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Public Private Partnership as a Strategy for Achieving National Development in Nigeria

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Abstract

Nigeria has the potential of attaining national development and also maintains her place as the most developed Black Country in the world if the resources in her disposal are properly harnessed and judiciously utilized. This paper therefore seeks to specifically look at Public Private Partnership as a Strategy for Achieving National Development in Nigeria with emphasis on infrastructure and construction industry as panacea to national development. The paper adopted the Principal-Agent Theory as the theoretical framework. Recommendation from the findings of the paper states that more work need to be done in the area of training as stakeholders must be conversant with the rudiment of PPP, and also orientation of Nigerians on the importance of PPP as a veritable tool for achieving national development in Nigeria.

Keywords: Public Private Partnership, National Development, Infrastructure

Introduction

The provision of services and infrastructural facilities are the most important functions of every government in relation to developmental achievements of a nation. The involvement of the private sector in the development and financing of public facilities and services has increased over the past years in the developed and developing countries.

It is undoubted that the provision of certain basic services are undertaken by the public sector in Nigeria, such provision is lacking in quantity and quality of services required for sustainable development principally due to shortage of public funds, embezzlements and the monumental corruption surrounding the implementation of approved funds by public officers.

Public-private partnership describes a government service and private business venture, funded and operated through a partnership of government with one or more private sector operators. The global acceptability of the business option stems from the increasing difficulty of government to solely and wholly provide and deliver the much needed infrastructures and amenities to its citizens. The emerging challenges of the global economic meltdown, such as liquidity squeeze, high interest rates, government as a bad manager of business organizations, problems of the public corporations management, inadequate funds, politicization of projects development etc., have collectively made it near impossible for government to deliver the right quality of goods and services.

The benefits of public-private partnership irrespective of the terms of contract financing, remains the most profitable option to all stakeholders and a strategy for achieving national development. Identified obstacles to effective public- private partnership operations such as poor regulatory and legal frameworks, bureaucracy and redtapism, inadequate judicial processes, implementation challenges, rivalry amongst partners, corrupt and fraudulent practices, delays in securing adequate government approvals, poor government commitment etc are known to have negative impact on the smooth operations of public-private partnership. However, the benefits of the public-private partnership out-weigh the cost elements.

Objective of the Study

The primary objective of the study is to examine how public private partnership has been utilized as a strategic for achieving national development in Nigeria with particular reference to infrastructural sector of the economy

Methodology

The research employed documentary research which entails the study of documentary materials. The study relied on secondary source of data drawn from arrays of published and unpublished materials relevant to the study such as: journals, magazines, conferences, books, seminar and newspapers. Others sources of secondary data are reports, white papers of investigation panels and other quantitative publications related to the subject under study.

Conceptual Clarifications

Public Private Partnership

The Organisation for Economic Development and Cooperation (OECD) defines a public-private partnership as an agreement between the government and one or more private partners (which may include the operators and the financers) according to which the private partners deliver the service in such a manner that the service delivery objectives of the government are aligned with the profit objectives of the private partners and where the effectiveness of the alignment depends on a sufficient transfer of risk to the private partners.

The Asian Development Bank (ADB) appears to have the most comprehensive definition and seems to sum up all the characteristics that have been pointed out in the previous definition. According to the Asian Development Bank, Public-private partnership describes a range of possible relationships among public and private entities in the context of infrastructure and other services. PPPs present a framework that while engaging the private sector in public project the contract must acknowledge and structure the role for government in ensuring that social obligations are met and successful sector reforms and public investments achieved. A strong PPP allocates the tasks, obligations, and risks among the public and private partners in an optimal way. The public partners in a PPP are government entities, including ministries, departments, municipalities, or state-owned enterprises. The private partners can be local or international and may include businesses or investors with technical or financial expertise relevant to the project. Increasingly, PPPs may also include non-governmental organizations

(NGOs) and/or community-based organizations (CBOs) that represent stakeholders directly affected by the project. Effective PPPs recognize that the public and the private sectors each have certain advantages, relative to the other, in performing specific tasks. The government's contribution to a PPP may take the form of capital for investment (available through tax revenue), a transfer of assets, or other commitments or in kind contributions that support the partnership.

