

Alternative Financing for Infrastructural Development in Nigeria¹



Background, Conundrum and Methodology

There is no doubt that infrastructure development is very critical to achieving human capital development in any society. The economic impact that infrastructure improvement has on any nation building cannot be over-emphasized as the growth of any country's economy hugely depends on the status of her infrastructure. The dearth of needed infrastructure in a country like Nigeria places serious limitation on human capital development. It is, perhaps, in view of its crucial role to achieving rapid economic growth that advanced nations of the world commit huge investment to infrastructural development. J.F. Kennedy, a former President of the United States of America (USA), once put the relationship between infrastructure development and economic prosperity into a proper perspective when he affirmed that: "America has good roads, not because America is rich, but America is rich because it has good roads".

All efforts to provide decent infrastructure for her citizens across all policy regimes since independence have collapsed without tangible results though huge amounts have claimed to be spent. Infrastructure decay has become synonymous with Nigeria and has become an ill wind that blows no one good. According to the World Bank, every 1 percent of government funds well spent on infrastructure leads to an equivalent 1 percent increase in Gross Domestic Product (GDP), which invariably means that there is a strong correlation between any meaningful inputs in infrastructure development which reflects on economic growth, indices, hence, the value of infrastructure cannot be underplayed. Ironically, despite the huge resources earned from petroleum, the country has nothing concrete to show as she is besieged with

¹ Produced by Uzochukwu Amakom, Ph.D. of Institute for Development Studies, University of Nigeria, Enugu, Campus, Enugu, Nigeria and Queeneth Ekeocha of African Heritage Institution (AfriHeritage), Enugu, Nigeria.

inadequate infrastructures, epileptic power situation, low foreign exchange reserves, low savings and an abysmally low standard of living.

Infrastructural development especially in the electricity and transport requires explicit sectoral strategies in order to have a clear link to agriculture, industry/SMEs; services (especially tourism, art and culture, and information/communication technology), oil and gas and solid minerals. That has implication for not only more power generation but also roads and rail (rehabilitation, maintenance and new ones) across the country. Nigeria at 28.57kWh per capita was better than Indonesia with 14.35kWh per capita in 1971 but as at 2016, Nigeria's electricity power consumption per capita stood at 144.4kWh per capita as against 801.95kWh per capita for Indonesia. The figure from World Development Indicators (WDI) further suggests that countries like Ghana and Gabon, all have electricity power consumption per capita that is higher than that of Nigeria over the last four decades. Unfortunately, Nigeria in 2006 pumped in about US\$15 billion in the power sector for generation of thousands of megawatts of electricity without neither success nor culprits to show for it.



The current Minister of Power, Works and Housing in May, 2016 supporting the claim lamented that poor infrastructural deficit is a major crisis facing the country that has constructed about 28,980km out of the 193,200km or 15 percent total length of her road network paved in the past 55 years of its independence². In relative terms, developing countries such as Libya, Malawi, South Africa, Senegal, Indonesia and Afghanistan who though have less than 70 percent of their roads paved are still by far better than Nigeria while countries like Mauritius

² A telling indicator was the result of the report of the Abandoned Projects Audit Commission set up by the then President, Goodluck Jonathan in 2011 which has an estimated 11, 886 federal government projects that have been considered abandoned in the past 40 years across the country revealed by a University don while delivering the Federal University of Technology, Akure 24th Convocation Lecture titled, 'Technology and Human Development'.

(97.98 percent), Egypt (92.22 percent) and Algeria (77.08 percent) all in Africa are competing to have almost all their roads paved. Aside roads, Nigeria is not faring better in other core transportation infrastructures like rail and air. In fact, available statistics from the World Bank World Development Indicators show length of railway route available for train service, irrespective of the number of parallel tracks increased by only 6.69 percent from 1980-2016. The so-called increase did not take cognizance of unusable rail lines across the country and those under repairs. Although data on air transportation seem to increase by over 57.8 percent, that do not show a tremendous improvement when compared to other neighbouring countries.



