

AFRICA RISK CONSULTING

Nigeria Monthly Briefing July 2015

Nigeria Summary 16 Jul 2015

President Muhammadu Buhari (2015- present) delays naming ministerial appointments until September. The delay encourages investors, especially in the oil and gas and banking sectors, to postpone investment decisions. The opposition People's Democratic Party (PDP) criticises the delay but is more concerned about internal reform following its election defeat. Buhari provides a cash bailout to help state governments facing \$3 billion debts. Buhari reshuffles senior military leadership, appointing Major General Tukur Buratai army chief of staff. The reshuffle signals a new offensive against Boko Haram.

Buhari delays government until September

President **Muhammadu Buhari's** (2015- present) decision to delay appointing a government until September risks losing his government's momentum and creates legislative uncertainty. Presidential adviser **Garba Shehu** told international media on 30 June that the delay will allow Buhari to ensure his cabinet is credible and free from corruption.¹ However, the delay contributes to a sense that the Buhari administration's reform drive may be stalling.

*"The promises made during campaigning have not been met and things are getting worse. Fuel queues have returned, the naira is at a record low and the [Boko Haram] insurgency has become more daring. An announcement of key appointees would not only kick start the economy, it would stabilise heightened political tensions."*²

Buhari submitted a provisional list of ministerial appointments for security clearance soon after his election victory on 28 March.³ Key provisional appointments included:⁴

- **Rotimi Amaechi**, secretary to the federal government. This is a key office as it is responsible for the implementation of government policies and programmes. Amaechi is the former governor of the oil-rich **Rivers State** who decamped from the **People's Democratic Party (PDP)** to the **All Progressives Congress (APC)** in November 2013. Amaechi was Buhari's campaign director.
- **Umaru Mutallab**, finance minister. Mutallab was economic minister under former military ruler General **Murtala Ramat Muhammed** (1975-1976) and former chairman of the **First Bank of Nigeria Plc**.
- Professor **Tamunoemi Sokari David-West (Tam David-West)**, petroleum minister. David-West was a member of the Buhari transition committee established to ensure a seamless transfer of power from President **Goodluck Jonathan's** (2010-2015) administration.⁵ David-West was petroleum minister during Buhari's past presidency (1984-1985). Since leaving office, David-West has called for reform of Nigeria's fuel subsidy system and improvements to

¹ This Day, 30 Jun 2015.

² Source, economist, Lagos

³ Source, investigator, Nigeria

⁴ Source, investigator, Nigeria

⁵ This Day, 6 May 2015

its refining capacity.⁶ David-West has also criticised the opaque process of awarding oil and gas concessions and called for greater transparency.⁷

The delay in appointing ministers raises the possibility of substantial changes to the provisional list. There is speculation that the delay is the result of political infighting within Buhari's APC, and notably tension between Buhari and APC "*political godfather*", former **Lagos State** governor **Asiwaju Bola Ahmed Tinubu**.⁸

From an economic perspective, the delay will encourage investors to postpone decision making.

*"The delay in forming government has halted the decision making process for key investors. Because Buhari has precedent for policy cancellations and draconian actions, this delay has put investors on edge."*⁹

The delay has especially negatively affected the upstream oil and gas sector with marketers waiting to see if Buhari maintains the system of fuel subsidies.¹⁰ The banking sector is also in limbo as "*bankers need to know policy direction in order to determine who they should lend to*".¹¹ The delay in appointments has added to a sense of legislative uncertainty, which may further deter investors from making investment decisions.

*"Most investors are on the sidelines now as far as investment is concerned; whether in equities or fixed income, because they are waiting for a policy direction from the government before they can make well informed investment decisions."*¹²

However, rather than showing inaction, the lack of ministerial appointments reflects both Buhari's measured, considered approach to decision making (see *ARC Briefing Nigeria June 2015*) and his desire to restructure the state to reduce recurrent expenditure commitments. Buhari has already started the reform process in this context. Notably, on 29 June he issued a presidential directive dissolving the board of the **Nigerian National Petroleum Corp (NNPC)**.¹³ The NNPC board dissolution signals Buhari's acceleration of reform of the upstream and downstream oil sectors. The board was inactive, as its chair is the petroleum minister, one of the vacant ministerial offices.

*"Buhari is receiving briefings from government ministries and agencies while the transition commission is working to break down its report into practical measures that can be implemented. Indications are that ministries will be merged."*¹⁴

There is also a sense amongst investors that the correct appointments could reward their patience in terms of political and economic stability.

