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Public Private Partnership as a New Paradigm for providing Infrastructure for Economic Development in Nigeria

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Abstract

Nigeria has the potential of becoming economy giant of Africa and most developed Black Country in the world if the resources in her are fully utilized. These potentials cannot be fully tapped without adequate infrastructures on ground. The country has been bedevilled with inadequate infrastructures like electricity, good roads, rail system and so on, which over the years hampered the development of the country. This paper has the objective of considering whether the PPP model can be used to bridge the infrastructure deficit in Nigeria, hence enhancing economic development. The paper adopted allocative-efficiency as it theoretical framework. The paper found out that with the current situation on revenue generations of the nation it will be very difficult to invest heavily on infrastructure in the country. The paper recommended that Funding infrastructures through loans will increase the debt profile of the country as well as increasing the amount of funds for servicing the debt. with the adoption of PPP the country will be relieve of the burden of debts and servicing it as the private partner will now has to pay any debt it incurred from the return on investment.

Keywords: Public Private Partnership, Development, Economic development, Life Sustenance & Freedom

Introduction

Nigeria is a country well-endowed with both human and material resources. With availability of these resources in abundant in Nigeria, there is no doubt that the country can become economic giant of Africa if these potentials are properly harnessed.

Despite the country possessing significant natural resource endowments, being Africa's leading economy and most populous nation, Nigerians are neither happy nor content with the current economic development because the government at all levels could not harness the aforementioned opportunities in providing necessary infrastructures for economic development for her teemed population.

When the country gained political independence from the British in 1960, it was clear that the existing economic infrastructure could not act as a catalyst for a private-sector driven economy due to imperialistic economic interests that did little to encourage the development of a viable indigenous private sector. The private sector, in particular, lacked the required financial capital to have a meaningful impact on the country's economy at the time. The requisite infrastructure for a significant take-off of a private-sector-led economy remained mostly underdeveloped and dysfunctional where they existed after more than four decades of active state capitalism. State-run public companies became veritable channels of unfettered primitive accumulation marked by corruption, nepotism, mediocrity, and other diverse vices, resulting in severe deficits (EL Rufai, 2003). There were claims in 1999 by the government of Chief Olusegun Obasanjo that over $100 billion had been poorly invested in public enterprises which produced insignificant impacts in the Nigerian economy. The then president Obasanjo believed that to address the issues that have hampered our economic development, vigorous economic restructuring through measures such as privatization, deregulation, and commercialization of the nation key infrastructures like iron and steel complex, refineries, power sector and so on, need to be embark upon. Nigeria's economic progress appears to have been pulled back several kilometres since the implementation of the trade liberalization policy or market-oriented reform. As a result, the economy has grown weaker and more reliant on the economies of advanced countries. In the face of rising poverty, Nigeria appeared to be sinking deeper into a financial crisis, insurrection, famine, and starvation, all of which jeopardized the country's peace and prosperity (Bakere, 2011; Jerome, 2005 & Etieybo, 2011). The government's many reforms have failed to deliver the desired results, and the economy's infrastructure deficit continues to be a problem. Without a robust road network, reliable power, a strong internet connection, a thriving steel sector, and a good train system, no country can progress. Will the Public Private Partnership Model be able to provide or repair the infrastructural deficiencies that have plagued the country for years, as well as turn around the country's economic situation?

Objective of the study

The primary goal of this research is to determine whether the PPP model can be used to bridge the infrastructure deficit in Nigeria, hence enhancing economic development.

Methodology

The researchers employed documentary research. The paper relied solely on secondary sources of data, which were then analysed using content analysis. The secondary source of data was generated from published and unpublished materials including the internet.

Theoretical Framework

Allocative-efficiency which is also known as allocation-efficiency or Pareto efficiency/optimality was propounded by *Vilfredo Pareto*. Allocative-efficiency happens when organizations in the public and private sectors spend their resources on initiatives that are both profitable and beneficial to the population, hence driving economic progress. This is made possible when parties are able to make judgments about how to allocate their resources based on reliable and easily available market data.When all of the data affecting a market is available, businesses can make accurate decisions about which initiatives will be most profitable, and manufacturers can focus on providing products that are most wanted by the general public. Allocative-efficiency is defined as the intersection of supply and demand curves in economics. All products are sold at this equilibrium point because the price offered for a specific supply exactly matches the demand for that supply at that price.

