

AFRICA RISK CONSULTING

Country briefing – Nigeria

21 November 2013

Summary

President Goodluck Jonathan postpones his budget speech, citing disputes over the benchmark price of oil. This raises questions about whether he has the political will to implement spending cuts in the run up to the 2015 elections. The New People's Democratic Party announces a merger with the All Progressives Congress. Lagos will remain an opposition stronghold beyond 2015. The National Assembly extends the state of emergency in the north's Yobe, Adamawa and Borno states.

1.1 President Goodluck Jonathan postpones budget speech

President **Goodluck Jonathan (2010-present)** twice postponed his budget speech at the National Assembly in November.¹ The postponement raises questions about Jonathan's control over the increasingly recalcitrant ruling **People's Democratic Party (PDP)** (see below) and whether he has the political will to implement the spending cuts envisioned by the government's **2014-2016 Medium Term Economic Framework and Fiscal Strategy Paper**.² The PDP first postponed the budget speech on 11 November as the National Assembly was yet to approve the government's fiscal framework.³

*"This is Jonathan losing his grip on his party, before an election. Budgets in Nigeria are never simple, but this is different, this is fully a party in crisis."*⁴

Despite this being an election year, the fiscal framework suggests that Jonathan is to propose a cut in spending. This is liable to prove unpopular with PDP members in a country where pre-election spending has often been the key to remaining in office.

¹ This Day, 19 Nov 2013

² Source, businessman

³ Nigeria Guardian, 11 Nov 2013

⁴ Source, businessman

“The incumbent in Nigeria has the edge, they like to keep the money sloshing about and their hand on the key to the purse.”⁵

The fiscal framework estimates a fiscal shortfall of 1.9% of GDP in 2014, compared to 1.85% in 2013, suggesting spending cuts of 10% to 4.5 trillion naira (\$28 billion) in a conservative budget as oil output fails to meet targets.⁶ Finance minister **Ngozi Okonjo-Iweala** is pushing the federal government to curb spending to keep the budget deficit under control.⁷ Jonathan may be willing to commit to spending cuts in the year before an election, knowing he can approve supplementary budgets as the polls approach. The senate committee on finance and appropriation highlighted the government’s loose approach to budgets, noting that budget implementation was below 40% in 2013.⁸

Jonathan cited a divergence in opinion over the oil benchmark for the second delay of the budget. According to the framework, the oil benchmark should be pegged at \$74 per barrel. The 2013 benchmark price is \$79, suggesting that the federal government is showing a degree of restraint even in an election year but raising the probability of a supplementary budget before the next election. The Senate on 12 November approved \$76.5 and the House of Representatives \$79 on 14 November.⁹ The 2013 budget is based on a daily output of 2.53m barrels, but it has consistently been over a quarter of a million barrels below this, even dropping at one stage below two million.¹⁰ For 2014, the government estimates oil production at 2.39m barrels per day, a rate it surpassed in the third quarter of 2013 when it stood at 2.4m.¹¹

Although Jonathan attributed the delay of the budget to the oil price differences, it would have been possible for him to deliver the budget and for the discrepancy to have been resolved during deliberations in the National Assembly.

⁵ Source, businessman

⁶ Nigeria Guardian, 3 October 2013

⁷ Bloomberg, 12 Nov 2013

⁸ Leadership, 10 Nov 2013

⁹ Daily Trust, 19 Nov 2013

¹⁰ <http://www.worldoil.com/>

¹¹ ibid

Okonjo-Iweala warned on 1 November that government revenue in 2013 may be as much as \$12 billion short of budget estimates.¹² The finance minister blamed the theft of crude and output disruptions in the **Niger Delta** and said that the federal government would draw upon the Excess Crude Account to keep the budget deficit under control. The 2013 budget estimates a daily output of 2.53m barrels and an oil price of \$79 per barrel which is below the average price in 2013. In the first half of 2013, oil receipts were more than \$7 billion below projections.¹³

The **National Bureau of Statistics (NBS)** released data in November showing GDP growth of 6.81% annually in the third quarter.¹⁴ This was an increase on 6.18% in the second quarter. The NBS cited easing of the contraction in the oil sector and increasing output in the agricultural for the growth. Crude oil production rose from 2.11m barrels in the second quarter to 2.26m in the third, though the NBS acknowledged that supply disruptions continue to hamper output.