The very low productivity or non-competitiveness of the economy and lack of diversification of the economy are due mainly to the hostile business environment especially the infrastructural environment. This requires that infrastructure will be tackled from all angle for the economy to become competitive that will be private sector led in the growth process. Private sector led growth and development process is a pre-requisite for Nigeria to compete for Foreign Direct Investment (FDI). Based on the above argument, this brief critically analysed different and alternative scenarios that Nigeria as a country can utilise to finance infrastructure across the country. Scenarios analysed include: loans (domestic and foreign); as well as Public Private Partnership (PPP). The study used pure desk review and research utilised secondary data only. Sources of such data include: The Central Bank of Nigeria; The Budget Office of Federation; Debt Management Office (DMO), African Development Bank (AfDB), The World Bank Development Indicators (WDI), the Central Intelligence Agency – The World Factbook, relevant extant Laws and Policies, newspapers articles, studies by other authors on the subject, etc.

Briefs of Major Extant Laws and Policies on Infrastructural Development and Existing Models of Public-Private Partnership (PPP)

The brief reviewed some enabling extant laws and policies that support infrastructural development in Nigeria and the strategies recommended by these extant laws and policies to see if they are adequate for a developing country like Nigeria. First on the list is the 1999 Constitution of the Federal Republic of Nigeria as amended which is the Grundnorm. Most infrastructural issues are in the concurrent and residual lists of the constitution which implies that all tiers of government.

The Infrastructure Concession Regulatory Commission Act (2005) noted that infrastructure at the Federal level cannot be done by the Federal Government of Nigeria (FGN) alone hence made provisions for how the private sector can be part of infrastructure provisions, reconstruction and rehabilitation. The act therefore, highlighted that if any Federal Government Ministry, Agency, Corporation or body involved in the financing, construction, operation or maintenance of infrastructure, by whatever name called, may enter into a contract with or grant concession to any duly pre-qualified project proponent in the private sector for financing, construction, operation or maintenance of any infrastructure that is financially viable or any development facility of the Federal Government in accordance with the provisions of the Act. The Act further provided for a Regulatory Commission and contained detailed procedure for the Government arrangement with Private Sector for construction, maintenance of Federal Infrastructures. The Act has a limitation in that it does apply to investment and development projects relating to any infrastructure of any Federal Government ministry, agency, corporation or body. This Act has no provision for the state and local levels infrastructure which constitute the bulk of infrastructure in Nigeria.

The Public Procurement Act was enacted in 2007 with defined Rules, Methods, Processes and Procedures by which Government Institutions are mandated by law to use to acquire goods, services and works using public funds. The Act among other things is expected to do the following: Ensure timely delivery of goods and services and completion of projects. – By Planning; Ensure sound financial management by achieving value for money in the organizations' expenditure – By Competitive Participation; Reduce corruption - By Ensuring Transparency and Fairness in the Procurement Processes; and Encourage private sector growth and investment – By Open Competitive Bidding Process. The act was enacted to provide a procurement oversight institutions established to regulate the practice of public procurement within governance and the participation of private sector actors such as contractors and consultants. The component of investment through Public Private Partnership (PPP) was not considered in the Nigeria's PPA (2007).

The Nigeria Infrastructure Master Plan (NIIMP) which started in 2012 and validated in July 2014 was to be implemented over a period of thirty years (2014 – 2043). The NIIMP as it was written, adopted a coordinated approach to its development and will among others, address lack of linkages in the infrastructure sector. The ratified thirty-year NIIMP was estimated to cost N485 trillion and was seen as a document which is to serve as blueprint for accelerated integrated infrastructure development in the country. It was also endorsed at the Federal Executive Council (FEC) meeting. NIIMP was in line with global trends in infrastructure development as countries that have adopted NIIMP include Malaysia, India, Singapore and China. Unfortunately, NIIMP never fully took effect under the Jonathan's administration as stipulated that Nigeria will need an average of 25 billion dollars per annum in order to deliver priority infrastructure projects across the country for the period 2014-2019. Unfortunately, the Ministry of Budget and National Planning which spearheaded the document acknowledged that infrastructure development in Nigeria is currently hindered by multiple legislative challenges,

which hinder capital inflows and obstruct private sector involvement. A recent report in the official website of the NIIMP stated that “in total, changes will be required in about 20 different legislations” to enable successful implementation of the plan.

