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Oil money for development in Nigeria:
how can financial transparency initiatives
help ensure a fair deal for communities in
the Niger Delta?

COMMUNITY PROJECT
PROJECT: PROCUREMENT/INSTALLATION OF 350KVA
CATERPILLER GENERATOR, BUILDING OF GENERATOR
HOUSE AND LOW TENSION LINES IN TUBURU COMMUNITY.
CLIENT: NIGERIA AGIP OIL COMPANY LIMITED.
CONTRACTOR: FRANDOR TREASURE OIL NIG LTD. NO. 35 MBONU
STREET D/LINE PORT-HARCOURT RIVERS STATE
CONTRACT NO: 4600021098. 080270



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SDN supports those affected by the extractives industry and weak governance. We work with communities and engage with governments, companies and other stakeholders to ensure the promotion and protection of human rights, including the right to a healthy environment. Our work currently focuses on the Niger Delta.

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Disclaimer

The analysis in this report is intended to generate constructive debate on the benefits that Nigeria's natural resources are meant to deliver for communities in the Niger Delta. It is not intended to provide a definitive statement on the progress of *NDDC* infrastructure and other projects, or a professional audit of oil company contributions to *NDDC* financing. We welcome new data and suggestions on how to improve this work.

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Acknowledgements

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Summary

The Nigerian oil industry is based in its Niger Delta region. The industry produces around two million barrels of oil a day, a source of significant funding for government and, in theory, for the people of the Niger Delta. However, local communities who are host to oil extracting infrastructure have seen little benefit from the oil and gas industry. They have also seen significant downsides, including major and ongoing pollution, with severe impacts on the natural environment and human health.*

As in other resource-rich countries around the world, the politics of the revenue generated from oil and gas resources in Nigeria are complex. Local communities in the Niger Delta are meant to receive targeted support for infrastructure and other social development projects from government, financed by oil revenue. However, there is ongoing debate about how those communities should benefit from the industry. Historically, there has also been little transparency over how much oil revenue is generated, and where it actually goes.

Recent years have seen major international developments in revenue transparency in the extractive sector, from improvements to the Extractive Industries Transparency Initiative (EITI) and new Payment to Government Disclosures (PtG). A major question for civil society, is how we now make best use of these to support communities to bring about positive change on the ground. This discussion paper explores how civil society organisations and local communities in the Niger Delta can draw on these transparency initiatives to help deliver increased accountability for the spending of oil revenue in Nigeria.

To explore how we can make use of revenue transparency initiatives, we have used the Niger Delta Development Commission (NDDC) as a case study. NDDC has been accused of mismanagement of funds in the past, and in 2020 was the subject of a Nigerian government ‘forensic audit’. Based on this initial exploration of the potential of revenue transparency initiatives, we have outlined how this approach can be developed to support community and civil society action to improve government accountability.

In this report, we first describe data made available by initiatives such as the *Nigerian Extractive Industries Transparency Initiative* to show how oil industry revenue contributes to NDDC funding. This information shows the major contribution, in absolute terms, the oil industry makes to initiatives intended to support socio-economic development in the Niger Delta. The implementation of new national and international transparency standards means it is now easier to scrutinise this financing, although there is still room for improvement.

Next, we describe the results of an NDDC project assessment exercise carried out by six local *Community Monitoring and Advocacy Groups* (CMAGs) in the Niger Delta. SDN supported the CMAGs, which are composed of local community development representatives, to carry out site visits to 133 NDDC-funded projects in Rivers and Bayelsa, key oil-producing states. According to the CMAGs, progress on around half of these projects at the time of their visits, in late 2019, was limited, and many appeared to have been abandoned. This is a major red flag, and highlights the importance of the audit of NDDC spending recently ordered by President Buhari, and the need for this to be conducted effectively and transparently.

* See <https://www.stakeholderdemocracy.org/2018-nigerian-oil-industry-epi/> and <https://www.stakeholderdemocracy.org/the-nigerian-oil-spill-compensation-regime/>.

Third, we outline an approach to making use of revenue transparency data, which 1) enables an assessment of the distribution of revenue and development spending, and 2) supports community and civil society action on the ground to monitor how, or if, oil revenue is being used in their communities, which promotes government accountability. The model would help develop accountability further, bringing together community action and transparency initiatives to scrutinise natural resource revenue allocation—and hold government to account—more effectively. Ultimately, this would help ensure that the inhabitants of the Niger Delta get a fair deal from their region's natural resource wealth.

At the end of this report, based on our case study focus on NDDC, we have added specific recommendations about how improvements NDDC and revenue transparency data could bring about greater transparency and accountability for this troubled institution.

This is an initial exploration of the issues, which SDN intends to take further in its work. We welcome collaboration and discussion with other interested parties.