Allocative-efficiency is the level of output at which marginal costs are as

near to marginal benefits as possible. It signifies that the product or service's price is near to the marginal advantage that can be obtained by using it. When all market participants have free access to market data, allocating efficiency arises. It gives them the information they need to make informed decisions about what to buy or create and in what amounts. Because resources are limited, organizations must make careful judgments about how they distribute them in order to maximize their value. The goal is to attain the optimal opportunity cost, which the value is lost in exchange for allocating resources to a specific project.

Allocative-Efficiency's Key Principles

The following are some of the core concepts in allocative-efficiency:

i. The desires of society determine how resources are allocated.

The producer of a commodity allocates scarce resources based on consumer preferences. This is not to say that dedicating resources to the manufacturing of a single commodity is always a smart idea for the company.

ii. The market must function effectively.

A market must be both informational and transactional efficient in order to be allocative- efficient. When we say that a market is informational efficient, we imply that all of the necessary market data must be readily available and accessible to customers and stakeholders. A transactional efficient market is one in which the transaction costs for products and services are not just reasonable, but also reasonable for all parties involved. It will be hard to develop an allocative-efficient market if the cost is too high for one side.

iii. One party does not gain from a commodity at the expense of another.

Allocative-efficiency arises when one party does not gain from a commodity at the expense of another. In order for both parties to benefit, each individual must be willing to trade the commodity with another person.

Applicability to the Study

Allocative-Efficiency theory postulates that the private sector led economic and development is more efficient in terms of allocation efficiencies and effective. In as much as the private sector is more dynamic and efficient, it is a profit oriented in nature and there is the interplay of the market for us to determine the production and the distribution of goods and service of demand and supply through the forces of demand and supply. A way out of the above is to embrace the role of both public and private sectors to collaborate in owing financing and management of the operation of the production and the distribution of infrastructural facilities which is highly needed by the teemed population of this country. Hence PPP's should be encouraged.

Concept of Public Private Partnership (PPP)

PPPs are collaborative activities aimed at producing products and services by public and private actors in which the parties share risks, costs and resources (van ham koppenjan,2001).PPPs are cooperative institutional arrangements between actors in the public and the private sectors. They are hybrid organizational forms and fields that combine various public and private logics on governance (Skelcher, 2005).PPPs can be described as a kind of collaboration between the public and private sector to carry out a project together on the basis of an agreed division of risks, rewards and responsibility, with each party retaining its own identity. Through PPPs, the skills and assets of both the public and private sector are combined to ensure the delivery of services or facilities for the use of the general public (Nwizu; 2008, Lewis; 2006). If the Nigerian government can bring its resources to the table and collaborate with private sector knowhow using the PPP Model with the sole goal of providing infrastructure, the Nigerian economy will bounce back in a short period of time.

There are various Public Private Partnership models that are used across the world today. They are explained below.

i) Design-Build (DB): The private sector partners design and build the infrastructure to meet the Public partner specification often for a fixed price. The private sector partners assume all risks.
ii) Operation and Maintenance contract (O and M): the private sector partner, under contract, operates an Public partner owned asset for a specific period of time. The Public partner retains ownership of the asset.
iii) Designed, Build, Finance and Operate (DBFO): The private sector partner designs, finance and construct a new infrastructure component and operates / maintains it under a long time lease. The private sector partner transfers the infrastructure components to the Public partner when the lease is up.
iv) Build Own Operates Transfer(BOOT): The private sector partner is granted authorisation to finance, design, build and operate an infrastructure component and charge users fees for a specific period of time after which the ownership is transferred back to the Public partner.
v) Build, Lease, Operates and Transfer (BLOT): The private sector designs, finance and build on leased indigene partner's land. The private sector partner operates the facilities for the duration of the land leased. When the lease expires, assets are transferred to the Public partners.
vi) Finance Only: The private sector partner usually a financial service company, funds the infrastructure components and charges the indigene Public interest for use of the fund.

