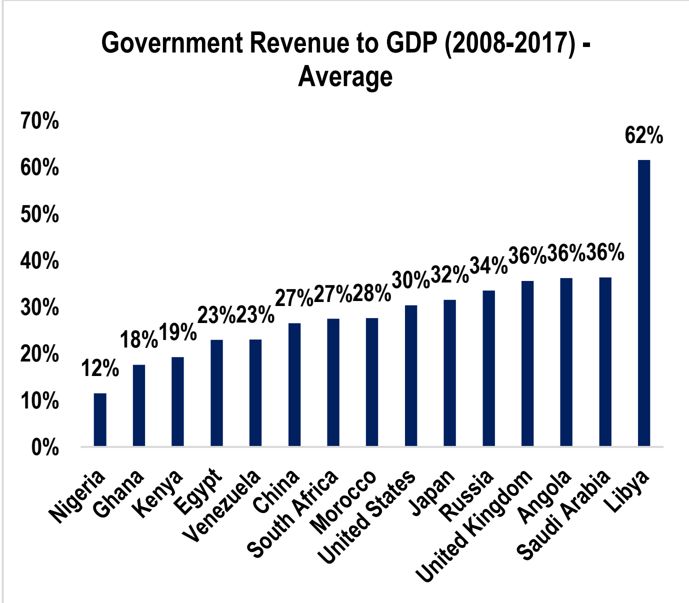
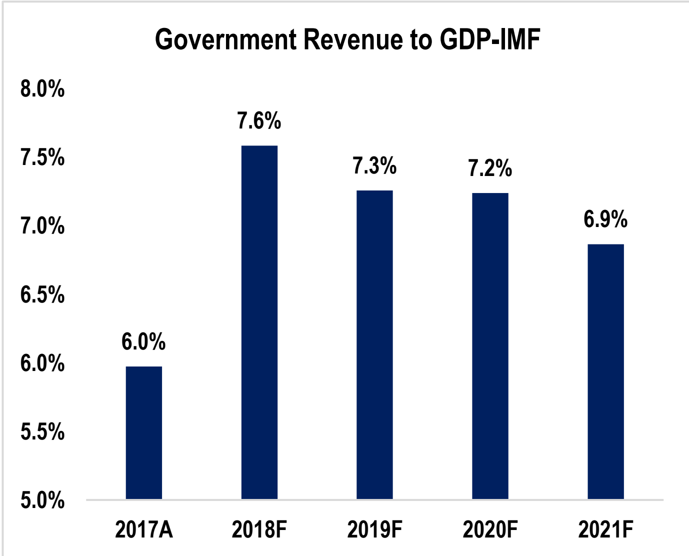
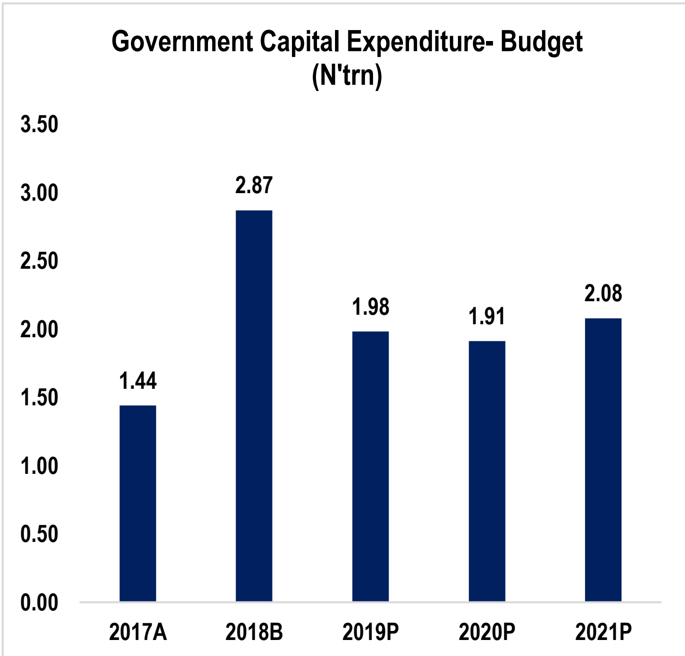
FSDH Research Believes it is Time to Actively Involve the Private Sector to Fund Infrastructure in Nigeria