Key messages:

- EITI and PtG transparency initiatives mean civil society can more easily track the flow of revenue generated from a geographical area by the oil and gas industry to specific government entities, and then use this in monitoring and assessing spending and actual delivery of programmes and services in communities by those entities. This data allows civil society to do two things:
 1. assess how government spending is distributed geographically in comparison to where revenue is generated, and
 2. to undertake on-the-ground monitoring with communities to assess whether spending reaches and impacts communities in reality – thereby also strengthening the case for greater government accountability where it is not.
- In the case of NDDC, these initiatives provide data on nearly USD\$3bn of revenue paid to NDDC 2014-18. By reviewing budgets and working with communities, we assessed 133 projects and found 50% suffered problems with implementation—in many cases, projects appeared to be abandoned or could not be found.
- The case of NDDC provides a practical example of further improvements to revenue transparency that would help increase transparency and accountability, including:
 - publishing disaggregated by individual company and oil block, all oil industry funding it receives.
 - publishing timely annual budget allocations, strategic planning processes and principles.
 - modernisation and public access to NDDC's project auditing process
 - local civil society receiving support to act as an independent watchdog on project delivery

Overview of revenue transparency developments

Developments in international financial disclosure requirements over the last decade mean it is possible to examine oil industry revenue in greater detail than before. In particular, the detail available is a result of new and emerging reporting requirements introduced in a number of countries where major oil and gas companies are headquartered.

This notably includes Canada, Norway, and the member states of the European Union. Companies registered in these countries, or which are listed on regulated stock exchanges in these jurisdictions, must disclose the financial contributions they make to the government of every country in which they operate – not just where they are registered or listed. This means providing details of contributions such as taxes, royalties and fee payments. These are known as Payments to Government (PtG). Nigerian-registered companies that are also publicly listed on a Canadian, EU or UK regulated stock exchange must also publish details of the financial contributions they make.

PtG and other financial disclosure mechanisms, such as the Extractive Industries Transparency Initiative (EITI), mark a major advance for transparency campaigners working on the natural resources industry. In theory, greater financial transparency makes it easier both to identify wrongdoing—such as corruption red flags—as well as to assess how revenues are distributed internally in resource-rich countries.

Improvements to financial transparency in the oil and gas sector are particularly helpful in Nigeria, a country with a large oil industry but little transparency in how revenues are raised and spent. The Nigerian economy is heavily dependent on oil, but decades of industry mismanagement have led to severe environmental damage, as well as social and political unrest, in the country's oil-producing region, the Niger Delta.

Extractive industry financial transparency

EU transparency and accounting directives ensure that information on extractive industry payments to government (those made by oil, gas, mining, and logging companies) can be accessed on a country by country basis. More detail on this is available at https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/public-country-country-reporting_en.

The Extractive Industries Transparency Initiative (<https://eiti.org>) is a major international transparency campaign. Nigeria is a member of the EITI, which is implemented through the Extractive Industries Transparency Initiative (NEITI) (<https://neiti.gov.ng>).

Transparency coalition, Publish What You Pay, member organisation, the Natural Resource Governance Institute, collates and republishes accessible PtG data at www.resourceprojects.org. Publish What You Pay publishes regulatory fact sheets at www.pwyp.org/wp-content/uploads/2013/11/PWYP-fact-sheet-on-EU-Accountingand-Transparency-Directives.pdf and www.pwyp.org/wp-content/uploads/2020/09/PWYP-UK-fact-sheet-on-UK-extractives-transparency-regulations-rules-post-Brexit-2.pdf

The Niger Delta, development financing, and the Niger Delta Development Commission

The Niger Delta region of Nigeria produces around two million barrels of oil per day, and the revenue from its oil industry is a significant source of income for the Nigerian government. As in other resource-rich countries, the politics of the distribution of that revenue are complicated. A key issue in the distribution of oil revenue is the share of income the Niger Delta receives. The Niger Delta's share is especially important given the region has major social and environmental problems linked to the oil industry operating there. The area's several million inhabitants have suffered for decades from the impact of oil spills, gas flaring, and wider development problems related to the industry and weak natural resource governance.

Partly to compensate for the negative impacts of the oil industry, Nigeria's Federal Government has implemented several measures to invest a proportion of oil revenues back into the areas where they are generated. These notably include the 'derivation formula', which allocates 13% of oil revenue to Nigeria's oil-producing states.*

At the regional and local level, there is no formal means of distributing central government funds to specific areas where oil infrastructure is sited (known as 'host communities'). However, one key indirect mechanism is the implementation of projects by the Niger Delta Development Commission (NDDC). NDDC is the one of the key federal institutions set up to coordinate development initiatives in the Niger Delta, and is partly funded by direct transfers of oil revenue. Each company operating in the Niger Delta must allocate 3% of its budget to NDDC. This is known as the NDDC Levy, and NDDC is mandated, in turn, to use it in support of socio-economic and other projects around the Niger Delta. NDDC-funded projects cover a range of work, but tend to include infrastructure such as roads, schools and hospitals.

NDDC

NDDC was established in 2000 in response to unrest among some living in the Niger Delta concerning the region's social and economic underdevelopment. It has a broad mandate to coordinate strategic priorities, as well as to directly design and implement projects relating to a number of sectors, including health, transport, industry, agriculture, housing, and electricity.

