

The Macrotheme Review

A multidisciplinary journal of global macro trends

Transparency and Accountability: Adaptation and Implementation of Extractive Industries Transparency Initiative (EITI) Principles in Nigeria.

Bashir Bature

Aberdeen Business School, Robert Gordon University, United Kingdom

Abstract

The exploitation of natural resources can generate large revenues to foster growth and reduce poverty and instability. In many developing countries and economies in transition such as Nigeria, it is often find that the transparency practice in the management of natural resources revenue is insufficient. However, the EITI was established to promote good governance in the management of natural resources' revenue by encouraging transparency practices in the transactions between the government and companies operating in the extractive industries. This study found out that still, there were some material issues remain to be addressed relating to oil and gas revenue transparency in Nigeria. It also finds that there appears to be no corresponding improvement in accountability for the use of oil and gas revenue for the good of Nigerian society. The study uses a mixed method approach for the collection and analysis of data. Further, this study suggests a need for the Government to adhere to the principles and standards of EITI, in the management of oil and gas revenue.

Keywords: Transparency and accountability, EITI, NEITI, and Nigeria

1. Introduction

EITI is a multi-stakeholder initiative comprises extractive industries, supporting governments, implementing governments, Non-Governmental Organisations, and civil society groups. It is a voluntary organisation which established a framework to promote transparency practices in the extractive industries' activities, by encouraging governments to publish what they receive as revenue and companies to disclose what they pay to the governments. This is a growing movement for good governance of extractive revenue in the developing world. The implementation of EITI in Nigeria began in 2004, shortly after the country signed up to the principles of the initiative. This led to enactments of the Nigeria Extractive Industries Transparency Initiative (NEITI) and Fiscal Responsibility Commission (FRC) Acts in 2007, to ensure proper implementation and development of transparency and accountability practices in Nigeria. NEITI reconciles the financial, physical and process activities of Nigeria's extractive industries whereby FRC ensures prudence management of the nation's resources and secure greater transparency and accountability practices in the Fiscal operations. Nigeria is now deemed to be compliant with the EITI principles and standards since 2011. Nigeria also benefitted from

the implementation of EITI principles as other EITI member countries in the world. This includes rent-seeking, access to capital, capacity building and investment opportunities. Nigeria benefited by compiling a report for the first time of its oil and gas industry's activities from 1999-2004, on the process of implementing EITI, which some scholars such as Nicholas Shaxson (2009) describes as "glorious audit". The audit brings out the sketch map of Nigeria's oil and gas industry's activities and makes the information of its revenue publicly available. This will assist Nigeria to take measures for controlling corrupt practices and revenue mis-management. However, lack of political will and ability of the agencies responsible for taking the remedies highlighted by the NEITI audit reports continue to affect transparency practices in the Nigerian oil and gas industry (NEITI Audit report, 2011). This paper is divided into five sections; section 2 discusses transparency and accountability concepts, section 3 methodology and methods applied, section 4 findings, and section 5 conclusion.

2. Transparency and Accountability Concepts

Nielsen and Madsen (2009) considered Transparency as a social means of societal support for both private and public organisations. In order to achieve that, there is need for providing as much detailed information as possible to legitimate stakeholders (Nielsen and Madsen, 2009). Some literature as in GRI (2002) and Heemskerk et al. (2003), also support the idea of Nielsen and Madsen (2009) which indicated that there is a need to disclose as much information as possible to many stakeholders. They also emphasised that, transparency seems to be a way of delivering accountability to society. The concept of accountability has for long become a tradition in emerging researches. Even though, its scope is limited to financial prudence and accounting in accordance with regulation and instructions. Julian (1998) suggests that, any accountable government is believed to be the good government. On the other hand, unaccountable government is likely to provide fertile ground for every type of abuse of power. The central idea of accountability is the situation where there is a transfer of power for the decision making from a principal to an agent. Accountability also emphasises on the mechanism that would hold the agents to account for their decisions and provide a sanctions, as a result of failure to account for the responsibilities (Lindberg, 2009). As such, the concept of accountability has characteristics which include; an agent, institution and a principal (Desai and Jarvis, 2012).

