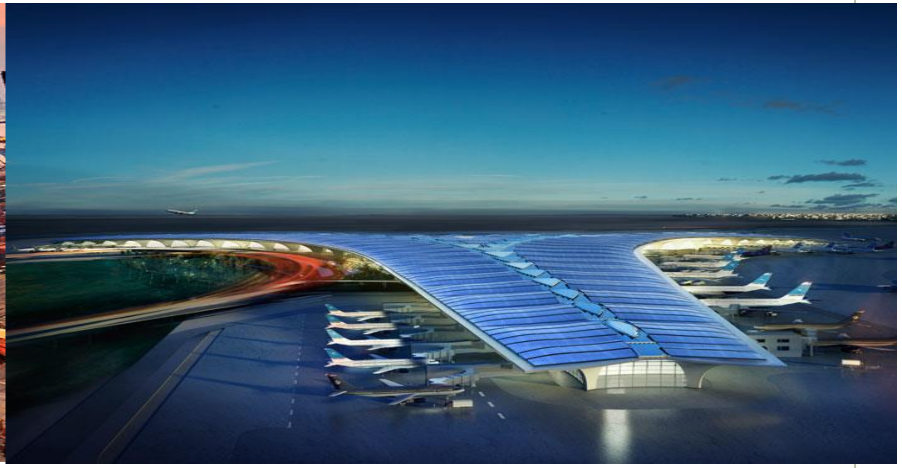
The State of Infrastructure in Nigeria: Using PPP to actualise the Renewed Hope Agenda in Nigeria's Infrastructure Delivery





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INTRODUCTION

- Nigeria's infrastructure has long been a critical challenge, significantly affecting the country's economic development and the well-being of its citizens.
- Roads, power supply, water systems, rail networks, and healthcare facilities, among others, have faced deterioration or inadequate development due to funding gaps.
- Worried by the prevailing despondency and misery that plagued the country, President Bola Tinubu, upon his assumption of office, vowed to rescue the supposed Africa's giant from the claws of infrastructure decay, among others.
- In an effort to turn the tide, the Renewed Hope Agenda was launched, aiming to drive sustainable infrastructure development and improve the quality of life in Nigeria.

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- The "Renewed Hope Agenda" in Nigeria's infrastructure delivery seeks to address the country's longstanding infrastructure gaps, fostering economic development, job creation, and improved public services.
- Public-Private Partnerships have emerged as a crucial and reliable funding option to fast track development and unlock infrastructure gains for achieving these ambitious goals.

CURRENT STATE OF NIGERIA'S INFRASTRUCTURE

- According to the National Integrated Infrastructure Master Plan (NIIMP) approved in 2015, Nigeria requires a total investment of US$3 trillion over the next 30 years to build and maintain infrastructure across the country.
- This stands at US$100 billion (N38 trillion) annually, which is almost three times larger than the combined overall budget expenditure of both the federal and state governments.
- With Nigeria's population growing at a rate of over 2.5% per year and an expected population of 400 million people by 2050, the US agency worries that the current infrastructure in the country is likely to be overwhelmed. The World Bank has projected that Nigeria will need to invest $3 trillion to reduce its infrastructure deficit.
- According to the African Development Bank (AfDB), the country needs around $100 billion annually to bridge its infrastructure gap


Africa Infrastructure Development Index (Nigeria) 2016-2020
Nigeria recorded marginal increase in Infrastructure development in a period of five years
25
20
15
10
5
0
2016
2017
2018
2019
2020
Source: Africa Development Bank (AFDB) |Analysis: Dataphyte Research

- Nigeria was ranked 24th out of 54 African countries in the Africa Infrastructure Development Index (AIDI), 2020, and 33rd in 2022.
- With such a huge deficit, it is no doubt that Nigeria needs alternative and innovative methods of financing infrastructure development.
- Public-Private Partnerships (PPPs) are one of such models, which have been explored by many countries across the world.

THE INFRASTRUCTURE INVESTMENT GAP

Energy

- $1trillion i.e. 33% of total
- Increase generation and transmission capacity
- Construct gas infrastructure
- Increase refining capacity

ICT

- $325billion i.e. 11% of total
- Expand mobile network capacity and coverage area
- Expand broadband fibre optic network capacity &coverage

Transport

- $775billion i.e. 254% of total
- Rehabilitate & expand national and regional road networks
- Rehabilitate rail links, upgrade main airports and develop inland waterways

Housing and Regional Dev.

