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Nigerian National Petroleum Corp (NNPC) CEO Emmanuel Ibe Kachikwu appoints four new group executive directors. President Muhammadu Buhari (2015-present) will either appoint a reform minded oil minister or retain the oil portfolio for himself. Buhari dismisses Mustafa Chike-Obi as CEO of state-owned Asset Management Corp of Nigeria (AMCON). The Federal Inland Revenue Service (FIRS) says that the government plans to double value added tax (VAT) to 10%. Buhari establishes a committee to consider setting up a national airline.

NNPC appoints new senior leadership

New **Nigerian National Petroleum Corp (NNPC) CEO Emmanuel Ibe Kachikwu** on 11 August confirmed the appointment of four new group executive directors.¹ The appointment of an entirely new executive board is indicative of President **Muhammadu Buhari's** (2015-present) commitment to the complete overhaul of the NNPC. This reform agenda will also influence his choice of oil minister. Buhari is expected to announce his government before October. There is continued speculation that Buhari – former oil minister and NNPC chairman between 1976 and 1979 – may retain the oil portfolio for himself.

“If the president does not decide to oversee the petroleum ministry himself, it's expected that he will select a radical, reform-minded individual to head it.”²

Buhari dissolved the previous NNPC board in June, and Kachikwu appointed the executive directors the day after his appointment on 4 August. Buhari approved Kachikwu's choices for directors.³

- **Maikanti Baru** is the new group executive director for exploration and production.⁴ Baru was formerly general manager of the NNPC's **National Petroleum Investment Management Services (NAPIMS)** division responsible for managing the government's investments in the upstream sector.⁵
- **Isiaka Abdulrazaq** is the new group executive director for finance and services.⁶ Abdulrazaq has held numerous financial positions at the NNPC.⁷
- **Dennis Nnamdi Ajulu** is the new group executive director for refining and technology.⁸ Ajulu has held numerous engineering positions at the NNPC.⁹
- **Babatunde Victor Adeniran** is the new group executive director for commercial and investment.¹⁰ Adeniran was formerly general manager for **Total E&P**.¹¹

¹ Vanguard, 11 Aug 2015.

² Source, think tank executive, Lagos

³ Vanguard, 11 Aug 2015.

⁴ Vanguard, 11 Aug 2015.

⁵ FT, 18 Aug 2015.

⁶ Vanguard, 11 Aug 2015.

⁷ FT, 18 Aug 2015.

⁸ Vanguard, 11 Aug 2015.

⁹ FT, 18 Aug 2015.

¹⁰ Vanguard, 11 Aug 2015.

¹¹ www.platts.com

The NNPC also appointed new managing directors to a number of subsidiaries. Notably, **Esther Nnamdi Ogbue** is the new managing director of the **Pipelines and Products Marketing Co**, and **Abdulkadir Saidu** managing director of **Duke Oil**.¹² The NNPC decreased the size of its senior management staff from 122 to 83.¹³ Kachikwu confirmed that he will review all production sharing contracts and joint venture agreements as part of the NNPC's restructuring.¹⁴ Reforms to the NNPC are expected to cover both corporate governance and revenue retention.¹⁵

The appointment of the new NNPC leadership highlights new business practices, with analysts describing a nascent culture of transparency.

*"The change sweeping through the industry is a welcome shake-up of the old order of things. We're already beginning to see more openness and information sharing within the sector which is an encouraging sign of what's still to come."*¹⁶

The oil sector, however, strikes a note of caution, warning that this is only the beginning of a long process, which may stall.

*"You need to be highly technical in order to assess if the reform will work. Nigeria is not yet publishing production figures; transparency needs to be improved so we know how much is produced and sold, as well as the nature of joint ventures. There is still a long way to go; it might be the right start but it also takes convincing people who need to know what's going on. Production figures should be published – well by well – to let us know where the money is going."*¹⁷

The oil sector has had a mixed reaction to Buhari's reform efforts. International oil companies welcome the greater transparency that Buhari has pledged in the hope that the corruption risks associated with the sector decline.¹⁸ However, there are concerns that any revision to contracts may see the government promoting indigenous oil companies at the expense of international companies. Kachikwu on 14 September announced that the NNPC plans to renegotiate production sharing contracts (PSCs) with major oil and gas producers.¹⁹ The NNPC plans to renegotiate contracts with **Shell, Chevron, Eni** and **ExxonMobil**.²⁰

Despite increased tensions in the **Niger Delta** following Buhari's election win (see *ARC Briefing Nigeria August 2015*), militant leaders are hopeful that oil sector reform will deliver greater returns for the region.

*"The main agitators in the Niger Delta are behind Buhari and want to work with him. They refused to realign with a militant leader who had called for a meeting after the elections. Buhari means well, refineries are working again and the process to clean up **Ogoni** land is underway; this is an improvement on the past in which little, by way of development, trickled down to the Niger Delta."*²¹

However, the **National Union of Petroleum and Natural Gas Workers** and **Petroleum and Natural Gas Senior Staff Association of Nigeria** have threatened labour action in protest at efforts to restructure the NNPC. Union officials cite international and domestic considerations for delaying reform efforts.

