

GAUGING PROGRESS ON OIL IN NIGERIA:  
Community Relations, Development Impact and Revenue Transparency

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INTRODUCTION

Nigeria is the largest oil producer in the Sub-Saharan Africa, the fifth largest petroleum exporting country in the organization of petroleum exporting countries (OPEC), and the fifth largest oil exporting country to the United States, amounting to about 8% of US crude oil imports. Nigeria produces 30% of the total oil production in the African region. Oil revenues have historically provided about 95% of Nigeria’s foreign exchange earnings and about 85% of federal revenue.

The source of Nigeria’s wealth is the Niger Delta, a wetland of about 70,000 sq. km. spread over a number of ecological zones along the Gulf of Guinea. The Niger Delta is made up of nine oil producing States and has an estimated population of about 20 million people, amounting to about 16.7% of the Nigerian population (120 million).

COMMUNITY RELATIONS

The people of the Niger Delta have faced the dire effects of oil exploration and exploitation, with the region remaining poorer, than the national average. Nigeria’s first commercial oil was first struck in the Niger Delta town of Oloibiri (Bayelsa State) in 1956 and in two years time (2006), Nigeria shall be celebrating its 50 years anniversary in oil business. As of today, 48 years after, Oloibiri is referred to as fossil town because there is nothing to show that the town opened the door to the international oil market for Nigeria. The only historical relics there is an old signboard marked “Oloibiri Oil Well 1” with over-grown bush. Oloibiri has no roads, no hospital, no electricity and no water supply after 48 years of oil record.

The Oloibiri history was repeated in more than 1000 other communities and at the beginning of 1990s; Shells activities in the Niger Delta became a subject for concerns amongst certain stakeholders. In 1994, the Ecumenical Council for Corporate Responsibility (ECCR), based in the UK, began a dialogue with Shell about the company's activities and their impact on the Niger Delta and in May 1997, ECCR was instrumental in bringing a shareholder resolution to Shell annual general meeting (AGM). The resolution referred to the environment, human rights and relationships with local communities, with particular reference to Nigeria. In November 2001, ECCR delegates visited the Niger Delta to assess progress and this epoch visit gave birth to Centre for Social and Corporate Responsibility (CSCR). Catholic Relief Services (CRS) and Trocaire of Ireland are presently funding CSCR.

CSCR has used the shareholders leverage to translate policies into realities and has brought about positive social change in project communities. CSCR maintains an open dialogue with Shell, government agencies and communities and has been able to bring together all shareholders to roundtable discussions.

CSCR's primary mission is to facilitate the establishment and maintenance of corporate social responsibility by all stakeholders in the Niger Delta in order to achieve a vision of a Niger Delta where the people enjoy a peaceful, healthy and holistic life in a sustainable, developed and natural environment. This cannot be achieved without a Social License to operate by the international oil companies (IOCs). Corporate Social Responsibility guarantees Social License to operate.

### ENVIRONMENTAL EVALUATION REVIEW (EER)

Environmental Evaluation Review (EER) shows that:

- About 300 oil spills occur annually
- Less than 50% is cleaned up
- Less than 25% is remediated
- Loss of arable land to flooding due to oil industry constructions
- Lack of potable water due to pollution
- Loss of livelihood security due to environmental devastation

### COMMUNITY DEVELOPMENT

Community development efforts by Shell show that there is serious need for improvement.

#### 1990 – 1997: COMMUNITY ASSISTANCE (CA)

- Philanthropic
- No needs assessment
- No participating rural appraisal (PRA)
- No ownership
- No sustainability

- Ended in failure

### 1998 – 2003: COMMUNITY DEVELOPMENT (CCD)

- CA mode still paramount
- Lacks community participation
- Lacks effective internal management control
- System was in principle, but not in practice
- No partnering with communities
- No ownership
- No sustainability
- Ended in failure

### 2004 -? : SUSTAINABLE COMMUNITY DEVELOPMENT (SCD)

- No sign of change from old models
- Infrastructure development projects transferred to government organ of development (Niger Delta Dev. Commission (NDDC))
- Development formula is complex and clashes with production driven strategy of oil industry and inclined to be politically driven
- The trend is not encouraging and is likely to fail

### REVENUE TRANSPARENCY

Nigeria is long noted for its corruption, but as a result of the new global economic agenda, it is promising reforms in the oil and gas sector. One primary economic reform strategy in Nigeria is the Extractive Industry Transparency Initiative (EITI). EITI requires the Nigerian government to publish what it receives from the oil business and the International Oil Companies (IOCs) to publish what they pay to the Nigerian government. In addition, the Nigerian government is required to publish what it pays to the State and Local government for accountability and transparency.

Through this initiative, the federal government will encourage private sector and civil society organizations to check on the exercise of power by government and are free to report on the actions of government accordingly.

### OIL REVENUE REGULATIONS AND COST STRUCTURE

The National Petroleum Investment Management Service (NAPIMS) is a subsidiary of the Nigerian National Petroleum Corporation (NNPC) and acts as an oil industry. It is a member of the joint venture operating committees that define work program and cost structure. Nigeria therefore lacks an independent evaluation capability of the cost structure.

### OIL REVENUE MONITORING

It is difficult to monitor oil revenue in Nigeria because of the weakness in the control system, complicated tax rules and limited technical and institutional capability. Government revenue derives from many companies that pay several different taxes. The cost of production of oil in Nigeria increased each year since the mid – 1990s, despite a trend in the opposite direction in the international oil industry.

### OIL REVENUE REPORTING SYSTEM

From the publications so far made the sales of government equity crude between January 2001 and March 2004 in millions of US dollars as reported by the Central Bank of Nigeria (US \$22.3 bn), Nigerian National Petroleum Corporation (US \$21.9 bn) and the Office of the Accountant General of the Federation (US \$20.5 bn) showed a lot of inconsistencies. From the above values, one can see that the cumulative discrepancies between the three series are significant.

To demonstrate its commitment and support for the EITI program in Nigeria, Shell published what it paid to the Nigerian government in 2003 as thus:

US \$1.2 bn in petroleum profit tax

US \$668 mn in royalties

US \$210 mn in signature bonus

Shell's publication is a positive step forward but it will take real progress at all fronts to maintain its social license to operate.

### CONCLUSION

- NAPIMS cannot effectively be both equity partner and regulator of joint venture companies. Office of the Auditor General of the Federation should be strengthened to carry out this regulatory function.
- Oil industry is complex and the Nigerian oil sector is no exception. The EITI template should be designed to reflect the complexities of the oil industry and the Federal Inland Revenue Service (FIRS) should be strengthened to carry out its functions in the revenue drive.
- Oil companies are not transparent and are involved in corrupt practices and conflicts. They are not doing enough to minimize environmental damage and increase local content. Stringent measures should be put in place for erring companies to loose their social license to operate.
- There are discrepancies in the oil revenue re [ports. The data series need to be independently verified by external auditors of oil sector accounts.
- EITI implementation agencies and the anti-corruption organs of government are too many and are controlled by almost the same individuals. There is an urgent need for reforms to reflect defined structure, responsibilities and implementation process. A system of monitoring and evaluation should be put in place to avoid human rights violations and abuses.