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# **NIGERIA: Mapping Political, Economic and Business Scenarios in the Post- Obasanjo Era**

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## INTRODUCTION

As Africa's most populous nation, home of the continent's largest Muslim population, and one of the world's leading oil producers, Nigeria's strategic import extends well beyond its borders. National and state elections staged in April 2007 resulted in a landslide victory for President Obasanjo's hand-picked successor, Umaru Yar'Adua, and his People's Democratic Party (PDP). While voting occurred without major incidents of civil unrest, widespread allegations of fraud and a litany of logistical failures mean that the president-elect will inherit a poisoned chalice. Despite the polls' obvious shortcomings, neither international opprobrium nor domestic legal challenges will seriously test the legitimacy of the incoming administration and a "coloured revolution" remains a distant prospect.

Since 2003, an ambitious programme of structural reform aimed at accelerating Nigeria's economic growth, reducing poverty and achieving the Millennium Development Goals (MDGs) has led to improved macroeconomic balances, consolidation of the financial sector and improvements in the business environment. The benefits of reform have not, however, been commuted into material welfare improvements for the majority of citizens. Mr. Yar'Adua will therefore face myriad challenges upon his inauguration. Chief among these are the country's crumbling energy and transportation infrastructure, entrenched corruption, high youth unemployment, fuel shortages, communal tensions, a worsening HIV/AIDs pandemic, and spiralling violence in the oil-rich Niger Delta.

Coupled with widespread illegal oil bunkering<sup>1</sup>, escalating attacks against foreign-owned installations, support vessels, and personnel in the Niger Delta is exacting a heavy toll on Nigeria's oil industry. Since February 2006, incursions perpetrated by the Movement for the Emancipation of the Niger Delta (MEND) and loosely affiliated insurgent groups have led to losses amounting to 20-25 percent of national production. There are well-founded concerns that security services are unable to cope with an increasingly sophisticated resistance. After decades of official neglect, the March 2007 promulgation of the Niger Delta Regional Development Master Plan (NDRMP) is indicative of the increasingly urgent development imperatives in the region and the government's willingness to initiate formal dialogue.

## 2007 ELECTIONS

In April 2007, more than 61.5 million Nigerians were eligible to vote in polls to elect a new president, 469 parliamentarians, thirty-six state governors and members of each of the state's assemblies. Notably, the elections marked the first time in the country's history that power passed from one civilian administration to another. In the event, President Olusegun Obasanjo's handpicked successor, Umaru Yar'Adua, won in landslide, with official results giving him 70% of the popular vote. His People's Democratic Party (PDP) also won a plurality of seats in Parliament<sup>2</sup> and now controls 28 of the country's 36 state governorships.

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<sup>1</sup> Oil bunkering refers to the process of siphoning oil from well-heads and pipelines to sell on the black market.

<sup>2</sup> The ruling party won 85 of the 108 announced results for the 109-seat Senate and 224 of the announced seats for the 360-seat Legislature.

The campaign, conduct, and results of Nigeria's 2007 elections were marred by serious irregularities, highlighting both the politicization of, and serious deficiencies within, the Independent National Electoral Commission (INEC). European observers indicated that the elections "fell far short of basic international standards" and were not credible, while the U.S. State Department concluded that the process was "seriously flawed". While Nigerian civic and opposition groups<sup>3</sup> have warned of an impending showdown with the government, there is little public enthusiasm for a violent confrontation.<sup>4</sup> Short of registering legal challenges with the courts (the only institution that appears to operate independent of the PDP) and organizing temporary work stoppages, it appears increasingly unlikely that the opposition will prove capable of unifying around a common strategy in the aftermath of the elections, just as it failed to do ahead of the polls.

More by design than accident, the results of the elections mark a further slide toward a one-party state in Nigeria. In President Obasanjo's controversial 1989 book *Constitution for National Integration and Development*, he argued that a one-party state "appears to be the only procedural mechanism through which we can transcend the divisive and centrifugal forces tearing us apart and diverting our attention from the monumental task of integration and nation building."<sup>5</sup>

While enmity and anger both within and against the PDP has clearly lightened Mr. Yar'Adua's yoke, his inauguration speech adopted an inclusive and conciliatory tone and he has promised to respect the decisions of tribunal reviewing petitions of defeated candidates and embark on an aggressive campaign of electoral reform. Both his pledge to maintain the country's program of economic reform and the over-arching imperative of maintaining stability in Nigeria makes it highly unlikely that the international community will take a firm stand over the polls. Nonetheless, President Yar'Adua will have to move quickly to heal divisions within the People's Democratic Party that emerged as a result of his selection as its presidential candidate ahead of Vice President Atiku Abubakar. In this respect, he will be helped greatly by his close relationship with the former president, Olusegun Obasanjo, who will stay on as Chairman of the PDP, and who continues to exert considerable control over senior ranks of the military and security apparatus. While several key cabinet appointments has yet to be announced, it is widely expected that Mr. Yar'Adua will holdover several key figures from the outgoing administration and attempt to strike a difficult political balance among leading PDP and opposition figures.

