

FUNDING THE TRANSITION FROM CONFLICT TO SUSTAINABLE DEVELOPMENT IN THE NIGER DELTA

BEING

AN INTERVENTION BY LEDUM MITEE, MOSOP PRESIDENT, AT THE NEWSWATCH COLLOQUIM ON THE NIGER DELTA

EXECUTIVE SUMMARY

The intensified conflict and political violence in the Niger Delta has cost hundreds of lives per year and caused many more losses due to displacement, loss of livelihood and collapsing services in rural areas. Federal Government, US analysts and companies estimate the losses are approaching a staggering \$30 billion¹

Presently the revenue reaching the Niger Delta is dominated by allocations to state governments. The 13% derivation actually will translate into \$3.9 billion at present levels of production from a Federal income conservatively estimated at \$45 billion.

Pressure for an increased share of revenue for the Niger Delta has met with no substantial response from the Federal Government and some alarm from other parts of the country. A key issue for resolving the 'resource control' crisis will be showing that a greater level of justice can be achieved without damaging other parts of the country.

The needed investment in the Niger Delta can be funded by the increase in production which would accompany an improved security situation. The restoration of current capacity to 2.7 million barrels per day can generate an additional \$15 Billion per year before taking fresh oil development into account.

A headline increase in funding to the Niger Delta to 25% of oil revenue (including 'excess revenue') for the next 3 years could fund investment of \$14 billion per year before additional investment by the FG is even considered.

This paper would propose that State government allocations are maintained at present levels until they improve planning and transparency to a level where additional funds are justified. In the interim we recommend that funding be channelled through emergency taskforces on health, education, environment, youth, and justice.

¹ Most estimates put the loss at \$15 billion per year from late 2005 when estimates of losses to daily production range from an average of 578,000 barrels per day to around 650,000 barrels per day.

This paper also proposes the establishment of a 'future generations' fund saving at least \$2.5 billion annually from within the 25% allocation. This fund should be managed with independent international assurance as a reserve for the future development of the ethnic nationalities and communities in the region.

This initial rebalancing of revenue should be reviewed after 3 years. Niger Delta communities should commit to working with indigenous companies and concerns wherever possible so that these changes can bring about economic growth across the nation and be seen as a boost to the nation as a whole.

Background

The Niger Delta conflict has reached or is close to a 'tipping point' where conflict escalates markedly and the losses and damage are large and unpredictable.

Possible consequences for Nigeria are obviously but they must include:

- Further major losses in oil production in excess of 500,000 barrels per day
- Major losses of infrastructure
- Escalation of kidnapping and criminality to levels similar to that seen in Somalia or Iraq with disastrous consequences for Nigeria locally and internationally

Despite claims to the contrary government actors at various levels continue to exploit the conflict and in some cases probably encourage it as a means to increase their own political and economic leverage.

I have decided to focus this intervention not on the over flogged issue of the causes and effects of the problem but to concentrate on an aspect of the possible responses that could address some concerns by other sections of the country for two main reasons.

First, as a participant at the ill-fated Political Reform Conference where the issue of Resource control pitched the Niger delta against the rest of the country, it is my view that for any solution to have a chance of success it must address the concerns of both the Niger delta communities as well as other parts of the country. It must be a win-win solution.

Second, the media coverage of the crisis in the Niger Delta has been extensive but focused primarily on the escalation of kidnappings and attacks on oil

production which have been extended since late 2005, after earlier outbreaks in 2004.

The impact on communities of conflict and militarization in the Niger Delta has been under-reported – in part due the lack of access which has resulted from the conflict and security measures. The most rural communities routinely face extortion both from military patrols and from some militias which are more criminal than political in their agenda.

More detailed accounts of these conditions can be found elsewhere – this paper seeks to focus primarily on funding a recovery from the present situation which will win widespread support from across the Niger Delta.

FUNDING TRANSITION FROM CONFLICT TO SUSTAINABLE DEVELOPMENT

The financial implications of the situation in the Niger Delta are less clear, mainly because of the lack of transparency regarding the gross revenues from Nigeria's oil production and the net receipts to the Nigerian government. The gross revenue for Nigeria in 2006 (before production costs) should have been \$51 billion based on 2.1 million barrels per day of production at an annual average price of \$67 per barrel².