The Act establishing NDDC provided for one source of funding to be "3 per cent of the total annual budget of any oil producing company operating on shore and off shore, in the Niger-Delta area; including gas processing companies". Amendments were made to this Act in 2017.

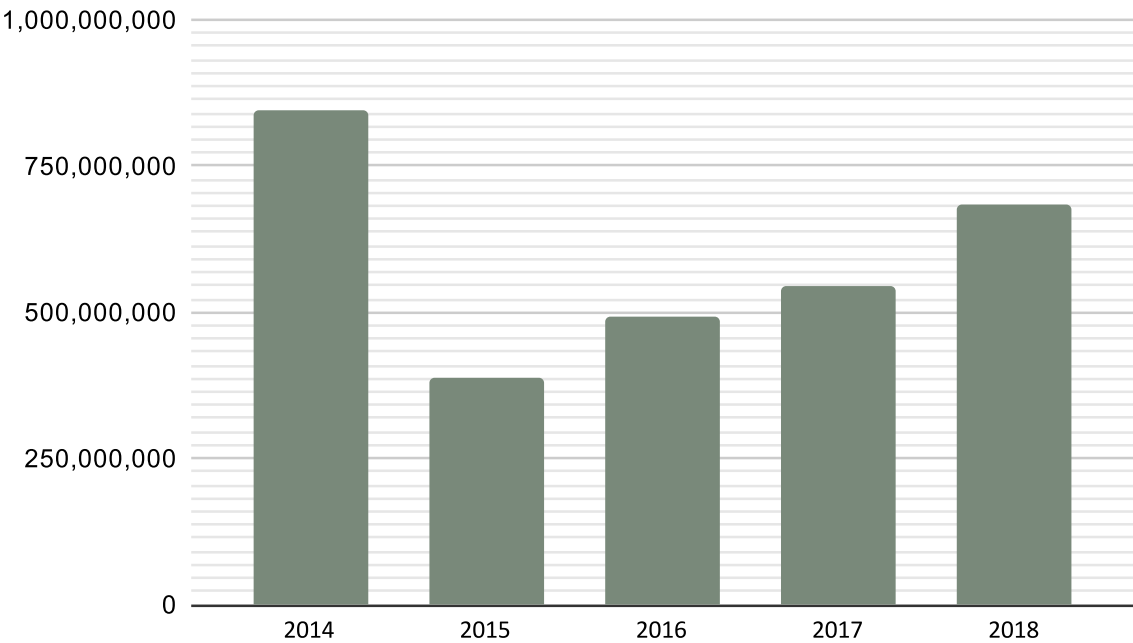
NDDC operates alongside other agencies, such as the Ministry for Niger Delta Affairs (under which it formally sits), and in parallel with the direct interventions of oil companies intended to support community development. These include, for example, ensuring local access to infrastructure built as part of oil extraction projects.

* For further details on how Nigerian oil revenue is distributed, see www.neiti.gov.ng/index.php/revenue-allocation.

Niger Delta oil for Niger Delta development: what does NDDC budget and revenue transparency data show?

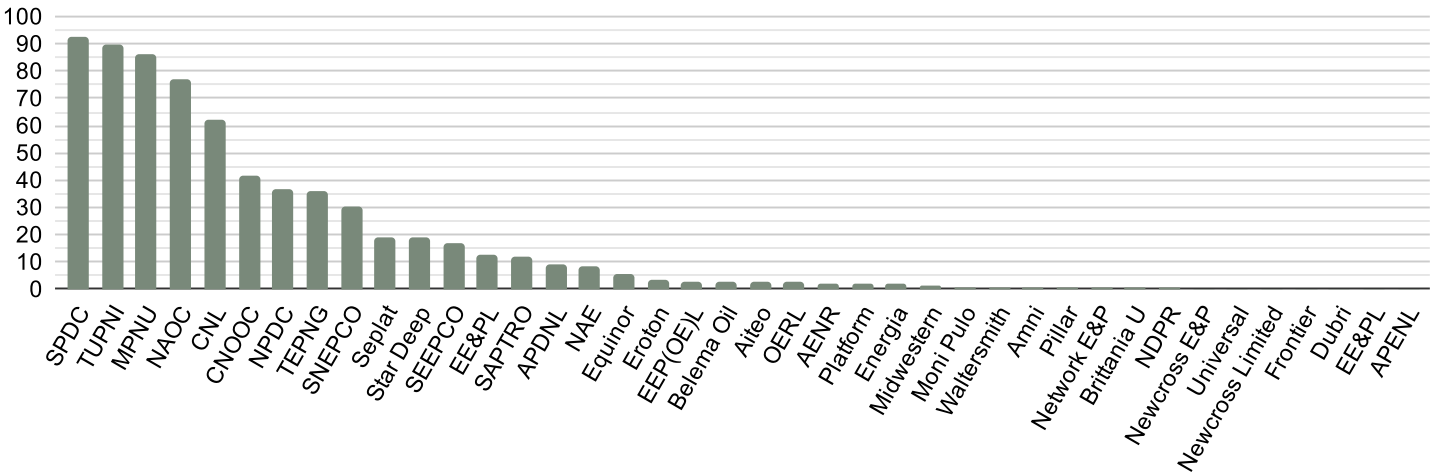
Under reporting rules implemented in Nigeria as part of its membership of the EITI, oil companies operating in Nigeria must disclose the financial payments they make to the Nigerian government and its agencies. These include the NDDC Levy. Figure 1 shows a total NDDC Levy of nearly USD\$3 billion paid between 2014-2018, the last five years for which data is available, according to NEITI. As is clear, the oil industry is a substantial source of financing for NDDC.

