

Country Risk Report

Nigeria and Brazil

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Country Risk Report

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INTRODUCTION

This report provides a cross-country comparison of the risks and opportunities of investing in two countries: Nigeria and Brazil. We will conduct a thorough analysis of the regulatory, economic, and socio-political risks of these two countries from the perspective of the Shell Oil Company. The aim of this report is therefore to evaluate which country will be more profitable and more stable, thus safer, for our company's future investments.

We represent Shell, an international energy company that has been working in the energy sector since 1907, which has acquired an expertise in the exploration, production, refining, and marketing of oil and natural gas, as well as the manufacturing and marketing of chemicals; as such, we will make this assessment in the respect of our interests and values (Shell). This is because we value our work and seek to always improve ourselves; we share a set of core values, based on “honesty, integrity, and respect for people”, and we want these to be respected in the environment in which we operate, across all countries (Shell). We are currently using advanced technologies and implementing an innovative approach toward a sustainable energy future. Indeed, in addition to oil and gas, we are also investing in power, including from renewable sources such as wind and solar, and in electric vehicle charging and low-carbon fuels for transport, for instance, advanced biofuels and hydrogen. Our purpose is to progress in the energy field, which is currently dominated by the global population demand for oil and gas, while addressing the need to tackle climate change and therefore, adapt to a low-carbon energy system. Consequently, through the examination made in this report, we will determine whether we will continue investing in both countries, one, or neither of them.

Shell in Nigeria

Shell has a history of over 50 years in Nigeria and the largest footprint of all the international oil and gas companies operating in the country. Its companies and investments have played a pioneering role in onshore, shallow, and deep-water oil exploration and production. Shell has also been at the forefront of gas development, producing and delivering gas to domestic consumers and export markets for over 40 years. The modern data show improvements with SPDC as the largest private-sector oil and gas company in Nigeria. It is the operator of a joint venture between the government-owned Nigerian National Petroleum Corporation – NNPC (55%), Shell (30%), Elf Petroleum Nigeria Limited – a subsidiary of Total (10%), and Agip (5%). SPDC's operations in the Niger Delta are spread over 30,000 square kilometers (Shell). In an interview in 2014, the ex-Minister of Petroleum Resources Alhaji Rilwanu Lukman stated that Nigeria has three times as much gas as oil reserves and that it is likely that in the future it will be regarded more as a gas producer than an oil producer, particularly when the sector is operating at full capacity (Smith, 2014).

Shell in Brazil

Our presence in Brazil has been a long success story since 1913. In 1927 Shell Aviation Force provided fuel for the first commercial flight in Brazil. In 1957 we inaugurated the first gas station of the future Federal Capital in Brasilia. We are the second oil producer in the country with 17 Floating Production Storage and Offloading (FPSO) in operation. They are floating vessels that we use for the production and processing of hydrocarbons, and for the storage of oil. We will have 8 more by 2025. Raizen our joint venture with Brazilian producer of bioethanol, sugar, and energy Cosan, is since 2010 the second distributor of fuel in the country. It is responsible for the management of the Shell brand in the distribution and marketing of fuels (Shell Brasil - 110 Anos, n.d.).

NIGERIA



2.1 Legal and Regulatory Risks

Oil and Gas Legal Framework

The Nigerian legal framework of oil and gas regulates the ownership, control, and operation of oil and gas in the country. There are various legislations that govern this industry in Nigeria, the first being the 1969 Petroleum Act, the main legislation regulating oil and gas, prior to the adoption of the Petroleum Industry Act in 2021, though it continues to exist until the expiration of the issued permits. The Petroleum Act stated that “the entire ownership and all petroleum in, under or upon any land in Nigeria is vested in the State” (Section 1(2)). As concerns oil and gas investments in the country, it provided that only citizens or companies incorporated in Nigeria could take part in the industry’s activities such as the “exploration, drilling, storage, production, refining and transportation of the oil and gas” (Section 2(1)). The recently adopted Petroleum Industry Act (PIA) 2021 is the new principal statute, which reaffirms that the property and ownership of oil within Nigeria’s land, waters, continental shelf, and exclusive economic zone is vested in the Government of Nigeria.

