil from Venezuela and also the Middle East. As at 1966, the United Kingdom was still the highest importer of Nigeria's crude taking 36.3% of exports, followed by Western Germany (12.9%) and France (10.7%).

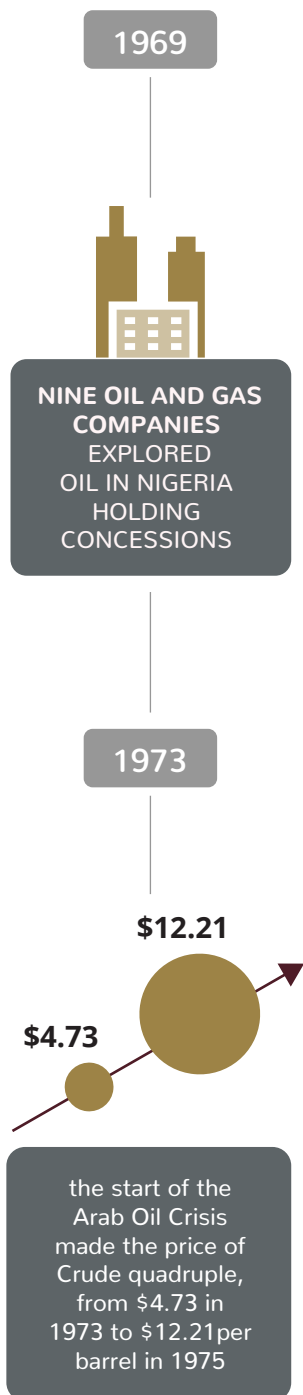


Oil discovery
soared in **Bomu**
in **1958**

Production soared

Oil discovery soared in Bomu in 1958 and with expanding fields, another Bonny Tanker terminal was opened in April 1961. Oil production was also swelling at the Western end of Ughelli and the Trans-Niger pipeline was connected in 1965, to bring the crude shipment to the Bonny Terminal. The pace of Nigeria's discovery continued with the discovery of the first offshore oil field at Okan, Escravos in 1964. Bonny which along with Nembe, Opobo, Forcados, Brass, Escravos, were holding points for slavery, now became Nigeria shipping export terminal.





1969: The long walk to reform

As at 1969, when the famous oil legislation that had withstood over 48 years was decreed, nine companies explored oil in Nigeria holding concessions over 44,857 square miles, approximately 4.8% of Nigeria's landmass. The biggest concession was held by Shell-BP Petroleum company, a total of 18,898 square miles, followed by Safrap (Nigeria) Limited (9,336 sq miles) and Gulf Oil Nigeria Limited (6,855 sq miles). It was clear that most acquisition of concessions was mere appropriation without clear seismic data with oil companies holding concessions in present-day Kwara, Benue, Plateau and Lagos States.

In the context of Nigeria's economy, oil was not a huge difference in the 1960s. As of 1967, it accounted for only 3% of the GDP. 50% of Nigeria's output was agriculture with 25% of the contribution being linked to domestic demand. Nigeria's agriculture distribution was well diversified. As at 1966, oil was already taken to a domineering place with exports value were tied to Petroleum (33%) Cocoa (25%), Groundnuts including cake and oil (25%), Palm Oil (7%). The share of petroleum exports fell rapidly to 18% in the civil war.

The windfall from hell⁶

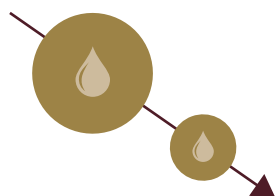
In 1973, the start of the Arab Oil Crisis made the price of Crude quadruple, from \$4.73 in 1973 to \$12.21 per barrel in 1975. By the end of 1975, it was evident that Nigeria was willing to let Crude take the lead, with oil accounting for 77.5% of government revenue. The influence of this hitherto relatively insignificant hydrocarbon resource suddenly grew within a decade, as global interest in the oil and gas sector skyrocketed.

A strong case exists for the argument that the seed for Nigeria's obsession with, and longstanding reliance on Oil started with the price glut of 1973; as Arab nations shut down production, Nigeria's Sweet Crude blend fast became the toast of the industrialized world. Like the final dance of the masquerade, oil prices tumbled badly a year after.

At the end of 1975, oil prices mysteriously started trending downwards. For what had been a boom in two years started showing signs of frailty. The Nigerian state was on huge fiscal expansion with the Second National Action Plan. Mainly on the back of oil, Nigeria's government revenue grew

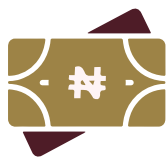
⁶<https://www.proshareng.com/report/Nigerian%20Economy/A-Short-History-of-How-Oil-Price&-Production-Swings-Determine-The-Fate-Of-a-Nation/11549>

1975



At the end of 1975, oil prices mysteriously started trending **DOWNWARDS**

1980



Nigeria's currency was presumed to be **OVERVALUED**

from N631mn in 1970, to N5.5bn in 1975. During this period, Nigeria's debt also expanded significantly; from N756.4m in 1970 to N3.72bn in 1975, caused by a sudden jump in the value of imported goods and services.

Recurrent expenditure also grew from N963m in 1973 to N2.73bn in 1975. Nigeria kept piling up external debt, taking it from N175m in 1970 to N1.61bn in 1979.

The seeds of fiscal crisis

In 1981, Crude prices averaged \$35.75 per barrel, as against \$14.95 per barrel in 1978. However, Nigeria's production numbers plummeted to 525.5 million barrels per annum, from 1979 levels of 752.2 million barrels, tilting the economy towards a recession. In spite of this sag in oil production and a mild Oil price crash in 1982, the Nigerian government continued enlarging its debt profile.

By and large, the government prioritized agriculture and steel projects which were scattered across the country, borrowing heavily to build them. Foreign debt grew to N8.8bn in 1982, from N1.25bn in 1978, and Oil revenues which rose to N12.35bn in 1980, sunk to N7.81bn in 1982. This slide persisted, with Oil production figures plummeting in 1986, taking Nigeria down from the peak production levels enjoyed in 1979. These trends culminated in a lack of confidence in the Nigerian economy and massive capital flight -estimated at US\$14bn between 1979 and 1983.

Too late to cry

By the mid-1980s, Nigeria's currency was presumed to be overvalued, and foreign exchange reserves lay in a relatively weak position. The country began to ration foreign exchange, and placed a series of tariffs on imported materials. General Buhari's government put up tight restrictions on currency control but this did not stop a slump in the economy.

However, oil prices nosedived in 1986, reducing by 46.36% from an average of \$26.92 per barrel in 1985, to \$14.44 per barrel in 1986. Under Babangida, Nigeria adopted measures that included the Structural Adjustment Programme. Yet, increasing levels of corruption, poor economic advisers and unrestrained inflation due to poor monetary policies deprived Nigeria of tangible infrastructure and social development, as well as other gains that should ordinarily come with oil production.

1990-2009



Olusegun Obasanjo was elected President amid low oil revenue and production



Civil unrest in the Niger Delta, the rise of militants, freedom fighters

2016



The second return of President Muhammadu Buhari aligned with the slump in oil prices.

A new wave of reforms

Abacha's death led to the end of military rule, and Olusegun Obasanjo was elected President amid low oil revenue and production, weak public revenue, patchy reserves and huge external debt servicing costs.

Though the price of Brent averaged \$17.9 per barrel, Obasanjo however confronted the looming crisis of external debt and successfully negotiated a relief package with the Paris Club of creditors, leading Nigeria to make a payment of \$12bn. Noteworthy is that Obasanjo's government enjoyed an uptake in oil pricing, as well as a series of monetary and fiscal reforms that resulted in Nigeria's external reserves growing to hit \$45bn in 2006.

Resource Wars⁷

However, civil unrest in the Niger Delta, the rise of militants, freedom fighters and post-2007 election violence created an Oil production crisis for Nigeria, with annual crude production dropping from a peak of 918.96 million barrels in 2005 to 768.7 million barrels in 2008.

The consequences on the Treasury were further exacerbated when Brent Crude prices dropped from \$147 to \$43 per barrel in 2009. The presence of fiscal buffers such as the Excess Crude Account helped the government weather the storm, but a sharp rise in oil prices in 2010 speedily brought the economy to greater viability. Successive President Goodluck Jonathan's government also witnessed relative oil price growth, as the hydrocarbon sold at \$100 for over 42 months.

However, weak production numbers, weak government and a corrupt subsidy regime weakened Nigeria's capacity to capture the gains of the oil sector.

The promised 'messiah'

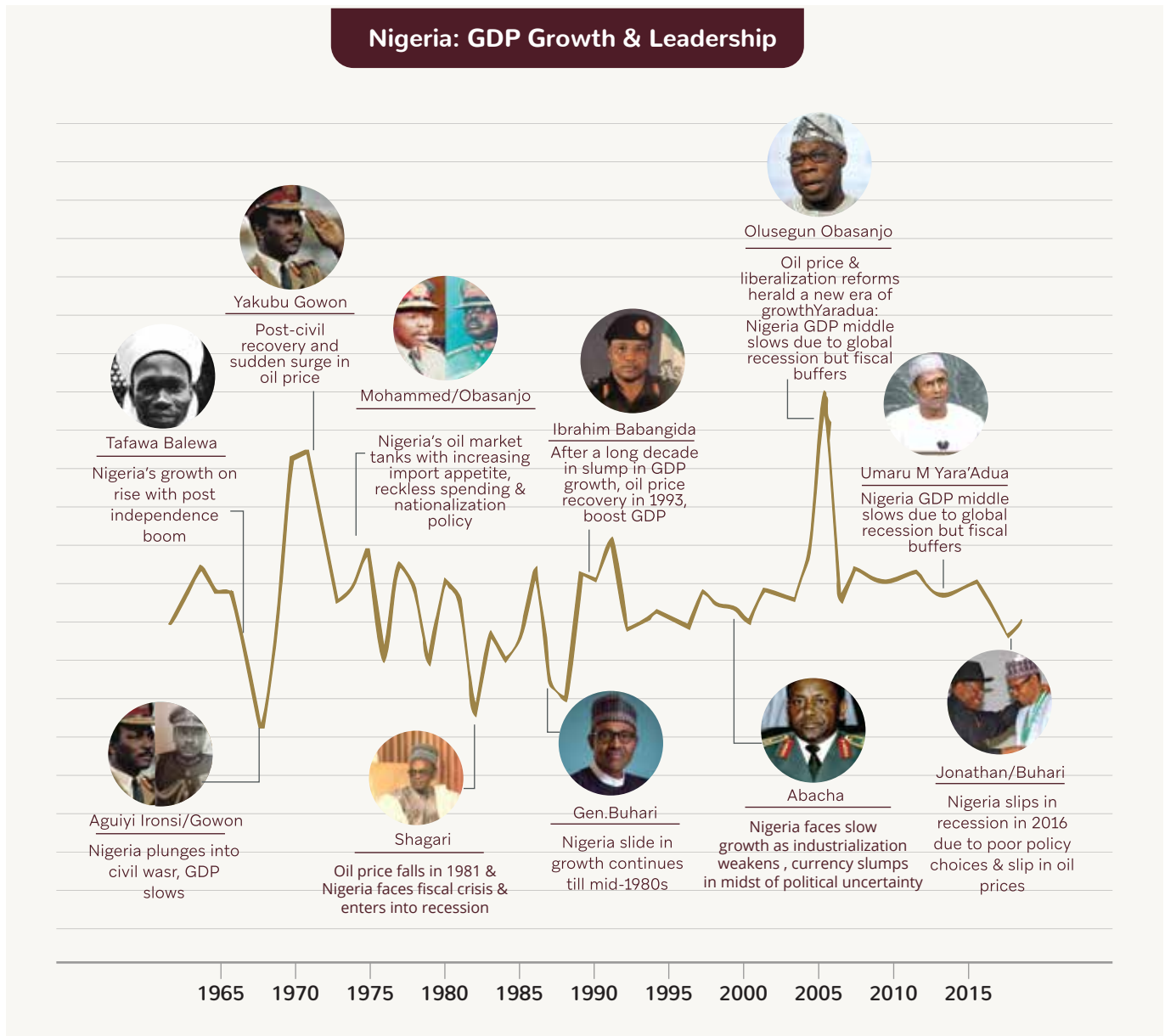
The second return of President Muhammadu Buhari aligned with the slump in oil prices. Oil prices on a downward trajectory from 2014 slipped to \$34 per barrel in 2016 and went on a gradual surge till \$82 per barrel in 2018⁸. Oil prices recently have been stuck between \$55 - \$70 since January 2020. In a shocking turn due to the recent pandemic, oil prices nose-dived as low as \$12 per barrel.

