PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE

Report No.: PIDC96631

Project Name	
Region	AFRICA
Country	Nigeria
Lending Instrument	IPF
Project ID	P162344
Borrower Name	Federal Ministry of Finance
Implementing Agency	NEITI
Environment Category	C - Not Required
Date PID Prepared	21-Oct-2016
Estimated Date of Approval	14-Nov-2016
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Nigeria➢(s economy has historically relied heavily on oil exports. Nigeria joined the Organization of the Petroleum Exporting Countries in 1971 and was, until this year, the largest oil producer in Africa. Nigeria➢(s exports remain highly concentrated in petroleum exports, making its economy highly vulnerable to volatility in oil prices and production.

Diversification away from high dependence on extractive industries, and redirecting extractive industries to contribute to broad-based economic growth and poverty reduction, are two important policy goals of the Federal Government of Nigeria. By the 1980s, the notion that abundant oil, gas, and minerals may be a curse rather than a blessing began to take hold➢(evidence has pointed to economies with plentiful hydrocarbons and mineral resources doing worse on average than those with few resource endowments. In this literature, Nigeria has frequently been cited as a textbook example of the so-called paradox of plenty, alternatively known as the resource curse. Recognizing this paradox, the Federal Government of Nigeria (FGN) announced its commitment to the Extractive Industries Transparency Initiative (EITI)➢(a global standard that promotes public awareness about how countries manage their oil, gas and mineral resources➢(one year after the EITI was launched at the World Sustainable Development Summit in South Africa in October 2002. The Nigeria ITI (NEITI) was launched in February 2004, and the NEITI Act was passed into law in May 2007. The administration of President Buhari has been making concerted efforts to reform the petroleum sector and restore the vibrancy of the solid minerals sector.

The large decline in government revenues is having serious consequences for government-financed activities. Total consolidated government revenues fell from 10.5 percent of GDP in 2014 to 7.8 percent in 2015, and to less than 6 percent in 2016, posing challenges to budget implementation. Budget allocation for NEITI has not been provided as scheduled.

Sectoral and Institutional Context

For many years, NEITI reports were the only consistent source of detailed information about the physical and financial flows in the petroleum sector. Oil and gas NEITI reports are available from 1999 to 2013, and solid minerals reports are available from 2007 to 2013. The solid minerals sector is much smaller, accounting for only 0.33 percent of GDP in 2015, against about 10 percent of GDP for oil. As a result, much of the national conversation about NEITI reports has focused on oil and gas reports. These reports have raised questions about NNPC➢(s handling of domestic crude allocation (fixed at 0.445 million barrels per day), transfer of Federation equity in joint ventures to a subsidiary of NNPC, eligibility of joint venture cash call expenditures by NNPC, cost-effectiveness of Offshore Processing Agreement and Crude Oil Refined Products Exchange Agreement, gasoline and kerosene subsidy claims, granting of the Pioneer Status to projects that do not seem pioneering, and the ongoing lack of clarity about the price of oil to be used in calculating fiscal payments. NEITI has made a number of recommendations, but progress on remediation had been slow until recently.

The administration of President Buhari in 2015 started major reforms in the petroleum sector to overhaul governance and transparency. There have been significant changes at NNPC: appointment of new senior executives, implementation of the so-called change agenda including ➢(20 fixes, ➢(and a roll-out of a deep corporate restructuring plan. NNPC began publishing monthly financial and operations reports with detailed accounts in 2015, illustrating its commitment to transparency. Consistent with NEITI➢(s findings, NNPC has deemed both Offshore Processing Agreement and Crude Oil Refined Products Exchange Agreement to be too costly, and ended all agreements, replacing them with much more cost-effective Direct Purchase-Direct Sale Agreements. The Ministry of Petroleum Resources is preparing a new oil policy, a new gas policy, and a new fiscal policy➢(the current policies are outdated, leading to declining sector performance and, worryingly for the economy, less and less natural gas flowing to the domestic market and stranding gas-based electricity generation plants. The FGN has also begun to take steps to reform fuel subsidies. In May 2016, the pricing policy for gasoline changed from setting the price level to setting a price ceiling, and set the price ceiling two thirds higher than the previously set official price. Monthly price surveys conducted by the National Bureau of Statistics show that the degree of black marketing of gasoline has come down sharply since May 2016, while black marketing of subsidized kerosene seems to continue unabated.

The proposed petroleum sector reforms will remove pseudo-regulatory roles played by commercial operators. Blurring of commercial and regulatory functions has plagued countries with national oil companies and other state-owned enterprises, and Nigeria is no exception. NNPC and its subsidiaries played pseudo-regulatory roles until 2015, introducing conflicts of interest. The FGN proposes establishing a regulatory commission that will take over regulatory functions, confining fuel suppliers to commercial functions. The reforms will also be underpinned by adherence to market principles and promotion of competition to drive down costs while improving service quality.