Figure 1: Total NDDC Levy by year (USD, millions)



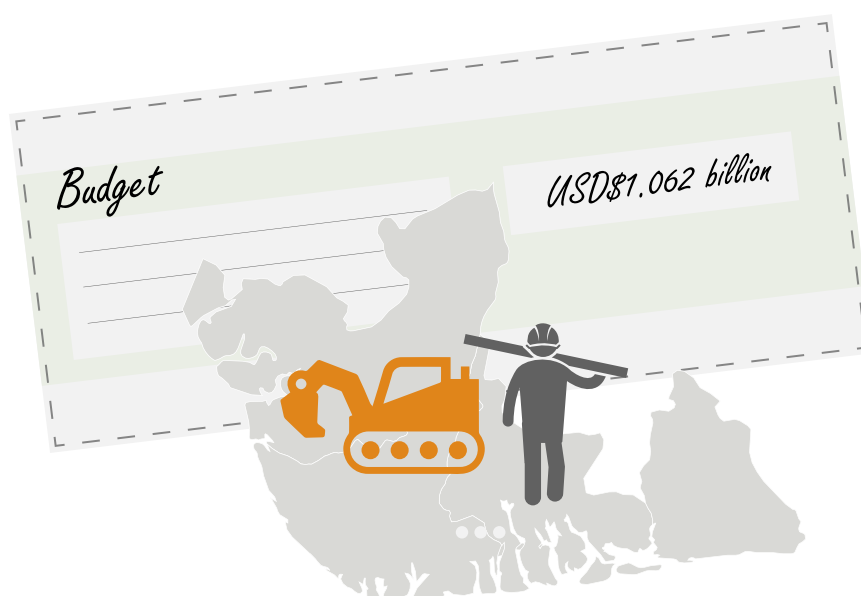
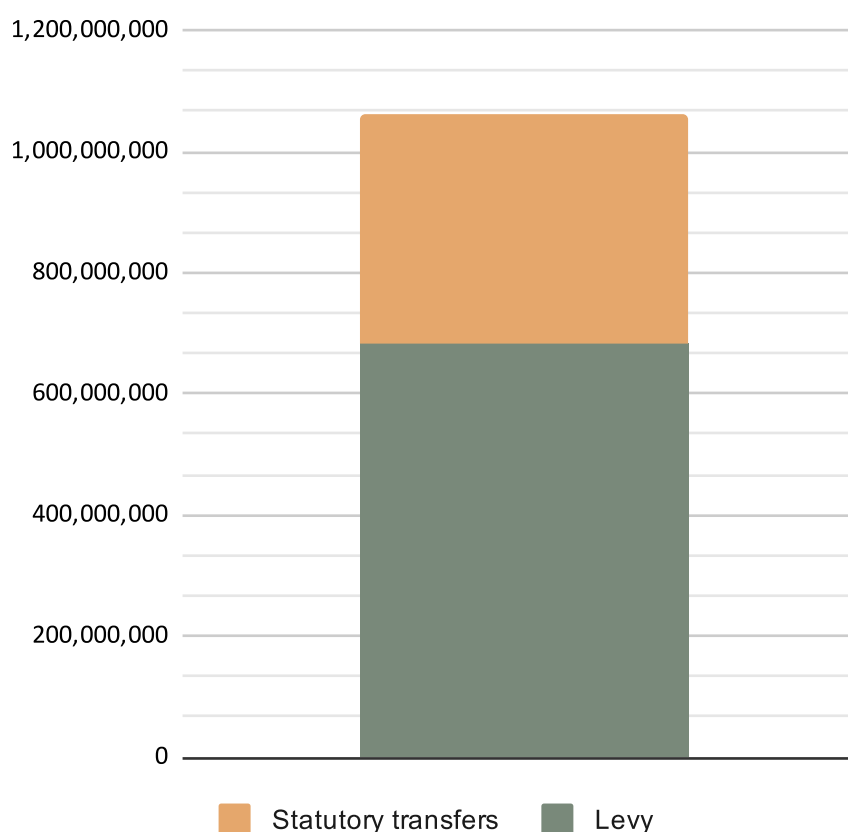
Payments are proportionate to the operating budget of each oil company—and these vary considerably in size—so the size of payments also varies. Figure 2 shows payments made in 2018, according to NEITI, by company.

