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President Muhammadu Buhari (2015- present) appoints retired brigadier general Paul Boroh coordinator of the Presidential Amnesty Programme (PAP) in the Niger Delta. The absence of leadership at the PAP has encouraged former militants to threaten a return to violence. The Buhari administration plans to retain fuel subsidies for at least the next quarter. The downstream sector expects Nigeria's refining capacity to increase as reform of the Nigerian National Petroleum Corp (NNPC) takes effect. Debt Management Office (DMO) data show Nigeria's worsening debt profile, with foreign debt reaching \$10.32 billion at the end of June.

Buhari appoints new head of the Presidential Amnesty Programme

A key appointment at the **Presidential Amnesty Programme (PAP)** is expected to ease tensions in the **Niger Delta** that have increased since the March general election. The 2009 amnesty programme provides vocational and financial incentives for not challenging the government or disrupting oil production.¹ President **Muhammadu Buhari** (2015- present) on 28 July appointed retired brigadier general **Paul Boroh** coordinator of the PAP and presidential special adviser for the Niger Delta.²

The appointment is significant for the stability of the Niger Delta in both the short and the longer term. The Niger Delta is a potential source of trouble for Buhari as it is the heartland of the now opposition **People's Democratic Party (PDP)**. Following the general election, it is no longer the region of the party of government but an opposition stronghold. Militancy in the region emerged in the early 1990s as local communities sought a greater share of the Niger Delta's oil revenues from the federal government. The militancy reduced after the election of former president **Goodluck Jonathan** (2010-2015) provided militants and local elites with direct access to government decision makers. Jonathan was the first **Ijaw** president from Niger Delta's **Bayelsa State**.

Boroh's appointment fills a gap in PAP leadership after **Kingsley Kuku** resigned following the March general election. Kuku was a close ally of Jonathan.³ Prior to his appointment, Kuku was a spokesperson for a number of violent militant groups and became "*almost resident in the presidential villa*" as special adviser to Jonathan on Niger Delta affairs.⁴ The leadership gap had resulted in increased tensions in the Niger Delta. Without a coordinator to authorise payments, international universities and companies had suspended Nigeria-government sponsored students.⁵ Former militants had reportedly returned to the Niger Delta and threatened a return to violence if stipends did not resume.⁶

Militant groups including the **Leadership, Peace and Cultural Development Initiative** and the politically influential **Ijaw Youth Council** have welcomed Boroh's appointment.⁷ Former **Movement**

¹ Source, security consultant, South Africa

² Nigeria Guardian, 28 Jul 2015.

³ Source, former presidential adviser, Abuja

⁴ Source, former presidential adviser, Abuja

⁵ Nigeria Guardian, 28 Jul 2015.

⁶ Nigeria Guardian, 28 Jul 2015.

⁷ Nigeria Guardian, 28 Jul 2015.

for the Emancipation of the Niger Delta leader **Government Ekpemupolo ‘Tompolo’**, a “major illegal bunkerer and pirate”,⁸ hailed the appointment as a sign of Buhari’s commitment to the Niger Delta.⁹ The appointment of a retired military officer may also reassure the Nigerian military which has long questioned the wisdom of the amnesty programme. Boroh has served on numerous regional **United Nations** and **Economic Community of West African States** peacekeeping missions.

*“Amnesties embolden would-be agitators; what do you do with **Oodua Peoples Congress** and the **Movement for the Actualization of the Sovereign State of Biafra** etc? There are pockets of militancy all over the country; it’s due to inequality in distribution of resources. The government has been paying lip service to infrastructural development which must go side by side with human development; up till now both have been so disjointed.”¹⁰*

Buhari is expected to renew the Niger Delta amnesty programme, scheduled to end in December.¹¹ The scheduled end of the PAP had increased tensions in the Niger Delta where the programme has been a key contributor to reducing militancy in the region.¹²

The amnesty programme has provided a source of business and patronage opportunities for former militant leaders. Central to this is the awarding of pipeline surveillance contracts. Local communities in the Niger Delta view these contracts as compensation for their states sharing oil revenue with non-producing states. Jonathan awarded the majority of pipeline surveillance contracts to his Ijaw ethnic group which is in the minority in a number of key oil producing regions. The risk of militancy in the Niger Delta has increased, amid a “perfect storm” of a northern president assuming office in the year that the Niger Delta amnesty ends.¹³

“The paradox and tragedy regarding the Niger Delta amnesty programme is that it was hijacked by the very same people who were expected to make it work. It’s evident that a significant number of those being trained abroad, at considerable expense to taxpayers, were not the same people engaged in militant activities. Under Buhari’s watch and with the appointment of a new coordinator for the programme, we can expect a lot more transparency and focus.”¹⁴

Buhari’s election victory and concerns that former militant leaders would lose out on lucrative government contracts, notably security in the oil sector, had increased concerns about a return to militancy.