This study reviewed literature and other relevant documents related to the EITI and NEITI. It also applies accountability as a theoretical framework in line with many studies in accounting, in accordance with Gray et al. (1996:1995); Roberts (1991); Munro (1996); and Lindberg (2009).

3. Methodology and Methods

Mixed method is applied and adapts abductive approach which allows using deductive and inductive approaches or quantitative and qualitative methods within a particular research. It also uses the philosophy of pragmatism for undertaking this research in order to answer the research question and achieve the targeted objectives, which is the main aim of this research. This is in line with the suggestion of Saunders et al. (2012). This study uses perception structured questionnaire and in-depth interviews to generate data for the analysis, interpretation and hypothesis test (Jonker and Pennink, 2010). The study also uses probability sampling method and strata for the selection of sample groups as suggested by Kothari (2004). All participants were Nigerians and seventeen sample groups were identified which comprise 33 different organisations such as: NNPC, DPR, CBN, NEITI, RMAFC, FIRS, AGF, OAGF, PTDF, NASS, CS, NGO, FOC, IOC, HC, PAF and ACI.

The concern of this paper are the statements in Section D of the questionnaire, which were designed to reflect on the government management of the oil and gas revenue with regard to the transparency practices in the Nigerian oil and gas industry. The respondents' responses from the 13 statements of the section D of the questionnaire were transformed to data for the purpose of statistical analysis, in accordance with the Kothari (2004). Non-parametric methods of Median Sign Test and Mann-Whitney Rank Sum Test were used for the analysis of data, with the aid of Minitab statistical software package, using the 5 points Likert scale to measure the respondents' responses; 1= Strongly Agree, 2= Agree, 3= Neutral, 4= Disagree, and 5= Strongly Disagree. A 95% confidence interval was applied (i.e. a 0.05 significance level) for identifying statistically significant results. The results of the analyses were interpreted and discussed. A follow up interviews were also conducted to the seven respondents from the sample groups, in order to seek for explanation of the previous findings from the questionnaire, in accord with the suggestion made by Saunders et al. (2012) and Bryman Alan (2012).

4. Empirical results

This Section discusses analysis on the statement from the responses of the questionnaire, regarding transparency practices in the Nigerian oil and gas industry. The data generate from the participants' responses were used to test the derived hypothesis that: "government agencies' performance in improving effective management of oil and gas revenue in Nigeria has not improved transparency practices in its oil and gas industry". Further, the testing of hypothesis then leads to a consideration of objective, which is: "to critically assess whether or not the Nigerian government maintains effective processes for the management of oil and gas revenue".

The analysis of Median Sign test result indicates that key stakeholders were concerned about how the Nigerian government maintained the process of managing oil and gas revenue, with respect to transparency and accountability practices. It also indicates the needs for the Government to strictly adhere to the EITI principles by providing sufficient information of oil and gas revenue activities publicly on an annual basis. The analysis highlights the need for the government agencies to improve their performances in transparency practices in the management of oil and gas revenue. For example: a majority of key stakeholders (82%) were in doubt about whether the Government reports annually to the public on how it has spent the oil and gas revenue received, whilst 74% were in doubt about whether the DPR adequately ensures standard metering facilities, for measuring oil and gas production from wellheads to the terminals and 73% believed that there has been significant improvement of transparency practices in Nigeria, with regard to the management of oil and gas revenue from 2003 when the country signed up to the EITI principles. The analysis also indicates a need for the Government to encourage transparency practices in its activities and also provide adequate metering facilities in the oil and gas industry for measuring the oil and gas production. Table 4.1 presents summary of the MW test results of statistically significant differences of perceptions between respondent groups and by statements 28-40.

Table 4.1: Summary of MW test results for significant differences between respondent groups and by statements 28-40.