The projected revenue for 2007 should be even higher with oil prices holding at over \$70 after initially dipping below \$60 per barrel –average for the year is already \$66.

The share of revenue reaching the Niger Delta is not directly related to these fluctuating figures. In 2006 it received 13% of a budget price for the barrel of oil of \$35. The remaining net revenues went into an 'excess crude account' which has been used for a variety of purposes by the Federal Government – including the \$12 Billion payment in 2005 to the Paris Club in exchange for writing off debts accrued over twenty years.

Although 'bonus' payments have been made to the states and Federal Government there are still questions to be answered as to why this account only has a publicly stated balance of \$8 billion, given the extraordinarily wide gap between budget and actual oil prices throughout the 2006 calendar year.

Despite several years of 'NEITI' transparency work there is not yet a straightforward public document that can explain the relationship between

² This average is based on Energy Information Administration (EIA) of the US Government using figures for Bonny Light Crude

market prices, production costs and revenues eventually remitted to the Federal Government by NNPC and oil companies.

Funding Rapid Development and Recovery in the Niger Delta

Current Situation

Presently the bulk of funds reaching the Niger Delta pass through the State Governments. In 2006 this can be estimated approximately as follows

Production Barrels per day (Av)	Days	Oil Price (budget)	Derivation	Revenue (\$millions)
2,100,000	365	35	0.13	3,488³

The net revenue in 2006 to the Federal Government before state and local government allocations can be very conservatively estimated using the same basic formula.

Production	Days	FG receipts per barrel (estimate)	Share	Revenue (\$millions)
2,100,000	365	50	1	38,325⁴

Those seeking 'resource control' are well aware that the 13% derivation overstates the actual level of receipts to states compared to current oil prices. In 2006 \$3.5 billion represents just 9% of very conservatively estimated net revenues \$38 Billion and gross revenues of \$51billion⁵.

To put other contributions in perspective the annual budget of the Niger Delta Development Commission is around \$440 million.

The most striking development of the flow of funds to the State Governments has been the exponential increase in corruption at a state level due to the lack of accountability of States and State Governors as well as Local governments and the chairpersons in particular.

Funding a Recovery and Reconciliation in the Niger Delta

³ This does not include periodic payments from the 'excess crude' account

⁴ This is a low estimate of Federal income. Onshore oil production costs normally range at \$2-4 per barrel while offshore costs should also not range higher than \$8 per barrel.

⁵ Gross revenue based on Bonny Light Crude average 2006 price of \$67

There has been a longstanding sense of injustice at the extraordinarily limited level of funds which find its way back to communities whose land are the source of oil resources.

The failure to even supply potable water and medical facilities to communities where oil extraction has taken place for 30 years is inexcusable.

However funding a renaissance in the Niger Delta must still be done within the context of national political tensions where Northern states have routinely feared a loss of Federal revenues on which they have become dependent.

This paper proposes that the relatively recent increase in oil prices and the untapped additional production capacity can be used to buffer any shocks in making a first readjustment of oil revenue in line with greater justice for Niger Delta Communities.

This paper recommends that an elevation in funds dedicated to the Niger Delta is made in line with the restoration of existing production capacity. These funds would not be channelled initially through State derivation

An example of initial allocations is as follows:

Production per day	Days	Price to FG	Share	Revenue (\$m)
2,400,000	365	55	1	48,180

Allocation to Niger Delta Resource Fund

2,400,000	365	55	0.25	12,045
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With an increase of just 300,000 barrels per day the net revenue to the FG would actually be slightly higher than 2006 revenues with \$36 billion in revenue compared to an existing \$35 billion after taking revenues returned to the Niger Delta into account.

At levels of 2.7 million barrels of production both the Federal Government and Niger Delta emerge as significant winners.

Production per day	Days	Price to FG	Share	Gross Revenue (\$m)
2,700,000	365	55	1	54,203
	365	55	0.25	

2,700,000

13,551

Channelling Funds to Niger Delta Communities and Needs

Breakdown of Initial \$13 Bn Annual Budget	Budget (\$Bn)	Managed by
State derivation	4.0	State Governments
Future fund	2.0	Independent Board
Communities Trust	1.2	Community Trusts
Health Emergency	1.0	Task Force and partners
Education	1.0	Taskforce and Partners
Police and Justice	1.0	Taskforce and Partners
Infrastructure	1.5	Taskforce/ NDDC
Youth transition	0.8	Taskforce
Environment	1.0	Environment Agency and Community trusts
Total	13.5	

The existing practice of channelling funds to state and local governments has produced notorious levels of corruption by office holders who have no accountability to the people they supposedly represent.

