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The Economic and Financial Crimes Commission (EFCC) arrests former national security advisor Sambo Dasuki in relation to allegedly corrupt arms procurement. The cabinet approves a six trillion naira (N) (\$30.03 billion) budget for 2016, projecting an \$11 billion deficit. The senate orders an investigation into the transfer of funds into the treasury single account (TSA). The Central Bank of Nigeria (CBN) lowers its benchmark interest rate from 13% to 11%.

Former national security advisor Sambo Dasuki arrested in corruption investigation

The **Department of State Service (DSS)** has made a number of arrests including former national security advisor **Sambo Dasuki** in its investigation of \$2 billion worth of allegedly corrupt arms deals. A perception that President **Muhammadu Buhari** (2015- present) is targeting political opponents may undermine the credibility of his anti-corruption efforts. The **Economic and Financial Crimes Commission (EFCC)** announced money-laundering charges against Dasuki on 14 December.¹ Buhari had ordered Dasuki's arrest on 18 November. Buhari's office accused Dasuki of allegedly misappropriating funds through corrupt contracts related to equipment procured to combat **Boko Haram**.² The military never received the equipment.³ A government committee investigating arms deals has reportedly discovered \$5.5 billion in unbudgeted spending.⁴ Arms procurement in Nigeria is notoriously corrupt, and Buhari has emphasised that poor equipment has resulted in military losses as he looks to build popular support for his anti-corruption campaign.⁵

*"To be candid, it is difficult to find the right words to describe this; we thought it was just about corruption without realising lives were being lost as a consequence. These people knew what was going on and kept quiet about it."*⁶

The arrest of Dasuki is symbolically important. Dasuki has strong links to northern Nigeria's Muslim political elite.⁷

*"Buhari investigating Dasuki, whose father was a prominent Northern ruler, indicates how seriously he is taking the fight against corruption."*⁸

Dasuki's first high profile public role was as aide-de-camp to former military head of state **Ibrahim Badamasi Babangida** (1985-1993). Dasuki played a role in the 1985 military coup that ousted Buhari, who was military head of state at the time.

*"I feel Dasuki is just the tip of the iceberg; the ongoing probes account for the delay with the cabinet. Buhari would have wanted to ensure there was a clean break between the new and the old [orders]."*⁹

¹ Vanguard, 14 Dec 2015.

² This Day, 18 Nov 2015.

³ This Day, 18 Nov 2015.

⁴ Bloomberg, 18 Nov 2015.

⁵ Source, corruption analyst, UK

⁶ Source, businessman, Lagos

⁷ Source, political analyst, Nigeria

⁸ Source, business consultant, Abuja

⁹ Source, rights activist, Abuja

The investigation is increasingly politicised. Former president **Goodluck Ebele Jonathan** (2010-2015) appointed Dasuki national security adviser in June 2012. The EFCC on 1 December also announced the arrest of former state finance minister **Bashir Yuguda**.¹⁰ The DSS also arrested former **Sokoto State** governor **Attahiru Bafarawa** and **Raymond Dokpesi**, chairman of **Daar Communications Plc**, the owner of **Lagos**-based television station **Africa Independent Television**.¹¹ Jonathan appointed both Dasuki and Yuguda, while Bafarawa and Dokpesi are political allies of Jonathan.¹² The investigation is likely to include Jonathan, with Dasuki saying that the former president approved all military expenditure.¹³

*"The Dasukigate scandal is, without a doubt, an indictment of the former president whose attempts to shake this off are ridiculous and irresponsible. The whole affair brings to mind the allegation by late **Owoeye Azazi** (Dasuki's predecessor in office) that members of the ruling **People's Democratic Party (PDP)** were in a way responsible for the rise of extremism in the north."¹⁴*

The investigation has resulted in questions about the president's unilateral control over spending.

"This situation calls to question the powers the presidency has when it comes to control and access of public funds. It's most definitely time for increased checks and balances/scrutiny within the system."¹⁵

Dasuki's arrest indicates that leadership uncertainty at the EFCC has not distracted its investigations. In November, Buhari denied EFCC chairman **Ibrahim Lamorde** a second term in office after his current one ends in February 2016, resulting in his immediate resignation.¹⁶ Lamorde's acting successor is **Ibrahim Mustafa Magu**, a former head of the EFCC's economic governance unit (EGU). As EGU head, Magu was prominent in the investigation into former **Delta State** governor **James Ibori** who in 2012 pleaded guilty in a **United Kingdom** court to money laundering and conspiracy to defraud.¹⁷

Cabinet approves \$30 billion 2016 budget

The cabinet on 7 November agreed a three-year expansionist economic plan including a six trillion naira (N) (\$30.03 billion) budget for 2016.¹⁸ The 2016 budget is N1.5 trillion (\$7.5 billion) larger than the 2015 budget which the government is likely to finance through increased borrowing, possibly from the international debt markets.¹⁹ Budget and planning minister **Udoma Udo Udoma** said the government would allocate 30% of the 2016 budget to capital expenditure.²⁰ Udoma did not say whether the government will retain the fuel subsidy through 2016.

