Nigeria's 2019 Presidential Election: What Investors Should Know

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Summary

- Nigeria, Africa's largest economy, will hold its much-anticipated presidential election on February 16, 2019 alongside National Assembly elections. Although there are 73 presidential candidates on the ballot, the election will be a tight contest between incumbent President Muhammadu Buhari and former Vice President Atiku Abubakar.

- This election will be a referendum on the Buhari administration's mixed economic record. On the campaign trail, Atiku has stressed his business success as evidence that he can accelerate growth, but he has struggled to overcome public perception that he is corrupt.

- Atiku has indicated that he will promote policies that are more market-oriented than those of President Buhari, who believes that state intervention is sometimes necessary for economic development.

- Regardless of the election results, Nigeria is likely to maintain a center-right economic orientation, with the elected government likely to occasionally intervene in the market to protect the social and economic interests of its political base and financial backers.

- Investors stress that key reforms and macroeconomic policy coherence are necessary for their robust participation in the economy. Continued budget constraints, due to reduced oil revenues, could motivate the next government to pursue these changes. However, those with vested interests could also push to maintain their hold on key sectors.

- The outcome of the election could have major implications for Nigeria's political stability, social and economic development trajectory, policy and legal coherence, and path to regional integration through the Africa Continental Free Trade Area (AfCFTA) agreement.

- Investors with interests in Nigeria should watch this election closely, and carefully consider the elected government's priorities when developing business strategies in Nigeria and across the region.

Mr. Incorruptible vs. Mr. Capable

President Muhammadu Buhari is an ascetic traditionalist who boasts an unwavering base following in the north. Buhari served as Military Head of State between 1983 and 1985, when he launched his "War against

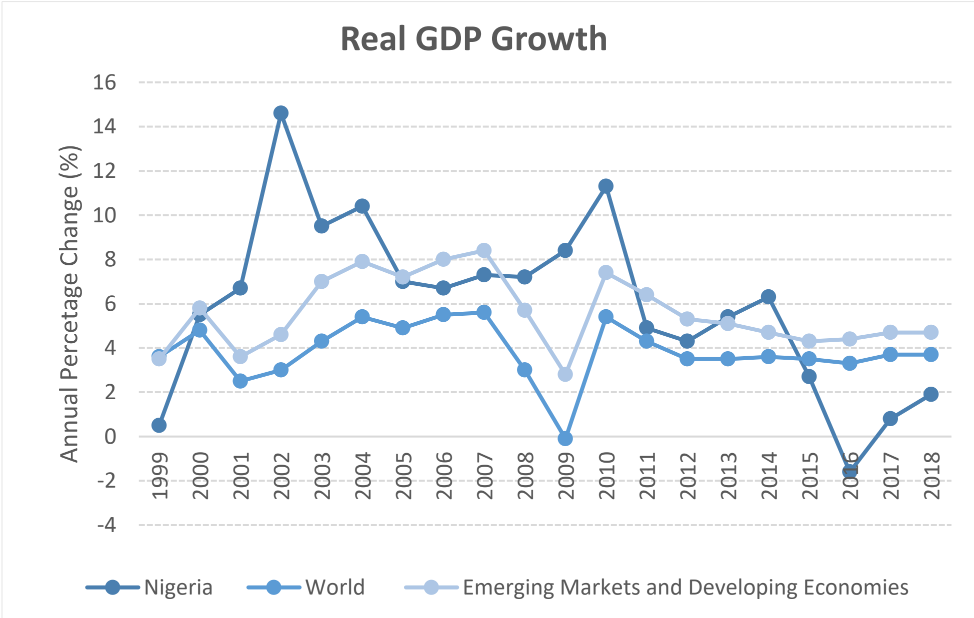
Indiscipline" and adopted import substitution industrialization as Nigeria's economic policy. Buhari's reputation as an incorruptible leader was instrumental in his 2015 electoral victory. However, critics say that the president's war on corruption has been focused on his political opponents. Buhari's mixed record on reviving the economy has raised questions about his capacity for economic management. Nigeria slipped into recession in Q2 of 2016, just as the Buhari administration was rounding out its first year. While most analysts assert that recession was inevitable given prevailing economic headwinds, critics conclude that Buhari's slow response to addressing these issues quickened the recession.

Alhaji Atiku Abubakar has been one of the loudest critics of the Buhari's economic record, especially since he defected from the ruling **All Progressive Congress (APC)** and returned to the **People's Democratic Party (PDP)** in December 2017, ostensibly to prepare for his nomination. One of Nigeria's most successful and wealthy businessmen, Atiku emerged as the PDP's nominee from a crowded field of political heavyweights last October. On the campaign trail, he has repeatedly reminded voters that, behind the state government, his businesses and investments are the second largest employer of labor in his home state of Adamawa. Atiku has business interests in oil and gas, agriculture, education, and logistics. He also has strong ties to Nigeria's indigenous business community. Due to these factors, many Nigerians believe that Atiku would be a more efficient steward of the Nigerian economy than Buhari. However, public perception is that Atiku leveraged his public sector roles, including his time in charge of Nigeria's privatization program as vice president, to enrich himself and his cronies. To counterbalance these allegations, the PDP selected former Anambra State governor Peter Obi – a former banker known for his integrity and strong governance record—as Atiku's running mate.