The global environment faces a prolonged slump due to the effect of coronavirus and oil prices might not rise beyond \$40 per barrel in the interim.

⁷<https://www.proshareng.com/report/Nigerian%20Economy/A-Short-History-of-How-Oil-Price&-Production-Swings-Determine-The-Fate-Of-a-Nation/11549>

⁸<https://nairametrics.com/2020/04/18/nigerias-bonny-light-hits-12-yet-nobody-is-buying/>

The current projections by analysts do not show that another \$100 per barrel oil might be in the future. This is mainly due to the rise in shale oil production and the falling production price, especially in the US.



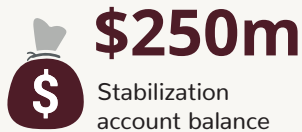
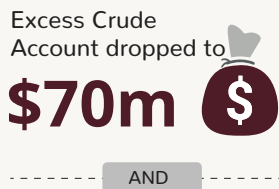
c. Critical Impacts of Oil on Nigeria

Exchange Rate Volatility & Current Account shortfall: 95% of Foreign Exchange Earnings⁹ are tied to oil and with shortened revenues in dollars terms, the Naira will be under continuous pressure. The Monetary Policy Committee has already devalued the Naira, shifting the band from N306 to N360 to \$1. Despite devaluation, Nigeria will earn less revenue from oil and gas exports and imports of household items will be more expensive, with the burden passed on to Nigerians.



Spike in Public Debt: Debt servicing will possibly rise, especially foreign debts and Nigeria will need more funds to cover the budget deficit (difference between accrued revenue and expenditure). With stagnated Excess Crude Account savings, raising debts is the glaring alternative.

Slump in Savings: With Excess Crude¹⁰ Account at \$70m & stabilization account balance at \$250m, declining oil prices mean that Nigeria might not be able to add additional revenue due to pressure from states who also run high recurrent expenditure.



It might also be difficult for the FG to save funds in the Sovereign Wealth Fund, considering the austerity measures of the times. Accretion to the External reserves is also expected to slow down with falling crude prices but could be offset with current plans to borrow externally. The haste to spend on recurrent items will remain, as they are fixed charges unless drastic reforms such as downsizing personnel and sharp cuts in overhead costs occur.

Capital Expenditure Under Threat: Capital Expenditure performance might be threatened with lower oil prices as the government strives to keep its deficit within the limits of the Fiscal Responsibility Act whilst ensuring it meets its day-to-day obligations. The Public Sector is still the largest employer of formal labour and with cuts to government expenditure due to falling oil prices.

Sub-national Government in Crisis: Nigeria's 36 States have been unable to fully develop their internal resources, due to constitutional barriers that curb their powers to explore natural resources (solid and liquid minerals), the appetite for easy oil rent, as well as poor visionary approaches and a literal term-based mindset to governance. Apart from Lagos State, which generates over 65% of its revenue from internally-generated taxes, other States depend on centrally collected revenues to varying degrees.

⁹ <https://globaleedge.msu.edu/countries/nigeria/economy>

¹⁰ <https://thenationonline.ng/excess-crude-account-drops-from-325m-to-70m-in-one-month/>

Since the inauguration of President Buhari, States have persistently voiced their dire situations, seeking bailouts, with over N1tn so far allocated thus: N689.5bn disbursed as salary assistance loans and N310bn disbursed as Excess Crude Account-backed loans¹¹.

There is poor accountability at State-level, matched by a glaring absence of coherent data with which to assess, monitor and project the fiscal direction and eventual viability of Nigeria's States. As at 1983 when oil prices tanked, all 19 Nigerian States were submerged in financial crises, and most States owed workers wages, because federal allocations dwindled. Some 35 years later, Nigeria faces the same scenario, where a dip in oil prices has seen 35 out of 36 States with varying degrees of challenges, and firmly on a Federal Government financial support scheme.

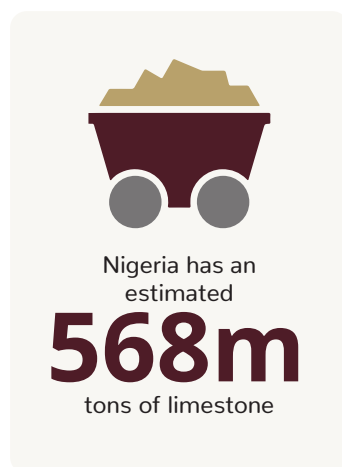
National Growth Slows with Recession: Since 1970, Nigeria's span of the recession has always been linked to oil. Though oil accounts for less than 10% in Nigeria's GDP, it has a huge bearing on Nigeria exports, external reserves and also a lot of non-oil companies service the industry. The dependence of Nigeria on oil for exchange rate stability and public finances has created challenges for its growth, enabling a boom/bust cycle.

d. Solid Minerals in Nigeria

The vastness of Nigeria's minerals resources cannot be overemphasized. For example, Nigeria has proved and probable gold reserves (2P) of up to 5,669 metric tonnes, that is N69 trillion worth of gold at a current international market price of N21.8bn per metric tonne¹²; this estimated reserve value already takes into consideration the reality that only 50% of 2P reserves volume are typically recoverable.

The country also has an estimated 568 million tons of limestone in its proven reserves¹³ amongst others. Despite being blessed with over 40 known types of solid minerals¹⁴, the Nigerian mining industry is not contributing optimally to the country's economy, accounting for only 0.18% of the country's GDP. In contrast, South Africa's solid mineral value chain remains a pillar of its economy and a major global player; in 2015, the sector contributed 8.6% amounting to \$24 billion at the time to their country's GDP, creating over 500,000 direct jobs. It also accounts for 50% of foreign exchange and 13.2% of corporate tax receipts.

Organized mining activities in Nigeria started with the commissioning in 1903 and 1904 of the mineral surveys of the Southern and Northern Protectorates by the then British Secretary of State for the colonies. Modern mining of tin ore (cassiterite and associated minerals) was



¹¹<https://yourbudgetit.com/call-for-application-consultancy-for-researchers-short-term/>

¹²<https://goldprice.org/>

¹³<https://www.minesandsteel.gov.ng/portfolio/limestone/>

¹⁴<https://nairametries.com/2018/10/23/fg-issue-first-gold-refining-licence/>



The mining of
gold began in

1914

in Niger and Kogi states

initiated by the Royal Niger Company in 1905¹⁵. The mining of gold began in 1914 in areas located within the present-day Niger and Kogi States. Coal mining began at Enugu in 1916. By 1919, the Geological Survey of Nigeria (GSN) was established as a department of government to take over and continue mineral surveys of the country.

By 1930, the first permanent headquarters of GSN was set up in Kaduna with a satellite office in Jos in order to speed up its activities in the tin fields. The Minerals Ordinance of 1946 and the Coal Ordinance No. 29 of 1950 provided the legal basis for the development of Solid Minerals in Nigeria. The former vested ownership of all minerals in the British Crown. It provides that “the entire property in land and control of minerals and mineral oils, in or under or upon any lands in Nigeria, and of rivers, streams, and watercourses throughout Nigeria, is and shall be vested in the state”.

The Minister of Mines and Power (now Minister of Solid Minerals Development) was empowered to grant prospecting and mining rights and leases to individuals and or corporate organizations on application and payment of appropriate fees.

Apart from coal which was mined by a government department, the mining of minerals and metals was entirely in the hands of private expatriate and indigenous companies and entrepreneurs. In 1971 the government policy on minerals and metals was drastically reviewed. The Nigerian Government decided to act as a catalyst in the mining sector through the establishment of mining corporations that would use public funds for mining.

The main policy thrust was the rejection of the concept of private-sector-led development of the solid mineral sector as the Government’s position was that the primary objective of mining policy should be to secure the development, conservation, and utilization of the mineral resources of Nigeria in to yield economic benefit for the largest possible period and it believed that if prospecting and exploitation of minerals were to remain solely in the private sector, the country would be at a disadvantage.

¹⁵https://www.researchgate.net/publication/318987503_NIGERIA_SOLID_MINERAL_RESOURCE_POTENTIALS_AN_OVERVIEW

Priority Minerals/Metals

Nigeria has 7 priority solid minerals¹⁶

Mineral	Type	Use	Unit	Estimated production		Reserve
					1P	2P
Coal/Lignite	Energy	Power Generation	MT	40K	539M	1.B-2.7B
Lead/Zinc	Base/Rare	Industrial	MT	600K	5M	10M
Iron Ore	ferrous	Industrial	MT	70K	3B	10B
Gold	Precious	Various	Ounce	140K	600K	1M-200M
Bitumen	Energy	Industrial	Barrels	0	1.1B	27B
Baryte	Industrial	Industrial	MT	20k	111K	15M
Limestone	Industrial	Industrial	MT	11M	568M	2.3T

¹⁶<https://assets.kpmg/content/dam/kpmg/ng/pdf/advisory/ng-Nigerian-Mining-Sector.pdf>

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**What are the outstanding issues and
what should be the urgent priorities?**



a. Oil & Gas Issues

i. Ineffective Benefit Transfer Mechanisms

Nigeria has had a plethora of benefits transfer systems which have, unfortunately, failed to transform the lives of oil producing and oil-impacted communities in the Niger Delta.

3% 

of oil companies and gas processing companies annual budget are required to be paid to Niger Delta Development Commission (NDDC) for development of the region

For example, Oil companies and Gas processing companies are required to pay 3% of their annual budget to Niger Delta Development Commission (NDDC)¹⁷ for developing the region, FG makes statutory transfers yearly to NDDC for the same purpose. Also, 1% of oil sector contract value¹⁸ is to be paid to Nigerian Content Development and Monitoring Board (NCDMB), by oil companies and oil servicing contractors for improving local content from Niger Delta region.

Further benefits transfer mechanism for the region include 13% of all federally collected crude oil revenue¹⁹ paid to oil producing states, annual budgetary provisions for the Ministry of Niger Delta implement projects in the region, Global Memorandums of Understanding (GMOUs) by oil companies, Community Development Agreement and the Federal Government's Amnesty Program which includes monthly payments to "millants".

According to a biennial Benchmarking Exercise Report released by Nigerian Natural Resource Charter (NNRC) for 2019, transforming oil wealth to local impacts is the worse performing area of petroleum resource governance²⁰ when compared to best practices outlined in Precept 5 of the Natural Resource Charter — a compendium of 12 best practice principles adopted by the African Union Heads of State steering committee for the New Partnership for Africa's Development as a flagship Natural Resource Governance Programme starting in 2012.

The implication is that while at least N15 trillion has been transferred²¹ to Niger Delta since 1999 through various benefit transfer schemes yet 89% of people in rural Niger Delta which is home to over 800 oil field communities and 900 oil wells still live below poverty lines²². And of the 13,329 settlements only 98 can be considered urban.

¹⁷<https://www.mondaq.com/Nigeria/Energy-and-Natural-Resources/785136/Niger-Delta-Development-Commission-EstablishmentAmendment-Act-2017-Matters-Arising>

¹⁸<https://andersentax.ng/should-the-ncd-levy-apply-to-all-payments-in-the-nigerian-oil-and-gas-industry/>

¹⁹<https://www.neiti.gov.ng/index.php/revenue-allocation>

²⁰<http://www.nigerianrc.org/2019-benchmarking-exercise-report/>

²¹<https://businessday.ng/lead-story/article/why-niger-delta-remains-under-developed-despite-n15trn-spent/amp/>

²²Ken Henshaw (2019). Historical Strategies of Benefits Transfer to Communities in the Niger Delta, WeThePeople, November 2019

This is so because most of the benefits transfer systems implemented by different state-actors do not work in synergy with one another - leading to duplications and non-complementary projects.

The individual budgets of each benefit transfer system are often not in tandem with any long-term development strategy, and there is a glaring absence of transparency and accountability mechanisms that prevent corruption - making many of the benefits transfer systems a historic cesspool for corruption.

