The cost of port gridlock: When Apapa has congestion, the nation gets pneumonia.

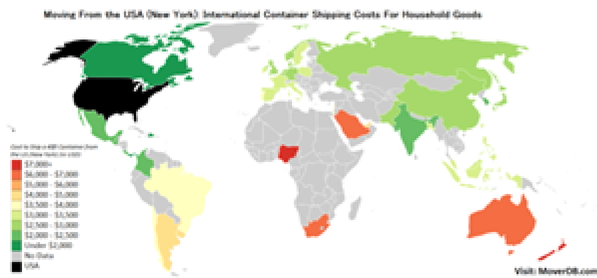
Possibly the only mark of distinction Apapa Port at present has is that its name can be read from left to right or from right to left. Nothing much else makes it stand out – positively, that is. The negative aspects are quite overwhelming. As a port, it is dysfunctional because, today, it is quite simply in the wrong place: It is captured by the city on its landside and, therefore, has no functioning, adequate evacuation route. The dual carriageway as is, to the extent that it is passable – given its wretched state (the black-top in places has so many pot holes as to resemble a honeycomb) – leads traffic northwards in order to then plough all the container-bearing lorries and petrol tankers into the daily East-West traffic.

To make things worse, this is the case not because of a lack of attention, but despite there having been a Presidential Task Team now in place for over a year dedicated to solving the problems. This is despite all sorts of pre-election promises, flurries of proclamations and official site visits. This is despite having the Minister of Works (a Lagosian, and former governor of the state), the Minister of Transport, and the Vice President involved, not to mention the Dangote Group. So, what is going wrong or why can't things be put right?

The cost of the Apapa gridlock

Let us start by addressing the cost of the constant gridlock, so that we all appreciate the issues and the sheer scale of the problem becomes apparent. Most recently, the National President of the National Council of Managing Directors of Licensed Customs Agents complained that the cost of doing business at the Lagos ports has increased by 500 percent as a result of the intractable Apapa gridlock.[i] That is disastrous in an economic situation as dire as that in which Nigeria currently finds itself post-oil-price-crunch and COVID-crash. In case the cost is considered improbably high, MoverDB, the online platform that compares the costs of international shipping and forwarding, computes in its analysis of overseas cargo and freight expenses that the cost of shipping both 20-foot and 40-foot containers to Lagos ports from New York is the most expensive in the world![ii] As the table below shows, shipping from Cape Town to the New York costs half the price.

Cost from Eastern United States (New York)



DESTINATION COUNTRY (PORT CITY)	20FT	40FT
Nigeria (Apapa)	$4,982	$7,436
Saudi Arabia (Jeddah)	$3,086	$4,606
Australia (Sydney)	$2,797	$4,175
New Zealand (Auckland)	$2,645	$3,949
South Africa (Cape Town)	$2,542	$3,795
Argentina (Buenos Aires)	$1,993	$2,975
Lebanon (Beirut)	$1,943	$2,900

Indeed, it is four times more expensive to ship goods from the European Union to Nigeria, compared to other African countries like Ghana and South Africa.[iii] If that were not bad enough, Dynamar B.V., the Dutch marine information experts, in its recent in-depth study of ports in West Africa, believes that the economic consequences of the congestion now exceed US$55 million daily, and the situation has increased the cost of inland connections (2020).[iv] If we take the official exchange rate of N384 to the US Dollar, and an average year as 360 days, **the economic impact is ₦ 7.603 trillion**. By way of comparison: The adjusted Federal Government Budget as passed by the Senate for 2020 is ₦ 10.805 trillion. In other words, the economic impact is thus **on a par with more or less 70 percent of the budget**. Or in relation to another benchmark: According to the National Bureau of Statistics (NBS) 2019 GDP ran at ₦ 19.53 trillion – the economic impact of the Apapa gridlock is the **equivalent of 36% of Nigeria's GDP** before it fell prey to the double whammy of oil price drop and COVID-19, and is over **three times the size of the ₦ 2.3 trillion stimulus package** the Federal government has stated it will inject into the economy.

There is only one possible conclusion in light of these numbers: The Apapa gridlock is indeed an economic disaster.

The chronology of disastrous disaster relief

Yet the problem is not new, and its well known. Back in 2018 alarm bells were ringing: On 19 July, State Commissioner of Police, Mr Imohimi Edgal said that the Lagos State Police Command and other relevant agencies are to begin 'Operation Restore Sanity' on Friday to

free Apapa of gridlock, telling newsmen the Apapa gridlock was a “national disaster’’. The problem which gave rise to the sorry state of roads linking the ports is not limited to mere blocking of roads or activities of tank-farms with no holding bays for trucks.[v]

The news reached Abuja and on 2 August 2018, Minister of Transport Amaechi, who is lord over the ports, stepped in to the fray. He visited then Governor Ambode – and revealed that work on the Apapa corridor of the Lagos-Ibadan Rail project would commence the following week. A typical case of closing the stable door after the horse had bolted. He proudly declared “What we are trying to do there is to get a good road to evacuate cargos, but it would be faster with the rail. So, while we are working hard to ensure that the rail is delivered by this year ending, the Federal Government has also awarded the contract to deal with the road from Apapa and Tin Can to enable us to evacuate cargos freely which is an addition to the rail.” The rail project was awarded to China’s CCECC and was not delivered by year-end 2018.[vi]

Eight months lapsed until, just prior to inauguration day, namely on 24 May 2019 Vice President Osinbajo gave the Presidential Task Force two more weeks to clear the traffic. “The task force which commenced its assignment on May 24 had up to June 7 to complete the assignment but is now expected to present a formal report at the end of its extended mandate on June 24.”[vii] No doubt not wanting to be outdone by Abuja and in an effort to outshine his predecessor, o**n 4 June 2019**

Lagos State Governor Babajide Sanwo-Olu weighed in, vowing to end the Apapa gridlock within 60 days of his administration. This “coincided with a presidential order to truck and tanker drivers who parked their vehicles on all access roads and bridges to the Apapa ports and environs to vacate within 72 hours.”**[viii]**

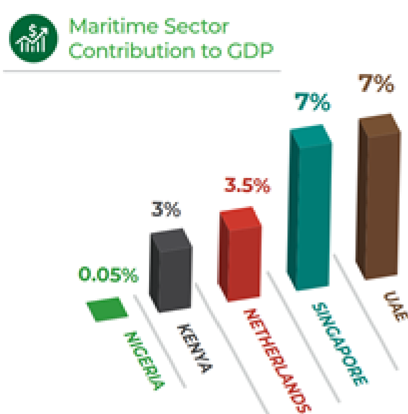
On 16 August, 2019, over six months after his Minister had promised the port rail link would be in place, the Managing Director of Nigerian Railway Corporation (NRC), disclosed the December deadline in response to stakeholders’ calls for proper integration of rails to ports nationwide.[ix] **And another 10 months passed before, on 12 June 2020,** Lagos District Manager of NRC, Jerry Oche, said: “A train is made up of 19 wagons and each of the wagons can take one 40-feet or two 20-feet containers. So, if we are doing 40-feet, that is 19 trucks off the road and if it is 20-feet, that is 38 trucks off the road per trip. We are starting with two trips per day and we hope to increase it in no distant time.”[x] One might be forgiven saying that such a rail service is firstly a drop in the ocean and secondly hardly likely to be cost-effective.

Another two months lapsed before, on 30 August 2020 the press reported that "ongoing reconstruction work on Creek Road and Liverpool Road in Apapa, Lagos, may have compelled the Presidential Task Force on Apapa gridlock to force the Federal Ministry of Power, Works and Housing to temporarily open the Tin Can Island truck transit park to ease the perennial gridlock along the port access road. It was gathered that the presidential task force managing the Apapa gridlock has directed that the transit park be opened to take trucks off the roads, though the park is yet to be completed and officially handed over to the Nigerian Ports Authority (NPA). The truck park has been under construction for more than ten years. The project has, however, suffered delay despite repeated assurances by the Federal Ministry of Power, Works, and Housing that it would be completed in April 2019.''[xi]

The price of the lack of a solution

What is at stake? Lagos's ports handle about 80 percent of all shipping traffic. And the problem is not just outside their gates, but inside them. The difficulties include:

- Failure by shipping firms to provide holding bays for empty containers. This is responsible for ports' congestion, operators have said.[xii]
- Existing terminals are not used at full capacity[xiii] Apapa runs at 82 percent, Tin Can Island at 44 percent.
- Low port capacity utilisation: Only 38 and 40 percent of installed stevedoring and other port-related capacities are deployed regularly at dockyards and approximately 40 percent of businesses located around the port communities have either relocated to other areas, or have scaled down [xiv][xv]
- The maritime sector's contribution to GDP in Nigeria is a minimal 0.05 percent.[xvi]



- The maritime ports sector currently employs about 35,000 Nigerians. This is low when compared to South Africa where maritime and allied sectors currently provide about 700,000 direct and indirect jobs.[xvii]
- And last but not least, the Nigerian economy is currently losing about N600bn in customs revenue, an estimated US$10bn in non-oil exports and about N 2.5 trillion in corporate revenue in the ports industry on an annual basis according to the Lagos Chamber of Commerce and Industry (LCCI) and other members of the Organised Private Sector (OPS) in 2018.[xviii]

Solutions in sight?

Does it surprise anyone that Apapa Port, Lagos State, has lost its status as West Africa's leading and busiest container port to Lome Port in neighbouring Republic of Togo? Data from Dynamar reveals that Lome Port upstaged the Lagos facility largely as a result of wide-ranging implemented reforms, as well as container traffic. Consequently, the port's earnings have grown more than threefold since 2013.[xix].