Environmental Challenges

To address the challenges brought by the oil sector in Nigeria, involving environmental degradation, oil spills, and consequently, conflicts with local communities, the Government has adopted a set of laws and regulations in this regard. For instance, the 1992 Environmental Impact Assessment (EIA) Act provided an environmental impact assessment to which oil and gas companies must comply, to identify the potential environmental effects and mitigate them in advance, as well as promote the implementation of appropriate environmental policies. Another step forward was taken with the Niger Delta Development Commission (Establishment) Act of 2000, as it required oil and gas companies to devote 3% of their annual budgets to this Commission to address the development needs of the Niger Delta region, one of the most exploited areas. In 2004 the Nigerian National Petroleum Corporation Act (NNPC) was adopted, empowering the NNPC to participate in oil and gas operations on behalf of the interest of the Federal Government; thus, its main function was to drive the country’s economic and technical advancement while leveraging on petroleum endowment. Finally, to address the frequent issue of oil spills, the Government implemented the National Oil Spill Detection and Response Agency Act (NOSDRA) of 2006, establishing a regulatory body to monitor oil spills in the country.

Overall, the analysis of Nigeria’s legal framework shows that there is ample room for improvement as it appears outdated, except for the 2021 Petroleum Industry Act, and inadequate. It lacks transparency and enforcement mechanisms, as well as the involvement of the local community, which as a result, leads to tensions, local discontent, inequitable distribution of benefits, high level of corruption, and unfair competition.

2.2 Economic Risk

Macroeconomic Context

Among all the countries in Africa, Nigeria emerges as the leading power both in terms of population and GDP, respectively with 223 million people (World Population Review, 2023), and a GDP per capita of US\$6.180 (IMF, 2023). Although the economic crises, especially the COVID-19 pandemic, had a negative impact on the GDP in 2020 leading to a negative growth rate of 3.2, Nigeria remains the highest purchasing and consumption power in Africa (Bertelsmann Stiftung, 2022). After the pandemic, economic activity has been recovering at an accelerated pace, supported by higher oil prices and increased oil production (COFACE, 2022). Indeed, GDP adjusted for inflation has already reached the pre-pandemic levels, and during the third quarter of 2022, it recorded the eighth consecutive quarter of positive growth, which is estimated around 3% only in 2022 (IMF, 2023).

Inflation has been increasing rapidly since 2019 because of the outbreak of the COVID-19 pandemic and its effect on internal energy markets through the collapse of oil and gas prices (Bertelsmann Stiftung, 2022). Starting from 11% in 2019, it has currently reached one of the highest levels, amounting to 20.1% in early 2023 (IMF, 2023). As a result, inflation currently remains high, driven by the increased international price of food, large parallel market premiums, and monetary policy accommodation. Although the Central Bank of Nigeria intervened by increasing the Monetary Policy rate (MPR) by a cumulative 500 basis points and another 100 in January 2023, inflation is still above the MPR (IMF, 2023). The current policy trajectory in Nigeria shows that its macroeconomic stability is in jeopardy. Indeed, the government has given unrestricted access to central bank financing and the large use of quasi-fiscal activities has delayed fiscal consolidation, increasing fiscal vulnerabilities, and thus, leading to current and future adverse macroeconomic implications (Adedeji, 2022).

As concerns the country’s balance of payments, Nigeria has been recently experiencing a current account deficit. Indeed, it has followed a negative trend in the current account since 2019, reaching the lowest level of -15.99 billion in 2020, though it has been slowly recovering since then (The World Bank). The country also reports a negative net trade in goods and services, meaning that it imports much more than it exports; this is because it is highly dependent on imports of goods and services. At the same time, Nigeria is one of the largest exporters of oil, and a member of the Organization of the Petroleum Exporting Countries (“OPEC”), whose data show that it is also one of the biggest oil producers in Africa, with a reserve that is estimated to count over 37 billion barrels (OPEC Bulletin, 2022). The country’s exports correspond to 10% of its GDP, among which 80% is derived from oil (COFACE, 2022).

