

A REVIEW OF PUBLIC PRIVATE PARTNERSHIP IN NIGERIA: PROGRESS AND CHALLENGES

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Abstract

In developing countries of the world, governments are facing the challenge of ever growing population most especially in Nigeria. The growing population is putting the limited urban infrastructure on pressure coupled with weak legal framework, lean finance occasioned by weak global economy, corruption and almost absence of maintenance culture. Adequate infrastructure provision is observed as a key prerequisite for Nigeria to meet the objective of being the regional hub for economic development. Public private partnership has been adjudged as the solution to the infrastructural challenge in Nigeria and other developing nations in Africa when other forms of financing have failed in the past. This paper therefore reviewed the progress of PPP in Nigeria, challenges faced and recommendations with the use of secondary materials. Issues discovered were analyzed thematically to drive the objectives into logical conclusion. This study discovered out that regulatory and legal mechanisms, political and policy instability are major challenges affecting the progress of e-government in Nigeria.

Keywords: Public Private Partnership; Infrastructure; Nigeria.

Background of the Study

Infrastructural development is an important burning issue in today global governance to ensure effective public service delivery to citizens. Adequate infrastructure provision is observed as a key prerequisite for Nigeria to meet the objective of being the regional hub for economic development (Ajakaiye & Ncube, 2010). In developing countries of the world, governments are facing the challenge of ever growing population most especially Nigeria. The growing population is putting the limited urban infrastructure on pressure coupled with weak legal framework, lean finance occasioned by weak global economy, corruption and almost absence of maintenance culture within the Nigerian sphere. What is evident is that substantial numbers of uncompleted and substandard public projects are littered across the country. Large numbers of public utilities within the cities are condemned to suboptimal performance, leaving a great variation in the amount of money used for their construction and the rate of utilization.

Nigeria has a great infrastructural deficit in transportation network, the social and economic life of major cities is grossly affected by congestion. In the rural areas where agriculture is the mainstay and the supply feed the urban areas are also affected by lack of good transportation networks from the farm to the urban markets. The World Economic Forum (WEF) 2017-18 Global Competitiveness Index ranks Nigeria's infrastructure 132 out of 138 countries (Schwab, 2018).

Currently, the population of the country is put conservatively at 190 million (Nigeria Bureau of Statistics, 2018). An insight into the future where the population is expected to rise to 330 million in the next 23 years predicts excessive pressure on the demand for infrastructure without drastic improvement on the current existing gap (United Nations, 2015). Although, there is potential for improvement in the country's

economic growth and development if the gap in the level of infrastructure most especially in the power, transportation and telecommunication services are kept minimal.

According to the World Bank (2016), due to the dearth in the level of infrastructure in Africa, 7 to 9 per cent of the Gross Domestic Product (GDP) is recommended to be devoted to the development of infrastructure. Nigeria needs consistent USD15 billion worth of investments annually for 15 years to adequately develop its infrastructure nationwide (Financial Derivatives Company, 2018). The question therefore remains that where will the country get such huge amount money to invest? Given that only paltry 3 per cent and 3.5 per cent of GDP is allocated to infrastructure in 2017 and 2018 national budgets respectively.

The mode of financing infrastructure in developing countries can be summarily grouped into two: Internal and external funding mechanisms. Internal funding mechanism involves the use of national government budget to finance infrastructure. This mode of financing has often been criticized over the years for been too insignificant and not sufficient to meet the need of closing the infrastructure deficit gap like for a country like Nigeria. Hence, the need for external funding comes into the financing scheme. Globally, the growth of the private sector in the share of infrastructure financing is increasing. Although, it is still low in the low income countries like in the Sub Saharan Africa as it accounts for less than 4 per cent of total infrastructural financing (Jamal Saghir, 2017). The reasons for this cannot be divorced away from high risks associated with large infrastructure, high upfront construction cost, long term nature of loans, frequent government policy changes, weak legal and regulatory institutions among other delimitating factors (Rim Berahab, Karim El Aynaoui, 2018).

The Need for Public Private Partnership

The delivery of services in Nigeria is generally poor (World Bank, 2014). Services provided are inferior and financing system for infrastructure increases while repairs are mostly neglected. While the population continues to expand, urbanization becomes a serious challenge (Zayyanu & Johar, 2017). Effective and efficient urban for infrastructure and services provision are important in delivering major benefits in economic growth, poverty alleviation, environmental sustainability and sustainable development in general (Adekilekun, 2015). Improved delivery of services is crucial for sustainable growth, development and poverty reduction (Millard, 2017). It increases people's standards of living and contributes to sustainable development.

