Nigeria: Changing of the Guard

On 28 March 2015, 16 years of rule by the Peoples Democratic Party (PDP) in Nigeria came to an end as the All Progressives Congress (APC), a recently assembled opposition party, swept to victory in general elections, taking control of both the federal executive and the national legislature. Gubernatorial elections two weeks later saw the APC consolidate its position by securing control of 22 out of Nigeria’s 36 States. President-Elect Muhammadu Buhari will be sworn in at a ceremony in Eagle Square, Abuja, on the 29th of May. His party campaigned vigorously on a promise of ‘change’, but what in real terms can all invested stakeholders, from the ordinary citizen to the foreign investor, expect from a Buhari-led government? What do the APC’s electoral promises and policy priorities tell us about the new government’s ambitions and how viable are the proposed programs and reforms in the face of Nigeria’s current economic realities.

The three key themes

The APC’s ‘Roadmap to a new Nigeria’, the official party manifesto issued a year ago, Buhari’s ‘Covenant with Nigerians’, his personal pledge released on the eve of the elections, and various statements by key party spokespeople all point to three overarching priorities for the new government - Corruption, Security and Unemployment. Addressing these issues will be the driving force behind much of the government's planned reforms.

**Corruption:** Merge anti-corruption agencies & promote transparent governance

**Security:** Restructure armed forces, pursue socio-economic solutions & increased collaboration with partners

**Unemployment:** Embark on infrastructure development & engage private sector

Corruption

The will to address endemic corruption in Nigeria is perhaps the single most important value with which Buhari has been associated and dates back to a prior stint as Head of State when his administration took harsh measures to address corruption and fraud in the civil service. A key element of his current plan to address corruption is the merger of existing anti-corruption agencies into a single and more effective unit with guaranteed institutional autonomy. The planned merger has been touted as the cornerstone of a broader anti-corruption strategy which will also incentivise disclosure and transparency. The President elect has promised to publicly declare his assets and liabilities on assumption of office and says he will encourage his political appointees to do the same.

There are expectations that Buhari will investigate some of the activities of the outgoing administration over allegations of graft but on several occasions in the run up to the elections, perhaps for political expediency, he indicated that his administration will draw a line in the sand, choosing to move forward with solving the country's problems rather than focusing on the past. While considerations tied to ‘keeping the peace’ and maintaining the balance of power among Nigeria’s political elite may make this expedient, some of the question marks are likely to be too big to ignore; in particular Buhari, may be forced to look into the accounts of the state-owned Nigeria National Petroleum Company (NNPC).
over unremitted funds due to the government, a concern first raised by former Central Bank Governor Sanusi Lamido over a year ago.

The flip side of reducing corruption is increasing transparency and Buhari’s aim of running a ‘leaner’ government is a key part of this. Specifically, he plans to streamline federal administrative structures by rationalisation and consolidation and will negotiate with the National Assembly to reduce recurrent expenditure, which is currently 80% of the national budget. Spokespeople have also hinted at the possible creation of a specific national structure to oversee government procurement, thus freeing the Federal Executive Council to focus on its core responsibility of policy making (currently the FEC is required to approve government contracts beyond a certain threshold). If properly implemented this is another avenue to control government spending and reduce the incidence of graft in public sector transactions.

- **Forecast**

  Buhari’s administration will be counting on its plans to tackle corruption and re-prioritize government spending to have positive ripple effects throughout the economy. The APC estimates that plugging leakages could save the government three trillion naira in otherwise lost revenue, freeing up much needed revenue for capital projects. Addressing corruption will also directly benefit the private sector by reducing the cost of doing business, with SMEs in particular expected to benefit from this. Genuine progress with tackling graft will certainly increase investor confidence and support an inflow of foreign direct investment into an otherwise attractive market. However with so many highly placed officials currently benefiting, efforts to challenge existing corrupt networks will be met with resistance and could even threaten stability and affect economic growth in the short term.

