

## AFRICA RISK CONSULTING

### Nigeria Monthly Briefing May 2017

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#### Nigeria Summary 9 May 2017

*President Muhammadu Buhari (2015-present) suspends government officials David Babachir Lawal and Ayo Oke over corruption allegations. However, a series of judicial rulings have damaged the credibility of Buhari's anti-corruption efforts, undermining his authority. The Central Bank of Nigeria (CBN) denies relaxing the prohibition on importers of 41 items from accessing foreign-exchange markets. Key government policy makers remain divided on revisions to the foreign-exchange regime, as the CBN allows the market to determine the rate of the naira in a new foreign-exchange window for investors. The Department of State Services (DSS) claims to have foiled a Boko Haram attack on the United Kingdom (UK) and United States (US) embassies in Abuja.*

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#### Scepticism grows of Buhari's anti-corruption credentials

President **Muhammadu Buhari** (2015-present) suspended secretary to the federal government **David Babachir Lawal** and **National Intelligence Agency (NIA)** director general **Ayo Oke** over corruption allegations on 19 April.<sup>1</sup> The suspensions are significant amid growing scepticism that Buhari has thus far failed to deliver on his 2015 electoral anti-corruption platform. Buhari's anti-corruption record is increasingly central to the maneuvering within the ruling **All Progressives Congress (APC)** to succeed him amid continued speculation about his poor health.<sup>2</sup>

Buhari described the investigations into Lawal and Oke as "related" but provided no additional information.<sup>3</sup> Lawal's position as secretary to the federal government is a strategic office as he is responsible for the implementation of government policies and programmes. Lawal was additionally head of the **Presidential Initiative on the North East (PINE)**, which the government established to coordinate the government's response to the humanitarian crisis in the region.<sup>4</sup> A senate committee alleged in December 2016 that Lawal was director of information communication technology (ICT) company **Global Vision Ltd** which had won a 200m naira (N) (\$654,560) contract from PINE in March 2016.<sup>5</sup> The senate committee claimed that the award of a contract to a company in which Lawal had a stake was unconstitutional.<sup>6</sup> Global Vision was incorporated in 1990 as an ICT company but the PINE contract was to clear invasive plants in **Yobe State**, a task it appears unqualified for. Lawal resigned his Global Vision directorship in September 2016, but was still the company signatory at the time of the senate investigation.<sup>7</sup> Buhari suspended Oke after the **Economic and Financial Crimes Commission (EFCC)** discovered \$43m in domestic and foreign currency in the **Osborne Towers** apartment complex in **Lagos**.<sup>8</sup> The NIA claims to own the funds.<sup>9</sup>

Buhari has tasked attorney general **Abubakar Malami**, national security adviser **Babagana Monguno**, and vice president **Yemi Osinbajo** with investigating the allegations against Lawal and

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<sup>1</sup> Vanguard, 19 Apr 2017.

<sup>2</sup> Source, analyst, Lagos

<sup>3</sup> Vanguard, 19 Apr 2017.

<sup>4</sup> Vanguard, 19 Apr 2017.

<sup>5</sup> Premium Times, 14 Dec 2016.

<sup>6</sup> Premium Times, 14 Dec 2016.

<sup>7</sup> Premium Times, 14 Dec 2016.

<sup>8</sup> Vanguard, 19 Apr 2017.

<sup>9</sup> Vanguard, 19 Apr 2017.

Oke.<sup>10</sup> The committee will reportedly question former president **Goodluck Ebele Jonathan** (2010-2015), **Central Bank of Nigeria (CBN)** governor **Godwin Emefiele**, and interim EFCC chairman **Ibrahim Magu** over the funds discovered in Osborne Towers.<sup>11</sup>

