

AFRICA RISK CONSULTING

Nigeria Monthly Briefing November 2016

Nigeria Summary 8 November 2016

President Muhammadu Buhari (2015- present) submits the draft 2017-2019 Medium Term Expenditure Framework to the senate. The framework contains ambitious targets for government expenditure and revenue and oil production targets, and currency and growth data. The government is in discussions with the Nigeria Sovereign Investment Authority to establish a \$500m mining exploration fund. However, investors remain wary about the lack of geological data and the timeframe for regulatory improvements. The Department of State Security (DSS) detains senior judges in an anti-corruption investigation.

Buhari presents Medium Term Expenditure Framework

President **Muhammadu Buhari** (2015- present) on 4 October submitted the draft **2017-2019 Medium Term Expenditure Framework** to the senate.¹ The government is keen to avoid a repeat of the delays to the 2016 budget that raised questions about its public finance management. The senate must approve the Medium Term Expenditure Framework before the government submits the draft budget. The proposed framework provides for N6.86 trillion (\$22.6 billion) government expenditure in 2017.² This is an increase on the N6.06 trillion (\$19.2 billion) in the current budget, suggesting that Buhari remains committed to his expansionist stance. This is ambitious as the government is struggling to finance its current budget due to weak revenue collection. Budget minister **Udoma Udo Udoma** said on 10 October that the federal government only raised 55% of its six-month revenue target in the first half of 2016.³ The failure to meet revenue targets means that the government will increase borrowing with debt repayments – estimated at 39% of government revenue – and limit the opportunity for capital spending. Udoma said the government had prioritised capital expenditure, but had failed to meet recurrent spending obligations and overheads, including government travel allowances.⁴

The framework is predicated on oil production of 2.2 million barrels per day (bpd) at a price of \$42.5 per barrel in 2017, increasing to 2.4 million bpd at \$50 per barrel in 2019.⁵ The price assumptions may be conservative as the **Organization of the Petroleum Exporting Countries (OPEC)** is expected to reach agreement to limit global crude output at its next ordinary meeting on 30 November in **Vienna (Austria)**.⁶ Nevertheless, the production figures – especially for 2017 – are ambitious.⁷ The **National Bureau of Statistics (NBS)** estimates that second quarter 2016 oil production stood at 1.69 million bpd, an increase from 1.3 million in the first quarter.⁸ This was due in part to a **Niger Delta Avengers (NDA)** ceasefire that appears to be fraying, with the NDA on 25 October claiming that it carried out an attack on a **Chevron Nigeria Ltd** offshore pipeline in the **Niger Delta**.⁹

¹ Vanguard, 5 Oct 2016.

² Vanguard, 5 Oct 2016.

³ Reuters, 10 Oct 2016.

⁴ Reuters, 10 Oct 2016.

⁵ Vanguard, 5 Oct 2016.

⁶ Source, oil sector executive, UK

⁷ Source, oil sector executive, UK

⁸ Vanguard, 5 Oct 2016.

⁹ This Day, 25 Oct 2016.

Operating challenges, including both insecurity and currency concerns, are deterring investment in the oil and gas sector. The government has not paid approximately \$6 billion in cash calls for joint ventures with international oil and gas companies.¹⁰ Nigeria's offshore rig count declined from 11 to seven between June and September.¹¹ Petroleum state minister **Emmanuel Ibe Kachikwu**, on 17 October, said the government expects oil production in first quarter 2017 to increase 22% to 2.2 million bpd from current levels.¹² Kachikwu expects **ExxonMobil** subsidiary **Mobil** to lift its *force majeure* on **Qua Iboe**, in place since July, and **Shell Petroleum Development Co of Nigeria Ltd** its *force majeure* on **Forcados**, in place since February, in either December or January 2017.¹³ Kachikwu also said that OPEC had, as part of its strategy to cut global output to increase prices, allowed a production window of 1.8 million bpd to 2.2 million bpd for Nigeria.¹⁴ Kachikwu made the comments during talks with **Indian** counterpart **Dharmendra Pradhan** over a possible upfront \$15 billion payment for crude oil purchases.¹⁵ The **Nigeria National Petroleum Corp (NNPC)** is looking to become more competitive in an oversaturated global oil market and regain its market share. Under pressure from the marketers, the NNPC on 20 October cut the official selling prices (OSP) of 20 of 26 oil grades by at least \$1 dollar a barrel.¹⁶

The framework assumes an exchange rate of N290 to the dollar and forecasts gross domestic product (GDP) growth of 3.02% in 2017.¹⁷ Both of these figures are ambitious. There is currently a 55% spread between the official interbank market rate of N306 to the dollar and the parallel market rate of N473 due to the foreign exchange shortage.¹⁸ The **International Monetary Fund (IMF)** in October revised downwards its growth estimate for 2016 from 2.3% growth – which it published in April – to a 1.7% contraction in GDP.¹⁹ The IMF forecasts 0.6% growth in 2017.²⁰