- $350billion i.e. 11% of total
- Increase the number of housing units to close current deficit (16 million units deficit)
- Develop urban infrastructure

Agriculture, Water and Mining

- $400billion i.e. 13% of total
- Develop water supply and irrigation networks
- Develop crop processing zones
- Build basic mining infrastructure

Social infrastructure

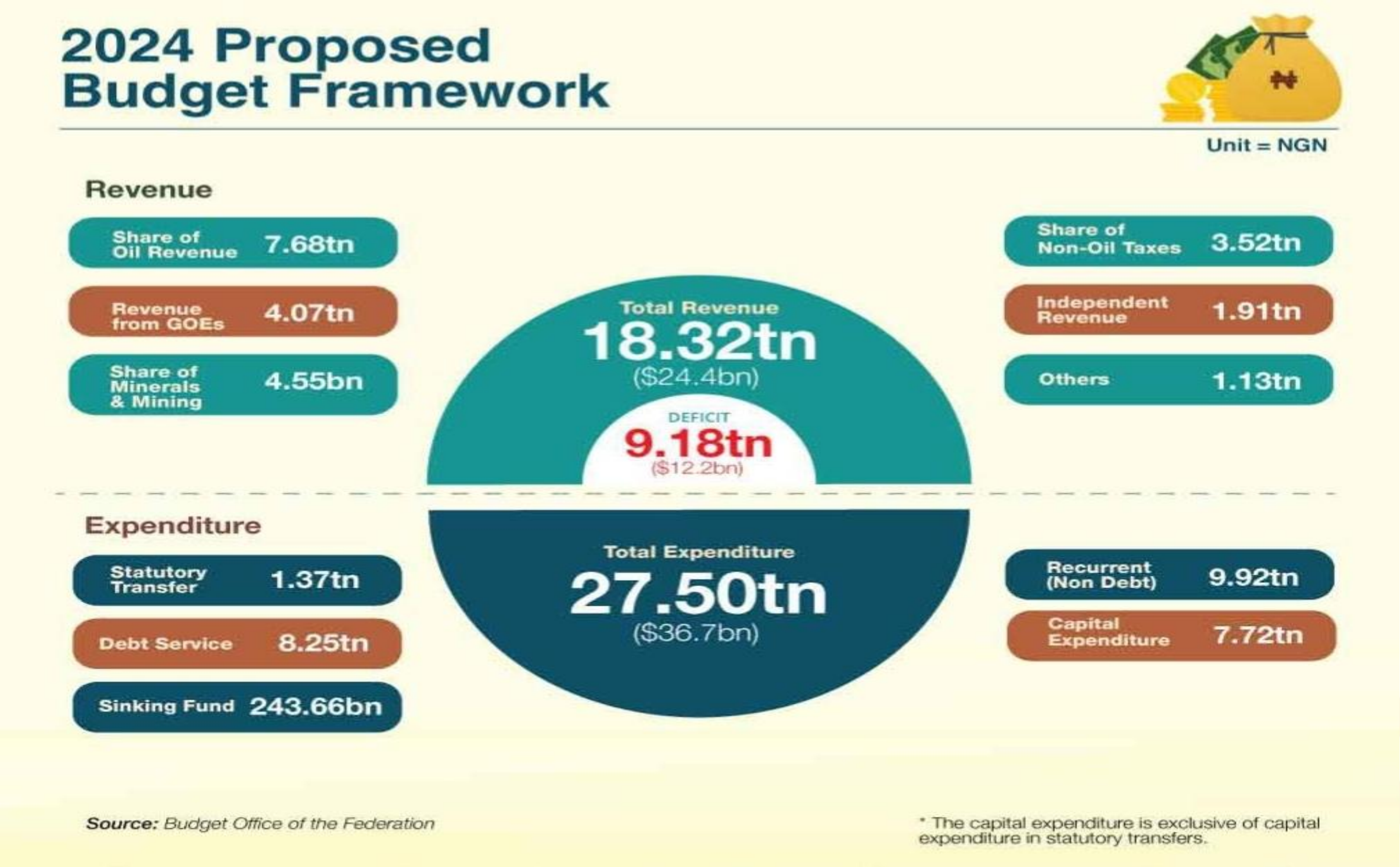
- $150billion i.e. 5% of total
- Construction of facilities for education, hospitals, women and youth development and sports centres

Source: National Integrated Infrastructure Master Plan

FINANCING INFRASTRUCTURE GAP

- Nigeria requires a huge outlay of resources to close current infrastructure gaps and boost its economic performance.
- A total expenditure of **27.5 trillion Naira** is proposed for the Federal Government in 2024. This includes 2.42 trillion Naira spending by Government Owned Enterprises.
- Government will develop projects that are good candidates for Public Private Partnership (PPP) by their nature for private sector participation.
- The ICRC (Est. 2005) Act enables the pursuit of critical infrastructural development in Nigeria through the use of alternative sources of funding, by attracting private investment capital into infrastructure development.
- This allows the Private Sector to effectively partner with the Public sector in the provision of critical infrastructure, which the government was unable to provide due to pressure on scarce revenue, through a clear framework which provides regulatory guidance.