Rationale behind the demands for public private partnership in developing countries

There are numerous reasons that help to account for the increased interest and popularity of PPPs. Roseneau (1999) pointed out that the promise of efficiency saving and a reduced burden on strained public resources has certainly struck a positive chord `in countries operating under tight budgets. He went further to clarify the beauty of PPPs in terms of benefits that will accrue from it such as access to provide finance for expanding services, cleaner objective, new ideas, flexibility, better planning, improve incentives for competitive tendering and greater value for money for public projects.

Spackman (2002) also believed that infrastructure development is as central in terms of its importance as an ingredient of social and economic stability. He clarified this issue further by looking at how valuable an infrastructure is that the World Bank estimates that every 1% spent on infrastructure will lead to an equivalent 1% increase in GDP which gives a positive correlation between infrastructure and GDP.

Most roads in Nigeria are not in good condition. To this extent Saidu (2008) stressed that the provision of roads and transportation facilities are fundamentally important to the development of Nigeria as well as the welfare of the people. Good infrastructure is a requirement for economic growth and development.

Nijkamp (2002) pointed out that several factors are responsible for the increase in the interest and popularity of PPP. These he categorized as:

(a)→Efficiency
(b)→Saving
(c)→Reduced burden on strained public resources.
(d)→Access to provide finance
(e)→Cleaner objectives
(f)→New ideas
(g)→Better planning
(h)→Flexibility etc.

Concept of Development

Development had being defined in different ways by different writers as thus:

According to Shelly (2017) development means "improvement in country's economic and social conditions". More specially, it refers to improvements in way of managing an area's natural and human resources in order to create wealth and improve people's lives.

According to Pat Utomi (2006) development simply put is discipline. It is about how discipline drives the human spirit to triumph over odds of poverty trap, physical geography, fiscal trap, governance, cultural barriers, geopolitics, lack of innovation and demographic trap. Kambhampati (2004) argues that development requires growth and structural change, some measure of distributive equity, modernization in social and cultural attitudes, a degree of political transformation and stability, an improvement in health and education so that population growth stabilizes, and an increase in urban living and employment. From the above, it is clear to us that even though there are different perspectives to development, there is a general consensus that development will lead to good change manifested in increased capacity of people to have control over material assets, intellectual resources and ideology; and obtain physical necessities of life (food, clothing and shelter),employment, equality, participation in government, political and economic independence, adequate education, gender equality, sustainable development and peace (Igbuzor, 2011).

Another approach to defining development is to see it as a process of change plus growth. However such change and growth should manifest in socioeconomic progress and transformation of society (Ibeitan, 2014).

Dudley Seers (1972) raised the basic question about the meaning of development succinctly when he asserted questions about a country's development, such as "what has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels, then beyond this constitutes period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result development even if per capita income doubled".

Further, for understanding the meaning of development Goulet (1971) considers three core values as an important basis and guideline:

1. **Life Sustenance**: The ability to meet basic needs: There are some basic needs (food, shelter, etc.) that are essential for improvement in the quality of life. So the basic function of economic activity is to overcome people from misery arising from shortage of food, shelter.

2. **Self-esteem**: A second universal component of the good life is self-esteem. Self-esteem refers to self-respect and independence and for development of a country it is an essential condition. Developing countries need development for self-esteem to eliminate the feeling of dominance.

3. **Freedom**: A third universal value is the concept of freedom. Freedom here is understood as a fundamental sense of release from freedom, freedom from misery, institutions and dogmatic beliefs. It refers to freedom from three evils of want, ignorance and squalor.

Amartya Sen (2008) sees development as a process of expanding the real freedoms that people enjoy. According to her, development requires the removal of major sources of lack of freedom, poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or over activity of repressive states.

From all the conceptual definitions above, we believed that the Public Private Partnership Model can solve the challenges of poverty, unemployment and widening inequality gap between the have and have not in the country if properly employed to provide critical infrastructures needed for economic boom or development of the country i.e. electricity, good roads and railways etc.

