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Authorities arrest prominent Shia cleric Ibrahim al-Zakzaky, leader of the Islamic Movement in Nigeria (IMN), on charges of public disorder. The arrest raises concerns that the IMN could become a second Boko Haram style insurgency in the north of the country. President Muhammadu Buhari (2015- present) introduces the 2016 budget which increases capital expenditure by 20% in the hope of encouraging economic growth to compensate for low oil revenues. Mining minister Kayode Fayemi announces a review of all mining licences to reform the unproductive sector. Fayemi hopes to exploit Nigeria's 2.5 billion tonne coal reserves to fuel power generation and boost growth. The Petroleum Products Pricing Regulatory Agency (PPPRA) approves petrol prices under a new pricing structure where the government is in effect no longer subsidising fuel. This will pave the way for the formal removal of fuel subsidies.

Prominent Shia cleric Ibrahim al-Zakzaky faces criminal charges

Nigerian authorities have confirmed that detained prominent Shia Muslim cleric **Ibrahim al-Zakzaky**, leader of the **Islamic Movement in Nigeria (IMN)**, faces charges of inciting public disorder.¹ There is concern that the violent clashes that led to the detention of Ibrahim al-Zakzaky may result in another Islamist insurgency in northern Nigeria, and that the country may be on “*the road to another Boko Haram*”.² On 12 December, a military motorcade carrying chief of army staff Lieutenant General **Tukur Buratai** clashed with an IMN procession in **Zaria (Kaduna State)** after attempting to cross a street that the IMN had blockaded.³

“The Nigerian Army said the blockade was an assassination attempt on the life of the head of the army. In a swift response, the army dispatched soldiers who raided the area killing a number of the IMN followers.”⁴

Estimates of casualties range from 60 to several hundred people dead.⁵ The dead reportedly include three of Zakzaky's sons.⁶

The IMN is a longstanding critic of perceived government corruption and mismanagement. Zakzaky founded the IMN in the early 1980s after studying Shia theology in **Iran**.⁷

*“Zakzaky is highly outspoken, intelligent and provocative leader. He has been publically critical of the Nigerian government, **Israel**, participation in the political process, and intervention of **Western powers in African and Middle Eastern affairs.**”⁸*

The IMN does not limit its criticism to the Nigerian government.

¹ This Day, 16 Dec 2015.

² Source, journalist, Nigeria

³ This Day, 16 Dec 2015.

⁴ Source, investigator, Nigeria

⁵ This Day, 16 Dec 2015.

⁶ This Day, 16 Dec 2015.

⁷ Vanguard, 10 Dec 2015.

⁸ Source, religious analyst, UK

“It operates both as an Islamic education and social organisation and as a protest movement and its political marches frequently turn violent.”⁹

The Nigerian government has accused the IMN of having links to the Iranian intelligence services.

*“Analysis is divided over whether this movement represents a significant threat, and over what ties, if any, it might have with [Lebanon-based political and paramilitary Shia group] **Hezbollah**. Hezbollah is increasingly active in **West Africa**, working through the Lebanese diaspora communities and their business networks. Some analysts claim that Hezbollah is actively involved with orchestrating the drugs networks, while others claim that they simply profit from the involvement of Lebanese nationals with it.”¹⁰*

The IMN operates its own infrastructure in order to provide for its followers without relying on government services. It operates many Islamic schools as well as a cultural centre, a newspaper, an internet radio station and a TV channel.¹¹ It broadcasts and provides Islamic literature translated into the **Hausa** language.

The exact size of IMN is unknown. It has branches in most Nigerian states but is concentrated in Kaduna. The IMN claims “hundreds of thousands” of people attend its events, however footage of the events shows significantly fewer people in attendance.¹²

Sources in Nigeria note a parallel between the recent violence involving the IMN, and the violent 2009 crackdown on Boko Haram and the arrest of leader **Mohammed Yusuf** that triggered the on-going Boko Haram insurgency.¹³

*“In the initial phase Boko Haram was a fringe group operating in parts of **Borno State**. Its armed activities were limited and low key, and restricted to the occasional attack on a police station or an office linked to the governor... [then Borno State governor] **Ali Modu Sheriff** engineered an army crackdown. He hoped this would rid him of Boko Haram and the potential political difficulties he might face if his role in its origins was more commonly known. Yusuf and several hundred people were killed, but by no means all Boko Haram sympathisers. Boko Haram was not destroyed, it went underground and re-emerged in a matter of months.”¹⁴*

There is concern that the IMN incident could escalate in a similar manner.