FISCAL BUDGETARY OUTLOOK



SOURCES OF FUNDING INFRASTRUCTURE GAP

On-Budget

- Regular Budgetary Allocation
- Enhanced Statutory Allocation
- Viability Gap Funding

Off-Budget

- Special Intervention Funds
- FGN Bonds (through the DMO)
- Low-interest Concessional Loans
- Credit Enhancements

Private Sector

- Pension Fund
- PPP
- Long-term Commercial Bonds
- Export Credit Finance
- Private Equity
- Infrastructure Bonds

ADDITIONAL SOURCES OF FUNDING

Infrastructural projects are by nature long term, ranging between 15-25 years. One of the main problems affecting infrastructural developments is the non availability of long term financing for these very critical sectors.

- Nigerian Sovereign Investment Authority Act Bill
- Financial Intermediary Loan (FIL)
- Nigerian Pension Fund (Modality being developed)
- International Funds, Donor Agencies
- Islamic Finance

PPPs AND PRIVATE INVESTMENTS

- Capital investments in infrastructure have been widely recognized as a veritable route for engendering sustainable economic development and inclusive growth.
- With fiscal and budgetary funding constraints plaguing governments at all levels, the cold reality is that private participation in infrastructure is an economic necessity, rather than an optional financing solution.
- Our dependence on the mono-economic model is an unsustainable path for financing capital intensive projects like infrastructure.
- With a current Infrastructure deficit of $3.2 trillion, Public Private Partnerships remain the most viable alternative to traditional procurement for Infrastructure development and delivery in Nigeria, and the easiest way to bridge the gap in infrastructure funding.

THE RENEWED HOPE AGENDA AND INFRASTRUCTURE DELIVERY

- Nigeria needs $35 billion yearly, up till 2040, to cover its infrastructure expenditure.
- These challenges are what President Bola Ahmed Tinubu's Renewed Hope Infrastructure Development Fund (RHIDF) seeks to overcome
- The RHIDF aimed to streamline processes and accelerate project delivery.
- The Renewed Hope Infrastructure Fund is targeted at closing Nigeria's $878 billion infrastructure gap by deploying as much as $35 billion yearly up till 2040.
- The initiative is a game-changing, inventive and transformative fund that will drive economic growth in road, rail construction, agriculture, aviation, education, health, energy, and technology.
- Major road networks, such as the Lagos-Calabar Coastal highway, Sokoto-Badagry expressway, Lagos-Kano, and Eastern rail lines are being targeted by the fund, while ports and aviation facilities will be modernised.
- The **Renewed Hope Agenda** of the current administration envisions comprehensive infrastructure growth as a pillar for economic recovery and growth.

PPPs AND RENEWED HOPE INFRASTRUCTURE FUND

- PPP play a critical role in ensuring the success of RHIDF by leveraging private sector capital, expertise, and efficiency to develop essential infrastructure projects.
- PPPs under the RHIDF serve as a bridge between public infrastructure needs and private sector capabilities, accelerating infrastructure development while ensuring long-term sustainability
- Rigorous project preparation – since the focus shifts to developing bankable projects
- Delivery of a whole life solution – going beyond asset creation and including Operation and Maintenance (O&M)
- Focus shifts to service delivery – construction responsibility is integrated with O&M obligations and together with appropriate quality monitoring and service delivery-linked payments such an arrangement could enhance the levels of service delivery
- It is possible to adopt a programmatic approach to infrastructure development and service delivery – various time bound projects can be integrated under a programme and have a time-bound implementation plan
- Can lead to better overall management of public services – transparency in selection and ongoing implementation

CRITICAL SUCCESS FACTORS FOR PPPS

ACCESS TO CAPITAL

Availability of long tenor private capital

INSTITUTIONAL FRAMEWORK

Public sector competence and expertise to ensure efficient and effective detailed preparation of projects and faithful implementation of transact ions

SUCCESSFUL PPPs

POLITICAL WILL AND TRANSPARENT POLICY

A PPP 'Champ' with the transperency Track record and power to make it happen cleanly

LEGISLATION

To enable private sector participation in an efficient and effective manner

COMPONENTS OF PPPS IN INFRASTRUCTURE DELIVERY

This typically include various elements that govern the partnership between the public and private entities. Some key components of PPPs in infrastructure financing:

- **Legal and Regulatory Framework:**

Establishing a clear legal and regulatory framework is essential for PPPs. This includes defining the rights, responsibilities, and obligations of both public and private parties. Legislation and regulations may address issues such as procurement, dispute resolution, and risk allocation.

- **Risk Allocation:**

One of the key features of PPPs is the allocation of risks between the public and private sectors. Risks related to construction, operation, revenue, and force majeure events are identified and allocated to the party best equipped to manage and mitigate them.

