

**FINANCING MODEL FOR SUSTAINABLE  
DEVELOPMENT OF INFRASTRUCTURES IN NIGERIA**

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**Abstract**

*Weak capacity for developing infrastructures in Nigeria is attributable to inadequate long term funding, poor capital budget implementation, and disconnect of planning and budgeting, among other factors. The paper proposes a simple financing model that aims at mopping up idle funds within the economy for creating secure, accessible, and affordable long term credit that can be channeled to fund infrastructure development, within an operational environment governed by sound planning, private participation promotion, and commitment to value-for-money assessments. Based on a critical review of the current institutional setting for planning, public finance management, and funds' custodianship in the country, the paper proposes how the National Planning Commission, the Federal Ministry of Finance, and the Central Bank of Nigeria can be restructured to create a sustainable institutional architecture for financing infrastructural development in Nigeria.*

**Keywords:** credit creation, planning, implementation, upgrading, synchronization, prioritization, fund mobilization

**JEL Codes:** E02, E58, E61, H54, H60

**1. BACKGROUND ISSUES**

The key factors that constrain infrastructural development generally relate to technology, governance, and financing. Technological challenges beg the existing science system to “think outside the box” for innovative “best fit” solutions. Challenges of governance essentially relate to the need for sound public finance management (PFM), effective legislative oversights, and respect for the rule of law. The financing challenge, which is of

primary concern here, relates to sourcing and utilizing of investible funds sustainably (Mikayla, 2012). Highlighting the financing challenge, Sanusi (2012) notes that Nigeria would need to raise investment on infrastructures from 7 percent to 12 percent of GDP. This should amount to an annual investment of US\$10 billion over the next ten years; an amount government cannot solely provide from its annual capital budget. Annual capital budgets of the Federal Government of Nigeria have remained lower than US\$10 billion, with outturns generally below 50 percent for decades. Indeed an unbiased value-for-money audit would reveal much less percentage capital expenditure outturn when project cost padding associated with over-invoicing and fund diversions are isolated and deducted (Onike, 2013; Kwanashie, 2013; Abel, 2013). Just as development researchers consider the complexity of the phenomenon of corruption as a threat to infrastructure development with the hand in hand movement of corruption and governance in budget padding in developing economies.

Furthermore, the National Planning Commission (NPC) in 2013 put forward a draft Nigerian Integrated Infrastructure Master Plan (NIIMP) to fast track infrastructural development in the country (NPC, 2013). NIIMP assumes that an integrated package of measures is needed to support investment in strategic infrastructures in Nigeria. Highlights of the draft NIIMP document are as follows:

1. An estimated USD 2.9 trillion investment in the next 30 years is needed to build and sustain infrastructures.
2. The required investment by sectors (in percentages) are energy 32, transport 28, agriculture, water, and mining 12, ICT 11, housing and regional development 11, social infrastructure 5, and viral registration and security 2.
3. Funding for the NIIMP is expected to come from direct government spending USD36 billion, government debt USD29 billion, sovereign wealth fund, pension fund etc. USD13 billion, and PPP USD 20 billion.

Key implementation enablers for NIIMP include:

- i. Creation of a strong delivery unit for coordinating the required activities, progress monitoring and process management, and the infrastructure governance model.
- ii. Enactment of an NIIMP Act to provide the necessary legal framework.
- iii. Development of mechanism for sourcing long term finance.
- iv. Launching a broad communication effort to reach all priority stakeholders.
- v. Depoliticizing infrastructure contracts, making government policies more consistent, and providing adequate incentives to investors.
- vi. Strengthening the framework for contracting and management of PPPs.

It is assumed here that actualizing the NIIMP calls for a comprehensive financing model, as envisaged here, that prioritizes infrastructural projects, achieves value-for-money project implementation, and ensures secure and affordable long term loans. Indeed less developed countries (LDCs), like Nigeria, need to look inwards for long term finances because traditional external long term funding from Foreign Direct Investment (FDI) and Overseas Development Assistance (ODA) are either static or declining. Equally,

multilateral loans, euro and/or dollar bonds, and private equity are inadequate, expensive, and unpredictable due to fluidity of recent global economic conditions. Accordingly, transforming locally sourced idle funds into long term credit can serve as a veritable source of funding for infrastructure development (Sanusi, 2012; Bhattacharya, et. al., 2013). In this regard, Sanusi (2012) notes that Nigeria had over N2.3 trillion in Pension Funds by the end of 2013. Idle funds can as well be mopped up from the excess crude account, education tax fund (ETF), sovereign wealth fund (SWF), and other reserve funds and accounts of the Federal and State Governments. The operational milieu should however promote cost recovery, while at the same time administering subsidies to wedge private operators from externalities and other associated risks.