The incoming president -- a bookish and shy former chemistry teacher noted principally for his humility and ascetic qualities -- will offer Nigerians a leader with a reputation for honesty and little resemblance to most of his predecessors.<sup>6</sup> Those in his home state of

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<sup>3</sup> The Coalition of Civil and Human Rights Groups has indicated it will use all legitimate means to give the Yar'Adua presidency a difficult time, while the Campaign for Democracy, which spearheaded campaigns to end military dictatorship in the 1990s, says it will challenge the legitimacy of the government through all possible means.

<sup>4</sup> Nigerians are well aware of the lessons resulting from the annulment of the 1993 elections, where a prolonged period of uncertainty ultimately led to military intervention and the Sani Abacha regime.

<sup>5</sup> "Nigeria: Failed Elections, Failing State," International Crisis Group (May 2007)

<sup>6</sup> Mr. Yar'Adua's health has been the subject of intense speculation, notably due to his hospitalization in Germany during the election campaign and claims that he has only partially recovered from a serious kidney ailment in 2000.

Katsina, where he has been governor for nearly eight years, say Yar'Adua's public awkwardness masks a sharp mind and a resistance to manipulation that will serve him well in a political culture legendary for "big man" politicians. His vice-president is Dr. Goodluck Jonathan, formerly governor of oil-producing Bayelsa State in the Delta, and the first person from the impoverished region to rise to such a high office. While it was initially hoped that that Dr. Jonathan's appointment would deliver a fillip to negotiations aimed at stemming the tide of violence in the Delta, it has been met with mixed reactions, and two separate attempts against his life in suggest he will have to tread carefully.

When asked to name the biggest problems their country faces, more than a third of Nigerians name poverty (37%), corruption and the mismanagement of public funds (37%), or unemployment (35%). Nearly as many mention the lack of basic amenities, such as electricity, as a major concern (30%).

<b>What are the biggest problems Nigeria faces as a country – that is, the problems that are of most concern to you?*</b>	
	FEBRUARY 2007 n=2410
Poverty	37%
Corruption / bribery / mismanagement of public funds	37%
Unemployment	35%
Inadequate infrastructure / no basic amenities / no electricity	30%
Fuel shortages	17%
Economic problems / instability	13%
Bad leadership	11%
Bad roads	11%
Poor educational system	9%
General insecurity	9%
Political problems / political thuggery / election rigging	5%
Violent crime / terrorism / security	4%
Health care issues / lack of medical care	3%
Ethnic/tribal/communal conflicts	3%
Other	8%
Nothing / no problems	1%
Don't know / refused	1%

\* Totals exceed 100%. Respondents were allowed to name up to three responses.

### **CRUMBLING INFRASTRUCTURE**

A combination of underdeveloped infrastructure, weak public management, and corruption has led to poor output and service from state-based infrastructure providers. The very low share of manufacturing as a percentage of Nigeria's GDP reflects long-

standing problems of competitiveness related to frequent power shortages, poor road and rail infrastructure, shortages of skilled labour, and high transaction costs.<sup>7</sup>

The woefully inadequate electricity supply is generally judged by business to be the most critical constraint, with more than 70 percent of manufacturers resorting to meeting their own needs at a cost five times higher than the national average. President Obasanjo has commissioned a number of new power stations in the closing months of his tenure, with a view to boosting the national supply by 10,000 MW by the end of 2007. While it is highly unlikely that this target will be met given union opposition to further privatization, there is a clear recognition of the need to rapidly rebuild national infrastructure. Mr. Yar'Adua's ability to channel fiscal windfalls from the oil sector to targeted projects will be an early bellwether of his administration's effectiveness.