PPPs Projects in Nigeria

Public-Private Partnership (PPP) has emerged as an important model for governments to use in closing infrastructure gaps because it provides several benefits to governments attempting to address infrastructure shortages or improve the efficiency of their organizations (Grimsey & Lewis, 2004. Over the last decade, the private sector has become increasingly involved in the development and financing of public facilities and services. Approaches to these PPPs are still being developed in order to bring together the public and private sectors to share the risks and rewards (Akintoye, Edwards & Hardcastle, 2005).

PPPs is an arrangement in which both public and private sector bring their technical know- how or expertise to execute a project with certain degree of involvement and responsibility, with the sole objective of providing infrastructure that is lacking in the society in an efficient and effective manner. It entails detailed procedures on how decision will be make and modality of sharing the dividend of the joint venture in a way that is acceptable by the co-investors.

PPPs have featured prominently in the renewed efforts by all level of governments in Nigeria to provide modern and efficient infrastructure for their citizens. We shall concentrate our focus on activities at the federal level. The federal government has long been involved in PPPs in the oil and gas industry through the joint venture operation of NNPC and several major oil companies such as SPDC, TOTAL, Chevron, Agip, Addax Petroleum. The National Council on Privatization concessioned some government facilities like sea ports in Lagos, Warri, and Port Harcourt under the PPP arrangement. Recently, the federal ministry of work advertised for the concessioning of many federal roads including Lagos-Benin Road, Lagos-Ibadan Road, Abuja-Kano Road and so on. The federal ministry of agriculture under the national food reserve agency (NFRA) of the federal ministry of agriculture and water resources also invited interested and eligible investors/Cooperative groups for the expression of interest to participate in the establishment of 200 Cassava Processing Mills in 22 states and FCT under PPP arrangement.

Concept of Economic Development

Economic development is the process by which a nation improves the economic, political, and social well-being of its people. The term has been used frequently by economists, politicians, and others in the 20th and 21st centuries. The concept, however, has been in existence in the West for centuries. Modernization, Westernization, and especially Industrialization are other terms people have used while discussing economic development (Wik. 2017).

Economic development is thus a multivariate concept; hence there is no single satisfactory definition of it. Economic development is a process where low income national economies are transformed into modern industrial economies. It involves qualitative and quantitative improvements in a country’s economy. Political and social transformations are also included in the concept of economic development in addition to economic changes.

Literally, economic development can be defined as “passage from lower to higher stage which implies change”. Charles P. Kindleberger and Bruce Herrick (1958) point out: “Economic development is generally defined to include improvements in material welfare especially for persons with the lowest incomes, the eradication of mass poverty with its correlates of illiteracy, disease and early death, changes in the composition of inputs and output that generally include shifts in the underlying structure of production away from agricultural towards industrial activities, the organization of the economy in such a way that productive employment is general among working age population rather than the situation of a privileged minority, and the correspondingly greater participation of broad based groups in making decision about the direction, economic and otherwise, in which they should move their welfare".

Economic development in the classical era meant: "an increase in the absolute size of annual production regardless of the size of the population, or an increase in the economy's real income over a long period of time".

Development is of limited significance if it does not lead to economic welfare. Economic development implies increased per capita income and reduced income inequalities and satisfaction of the people as a whole".

According to Gallner (1970), economic development is defined as a radical transformation in the basic institutions of a country and the basic attitudes of its population. It thus refers to the process by which a state reaches the stage of growth when and where it can provide its own growth without depending on other states for the transfer of resources for its growth.

Economic development involves proper and adequate utilization of a nation's resources in order to; efficiently increase the productivity for the betterment of the people, with the use of application of modern technology and science, which involves mass education, reasonable political order, efficient management of human and material resources etc.

Indicators of Economic Development

To assess the economic development of a country and that of Nigeria in particular, we will use economic indicators as provided by the geographers (2017) which including:

Gross Domestic Product (GDP) is the total value of goods and services produced by a country in a year.

Gross National Product (GNP) measures the total economic output of a country, including earnings from foreign investments.

GNP per capita is a country's GNP divided by its population. (*Per capita* means *per person*)

Economic growth measures the annual increase in GDP, GNP, GDP per capita, or GNP per capita.