It is noted here that financing major infrastructure projects directly from the capital budget in Nigeria is currently ineffective and inefficient, as the entire capital budget is often inadequate, and the PFM system is susceptible to embezzlement and other fraudulent activities. Equally, selective release of “intervention funds” by the Central Bank of Nigeria (CBN) for funding capital projects is unsustainable and inadequate because the mechanism for ensuring that the selective interventions reach intended beneficiaries is weak and prone to corruption, and a large proportion of the loaned funds may not be repaid due to poor implementation tracking. Moreover, accessing the funds from the obligor banks may be cumbersome. The way out, this paper believes, is to craft out a self sustaining financing model that promotes effective planning, private participation, and loan financing in a single swoop. Success of the envisaged financing model calls for revolutionary changes in the way government business is done in Nigeria. Primarily, various Government MDAs that perform related infrastructure facilitation functions will need to be merged to promote comprehensiveness and congruence of purpose and the mandates of the National planning Commission (NPC), Ministry of Finance (MoF), and the CBN would need recalibration to ensure “best fit” performance. Presentation of the financing modeling design is next, following which the proposed sustainable financing model is presented and justified. The paper ends thereafter with concluding remarks.

## **2. THE MODELING DESIGN**

As illustrated in Figure 1, the model design adopted here, referred to as the “trilogy of sustainable infrastructure financing”, is based on three organically linked pillars, namely; planning pillar, implementation pillar, and credit creation pillar. The planning pillar gathers information on the needs and prioritizes them in line with planned goals and objectives. The implementation pillar ensures value-for-money assessments and procurements, while the credit creation pillar mops up idle funds to create secure affordable and accessible long term loans. Note that the dual directional connecting lines emphasize the importance of twoway communication across the three pillars.

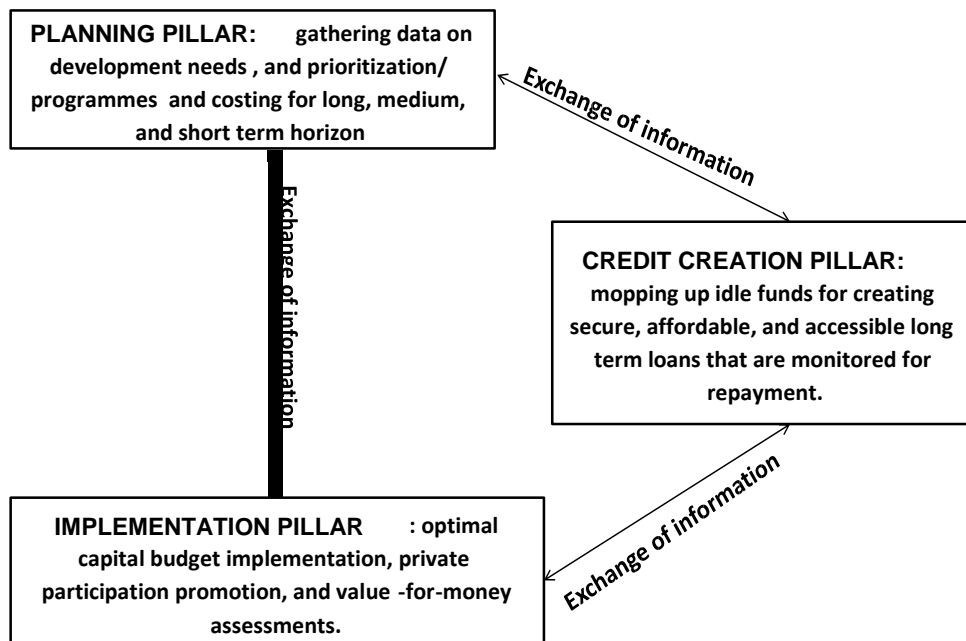


Figure 1: Trilogy of Sustainable Infrastructure Financing

### 2.1. The Planning Pillar

Typically the planning function involves preparing medium and long term plans from where the annual budgets are derived. In Nigeria, at the Federal Government level, the National Planning Commission (NPC) Act of 1992 originally made the NPC responsible for preparing the capital budget alongside the medium term and perspective plans (NPC, 2013). However, subsequent amendment of the NPC Act in 1993 transferred the capital budgeting function to the MoF. Additionally, the Fiscal Responsibility Act (FRA) of 2007 gives the MoF control over preparing the Medium Term Expenditure Framework (MTEF) and the associated Fiscal Strategy Paper (FSP) that sets out the strategic economic, social and developmental priorities of the Federal Government over a three year period. This gives the MoF power to operate its multi-year budget framework (MTEF) parallel to the medium term plans of the NPC. At the same time, the FRA (2007) technically transferred an important treasury function of ensuring budget implementation integrity, which the MoF should take charge, to the now defunct Fiscal Responsibility Commission (FRC). More seriously, though perhaps not intended, Section 13 of the FRA (2007) makes it optional for the MoF to seek the inputs of relevant stakeholders, including the National Assembly and the NPC, in preparing MTEF (Leadership Newspaper, 2013; FRA, 2007). The current situation at the Federal Government level is that the NPC and MoF operate as parallel planning authorities, while the core treasury function of ensuring budget implementation integrity suffers.

