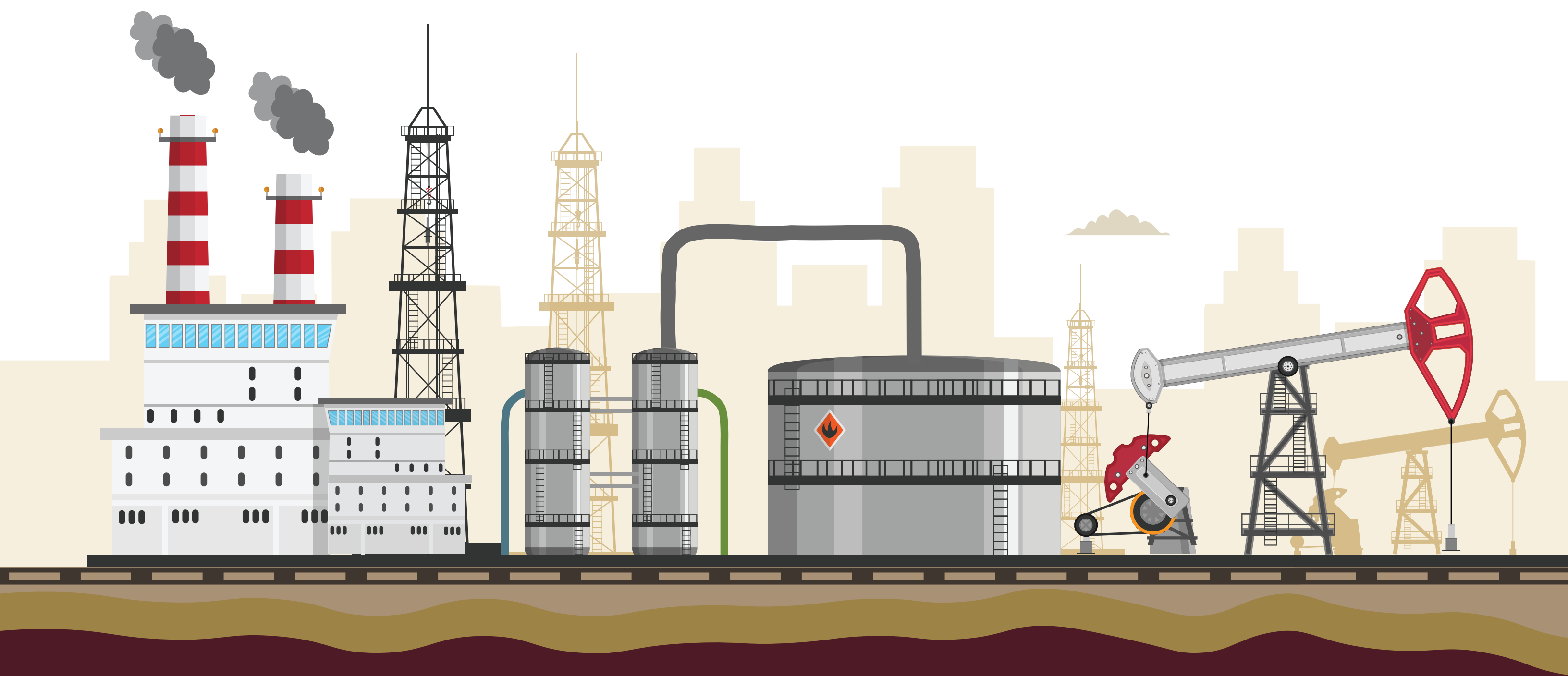
POLICY BRIEF

NNPC: The burden of Africa's Oil and Gas Giant



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POLICY BRIEF

About BudgIT

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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Overview

The 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 Nigeria's ***37billion barrels***[1] of crude oil reserves and **200 trillion cubic feet** of proven natural gas reserves, NNPC has been overwhelmed by commercial inefficiencies, scandals and a reputational damage that has lingered for nearly four decades. From the ***Crude Oil Sales Tribunals*** of 1980 set up to investigate ***182m*** barrels of crude oil scandal in which NNPC caused Nigeria to lose nearly **$2bn** in uncollected equity[2] to the more recent NNPC's 2010 faceoff with 36 State Governors who accused it of defrauding the federation[3] to the tune of ***N450bn***, to allegations in 2018 of mismanaging **N378bn** of the country's dividend[4] from Nigeria Liquefied Natural Gas (NLNG) Company; NNPC has historically been in the eye of Nigeria's fiscal storm.

NNPC's leadership is staffed by some of the brightest minds in the oil and gas industry, some of whom are doing their best to improve the corporation's commercial efficiency within the constraints of political interference, unreasonable demands of staff unions, a defective operational model and continuous sabotage of NNPC's critical infrastructure by vested interests and oil thief's who, for example, in 2018 inflicted **2,224 breakpoints**[5] and illegal taps on NNPC's ***5,120km pipeline network***[6] causing NNPC (and by extension Nigerian citizens) to lose **N3.51bn** worth of crude oil, **N33.99bn** worth of petroleum products and incur repair costs of **N150.09bn** in that year.

NNPC was set up in 1977 to help Nigeria maximize value from the country's

37
Billion barrels of crude oil reserves

and its
200
trillion cubic feet of proven natural gas reserves

"However, since inception, NNPC has been beleaguered by commercial inefficiencies, scandals, allegations of scandals and a reputational crisis that has lingered for nearly four decades."

1. https://www.worldatlas.com/articles/the-world-s-largest-oil-reserves-by-country.html
2. http://www.fundinguniverse.com/company-histories/nigerian-national-petroleum-corporation-history/
3. https://punchng.com/finally-nnpc-pays-n450bn-federation-account-debt/
4. https://www.pulse.ng/news/local/pulse-list-2018-top-5-corruption-stories-in-nigeria/5b98jm9
5. NNPC Monthly Financial and Operations Report for the Month of December 2018
6. https://www.flowtechenergy.com/news/oilfield/nigeria-ppmc-counts-achievements-amid-controversies/

A disaster waiting to happen

Despite the President of the Federal Republic of Nigeria, His Excellency, Mr Muhammadu Buhari, appointing himself as NNPC's Board Chairman and also as the Minister of Petroleum Resources, powerful but unkown 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.*** 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 macroecoomic 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 petrol products. In the memo, the GMD requested for access to Nigeria's dividend from NLNG. For context, NNPC already recieves ***445,000 barrels*** of crude oil from the federation daily for refining which it exports in exchange for purchasing petroleum products through its Direct Sales Direct Purchase (DSDP) program.

A common but faulty defence put forward for hiding line items of NNPC's budgeted expenditure from the National Assembly is ***Section 7 (4)(b) of the 1977 NNPC Act*** which allows NNPC to deduct all its expenses from the petroleum revenue it collects in trust for Nigeria. It is worth clarifying that there is nothing in the often-cited Section 7 (4)(b) of the 1977 NNPC Act or in the entire NNPC Act that excludes NNPC from subjecting legal deductions for its expenses as required by the NNPC Act to legal budgetary approval of the country's National Assembly ***as required by the country's Constitution*** and ***explicitly required by the Fiscal Responsibility Act 2007***.

Who supervises NNPC?

His Excellency, Muhammadu Buhari, GCFR

NNPC Board Chairman (2015 - 2023)

Minister for Petroleum (2015 - 2023)

Nigerian President (2015 - 2023)

A leaked memo in 2018 with excerpts from NNPC's 2016 Audit report revealed that NNPC's total liabilities as at December 31st 2016 stood at N7.5trillion which was N1trillion more than its total assets as at 2016.