Given such a massive hit to the economy, surely one of the first things that a clear-thinking Federal government would be doing is solving the Apapa gridlock as quickly as possible and not letting first weeks, then months, then years slip by. Such delays are tantamount to gross negligence. Today, admittedly, Apapa Port is (like Lagos Airport) simply in the wrong place – unless you reactivate the rail network big time that is. The geography is always going to be a challenge if you try and funnel the containers out by road. A few years ago, one proposal was to route road haulage toward Badagry and then up a new outer ring road heading for Ijegun and then Ota. The proposal was not taken up because of the cost. In light of what the economy is losing each day, that cost appears insignificant. Admittedly, even such a silver bullet might not have worked, because given the speed at which Lagos is growing and the sloth's pace at which right-of-way issues get resolved, by the time such a proposal would have been realized, with all the pile-driving required across the in part marshy terrain, what was conceived as an 'outer' ring might well have become 'a second inner ring' running parallel to the Apapa-Oworonshoki Expressway – and, therefore, potentially not an expressway at all.

Be that as it may, despite the government being cash-strapped, the erstwhile cherished government cash cow, the National Ports Authority (based at Marina opposite Apapa and thus in full view of the problem), is forgoing revenue by the day. The underlying reason for this

financial turpitude seems to be a mixture of two factors. Firstly, the two ministries involved are acting to type and therefore as silos: The Ministry of Transport is focusing on trophy rail projects and not on port efficiency, cargo evacuation, etc. And the Ministry of Works is busy with Federal roads elsewhere. Secondly, and perhaps even more worryingly, there seems to be a complete absence of any integrated forward planning. (One consequence is that another quango, the Presidential Task Force, has long since mutated into a permanent institution like the erstwhile task force on power.)

The same combination of factors already threatens to ensure that the new deep-sea port in Lekki, once operational, will face similar issues. Surely the Chinese PPP partners, who may be hoping to take over ownership should there be any default on repayments, are aware of the difficulties and assume this will also be a reason for default and for them to claim ownership. Remember, that the Chinese Habour Engineering Company, who is the main player in the Lekki Deep Sea Port and has already nominated the CEO for the project company, has previously claimed a piece of the sovereign territory of Sir Lanka as its own in the form of the seaport it built there – after the Sri Lankans had to default on payment. The Lekki-Epe Expressway is in part almost impassable and given that it is not even dualized just down the road from the Free Trade Zone the potential for congestion is already firmly in place.

The net result of such institutional torpidity is that when the country can least afford to lose money and is searching frantically for internally generated revenue, it is seemingly quite oblivious to the single greatest source of such: Apapa. And consequently, tous ca change mais tous c'est la meme chose: Members of the task force come and go. While the hapless residents of Lagos State suffer from the permanent traffic congestion and gag on diesel fumes of the trucks, the Nigerian economy gags on the astronomical losses And even when you think you have escaped the traffic snarl, a peek in your rear-view mirror of the chaos still reads Apapa correctly. It is surreal.

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[ii] *https://moverdb.com/freight-costs-usa/*

[iii*] https://www.sbmintel.com/2020/03/chart-of-the-week-comparison-of-shipping-costs/*

[iv] *https://guardian.ng/business-services/nigeria-loses-55-million-daily-to-port-congestion/*

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[vi] *https://www.vanguardngr.com/2018/08/amaechi-visits-ambode-says-apapa-ports-phase-of-lagos-ibadan-rail-project-takes-off-next-week/*

[vii] *http://saharareporters.com/2019/06/14/apapa-gridlock-osinbajo-gives-presidential-task-force-two-more-weeks-clear-traffic*

[viii] *https://allafrica.com/stories/201906040242.html*

[ix**]** *https://guardian.ng/features/fresh-hope-for-apapa-as-fg-links-rail-to-port-by-december/*

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[xi] *https://www.autoreportng.com/2020/08/apapa-gridlock-presidential-task-force.html*

[xii] *https://thenationonlineng.net/npa-warns-shipping-firms-over-empty-containers/*

[xiii] *https://drive.google.com/file/d/1xBCYjNr190M-jQSvueE3pqlTFwgJqGYO/view*

[xiv] *https://www.portstrategy.com/news101/world/africa/inefficiency-and-corruption-in-nigerian-ports*

[xv] *https://www.proshareng.com/news/Doing-Business-in-Nigeria/Port-Reforms–Why-Nigerian-Ports-Lose-Mo/47340#*

[xvi] *https://www.tralac.org/documents/news/2287-costs-of-maritime-port-challenges-in-nigeria-lcci-september-2018/file.html*

[xvii] *https://www.tralac.org/documents/news/2287-costs-of-maritime-port-challenges-in-nigeria-lcci-september-2018/file.html*

[xix] https://guardian.ng/sunday-magazine/inefficiency-high-charges-infrastructure-dearth-de-marketing-nigerian-ports/ ; needless to say, the border closure impacted on that growth.

Image by Anja from Pixabay

Reversing the Economic Downturn in Nigeria: Realign Markets to Spur Growth and Jobs

Nigeria should brace itself for impending recession. Or so the World Bank suggests. Specifically, the bank in a recent report stated that Nigeria is facing "potentially the most severe downturn in four decades… even if the outbreak is contained."

Apart from the series of foreign loans the government recently added to its debt stock, the devaluation of Naira, dwindling revenues, etc., there is little being discussed publicly to suggest a crisis is imminent or that measures are being put in place to avert it. Are we missing something or is the government deliberately taciturn to avoid causing alarm? Or perhaps people are so overwhelmed by so many mundane issues, which non-Nigerians familiar with the situation cannot comprehend, that they have no time for even worse news.

Lest we kid ourselves otherwise: The only solution to our predicament lies in the economy, but this time that does not mean praying for oil prices to somehow return to the dizzying heights of yesteryear. No, the only way Nigeria can avert the impending crisis is, firstly, to get the economy working, at an accelerated rate, creating jobs, and, secondly, to ensure that the economic growth is inclusive to improve the lives of Nigeria, not just statistically (as in: higher GDP per capita) but in a way that sees poverty decrease and HDIs increase.

Are we looking for the silver lining in these dark stormy clouds? It is there, and government must make hay with urgency. We should agree, at least in our resolve going forward, that successive administrations have not only been remiss in fixing socioeconomic problems but have been in denial as regards the scope and scale. Everyone, from the citizens, politicians to ministers, seems transfixed on the waiting for Godot in the hope that he will arrive with the

panacea to cure all socioeconomic ills.

Put bluntly, the Nigerian economy is in dire need of structural change. And this goes far beyond mere reform and minimal tinkering with the system. No, what is required is the construction of a new economy that can provide prosperity and jobs for all. Central to this new economy must be clarity on the socioeconomic problems we face, on the desired realistic outcomes, and on the resources required to achieve this. You cannot leave a nation of 200 million people to contend with the twists and turns of a nascent democracy and not expect chaos, unless you harness resources and organise markets that function properly.

Today's reality is, by contrast, one of informal markets. Which is why there are very limited avenues for job creation, why the preponderance of transactions are in cash, why black market thrives, why the tax base is extremely narrow, why the government's monetary policies are blunt, why fiscal policies and expenditures do not impact on the majority of the citizenry. This is why subsidies meant for the poor are enjoyed by the wealthy middle class, this is why taxes and charges are inordinately increased – for the hapless few. The harsh social and economic realities the country groans under today are the only too predictable result of a casual laissez faire approach to the economy by various administrations, when deliberate and more purposeful management of the economy was called for.

Let the truth be told, government is not doing enough to diversify the economy. Indeed, diversification must go far beyond merely reducing the reliance on oil. Diversification must put all average Nigerians squarely in the centre, front and back of the economy in terms of their needs, jobs and wealth creation. The economy we currently run is for a few and to a large extent a dichotomous one: oil and non-oil economy. The oil and gas sector that is the cynosure of all Nigerians, with everyone seeking to get a slice of the cake, has not served the nation; instead it has lined the pockets of businessmen and feathered the beds of politicians and bureaucrats, the custodians of our national patrimony. The sector has shut its doors to the majority. Indeed, to think that the sector we clamour to enter to "hammer" accounts for less than 10 percent of our GDP. Thank God for GSM and the spinoff industries that breathed a lease of life into the real sector of the economy. Even then, the predominance of foreign interests and investments mean the bulk of the money that would ordinarily stay in the economy constitutes a leakage – as dividends, fees, debt servicing, etc., are repatriated to foreign countries. Further, the capital intense nature of ICT has limited the scope for job creation. So, yes, ICT has been a boon, its impact on job creation and inclusiveness has, however, been limited. We need more sectors to breakthrough.

So whither way forward? To be very frank, we look as if we do not know where to start. What we have done to date is to throw money at the symptoms rather than the causes in the form of social investment programmes. Obviously, these cannot make any meaningful impact on the underlying and fundamental problems. The latter tend to be simply be ignored, yet they are staring us all in the face. We need to square up to them, go back to the drawing board, start from the known and proceed to the unknown.

The knowns

- The informal sector of the economy is remarkably large.
- Services dominate GDP while manufacturing is shrinking.
- Agriculture is characterised by high wastage, low productivity, and small holders.
- Physical infrastructure is inadequate: poor electricity services and limited transportation network and linkages.
- Limited access to credit and dearth of long-term development/investment capital.
- Shockingly high level of unemployment.
- A widening income gap, increasing inflation, growing inequalities, and high population growth rate, the condemnable epitaph “the capital poverty of the world” conferred on Nigeria may find long term residence here if care is not taken.
- Rampant corruption, inefficient uses of public resources.
- A fundamental lack of security and unstable business environment.

In light of these knowns, it seems clear that we need to redefine the economy and the various constituent markets. And by this we are not limiting “market” to “marketplace” but the embodiment of people, their needs, production and distribution of goods and services. Businesses invest using personal funds or borrowings. Savings typically account for the bulk of investment. What if domestic savings are insufficient to meet investment requirements? This is where foreign investment comes in. The role of government in mobilising savings and spurring investment is not trivial. The mechanism for this is usually the management of public resources and taxation, both spheres were the Nigerian governments have not fared too well creating a situation in which government has had to increase taxation on those already in the narrow tax base and reliance on domestic and foreign borrowings to meet revenue shortfalls.