In a further blow to Buhari's domestic authority and international public financial management credibility, the senate on 1 November rejected Buhari's petition to approve \$30 billion borrowing for infrastructure projects and to bridge the budget deficit.²¹ The senate rejected the plan without a debate.²² Senate president **Bukola Saraki** immediately held a second vote, with senators again rejecting the borrowing plan. Buhari had introduced the borrowing plan covering 2016-2018 on 25 October.²³ The rejection may be linked to broader political dissatisfaction with Buhari's economic programme. Senior members of Buhari's ruling **All Progressives Congress (APC)** reportedly object to the Buhari administration's planned liberalisation of state-owned enterprises in the oil and gas enterprise to raise hard currency.²⁴ APC senate majority leader **Ali Ndume** confirmed that the government will re-introduce the borrowing plan.²⁵ While relatively low, public debt is increasing due to government borrowing at both federal and state level. If parliament eventually approves the plan, it will increase Nigeria's public external debt stock, which currently stands at \$11.26 billion, approximately 2.7% of GDP.²⁶

¹⁰ Reuters, 10 Oct 2016.

¹¹ Vanguard, 24 Oct 2016.

¹² Reuters, 18 Oct 2016.

¹³ Reuters, 18 Oct 2016.

¹⁴ Reuters, 18 Oct 2016.

¹⁵ Punch, 18 Oct 2016.

¹⁶ Bloomberg, 20 Oct 2016.

¹⁷ Vanguard, 5 Oct 2016.

¹⁸ www.abokifx.com

¹⁹ www.imf.org

²⁰ www.imf.org

²¹ This Day, 1 Nov 2016.

²² This Day, 1 Nov 2016.

²³ This Day, 1 Nov 2016.

²⁴ Reuters, 1 Nov 2016.

²⁵ Reuters, 1 Nov 2016.

²⁶ Reuters, 10 Oct 2016.

Government looks to rehabilitate mining sector

Mining and steel development minister **Kayode Fayemi** announced on 12 October that the government is in talks with the **Nigeria Sovereign Investment Authority** to establish a \$500m mining exploration fund to provide investor-grade geological data.²⁷ The government is looking to bolster the underdeveloped mining sector through regulatory changes and increased access to financing as it attempts to diversify the economy away from the oil and gas sector. Fayemi also confirmed that the government is in discussions with the **Nigerian Stock Exchange** over the issue of corporate mining bonds.²⁸ Fayemi provided no additional details for either project and the timeframe for implementation is unclear. Buhari reportedly approved plans for a separate N30 million (\$98,522) mining intervention fund at a meeting of the **Federal Executive Council (FEC)** on 19 October.²⁹

According to the government's **Roadmap for the Growth and Development of the Nigerian Mining Industry**, mining currently accounts for only 0.3% of gross domestic product (GDP), which the government expects to increase to 10% within a decade.³⁰

*"Nigeria is an early-stage exploration country, not a mining one; Nigeria doesn't have enough geological data to get project finance from banks. There isn't enough drilling data; it's very limited. We need people to come pay for drilling and that's a big expense. Stakeholders need to realise there's no quick money in mining. Importation and exportation of services and equipment should be liberalised."*³¹

Nigeria has iron ore, tin, lead, zinc, bitumen, nickel, coal and gold deposits.

*"Nigeria has a very hot mineral at the moment and that's tin. Of all the minerals in the country, tin is probably the most attractive with global prices expected to grow over the next few years."*³²

The government is especially keen to bolster the iron ore mining sector to boost the steel manufacturing sector. Nigeria's annual steel demand is estimated at 6.8 million metric tonnes (mmt). However, only 2.3 mmt is produced domestically and primarily from scrap iron.³³ The government estimates that a fully integrated steel industry able to meet domestic demand would save \$4.5 billion in imports of processed steel, aluminium products and derivatives.

*"Knowledge about Nigeria's mining potential I believe is very sketchy; therefore there is a need to aggressively pursue the objective of showcasing what we have to offer the world and thereby grow our local economy in the process."*³⁴

Fayemi had previously estimated that the underdeveloped mining sector requires an initial capital injection of \$5 billion.³⁵ The government is looking to attract foreign mining companies to exploit its deposits. Currently, **Australia**-based **Kogli Iron** is the only significant foreign company active in the mining sector. In September, Fayemi offered mining sector investors a package of incentives.³⁶ The incentives include a three-year tax holiday from when mining operations begin, 100% foreign ownership of mining projects, and an exemption of import duties on mining equipment.³⁷

"There is interest from abroad but these enquiries have not transformed into engagement. People are keeping an eye on the sector for the future. Global issues with pricing of minerals have pulled back investment. Foreign exchange issues are also a concern; how do investors get their

²⁷ Reuters, 12 Oct 2016.

