

AFRICA RISK CONSULTING

Nigeria Monthly Briefing May 2016

Nigeria Summary 11 May 2016

President Muhammadu Buhari (2015- present) completes his first year in office, but fuel shortages and a currency crisis add to popular frustration. Buhari approves the delayed budget, which will allow government ministries to allocate funds to projects. Federal government defers by one month state debt payments, but internally generated revenue decreases in the majority of states, highlighting their structural fiscal challenges. The Nigeria Labour Congress (NLC) and the Trade Union Congress of Nigeria (TUCN) call for an increased minimum wage.

Disappointment marks Buhari's first year in office

One year after President **Muhammadu Buhari's** (2015- present) inauguration, popular frustration is building at the slow pace of his political and economic reforms. Buhari is not proving the effectual leader that **Nigeria's** fuel and currency challenges require. There is concern about Buhari's governance style. Observers note that he has failed to shake off his military background, focusing on the most immediate priority rather than offering a broader long-term solution.¹

*"First, he's methodical but too slow; secondly, there's no bold vision but an incremental reactionary response. It is his lack of strategic vision that is causing the loss of faith and confidence."*²

Buhari has surrounded himself with a core group of northerners with whom he has longstanding personal connections. This includes chief of staff **Alhaji Abba Kyari** who acts as a key gatekeeper to Buhari.³ However, this northern cadre may not provide Buhari with an accurate representation of Nigeria's problems:

*"Buhari is like the emperor with no clothes syndrome – no one telling him home truths, what it is like out there."*⁴

Buhari has given vice president **Yemi Osinbajo**, a highly respected technocrat,⁵ the responsibility to improve government efficiency and control spending, but has not given him the authority to deliver.⁶

*"The vice president will need strong political will and support from Buhari to address the responsibilities he's been saddled with; unfortunately it is doubtful if he [Osinbajo] has earned that. The vice president needs to get a working relationship whereby he takes a proposal to the president and gets his go-ahead and backing."*⁷

Buhari entered office in May 2015 on the back of a promise of reform, but not naming a cabinet until November meant he lost the momentum from his successful election campaign. There is speculation that a cabinet reshuffle is imminent as Buhari looks to regain the initiative.⁸

¹ Source, business consultant, Nigeria

² Source, development expert, Abuja

³ Source, energy sector consultant, Lagos

⁴ Source, business consultant, Nigeria

⁵ Source, former western diplomat, Nigeria

⁶ Source, business consultant, Nigeria

⁷ Source, development expert, Abuja

⁸ Source, business consultant, Nigeria

*"One year wasted in my opinion – he didn't take advantage of his goodwill to hit the ground running and make the tough calls. It took forever to name a cabinet; he could have gone far in this one year but it's now he wants to take off."*⁹

While the delay in the naming of the cabinet allowed for in-depth vetting of candidates, it contributed to a perception that the government has stalled in its reform agenda.

*"Good leaders must and should communicate with the citizens. Anything short of that is a sign of cluelessness, lack of proactive abilities, serious gaps and lack of coordination within the system. Maybe he is dependent on subordinates that are simply overwhelmed by the challenges, and cannot make reasonable and timely inputs on critical state issues."*¹⁰

The fuel shortages ongoing since March continue to undermine business activity and confidence in Buhari as the state-owned **Nigerian National Petroleum Corp (NNPC)** struggles to secure supplies.¹¹ An additional shortage of aviation fuel has resulted in the cancellation of domestic flights, as well as international flights as carriers are concerned about securing sufficient fuel in Nigeria.¹² **Spain-based carrier Iberia Líneas Aéreas de España S.A** is considering ending its Nigeria service.¹³

*"The presidency has been marred with a number of avoidable missteps and unwarranted controversies which have not been of benefit to it. The recent prolonged fuel and power crises have further damaged its reputation and ability to manage affairs. Buhari needs to come across as decisive and in charge while at the same time being seen as inclusive – a number of appointments are seen to have been skewed towards the north. It's largely been a year with some motion but very little movement and this is worrisome; the decision and policy making mechanisms of the government need to be overhauled in order to deliver better outcomes going forward."*¹⁴

