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The Britain-Nigeria Educational Trust

(formerly The Alhaji Sir Abubakar Tafawa Balewa Memorial Trust)
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CONFIDENTIAL

NIGERIA DIGEST – December 2009

□ Education Update

The most important news in the education sector is the announcement in the 2010 budget that the Ministry of Education is to receive the highest expenditure of any ministry. Stressing the importance of the sector this is covered at length in the *Digest* under the section on the 2010 budget.

Other news about Education is detailed below:

The strike by the Academic Staff Union of Universities, which lasted over 4 months and has closed all the universities in Nigeria, was suspended in the first half of October. Talks, under the auspices of the Governor of Edo State, Adams Oshoimole, between the Union and the Federal Government resumed on 21st October and both sides signed a re-negotiation of the 2006 agreement bringing the strike to an end. Although the terms of the agreement have not been made public it is understood that they include proper funding of the universities in line with the UNESCO target of 26% to be devoted to education, autonomy and academic freedom, retirement age of professors extended by five years to 70 and increases in salaries and allowances of up to 50%.

In addition, the Federal Government is to spend N40 billion on the upgrading of facilities in various universities, which will be funded by the Education Tax Fund. The allocation will primarily be used for upgrading facilities and learning resources in the universities, especially in the areas of competitive research, book development, staff development and capacity building.

➤ Japan makes a US\$70,000 Grant

The Japanese Embassy in Nigeria has donated the sum of US\$70,000 for the construction of eight classrooms for a primary school in Bauchi.

➤ Kano State

The Kano State Executive has approved the sum of N319 million in allowances for over 30,000 students studying in higher education institutions in the State. Separately the State will build a further 1,000 new classrooms, for primary and secondary schools, as part of its commitment to boost education facilities and opportunities for students in the State.

➤ Kaduna State

The Kaduna State Government, which recently released N150 million to the State university, is to make education a priority in its budget for 2010, details of which are awaited. The Vice Chancellor of the university has appealed for the release of further funding in order to achieve the targets set out in Phases 2 and 3 of the university master plan which would allow it to meet the requirements for accreditation of the National Universities Commission and the Medical Council of Nigeria.

➤ Anambra State

The State Governor, Peter Obi, has approved the release of N354 million for the construction of 177 new classrooms in the State.

➤ Proctor and Gamble

The company has announced that it is to fund a N5 million scholarship for 250 girls in Nigeria. The scheme is aimed at girls in the 13-21 age bracket. According to the Head Corporate Communication and Brand PR of the company, Patricia Obozuwa was quoted in an article in the *Daily Trust* as saying "successful candidates for the education grant will receive questions by e-mail and the first correct 250 entries will win an education grant of N20,000 each. The star winner will also receive a one week all expenses trip to Ghana to participate in a skills acquisition programme.

➤ **National Open University of Nigeria**

In a submission by representatives of the House of Representatives, the Vice Chancellor of the National Open University of Nigeria, Professor Olugbemiro Jegeda said that there were 55 million Nigerians out of the country's 140 million population who had no access to education. In an article in *This Day*, he elaborated by saying that there are 20 million children who are not in primary schools, 27 million potential secondary school children who do not attend and six million Nigerians who do not have access to university education leaving 2 million who are unable to access higher education in colleges and polytechnics.

The Chairman of the House of Representatives Committee on Education, Alhaji Faruk Lawan admitted that the situation is bad by saying that of the 1 million students who sit the Joint Admission and Matriculation Board examinations, in 2008, universities in Nigeria could only offer places to 100,000 students.

□ **NIGERIAN NEWS**

➤ **Federal Government Budget 2010**

Presentation of the 2010 Budget to the National Assembly was delayed due to a disagreement between the Senate and the House of Representatives regarding in which chamber of the National Assembly President Yar'Adua should present his budget proposals.

The delay resulted in the President travelling to Saudi Arabia for medical treatment which is the first time since Independence that a Head of State has personally been unable to announce the budget.

