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President Muhammadu Buhari (2015-present) submits the Medium-Term Expenditure Framework and Fiscal Strategy Paper 2018-2020 (MTEF) to the senate. The MTEF sets out the 2018 budget, providing for a 15.5% increase in expenditure from N 7.44 trillion (\$20.67 billion) to N 8.6 billion (\$27.34 billion). The senate launches investigation into allegations of corruption against state-owned Nigerian National Petroleum Corp (NNPC) managing director Maikanti Baru. Buhari rejects allegations that he is unduly partial to his heartland of northern Nigeria after the World Bank says he asked it to prioritise the region.

Buhari submits Medium-Term Expenditure Framework

President **Muhammadu Buhari** (2015-present) submitted the **Medium-Term Expenditure Framework and Fiscal Strategy Paper 2018-2020 (MTEF)** to the senate on 19 October.¹ The MTEF is important as it provides the platform for the 2018 budget, which Buhari is expected to soon submit to the national assembly.² According to the MTEF, the 2018 budget will provide the government with record expenditure of 8.6 billion naira (N) (\$27.34 billion), a 15.5% increase from N 7.44 trillion (\$20.67 billion) in the current budget.³ The government will spend N 2.6 trillion (\$7.22 billion), amounting to 30% of total expenditure, on capital investment, and N 2.12 trillion (\$5.60 billion) on public sector wages.⁴ The MTEF does not provide a breakdown of the distribution of budgetary allocations to ministries, departments and agencies.⁵ The 2018 budget is predicated on government revenue of N 5.65 trillion (\$15.70 billion), an 11% increase on the 2017 estimate of N 5.08 trillion (\$14.11 billion).⁶ Both the increase in expenditure and revenue are below the annual increase in inflation, meaning that the budget is, in fact, not expansionary in real terms.⁷ The oil sector will provide 43% of government revenue.⁸ The government expects to increase oil production to 2.3 million barrels per day (bpd) compared to the 2017 target of 2.2 million bpd, and actual production of 1.9 million bpd in July.⁹ The government predicates the 2018 budget on an oil price of \$53 per barrel, compared to \$44.5 per barrel in the 2017 budget, and an average price of \$58 per barrel in September.¹⁰ The government expects inflation to average 12.42% in 2018.¹¹

The fiscal deficit will therefore stand at N 3.52 trillion (\$9.79 billion).¹² The fiscal deficit will reach 1.93% of gross domestic product (GDP), within the 3% parameter set by the **Fiscal Responsibility Act 2007**.¹³ The government also acknowledges that public debt has increased significantly in recent

¹ Vanguard, 19 Oct 2017.

² Vanguard, 19 Oct 2017.

³ Vanguard, 21 Oct 2017.

⁴ Reuters, 19 Oct 2017.

⁵ Source, political analyst, Nigeria

⁶ Reuters, 19 Oct 2017.

⁷ Reuters, 19 Oct 2017.

⁸ Vanguard, 21 Oct 2017.

⁹ Reuters, 19 Oct 2017.

¹⁰ Vanguard, 21 Oct 2017.

¹¹ Vanguard, 19 Oct 2017.

¹² Reuters, 19 Oct 2017.

¹³ Vanguard, 21 Oct 2017.

years but that it remains within the limits of the Fiscal Responsibility Act 2007.¹⁴ According to the MTEF, Nigeria's total debt stock reached N 19.16 trillion (\$62.9 billion) as of the first quarter 2017.¹⁵ Debt service spending will reach N 2.03 trillion (\$5.64 billion).¹⁶

The government will prioritise international borrowing over domestic to bridge the fiscal deficit.¹⁷ Under the MTEF, the government expects foreign financing as a proportion of total borrowing to increase from 28% to 72% in 2020.¹⁸ Buhari, on 10 October, requested that the Senate approve \$5.5 billion in international borrowing.¹⁹

*"The finance minister is making efforts to substitute domestic debt with foreign debt in a move to cut down on debt servicing cost. What this means is that the government intends to borrow dollars to replace existing naira debt. Doing this, the government considers the interest rate on external borrowing cheaper than the one on local debt. Therefore, the government plans to refinance about \$7 trillion maturing Treasury bills, which currently carry around 15% interest rate with its equivalent in foreign currency loan that will attract around 7-8% interest, thereby cutting down on cost of servicing. Ordinarily, this is good thinking considering the huge cost the government will be saving on debt service as a result of the reduction in interest rate payment. However, beneath the surface is our dependence largely on crude oil exports for foreign currency earnings with its attendant risk. A sudden shock in the global prices of the commodity could spell doom for the government's calculation."*²⁰