¹² Vanguard, 11 Aug 2015.

¹³ Vanguard, 11 Aug 2015.

¹⁴ FT, 18 Aug 2015.

¹⁵ FT, 18 Aug 2015.

¹⁶ Source, oil sector analyst, Lagos

¹⁷ Source, senior civil servant, Abuja

¹⁸ Source, western diplomat, Nigeria

¹⁹ www.ft.com

²⁰ www.ft.com

²¹ Source, senior civil servant, Abuja

*"The slump in the global oil prices, the entrance of some countries such as **Iran** into the oil market, the glut and entrance of the **United States (US)** and **Australia** into the global liquefied natural gas market coupled with our local problems of crude oil theft, continuous pipeline vandalism and corruption have greatly impacted on the industry and all stakeholders must throw away personal identities and wear the garb of collectivism if Nigeria's oil and gas industry must survive these harsh socio-economic realities."*²²

Buhari appoints new head of AMCON

President Buhari on 17 August dismissed **Mustafa Chike-Obi** as CEO of state-owned **Asset Management Corp of Nigeria (AMCON)**.²³ AMCON was established in July 2010 when former president **Goodluck Jonathan** (2010-2015) signed the AMCON Act into Law.²⁴ The organisation was created to stabilise and re-vitalise the financial system by resolving the non-performing loan assets of banks²⁵ as Nigeria struggled to manage the oil price crash of 2008-2009.

The reason for Chike-Obi's dismissal is unknown. AMCON has enjoyed a positive management reputation.²⁶ In May, it announced that it had managed to collect or restructure 57% of its bad debts, at approximately 107% of what it paid.²⁷ Non-performing loans are increasing in Nigeria due to continuing low oil prices, with AMCON likely to return to buying assets.²⁸ AMCON is scheduled to wind down by 2023 and the mandate of the current board will continue until November.²⁹ Chike-Obi's successor is **Ahmed Lawan Kuru**, a former managing director of **Enterprise Bank Ltd**.³⁰

Nigeria's banking sector is in a state of uncertainty. In August Buhari instructed all ministries and government agencies to use only approved government bank accounts for all transactions.³¹ The treasury single accounts (TSAs) will hold all government revenue.³²

*"In the current climate, banks are highly exposed to Nigeria's domestic operating environment with a host of political and structural issues impacting this sector. Politically, a directive from Buhari to have all public funds stored in a single treasury account held at the **Central Bank of Nigeria (CBN)** means that Nigerian domestic banks will lose out on crucial public sector deposits. According to analysts, 10% of all deposits come from the public sector and this will adversely impact liquidity at a time when Nigeria is facing currency devaluation from low oil prices. High interest rates and external pressures from international capital markets are also driving up the cost of funding and squeezing margins in the near term and impacting bank profitability in the third quarter."*³³

The banking sector is also awaiting the appointment of Buhari's government before committing funds to large infrastructure or power projects, which is slowing business activity.

"Ministers give a sense of direction in terms of government policy choices ... [it's] difficult to determine our sectoral references at the aggregate level at the moment. As an investor, I will not make serious financial commitment if I do not know whether new policies will favour me. Why will I finance a new power generation project (as a banker) when I am not too sure there will be a cost-reflective tariff at the distribution company level? Are we really sure of government policy direction on power; what about downstream sector (petroleum) deregulation? Can I go ahead to

²² Source, union official, Nigeria

²³ Bloomberg, 17 Aug 2015.

²⁴ AMCON website

²⁵ AMCON website

²⁶ Bloomberg, 17 Aug 2015.

²⁷ Bloomberg, 17 Aug 2015.

²⁸ Bloomberg, 17 Aug 2015.

²⁹ Bloomberg, 17 Aug 2015.

³⁰ Bloomberg, 17 Aug 2015.

³¹ Vanguard, 9 Aug 2015.

³² Vanguard, 9 Aug 2015.

³³ Source, investment banker, Lagos

*commit funds for a refinery project at the moment? Unless, of course, you are [a businessman with own capital such as] **Aliko Dangote**.*"³⁴

There are a number of structural concerns about Nigeria's banking sector. The level of concentration is enough to concern investors as five banks control nearly 60% of the market.³⁵ In 2005 and 2009, excesses in non-performing loans and marginal trading led to balance sheet over-leveraging and saw the country gripped by financial crisis. Banks went bankrupt and the **Nigerian Stock Exchange (NSE)** lost nearly half its value at the height of the crisis. But sweeping reforms from the CBN have helped revive the market with strict capital requirement levels, proper governance and a new regulatory framework to avert the threat of a future crisis. This produced consolidation within the industry and banks began to merge to meet the CBN's reform requirements, leading to the creation of five super banks: **Zenith, Access Bank, Guaranty Trust Bank, First Bank and United Bank of Africa**.

