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Summary

Former president Olusegun Obasanjo (1999-2007) criticises rule of President Goodluck Jonathan while members of the National Assembly decamp from the People's Democratic Party (PDP). Ngozi Okonjo-Iweala introduces 2014 budget worth \$29 billion to the National Assembly. Central Bank of Nigeria (CBN) says \$10.8 billion is missing from the Nigerian National Petroleum Corporation (NNPC). House of Representatives speaker Aminu Tambuwal says the National Assembly is to petition the Supreme Court to remove legislative powers from Rivers State assembly.

1.1 Pressure builds on President Goodluck Jonathan

President **Goodluck Jonathan** suffered a series of political blows in December raising the possibility that he will not have sufficient political and economic backing to win the 2015 elections. His failure to corral an increasingly fractious **People's Democratic Party (PDP)** has undermined his political authority:

- In a letter widely leaked to Nigeria's domestic media, former president **Olusegun Obasanjo** (1999-2007) wrote that Jonathan should not run in the 2015 elections.¹ Obasanjo is not only a PDP elder statesman, but is also Jonathan's political mentor, and such potent criticism is rare. Obasanjo criticised Jonathan's leadership and performance in addressing corruption and insecurity, and for failing to increase economic growth. The letter compared Jonathan's time in office to that of General **Sani Abacha** (1993-1998), a period marked by the looting of state funds. Obasanjo said Jonathan had promised prior to his 2011 victory not to run again, and doing so in 2015 would be "morally flawed";
- Jonathan failed in an attempt to convince governors who have defected to the **All Progressives Congress (APC)** to return to the PDP.² He met in person with two of the five

¹ Nigerian Guardian, 12 Dec 2013

² ibid

governors, **Alhaji Aliyu Wamakko** of **Sokoto** and **Rabiu Kwankwaso** of **Kano**. However, the two governors reiterated that they and the other governors **Rotimi Chibuike Amaechi** (**Rivers**), **Alhaji Abdulfatah Ahmed** (**Kwara**) and **Alhaji Murtala Nyako** (**Adamawa**) had no intention of returning to the PDP. The other two governors who formed the **New PDP** faction, **Mu'azu Babangida Aliyu** (**Niger**) and **Alhaji Sule Lamido** (**Jigawa**) remain part of the PDP and have said they wish to address their problems with Jonathan from within the party.³ According to a source, *“if Jonathan doesn’t get the governors onside, forget 2015, he might as well not stand in the PDP primaries”*;⁴

- PDP governors continue to pressure Jonathan to dismiss the PDP chairman **Bamanga Tukur**.⁵ According to a senior PDP official, Tukur’s principal role as PDP chairman is to prepare the ground for Jonathan’s re-election.⁶ The governors blame Tukur, a key ally of the president, for failing to resolve the disagreements in the party that led to five governors defecting to the APC. Jonathan would be reluctant to agree to a move that would weaken his support base in the PDP and undermine his chances of standing in the 2015 elections, but may have to do so to stop further defections;
- The PDP lost its majority in the House of Representatives when 37 members of the National Assembly’s lower chamber decamped to the APC on 18 December. This may further hamper Jonathan who has already struggled to deliver his administration’s defining legislation, the **National Transformation Agenda** and the **Petroleum Industry Bill**. The PDP has applied for a court order stripping the members of their seats.

Questions are beginning to arise about Jonathan’s continuing willingness to stand amid the PDP fractures.

*“I don’t think Jonathan wants to run; it’s the PDP **South-South** cadre around him that want him to. This is their first stab at the presidency and they are not going to allow him to relinquish it without a fight. But if Jonathan thinks he can’t win, his options are limited. If he fully disengages from the electoral process, that would be raising the white flag and you have a lame president for the next sixteen months. So as Jonathan pays lip service to running again, his control over the PDP further erodes and the governors plod along hamstrung by the government’s lack of effort.”*⁷

³ Nigerian Guardian, 12 Dec 2013

⁴ Source, businessman

⁵ This Day, 14 Dec 2013

⁶ Source, senior PDP official

⁷ Source, businessman

1.2as threat from Rivers State governor grows

House of Representatives speaker **Aminu Tambuwal** confirmed in December that the National Assembly will petition the Supreme Court to allow it to take control of the Rivers State legislature.⁸ Tension between President Jonathan and Rivers State governor Amaechi has been increasing since July. PDP Rivers State assembly members loyal to Jonathan attempted to impeach state assembly speaker **Otelemaba Amachree**, a key ally of Amaechi, and replace him with Jonathan supporter **Evans Bipi** (see *ARC Nigeria July 2013 Briefing*). Amid increasing violence between rival supporters, the federal government declared a legislative emergency in Rivers State and assumed the powers of the state legislature before the Federal High Court voided the decision.