In the end, the President's Special Adviser to the National assembly, Mohammed Aba Ali, presented the budget separately to the two chambers of the National Assembly. The absence of the President, coupled with the lack of the usual accompanying briefing by the Minister of Finance, has caused extreme difficulty in obtaining details and providing analysis of the Budget.

The 2010 Budget is predicated on an oil benchmark price of US\$57 per barrel (oil prices at the moment are trading at US\$70-75) and an oil production level of 2.1 million barrels per day. This would be in excess of Nigeria's OPEC quota of 1.65 million bpd. but this is expected to be increased at OPEC's meeting in Vienna on 22nd December. Nigeria's current oil production level is 2.4 million bpd but 0.4 million bpd. is for domestic use. The Budget assumes an exchange rate of N150=US\$1, GDP growth of 6.1%, which seems excessively optimistic bearing in mind recent forecasts by the International Monetary Fund, and an inflation rate of 11.6%. Fiscal revenue accruing to the Federal Government from Federal Account Government is N2.52 trillion, State Government will receive N1.008 trillion, local government N777.4 billion while N433.2 billion represents derivation allowance. This allocation leaves a budget deficit of N1.562 trillion which is expected to be financed by the issue of a Naira denominated US\$500 million 10-year Eurobond, receipt of funds from privatisation and the Excess Crude Account which is currently growing at a rate of US\$3 million per day.

Proposed expenditure by the Federal Government totals N4.07 trillion of which N1.37 trillion is for capital expenditure and the balance of N2.011 trillion is for recurrent expenditure. Concern has already been expressed that the Budget deficit is more than the entire capital expenditure allocation and will need to provide nearly 50% of the debt servicing requirement. Whilst budget deficits in Nigeria are quite normal this one for 2010 is the largest ever and it is hoped that the National Assembly will reduce it.

There is certainly scope to do so, for example, the recurrent expenditure budget could be reduced particularly the N127.78 billion allocation to the National Assembly although it seems unlikely that either the Senate or the House of Representatives would agree to this.

As stated in an editorial of the *Nigerian Tribune* "The National Assembly is to spend N7.2 billion on international travel and transport of which N2.5 billion is for the Senate. This alone is greater than the entire budget for the Independent Corrupt Practices and other Related Offences Commission (I.C.P.C) which is to receive only N2.2 billion and is greater than the entire budget of some of the state governments". There is little scope to increase the oil benchmark price although some analysts believe a figure of US\$60 is viable and oil production will certainly increase in 2010 but the defence budget is certainly one to be considered for a reduction now that peace has been declared in the Niger Delta.

Looking at the deficit funding, some State Governments have recently issued their own bonds and these have rated A+ so in theory the Federal Government should be able to issue its own without difficulty thus raising N7.5 billion, almost half the deficit. Certainly Federal Government borrowing is at an all time low as foreign debt is only US\$3.6million while domestic debt is N2.48 billion. There has been no news on what is proposed to be privatised in 2010 but the Bureau for Public Enterprises has just announced that since 2000 it has raised N1 trillion from privatising companies for the Government.

This leads to the need to study the excess crude account, which is currently growing at the rate of US\$3 million per day. However it is unlikely that this will be continued in 2010 making use of the current foreign exchange reserves of US\$44.04 billion more likely. It must also be pointed out that use of the excess crude account has to be shared with the State Governments under the Revenue Allocation formula and those State Governments that have announced their 2010 budgets expect to receive funds from the excess crude account to finance their projects. Without adjustments 2010 will be a very difficult year for Nigeria

In terms of specific allocation to Ministries the largest is for education which is receive N444.5 billion, which conforms to the 2006 agreement between the Federal Government and the Academic Staff Union of Universities and the other main teachers unions. However, only N53.67 billion is to be used for capital expenditure which means there will be considerable pressure on the 36 State Governments to spend more on building schools in their own states while the balance of the proposed expenditure will be taken up by recurrent expenditure and personnel costs, bearing in mind the sizeable pay increases that the Federal Government has just agreed to.

