

## AFRICA RISK CONSULTING

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#### Nigeria Summary 21 January 2015

**As the incumbent, President Goodluck Jonathan (2010 – present) is well placed to win the 14 February election but momentum is with opposition candidate Muhammadu Buhari amid continued Boko Haram attacks. Finance minister Ngozi Okonjo-Iweala introduces the 2015 budget to the national assembly, revising 2015 economic growth estimates downward from 6.3% to 5.5%. Incidents of election violence are so far limited and sporadic.**

#### Jonathan enters presidential election as increasingly narrow favourite...

Nigeria's political and business elite is increasingly uncertain that incumbent President **Goodluck Jonathan** (2010 – present) will win the 14 February election. The business sector in particular is increasingly leaning towards the possibility of opposition **All Progressives Congress (APC)** candidate **Muhammadu Buhari** winning.<sup>1</sup> This may be wishful thinking. Buhari's electoral message of "change" has struck a chord amid concern about the long-term implications of Jonathan's failure to introduce meaningful political and economic reform. According to a former government minister,

*"Jonathan cannot win this election. He should go.... change is coming."*<sup>2</sup>

Despite the shift behind Buhari, Jonathan is likely to win the election. The uncertainty is indicative of both Nigeria's increasingly effective opposition and growing criticism of Jonathan's economic and security track record. These make it increasingly likely that the election will be tightly contested, and Jonathan may not have sufficient support nationwide to avoid a run-off (see *ARC Nigeria November 2014 Briefing*).

The APC demonstrated political maturity, appointing **Yemi Osinbajo** in December as Buhari's running mate.<sup>3</sup> The choice is prudent. A **Lagos**-based Christian pastor as well as a lawyer, Osinbajo ensures a religiously and geographically balanced ticket with the northern Muslim Buhari. Osinbajo will allow Buhari to build support in the largely Christian south. Given the APC's high number of northern senior officeholders, the south has typically viewed both Buhari and the APC with suspicion. The APC is expected to dominate the **North Central**, **North Eastern** and **North Western Zones**, as well as the **South West**.<sup>4</sup> Buhari will hope that Osinbajo will help the APC build sufficient support to divide the **South South** and **South East Zones**. Although Osinbajo's religious office will help, it is unlikely to be sufficient to win **People's Democratic Party (PDP)** heartlands. He is a pastor of the politically influential **Redeemed Christian Church of God (RCCG)**, an international Pentecostal movement with a membership of five million.<sup>5</sup> Buhari, **Lagos State** governor **Babatunde Fashola**, and **Rivers State** governor **Rotimi Amaechi** attended a thanksgiving service at the RCCG on 4 January.

*"The guest list at these services is seriously impressive. It's not just about boosting your religious credentials with conservative voters. These services are where the major pre-election horse trading is taking place."*<sup>6</sup>

The ruling PDP's well-developed networks of patronage and ruthless electoral machines ensure that Jonathan enters the election as favourite. Nevertheless, the continued weak naira, due to declining oil prices (see below), and the **Boko Haram** insurgency have certainly undermined his authority. Popular dissatisfaction increases the probability of a tight election.

<sup>1</sup> Source, analyst, Lagos

<sup>2</sup> Source, former government minister, Niger Delta

<sup>3</sup> This Day, 17 Dec 2014.

<sup>4</sup> Source, management consultant, Lagos

<sup>5</sup> BBC, 12 Feb 2014.

<sup>6</sup> Source, diplomat, Lagos

*“Jonathan's incumbency had always given him an electoral edge. That is slowly waning and the balance seems to be in Buhari's favour primarily because security is now top of voters' agenda and perceptions of Jonathan's track record in this area are not positive.”<sup>7</sup>*

The increased likelihood of a close election raises the risk of widespread political violence amid allegations of electoral fraud. There have already been sporadic, isolated incidents of violence (see below). More systematic and widespread violence is possible during both voting and following the announcement of results. A run-off would significantly increase the risk, as would a contested result. The Boko Haram insurgency will make it impossible for the **Independent National Electoral Commission (INEC)** to ensure free and fair elections in the north-east. This will disenfranchise the voters most likely to back Buhari. The INEC's disorganised voter registration process and distribution of voter register cards further raise the possibility of electoral fraud and contested results.

