

AFRICA RISK CONSULTING**Country briefing – Nigeria****18 July 2014**

Summary

President Goodluck Jonathan (2010 – present) adopts a broader approach to tackling Boko Haram, launching the Presidential Initiative for the North East to address local economic grievances. Jonathan awards several ministerial appointments to allies and may soon formally announce his intention to stand in the February 2015 elections. Oil marketing companies threaten to withhold supplies in an ongoing dispute with the federal government over overdue subsidy payments. The government is unlikely to embark on substantial reform of the subsidy system before the 2015 elections.

1.1 President Jonathan launches economic initiative to address Boko Haram threat

Boko Haram attacks in **Abuja** and possibly **Lagos** have continued to increase international and domestic scrutiny of President **Goodluck Jonathan's** (2010 – present) administration. Boko Haram claimed responsibility for a 25 June bomb attack that killed at least 22 people at the **Emab Plaza** shopping centre in Abuja's upscale **Wuse II** district and an explosion at the **Apapa** fuel depot in Lagos on the same day.¹ The Abuja attack certainly bore the group's hallmark but local authorities described the Lagos explosion as an accident. Sometime after the Apapa explosion an international media report quoted a **United Kingdom (UK)** military source as saying the pattern of the explosion was consistent with a bomb. Much later, on 13 July, Boko Haram claimed responsibility. If confirmed, this would be the group's first attack in Lagos. The government has responded with increased levels of security in both Abuja and Lagos.²

Foreign and local media continue to be scathing in their criticism of Jonathan. There has been a notable shift in tone in local media from initially accusing the government of incompetence to now alleging callousness in the failure to secure the release of the 200 female students seized in **Chibok**

¹ Vanguard, 7 Jul 2014.

² Source, Nigerian analyst, Lagos.



(see *ARC Nigeria May 2014 Briefing*).³ Jonathan is yet to meet with the parents of the missing students, cancelling a meeting with them at the last minute on 15 July, with his office accusing political activists of manipulating the parents to damage Jonathan politically.⁴ This followed the visit by **Pakistan** education activist **Malala Yousafzai** who urged Jonathan to hold face-to-face talks with the girls' parents. According to a member of Chibok's panel of elders:

*"It is embarrassing that the president had to wait for Malala to come all the way to Nigeria to convince him to meet with us three months after the attack."*⁵

Amid this criticism, Jonathan appears to be altering his strategy on the insurgency from seeking a narrow military solution to also addressing local political and economic grievances. An analyst described the new approach as "*carrots and bigger sticks*".⁶ On 22 June Jonathan launched the **Presidential Initiative for the North East**.⁷ Its stated aim is to provide emergency relief to one million people in the north over the next 18 months while providing jobs in reconstruction projects for 100,000 youth.⁸ Longer-term economic development plans include fostering closer regional trade links between the north and Nigeria's neighbours. It remains to be seen how much actual political commitment and resource the government will devote to this initiative.

The government also launched a programme to reintegrate defecting members of Boko Haram and established a **Victims Support Fund** committee chaired by former defence minister **Theophilus Danjuma** to provide financial support to victims of terror attacks.⁹

*"Insurgency can't be tackled through force alone – it's also a battle for hearts and minds; the local population must be given hope. We had it coming; root causes are to do with socio-economic problems, marginalisation didn't start yesterday; it's been going on for ages."*¹⁰

Jonathan remains committed to achieving a military solution. On 16 July he applied to the national assembly to seek \$1 billion in international loans to upgrade the equipment, training and logistics of Nigeria's security services.¹¹ Nigeria's security forces are in danger of becoming increasingly

³ Source, Nigerian analyst, Lagos

⁴ Source, Nigerian analyst, Lagos

⁵ Vanguard, 16 Jul 2014.

⁶ Source, Nigerian analyst, Lagos

⁷ Source, Nigerian analyst, Lagos

⁸ Source, Nigerian analyst, Lagos

⁹ Source, Nigerian analyst, Lagos

¹⁰ Source, extractive industries consultant, Abuja

¹¹ This Day, 16 Jul 2014.

politicised as elections approach in February 2015.¹² On 9 July **Mike Omeri**, coordinator of the **Joint Information Centre for Security**, said that federal security agents were investigating links between leading politicians and Boko Haram.¹³ Omeri claimed that security forces had recovered registration cards linked to the suspected politicians but refused to name them. Ruling **People's Democratic Party (PDP)** spokesman **Olisah Metuh** claimed that the opposition **All Progressives Congress (APC)** is disrupting a **British** investigation into Boko Haram's backers as it would, he further claimed, reveal links between the political party and the militant group.¹⁴ These allegations – which have dubious credibility – may be a signal of wider PDP intentions in the run-up to the 2015 elections, especially if the APC looks like mounting a serious challenge.