FSDH Research believes it is time for the Federal Government of Nigeria (FGN) to involve the private sector to finance the infrastructure gap in Nigeria. It is estimated that about US$100 billion must be invested annually to finance infrastructure development in Nigeria to close the deficit. However, the weak revenue generation of the Nigerian Government shows that the country cannot meet the capital required through annual budgetary allocation. The FGN 2019 budget call circular published on 25 October 2018 by the Budget Office of Nigeria, indicates that the capital expenditure for 2019 is set at about N1.98trn, 30.92% lower than the N2.87trn approved in the 2018 budget. Adjusting the proposed capital expenditure in 2019 for inflation, it represents a steep decline from the 2018 figure in real terms. This underscores the need for Public-Private Partnerships (PPP) to drive infrastructure development in Nigeria.

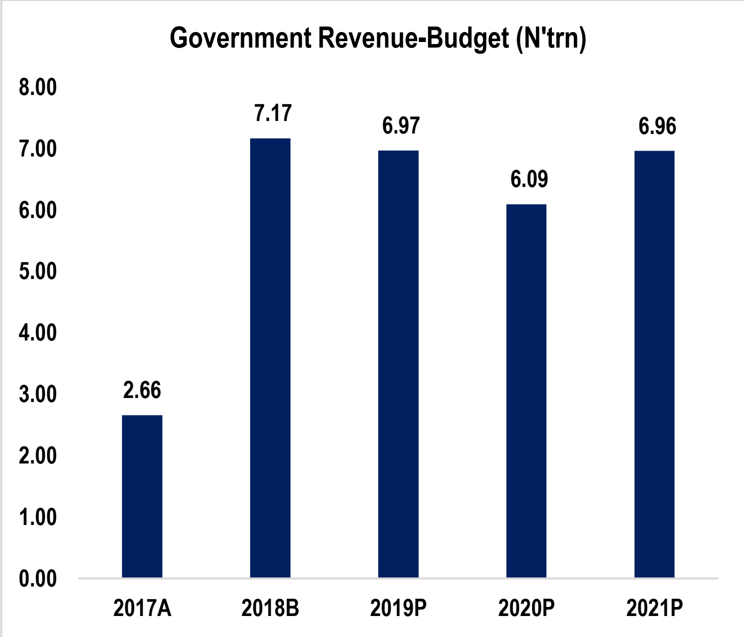




The draft 2019-2021 Medium-Term Expenditure Framework and Fiscal Strategy Paper notes that Nigeria faces medium-term fiscal challenges especially with respect to revenue generation. Data from the International Monetary Fund (IMF) shows that Nigeria recorded the lowest revenue to Gross Domestic Product (GDP) among some selected countries, at an average of 11.53% between 2008 and 2017. According to the 2019 budget call circular, FGN revenue is expected to drop by 2.78% in 2019. FSDH Research believes that one of the reasons for the weak revenue generation is inadequate infrastructure in the country. Nigeria can overcome this challenge in the next few years if it adopts one or a combination of the PPP arrangements that are available.



Some of the PPP arrangements are highlighted here: Management and Operating Agreements, Lease, Concessions, Build-Operate-Transfer and Design-Build-Operate. These different types of arrangements offer a variety of construction, operation, ownership and revenue-generating scenarios. The type of PPP adopted for a particular project would depend on the overall objective of the project. A PPP arrangement offers a solution to the problems of financing, project completion and investing in large projects using private capital and resources.



Sources: International Monetary Fund, Budget Office of the Federation and FSDH Research Analysis

**P= Projection, B-Budgeted, A-Actual, F-Forecast*

Critical projects in the Nigerian economy such as road, rail, aviation, housing and power can benefit from PPP arrangements. Adequate and functional infrastructure will have a multiplier effect on the growth of the economy and should attract investment into the non-oil sector. This would help towards the diversification of the revenue base of the Nigerian economy. Improvements in infrastructure would reduce the costs of doing business and make locally produced goods more competitive. Inadequate infrastructure has also been a major hindrance to unlock the revenue from the non-oil sector of the economy.

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FSDH Research believes that infrastructure development is critical for a sustainable growth of the Nigerian economy. Given the FGN revenue constraints, it is imperative to develop constructive and innovative ways to fund the infrastructure. We believe partnership arrangements with the private sector is a cost-effective funding model for infrastructure development in Nigeria.

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