*“It's Buhari's to lose but the APC have to protect their votes against expected rigging.”<sup>8</sup>*

If Buhari loses, violence is likely in northern Nigeria's major urban centres including **Kaduna** and **Kano**. If Jonathan loses, there is a risk of the **Niger Delta** insurgency resuming. Former militant leaders have previously threatened to take up arms should Jonathan lose. There is little to deter a return to violence. The government's amnesty programme with the militants is due to end in 2015 and the military's failure to contain Boko Haram has demonstrated its inability to fight an insurgency campaign. Any resumption of violence in the Niger Delta would encourage international oil companies to accelerate their onshore divestment programmes.

*“Nigerian voters are being asked to accept one of the two evils. A Buhari victory will result in the targeting of oil infrastructure in the Niger Delta region and that would result in huge damage to the economy. A Jonathan victory will further break the north apart with increased bloodletting.”<sup>9</sup>*

## 2015 Budget reflects declined oil prices but not production

Finance minister **Ngozi Okonjo-Iweala** introduced the 2015 budget to the National Assembly on 17 December. The budget stands at 4.357 trillion naira (N) (\$23.47 billion), with N2.6 trillion (\$13.75 billion) recurrent expenditure, and N943 billion (\$4.99 billion) in debt servicing.<sup>10</sup> Okonjo-Iweala has warned of additional 8% cuts to federal government spending. The benchmark oil price is set at \$65, an 11% decrease on the previous benchmark figure of \$73, and 16% lower than the 2014 target price of \$77.50.<sup>11</sup> The current international price is \$49 a barrel at time of writing,<sup>12</sup> a decline of approximately 60% since June 2014 on the back of weak growth, increased **United States (US)** shale production and the refusal of **Organisation of Petroleum Exporting Countries** to cut production. The government may further revise downwards the benchmark figure before the national assembly passes the final budget with negotiations ongoing.<sup>13</sup> The budget projects oil production of 2.2782m barrels per day (bpd). According to **Central Bank of Nigeria (CBN)** figures, output averaged 1.9 million bpd in the second quarter of 2014, unchanged from the previous quarter suggesting this target may be ambitious.<sup>14</sup> The projected exchange rate of N165 to the US dollar may also be unrealistic with the current exchange rate closer to N190. This might put pressure on the government to meet capital expenditure costs through increased borrowing or withdrawals from the **Excess Crude Account (ECA)**.

The 25 November currency devaluation (see *ARC Nigeria December 2014 Briefing*) did not save Okonjo-Iweala from having to revise 2015 growth estimates downward from 6.3% to 5.5%.<sup>15</sup> The **International Monetary Fund (IMF)** forecasts that growth will slow to approximately 5% in 2015.<sup>16</sup> The IMF has warned of the economic effects of the declining oil prices which are yet to find a floor. Nigeria's devalued currency due to steep drops in oil prices could make it an attractive location for foreign investment if current trends continue because

<sup>7</sup> Source, analyst, Nigeria

<sup>8</sup> Source, businessman, Lagos

<sup>9</sup> Source, economist, Lagos

<sup>10</sup> This Day, 15 Jan 2015.

<sup>11</sup> Nigeria Guardian, 4 Dec 2014.

<sup>12</sup> FT, 21 Jan 2015.

<sup>13</sup> Bloomberg, 19 Jan 2015.

<sup>14</sup> Business Day, 22 Oct 2014.

<sup>15</sup> Vanguard, 17 Dec 2014.

<sup>16</sup> IMF, 19 Dec 2014.

of cheap exports to overseas markets.<sup>17</sup> However, slower growth and increased inflation will negate this possibility. The IMF warned that the devaluation will increase inflation. This is likely to deter international investors.

*“There is a lot of focus on the oil sector and how production growth will remain limited, but no one is paying much attention to the gas sector and those sectors where financing for infrastructure is not already secured. If there’s no investment in gas then that means there’s no improved electricity supply which slows wider growth further deterring investment.”<sup>18</sup>*

Little else is publicly known about the budget, with the **Budget Office of the Federation** refusing to make available specific details of the document. The government is, however, unlikely to detail cuts to subsidy programmes before the election. Reducing spending on subsidies, public sector employment and elaborate patronage networks would be contentious as influential economic actors and the wider population benefit. Rather than using the declining cost of fuel imports as an opportunity to embark on subsidy reform, the federal government on 18 January reduced the price of petrol to \$0.47 per litre.<sup>19</sup> While the oil prices might provide a scapegoat for the government to embark on subsidy reform, it will defer unpopular announcements until after the election is complete.