NNPC's Audit reports are historically kept a secret despite laws against its secrecy. In 1980, the Crude Oil Tribunal ordered NNPC to release its Audit report from 1975 to 1980.

Section 7 (4) (b) of the 1977 NNPC Act only provides legal backing for NNPC to reduce administrative bottlenecks in accessing funds for its expenses which can be common with government agencies by clarifying ***where*** NNPC's funding should come from. The section does not *require, suggest, imply, insinuate or bestow* a license for discretionary deductions on NNPC, a serious problem plaguing Nigeria's public finance which the team led by Dr. Okonjo Iweala, Nigeria's former Minister of Finance who is currently a member of South Africa's Economic Advisory Council, sought to bring to an end with the introduction of the 2007 Fiscal Responsibility Act in Nigeria.

The seriousness of this problem is evident in the financial year 2018 during which NNPC reported it had budgeted[7] to spend **N3.78tn** across 14 subsidiaries, with a revenue projection of ***N5.04tn*** and a projected operating surplus[8] of ***N1.26tn, 80%*** of which is supposed to be paid into the Consolidated Revenue Fund[9] 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 by the governments. This has left the 36 states of the country littered with uncompleted infrastructure projects with some States unable to pay salaries and pensions in some months due to unavailable funds.

$1.01 trillion

WIPED OFF

from operating surplus to be paid as Federal Treasury Revenue as a result of NNPC's discretionary increase in its expenses without National Assembly Approval

Section 22 (1) of the 2007 Fiscal Responsibility Act says

"Notwithstanding the provisions of any written law governing the corporation, each corporation shall establish a general reserve fund and shall allocate thereto at the end of each financial year, ***one-fifth*** *(20%) of its operating surplus for the year.* ***The balance of the operating surplus shall be paid into the Consolidate Revenue Fund*** *of the Federal Government not later than one month following the statutory deadline for publishing each corporation's accounts.*

7. Table 5.1.0, NNPC Monthly Financial and Operations Report
8. *This does not include figures for Duke Oil as NNPC only began reporting Duke Oil Revenue and Expenditure in January 2019*
9. *The Fiscal Responsibility Act 2007 says the other 20% (1/5th) should be kept in NNPC's General Reserve Funds*

A promising corporation left behind

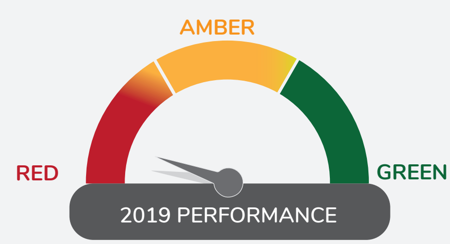
Nigeria's state-owned oil corporation, NNPC, when looked at in the context of its global peers without the magnifying lens of local self-glorification, is one of comparative retrogression, commercial inefficiency and corporate governance failure. EQUINOR, the government-owned oil corporation of Norway which was formed a year after NNPC[10] and had access to less crude oil and gas resources now has operations in 36 countries. It was ranked by Forbes as the ***11th biggest*** oil and gas company in the world by revenue in 2013 and the ***26th largest company*** in ***the world by profit regardless of industry***. EQUINOR is now listed in the New York Stock Exchange, United States and the Oslo Stock Exchange, Norway with **67%** of all profits made by the corporation[11] going to the Government of Norway and the rest to the private sector. Clearly, NNPC has been left behind by its peer, EQUINOR.

Reformers have been sounding the alarm on the need for urgent remedial action on NNPC. Now leading the pack of those calling for reforms is the Nigeria Natural Resource Charter, NNRC. The Natural Resource Charter is a global initiative to assist governments of resource-rich countries to effectively govern their resources. The Charter is made up of 12 best practices called "Precepts". In 2011 the Charter was 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. According to the fourth biennial Natural Resource Governance Benchmarking Exercise Report[12] released by NNRC for 2019, Nigeria once again received the worse grading ***RED*** (out of 3 possible gradings, ***RED***, ***AMBER*** and ***GREEN***) in the Precept of resource governance that concerns adopting best practices in managing NNPC, indicating a state of emergency. If nothing is done about NNRC’s findings, Nigeria’s ability to meet revenue targets and pay its debt will be in serious jeopardy due to the annual hide and seek NNPC plays with public revenue.

How well is NNPC being managed?

NATURAL RESOURCE CHARTER PRECEPT 6:
STATE-OWNED ENTERPRISE

This Precept of the Natural Resource Charter recommends that nationally owned companies like NNPC should be accountable, with well-defined mandates and an objective of commercial efficiency.



NNPC’s performance was **graded RED** in the 4th biennial Petroleum Resource Governance Benchmarking Exercise Report (BER) for 2019 released by the Nigeria Natural Resource Charter, NNRC

10. Nigeria National Oil Corporation, NNOC (NNPC’s Predecessor) was formed in 1971
11. https://www.equinor.com/en/about-us.html#our-history
12. http://www.nigerianrc.org/2019-benchmarking-exercise-report

Hide and Seek: A brief timeline of NNPC's Scandals (1980 - 2019)

A short history of corruption scandals in NNPC identified by the United States Department Of Justice, Nigeria Extractive Industries Transparency Initiative (NEITI) and Civil Society Organizations (1980 - 2018)

1980

The Crude Oil Sales Tribunals[13]

In 1979 allegations of misappropriation against NNPC originating in the magazine Punch, prompted the newly installed civilian President Alhaji Shagari to establish the Crude Oil Sales Tribunal which revealed that from 1975 to 1978, the NNOC and NNPC had failed to collect some **182.95 million barrels** of their equity share of oil being produced by Shell, Mobil, and Gulf - with potential revenue estimated to be in excess of **$2 billion**.

2004

$1m ABB Vetco Gray Scandal[14]

According to the United States Department of Justice, in July 2004, ABB Vetco Gray, a US company, and its UK subsidiary ABB Vetco Gray UK Ltd, admitted to paying over **$1 million** in bribes to officials at NNPC subsidiary NAPIMS in exchange for obtaining confidential bid information and favourable recommendations from Nigerian government agencies.

2008

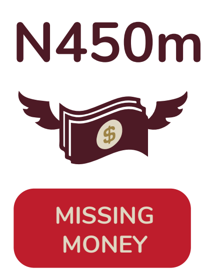
$6.3m Willbros Group Inc Scandal [15]

According to the United States Department of Justice, in May 2008, Willbros Group Inc, a US company, admitted to making corrupt payments totalling over **$6.3 million** to officials at the NNPC and its subsidiary NAPIMS, in return for assistance in obtaining and retaining contracts for work on the Eastern Gas Gathering System (EGGS).

2010

N450bn Unremitted Revenue to FAAC [16]

NNPC was accused of under remitting over **N450bn** to the federation account. Although NNPC initially denied the allegation, it later agreed to a repayment schedule in September 2011 and commenced repayment in monthly installments of **N6.33bn** (some accounts like this one says **N7.66bn**[17]. This payment was completed[19] in April 2017.