However, given the attendant risk factors and unsuccessful admittance of the private sector wholly into the financing of infrastructure market, a new mode of finance emerged in the recent years known as the Public Private Partnership (PPP). PPP emerged on two important fronts, the financing and origination of infrastructure projects. For PPP to be successful, the risks associated with the private sector must be mitigated by building confidence of the private sector through the following but not limited to political stability, equitable sharing of risks, strong legal and regulatory frameworks, a continuous pipeline of bankable projects as well as certainty of visualized cash flows (Arezki, Bolton, Peters, Samama & Stiglitz, 2016).

Therefore, given the inadequacies of the private sector financing and the coming of the PPP, Nigeria has tilted to the need to push PPP in the financing of major infrastructure in power, roads, and water as well as telecommunication services. Expanding the current level of infrastructure to meet the optimum level of usage and satisfaction coupled with

the growing population, it is expected that it will take a long time and huge investment to meet. These also form a greater barrier to the predicted rapid development of the country. The situation is even getting worrisome as the revenue of the country is still dependent largely on oil which is subject to volatility and highly vulnerable to international energy market dictates. The implication of this circumstance is highly impactful on the national budget for infrastructural development. In the light of this, in 2008, the Federal Government of Nigeria established the Infrastructure Concession Regulatory Commission (ICRC) under the Infrastructure Concession Regulatory Commission (ICRC) Act 2005 to set guidelines in order to promote, drive and facilitate PPP in the country, also to aim at addressing Nigeria's physical infrastructure deficit over the years. In 2017, the Economic Recovery & Growth Plan (ERGP) was launched. In this plan, it was highlighted that "given the huge capital layout required to address the massive infrastructure deficit in the country, the private sector is expected to play a key role in providing critical infrastructure, either directly or in collaboration with the Government under Public Private Partnership (PPP) arrangements". It is on this note that this study seeks to explore the impacts of PPP in Nigeria by highlighting its successes overtime, prospects for the future and challenges over time. This study relies heavily on secondary sources of data.

Literature Review

What is PPP?

PPP is a concept that is difficult to define; it means different things to different people (Hodge & Greve, 2017). The concept is more often than not relative in terms of international experience and the actors involved (Hodge & Greve, 2017). In general, it refers to a form of cooperation between public authorities and the private sector to finance, construct, renovate, manage, operate or maintain an infrastructure or service (Garvin & Bosso, 2008; Hodge & Greve, 2007; Vining & Boardman, 2008).

While there is no single definition of PPPs, they broadly refer to long-term, contractual partnerships between the public and private sector agencies, specifically targeted towards financing, designing, implementing, and operating infrastructure facilities and services that were traditionally provided by the public sector (Engel, Fischer & Galetovic, 2014). It is the interaction, cooperation and collaboration of the two extremes entities (public and private entities) coming together to form a synergy in order to overcome the shortcomings of the two entities to provide a win-win situation. According to the World Bank (2014), PPP is

"a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance".

PPP is a form of arrangement that has been celebrated by major international development agencies like the UNDP, IFAD and World Bank for the delivery of critical infrastructural development to both developed and developing worlds (United States Agency for International Development [USAID], 2002; Department for International Development [DFID], 1999; Fiszbein and Lowden, 1999). The most important element in the definition of any PPP project is the presence of a public interest in the delivery of a certain service. Also, another feature in the PPP project is the presence of risk sharing between the public and the private sectors. Although, the burden of project performance, management and significant risk lies heavily on the shoulder of the private entity given the efficiency promise of the private sector (OECD, 2008).

Typically, a PPP project involves a public sector agency and a private sector consortium which comprises contractors, maintenance companies, private investors, and consulting firms. The consortium often forms a special company or a 'special purpose vehicle' (SPV). The SPV signs a contract with the government and with the subcontractors to build the facility and then maintain it (Chowdhury & Chen, 2017). The basic implementation condition of a PPP project is its ability to achieve, from the point of view of the public sector, a greater benefit in relation to the expenditures, compared with the situation when the public sector implements the given project by itself, using its own forces and from its own sources, i.e. respecting the principle of value for money.