Business Environment

The Doing Business Index provides an evaluation of the ease of doing business in a specific country, ranking from 1 to 190, where 1 corresponds to the most business-friendly environment. According to the Doing Business Index Report of 2020, Nigeria ranks 131/190 with a score of 56.9 (World Bank Group, 2020).



Doing Business 2020, World Bank Group

This shows that the country offers a poor business environment, characterized by lacking infrastructure, insecurity, low productivity, and high unemployment – amounting to 40% - but also underemployment and poverty (45%) (COFACE, 2022). Furthermore, Nigeria’s economy is highly dependent on oil revenues and lacks diversification, which is not a positive aspect for a business that is considering expanding its investments in other fields. Another important feature of Nigeria to consider is the pervasiveness of illegal activities, crimes, and corruption, as supported by the CPI 2022 ranking of 150/180 with a score of 24/100 (Transparency International, 2022).

The Problem of Oil Smuggling

Despite Nigeria being Africa's largest oil exporter and the sixth largest in the world, the country's economy has been adversely affected by the bloody conflict between criminal gangs seeking to seize oil resources. Criminal activity generates huge profits and runs on a parallel track with the formal economy. The conflict economy is characterized by a violent struggle for the appropriation of oil resources, the proceeds of which feed the illegal drug and arms trade. The smuggling of oil and its derivatives has emerged since the 1980s, initially on a small scale, before becoming a full-fledged business in the following years.

The smuggling of crude oil has grown from a market for a few amateurs who used rudimentary techniques to extract oil from pipelines to a full-fledged industry, which uses advanced technology and sophisticated communication tools to enable the transport of stolen crude oil to large tanks on the high seas. From there, the crude oil is then sold to neighboring countries or to refineries in Europe, Asia, and North America. The phenomenon, known as illegal bunkering, consists of tampering with a pipeline, drilling it, filling plastic jerry cans with crude oil, and transporting them by motorboat to barges, where the jerry cans are then sold to large ocean-going oil tankers at extremely competitive prices, hyping those on the official market.

Illegal activities are made possible by several factors, including the lack of infrastructure maintenance, external support from political, military, and financial figures colluding with criminality, the loyalty of local populations or its more radical fringes, who see such activities as a response to the unfair redistribution of resources they have suffered, and the failure of local authorities in guaranteeing the security of the oil infrastructure. Smuggling has become a source of livelihood for many people living in poverty in rural areas of the country, where unemployment and lack of basic social services are the order of the day.

2.3 Socio-Political Risk

Civil Unrest

The Niger Delta, a vast region of Nigeria, is one of the poorest regions in the world, despite the presence of energy resources. Poverty and violence rather than wealth and prosperity are seen by the population as the consequence of oil and gas extraction. Their complaint underlines that infrastructure and basic services such as drinking water, electricity, roads, and medical facilities are scarce and inefficient, while modern facilities with every comfort are reserved for multinational corporations and their employees. The population of the Niger Delta accuses the multinational companies of diseases caused by underdevelopment and toxic substances released by the industry. Fishing and agriculture, once a primary source of livelihood, have declined rapidly due to pollution. 2 Institutions have been unable to deal with health emergencies, and the number of children preserved from disease has decreased dramatically. Local people have been protesting for years against the political elite and multinational corporations that have exploited their land and heritage, representing the microcosm of a broader crisis that characterized Nigeria during the years of military rule.

The Niger Delta has been shaped for years by the indiscriminate exploitation of its resources, and this has caused a situation of desolation and poverty that has driven the population to rebel. Within this vast panorama, numerous action groups emerge, distinguished by the different types of demands made, and the different methods adopted. A distinction must first be made between pacifist groups and militias: the former is characterized by the choice of low-profile strategies, and the latter engaged in armed struggle. Next to the pacifist groups, the bulk of the protest is exercised in a violent manner by the armed militias of the Delta, the so-called militants, who over the years have activated action strategies aimed at destabilizing the area and creating a situation of insecurity bordering on anarchy, in order to achieve greater control of resources to the detriment of the multinationals and the Federation.