## GOVERNANCE AND CORRUPTION

The history of corruption in Nigeria is strongly rooted. Successive military regimes subjugated the rule of law, facilitated the wanton looting of public funds, and decapitated public institutions. The result, not surprisingly, is that Nigeria consistently ranks as one of the most corrupt countries in the world. The proliferation of economic and financial crimes like Advance Fee Fraud (419) and money laundering has had severe negative consequences on Nigeria, including decreased foreign direct investment in the country and the tainting of Nigeria's national image. For the past four years, the fight against corruption in Nigeria has been embodied in the Economic and Financial Crimes Commission, (EFCC) and its Chairman Nuhu Ribadu - a 46-year-old senior police officer. The Commission is empowered to investigate, prevent, and prosecute officials engaging in, "*Money laundering, embezzlement, bribery, looting and any form of corrupt practices, illegal arms deal, smuggling, human trafficking, and child labour, illegal oil bunkering, illegal mining, tax evasion, foreign exchange malpractices including counterfeiting of currency, theft of intellectual property and piracy, open market abuse, dumping of toxic wastes, and prohibited goods*"<sup>8</sup>

Despite the inherent difficulties of prosecuting senior government officials, the EFCC has recorded 150 convictions and has recovered several billion naira since its establishment. Nigeria's other official anti-graft agency, the Independent Corrupt Practices and Other Related Offences Commission (ICPC) has similarly announced the prosecution of 90 cases of corruption nationwide. One of the first political tests Mr. Yar'Adua will face is his administration's ability to satisfy growing civil society demands for a more aggressive anti-corruption campaign and quell public perceptions that the EFCC has become a political instrument aimed at sidelining political rivals.

The World Bank Governance Indicators dataset uncovers several interesting trends in Nigeria's governance. With a vibrant media, Nigeria's voice and accountability rank has improved dramatically during President Obasanjo's tenure. Incremental improvements

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<sup>7</sup> IFES, "What Nigerians Think – Nigerian Public Opinion in the Pre-Election Environment," IFES (April 2007)

<sup>7</sup> M. Salisu, "Determinants of Firm Performance in Nigeria: Evidence from Investment Climate Survey Data

<sup>8</sup> Section 46, EFCC Establishment Act, 2004

are also discernible in the rule of law and control of corruption, and government effectiveness. Both regulatory quality and political violence have, however worsened.

### NIGERIA: Governance Indicators

Governance Indicator	Year	Percentile Rank (0-100)
Voice and Accountability	2005	30.0
	1998	9.2
Political Violence	2005	4.7
	1998	13.2
Government Effectiveness	2005	20.1
	1998	5.3
Regulatory Quality	2005	16.3
	1998	25.6
Rule of Law	2005	5.8
	1998	3.8
Control of Corruption	2005	6.4
	1998 <sup>9</sup>	5.3

### COMMUNAL AND SECTARIAN VIOLENCE

Nigeria is comprised of four principal ethnic groups – the Hausa (North), Fulani (North), Yoruba (Southwest), Igbo (Southeast) – that collectively comprise 68 percent of the national population. The country also boasts almost equal numbers of Muslims and Christians. The prevalence of ethnic and religious divisions helps to explain why Nigeria has evolved into a political federation, with 36 states enjoying a high degree of independence from the central government.

One direct consequence of that independence has been the implementation, since 1999, of *sharia* law in the north's 12 predominantly Muslim states. While the practices of Northern states have moderated considerably in recent years, authorities were reminded of the dangers of Islamic extremism in April 2007 when members of an armed Nigerian Islamist Group, who dubbed themselves the Taleban, engaged in pitched battles with security forces.

While Nigeria's external borders remain unchallenged, at least 14,000 people have been killed in sporadic outbursts of violence across the country and hundreds of thousands have been displaced since military rule ended in 1999. While conflict often erupts between different religious and ethnic groups, its structural roots lie more generally in unequal access to power and resources, including land and oil wealth.<sup>10</sup> One of the key causes of communal conflicts in Nigeria lies in divisions between those who consider themselves indigenous to an area and those regarded as settlers. Where resources are scarce, this can (and often does) lead to a build-up of resentment among competing groups, in some cases, spilling over into violence.

<sup>9</sup> World Bank Governance Indicators

<sup>10</sup> Internal Displacement Monitoring Centre, "Internal Displacement in Nigeria: A Hidden Crisis," (February 2005).

