

AFRICA RISK CONSULTING

Nigeria Monthly Briefing June 2020

Nigeria Summary 28 June 2020

Covid-19 and Nigeria's long-standing economic crisis are set to come to a head in the next two months. The Covid-19 crisis has brought Nigeria's most acute problems to the fore at once and forced a watershed moment. It has led to a shift in direction from a strongly statist, northern nationalist approach to re-introducing the ruling All Progressives Congress (APC) reforms. Covid-19's impact has been seismic and has unleashed other political changes that will shape the remainder of President Muhammadu Buhari's (2015-present) term and Nigeria's direction in the post-Covid age. The National Economic Council approves the Nigeria Economic Sustainability Plan (NESP), the government's 12-month 2.3 trillion naira (\$5.9 billion) response to Covid-19. The International Monetary Fund's revised forecast sees a greater economic contraction, born out as National Bureau of Statistics says Covid-19 has hit nearly all sectors. There is no sign of the proposed foreign exchange liberalisation and shortages remain acute.

Covid-19 crisis prompts political policy shifts ...

Covid-19 has provoked an imminent health crisis that **Nigeria** has neither the resources nor the infrastructure to manage. The pandemic has accelerated an economic crisis that had been looming – Nigeria is facing the prospect of not being able to pay its civil service salaries by August as oil prices hover around the \$38 per barrel (p/b) mark. This also means that the state will be unable to meet its commitments to the **Amnesty Programme**, which pays militants in the **Niger Delta** to keep the peace, raising the risk that violence will resume there. Meanwhile, on the north-eastern borders Islamist extremist militant attacks continue to cause large-scale loss of life and displacement and threaten the security of the country's north-eastern borders.

The extent of the crisis has propelled Nigeria's ruling party to make some significant shifts in policy direction. Ironically, the pandemic has played a tragic hand in bringing this with the death of the former chief of staff and de facto head of government, **Abba Kiyari** (see *ARC Briefing Nigeria April, May 2020*). The new chief of staff, **Ibrahim Gambari**, has spent the previous month dismantling the insular, northern nationalist cabal that has controlled the presidency since President **Muhammadu Buhari** (2015-present) came into office.

The new chief of staff's two main areas of focus are to reverse the insularity of the Buhari-centred state and a foreign policy that focuses on restoring Nigeria's position at home, in the immediate region and then in the international arena. Under the Buhari-Kiyari presidency, Nigeria's voice in **African** affairs has become unheard. Gambari – a former diplomat – has sought to change this immediately and has resumed Nigeria's payments to the **African Union** in order to restore Nigeria's position in that organisation.

His second policy tenet is peace and security, notably on Nigeria's north-western borders. Since coming into office, he has made several senior security appointments, including a retired colonel and a former inspector general of police, as well as people with international experience. This is to respond to the mounting pressure from Nigeria's several security crises: the fight against **Boko Haram** in the northeast; continuous community, religious violence between Christians and Muslims; violence between **Fulani** herdsmen and settled populations; and the risk of violence re-emerging in the oil producing states of the **Niger Delta**.¹

¹ ARC source, Abuja 24 Jun 2020

The political changes in the presidency have had an immediate impact on the political sphere in an immediate concentric circle from the presidency. Kiyari's death on 17 April unleashed a power struggle at the heart of the ruling **All Progressives Congress (APC)**, which, with the momentum of the Covid-19-led economic crisis, has seen the progressive reformist wing move into the ascendancy. This has left former political king maker, former **Lagos State** governor and APC party funder **Bola Tinubu** out in the cold. Tinubu, often referred to as "*national leader*" of the APC, played a key role in a political merger in 2013 which created the APC.²

It is too early, and Tinubu too wily, to believe that this has put paid to his presidential ambitions for 2023. However, Tinubu's ambitions have suffered a significant setback, particularly after President Buhari sided with Tinubu's opponents in the raging feud over the control of the ruling party, backing **Victor Giadom** as the acting chair of the party and setting up a temporary steering committee to run the party until a national election can be held. Sources report that even Lagos State governor **Babajide Sanwo-Olu**, who might traditionally have supported his predecessor in Tinubu, was looking happy with the result of changes in the ruling party.³

Progressives now carry most of the party leadership and governors. **Kaduna State** governor and APC founding member **Nasir Ahmad el-Rufai** leads the progressive reformist wing, which includes party stalwarts like transport minister **Rotimi Amaechi** and former Lagos State governor **Babatunde Fashola**, all considered younger progressive party members. Sources report that this is a "*big moment for Nigeria*", as these political changes in the presidency have facilitated re-introducing the reform agenda – the ticket on which Buhari came into office. Changes in the presidency and in the party have, also, led to speculation that a cabinet reshuffle is imminent.⁴

... as government outlines its intervention ...