Number of significant difference between the sample groups																		
	G 1	G 2	G 3	G 4	G 5	G 6	G 7	G 8	G 9	G1 0	G1 1	G1 2	G1 3	G1 4	G1 5	G1 6	G17	Tota l
G1		2		2	1	4	1	5		3	1	3	4	6	1		8	41
G2	2		3	1		4	1	1		1	1	2	2	3	2		4	27
G3		3		1		3		3		3	3	2	3	5	1		6	33
G4	2	1	1			2	1	2		1	1	1	1	1	1		4	19
G5	1							1			1			1			2	6
G6	4	4	3	2			5	5	2	3	2	1	2	5	1		6	45
G7	1	1		1		5		2			2	2	3	3	3		6	29
G8	5	1	3	2	1	5	2			4	3	5	4	2	3		3	43
G9						2						2	3	2			4	13
G1 0	3	1	3	1		3		4			2	1	3	3	3			27
G1 1	1	1	3	1	1	2	2	3		2			1	3	1		4	25
G1 2	3	2	2	1		1	2	5	2	1				2			3	24
G1 3	4	2	3	1		2	3	4	3	3	1			2		1	4	33
G1 4	6	3	5	1	1	5	3	2	2	3	3	2	2		2	1	1	42
G1 5	1	2	1	1		1	3	3		3	1			2			4	22
G1 6													1	1				2
G1 7	8	4	6	4	2	6	6	3	4		4	3	4	1	4			59

Note: G1= Nigerian National Petroleum Corporation, G2= Directorate of Petroleum Resources, G3= Central Bank of Nigeria, G4= Nigerian Extractive Industries Transparency Initiative, G5= Revenue Mobilisation Allocation and Fiscal Commission, G6= Federal Inland Revenue Service, G7= Auditor General for the Federation, G8= Office of the Accountant General of the Federation, G9= Petroleum Technology Development Fund, G10= National Assembly, G11= Foreign Oil Companies, G12= Indigenous Oil Companies, G13= Civil Society groups, G14= Non-Government Organisations, G15= Host Communities, G16= Public Accounting Firms and G17= Academic Institutions.

The above Table 4.1 enables the identification of instances where 2 groups have differed from each other in a significant number of statements, which for the purpose of this analysis is taken as a minimum of 6 instances (equating to differences between groups being evident in approximately half of the 13 statements). This approach should enable patterns to be identified between the tendencies of groups to express their views in a particular way. In other words, this analysis will be restricted to those differences, in order to find out the role of the groups and understand the reasons for the differences and the relationship between the key stakeholders. There were also 59 instances of statistically significant differences between the ACI (G17) group and the other groups over the 13 statements, Federal Inland Revenue Service (G6) with 45 and Office of the Accountant General of the Federation (G8) with 43 of the statements. Respondents from the NNPC (G1), AGF (G7) and NASS (G10) gave responses that were consistent with the Nigerian government being a good practice in maintaining the effective process on the management of oil and gas revenue, whilst those of the NGO (G14) and CS (G13) indicated

disagreement (see Table 4.2). From the above Table 4.1, it can be seen that respondents from NNPC have a high number of differences between the sum of the ranks of other groups, in relation to the statements which reflect on the government management of the oil and gas revenue with regard to the transparency practices in the Nigerian oil and gas industry. NNPC (G1) has statistically significant different responses from those of the ACI (G17) in 8 statements, NGO (G14) in 6 of the statements. NNPC differs because of its commitments to the government activities in the oil and gas industry. It may also support the Government for implementing the EITI in Nigeria which also creates investment opportunities, in the oil and gas industry and increases oil revenue to the Government as noted by Asobie (2011). ACIs also conduct the research in the areas related to the oil and gas accounting and management in Nigeria. This enables them to understand how the government manages oil and gas revenue and informed a decision in relation to the government performance, with respect to the management of oil and gas revenue. ACIs may also have views related to the observation made by the Fuel Subsidy Probe Committee (2012) which indicates that, the oil and gas revenue has been mis-managed by the activities of fuel subsidy scheme. An interviewee from the CSs expressed the view that “Still, Nigeria is recognised as a country where transparency and accountability practices need to be improved, because of the corrupt practices in the government activities”. NGOs may support the Government for implementing the EITI in Nigeria which brings about the development of transparency practices and assists the Government to improve in managing the oil and gas revenue, as also described by the Asobie (2011). An independent organisation among the NGOs such as the Transparency in Nigeria, which has more concern about the government transparency practices in its activities may also has a view related to the observation made by the Petroleum Revenue Special Task Force Committee (2012). The committee stated that the decision on the sales of the Nigeria’s crude oil was not being made transparent. That may be the reason why the NGOs had different opinions to those of NNPC.