13. http://www.fundinguniverse.com/company-histories/nigerian-national-petroleum-corporation-history/
14. https://www.justice.gov/archive/opa/pr/2004/July/04_crm_465.htm
15. https://www.justice.gov/archive/opa/pr/2008/May/08-crm-417.html
16. https://www.thenigerianvoice.com/news/70414/nnpc-agrees-to-pay-n450bn-debt.html
17. https://www.premiumtimesng.com/business/168248-nnpc-begins-payment-of-n206billion-debt-owed-federal-govt.html
18. https://www.tvcnews.tv/nnpc-refunds-of-n450bn-shared-among-states-local-governments/
19. http://saharareporters.com/2011/12/09/monumental-oil-subsidy-fraud-and-corruption-nnpc-damning-kpmg-report-premium-times

2011

N28.5 billion Subsidy Over Deductions

Sequel to a forensic report conducted by KPMG on orders of the Federal Government as a result of concerns over opacity in NNPC's illegal deductions of funds belonging to Nigeria, sharp business practices and violation of regulations. The KPMG auditors found that between 2007 and 2009 alone, the NNPC over-deducted funds in subsidy claims to the tune of **N28.5 billion**. It has not been able to account for the sum ever since.

N28.5bn

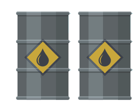
SUBSIDY SCANDAL

2013

$6.8 billion Trafigura and Vitol Scandal [20]

In November 2013, Public Eye (Erklärung von Bern) a Swiss Non governmental advocacy organisation published a report alleging heavy fraud and placing NNPC under suspicion of siphoning off **$6.8 billion** in crude oil revenues.

$6.8bn



ALLEGATION

2013

$1.48bn unremitted funds to federation account[21]

Although this scandal began with a letter from the then Central Bank Governor, Sanusi Lamido Sanusi in September 2013, alleging that NNPC had not remitted **$49.8 billion** proceeds of crude oil sales, it was later revised on 13 December 2013 to **$12bn**. Ultimately, a forensic audit ordered by then president, His Excellency, Goodluck Jonathan, GCFR was conducted by PwC. The final PwC report concluded that NNPC and NPDC should refund to the Federation Account a minimum of **$1.48billion** and that the major considerations centered around ownership of oil and gas assets controlled by NPDC.

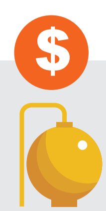
$1.48bn

MISSING MONEY

2017

$15.8bn NLNG Funds Probe Request [22]

Nigeria Extractive Industries Transparency Initiative, NEITI, asked the Federal Government and the National Assembly to launch an independent probe into all NLNG dividends paid to NNPC between 2000 to 2014 which stood at over **$15.8billion**, as NEITI's independent auditors had traced these payments to NNPC accounts without a corresponding evidence NNPC remitted same to the Federation Account as required by sections 80(1) & 162 (1) of the Nigerian constitution.



$15.8bn

NEITI PROBE REQUEST

20. https://www.swissinfo.ch/eng/traders-collude-in-oil-corruption--says-swiss-ngo/37260152
21. https://www.vanguardngr.com/wp-content/uploads/2015/04/Audit-Report-on-NNPC.pdf
22. https://www.premiumtimesng.com/business/business-news/228122-neiti-calls-probe-15-8-billion-nlng-dividends-2004-2014.html

2017

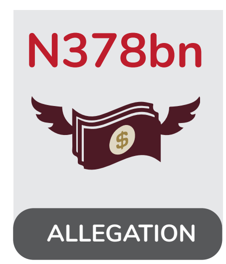
$5.5 billion Undervaluation of assets

Nigeria Extractive Industries Transparency Initiative (NEITI), in its Policy Brief published in 2017 titled, "Unremitted Funds, Oil Sector Reform and Economic Recovery" noted that the total unremitted revenues to the federation by the NPDC (NNPC's subsidiary) is put at about **$5.5 billion** and another **N72.4 billion** due to undervaluation from NNPC's divestment of its **55 per cent shares** in the Shell Joint Venture, which it valued at **$1.8 billion** whereas PricewaterhouseCoopers' (PwC) valuation of the same assets was **$3.4 billion**, in addition to four other assets were divested in 2012 by NNPC to NPDC under the NAOC JV, which the DPR valued at **$2.225 billion**.

2018

N378bn Missing NLNG Funds Allegations

In November 2018, PremiumTimes broke the news alleging NNPC had diverted N378bn of NLNG dividend it collected as a result of Nigeria's **49%** ownership in NLNG. NNPC clarified that the fund was borrowed for it to purchase petroleum products.



2019

N77.9bn Underemitted to Federation Account

In August 2019, Nigeria Extractive Industries Transparency Initiative (NEITI) accused NNPC of withholding the sum of **N77.92bn** which should have been paid to the Federation Account from Domestic Crude Allocation in 2017. NNPC acknowledged the under-remittance.

23. https://guardian.ng/news/neiti-wants-nnpcs-transfer-of-assets-to-npdc-probed/
24. https://www.premiumtimesng.com/news/headlines/294097-exclusive-documents-show-buharis-govt-illegally-diverted-n378billion-nlng-dividend.html
25. https://economicconfidential.com/2019/08/nnpc-underremitted-n78bn-federation-account/

Is NNPC a good deal for Nigerians?

Well, you decide.

A few of NNPC's wholly-owned subsidiaries in exploration, production, and gas processing like NPDC and NGC consistently make heart-warming profits. The corporation's partly owned subsidiary, the Nigeria Liquefied Natural Gas (NLNG) Company, an Incorporated Joint Venture (IJV) which NNPC owns 49% is another shining example of profitability while Integrated Data Services Limited (IDSL) is another top performer worthy of mentioning.

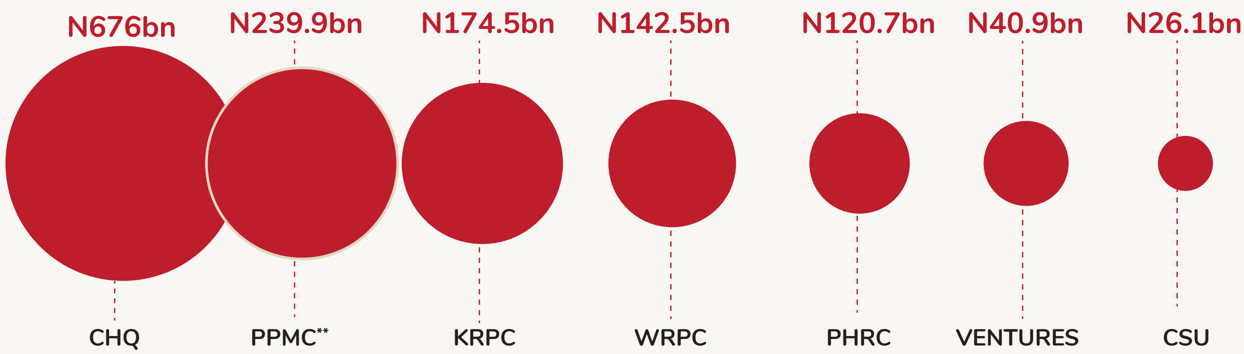
Unfortunately, NNPC is also saddled with wholly-owned subsidiaries that are nothing but a cancer on the profits of the corporation; huge annual losses from these cost centers erode the profits made by the other profitable subsidiaries - helped by the easy access of NNPC to the revenue of profitable subsidiaries through discretionary deductions. This situation is not only a commercial disincentive for the loss-making subsidiaries to become profitable, but the losses contribute to macroeconomic instability[26] of Nigeria by placing a strain on public finance. As an example, as shown in the following pages, the **N352bn** loss incurred by 6 NNPC subsidiaries and NNPC's Central Headquarters (CHQ) in 2018 was deducted from the operating surplus made by NPDC and Nigeria Gas Company (NGC) which would otherwise have been paid into the government's Consolidated Revenue Fund (CRF).

