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Infrastructure-For-Resource Scheme: Solving Nigeria Infrastructure Challenge and Driving Industrial Development

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Abstract
Industrial development is intricately linked with infrastructural development, such that without adequate infrastructures, industrial development is forever impeded. There is excruciating shortage of infrastructure in Nigeria, with the current estimates of Nigeria Infrastructure deficit being in the excess of $200 billion (over N30 trillion). This paper discusses the infrastructure-for-Resource deal as a viable option for solving the infrastructure challenge of Nigeria.It analyzes Nigeria's foray into the model with the oil-for-infrastructure deal of the Obasanjo regime. It identified that the underlying reason for the failure of the scheme to yield the expected result was that the deal did not provide fair value for Nigeria because it was poorly negotiated. It recommends adopting systems of open and publicly accountable bidding for oil, gas and mineral licenses under the Infrastructure-for-Resource deals, thereby creating competition in this class of deals, and significantly reducing the problem of not providing fair value for host country.
Keywords: Infrastructure-for-Resource, oil-for-resource, Infrastructure, infrastructure deficit, industrial development

1.0 INTRODUCTION

Infrastructure is the basic physical and organizational structures needed for the operation of a society or enterprise; or the services and facilities necessary for the economy to function. The term typically refers to the technical structures that support a society, such as roads, bridges, water supply, sewers, electrical grids, telecommunication, and so forth. Therefore, it is an important term for judging a country or region's development. Viewed functionally, infrastructure facilitates the production of goods and services, and also the distribution of finished products to markets, as well as basic social services such as schools and hospitals, for example, roads enable the transport of raw materials to a factory.

All over the world, demand for infrastructure is outstripping supply and new strategies are being devised to address the deficit. In Nigeria, the situation is pathetic. Decades of poor maintenance, under investment and outright roguery have left the country with an outrageous infrastructure deficit.[3]

Indeed if there is one fundamental impediment standing between Nigeria economic growth, and more specifically the realization of the Transformation Agenda of our president, it is the excruciating shortage of infrastructure. Current estimates of Nigeria infrastructure deficit puts the figure in excess of $200 billion (over N30 trillion).[3]

This infrastructural deficit is clearly seen in the following examples:

Electricity - Out of 40000 megawatts of electricity required to power the nation, less than 10% (4000 megawatts) is being currently generated. Consequently, many urban based Nigerians are forced to live with epileptic power supply even when they are prepared to pay more for the service. Even that is a luxury; most of the 65% of Nigerians who are rural dwellers live from day to day with no electricity at all. Our economy has virtually been powered by generators. The estimated cost of running the innumerable generators of various makes and sizes polluting the atmosphere across the nation is put at over $16 billion per annum.

Telecommunication - Nigeria telecommunication system with a tele-density of 65% (91 million subscribers) virtually subsists on mobile phone. Nigeria is virtually the only country in the world where business is carried out not with land phones that attract lower tariff but with mobile phones that incur maximum user charges.

Rail Transport Network - The Nigerian Railway Corporation (NRC) which was established in 1955 exist in name only. The 3798km Nigerian rail network comprises of 3505km obsolete narrow gauge rails and only 293km standard gauge. And it carries less than 1% of freight traffic compared to a global average of 46%.

The state of infrastructure in Nigeria at present does not meet the requirement for economic development.[4]

A World Bank investment climate survey identified infrastructure deficit as a problem of industrial development, and ranked it as nearly two and a half times worse than the next bigger problem of industrial development, which is finance.[4]

There is the need for concerted efforts to fix the infrastructure in the country, because if we can solve the problem of inefficient, inadequate or collapsing infrastructure, the economy will be on the part of growth and development.

Fixing the problem is no small feat because Nigerian infrastructural challenge is huge. It has become evident that the government alone cannot muster the resources (finance and expertise) to meet the need, thus looking for alternative means is not just desirous but necessary.

The Central Bank of Nigeria (CBN) called for the establishment of Nigerian infrastructure fund, where funds will be mobilized and developed to address Nigerian huge infrastructural deficit; but in recognition of the huge capital outlays involved in infrastructure projects, it aptly added that the fund may only supplement other schemes or initiatives to ensure that particular projects obtain the necessary funding where otherwise they will not be feasible.[4]

Other schemes and initiatives have taken the form of infrastructure concessions involving public and private sector partnerships (PPP).[3]

Though, the PPPs have enjoyed huge publication and usage, its major setback is the wariness of the private entity for fear of not recouping the investment cost in the concession period. In Nigeria, some of the factors causing this wariness are:

Political instability – this discourages private investors because, it result in fear of the government to honor its contractual obligations.

Economic instability – our country is known for its inflation and policy inconsistencies, and infrastructure being a capital intensive area, the economic instability raises a red flag in the mind of investors and constitute bad advertisement

Insecurity – religious intolerance, kidnappings, and terrorist-style bombings have led to substantial unease among the citizens and consternation among prospective investors

This paper looks at another scheme that can be used to solve the infrastructural challenge in Nigeria, which is the Infrastructure for Resource Scheme. The scheme was recently tried in Nigeria but failed. But in recognition that the scheme has a very real capacity to significantly solve the Nigerian Infrastructural challenge and increase Nigerian development, this paper aims to identify the underlying cause of the failure of the scheme in Nigeria, with a view to recommending actions to well position the scheme to deploy the infrastructures much needed in the country to drive industrial development.