## **2.2. The Implementation Pillar**

The implementation pillar encompasses sound PFM, fund mobilization, and value-for-money assessments. For instance, in Nigeria, the MoF undertakes these functions alongside a number of other standalone MDAs. Onike (2013) notes, however, that annual budgets rarely serve the country's long term development needs; capital budget outturns have remained low, and commitment to value-for-money assessments is weak. Shilgba (2012) notes that the Federal Government of Nigeria's budget for 2013 was put at N4.987 trillion out of which capital expenditure was only N1.6trillion or 32 percent. More worrisome is the "established tradition of woeful implementation of budgets", and over-invoicing of contracts "beyond shame or restraint of natural conscience". For example, it could cost as much as N1 billion to construct a kilometer of road in Nigeria; thus implying that the entire N1.6 trillion voted for capital expenditure in the 2013 budget may not complete 2000 kilometer-length of roads, when there were about 30,000 kilometers of federal roads in poor state of disrepair. Poor capital budget implementation and weak PFM applies equally to the States and Local Government Councils in Nigeria (Olomola, 2012). For Shand (2010), it is needful to separate budget formulation from the core treasury operations, namely; funds mobilization, value-for-money implementation, and budget tracking. Budget formulation should rather be closely linked to planning.

## **2.3. The Credit Creation Pillar**

The credit creation pillar involves mopping up idle funds for the purpose of creating secure and affordable long term loans that are rendered accessible to prospective infrastructure developers. In many of today's advanced and fast industrializing economies, the central banks were actively involved in directly providing concessionary loans to infrastructure developers during the early stages of their development. The CBN currently has an Infrastructure Finance Office whose mandate is to evolve strategies for stimulating longterm financing. But the approach adopted so far is provision of selective intervention funds through specialized banks, like the Bank of Industry (BOI) and Infrastructure Bank, to obligor money deposit banks (MDBs) for onward lending to private developers at concessionary interest rates (Essia, 2012).

The CBN derives its mandate from the 1958 Act, as amended in 1991, 1993, 1997, 1998, 1999, and 2007. The CBN Act of 2007 charges it with the responsibility of administering the *Banks and other Financial Institutions (BOFI) Act of 1991*, primarily to ensure high standards of banking practice and financial stability (CBN 2012). It is argued here that the CBN needs to be structurally upgraded to productively undertake the credit creation function alongside its other traditional roles. Firstly, the CBN needs to be unbundled into a "Group" of financial facilitation institutions, to the extent that while the Office of Governor remains at the centre, the banking roles, the financial stabilization roles, research and statistics roles, and other roles of CBN are undertaken professionally and discreetly by statutorily created subsidiaries (members) of the new CBN Group. This will promote professionalism and prevent the situation where any role or set of roles crowd out the others. Secondly, regulation of all non-bank financial institutions should be brought under

the CBN. Presently the CBN is focused on regulating the banking institutions. The nonbank financial institutions, whose activities impact on monetary policy outcomes, are weakly regulated by the CBN. Bringing all financial institutions under the regulatory sphere of the CBN will improve monetary policy outcomes and more importantly render idle balances and reserves lying in non-bank financial institutions accessible for credit creation.

### **3. THE PROPOSED FINANCING MODEL**

Figure 2 presents the proposed financing model with the new MoF, CBN, and NPC. As indicated, the new MoF should be pre-occupied with resource mobilization and allocation, the new CBN with fund custodianship and credit creation, and the new NPC should focus on prioritization and costing of infrastructure projects.



**Figure 2: Proposed Sustainable Financing Model for Nigeria**

#### **3.1. The New National Planning Commission**

As illustrated in Figure 3, the new NPC should continually identify and prioritize development needs of the Federation generally, and the Federal Government in particular. For the Federal Government, the NPC should plan for the three arms of government, namely; the executive, the judiciary, and the legislature. The current convention, where the NPC plans solely for the executive arm is inadequate because projects of the other two arms need to be articulated and planned. Furthermore, the NPC should prepare perspective and medium term plans, and the multi-year budget framework. Moreover, the process adopted by the NPC for formulate budgets should be participatory and all encompassing.

To ensure high level of professionalism, relative autonomy and secure tenor, appointment of the nation’s chief planning officer by the President, should have the concordance of the National Assembly like is the case for other sensitive national posts.