The main actors of these militias are women and young people: their irruption into politics is a symptom of a malaise in the entire national society, which considers itself 'robbed of its future' despite living in a veritable Eldorado (Gugliotta, 2008). Their struggle, led by the many ethnic groups that make up the Delta communities, and sustained by the reinvention of ancestral traditions, is articulated on four levels: against the Federation, to obtain what they feel has been taken from them and to demand new states for the smaller communities in the South; against the oil multinationals, to obtain funds and jobs for community members; against the other ethnic groups for control of the territory; and against the common underworld, which has spread everywhere and grown exponentially in the last fifteen years. Young people, who choose political struggle, often join armed groups that attack NGOs, police, and oil companies, with the aim of achieving greater democratization in the region and more control over energy resources. Other groups, on the other hand, seek to establish the supremacy of their ethnic or religious group within the community by waging border wars and attacking oil infrastructure. In the Niger Delta, women and young people are active in the claims, but their crucial role in Nigerian life has only recently begun to be studied. Women, as '*mamamenz*', form the backbone of the local economy, especially in agriculture, fishing, and the informal sector, which they consider to be damaged by our industry. Women of the Niger Delta protest mainly through associationism and peaceful mobilization. They have organized themselves into women's groups at local, regional, and national levels, and promote their cause through participation in demonstrations, public meetings, awareness-raising, and political lobbying. In addition, they are engaged in community welfare activities and promote women empowerment initiatives, fighting for their rights and greater social justice. Their peaceful attitude gives hope for a less violent transition from the Delta protest, which could lead to a process of peace-building.

Security Issues and Instability

In an interview with Jomo Gbomo, spokesperson for MEND (Movement for the Emancipation of the Niger Delta), the fine line between terrorism and guerrilla warfare is highlighted in relation to the Niger Delta rebellion against the Nigerian government and the oil companies (Perry, 2009). Gbomo states that their rebellion is just and the attacks on the oil companies are a way to make their reasons heard, which are otherwise not taken into account. However, the MEND spokesman only accepts mediation attempts by genuinely interested third parties and demands a just peace.

The population of the Niger Delta, consisting mainly of women and young people, participates in protest demonstrations against the federal government and multinational oil companies. Over the years, these demonstrations have given rise to armed militias, which threaten to fight to victory to dictate their terms to the multinational oil companies and the federal government. The armed militias of the Niger Delta originated in the 1960s when the population began to express their impatience with a central political regime that was too little attentive to their needs and with multinationals that acted undisturbed in the exploitation of resources. The situation of degradation of the population contributed to transforming the demonstrations of dissent into a veritable militia, ready to fight strenuously for more rights.

The Movement for the Emancipation of the Niger Delta (Mend), a guerrilla group formed by Ijaw-majority guerrilla fighters in the Niger Delta, in Nigeria is distinguished from other groups in the region by its ideology and political correctness and defines itself as a martyr for building peace in the Delta and a new political environment. The Mend has social needs that can be met by transferring oil industry revenues into the funds managed by the communities where the oil infrastructure is located, instead of leaving them in the hands of corrupt governments.

Their ultimate goal is to drive out foreign oil companies, including Chinese companies, which are increasingly present in the country. The movement has inflicted severe damage on oil installations and blocked the strategic airport in Warri, used by foreign companies and prominent politicians. It has also claimed numerous kidnappings of foreign personnel, car bomb explosions and attacks on oil-laden tanks. Finally, Mend also brought several calls for help, including the release of Diepreye Alamieyeseigha, charismatic former governor of Bayelsa State and Mujahid Dokubo-Asari, one of the group's activists.



BRAZIL

3.1 Legal and Regulatory Risk

Bureaucracy: the ANP and Release of Licenses

The most important institution regulating the Brazilian oil and gas sector is the ANP (National Agency of Petroleum, Natural Gas, and Biofuels) which manages every legal activity such as licenses, authorizations, registrations, trading et cetera license. Natural resources can be found in territories (both onshore and offshore) belonging to the federal government and companies have to go through a bidding process to obtain exploration and production rights. After the bidding process, a company can obtain one of the two types of agreement existing depending if the area of operation agreed is outside or inside the pre-salt polygon (the area where most oil extraction happens. It is rich in reserves, and it is located among Campos, Santos, and Espírito Santos Basins) (Petrobras, n.d.) respectively regulated by the concession regime with the Petroleum Law, and the production sharing regime with the Pre-Salt Law. A special assignment under the legislation of the Onerous Assignment Law grants Petrobras, a nationally owned company managing the oil and gas industry in Brazil, the right to operate in a determined area without a bidding process.