The Government is also taking steps to stem the decline of the mining sector and turn it around. Despite Nigeria➢(s resource potential and its past experience as a significant mineral producer, the mining sector➢(s share of GDP fell from 5.6 percent in 1980 to about 0.3 percent by 2015. Value-added tax accounted for more than three-fifths of government revenues from solid minerals in 2013, the last year for which a NEITI report is available, demonstrating how little rent there is in the sector.

Nigeria is one of the fifteen countries undergoing EITI validation. The validation process assesses the country➢(s progress in complying with the EITI requirements. The level of progress and compliance is indicated by one of four designations: satisfactory progress, meaningful progress, inadequate progress, and no progress. A country must achieve satisfactory progress on government engagement, company engagement, civil society engagement, and timely EITI reporting in order to avoid suspension. A country deemed to be making no progress will be delisted, while a country making inadequate progress will be suspended and requested to undertake corrective actions to make meaningful progress by the time of the second validation. A country considered to be making meaningful progress in the first and second validation but no improvement on individual requirements in the second validation will also be suspended and requested to undertake corrective actions before the third validation. If the country is considered to be making meaningful progress overall but no improvements on individual requirements in the third validation, the country will be delisted.

Nigeria has not been able to publish NEITI reports in a timely manner to date. NEITI was on track to meet the deadline of December 2015 for the publication of the 2013 reports, but President Buhari dissolved all boards upon coming into office and delayed appointment of new boards until 2016. NEITI➢(s multi-sta keholder group (called the National Stakeholders Working Group) was dissolved in July 2015, and not reconstituted until February 2016. As a result, the requirement to have the 2013 NEITI reports approved by the multi-stakeholder group before publication could not be met by the end of 2015. The validation process has flagged data timeliness as an issue NEITI needs to address for the second validation.

NEITI now risks being suspended for failure to publish the 2014 reports by December 2016, due to the budget cut in 2016 and the delay in delivery of the cut budget to NEITI. Due to the FGN➢(s fiscal difficulties, the actual revenues received by NEITI in 2016 have fallen far short of what is needed to perform its fundamental functions. NEITI has not been able to pay the Independent Administrators engaged in the production of EITI reports. Absent infusion of additional funds, NEITI will not be able publish 2014 EITI reports by the end of 2016.

Relationship to CAS/CPS/CPF

The World Bank Group➢(s Country Partnership Strategy (CPS) for July 2013➢(June 2017 proposes continuing support for NEITI. The previous EITI grant to Nigeria funded through the EITI Multi-Donor Trust Fund, managed by the World Bank, was in line with, and supported, the World Bank Group➢(s CPS for Nigeria (FY14➢(17) (Report No. 82501-NG). The Performance and Learning Review of the CPS (Report No. 104616) underscores the importance of timely publication of NEITI reports for maximum impact on sector governance.

II. Project Development Objective(s)

Proposed Development Objective(s)

The project development objective is to assist Nigeria in meeting the EITI requirement for data timeliness.

Key Results

Progress in achieving the PDO will be measured by timely publication of the 2014 and 2015 NEITI reports.

III. Preliminary Description

Concept Description

EITI implementation in Nigeria has been supported by the EITI-MDTF with three grants to date. The first MDTF grant was US$1.2 million and provided support to establish NEITI. The support from the grant led, amongst others, to the passage of the NEITI Act in 2007. A second grant was US $900,000, completed in March 2012, and contributed to Nigeria➢(s validation as an EITI-compliant country. The grant also helped NEITI to expand coverage to the solid minerals sector.

The third grant closed in December 2015 and was partially satisfactory. The grant amount was originally US$900,000 and later increased to US$1,280,000. However, NEITI had to cancel US $500,564.47 when the EITI-MDTF closed on December 31, 2015. Two incomplete activities were pilot remediation projects for taking corrective actions on problems identified in oil and gas reports, and automation of data collection in the petroleum sector to help speed up production of NEITI reports. Both were due to unsatisfactory performance of the contractors hired to perform the tasks.

NEITI and the World Bank had been discussing options for a data platform to collect data and carry out basic analysis for reconciliation of payments and revenues for the oil and gas reports, when the discussion was overtaken by the fiscal crisis in Nigeria, which became increasingly serious in the latter half of 2016. The situation was considered sufficiently serious that the International Secretariat for EITI approached the World Bank to find out if the World Bank➢(s next engagement phase could be redirected to help with publication of the 2014 NEITI reports, and get a timely start on the 2015 oil and gas report.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		×	
Natural Habitats OP/BP 4.04		×	
Forests OP/BP 4.36		×	
Pest Management OP 4.09		×	
Physical Cultural Resources OP/BP 4.11		×	
Indigenous Peoples OP/BP 4.10		×	
Involuntary Resettlement OP/BP 4.12		×	
Safety of Dams OP/BP 4.37		×	
Projects on International Waterways OP/BP 7.50		×	
Projects in Disputed Areas OP/BP 7.60		×	

V. Financing *(in USD Million)*

Total Project Cost:	0.32	Total Bank Financing:	0
Financing Gap:	0		

Financing Source	Amount
Extractives Global Programmatic Support	0.32

VI. Contact point

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