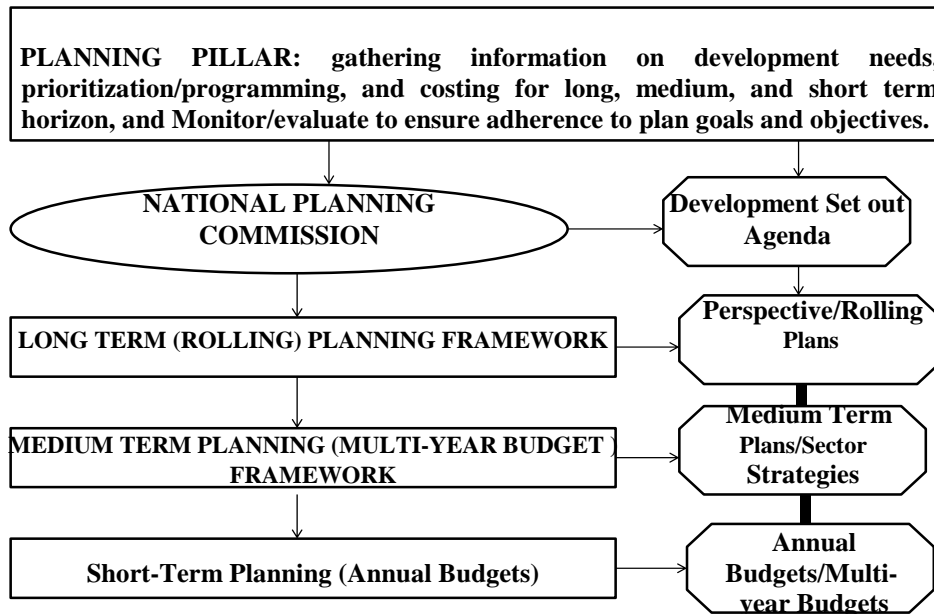


Figure 3: The New NPC: Activities and Outputs

The institutional architecture of the new NPC should incorporate the relevant planning and budgeting function. It follows that the Federal Budget Office should relocate to the new NPC, and organs or functions of the present NPC that is not strongly linked to planning/budgeting should be relocated elsewhere. As shown in Figure 4, planning bodies of the Federation, namely; National Economic Council, Joint Planning Board, National Economic and Advisory Council, and Conference of Ministers/Commissioners responsible for Economic Planning should be retained in the new NPC. Next, subsidiary organs to retain in the new NPC are the National Institute of Social & Economic Research (NISER), National Bureau of Statistics (NBS), and the National Data Bank. However, the National Manpower Board, Centre for Management Development (CMD), Donor Cooperation Unit, and Economic Integration/ECOWAS Matters Unit should be relocated elsewhere.



Figure 4: Organs and Functions of the New NPC



It is also needful to amend the FRA (2007) to make preparing the MTEF a function of the NPC, while the FRC itself should remain as subsidiary or parastatal of the MoF.

### 3.2. The New Ministry of Finance

The new MoF should seek to achieve sound PFM and optimal capital budget outturns. As illustrated in Figure 5, this should involve mobilization of funds and other resources for implementing budgets; from collectible revenues, export earnings, loans, foreign investment, and PPPs. Additionally, the new MoF should engage in value-for-money (VfM) assessments, audit scrutiny, financial forensics, and M&E. Success of the new MoF should be determined by the extent that planned/budgeted infrastructure development targets are achieved or surpassed. To enhance success of the multi-year budgets, it is required that the MoF prepares medium term budget implementation plans with comprehensive multi-year revenue and expenditure frameworks, programmes for attracting and deploying foreign aid, FDI, and PPP, schedules for procurements, government investment/divestment, and strategies for achieving value-for-money. The implementation plan of MoF should equally address how to achieve effective audit scrutiny, financial forensics, and value-for-money M&E.