Allocation to other ministries include N404 billion for Defence, Police N216 billion, Health N162 billion, Agriculture N148.7 billion, the Ministry of Works is to receive N249 billion, Transport which is allocated N146.7 billion and Power N156.8 billion. Unfortunately there is no breakdown provided of the separate allocations for capital and recurrent expenditure but some details have emerged for the Power and Transport sectors. From these details it is clear that the largest allocations are again for recurrent expenditure which is particularly disappointing for the Power sector given the targets stated and importance attached to the sector by the Federal Government. The Ministry of Power is to allocate N1.5 billion to the Mambilla Hydro electric power plant, the seven generating companies are to spend N7.3 billion, transmission companies are allocated N23.11 billion while N24.72 is for the distribution companies. Given the small size of the budget it is hard to see how the Government will achieve its generating capacity targets by 2011 particularly as it takes individual power plants at least two years to be constructed. In considering the budget proposals the Senate Committee on Power had invited the Minister of Power, Dr Babalola to justify his Ministry's budget proposal, but his presentation was curtailed by a 5-hour power cut in Abuja.

Subsequently it has emerged that the Federal Executive Council has given approval to accept a US\$500 million loan from the International Development Agency, part of which will be used in the Power Sector as well as for railway projects.

Another sector where more details have emerged is the Transport one, of which N117 billion is for the Nigerian Railway Corporation. Here, part of this will be used to finance the purchase of the previously announced 25 new locomotives. In the longer term the Federal Government intends to spend N131.25 billion on the first phase of the modernisation of the Abuja to Kaduna railway line, the first contract for which will cost US\$1.2 billion. From the rest of its allocation, N9.3 billion is to be spent on the rehabilitation of the line connecting Lagos to Jebba whilst a further N9.2 billion will be spent on upgrading the line connecting Jebba to Kano. Future plans include spending N31.05 billion for the Lagos to Ibadan railway line and N20 billion on the essential priority line linking Ajaokuta to Warri.

The original intention was that the major work on modernisation would be undertaken by the China Civil Engineering Corporation which, under a deal arranged by President Obasanjo's government, would include a US\$2.5 billion loan from the Chinese government for a contract totalling US\$8.3 billion to carry out the modernisation programme. However, the offer of the loan was withdrawn and the Federal Government has been unable to negotiate suitable terms from banks in China so the modernisation is to be undertaken on a piecemeal basis over an extended period instead. However, China has been awarded a US\$873 million contract as part of the modernisation programme.

The only other Ministry from which some specific plans have been announced is the Ministry of Works, which is allocated the third largest amount of N249 billion. The Federal Executive Council announced on 25th November that it had approved capital expenditure of N92 billion to be spent on 20 road projects of which funding of N49 billion is included in the 2010 budget. There are eight projects in the Northern States and 12 in the South including an allocation for the South East of N20.1 billion.

As the National Assembly considers the budget, further specific details of spending will emerge and these will be included in the next edition of *The Digest*.

In concluding the analysis of the budget it is most disappointing to note that the Ministry for the Niger Delta is only allocated N64.3 billion while the Niger Delta Development Commission is to receive N35.6 billion. Specifically included in these allocations is N28.3 billion for the East-West road. If ever there was a need for larger allocations it is in the Niger Delta and it is hard to see how the government will be able to meet its

commitments in its negotiations with former militants with a net allocation of N71.1 billion. Having said that, the total sum of N99.9 billion is a third of the total N368.9 billion spent by President Obasanjo's government between 2000-2007 so it is at least a step in the right direction. Almost without exception the budget has received serious criticism in the Nigerian press.