The government also provides social responsibility, environmental awareness, local knowledge, and an ability to mobilize political support. The private sector's role in the partnership is to make use of its expertise in commerce, management, operations, and innovation to run the business efficiently. The private partner may also contribute investment capital depending on the form of contract". PPP is the collaboration between the public and private sector to provide infrastructure which used to be traditionally an exclusive role of the public authority.

National Development

The term national development is a term that refers to a sustainable growth and development of a nation to a more desirable one. National development is people oriented and its success is evaluated in terms of the impact it has had in improving the lot of the masses. In defining the concept, the Third National Development Plan of 1980says:

> True development must mean the development of man, the unfolding and realization of his creative potentials, enabling him to improve his material conditions of living through the use of resources available to him. It is a process by which mans personality is enhanced, and it is that enhanced personality creative, organized and disciplined-which is the moving force behind the socioeconomic transformation of any society (FGN, 1980).

According to Onabajo and M'Bayo (2009), national development should be man oriented and not institution oriented, that is, individually in collectiveness and not individual. To Elugbe (1994), national development refers among other things, to the growth of the nation in terms of unity, education, economic well-being and mass participation in government. On the other hand, development entails the provision of all the necessary materials and equipments that will guarantee that man in every society make a living and essence out of life.

Anaeto and Anaeto (2010) citing Todaro and Smith (2003), identified three objectives of development which are; 1. Increase availability and widen the distribution of basic life sustaining goods such as food, shelter, health and protection. 2. To raise levels of living in addition to higher incomes, the provision of more jobs, better education, and greater attention to cultural and human values, all of which will serve not only to enhance material well-being but also to generate greater individual and national self esteem and 3. To expand the range of economic and social choices available to individuals and nation by freeing them from servitude and dependence, not only in relation to other people and nation states but also to the forces of ignorance and human misery.

Development is the socio-cultural, political, economic and the spiritual well being of a society. In a truly developed state, there is assurance of good quality of life, exercise of all human rights, and freedom to participate in the democratic process.

From the foregoing, national development implies enhanced quality of life, equity and justice, as it takes into consideration the wellbeing, growth and advancement of individuals within the society.

Theoretical Framework

A number of scholars in the public management realm have highlighted the theoretical foundations of PPPs, although there is no unified theoretical basis for PPPs. It is possible to situate this paper within the context of the **Principal Agent Theory** given the specific nature of risks existing in most PPP projects.

Principal-Agent Theory: The PAT was developed by Mike Jensen and William Meckling; American economists in 1976; hence, they both have their foundation on financial economics and managerial economics.

PAT establish the framework and explains the roles of the Principal (State) and the Agent (managers) in the provision of infrastructure in the economy (Jensen and Meckling, 1976). Applying Principal-agent theory to PPP's, we can say that the principal is the state (or other public actors) and the agent is the private sector company, partnership or consortium that the state contracts with. The state wishes to harness the capacity (human and investment), entrepreneurship and innovation of the private sector “agent” to achieve public policy goals, but has to recognize that; private sector “agents” have their own objectives and; will only enter into deals if they think that these will in some way be furthered by implementation of the Public Private Partnership agreement. Specifically, firms will only enter into PPP agreements if their expected “utility” from concluding the deal exceeds what they could obtain from directing the same resources to alternative uses, i.e. the opportunity cost of these resources (Poulton, 2009).

Poulton (2009) further asserted that at the heart of Principal-agent theory is the problem of asymmetric information. If the state had perfect information, concerning the capability and motives of potential private sector partners (prior to signing of a contract) and the actions and motivations for these actions (during implementation of a contract), the challenge above would be fairly straightforward. However, in reality, these things are at least partly hidden from everybody except the (senior management of the) firm itself. In compliance with principal agent theory, the two contract parties in PPP are named principal (the public authority) and agent (the private enterprise). Both actors are intrinsically motivated by self-interest based on rationality (Greiling, 2009). This theory is mainly interested in how the agent can be forced to act in accordance with the principal. A so-called agency problem evolves that is not only derived from the actors' egoism but from information asymmetries in favour of the agent. The principal agent theory is applied as a theoretical reference framework for the PPP partnering model and the PPP performance process model to restrict opportunistic behavior. The principal agent theory therefore constitutes the theoretical base for optimally structuring contractual incentive mechanisms to protect against opportunistic behavior (Jensen and Meckling, 1976). Principal agent theory also broadens the issue of risk-bearing. This is a central topic for Public Private Partnership because the share of risks is supposed to be one main advantage of the PPP concept for growing efficiency in public service delivery.