²⁸ Reuters, 12 Oct 2016.

²⁹ This Day, 20 Oct 2016.

³⁰ Reuters, 12 Oct 2016.

³¹ Source, mining expert, Abuja

³² Source, expatriate mining expert, Abuja

³³ FBN Capital Quest

³⁴ Source, CEO mining company, Abuja

³⁵ Financial Nigeria, 16 Aug 2016.

³⁶ Bloomberg, 8 Sept 2016.

³⁷ Bloomberg, 8 Sept 2016.

*yield out? Artisanal and small-scale miners should have access to land titles; if they do, many more of them can get financing to buy equipment. The licensing regime also needs to be improved."*³⁸

The government will additionally establish a new regulatory body that will assume the roles of the numerous agencies currently involved in the sector. Another federal government directive awards state governments a 13% derivation from mining revenue to improve relations between the tiers of government. However, coordination across the levels of government remains a concern for investors.

*"I think the concentration of activity within the ministry is a problem. Constraints could be resolved largely if the federal government works together with state and local governments."*³⁹

The timeframe for legislative reform is unclear, but delays are likely.

*"We need to be very, very careful in our clamour for changes in legislation. We have to be mindful how long such changes can take. We've seen that with the [long-delayed] **Petroleum Industry Bill**. We need to engage the legislature. It's important for us to get started and amend as we go along."*⁴⁰

Fayemi also said the government would increase security around mining sites.⁴¹ Following the FEC meeting, the government confirmed it would work with the interior ministry and the **Department of State Security (DSS)** to crack down on illegal mining. The government is concerned about the illegal smuggling of gold into **Cameroon, Niger** and **Togo**. The government estimates that \$500m of gold is smuggled out of Nigeria annually, with the majority of smuggling activities concentrated in **Zamfara State**.⁴²

However, it is unclear if this will prove sufficiently attractive in the current low commodity price environment. The incentives will not address the lack of adequate infrastructure both in remote mining areas and to export port facilities, broader insecurity in the north of the country, corruption, and weak property rights that have deterred meaningful international investment in the mining sector.⁴³ Obsolete exploration data will also deter investment.

*"What we lack is the geological information to make decisions. We're trying to walk before we crawl; very little capacity for local private concerns to invest in the exploration side of the business. We lack the basic data that we need and there are no accredited laboratories to get samples assayed. We need to strengthen the capacity of agencies to encourage local players and international investors to venture into such a risky business."*⁴⁴

The government is committed to infrastructure investment. Transport minister **Rotimi Amaechi** on 19 October confirmed that the government is negotiating railway concessions with **United States-based General Electric Co** to rehabilitate and extend Nigeria's rail infrastructure to facilitate freight exports including in the mining sector. The Nigerian government is investing heavily in rehabilitating and extending its rail infrastructure, as currently trains are infrequent and slow speeds and mechanical faults undermine the network's effectiveness in transporting freight. The concession covers the rehabilitation of the **Port Harcourt-Maiduguri** (through **Aba, Umuahia, Enugu, Makurdi, Jos, Gombe, Bauchi** and **Borno**) and the **Lagos-Kano** (through **Abeokuta, Ibadan, Ilorin, Kano, Funtua, and Zaria**) narrow gauge rail lines.⁴⁵ Under the proposed agreement, General Electric will invest approximately \$2 billion and manage the concession on a cost-recovery basis for 25 years.⁴⁶

³⁸ Source, legal expert, Lagos

³⁹ Source, lawyer, Abuja

⁴⁰ Source, energy lawyer, Abuja

⁴¹ Bloomberg, 8 Sept 2016.

⁴² FBN Capital Research

⁴³ Reuters, 22 Dec 2015.

⁴⁴ Source, mining investor, Abuja

⁴⁵ This Day, 20 Oct 2016.

⁴⁶ This Day, 20 Oct 2016.

However, General Electric said negotiations continue over the exact terms of the deal including the possible provision of rolling stock, and refused to commit to a deadline for their completion.⁴⁷

Fayemi additionally confirmed media reports about the discovery of 40 million tonnes of high-grade nickel deposits around **Dangoma (Kaduna State)**.⁴⁸ The deposit of nickel of over 90% purity is widely distributed at a depth of five meters in shallow soils.⁴⁹ The company behind the discovery is registered as **Comet Nigeria Ltd**.⁵⁰ In August, Australian media reported that mining sector veteran **Hugh Morris**, executive chairman of mining-focused private equity company **Arete Capital Partners**, was involved in the discovery.