*"Nigeria's economy is in a really poor shape so we need action. At the same time I get the impression that [international investors] appreciate that things are done with care. The only thing then is that if the wrong decisions are taken, it will have an even bigger backlash."*¹⁵

PDP begins to rebuild following election defeats

The former ruling PDP has sought to capitalise on the delay in ministerial appointments by accusing Buhari of failing to deliver on his electoral pledges.¹⁶ However, the PDP is currently inward looking,

⁶ Africa Confidential, 18 Nov 2011.

⁷ Africa Confidential, 18 Nov 2011.

⁸ Reuters, 30 Jun 2015.

⁹ Source, economist, Lagos

¹⁰ Source, economist, Lagos

¹¹ Source, economist, Lagos

¹² Source, investment adviser, Lagos

¹³ Nigeria Guardian, 29 Jun 2015.

¹⁴ Source, consultant, Lagos

¹⁵ Source, international trade delegate, Lagos

¹⁶ Reuters, 30 Jun 2015.

focused on an internal process of restructuring and re-evaluation following its defeat in the March and April presidential and governor elections.

*"It's been quite interesting to hear, over the past few months, different versions of how and why they lost their grip on power. It would appear this is some kind of catharsis – an opportunity to expose and cleanse themselves of past mistakes as they forge a new direction."*¹⁷

A new leadership from the **South South** is likely to emerge within the PDP. The former **Akwa-Ibom State** governor **Godswill Akpabio** is a key figure in this new leadership.¹⁸

*"The PDP is realigning and gathering forces; the South South is likely to lead the party since they have most of the governors in that zone. That's where the funding will come from. Akpabio is being positioned as the Senate minority leader. The party will be built around him."*¹⁹

Akpabio was formerly the **Commissioner for Petroleum and Natural Resources** for Akwa Ibom in 2002 during the federal presidency of **Olusegun Obasanjo** (1999- 2007).

Buhari provides financial package to indebted state governments

Despite the delay in appointing ministers, Buhari has started his economic reform programme. The federal government notably has provided a cash bailout for state governments and drawn upon its savings to offset revenue shortfalls and meet debt obligations at both national and state level.²⁰ The debt is the result of the low international oil prices and low revenue generation capacity. The total value of the package is approximately \$2.1 billion.²¹ State governors had previously warned Buhari that N658 billion (\$3.3 billion) debt had left them facing a financing gap.²² The speed with which Buhari secured and implemented the financial package suggests that he may be able to work with the legislative leadership (see *ARC Briefing Nigeria June 2015*) to implement his economic reform programme.

*"There was no legislative impediment and the monies were quickly remitted..."*²³

Accountant general **Ahmed Idris** on 6 July confirmed that the **Federation Account Allocation Committee** had approved the government's request to draw \$1.7 billion from the **Excess Crude Account (ECA)** to share between the federal, state and local governments.²⁴ However, a depleted ECA increases the vulnerability of the economy to sharp exogenous shocks. The withdrawn funds are **Nigeria Liquefied Natural Gas Co** dividends recently deposited in the ECA.²⁵ The government's 2014 **Medium Term Expenditure Framework and Fiscal Strategy Paper** claims that the ECA stands at \$4.09 billion. By contrast, the **International Monetary Fund (IMF)** estimated that the ECA had \$21 billion in 2008.²⁶ The second measure is a **Central Bank of Nigeria (CBN)** special intervention fund which will offer financing ranging between N250 billion naira (\$813m) and N300 billion (\$975m).²⁷ The CBN financing is in the form of soft loans that states can only use to clear outstanding salaries.²⁸ The **Debt Management Office** will also oversee a debt relief programme to help states restructure their debts and extend repayment schedules, thus reducing debt servicing obligations.²⁹ The bailout

17 Source, political consultant, Abuja

18 Source, political consultant, Abuja

19 Source, political consultant, Abuja

20 This Day, 7 Jul 2015.

21 This Day, 7 Jul 2015.

22 This Day, 23 Jun 2015.

23 Source, political commentator, Abuja

24 This Day, 7 Jul 2015.

25 This Day, 7 Jul 2015.

26 Bloomberg, 6 Jul 2015.

27 This Day, 7 Jul 2015.

28 This Day, 7 Jul 2015.

29 This Day, 7 Jul 2015.

will facilitate positive relationships with state governors, which is key to delivering economic reform, including in the oil and gas sector.