There is no ongoing or comprehensive audit and advisory of utilization of over 13% derivation and other benefits transfer systems from 1999 till date; NDDC notoriously does not submit its audit report to the Auditor general of the federation despite the existence of a law requiring it to do so. However, due to repeated allegations of corruption leveled against NDDC by Niger Delta governors, a one-off forensic audit has been ordered.



local content still accounts for at less than 30% of total N7.2 trillion (\$20bn)

The Nigerian Content Development and Monitoring Board (NCDMB) is making giant strides in improving local content in the petroleum industry, although local content still accounts for at less than 30% of total N7.2 trillion (\$20bn) annual Oil and Gas industry spend²³, creating significant capital flight from the country. It is worth noting that this is up from less than 5% of the total industry spend prior to the enactment of Nigerian Oil and Gas Industry Content Development (NOGICD) Act, 2010. The NCDMB goal²⁴ in the next 10 years is to retain 70% of industry spend on local content especially on shipyards, manufacturing and 300,000 jobs.

ii. Commercially inefficient state-owned oil company

The country's state-owned oil company, Nigerian National Petroleum Corporation, NNPC, although intended by its enabling law in 1977 to be a private oil corporation through which the Federal Government of Nigeria would realize value from its petroleum wealth, it has instead become a drain pipe on Nigeria's finances and a magnet for various corruption schemes.

NNPC today is saddled with wholly-owned subsidiaries that are nothing but a cancer on the profits of the corporation; huge annual losses from these cost centers erode the profits made by the other profitable subsidiaries - helped by the easy access of NNPC to the revenue of profitable subsidiaries through discretionary deductions. This situation is not only a commercial disincentive for the loss-making subsidiaries to

²³<https://www.thisdaylive.com/index.php/2018/08/02/ncdmb-targets-70-local-content-by-2027/>

²⁴<https://ncdmb.gov.ng/images/Downloads/NCDMB-10-Year-Roadmap.pdf>

become profitable, but the losses contribute to macroeconomic instability²⁶ of Nigeria by placing a strain on public finance. Cash Calls - debts owed to its Joint Venture (JV) partners comprise a significant deduction from NNPC's Domestic Crude Sales Allocation for local refining even though the cash calls were incurred as a result JV partnership obligations and should be deducted only from export sales.

Incorporated Joint Ventures (IJVs) have been suggested as potential solutions to the perennial issue of cash calls, however, majority ownership stake of government in the current JVs and by extension the emerging IJVs continue to stoke fears that are stalling transformation to IJVs as the government will still have political influence over the new entity and the problem of legacy debt will persist.

Corporate Governance at NNPC is virtually non-existent; there are rules governing how NNPC should operate, but selective compliance is the order of the day at NNPC. Section 7 (2)(3) of the NNPC Act requires NNPC to produce an Audited report while Section 23 (3) of the Fiscal Responsibility Act also has a similar requirement for NNPC to publish this Audited report. Unfortunately, NNPC still withholds its Audit report from the public. This situation is similar to the period between 1975 and 1980 when NNPC hid its report from the public until the Crude Oil Sales Tribunal forced it to disclose the report.

A clear law-implementation gap exists at NNPC as powerful but unknown vested interests continue to prevent NNPC's budget from reflecting in the country's yearly Appropriation Bill for scrutiny by the country's National Assembly in a clear breach of Part IV, Section 21 (2),(3) of the Fiscal Responsibility Act (FRA) 2007 and the country's Constitution.

The dangers of letting NNPC operate without any legislative oversight over its expenditure is evident in the financial year 2018 during which NNPC reported it had budgeted²⁷ to spend N3.78tn across 14 subsidiaries, with a revenue projection of N5.04tn and a projected operating surplus of N1.26tn, 80% of which is supposed to be paid into the Consolidated Revenue Fund as required by Section 22 (1),(2) of the 2007 Fiscal Responsibility Act. As at December 2018, it was observed that NNPC's actual expenses within the year surged by N1.09tn (or 28.8% above its projected 3.78tn) to N4.87tn even though it's projected revenue dipped by -1.79% from N5.04tn to N4.94tn. The implication of the surge in NNPC's expenses is an erosion of N1.01trillion (i.e. 80% of the N1.26trillion operating surplus) which should have been paid as additional "Federal Treasury Revenue" into the Consolidated Revenue Fund for expenditure



3.78tn

has been budgeted by
the NNPC to spend
across its 14
subsidiaries

by the governments²⁵.

If nothing is done about this impunity, millions of Nigerians could wake up one day to a fiscal storm stirred up by NNPC that would trigger significant macroeconomic instability, crippling government spending capacity. As an example of what is to come, a leaked memo in January 2018 between NNPC's Board Chairman and NNPC's General Managing Director (GMD) revealed that as at December 31st 2016, current liabilities of NNPC Group exceeded current assets by N3.3trillion and NNPC's total liabilities amounted to N7.57trillion making it impossible for it to finance importation of petroleum products²⁶.

iii. Outdated & Uncompetitive Policy and Legislation

Without the passage of the administrative component of the Petroleum Industry Bills which has stalled for nearly 20years, there is still no legislative or regulatory mechanism for a more reliable timeline for oil license bid rounds; no bid rounds have been held since 2007. This means less oil revenue for the government and lower investment in infrastructure in the petroleum sector.

Also, the mechanism to enforce consequences for not utilizing allocated licenses within set timelines seems to be weak and opaque. Nigeria still has one of the weakest acreage management systems in the world with acreages that are sometimes still too large. While this has improved from the situation in 1969 with oil companies holding concessions the size of present - day Kwara, Benue, Plateau and Lagos States - (by the way, which were allocated without precise seismic data); there is still significant room for improvement.

There are currently no sunset provisions (time limit) for incentive programs to minimize costly and non-essential investment incentives including elimination of provisions that make the penalty paid for flaring gas tax deductible. Multiple taxation for oil companies also creates a pool of overburdened investors, thus making Nigeria a less attractive investment destination compared to other oil and gas producing countries. Lack of access to direct information on fiscal terms in oil and gas contracts is difficult to obtain and this impedes the ability of legislature and other oversight agencies to carry out their functions

The Petroleum Industry Governance Bill (PIGB) aimed at encouraging a conducive business environment for petroleum industry operations in the country, promoting transparency and accountability in the administration of petroleum resources, and creating effective governing institutions with

A leaked memo in January 2018 between NNPC's Board Chairman and NNPC's General Managing Director (GMD)

NNPC's 2016 total liabilities

N7.5 trillion



as at December 31st 2016

²⁵ BudgIT Foundation, NNPC: The Burden of Africa's Oil and Gas Giant. Published 2020

²⁶ (ibid. p. 2)

distinct roles is yet to see the light of day

Uncertainty in the passage of the PIB discourages foreign investors who often need to know that there is a stable and predictable legal framework in place.

iv. State Capture & Illicit Financial Flows

State capture, the allocation of public wealth to politically exposed persons, their families, proxies and their cronies through natural resource licensing or national and subnational procurement processes remains a real and present danger in Nigeria. Nigeria's government has earned over N83trillion from oil revenue²⁷ alone since 1981, but much of this has been captured by politicians and top civil servants whose families now live in luxury whereas 102.4million Nigerians live in extreme poverty according to the World Poverty Clock²⁸.

The loopholes that enable state capture are well known and solutions well documented, but the dilemma remains that those who should close the loopholes are the potential beneficiaries or potential beneficiaries of state capture.

Nearly \$1 trillion illicitly leaves developing countries with hidden company and property ownership being a big contributor to this trend according to the Financial Transparency Coalition, a global network of governments, civil society and experts. An estimated \$8.3 billion of this illicit outflow leaves Nigeria annually. This amount could provide 200,000 small businesses every year with capital of N25 million each, creating 200,000 new jobs per year in this resource-rich nation where more than 20.9 million people are unemployed²⁹.

The allure of state capture means disproportionate sums are spent on election campaigns into political offices whose official salaries are insufficient to cover the cost of the campaign but such public office's present ample opportunities for state capture. This creates a situation where elections turn violent as vested interests scramble for the opportunity to capture Nigeria's vast natural resources or to protect captured wealth.

Open contracting is a well known solution to help reduce state capture and contract inflation by vested interests. It is built around existing norms and conventions related to equal access to information, transparency, social accountability and other components of good governance. Unfortunately, the plan for adoption of the Nigeria Open Contracting Portal

About

\$8.3bn



illicit outflow leaves
Nigeria annually

²⁷CBN Statistical Bulletin 2018 | Public Finance Statistics

²⁸<https://worldpoverty.io/map>

²⁹BudgIT Foundation, Beneficial Ownership Reform in Nigeria, Key Insights for Citizens and Policy Makers, Published 2019

(NOCOPO) has not been implemented at the national or subnational levels - even by oil producing states.

Beneficial ownership reform is another solution that can significantly curb state capture and illicit financial flows. It comprises policies and legislative pieces aimed at detecting, deterring and, in some cases, penalizing corruption, conflict of interest, terrorism/insurgents financing and other forms of wrongdoings that occur as a result of the activities of beneficial owners in licensing or procurement transactions.

Regulations issued by Nigeria Financial Intelligence Unit, NFIU since 2014 have not been implemented and there were also no clear requirement for integrating beneficial ownership reforms in the licensing and procurement process to detect corruption before it happens.

v. Public Spending

Nigeria's public spending is encumbered by price regulation laws which place a disproportionate burden on government revenue through unsustainable spending on petrol subsidy. At least N10 trillion spent on petrol subsidies³⁰ between 2006 and 2018.

With the country's Population expected to grow from 180m to 450m by 2050, non amendment of subsidy laws means a potentially significant growth in subsidy spending which risk pushing the government into a fiscal crisis especially as the country's already spends 40% of all oil revenue on public debt servicing alone - which precariously stood at N2.16 trillion³¹ in 2018, up from N1.03bn in 1981.

Price regulations create market distortions which discourages the private sector from investing funds in construction and operation of refineries as they will be forced to sell below market prices, incurring losses in some instances. This explains why the country currently has only 1 functioning privately-owned refinery while the United States with a deregulated downstream sector which is more attractive to investors has 132 refineries³². Although there are at least 29 active refinery licenses issued to investors since 2007, 12 years ago, only one, the Niger Delta Petroleum Refinery, NDPR has come onstream with 1,000 BPD refining capacity for producing diesel exclusively (a deregulated product)³³.

Derugulation is especially critical now as crude oil prices tumble due to Nigeria's incestuous relationship with crude oil; low prices mean lower



³⁰BudgIT Foundation, Nigeria's Petrol Subsidy Regime: Dilemma of the world's most populous black nation, Published 2019

³¹CBN Statistical Bulletin 2018 | Public Finance Statistics

³²U.S. Energy Information Administration, U.S. Refineries, Operable Capacity as of January 1, 2018 Published June 25 2018

³³BudgIT Foundation, Inside Nigeria's Local Refineries, Published 2019

cost of refined products which could mean the fiscal burden to subsidize petrol is temporarily taken away by market forces.

Unfortunately, lower crude oil prices for prolonged periods means significantly lower foreign exchange earnings which could lead to fewer foreign currency available for local importers to import. Scarcity of forex in the face of unchanging demand by importers could drive dollar price up, leading to a gradual devaluation of the country's Naira. Devaluation ultimately makes the landing cost of imports (including refined products) more expensive - and potentially higher than the expected open market price - triggering the need for subsidy.



In **2016**, Nigeria petrol price shot up from N87/L to N145/L

This was Nigeria's situation in 2016 when petrol prices shot up from N87/L to N145/L even though the government announced subsidy had been removed in 2016. As soon as Naira was devalued, from N196 to N305 to \$1 (with some importers buying as high as N600 to \$1 at the parallel market); subsidy payments had to be reintroduced.

Off budget expenditure by over 20 government owned enterprises means that there is no legislative oversight and long term strategic coordination of a significant component of government spending. For example, NNPC had a budget N3.78 trillion in 2018 and although Part IV, Section 21 (2),(3) of the Fiscal Responsibility Act (FRA) 2007 requires this to be included in the Appropriation Act for oversight, this provision was never complied with³⁴.

Incomplete migration of all FG personnel to Integrated Personnel and Payroll Management System (IPPPIS) means the loopholes exist for the corrupt political elite to feast on oil revenue through the presence of ghost workers³⁵. The non use of BVNs at the subnational level also creates a similar challenge. Frivolous items and over-inflated items also litter the country's budget creating an additional drain pipe for oil revenue.