The term "PPP" was first used in the USA in the 1960s to refer to typical urban development projects involving private investors. From here, the concept spread all over the world and is still applied in many countries today. Larger cities in particular seek to ensure the involvement and assistance of private investors in order to develop brownfield and fallow sites for use that adequately reflects the aims of urban planning while offering a commercial interest for the investors. PPPs then became known globally as a method of procurement for the public sector, for example in the area of social and economic infrastructure management. Initially developed into a standardized form as a result of the Private Finance Initiative (PFI) in the United Kingdom in the 1990s, it was taken up throughout the world in various forms and is becoming increasingly popular both as an alternative procurement option for the public sector and a good investment opportunity for private investors.

PPP is an output-performance-based arrangement as opposed to the traditional input-based model of public service delivery where the focus is payment for the successful delivery of services (Kimani, 2016). PPP typically involve bundled services (i.e., design, construction, maintenance and operation) to increase synergies and discourage low-capital/high operating-cost proposals. In general, PPP offer a new and dynamic approach to managing risk in the delivery of infrastructure and services (Sanni, 2012). Although PPP is considered a new concept that has gained prominence in the last 20 years, PPP have actually been around for hundreds of years, wherever the private sector has been involved in the delivery of traditional public services (i.e., water, roads, rail and electricity).

Classifications of PPP

Among different possible classifications, PPPs can be categorized into two forms: a PPP of a purely contractual nature and a PPP of an institutional nature (Fadeyi, Kehinde, Nwachukwu, Adegbuyi, & Agboola, 2018; Badasyan, & Alfen, 2017). This categorization is adopted by the European Union and by many other countries. PPP of a contractual nature is whereby the partnership between the public and the private sector is based solely on contractual links, whereas in a PPP of an institutional nature there is cooperation between the public and the private sectors within a distinct entity. Both arrangements involve delegated management of the traditional public sector activities to the private sector. In the first type of PPP, the rights and obligations are regulated by an administrative contract or series of contracts. In the second, they are guaranteed by the company's statutes and by the shareholder agreement between public and private parties. There is contractual regulation in both situations.

Contractual PPPs: In the scope of purely contractual PPP, there are different kinds of arrangements that depend on the characteristics of the contractual relationship and delegation of tasks to the private partner. Some of the best known models are in the

development of urban infrastructure facilities: the associated provision of services corresponds to the “concession model”. In this situation there is a direct link between the private partner and the final user: the private partner provides a service to the public “in place of”, though under the control of, a public authority. The private party assumes all the responsibility relative to the construction, operation and maintenance of the infrastructure assets, charging users for the service. Usually the concession model is associated with long contractual periods, matching the long asset life of infrastructure.

An important variant of the contractual PPP relates to infrastructure systems where it becomes necessary to transfer funds from the government or other external entities (e.g. donors) to assure their economic-financial balance (Merna and Njiru, 2002). This model, known as PFI (private finance initiative), was initially aimed at sectors such as health (hospitals) or education (schools) where there was a periodical payment (monthly or annual) to the private partner for making that infrastructure available. This model has been extended to many other sectors (e.g. in transportation, shadow tolls) and can perform a valuable role both in developing countries where cost recovery through users is socially complicated (FHWA, 2009) and in segments of the urban infrastructure systems production process (e. g. water or wastewater treatment plants).

A plethora of different kinds of contractual PPPs exist and new variations emerge continuously as each PPP contract responds to very precise needs. Some of the most frequent labels are BOT (build, operate and transfer); that is, the private partner builds and operates the infrastructure, transferring it for the public partner at the end of the contract. BOOT (build, own, operate, and transfer) is the organizational form when infrastructure ownership is also private during the contract term; DBOT or DBOOT would be the acronyms if arrangements further include the responsibility for the design of the infrastructure project as well. The concession model is also, sometimes, separated into public works and public service concessions, depending on the business (contract) value of the infrastructure or service provision, respectively. In fact, many concessions are of mixed type: there is a balance between both activities.

Institutional PPP: Institutionalized PPPs imply the establishment of an entity held jointly by the public partner and the private partner. The joint entity thus has the responsibility of ensuring the delivery of a work or service for the benefit of the public. The establishment of an institutionalized PPP can be done either through an entity where public and private sectors jointly participate or through private sector buying and owning shares in an existing public company. Usually the public partner controls the company either as shareholder or through special rights it may hold and the private partner operates the service. This kind of cooperation between public and private partners can be very positive since the public partner keeps control over the infrastructure service, it may allow for service adjustment over time according to changing needs, conflicts are resolved internally and the public partner acquires know-how from the joint work with the private party.