Declining international oil prices therefore pose a threat to Nigeria’s fiscal sustainability. Nigeria has maintained a relatively small budget deficit in recent years, an estimated 1.9% of GDP in 2014, compared to 1.85% in 2013. This has contributed to very low levels of government debt. However, fiscal pressures are increasing amid declining oil production, increased political spending ahead of the election, and declining foreign direct investment (FDI). The CBN External Sector Development Report (ESDR) for the first quarter of 2014 revealed that FDI declined by 42% to \$2.86 billion in the first quarter of 2014, with the 2015 election apparently unnerving investors.<sup>20</sup> The government will accept a budget deficit in 2015 but this would not be a sustainable or long-term solution.<sup>21</sup> The government is also limited regarding the extent to which it can run a deficit:

*“The **Fiscal Responsibility Act** limits the government to a 3% budget deficit. Under Jonathan, it has demonstrated respect for this, though supplementary budgets are always a possibility.”<sup>22</sup>*

There is, however, little political appetite to address either financial mismanagement or the subsidy system.

*“International credit ratings are very much at risk if the government’s fiscal discipline begins to slip, even if they attempt to mask this by drawing upon the ECA.”<sup>23</sup>*

## Electoral violence sporadic and limited

The government is implementing enhanced security restrictions as the election approaches. Incidents of political violence have so far been limited and sporadic. In the most significant incidents:

- Gunmen in Rivers State opened fire on a vehicle injuring seven APC supporters at an inauguration celebration in **Port Harcourt** on 6 January.<sup>24</sup> In the same city, assailants threw dynamite at the APC secretariat, destroying the building;<sup>25</sup>
- In **Plateau State**, suspected APC supporters allegedly set fire to buses covered with Jonathan campaign posters on 11 January.<sup>26</sup> Security forces fired live ammunition in the air to disperse crowds protesting the detention of youth suspected of involvement in the violence;
- In **Gombe State**, on the same day, suspected APC supporters allegedly burnt down a PDP local office in **Akko**.<sup>27</sup>

<sup>17</sup> Source, business professional, Lagos

<sup>18</sup> Source, diplomat, Lagos

<sup>19</sup> This Day, 19 Jan 2015.

<sup>20</sup> This Day, 18 Aug 2014.

<sup>21</sup> Source, banker, Lagos

<sup>22</sup> Source, investment banker, Abuja

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

<sup>24</sup> This Day, 6 Jan 2014.

<sup>25</sup> Nigeria Guardian, 16 Jan 2015.

<sup>26</sup> Premium Times, 11 Jan 2014.

<sup>27</sup> Premium Times, 11 Jan 2014.

Clashes between party activists will continue, with party offices and rallies the most likely flashpoints for violence. The outcome of the election will determine the wider security outlook in both the north and the Niger Delta (see above).

The government is implementing additional security measures with increased numbers of checkpoints along major roads, and may implement a curfew.<sup>28</sup> There is speculation that the government may limit access to **Murtala Muhammed International Airport** on the days around elections.<sup>29</sup>

## Implications

Jonathan remains well placed to win the February election. The narrowing of support between Jonathan and Buhari is indicative of increasing frustration at Jonathan's failure to deliver reform. Infrastructure remains dilapidated, ethnic and geographic fault lines persist, oil and gas sector investment is stagnant, and corruption and militancy prevalent. Freed from electoral and partisan concerns, another Jonathan administration might prove more effective than previous incarnations. This, however, is questionable and the more likely scenario is a government shorn of reformers and looking to maintain the status quo.

An APC victory would not signal a large political shift. The APC emerged out of the PDP leadership's failure to meet the aspirations of its ambitious governors rather than any ideological or political division. The emergence of the APC as a credible opposition party is, however, a signal that Nigerian politics is slowly and haphazardly becoming more open and competitive, an indicator of increased political stability in the long-term.

Nigeria's economy will remain tumultuous amid increased risk of inflation, exchange rate volatility and savings stagnation. Debt servicing will possibly rise, further increasing the budget deficit.

The election timetable is 27 January, publication of candidates lists; 14 February, presidential and national assembly elections; 28 February, governor and state elections. The risk of national and localised electoral violence will therefore continue into March. There will also be increased security checks on vehicles, travel documents and transit cargo.

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<sup>28</sup> Source, diplomat, Lagos

<sup>29</sup> Source, diplomat, Lagos