Figure 2: 2018 NDDC Levy paid by selected companies (USD, millions)



According to Nigerian transparency organisation BudgIT, in 2018 the Nigerian government's statutory transfers to NDDC totalled almost USD\$380 million.* This implies a total NDDC budget of approximately USD\$1.062 billion. If this is accurate, and there are no other substantial sources of funding for NDDC, then it means that direct transfers from oil companies accounted for around two-thirds of NDDC's income in 2018.

Figure 3: Federal Government and oil company Levy contributions to the 2018 NDDC budget



* <https://yourbudgit.com/wp-content/uploads/2018/06/Approved-Budget-2018.pdf>. Figure converted from NGN115.9 billion using an exchange rate of 305.5, as in the NEITI 2018 oil and gas audit.

Payments in practice: NDDC project progress

NEITI data clarifies the major contribution, in absolute terms, that the oil industry makes to NDDC funds intended to support development in the Niger Delta. To understand more about how this financing translates to change on the ground, we looked at how the disbursement of NDDC project funds has been spent in local communities in the Niger Delta.

To examine the disbursement of NDDC project funds, we worked with members of six local community development groups. Supported by SDN, these Community Monitoring and Advocacy Groups (CMAGs) carried out short site visits to a (non-representative) sample of 133 NDDC projects in Rivers and Bayelsa states in November and December 2019. Rivers and Bayelsa are two major oil-producing states in the Niger Delta. CMAG visits to NDDC-funded projects included a number of historic projects. As part of each visit, the CMAGs conducted a visual check at each project location, and asked relevant contacts a number of questions relating to the status of each project. The visits were intended:

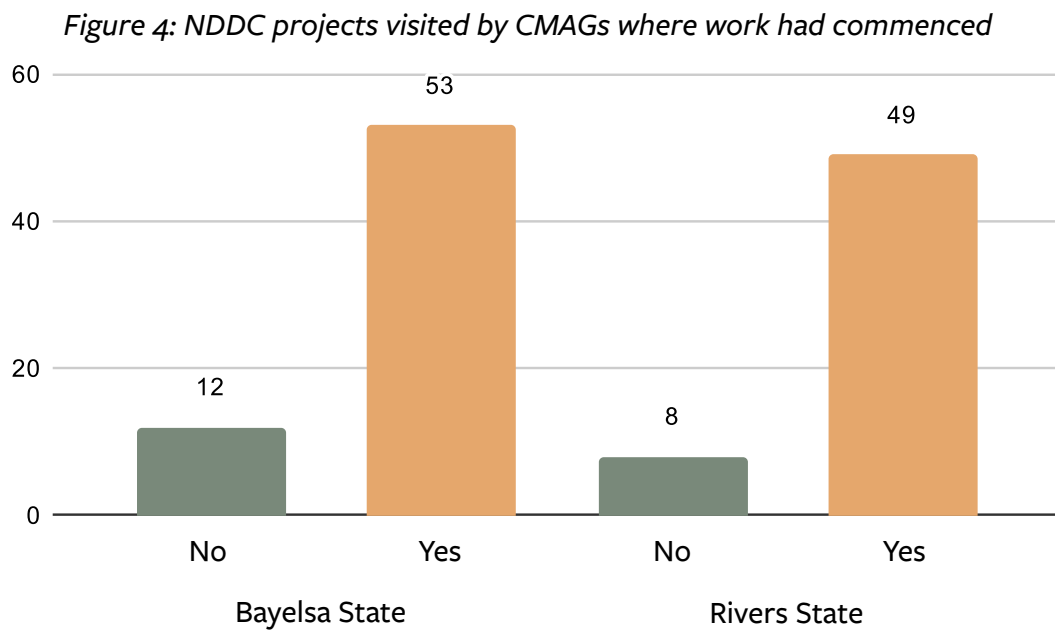
- To establish if each project was underway at the time of the visit. One way to determine this is, for example, to ask if community members in the location of each project are aware of which, if any, contractors are working on the project. As a billboard or other sign with this information is usually installed, explaining the nature of the project, this is an indicator of whether work has begun.
- To provide a brief assessment of any progress made in each project, and any impact this might have had on the community.