The immediate concern is Nigeria's acute economic crisis, which the pandemic has greatly exacerbated and which has propelled the government into action. On 26 June, the national economic council (cabinet and states governors) approved the **Nigeria Economic Sustainability Plan (NESP)**, the government's response to Covid-19. The plan – which was developed under the auspices of the vice president, **Yemi Osibajo**, with the central bank governor, the head of the **Nigeria National Petroleum Corporation (NNPC)** and several cabinet ministers – is a 12-month 2.3 trillion naira (\$5.9 billion) plan, which, on the one hand, nods to Buhari's "*local content and self-reliance*" leanings with programmes to improve agricultural production in every state, a massive public works programme to employ 774,000 direct jobs via local government, and a mass housing programme via local cooperatives.⁵ It also adds essential measures to ensure liquidity, prevent business collapse and stave off the worst elements of recession and aims to cut unnecessary costs through (long-awaited) rationalisation of government departments and payroll.

Nigeria Economic Sustainability Plan	
Intervention	Description
Mass agricultural programme (MAP)	Cultivation of 20,000 and 100,000 ha in every state
Infrastructure	Employ 1,000 youths per local government area in public works programme, total of 774,000 direct jobs. Construct and repair local roads;
Mass housing programme	Artisans and young people to organise into small and medium-sized cooperatives to build 300,000

² Premium Times, 24 Jun 2020.

³ Premium Times, 25 Jun 2020

⁴ Source former bureaucrat, Abuja, 26 Jun 2020

⁵ State House Press release, 24 Jun 2020.

	per year;
Installation of solar home system	Supply 5 million households not connected to the grid with solar equipment manufactured in Nigeria;
Invest in healthcare infrastructure	World Bank funded programme to specifically support Covid-19 intervention in the states
Informal sector support	Government will make available low interest loans and will ease procedures for registration, licensing, permits to support micro businesses
Business support for medium-sized enterprises	Payroll support to ensure employees maintain their jobs across critical sectors notably pharmaceutical, aviation, hotels, hospitality, private schools, road transport, technology companies;
Technology	Provide all Nigerians with a digital identity to support inclusion. Plan includes expanding broadband reach.
Expansion of national social investment programmes	Increase the number of cash transfer beneficiaries to reach the extreme poor and most vulnerable;
Cut non-essential spending	Rationalisation of government agencies and expand the state payment system to cover all federal government employees. Cuts planned to all non-critical expenditure e.g. vehicles, except for ambulances, fire fighting vehicles
Support for states' governments	Provides for collaboration between states and federal government over mass housing, agriculture, off-grid power projects. Encouragement to states to meet World Bank conditions to allow them to achieve external financing and support.

Finance minister **Zainab Ahmed**, who presented the NESP, highlighted that the Covid-19 pandemic had served as a catalyst for economic reforms. Ahmed said the pandemic has helped the country to take a critical look at its health infrastructure and pushed it to fast-track key economic reforms which were too difficult to do before now, such as rationalising government departments, removing the fuel subsidy, and moving towards a single window exchange rate and measures to boost the oil and gas sector, and cutting the high costs of operations.

Sources in Nigeria report that the full impact of the economic crisis hit home when the cabinet realised that 90% of the country's budget was on debt servicing and the remainder on recurrent spending (salaries and state spending) with no room for capital spending. Without the cushion of a reasonable oil price (above \$40/b), there has been a sharp realisation in government circles that unless it is able to win debt relief or additional borrowing, the government will not be able to meet the national wage bill by August.

Ahmed – who secured an initial emergency funding from the **International Monetary Fund (IMF)** of \$3.4 billion – is expected to return to the IMF and international donors for further funding. The IMF's initial lending has opened the door to additional lending and released suspended lending: the **World Bank** announced on 24 June that it had approved a \$750m loan to help the government meet its obligations to the private power producers – and is again indicative that there has indeed been a change in mood and policy direction.

The World Bank loan is the first tranche of a \$3 billion loan agreed four years ago to support the government to finance its commitments to private power producers to pay for delivery of power. The funding was first mooted to pay the private sector and independent power producers as part of their contract with the government to develop and deliver power to ensure uninterrupted electricity supply. However, the cabal of presidential gatekeepers rejected the World Bank support because Kyari was ideologically hostile to the IMF, World Bank and private power producers – with the result that several thousand kilowatts of generated power were not distributed daily.

... a worse than expected economic contraction is forecast ...