➤ **President Yar 'Adua**

As stated earlier, President Yar Adua was unable to present the Budget as he had to travel to Saudi Arabia for medical treatment. This is not the first time the President, who is known to have a kidney problem, has needed to travel abroad for treatment. However, on this visit he was admitted to hospital suffering from chest pains and was diagnosed as having the condition acute pericarditis – an inflammatory condition of the membrane surrounding the heart. This is normally caused by a viral infection and he is reported as recovering well having been moved out of intensive care. It is not known when he will be able to return to Nigeria but he has not signed over his executive powers to the Vice President.

His illness has sparked off mass speculation in the Nigerian press about whether he will be able to stand for re-election in 2011, the voting for which will take place in 15 months. According to official sources he is expected to make a full recovery and will stand for re-election but according to press reports this has not stopped the Northern States Governors launching a search for a suitable replacement candidate. Clearly the obvious candidate would be the Vice-President, Goodluck Jonathan, but it seems the North is again intent that it will yet again retain power at the highest level.

➤ **Banking**

Following the intervention in August by the Central Bank, which was reported in the October *Digest* and resulted in the removal of five managing directors, the CBN completed its audit of the remaining banks at the end of September. This led to action being taken against a further five banks namely Bank PHB, Equatorial Trust Bank, Spring Bank, Unity Bank and Wema Bank and included the dismissal of three of these bank's chief executive officers. This has resulted in the Central Bank providing a further N200 billion to support these banks bringing the total bailout of the banking system to a massive N2.8 billion.

The problems in the sector relate to the size of non-performing loans amounting to over N1.3 trillion. The Central Bank has released the figures for debtors owing at least N100 billion and include N171 billion owed to Spring Bank, Intercontinental Bank N59.23 billion representing nearly 30% of its total non-performing loan book of N210 billion; Wema Bank N30 billion from its bad debt book N36 billion, Oceanic Bank International Plc N35.5 billion which is 13% of its bad debt book while Union Bank of Nigeria is owed N30 billion by one of its clients alone from a bad debt book of N70 billion.

In this respect the Central Bank has made public the list of bad debtors whilst at the same time the Economic and Financial Crimes Commission has been actively pursuing individual debtors which has led to the recovery of nearly N200 billion. The individual banks, working in harmony with the EFCC, are following a similar line of aggressive action which has resulted in Union Bank recovering N23 billion whilst Oceanic Bank has reclaimed N41 billion out of its total non performing loan book of N276 billion and is optimistic about recovering a further N60 billion by February. It is concentrating its efforts in obtaining the repayment of N165 billion owed by 56 debtors.

In future all banks will have to declare details of bad debts in their annual report and accounts which has already led to one leading bank to report a 90% drop in pre-tax profits whilst two others have declared losses.

In order to sanitise the sector, the Central Bank is to form a joint venture Asset Management Company with the Ministry of Finance to purchase N250 billion toxic loans from the affected banks. At the same time it has appointed special advisers to the ten banks with the aim of preparing them to be taken over by some of the country's larger banks and has a positive view on acquisition by foreign banks. In due course it expects to see the country's 24 banks to reduce to 15. It has also taken the unusual step of re-appointing the Chief Executive Officer of Equatorial Trust Bank, Mike Adenuga, who has repaid N26 million owing to the bank from his companies. The bank is to be re-capitalised and as a result he will dilute his shareholding.

Separately the EFCC is pursuing the majority of the dismissed managing directors on criminal charges five of whom have already appeared in court. Amongst the allegations made against them are one MD who lent N236 billion to five companies directly owned by him, another who lent N85 billion to a company without security and other charges of criminal lending in breach of Central Bank regulations and normal banking practices. Currently the EFCC is seeking the extradition from the UK of the former Managing Director of Intercontinental Bank to face 20 charges of alleged money laundering.