Importantly, and unlike in previous election crises, the current dispute has not taken on an ethnic or religious dimension. Nonetheless, the administration will come under pressure to boost spending in the Muslim-dominated north, where many see the election of a Northerner as an opportunity for the region to recover some of the wealth and power lost since power shifted in 1999. A further, but unlikely, fallout of the flawed elections is the possibility that they will reinvigorate separatist agitation championed by the Movement for the Association of the Sovereign State of Biafra.<sup>11</sup>

## DEMOGRAPHIC AND ENVIRONMENTAL STRESS

The erosion, and personal appropriation, of state revenues and royalties from oil explains Nigeria's appalling ranking on every international official and unofficial human development indicator. The 2006 Human Development Index (HDI) prepared by the UNDP ranks Nigeria 159 of 177 countries, after Eritrea and Rwanda, and before Guinea and Angola.<sup>12</sup>

HIV / AIDS, malaria, tuberculosis, and avian influenza, carry with them the potential to overwhelm Nigeria's capacity unless concerted efforts are mounted to limit the infection rates and spread of these epidemics. Although its prevalence rate (at 6%) is lower than many of its neighbours, after South Africa and India, Nigeria has the greatest number of HIV sufferers in the world.<sup>13</sup> Cumulatively, it is estimated that more than 1.7 million people have died and 1.5 million children have been orphaned. For the 2007-2011 period, infection rate predictions vary widely: at the high end, it is estimated that the adult prevalence rate could reach as high as 26 percent (up to 15 million inhabitants).<sup>14</sup>

In three countries of the world – Nigeria, Egypt, and Indonesia – the lethal H5N1 avian influenza has been assessed by the World Health Organization, as “out of control.” Evidence of this flu in birds has now been uncovered in nineteen of Nigeria's thirty-six states. Nigeria has recently received \$65 million in support from the World Bank to improve preparedness and response.

## ECONOMY

Following years of economic stagnation, Nigeria embarked on a comprehensive reform program (the National Economic Empowerment and Development Strategy) during the second term (2003-2007) of the Obasanjo administration. This program focused on four pillars: improving macroeconomic stability; implementing structural reforms; strengthening public expenditure management; and reforming public institutions. As Table 1 indicates, this program has achieved notable successes in terms of sustained

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<sup>11</sup> The Biafran War (1967-1970) was a political conflict caused by the attempted secession of the southeastern provinces of Nigeria as the self-proclaimed Republic of Biafra. The war became notorious for the starvation in some of the besieged war-bound regions, and the consequent claims of genocide made by the largely Igbo people of those regions

<sup>12</sup> HDI measures life expectancy, educational attainment and literacy, adjusted real income, and standards of living.

<sup>13</sup> Daniel Smith, “HIV/AIDS in Nigeria: The Challenges of a National Epidemic,” (2004).

<sup>14</sup> Daniel J. Smith, “HIV/AIDS in Nigeria: the Challenges of a National Epidemic,” in Rotberg, *Nigeria*, p.200

GDP growth, a deceleration of inflation, and improved exchange rate stability. Importantly, lower interest rates and financial sector consolidation have also produced significant gains in the non-oil sector, which now accounts for more than 60% of GDP.

**TABLE 1: NIGERIA: Economic Structure and Selected Indicators**

<p><b>Population:</b> 143 million  <b>Nominal GDP:</b> US\$116bn  <b>Total Trade / GDP:</b> 70%  <b>Sovereign Rating:</b> S&amp;P: BB- / Fitch: BB-  <b>Main Exports:</b> Oil (86%); Gas (8%)  <b>Export Partners:</b> USA (54%); Brazil (10.4%); Spain (8.3%); France (3.2%)  <b>Main Imports:</b> Manufactured Goods, Chemicals, Machinery and Equipment, Foodstuffs  <b>Import Partners:</b> China (10.5%); USA (7.4%), UK (6.9%), Netherlands (6.2%)  <b>Official Aid Receipts:</b> \$578mn (2004)  <b>Remittances:</b> US\$4bn (2006)</p>
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	1999-2001	2002	2003	2004	2005	2006	2007f	2008f <sup>15</sup>
<b>GDP Growth (%)</b>	3.5	1.4	10.9	6.1	6.2	5.1	5.9	7.0
<b>Inflation (%)</b>	10.4	12.2	21.8	10.0	11.6	9.0	10.3	8.6
<b>Exchange Rate (N:US\$)</b>	102.3	121.3	129.5	133.5	131.8	126.5	128.4	129.6
<b>External Debt / GDP (%)</b>	80.3	76.5	67.8	64.4	50.2	20.8	3.0	2.8
<b>International Reserves (\$bn)</b>	8.4	7.7	7.5	17.0	28.3	46.5	62.4	83.7
<b>Nigerian Oil Price (\$bbl)</b>	23.5	25.0	28.9	38.3	55.3	64.4	63.3	64.3

f=forecast

Sustained high oil prices have enabled the government to repay its remaining external debt obligations, following the 60 percent debt relief (equivalent to US\$18bn) offered to Nigeria by the Paris Club. At the end of 2006, the Nigerian Parliament approved an additional expenditure of US\$1.4bn to liquidate balances owed to the London Club of creditors. The fiscal space created by these debt relief exercises will be used to finance increased investments in infrastructure and poverty reduction.<sup>16</sup>