Inequality of wealth is the gap in income between a country's richest and poorest people. It can be measured in many ways, (e.g. the proportion of a country's wealth owned by the richest 10 per cent of the population, compared with the proportion owned by the remaining 90 per cent).

Inflation measures how much the prices of goods, services and wages increase each year. High inflation (above a few percent) can be a bad thing, and suggests a government lacks control over the economy. In Nigeria, the inflationary rate is above 13 percent as at last quarters of 2018 and it's a bad thing for the economy.

Unemployment is the number of people who cannot find work. Nigeria's National Bureau of Statistic stated that the unemployment rate is now at14% as at last quarters of 2016.Economic structure shows the division of a country's economy between primary, secondary and tertiary industries. Demographics study population growth and structure. It compares birth rates to death rates, life expectancy and urban and rural ratios.

Nigeria infrastructural development: the way forward to development

Nigeria's infrastructure deficit has been one of the most significant impediments to its growth and development. According to the country's Debt Management Office, the value of Nigeria's total infrastructure stock represents only 35% of GDP, significantly lower than the emerging economy average of 70%, with the World Economic Forum's 2019 Global Competitiveness Index ranking Nigeria 116 out of 141 countries, owing largely to the poor state of its infrastructure.

The infrastructure sector has faced numerous challenges, ranging from inadequate fiscal revenue, inconsistency in our policies, corruption, and lack of maintenance culture and so on, all of which put additional strain on an already inadequate infrastructure stock. The insecurity in the country as a result of activities of Secessionists, banditry, Boko-haram and current instability in the political landscape of west Africa, have served to deter investors, resulting in a massive infrastructure deficit in the country's economy, with a financing shortfall estimated at $3 trillion over the next 30 years.

Nigeria's infrastructure deficit, estimated at $100 billion per year, is 189.77 percent higher than the federal budget for 2021, which is expected to be $34.51 billion. Moody's (2020) also confirmed that the country will require $3 trillion in investment over the next 30 years to close the infrastructure gap. That is a startling sum, far too large for the government's budget constraints to afford. Commercial investors had begun to limit their commitments to bankable projects even before the present economic slowdown, despite the essential development advantages that would have been gained and the attractive economic rewards, which have a social rate of return of around 20%. The only option to mobilize this amount of wealth is to take a more creative approach to combining public and private investments.

Nigeria's future depends more than ever on its ability to build and modernize its infrastructure, particularly in mainstream sectors, which serve as the foundation for socio-economic development by creating jobs, reducing poverty, increasing disposable income, improving the environment, and raising living standards.

PPPs will improve risk allocation between the public and private sectors, as well as increase efficiency in the delivery and management of these projects, all of which will benefit the country's economic growth trajectory and boost job creation and industrialization.

Conclusion and Recommendations

The economic development of a nation is no doubt dependent on the availability of functional infrastructures such as energy, roads, railways, water supply, airport and a host of other amenities that converge to provide the conducive environment for the free flow of goods and services across the length and breadth of the country. The adoption of PPP model in Nigeria will ensure the provision of the aforementioned infrastructures in Nigeria without any financial burden on the federal government.

The deplorable condition of Nigeria's infrastructure requires that the Federal Government must spend ₦2.25tn ($15bn) annually to improve it to an acceptable level according to a report on the state of infrastructure by ICRC (2011). With the current situation on revenue generations of the nation it will be very difficult to invest such an amount on infrastructure in the country. Funding infrastructures through loans will increase the debt profile of the country as well as increasing the amount of funds for servicing the debt. with the adoption of PPP the country will be relieve of the burden of debts and servicing it as the private partner will now has to pay any debt it incurred from the return on investment.

The high cost of doing business in Nigeria due to poor infrastructure has impacted negatively on the nation's economy as investors seeking greener pastures have been relocating to neighbouring countries especially small and Medium-Scale Enterprises has been on the increase in the last few years. This negative trend will stop and the runaway investors will return to Nigeria if PPP is allowed to be in full operation.

PPP will create employment opportunities for our teaming population. With good infrastructures in place and also return of investors who had in time past move out of the country will create massive employment for our people.

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