The government hopes to raise \$3 billion in Eurobonds to refinance maturing domestic debts, and \$2.5 billion on the international capital markets to finance the current budget.²¹ The latter is needed to bridge a revenue deficit from low international oil prices, and worse-than-expected efforts at economic diversification to reduce dependence on the oil sector.²² There is investor concern about this international currency-denominated borrowing strategy.

*"If you borrow in foreign currency and use local currency to buy foreign currency to pay back, then something is wrong with the logic. I don't know how they have done their numbers, but it is neither here nor there. What concerns me most is the quantum of the debt and the ability and capacity to service those debts."*²³

Nigeria's borrowing strategy is becoming politicised.²⁴ The opposition **People's Democratic Party (PDP)** called on parliament to reject Buhari's request on 17 October.²⁵ The PDP cited **World Bank** concerns about the sustainability of the government's debt burden.²⁶ This was in reference to World Bank senior economist **Gloria Joseph-Raji**, who, the day before, had contradicted the finance minister, **Kemi Adeosun**, about the sustainability of the government's debt burden.²⁷ At the conclusion of the World Bank/ **International Monetary Fund (IMF)** fall meetings, Adeosun said that Nigeria will continue its short-term expansionist borrowing strategy to deliver critical infrastructure.²⁸ Joseph-Raji however, said the cost of borrowing and interest payments are not

¹⁴ Vanguard, 21 Oct 2017.

¹⁵ Reuters, 19 Oct 2017.

¹⁶ Vanguard, 21 Oct 2017.

¹⁷ Vanguard, 21 Oct 2017.

¹⁸ Vanguard, 21 Oct 2017.

¹⁹ Reuters, 10 Oct 2017.

²⁰ Source, financial journalist, Lagos

²¹ Reuters, 10 Oct 2017.

²² Source, political analyst, Nigeria

²³ Source, banker, Lagos

²⁴ Source, political analyst, Nigeria

²⁵ Punch, 17 Oct 2017.

²⁶ Punch, 17 Oct 2017.

²⁷ Punch, 17 Oct 2017.

²⁸ Punch, 17 Oct 2017.

sustainable due to depressed government revenues.²⁹ Joseph-Raji said the federal government's debt-to-revenue ratio had increased from 35% in 2015 to 60% in 2016.³⁰ According to Joseph-Raji,

*"Nigeria has a decent debt-to-GDP ratio, currently about 19%. It is the debt to revenue ratio that is of concern and that rate is a sustainability issue. That is of concern to us and that is also of concern to the government. That reflects the substantially lower revenues that Nigeria recorded last year. Even among the state governments, we know that a lot of state governments are servicing a lot of debts from their federation account allocation. So, there is really going to be a sustainability issue emerging."*³¹

Sources within the Nigerian business community support Joseph-Raji's analysis, and warn that debt poses a threat to the government's capital expenditure aspirations.

*"What one needs to pay attention to is the debt service amount versus the capital expenditure of the budget. The debt servicing and the ability to service the debts are the key areas of concern."*³²

The business community would welcome efforts by the government to revise its debt management.

*"We need to move away from debts for recurrent expenditure to debts for capital expenditure, which is project-specific. The debt level itself is not dangerous, but the debt service level, the debt burden, is very high. We are using 66% of our independent revenue to pay interest. So, interest rates must come down substantially, or else we are in trouble."*³³

This is especially the case while growth remains low. The MTEF revises downwards its growth forecast for 2017 from 2.19% to 1.5%.³⁴ The government expects growth to reach 3.5% in 2018.³⁵

*"My big worry is that the impact of the borrowing may not be reflected in output, in the sense that if we get into a double whammy where our debt balloons, but we don't have the necessary stimulation of production, especially when our consumption is very external in its orientation, we need be very careful to watch all of those."*³⁶

The day after the PDP's call for parliament to reject the request, the House of Representatives passed a motion alleging that the state-owned **Transmission Co of Nigeria**, the operator of the national electricity grid, had secured \$1.5 billion from the World Bank and other international financial institutions in breach of **Nigeria's** public procurement laws.³⁷ It is not just at federal level that there is concern about public financial management:

*"Corruption and mismanagement of public funds at state level have reached endemic levels with most states being heavily indebted and unable to cover their basic operating costs. Recent measures introduced by the central government to rein states in by curtailing their foreign borrowing and insisting on a greater degree of fiscal discipline at subnational level are definitely steps in the right direction. The federal government cannot continue to bail states out; it's simply not sustainable."*³⁸

The government is unlikely to meet its revenue targets for 2018, with the oil production target particularly ambitious. The **Organization of the Petroleum Exporting Countries (OPEC)** is likely to maintain pressure on producers to limit output in the first half of the year. Militancy in the **Niger Delta** is also likely to increase ahead of the February 2019 presidential and parliamentary election. As

²⁹ Punch, 17 Oct 2017.

³⁰ Punch, 17 Oct 2017.

³¹ Punch, 17 Oct 2017.

³² Source, head of think tank, Lagos

³³ Source, financial expert, Lagos

³⁴ Vanguard, 19 Oct 2017.

³⁵ Vanguard, 19 Oct 2017.

³⁶ Source, political economist, Lagos

³⁷ This Day, 18 Oct 2017.

³⁸ Source, public policy analyst, Lagos

is most often the case in Nigeria, the government will cut capital expenditure if faced with revenue shortfalls. Nigeria's external debt obligations remain relatively light. However, Nigeria's continued reliance on borrowing is indicative of related negative economic trends: the failure to deliver sustained and broad growth, and the failure to diversify the economy.

Senate investigates NNPC corruption allegations

The senate initiated a committee to investigate allegations of corruption against state-owned **Nigerian National Petroleum Corp (NNPC)** managing director **Maikanti Baru** on 4 October.³⁹ The alleged corruption threatens to undermine Buhari's anti-corruption credentials, which were central to his winning the 2015 presidential election. The investigation follows a letter by state petroleum minister **Emmanuel Ibe Kachikwu** to Buhari on 30 August alleging a lack of transparency around Baru's conduct.⁴⁰ Unknown parties leaked the Kachikwu letter on 3 October. In the letter Kachikwu accused Baru of circumventing both himself and the NNPC board of directors in awarding \$25 billion worth of contracts, including crude oil term contracts, since he assumed office in July 2016.⁴¹ The NNPC issued a statement on 9 October, denying any wrongdoing and claiming that "*due process has been followed in the various activities*"⁴² as Baru discussed the relevant contracts with the NNPC tenders board as required.

The senate will also investigate Baru's conduct in relation to **NNPC Trading Ltd's Panama-based** crude oil trading subsidiary, **Duke Oil Co Inc**.⁴³ Baru allegedly allocated almost all oil products to Duke Oil, at the expense of its competitors.⁴⁴ The senate motion that called for the investigation notes that Duke Oil is the sole importer of automated gas oil (AGO) to NNPC subsidiary **Pipelines and Product Marketing Co Ltd (PPMC)** thereby enjoying an undue advantage over private sector challengers.⁴⁵ The motion claims that Duke Oil's privileged position and allegedly corrupt practices have turned the company into a "*money-spinning outfit*".⁴⁶

The investigation may become politicised. Opposition **Peoples Democratic Party (PDP)** official **Prince Dayo Adeyeye** called on the senate to expedite the investigation into Baru, which it said was a test of Buhari's willingness to investigate allegations against someone the PDP described as one of Buhari's "*henchmen*"⁴⁷ and "*one of his own*".⁴⁸ The PDP accuses Buhari of being more willing to investigate allegations against former members of the former President **Goodluck Jonathan** (2010-2015) administration than against serving officials.⁴⁹ The non-governmental organisation (NGO) **Socio-Economic Rights and Accountability Project** called on Buhari to refer the allegations to the **Economic and Financial Crimes Commission** and the **Independent Corrupt Practices and Other Related Offences Commission** to demonstrate that he is treating Baru in the same manner that he has treated Jonathan-era officials.⁵⁰ Senator **Aliyu Wamako** will chair the senate committee. It is unclear when the committee will complete its investigations and report its findings.