Capital Expenditure which has been an average³⁶ of 28.06% of federal government's total budget between 2010 and 2020 do not accurately reflect the actual investment made in infrastructure that benefits citizens; significant components of what FG captures as capex goes to "construction of government buildings" and surprisingly "anniversaries and celebrations", even though the latter happens to a less degree.

³⁴ BudgIT Foundation, NNPC: The Burden of Africa's Oil and Gas Giant. Published 2020

³⁵ <http://www.nigerianrc.org/2019-benchmarking-exercise-report/>

³⁶ Dataphyte, Nigeria's Expenditure Breakdown. Published 2020

vi. Ineffective Stabilization & Savings Framework

According to the 2019 Natural Resource Governance Benchmarking Exercise Report released by NNRC, Nigeria did not make significant progress in implementing the precept that recommended making adequate preparation for future revenue volatility (Precept 8). There are yawning gaps in Nigeria's current oil revenue savings and stabilization framework which needs to be urgently addressed by policymakers.

There is a significant law-implementation gap afflicting the laws governing Nigeria's savings and stabilization mechanism. The Fiscal Responsibility Act 2007 contains laws clauses that clearly spell how money is to be saved in the country's Excess Crude Account and how money is to be withdrawn; these clauses are rarely complied with thus depleting Nigeria's capacity to have a good shock absorber in times of economic crisis.

The savings and stabilization framework prioritize savings only from crude oil - leaving out other natural resources like gas and solid minerals. The country has a hybrid sovereign wealth fund model comprising 5 separate funds enabled by 3 laws which sometimes conflict - the Nigeria Sovereign Investment Authority, NSIA, 2011; the Fiscal Responsibility Act 2007 (Part VII, Section 35), and the Allocation of Revenue (Federation Account, etc.) Act (Section 5 (5)).

As an example, the Nigeria Sovereign Investment Authority, NSIA, governed by the NSIA Act 2011 depends on donations from any ruling government as the inflow rules in the law unfortunately set the monthly savings to the three funds under NSIA management to ZERO, because



vii. Disproportionate focus on crude oil export

Disproportionate focus on crude oil export has led to the neglect of other natural resources, where there is an effort on another extractive resource, the priority is almost exclusively on exportation with little effort on value addition for job creation and additional revenue generation.

Nigeria has the potential to become a leading player in the global natural gas production and processing market, but the government is not maximizing the full value of this natural resource to its disproportionate focus of the government on Crude Oil.

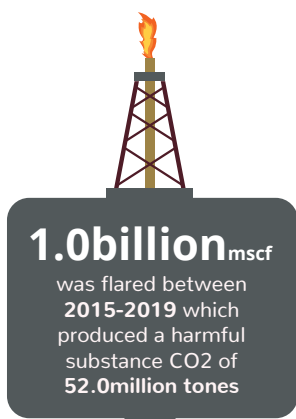
Nigeria Gas reserves increased from 124TCF to 198.71TCF in the year 2000 and 2019 respectively with a growth rate of 2.71% annually³⁷. Even when gas producers extract gas in Nigeria, they still face pipeline vandalism, inadequate infrastructure to transport this gas from their origin to the consumption region and lack of legal and regulated framework.

The government has made some fair strides in this area through the Nigerian Gas Transportation Network Code (NGTNC) aims to establish transparency, efficiency, fairness and non-discriminatory access in the gas transportation networks, eliminating monopolistic supply that exists in the sector and to grant the willing buyer and seller an enabling free-market with uniform terms and guidelines for operation and use of the gas network for gas Shipper and Operators³⁸.



³⁷ <https://knoema.com/atlas/Nigeria/topics/Energy/Gas/Reserves-of-natural-gas>

³⁸ <https://www.dpr.gov.ng/nigerian-gas-transportation-network-code-ngtnc/>



viii. Environmental Pollution

About 1.0billion MSCF of gas was flared between 2015-2019 which produced a harmful substance CO₂ of 52.0million tones, which is valued at \$3.4billion and has the potential to generate power 97.7 thousand GWh which will be beneficial to Nigeria³⁹.

This emission of CO₂ to the atmosphere due to activities of gas flaring has damaged the environment, the source of livelihood is lost and the health of many Nigerians in oil-producing communities and continuing flaring of gas will keep threatening the ozone layer and the many communities wouldn't enjoy the quality lives they desire.

The health outcomes of gas flaring range from chronic and recurrent respiratory diseases, abnormal haematological indices and increased susceptibility to blood dyscrasias, dermatological diseases and malignancies among others⁴⁰.

In 2018, Nigeria adopted a very promising commercialization approach to reducing flare gas pollution through the Flare Gas (Prevention of Waste and Pollution) Regulations⁴¹ of 2018 which set up the Nigerian Gas Flare Commercialization Program (NGFCP). It is hoped that the results from the program would kick-in within the next 5-years⁴².



³⁹ <https://gasflaretracker.ng/>

⁴⁰ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5717961/>

⁴¹ <https://ngfcp.dpr.gov.ng/media/1120/flare-gas-prevention-of-waste-and-pollution-regulations-2018-gazette-cleaner-copy-1.pdf>

⁴² <https://ngfcp.dpr.gov.ng/about-us/>

The government has set, missed and shifted the deadline for ending gas flare pollution multiple times stoking fears that the policy statements are tokenistic in nature and lack the political will to translate promising programs into results.



Effective Oil Spill Prevention and Clean Up is still a major problem plaguing the Niger Delta. In 2019, there were 721 oil spill incidents that resulted in 38,236 barrels of crude oil spilled into the environment mainly in the Niger Delta region; Rivers state had the highest number of oil spill incidents⁴³. Crude oil spillage causes ecosystem havoc and wastage of natural resources that can be converted to revenue to erode the losses incurred by the oil and gas sectors in Nigeria.

The National Oil Spill Detection & Response Agency - NOSDRA Act was initiated to monitor and protect oil spill affected areas but is weak in prosecuting the polluters. The NOSDRA Amendment Act focuses on increasing NOSDRA's power to monitor, inspect the oil facilities, enforce its power to prosecute polluters and increase funding to address oil spills that are related to vandalism, theft etc. Unfortunately, this Act has not received presidential assent.



⁴³ <https://oilspillmonitor.ng/>
<https://www.stakeholderdemocracy.org/policy-analysis-nosdra-amendment-draft-bill/>

Majority of the petroleum products tankers in Nigeria are obsolete with an average age of 30years - meaning they do not have modern safety features like anti-spill and anti-roll over protection to prevent product spillage and consequent environmental pollution and fire outbreaks in the unfortunate event of an accident.

It is estimated that Nigeria lost up to N7 billion to road traffic accidents involving 116 petroleum product tankers⁴⁴ in the first half of 2018. That figure excludes the cost of treatment of the injured; damage to road infrastructure; environmental impact and other collateral damages.

ix. Natural Resource Theft & Conflict

Crude oil theft is any activities such as oil spillage, sabotage of facilities, illegal refining of oil products from pipelines of multinational oil companies.

In one of the NEITI policy brief it was disclosed that Nigeria lost about \$42bn between 2009-2018 to crude oil theft and other illicit activities of oil thieves⁴⁵ that is on an annual basis about \$4.19b is lost due to these activities which is enough to fund more than half of Nigeria capital expenditure of N2.09tn for 2019 fiscal year⁴⁶.

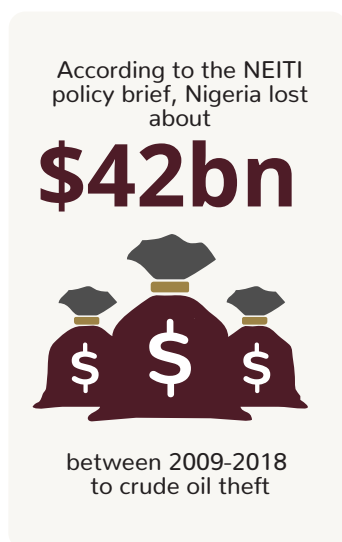
Nigeria today does not know precisely how much crude oil it produces and instead depends on third party reports. Even DPR's online NPMS still requires Oil companies to manually input figures into the system, creating inexpensive opportunities for crude oil theft.

Solid minerals also face significant oil theft especially as some of them are less expensive to access compared to crude oil and gas. Beyond the more obvious conflicts in Niger Delta due to activities of militants, gangs in the northern parts of Nigeria have also taken over gold mines, arming themselves and sacking communities⁴⁷ to mine gold in their area.

b. Solid Minerals Issues

i. Geosciences data availability

Nigeria faces significant constraints with respect to having a functional and well-equipped geological survey data system which is vital for



⁴⁴ <http://saharareporters.com/2018/07/10/nigeria-lost-n7-billion-tanker-accidents-25-weeks-%E2%80%93-frsc>

⁴⁵ <https://neiti.gov.ng/index.php/media-center/news/491-stakeholders-calls-for-efficient-governance-structure-special-courts-to-curb-oil-theft>

⁴⁶ <https://yourbudget.com/wp-content/uploads/2019/07/2019-Approved-Budget-Analysis..pdf>

⁴⁷ <https://punchng.com/fg-suspends-mining-in-zamfara-to-curb-banditry-gives-foreigners-48-hours-to-leave/>

investment decision-making. Lack of data collection at the appropriate level of accuracy and its timely dissemination to national and international investors critically affects the initiation and building investor confidence in the mining industry.

The Nigerian Geological Survey Agency (NGSA) was established on May 22nd, 2006 and has the statutory role of providing relevant and up-to-date geosciences information necessary for economic development of Nigeria. However, much of this remains unknown to the sector as the data is not readily available through channels like web portals or publications in widely read journals which most interested parties engage with.

ii. Weak Policy Thrust on Value Addition

Beneficiation, that is value addition in Nigeria's Mining sector has not received any major policy thrust over the last 40 years. As a result, Nigeria still imports several items made from solid minerals that we should be able to produce locally. For example, Nigeria imports an estimated \$3.3 billion worth of steel⁴⁸ despite having the second largest deposits of 2 billion metric tonnes of iron ore reserves in Africa⁴⁹. Steel is made up of up to 90% of iron⁵⁰.

Commendably, the government has taken some encouraging steps; two gold refineries were licensed in 2018 to begin operation in Abuja and Ogun state.

iii. Revenue Leakages

The Nigeria Extractive Industries Transparency Initiative (NEITI) audit reports indicate that the Nigerian government loses a huge amount of revenue yearly owing to illegal practices and corrupt activities of companies operating in the mining sector in Nigeria. Non-remittance of revenues, unlicensed mining, evasion of taxes, illegal practices, and incessant smuggling of solid minerals out of the country.

The NEITI 2018 solid minerals audit report that was released recently indicated that the export data received from the Nigerian Customs Service (NCS) includes minerals that were not captured in the production data provided by the Mines Inspectorate Department (MID) and by implication, no record of royalty payments on these minerals. For instance, out of the 47 companies that engaged in export in 2018, there is no evidence that 30 paid royalties which may have resulted in revenue loss to the tune of N45,318,640.50 for 23.585 metric tons.

Nigeria imports an estimated

**\$3.3bn
STEEL**



despite having the second largest deposits of 2 billion metric tonnes of iron ore reserve in Africa

⁴⁸ <https://tradenaira.com/news/nigeria-imports-3-3-billion-steel-product>

⁴⁹ <https://www.hellenicshippingnews.com/nigeria-investment-opportunities-in-iron-ore-mining/>

⁵⁰ <https://thenerveafrica.com/5748/nigeria-iron-ore-reserves-2bn-metric-tonnes-imports-almost-steel-uses/>

The existence of weak legal sanctions for defaulters as the government does not follow through with punishment for tax defaulters encourages involuntary compliance. Potential tax revenues have been lost to unnecessary waivers and exemptions as a result of political influence.

iv. Artisanal Mining

Artisanal mining in Nigeria is largely regarded as an illegal and high-risk activity. It has contributed to development in most of the areas by providing employment, increasing local purchasing power, stimulating local economic growth and slowing urban migration. However, it also creates social, environmental and financial challenges that may undermine development. A number of artisanal miners usually operate without proper licenses, seek to avoid detection by mining inspectors, and avoid paying taxes.