1.1 WHAT IS INFRASTRUCTURE FOR RESOURCES?

Infrastructure for Resource is a kind of borrowing guaranteed by resources, such as crude oil, copper, tin, gold, and so forth. Under the scheme, a country develops infrastructures which is lacking in another country and gets paid with resources.[5]

The Infrastructure for Resource model was first developed in London by private banking institutions (British, French, Dutch and later South African) to mitigate the risk of lending to resource-rich African governments.[1]

China is the foremost user of this model in its engagement with resource-rich African countries.

On the surface, China's Infrastructure for Resource investments is presented in simple terms: in exchange for access to African resources, China underwrites major infrastructure projects necessary for partner countries' development and economic growth. As outlined by the forum on African-China cooperation, these resource deals are ostensibly built upon China principle of "equality and mutual benefit, cooperation, win-win, and common development".

1.2 THE NIGERIAN EXPERIENCE

Nigeria is the 13th largest producer of petroleum in the world with the 10th largest reserves. There is also abundance of other solid minerals –tin, iron ore, limestone, coal, niobium, lead, zinc, to mention a few.[3]

Nigeria is rich in resources but lacking in infrastructure. Thus the infrastructure-for-resource scheme as a win-win economic cooperation tool can be just fitted for her.

In 2006, Nigeria and China signed a memorandum of understanding (MOU) on the establishment of a strategic partnership. The partnership formed part of the Foreign Direct Investments (FDI) drive of the Obasanjo administration to encourage Chinese investors to do business in Nigeria. A key outcome from the buoyant relations was the oil-for-infrastructure deal of which Chinese companies were offered right-of-first refusal for oil processing licenses. The China National Petroleum Corporation (CNPC) was allocated an oil processing license in return to invest $2 billion to rehabilitate the failing oil refinery, in Kaduna state, in Northern Nigeria.[5]

But the deal fell through in 2007 when it was suspended by the Yar' Adua administration.

1.3 EXPLORING THE FAILURE

The deal signed in 2006 by the Obasanjo administration was swiftly suspended in 2007 by the Yar' Adua administration, leading many to easily point to a change in political leadership as the reason for the failure of the deal[5]. A more underlying factor can be identified for the failure.

A reason offered by the administration in suspending the deal was that China's offer when deploying its infrastructure for resources in Nigeria fell below the prevailing market price. This led many people at the corridor of power in Nigeria to perceive the concept as modern slavery. Thus, Nigeria prefers to sell her oil on the international market which is more lucrative than to adopt the China model.[5]

The suspension of the model in Nigeria and its subsequent failure was not because it was perceived that it is not able to finance and develop the infrastructure that Nigeria critically needs, but because it was perceived not to be providing a fair value for Nigeria.

The infrastructure for Resource deal was supposed to be a give-and-get deal, where both parties win. But the questions that were raised were: Was Nigeria giving more than it was getting? And, was Nigeria actually winning from the deal?

The suspension of the deal answers the questions. It was perceived that Nigeria was giving more than it was getting, and was not actually winning.

Some of China's goals in the extension of financial assistance for infrastructure construction in Africa are to expand Chinese business interests and to pursue resource security for fuelling her own economy. Poorly negotiated Infrastructure-for-Resource deals will result in China having these resources for provisions that do not reflect fair value for the African country. Good negotiations based on market benchmarks will ensure that what the African country is giving is not exorbitantly higher than what it is getting.

Poorly-regulated Infrastructure-for-Resource deals may also allow elites to collude with entrepreneurs and monopolize control over these resources for personal gain.[2]

2.0 CONCLUSION

Industrial development is intricately linked with infrastructural development such that without adequate infrastructures, industrial development is forever impeded.

The poor industrial environment of Nigeria is a reflection of the poor state of her infrastructures.

The Infrastructure for Resources scheme has the very real capacity to solve the Nigeria infrastructural challenge and significantly push industrial development.

That the model was tried and did not yield the expected results does not mean it is worthless and should be forgotten entirely as Nigeria seek answers to her infrastructure challenge.

The major problem with the Infrastructure for Resource scheme is that of the host country not getting a fair value for its resources. This, most often is as a result of poor negotiations on the part of the host countries, or them jumping into agreeing to the alluring offers presented.

When government of the host country sign deals that ensure that they get a fair value for their resources under the scheme; the scheme will without doubt bring about the deployment of the much needed infrastructures in those countries.

3.0 RECOMMENDATIONS

It is therefore recommended that Nigeria look back into Infrastructure for Resource scheme as she sought to address her infrastructural challenge, but before agreeing to any particular deal, she should evaluate the offerings, basing decisions on market benchmarks.

Nigeria should also adopt systems of open and publicly accountable bidding for oil, gas and mineral licenses and use them consistently. Open bidding for Infrastructure-for-Resource deals will create competition in this class of deals, and will significantly reduce the problem of not providing fair value for host country.

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