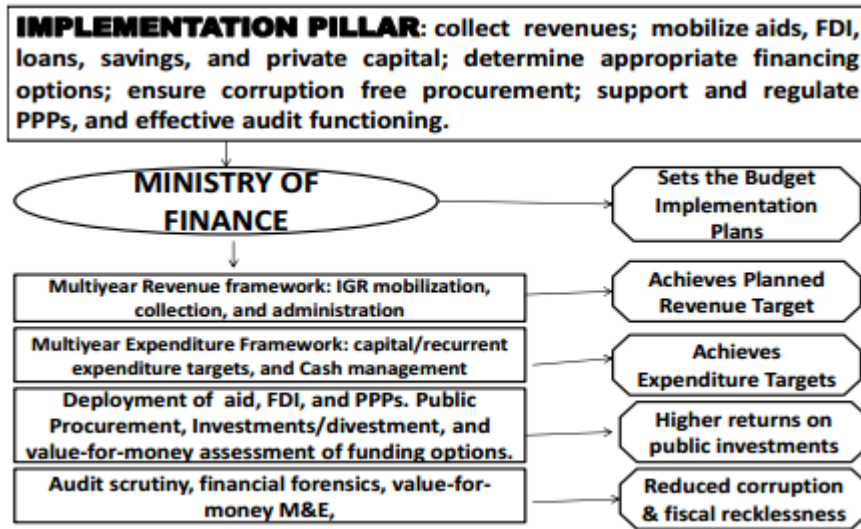


Figure 5: The New MoF; Activities and Outputs

Figure 6 shows organs and functions of the new MoF. The parastatals to retain in the new MoF are Federal Inland Revenue Service (FIRS), Office of the Accountant-General, Office of the Auditor-General, and the Nigerian Custom Service. Parastatals recommended for relocation to other MDAs are the Budget Office, Investment and Security Tribunal, Nigerian Export and Import Bank (NEXIM), Nigerian Deposit Insurance Corporation (NDIC), and Security and Exchange Commission (SEC). Additionally, the “new” MoF should take up donor coordination, PPP facilitation, public procurement, financial forensics/intelligence, privatization and commercialization, and FDI promotion functions.

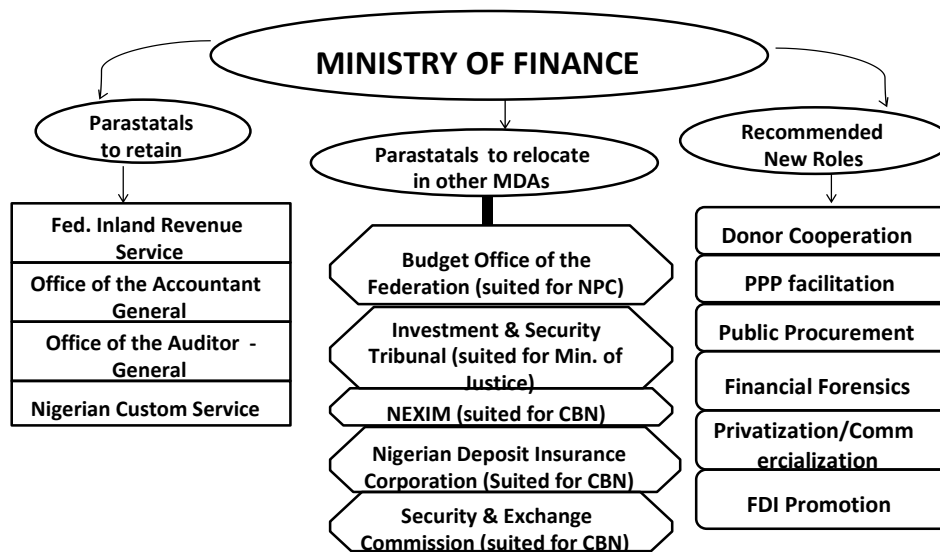


Figure 6: Organs and Functions of the New MoF

Figure 7 presents three sets of subsidiaries/parastatals that should make up the “new” MoF: first are the fund mobilization agencies/units, second is the full service PPP agency, and third are cash management/quality assurance subsidiaries. The revenue/fund mobilization subsidiaries are Federal Internal Revenue Service (FIRS), Nigerian Customs Service (NCS), and Donor Cooperation Unit (currently in the NPC). The proposed new full service PPP agency is to be created from merging the following standalone agencies:

1. Infrastructures Concessioneing and Regulatory Commission (ICRC).
2. Bureau for Public Procurement (BPP).
3. National Council for Privatization (NCP).
4. Bureau for Public Enterprises (BPE)
5. National Investment Promotion Commission (NIPC)
6. Nigerian Export Promotion Zones Authority (NEPZA)
7. Nigerian Sovereign (fund) Investment Agency (NSIA)

Essia (2013) notes that having these agencies operate as department and units in a single full service PPP agency will promote complementarities, reduce administrative bottlenecks, and eliminate unnecessary wastes associated with duplication of functions. The third set of institutions should focus on cash management and quality assurance. These are Office of the Accountant-General, Office of the Auditor General, and the defunct Fiscal Responsibility Commission. Structured this way, the Minister of Finance can be held accountable for effective and efficient budget implementation.