Also, in most cases, women and children are frequently used as labour in artisanal mining, harsh working and living conditions are the norm. Likewise, it tends to destroy and degrade forest ecosystems and threatens the practices on which mining populations depend. Due to poor training of many of these operators, their extraction technologies are outdated and result in lower than average yields and cash earnings, reinforcing the cycle of poverty that might have drawn them to mining in the first place.

Commendably, efforts have begun by the federal government to form artisanal miners into cooperatives.

v. Infrastructure Deficit

A major challenge to the development of the mining sector in Nigeria is the inadequate infrastructure for multi-sector planning such as roads, rails, and electric power supply to support exploration, mining, and mineral processing activities. Nigeria's insufficient infrastructure has long been a bottleneck for economic growth.

According to international benchmarks, more developed countries typically have a "core infrastructure" stock (roads, rail, ports, airports, power, water, ICT) equal in value to about 70% of GDP, with power and transportation infrastructure usually accounting for at least half of the total volume. A key challenge for the government is to build a modern, efficient, and effective infrastructure network within the next five to ten years.

A key challenge for the government is to build a modern, efficient, and effective infrastructure



network within the next **five to ten** years.

vi. Policy Uncertainty

A key challenge bedeviling the mining sector in Nigeria is poor policy design and execution. This implies that the poor performance of the sector can be attributed to government policy that does not support the growth of the solid minerals sector.

This manifests in delay in issuance of licenses, too many licensing rules and regulations, poor implementation, poor policy design, noncommunication of changes to policy implementers in the sector, lack of policy consistency, and weak policy coordination. Existence of multiple regulations is reducing investor confidence as the cost and requirements to adhere to these have contributed to seeming lack of interest in the industry.

vii. Weak Financing

Despite the reconstitution of the Solid Minerals Development Fund (SMDF), the impact is yet to be felt in the industry. The SMDF⁵¹ needs to be adequately supported and strengthened to enable it to perform its role.

viii. Technical Capacity

Indigenous operators in the Nigerian mining sector are not as successful as their foreign counterparts due to capacity factors limiting their development and growth. The decline of the mining industry means that there is virtually a non-existent skills base upon which to build, leading to huge investments in training as well as importation of qualified labor.

Also, the regulatory environment is so weak to ensure effective compliance with the existing laws guiding operators in the country's mining industry.

⁵¹ SMDF was established by section 34 of the Nigerian Mining and Minerals Act 2007, to address the fundamental sectoral challenge of insufficient funding; a problem that has historically undermined the growth potentials of the sector. The Board was reconstituted and inaugurated on 25th May, 2017 with Alhaji Uba Saidu Malami as Chairman and Hajija Fatima Shinkafi as Secretary and also as the Chief Executive of the SMDF.

3

Political Economy Analysis



a. A Bird's-eye view

Rapidly changing political dynamics, political desire to hold on to power and the risks of losing political power in a developing country like Nigeria which is fractured across over 540 ethnic lines and 109 political parties means that the leaders in power today are wary of disclosing critical details of policy and legislative reforms while in their formative stages as they are often uncertain of what components of reforms document or extractives data could be weaponized by the political opposition or in some cases intentionally or unintentionally misinterpreted by the press - situations that come with significant political costs for the incumbent political party and their grip on power.

Unfortunately, policy development in secrecy due to political fears or outright corrupt intent limits the opportunity for a broad range of stakeholders to make quality inputs into proposed reforms, fuels suspicions further breeding a trust deficit between policy makers, citizens and industry. The secrecy also provides an opportunity for vested interests to hijack the reforms process.

Of course, dialogue sessions & public hearings are held, but these are tokenistic and treated as checklist events with the result that perspectives and fears expressed by stakeholders are not sufficiently addressed with a view to brainstorming palliatives or alternatives or at the minimum providing honest feedback.

Political silos, tokenistic dialogues, broken feedback systems and the risks they pose to reforms

In 2019, the Petroleum Industry Governance Bill (PIGB) which would put an end to Petroleum Equalization Fund (PEF) which would have meant removal of equalization subsidy amongst other laudable governance reforms was drafted without adequately communicating to the PEF leadership what will become of their jobs and influence and what palliatives/alternatives have been provided. In the middle of the night; vested interests in PEF “smuggled” the clause retaining PEF into the draft bill without the consent of stakeholders and the presidency.

This was one of the reasons flagged by the presidency for not giving assent to the PIGB; putting a sad end to nearly 2years of Advocacy for its introduction.

SMDF was established by section 34 of the Nigerian Mining and Minerals Act 2007, to address the fundamental sectoral challenge of insufficient funding; a problem that has historically undermined the growth potentials of the sector. The Board was reconstituted and inaugurated on 25th May, 2017 with Alhaji Uba Saidu Malami as Chairman and Hajiya Fatima Shinkafi as Secretary and also as the Chief Executive of the SMDF.

Where vested interests are not influential enough to pull off a PEF-like heist, they often weaponize information from policy documents through coordinated disinformation campaigns to a largely data illiterate population, stoking fears and resistance - even from people who would otherwise have supported reforms.

Disappearing data, missing memos: What is the politics of it?

Often, civil servants and public appointees of the president withhold the release of or completely disappear vital extractive data as a precaution due to fear that it could be weaponized against their political bosses and ultimately cost them their jobs - even when the data may in fact be harmless.

As an example, in the wake of reduction of petrol price from N145/litre to N125/litre, the Petroleum Products Pricing Regulatory Agency (PPPRA) deleted its monthly template dated March 16th, 2020 which indicated that the Expected Open Market Price of petrol is N83.69/litre, meaning there is an over recovery of N41.31/litre.

This situation persists because there is largely no Witness Protection Law in the country which protects civil servants, public appointees, their families and source of livelihoods from violent or nonviolent retribution of their political bosses. As a result, they would rather err on the side of caution by disappearing or withholding data which may implicate their bosses or their political associates.

b. Political Economy of downstream reforms

NNPC currently utilizes less than 10% of its refining capacity. Fixing NNPC's refineries through reforms means fixing its capacity utilization problem which means that 445,000 barrels⁵² per day of domestic crude oil allocation destined for the state-owned refineries which NNPC instead exports for revenue due to low capacity utilization would no longer be available to NNPC's leadership and their political patrons for export.

This reform would also wipe out profit margins for oil traders who get crude oil lifting contracts from NNPC. For context of how large this economy is, over 80% of all Domestic Crude Allocation (DCA) is exported directly or through DSDP on the average, this would amount to N1.4trillion worth of crude oil traded per year.

⁵² The average is between 308,000 billion and 350,000; the entire 445,000 barrels rarely gets delivered to the refineries.

NNPC currently
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10%



of its refining
capacity.

Another threat to oil traders holding NNPC's Crude Oil Lifting Contracts (which only exists due to the dysfunctional refineries) is successful petroleum product price deregulation.

All things being equal, deregulation would imply subsidy removal but would also trigger an influx of investment from investors to complete 29 refineries which have received License to Establish (LTE) since 2007 - majority of which were purchased at a time when the government had promised to deregulate.

The coming onstream of

29
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with DPR approved

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These refineries have since stalled due to lack of investor's confidence in the commitment of Nigeria's government to a free market to avoid destructive loss of their capital. The coming onstream of 29 refineries with DPR approved capacity of 1.54m barrels per day of crude oil, supplying refined products to the domestic market means nearly N1.4trillion would no longer be available for companies with crude oil lifting contracts.

Smugglers, vested interests: Which is the biggest threat to subsidy removal?

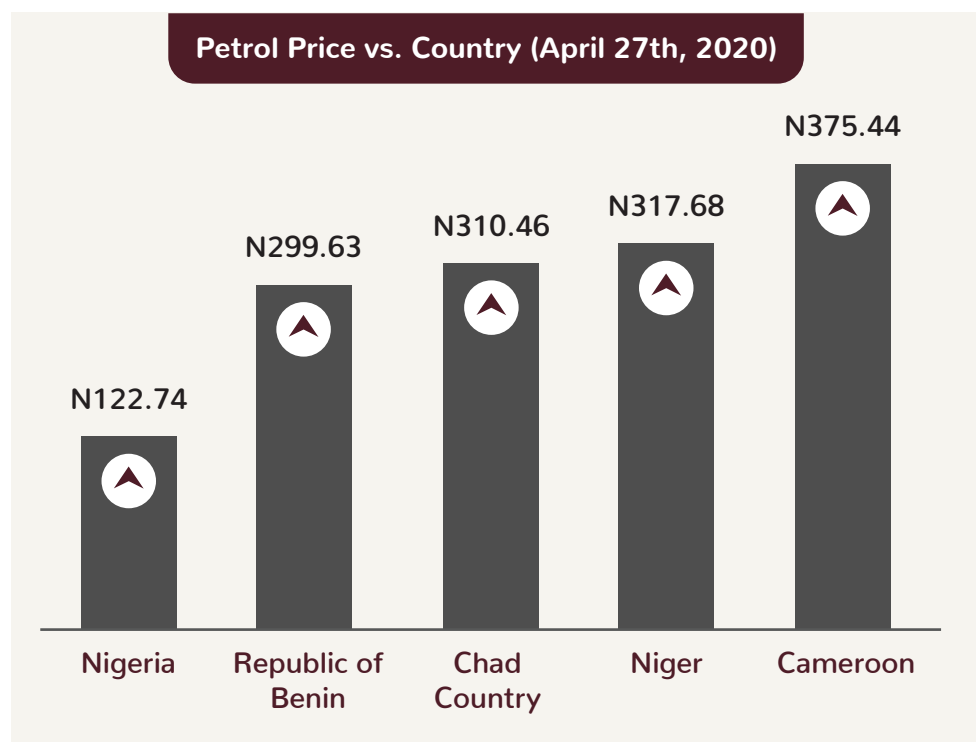
Contrary to popular belief, subsidy is not a major incentive for smuggling petrol to neighbouring countries as it does not significantly make Nigerian petrol cheaper than the price of petrol in the neighbouring countries, without subsidy there is still incentive to smuggle or export petrol to these places. As at April 29th, 2020, with no subsidy in Nigeria, the current prices of petrol is still significantly below the price in neighbouring countries. In this light, smugglers or "petrol exporters" if you will, are not the primary risk to subsidy reforms - a bigger threat would be vested interests - politicians who make equalization subsidy claims through briefcase companies without delivering products.

High level engagement with the presidency indicates Mr. President's willingness to deregulate the downstream sector, but also reveal significant concerns of widespread street protests, social unrest and demonstrations against the removal through actual laws as opposed tokenistic press releases announcing removal which have no weight in any court of law. This is because social unrest and disquiet is often a pretext used by the military for a Coup D'etat. Mr. President is open to subsidy removal but often requests for a removal strategy that would not trigger street protests.

Unfortunately, allegations of corruption against the Subsidy Reinvestment and Empowerment Program (SURE-P) and clear failure of the program

The average is between 308,000 billion and 350,000; the entire 445,000 barrels rarely gets delivered to the refineries.

which was set up to 'test' a partial subsidy removal policy has further worsened the trust deficit between citizens and the government making it difficult for the government to convince citizens for 'full' subsidy removal. In this light, if the removal leads to instantaneous hike in petrol prices, street protests may erupt.



c. All the King's Men

His Excellency, Muhammadu Buhari, GCFR



Muhammadu Buhari, Rtd

Minister of Petroleum
Resources

Muhammadu Buhari, Rtd, 77 years, is the former military dictator turned democratic president in May 2015. His current priority is regime preservation due to his negative experience decades ago when he was ousted via a well financed coup plot.

His Excellency, Muhammadu Buhari is also the board chairman of Nigeria National Petroleum Corporation (NNPC) and appointed himself as the Minister of Petroleum Resources. Prior to his election as president in 2015, he had promised to disclose his assets. Unfortunately,

The average is between 308,000 billion and 350,000; the entire 445,000 barrels rarely gets delivered to the refineries.

after his victory, he reneged on this promise and never made available to the public official copies of his asset declaration form to the public - containing details of companies and properties he has interests in.

Holistic beneficial ownership reforms would mean integration of company and asset ownership data disclosed by Mr. President and thousands of political associates currently held at the Code of Conduct Bureau into Nigeria's extractive licensing and procurement process. This ease of access opens up the possibility that this information could be weaponized by the media and political opponents.