Even before Amaechi decamped from the PDP, Jonathan viewed him as a potential challenger in 2015.⁹ The PDP suspended Amaechi in May in a dispute about an apparent violation of party rules over a local council issue (see *ARC Nigeria May 2013 Briefing*). The censure was more likely an attempt to clip the governor's wings. It has long been speculated that **Jigawa** state governor **Sule Lamido** might run with Amaechi as his running mate. According to a western diplomat who coordinated a visit to **London** by a Nigerian trade delegation in November,

*"Amaechi was meant to ring the bell to start trading at the **London Stock Exchange**. Someone in the federal government got wind of this, remembered that Jonathan had done the same in the **New York Stock Exchange** and realised that it would look like Amaechi was trying to look like the president elect. A number of phone calls followed, and the government had sufficient sway for Amaechi to cancel his appearance."¹⁰*

The significance of Amaechi and River State lies in its strategic location within the oil rich **Niger Delta**. With the support of Amaechi, the APC gains a foothold in the South-South, Jonathan's home territory, before the 2015 elections. As governor of oil-rich Rivers State, Amaechi oversees a budget of \$2.5 billion, a sizeable electoral war chest.¹¹ The presidency has, however, used the violence as a pretext to put severe restrictions on the finances of the governor's office and on the state budget allocations.¹² Amaechi, in turn, continues to accuse the federal government of misappropriating \$5 billion in **Excess Crude Account** funds. The **National Bureau of Statistics** released data showing that Rivers recorded the second highest internally generated revenue of all states between 2010 and

⁸ Vanguard, 20 Dec 2013

⁹ Source, British diplomat, London

¹⁰ *ibid*

¹¹ Source, political analyst

¹² Vanguard, 11 Dec 2013

2012, behind only **Lagos**.¹³ Rivers earned 173.1 billion naira (\$1.92 billion) compared to Lagos' 607.7 billion naira (\$3.8 billion). Jigawa, for instance, came bottom with 2.725 billion naira (\$17.1m) emphasising Amaechi's importance to a partnership with governor Lamido. Disaggregating the Rivers data shows that its income generation has increased by 39% during that period: 49.59 billion naira in 2010 (\$310m), 57.19 billion naira in 2011 (\$359m), and 66.28 billion naira (\$416m) in 2012. Jonathan has used his role as the first ethnic **Ijaw** president to champion the South-South states and to benefit people from the Delta states with the award of oil related contracts and exploration blocks.

1.3 Government introduces delayed budget

Finance minister **Ngazi Okonjo-Iweala** introduced a \$29 billion budget to the bi-cameral National Assembly a day before the Senate went into recess on 20 December.¹⁴ The draft budget compromises on the nominal spending cuts set out in the **2014-2016 Medium Term Economic Framework and Fiscal Strategy Paper** (see *ARC Nigeria November 2013 Briefing*).¹⁵

*"The fiscal stance is not as tough as the government wanted. There's no real surprise that there's been slippage, but it shows in an election year that the power lies with the National Assembly."*¹⁶

Jonathan delegated the presentation of the twice postponed budget to Okonjo-Iweala who faced heated questioning in the lower house. The House of Representatives finance committee presented Okonjo-Iweala with a list of 50 questions about the state of the Nigerian economy¹⁷ and then walked out of the session. The budget is lower than that of 5 trillion naira set in 2013 (\$29.3 billion) as Okonjo-Iweala attempts to reduce government spending and borrowing. The budget forecasts government revenue for 2014 at 3.73 trillion naira (\$23.3 billion), a deficit of 1.9% of GDP, compared to 1.85% in 2013.

*"The deficit is sustainable. If you look to the last pre-election budget in 2010, you notice that actually Nigeria isn't too bad when it comes to fiscal slippage. Then it was between 3.4- 3.7%. Now you have the Fiscal Responsibility Act capping it at 3%. Investors will be watching both the passage of the budget and the impact of the **United States Federal Reserve** reducing bond purchases in January. If investors stop buying up Nigerian domestic debt, it will put pressure on exchange rates."*¹⁸

¹³ This Day, 6 Dec 2013

¹⁴ This Day, 19 Dec 2013

¹⁵ Source, senior investment banker

¹⁶ *ibid*

¹⁷ Premium Times, 20 Dec 2013

¹⁸ Source, senior investment banker



The budget shows that the National Assembly is going to oppose government plans to compress expenditure.¹⁹ Capital expenditure accounts for only 27% of the total with the balance allocated to running the government. While the budget itself is conservative, it increases the probability of supplementary budgets or an increase in the misappropriation of funds before 2015.

The budget is based on an oil benchmark of \$77.5 a barrel, a compromise between the government’s figure of \$74 from and the House of Representatives’ \$79. The federal government spends revenue below this benchmark, and saves revenue above it. The benchmark is therefore central to the tension between the National Assembly and the federal government over spending. Oil prices are, in fact, expected to be higher. While **United States** refineries are liable to cut their purchases of Nigerian crude in 2014, African crude oil demand will grow by 150,000 barrels per day in 2104, representing 15% of global demand growth and cushioning the blow.²⁰ Continued instability in **South Sudan** and **Sudan** will also contribute to higher prices.