“The state governments can thwart Buhari’s legislative process. To resolve this issue, the APC political machine for states with APC governors has to work in unison to keep the messaging consistent. But it all comes down to how vocal Buhari is as a leader and his willingness to build bridges, which he has already started to do.”³⁰

Low levels of foreign reserves will limit the capacity of the federal government to offer similar bailouts should the current one prove insufficient. Foreign currency reserves have declined 16% in 2015 to \$29 billion as the CBN intervenes to shore up the naira.³¹ However, CBN governor **Godwin Emefiele** told the senate on 8 July that there has been a recent “gradual recovery” in Nigeria’s foreign exchange reserves.³² Emefiele said that reserves stood at \$31.9 billion on 7 July compared to \$29.1 billion in June.³³ This is still below the \$37.3 billion worth of reserves a year ago.³⁴ The increase in foreign reserves has come at a cost in terms of the naira’s stability on foreign exchange markets. Emefiele cited both Buhari’s efforts to plug leakages and the CBN’s foreign-currency demand management. In June, the CBN imposed foreign exchange controls for the purchase of Eurobonds, foreign currency bonds and shares, and 40 categories of goods to decrease pressure on external reserves.³⁵ The CBN has spent approximately \$5 billion since January to defend the naira. Emefiele said that the CBN’s foreign exchange policies have resulted in a “significant stabilisation” in the exchange rate and an improvement in market sentiments.³⁶

Emefiele said that financial liquidity conditions are stable.³⁷ Nevertheless, investors remain concerned about the impact of dollar shortages on the currency market. Emefiele said that the CBN does not favour a devaluation of the naira due to ongoing concerns about increasing inflation.³⁸ Despite this, the risk of another devaluation following those in November and January is high. Ratings agency **Standard & Poor’s** said on 15 July that devaluation is inevitable.³⁹ Standard & Poor’s said the devaluation could be greater than 15%, though is likely to be in incremental adjustments.

Buhari reshuffles military leadership

Buhari reshuffled his senior security chiefs as expected on 13 July, paving the way for a renewed offensive against **Boko Haram**.⁴⁰ Buhari was a vocal critic of the performance of the military leadership before his election victory.

The most notable appointment is army chief of staff Major General **Tukur Buratai**.⁴¹ Buratai is from **Borno State** – the state in which Boko Haram is most active – and was head of the **Multinational Joint Task Force (MJTF)**.⁴² The MJTF incorporates forces from **Chad, Cameroon** and **Niger** and has achieved notable success in retaking territory from Boko Haram. The MJTF has, however, not managed to destroy Boko Haram camps, which has allowed the group to regather and launch a renewed campaign of suicide bombings. On 7 July, a suicide bomber killed at least 25 in **Zaria (Kaduna State)**.⁴³ On 5 July, two suicide bombings killed at least 44 people in **Jos (Plateau State)**.⁴⁴

³⁰ Source, business consultant, Nigeria

³¹ Bloomberg, 23 Jun 2015.

³² Vanguard, 8 Jul 2015.

³³ Vanguard, 8 Jul 2015.

³⁴ Vanguard, 8 Jul 2015.

³⁵ Bloomberg, 23 Jun 2015.

³⁶ Vanguard, 8 Jul 2015.

³⁷ Vanguard, 8 Jul 2015.

³⁸ Vanguard, 8 Jul 2015.

³⁹ Bloomberg, 15 Jul 2015.

⁴⁰ This Day, 13 Jul 2015.

⁴¹ This Day, 13 Jul 2015.

⁴² This Day, 13 Jul 2015.

⁴³ Nigeria Guardian, 7 Jul 2015.

⁴⁴ Vanguard, 6 Jul 2015.

The suicide bombers targeted a mosque and a restaurant.⁴⁵ Plateau State is in Nigeria's religiously and ethnically mixed **Middle Belt** which is vulnerable to outbreaks of sectarian violence. The attack was Boko Haram's first in Jos since February.

The other military appointments include Major General **Abayomi Gabriel Olonishakin** as chief of defence staff, Air Vice Marshal **Monday Riku Morgan** as chief of defence intelligence, and Major General **Babagana Monguno** as national security adviser.⁴⁶

Implications

The delay in appointing ministers will postpone investor decision making, but could encourage the possibility of a stable, productive government if Buhari uses the time to balance the various interests of the APC constituent parties. The dissolution of the NNPC board suggests that Buhari will be able to implement his reform agenda even without his cabinet in place.

The financial package for the states will mitigate the impact of the current low oil prices but will not help state governments address their structural fiscal problems, including limited revenue generating capacities. The possibility of a currency devaluation remains high.

The new military appointments will increase morale and bring new momentum to the counter-insurgency against Boko Haram. The increased Boko Haram activity signals the limitations of the MJTF offensive. Boko Haram has proved capable of conducting attacks even with a heavy security presence in the north, and will continue to do so even if the MJTF does launch a renewed offensive. Ending insecurity in the northeast will require a broad political and economic compact to address longstanding grievances.

⁴⁵ Vanguard, 6 Jul 2015.

⁴⁶ This Day, 13 Jul 2015.

About Africa Risk Consulting:

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