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Muhammadu Buhari wins the presidential election. The senate passes the 2015-2017 medium term expenditure framework (MTEF), with a lower oil benchmark price of \$52 per barrel of crude. The MTEF maintains the assumption that oil production will average 2.28m barrels per day. The declining naira and unpaid government subsidies result in fuel shortages in Lagos and Abuja. The Nigerian army claims significant territorial gains at the expense of Boko Haram, but the group demonstrates its operational capacity with a series of attacks in the northeast.

Muhammadu Buhari wins presidential election

Muhammadu Buhari won the 28 March presidential election. President **Goodluck Jonathan** (2010-present) has conceded defeat. The result is historic. It marks Nigeria's first democratic transfer of power from one ruling party, the **People's Democratic Party (PDP)** to another, **All Progressives Congress (APC)**, via a national ballot. The result demonstrates a deepening democratic political culture from voters' restrained response to a postponed election date and delays during the voting process, to President Jonathan's immediate acceptance of the election result.

Buhari was military head of state between 1983 and 1985. Following Buhari's 1983 coup against the notoriously corrupt president **Shehu Usman Aliyu Shagari** (1979-1983), Buhari launched a widespread crackdown on corruption. His administration instituted a "*War against Indiscipline*", with it being war in every sense of the word. Soldiers patrolled the streets with whips to police petty offences. Austerity dominated Buhari's economic policy as his government drastically reduced imports and cut civil service jobs.¹ Buhari's electoral message of "change" struck a chord amid concern about the long-term implications of Jonathan's failure to introduce meaningful political and economic reform. A former government minister told ARC in January that,

*"Jonathan cannot win this election. He should go.... change is coming."*²

Despite long-held reputation for hostility to graft and corruption, his close advisers have told ARC Briefing that there is little likelihood of a repeat of 1983-1985 brutality. The APC's policy priorities are likely to be security, infrastructure (mainly power), agriculture and job creation³ but advisers do not expect any dramatic political or economic change of direction.

To form a new government Buhari will have to balance competing interests across the APC, which are certain to trigger infighting and jockeying for influence. The APC is a loose coalition of disparate constituencies with its experience of government limited to coalition member's governing **Lagos** and a scattering of south-eastern states. Moreover, it emerged out of the PDP leadership's failure to meet the aspirations of its ambitious governors rather than any APC ideological or political cohesion.

Buhari won approximately 15.4 million votes to Jonathan's 13.3 million.⁴ Buhari won in 21 states compared to Jonathan's 15. The vote left Nigeria's underlying political divisions unaltered. Broadly, the APC won the northern and south-western states. The PDP won the southern states and the latently troublesome **Niger Delta**. Heavy majorities in **Kaduna**, a key swing state that Buhari narrowly won in 2011, and **Kano** swung

¹ Source, journalist, Abuja

² Source, former government minister, Niger Delta

³ Source, senior opposition figure.

⁴ Leadership, 31 Mar 2015.

the election in Buhari's favour. Low turnouts in PDP strongholds in eastern states undermined the electoral significance of Jonathan retaining them.

Observers have generally praised the conduct of the election as peaceful and orderly. There were nationwide operational problems with the late delivery of election materials and technical glitches with new voter authentication devices.⁵ Voting was extended into a second day in some areas. The independent **Transition Monitoring Group (TMG)** nevertheless stated that the problems did not systematically disadvantage any single candidate or party.⁶ **Boko Haram** conducted sporadic attacks in the northeast, killing at least nine people in an attack in **Dukku (Gombe State)** but fears of a major terrorist attack did not transpire.⁷ Both the PDP and the APC traded allegations of electoral fraud, notably in **Rivers State** where authorities imposed a curfew following violent APC protests in **Port Harcourt** alleging electoral fraud.⁸ In **Imo State**, APC state governor **Rochas Okorocho** alleged that the military had interfered with the electoral process and opened fire on his convoy.⁹ The PDP could use the technical problems and violence as grounds to challenge the results. However, the margin of Buhari's victory and Jonathan's acceptance of the result reduces the possibility of long drawn-out legal challenges. Senior PDP officials who stand to lose access to government patronage may not be as willing as Jonathan to concede.

The risk of post-electoral violence remains high. Jonathan's loss increases the risk of a resumption of the Niger Delta insurgency. Former militant leaders have previously threatened to take up arms should Jonathan lose. With the government's amnesty programme with the militants due to end in 2015 and with the military demonstrating against Boko Haram its inability to effectively fight an insurgency campaign, there is little to deter a return to violence. Any resumption of violence in the Niger Delta would encourage international oil companies to accelerate their onshore divestment programmes.

Declining oil prices result in reduced expenditure framework...

Declining oil prices may not affect the election outcome but continue to place stress on Nigeria's fiscal position. The senate passed the 2015-2017 medium term expenditure framework (MTEF) on 26 February, with a lower oil benchmark price of \$52 per barrel of crude for 2015.¹⁰ The final benchmark price is 33% lower than the \$78 per barrel projected in the original document that the government introduced in October 2014. The MTEF also revised the foreign exchange rate assumption to 190 naira (N) to the **United States (US)** dollar from N160.