Notwithstanding the existence of a sector regulator, what regulate the PPP are the company statutes and the shareholder agreement. The statutes of the company establish common rules for the organization, governance and operation of the company. The shareholder agreement regulates relationships between partners (public and private). In the same way that there are several advantages in the fact that the public partner can have a more active and participating role in this PPP model, being able to limit conflicts and better solve difficulties, the institution is susceptible to “capture”. Due to close contact or identification with partner concerns, those representing the public

might become excessively attached to the objectives of the private partner, thus harming the public interest.

Challenges of Public Private Partnership

A common problem with PPP projects is that private investors obtained a rate of return that was higher than the government's bond rate, even though most or all of the income risk associated with the project was borne by the public sector (Abou-bakr, 2013). It is certainly the case that government debt is cheaper than the debt provided by finance PFI projects, and cheaper still than the overall cost of finance for PFI projects, i.e. the weighted average cost of capital (WACC). This is of course to attempt to compare incompatible and incomplete economic circumstances. It ignores the position of taxpayers who play the role of equity in this financing structure. Making a simple comparison, however, between the government's cost of debt and the private sector WACC implies that the government can sustainably fund projects at a cost of finance equal to its risk-free borrowing rate. This would be true only if existing borrowing levels were below prudent limits. The constraints on public borrowing suggest nevertheless, that borrowing levels are not currently too low in most countries. These constraints exist because government borrowing must ultimately be funded by the taxpayers. Assessment procedures were incorporated in the private finance initiative and its Australian counterparts from the late 1990s onwards (Johnson, 2009). In 2009, the New Zealand Treasury, in response to inquiries by the new National Party government, released a report on PPP schemes that concluded that "there is little reliable empirical evidence about the costs and benefits of PPPs" and that there are other ways of obtaining private sector finance, as well as that the advantages of PPPs must be weighed against the contractual complexities and rigidity they entail (Brian, 2009). Nowadays, a new model is also being discussed, called the Public-Private Community Partnership (PPCP) model, wherein both the government and private players work together for social welfare, showing the prime focus of private players on profit. This model is being applied more in developing nations such as India. Success is being achieved through this model too; it mainly helps to ramp up the development process as the focus is shifted towards target achievement rather than profit achievement.

Conclusion and Recommendation

The current state of infrastructure and service delivery in Nigeria have been highlighted in this study. The poor state of the infrastructure tells on the level of development of the country most especially in the critical infrastructure such as transportation, road, water, schools and telecommunication services. Arresting the situation obviously become a top priority of the government. However, due to shortage of finance and outburst of the population of the country, it becomes difficult to deal with the situation. Hence, the need for the collaboration of the private and the public sector. However, the challenges discussed in the upper section calls for immediate recommendation. One of the main wendd

Recommendation

To address the perceived constraints in the implementation and improvement in service delivery in Nigeria, we suggest the following.

1. Fiscal benefit in terms of tax holiday to infrastructure project and tax incentives to investors should be provided by government.
2. Systematic compilation, analysis and experiences should be made available and the same be provided on the website which has been recently launched by the government to exclusively devoted to PPPs. This will facilitate quicker

- assimilation and dissemination of best practices to various levels of government.
3. A well-functioning regulatory framework and more efficient public sector should be put in place.
 4. Institutions should be created solely for the purpose of promoting PPP projects at the federal and state level.
 5. A robust transparent evaluation mechanism should be provided to ensure that PPP programme are delivering services and/or value for money.

Benefits of Public Private Partnership

The allocation of design and construction responsibility to the private sector, combined with payments linked to the availability of a service, provides significant incentives for the private sector to deliver capital projects within shorter construction timeframes.

Better Risk Allocation A core principle of any PPP is the allocation of risk to the party best able to manage it at least cost. The aim is to optimize rather than maximize risk transfer, to ensure that best value is achieved.

Acceleration of Infrastructure Provision: PPP often allows the public sector to translate upfront capital expenditure into a flow of ongoing service payments. This enables projects to proceed when the availability of public capital may be constrained (either by public spending caps or annual budgeting cycles), thus bringing forward much needed investment.

Reduced Whole Life Costs PPP projects which require operational and maintenance service provision provide the private sector with strong incentives to minimize costs over the whole life of a project, something that is inherently difficult to achieve within the constraints of traditional public sector budgeting.

Improved Quality Of Service International experience suggests that the quality of service achieved under a PPP is often better than that achieved by traditional procurement. This may reflect the better integration of services with supporting assets, improved economies of scale, the introduction of innovation in service delivery, or the performance incentives and penalties typically included within a

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