The suspensions are possibly timed to deflect increased concern about Buhari's anti-corruption record following a series of legal defeats. The **Lagos High Court** overturned an order freezing the accounts of **Mike Ozekhome**, lawyer to allegedly corrupt<sup>12</sup> **Ekiti State** governor **Ayo Fayose**, on 3 April.<sup>13</sup> A court also dropped charges against former **Niger Delta** minister **Peter Godsdoy Orubebe**, accused of misappropriating N2 billion (\$6.5m) on 6 April.<sup>14</sup> The **Abuja High Court** has also unfrozen \$5.9m allegedly belonging to former first lady **Patience Jonathan**.<sup>15</sup> These setbacks have weakened Buhari's position.<sup>16</sup> The only notable victory for Buhari was EFCC money laundering charges on 5 April against former petroleum minister **Diezani Alison-Madueke**.<sup>17</sup> The EFCC alleged in the **Federal High Court** in Lagos that three **Independent National Electoral Commission (INEC)** officials received bribes from Alison-Madueke ahead of the March 2015 general election.<sup>18</sup> The payments reportedly totaled N264.9m (\$867,813).<sup>19</sup> At the time of the payment, Alison-Madueke was a senior member of the Jonathan administration and a key confidante of Jonathan.<sup>20</sup> The EFCC began investigating allegations over illegal transactions around the 2015 general election in early 2016.<sup>21</sup> Local media has speculated that Alison-Madueke sought to influence the INEC to favour Jonathan's then ruling **People's Democratic Party (PDP)**.<sup>22</sup>

The failure to secure prosecutions against government officials has encouraged maneuvering against Buhari, who was elected on an anti-corruption platform.

*"It is the first proper anti-corruption government sting of his own government and he has been slow and pushed into deciding to act. This slowness is exacerbated by his illness and that he only spends four hours actually working in the presidency per day. The APC is a construct reliant purely on his image and is therefore losing its main brand."*<sup>23</sup>

The suspensions may be timed to shore up Buhari's position within the APC amid continued speculation about his poor health. Former **Lagos State** governor **Bola Tinubu**, former vice-president **Atiku Abubakar** and senate speaker **Abubakar Bukola Saraki** remain the most likely APC challengers to Buhari (see *ARC Briefing Nigeria April 2017*).<sup>24</sup> All three have faced corruption allegations and therefore have an incentive to damage the credibility of the EFCC and Buhari's anti-corruption record.<sup>25</sup>

*"All are credible candidates and will jostle and make the APC an already difficult party to manage much more so."*<sup>26</sup>

Buhari has missed three consecutive weekly cabinet meetings on 20 and 26 April and 3 May raising concerns about his capacity to govern.<sup>27</sup> Presidential spokesman **Garba Shehu** downplayed the

<sup>10</sup> Vanguard, 19 Apr 2017.

<sup>11</sup> Premium Times, 19 Apr 2017.

<sup>12</sup> Africa Confidential, 14 Apr 2017.

<sup>13</sup> Vanguard, 3 Apr 2017.

<sup>14</sup> www.nigeriatoday.ng

<sup>15</sup> This Day, 26 Apr 2017.

<sup>16</sup> Africa Confidential, 14 Apr 2017.

<sup>17</sup> Premium Times, 5 Apr 2017.

<sup>18</sup> Premium Times, 5 Apr 2017.

<sup>19</sup> Premium Times, 5 Apr 2017.

<sup>20</sup> Source, former western diplomat, Lagos

<sup>21</sup> Reuters, 5 Apr 2017.

<sup>22</sup> Premium Times, 5 Apr 2017.

<sup>23</sup> Source, analyst, Lagos

<sup>24</sup> Source, analyst, Lagos

<sup>25</sup> Africa Confidential, 14 Apr 2017.

<sup>26</sup> Source, analyst, Lagos

seriousness of Buhari's medical condition on 27 April, but acknowledged that Buhari is spending the majority of his time in his private residence as he continues to recuperate following his return in March from two months' medical leave in **London (United Kingdom)**.<sup>28</sup> Shehu said Buhari receives daily government briefings and regularly meets vice president Yemi Osinbajo.<sup>29</sup> Constitutionally, if Buhari's health forces his departure from office, Osinbajo would serve the remainder of his term before the 2019 election.

Despite the suspensions of Lawal and Oke, scepticism about the effectiveness of Buhari's anti-corruption efforts will persist until there are successful prosecutions of administration officials. The concern for Buhari is that he persuaded the **Nigerian** electorate in 2015 that he could end the culture of corruption that had taken root under Jonathan and his predecessors. Buhari's failure to do so is a blow to his credibility at a time when his medical treatment and subsequent slow recovery have already weakened his authority. This has in turn encouraged maneuvering within the APC to succeed him, with potential frontrunners standing to benefit from a weakened EFCC that fails to adequately investigate or prosecute corruption allegations against them. This further damages Buhari's anti-corruption credentials, further weakening him, making it a vicious cycle. All this will distract the APC from addressing Nigeria's policy issues, notably securing an exit from recession.