Central Bank of Nigeria has significant differences in responses between those of the ACI (G17) in 6 of the statements. CBN may support the Government management of oil and gas revenue, as a custodian of the government revenue, although the stakeholders’ responses seemed to indicate that the government process in the management of oil and gas revenue was not efficient. This is consistent with the observation made by the independent auditors, which indicated that the CBN was responsible for the oil and gas revenue discrepancies as a result of misclassifying the oil and gas revenue (NEITI Audit Report, 2011). ACIs may be concerned about the NEITI audit reports which are accessible publicly, in the process of research activities and that is why the ACIs are different. An interviewee from the CSs expressed the view that “I quite agree with this because I read it in the NEITI audit reports several times. It is surprising that the government did not take a serious action on this issue”. The Federal Inland Revenue Service (G6) has significant differences in responses with those of the ACI (G17) in 6 of the statements. ACIs may have concern about the oil and gas revenue reporting system of the FIRS, which was described as incomplete and may not allow independent organisations to make reconciliation, as opined by the Abutudu and Garuba (2011). This is also consistent with other opinions such as in the AGF Assessment Report (2011) which indicates that FIRS does not provide the required information of the tax revenue received from the oil and gas companies. AGF (G7) has significant different responses between those of the ACI (G17) in 6 of the statements. ACIs may have the view related to the observation made by Abutudu and Garba (2011) which indicated that, the AGF only examine the financial activities of the oil and gas industry, without taking actions relating to the remedies identified.

The above analysis appears to indicate that the divergent opinions among the groups of respondents emerged as a result of their functional differences and relationships. Some key stakeholders appeared to have agreed that the Nigerian Government maintains an effective process for the management of oil and gas revenue as guided by the EITI principles, because of their commitment to the Government such as the NNPC. Others may have disagreed or may be in doubt on the basis of their assessments on the Government and its agencies' performance, regarding the management of oil and gas revenue or by carrying out a research such as the ACIs. This also indicates a need for a conference or workshop which will include the key stakeholders, government officials and independent groups such as the financial analyst and experts in the public finance, accounting and management, in order to discuss more about the EITI process and emphasise on adherence to its principles and acquire the skills on how to manage the oil and gas revenue efficiently. Table 4.2 describes such divergence in opinions between respondent groups regarding their responses to statements from the questionnaire. For example, the respondents from NNPC have a high number of differences in views from the other groups, in relation to the statements from the questionnaire which reflect on transparency practices in the management of oil and gas revenue. NNPC gave responses that were consistent with the Government being transparent, with respect to the activities of the Nigerian oil and gas industry, whilst those of the Non-Governmental Organisations indicated disagreement.

Table 4.2: Responses for the groups and by statements

STS	Responses for the groups and by statements																
28 – 40	NNP C	DP R	CB N	NEI TI	RMA FC	FIR S	AG F	OA GF	PT DF	NA SS	FO C	IO C	C S	NG O	H C	PA F	AC I
SA+A	135	61	79	55	33	77	119	27	16	122	72	60	8	37	72	17	10
N	26	17	24	28	13	17	21	29	7	89	32	35	4	45	21	7	41
D+SD	21	13	14	21	19	23	55	22	3	49	26	35	6	74	37	2	40

Note: : NNPC= Nigerian National Petroleum Corporation, DPR= Directorate of Petroleum Resources, CBN= Central Bank of Nigeria, NEITI= Nigerian Extractive Industries Transparency Initiative, RMAFC= Revenue Mobilisation Allocation and Fiscal Commission, FIRS= Federal Inland Revenue Service, AGF= Auditor General for the Federation, OAGF= Office of the Accountant General of the Federation, PTDF= Petroleum Technology Development Fund, NASS= National Assembly, FOC= Foreign Oil Companies, IOC= Indigenous oil companies, CS= Civil Society groups, NGO= Non-Government Organisations, HC= Host Communities, PAF= Public Accounting Firms and ACI= Academic Institutions. SA+A= Strongly agree+Agree, N= Neutral, D+SD= Disagree+Strongly Disagree.