**SECURITY**

The incoming administration plans to address security concerns in Nigeria with a comprehensive plan that will cover not only security issues related to Boko Haram, but also broader ethnic and religious violence across the country. It has mapped out a detailed plan for addressing Nigeria’s security issues but we identify the three key elements that stand out:

- **Restructuring**: While this term is not explicitly used, it can be surmised that Buhari will seek to restructure and ‘re-professionalise’ the armed forces. While this is partly to do with increasing capacity and capability through recruitment, training and improved benefits, it is also designed to address perceived corruption and expected to give power to a new layer of command that will work quickly to crush insurgent activity.

- **Socio-economic response**: Recognising that a military response must go hand in hand with a socio-economic one to address underlying social problems in the troubled North-East, the party has promised to undertake a comprehensive economic development programme for affected states and communities. Additionally, the current Amnesty programme for the Niger Delta will be reviewed to fit into a broader socio-economic solution for the region that will address lingering grievances that could lead to a resurgence of militancy.

- **Increased collaboration**: Buhari has said he would actively pursue local and international cooperation on security, something which the outgoing administration is considered to have neglected until it was too late. We expect Buhari’s government to work closely with everyone from governors of affected states to regional and global leaders to address and resolve not
only Nigeria’s security issues but also other concerns in the region that could affect the country’s stability.

• Forecast

In line with ethnic and religious affiliations, Buhari’s leadership of the country should have a moderating effect on potentially radical elements in the Muslim North and as a retired general his military experience and the continued respect he commands within the armed forces give him an edge in implementing the difficult but needed reforms within the security agencies. While insecurity in the North-East has only marginally affected GDP and businesses profit margins (though FMCG companies and to a lesser degree the financial services sector have been affected), a revival of militant activity in the Delta region, would be a blow to the cornerstone oil industry that the country can ill afford. Former militants had threatened to take up arms again in the event that Jonathan, a southerner from the region, failed to secure re-election, but with revenue from the sector already at an all-time low owing to the global drop in crude prices, the government would be on guard to prevent any interruption to production. But a mere security response would be inadequate and to address disaffection that could degenerate into violent uprising, Buhari will need to move quickly to implement the initial elements of the promised socio-economic program that will ‘regenerate and sustain the Niger Delta environment and its human capital’.

Ensuring stability across the country would not only encourage inbound investment, it would bolster existing economic activity at home - a stabilised North East would be better able to engage with the rest of the country financially while all parts of Nigeria would benefit from an unhindered flow and exchange of raw materials and labour, goods and services.

UNEMPLOYMENT

Nigeria has a predominantly young population with roughly two-thirds of its 170 million plus people below the age of 30. This represents a huge, if relatively unskilled, labour force. With unemployment at about 30%, job creation is the third top priority for the incoming administration but perhaps the least well articulated. The APC has promised to address unemployment by undertaking a massive program of industrialization and public works (railway, roads and ports) but examples from other countries such as Kenya show that such state-led programs – long on aspiration, short on detail and slow in implementation – may be insufficient to significantly reduce the unemployment gap, at least in the absence of accompanying structural economic reform. The party also considers that driving skills acquisition through academies and the creation of specialised colleges is fundamental to reducing unemployment, but increasing the competitiveness of the country’s tertiary institutions to meet this challenge is a long term project.