Buhari has also struggled to address the currency crisis. The **Central Bank of Nigeria (CBN)** continues to rely on foreign exchange controls as it looks to resist demands to devalue the naira. The unofficial rate is between 300/400 naira (N) to the dollar while the government defends it at 197. The presidential office under Buhari is taking increasing control over monetary policy at the expense of the CBN's independence (see *ARC Briefing Nigeria October 2015*). The exchange controls are unpopular as they include loopholes to protect Nigeria's elite, including exclusions for the international payment of school fees and foreign mortgages. The **National Bureau of Statistics (NBS)** has blamed investor concerns about the repatriation of funds for decreasing capital inflows. The NBS on 4 May published data showing that capital inflows stood at \$711m in the first quarter of 2016.¹⁵ This is a 73.8% decrease on the \$2.67 billion that arrived in the corresponding period in 2015, and 54% lower than the final quarter of 2015.¹⁶ Capital inflows peaked in the third quarter of 2014 before the price of crude oil started to decline.¹⁷ Since its peak, total capital importation has decreased 89%.¹⁸

Buhari finally approved the 2016 budget on 6 May, one month after parliament passed it.¹⁹ The approval of the budget will increase his administration's activity as it will allow ministries, departments and agencies to allocate funds to projects, and also the government to start borrowing to bridge the fiscal gap. The budget commits the Buhari administration to his fiscal stimulus plan. The

⁹ Source, media manager, Abuja

¹⁰ Source, businessman, Kaduna

¹¹ Source, analyst, UK

¹² Vanguard, 10 Mar 2016.

¹³ Source, energy sector consultant, Lagos

¹⁴ Source, analyst, UK

¹⁵ Punch Nigeria, 5 May 2016.

¹⁶ Punch Nigeria, 5 May 2016.

¹⁷ Punch Nigeria, 5 May 2016.

¹⁸ Punch Nigeria, 5 May 2016.

¹⁹ Premium Times, 6 May 2016.

expansionist budget, which is 20% larger than the 2015 budget, aims to stimulate economic growth. There were minor amendments in the final budget compared to parliament's previous revisions, but the figures for total expenditure and revenue remain unchanged: expenditure stands at N6.06 trillion (\$30.6 billion) and revenue N3.86 trillion (\$19.4 billion).²⁰ The budget provides for N350 billion (\$1.76 billion) for capital projects.²¹ The fiscal deficit will be N2.2 trillion (\$11.6 billion), 2.14% of GDP. The final budget retained the key assumptions from the draft budget: oil production of 2.2 million barrels per day, a benchmark crude oil price of \$38 per barrel, and a fixed official exchange rate of 197 to the dollar.²²

Government rules out bailout for states

Finance minister **Kemi Adeosun** on 21 April announced that the **Federation Account Allocation Committee (FAAC)** would not deduct debt service costs from its March payout to state governments.²³ The deferral is designed to allow state governments to meet their salary obligations. These have increased rapidly in recent years as state governments believe that the FAAC will not allow them to fail to meet their obligations.²⁴ The deferral amounts to N10.9 billion (\$54.8m).²⁵ It is unlikely that one month's deferral will help state governments to meet their recurrent expenditure obligations. Adeosun insisted that the government is not willing to bail out states, but will consider further deferrals on a state-by-state basis.²⁶

In 2014, the FAAC accounted for more than 65% of all state revenues.²⁷ The deferral follows Buhari's approval in July 2015 of measures to ease fiscal pressures on states, notably restructuring their borrowings into federal government long bonds. The government also authorised the CBN to provide long-term credits at low interest rates. The government deducts the debt service costs pre-FAAC distribution for both bonds. The finance ministry on 25 April confirmed that it would ensure that states meet their debt obligations for March.²⁸ Nigeria's debt amounted to \$10.7 billion at the end of 2015, of which the states accounted for \$3.67 billion.²⁹