Current price barrel of Brent Crude Oil ²¹	Average price barrel of Brent Crude Oil for 2013 ²²	Average price barrel of Brent Crude Oil for 2014 ²³
\$111.87	\$108.41	\$104.08

More ambitious is the budget’s assumption that oil production will meet 2.39m barrels per day. Production has consistently been over a quarter of a million barrels below this level in 2013, even dropping at one stage below two million (see *ARC Nigeria November 2013 Briefing*).

*“This is more ambitious than the price estimates. For a start, there’s no proper record of production, not a single unified source of data. But the industry will tell you that it is fanciful, as the government does not have the capacity to address leakages and theft in the **Niger Delta** or to clip the wings of the **Nigerian National Petroleum Corporation (NNPC)** by passing the **Petroleum Industry Bill**.”²⁴*

The passage of the 2014 budget is likely to be long and contentious, and with the Senate returning to work on 14 January, a budget is not expected before April or May.²⁵

¹⁹ Source, senior investment banker

²⁰ FT, 13 Dec 2013

²¹ Bloomberg, 12 Dec 2013

²² US Energy Information Administration

²³ US Energy Information Administration

²⁴ Source, senior investment banker

²⁵ *ibid*

1.4 State oil revenues go astray

The opaque nature of federal government financing came under the spotlight when the **Central Bank of Nigeria (CBN)** reported \$48.9 billion missing at the state energy company NNPC.²⁶ The bank said on 10 December that the NNPC had failed to account for the revenue from the sale of crude oil that should have been paid into government accounts. In a letter to Jonathan, CBN governor **Lamido Sanusi** said that the NNPC earned \$65.3 billion from crude oil sales between January 2012 and July 2013 but had only remitted 24% of the funds.²⁷ A joint investigation by the CBN and the NNPC revised the missing sum downwards to \$10.8 billion, still a sizeable figure for government agencies to misplace and a reminder of how Nigeria's finances are susceptible to mismanagement. The NNPC accuses the government of failing to understand how it works. The NNPC sells just under half of Nigeria's approximate 2.3m barrels per day production. Just under a quarter of this is remitted to government accounts, while 38% or so is used in crude oil swaps, when crude oil is exchanged directly for refined petroleum products. It also says the government has failed to consider that taxes and royalties on production sharing contracts, worth a total of \$16 billion, are paid into separate revenue accounts.

The CBN said it has "*serious concerns... on the continued failure of the NNPC to repatriate significant proportions of the proceeds of crude oil shipments.*"²⁸ Nigerian politicians have typically diverted state oil money to fund elections. Oil minister **Diezani Allison-Madueke's** attempts to increase government monitoring and financial control in the sector are ostensibly to stem oil theft or "bunkering", but they also to ensure that Jonathan's 2015 campaign chest is well stocked.²⁹

An **African Development Bank** and campaign group **Global Financial Integrity** report has revealed that Nigeria was the worst state in Africa for loss of money abroad through crime, corruption and tax evasion in 2011.³⁰ The study shows that Nigeria lost \$142.2 billion in 2011, with the next worst **sub-Saharan** state, **South Africa**, losing \$100.7 billion.

1.5 Rivers State security outlook is negative....

The 2015 presidential election coincides with the end of the Niger Delta's 2009 amnesty and payment programme and MEND is likely to attempt to remind the government of its capacity to launch attacks. The security situation in Rivers has improved since the late president **Umar Musa Yar'Adua** (2007-

²⁶ This Day, 11 Dec 2013

²⁷ Bloomberg, 12 Dec 2013

²⁸ ibid

²⁹ Source, individual close to Nigerian cabinet

³⁰ VOA, 13 Dec 2013

2010) reached agreement with the Niger Delta militias, notably the **Movement for the Emancipation of the Niger Delta (MEND)**. Any improvement in conditions in the operating environment is relative and should not be considered based on any long-term or fundamental changes. Those accepting the amnesty and handing in their arms are placed on stipends of 55,000 naira (\$336) per month. The amnesty has involved awarding substantial security contracts to former militia leaders to protect pipelines. Grievances over the piecemeal implementation of employment programmes and imprisonment of leader **Henry Okah** led the group in April to announce that it was resuming its attacks on Nigeria's oil industry.

2 Implications

President Goodluck Jonathan has lost some of his authority within the PDP. However, Nigerian politics is pragmatic rather than ideological. Despite the conservative budget, Jonathan's control over federal government spending could see recalcitrant governors and national assembly members returning to the fold before the 2015 elections. The security situation in the Delta will continue to deteriorate in the run up to the 2015 elections and the cessation of the government's amnesty and payment programme. The grievances of MEND would be assuaged to a certain extent if Amaechi continues to play a leading role in the APC, and they see him as a way to extract concessions from the federal government.