Public-Private Partnership (PPP) Models Nigeria can use to boost Infrastructure

According to Investopedia³, Public-private partnership (PPP) between a government agency and private-sector company can be used to finance, build and operate projects, such as public transportation networks, parks and convention centers. Investopedia⁴ continued to suggest that PPPs have contract periods of 25 to 30 years or longer. The World Bank⁵ view PPPs as mechanism for government to procure and implement public infrastructure and/or services using the resources and expertise of the private sector. Where governments are facing ageing or lack of infrastructure and require more efficient services like in Nigeria, a partnership with the private sector can help foster new solutions and bring finance.

In Nigeria, different PPP models have been advocated and some have either been used or in the process of it being used. These PPP models applicable to Nigeria include but not limited to the following: Build, Operate and Transfer (BOT) with three sub types like Build Own Operate (BOO), Build, Own Operate, Transfer (BOOT), and Build, Own, Operate and Sell (BOOS); Design-Build (DB) or Build Transfer (BT); Buy Build Operate (BBO); Design Build-Operate (DBO); Design-Build-Maintain (DBM); Build-Develop-Operate (BDO); Build-Own-Lease-Transfer (BOLT); Contract, Add and Operate (CAO); Develop, Operate and Transfer (DOT); Rehabilitate, Operate and Transfer (ROT); Rehabilitate, Own and Operate (ROO); Lease, Renovate, Operate and Transfer (LROT); as well as Design-Build-Finance-Operate/Maintain (DBFO, DBFM or DBFO/M). Private sector participation brings with it a more commercial approach to infrastructure provision, reducing political intervention. Governments, distanced from their responsibility of providing the infrastructure service itself, can tackle other issues such as tariff reform.

It is equally noteworthy that during the period 2003-2007 even before the enactment of the infrastructure concession Regulatory Commission Act, the Government started withdrawing from direct production of goods, except in oil and gas while the production of services in the key areas of education, health, water supply, science and technology and capacity building became the focus. Infrastructural services since then has become a shared responsibility between the public and private sectors, the donor community and end users. After the passage of the Infrastructure Concession Regulatory Commission Act in 2005, the Commission has started engaging the private sector in concessioning some infrastructures across the country in different sectors. Some of these selected projects include: Rehabilitation and Upgrade of Murtala Muhammed Airport Road, Lagos; 2nd Niger Bridge, Onitsha-Asaba; River Niger Bridge at Nupeko; Small and Medium Hydro Power Projects; Power Holding Company of Nigeria (PHCN) 3 large Hydro Power Plants in Kainji, Jebba and Shiroro; 25 Silos complexes; National Centre for

³ <http://www.investopedia.com/terms/p/public-private-partnerships.asp>

⁴ Read more: Public-Private Partnerships <http://www.investopedia.com/terms/p/public-private-partnerships.asp#ixzz4xkeMSNqk>

⁵ <https://ppp.worldbank.org/public-private-partnership/about-public-private-partnerships>

Women Development; Rehabilitation and Upgrade of Kiri Kiri Lighter Terminals I & II; Rehabilitation and Upgrade of Onitsha Inland Waterway Port; Development of Katampe District; Development of Four Districts in Mabushi, Kado, Gwarimpa and Durumi Districts of the FCT; as well as Reticulation and upgrade of Kuje Waterworks. These projects are in various stages currently.

As Chima and Ekeghe (2017)⁶ stated in their paper that Infrastructure financing plays critical role in promoting economic growth, improving standard of living, poverty reduction, enhancing productivity and in improving competitiveness. It is true that the recent World Bank Ease of Doing Business Report by moving 24 points upwards but that is still not enough to say that the country is ready for flow of Foreign Direct Investment (FDI) because of huge infrastructural gap which are not part of the indicators used in the World Bank Ease of Doing Business Report.

The implication of the above is that Nigeria must as urgent as possible source for funds from other areas to be able to meet with her infrastructural deficit demand. It is estimated by the current administration that while about \$60 billion would be required for the oil and gas sector infrastructure; about \$20 billion is needed to revamp the power sector; \$14 billion for roads and bridges; and between \$8 and \$17 billion for rail tracks. What this implies is that Nigeria requires to evolve creative options to generate long-term finance to tackle Nigeria's infrastructural challenges. Such option must cover both domestic and external options. Domestic and external debts are options a country can utilise to finance infrastructural deficit but in Nigeria currently, the size of the Nigeria's debt stock has been on the increase with huge amounts annually allocated to debt servicing especially for external loan. Unfortunately, most of these loans were not tied to capital projects and lack some restrictions as provided by the Fiscal Responsibility Act (2007). With the Federal Government of Nigeria debt profile (domestic and external) hitting about 21.4 percent of real Gross Domestic Product (GDP) in 2016 and a provision in 2017 budget of over N2 trillion and another proposal of N1.6trillion in 2018, it is no longer advisable for the country to go on borrowing.