"We need to look at quick-win mining projects to showcase Nigeria as a mining destination. We must ensure the mining sector and its opportunities abound and remain in everyone's consciousness."⁵¹

Investors are, however, preaching patience.

"Nigeria's mining sector is potentially rewarding but that potential is still some distance away. We need to get the right frameworks and policies in place as well as provide adequate geological data to mobilise the required investment."⁵²

DSS launches anti-corruption investigation into judiciary

The Department of State Security (DSS) on 8 October detained seven senior judges in an anti-corruption investigation.⁵³ The investigation, if it results in significant criminal convictions, may improve Nigeria's inefficient judiciary, which has a reputation for protecting wealthy and politically connected individuals. The DSS conducted raids on the properties of the seven judges from the supreme, appeal and high courts:

- Supreme court justice **Inyang Okoro**;
- Supreme court justice **Sylvester Ngwuta**;
- Federal high court of **Abuja** justice **Adeniyi Ademola**;
- Federal high court of Kano justice **Kabir Auta**;
- Federal high court of Gombe justice **Muazu Pindiga**;
- Court of appeal in **Kwara** justice **Mohammed Tsamiya**;
- **Enugu State** chief justice **I. A. Umezulike**.⁵⁴

The DSS also reportedly detained an unnamed federal high court judge in **Port Harcourt** as part of the same investigation.⁵⁵ The DSS seized \$800,000 in cash during the raids, and also accessed bank accounts of the judges and close family members.⁵⁶ The DSS said the raids followed lifestyle audits of the judges, and complaints that they had accepted illegal payments from litigants to rule in their favour.⁵⁷ Local media has reported that some of the cases involve unnamed international investors.⁵⁸ The DSS is preparing to bring criminal charges against the judges. The **Nigerian Bar Association** criticised the arrests and called for the release of the judges.⁵⁹ Chief justice **Mahmud Mohammed** described the arrests as *"very saddening and deeply regrettable"*⁶⁰ and convened the **National Judicial**

⁴⁷ Reuters, 20 Oct 2016.

⁴⁸ Bloomberg, 8 Sept 2016.

⁴⁹ The Australian, 29 Aug 2016.

⁵⁰ The Australian, 29 Aug 2016.

⁵¹ Source, energy lawyer, Lagos

⁵² Source, energy consultant, Lagos

⁵³ Vanguard, 9 Oct 2016.

⁵⁴ Vanguard, 9 Oct 2016.

⁵⁵ Vanguard, 9 Oct 2016.

⁵⁶ Vanguard, 9 Oct 2016.

⁵⁷ Vanguard, 9 Oct 2016.

⁵⁸ Vanguard, 9 Oct 2016.

⁵⁹ Vanguard, 9 Oct 2016.

⁶⁰ Vanguard, 10 Oct 2016.

Council (NJC) to separately investigate the allegations. The DSS has accused the NJC of seeking to frustrate its anti-corruption investigations.⁶¹ The office of the presidency on 9 October released a statement saying that the raids were part of Buhari's anti-corruption drive, not an attack on the judiciary as an institution, and that they were conducted according to due process.⁶²

Implications

The government's Medium Term Expenditure Framework is ambitious, raising questions about whether the government understands the structural reforms, notably in foreign exchange, that would encourage external investment and growth. While the government remains committed to capital investment projects to increase growth, it is struggling to obtain the necessary additional funds. Borrowing from international financial institutions to bridge the budget deficit will increase concerns about whether debt levels are sustainable. Whether or not increased external borrowing will increase growth will require the government to improve its public financial management capacity, which the unrealistic Medium Term Expenditure Framework figures suggest it is struggling to do.

The mining sector is central to government efforts to diversify Nigeria's revenue base through export earnings in sectors other than oil and gas. Bolstering mineral mining will also support the government's import substitution policy especially in steel manufacturing which will benefit multiple sectors by reducing production costs. However, it will not provide quick solutions to the government. Mining investment in Nigeria, like elsewhere, is a long-term play. It takes 15 to 25 years to bring new mines online from exploration to production.

The arrest of the judges will mitigate domestic opposition that Buhari's anti-corruption efforts unduly target members of predecessor President **Goodluck Jonathan's** (2010-2015) administration. Nevertheless, increased tension between the judiciary and the Buhari administration may undermine cooperation and reduce the risk of the successful prosecutions required to instigate a sea change in a political culture permissive of corruption.

⁶¹ Vanguard, 9 Oct 2016.

⁶² Vanguard, 9 Oct 2016.

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