More needs to be done to address the challenges of the economy, starting with the basics. First, the generality of the populace must be included. To this end, we must start by reducing the informal sector. The rationale for this is twofold: a) enhancement of financial inclusion and effectiveness of macroeconomic policies; and b) expansion of the tax base and enhanced efficiency of fiscal policies and public expenditure.

There are many ways to achieve this. Bearing in mind that commerce and trade are common economic activities in Nigeria, and marketplaces play key roles, these activities should be formalised. Government should develop and formalise markets with suppliers, traders (petty, retail, wholesalers), etc. for example, by registration. Trading in markets, on the streets without registered trade number should be prohibited in phases. Incentives should be considered. The authorities could provide stalls etc. Think of the hundreds of billions of Naira worth of transactions taking place on a daily basis in markets all over the country, and the amount of VAT government could thus potentially collect. Government may initially have to incentivise the collection and payment of VAT with rebates or so on purchases of essential goods and services such as kerosene and healthcare. A key policy objective will be fiscal sustainability. We need money. Money for what purpose? Surely not merely to meet recurrent expenditures and pay off debts but for real economic activities – production of goods and services – to create jobs and wealth. It will be incumbent on government to make stakeholders see that this is a win-win strategy.

Where to start? Possibly with all state capitals and major cities. Markets can play a central role in the development of infrastructure on a meaningful and sustainable basis. They can be used as catalyst for job creation, poverty reduction and rural development. And by extension they will pull in infrastructure as they develop.

Placing markets at the centre of economic activities is deliberate. Markets do not just facilitate the exchange of goods and services but play a critical role in their production and consumption. An efficient market provides goods and services consumers want, and it sends price signals to consumers and suppliers. It promotes efficiency in production and consumption, and, therefore, assures efficient allocation of resources. Moreover, Nigerians by habit and disposition are intrinsically suited to market economy. So, government must see getting markets to work efficiently as an imperative for the economy to deliver growth, job creation and therefore prosperity.

The Nigerian economy today is characterised by imperfect markets whose proper functioning is impeded. This is one main reason why the Nigerian economy cannot in its present form

serve its people. Policymakers need to ask fundamental questions of how the economic functions are managed. Put differently, is the purpose of the economy primarily to serve the people of the government? Should the economy be structured in such that it continues to cater to the interests of this small segment of society at the expense of generality of the country? Should production or exchange of goods and services be promoted to encourage domestic production or importation?

Any attempt at answering these questions will reveal that the status quo is not meeting the needs of the people. Apart from a handful of goods, there is a heavy reliance on imports, and consumers have to contend with goods and services limited in scope and quality. Agriculture and rural areas receive little attention, despite accounting for half the populace, which explains why wastage remains high and low productivity persists.

To all intents and purposes, Nigeria runs a mixed market economy, and it does so improperly. A market economy is defined as an economic system in which the decisions on what to produce, distribute and invest are determined by price signals that come from the interplay of demand and supply forces. Central to market economy is existence of an input or factor market. This is important in determining the allocation of factors of production, namely, capital, labour and land, to economic activities.

Market economies range from laissez-faire markets at the one end of the spectrum, where government focus on provision of public goods and promote private ownership, to arrangements where government is more actively involved in correcting market failures and promoting social welfare. Market economies that are state-directed (dirigiste economies) in which government uses industrial policies to guide the market – but not as substitute for economic planning – are broadly termed mixed economy. At the other end of the spectrum of market economies are planned economies. These are arrangements where investment and production decisions are integral variables in holistic economic plans. In centrally planned economies, government is responsible for allocating resources to firms rather than leaving it to.

Although the Nigerian economy from the colonial days to the present is best defined as a mixed economy, the role of market as mechanism for allocating resources has been largely ineffectual. This is due to several reasons ranging from, among others, a lack of clear economic direction, inadequate factor markets, insufficient enablers such as energy and transportation infrastructure, etc. Rather than government’s efforts directed at ameliorating market failures so that markets can function better, interventions have supplanted measures

that tilt the balance towards a planned economy. These shortcomings, undoubtedly, explain the preponderance of the failings of the economy.

Markets are pivotal to economic activities. Reviving or reconstructing the Nigerian economy must leverage on markets to enhance efficient and prudent utilisation of resources in production and distribution of goods and services. At the same time, with the focus on addressing a myriad of social and economic challenges, the economy must be guided. Identification of key sectors to revamp the economy is key, here. Addressing shortcomings in factor markets is important for efficient decisions in investment, production and distribution. This must be preceded by clarity on what needs to be produced, identification of the necessary factors of production, and ensuring their availability. The role of properly functioning markets cannot be overemphasised. Shortages in financial and physical capital have blighted the activities of MSMEs, inadequate infrastructure has amplified distortions of factor and output markets making outputs expensive and non-competitive.

The market economy has played a key role in countries that have successfully transformed their economies and simultaneously lifted significant numbers of people out of poverty by creating jobs and prosperity, prime examples being Turkey and to a lesser extent India. The less said about centrally planned economies, the earlier Nigeria can focus on the task on hand. While a market system offers Nigeria the best and realistic option to create socioeconomic challenges, efforts must be on efficiency and efficacy of factor and product markets. This will require an alignment of needs, resources and enablers for both factor and product markets with all the fiscal, monetary and real sector policies geared to achieving this overarching goal. Government must promote the market economy, eliminate distortions where they exist, and nudge, but only nudge, markets in the appropriate directions such that jobs and prosperity are produced to address poverty, unemployment, income- and gender-inequalities. The problems we contend with are neither random nor spurious; they are the outcomes of a dysfunctional system.

While it may be too late in the day for Nigeria to completely escape the ravages of the economic downturn predicted by the World Bank, the focus of government must now be on immediately minimising the buffeting of the economy, shortening the painful period and priming the economy to embark on a strong and inclusive steady growth path. The authorities will not only need, as a matter of urgency, to get on with the arduous business of fixing, nay, constructing a new economy that works for all, but be seen to be doing so to bolster responsiveness to the plight of the people and legitimacy.

Image by Erin Johnson from Flickr

Electricity Tariff Increases: Celebration or Cause for Concern?

A lot seems to have happened in the power space over the last few days. First came the CBN announcement laying down specific rules for DMOs on what they can and cannot do with monies received on behalf of electricity distribution companies. We were also regaled with the efforts by FGN to avoid defaulting on payments to Azura IPP. Then came the bombshell, at least in the opinion of some industry watchers: The President approved significant electricity tariff increases – 73 percent in the first instance and by the time the second increase kicks in, total rise from the current position would be in excess of 130 percent. These news, alongside a series of other sobering headlines from last week (one in two Nigerians in the labour force is either unemployed or underemployed; inflation is on the increase; Nigerians now spend about 60 percent of their income on food, Nigeria borrows grain from ECOWAS to feed her citizens, etc.) are bound to agitate, or be of great concern to discerning minds.

Before dissecting the various issues, let us look at why these headlines elicit agitation and concern. Agitation because the consequences could have been avoided: The desperation and urgency of the authorities are apparent in the Azura case. If the same level of diligence had been accorded the negotiations in the first place, it is doubtful government would be where it is today. Likewise, if the way the tariff is calculated had been properly scrutinised, it is doubtful the clamour by the owners and financiers of the PHCN successor companies would have received such attention. Perhaps doing the right thing from the start is quite un-Nigerian. The default setting is to attempt to solve self-created problems that could have been avoided in the first place.

Why concern? The probability that the above developments will have a devastating impact on the wellbeing of the citizens of the “poverty capital of the world”. The expected consequences are higher prices of goods and services, leading to higher inflation, further unemployment, etc. A situation that will presumably be compounded if the looming recession materialises as the economy has reportedly contracted by 6.1 percent, having barely recovered from the last recession.

Of the series of recent news, the following three are noteworthy: the CBN announcement, the Azura payments, and the tariff increases.

CBN appears to be taking centre stage in running the economy. As the banker to the Federal Government, it became, by default, the de facto banker to the electricity industry. First, it played a key role in persuading the banks to provide finance to the would-be investors on the eve of the privatisation. Later, the liquidity problem caused by technical and non-technical losses led the Federal Government to mandate CBN to provide “market support” to the electricity industry. It is the inability of government to continue providing the credit support, considering its own revenue challenges, that must have driven the CBN to safeguard its exposure. No one seems to be asking the question of the causes of the shortfall.

What may come across as CBN using its regulatory powers to breathe some sanity into the financial position of the electricity industry is, to all intents and purposes, an overreach, as CBN has simply relegated the sector regulator to a casual bystander. CBN has stepped beyond its mandate and assumed a key function of NERC, namely, supervision of the electricity market. And that does not bode well for the future of the electricity industry and the real reform required to provide the energy to drive the economy.

As for Azura, the authorities were remiss in their responsibilities. The risks and contingent liabilities the PPA, PCOA and PRG were meant to mitigate or manage were not contingent. They were real risks merely waiting to happen, and happen they did. Alarm bells were sounded as far back as 2015, but evidently fell on deaf ears. Government was more focused on the willingness to provide what was considered the necessary mitigation required to facilitate the development of the power plant and less on its capability to fund or manage the expected liabilities.

Perhaps if more attention had been placed on capability, the necessary inquiries would have caused the spotlight to be focused on assumptions and parameters on which the financial viability of the plant was based. This would have led to financial modelling and sensitivity analysis not only to underpin the viability of the arrangement but would have thrown up issues and challenges that would allow the authorities to manage the situation better. Unfortunately, the level of diligence the developers and financers undertook to safeguard their interest was not replicated on the government side.

The second issue is the tariff increases, which ostensibly are to facilitate access to a US$1.5 billion facility from the World Bank to augment the financial position of the industry given the revenue challenges of government. One must ask whether an adequate assessment was undertaken to determine the implications and effects of tariff increases of 73 and 60 percent respectively, that is, the possible deleterious consequences on the economy and welfare of

Nigerians.