➤ **Foreign Exchange Rates**

The Governor of the Central Bank, Mallam Sanusi has stated that an exchange rate of N150=£1 is acceptable subject to fluctuations not exceeding 2%. In his Budget speech, President Yar Adua referred to the desire of a convergence of rates, but this will depend on the amount of foreign exchange offered by the Central Bank at its bi-weekly auction where demand often exceeds availability. At the latest auction on 5th December the Central Bank offered only US\$100 million against the demand of US\$265 million and as a result the Naira fell to the rate of N149.09=US\$1 while in the interbank market it was trading at N151.80=US\$1. In 2010 the Central Bank hopes to achieve its target of convergence of the official and interbank rates whilst at the same time forcing a reduction in the rates being quoted in the parallel market.

➤ **Oil and Gas**

With the prevailing peace in the Niger Delta, Nigeria's oil production has risen to its highest level of 2.4 million barrels per day. OPEC is holding a meeting in Vienna on 22nd December when it is widely expected to approve an increase in production levels as a result of increased requirements from primarily China and India as well as the Middle East. This would allow Nigeria to increase production to nearer its capacity of 3mb.p.d. Production has been boosted by an increase in the level of offshore production, a trend which is likely to increase whilst 2010 should see increased output from the Niger Delta as repairs to damaged facilities and pipelines are achieved. Certainly any increase in production will help to reduce the 2010 budget deficit.

The planned de-regulation of the petroleum sector, the enabling act for which is currently being considered by the National Assembly, is expected to come into effect on 1st January 2010, the benefits from which should be a major boost to the Nigerian economy. However, one of its effects will be an increase in the price of petrol, which due to shortages of refined oil, currently costs N85 per 1 litre in Lagos and it is expected that there will be further increases up to a level of perhaps as much as N105 per litre as a result of deregulation. In the first 11 months of this year the Federal Government spent N800 billion on subsidising the retail cost of petrol, a situation which clearly cannot continue.

The Central Bank, whilst acknowledging that deregulation will certainly result in an increase in inflation, which now stands at 12.4%, has said that the longer term benefits vastly outweigh short term pressures.

The Federal Government has, as expected following recent negotiations, reached agreement with China to supply 6 billion barrels of oil in a deal which could be worth as much as US\$ 50 billion. This is a continuation of China's massive investment in Africa as a whole and is likely to lead to further investment in Nigeria.

➤ **Power**

The Government's target to achieve power generating capacity to 6,000 megawatts by the end of 2009 has not been achieved but it has risen to 5,300 megawatts. However actual power generated is only 3,200 megawatts due to the problems in the supply of gas, which leads to regular power cuts throughout the Country.

The situation with gas is somewhat different and is having a major detrimental effect on the supply of electricity. This is directly due to pipeline vandalism, which means that the supply of gas to power stations is less than 50% of capability. At the time the amnesty in the Niger Delta was agreed it was known that there were over 400 gas and oil pipelines and power stations that had been vandalised and it is quite obvious that it is a long-term project to repair them. Electricity output is currently just over half of capacity and the immediate situation will not be helped by Shell's need to shut down its plant at Soku due to a leakage.

The situation will improve in 2010 as crucial gas supply will increase dramatically and power generation will be improved by the coming on stream of the 10 National Intergrated Power Plants as well as increasing output from existing coal fired stations. It is more likely that the target of generating 6,000 megawatts of electricity will be met in the final quarter of 2010 which will provide a major boost to companies and Nigerians in general. However, the second target of achieving output of 11,000 megawatts by 2011 is most unlikely to be met.

□ **Conclusion**

It is hoped this Digest is not regarded in any way as negative but rather a summary of 'work in progress' under the auspices of the 7 point agenda declared by President Yar'Adua at his inauguration and the aims of Vision 2020. Over the last three years Nigeria has made good progress in many areas with foundations laid for a sound and profitable future. The budget is a preface to the 2011 elections and it is considered very important

for the Government to maintain this momentum by continuing to implement President Yar'Adua's blueprint for the longer term benefit of Nigeria.

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