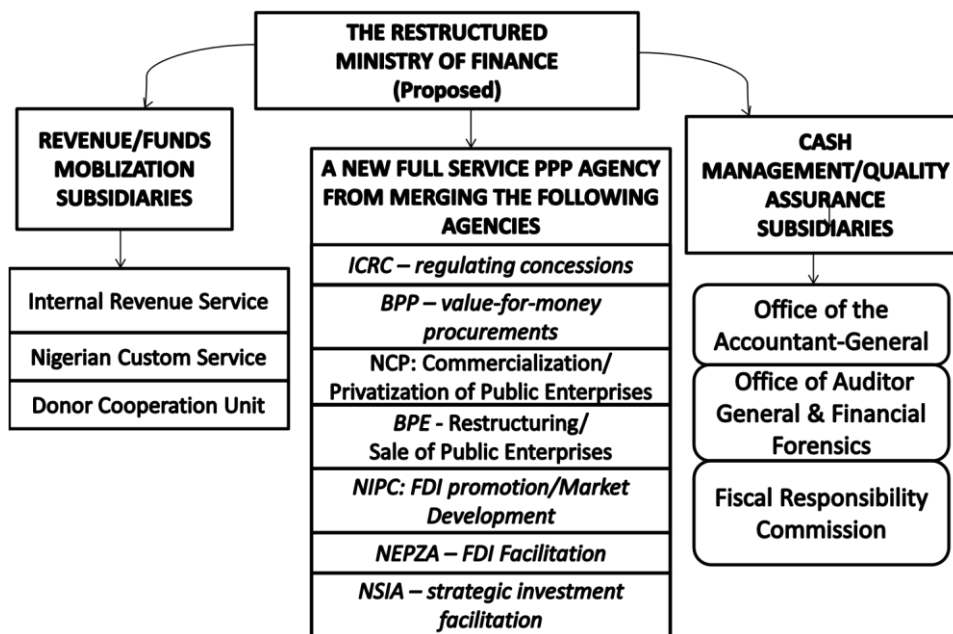


Figure 7: Institutional Architecture of the New MoF

### 3.3. The New Central Bank of Nigeria

The new CBN should be responsible for mopping up idle funds and synchronizing them for creation of secure, affordable, and accessible long term loans. The new CBN should as well conduct relevant researches, undertake forensic tracking of transfers and uses of funds, and check other forms of financial abuses. As illustrated in Figure 8, the “best fit” new CBN should have three sets of subsidiaries, namely; banking subsidiaries, specialized regulatory authorities, and non-banking subsidiaries. The set of banking subsidiaries is composed of reserve banks and specialized banks (including the Bank of Industry, Nigerian Export/Import Bank, Federal Mortgage Bank, Trade Bank, Agriculture Bank, and Infrastructure Bank). The specialized regulatory authorities should include the Capital Market Authority, the Micro-finance authority, the insurance business operators’ authority, the money deposit banks’ authority, and the mortgage banks’ authority, among other specialized regulatory authorities for other financial sector operators.

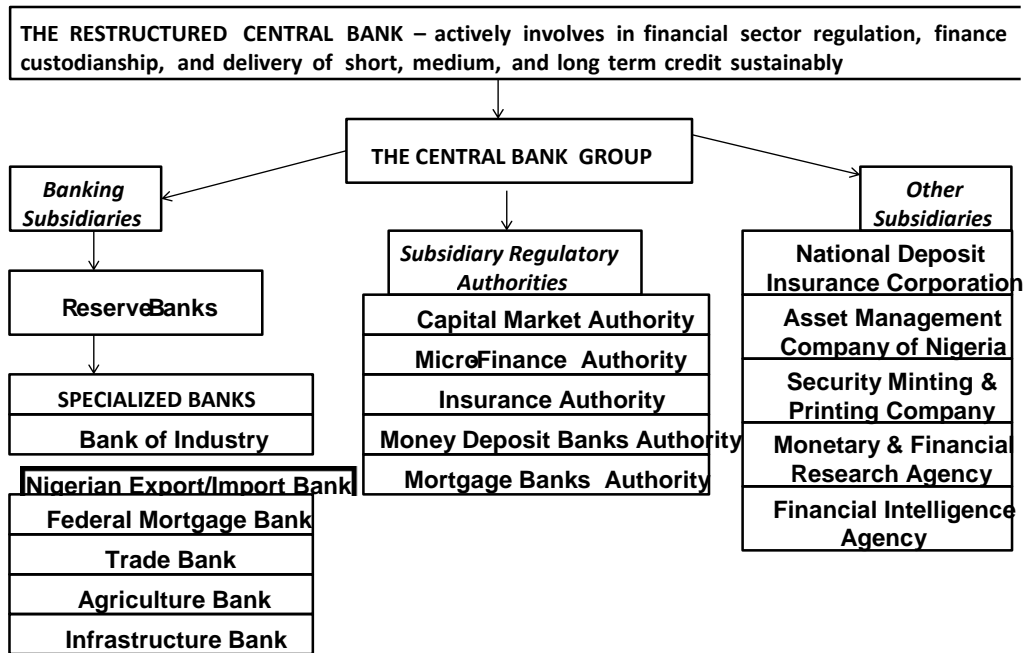


Figure 8: Organs and Units of the New CBN

The non-bank subsidiaries of the new CBN are the enterprises offering related services, including; the National Deposit Insurance Corporation (NDIC), Asset Management Company of Nigeria (AMCON), and Nigerian Security Minting & Printing Company (NSMPC). It is also proposed here that the present research and statistics department of the CBN be restructured as the Monetary and Financial Research Agency, while a new agency for forensic financial intelligence - the Financial Intelligence Agency – should be created.