1.2 New People's Democratic Party and All Progressives Congress announce merger

The **New People's Democratic Party (New PDP)** in November announced a merger with the opposition party **All Progressives Congress (APC)**.¹⁵ The merger is a blow to Jonathan's election prospects in 2015, as the APC now has the support of 18 of Nigeria's 36 state governors. The ruling PDP has only 16, though it can count on the support of the others. The **Abubakar Kawu Baraje** led New PDP agreed to join the APC at a meeting in **Abuja**. The seven New PDP governors had been expected to have a final meeting with Jonathan to attempt to resolve their differences notably over whether Jonathan should run in 2015, but the summit never occurred. Jonathan continues to struggle to control the PDP. The PDP working committee suspended four senior officials as divisions deepened over the breakaway New PDP. The PDP leadership loyal to Jonathan suspended the former governor of **Osun** state, **Prince Olagunsoye Oyinlola** on 11 November.¹⁶ The suspension occurred despite an Abuja appeals court ruling on 6 November reinstating him as national secretary of the party. The other officials suspended were chairman of the New PDP and former acting national chairman Abubakar Kawu Baraje, the New PDP deputy chairman **Sam Sam Jaja**, and **Ambassador Ibrahim Kazaure**. The suspension highlights the difficulty facing Jonathan as he attempts to marshal the PDP behind his expected election bid in 2015.

¹² This Day, 1 Nov 2013

¹³ Bloomberg, 1 Nov 2013

¹⁴ NBS Statement, 18 Nov 2013

¹⁵ This Day, 26 Nov 2013

¹⁶ Vanguard, 11 Nov 2013

“The race is on for the election. It’s now about positioning oneself. The party financiers, the power brokers, people at state level are all manoeuvring. Over the next thirteen months, there will be an upsurge in government corruption and not much in the way of decision making. The Jonathan government has lost momentum.”¹⁷

1.3 Lagos gearing up for change of names if not change of politics

Lagos governor **Babatunde Fashola** will complete his final term in 2015 but the state is likely to remain the heartland of opposition politics. Elections in Lagos tend to be predictable due to dominance of the **Action Congress of Nigeria (ACN)**.¹⁸ The PDP is underfunded and often represented by candidates from outside the state.¹⁹ The PDP is polarised in Lagos between former works minister **Adeseye Ogunlewe** who stood for PDP in 2007 and former **Nigerian Ports Authority** chairman **Bode George**.²⁰ Both have said they will unite for the PDP in 2015. The PDP candidate is expected to be **Jimi Agbaje** who ran unsuccessfully in 2007 for the now defunct **Democratic People’s Alliance**.

The ACN will remain dominant. Apart from some possible clashes between street gangs in poorer areas, the election is expected to be peaceful.²¹ The ACN’s base is the **Yoruba** ethnic group, dominant in south western Nigeria. The ACN is comfortably in control of Lagos State due to its Yoruba centred nationalism. Further, its progressive, technocratically competent and business friendly policies appeal to the growing middle class. Support for the ACN also comes from Lagos’ long history of opposition to the federal government, the disarray of state level opposition parties and the ACN’s ties into extensive patronage structures.²² Possible successors to Fashola include two administration stalwarts and technocrats, environment commissioner **Muiz Banire** and internal revenue board head **Tunde Fowler**.²³

Fashola and his predecessor **Bola Ahmed Tinubu** will be influential in the run up to the presidential election and can exact political benefits from the *“substantial war chest that they have helped the*

¹⁷ Source, businessman

¹⁸ Vanguard, 23 July 2013

¹⁹ Vanguard, 19 July 2013

²⁰ Daily Independent, October 2013

²¹ Source, senior academic, Nigeria

²² ibid

²³ ibid

opposition APC build up".²⁴ In Lagos, Fashola governs formally, while Tinubu commands the political structures on the street.²⁵ Tinubu is an influential stalwart of Lagos politics and is Fashola's political "godfather".²⁶ He is also a political power broker at the national level.²⁷ Tinubu anointed Fashola his preferred successor prior to leaving office in 2007. Fashola is, however, unlikely to be a presidential or vice presidential candidate for the APC. He would not have the support of the **Congress for Progressive Change** who want **Muhammadu Buhari**.²⁸