• Forecast

Clearly recognising that sustainable job creation must be private sector led, the incoming administration has promised to work with industry and business to tackle unemployment but has not been so clear on what form this collaboration will take. We expect support for public private partnerships especially around infrastructure development that will create employment opportunities for local youth. For foreign contractors, we foresee stricter enforcement of requirements to support technology transfer by including plans for developing local capacity, as local content development becomes an increasingly important component of foreign direct investment.
Priority sectors

Underpinning the APC’s three priority issues is the pressing need to stimulate economic growth, which has slowed in the last year and is now pegged at just over 4% for the year, as opposed to 7-8% in the last three years. We expect the government to focus on five key sectors to revive the country’s growth trajectory:

POWER

Addressing Nigeria’s huge power deficit is fundamental to unlocking economic potential and the incoming administration has promised to address the shortcomings in the power sector as a priority. It has identified the gap in the power reform process as the failure to decentralise transmission and it plans to deregulate, regionalise and privatise the transmission sub-sector. This is a positive move that will further open up the sector and create opportunities for local and international players alike, though legacy issues tied to gas pricing and supply, and financing the sector as a whole will need to be addressed.

The incoming government is aware of this and has promised to take all necessary steps to triple generation, currently under 4000 megawatts, by the end of its mandate. A generation target of 12,000 megawatts in four years is extremely ambitious and probably unfeasible given the current state of the industry; we expect that in the short term the government will be looking to deliver quick wins by undertaking a number of rapid turnaround projects that will boost electricity supply to schools, hospitals and other public places.

The incoming government has identified the distribution companies as bottlenecks, presumably for their inability to distribute captive power, thereby fuelling fears that Buhari’s government may seek to reverse the privatisation process which led to their emergence. However in the absence of express statements to this effect, we think it unlikely the new government will set back the entire process; rather we expect it will apply more stringent performance requirements for the distribution companies, who in turn are likely to push back by insisting on increases on electricity tariffs which the regulatory authorities are not keen to support. There is potential for a lot of back and forth between the public and private sectors in the coming months as they attempt to find a workable balance that will ensure progress.

OIL AND GAS

The APC has made it clear that the oil industry will be reformed as a matter of priority to attract new investment, meaning the adoption of legislation that will address everything from the role of the government and the operation of the national oil company to the derivation debate on special revenue allocations to the oil-producing regions and the applicable regime of taxes and royalties for oil companies. This is nothing new as previous administrations have made attempts to revamp the sector but the Petroleum Industry Bill, a sweeping blueprint for reform, has languished in the National Assembly for almost a decade, and could take the incoming parliament another two years to endorse. Instead, the new government may find it easier and quicker to negotiate the passage of individual pieces of legislation to jumpstart the required reform process.

One thing on which there will be little negotiation however is the removal of the petroleum subsidy. The Buhari administration has made it clear that it will definitively do away with what is now considered an unsustainable and graft-ridden subsidy scheme, and very quickly too, probably within its first six months in office. We do not expect this will result in the kind of protests that took place in
January 2012 when it was first attempted by the Jonathan administration. Nigerians have had time to get used to the idea and many more people see the removal as a necessity, while low oil prices potentially offer a grace period in which retail prices do not rise. Buhari risks more by waiting and having the issue become politicised, as opposed to acting swiftly and taking advantage of current low global oil prices to cushion the effects of such a move.

AGRICULTURE

The importance of agriculture and agribusiness for Nigeria’s economic growth is recognised by all but the lack of established value chains remains a stumbling block. Reforms in these areas have already been introduced to an extent by the Jonathan administration and some APC spokespeople have indicated that Buhari’s government plans to continue the reform and build on the successes recorded by outgoing Minister Akinwumi Adesina.

However the new administration will specifically work to improve collaboration between the federal and state governments around specific programs to encourage youth participation in agribusiness, and revamp key research institutions and development banks respectively to deliver outputs and to adequately fund value chain operations. With the sector already on the right track, a strategy of policy continuity with additional funding and in particular, execution, is a recipe for success. This stability would be beneficial to the entire industry but in particular we expect to see further growth from an emergent indigenous agro-allied sector, from fertilizer to rice-milling and fruit processing companies.