Consider this: The bottom line is that a consumer who is currently paying ₦20,000 per month for electricity will end up paying ₦34,600 per month when the initial price increase takes effects in September 2020. The amount the same customer will pay in 2021 when the second increase is implemented is ₦46,600 per month for the same amount and quality of energy. This is a staggering increase. With the current realities of GDP contraction, lower oil prices, etc. we should brace ourselves for some serious economic challenges as real income declines, with a higher proportion expected to be spent on electricity and food already accounting for 60 percent of household income, food prices will tend upwards especially those that depend on electricity.

The distribution companies have been clamouring for tariff increases from inception on the grounds of non-cost reflective tariffs. However, what is 'cost-reflective' if there is no consensus on the areas that must be tackled to improve operational and financial performance by the authorities who are meant to balance the interests of consumers and service providers.

On the argument that prices are not cost reflective, the focus should be on appropriate pricing principles and efficient cost of production – after all, no one would support persistent disequilibrium of costs and price. The debate must, therefore, be on addressing the underlying systemic and structural deficiencies that consistently cause costs to diverge from set tariffs. Assuming a tariff increase will cure the myriad of sectoral challenges is naive. The overwhelming evidence is that any cure attributable to tariff increase is temporary at best. People adjust their consumption patterns in line with their disposable income. The implication is price increases that please service providers cause consumers to reduce consumption. This is basic economics.

Without addressing the underlying factors that drive cost to diverge from price, consumers will face further tariff increases in the future; this will negatively impact aggregate demand and cause shrinkage in supply and production. The factors which directly or indirectly influence costs and, consequently, prices), include: (i) technical losses, (ii) non-payment/theft of electricity, (iii) low capacity utilisation, and (iv) high operating and capital costs. Then there are unfavourable macroeconomic parameters, such as: high interest rates; a dearth of long-term development capital; the regular depreciation and devaluation of the Naira and heightened foreign currency exposure increase prices for imported equipment (virtually everything) utilised in electricity production and supply; denominating gas supply purchases

in US dollars despite the fact that it is produced domestically; the lack of adequate risk mitigation instruments; and finally, inappropriate trading arrangements for electricity that add to cost of services, etc.

Moreover, the knock-on effect of tariff increases does not receive the attention it deserves. The fact that factories and businesses are regularly closing is not unconnected with epileptic and expensive power supply. There is a presumption on the part of the authorities and operators in the industry that prices can be increased inordinately. This may be applicable to most residential consumers: they have low price elasticity of demand, that is, they have little or no choice on source of power and their consumption is not that sensitive to price changes. The reality for job- and wealth-creating commercial and industrial consumers is the opposite: with higher elasticity, when faced with increased power prices that can make their products more expensive and less competitive they respond by investing and switching to self-generation or closing up shop.

It is worth noting that the various tariff increases the industry has witnessed in the past did not solve any of the electricity supply challenges in Nigeria. Neither have tariff increases improved operational or financial performance of the sector or supplied more energy to the economy. The authorities still need to decide how to make electricity available at a fair price to enhance competitiveness, create jobs and spur economic growth. Nigeria is at a crossroads: Urgent attention must be paid to addressing growing poverty, unemployment, the flagging economy and HDIs that are negatively correlated to economic growth, an electricity is a critical infrastructure that must be available. The issue is not just about the electricity industry. No, it goes beyond that: The basic economic welfare of the citizens and society will be pulverised if business as usual approach is maintained. Our welfare is imperiled with dire consequences for society simply because we have failed to diligently attend to the economy and balance the interest of all stakeholders. We should be deeply concerned and agitated by these recent developments.

A lot seems to have happened in the power space over the last few days. First came the CBN announcement laying down specific rules for DMOs on what they can and cannot do with monies received on behalf of electricity distribution companies. We were also regaled with the efforts by FGN to avoid defaulting on payments to Azura IPP. Then came the bombshell, at least in the opinion of some industry watchers: The President approved significant electricity tariff increases – 73 percent in the first instance and by the time the second increase kicks in, total rise from the current position would be in excess of 130 percent. These news, alongside a series of other sobering headlines from last week (one in two

Nigerians in the labour force is either unemployed or underemployed; inflation is on the increase; Nigerians now spend about 60 percent of their income on food, Nigeria borrows grain from ECOWAS to feed her citizens, etc.) are bound to agitate, or be of great concern to discerning minds.

Before dissecting the various issues, let us look at why these headlines elicit agitation and concern. Agitation because the consequences could have been avoided: The desperation and urgency of the authorities are apparent in the Azura case. If the same level of diligence had been accorded the negotiations in the first place, it is doubtful government would be where it is today. Likewise, if the way the tariff is calculated had been properly scrutinised, it is doubtful the clamour by the owners and financiers of the PHCN successor companies would have received such attention. Perhaps doing the right thing from the start is quite un-Nigerian. The default setting is to attempt to solve self-created problems that could have been avoided in the first place.

Why concern? The probability that the above developments will have a devastating impact on the wellbeing of the citizens of the "poverty capital of the world". The expected consequences are higher prices of goods and services, leading to higher inflation, further unemployment, etc. A situation that will presumably be compounded if the looming recession materialises as the economy has reportedly contracted by 6.1 percent, having barely recovered from the last recession.

Of the series of recent news, the following three are noteworthy: the CBN announcement, the Azura payments, and the tariff increases.

CBN appears to be taking centre stage in running the economy. As the banker to the Federal Government, it became, by default, the de facto banker to the electricity industry. First, it played a key role in persuading the banks to provide finance to the would-be investors on the eve of the privatisation. Later, the liquidity problem caused by technical and non-technical losses led the Federal Government to mandate CBN to provide "market support" to the electricity industry. It is the inability of government to continue providing the credit support, considering its own revenue challenges, that must have driven the CBN to safeguard its exposure. No one seems to be asking the question of the causes of the shortfall.

What may come across as CBN using its regulatory powers to breathe some sanity into the financial position of the electricity industry is, to all intents and purposes, an overreach, as CBN has simply relegated the sector regulator to a casual bystander. CBN has stepped

beyond its mandate and assumed a key function of NERC, namely, supervision of the electricity market. And that does not bode well for the future of the electricity industry and the real reform required to provide the energy to drive the economy.

As for Azura, the authorities were remiss in their responsibilities. The risks and contingent liabilities the PPA, PCOA and PRG were meant to mitigate or manage were not contingent. They were real risks merely waiting to happen, and happen they did. Alarm bells were sounded as far back as 2015, but evidently fell on deaf ears. Government was more focused on the willingness to provide what was considered the necessary mitigation required to facilitate the development of the power plant and less on its capability to fund or manage the expected liabilities.

Perhaps if more attention had been placed on capability, the necessary inquiries would have caused the spotlight to be focused on assumptions and parameters on which the financial viability of the plant was based. This would have led to financial modelling and sensitivity analysis not only to underpin the viability of the arrangement but would have thrown up issues and challenges that would allow the authorities to manage the situation better. Unfortunately, the level of diligence the developers and financers undertook to safeguard their interest was not replicated on the government side.

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*Photo by **Miguel Á. Padriñán** from **Pexels***

Is Nigeria Derailed?

If Nigeria is to address its dire economic realities, it must diversify and intensify production activities. Transportation is crucial to this. Development of transportation infrastructure must be prioritised, and the focus should be on moving people and goods cost-efficiently and swiftly. Rail has an edge over road because of the economies of scale.

In recent times, rail infrastructure in Nigeria has received a lot of attention, largely due to the controversial loans being taken up for its construction. Concerns about the practicality of the routes and economic viability have been expressed, these concerns are of course valid. The question foremost in the minds of most is: Why is the country taking out loans for projects that are of questionable feasibility and viability?

The justification adduced for the specific projects that are being developed is that the existing lines are being expanded to carry more passengers and more cargo, and new routes will be added to enhance the system, which would ultimately aid economic development. However, when looking at the plans and structure in place, this does not seem to be the case.

Undoubtedly, there is need for rail infrastructure, but can we really say that the form proposed serves the interest of the people or promotes economic growth? Take for instance the Abuja- Kaduna rail line, the commercial or economic rationale behind its existence is difficult to see. It has no haulage provision, which means cargo cannot be transported even assuming there were bulk goods to move this way or that. It simply conveys a fraction of the passengers that travel between Abuja and Kaduna at high operational costs that cannot be justified or recovered – even with the recent 100 percent price hike.

The existing rail infrastructure must be understood within the context of British colonial rule. In fact, to understand rail infrastructure in Nigeria in its entirety one must go back to its inception towards the tail end of the 1800s and in the early 1900s. Two major routes were built – the Western Line and the Eastern Line. These were not for the benefit of the country, but rather to facilitate the transportation of agriculture produce and mineral resources such as coal from the hinterlands to ports for ships bound for Britain, a model the British deployed in all their 'colonies' and which greatly helped the British economy develop. It is worth noting that the Jos-Kaduna spur, for example, was built solely to move tin from the mines in Jos to port in Lagos. The tin companies requested the track be laid, and the investment soon paid off. Over a hundred years later, with the affairs of the country in Nigerian hands and with a completely different take on what would make the economy thrive as opposed to what would favour those at the helm, the country surely should be building a railway system that will enhance production, expedite movement of goods and people, and have a positive impact on prices.

The Eastern Line, also known as the Port Harcourt – Maiduguri Rail Line, is another problem child. It was originally built to transport coal mined in Enugu to ports, in Port Harcourt, specifically created for the export of coal. The coal mines have long since been moribund and perhaps more pertinent is the fact that no exportation of coal will take place in the foreseeable future due to environmental concerns. It is quite difficult to see the bulk goods to be moved south from Maiduguri or Bauchi in the North East of the country. Is the project to resuscitate the Eastern Line linked to a focus on opening up the mineral reserves in Bauchi and Gombe, perhaps as part of the much talked about economic diversification? Based on the recent antecedents, it is safe to assume that emphasis has been placed on passenger traffic. The pertinent question is: How many passengers actually move regularly from Maiduguri southwards to justify the enormous investment, and more to the point, in order to recoup it? It is important to note that the estimated cost of the Port Harcourt- Maiduguri rail is US$15 billion, a non-insignificant amount for a project with questionable viability.