5. Conclusion

The main aim of this study was to critically assess whether adaptation and implementation of the EITI principles in Nigeria have improved transparency and accountability practices in its oil and gas industry and the management of its revenue. The data obtained from the questionnaire were analysed quantitatively and the result of the interviews were analysed qualitatively, in order to corroborate the findings from the questionnaire. That helped provide insight and aided interpretation and understanding of the statistical analysis conducted. This study noticed that there was an inter-play of the opinions between and among the key stakeholders, indicating significant differences of perceptions on transparency and accountability practices in the Nigerian

oil and gas industry. This is as a result of their functional differences and relationships in the activities of Nigerian oil and gas industry, as described by Table 4.2. These findings will inform the Government on where to improve and on how best to use oil and gas revenue for the good of Nigerian society and the country. The findings will also contribute to knowledge and literature on the Nigerian oil and gas industry.

Reference

- Abutudu, M. and Garuba, D. 2011. Natural Resource Governance and EITI Implementation in Nigeria. *Current African Issues*, No. 47, Pp. 7- 88.
- Asobie, 2011. EITI and Nigeria's National Interest. Open Audit. My vision for NEITI. A publication of NEITI February, 2011.
- Auditor General for the Federation. 2009. Submission of Annual Report to the National Assembly of Nigeria.
- Bryman, A. 2012. Social research methods. Fourth edition Oxford University Press Inc., New York.
- Desai, D. and Jarvis M. 2012. Governance and Accountability in Extractive Industries: Theory and Practice at the World Bank. *Energy and Natural Resources Law Journal Volume 30 No.2*.
- Fuel Subsidy Probe. 2012.
- Gray, R., Kouhy R., and Simon, L. 1995. Accounting Accountability: Corporate social and environmental reporting. *A review of the literature and a longitudinal study of UK disclosure 8 (47)*.
- Gray, R., Owen, D., and Adams, C. 1996. Accounting and Accountability: Changes and Challenges in Corporate Social and Environmental Reporting, Practice Hall Europe: London.
- Heemskerk, B., Pistorio, P., and Scicluna, M. 2003. Sustainable development reporting: Striking the balance. World Business Counsel for Sustainable Development.
- Heemskerk, B., Pistorio, P., and Scicluna, M. 2003. Sustainable development reporting: Striking the balance. World Business Counsel for Sustainable Development.
- Jonker, J. and Pennink W. 2010. The essence of Research Methodology. A Concise Guide for Master and PhD Students in Management Science.
- Julian, R. 1998. Accountability and Multilateral Global Governance: exploring the discourse of transparency and the role of secrecy. A thesis submitted to the University of Bristol in accordance with the requirement of the degree of Doctor of Philosophy in the Department of Politics, Faculty of Social Science (December, 1998).
- Kothari, C. 2004. Research Methodology, Methods and Techniques. New International (P) Limited. Ansari Road, Daryaganj, New Delhi. Pp. 2-135.
- Lindberg, I. 2009. Accountability: the Core Concept and its Subtypes. Africa Power and Politics Working Paper No.1 April, 2009. Pp.1-17.
- Munro, R. 1996. Alignment and Identity Work: The Study of Accounts and Accountability, in Accountability: Powers, Ethos and the Technologies of Management. Munro, R. And Mouritsen, J. (eds.) International Thomson Business Press.
- Nielsen, C. and Madsen, T. 2009. Discourses of transparency in the intellectual capital reporting debate: Moving from generic reporting models to management defined information. *Critical Perspectives on Accounting Volume 20, pp. 847-854*.
- Nigeria Extractive Industries Transparency Initiative, 2011. NEITI Audit Report (2006-2008).

Petroleum Revenue Special Task Force Report, 2012. The committee report on petroleum revenue in Nigeria.

Roberts, J. 1991. The possibilities of Accountability, Accounting, Organisations and Society Journal. Volume 16 No. 4, Pp. 443-456.

Saunders, M., Lewis, P., and Thornhill, A. 2012 Research Methods for Business Students. 6th eds.

Shaxson, N. 2009. Nigeria's Extractive Industries Transparency Initiative, *Just a Glorious Audit?* Chatham House. Pp. 1-45.