EDUCATION AND HEALTH

The APC manifesto reveals a high social welfare content, centered on plans for the health and education sectors. Specific promises have been made to promote health insurance and guaranteed access to minimum basic health care for all, ensuring all school-age children are in school and providing a meal a day for them as well as setting up a special purpose fund for secondary school education. We expect little progress on them in the months to come, first the government will struggle to fund these ambitious programs with its currently lean purse, second, education and health are two areas where the federal government at best lays out broad policy while the state government bears the greater burden in terms of implementation. Experience has shown that performance on these issues is driven by the governor and specific socio-economic circumstances in the state. These two sectors have also struggled with long standing labour disputes between the various professional associations and the government so genuine progress may also hinge on the government’s ability to enlist the support of organised labour.

MANUFACTURING & INDUSTRIALISATION

The incoming administration has said little said about its plans in this regard, revealing a gap that needs to be urgently addressed. For over 20 years, the contribution of the manufacturing sector to GDP has failed to rise beyond 8%. Considering the importance of manufacturing and a sound industrial base for any program of economic reform, failure to articulate a clear policy direction will eventually have a negative impact across the economy. The President-elect will need to identify and appoint a strong figure that can step in and take charge of the sector.
Who to watch?

The transition process is already underway with outgoing cabinet ministers prepared to hand over government business to a transition committee set up for that purpose by the APC. The President-elect and the rest of the party leadership are currently hard at work vetting candidates for key ministerial positions and other public offices, even as party loyalists jostle for appointments and relevance in the new administration. Buhari has promised to name his cabinet within a week of taking office, record time in a country where forming a new government can take over a month.

The executive arm of government comprises about 30 ministries and a multitude of associated agencies and departments. An appointment to head a top tier ministry like Finance, Petroleum, Trade and Investment or Defence automatically gives the appointee a lot of influence in the new government. There are also indications that the Ministry of National Planning, which had become almost moribund under previous administrations, may be given a lot more prominence within the new government. The Vice President is also expected to play an important role by anchoring a national economic committee and providing leadership on the reform of the judiciary.

President-elect Buhari has repeatedly said the new government will be a mix of political appointees and technocrats; this configuration is already reflected in the APC’s 18 member transition committee which is made up of politicians, including a few of the APC hierarchy (party chairman John Oyegun, and Rivers State Governor and Director General of Buhari’s campaign, Rotimi Amaechi), in addition to experienced business professionals and technical experts like Doyin Salami, a professor at the Lagos Business School and member of the Central Bank’s Monetary Policy Committee. It remains to be seen if any of the members of the committee will go on to occupy any cabinet position. Ahmed Joga, the Committee chairman, and Tam David West, Minister of Petroleum under Buhari in the 80s, are considered trusted advisors to the President-elect; they may not be appointed to the cabinet but may play roles behind the scenes.
It also remains to be seen how many political appointees will be drawn directly from the ranks of the more influential or visible party hierarchy. Respected outgoing APC governors, like Babatunde Fashola of Lagos, may be called on to occupy positions at national level. The same could be said of former Governor of Ekiti State, Kayode Fayemi, who is currently Director of Policy for the APC. In line with Buhari’s position of zero tolerance for corruption, it can be expected that no party members suspected of graft will be given key government positions. They may still play important roles behind the scenes if the party is positioned as the control room of the new government but this is unlikely going by our reading of the President-elect.

A lot of the talk so far about the incoming administration is coming from people jostling for position; Buhari is aware of the various interests maneuvering around him and has cannily distanced himself from the jockeying. The actual decisions he makes remain slightly opaque and apart from express statements he has made as to his leadership objectives, his intentions are, we believe deliberately difficult to read. This leads us to conclude that he is not necessarily a reflection of the noise his party is making but will seek to carefully control his legacy.

What else can we expect?