1.2 *Jonathan appoints allies to ministerial positions*

Jonathan has recently held a series of closed meetings with PDP party leaders, leading to speculation that he will soon declare his intention to stand for re-election in 2015.¹⁵ In addition, Jonathan has sought to strengthen his electoral position by awarding ministerial appointments to allies from several key provincial states.¹⁶ The most notable appointment was former **Kano State** governor **Alhaji Ibrahim Shakarau** as the new education minister. Kano is currently an APC stronghold under governor **Rabiu Musa Kwankwaso**, a possible APC presidential candidate, and will be important in the 2015 elections (see *ARC Nigeria June 2014 Briefing*).

Shakarau's appointment is significant as he is a longstanding opposition politician and contested the 2011 presidential election as the **All Nigeria Peoples Party** candidate. Shakarau decamped from the APC to the PDP in January 2014.¹⁷ He had been the leading APC representative in Kano before Kwankwaso defected in the other direction, from the PDP to the APC, in November 2013. The two politicians then competed over the support of the local APC party machinery before Shakarau chose to join the PDP. The ministerial appointment is therefore his reward for defecting.¹⁸

The APC is becoming increasingly vocal in its criticism of Jonathan and what they see as his using federal bodies for political purposes at a state level. An APC statement on 9 July accused the president

¹² Source, public affairs analyst, Abuja

¹³ Channels TV, 9 Jul 2014.

¹⁴ Daily Times, 14 Jul 2014.

¹⁵ Source, Nigerian analyst, Lagos

¹⁶ Vanguard, 9 Jul 2014.

¹⁷ Nigeria Guardian, 29 Jan 2014.

¹⁸ Source, western diplomat, Lagos

of using state security agents to harass APC members in, and of diverting resources from, the opposition-run **Rivers, Edo, Adamawa** and **Nasarawa** States.¹⁹ The APC also accused the federal government of increasing government spending in PDP states and linked this to the alleged failure of the **Nigerian National Petroleum Corporation (NNPC)** to remit \$49.8 billion in oil revenue to the federation account (see below).

Academic **Abdul Bulama** is the new science and technology minister. Bulama is from **Yobe State**, also an APC-run state in the north. Bulama has ties to Nigeria's **Independent National Electoral Commission (INEC)**: he was previously an electoral commissioner in the **Federal Capital Territory, Abuja** and **Rivers State**.²⁰ There is already concern that the PDP has too much influence over the INEC and has used federal appointment powers to fill it with loyalists.²¹ There is concern that this may undermine the independence and credibility of the INEC in any disputes before, during and following the 2015 elections.

The other recent ministerial appointments are PDP stalwart **Steve Oruh** as **Niger Delta** minister and **Adedayo Adeyeye** as works minister. Adeyeye contested, but did not win, the PDP candidacy for the **Ekiti** state gubernatorial election in June. The ministerial position is reward for his willingness to support the eventual PDP candidate (and election winner) **Ayodele Fayose**.

In a separate development, the PDP regained control of **Adamawa State** after the state assembly impeached APC governor **Murtala Nyako** following allegations of corruption. The number of governors that Jonathan can depend on is significant as each will bring an electoral war chest and influence who their state votes for in the presidential election.

1.3 Oil marketing companies threaten to withhold supplies

There is an increased risk of fuel shortages in Nigeria in the coming weeks after oil marketing companies threatened to withhold supplies in an ongoing dispute with the federal government over overdue subsidy payments.²² The marketing firms have threatened to reduce imports of petroleum

¹⁹ Premium Times, 9 Jul 2014.

²⁰ Daily Trust, 12 Jul 2014.

²¹ Source, western diplomat, Lagos

²² The Guardian, 3 Jul 2014.

products in the third quarter (July – September) unless the government pays subsidy claims of approximately 300 billion naira (N) (\$1.85 billion).

The downstream regulator **Petroleum Products Pricing Regulatory Agency (PPPRA)** has responded to the backlog of claims by reducing the number of companies licensed to import gasoline in the third quarter to 27 from 40 in the previous three months.²³ The PPPRA expects these companies to have the capital to complete their contracts while waiting for subsidies to be processed, but expects a drop in petroleum imports in the third quarter to 1.7m tonnes compared to the 1.85m tonnes imported in the second quarter.²⁴ The state-owned **Pipelines and Product Marketing Company** has said it will also import approximately 1.4m tonnes from July to September – similar to previous quarters – using crude-for-product swap agreements with traders.