COMPONENTS OF PPPS IN INFRASTRUCTURE DELIVERY ~ 2

- **Financing and Funding Mechanisms:**

PPPs involve structuring financing arrangements to fund the infrastructure project. This may include a mix of equity, loans, and other financial instruments. The private sector partner often contributes capital, and debt financing may be secured from banks, capital markets, or other sources.

- **Revenue Generation:**

PPPs aim to make infrastructure projects financially sustainable. Revenue streams may include user fees, tolls, availability payments from the government, or a combination of these. The private sector partner may be responsible for collecting and managing revenues.

- **Life Cycle Considerations:**

PPPs often take a life cycle approach, considering the entire project life, including design, construction, operation, and maintenance. Contracts may outline maintenance standards and procedures to ensure the ongoing functionality of the infrastructure.

COMPONENTS OF PPPS IN INFRASTRUCTURE DELIVERY – 3

- **Performance Standards and Monitoring:**

PPP contracts establish performance standards that the private sector partner must meet. Monitoring mechanisms are put in place to track the performance of the project, ensuring that it meets agreed-upon service levels and quality standards.

- **Public Participation and Stakeholder Engagement:**

PPPs often involve public participation and stakeholder engagement to ensure transparency and address community concerns. In some cases, the public sector may retain ownership of the asset, and the private sector partner is responsible for its operation and maintenance.

- **Dispute Resolution Mechanisms:**

PPP contracts typically include mechanisms for resolving disputes between the public and private sectors. These mechanisms may involve negotiation, mediation, arbitration, or other methods agreed upon in the contract.

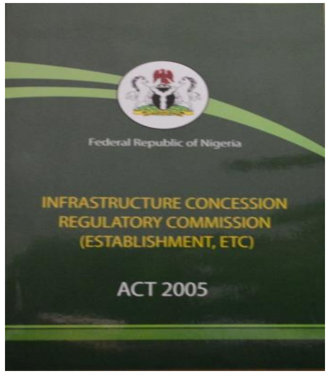
OPPORTUNITIES/ PROSPECTS IN INFRASTRUCTURE SECTORS

- A concession is a contractual arrangement where a government or public authority grants a private entity the right to operate, maintain, finance and develop infrastructure assets.
- Concessions have been used as a form of intervention in various infrastructure sectors globally. Some infrastructure sectors where concessions have been commonly used as a form of intervention include:

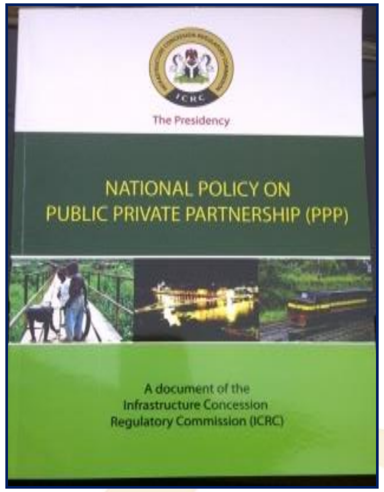
1. Energy
2. Transportation
3. Water and Sanitation
4. Telecommunications
5. Education
6. Real Estate and Urban Development
7. Tourism and Leisure
8. Mining and Natural Resources
9. Public Facilities
10. Healthcare

PPP FRAMEWORK NIGERIA

- Common Law Jurisdiction – Framework Precedes the ICRC Act



- The Infrastructure Concession Regulatory Commission Act (Establishment Etc,) Act 2005.



- National Policy on PPP (N4P)

- Regulations, Guidelines and Circulars.

ADVANTAGES OF PPPs

- Maximizes the use of each sector's strength
- Reduces development risk
- Reduces public capital investment
- Mobilizes excess or underutilized assets
- Improves efficiencies/quicker completion
- Improves service to the community
- Improves cost effectiveness
- Shares resources
- Shares/allocates risks
- Mutual rewards

CONCLUSION

- Nigeria's infrastructure challenges are significant, but they are not insurmountable.
- PPPs offer a dependable and sustainable funding option, increased accountability, accelerated infrastructure provision and faster implementation of projects.
- The success of PPPs, underpinned by a robust framework set by the **Infrastructure Concession Regulatory Commission (ICRC)**, ensures that both the public and private sectors can collaborate efficiently to deliver sustainable projects.
- For the Renewed Hope Agenda to realize its full potential, continuous efforts must be made to:
  - ✓ Strengthen PPP frameworks and encourage investment.
  - ✓ Ensure transparency and accountability in project delivery.
  - ✓ Foster inclusive stakeholder engagement to ensure that infrastructure projects meet the needs of all Nigerians.
- The integration of well-managed PPPs into the Renewed Hope Agenda provides a practical pathway for overcoming Nigeria's infrastructure challenges.

"America has good roads not because America is rich, but America is rich because it has good roads".

– John F. Kennedy
35th US President

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