Operating companies must also comply with federal states' specific set of rules for activities performed in their territory. Their legislative power also covers the right to grant concession agreements to allow exploration and other activities (Global Legal Group, 2023).

Petrobras Position

The role of Petrobras in the Brazilian oil and gas industry can be considered a potential source of risk to competitors starting from its favored position in the bidding process and for its representative role of the federal government during the development of reserves. The case of corruption whose investigation "Operation Car Wash" started in 2014 and later covered in the paper, shows the close relationship between the company and the politicians and future possible recurrence. However, the ANP has planned to implement new rules for the country's New Gas Market (signed in 2021), which will end Petrobras' monopoly and open it to greater competition. This will allow oil companies to directly sell gas production to end consumers, instead of having to sell to Petrobras as an intermediary. (Fick J., 2022).

Taxation Rules

The government receives different types of fees: signing bonuses, royalties, special participation, and retention fees (when applicable).

Concerning imports and exports, the taxation regimes differ. For the first case, import taxes are applied together with tax over operations relating to the circulation of goods and installments of interstate transportation et cetera. With exports, instead, no taxes and duties are generally applied with no limitations on the exports of production, on the currency exchange, and on the transfer of production revenues (Global Legal Group, 2023). However, at the beginning of March 2023, it was implemented an oil export tax of 9.2% that is expected to last 4 months (Nogueira, 2023) to fix the unbalance created by the Bolsonaro government to decrease energy prices for households (Vérité, 2023).

Environment

The big environmental impact of extraction and processing must be assessed; this happens through three types of licenses required (preliminary, installation and operation) granted generally by state authorities and federal environmental agencies for specific cases, and a corresponding impact report. Companies are also in charge of waste disposal that must comply with national regulations (Pires et al, 2020).

3.2 Economic Risk

Macroeconomic Context

Brazil is the biggest economy in South America and the current GDP per capita PPP corresponds to 18.690\$ (IMF, 2023). In association, with the GDP per capita in percentage, after the -3.8% decrease in growth in 2020, there has been a sudden growth of 5% in 2021 with a slowing down still persistent nowadays in 2023 with an estimation of 0.9% (IMF, 2023). Behind these growth data there stands socio-political and economic shocks driven by COVID-19 and Ukraine war. Both events have heavily influenced the global economy and Brazil, during COVID-19, had to face high unemployment rates (14.7%) which is slowly recovering better than the pre-pandemic level (8.8% in March 2023) (Trading Economics, n.d.).

When it comes to inflation, Brazil's annual inflation rate decreased from 5.6% in February to 4.65% in March of 2023 in line with market expectations. This is the lowest level since January of 2021 when it started to increase reaching its peak in 2022 with 12%, additionally, it is the first time in more than two years that inflation remains within the 1.75-4.75% target range set by the central bank (Trading Economics, n.d.).

The rise right after COVID-19 due to the increase in costs of food and fuel (World Bank, 2022) worsened even more with the beginning of the war in Ukraine and the shortage in the supply of food, fertilized, and energy resources. One of the major consequences for the population is portrayed by the GINI Index of 52.9 (data 2021) which represents the high disparities in the equal distribution of income as the purchasing power of poor families decreased (World Bank, n.d.). Despite the difficulties faced by the country in the last few years, the recovery indicators show that their growth was enough to beat and exit the recession (France 24, 2022).

The current account balance (% GDP) is currently in deficit (-2.5%) (COFACE, 2023) but performing better than economists' forecasts (Nasdaq, 2023). Brazil's trade balance position is expected to rise in exports considering that Europe, China, and other countries in Latin America in the world are looking for an alternative to the Russian oil supply (Dempsey, 2022). Good signs of this trend come from the increase in export revenues despite the implementation of an oil export tax of 9.2% at the beginning of March 2023 which is expected to last 4 months (Nogueira, 2023).