The IMF's **World Economic Outlook** has cut the country's gross domestic product (GDP) forecast and says the economy will shrink by 5.4% – a considerably worse forecast than that which it made in April when it forecast Nigeria's economy would contract by 3.4% this year.⁶

National Bureau of Statistics head **Yemi Kale** has borne this out with an equally troubling forecast of a sharp plunge in output in the second quarter of 2020 as the coronavirus pandemic is expected to affect 90% of sectors.⁷ With the chance of a pick-up in the economy slim, Nigeria could be in a technical recession between July and September 2020, Kale said. Preliminary numbers showed that only a small fraction of the 46 sectors of the Nigerian economy did not contract in Q2, and an extremely negative performance is expected in the quarter.

The impact of an initial lockdown of **Lagos, Abuja** and **Ogun** affected household spending, which accounts for about 70% of GDP. Kale also expects the economy to contract by the end of the year with a long road to recovery, despite 1.87% growth in Q1.

The combination of Covid-19 and a sharp decline in output is expected to impoverish some five million people, according to the World Bank, as the virus triggers Nigeria's worst recession since the 1980s.⁸

... and forex shortages start to hit business

Nigeria is facing a \$7 billion foreign exchange demand backlog that is reminding business of the last forex crisis in 2016 when manufacturers and investors battled to get currency. The estimate of \$7 billion was arrived at by bankers who say manufacturers have unmet dollar demand of \$2 billion, while foreign equity investors and foreign holders of the **Central Bank of Nigeria (CBN)**'s Open Market Operation (OMO) bills account for about \$5 billion combined.

The CBN maintains there is enough liquidity to meet "*legitimate*" dollar demand, but bankers, manufacturers and foreign investors say the apex bank is struggling to fulfil dollar obligations despite repeated assurances, particularly to foreigners seeking to repatriate money.

The government is under pressure from the IMF, which has urged the expeditious re-unification of the exchange rate but there is no sign, yet, of this taking place. The naira still trades 20% weaker in the parallel market.

⁶ IMF World Economic Outlook June 2020, 24 Jun 2020

⁷ Business Day (Nigeria) 17 Jun 2020

⁸ World Bank Nigeria Development Update (NDU) 26 Jun 2020

Planner

2023 (Nigeria) Presidential elections;

Chronology

24 Jun 2020 (Africa) *Disrupt Africa*. **United Kingdom**-based **African Private Equity and Venture Capital Association** releases its inaugural report on Africa's investment landscape, showing that the continent had deals worth \$3.9 billion between 2014 and 2019, that fintech and information technology dominated the start-up scene and that **South Africa**'s venture capital ecosystem accounted for 21% of deals, followed by **Kenya** (18%) and **Nigeria** (14%);

24 Jun 2020 **Abuja (Nigeria)** *Africanews*. **World Bank** approves a \$750m loan for **Nigeria**'s power sector, the first release of funds after years of stalled talks over long-term reforms;

23 Jun 2020 **Abuja (Nigeria)** *Nairametrics*. President **Muhammadu Buhari** expresses concern over the decision of some **West African** nations to replace their currencies with the **Eco** ahead of the rest of the member countries of the **Economic Community of West African States**;

23 Jun 2020 **Abuja (Nigeria)** *Nairametrics*. **Debt Management Office** head **Patience Oniha** says **Nigeria** has no plans to source debt from the **Eurobond** market this year as it shifts its focus to domestic borrowing and sourcing from concessional sources.

22 Jun 2020 **Lagos (Nigeria)** *The East Africa*. Government condemns an attack on 19 June on its high commission in **Ghana** as an "act of aggression";

17 Jun 2020 **Abuja (Nigeria)** *Bloomberg*. **Switzerland**-based citizenship and residency advisory firm **Henley & Partners**, which helps the rich acquire second passports, is to set up an office in **Nigeria** in response to a surge in demand for its services in **Africa**;

16 Jun 2020 (Africa) *EMPEA*. **United States**-based **International Finance Corporation** agrees to invest up to \$128.5m in **African** businesses, including a \$100m senior loan to **Nigeria**-based **Zenith Bank**, an \$11m senior loan to **Tunisia**-based date processor **VACPA**, a \$7.5m investment in **Mozambique**-based agribusiness **Westfalia Fruto Mozambique** and a \$10m investment in **Egypt**-based electricity meter manufacturer **Globaltronics**;

16 Jun 2020 **Abuja (Nigeria)** *Nairametrics*. **National Association of Resident Doctors** begin an indefinite nationwide strike to protest low salaries, crippling **Nigeria**'s response to the **coronavirus** pandemic as cases continue to rise steadily;

13 Jun 2020 **Abuja (Nigeria)** *Punch*. President **Muhammadu Buhari** announces a special public works programme aimed at cushioning the effects of economic downturn on the youth population by creating more than 700,000 jobs;

13 Jun 2020 **Abuja (Nigeria)** *CNN*. **United States**-based media streaming service and producer **Netflix** partners with **Nigeria**-based filmmaker **Mo Abudu** to create new content from **Nigeria**;