Investigations into mismanagement at NNPC have been numerous under previous administrations. They rarely, if ever, result in meaningful change. They become politicised and face numerous vested interests. **United Kingdom (UK)** authorities will imminently announce whether the former petroleum resources minister, **Diezani Alison-Madueke**, will face corruption charges. If charges are brought, they will draw further attention to the scale of the challenge that reform of the NNPC faces.

³⁹ Vanguard, 5 Oct 2017.

⁴⁰ Reuters, 5 Oct 2017.

⁴¹ Vanguard, 5 Oct 2017.

⁴² NNPC statement, 9 Oct 2017.

⁴³ Premium Times, 4 Oct 2017.

⁴⁴ Vanguard, 5 Oct 2017.

⁴⁵ Premium Times, 4 Oct 2017.

⁴⁶ Premium Times, 4 Oct 2017.

⁴⁷ Vanguard, 5 Oct 2017.

⁴⁸ Vanguard, 5 Oct 2017.

⁴⁹ Vanguard, 5 Oct 2017.

⁵⁰ Vanguard, 5 Oct 2017.

Buhari rejects northern Nigeria partiality allegations

Buhari rejected allegations on 13 October that he is unduly partial to his heartland of northern Nigeria.⁵¹ Buhari's perceived northern partiality will become increasingly contentious if he decides not to stand in the 2019 presidential election and the ruling **All Progressives Congress (APC)** must choose whether a northerner or southerner should replace him. World Bank president **Jim Yong Kim** told journalists on 12 October that Buhari had requested the World Bank to focus on the region during their first meeting after Buhari assumed office, in July 2015.⁵² According to Kim, the World Bank has broadly complied with Buhari's request.⁵³ International financial institutions are concerned about the economic and humanitarian impact of the **Boko Haram** insurgency on the economics of the region, especially in depressing the agricultural sector.⁵⁴ The World Bank, **European Union**, and federal government's **Recovery and Peace Building Assessment Report** in 2016 estimated that Boko Haram had destroyed \$9 billion worth of public and private infrastructure in six northeastern states.⁵⁵ The World Bank's focus on northern Nigeria is therefore in line with demand. However, domestic critics have interpreted it as Buhari favouring the north at the expense of southern Nigeria and the middle belt.⁵⁶ **Ekiti State** governor, **Ayo Fayose**, a frequent opponent of Buhari, is the most prominent critic, calling Buhari, "an ethnic champion, a religious bigot and the number one promoter of disunity in Nigeria".⁵⁷ Critics of Buhari have resurrected previous comments that he made in July 2015 that those regions that voted for him would receive beneficial treatment under his administration. Buhari said at the time,

*"The constituents, for example, [who] gave me 97% [of the vote] cannot in all honesty be treated on some issues with constituencies that gave me 5%. I think these are political realities."*⁵⁸

The scale of the economic and humanitarian challenges that northern Nigeria faces means it is entirely appropriate for the World Bank to concentrate its financing on the region. The speed with which Buhari critics chose to interpret the World Bank's strategy as evidence of favoritism shows the role that regionalism will play in Nigerian politics ahead of the February 2019 election.

Planner

Feb 2019 **(Nigeria)** *Punch*. Presidential and parliamentary election;

Apr 2018 **(Nigeria)** *This Day*. **Nigerian National Petroleum Corporation (NNPC)** target to clear its cash call debts with joint venture partners;

Q1 2018 **(Nigeria)** *This Day*. Construction of fertiliser plant in **Dangote Refinery and Petrochemical Complex** to finish;

Jan 2018 **(Nigeria)** *Punch*. **National Identity Management Commission** deadline for new identity cards;

Dec 2017 **Abuja (Nigeria)** *Daily Trust*. 2016 audit of **Nigerian National Petroleum Corp (NNPC)** to be completed;

1 Dec 2017 **Abuja (Nigeria)** *This Day*. End of second phase of **Presidential Enabling Business Environment Council's (PEBEC) National Action Plan**;

18 Nov 2017 **Anambra (Nigeria)** *Premium Times*. Governorship election;

⁵¹ Daily Post, 13 Nov 2017.

⁵² Premium Times, 13 Nov 2017.

⁵³ Premium Times, 13 Nov 2017.

⁵⁴ Source, western diplomat, Lagos

⁵⁵ Premium Times, 14 Oct 2017.

⁵⁶ Daily Post, 13 Oct 2017.