As illustrated in Figure 9, the new CBN should operate as a “Group”, to be coordinated by the Office of the Governor, who operates as the Group Managing Director overseeing activities of the “CBN Group” at the strategic policy level, while each subsidiary operates at the tactical level. The new CBN should engage in financial sector regulation, finance custodianship, credit creation, and funds delivery and management. The new CBN as envisaged is structured as a coalition of financial system regulatory, support, advisory, and facilitating agencies. The reserve banks are to serve as bankers’ banks and bankers of government. With this, every government agency should maintain accounts and transact businesses only with the reserve banks. The number of reserve banks to establish should depend on profitability prospects and need. For a start, a reserve bank should be established per geopolitical zone, making it six for the country. Each of the six reserve banks should have as many branches as is required to render satisfactory services to its government and financial sector end users. Pulling out government accounts from MDBs to the reserve banks will make idle funds more visible, limit exposure of government to the credit risks of private banks, and compel the MDBs to further mop up private deposits and crowd-in private sector concerns into their operations. At the same time, credit creation by the reserve banks will minimize the volumes of idle funds in the economy, and check possible diversion of public funds through improved forensic monitoring.

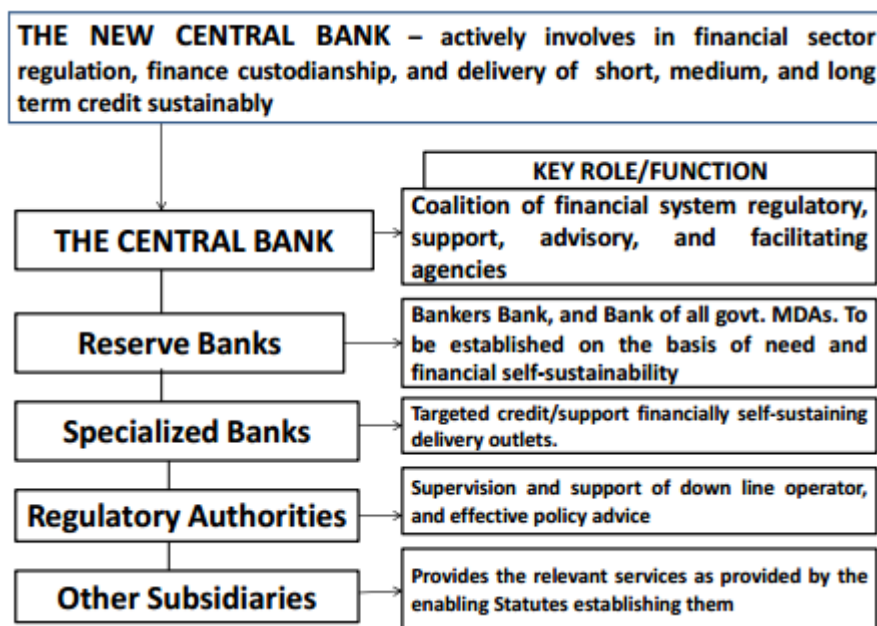


Figure 9: Subsidiaries of the New CBN and their Roles

The specialized banks are intended as self sustaining development finance delivery outlets to end users in the different infrastructure area. The different regulatory authorities are meant to provide highly specialized supervisory and support services for down line operators in the different financial sector areas. The other subsidiaries provide key technical or professional services for members of the new CBN “Group”.

It is also needful to restructure both the Executive Board (EB) of the CBN and the Monetary Policy Committee (MPC). Figure 10 identifies defects in the present constitution of the EB and the MPC. Currently, the EB has the Governor (as Chairman), four Deputy Governors and four Directors of the CBN, two representatives of the MoF, and one political appointee. The EB lacks representation from banks and non-banking financial institutions whose activities CBN’s policies and programmes impact on directly. Additionally, unlike the Governing Boards of other Government parastatals, the Governor doubles as Board Chairman and Chief Executive Officer. Such excessive powers leave room for abuses, particularly as majority of members of the EB (CBN Governing Board) are employees of the \ CBN and rightly so subordinates of the Governor. The MPC is equally narrowly structured and overwhelmingly controlled by the Governor.