Divergent paths to economic growth

While the APC and PDP are perceived as left-leaning and right-leaning respectively, personality supersedes ideology in Nigerian politics. Both parties are centrist organizations that reflect the policy leanings of key principals. Both major parties generally commit to the tenets of free-market capitalism, with the caveat that government will interfere to protect national economic interests as needed. The frequency of government interference tends to be a function of the policy preferences of the president and the president's political base. For example, over the past three years, the APC's populist leanings on social issues – a nod to its largely rural base – has resulted in government prioritization of welfare initiatives such as N-Power, TraderMoni, the National Home Grown School Feeding Program, the Conditional Cash Transfer Program, the Presidential Fertilizer Initiative, and the Anchor Borrowers' Program. On paper, the PDP has a more pro-market, less interventionist economic platform. However, when the PDP held power between 1999 and 2015, government-driven rentier capitalism saw the government pick winners and losers in the market, prioritizing indigenous, politically-connected industrialists over foreign investors.

This election will be a referendum on the Buhari administration's economic record. On the campaign trail, the APC government has stressed that it will take time before everyday Nigerians reap the full benefits of its reforms. In the three years since the recession, Nigeria's Economic Management Team has returned the country to growth. Much of this success has come under the direction of **Vice President Yemi Osinbajo**, a graduate of the London School of Economics, who is widely perceived as pro-business. Strong implementation of the Buhari administration's economic policy document, the **Economic Recovery and Growth Plan 2017-2020 (ERGP)**, has managed to halve inflation and grow Nigeria's foreign exchange reserves by 45 percent to $43.17 billion. In 2017, Nigeria jumped 24 places in the World Bank's Ease of Doing Business rankings, to 145th of 190. If re-elected, the APC has pledged to enact more pro-business reforms through the ongoing work of the **Presidential Enabling Business Council (PEBEC).** The Buhari administration has also been focused on addressing Nigeria' infrastructure gap, with relative success to date. Key projects with the potential to spur growth, such as the Lagos-Ibadan Railway and the Second Niger Bridge, are nearing completion.



The government has struggled to translate these gains into broad-based prosperity for everyday Nigerians. Since coming out of recession in 2016, Nigeria has posted year-on-year growth between 1 and 2 percent, falling below Nigeria's annual population growth rate of 2.6 percent. These factors, as well as rising inequality, have had implications for poverty and unemployment. Nigeria's per capita income still falls below 2014 levels and, in 2018, Nigeria overtook India to become the country with the highest number of people (87 million) living in extreme poverty. Nigeria's unemployment rate has risen from 8.2 percent when Buhari took office in 2015 to 23.1 percent in Q2 of 2018, and youth unemployment is even worse at 36.5 percent.

Atiku has argued that the status quo is insufficient. He has advocated for his vision to build a "broad-based, dynamic, and competitive economy with a GDP of $900 billion by 2025" with the private sector as the engine for growth. On the campaign trail, Atiku has often referred to his time as vice president and head of the National Economic Council between 1999 and 2007 as evidence of what is possible. During that period, Nigeria saw significant economic growth due to the global commodities boom, high oil prices, and a government reform program focused on massive deregulation, as well as the privatization of several service sector industries, including telecommunications. Atiku, a self-declared student of former U.K. Prime Minister Margaret Thatcher and her economic policies, has outlined further ideas for privatization in his 180-page **Get Nigeria Working Again** policy document.

When pushed for specifics on how he will foster private sector-led growth and investment, Atiku has committed to a full float of the naira, tax incentives, and the privatization of key government institutions, including the Nigerian National Petroleum Corporation (NNPC). These proposed reforms have piqued the interest of Nigeria's indigenous business community, as well as international investors who believe that the Buhari government has been too hands-on with the economy.

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However, a lack of business-friendly proposals has never been Nigeria's problem: the issue has been sustaining the political will to implement them. Atiku is aware of the potential political costs of reform. In an interview with Bloomberg, Atiku mentioned that as president he would stop oil subsidies, a potentially unpopular move considering that much of the PDP's urban base sees cheap petroleum as the only benefit it gets from a government which has failed to deliver. Atiku's strong ties to the business community may also complicate his push for economic reform. Recently, Atiku announced a plan to renegotiate production-sharing contracts with oil industry majors, stating that they currently favor international businesses. Atiku owes his own fortune to Intels, an indigenous multinational oil services company, but has promised that his personal business would not be eligible to benefit from the NNPC's deregulation. However, Atiku mentioned that it would be unfair to exclude his "friends" from bidding for the new contracts, prompting conversation about his ability to ensure a level playing field for the entire ecosystem.