### Mixed foreign-exchange policy signals continue

The CBN denied on 4 May media reports that it has relaxed the prohibition on importers of 41 items from accessing foreign-exchange markets.<sup>30</sup> Policy uncertainty may persist as key government officials continue to put forward different strategies to simplify the complex exchange-rate regime to make it more attractive to investors. The CBN released a circular on 3 May stating that importers of items classified as ineligible for foreign exchange can now qualify for hard currency for transactions worth up to \$20,000 a quarter.<sup>31</sup> Local media reported this as a partial reversal of the import ban first introduced in 2015.<sup>32</sup> The **Manufacturers Association of Nigeria** in particular welcomed the move.<sup>33</sup> The CBN, however, said that this was a misunderstanding of the circular, which did not, in fact, refer to the 41 restricted items.<sup>34</sup> The CBN did not clarify what exactly the circular was referring to, resulting in greater confusion.<sup>35</sup>

Restrictions on the 41 items, which include rice, cement, steel products, roofing sheets, soap, cosmetics, textiles, and foreign bonds remain in place. Importers must still source foreign currency on the parallel market. This has hampered the manufacturing sector which is dependent on these imports, hampering Nigeria's exit from recession.

*"All the items banned from accessing forex should not be unbanned yet because we are hoping to be out of recession. The idea is to stimulate local production. If they are brought back because we now have money, then we will be going back from where we came from. But if we are able to safeguard the policies put in place by the government we can definitely be out of the woods."<sup>36</sup>*

The restrictions on the 41 imported items have encouraged inflation. The **National Bureau of Statistics (NBS)** published data on 12 April showing that year-on-year headline inflation decreased from 17.78% in February to 17.26% in March.<sup>37</sup> Despite NBS claims that this is the result of the CBN's

<sup>27</sup> Daily Trust, 1 May 2017.

<sup>28</sup> Reuters, 27 Apr 2017.

<sup>29</sup> Reuters, 27 Apr 2017.

<sup>30</sup> Vanguard, 5 May 2017.

<sup>31</sup> Vanguard, 5 May 2017.

<sup>32</sup> Vanguard, 5 May 2017.

<sup>33</sup> Bloomberg, 5 May 2017.

<sup>34</sup> Vanguard, 5 May 2017.

<sup>35</sup> Vanguard, 5 May 2017.

<sup>36</sup> Source, chamber of commerce executive, Ilorin

<sup>37</sup> FBN Research, 13 Apr 2017.

intervention in the foreign exchange market, it is largely due to positive base effects.<sup>38</sup> Month-on-month inflation rose for a second consecutive month, from 1.5% in February to 1.7% in March.<sup>39</sup> The NBS noted sharp increases for most food staples, while the prices of housing, water, electricity, gas and other fuels increased by 18.8%.<sup>40</sup>

The government remains divided on exchange-rate policy. On 1 May, Osinbajo said the government is looking to replace the restricted items list.<sup>41</sup> Osinbajo proposed a more trade-sensitive framework that considers the need for specific items and locally unavailable raw materials. CBN governor Godwin Emefiele said on 4 May that increased oil revenue in recent weeks had allowed the CBN to defend the naira and stabilise the parallel market rate to between 380 and 385 naira to the dollar.<sup>42</sup>

*"There have been some encouraging signals which give room for a level of optimism, cautious as it may be. Our foreign reserves are growing again and the currency is being stabilised. It remains to be seen how much further the CBN intends to support the naira, which has made significant gains against the dollar and other major currencies in recent weeks. We're not out of the woods yet so I'd expect the government to focus on implementing plans and policies which will hedge the economy against future shocks."*<sup>43</sup>

