

AFRICA RISK CONSULTING

Country briefing – Nigeria

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1 Summary

The government announces a ceasefire agreement with Boko Haram but doubts persist about its credibility. President Goodluck Jonathan (2010 – present) may use the release of female students seized from Chibok to launch his presidential campaign. Former military head of state Muhammadu Buhari (1983 – 1985) announces his intention to stand as the All Progressives Congress (APC) candidate. Jonathan may sacrifice key reformers in government including finance minister Ngozi Okonjo-Iweala and petroleum minister Diezani Alison-Madueke to secure his position as the People's Democratic Party (PDP) candidate. The government proposes a benchmark price of \$78 for a barrel of crude oil for the 2015 national budget.

1.1 Government announces ceasefire agreement with Boko Haram

The government announced on 17 October that it has reached a ceasefire agreement with **Boko Haram**. However, there is uncertainty about the credibility of the ceasefire and it is unlikely to lead to an enduring peace deal. The ceasefire apparently followed negotiations between government principal private secretary **Hassan Tukur** and self-titled Boko Haram representative **Danladi Ahmadu** in **Saudi Arabia**. The ceasefire announcement was unexpected. Boko Haram has in recent months extended its control over large urban and rural swathes of north-eastern Nigeria and appeared to be preparing for an offensive on **Borno State** capital **Maiduguri** (see *ARC September 2014 Briefing*).¹

There are several possible explanations why Boko Haram accepted a full ceasefire in the apparent absence of any incentive to do so. The first is that Ahmadu either did not represent Boko Haram at all, or represents only one of its various factions. There is popular speculation that Ahmadu has no connection to the Boko Haram leadership. Ahmadu notably referred to the group as Boko Haram rather than its full title **Jama'atu Ahlul Sunnah Lidda'awati wal Jihad**.² The Boko Haram leadership tends to prefer the latter. Even if Ahmadu was representing Boko Haram, it is not clear what this means in practice. Boko Haram contains

¹ Source, security analyst

² The News Nigeria, 17 Oct 2014.

several factions including its Islamist leadership, various criminal gangs and international fighters.³ Ties between the factions are loose and flexible. Boko Haram also has an opaque leadership structure with **Abubakar Shekau** the group's most visible figurehead. **Cameroonian** national **Mamman Nur** and **Khalid al-Barnawi**, the leader of **Ansaru** - a splinter group of Boko Haram but one which still operates within its networks - are equally principal figures within Boko Haram (see *ARC Nigeria May 2014 Briefing*). A ceasefire arrangement agreed by a single leader or faction would not necessarily have the authority to extend across the entirety of Boko Haram. Shekau condemned previous ceasefire arrangements in November 2012 and January 2013, neither of which proved resilient.

There is also the possibility that Boko Haram views the ceasefire as a strategic opportunity to cement its control over its territory without harassment by the Nigerian military.⁴ This would allow the group to focus its efforts on the Cameroon military.⁵ Boko Haram has established operating bases in Cameroon's **Far North Region** from which to launch attacks on both Cameroon and Nigeria. The Cameroon military has achieved notable successes against Boko Haram in recent weeks. On the same day as the ceasefire announcement, Cameroon claimed to have killed approximately 100 Boko Haram militants and seized heavy weaponry after a convoy of armoured vehicles crossed the border from Nigeria into the towns of **Amchide** and **Limani**.⁶

The third explanation is that Boko Haram willingly reached a limited agreement for the release of the approximately 200 female students seized from **Chibok** in April. Such an agreement would involve the release of Boko Haram prisoners but would not involve Boko Haram surrendering weapons or anything that would curtail their future operational capabilities.

Amid continued uncertainty about the ceasefire, Boko Haram and the Nigerian military have continued to clash in Borno further undermining any credibility the accord may have.

1.2 Continued uncertainty over presidential platforms

Thanks to the efforts of **People's Democratic Party (PDP)** national chairman **Ahmadu Adamu Mu'azu**, president **Goodluck Jonathan** (2010 – present) has sufficient support to declare his candidacy for the February 2015 election but this has come at a cost to his allies (see below). Negotiations continue over his choice for vice president. One suggestion is that Jonathan might select **Lagos** economic planning and budget

³ Source, businessman, Lagos

⁴ Source, security analyst

⁵ Source, security analyst

⁶ AFP, 17 Oct 2014.