Rail infrastructure should not be built for its own sake or to give a semblance of development. The primary purpose of infrastructure is to aid economic growth; this is one of the key drivers in investing in transport infrastructure. Therefore, when embarking on any project, clarity on the purpose, who the infrastructure will serve, its positive impact on the economy, economic viability, etc. must be ascertained at the conceptualisation stage. It is important to make sure that these certain conditions are in place before embarking on such projects.

To achieve the above, transportation infrastructure (road networks, rail, ports, etc) must be planned and constructed to connect areas of production to markets. Achieving this will enhance trade as well as reduce waste, and there would be a marked increase in production. Imagine the economic implication of moving a staple such as tomatoes from farms in Maiduguri to markets in the south at minimal cost and optimal level of freshness due to increased speed of delivery. This simple action would invariably reduce cost as high transportation cost increase prices and drive inflation. Even as appealing as the arguments on quality and cost are, it is still important to undertake the viability studies to ascertain that the volume of tomatoes (and other commodities for that matter) that can be grown in Borno State and others along the rail corridor justifies the multi-billion-dollar investment.

Apart from improving quality and cost efficiencies, an effective working transport system also promotes competition and market development and would create a multiplier effect spurring the creation of warehousing, logistics, manufacturing business growth, etc. As such, studies and analyses should perforce focus on reducing the cost of transportation and ensuring inter connectivity of routes for viable trade and carriage of passengers and commodities, job creation and poverty reduction. Other factors that as a matter of routine be considered before embarking on such investment include pricing and recovery of investment, not to mention regulation and coordination. It is not until these conditions are fulfilled that viability of the infrastructure can be ascertained. This way, there would be certainty in meeting debt obligations without adding more to the growing debt burden Nigeria is dealing with. To date, sadly, there has been no mention in the public domain that such serious studies have been made or how best to deal with contingent liabilities that default poses.

*Photo by **Johannes Plenio** from **Pexels***

Why the Electricity Industry Fails to Serve the Nigerian Economy

Clear Disconnect between Electricity Industry and Nigerian Economy

As any economist or industrialist will tell you, electricity is a key enabler of the transformation of goods. Most transformation of goods and productive activities cannot take place without energy, and electricity is ranked as the main form of energy. The positive relationship between energy and economic growth is a given. There is ample evidence to this effect – a recent study of 10 Latin American countries over a 36-year period showed that for every 1% in energy consumption, there is 0.59% increase in GDP. What, however, is not unambiguous is what is cause and what is effect? While the preponderance of empirical evidence establishes a unidirectional run from energy consumption to economic growth, some countries exhibit the converse. Nigeria is one of those. The obvious conclusion must be: Electricity has crippled the Nigerian economy. Not because of the erratic and inadequate nature of electricity supply but the fact that the main sectors that dominate the Nigeria economy – agriculture, manufacturing and services – are rarely the focus of electricity industry supplies. Put differently: The national grid to which we dedicate large proportions of national resources to rehabilitating first and foremost serves residential customers and then only those who are close to the distribution lines.

Myriad of Problems

This is a problem that policymakers have consistently eschewed. Even if we manage to increase power generation and distribution to 6,000, 7,000 or even 10,000MW, the effect on the economy can be expected to be negligible. The main reason for this is not complicated: Usually, industrial and commercial consumption form the hub of any electricity grid. In Nigeria, however, the grid has metamorphosed into a network serving primarily domestic consumption. This transformation was largely brought about by poor electricity services as factories and industries have suffered under the weight of irregular power supplies, very high prices relative to cost of service and as a result either closed down or sought alternative, reliable supply sources, usually investing significantly in own-generation. , However, it would be misleading to focus on poor power supply as the sole culprit. There are other issues and challenges ranging from the lack of other critical infrastructure and transportation, the absence of a supporting national industrial development plan, inconducive macroeconomic conditions, lack of economic goals etc., all of which are factors relevant to explaining the parlous state of the Nigeria economy.

That said, there are most definitely operational and systemic issues that come within the ambit of the electricity supply sector and have hobbled its ability to help drive economic growth. These include a lack of knowledge of the country’s demand and power requirements

(believe it or not, the operations and development of the sector are based on guesstimates and not on any rigorous demand study), high technical and commercial losses, the misalignment of constituent sectors, the narrow choice of generation technologies, etc. Moreover, we should not forget the regulatory issues such as the flawed tariff methodology that consistently causes prices to diverge from an efficient cost-of-service delivery, and wrong-headed policy or practice of gas industry placing the power industry further down the pecking order. Or the simple fact that generating companies pay for their gas and purchases of equipment in dollars but are paid in Naira for electricity supplied and consumed.

From the above, it follows that the poor electricity supply has blighted the socio-economic landscape. Yet, if fundamental changes are not made to redirect the role electricity should play in promoting economic growth, job creation and poverty alleviation it looks set to continue to wreak havoc. At present, the Nigerian electricity supply industry (NESI) functions like a disguised version of the old subsidy on petrol at the pump. The government is busy subsidizing residential electricity users rather than focusing on the economy. For manufacturing and agriculture, NESI has long since become our Nessie (the elusive monster of Loch Ness) – given that it has been a long time since they last experienced adequate and reliable electricity. Yet the government ploughs over half a billion dollars just into covering NBET's bills each year and is about to use a similar amount for the Presidential Power Initiative.

We Need to Create Prosperity and Jobs Urgently to Address Socioeconomic Problems

This being where we are today, we should endeavour to make sure this is not where we remain. Central to this is the need for inclusive economic growth. Why inclusive? The growth the economy posted between 2000 and 2015 did not create jobs, and that is why despite an increase in national GDP, the incidence of poverty increased substantially. Indeed, with the recessions since then, Nigeria has emerged as the "Capital of Poverty" in the world, and unemployment has risen at an alarming rate especially among the youth.

What is overly obvious is that a change of approach in addressing the problem is required. As things stand without focusing on how to generate prosperity and employment to improve the welfare of Nigerians, more people will fall into poverty with all the attendant dire social consequences. The latest releases on unemployment and inflation – and they shockingly stand at 27.1 percent and 12.82 percent, respectively – are sad testimonies to this reality. According to the latest NBS unemployment report, one in every two Nigerians in the country's labour force is either unemployed or underemployed. At the same time, updated

data from the World Economic Forum shows that Nigerians spend more on food than any other country in the world. Food takes up an astonishing 58.9 percent of Nigerians' income. Talk about a disconnect. These statistics are grim as inflation and weak economy continue to erode household income.

Creating productivity and jobs will require improving productivity and expanding the economy's productive base. Electricity has a crucial role to play here in the growth of the key sectors that will drive the growth, namely agriculture, manufacturing, and services. For electricity to perform this function a vastly different approach to generation and supply would be required. The improvement in productivity and expansion of agriculture require irrigation, mechanization and storage facilities – and these activities require energy and not all of it electricity and where electricity is most efficient form of energy, it need not be grid-supplied. Modern technologies that can be harnessed abound – at costs that are comparable to grid electricity. Manufacturing requires not only energy but energy that is provided efficiently and at reasonable costs. Only then will our industries be able to compete with imports from China etc. and will we be able to stop the drain of foreign currency out of the Treasury. It is important to state that while adequate and reliable power is critical and needs to be planned carefully, it must be complemented by an efficient transportation infrastructure, access to capital, an upskilled productive labour force etc.

Addressing the problem must be from a holistic perspective: Clear outputs and outcome-based indices must comprise the goals and targets in a comprehensive economic plan. Resources must be allocated to address specific problems, with a clear monitoring and evaluation framework to ensure there is enhanced performance. Nigeria must once and for all stop spending scant government revenues in the hundreds of billions of Naira in a way that does not address the fundamental problems of the industry and, moreover, further deprives other sectors such as education and health of much needed funds. Throwing money at the electricity industry without demanding a commensurate improvement in services that is transparently linked to addressing unemployment and income generation is in essence throwing money down the drain. Worse still, it simply delays the underlying socio-economic problems for a later day.

Image by Tom Swinnen from Pexels

AKK: The Project Pipeline or The Pipeline Project?

A vital aspect of economic success in any developing country is the development of its infrastructure as this spurs industrial growth and socio-economic development. This has been FG's justification for the Ajaokuta-Kaduna-Kano (AKK) gas pipeline project it embarked upon earlier in the year and for which a US$2.51 billion loan was taken up. The project is expected to be completed by mid-2022. The project financing structure is 15% equity, contributed by NNPC, and 85% debt, provided by China's Sinosure at 3.7% (repayable over 12 years, with a moratorium of 3 years) – meaning the total repayment is US$ 3.1537 billion.

Although it is ostensibly NNPC repaying the debt (it cannot meet its cash-call obligations to the IOCs most of the time), the Ministry of Finance has issued a sovereign guarantee for it. The most compelling of reasons given for the construction of this gas pipeline is that it will drive economic growth by providing gas for generation of electricity for towns and industries in its general vicinity, bring to life collapsed and moribund industries which would in turn have a multiplier effect on commercial activity in the area. This certainly seems appealing as it is meant to be 614km long and would cut across at least 3 major states – Kogi, Kano and Kaduna. How exactly does it intend to deliver on all it has promised?

Is the AKK pipeline project commercially viable and will it pay for itself? Claims have been made that the project will pay for itself within a 10-year period, long before the 15-year repayment term as contained in the contract. The reason for this optimism is that if implemented properly, gas pipelines are very lucrative, there are the tariffs to be paid by those who use the pipeline to transport gas and on the other hand the money to be earned from the gas off-takers. Clearly, the very premise on which its viability rests is dependent, however, on so many external factors and conditions.