During election campaigning, Mr. Yar'Adua listed six broad economic policy priorities: improving the country's electricity supply; boosting agricultural productivity; reducing food insecurity; fighting corruption; downsizing the federal bureaucracy; and reforming land ownership. It is also expected that his administration will maintain the Fiscal

<sup>15</sup> SOURCES: International Monetary Fund, Organization for Economic Development and Cooperation, Economist Intelligence Unit

<sup>16</sup> OECD, "Africa Outlook 2007: Nigeria" (May 2007)

Responsibility Act / Excess Crude Oil Account, which currently holds revenues estimated at US\$9.75bn.<sup>17</sup>

Mr. Yar'Adua has publicly committed himself to maintaining the current reform programme, although progress may be slower than in recent years, since many of the easier measures have now been completed. The next wave will be harder to implement and will yield only long-term gains, such as resolving the electricity crisis, improving insecure property rights, and reforming the weak judicial and education systems. Moreover, progress will continue to be hampered by deeply entrenched vested interests, pressure to adopt more nationalistic economic policies, the weak civil service, and confusion caused by overlaps and contradictions between local, state and federal government actions.

## OIL / GAS SECTOR

Nigeria is the world's eleventh largest oil producer and a member of the Organization of Petroleum Exporting Countries (OPEC). In 2006, total Nigerian oil production, including lease condensates, natural gas liquids and refinery gain, averaged 2.45 million bbl/d.<sup>18</sup> The federal government owns the nation's natural resources, including oil and natural gas, and thus controls the granting of contracts to international partners. Under the derivation formula inserted in the 1999 constitution, a minimum of 13 percent of oil revenues must be returned directly to the states from which it was derived. This revenue accrues in the Federation Account, where it is then allocated on a monthly basis by the Revenue Mobilization, Allocation and Fiscal Commission.<sup>19</sup> Oil revenue allocation has been the subject of much contention well before Nigeria gained its independence. Allocations have varied from as much as 50%, owing to the First Republic's high degree of regional autonomy, and as low as 10% during the military dictatorships. State allocations are based on 5 criteria: equality (equal shares per state), population, social development, land mass, and revenue generation. As Isaac Asume Osuoka, Director of Social Action Nigeria asserts, "Callousness toward the people of the Delta stems from their economic irrelevance. With all the oil money coming in, the state doesn't need taxes from people. Rather than being a resource for the state, the people are impediments. There is no incentive anymore for the government to build schools or hospitals."<sup>20</sup>

Nigeria's oil accounts for 95 percent of foreign exchange earnings, 20 percent of GDP and 65 percent of budgetary revenues. About 95% of the country's crude production takes place through joint ventures (JVs) between the state-owned Nigerian National Petroleum Corporation (NNPC) and foreign oil companies. The NNPC takes a 50-60% stake in such JVs, and is frequently criticized for a failure to fulfill its commitments in these ventures. The NNPC has been earmarked for privatization amid strong opposition

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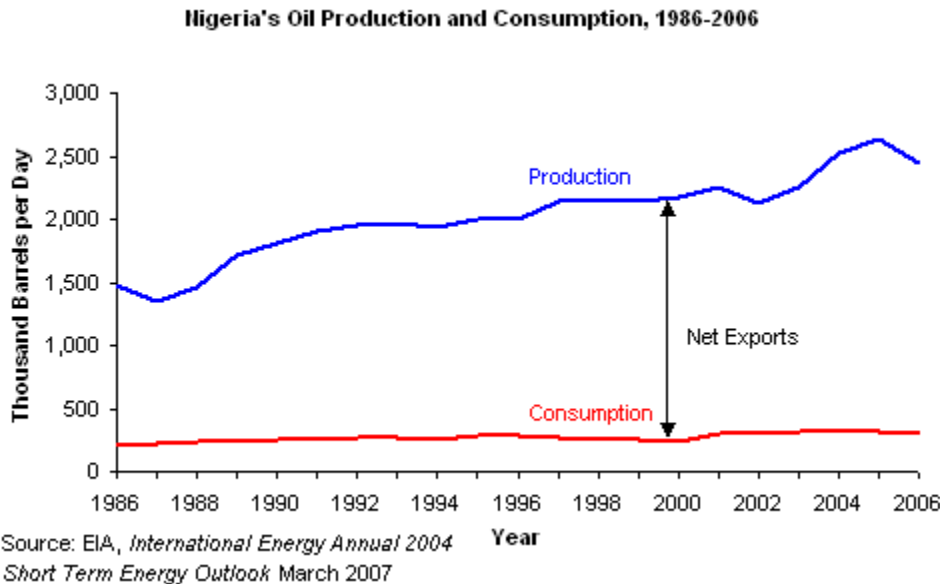
<sup>17</sup> Okonjo-Iweala, N., and P. Osafo-Kwaako, "Nigeria's Economic Reforms: Progress and Challenges," *Brookings Global Economy and Development* (March 2007)