commissioner **Ben Akabueze**.⁷ In an indication of the uncertainty of the election platform, Akabueze has also been mentioned as a possible vice presidential candidate for the opposition **All Progressives Congress (APC)**. Akabueze, though a relatively low-profile choice, has a positive reputation as a competent technocrat who has managed the economic development of opposition heartland Lagos. Notably, **Lagos State** gets around 64% of its revenues from internal taxation, rather than from oil money distributed via the federal government. Akabueze is the former managing director of **NAL Bank Plc** (2000 – 2005) and was executive director of **Sterling Bank Plc** from January to August 2006.⁸ Former Lagos governor **Bola Tinubu** appointed Akabueze in January 2007 and incumbent governor **Babatunde Fashola** reappointed him twice. Tinubu's role as kingmaker in the APC may preclude the possibility of Akabueze accepting a position within the PDP.

The situation is no less clear in the APC, with continued uncertainty about presidential and vice presidential candidates threatening to fracture the party. Former military head of state **Muhammadu Buhari** (1983 – 1985) is the front-runner, having announced his intention to run on 15 October.⁹ He is respected for his anti-corruption position and record of effective policy implementation and good governance.¹⁰ He also has a strong and loyal following in the Muslim north,¹¹ a key electoral consideration against southerner Jonathan.¹² Buhari's plan to contest the election on an anti-corruption platform may make some of APC's financial backers nervous,

*“There are people who will say ‘hang on a second, the person we’re supporting is going to lock us up’.”*¹³

Former vice president **Atiku Abubakar** on 24 September declared his intention to stand as the APC candidate. **Edo State** governor **Adams Oshiomhole** declared his intention to run for president but then apparently rescinded it.¹⁴ Other potential candidates include **Kwara State** governor **Bukola Saraki** and **Kano State** governor **Rabiu Kwankwaso** (see *ARC Nigeria August 2014 Briefing*).

1.3 Jonathan sacrifices reformers in government

Jonathan may have had to sacrifice key reformist allies to shore up his support in the PDP which will discourage efforts to reform Nigeria's economic and business context.¹⁵ This will empower the array of

7 Source, diplomat, Lagos

8 www.nairaland.com

9 This Day, 15 Oct 2014.

10 Source, businessman, Lagos

11 This Day, 24 Sep 2014.

12 Source, businessman, Lagos

13 Source, political consultant, Abuja

14 Vanguard, 17 Oct 2014.

15 Source, diplomat, Lagos

vested interests and opponents who can stop or slow his reform agenda in the oil and gas and power sectors. A diplomatic source referred to it as “a major defeat for the reformist factions in Jonathan’s cabinet”.¹⁶ These changes will be reflected in Jonathan’s next administration if he wins the February election as expected.

“I feel rather sorry for Jonathan. The APC momentum has entirely stalled so there’s only one real possibility and that is another Jonathan administration. But Jonathan has had to sacrifice some key allies to shore up his support inside the PDP. I’m not sure if he’s politically astute enough to control the appointments that party politics and electioneering have forced on him. I would go so far as to say he’s out of his depth. I’m not sure about successors, but they are throwing out a lot of experience and knowledge and almost starting again from scratch.”¹⁷

The position of respected finance minister **Ngozi Okonjo-Iweala**, a powerful advocate of Jonathan’s reform agenda, is particularly precarious.¹⁸ Okonjo-Iweala was responsible for the austere 2014 federal budget that imposed spending cuts at a time when most Nigerian politicians were planning on increasing spending at the start of the national election campaign (see *ARC Nigeria January 2014 Briefing*). Okonjo-Iweala has angered state governors by imposing electronic monitor systems to oversee state budgets.¹⁹ Okonjo-Iweala, a former managing director at the **World Bank**, may return to a position at an international financial institute, raising questions about whether a successor would share her principles of fiscal discipline.

The second powerful advocate of reform is petroleum minister and **Nigeria National Petroleum Corporation (NNPC)** chair **Diezani Alison-Madueke**. Her position in the future administration is also precarious, but perhaps no more than usual.²⁰ Alison-Madueke is a cheerleader of the long overdue **Petroleum Industry Bill (PIB)**, but its provisions that restructure the NNPC into a commercial **National Oil Company** and **National Gas Company**, create effective upstream and downstream regulatory agencies, and increase the policy and appointment powers of the petroleum minister, have made her unpopular within government agencies. Alison-Madueke is also unpopular with international oil companies who want the fiscal terms of the bill diluted.²¹