“There is a real fear that a Boko Haram-type insurrection might be in the offing as Muslim leaders all over the country have been expressing their anger over what they term a ‘massacre of Muslims’ by the Nigerian army.”¹⁵

A Shia insurgency could spread across northern Nigeria. The increasing influence of the IMN has coincided with the growth of a non-Lebanese Shia community in the northern states of **Kano**, Kaduna and **Sokoto States**. International observers place the Shia community at between four and ten million people.¹⁶

“The IMN has followers in all the 19 northern states and the criticisms of the Muslim community since the December 12 clashes have been instilling fears within the Nigerian national community that something bloodier than the Boko Haram insurgency might just be in the works. Only an uneasy peace reigns in the north of the country now.”¹⁷

⁹ Source, religious analyst, UK

¹⁰ Source, religious analyst, UK

¹¹ BBC, 8 May 2012.

¹² BBC, 8 May 2012.

¹³ Source, investigator, Nigeria

¹⁴ Source, individual close to former national security advisor **Andrew Owoye Azazi**

¹⁵ Source, investigator, Nigeria

¹⁶ Pew Forum, 2015

¹⁷ Source, newspaper columnist, Nigeria

Buhari introduces 2016 budget

President **Muhammadu Buhari** (2015- present) introduced the 2016 budget to parliament on 22 December.¹⁸ Buhari hopes that the expansionist budget will compensate for the decrease in oil revenues. Government expenditure will reach 6.08 trillion naira (N) (\$30.8 billion), approximately 20% higher than the 2015 budget.¹⁹ Capital expenditure will account for N1.8 trillion (\$9.4 billion), approximately 30% of the total budget compared to 15% in 2015.²⁰ Of this, the government will spend N433 billion (\$2.2 billion) on housing and power generation.²¹

*"The budget is very ambitious but at the same time we need a lot of capital investment in infrastructure. If there is honesty of purpose I don't see any reason to worry. For a long time funds earmarked for certain projects were not expended for such purposes and that is why there has been decay in our infrastructure. So we need a bold step to get ourselves out of the woods."*²²

The 2016-2018 **Medium Term Expenditure Framework (MTEF)** (see *ARC Briefing Nigeria December 2015*) details a number of policy changes that will reduce expenditure. The allocation for the presidential amnesty in the **Niger Delta** is halved to N20 billion (\$103m) in 2016 and then removed entirely.²³ The MTEF also omits the **Subsidy Reinvestment and Empowerment Programme (SURE-P)**, which channels fuel subsidy savings into social programmes. Junior state petroleum minister **Ibe Kachikwu** on 14 December told the joint national assembly finance and planning committee that the government will begin a gradual withdrawal of the fuel subsidy in 2016 (see below).²⁴

The 2016 budget is predicated on 4.4% forecast growth, and an oil benchmark of \$38 per barrel. It is notable that oil is currently trading beneath the benchmark.

*"When you benchmark the budget at a \$38 oil price and it is already selling below that even before the budget is approved, you could say the budget was brought in dead. The budget already includes the debts we are going to take this year so when the benchmark drops we either cut expenditure or take on more debt to meet obligations. It's unclear how we can attract the needed investment into the economy with the fate of the naira unresolved."*²⁵

Some analysts forecast that oil will reach an equilibrium price of \$55-\$60 in 2016.