<sup>18</sup> Energy Information Administration, "Nigeria Country Analysis Brief," April 2007  
<http://www.eia.doe.gov/emeu/cabs/Nigeria/Background.html>

<sup>19</sup> Stephanie Hanson, "Nigeria's Creaky Political System," *Council of Foreign Relations* (April 2007)

<sup>20</sup> "Nigerian Oil: Curse of the Black Gold," *National Geographic* (February 2007)

from the unions. Nigeria has publicly stated its intention to grow its oil reserves to 40 billion bbl by 2010 and production capacity to 4.5 million b/d by 2010.<sup>21</sup>



Nigeria's oil industry has received significant attention from environmental groups, human rights organizations and anti-corruption campaigners.<sup>22</sup> Oil companies, government officials and militants spend much time directing and deflecting criticism and the lines of responsibility remain a subject of intense controversy. Nonetheless, the reputational risks associated with doing business in Nigeria's oil sector are clear: non-governmental organizations (NGOs) monitor the social, environmental and economic rights of communities in the oil-producing regions, and the execution of the environmental activist Ken Saro-Wiwa in November 1995 has made the issue a focal point for international campaigns.<sup>23</sup> Recent reports by the United Nations Development Program and the International Crisis Group identify some of the questionable strategies employed by oil companies: paying off village chiefs for drilling rights; building a road or dredging a canal without an adequate environmental impact study; tying up compensation cases—for resource damages or land purchases—for years in court; dispatching security forces to violently break up protests; patching up oil leaks without cleaning up sites.

<sup>21</sup> OTC, "Nigeria Seeks \$60 Billion in Oil and Gas Investments," *Oil and Gas Journal* (May 2007) [http://www.ogj.com/display\\_article/291570/7/ONART/none/GenIn/OTC:-Nigeria-to-invest-\\$60-billion-in-oil,-gas-operations/](http://www.ogj.com/display_article/291570/7/ONART/none/GenIn/OTC:-Nigeria-to-invest-$60-billion-in-oil,-gas-operations/)

<sup>22</sup> Much of the natural gas extracted in oil wells in the Delta is immediately burned, or flared, into the air at a rate of approximately 2.5 billion cubic feet per day. This is equivalent to 40% of African natural gas consumption, and forms the single largest source of greenhouse gas emissions on the planet. The environmental devastation associated with the industry and the lack of distribution of oil wealth have been the source and/or key aggravating factors of numerous environmental movements and inter-ethnic conflicts in the region.

## UNREST IN THE NIGER DELTA

The root causes of insurgency in the Niger Delta are well known. Violence, underdevelopment, environmental degradation, and failure to establish credible and transparent state and local government institutions have contributed to mounting public frustration at the slow pace of change. While more than \$200 billion of oil has been removed from the Delta, most communities lack jobs, electricity, water, schools, and basic health facilities. Ethnic, communal, and religious divisions add further complexity to militancy and violence in the Delta---the region is home to more than 40 ethnicities, 250 dialects, and 3,000 communities.<sup>24</sup>

Illegal oil “bunkering” –theft – has accelerated the conflict and provided both militant and criminal networks with substantial funding to purchase arms and transport.<sup>25</sup> It is estimated that between 100,000 and 200,000 barrels of oil per day are illegally siphoned, moved to barges, and sold to refineries in Nigeria and beyond. Bunkering directly finances the purchase of large caches of weapons for what has become a series of armed insurgences across the oilfields. Since the late 1990s, there have been at least ten major explosions and at least 2000 deaths associated with punctured and vandalized pipelines. The government documented 6,817 oil spills between 1976 and 2001—practically one a day for 25 years. While old and improperly maintained equipment causes many of the leaks, sabotage and theft are also to blame. At the extreme, there are reports that disaffected community members deliberately cause oil spills to collect compensation money. Militancy and criminality also converge around another source of revenue – the semi-illicit system of government and oil company payments to militants frequently cloaked as community development or security allowances.