The opportunity cost of not paying this **N352bn** to the CRF is that the Nigeria is constrained to borrow the equivalent sum to meet budgeted expenditure with the tripple implication of increasing the country's debt profile, future debt servicing obligations and crowding out the private sector from accessing loans especially if the government borrows locally.

26. ASIAN DEVELOPMENT BANK, *"Finding Balance 2016 Benchmarking the Performance of State-owned Enterprises In Island Countries."* Page 16

IS THIS A GOOD DEAL?

Between July 2015 and December 2019, a total of -N1.42 trillion incurred by 7 NNPC subsidiaries was deducted by NNPC's management from the operating surplus of other profitable subsidiaries. The breakdown of losses are shown below:



WHAT IS THE OPPORTUNITY COST?

N1.42trillion could have built...

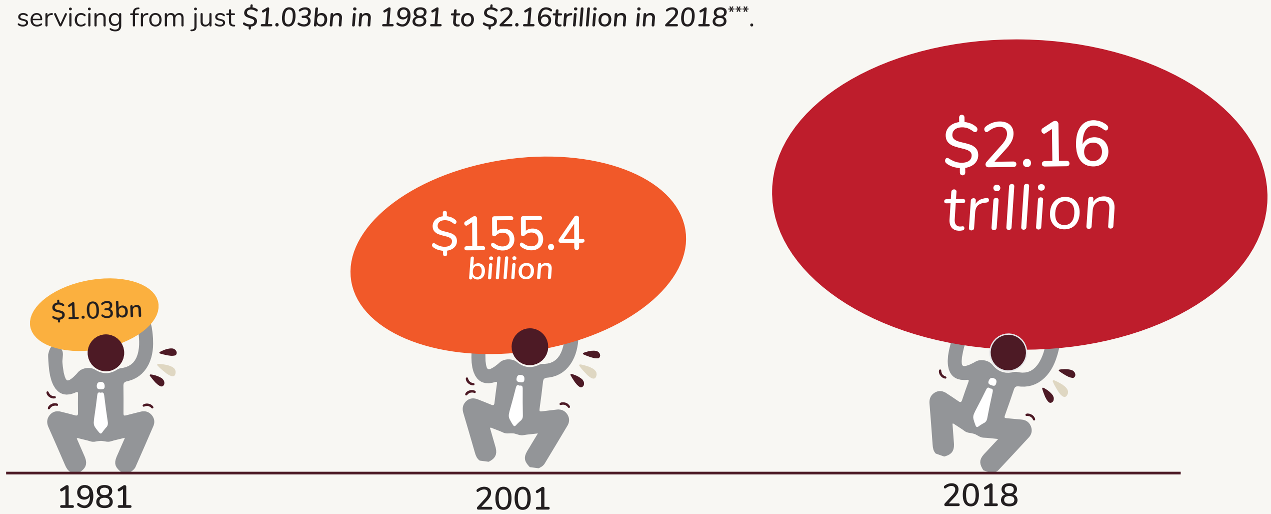
ADDITIONAL
2000mw
of solar powered electricity to the national grid

or

AND EQUIPPED
240
units of 1,000-bed hospitals across 774 LGAs

EXPONENTIAL JUMP IN DEBT SERVICING

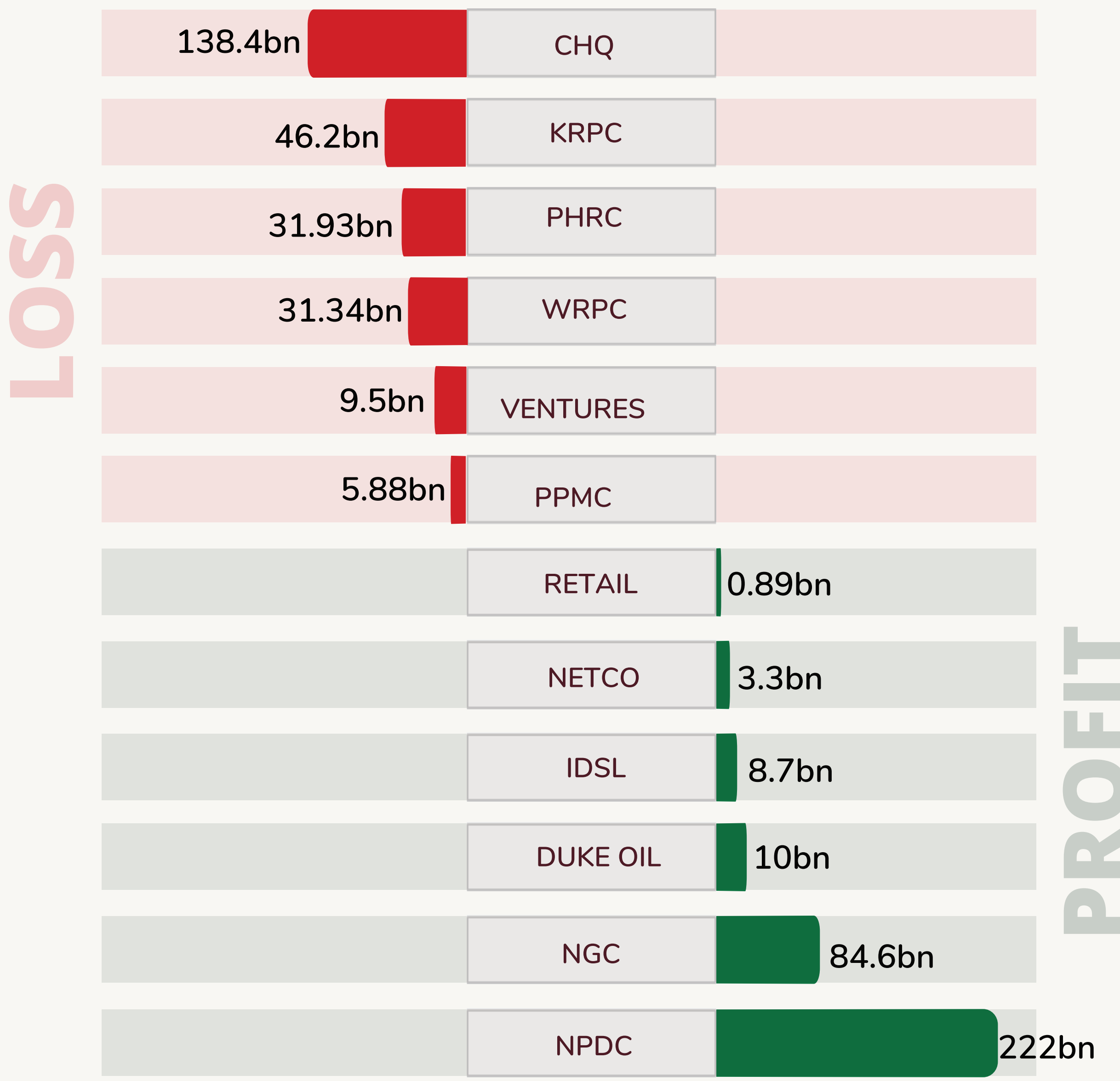
Continued yearly deductions by NNPC to cover losses of malfunctioning subsidiaries means Nigeria's government will continue to borrow the equivalent sum yearly to contribute to funding its budget; more borrowing means more debt servicing burden *(i.e. interest paid on debt yearly)* for future generations. This is one of the many drivers contributing to the exponential growth in Nigeria's expenditure on debt servicing from just ***$1.03bn in 1981 to $2.16trillion in 2018******.