*"One can say the expenditure is too much. But notwithstanding, in my analysis and forecast, yes the price of crude oil is falling down but it is likely to rise by the middle of the year. Nevertheless, there is the need for a prudent spending and we need to prioritise sectors that will bring back something to the economy rather than waste funds."*²⁶

Overall government revenue will reach N3.9 trillion (\$19.6 billion), of which oil will only account for N820 billion (\$4.1 billion).²⁷ Independent federal government revenue (revenue not derived from federation account) will increase from N490 billion (\$2.5 billion) in 2015 to N1.51 trillion (\$7.6 billion).²⁸ The increase is the result of expected improvements in government efficiency and fiscal management under the **Treasury Single Account**. According to the **Fiscal Responsibility Act 2007**, federal ministries, departments and agencies return operation surpluses to the federal government.

¹⁸ Vanguard, 22 Dec 2015.

¹⁹ Vanguard, 22 Dec 2015.

²⁰ Vanguard, 22 Dec 2015.

²¹ Vanguard, 22 Dec 2015.

²² Source, banker, Lagos

²³ Vanguard, 8 Dec 2015.

²⁴ This Day, 14 Dec 2015.

²⁵ Source, newspaper columnist, Lagos

²⁶ Source, academic, Kaduna

²⁷ Vanguard, 22 Dec 2015.

²⁸ Vanguard, 22 Dec 2015.

The budget forecasts that the government's effectiveness unit will reduce personnel costs 8% and overheads 7% in 2016.²⁹

Buhari committed to continuing predecessor **Goodluck Jonathan's** (2010-2015) policy of economic diversification, promoting non-oil sectors including agriculture and mining (see below). The deficit will more than double from N1.04 trillion (\$5.2 billion) in 2015 to N 2.2 trillion (\$11 billion), 2.16% of GDP, in 2016.³⁰

*"The ambitious 2016 budget proposal aims to up capital expenditure from 16% last year to 30%. Drastic reduction in recurrent expenditure, significant increase in capital, as well as acceleration of infrastructural development and inclusive growth are critical to the economic diversification aspirations of the government."*³¹

The only substantial difference between the budget speech and the MTEF was the level of borrowing. According to the budget, domestic borrowing will reach N984 billion (\$4.9 billion) and international borrowing N900 billion (\$4.5 billion) to finance the deficit.³² This compares to N1.2 trillion (\$6.04 billion) domestic and N640 billion (\$3.2 billion) international in the MTEF.³³ Buhari did not explain the revision, but the government might be concerned about the market appetite for government debt. The government in 2016 will spend N1.4 trillion (\$7 billion) on debt servicing. Finance minister **Kemi Adeosun** on 16 December said that the government is considering issuing a Eurobond, Nigeria's first since 2013, but did not speculate on its size or maturity.³⁴

Buhari said the **Central Bank of Nigeria (CBN)** would demonstrate "some flexibility"³⁵ in its exchange rate regime in a signal that a currency devaluation is possible.³⁶ However, the budget itself contains no suggestion of foreign exchange reform.

The national assembly has started its analysis of the budget with substantial changes possible. The final document is not expected for weeks.³⁷

Government launches review of mining licences

Mining minister **Kayode Fayemi** announced on 22 December that his ministry will review all mining licences as part of reform of an unproductive sector.³⁸ The government wants to reduce its dependency on oil production, and increase mining output which currently accounts for only 0.34% of GDP.³⁹ Fayemi said that the mines ministry would finish the review of existing licences by March.⁴⁰ The house of representatives on 15 December passed a motion saying that greater exploitation of Nigeria's coal reserves could diversify the economy and create jobs.⁴¹ The motion estimates Nigeria's coal deposits at 2.5 billion tonnes, the 20th largest reserves globally.⁴² The motion calls on the government to increase investment in the coal value chain to increase the use of coal for electricity generation. A lack of adequate infrastructure, corruption and weak regulation have deterred meaningful international investment in the mining sector.⁴³ The **2015 United Nations Climate Change Conference in Paris (France)** in December reached agreement to reduce global greenhouse

²⁹ Vanguard, 22 Dec 2015.

³⁰ Vanguard, 22 Dec 2015.

³¹ Source, lawyer, Lagos

³² Vanguard, 22 Dec 2015.

³³ Vanguard, 22 Dec 2015.

³⁴ Bloomberg, 16 Dec 2015.

³⁵ Vanguard, 22 Dec 2015.