Away from the APC’s manifesto, current political trends and the body language of the incoming government suggest that a number of other themes are likely to come to the fore:

1. **Devolution**

Nigeria’s federal system has long been characterised by a very strong central government, but in the last few years there has been a gradual shift which has seen state governors wield more political power than ever before, not only because they are one step closer to the electorate but also owing to the vast financial resources they control. In particular the Nigeria Governors Forum, a formal coalition of state governors of the 36 states, successfully challenged the federal government on the equitable distribution of resources between both tiers of government. We expect Buhari will oversee greater devolution to state and local governments during his tenure. While some Presidents could see the increasing power of state governors as a threat, Buhari’s previous spells in public office indicate he is comfortable delegating power. It appears he is looking to have the states play a bigger role in some of the issues that have been seen as the preserve of the federal government, from security (he has spoken of greater collaboration with states and the creation of state police forces) to vesting all mineral rights in land to states.

State governors are perhaps the most important element for achieving the APC manifesto and devolution could be the key that sees the new administration deliver by making states more invested in the central vision and giving them more responsibility. Beyond the expected practical results, a move to decentralization also presents a subtle political benefit - shared accountability. With both federal and state governments equally involved, the credit for success - or the burden of failure - is balanced evenly on both shoulders.

2. **An effective national legislature**

The role of the legislature must not be overlooked when discussing the future of the new government. The ability of Buhari’s administration to deliver on most of his electoral promises is very much hinged on having a strong National Assembly that will be effective in its primary role of producing legislation. The outgoing national assembly was unsuccessful in passing key legislation that had stalled for years, hindering growth and investment in a number of sectors.

**Is 2015 the year Nigerians will see a more powerful and constructive national legislature?**
Following the elections, the APC now has a simple majority in both the Senate and the House of Representatives, but defections to the new ruling party (fuelled by discontent and continued wrangling within the ranks of the PDP) could swell the APC’s ranks within a few months and give it the two-thirds majority required for most important decisions of the Assembly. Defections to the APC will increase executive control over the National Assembly, and though politically this could negatively impact the growth of a vibrant democracy, it would facilitate quicker passing of critical legislation. Even where the APC does not attain such a clear majority, a constructive and more proactive attitude from the legislature will see the new administration achieve a lot more than its predecessor.

While there is space for this optimism, there is also potential cause for concern. With the APC a political party made up of diverse political interests and an incoming President clearly set on his own specific agenda, the national assembly may become a battle ground within the party. The battle will be exacerbated by the incoming President’s stated intention to reduce significantly the cost of the legislative arm of government. How the APC’s political leaders and factions approach this will be critical to the efficient operations of the government.

3. Assertive foreign policy

The APC manifesto lists foreign policy as one of the party’s priority areas and places emphasis promoting national interest through close relationships with regional and international partners. The incoming administration plans to cement Nigeria’s role as a leader within the ECOWAS sub-regional bloc and drive the regional integration agenda of free trade and a common market, but will also seek to fill what it perceives as a leadership vacuum on the African continent by providing direction for the wider region. Where the outgoing President made little impact on the international political sphere, Buhari will oversee a resurgent foreign policy that positions Nigeria and he, the President, as continental leaders.

Facing reality, Delivering change?

As party supporters continue to celebrate victory, the President-elect and other APC representatives have hinted that Nigerians must temper their expectations with an understanding of the country’s current economic realities. Little is expected to happen before October, partly because the year’s 2015 budget was prepared by the outgoing administration and partly because current oil prices and inadequate savings means the new administration could meet a near empty treasury. The new government will have to restructure the budget as the current 80% recurrent expenditure rate is unsustainable and leaves it with no money for some of its more ambitious capital expenditure programs.