***PPMC consist of NPMC/NPSC/ML, PPMC/NPSC/ML, NPSC, PPMC Before/After Subsidy, Shipping and PPMC*
****CBN 2018 Statistical Bulletin, Public Finance Statistics*

2019 Profits and Loss Dynamics

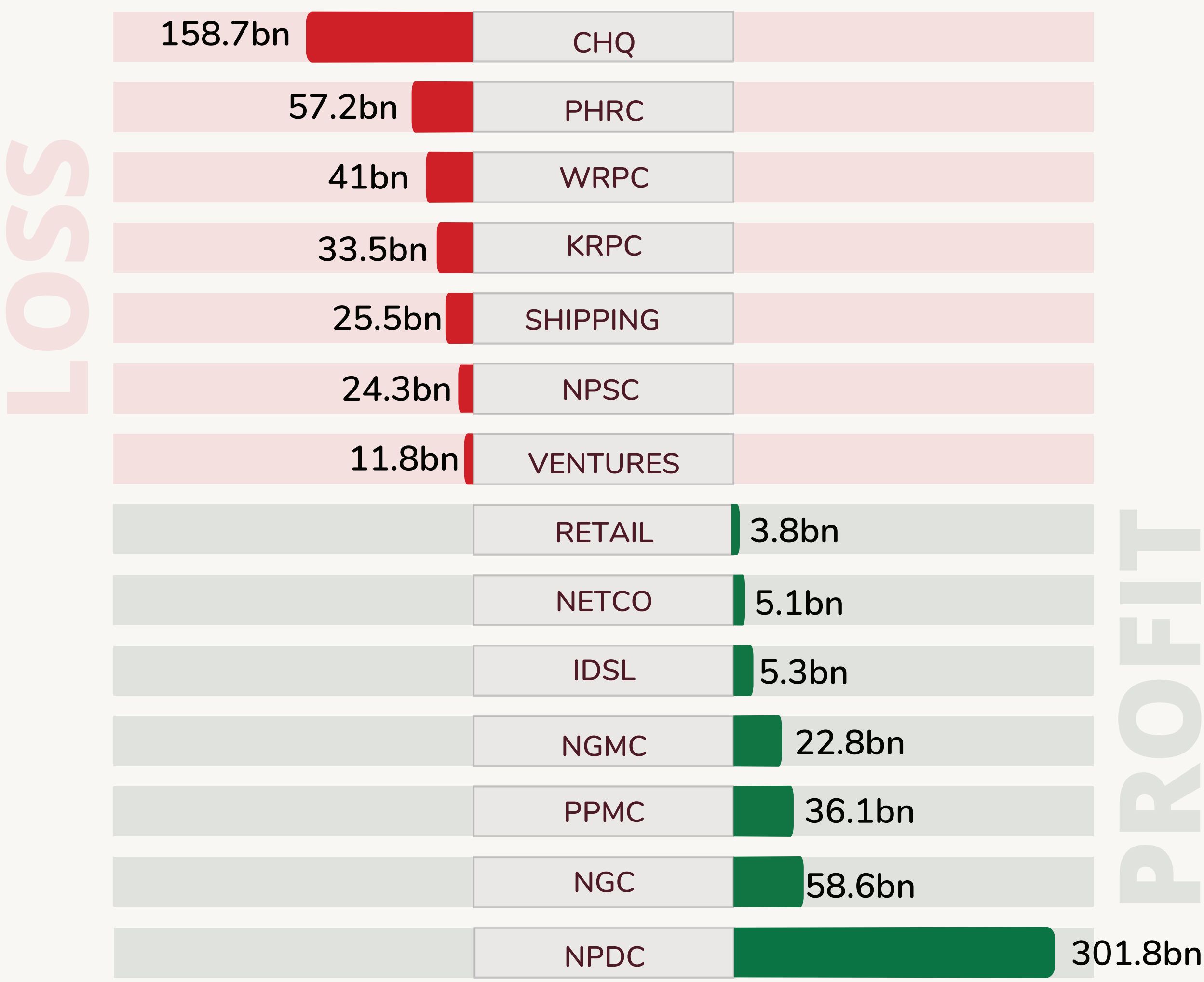
In 2019, **-N263.3bn** cumulative loss made by 5 subsidaries (shown on the left) and NNPC Central Headquarters (CHQ) was deducted from the **N329.5bn** operating surplus of 6 NNPC subsidiaries (shown on the right) leaving the entire group with a net surplus of just **N66.1bn.** Without this **-N263.3bn deduction, 80% (or N263.6bn of the N329.5bn initial operating surplus of the 6 profitable subsidiaries in 2019)** would have been paid into Nigeria's Consolidated Revenue Fund.



SOURCE: *NNPC Monthly Financial and Operations Report (Jan - Nov 2019). Note: Data for February and March 2019 is not available from NNPC's official website*

2018 Profits and Loss Dynamics

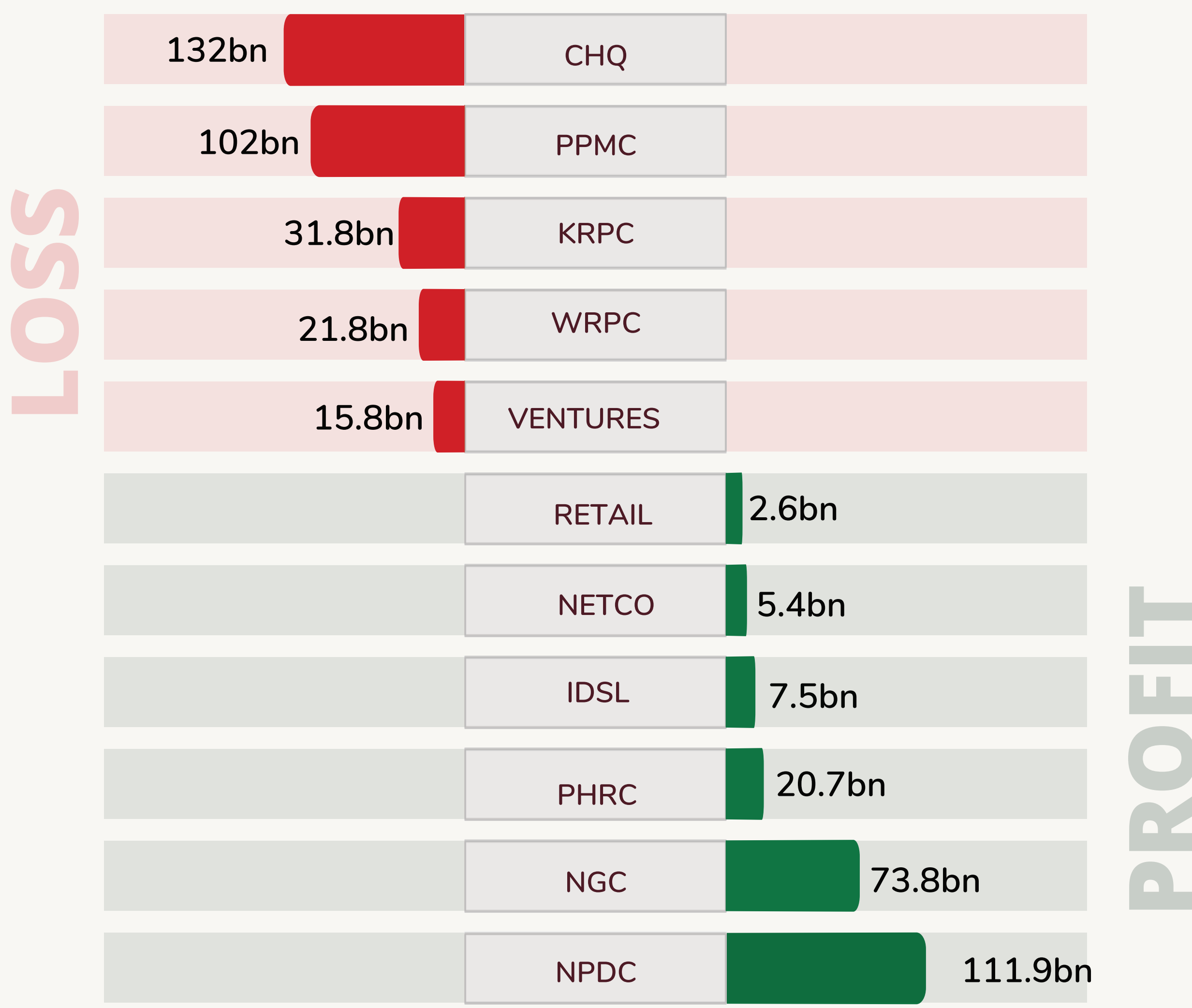
In 2018, **-N352bn** cumulative loss made by 6 subsidaries (shown on the left) and NNPC Central Headquarters (CHQ) was deducted from the **N433.5bn** operating surplus of 7 NNPC subsidiaries (shown on the right) leaving the entire group with a net surplus of just **N81.5bn.** Without this **-N352bn deduction, 80% (or N346.8bn** of the **N433.5bn initial operating surplus of the 7 profitable subsidiaries in 2018)** would have been paid into Nigeria's Consolidated Revenue Fund.