**MEMBERSHIP OF CBN BOARD AND KEY COMMITTEES**

THE STATUSQUO	DEFECTS
<b>EXECUTIVE COMMITTEE</b> The Governor,(Chairman) 4 Deputy Governors, 4 Directors of the CBN, 2 Representatives of Ministry of Finance, and a political Appointee.	<b>Under representation of the financial sector</b>
<b>THE MONETARY POLICY COMMITTEE</b> The Governor of the Bank who shall be the Chairman; The four Deputy Governors of the Bank; Two members of the Board of Directors of the Bank; Three members appointed by the President and Two members appointed by the Governor	<b>Excessive powers to Governor leaves room for abuses</b>
	<b>CBN becomes a “black box” not open to audit scrutiny</b>
	<b>A self-seeking Governor can trade-in national interest for personal interest.</b>
	<b>High intellectualism with limited practical content</b>
	<b>Non-inclusive membership , leading to unrealistic and potentially harmful monetary policies.</b>
	<b>Possible over-regulation of private operators.</b>
	<b>Representations of banks, Insurance firms, capital market strongly required.</b>
	<b>Incessant conflicts of monetary and fiscal policies</b>
	<b>MPC guidelines are often difficult to enforce .</b>

Figure 10: CBN Executive and Monetary Committees

Figure 11 proposes enlarging both the EB and the MPC for more inclusiveness, checks and balances, and broad based governance. The EB can still have the Governor as Chairman, all Deputy Governors (who should now be heads of the proposed subsidiaries), representatives of the MoF, NPC, employees of the CBN “Group”, and the civil society community. Membership of the new MPC should also be broadened to include members of the EB plus representation from banking and non-bank financial institutions, Manufacturers Association of Nigeria (MAN), SMEDAN, the Judiciary, the Legislature, and key Industry Membership Organizations (IMOs).

<b>RESTRUCTURING OF CBN COMMITTEES PROPOSED</b>	
<b>NEW COMMITTEES</b>	<b>ADVANTAGES</b>
<b>EXECUTIVE BOARD</b>	Improved representation and understanding of the core issues of the financial sector.
The Governor(Chairman), Heads of all CBN subsidiaries (as proposed), and representatives of Ministry of Finance.	Less autocratic Governor as subsidiaries have independent statutes establishing them
<b>THE MONETARY POLICY COMMITTEE</b>	CBN more likely to be responsive to development needs and concerns of down line operators
The Executive Board plus representation from banking and non-banking financial institutions, manufacturers association of Nigeria, SMEDAN, and Chambers of Commerce.	Intellectualism plus adequate practical knowledge
	Wider inclusive/acceptability of monetary policies.
	Monetary policies sensitive to needs of operators.
	Less conflict of monetary and fiscal policies.

Figure 11: Key Committees of the “New” CBN

It is expedient to upgrade CBN’s development promotion role from the ad hoc selective interventions, it carries out currently, to the more inclusive role of credit creation and delivery of secure long term loans. It is also needful to render the CBN more accountable and responsive to Nigeria’s political economic realities. This is especially so because there are no standard central bank models; each country requires a central bank that is “best fit” for its development. The US central bank is, for instance, is not the regulatory body of the financial sector, and the central bank of Japan is not autonomous as it requires approval from other government bodies to undertake intervention activity.

#### **4. Conclusion and Recommendation**

This paper set out to argue that a combination of project prioritization, loan financing and private participation, within a business environment governed by cost recovery, value-formoney assessment, and efficient implementation tracking, will ensure speedy and sustainable development of infrastructures in Nigeria. Workability of the proposed financing framework hinges on readiness of the Federal Government of Nigeria to restructure the institutional architecture of three key MDAs, namely; the National Planning Commission, the Ministry of Finance, and the Central Bank of Nigeria. Accordingly, the key recommendations of the paper are as follows:

Amendment of the National Planning Commission Act of 1993 and Fiscal Responsibility Act of 2007 to make the National Planning Commission coordinator of planning and the budget process in the country.

The Federal Budget Office should be moved from the Ministry of Finance to the National Planning Commission. In the same vein, it is needful to relocate Donor Coordination from the National Planning Commission to the Ministry of Finance.

The Ministry of Finance should take charge of all aspects of fund mobilization, implementation monitoring, and Public-Private-Partnership promotion.

With regards to Public-Private-Partnership Promotion, a full service PPP parastatal of the Ministry of Finance should be created out of the merger of the following existing standalone MDAs; Infrastructures Concessioneing and Regulatory Commission (ICRC), Bureau for Public Procurement (BPP), National Council for Privatization (NCP), Bureau for Public Enterprises (BPE), National Investment Promotion Commission (NIPC), Nigerian Export Promotion Zones Authority (NEPZA), and Nigerian Sovereign (Fund) Investment Agency (NSIA).

The “new” CBN should be a “Group”, consisting of reserve banks (bankers’ and government banks), specialized development banks, financial system regulatory authorities, and other facilitating institutions.

All government MDAs and financial institutions should maintain accounts with the reserve banks only.

Overall, the paper believes that the combination of effective planning, value-for-money implementation and low cost development financing, in a business environment that promotes cost recovery, will ensure speedy development of infrastructures in Nigeria.

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