Potential implications for investors

Leadership at the Central Bank of Nigeria (CBN)

CBN Governor Godwin Emefiele's five-year tenure expires in June 2019, with the possibility for renewal. Under Emefiele's leadership, the CBN has imposed currency controls and import bans to defend the naira. These efforts have complemented the government efforts to spur domestic production and grow foreign exchange reserves. Emefiele has been praised by President Buhari. However, the overvaluation of the naira, especially given the differential between domestic and U.S. inflation rates, has made Nigeria a less attractive market for international investors and undermined growth.

Last year, the CBN fined South African telecommunications giant, MTN, $8 billion for alleged improper dividend repatriation. This fine sent shockwaves through the international investor community. Both parties eventually came to a resolution on the fine and the dispute was settled out of court; MTN ended up paying $53 million to settle the dispute. **Governor Emefiele could return for a second term if President Buhari is re-elected. However, Atiku has said that, if elected, he would name a new central bank governor when Emefiele's first term ends in June.**

Pace of regional integration through the AfCFTA

As Africa's largest economy and market, Nigeria could be one of the strongest beneficiaries of the African Continental Free Trade Area (AfCFTA) agreement. However, Nigeria has yet to sign the agreement, due to ongoing government consultations with key stakeholders, including industry associations. At a meeting with U.S. business leaders during his January 2019 visit to Washington D.C., Atiku mentioned that he regretted that Nigeria was not one of the first countries to sign the agreement. **Analysts believe that Nigeria will eventually sign the African Continental Free Trade Area (AfCFTA) agreement, regardless of which party holds power after the elections. However, the process and eventual implementation are likely to be accelerated if the PDP wins the presidential election.**

Centralization of policy making

Analysts argue that the APC's populist bent has made policy making has been more responsive to popular demands and interest group preferences than it was during the 16 years of PDP rule. The current government has engaged and worked closely with the private sector through the Quarterly Business Forum, the Nigerian Industrial Policy and Competitiveness Advisory Council, and the Micro, Small, and Medium Enterprises (MSME) Clinics. While these forums will continue to exist under a PDP government, their importance might be somewhat diminished. Under PDP President Olusegun Obasanjo, implementation of critical reforms in key sectors, including telecommunications and agriculture, were almost entirely driven by senior government officials backed by the president, especially Minister of Finance Ngozi Okonjo-Iweala. **Under the current government, industry groups have effectively advocated for policy changes. However, in a potential Atiku government, it will be important for investors to establish direct channels through which to engage the government and advocate for pro-business regulation.**

Legitimacy of the government to pursue reforms

Nigeria's next government will need a strong mandate to push through much-needed reforms. If the upcoming elections are inconclusive or require a run-off, they could divert attention away from economic governance to political maneuvering and legal battles. The preliminary voter registry shows that the northwest and the southwest, two regional epicenters of President Buhari's support, contain close to 40 percent of registered voters. This is a good sign for the ruling party. However, Buhari will also need wide geographical support, by winning 25 percent of the vote in 24 out of the 36 states, to win the presidency in the first round and avoid a run-off. Analysts foresee a tougher challenge than in the 2015 election, and the opposition has said that key institutions are under government pressure to rig the elections. **The uncertainty associated with a potential constitutional crisis could halt bold reforms in the short-term. In this unlikely scenario, investors should wait until judicial proceedings are completed to engage with the elected and confirmed government.**

Political stability

Economic growth and political stability are deeply intertwined. In this election, strong interparty politics and "turf wars" have heightened the stakes and the threat of election-related violence in political and economic centers like Lagos, Ogun, Kano, and Rivers states. In the months leading up to the election, portfolio investments into Nigeria have slowed, as risk averse businesses have adopted a wait and see approach. To date, Nigeria has avoided the sort of large-scale electoral violence that can destroy critical public infrastructure and cripple commercial activity. All major political actors have called for peace in 2019. However, this election is poised to be the most sharply contested in Nigeria's history. As a result, **investors should be aware of the potential for election-related violence in areas where their investments lie.**

Unity of the Executive and Legislative arms of the Federal Government

While the primary focus will be on the race for president, Nigerians will also elect members to the National Assembly on February 16. The Buhari administration has disagreed on several key bills passed by the National Assembly, including some with implications for businesses and foreign investors. For example, in October 2018, President Buhari refused to sign the Industrial Development Amendment Bill until consultations with stakeholders concluded. The bill, which has still not been signed by Buhari, proposed changes to Nigeria's tax relief and tax incentive system.

The Buhari administration has also accused the Senate of sabotaging its national development plans through the appropriations process. In 2018, the legislature cut 4,700 projects worth 347 billion naira ($1.13 billion) from President Buhari's proposed budget and introduced 6,403 projects of their own, worth 578 billion naira ($1.9 billion). **Senate President Bukola Saraki** is looking to return to the Senate and is favored to retain his position if the PDP wins a majority. If Saraki is re-elected, he will hope to have a president who is more supportive of his legislative agenda. The incoming president will hope for the same from the Senate president. **If different parties control Aso Villa and the National Assembly, the executive and legislative arms of government might continue to obstruct each other’s proposals, a situation which could sustain investor uncertainty over budget implementation and legal frameworks.**

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