11 Jun 2020 (Africa) *Reuters*. **World Health Organization Africa** chief **Matshidiso Moeti** says "until such time as we have access to an effective vaccine, I'm afraid we'll probably have to live with a steady increase in the region";

11 Jun 2020 (Africa) *AfDB*. **African Development Bank** board approves \$20m grant funding to contain the spread of **covid-19** in **G5 Sahel** nations;

11 Jun 2020 **Abuja (Nigeria)** *Nairametrics*. **Senate** passes a revised 10.8 trillion naira (\$30 billion) 2020 budget – 300 billion naira (\$767m) larger than the revised budget plan that President **Muhammadu Buhari** submitted to parliament in December – based on oil prices at \$28 per barrel;

11 Jun 2020 **Abuja (Nigeria)** *Forbes*. **United States**-based business magazine **Forbes** and the

world's largest digital accelerator, **Global Startup Ecosystem**, partner to create **Nigeria's** first resilience digital startup accelerator programme;

10 Jun 2020 **(Africa)** *NRC*. Non-governmental organisation **Norwegian Refugee Council** reports that **Africa** is home to 9 of 10 most-neglected crises across the world – in **Cameroon, DRC, Burkina Faso, Burundi, Mali, South Sudan, Nigeria, Central African Republic, Niger** and **Venezuela** – and that the humanitarian crises in these countries are expected to worsen throughout 2020 amid the **coronavirus** pandemic;

10 Jun 2020 **Abuja (Nigeria)** *Reuters*. **Nigerian National Petroleum Corporation** head **Mele Kyari** says **Nigeria** did not fully comply with an **OPEC+** deal to rein in oil output to balance markets but will make additional cuts to make up for the lapse by mid-July;

6 Jun 2020 **Abuja (Nigeria)** *Nairametrics*. **African Development Bank** approves a \$288.5m loan to help **Nigeria** tackle the **covid-19** pandemic, and says it has instituted strong fiduciary measures to monitor the use of the funds;

4 Jun 2020 **(Africa)** *Reuters*. **African Development Bank** board stands by an internal investigation that cleared its president, **Akinwumi Adesina**, of improper conduct, but says it will carry out an independent review of the report in the interest of due process;

4 Jun 2020 **(Africa)** *Bloomberg*. **Africa's** sovereign bonds have been among the biggest beneficiaries of the risk-on mood sweeping global markets as economies reopen from **coronavirus** lockdowns - **Gabon** and **Nigeria** posted returns of more than 30% this quarter, while **Ghana, South Africa** and **Egypt** are deep into double digits;

28 May 2020 **Abuja (Nigeria)** *Punch*. President **Muhammadu Buhari** submits a severely revised 2020 budget of 10.51 trillion naira (\$29.19 billion) to parliament for approval;

27 May 2020 **(Africa)** *Africanews*. **African Development Bank** board agrees to an independent probe of its president, Nigerian national **Akinwumi Adesina**, after the **United States** rejects an internal investigation that cleared him of allegations of favouritism;

27 May 2020 **Abuja (Nigeria)** *Punch*. President **Muhammadu Buhari** directs finance ministry to commence the pre-engineering and concessionary financing aspects of the power sector revamp with **Germany**-based **Siemens AG**;

25 May 2020 **(Africa)** *Africanews*. **United States** treasury secretary **Steven Mnuchin** rejects plans by the **African Development Bank's** board to end an investigation into its president, Nigerian national **Akinwumi Adesina**, and calls for an independent probe into allegations of favoritism against him;

25 May 2020 **Abuja (Nigeria)** *Nairametrics*. **National Bureau of Statistics'** latest **Internally Generated Revenue** report says the economy grew 1.87% in the first three months of 2020 from a year earlier, the slowest quarterly growth rate in one-and-a-half years;

22 May 2020 **Abuja (Nigeria)** *Nairametrics*. Finance minister **Zainab Ahmed** says the Nigerian economy is going into recession and could contract by 8.9% this year due to the **coronavirus** pandemic and a crash in oil prices;

22 May 2020 **Abuja (Nigeria)** *Oil Price*. A **London (United Kingdom)** judge dismisses a lawsuit against **Italy**-based **Eni** and **United States**-based **Shell** brought by the **Nigerian** government alleging that the oil and gas supermajors knew about \$1.1 billion in bribes given to secure an oil licence in Nigeria nearly a decade ago;

19 May 2020 **Abuja (Nigeria)** *Reuters*. **Central Bank of Nigeria** governor **Godwin Emefiele** encourages local companies to boost manufacturing and food production, saying the bank is willing to provide hard currency for imports of machinery and raw materials that cannot be sourced at home, after **coronavirus** disrupted imports and created large financing needs;

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Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

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