The MTEF will form the basis of the 2015 budget.¹¹ The senate increased capital expenditure by approximately 10% to N700 billion (\$3.5 billion) and reduced recurrent expenditure.¹² This might reduce pressure on the government to meet capital expenditure costs through increased borrowing or withdrawals from the **Excess Crude Account (ECA)**. The MTEF maintained assumptions that oil production would average 2.28m barrels a day, an ambitious forecast as the sector continues to underperform due to dilapidated infrastructure, legislative delays and insecurity.¹³ The MTEF includes a 50% reduction in fuel subsidies (see below).

In an additional signal of the negative impact of lower oil prices, the **Central Bank of Nigeria (CBN)** on 27 February announced that foreign reserves fell to \$31.57 billion by 25 February, down 8.33% from \$34.44 billion a month earlier.¹⁴ Ratings agency **Standard & Poor's (S&P)** downgraded Nigeria's credit rating on 20 March, citing declining oil prices and increased political risks due to the delayed elections.¹⁵ The

⁵ Multiple sources: This Day, 28 Mar 2015; Nigeria Guardian, 29 Mar 2015.

⁶ Nigeria Guardian, 31 Mar 2015.

⁷ Leadership, 30 Mar 2015.

⁸ Multiple sources: This Day, 28 Mar 2015; Nigeria Guardian, 29 Mar 2015.

⁹ Leadership, 31 Mar 2015.

¹⁰ Vanguard, 26 Feb 2015.

¹¹ Vanguard, 26 Feb 2015.

¹² Vanguard, 26 Feb 2015.

¹³ Vanguard, 26 Feb 2015.

¹⁴ Reuters, 27 Feb 2015.

¹⁵ FT, 20 Mar 2015.

downgrade will increase borrowing costs, increasing debt servicing pressures and exacerbating the budget deficit. S&P downgraded Nigeria's credit rating to B+ from BB- and the foreign and local currency long-term rating to B+, four levels below investment grade. S&P noted that declining oil prices have increased Nigeria's external vulnerability, while a closely contested election will undermine the government's willingness and ability to impose fiscal consolidation. However, S&P gave Nigeria a stable outlook and forecast GDP growth of 5% between 2015 and 2018 on the back of growth in non-oil sectors. The S&P forecast is higher than the **International Monetary Fund (IMF)** projection of 4.8%.¹⁶

... and fuel shortages

The declining naira and unpaid government subsidies have resulted in fuel shortages in **Lagos** and **Abuja**.¹⁷ While the cause of the current fuel shortage is Nigeria's fiscal position, it indicates the government's wider failure to reform the **Petroleum Products Pricing Regulatory Agency (PPPRA)** subsidy system and increase Nigeria's domestic refining capacity.¹⁸

*"The simple implication of the last fuel shortages is an indication of the federal government to continue with the subsidy. It came about due to the inability of government to meet its financial obligations to marketers. It also reflects the inability of banks to continue lending based on their current risk portfolio. The devaluation of the currency contributed to the difficulty in making these payments and highlighted the need for a new template."*¹⁹

The **Major Oil Marketers Association** started receiving stop-gap gasoline on 3 March. The **Nigerian National Petroleum Corp** released additional supplies but these are insufficient to meet current demand. This has resulted in queues forming outside petrol stations and the price of fuel increasing in major urban centres *"including, embarrassingly enough for the government, outside the petroleum ministry in Lagos"*.²⁰ The CBN stopped its biweekly currency auctions in February to shore up its foreign reserves. This has forced importers to pay higher interbank rates, while banks are unwilling to open letters of credit due to the government's erratic payment of subsidies. Finance minister **Ngozi Okonjo-Iweala** said on 3 March that the government would begin issuing \$921m sovereign debt notes to marketers to cover outstanding subsidy payments.²¹ The sovereign debt notes will act as guarantees for marketers' imports. Okonjo-Iweala also said that the government would meet importers' foreign exchange and interest costs. On the same day, President Jonathan issued a directive to the finance ministry to immediately pay all outstanding subsidy claims to oil marketers in order to end the current fuel shortage.²² The payments have so far failed to materialise.

*"The government is massively indebted to the oil marketers for subsidy payments and claims of interest and foreign exchange differentials. These are payments over and above the planned subsidy arising due to late payments of subsidy and the recent devaluation of naira. Marketers claim they are at a point where even if they want to import, their bankers aren't opening any more letters of credit for them. Most of them however are saying their balance sheets are so stretched, they simply can't continue importing fuel."*²³

According to a ministerial aide, the government understands the need to reform the subsidy system.