Community Monitoring and Advocacy Groups

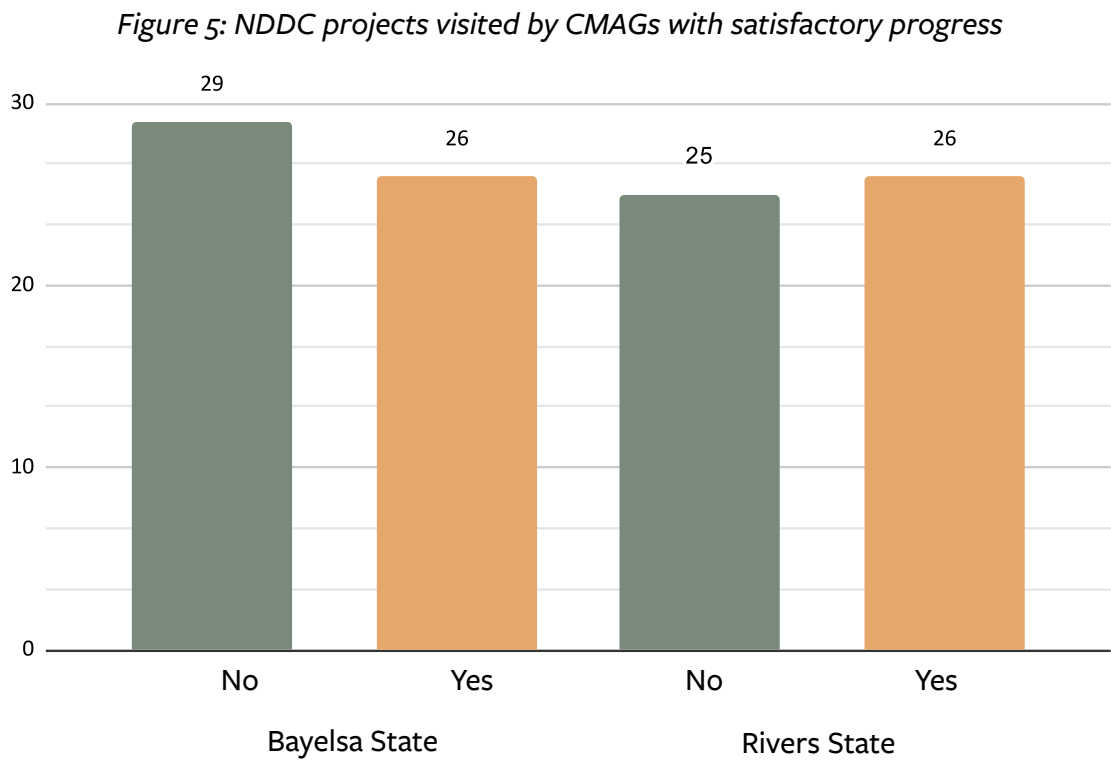
SDN helped to establish and train the six [Community Monitoring and Advocacy Groups](#) (CMAGs) supported to conduct this work in the Niger Delta. Each CMAG includes members of different groups within each community, such as women and young people. The CMAGs support community development by carrying out audits of local, social, and infrastructure needs, and then engaging with politicians and officials working on these issues. They also run social media and other campaigns to raise awareness of topics that surface in their consultations.

In total, the CMAGs visited 60 projects in Rivers State, and 73 in Bayelsa State. As mentioned, this sample is not statistically representative: projects were selected taking into account respective CMAG locations, pre-existing relationships with the relevant communities, security concerns, and the fact it was rainy season during the time when the research was carried out, which can make local access to some areas challenging because of flooding.

According to the CMAGs, 102 of 133 of projects visited (77%) showed signs of work having started. This clearly indicates that a proportion of NDDC funds is being deployed on the ground. There was no major discrepancy between Rivers and Bayelsa states.



However, the picture is mixed when it comes to project progress. Limited public information means we were unable to assess progress against official government plans. Instead, we asked the CMAGs to state whether they felt that progress on each project (and public and other relevant information relating to each project) was satisfactory, overall. According to the CMAGs, 52% of the projects they visited had not made satisfactory progress. The breakdown for each state follows:



Some of the projects had been carried out to a high standard. Comments on these projects included the following (a description of the type of project and its location are included in brackets):

- “The project is already impacting positively on the lives of the community” (Maintenance of waterways, Ogbia, Bayelsa).
- “No potholes and good drainages” (Roads/bridges, Port Harcourt, Rivers).
- “The entire street is electrified with solar panels, which are functional, though the light has started going dim, because of battery life” (Energy/power supply, Obio/Akpor, Rivers).
- “The project is already serving the purpose [...] the suffering of the people is alleviated to an extent” (Road construction, Ogbia, Bayelsa).
- “The quality of the work done is very satisfactory” (Construction of road network, Ogbia, Bayelsa).

Comments on the projects deemed to have made unsatisfactory progress included the following:

- “Road was executed with poor construction materials; as a result, it lasted just about three months. It is abandoned” (Road construction, Obio/Akpor, Rivers).
- “Not satisfactory, because there is much left, pipes not laid, no treatment plant, no plant to run the project” (Water supply, Ogu/Bolo, Rivers).
- “The progress is not satisfactory because since the contractor ran away, there [has been] erosion [of the] water front” (River canalisation, Yenagoa, Bayelsa).
- “There is no sign of continuation and completion as contractor has abandoned site [a] long time ago” (Roads, Ogu/Bolo, Rivers)
- “Just about 45 to 50 percent of drainages done and nothing more till date [...] completion needed” (Roads/bridges, Yenagoa, Bayelsa).
- “No work has commenced on this project. Contractor has not come to work” (Roads, bridges, Port Harcourt, Rivers)

These comments are typical of those made by CMAGs for other projects with limited progress. Of particular concern is the number of projects which appears to have seen initial work, such as site clearing, but with no subsequent progress made—or where companies contracted to carry out work have not been seen on site at all. We estimate that around a third of the projects the CMAGs looked at were abandoned or not yet started. This should be the subject of further investigation, and we note that Nigerian President Muhammadu Buhari announced a ‘forensic audit’ of NDDC spending, citing this type of issue as one of the reasons for the audit, which began in January 2020.