³⁶ Bloomberg, 16 Dec 2015.

³⁷ Source, senator, Abuja

³⁸ Reuters, 22 Dec 2015.

³⁹ Reuters, 22 Dec 2015.

⁴⁰ Reuters, 22 Dec 2015.

⁴¹ Today, 15 Dec 2015.

⁴² Today, 15 Dec 2015.

⁴³ Reuters, 22 Dec 2015.

emissions, which will further discourage international investment in the coal sector. However, the Paris agreement may fail to deter Nigeria.

*"The Nigeria proposal highlights all the inadequacies of the Paris agreement. The targets are non-binding, and African governments are saying 'well that's great, but who's going to pay for it, and for us to overcome our electricity shortages? Until there's any sort of financing mechanism, we'll be developing our power sector as we see fit'."*⁴⁴

Unsubsidised petrol prices come into operation

The **Petroleum Products Pricing Regulatory Agency (PPPRA)** on 29 December approved petrol prices for the first time under the new pricing structure.⁴⁵ The government says it is in effect no longer subsidising fuel as the PPPRA price is the same as the market price, and that lower petrol prices will pave the way for the formal removal of fuel subsidies. Under the new system, the PPPRA approved two prices, one for **Nigerian National Petroleum Corp (NNPC)** retail outlets and another price for private companies. The NNPC price is N86 (0.43) per litre and the private price N86.5 (\$0.44) per litre.⁴⁶ The previous price was N87 (\$0.44).⁴⁷ There are conflicting reports about the level of compliance amongst private operators for the new prices.⁴⁸ The new price mechanism follows several months of petrol shortages that disrupted business operations. The cause was government back payments owed to fuel importers. Finance minister Adeosun on 9 December confirmed that the government had paid \$2.1 billion to settle outstanding subsidy obligations.⁴⁹

Under the new system, the government will review the prices on a quarterly basis. The prices came into place on 1 January and will remain until 31 March. Junior petroleum minister **Emmanuel Kachikwu** confirmed in December that the government plans to permanently remove fuel subsidies due to widespread corruption.⁵⁰ The **Nigeria Labour Congress (NLC)** has said that it will oppose all attempts to lift the subsidies.⁵¹ When the PPPRA attempted to cut fuel subsidies in January 2012, the decision triggered widespread protests and labour unrest. Public objections forced former president Jonathan to reinstate it, albeit with a 50% increase in prices.

Implications

Zakzaky's arrest is likely to increase sectarian tensions in Nigeria. Nevertheless, there is uncertainty about the intentions and capacity of IMN and its alleged links to Hezbollah. If the government mishandles the fallout from the violence and any judicial proceedings against Zakzaky, the economic grievances in the north that fostered the emergence of Boko Haram insurgency may encourage a Shia insurgency to take root. Nigeria's diplomatic ties with Iran are likely to suffer if Zakzaky faces trial.

Additional government spending and lowered budgeted revenue due to low international oil prices will increase pressure on the 2016 fiscal deficit. The government will look to improve revenue collection, more aggressive regulatory compliance and indirect taxation to bridge the deficit. The structural issues facing Nigerian mining will limit the impact of government attempts to revive the sector, and are indicative of the wider challenges facing Buhari's attempts at economic diversification.

The new PPPRA pricing mechanism may deter imports if the market price doesn't offer marketers sufficient profit margins. Nigeria's powerful labour unions will oppose any formal attempt to remove fuel subsidies or deregulate the downstream sector. Nigeria's dependence on fuel imports will persist.

⁴⁴ Source, extractives executive, UK

⁴⁵ The Nation, 2 Jan 2016.

⁴⁶ The Nation, 2 Jan 2016.

⁴⁷ The Nation, 2 Jan 2016.

⁴⁸ The Nation, 2 Jan 2016.

⁴⁹ Reuters, 9 Dec 2015.

⁵⁰ Bloomberg, 26 Dec 2015.

⁵¹ This Day, 2 Jan 2016.

Local production will increase with the completion of the rehabilitation of Nigeria's four refineries, but any government attempt to part-privatise the refineries will face similar labour opposition.

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