"The implication of this on the wider subsidy regime is that the current scenario is clearly unsustainable. I see an automatic deregulation of the industry post elections. This in itself brings its own complication to the market. Marketers are asking, what happens after deregulation? Will the government be willing or able to pay the outstanding subsidy debts owed? The government will not

¹⁶ Bloomberg, 20 Mar 2015.

¹⁷ This Day, 2 Mar 2015.

¹⁸ Source, government agency employee, Lagos

¹⁹ Source, oil and gas consultant, Lagos

²⁰ Source, management consultant, Lagos

²¹ Reuters, 3 Mar 2015.

²² This Day, 3 Mar 2015.

²³ Source, ministerial aide, Abuja

*have a choice but to reform the subsidy regime. It's simply not sustainable what we have right now."*²⁴

Reform of the subsidy system is politically sensitive and will not happen until the end of the election cycle in May. When the PPPRA attempted to cut fuel subsidies in January 2012, it triggered widespread protests and labour unrest. Public objections forced Jonathan to reinstate it, albeit with a 50% increase in prices. The government considered using the current slump in oil prices to reform the subsidy programme and deregulate the downstream sector but chose not to in the run up to the elections.

*"The government's thinking was that the impact of subsidy removal would be minimal if the pump price was reduced to reflect oil prices and that market forces would determine the appropriate pricing whenever oil rebounded. However, the timing - just before elections - would have been problematic and could have had dire consequences for the ruling party. Petrol and politics can be a volatile mix."*²⁵

The timing and shape of subsidy reform are uncertain. Okonjo-Iweala has been leading government attempts to reform the sector but is unlikely to retain her position as finance minister even if Jonathan wins the election as he has had to sacrifice the economic reformers in his cabinet (see *ARC Nigeria October 2014 Briefing*).²⁶

*"The government will reform the subsidy system. It cannot continue payment in line with lower earnings from crude. The success or otherwise of the reforms will depend on the government's approach. If it is delivered at the period where oil prices are low, citizens will not feel the effect as there will be no price rise. At the moment no one will speak on the issue because of elections. After the elections, yes it can happen."*²⁷

Military claims territorial gains against Boko Haram

The Nigerian army claimed on 17 March that it has pushed Boko Haram out of "all but three districts".²⁸ Army chief of staff lieutenant-general **Tobiah Minimah** said that only the **Abadam**, **Kala-Balge** and **Gwoza** areas of **Borno State** remained under Boko Haram control. It is hard to verify the military's claims, especially as the government was keen to trumpet gains ahead of the election. The army is carrying out operations with support from a joint task force from **Niger** and **Chad** and private military contractors (see *ARC Nigeria February 2015 Briefing*).²⁹ Analysts caution against viewing the gains of the taskforce as a fatal major blow against Boko Haram:

*"Rooting Boko Haram out of Borno, where it is heavily embedded in rural areas and in the local population, will take a lengthy operation ... it will not be over by election time."*³⁰

Boko Haram has been increasingly active in recent weeks. Suicide bomb attacks in **Maiduguri** on 5 March killed 45 people, on 7 March killed 62, and on 10 March killed 34.³¹ The joint Niger-Chad task force began operations in the north of Nigeria on 7 March and retook the towns of **Malam**, **Fatouri** and **Damasak**. On the same day the Nigerian military launched an offensive against the militants from the South retaking three districts including the town of **Baga**.³² This increased activity may be a precursor to an attack on election infrastructure during the presidential election.³³ A federal court ruling on 24 March prohibited the military from deploying near polling stations outside the northeast of Nigeria.

²⁴ Source, ministerial aide, Abuja

²⁵ Source, management consultant, Lagos

²⁶ See ARC Briefing June 2013.

²⁷ Source, oil and gas consultant, Lagos

²⁸ This Day, 17 Mar 2015.

²⁹ This Day, 17 Mar 2015.

³⁰ Source, security analyst

³¹ This Day, 7 Mar 2015.

³² Vanguard, 11 Mar 2015.

³³ Source, security analyst

Implications

Buhari's convincing victory in presidential elections and the fact that Jonathan kept his promise and conceded defeat marks a significant step in Nigeria's democratic maturity and accountability. Despite Buhari's reputation as a military head of state his message of "change" is not expected to herald a dramatic shift in political or economic policy that would be detrimental to the interests of domestic or foreign business. The APC's will be a reform agenda but one based on the need to expand and diversify the economy away from dependence on oil as well as a tougher stance on Nigeria's legendary state corruption.

The government and petroleum marketers are likely to reach a compromise deal to ensure that supplies are released. This may involve the offer of a crude for product swap agreement or partial payments. Reform of the subsidy programme is likely to be interminable and contentious. Ongoing delays to the **Petroleum Industry Bill** emphasise the slow-moving nature of reform of the downstream sector. If the next government is shorn of economic reformers, the passage of progressive legislation will remain slow.

Buhari will prioritise the fight against Boko Haram as he looks to establish his authority. At the same time, Boko Haram will look to carry out a major attack on an urban centre to undermine Buhari's credibility.

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