The CBN said on 21 April that it would allow the market to determine the rate of the naira in a new foreign-exchange window for investors.<sup>44</sup> Banking sector analysts do not project that the move will lead to an interbank devaluation. The new **Nigerian Autonomous Foreign Exchange Rate Fixing (NAFEX)** window is for bond and stock investors as well as exporters.<sup>45</sup> The NAFEX opened on 25 April, when the CBN sold \$25m.<sup>46</sup> CBN governor Emefiele reportedly told senior banks that he will allow the naira to weaken in the window. In the first day of trading, the naira eased 18.3% to 374.25 to the dollar, compared to the official interbank rate of 305.90, and the parallel market rate of 385.<sup>47</sup> The CBN "reserves the right to intervene"<sup>48</sup> in the NAFEX. Lagos-based trading platform **FMDQ OTC Securities Exchange** will publish the daily rate for the NAFEX window at around 12:00 GMT+1.<sup>49</sup> This has had a positive impact on investor confidence:

*"The country is gradually showing signs of improvement as the naira gradually gains weight against the dollar."*<sup>50</sup>

Buhari remains opposed to a market-determined exchange rate, fearing its impact on low-income households.<sup>51</sup> However, inflation appears to be having as great a negative impact on household purchasing power and confidence.<sup>52</sup> Small and medium enterprises continue to suffer as many accessed debt during the oil sector credit boom and are now struggling to clear their debt burdens.

*"Many smaller companies in Nigeria have been in technical default for over a year."*<sup>53</sup>

Investors will remain cautious about Nigeria until the foreign exchange policy is clearer. Divisions amongst policy makers, however, mean it is uncertain when this might be. The suspicion is that

<sup>38</sup> FBN Research, 13 Apr 2017.

<sup>39</sup> FBN Research, 13 Apr 2017.

<sup>40</sup> FBN Research, 13 Apr 2017.

<sup>41</sup> This Day, 2 May 2017.

<sup>42</sup> Vanguard, 5 May 2017.

<sup>43</sup> Source, policy analyst, Warri

<sup>44</sup> Bloomberg, 21 Apr 2017.

<sup>45</sup> Bloomberg, 21 Apr 2017.

<sup>46</sup> Reuters, 25 Apr 2017.

<sup>47</sup> Reuters, 25 Apr 2017.

<sup>48</sup> Bloomberg, 21 Apr 2017.

<sup>49</sup> Bloomberg, 21 Apr 2017.

<sup>50</sup> Source, entrepreneur, Lagos

<sup>51</sup> Source, private sector executive, UK

<sup>52</sup> Source, private sector executive, UK

<sup>53</sup> Source, business analyst, UK

Buhari is waiting for faster growth before embarking on policy reform. With an exit from recession not expected until the third quarter, policy limbo may persist.

### **DSS claims to foil Boko Haram attack on western embassies**

The **Department of State Security Service (DSS)** claimed on 12 April that it had foiled a **Boko Haram** attack on the UK and **United States (US)** embassies and “*other western interests*”<sup>54</sup> in **Abuja**.<sup>55</sup> It is unlikely that Boko Haram has the capacity to successfully attack highly protected hotels, embassies, or government complexes in central Abuja. The DSS said it intercepted a five-man Boko Haram cell based in Abuja’s **Federal Capital Territory** and in **Benue State** between 25 and 26 March.<sup>56</sup> The DSS claimed the Boko Haram cell has links to **Islamic State**.<sup>57</sup> The DSS provided no additional information about the cell or its alleged links to Islamic State. The relationship between Islamic State and Boko Haram is largely symbolic, with Boko Haram enjoying stronger operational ties with **West Africa**-based militant groups **Movement for Oneness and Jihad in West Africa (MUJAO)** and **Al Qaeda in the Maghreb (AQIM)**.<sup>58</sup> Boko Haram has previously targeted international sites in Abuja, most notably the attack on the **United Nations** headquarters in August 2011, but has since solely attacked softer targets in Abuja’s suburbs, indicating it may no longer have the capacity to carry out such spectacular attacks.

Boko Haram has in recent weeks has carried out an increased number of suicide attacks in its heartland of northeastern Nigeria, especially around **Maiduguri (Borno State)**. The military has successfully driven out Boko Haram from its main bases in the **Sambisa Forest**. Loss of territory and military successes may not stop low-level suicide bombings in Boko Haram’s existing areas of operation, but mitigate the risk of a major attack in Abuja or Lagos.

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<sup>54</sup> Vanguard, 12 Apr 2017.

<sup>55</sup> Vanguard, 12 Apr 2017.

<sup>56</sup> Vanguard, 12 Apr 2017.

<sup>57</sup> Vanguard, 12 Apr 2017.

<sup>58</sup> www.peccaviconsulting.com

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