SOURCE: *NNPC Monthly Financial and Operations Report (Jan - Dec 2018).*

2017 Profits and Loss Dynamics

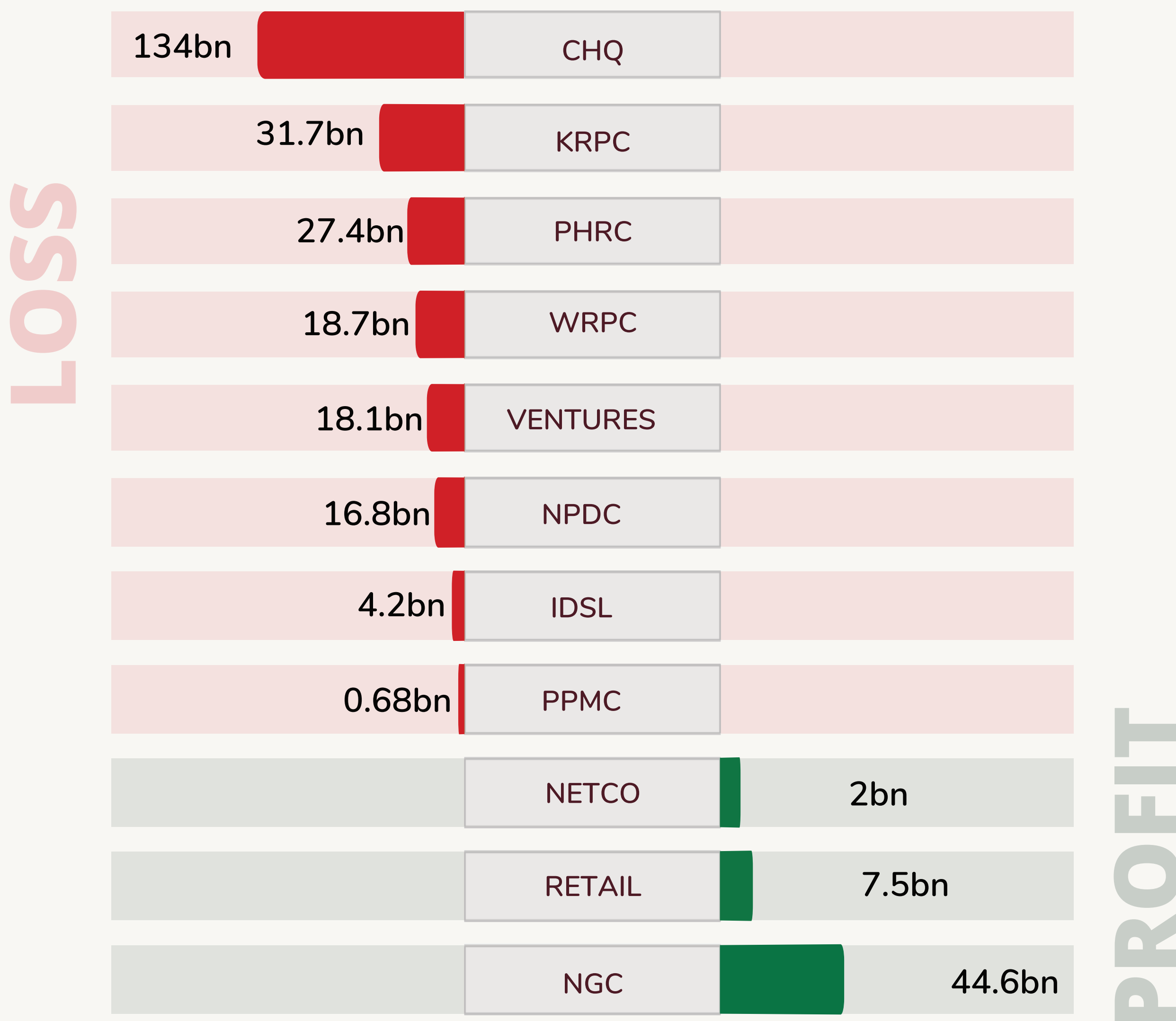
In 2017, the entire operating surplus of 6 NNPC subsidiaries amounting to **N221.76bn** was used to subsidize the **-N303.77bn** losses made by 4 subsidaries and NNPC Central Headquarters (CHQ) leaving the entire group with a net loss of **-N82.01bn**.