A third reformer is agriculture minister **Akinwunmi Adesina** who successfully implemented the government’s **Agricultural Transformation Agenda** to reduce Nigeria’s dependence on imports and the

16 Source, diplomat, Lagos

17 Source, diplomat, Lagos

18 Source, diplomat, Lagos

19 Budget 2014 Speech

20 Source, diplomat, Lagos

21 Source, investment banker

Growth Enhancement Support Scheme to address corruption in the fertilizer sector. Investors have responded to Adesina's reforms, signing over \$4 billion of executed letters of investments in the sector since his appointment in 2010.²²

“Adesina is lined up for a job at a big multilateral agriculture agency. He's a bright young individual, very impressive. It wouldn't surprise me to see him back playing a big role in Nigerian politics, but the country could do with him sticking around in government.”²³

The government is seeking to reassure investors that the election will not be destabilising.

*“The government is being shrewd in its approach to reassuring investors. It's pointing to **Ghana** and its economic woes after long being Africa's 'success story' and saying 'look how quickly the risk picture changes.' Things will move quickly as long as the election is clear cut and everyone accepts the result.”²⁴*

1.4 Government proposes ambitious benchmark oil price

The government has proposed a benchmark price of \$78 per barrel of crude oil for the 2015 national budget.²⁵ This is \$0.50 higher than the 2014 benchmark despite the declining international price of crude oil. The projection was contained in the government's **Medium Term Expenditure Framework and Fiscal Strategy Paper** that it submitted to the senate on 15 October. This increase may be the result of increased spending pressures in an election year. In the strategy paper, the government proposes a budget of 4.817 trillion naira (N) (\$29.14 billion) compared to the N4.724 trillion (\$28.6 billion) 2014 budget. There is a proposed increase in recurrent expenditure from N2.40 (\$14.6 billion) in 2014 to N2.622 (\$15.86 billion). The paper claims that the **Excess Crude Account (ECA)** stands at \$4.09 billion.

The document also includes oil production projections for 2015 of 2.2782 million barrels per day (bpd), lower than the 2.3883 million bpd in 2014. The **Central Bank of Nigeria (CBN)** released data on 15 October showing that output averaged 1.9 million bpd in the second quarter of 2014, unchanged from the previous quarter, but below the government's output target for 2014 of 2.38 billion bpd.²⁶ The CBN also noted that gross oil receipts dropped 0.7% during the period to \$11 billion.²⁷ The government cited lower investment in the oil sector due to uncertainties around the PIB for the decline in production. The report also

²² Government statistics

²³ Source, diplomat, Lagos

²⁴ Source, diplomat, Lagos

²⁵ Vanguard, 15 Oct 2014.

²⁶ Business Day, 22 Oct 2014.

²⁷ Business Day, 22 Oct 2014.

noted the impact of **United States (US)** shale production, with the value of crude exports to the US falling 69% from \$38 billion in 2008 to \$12 billion in 2013. In October, oil has been trading well below \$90 per barrel on the international market.²⁸ The **Organization of the Petroleum Exporting Countries (OPEC)** is scheduled to meet on 27 November to discuss whether to cut its oil output to bolster prices. It is unlikely to do so amid reluctance from the **Gulf States** who are aware that falling prices are increasing pressure on shale exploration and production activities.²⁹

2 Implications

The ceasefire agreement is unlikely to presage an end to the Boko Haram insurgency. Boko Haram has little reason to agree to the surrender of arms that would end its operational capabilities. This is especially true before the February 2015 election when a campaign of violence would be especially embarrassing for Jonathan. Ending insecurity in the north-east will require a broad political and economic compact to address longstanding grievances.

Continued competition for the APC presidential platform will benefit Jonathan and the PDP. It will reduce the possibility of a coherent electoral challenge emerging before February. If Jonathan has had to sacrifice key reformers to unite the PDP behind him, it will undermine efforts to reform and liberalise the oil and gas and energy sectors. Government spending on fuel subsidies and inefficient refineries will remain high.

The proposed oil benchmark price is ambitious and the National Assembly will seek to raise it further when the government presents the 2014 budget in November. Low international oil prices will increase pressure on foreign reserves and the ECA. The CBN may respond by tightening monetary policy which would increase interest rates and constrain access to financing. If the price falls substantially, the CBN may respond by devaluing the naira but it has repeatedly said that it has no plans to do so. In the long term, the price of oil will probably recover on the back of continued demand in **China** and **India**.

²⁸ Platts, 17 Oct 2014.

²⁹ Source, oil sector analyst