Firstly, the gas off takers would need to be in place. Talks about power plants meant to be built by NNPC that would provide 3,600MW of power to the area are part of the equation, so also are the methanol and fertilizer factories, the textile factories and so on.

The NNPC press release claimed that the pipeline would "*support the addition of 3,600MW of power to the national grid and revitalize textile industries which alone boast of over 3 million jobs in parts of the country*." All very laudable. The release added that the AKK project would support "*the development of petrochemicals, fertilizer, methanol and other gas-based industries thereby generating employment opportunities and facilitating balanced economic growth*."

However, without these in place this project would quite simply be another white elephant

project embarked upon by government. And if these conditions are not in place the country would be making a loss at the outset and that loss needs to be factored into the sum total of the loan as the government is paying the mortgage.

Consider this: Power plants cannot be designed and built anywhere near that fast and there has not been any ground-breaking for NNPC's own claimed power plant. The average construction time for comparable projects worldwide is 54 months, factoring all the red tape, completion of tenders and so on we can realistically round its delivery up to 5 years.

Considering that the project would be complete in 2 years the pipeline would therefore make a loss for at least the first 3 years of its existence as the operators will not be able to sell any major gas volume. We need to know: does FG have to reimburse them for their losses? If so, then that figure needs to be added to the total. Another point to consider is whether NNPC can find customers for its 3,600 MW in the vicinity. Presumably, if it does not, but is still injecting the power into the grid, then NBET will have to reimburse NNPC and will end up in a far worse condition than it is in presently. Would it not be better to take the money and build hydropower plants and other renewables? After all, the north is well endowed with hydro resources that can be harnessed for power generation, irrigation etc. Building more on existing architecture does not take cognisance of the limitations of the grid that undermine its viability. The economics on which the project is based should be made public, and if one does not exist, it is not too late to work on one. This way, we know exactly what we are dealing with: an eagle or albatross.

What started out as a seemingly straightforward loan of US$2.51 billion may amount to a much greater figure when all is said and done. Sadly, it may very well end up being a millstone around the country's neck. If the raison d'etre for infrastructure of any kind is economic growth, and the pathway to growth is not clearly defined from the outset then it makes no sense to further embroil the country in debt. This again is discussion for another day.

The Real Size of Loans

Interest on debt grows without rain: or so the old chestnut goes. This has certainly been the case for Nigeria over time and it seems no lessons have been learnt for all the angst and anguish debt and debt servicing have caused in the past.

Nigeria has been doing a lot of borrowing in recent times and between 2015 and 2020, Nigeria's debt profile rose from US$9.7 billion to US$27 billion. Interestingly, these figures only show the amounts taken up as debt, the principal, and do not depict the full picture which should include the amount that the country has to pay as interest on loans.

Interest on loans is most times overlooked and not given the proper consideration it ought to receive as discussions on loans by the government and indeed the entire country is always at net price. This is less than ideal for a country like Nigeria which is neck-deep in debt. Take for instance, the P&ID case which was not properly handled and ended up costing the country an additional US$3 billion, in addition to the initial amount of US$6.6 billion, on interests accrued.

Borrowing to fund infrastructure projects is not itself wrong but it is important for the government to study the feasibility of loans taken up, and consider the interest that will be owed as an important aspect of the transaction, looking at the entire picture in a holistic manner and understanding the real implications of what it is getting into.

Earlier in the year, Nigeria entered into an agreement with Chinese lenders to fund a big gas pipeline project estimated to cost US$2.5 billion known as the AKK natural gas pipeline. This pipeline when complete would be a full 614km long and would pass through Ajaokuta-Kaduna- Kano hence the name AKK. The Ministry of Finance stated that the loan required for the project was US$2.51 billion, at a 3.75% interest rate over a period of 12years; in other words, the total sum the country will need to pay is actually approximately US$3.15billion. And that is the figure which should be talked about in the public space, because that is what the project will cost the country directly.

A similar approach should be taken to all project loans, so the country knows exactly where it stands in the real scheme of things. Yet strangely it is not. Consider the current loan in contention in the public space namely the US$500 million from China's Exim bank for railway construction and other transport-related infrastructure. There is public outrage because of a clause in the agreement waiving immunity as a sovereign state. The Minister of Transport has tried to downplay the enormity of the implication of defaulting asserting that FG has the capacity to repay the loan within the 20-year timeframe as the incredibly low interest rate of 2.8 percent is favourable to Nigeria.

However, if one does the maths, at the 2.8% interest rate, repayment of the loan would mean payment of a total of US$659.79 million, factoring in annuity of US$32.99 million and interest

of US$159.79 million. This might not be the most pragmatic of decisions as there is no guarantee that the railway would recoup even its operating costs (ticket prices have just been hiked by 100%, which can be read as a sign of the difficulties) and government would have to subsidize the project from oil revenues, further diminishing the treasury.

That is a discussion for another day- the possibility of the rail infrastructure paying for itself. Whilst the public worries about the sovereign clause it would do well to have the entire picture, as interest always mounts up over time and if ignored will at some point in the future invariably take the nation by surprise.

Corruption – Same As It Ever Was?

Nigeria is in the news again. Not for anything remotely positive or suggestive of a nation going through rebirth but for corruption and financial crimes. When going through news regarding Nigeria and Nigerians on any medium, one is bombarded with reports on cybercrime, misappropriation, and looting of public funds by the very individuals who are meant to safeguard them. As the nation was coming to terms with the shocking allegations of graft leveled against the head of the Economic and Financial Crimes Commission (EFCC), it was only for its senses to be assaulted yet again by mind-boggling revelations of corruption made by the erstwhile head of the Niger Delta Development Commission. The supervising minister of the commission, perhaps having been implicated in the rapacious looting of public funds in the agency under his charge or wanting to distract attention or show how they have democratised looting, lifted the lid with the claim that beneficiaries of the wanton looting of NDDC were mainly NASS members. Without a doubt, the crimes get more brazen within each news cycle, which leads one to invariably conclude that corruption and financial crimes are much more deeply entrenched in the public place than one might suspect.

Take the ongoing scandal of the Acting Chairman of EFFC who was hauled before a committee set up to investigate allegations of corrupt practices, detained and suspended for alleged looting of public funds – recovered as looted funds in the first instance. This allegation shocked the public due to the sheer audacity and irreverence of the head of the agency that is meant to fight corruption, secure, and return looted funds to the treasury. Much of this outrage stems from the fact that the current administration came into office with a hard stance on corruption. Indeed, the fight against corruption was an integral part of its campaign to address the ills plaguing the country including stemming insecurity and reviving the economy. There was resonance with the electorate as factors attributable to corruption

had combined to slow down economic activities and retard gains made in socio-economic development.

As things stand, Nigeria has lost more than its fair share to looting, Chatham House estimates that US$582 billion has been stolen from Nigeria in the decades since its independence in 1960, which translates into approximately 19 times the current national budget. This is not taking funds lost through other illicit means into consideration. Imagine what Nigeria would have been in terms of development if those resources were at its disposal to address mammoth problems in education, health, infrastructure provision and so on. Due to decades of theft alongside mismanagement and other challenges, the Nigerian economy is in very bad shape, the country should not have to continue contending with theft and crime that make it difficult to attract foreign investment, to create jobs and prosperity, and get millions of people out of poverty.

Corruption and its attendant consequences are incredibly corrosive, the impact on the polity, on social mores, on socio-economic development are pernicious and far reaching, likewise its impact on international relations, international trade and commerce, and diplomacy.

Given the economic challenges they are having to contend with, Nigerians must at this juncture pause and ask difficult questions: questions that may throw up responses that are uncomfortable and unpalatable. Why has tackling this pervasive phenomenon, which every administration has sought to achieve, not had any impact? If anything, it seems to be getting worse. Does this mean the country is going about it the wrong way? What is the right way? Why is Nigeria not as effective and successful in tackling this crime as its peer countries? Or is Nigeria as 'fantastically corrupt' as suggested by a former UK prime minister?

For Nigeria to make progress, it must delve into the problems and understand the nature, issues and challenges that need to be tackled beyond chasing a few people and recovering looted funds only for the looted funds to be re-looted again, a paradox of unparalleled proportions. A recent report by PriceWaterHouseCoopers (2017) estimates that corruption could cost the Nigerian economy 37% of its GDP by 2030. Urgent reform of the anti-corruption landscape is therefore imperative. Nigeria has a multiplicity of agencies (Nigeria Financial Intelligence Agency (NFIA), Independent Corrupt Practices Commission (ICPC), Code of Conduct Bureau (CCB) and the more widely known EFCC), legislation, regulations and so on and so forth to suggest unambiguous resolve to fighting corruption. Unlike the other anti-corruption agencies, the EFCC possesses the most extensive collaborative mandate: firstly, the composition of the EFCC Board is wider than the others and comprises representatives of

about 16 law enforcement agencies with a strategic mandate to combat economic and financial crimes. Secondly, unlike others – with the exception of the ICPC – it is understood that EFCC is the only agency that is statutorily mandated to liaise with others, hence more bureaucratic overlap requiring competence and integrity provide more room for the likely internal corruption going on now. Also worthy of note is the jurisdictional overlap between the powers of the anti-corruption agencies particularly between EFCC, the Special Fraud Unit and the Financial Malpractice Unit of the Nigeria Police Force (NPF), and overlapping jurisdiction amongst the EFCC, NPF, ICPC and CCB in respect of public-sector corrupt crimes. This overlap of functions cause abuse of legal process and lack of direction within the agencies.

Much has been made about political interference being the bane of the EFCC. It stands to reason that since politicians constitute the bulk of people prosecuted, they will try and unduly influence the office of the Attorney General which oversees the EFCC and other anti-corruption agencies. After all, the Minister for Justice who is appointed by the President is also the head of public prosecution. It would possibly make a lot of sense for the country to therefore carve the Office of the Attorney General of the Federation, and its attendant responsibilities for public prosecution, from the Ministry of Justice. A standalone office, similar to the Office of the Auditor General, would be independent, minimising direct political interference. Otherwise the anti-corruption fight looks set to remain a pipe dream.