SOURCE: *NNPC Monthly Financial and Operations Report (Jan - Dec 2017).*

2016 Profits and Loss Dynamics

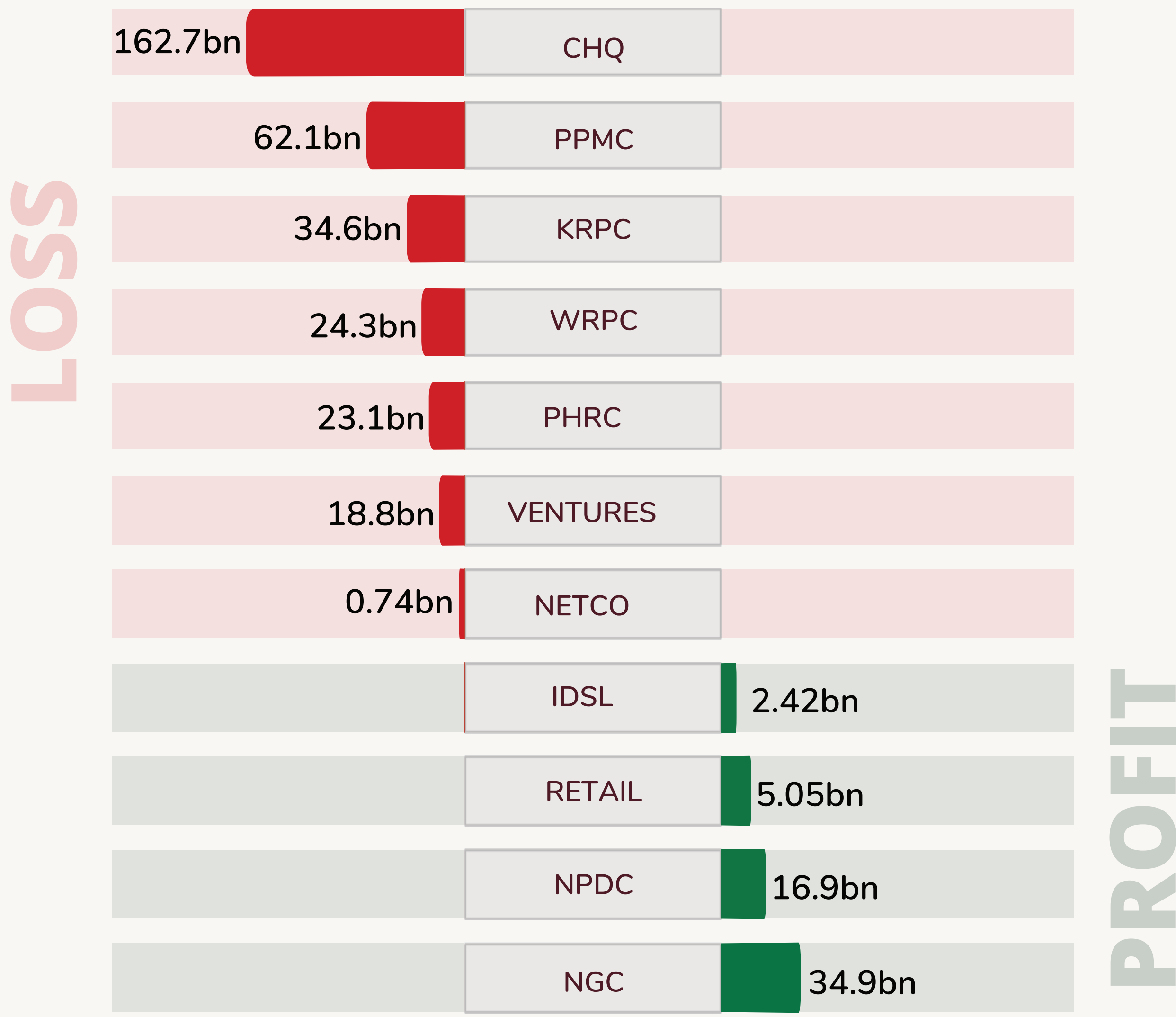
In 2016, the entire operating surplus of 3 NNPC subsidiaries amounting to **N54.08bn** was used to subsidize the **-N251.56bn** losses made by 7 subsidaries and NNPC Central Headquarters (CHQ) leaving the entire group with a net loss of **-N197.48bn**.



SOURCE: *NNPC Monthly Financial and Operations Report (Jan - Dec 2016).*

2015 Profits and Loss Dynamics

In 2015, the entire operating surplus of 4 NNPC subsidiaries amounting to **N59.27bn** was used to subsidize the **- N326.3bn** losses made by 6 subsidaries and Central Headquarters (CHQ) leaving the entire group with a net loss of **-N267bn**.



SOURCE: *NNPC Monthly Financial and Operations Report (Jan - Dec 2015).*

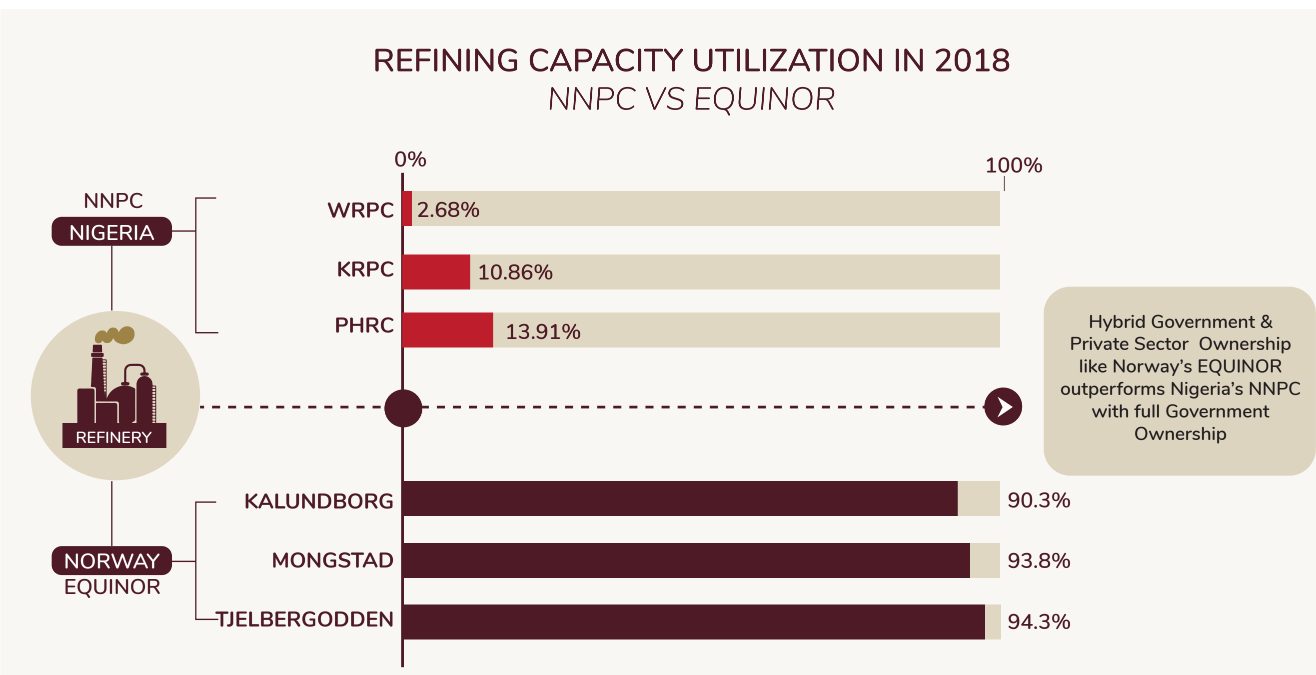
MODELING GOOD EXAMPLES:

What is working globally in the area of commercial efficiency, transparency and corporate governance?

A. Market Discipline

Although, State Owned Enterprises (SOE) around the world like NNPC are intended to replicate private ownership incentives for government revenue generation, in reality 100% government ownership never truly replaces the market disciplines that drive private sector firms to commercial efficiency as politicians will often avoid critical commercial decisions that have potential short-term political costs. Hybrid ownership of such SOEs has been demonstrated to be effective in improving commercial efficiency as it **(a)** Shields politicians from backlash of tough commercial decisions by deflecting 'blame' to majority shareholders. **(b)** Cuts losses that would have been incurred by the country as a result of inefficiencies in the SOEs. **(c)** Frees up new sources of capital for infrastructure development through revenue from sales of government shares. **(d)** Helps the country generate more ongoing revenue from increased profitability (even though its ownership stake reduces) as a result of the private sector making more market-driven decisions.