“For now [the security situation] is a bit dicey. Militant chieftains had a field day under the previous administration with oil bunkering and pipeline protection deals. They became reckless and now that they’ve lost lucrative contracts, may have to sell off acquired assets. It could get to a point when they run out of assets and decide to return to their past activities.”

*Despite Jonathan and the amnesty programme, there has been no noticeable development in the Niger Delta region. Abuse of the programme led to some militants becoming super-rich, which in itself has hindered development; a case in point is the large gas project in **Delta State** stalled due to a personality/ego clash between two ‘warlords’. Good thing is there is now an ex-military person in charge who understands the terrain.”¹⁵*

Nigeria to retain fuel subsidies for short term...

Contrary to expectations, the government has said it will retain fuel subsidies even as it looks to decrease its recurrent expenditure. Buhari on 14 July said the government will retain fuel subsidies

⁸ Source, former presidential adviser, Abuja

⁹ www.PunchNg.com

¹⁰ Source, retired military officer and former minister, Ughelli

¹¹ Source, analyst, Lagos

¹² Source, analyst, Lagos

¹³ Source, think tank analyst, Nigeria

¹⁴ Source, consultant, Lagos

¹⁵ Source, entrepreneur, Warri

for at least the next quarter.¹⁶ As oil revenues continue to decline due to low oil prices, the government may need to increase its borrowing to meet its fuel subsidy requirements and other spending commitments (see below). Buhari's transition committee had called on him to remove the fuel subsidies. However, without a government in place, Buhari has a free hand over decision making. Buhari said he would review the case for removing fuel subsidies but that his priorities in the oil and gas sector are curbing insecurity, corruption and mismanagement.¹⁷ Buhari said a fuel price increase would increase transport, food and rent costs and therefore inflationary pressures. The government owes approximately 159 naira (N) (\$800m) in back payments to fuel importers.¹⁸ **Ecobank** estimates that the cost of fuel subsidies in the next quarter will exceed the N100 billion (\$503m) allocated for the entire year.¹⁹ There is also concern that fuel subsidies contribute to smuggling into neighbouring markets where the price of fuel is not artificially low.

*"Subsidies are uncalled for and should be removed. Most of the products end up being taken across the borders for hard currency."*²⁰

Fuel subsidies are a politically sensitive issue. The subsidy on petrol and other petroleum products was introduced in 1973 to stabilise the price of fuel and insulate Nigerians from the fluctuation of the global market price "... for forty years, Nigerians have been paying almost half the global market price for petrol".²¹ A previous attempt to lift subsidies in 2012 triggered violent protests. Public objections forced Jonathan to reinstate the subsidies, albeit with a 50% increase in prices. The Jonathan government considered using the current slump in oil prices to reform the subsidy programme and deregulate the downstream sector but chose not to in the run up to the elections.

The fuel subsidy is expected to remain in place until domestic refining capacity increases. There is a long record of mismanagement and underinvestment in Nigeria's oil refining sector, culminating in an aborted attempt to privatise its refineries in 2013 (see *ARC Briefing December 2013*). Nigeria's offline refineries are set to resume operations this month.

*"Refineries could have worked all these years – policies by government destroyed them since there was more money to be made from importing products."*²²

The continuation of fuel imports increases uncertainty around refineries. Nigeria's refineries are expected to operate at only 40% capacity utilisation and generate at least 20% of the country's gasoline demand.²³ However, this depends on continued stability in the Niger Delta and securing domestic financing for planned refineries.²⁴ While the 650,000 barrels per day (bpd) **Dangote Refineries** has access to a cash line from its **Dangote Group** parent company, the planned 450,000 bpd **Independent Petroleum Marketers Association of Nigeria (IPMAN)** refinery remains dependent on securing domestic financing.²⁵

... even as oil sector reforms raise expectations about refining

There is an expectation that the performance of Nigeria's refineries will improve with Buhari's reform of the oil and gas sector. On 4 August Buhari appointed **Emmanuel Ibe Kachikwu** managing director of the **Nigerian National Petroleum Corp (NNPC)**.²⁶ The appointment is part of Buhari's efforts to reform the oil sector and follows the dissolution of the NNPC board in June. Kachikwu is a technocratic appointment. He was formerly vice chairman and general counsel of **Exxon-Mobil**

¹⁶ Vanguard, 14 Jul 2015.

¹⁷ Vanguard, 14 Jul 2015.

¹⁸ Vanguard, 14 Jul 2015.

¹⁹ Reuters, 16 Jul 2015.

²⁰ Source, retired military officer and former minister, Ughelli

²¹ Source, former presidential advisor, Abuja

²² Source, retired petroleum engineer, Warri

²³ Ecobank research, Aug 2015.