Other options Nigeria can explore include Diaspora Direct Investment (DDI) and Diaspora Bond (DB) which involves people who have settled in a host country on a permanent basis but due to home ties, are still interested in investing and developing their own home country. Nigeria has a large pool of successful Diasporas scattered all over the globe. Creating enabling environment for them to invest in their home country and selling bonds to them could serve as an investment financing model for infrastructural development. Many countries have recorded success using this model. Globalization has made it easy for foreign individuals and companies to invest in productive activities that foster development in their home countries. This is a new paradigm shift from the loan component of foreign direct investment (FDI) to a more internally and sustainable development option. Diaspora Direct Investment (DDI) and Diaspora Bond (DB) policy frameworks are anchored on the Diaspora Engagement Strategy (DES) which is a policy initiative that sets objectives on i) how to use international remittances, ii) how to facilitate

⁶ <https://www.thisdaylive.com/index.php/2017/09/20/filling-nigerias-infrastructure-gap/>

access to the skills of migrants including repatriation programs and iii) how to create networks (Rodriguez-Montemayor, 2012). It is expected that if Nigeria get it right, such can promote productive investments from abroad that are linked to Diaspora members through remittance, investment, skills, network and political influence. This has been used successfully by Chile, Mexico and other countries.

National institutions that can finance different infrastructure include: The Infrastructure Bank; Federal Mortgage Bank of Nigeria and National Pensions Fund. Ohioma⁷ looking at how Nigeria can leverage on the Pensions Fund submitted that “Infrastructure is a potential avenue for pension funds to reap higher and consistent returns on investment, if adequate policies, structures and regulations are instituted.” On the other hand, there are international institutions that Nigeria can leverage on and they include: The World Bank, the International Monetary Fund (IMF), African Development Bank (AfDB); ECOWAS Bank for Investment and Development (EBID) and others.

Conclusions

It is undisputable that infrastructure is the most important factor for the rate of development of developing country like Nigeria. As such, Nigeria is preoccupied by the most effective methods to financing infrastructure. Additionally, public funding challenges have compelled both the private and public-sector actors and clients to rethink the conventional methods of funding infrastructure development. The importance of infrastructural development cannot be over-emphasized. It has been established by various studies that infrastructure capital has a significant, positive effect on economic output and growth. Therefore, adequate and well-functioning infrastructure promotes not just productivity and economic development but also connects people to jobs, goods and services, as well as provides access to international markets.

The Economic Reform and Growth Plan of the Buhari administration states its agenda for infrastructure especially the road sector inter alia to “complete the road sector reforms to establish a Road Authority and a Road Fund to enhance best world practice in the administration of road network development and management in the country.”

What we have seen in the last five years is showing that it is no longer feasible to achieve the targets of infrastructure from budgets alone and issuance of Sukuk bond⁸ as currently embarked by the FGN. Unfortunately, the Road Fund Bill which was introduced into the legislature in 2011 with a newer version introduced has stalled in the current National

⁷ “Pension Funds for Economic Development: Investing Pension Funds in Infrastructure” presented at the 2016 National Pension Commission Journalists’ workshop held in Calabar

⁸ Sukuk bond is a loan with a seven-year tenure due in 2024 at a return of 16.47 per cent; the initial investments and the resulting interest must be returned to the investors.

Assembly. The bill which addresses the issue of funding of road projects and an objective of creating and sustaining a pool of funds dedicated to financing, rehabilitating, repairing and maintenance of federal roads and enhance sustainable development and operation of the federal road network should not be a bill that should wait for ages when every Nigerian understand the state of our infrastructure especially road networks. There is also the need for Nigeria to look inward and provide the enabling environment for the usage of over N5 trillion pension fund which is lying idle for infrastructural development just like Ghana, Kenya, South Africa, India and Brazil have effectively deployed pension funds for investment in infrastructure.