A good example is Norway's State Owned Enterprise, EQUINOR which is about the same age as Nigeria's SOE, NNPC but has a hybrid government-private sector ownership structure. EQUINOR operates three refineries[27] that function at above **90%** refining capacity because of obligations to make profits for their shareholders while NNPC, which is **100%** owned by the Nigerian government operates three KRPC, PHRC and WRPC[28] each of utilize less than **15%** of their installed refining capacity to produce petrol.

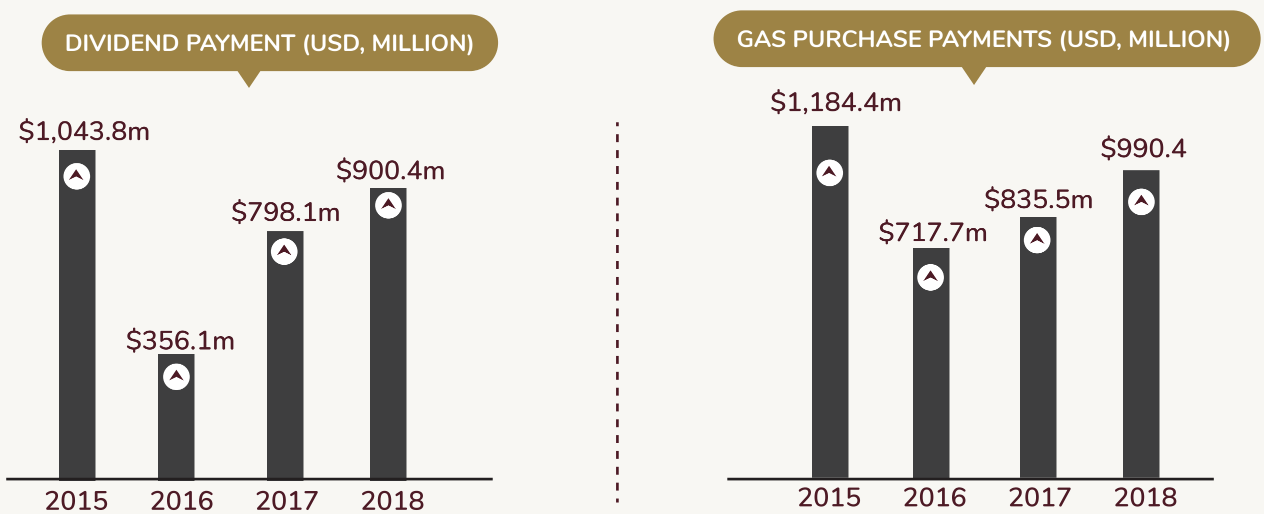


27. https://www.equinor.com/en/investors/our-dividend/annual-reports-archive.html
28. NNPC Monthly Financial and Operations, December 2018

Beyond EQUINOR's refineries being more profitable due to partial private sector ownership, refined petroleum product supply from two of Norway's refineries managed by EQUINOR now exceed Norway's domestic demand, making Norway a net exporter of refined products. On the contrary, Nigeria with refineries managed by a 100% State Owned Enterprise without any private sector ownership, NNPC, is a net importer of petroleum products.

Another shining example of the benefit of hybrid government-private sector ownership is the Nigeria Liquefied Natural Gas (NLNG) company which is ***49% owned by the Nigerian government*** through NNPC and ***51% owned by private sector*** allowing the private sector to make decisions that solely optimize profits.

PROCEEDS TO NIGERIAN GOVERNMENT FROM NIGERIA LIQUEFIED NATURAL GAS (NLNG) COMPANY[29]



B. Transparency, Accountability and Corporate Governance

One of the hallmarks of a functional company is the quality of its corporate governance culture which refers to the system of rules, practices, and processes by which an enterprise is directed and controlled. It involves balancing the interests of the company's stakeholders including shareholders (in Nigeria's case the government), customers and community (in Nigeria's case, the citizens).

29. *Nigeria Liquefied Natural Gas (NLNG) Company Facts and Figures 2019*

EQUINOR complies with its Corporate Governance rules and discloses all data from all countries in which they are present on an annual basis. Operational data such as oil and gas production, production cost, proved oil and gas reserves; revenues from all its subsidiaries are stated in these reports.

Corporate Governance is one area where NNPC is doing quite badly. There are rules governing how NNPC should operate, but the corporation is selective in how it complies with these rules and processes. 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.

Commendably, NNPC discloses some data via its monthly financial and operations report which contains information about the volume of crude oil produced and lifted for the month, cost per barrel, total sales value, the exchange rate used for dollar transactions, the amount appropriated for the Federation Account, total contribution of the different NNPC subsidiaries contributed to the total crude oil production amongst equally important information.

Recommendations

A. Recommendations for the government (Legislative and Executive Arms)

1

EMBRACE HYBRID OWNERSHIP

Nigeria needs to adopt a hybrid ownership structure for NNPC (49%) private sector (51%) comprising of (i) An NLNG-like ownership structure with the private sector combined with (ii.) a listing-structure (similar to EQUINOR) on Nigeria's Stock Exchange and also (iii) regulations limiting the number of shares to be purchased per individual or company ***(to prevent state capture by vested interests).*** This will significantly improve NNPC's Group profitability for the benefit of the entire country.

2

CLARIFY NNPC'S FOCUS

NNPC's role should be clarified with well defined commercial mandates. Subsidiaries retained by NNPC but consistently operating at a loss should be unbundled from NNPC Group to allow the corporation optimise its commercial efficiency and return higher revenues to the federation for the benefit of Nigerians through public infrastructure projects, payment of salaries and other public good.

3

NNPC BOARD CHAIRMAN INTERVENTION

His Excellency, Muhammadu Buhari, GCFR, as the board chairman of NNPC and the president and commander in chief of the armed forces can save everyone the stress by getting NNPC to make its audit report public and to submit its budget for inclusion in the country's Appropriation Act (FG Budget).

4

PERFORM OVERSIGHT FUNCTION

The National Assembly should independently look into the issues raised and ensure enforcement of existing laws and put new ones in place that will facilitate hybrid ownership of NNPC. Also, the Fiscal Responsibility Commission needs to intervene where there are clear breaches of the Sections 21 and 22 of the Fiscal Responsibility Act.

Recommendations

5

EMBRACE PROACTIVE DISCLOSURE AND DATA MEETUPS

NNPC needs to be commended for putting out more data in the public since 2015. However, selective disclosures of data creates a data vacuum that leaves room for wild data inventions, speculations and allegations by journalists which may or may not have any foundation in reality. Proactive monthly meetings and data meetups with journalists and civil society will help answer questions and quell speculations before they arise.

B. Recommendations for Civil Society Organizations, International Development Organizations Multilateral and Bilateral Lenders

6

SEEK LEGAL SOLUTION

Legal action should be sought to ensure NNPC sticks to Section 7 4(b) of the NNPC Act which tells NNPC only where to withdraw money for its expenses and also to Section 21 (2),(3) of the Fiscal Responsibility Act which allows the National Assembly to determine what expenses should be incurred by submitting its budget to the National Assembly. This will end NNPC's practice of making discretionary withdrawals without appropriation.

7

PROVIDE CONDITIONAL LOANS AND FINANCIAL ASSISTANCE

Majority of Nigeria's loans are resource-backed and Nigeria's framework for obtaining revenue from crude oil to repay debt and fund infrastructure is NNPC. Potential lenders to Nigeria need to first secure the government's committment to overhaul what is dysfunctional in NNPC as a precondition to any loan advancement; this loans should be disbursed in milestones as reform commitments are met. This improves chances that loans will be paid and avoids piling up debts for next generations of Nigerians

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