The NBS on 14 April published data showing that only 11 of Nigeria's 36 states improved their internally generated revenue in 2015.³⁰ The data raises concerns about the federal government efforts to offset low oil prices through increased non-oil financing. The 2016 budget is predicated on an approximately 40% increase in non-oil revenue. The NBS data shows that total state level internally generated revenue decreased 3.7% to N682.8 billion (\$3.4 billion).³¹ The worst performing states were **Kwara State** (74% decline) and **Imo State** (48.3% decline).³² Of particular concern is **Lagos State** whose internally generated revenue decreased 2.9% to N268.2 billion (\$1.4 billion).³³ Lagos is Nigeria's commercial hub and the government hopes to replicate its model of higher local tax rates to fund infrastructure development and delivery of basic government services. Internally generated revenue declined in all oil producing states in the **Niger Delta** apart from **Edo** and **Abia**, with average decreases of 6.6%.³⁴

²⁰ Premium Times, 6 May 2016.

²¹ Premium Times, 6 May 2016.

²² Premium Times, 6 May 2016.

²³ This Day, 21 Apr 2016.

²⁴ Source, business consultant, Lagos

²⁵ Bloomberg, 25 Apr 2016.

²⁶ This Day, 21 Apr 2016.

²⁷ FBN Quest, 24 Apr 2016.

²⁸ Bloomberg, 25 Apr 2016.

²⁹ Debt Management Office data

³⁰ Premium Times, 14 Apr 2016.

³¹ Premium Times, 14 Apr 2016.

³² Premium Times, 14 Apr 2016.

³³ Premium Times, 14 Apr 2016.

³⁴ Premium Times, 14 Apr 2016.

According to the NBS, only **Ogun, Anambra, Borno, Edo, Bauchi, Abia, Kogi, Nasarawa, Niger, Taraba and Sokoto States** improved their internally generated revenue in 2015.³⁵ The most improved states were Ogun (49.4% increase), Anambra (29.3%) and Borno (21.8%).³⁶ The low level of state internally generated revenue increases the risk that state governments will delay payments for contractors, and increase the possibility that the federal government will eventually need to bail-out states.

Unions demand minimum wage increase

The **Nigeria Labour Congress (NLC)** and the **Trade Union Congress of Nigeria (TUCN)** on 27 April called for an increased minimum wage.³⁷ Any minimum wage increase will put additional pressure on both federal and state government finances. The NLC and TUCN jointly demanded a new national monthly minimum wage of N56,000 (\$281.68) compared to N18,000 (\$90.41).³⁸ The government set the current minimum wage in 2011.³⁹ The NLC and TUCN argued that the government is legally obliged to review the minimum wage every five years, and noted that inflation and currency depreciation have curbed purchase power of wages.⁴⁰

Implications

Buhari was likely to struggle to meet the expectations that underpinned his election victory. Addressing Nigerian political and economic culture could not be achieved within a year. A series of missteps has, however, eroded confidence in the president. Buhari entered office with a reputation for delegation; giving authority to Yemi Osinbajo and independence to the CBN would increase government efficiency. A government reshuffle, only seven months after the appointment of his cabinet, would increase the perception of uncertainty and listlessness around the government, and would do little to end the fuel and currency crises.

The deferral of state debt payments will mitigate the risk of states defaulting on loan repayments. However, it is only a temporary solution to deeper financial malaise at state level, which requires implementation of their fiscal restructuring plans. This deferral – and any future bail out – gives the federal government the opportunity to impose fiscal reform preconditions.

The minimum wage demand indicates the financial demands on both the national and state governments even as oil revenue remains low. The unions are likely to compromise eventually on the minimum wage from their high starting point, but negotiations with the government are likely to be protracted.

³⁵ Premium Times, 14 Apr 2016.

³⁶ Premium Times, 14 Apr 2016.

³⁷ This Day, 27 Apr 2016.

³⁸ This Day, 27 Apr 2016.

³⁹ This Day, 27 Apr 2016.

⁴⁰ This Day, 27 Apr 2016.

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.briefing.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)