Udoma said the government will fund this expenditure through an increase in non-oil revenues combined with increased government efficiency and decreased recurrent spending.²¹ Non-oil revenues currently stand at 4% of GDP compared to 8% in **Angola**.²² The 2016 budget forecasts total revenue of N3.8 trillion (\$19 billion), resulting in a projected deficit of N2.22 trillion (\$11 billion). The 2016 budget is predicated on a conservative oil price of \$38 a barrel compared to \$53 in the 2015

¹⁰ Vanguard, 1 Dec 2015.

¹¹ Vanguard, 1 Dec 2015.

¹² Vanguard, 1 Dec 2015.

¹³ Vanguard, 1 Dec 2015.

¹⁴ Source, political analyst, Lagos

¹⁵ Source, business consultant, Lagos

¹⁶ Premium Times, 9 Nov 2015.

¹⁷ Premium Times, 9 Nov 2015.

¹⁸ Vanguard, 7 Dec 2015.

¹⁹ Vanguard, 7 Dec 2015.

²⁰ Reuters, 7 Dec 2015.

²¹ Vanguard, 7 Dec 2015.

²² Bloomberg, 8 Dec 2015.

budget, and daily production of 2.2 million barrels compared to 2.28 million in the 2015 budget.²³ The exchange rate used is the **Central Bank of Nigeria (CBN)** official rate of N198 to 199 to the dollar.²⁴ Udoma said borrowing would not breach the legal limit of 3% of GDP.²⁵ Udoma did not provide further information about how the government will finance the budget. The current low interest rate may encourage the government to borrow from domestic markets.²⁶

As part of his expansionist stance, Buhari introduced a supplementary budget to the senate on 18 November.²⁷ The request suggests that the Buhari administration in the 2016 budget will attempt to increase spending to encourage economic growth. The supplementary budget stands at N465.64 billion (\$2.36 billion), approximately 10% of the original budget.²⁸ Of the additional expenditure, the government will spend N413 billion (\$2.7 billion) covering payments owed to fuel importers, highlighting the need to reform the subsidy system amid ongoing fuel shortages.²⁹ Buhari proposed to lower the oil price benchmark from the \$53 a barrel originally budgeted, to \$48.³⁰ The government forecasts that additional spending combined with lower than budgeted revenue will double the fiscal deficit from 1.1% of GDP to 2.2%.³¹ Buhari said the government will borrow an additional N1.6 trillion (\$8.03 billion).³²

Buhari on 8 December submitted the 2016-2018 **Medium Term Expenditure Framework (MTEF)** to the senate.³³ The MTEF is predicated on an average oil price of \$38 per barrel in 2016 – the same as the 2016 budget – and \$50 per barrel in 2018.³⁴ The MTEF says the government has the capacity to increase official production through new technologies and improved surveillance of pipelines, signaling that this is the government's priority rather than relying on a recovery in the international price. The gross domestic product (GDP) projections are equally conservative: 4.4% in 2016 and 5.1% in 2018.³⁵ Obtaining this rate of growth is dependent on the successful implementation of reforms in the agriculture and manufacturing sectors. The MTEF projects the average exchange rate at N197 to the dollar through to 2018.³⁶ This does not preclude a devaluation, as the CBN does not tend to use the MTEF to signal changes in monetary policy.

The MTEF explains the increase in government expenditure contained in the 2016 budget. The MTEF says this is partly due to social investment increasing to N500 billion (\$2.5 billion), which was a ruling **All Progressives Congress (APC)** campaign pledge in the March general election.³⁷ The MTEF provides for the government to play a larger role in financing Nigeria's long-term development. The government will establish an **Infrastructure Development Fund** to 'warehouse' funds for official capital projects.³⁸ The MTEF does not say how this will impact on the CBN's existing credit windows or the authority and remit of the **Nigeria Sovereign Investment Authority**.

The senate is increasing its scrutiny of government spending as part of government attempts to reduce wastage. The senate on 16 November ordered an investigation into the transfer of funds into the **treasury single account (TSA)**.³⁹ The investigation highlights the challenges facing Buhari in his

²³ Vanguard, 7 Dec 2015.

²⁴ Bloomberg, 8 Dec 2015.

²⁵ Vanguard, 7 Dec 2015.

²⁶ Bloomberg, 8 Dec 2015.

²⁷ Vanguard, 18 Nov 2015.

²⁸ Vanguard, 18 Nov 2015.

²⁹ Bloomberg, 19 Nov 2015.

³⁰ Bloomberg, 19 Nov 2015.

³¹ Bloomberg, 19 Nov 2015.

³² Bloomberg, 19 Nov 2015.

³³ Vanguard, 8 Dec 2015.

³⁴ Vanguard, 8 Dec 2015.

³⁵ Vanguard, 8 Dec 2015.

³⁶ Vanguard, 8 Dec 2015.

³⁷ Vanguard, 8 Dec 2015.

³⁸ Vanguard, 8 Dec 2015.