Another major challenge is that there is no protocol for efficient administration of confiscated assets. This is strange as it can be easily rectified with the passage of the 'Proceeds of Crime' bill into law.

Other capacity deficiencies have been identified as obstacles to the efficiency of the EFCC, such as lack of technical capacity of staff in terms of training and expertise that enables crime detection and the conduct of credible and forensic investigations; and operational incapacity which is supposedly due to insufficient funding. Some of these shortcomings have apparently made it difficult for international counterparts to interact with the EFCC.

Ultimately, these challenges give rise to a rather muddled and weak system which clearly does not work. The question this begs is how can Nigeria get rid of corruption? A close look at peer countries show that corruption is indeed not peculiar to Nigeria as so many other countries battle with it, albeit in varying and higher degrees of success. A 2018 World Bank study showed that in countries such as Sierra Leone and Paraguay the poor pay as much as 13 percent and 12.6 percent respectively of their income in bribes.

Developing countries are not entirely left to their devices in the fight against corruption. The World Bank acknowledged that corruption is a major threat in the realization of sustainable development goals and it routinely gives support to developing countries combating corruption, it assists member developing countries via e-procurement, forensic and biometric support. In 2015, Guinea, for the first time since the country's independence, documented all employed civil servants with the assistance of the World Bank by implementing a biometric identification system to conduct a census of civil servants to eliminate fictitious and fraudulent positions and potentially save more than US$1.7 million through the discontinuation of salary payments. This has by no means entirely solved the corruption problem, but it is certainly a step in the right direction. Perhaps it's time for Nigeria to start thinking in terms of simple solutions such as how the Bank Verification Number, which is already in place, could be given relevance alongside other solutions. Also to be utilized is the National Identification Number scheme which essentially aims to capture every Nigerian on a master database, because how does one embark on such a task if people are not documented and as such cannot be easily traced when solving these crimes.

For effective tackling of the corruption problem, a concerted effort led by a combination of the government, the private sector, civil society organizations and the very populace is imperative. Often, corruption to the average Nigerian is understood in terms of theft or misappropriation of public funds by those who are at the helm of affairs. However, corruption comes in different forms and if this pervasive phenomenon is to be tackled, these forms should be understood and distinguished. As stated earlier, corruption seems deeply entrenched in the society, looking at more common-place and as such seemingly acceptable forms of corruption such as the police officer who expects you to pay for your right of way, establishments producing and selling counterfeit drugs, government agencies who rather than practice meritocracy reserve top paying jobs for children of the elite, it is clear that stamping out corruption is not solely an issue of 'political will'. Rather, it requires all stakeholders working in synergy because this problem quite simply exacerbates the gaping inequalities amongst the populace which lead to resentment and distrust of authority, which in turn lead to violence, instability and a general breakdown of social order. Maintaining the status quo is not an option to be considered as the situation is clearly degenerating, urgent reform is imperative. The constitution and all legislation setting up these agencies must be amended to address modes of appointment, structural issues within the agencies, institutional overlaps, accountability, and so on.

Moreover, given that financial crimes have evolved, it is key that we adopt up-to-date technologies to capture, prevent, detect, and deter corrupt practices. It is an indictment on

the country that most of the high-profile fraud cases that have been brought to light have been conducted by international investigative agencies. From the much celebrated case of James Ibori, a one time governor, to the case of a former Minister of Petroleum Resources, even the more recent case of the fraudster apprehended by the Dubai authorities – each instance involved the use of high-tech tracking and forensic tools.

To effectively and sustainably fight corruption the country needs to focus on building strong institutions with proper structures in place, cultivating public trust and credible leadership. Nigeria can certainly turn the corner on this endemic phenomenon, but it must start by understanding it in its entirety.

Image by Gabriel Miguel Bero from Pixabay

Rebuilding Health and Education in Africa: Lessons from Spanish Flu and COVID-19

As the tempest of the pandemic rages, leaving carnage in its wake with healthcare sectors and national economies being the worst hit, there is no disputing that the world will never be the same again, a sentiment, echoed by many observers during these unsettling times. The pandemic and its scourge on humanity has made certain of that.

Right across the globe, there is a general all-pervasive air of uncertainty. Undoubtedly, everyone from all walks of life has been directly or indirectly affected by the COVID-19 pandemic and, as is the case with every devastating crisis, the already disconcerting disparity between the middle class and economically disadvantaged is set to be more glaring as the latter (with less access to resources, infrastructure and social services) grapple to cope with the situation. This crisis has revealed the inadequacies in African social infrastructure. Going forward, if we are to be prudent with a view to preparing for the next pandemic and make adequate provisions – history has shown us that there will most certainly be others – then it is incumbent on us to address these systemic issues.

With every major global crisis, there are shifts in received wisdoms and paradigms that had hitherto reigned supreme, that result in policy changes for the overall good of society. We have seen this to be the case after both world wars and, more pertinently, after the 1918 Spanish flu pandemic. Likewise, with the toll this current pandemic is taking on the global population and economy, one would not be wrong to equate it with other world-altering events.

Devastating as the Spanish flu was – the global death toll is estimated to have been between 50 million and 100 million – it acted as the much-needed catalyst for the Global North to revolutionize their health systems and change preconceived notions about healthcare. Being unprepared and susceptible to dire consequences of future pandemics was not something they wished to contend with. This determination led to the emergence of centralised health systems with the concept of universal access to healthcare elevated in public policy considerations.

A century on, centralised and extensive health coverage is the norm in the Global North, with governments spending significant portions of their budgets on free healthcare for all citizens. Russia was the first country to put a centralised public healthcare system in place after the Spanish flu, closely followed by countries in Western Europe. Eventually the idea spread across the developed world and came to be adopted as the standard. The US was the exception as it opted for an insurance-based corporate sponsored health scheme.

Although the Spanish flu also affected Africa on a significant scale infecting up to 80 percent of the population with a 15 percent death toll, a corresponding health revolution was muted on the continent afterwards. Possibly this was because the nation states were in the hands of colonialists and their priorities in terms of administration were different compared to what we would expect if the wellbeing of the citizen was at the centre of public policy. That notwithstanding, this pandemic has revealed weaknesses not only in our health systems and economies but has likewise highlighted the gross inadequacies of our education sectors. On one level, these inadequacies have combined to dampen the efficacy of measures adopted to combat the pandemic, and on another, they have undermined our abilities to join the race to develop a vaccine or therapeutics to contain the virus as our global counterparts are doing. Sadly, this has proved to be a tall order as universities and research centres on the continent are inadequately resourced. This fact is borne out by the inability of African countries to undertake widespread testing, as most are struggling with expertise and equipment. Even the production of reagents necessary for testing for the presence of the novel coronavirus, have proved beyond us. To put it bluntly: We have university teaching hospitals, but we do not have enough labs.

Looking beyond our dilapidated health systems, the staggering levels of illiteracy across the continent are alarming. The poor who are, more often than not, illiterate will presumably be hardest hit by the pandemic because of the combination of a lack of comprehension of the disease, the inability to safely isolate due to their deplorable living conditions, and a lack of access to information and basic utilities such as water.

It is perhaps because of this that a good number of the population believe the pandemic to be untrue and an elaborately orchestrated lie to cause hardship on them, or see it as a test of their faith. As such they are more susceptible to make decisions or engage in activities that will exacerbate their exposure and vulnerability to the novel coronavirus. From popular media, we have seen vulnerable people taken advantage of by their faith leaders who peddle miracle cures for COVID-19, people trying on cloth masks in open markets- completely defeating their intended purpose, disregard for social distancing rules with crowds pushing and shoving to get into public buildings or access ATMs, rural and urban dwellers alike overcome by mirth at the thought of "a common cold" being a killer, and so on. Equally as disturbing perhaps is the demographic of the supposedly enlightened who espouse disturbing views and rehash far-fetched conspiracy theories relating to the pandemic. It would seem that our education, where present, is devoid of critical reasoning.

We can perhaps be forgiven for not having developed our health systems when the rest of the world did. In our current situation however, we can no longer claim ignorance of the sheer importance of having proper education systems alongside other social infrastructure in place. This pandemic should serve as a clarion call to improve on both healthcare and education infrastructure for posterity.

Therefore, as we plan for life after COVID-19, we must take the whole gamut of social infrastructure into consideration as central to our development and wellbeing in the future is having robust systems in place. Critical as they are, it is our contention that preparedness is more than just about adequate health systems. Increasing awareness amongst the populace of the impacts of pathogens, efficacies of measures to combat epidemics or pandemics, mean that education must be given necessary condition. Preparedness means an educated populace, only with education would our society be able to lift itself out of poverty and its attendant complexities and hardships, and be able to provide necessary healthcare and public health measures that are currently lacking.

While the world is focused on healthcare and the debate concentrates on life and sustaining livelihoods as different countries are emerging from their lock-downs, Africa must focus on building both its health and education sectors. Only such an approach will result in an enhanced state of wellness, improved standards of living, improved employment opportunities and economic independence on a sustainable basis.

Image by Pete Linforth from Pixabay

There's a healthy mind in a healthy body. Is the Nigerian body politic still healthy?