Nonetheless, the expectations of the electorate point to the imperative of prompt and candid communication on the part of the new administration about the country’s current situation, what can be achieved and how it will be achieved. Various observers have pointed to the communication failures of the outgoing administration as one reason for its downfall. Not only did it fail to effectively communicate its successes, it often neglected to clarify or in other ways take responsibility for its perceived failures. Considering the difficult economic climate in which it begins the job, the Buhari administration will have to be proactive in communicating its promised “change” in a depoliticised manner or face the displeasure of a disillusioned and disappointed electorate come 2019.
## Snapshot of the new administration’s policy priorities

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<th>Current Situation</th>
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<th>Expected Impact</th>
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<td>Governance &amp; Transparency</td>
<td>Bloated civil service with over 30 MDAs, many of which are ineffective or moribund, lack of transparency in operations of key agencies</td>
<td>Streamline federal administrative structures, proactive disclosure of information by government, plug leakages and inaugurate a National Council on Procurement</td>
<td>Leaner and more transparent, and therefore effective government, increased accountability of MDAs</td>
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<td>Corruption</td>
<td>Ranked 136th on Transparency International’s 2014 Corruption Perception Index</td>
<td>Merge anti-corruption agencies for enhanced effectiveness, encourage disclosure and enact whistleblower provisions</td>
<td>Increase efficiency in governance, increase ease of doing business while reducing costs</td>
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<td>Security</td>
<td>Ongoing Boko Haram attacks in North-East, ethnic clashes in Middle Belt; potential for resurgence of militancy in Niger Delta</td>
<td>Increase collaboration with state governors and regional and international partners, restructure and empower armed forces</td>
<td>Increased stability coupled with social programs will support trade and other economic activity to address unemployment and wealth creation</td>
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<td>Unemployment</td>
<td>Huge, relatively unskilled, work force; 30% unemployment</td>
<td>Effectively diversify economy and invest in infrastructure development, drive skills acquisition through specialised colleges</td>
<td>Develop required skills set among workforce, create more jobs in concert with private sector and state governments (20,000 jobs per state)</td>
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<td>Finance</td>
<td>Low oil prices, depleted savings and depreciated currency, Insufficient funds for capital projects, Unsustainable national budget with 80% recurrent expenditure</td>
<td>Restructure national budget, reduce cost of governance and plug leakages to save costs, empower Ministry of National Planning to be more effective, focus on alternative sources of government revenue (customs, tax)</td>
<td>Potential N3 trillion in savings, free up funds for massive infrastructure works, decrease government dependence on oil revenue</td>
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<td>Power</td>
<td>Insufficient generation between 2000-4000MW, inadequate distribution, issues of gas supply and pricing</td>
<td>Decentralise and privatisate transmission, increase effectiveness of DISCOS</td>
<td>Increased generation (4000 MW/yr) &amp; improved supply to have effect on SMEs and all industries, especially manufacturing</td>
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<td>Oil &amp; Gas</td>
<td>Minimal upstream investment, moribund domestic refineries, unsustainable petroleum subsidy</td>
<td>Reform sector by increasing transparency, pass key legislation, completely remove petroleum subsidy</td>
<td>Increased investment and production, increased revenue and savings for government</td>
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<td>Agriculture</td>
<td>Increasing private sector investment but less than 2% budgetary allocation and food import bill growing at 11% per annum, steps to develop value chain operations</td>
<td>Continue successful policies &amp; programs, in addition to revamping development banks and increase youth participation in agri-business, prioritise collaboration with state government</td>
<td>Increased investment in agriculture and agro-allied industries, job creation</td>
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<td>Education</td>
<td>10 million primary school age children out of school</td>
<td>Incentives to attract and retain teachers, revamp educational curriculum at all levels, increase focus on vocational training, entrepreneurship &amp; skills acquisition</td>
<td>Achieve universal basic education /All primary school age children in school, education to ensure skills acquisition, increased competitiveness of tertiary institutions</td>
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<td>Health</td>
<td>Average life expectancy of 52 years with infant and maternal mortality rates below par; less than 5% of Nigerians enrolled under National Health Insurance Scheme</td>
<td>Enact policies to review and revive sector and in particular provide financial sustainability, implement primary health plans and promote universal health insurance</td>
<td>Guaranteed minimum healthcare for all with emphasis on antenatal care, reduced medical tourism</td>
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