According to the **Nigeria Extractive Industries Transparency Initiative (NEITI)**, the reason behind the delayed subsidy payments is administrative inefficiency and a lack of capacity at the finance ministry.²⁵ The office of the accountant general has requested that affected petroleum companies now submit letters of indemnity as an additional step before securing payment.²⁶ This will reduce the risk of the government being considered liable during any litigation between commercial banks and petroleum marketers who have secured loans against future subsidy payments.

The NEITI has called for the government to transfer the management of the subsidy programme from the finance ministry to the **Petroleum Support Fund (PSF)** which the PPPRA manages. The government established the PSF in 2006. Under the current system, the PPPRA provides a benchmark price for landing costs (the “ex-depot” price) before determining the actual costs. If the ex-depot payment is too low, the marketers receive the difference. If the ex-depot payment is too high, marketers themselves pay the difference, which is then placed in the PSF to cover future payments to marketers. Subsidy payments are taken from the NNPC’s sale of crude. The Nigerian government adopted the system to reduce the processing times for subsidy claims. In theory, payments are expected to take 45 days.

²³ Reuters, 2 Jul 2014.

²⁴ Reuters, 2 Jul 2014.

²⁵ www.neiti.org.ng.

²⁶ Premium Times, 2 Jul 2014.

The system is cumbersome and prone to abuse. The PPPRA authorises and audits import cargoes, the finance ministry authorises the payments, before the **Central Bank of Nigeria (CBN)** administers the remuneration. The NEITI wants the PPPRA to be responsible for authorising the payments, with the CBN administering them. It claims that having one body responsible for auditing and authorising payments would reduce the opportunity for corruption and racketeering,

“Contracts to import products are often significantly inflated and, in many cases, product importers and marketers have simply claimed subsidy payments without actually supplying product or, at the same time, diverting products to neighbouring countries for sale at market prices.”²⁷

At the same time, pressure is increasing on the government to end fuel subsidies entirely. In April, the **Federation Accounts Allocation Committee** that manages the federation account called on the government to abolish the subsidies.²⁸ NNPC managing director **Andrew Yakubu** argued in July that the removal of subsidies is crucial to the deregulation of the downstream sector, which would in turn encourage private investment.²⁹ On 10 July, the senate accepted a committee report clearing the NNPC of failing to remit \$49.8 billion in oil revenue to the federation account.³⁰ The committee also recommended that the government abolish the fuel subsidy but the senate rejected this proposal.

It is unlikely that Jonathan will consider systematic reform of the subsidy system before the February 2015 elections. Previous attempts to reform the system or privatise Nigeria’s four state refineries have triggered protests, most notably a six-day general strike and the deployment of government troops in Lagos in January 2012.

“Since 2000, hikes in petrol prices have attracted massive protests from labour unions and each protest has ended in compromises brokered between the unions and the government. As such, attempts to remove the fuel subsidy have always tended to come with varying levels of unrest.”³¹

2 Implications

The implementation of Jonathan’s softer approach to ending the Boko Haram insurgency is likely to be slow and patchy, with political rhetoric not being matched by delivery on the ground. The threat of

²⁷ Source, former presidential adviser, Abuja

²⁸ <http://energymixreport.com/no-going-back-on-subsidy-removal-says-faac/>

²⁹ Vanguard, 15 Jul 2014.

³⁰ Vanguard, 10 Jul 2014.

³¹ Source, former presidential adviser, Abuja

further terror attacks in Abuja remains especially high, as Boko Haram seeks to take its campaign to the heart of the federal establishment. Continued insecurity will undermine Jonathan's electoral credibility among the wider electorate as well as his chances in the February 2015 elections. However, he remains in charge of the huge federal government patronage machine, and the appointment of allies as ministers shows an ability to project deep into APC-controlled territory. The evidence suggests that he will formally announce his intention to stand in the next elections soon.

Fuel price inflation would likely trigger street protests in urban Nigeria, so the government will defer any serious attempt to reform the subsidy system until after the elections. However, the expected shortages may drive prices upwards in any case in the second half of the year. Jonathan will be alive to the political risk of this happening and so the government and marketing companies are likely to reach a compromise deal to ensure that supplies are restored and required reserves released. The likely compromise may involve the offer of a crude-for-product swap agreement or partial subsidy payments.