Lagos, as Nigeria's commercial capital, is significant on the national stage. **Lagos State**, representing 0.4% of Nigeria's land, holds the largest population share at 6-10% of the country's population – however, census results are contested and unreliable. It has a vibrant commercial core and a broad economic base built on trade, manufacturing, financial services, transport, infrastructure, leisure, retail, and oil and gas facilitation. Notably, Lagos State gets around 64% of its revenues from internal taxation, rather than from oil money distributed via the federal government. This makes the state fiscally accountable to its taxpayers and gives it fiscal space to pursue its own developmental policies, whether or not they accord with the federal government's wishes.²⁹

During Tinubu's tenure, relations with then President **Olusegun Obasanjo (1999-2007)** were highly antagonistic. When Tinubu announced his intention to break a constitutional provision to create new local government areas, Obasanjo cut off all funding for existing local governments. Thanks to the growth in internally-generated revenue, Lagos State was able to survive the impasse and implemented the policy in a lower-profile manner. One of the first actions of late President **Umaru Musa Yar'Adua** (2007 – 2010) after taking power in 2007 was to restore federal revenue flows to Lagos state and normalise relations with the administration.³⁰ The Tinubu-Obasanjo showdown has set the tone for on-going relations, firmly establishing that the federal government has limited leverage over the city's administration. Recent federal administrations have opted for a strategy of face-saving coexistence. Lagos is home to the largest portion of the Nigeria's private sector and emergent middle-class, so there is little for the federal government to gain by antagonising it.³¹

²⁴ Source, political analyst, Abuja

²⁵ Source, senior academic, Nigeria

²⁶ This Day, 31 Jan 2010

²⁷ Source, senior Nigeria political analyst, Lagos

²⁸ Source, western diplomat, Lagos

²⁹ Source, senior academic, Nigeria

³⁰ ibid

³¹ ibid

“It is important to remember that the Lagos and federal governments must share space in the city itself; as the former capital, Lagos includes a lot of federally-owned infrastructure, institutions and land – such as the airports, ports, railway and much besides. So at the level of state institutions, there are lots of webs of relationships, and many points of difference in day-to-day city planning and management.”³²

The federal government has recently tried to wrest control back from all states. In October, the federal **National Economic Council** banned states from contracting companies to collect taxes.³³ This was a key way that Lagos was able to fund opposition politics. Now, only the federal **Board of Internal Revenue Service** can collect taxes. This is likely to be a source of future contention, especially as investment continues to flow into the **Lekki Free Trade Zone**, which Lagos hopes will become a regional transport hub. While the federal government is responsible for the construction of Lekki's infrastructure, including **Lekki-Epe International Airport**, the state stands to benefit from increased levels of foreign investment. The state government is a partner in the **Lekki Free Zone Development Company** through the state owned **Lekki Worldwide Investment Limited**.

1.4 President Goodluck Jonathan extends state of emergency in north eastern states

The National Assembly on 20 November acceded to Jonathan's request to extend the state of emergency in the states of **Yobe**, **Adamawa** and **Borno** by an additional six months.³⁴ However, a government raid suggests that security forces are struggling to contain the militant group **Boko Haram** in these three states. On 9 November, Nigerian security forces raided two suspected Boko Haram safe houses in the city of **Kano**, with a **Joint Task Force** spokesman claiming that the five militants killed in the raid were planning attacks in Kano and Abuja over the festive period.³⁵ Kano is a central northern city, away from the north eastern states under emergency rule.

2 Implications

While Jonathan will eventually pass a budget containing some cuts, its implementation will be dictated by the wider political context. Government spending will increase in the run up to the 2015 election. The likelihood is that the government will follow the pattern of previous years and raise its benchmark in line with, or at least closer to, National Assembly estimates. The delay is indicative of a

³² ibid

³³ Nigeria Guardian, 21 Oct 2013

³⁴ Vanguard, 20 Nov 2013

³⁵ Reuters, 9 Nov 2013



wider problem of how little meaningful control Jonathan has over the PDP. The party is in no state to challenge opposition heartlands such as Lagos, while the opposition APC strengthens its control over the north and southwest of the country. With increasingly large numbers of governors withdrawing their warchests from Jonathan, he will struggle to secure re-election. Further Boko Haram attacks beyond the north east of Nigeria will continue to chip away at Jonathan's authority.