There are several general conclusions on Principal agent theory. These include; Firstly, the risk should be allocated to the Agent to the extent he does manage the risk. Secondly, risk should be allocated to the least risk adverse partner in order to minimize the overall risk-bearing cost. In the Principal-Agent literature, the Agent is most of time supposed to be risk averse whereas the principal is supposed to be risk neutral. Thirdly, the Principal should support risk in order to minimize the overall risk-bearing cost.

Historical Background of Public-Private Partnership (PPP)

The modern concept of PPPs is commonly said to have originated in the United Kingdom. However, the concept that emerged in the United Kingdom is similar to the model used to facilitate independent power projects in the United States of America in the 1980s. Thus while it can be said that the emergence of modern forms of PPPs may be traced to the Private Finance Initiative (PFI) scheme of the United Kingdom that was launched in 1992, the template for modern PPP contracts may be traced to Power Purchase Agreements (PPAs) signed by the US authorities and independent power producers in the 1980s.

Even though the modern concept of PPP is relatively new, the idea of toll roads and bridges are not. For example, in the United Kingdom and the United States of America as far back as the eighteenth and nineteenth centuries over 2500 companies were chartered and incorporated to develop private turnpikes. These turnpikes basically involved local business entrepreneurs forming trusts, which borrowed money from private investors to repair roads and repaid them by charging tolls.

More recently, PPPs have become a global phenomenon. Sectors in which PPPs have been completed worldwide, include: Electric power generation and distribution, water and sanitation, refuse disposal, healthcare, education, airports facilities, prisons, transportation (railways, roads) technology systems, and housing etc.

In Nigeria, since the beginning of the fourth democratic experience in May 1999, the Federal Government of Nigeria has embarked on an extensive liberalization and privatization program to inject private sector money and expertise in order to ensure quality infrastructure service delivery to the teeming population. The assumption is that private sector investment in infrastructure is a key priority in moving Nigeria to the status of top 20 economies in the world. However, over the years, at the central level, the government has taken serious steps in pursuit of its infrastructure targets. In 2007 specifically, the Federal Government of Nigeria articulated its Seven Point Agenda which outlined the seven key drivers for Nigerian development. At the top of this list of indicative parameters, is the adequate provision of critical infrastructure as a means to catalyze economic growth with the transport sector as a high priority for PPP investment. At the level of the states, the national infrastructure strategy has been endorsed and a commitment has been made towards the agenda for country wide infrastructure development.

The bad state of infrastructure and the willingness of the government to restore such infrastructure with little or no funds necessitated the drive for PPP, more so the failure and the inefficiency of public authorities in providing and maintaining the desired infrastructure for the Nigerian populace, bred the influx of private sector investment in Nigeria. The decision to resort to PPP was made easier by the fact that the country had gone through a privatization program that lasted for over 3 decades. This also included a reform program encompassing the liberalization and deregulation of the economy.

In essence, there was a partial liberalized economic environment in place; PPP was thus seen as the natural progression from privatization. Also, unlike the privatization program, complete transfer of ownership of assets from the Government to the private sector is not an attribute of PPP and so people were naturally more comfortable with it. Nigeria being a developing country, with a moderate capital budget, an undeveloped capital market and not very buoyant private sector had to rely on foreign private sector funding to realize its goals of providing infrastructure for its citizens. It is not surprising therefore that most of the early investments in infrastructure via PPP came through collaboration between foreign investors and Nigerian businesses.

The multilateral financial agencies also came in with a lot of support and finance.

It is clear therefore from the foregoing that Nigeria has fully embraced the use of PPP as a strategy for achieving national development especially in the infrastructural development sector of the economy.