Under this proposal:

State Government Derivation (formerly 13% derivation)

An interim program would maintain state and local government funding at existing levels and they could bid for implementation of other funds only after passing performance benchmarks

Future Generations Trust Fund

This would be built up to provide a long lasting capital resource to communities in the region managed by a Board with professional, community, and international representation. It would not spend capital within its first 10 years.

The Community Trust fund

There is the need for the establishment of Community Trust Funds which would be available to make grants to communities directly impacted by oil production with a priority given to micro and small business development.

Health, Education, Police and Justice, Infrastructure Emergency Task Force Funds

The Task Force concept is one which can still be discussed in detail but it must have three over-riding principles:

- Federal Board representation made up of professionals and technocrats with a proven record of integrity
- Niger Delta professional representation of the same calibre agreed with grassroots groups
- Niger Delta grassroots representation which is nominated by grassroots organisations of the Niger delta

These funds would initially be managed by a taskforce for each theme made up of Federal appointed experts, international experts, and local community and civil society representation.

The task force would have the option of accepting bids for interventions from local trusts, state governments, and agencies but its priority should be a set of unshakeable standards for quality of work and public accountability.

State and local governments could bid for longer term implementation of these funds where they are able to show credible investment and management in these sectors using their existing resources.

Youth Transition

Any response that does not address the issue of Youth employment will have a very low chance of success. Several years of government embargo on employment, the shameful policy of casualisation of labour by oil companies, discrimination against Niger delta youths, employment of foreigners for jobs Nigerians can do, patronage syndrome, amongst others, have all contributed to erect a regime of massive youth unemployment. Neglected by the government, pressured by demands of subsistence and expectations from family and community, some fringe of youths some of whom, it has to be restated, are university graduates, have been attracted to illegitimate ways of fending for themselves- sometimes through participation in oil theft (euphemistically called 'bunkering') and other vices. The huge amount of money accruing from bunkering and pay-offs by governments and operating companies act as disincentive to genuine employment in some cases. These make for ready availability of an army of youths for potential recruitment into militia groups or as political thugs.

Here we must also add that the rise, over the years, of cults and cultism (euphemisms for gangs and gangsterism) in our university campuses have also fed into the climate of conflict in the region. This has in turn led to the situation

where most young graduates, some with cultist background, infiltrated into positions of responsibility in government and companies thereby becoming role models for younger and would-be cultists.

There needs therefore to be a dramatic shift in the commitments of government and companies to youth training and employment. An aggressive affirmative action of youth employment through the launch of a Youth Employment Scheme (YES) that targets immediate creation of not less than 20,000 jobs in each of the core Niger delta states is suggested as an immediate shock therapy. These jobs could be in the area of teaching in rural schools, many of which are short staffed, community service like assisting as providing technical assistance to Community Development Authorities (CDAs), environmental sanitation etc. There has to be demonstrable effort to distance this from patronage employment. This would have the effect of reducing the ranks of those available for recruitment into gangs and militias.

Environment

This would require the formation of a new agency which has a clear mandate for the preservation of the natural environment of the Niger Delta as well as promoting viable and sustainable avenues for agriculture, fishing and livelihoods.

Financial Management

The injection of funds into the Niger Delta region is not in itself a solution and could cause significant new problems if mismanaged.

Previous experience with state governments and international comparisons show that it is critical that funds are not dispensed without meeting clear tests of effectiveness and accountability both to the Federal Government and communities.

It may not in all cases be practical to expend all funds efficiently as budgeted and where this is the case funds should be returned to the 'Future Generations' Trust until effective use of finite financial resources are assured.

The release of funds under the ND Plan must meet a common set of standards:

- All projects above 1 Million Naira must be published before commencement and at completion both at a local community and State level

- Any implementing organisation must be able to produce detailed annual accounts for the previous financial year
- Local and State Governments must be able to publicly present detailed current annual budgets and accounts as a pre-condition for receiving funds
- Police forces and EFCC should be mandated to treat misappropriation under the ND Plan as a priority criminal investigation