²⁴ Ecobank research, Aug 2015.

²⁵ Ecobank research, Aug 2015.

²⁶ Vanguard, 4 Aug 2015.

(Africa) and previously held a number of positions at **Texaco Nigeria Ltd.**²⁷ Kachikwu has reshuffled the NNPC's management, notably appointing crude oil marketing division general manager **Gbenga Komolafe** as group general manager of special duties.²⁸ Kachikwu also demoted general manager of the crude oil marketing division **Musa Usman**, making his position an acting one.²⁹

*"The recent change of guard at the NNPC under the close scrutiny of a no-nonsense president should result in sustained output from the refineries. Naturally, the volume of petrol and allied imports will drop and with it the subsidy disbursements. Importation will continue for a while because local refining capacity is unable to meet domestic demand. The government intends to continue with petroleum product subsidies at least in the short to medium term; they may decide to make a hard call regarding these at some later stage."*³⁰

Buhari plans to restructure the NNPC, partitioning its regulatory and investment functions.³¹ This is likely to meet resistance within the NNPC which sees any attempt at restructuring as an effort to "clip its wings".³² Buhari has also said there would be a new competitive bidding round, but provided no timeframe for either the restructuring or the bidding round.³³ The partition of the NNPC is broadly in line with the long overdue **Petroleum Industry Bill (PIB)**. The PIB includes the restructuring of the NNPC into a commercial **National Oil Company** and **National Gas Company**. The PIB also includes the creation of upstream and downstream regulatory agencies, greater policy and appointment powers for the petroleum minister, and emphasis on transparency.

Debt Management Office data show worsening debt profile

High government expenditure is contributing to Nigeria's worsening debt profile. The **Debt Management Office (DMO)** published figures on 28 July showing increased debt obligations. The uncertain political environment with Buhari yet to appoint a government, continued low oil prices and the expected tightening of **United States** monetary policy are contributing to increased debt. The DMO data revealed that foreign debt reached \$10.32 billion at the end of June, a 10% increase from \$9.38 billion in 2014.³⁴ Offshore debt in naira terms increased 39.1% to N2.03 trillion (\$10.2 billion).³⁵ The DMO cited the weaker currency for this increase, noting that the naira had lost 20.9% during the past year.³⁶ The DMO said domestic debt reached N8.40 trillion (\$43 billion) at the end of June compared to N7.42 trillion (\$37.2 billion) a year earlier.³⁷ Primary issuance of bonds declined from N240 billion (\$1.2 billion) in the first quarter to N210 billion (\$1.5 billion) in the second quarter.³⁸ Domestic debt is equivalent to 9.4% of 2014 GDP.³⁹

Implications

Boroh's appointment will reduce tensions in the Niger Delta. However, the scheduled end of the amnesty programme poses the greatest risk to stability in the region. Any resumption of militancy in the Niger Delta would include an increase in oil bunkering, the sabotage of oil infrastructure and the kidnapping of foreign expatriates employed in the oil industry. The most probable scenario is that Buhari will renew the amnesty programme. Should Buhari look to renegotiate pipeline surveillance

²⁷ Vanguard, 4 Aug 2015.

²⁸ Punch, 7 Aug 2015.

²⁹ Punch, 7 Aug 2015.

³⁰ Source, consultant, Abuja

³¹ Punch, 25 Jul 2014.

³² Source, investment banker, Nigeria

³³ Punch, 25 Jul 2014.

³⁴ DMO press release, 29 Jul 2015.

³⁵ DMO press release, 29 Jul 2015.

³⁶ DMO press release, 29 Jul 2015.

³⁷ DMO press release, 29 Jul 2015.

³⁸ DMO press release, 29 Jul 2015.

³⁹ DMO press release, 29 Jul 2015.

contracts as part of the renewal, it will increase the risk of reprisals from former holders. Increased militancy will disrupt oil and gas supplies putting further pressure on government revenue.

The retention of fuel subsidies will undermine the downstream oil sector, notably deterring the required investment in Nigeria's dilapidated refineries. Continued government failure to ensure the speedy payment of subsidies claims will exert liquidity pressure on fuel marketers. Oil revenue will remain low, especially as the ending of sanctions against **Iran** will prolong the global glut in international prices.

Kachikwu's appointment alone will not ensure the necessary improvement in leadership required at the NNPC. Wider reform is necessary including ending the sale of oil to middlemen rather than end users, as well as the use of crude oil for refined oil swap agreements.

Despite the DMO figures, Nigeria's debt ratios remain broadly favourable. In the longer term, whether Nigeria is able to remain current on payments will depend on economic diversification beyond oil sector revenues. It is uncertain whether the Buhari administration will maintain Jonathan's borrowing strategy.