Models of Public Private Partnership (PPP)

There are different forms of Public-Private-Partnership (PPP) which are mostly depicted by different acronyms. A number of these different PPP arrangements are merely slight variants of one another. Some of the popular examples are:

1. **Design-Build Operate and Transfer (DBOT**) The Federal Government of Nigeria in 2000 embarked on a process of reforms in aviation sector, including transferring the responsibility of the development, financing, management and operations of Nigeria airports to the private sector. In 2003, Bi-Courtney limited was awarded the concession by the federal government to develop, finance, manage and operate the Murtala Muhammed Airport Terminal 2 Lagos. Under a Design Build Operate Transfer (DBOT) arrangement. This was the first major DBOT project of such size in Nigeria and it marked the birth of Murtala Mohammed Airport 2 in Lagos
2. **Build Operate and Transfer (BOT)** This is the most popular PPP arrangement. In this type of project, the private sector entity finances the building of the infrastructure asset and is allowed to own and operate it for a number of years, usually long term before transferring control and ownership back to the public sector. The idea of a BOT is to benefit from the private sector's detailed knowledge of project design. The materials used in the construction phase can result in the development of a tailored

maintenance plan over the project lifespan

3. **Build Own Operate (BOO)** This PPP arrangement is similar to a BOT in the sense that the private sector finances the construction of the infrastructure and is also allowed to operate the infrastructure; however the distinguishing feature from a BOT arrangement is that the private sector is allowed to own the infrastructure in perpetuity. It is important to note that the fact that there is no government involvement in the beginning does not mean that it is not a PPP. The Government may still be involved in fixing tariffs and guaranteeing revenues. These types of arrangements are common in the power generation sector
4. **Build Own Operate and Transfer (BOOT)** Under a typical BOOT, the private sector is responsible for financing the construction of the infrastructure asset. It is also allowed to own and render services deriving from that infrastructure asset for a number of years before transferring the asset to the government/public sector.
5. **Build Lease Transfer (BLT)** In a BLT arrangement, the private sector after building the infrastructure asset with its own funds, leases the asset from the public sector entity, paying a periodic fee before transferring the asset in the long run to the public sector at the end of the lease period
6. **Build Lease Operate Transfer (BLOT)** This is similar to the BLT but the only difference is that there is an obligation on the private sector to operate the asset for the duration of the lease before transferring the asset to the public sector entity.
7. **Build Lease Transfer Maintain (BLTM)** Under this arrangement, like a classic BLT, the private sector entity uses its finances to build an asset, and then leases the asset from the public sector entity, before finally transferring the asset back to the public sector. However, unlike a BLT there is an obligation on the private sector entity to continue to maintain the asset even after the transfer of the asset is completed to the public sector.
8. **Build Transfer Operate (BTO)** Unlike the more popular BOT transactions, in this case the asset is transferred back to the government, which now allows the private sector to operate the asset for a number of years on behalf of the government.
9. **Design Build Finance Operate (DBFO)** Under this scheme, the public partner specifies the services it wants the private sector to deliver. The private partner then designs and builds an asset specifically for that purpose, finances its construction and subsequently operates the asset by providing services that derive from it. DBFOs are considered the classic PPP projects and are indeed the most common. The Lekki Road Concession and the MMA 2 Airport terminal both in Lagos, Nigeria are all strictly speaking examples of DBFQ schemes
10. **Design, Build, Finance, Operate, Manage (DBFOM)** In addition to all the responsibilities and obligations of the private sector partner under a DBFO above, the private sector partner also shoulders the responsibility of managing the asset. Another variant of this is Design,

Construct, Manage, and Finance (DCMF).

11. **Lease Develop Operate (LDO)** Under this scheme, the public partner take the lease of the infrastructural asset, usually empty land and then financing the development of the asset and operate such development.
12. **Lease Renovate Operate and Transfer (LROT)** Under this arrangement there is first of all the lease of an existing asset, which is renovated
and then operated by the private sector before finally transferring the asset to the public sector after a number of years.

PPP as a Strategy for Achieving National Development in the Infrastructural Development Sector in Nigeria

Construction industry is the backbone of infrastructural development and this industry is a driver of growth in other sectors due to its heavy reliance on an extended and varied supply chain. All other sectors of the economy like manufacturing, education, health, sports etc, depend on construction industry for performance (Oyewole, 2013). However, with the obvious decay in infrastructure, and the failure of existing contracting methods, due to varying degrees of corruption, adoption of PPP appears to be an attractive alternative. Niniowo (2016) asserted that the focus of PPP is on end results and standards, and not on processes as the case is with traditional contracting. PPP provides the best quality and value for the taxpayers money. Adoption of PPP in infrastructural development will provide adequate and affordable infrastructures, employment, rural development and tax as a form of income for government. PPP has been successfully used in the provision of infrastructures world over.