Monetary Policy

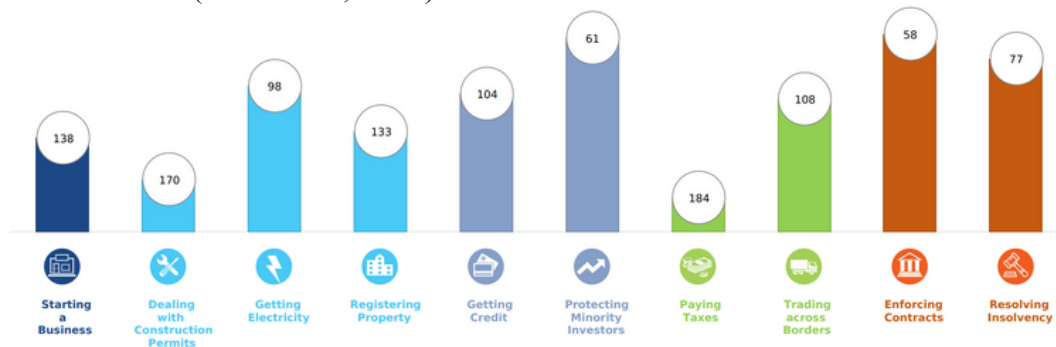
The Banco Central do Brasil adopts an inflation targeting regime that resorted to the use of a target inflation rate to benchmark the current inflation rate, and the Selic rate as a short-term interest rate that affects interbank and market interest rates and inflation rates (Banco Central do Brasil, n.d.). One of the requirements for the success of an inflation-targeting regime is to keep a high level of independence from the government but at the moment the new Lula government is pressuring the independence of the central bank by criticizing the tightening monetary policy requiring the reduction of borrowing costs of 13.75% unchanged since September 2022. However, as reaffirmed by the governor of the central bank Neto, it is a matter of credibility to not give into the pressure of lowering interest rates (George L., 21st April 2023). According to some analysts, the real currency may be challenged by these divisions if persistent in time (Burin, 2023). The currency trend has generally been stable to USD (5.20 per U.S. dollar) despite the concerns about election results.

Fiscal Policy

The government has shown the intention to invest at private, national, and international levels, increasing the budgetary deficit. One of the main plans is to invest in the social welfare program Bolsa Familia, a social package to help families which was agreed by the Congress in December 2022 allowing an increase in the constitutional spending cap (Ayres, 2022). With the increase in spending, the gross public debt is expected to increase. The debt (% GDP) is forecasted to increase from 74% to 77% (more than 90% owned by domestic investors in local currency making it more sustainable) (COFACE, 2023).

Business Environment and Oil Industry in Brazil

The Doing Business Index (2020) for Brazil is 124/190 with a score of 59.1 showing a bad business environment characterized by low productivity with unskilled employees, high cost of production, and poor infrastructures (COFACE, 2023).



Doing Business 2020, World Bank Group

Brazil is the largest oil producer in Latin America and in the world thanks to the pre-salt polygon and its offshore activities. According to the International Energy Agency (IEA), Brazil will become more and more relevant in the future providing the production of almost 50% oil from offshore in 2040 (International Trade Administration, n.d.). Considering these characteristics and the fact that the oil and gas market constitutes 10% of the GDP, Brazil may be considered vulnerable to commodity price volatility (Allianz, n.d.).

3.3 Socio-Political Risk

Civil Unrest

The end of Bolsonaro's presidency was marked by poor management of the covid crisis that fragilized the country. Following the election of Lula nationwide demonstrations broke out urging the military to bring Bolsonaro back to power through a military coup. The pinnacle of the demonstrations was the attack on the three-power square where the Congress, presidential palaces, and supreme court are. The public institutions were degraded and 1500 people were arrested. The recent civil unrest and shift from a far-right conservative political agenda to the left show that the Brazilian population is polarized. It raises questions regarding the democratic and institutional strength in the country as the power transfer was not peaceful, social media bans were issued, and some protesters turned to the military (BBC, 2023).