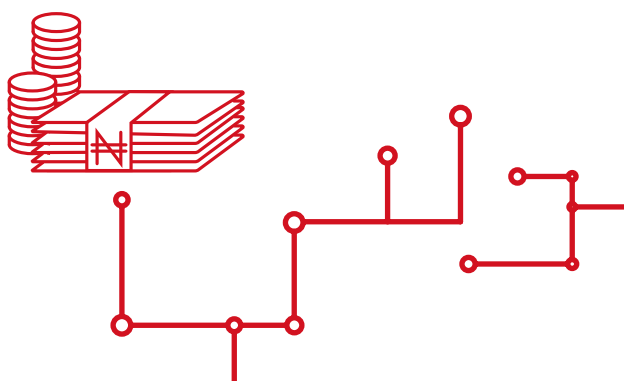
How to follow the money? Linking community initiatives with transparency data

The implementation of transparency initiatives in recent years is a welcome development, and the publication of accessible data is needed for independent scrutiny of public financing. The payments made to the Nigerian government, made available by NEITI and others, can help shed light on the irregularities discussed in this paper, which, at a minimum, need further scrutiny.

However, to ensure mutual accountability between the government, oil industry, and local communities, there needs to be detailed, site-level analysis of how the funds intended to support Niger Delta communities are being spent by institutions such as NDDC. Projects to support communities and local civil society to make use of the detailed financial data and carry out this scrutiny should be a priority for transparency initiatives in Nigeria.

Below, we outline one way in which the important work done by initiatives such as NEITI can be linked with on-the-ground access that community organisations can provide to scrutinise the spending of oil revenue in Nigeria. This model is based on four initial steps:

1. Using public data, such as that from NEITI and PtG, civil society can learn how much revenue the oil industry paid to which government entity, and, often, where the revenue was generated from (by ‘project’).
2. Reviewing government budgets (where available)—such as the NDDC budget—civil society can understand how that oil revenue is spent. This would enable civil society to find out how the government invests in areas and communities which produce oil and gas, or are affected by industry operations.
3. Community groups and civil society can then track budgeted projects to check their existence, progress, and quality, including the impact on local communities.
4. After taking these three steps, community groups and civil society are in a much stronger position to understand how, or if, oil revenues are being invested in their communities, and to hold government to account where this appears to not be the case. Ideally, a formal mechanism could be established for agencies such as NDDC to scrutinise this information and to provide input to government needs assessment processes.



Increasing transparency around oil industry revenue in Nigeria

The data now available under initiatives such as the EITI/NEITI, and mandatory reporting requirements in the EU and elsewhere, is a significant advancement for revenue scrutiny.

The data shows the broad amounts of money being generated for countries around the world, including Nigeria, from their natural resources. For example, NEITI data on the 3% Levy shows the top-level amount of money the oil industry contributes to NDDC.

Information on ‘project-level’ payments made by oil companies would help understand this in more detail. Project-level payments refer to money generated from a particular project site—for example, oil wells in a specific block for which an oil company holds the licence to operate.

Some international regulation already requires oil companies to publish project-level payments. For example, oil companies operating in Nigeria but registered on a regulated stock exchange in the EU must release these project-level payments. This means that for some of NDDC’s budget (and that of other government agencies), it is in theory possible to examine where oil revenue is spent in the context of where it is generated.

It should be noted that there is no formal requirement for money to be spent where it comes from in Nigeria, and the politics of natural resource revenue sharing is complex. Host communities in the Niger Delta should accrue some benefits from the presence of the oil industry, but the balance of how oil revenue should be used for local versus national development is a matter for debate.

Nonetheless, detailed information on the origin of oil revenue in Nigeria, from all companies, would provide a clearer picture of the source and distribution patterns of oil-financed development in the Niger Delta. This would inform debate on where, how, and why public money is spent, which is crucial to healthy politics and governance. Combined with data on the impact of this spending, data on the origin of oil revenue would also give an indication of how local development needs are (or are not) being met, and hence ultimately of the degree to which NDDC is fulfilling its remit.

To examine oil revenue in more detail, Nigeria could aim to establish financial disclosure initiatives revealing the contributions made to NDDC by all oil companies operating in Nigeria, not just those with international reporting requirements, in more detail.

How can payment transparency in the oil and gas industry improve government accountability to communities and help communities to get a fair deal?