According to Oyewole (2014), the infrastructure gap is very wide in Nigeria because of the irresponsibility of past and present leaders in the provision of infrastructures. With PPP, governments are now achieving greater provision of infrastructures. Clement (2011) is of the opinion that PPP gives local authorities access to new sources of capital investment and management skills for new or improved facilities and creates new opportunities for the private sector to combine construction facilities, management, finance and operating skills.

PPP helps the government to focus and to engage in more capital investment than it would by following conventional procurement methods. It is akin to taking out a mortgage, with public bodies being forced to pay the true market rate for capital. Commercial companies provide the initial capital and in theory assume the risks associated with construction and maintenance in return for guaranteed leases that will allow them to cover costs and make a profit.

Moreover, the strategic objective for the Infrastructure Concession Regulatory Commission (ICRC), 2005 is to accelerate investment in national infrastructure through private sector funding by assisting the Federal Government of Nigeria and its Ministries, Departments, and Agencies (MDAs) to implement and establish effective Public Private Partnership's (PPP) procurement. The act provides for the participation of private sector in financing the construction, development, operation, or maintenance of infrastructure or development projects of the Federal Government through concession or contractual arrangements; and the establishment of the Commission to regulate, monitor and supervise the contracts on infrastructure. The scope of the Federal Governments programme for PPP is the creation of new infrastructure and the expansion and refurbishment of existing assets at the federal level.

The Impact of Public Private Partnership on National Development

PPP has made significant impact in the following areas of the economy which in turn brings about national development in Nigeria:

1. Employment opportunities for both former and new employees of the public corporations. The revival of mega corporations like, Nigeria Railway Corporations, Nigeria Coal Corporation, Nigeria Mining Corporation, Ajaokuta Steel Complex and Rolling Mills, Nigeria Cement Company etc, will impact employment generation, poverty alleviation and reduction, economic empowerment etc.
2. Increased cash flow both during and after rehabilitation of the public corporations arising from the patronage of food vendors, building materials vendors etc. Payment of outstanding salaries, pensions, gratuities of retirees and regular payment of salaries etc will jumpstart the economy,
3. Possible general prosperity for local contractors, artisans, service providers such as, transporters, suppliers of sand, cement, stone etc.
4. Property owners that will enjoy good financial inflows; enhance real estate asset values contributing to wealth creation and economic growth, enhancement and sustainable business growth and job creation.
5. High quality infrastructures to support and safeguard business operations and creation of an orderly and stable environment for growth and development.
6. Provision of world class public corporations, utility infrastructures and related services at affordable cost, greater value for money etc in improvement in the quality of life.

Conclusion

Adoption of Public Private Partnership (PPP) as a strategy for achieving national development and reduces infrastructural deficit in Nigeria, especially in the critical sector of the economy appears to be the best approach to our desire to attain national development. Hence PPP should be adopted with sincerity of purpose by government and the private sector and trust from the citizenry.

Also, all PPP project should be well researched and structured backed by credible, experienced players in order to attract the needed finance. However, a frightening level of distrust for government has been built in Nigeria over the years, such that in situations where there are genuine efforts on the part of government to right some wrongs with PPP, the idea becomes dead on arrival.

Recommendations

Based on the findings of this paper, the following recommendations were made:

1. There are still lot of work to be done in the areas of training as stakeholders must be conversant with rudiments of PPP, and also orientation of Nigerians on PPP.

2. Also, for PPP to work in the provision of infrastructure in Nigeria there is need for enabling laws to be domesticated in each state of the federation. These laws must take into cognizance the sensitive nature of public properties, and ensure continuity in governance.

3. Corruption is the bane of our society. No true development can occur where sentiment and greed holds way in our contracting procedures.

4. Furthermore, partisanship and nepotism must be avoided by leaders in all areas of life, especially when it comes to infrastructural provision. These factors drive new governments to review or discontinue existing contracts.

5. Governments should demonstrate political will and co-partner with committed sponsors, experienced concession and Project Manager. There should be Legal/Regulatory framework plus enforcement from Government.

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