Advocates for beneficial ownership reforms need to first pitch data protection to the political class if they hope to improve their chances of making the reform a reality else they can expect subtle resistance from the presidency and the APC political structure (through delays, missing memos, non-allocation of funds even if a beneficial ownership law is passed, non-cash backed releases even if the funds are allocated etc).

Support/Resistance Levels to reform: To the extent that any reforms will limit his powers, trigger protests that can lead to regime change, empower other interest groups with sufficient financial power to incentivize a power change, that reform will face significant challenges.

Timipre Sylva



Timipre Sylva

Minister of State for
Petroleum Resources

The Minister of State for Petroleum Resources, he was the youngest of all the members in the Rivers State House of Assembly in 1992, the 1990's equivalent today's #NotTooYoungToRun movement.

A very brilliant mind who was the best graduating student from his department and the departmental valedictorian at the University of Port Harcourt, Rivers State. Ex-governor of Bayelsa state, Former Special Assistant to the Minister of State for Petroleum in 2004. A political heavyweight in the ruling APC.

Support/Resistance Levels to reform: He is more interested in pursuing reforms that improve revenue especially through Natural Gas reforms than reforms that are capable of leading to investigations of vested interests and consequently "shaking any tables". He is best accessed through extensive backroom negotiations.

The average is between 308,000 billion and 350,000; the entire 445,000 barrels rarely gets delivered to the refineries.



Mele Kyari

Group Managing
Director of NNPC

Mele Kyari

Ex-chairman of the Petroleum and Natural Gas Senior Staff Association of Nigeria, PENGASSAN at the NNPC, comrade Mele Kolo Kyari became the 19th GMD of NNPC on July 7, 2019. Mele Kyari is a well known transparency champion and has previously participated in the Annual NNPC Dialogue convened by Extractive Consultative Forum led by Budget foundation. He also indicated that he would put a lot of energy in making NNPC come clean of all its businesses. One of his top priorities is to ensure that corruption, bribery and racketeering are eliminated from the major challenges of the NNPC.

Support: Non-state actors can expect to get significant support from Mele Kyari by cultivating backroom relationships but should not expect very open condemnation of ills within the sector as he has employers he also reports to - the president and minister of state for petroleum.

Godswill Akpabio



Dr. Godswill Akpabio

Minister of Niger
Delta Affairs

His Excellency Senator (Dr.) Godswill Akpabio, CON is the Minister of Niger Delta Affairs, former governor of Akwa Ibom State, and minority leader of the 8th Senate. He is the most influential personality when it concerns reforms around benefits transfer in the Niger Delta and local content.

He was responsible for influencing the presidency to transfer the Minister of State for Niger Delta Affairs, Festus Keyamo within less than four (4) weeks from his appointment to the ministry of Labour. Festus Keyamo had previously led the N101 billion EFCC corruption probe against Akpabio⁵³, forcing him to decamp from the leading opposition party, People's Democratic Party (PDP) to the ruling All Progressives Congress (APC) in a bid for political survival.

Dr. Akpabio was responsible for getting Mr. President to launch a forensic audit into the Niger Delta Development Commission based on allegations of corruption. Ordinarily this is cause for activists to celebrate, however, it is too early to tell if the forensic audit is a targeted vendetta aimed at political enemies with vested interests in NDDC contracts or a proper anti-corruption audit which would lead to long lasting reforms. A similar strategy was employed in pressuring Mr. Akpabio to join the ruling APC, he still has an ongoing N101 billion EFCC probe against him which many believe will now die a natural death.

Nevertheless, for any reforms advocates hope to accomplish in the Niger Delta, this man needs to be diligently courted for it to succeed.

⁵³ <https://www.thecable.ng/akpabios-defection-hypocrisy-anti-graft-war>



Ita Solomon Enang

SSA to President
Muhammdu Buhari
on Niger Delta Affairs

Ita Solomon Enang

The Senior Special Assistant (SSA) to President Muhammadu Buhari on Niger Delta Affairs - the Coordinator of the Presidential Amnesty Program was formerly the SSA to Mr. President on National Assembly matters.

He represented the Itu and Ibiono Ibom Federal Constituency of Akwa Ibom State in the House of Representatives from 1999 to 2011 during which he worked towards abolition of the onshore/offshore dichotomy, ensuring that his state of Akwa Ibom became the highest earner of oil revenue in the country.



Arc. Olamilekan Adegbite

Minister for Mines
and Steel
Development

Arc. Olamilekan Adegbite

The Minister for Mines and Steel Development is a close associate of Ibikunle Amosun who has Mr. President's ears.

Arc. Adegbite is interested in the plight of artisanal miners and has intensified the process of forming them into cooperatives to enable them access N5 Billion capital for operations and equipment. His policy priority is beneficiation⁵⁴ (value addition in the mining sector) and has hinted at focus on "Downstream Policy" during his tenure as minister.

He has over 35 years experience in architecture and construction and had previously served as Commissioner for Works and Infrastructure in Ogun State from 2011 to 2019 during the tenure of His Excellency, Ibikunle Amosun.

⁵⁴<https://www.thisdaylive.com/index.php/2019/12/25/fg-rolls-out-measures-to-support-artisanal-miners/>

4

**What are the solutions and
who is currently working to
implement them?**



a. Issues-Solution matrix: Oil and Gas

Some issues have clear cut solutions, but still ongoing research to continue making high quality and evidence based arguments.

Issue	Solution	Active Organizations
<p>Ineffective Benefit Transfer Mechanism</p> <p>If this issue is resolved, who are the winners or losers?</p> <p>Winners</p> <ul style="list-style-type: none"> ➤ Indigenes in resource-rich and resource-impacted communities <p>Losers</p> <ul style="list-style-type: none"> ➤ Politically Exposed Persons in Niger Delta illegally benefitting from. ➤ Independence of NDDC will be reduced as they will be required to collaborate more centrally across the region. 	<ul style="list-style-type: none"> ➤ Coordination amongst all benefits transfer transferred by regulation or law (institutionalize SIWP). ➤ Synergize all yearly expenditure/budgets across all benefits transfer systems with a new master plan within 2years including regular inputs from citizens into the budget. ➤ Tracking service delivery on projects linked to oil revenues, naming & shaming contractors (e.g Tracking expenditure of derivation funds in local communities, Ministry of Niger Delta and payments to Niger Delta Development Commission). ➤ Reducing leakages in transferred benefits through open contracting, beneficial ownership checks in the procurement value chain. ➤ Annual benefits transfer audit Citizens Audit. 	<p>State Actors</p> <ul style="list-style-type: none"> ➤ Niger Delta Development Commission, NDDC ➤ Ministry of Niger Delta Affairs ➤ Oil Producing State Governors ➤ Presidential Amnesty Program ➤ National Assembly Committees on Niger Delta Development ➤ Nigeria Extractive Industry Transparency Initiative, NEITI <p>Non State Actors</p> <ul style="list-style-type: none"> ➤ WeThePeople ➤ Stakeholders Democracy Network (SDN) ➤ BudgIT Foundation ➤ Niger Delta Budget Monitoring Group, NDEBUMUG ➤ ANEEJ ➤ Yar'Adua Foundation ➤ CODE Project Tracking ➤ Open Contracting ➤ Publish What You Pay, PWYP <p>Donors</p> <ul style="list-style-type: none"> ➤ OXFAM International ➤ Omidyar Network ➤ LTRC/BHP ➤ Ford Foundation <p>Others</p> <ul style="list-style-type: none"> ➤ Community Development Associations

Issue	Solution	Active Organizations
<p>Commercially inefficient state-owned Oil Company</p> <p>If this issue is resolved, who are the winners or losers?</p> <p>➤ Winners</p> <p>FG Revenues will increase</p> <p>State Governors</p> <p>➤ Nigerian citizens</p> <p>Losers</p> <p>➤ NNPC Senior Executives</p> <p>Politically Exposed Persons benefiting from the dysfunction.</p>	<p>➤ A hybrid ownership structure for NNPC should be adopted similar to NLNG model. (e.g. 49% NNPC and 51% private sector)</p> <p>➤ Improve SOE transparency and Remediation Process: Audit report publishing, proactive disclosure, data meetups etc.</p> <p>➤ End discretionary deductions especially from daily domestic crude allocation of approx 445,000 barrels per day.</p> <p>➤ Enforcement of extant legal provision in NNPC & Fiscal Responsibility Acts to reduce the wide law-implementation.</p> <p>➤ NNPC's role should be clarified with well defined commercial mandates.</p>	<p>State Actors</p> <p>➤ Nigeria National Petroleum Corporation, NNPC</p> <p>➤ Ministry of Petroleum Resources</p> <p>➤ National Economic Council</p> <p>➤ Presidential Amnesty Program</p> <p>➤ National Assembly Nigeria Extractive Industry</p> <p>Non State Actors</p> <p>➤ Nigeria Natural Resource Charter, NNRC</p> <p>➤ Center for Study of Economies of Africa, CSEA</p> <p>➤ BudgIT Foundation</p> <p>➤ Yar'Adua Foundation Group</p> <p>Donors</p> <p>➤ DFID/FOSTER</p> <p>➤ Natural Resource Governance Institute, NRGi</p>
<p>Outdated & Uncompetitive Legislation</p> <p>If this issue is resolved, who are the winners or losers?</p> <p>Winners</p> <p>➤ Federal Government</p> <p>➤ Job seekers</p>	<p>➤ Introduce a honest, transparent ongoing dialogue framework (online and offline), not just the tokenistic "Public Hearings".</p> <p>➤ Review and pass the petroleum industry bills after extensive, transparent dialogue with all stakeholders (PIGB, PIAB, PIFB, PIHCB)</p> <p>➤ Conduct bid rounds more frequently but with enough time in between to allow for after action reviews.</p>	<p>State Actors</p> <p>➤ National Assembly (Petroleum Resources Committees)</p> <p>➤ Presidency</p> <p>Non State Actors</p> <p>➤ Center for Public Policy Alternatives, CPPA</p> <p>➤ PetroleumIndustryBills.Com</p> <p>➤ Stakeholder Democracy Network</p>

<p>Losers</p> <ul style="list-style-type: none"> ➤ PPPRA, PEF(M)B and Leaders of agencies that will cease to exist due to more efficient processes in place. 		<ul style="list-style-type: none"> ➤ CISLAC ➤ Spaces for Change ➤ BudgIT Foundation <p>Donors</p> <ul style="list-style-type: none"> ➤ DFID/FOSTER
<p>State Capture & Illicit Financial Flows</p> <p>If this issue is resolved, who are the winners or losers?</p> <p>Winners</p> <ul style="list-style-type: none"> ➤ Nigerian Citizens <p>Losers</p> <ul style="list-style-type: none"> ➤ Politically Exposed Persons benefiting from the dysfunction. 	<ul style="list-style-type: none"> ➤ Implement and enforce beneficial ownership reforms through appropriate legislation at the federal level and in oil producing states ➤ Introduce and enforce a law similar UK's Unexplained Wealth Order (Proceeds of Crime Bill is currently in the works) ➤ Make open contracting mandator across the entire procurement value chain ➤ Audit Report Implementation 	<p>State Actors</p> <ul style="list-style-type: none"> ➤ Presidency ➤ Code of Conduct Bureau ➤ NFIU ➤ EFCC ➤ National Assembly ➤ Bureau for Public Procurement, BPE