The Problem of Corruption

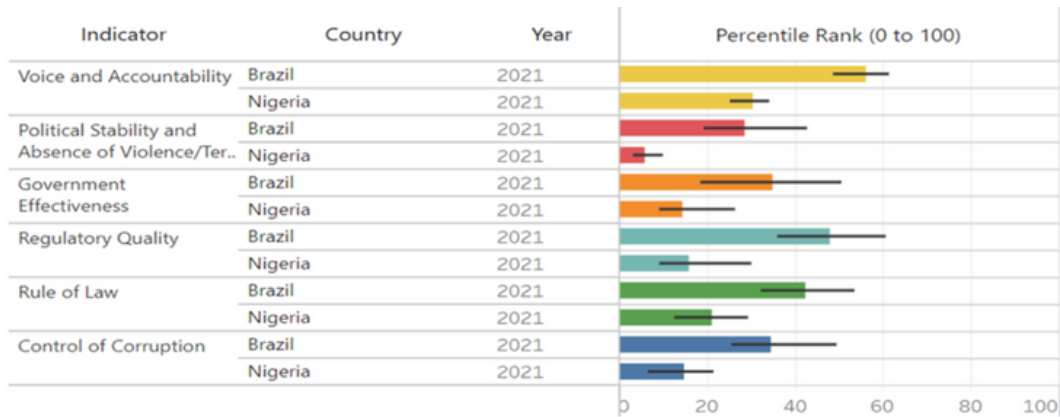
Corruption is a serious problem in Brazil, as shown by the investigation of Operation Carwash from 2014 to 2021. Operation Carwash is a Brazilian investigative operation that stemmed originally from concerns with money laundering but soon uncovered a web of corruption linking various companies and public officials across countries. It is the largest corruption case in Brazilian history and even worldwide. Hundreds of arrest warrants were issued concerning businessmen, public officials, politicians, and presidents and more than 200 people were sentenced to jail. The enlargement of the investigation originated from suspicion of corruption linked to Petrobras, the Brazilian state-owned oil company, which was proven right. The corruption took the form of construction and infrastructure companies organizing themselves as a cartel that bribed public officials and political parties to get contracts for high prices.

A relevant example is the Odebrecht company, which reported during its indictment by the US a total of \$788 million of bribes across 12 countries among which 349 million in Brazil to various political parties in the country, foreign officials, and their representatives in Brazil, financing political campaigns in elections to obtain benefits and contracts of construction works with local governments in different districts of the country, with the central government and several public companies administered by the State. Marcelo Odebrecht admitted to bribing political officials to get contracts and paying 30-million-dollar bribes to Petrobras officials. Eduardo Cunha, former president of the Brazilian Chamber of Deputies was accused of receiving bribes from a consortium of which Odebrecht was part for works in the port area of Rio de Janeiro. He was arrested in 2016 for \$40 million of bribery money hidden offshore in secret bank accounts. Federal judge Sergio Moro found him guilty of paying more than US\$30 million in bribes to Petrobras officials in exchange for obtaining contracts and influence for the company (Marques, 2019).

INDEX COMPARISON

Both countries have high corruption levels with respective scores of 38/100 for Brazil and 24/100 for Nigeria in the corruption perception index. Brazil is ranked 94 out of 180 countries whereas Nigeria is doing worst with being ranked 150. (Transparency international, 2022).