³⁹ Vanguard, 16 Nov 2015.

efforts to improve Nigeria's public financial management. In August, Buhari instructed all ministries and government departments and agencies to use the TSA rather than commercial bank accounts to improve the monitoring of government receipts and spending. The senate passed a motion on 11 November questioning the role of software agency **SystemSpecs'** electronic collection platform **Remita** in handling the transfer of funds into the TSA.⁴⁰ Remita charges 1% of all funds that pass through it.⁴¹ The senators have questioned whether this commission is appropriate when the government is looking to curb spending.⁴² The senators also questioned the constitutionality of using a private company rather than paying money directly to the federation account.⁴³ The senators called for the suspension of all payments to Remita until its finance and public accounts committees have completed investigations.

Central bank lowers interest rates

The CBN on 24 November lowered its benchmark interest rate from 13% to 11%.⁴⁴ The unexpected loosening reduces the possibility of an imminent devaluation and will increase investor concerns about monetary policy predictability at the CBN. Eight of the monetary policy committee voted in favour of the decrease, and two against.⁴⁵ The CBN hopes that encouraging borrowing at a lower cost will improve the domestic business environment. It was the first decrease in over six years, signaling the CBN's concerns about Nigeria's growth prospects. The **National Bureau of Statistics (NBS)** published data on 17 November showing that GDP growth stood at 2.8% year on year in the third quarter, compared to 6.2% in the corresponding period of 2014.⁴⁶ The manufacturing sector – key to diversifying economic growth from the oil sector – contracted for the third consecutive month.⁴⁷

The CBN also broadened its interest rate corridor to an asymmetric 200 basis points above the benchmark rate and 700 basis points below.⁴⁸ This means it will borrow from commercial lenders at 4% and lend to them at 13%, to encourage private sector lending.⁴⁹ Lower borrowing costs will ease the government financing of the 2016 budget.⁵⁰

The CBN additionally lowered the cash reserve ratio for commercial banks from 25% to 20% as it looks to inject liquidity in the banking sector.⁵¹ The CBN had originally lowered the cash reserve ratio from 31% to 25% in September. Commercial banks, however, used this reduction in September to invest in bonds rather than increase lending credit amid concerns about increasing non-performing loans.⁵² The CBN will only offer the 20% rate to banks that direct it towards high employment potential sectors including agriculture, infrastructure and industry.

The CBN left unchanged its currency trading restrictions and exchange rate policies. CBN data shows that foreign reserves decreased to \$29.9 billion on 30 November, their lowest level since July.⁵³ The decrease raises questions about the sustainability of the CBN's current strategy of defending the naira and will increase pressure on the CBN to devalue the naira. Foreign reserves have fallen 20% since June 2014, when the price of oil started its decline.⁵⁴ Investors are selling Nigerian bonds and stocks

⁴⁰ Vanguard, 16 Nov 2015.

⁴¹ Vanguard, 16 Nov 2015.

⁴² Vanguard, 16 Nov 2015.

⁴³ Vanguard, 16 Nov 2015.

⁴⁴ Nigeria Guardian, 25 Nov 2015.

⁴⁵ Nigeria Guardian, 25 Nov 2015.

⁴⁶ Bloomberg, 17 Nov 2015.

⁴⁷ Bloomberg, 17 Nov 2015.

⁴⁸ Nigeria Guardian, 25 Nov 2015.

⁴⁹ Reuters, 25 Nov 2015.

⁵⁰ Bloomberg, 30 Nov 2015.

⁵¹ Nigeria Guardian, 25 Nov 2015.

⁵² Reuters, 25 Nov 2015.

⁵³ Bloomberg, 30 Nov 2015.

⁵⁴ Bloomberg, 30 Nov 2015.

to avoid a future devaluation causing foreign currency losses on their holdings. Stocks reached a three year low on 30 November, having decreased 6.1% in November and 6.5% in October.⁵⁵

Implications

The arrest of Dasuki – a prominent ally of Jonathan and figurehead in the 1985 coup against Buhari – will add to perceptions that Buhari is using the EFCC to settle political scores. This will undermine the credibility of his corruption investigations and the possibility that the EFCC is able to build credible cases against suspected corrupt officials. Corruption and mismanagement have hampered the military's campaign against Boko Haram. Improving procurement practices will result in a strengthened military better able to address Nigeria's security challenges.

Buhari is looking to accelerate growth through increased government spending. The capital expenditure will help Nigeria bridge its infrastructure deficit. Additional government spending and lowered budgeted revenue due to low international oil prices will increase pressure on the 2015 and 2016 fiscal deficits. The budget is conservative with regard to oil prices, reducing the risk of the government resorting to additional supplementary budgets in 2016. Bearish analysts forecast that oil will reach an equilibrium price of \$55-\$60 in 2016. The government will look to improve revenue collection to bridge the deficit, and will focus on strengthening compliance.

Lower borrowing costs will benefit both the government and private sector. The government will likely borrow to cover the budget deficit. It will, however, increase pressure on the naira and the CBN's capacity to keep the official inter-bank rate stable.

⁵⁵ Reuters, 30 Nov 2015.

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