<ul style="list-style-type: none"> ➤ Politicians spending heavily to get elected 	<ul style="list-style-type: none"> ➤ Completion of court cases on fraud and corruption related to petroleum sector or petroleum revenue and ensure justice is served as a deterrent to others 	<p>Non State Actors</p> <ul style="list-style-type: none"> ➤ PPDC ➤ BudgIT Foundation
<p>Public Spending</p> <p>If this issue is resolved, who are the winners or losers?</p> <p>Winners</p> <ul style="list-style-type: none"> ➤ Nigerian Citizens ➤ Politicians at federal level who have more money for infrastructure projects <p>Losers</p> <ul style="list-style-type: none"> ➤ NNPC officials benefiting from discretionary expenditures. ➤ Vested interests benefiting from Ghost workers 	<ul style="list-style-type: none"> ➤ Eliminate off-budget expenditure by NNPC and other Government Owned Enterprises ➤ Complete migration of all FG personnel to IPPIS and introduce similar framework via BVN for oil producing states ➤ Capture all MDAs on GIFMIS platform ➤ End price regulation on petroleum products which would lead to removal of applicable government subsidies 	<p>State Actors</p> <ul style="list-style-type: none"> ➤ NNPC ➤ National Economic Council ➤ National Assembly <p>Non State Actors</p> <ul style="list-style-type: none"> ➤ Nigeria Natural Resource Charter, NNRC ➤ CSEA ➤ BudgIT Foundation <p>Donors</p> <ul style="list-style-type: none"> ➤ WorldBank/SFTAS
<p>Ineffective Stabilization & Savings Framework</p> <p>If this issue is resolved, who are the winners or losers?</p>	<ul style="list-style-type: none"> ➤ Harmonization of the savings and stabilization laws to allow more savings to the NSIA. ➤ NGOs should take legal action against civil servants involved in breaching Sovereign Wealth Fund laws. 	<p>State Actors</p> <ul style="list-style-type: none"> ➤ National Assembly ➤ Central Bank ➤ Nigeria Sovereign Investment Authority ➤ Fiscal Responsibility Commission

<p>Winners</p> <ul style="list-style-type: none"> ➤ Nigerian Citizens <p>Losers</p> <ul style="list-style-type: none"> ➤ Presidency which makes discretionary deductions from Excess Crude Account 	<ul style="list-style-type: none"> ➤ Close the law-implementation gap in existing sovereign wealth fund laws. ➤ Legal actions taken to stop the sale of fertilizers by the Nigeria Sovereign Investment Authority to state governors through a subsidy scheme. 	<p>Non State Actors</p> <ul style="list-style-type: none"> ➤ BudgIT Foundation ➤ NNRC ➤ Open Ownership <p>Donors</p> <ul style="list-style-type: none"> ➤ WorldBank/Fiscal Performance Improvement Support Project (FSP) ➤ Open Ownership
<p>Disproportionate Focus on Crude Oil Export</p> <p>Winners</p> <ul style="list-style-type: none"> ➤ Nigerian Citizens ➤ Nigerian Government <p>Lose</p> <ul style="list-style-type: none"> ➤ None 	<ul style="list-style-type: none"> ➤ Increase focus on value addition instead of just exporting petroleum products in unrefined forms. ➤ Advocacy to the government to support local refineries and establish modular refineries to meet local needs. ➤ Increase focus on other natural resources 	<p>State Actors</p> <ul style="list-style-type: none"> ➤ National Assembly ➤ National Economic Council ➤ National Export Promotion Council <p>Non State Actors</p> <ul style="list-style-type: none"> ➤ BudgIT Foundation ➤ NNRC ➤ Nigerian Economic Summit Group, NESG <p>Donors</p> <ul style="list-style-type: none"> ➤ NRGI
<p>Environmental Pollution</p> <p>If this issue is resolved, who are the winners or losers?</p>	<ul style="list-style-type: none"> ➤ Greater enforcement of gas flaring penalties through a clear regulatory framework ➤ Integrating Environmental, Social and Human Rights Impact Assessment in the pre license award process 	<p>State Actors</p> <ul style="list-style-type: none"> ➤ NOSDRA ➤ Nigeria Gas Flare Commercialization Program, NGFCP ➤ Ministry of Environment

<p>Winners</p> <ul style="list-style-type: none"> ➤ Resource-rich and resource-impacted communities in Niger Delta communities ➤ Federal Government (more revenue, less expenditure on resolution of conflicts) <p>Losers</p> <ul style="list-style-type: none"> ➤ Oil thieves 	<ul style="list-style-type: none"> ➤ Strengthen NOSDRA power to monitor, inspect the oil facilities, enforce its power to prosecute polluters ➤ Deployment of technology designed to swiftly detect, localise and cut off flows to specific pipelines as soon as leakages occur. ➤ Use of covert perimeter fencing, drones and other pipeline monitoring technologies to prevent breaches. 	<ul style="list-style-type: none"> ➤ Department of Petroleum Resources, DPR <p>Non State Actors</p> <ul style="list-style-type: none"> ➤ Friends of the Earth/ Environmental Rights Action ➤ Centre for Environment, Human Rights and Development (CEHRD) ➤ NNRC <p>Donors</p> <ul style="list-style-type: none"> ➤ Worldbank/Global Gas Flaring Reduction Partnership (GGFR)
<p>Natural Resource Theft & Resource Conflict</p> <p>Winners</p> <ul style="list-style-type: none"> ➤ Resource-rich and resource-impacted communities in Niger Delta communities <p>Losers</p> <ul style="list-style-type: none"> ➤ Oil thieves ➤ NNPC & IOCs will need to make increased investment on pipeline protection 	<ul style="list-style-type: none"> ➤ Arrest and prosecute crude oil thieves, their sponsors and collaborators. ➤ Hold pipeline surveillance contractors accountable for oil theft through performance based contracts. ➤ Use molecular trackers for stolen crude. ➤ Citizens should be informed about the bad effects of crude oil theft on their communities and environment. ➤ Deploy early warning and resolution systems in resource-rich and resource-impacted communities. 	<p>State Actors</p> <ul style="list-style-type: none"> ➤ Nigeria National Petroleum Corporation, NNPC ➤ Presidential Amnesty Office ➤ Nigerian Navy, ➤ Nigerian Army ➤ The Police Force <p>Non State Actors</p> <ul style="list-style-type: none"> ➤ African Centre for the Constructive Resolution of Disputes ➤ International Oil Companies ➤ United States Institute of Peace, USIP ➤ Environmental Rights Action ➤ NNRC

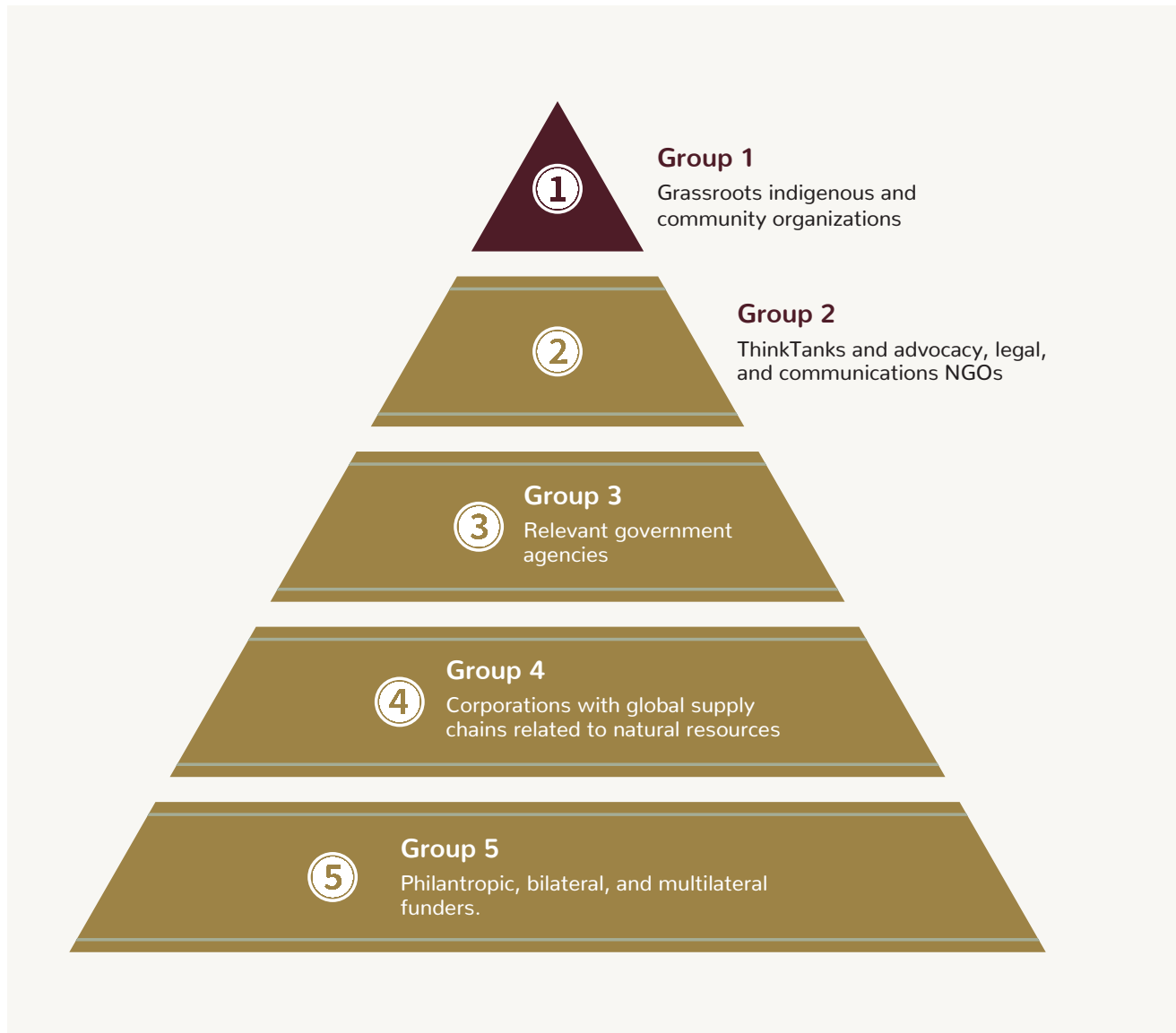
b. Issues-Solution matrix: Solid Minerals

Problems	Solution
<p>Availability of Geosciences data</p> <p>If this issue is resolved, who are the winners or losers?</p> <p>Winners</p> <ul style="list-style-type: none"> ➤ International/Domestic Investors ➤ Federal Government of Nigeria ➤ Civil Society <p>Losers</p> <ul style="list-style-type: none"> ➤ Bureaucratic elements 	<ul style="list-style-type: none"> ➤ Adoption of international strategy for documentation and presentation of geosciences data; including increased availability online. ➤ Digitization of previously collected geosciences data
<p>Revenue Leakages</p> <p>Winners</p> <ul style="list-style-type: none"> ➤ Federal Government and producing states ➤ Local communities (under an accountable framework) <p>Losers</p> <ul style="list-style-type: none"> ➤ Local miners and feudal lords 	<ul style="list-style-type: none"> ➤ Enforcement of penalties for culprits found complicit in causing revenue leakages. ➤ International collaboration to combat illicit out-flow of funds from the country ➤ Strengthen RMFAC to increase collaboration between the tiers of government to harmonize taxes
<p>Weak Policy Thrust on Value Addition</p>	<ul style="list-style-type: none"> ➤ Make value addition the government's priority - in policy formulation and implementation

<p>Illegalizing Artisanal Mining</p> <p>Winners</p> <ul style="list-style-type: none"> ➤ Federal Government and producing states ➤ CBN for structured forex earnings. <p>Losers</p> <ul style="list-style-type: none"> ➤ Local miners and feudal lords 	<ul style="list-style-type: none"> ➤ Artisanal mining should be legalized and significantly consolidated into cooperatives ➤ Mining Policy and other security operatives should be strengthened and made available at mining sites
<p>Infrastructure Deficit</p>	<ul style="list-style-type: none"> ➤ Government should build a modern, efficient and effective infrastructure network
<p>Policy Uncertainty</p>	<ul style="list-style-type: none"> ➤ Increase policy implementation coordination between the state and federal government to reduce multiple taxation and harassment.
<p>Weak Financing</p>	<ul style="list-style-type: none"> ➤ Monetary policy incentivise financial institutions that support value addition in solid minerals
<p>Technical Capacity</p>	<ul style="list-style-type: none"> ➤ Skill training and capacity building of small-scale and artisanal miners ➤ Strengthening/enforcement of standard mining regulation and monitoring framework ➤ Integration of sustainable development concepts, best-practices and stakeholders participation into the technical considerations ➤ Availability and access to mining equipment

c. Actors categorization matrix

State Actors/Non-State Actors, Who is in #FixOurOil Coalition?



5

**What should be the long-term
intervention strategy?**



Reforms especially in Natural Resources in developing countries like Nigeria happen slowly and across multiple political administrations - often requiring reformers to continuously adapt to rapidly changing political dynamics and new state actors that will be responsible for implementing and sustaining positive reforms.