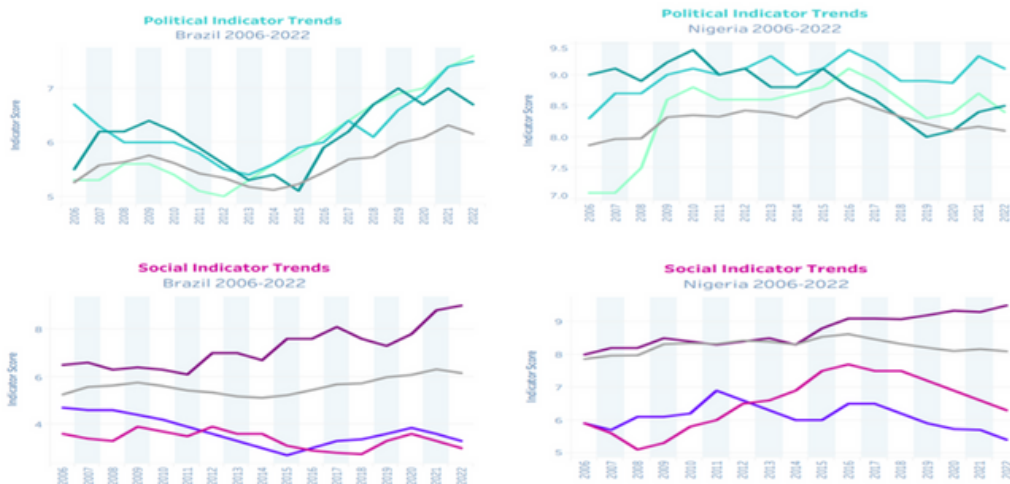
In 2021, Brazil was doing better than Nigeria according to all of the world bank governance indicators. Despite its recent political turmoil, we don't expect that these results will change in regard to Nigerian governance (World Bank 2021).



Worldwide governance Indicators, 2021, World Bank

In the Fragile State Index country ranking of 2022, Brazil has a better ranking than Nigeria, the countries being respectively ranked 71st and 16th. Looking at the political and social indicators we observe the same trends (Fund for Peace, 2022)

One of the subindicators of the political indicator is State legitimacy, which is relevant to us as a company as it gives information on the broader political stability in the country. It is the darker line on the graph and indicates to us that Brazil is doing better than Nigeria with 6.7 against 8.5. Regarding the social indicators we consider that the external intervention sub indicators is relevant as it also informs us on the economic and security stability of the country (blue line). Nigeria (5.4) is more reliant on foreign aid than Brazil (3.5) indicating less stability.



Fragile State Index, 2022, Fund for Peace

Looking at the political risk maps provided by Marsh we can see that Brazil is again doing better on all accounts on economic, financial, security and regulatory environment risks (Marsh, 2021).



Political Risk Map, 2021, Marsh

CONCLUSION

To sum up, the analysis conducted has highlighted Nigeria's vulnerability and fragility from several perspectives. As the current policy trajectory remarks, the country's macroeconomic stability is in jeopardy. Nigeria has also been experiencing high levels of inflation and a current account deficit for many years. In addition, Nigeria's oil-rich Niger Delta region has been plagued by instability and violence brought on by criminal organizations competing for control of the oil riches. Illegal activities are made possible by local authorities' failure in ensuring the security of the oil infrastructure, and by political, military, and financial leaders that collude with the criminal activity. These regional elements threaten security and obstruct the attempts made to enhance growth and peace.

Brazil's legal and regulatory risk is affected by the strict procedures for the assignment of licenses and environmental assessment, and potential flaws regarding the relationship with the national-owned Petrobras. However, things may change with new reforms for transparency and the new rules to incentivize competition against Petrobras' monopoly. Overall, the Brazilian economy is slowly recovering and it was able to overcome recession after the COVID-19 and Ukraine war shocks. New opportunities for exports are showing up with countries looking for new oil suppliers to substitute Russian dependency and it is estimated that in 2040 Brazil will provide almost 50% production of oil from offshore. At the moment, the only concern for the oil sector is the new 4-month export tax implemented in March 2023. Corruption in Brazil is high but remains lower in comparison to Nigeria. The recent civil unrest in Brazil is a source of concern but the situation has quietened down and is stabilizing.

To conclude, our risk assessment showed that Brazil presents a safer economic, social, and political environment compared to Nigeria. For this reason, on behalf of the Shell Oil Company, we have decided that we will choose Brazil for our future investments. In addition to better economic and socio-political stability, this country appears also more profitable in terms of potential investments in renewable energies, thanks to Lula's presidency; this is of great importance for our company, as we are planning to diversify our investment portfolio with the purpose of providing more and cleaner energy solutions.

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