1

Extractive Industries Transparency Initiative and Payment to Government Disclosures data confirms what revenue is received by government. It also shows the locations (the projects) that the revenue derives from and the government entity that received the payment, such as the Niger Delta Development Commission.

2

Government budgets, when accessible, show how and where funding is being spent

Note: We don't expect to see 100% of revenue directly reinvested by in to a location that it derived from. There are complex debates about how revenue should be distributed and the balance between investing in national development and supporting communities that host oil and gas activities. But this process allows an assessment of the distribution based on the data. For example, if a set of communities sit within an oil block which has generated hundreds of millions of dollars in revenue over several years, but have seen no investment in return, this would suggest there is a problem.

1

+

2

Together, this data allows us to get an understanding of how revenue is generated and spent, and to make an assessment of how impacted communities benefit from oil revenue generated in their locality.

Now communities - and wider civil society - are in a better position to influence budgets and ensure projects are delivered

3

Community and local civil society groups can track projects on-the-ground. Now we can see, were projects actually delivered? And what impact have they had?

4

If they haven't been delivered, then communities and civil society are armed with more information, which they can use to make their case and hold government to account.

Conclusion

There have been major steps forward in financial transparency in the extractives industry, and there is now a need to bridge the gap between these large-scale international initiatives and community-level initiatives, to support communities and local civil society to hold extractive industries and government to account. This is especially true in the Niger Delta, where host communities have often borne the brunt of the negative impacts of the oil and gas industry, and have seen little of the benefits.

This initial examination of development infrastructure financing in the Niger Delta raises concerns, and shows one example of how local communities can link up with transparency initiatives to improve understanding of and accountability in the use of oil revenues.

In the specific case explored here, NDDC has significant spending power, but site visits carried out by community groups we support indicate a lack of progress on many projects. A lack of project progress includes work begun but subsequently stalled, and some projects where work appears never to have started. The on-the-ground reality reflects some of the challenges documented by transparency organisations in relation to public spending in Nigeria.

This paper shows how even an initial examination of the data can help improve understanding of how oil revenues are distributed, and the resulting impact. We also suggest how this work can be developed further.

SDN intends to pursue this avenue of research, and we will engage with all those willing to take constructive action to support transparency and accountability in public spending. Please get in touch if you would like to engage with us on this issue.

We outline further ways in which this work could be developed in the box below, focusing on improving accountability in NDDC spending.

An agenda for change: what role can oil sector payment transparency play in supporting improved accountability and transparency at NDDC?

NDDC is a major government institution in the Niger Delta, with a significant budget to support development in the region. But it has a history of controversy and many communities have not seen the benefits of planned infrastructure and development initiatives. In this report, we've explored the specific case of NDDC in relation to how revenue transparency initiatives can support communities and improved action by government. Through this, we propose four key areas of work for those keen to improve accountability in public spending in NDDC:

1. There needs to be more clarity on the degree to which oil company revenues finance NDDC, and how these are structured. Detailed information on the source and destination of funding, as well as accounting periods and exchange rates, are missing in NDDC documents.

NDDC should commit to publishing, disaggregated by individual company and oil block, all oil industry funding it receives. These payments could then be reconciled against payments reported by oil companies under NEITI and other requirements. This measure would help NDDC and the oil industry hold each other to account for their joint obligations to support development in the Niger Delta.

2. NDDC should publish:

- Its annual budget allocations—by project type, value, and location—in a timely way
- The strategic planning process it undertakes to determine budget allocations
- The principles on which the strategic planning process is based

Communities in the Niger Delta have a right to know how their needs are interpreted by development finance institutions, and this would inform meaningful public debate about where and how oil financing is allocated across the region.

3. There appears to be a problem with poor and non-implementation of NDDC projects. This is not merely our assessment: a senior NDDC staff member said in January 2020 that the award of some contracts between 2016 and 2019 may have been “not only spurious, but criminal”. This honesty is creditworthy, and must be followed up with an in-depth investigation; the government must ensure the findings of its own audit of NDDC are published in full, and a plan is outlined for how NDDC spending will be accounted for in public in future. This could include the modernisation and reform of Nigerian audit requirements to ensure that all public funds spent by government are monitored on an ongoing basis, in order to reduce the need for emergency forensic audits, as with the present audit of NDDC.
4. Local civil society organisations must be supported to monitor public funds spent on their behalf. There is a wide variety of groups across the Niger Delta who, with training, could use the data now available under Nigerian and international transparency requirements to investigate the progress made or reported on projects in their area. Building independent watchdog capacity can only strengthen the work of government agencies in Nigeria and build public trust in them, something sorely lacking in the Niger Delta. Ultimately, this would help ensure public money is spent more effectively.

Sources

NDDC Levy payment figures are included in NEITI's annual oil and gas audits. These are available at: <https://neiti.gov.ng/index.php/neiti-audits/oil-and-gas>.

This report is part of our [Environmental and governance action in the Niger Delta](#) project, funded by the Government of the Netherlands.



**Environment
and governance
action in the
Niger Delta**