Since December 2005, Nigeria has experienced a significant increase in kidnapping, and militant takeover of oil facilities. Taken together, it is estimated that these activities have cost Nigeria roughly US\$16 billion dollars over the past 16 months, with an estimated 20% of production currently shut-in. Militant attacks on oil infrastructure has also crippled Nigeria’s domestic refining abilities. According to Control Risks’ figures, since the start of 2007, a total of 122 people have been kidnapped in 33 separate incidents in the Niger Delta, compared with 104 victims in 25 incidents during all of 2006. Of those abducted in 2007, around 83% have been expatriate workers, the majority of whom were employed in the oil and gas, and oil services sector. The figures underline that the main targets of armed groups during such incidents have been expatriates and it is reasonable to assume that foreign oil workers, both onshore and offshore, will remain the prime targets of abductions by both politically driven and opportunistic armed groups.

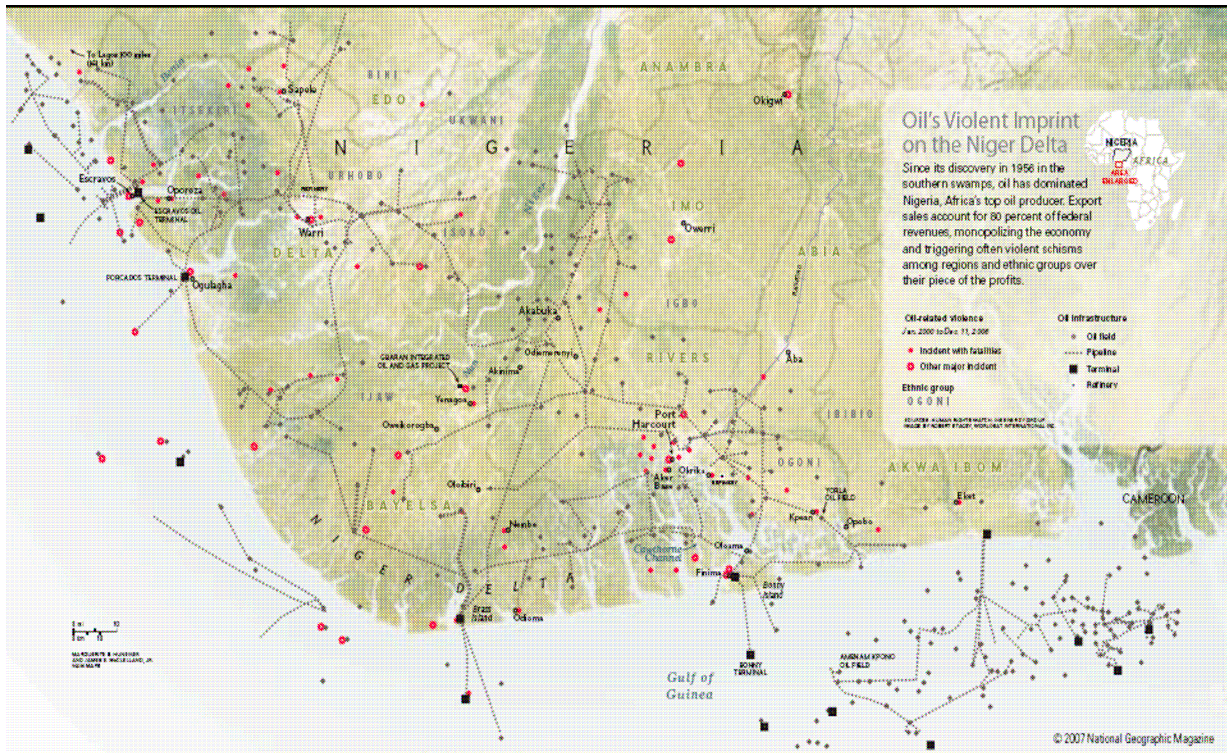
The increasing pace and scope of attacks in the run-up to, and immediate aftermath of, the 2007 elections is part of a broader MEND effort to position itself for negotiations with the incoming administration. As a final legacy in his efforts to resolve the conflict in the region, President Obasanjo unveiled the Niger Delta Regional Development Master Plan under the supervision of the Niger Delta Development Commission. The project is expected to cost about US\$50 billion (6.4 trillion naira) over the next 15 years. While it is a useful blueprint, its effective implementation will require the commitment from all stakeholders: the federal government, the states, local government, oil companies, international organisations, community-based groups, insurgents, and non-governmental