⁵⁷ Premium Times, 14 Oct 2017.

⁵⁸ Premium Times, 13 Oct 2017.

4 Nov 2017 **Kwara (Nigeria)** *Daily Post*. Local elections;

3 - 12 Nov 2017 **Lagos (Nigeria)** *Press release*. **Lagos International Trade Fair**;

Nov 2017 **Abuja (Nigeria)** *Daily Post*. Auditor general scheduled to submit audit of **Treasury Single Account (TSA)** to house of representatives;

3 Nov 2017 **Abuja (Nigeria)** *This Day*. End of government action plan to reform ministries, departments and agencies to improve business environment;

Chronology

30 Oct 2017 **Abuja (Nigeria)** *Premium Times*. President **Muhammadu Buhari** dismisses the secretary to the government of the federation, **Babachir Lawal**, following a corruption investigation;

30 Oct 2017 **Abuja (Nigeria)** *Reuters*. **African Development Bank (AfDB)** vice president, **Amadou Hott**, says the AfDB had cancelled a \$400m budgetary loan to **Nigeria**, but will channel its funding to specific projects;

29 Oct 2017 **Lagos (Nigeria)** *Punch*. The **Central Bank of Nigeria (CBN)** says external reserves have reached \$34 billion, easing pressure on the naira;

26 Oct 2017 **Abuja (Nigeria)** *Punch*. The **Federal Executive Council (FEC)** approves **2018 Appropriation Bill**;

24 Oct 2017 **Abuja (Nigeria)** *This Day*. The **Nigerian National Petroleum Corp (NNPC)** records N 3.1 trillion (\$8.6 billion) between 2012 and 2016;

20 Oct 2017 **(Nigeria)** *Reuters*. **Transferwise** resumes Nigeria money transfers after 17-month break due to increased confidence in currency;

19 Oct 2017 **Niger Delta (Nigeria)** *Punch*. **Shell Petroleum Development Co of Nigeria Ltd** lifts force majeure on **Bonny Light** crude;

18 Oct 2017 **Abuja (Nigeria)** *This Day*. Buhari submits **2018-2020 Medium Term Expenditure Framework (MTEF)** and **Fiscal Strategy Paper (FSP)** for parliamentary approval;

18 Oct 2017 **Abuja (Nigeria)** *Reuters*. **Securities and Exchange Commission** suspends **Oando** shares citing concerns about alleged insider trading;

18 Oct 2017 **Abuja (Nigeria)** *The Nation*. The **World Bank** provides \$150m loan to government for **Mindiver Project** in mining sector;

16 Oct 2017 **Abuja (Nigeria)** *Punch*. The World Bank contradicts finance minister **Kemi Adeosun** about sustainability of government's debt obligations;

13 Oct 2017 **Abuja (Nigeria)** *Daily Post*. President **Muhammadu Buhari** denies northern bias after World Bank says he asked it to prioritise region;

13 Oct 2017 **Abuja (Nigeria)** *Punch*. The NNPC's trading deficit increased 129% in July to \$33.5m due to oil refinery losses;

12 Oct 2017 **Abuja (Nigeria)** *Punch*. Buhari reappoints **Uche Orji** managing director of the **Nigeria Sovereign Investment Authority**;

11 Oct 2017 **Abuja (Nigeria)** *This Day*. The **Association of Nigerian Electricity Distributors** says electricity distribution companies are considering force majeure as non-cost reflective tariffs have cost them \$1.3 billion;

11 Oct 2017 **Cross River (Nigeria)** *Punch*. The state government signs agreement with

Siemens for development of 700MW power plant;

10 Oct 2017 **Abuja (Nigeria)** *Punch*. Buhari seeks national assembly approval to raise \$5.5 billion in external loans, including \$2.5 billion Eurobond;

10 Oct 2017 **(Nigeria)** *This Day*. The **International Monetary Fund (IMF)** projects that the economy will grow 1.9% in 2018, but warns about headwinds from segmented foreign exchange market;

8 Oct 2017 **(Nigeria)** *Punch*. Buhari appoints **Aishah Ahmad** as **Central Bank of Nigeria** deputy governor;

6 Oct 2017 **(Nigeria)** *Vanguard*. Buhari meets the state petroleum minister, **Emmanuel Ibe Kachikwu**, to discuss NNPC corruption allegations;