This requires a long term strategy, innovative, adaptive and well financed non-state actors. In this section, we discuss components of the proposed long term intervention strategy

a. Component 1: Mitosis Funding Model

One of the biggest indictments - consumption pattern - of the public spending model of natural resources revenue used by governments of Sub-saharan Africa is also, sadly, an indictment on the funding model used by the biggest development aid programs intervening in the Natural Resource Sector in Nigeria.



To solve this problem we propose the existence of a local Natural Resource Impact Optimisation Endowment Fund with a 20 - 30year time-to-live

A common case study we put forward is the Norway Pension Fund which did not spend all its oil revenue on consumption but saved over \$1trillion and can spend just 4% of the fund; for context, that 4% translates to \$40billion (N14.4 trillion) which is more than sufficient to fund the budget of Nigeria's federal government.

To solve this problem we propose the existence of a local Natural Resource Impact Optimisation Endowment Fund with a 20 - 30year time-to-live in a funding strategy which we describe as "mitosis" - referencing the ability of the fund to generate sustained funding for non-state actors throughout its life cycle.

With a spend rate of approximately 8%, this will provide a stable flow of funding to carefully designed interventions. With this, non-state actors in Natural Resources reforms have a relatively predictable funding source cycle independent of changing donor priorities to enable them to rapidly adapt to changing political dynamics that influence the implementation or sustenance of reforms.

Features of mitosis funding model

Mobilise

N30 billion

intervention Natural Resources Optimization Endowment fund from multiple donors already active in the sector.



Each funder donating above

500m

will have representation on the advisory board



Only

8%

or amounts equivalent to profits made on the endowment fund yearly will be spent on natural resources reform & Optimisation.



20year



placement (local fund managers)



Funds returned to donor countries at the end of the intervention lifecycle

b. Component 2: Sustained Research

This component of the overall strategy is aimed at producing evidence to help make high quality arguments for policy development or implementation. It will involve policy, data, issues and scenario analysis and adaptive strategies review implemented by non-state actors.

This strategy will also involve regular political economy analysis to help shape advocacy efforts for maximum impacts and investigative journalism to uncover problematic trends and their underlying drivers. This would be undertaken by think tanks, NGOs, consultants and in some cases academics.

c. Component 3: Synergized & Leveraged Advocacy

This component of the overall strategy will involve ensuring synergy amongst interventions implemented by different CSOs in the sector to avoid duplication of efforts and increased opening for opportunities.

This will include optimizing and leveraging the existing Extractive Consultative Forum comprising NGOs, media, think tanks, law firms and consultants active in the sector to amplify voices and create opportunities for partnerships.

Activities to be carried out by the forum directly and through its members include lobbying, drafting/ translating insights into sample regulatory and legislative pieces for dialogues aimed at persuading decision makers and technical staff on policy options.

d. Component 4: Sustained Cross-Functional Dissemination

This component of the overall strategy will involve uptaking insights from research and creatively disseminating the same through offline and online platforms to targeted audiences - all executed within the framework of carefully crafted communications strategies that take into consideration the political economy of reforms being pursued per time.

This could include subliminal messaging, storytelling with data, online/offline influencers, online/offline meetings, workshops, trending conversations online and other efforts to inform audiences or to shape narratives.

e. Component 5: Sustained Feedback Loops

This component will ensure that global standards like the Natural Resource Charter and Extractive Industry Transparency Initiative (EITI) Requirements are mainstreamed into the advocacy activities of NGOs and donors with a view to ensuring that all hands are on deck to improve the performance of Nigeria when the Nigeria Natural Resource Charter (NNRC's) Benchmarking Exercise Report (BER) Score Card and the EITI Performance Requirement Validation reports for Nigeria are published.

This will involve adequately supporting NGO's, donors, think tanks, journalists to uptake findings from these global report cards to identify areas that need priority attention. This component will also carry out policy implementation assessment and provide continuous feedback to state and non-state actors.

f. Component 6: Sustained Innovation

Part of the challenge with Natural Resource advocacy in Nigeria is that there is very little intentional frameworks that supports the introduction of innovations and new ways of thinking in an agile manner into the reforms process. This component of the strategy will involve designing intentional frameworks to foster innovation and fresh thinking



This will involve adequately supporting NGO's, donors, think tanks, journalists to uptake findings from these global report cards to identify areas that need priority attention.

This may take the forms of cross-functional hackathons, publicly rewarding innovative reforms, specialized hackathons etc.

g. Component 7: Sustained Capacity Building

This component of the strategy will involve continuous identification of core competency gaps in critical areas of natural resources governance advocacy experienced by CSOs and government agencies responsible for developing and implementing reforms. It will also involve providing support to close those gaps.

h. Component 8: Sustained Frontline Protection & Replenishment

The success of reforms largely depends on the quality of the people driving the reforms. Retaining quality staff within local NGOs and think tanks is usually a difficult task especially when the industry could offer higher pays and there is a constant need to make and preserve extra livelihoods for the future as historically pension savings of Nigerian workers is typically eroded by inflation and exchange rate volatility - this fear is a constant source of distraction even for staff working on the frontlines of extractive reforms.

This component of the broad strategy will take care of this problem by supporting programs within local NGOs and across NGO coalitions that preserve future livelihoods as an incentive for the brightest minds to join the frontline of reforms within local NGOs and think tanks instead of joining other jobs or industry. There's also a need to proactively replenish the frontline workforce so we have less distracted activists.

i. Component 9: Sustained Litigation

There's a law-implementation gap in the extractives industries. This component of the strategy will involve leveraging CSOs within the Extractives Consultative Forum with core competency in litigation to help improve the legal, political and reputational cost to non-state actors breaking laws - including those who do not break laws or policy but subtly sabotage reform through underfunding and companies cheating communities etc.

It will involve supporting public interests in the sector, providing support to frontline workers who are being harassed by agents of the state.

6

**What should be the
outputs and outcomes?**



a. Suggested Theory of Change

Input

Activities to deliver an efficient and inclusive extractive resource environment that deliver services for citizens in an equitable manner.

Long term Outcome

A coalition of citizens, government, media, private sector and civil society organizations working towards an efficient extractive sector environment.

Short and Medium term Outcome

Engaged communities using visually appealing information to demand efficient use of extractive resources.

Inclusive participating in service delivery process for public entities involved in the use of extractive resources.

Empowered non state actor groups championing reforms in the extractive resources especially around benefit use and community rights.

Output

Reach 1.2m Nigerians in Oil and solid minerals producing communities, defining resource benefits and providing a pathway to accountability.

Mobilize 100,000 citizens to champion legislative review in extractive resources environment for resource optimization

Deliver 500 Visually appealing and creative design in 5 years to build awareness on extractive resource benefits

Convening 40 meetings with industry leaders, civil society organizations, private sector and media in 5 years on extractive improvement

Activities

Infographic Visualization Development and social campaigns

In-depth research on Extractive Sector Issues

Community Engagement on Service delivery

Convening Extractive Consultative Forum on Advocacy strategy for Extractive sector reform

Support for public sector organizations on extractive sectors reform in Nigeria

Inputs

Public sector reports, NNPC Reports, Private Sector Analysis, Civic Engagements etc

b. What can BudgIT and other non-State actors do?

The new strategy requires that BudgIT will keep the pace in its areas of strength which are data, policy, scenario analysis and visualization as it concerns selected governance and benefits transfer issues for resource-rich and resource-impacted communities. We will continue with citizens mobilization and stakeholder engagement through offline & online dissemination activities.

The strategy also requires that we will consolidate and leverage on our 3-year experiment with the Extractive Consultative Forum to synergize, amplify and sustain the advocacy efforts and voices of local and national CSOs active in the space.

We will strengthen advocacy & consultative forum components. Overall, there are 5 intersections between Ford Foundation focus and our strategy (Benefits, Governance, Effective Agency, Narrative, Resource Mobilization).

<https://www.thecable.ng/akpabios-defection-hypocrisy-anti-graft-war>

Key Theme	Ford Foundation Definition	Our Alignment
Benefits	Government and company policies as well as practices will make the distribution of the benefits and compensation from mining and energy projects more equitable.	<p>BudgIT has been at the forefront of analysing revenue benefits including the revenue chain, as well as allocations to central and subnational governments.</p> <p>Since the publication of NNPC monthly operational and financial reports, NEITI audit reports and other benefits analysis. BudgIT also engaged other independent agencies such as Niger Delta Development Commission among others.</p>
Governance	Government and company policies and practices will explicitly reduce illicit financial flows, corruption, tax evasion, and environmental crimes related to natural resources.	<p>BudgIT has been a leading policy research organization with policy documentation on Petroleum Industry legislation, fuel subsidy, beneficial ownership, savings and also the governance around NNPC.</p> <p>BudgIT has advocated for improved governance of Nigeria's policy space and holds annual meetings with NNPC to ensure policy improvement.</p>
Effective Agency	Selected grassroots organizations, NGOs, and social movements will develop more effective advocacy and communications strategies and stronger alliances to ensure positive outcomes at all levels (of decision-making)	<p>BudgIT has used the viral #FixOurOil campaign to build awareness on the challenges in the natural resource sector and has effectively been the strong voice for optimising efficiency in the sector.</p> <p>How are these remediation issues being addressed and what can citizens do to ensure action is finally taken? Through its extractive consultative meeting, BudgIT has led campaigns and keep using infographic/interactive applications to build civic awareness., reached over 1.2m Nigerians.</p>

<p>Narrative</p>	<p>Narratives about climate change and extraction in the global and national media and among opinion leaders will increasingly reflect views and solutions put forth by organizations that represent rural communities in the Global South</p>	<p>BudgIT boasts of extractive sector experts with firm opinions on the challenges in the sector. Our staff have consulted for NEITI, DFID and other organizations on the necessary reforms that transform the natural resources space especially in terms of efficiency that benefits Nigeria especially those in resource-producing areas.</p>
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Complexity of Interventions

Simple

Complex

Tracking service delivery on projects linked to oil revenue e.g Derivation funds in local communities, Ministry of Niger Delta and payments to Niger Delta Development Commission

Mapping extractive revenues to Nigerians especially in oil-producing communities

Connecting intersections of Policy makers and institutional leaders such as NEITI, organized civil society and media.

Strengthening the extractives forum through long term resource support and coalition building

Improving direct citizens engagement through creative narratives on the vanishing resources of oil and gas and need for further efficient use of resources

Strengthening the extractives forum through long term resource support and coalition building

Funding Approaches



The sustenance of advocacy impact in the Extractives sector will require funding at a scale that challenges the interests of the actors within the space.

This paper has outlined the key focus areas in line with the objectives for Ford Foundation. However, we believe that funding should be provided in three approaches to combat the abuse of resources and underinvestment in the sector over the years.

Creation of Endowment Fund for Extractive Civil Society Working Group

There is a need for long-term funding to support the civil society organizations working in the extractive space especially in their capacity to intervene and build firm connections with public and private sector stakeholders.

Unrestricted Funding for BudgIT to build coalition and sustained engagement

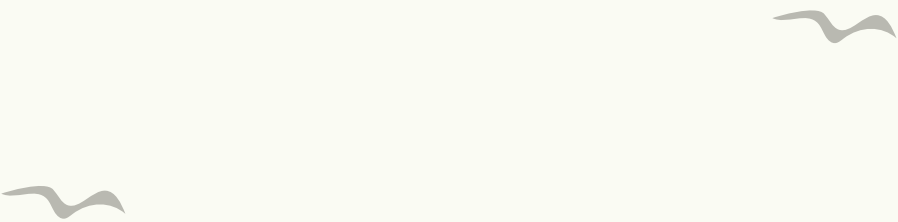
BudgIT also requires medium-term funding to be able to strengthen its Extractives unit as well as fulfil objectives as aligned in this proposal. This funding will be crucial to sustained engagement with benefit communities, state oil companies and public sector institutions.

We have developed a medium-term strategy that needs to be supported for at least three years to ensure sustained impact in the industry. We want to see an accountable system where the benefits are optimised for the citizens.

Programmatic Funding Support for civil society organisations

Beyond long-term and medium term support, we believe that organizations should be able to seek short-term funding to make direct interventions on projects in very specific areas of advocacy.

BudgIT sees the need to strengthen start-up CSOs or community based organizations working on projects in Nigeria.



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