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<sup>24</sup> Niger Delta Development Commission – [www.nddconline.org](http://www.nddconline.org)

<sup>25</sup> International Crisis Group, “The Swamps of Insurgency: Nigeria’s Delta Unrest,” (August 2006)

organisations. The one-month ceasefire declared in June 2007 suggests that at least some of the militant groups are prepared to negotiate a settlement.



The Movement for the Emancipation of the Niger Delta (MEND) is the most active and best organized militant group in the delta region. Attacks in 2006 demonstrated the group's capabilities, with a growing use of rocket-propelled grenades (RPGs) reported, as well as car-bombs. MEND's highly disciplined swamp-based operations underline a growing informal intelligence network, which may involve local employees in oil companies. Their high degree of mobility allows them to attack targets in quick succession, often undermining security forces and penetrating companies' internal security structures. MEND is thought to have developed out of the Ijaw militant Niger Delta People's Volunteer Force (NDPVF) – popularly known as the 'Egbesu Boys'. Its leader Alhaji Mujahid Dokubo Asari's considerable wealth brought access to high-calibre weapons, ammunition, satellite phones and speedboats. Other notable groups include the Ijaw Youth Council (IYC), which in September 2005 warned of attacks against British oil interests in the delta following the arrest in London of Bayelsa state Governor Diepreye Alamieyesiegha on suspicion of money-laundering. The NDPVF's main rival, Ateke Tom's Niger Delta Volunteers (NDV), has been largely diluted.<sup>26</sup>

<sup>26</sup> Control Risks Group, "Nigeria," (May 2007)

## **NIGERIA: MEDIUM TERM SCENARIOS (2007 – 2011)**

Despite the country's manifold challenges, the central forecast for Nigeria is relatively sanguine.

### **Assumptions**

1. Oil prices remain above \$40/bl throughout the forecast period

### **Wildcards**

1. A major outbreak of Avian Flu
2. The sudden death or incapacitation of the President

### ***SCENARIO 1: Things Fall Apart (15%)***

President Yar'Adua is unable to heal divisions within the People's Democratic Party or forge alliances with influential opponents. Weak institutional support, ongoing court challenges related to the 2007 election, and increasing public disaffection limit the scope for initiatives aimed at addressing Nigeria's principal development challenges. Unable to resolve conflict in the Delta, escalating attacks against oil installations lead to increased security expenditures and production shortfalls. With dwindling resources available to fund infrastructure projects, private sector investment remains weak. While neither a balkanization of Nigeria nor direct military intervention is likely, the President's grip on power becomes increasingly tenuous over the forecast period and the economy continues to under-perform its potential.

### ***SCENARIO 2: Half of a Yellow Sun (55%)***

President Yar'Adua's conciliatory and inclusive gestures salvage the government's domestic and international legitimacy. Constrained by a weak mandate, however, progress is measured and efforts aimed at improving the electoral system, reducing corruption and implementing structural reforms meet with only modest success. Implementation of the Niger Delta Development Master Plan, and ongoing negotiations with insurgent groups lead to ongoing dialogue and sporadic negotiations, but a formal agreement remains elusive and security risks remain prevalent.

### ***SCENARIO 3: Nigeria's New Dawn (30%)***

President Yar'Adua moves quickly to heal divisions within, and consolidates control over, the PDP. While the country continues to move toward a single-party democratic authoritarian political model, an overhaul of INEC and passage of electoral reforms early in his mandate yields both domestic and international dividends. President Yar'Adua's tighter control of Nigeria's fractious political environment provides him with a freer hand to push through controversial structural reforms and initiate dialogue with insurgent groups in the Niger Delta. While unrest in the Delta in the first half of 2007 temporarily slows GDP growth, the government moves aggressively to reach an accommodation. While sporadic attacks and bunkering persist, an improving security situation and additional offshore capacity lead to improving external balances throughout the forecast period. Increased fiscal revenues lead to targeted investments in electricity, roads, health and education that reduce youth unemployment and boost non-oil GDP. A strengthened public mandate allows the President to move more aggressively against entrenched interests in the second half of this term.

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