Despite the risk from over concentration, the scope for growth in the banking sector should attract investor interest. Post-crisis, consolidation has left the country with 22 healthy banks. These now have the platform to challenge the position of the top five banks. While only 20% of Nigerians have bank accounts and more than two thirds have never opened one, analysts estimate the sector has a compound annual growth rate (CAGR) of over 10%.³⁶ This places the value of the banking industry at just under \$170 billion, up from \$117 billion in 2011.³⁷ The big banks are focused on winning business from government agencies and international investors; mid and small-sized banks can tap into Nigeria's consumer class as a strategy for growth. The CBN recently announced a **Financial Inclusion Strategy** to ensure greater public access to financial services.

Nigeria may double VAT before end of year

Federal Inland Revenue Service (FIRS) chairman **Sunday Ogungbesan** has said that the government plans to double value added tax (VAT) to 10% before the end of the year. The increase will shore up government revenue and reduce the deficit amid low oil prices. The 2015 budget projects VAT collection at 841 billion naira (N) (\$4.2 billion).

While the government has privately committed to not increasing corporate income tax and other direct taxation, it has not ruled out increasing indirect taxation under which VAT falls.³⁸ The government may view an increase in VAT as an efficient way to increase revenue as it has relatively few administrative costs for the government.³⁹ The seller of the goods or service bears the burden of collection. Ogungbesan also said that the FIRS would crack down on tax evasion by restricting access to banking facilities to those companies that had registered with it.⁴⁰

In Nigeria, VAT is divided between federal, state and local government in a 15/50/35 ratio. Nigeria first imposed VAT in January 1994.

Government considers establishment of national air carrier

President Buhari established a committee on 24 August to consider setting up a national airline.⁴¹ Nigeria currently has 12 airlines that operate national and international flights, including market leader **Arik Air** and state-controlled aviation company **Aero**. The government briefly took over **Richard Branson's Virgin Nigeria** as **Air Nigeria** in 2010, but the company closed down in 2012 due to an unsustainable debt load.⁴² Virgin Nigeria withdrew from Nigeria in 2008, reportedly due to the

³⁴ Source, investment banker, Lagos

³⁵ Vanguard, 30 Jun 2015.

³⁶ Source, banking analyst, UK

³⁷ Source, banking analyst, UK

³⁸ Source, banker, Lagos

³⁹ Source, banker, Lagos

⁴⁰ Reuters, 7 Aug 2015.

⁴¹ Premium Times, 24 Aug 2015.

⁴² Reuters, 24 Aug 2015.

poor aviation infrastructure, conflicts with aviation authorities over the use of airport facilities and poor profit.⁴³ State-owned AMCON currently owns \$630m of the debt load of domestic airlines including Arik and Aero. The government is considering rolling the dozen airlines all into a single national carrier.⁴⁴ **Discovery Airlines** managing director **Mohammed Abdulsalam** will chair the committee, while the legal adviser of the **Federal Airports Authority of Nigeria (FAAN)**, **Uche Isichei**, will act as secretary. Other members will include ministers, senior civil servants and representatives of national and international carriers.⁴⁵

Implications

The appointment of technocratic executive directors will help to root out corruption and revenue mismanagement at the NNPC. The exact details of the planned reform of the NNPC – notably the partition of its regulatory and operational functions – will only become clear once Buhari’s government is in place. Buhari will probably oversee the oil portfolio himself. However, the planned review of existing contracts will unnerve oil companies and create additional uncertainty in the sector. Buhari faces a number of challenges in untangling the patronage networks around the NNPC, and labour action is likely. International oil companies are likely to continue divesting assets until the reform process is well underway and there is greater regulatory certainty.

The unexplained dismissal of Chike-Obi will add to uncertainty in the banking sector. Banking sector perceptions are yet to fully recover from the 2009 crisis. Exposure to the domestic oil industry ties the banking sector’s fortunes to a recovery in oil prices. Tight monetary policy and capital flight will continue to affect deposit growth in the medium term. However, Nigeria’s market size and the improving regulatory environment will continue to make Nigeria attractive to international financiers. With more depositors, banks can begin to take greater risk and diversify their business lines into personal, small business and car loans, as the majority of current income stems from lending to large commercial outfits. These loans can help drive enterprise and boost Nigeria’s overall economy more broadly. Nigeria also has the **Nigerian Insurance Deposit Corporation** to safeguard deposits against bank runs. This will help Nigeria’s banking sector gain credibility with the millions of Nigerians who have never opened a bank account and has the potential to jumpstart society’s use of financial services.

While a VAT increase would reduce the budget deficit, it would be unpopular and likely to trigger labour union-led protests.

The aviation sector’s debts, poor infrastructure, record of corruption and poor incentives for private sector participation will deter international investment in the proposed national carrier. The discussion show the priority that the Buhari administration is placing on the aviation sector, which is likely to take the shape of increased investment in international airport terminals in **Lagos, Abuja, Kano, Port Harcourt** and **Enugu**.

⁴³ The Birth, the Rise and the Fall of Virgin Nigeria, Eric Akpo, 19 Jun 2013.

⁴⁴ Premium Times, 24 Aug 2015.

⁴⁵ Premium Times, 24 Aug 2015.

About Africa Risk Consulting:

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