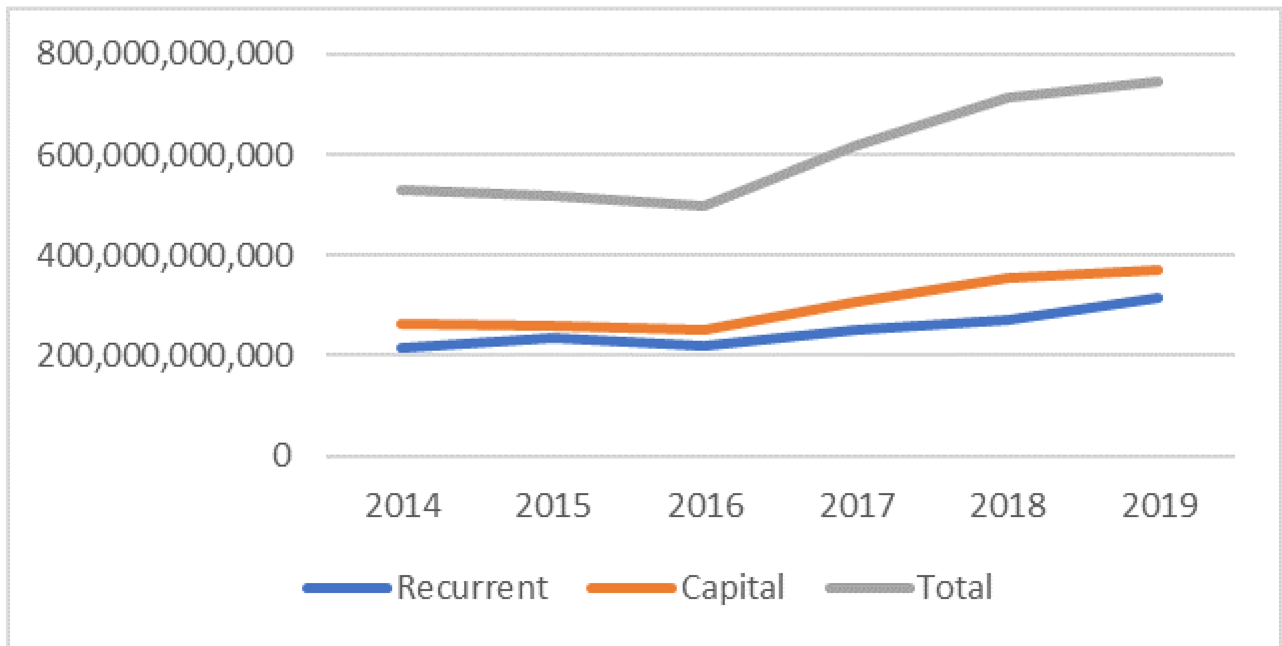
In the midst of the COVID-19 pandemic, the Federal Government has just announced that it is cutting the primary healthcare budget by 42% to ₦ 25.5 billion. As published by the International Centre for Investigative Reporting ICIR on Tuesday 2 June, "according to the revised document seen by Dataphyte, the Federal Ministry of Health had a downward cut of ₦15.17 billion." By contrast capital expenses not touched include ₦6 billion for OSSAP: Special Projects and ₦10billion for Office of the Senior Special Adviser to the President (OSSA)." The news has predictably been greeted by public outcry.

Research undertaken by TAPI shows that the alarm bells should have started ringing much earlier as the cut is just the most recent example of how national healthcare has been consistently deprived of resources.

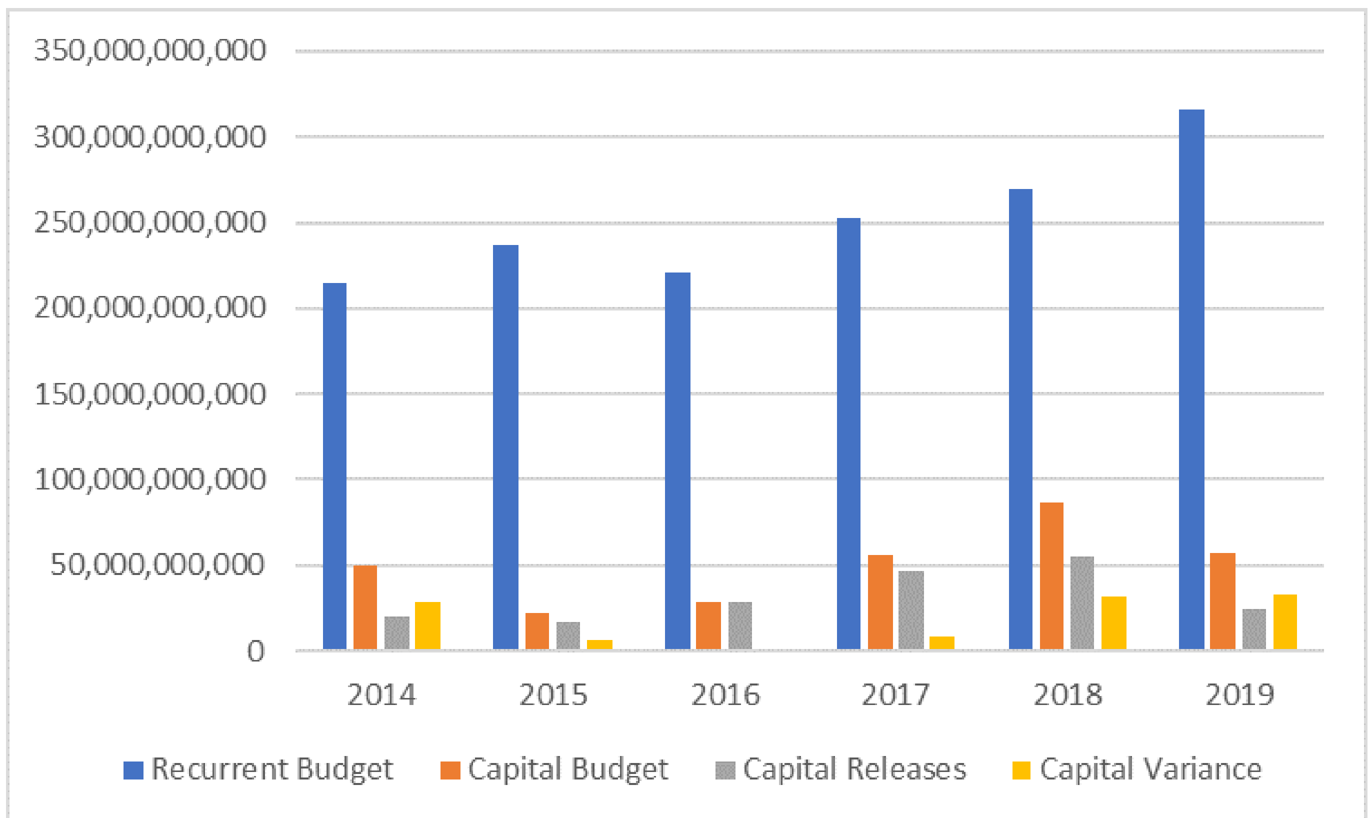
Nigeria committed to Sustainable Development Goal 3 ostensibly to "ensure healthy lives and promote wellbeing for all at all ages" by 2030. Yet a look at the financing of the healthcare sector suggests that the commitment is vacuous and swiftly becoming a pipe dream. Back in 2001, the Federal Government in concert with other major African nations signed the famousAbuja Pledge to spend 15 percent of each annual budget on healthcare. Fast forward to today: Were the primary healthcare budget just announced to constitute all government healthcare spending, then it would mean the total Federal budget was only ₦170 billion! That is how far short of the mark spending has fallen.

Facts are sometimes painful to accept, and one such fact is: The Federal Government has never since 2001 met its pledge. Paper, as the saying goes, is patient, and once the ink had dried on the pledge it evidently simply became another piece of paper in a drawer. A quick glance at other international benchmarks for the public healthcare financing such as ratios of expenditure to GDP or staffing levels, which are crucial for provision of primary healthcare, shows that the Nigerian picture is dire.

The first set of statistics evaluating Nigerian government healthcare expenditure is the absolute figures for federal budget allocations, whereby we distinguish between recurrent costs and capital costs. The Ministry of Health budgets over the last six years are captured in the graph below



In absolute terms the budgeted figures thus increased, whereby the rise has not been nearly as significant for capital spending as it has been in recurrent expenditure. However, the figures gloss over reality. Actual budget releases for capital expenditure were nowhere near as high. (For simplicity's sake, we have excluded allocations to National Primary Health Care Development Agency and National Health Insurance Scheme because they together formed a negligible ratio of the whole of less than ten percent.)



If we assume a 100% performance for recurrent expenditures as actual recurrent releases always trail the budget, and focus on the 2014-2019 time series, we see that only in 2016 was the budget volume released anything near the figure actually budgeted.

If we aggregate the numbers, a total ₦191.65 billion was released for capital expenditure over the six years, or on average ₦31.94 billion p.a. for an average population of some 175 million (starting at 161.5 million in 2014 and rising to 190 million in 2019). Put differently, annual per capita capital expenditure for the period was a mere ₦ 182.49.

When population growth and inflation are factored in, a better of idea of the *real* budget figure emerge. The National Bureau of Statistics (NBS) database gives average year-on-year inflation rates for the years 2014 to 2019 inclusive, as 8.0%, 9.0%, 15.62%, 16.55%, 12.15% and11.39%, respectively. The difference between the Ministry of Health budgets for 2014 and 2019 is therefore 40.9% in nominal terms. Discounting for average inflation of 11.39% in 2019 implies that government expenditure for health over the period dropped by 0.4% in real terms. Let us further assume population growth of 3% per annum., population growth over the 2014-2019 period of 15.9%.Health expenditure per capita in real terms thus amounted to ₦ 1,407, down from ₦ 1,638 in 2014. In other words, government health expenditure per capita fell between 2014 and 2019 by 14.1%! Moreover, this fall does not even factor in the significant change in the Naira-Dollar exchange rate during the same period… (it fell from ₦ 164 to ₦ 305). Since many of the drugs and medical equipment have to be procured abroad, the value of the health expenditure dropped 47%,

To shed some light on the benchmarks and the pledges, attention is turned to FGN health expenditure in relation to GDP and FGN Revenue over the same period. The story that emerges is bleak: The last five years have not seen growth in healthcare spending, they have seen a decrease. Meaning that the system lags ever further behind the targets.

	FGN Revenue	GDP	Health / FGN Rev	Health / GDP
2014	3,731.00	48,066.29	7.6%	0.6%
2015	3,452.35	95,843.16	7.9%	0.3%
2016	3,855.74	102,921.72	7.0%	0.3%
2017	5,084.40	107,958.33	6.6%	0.3%

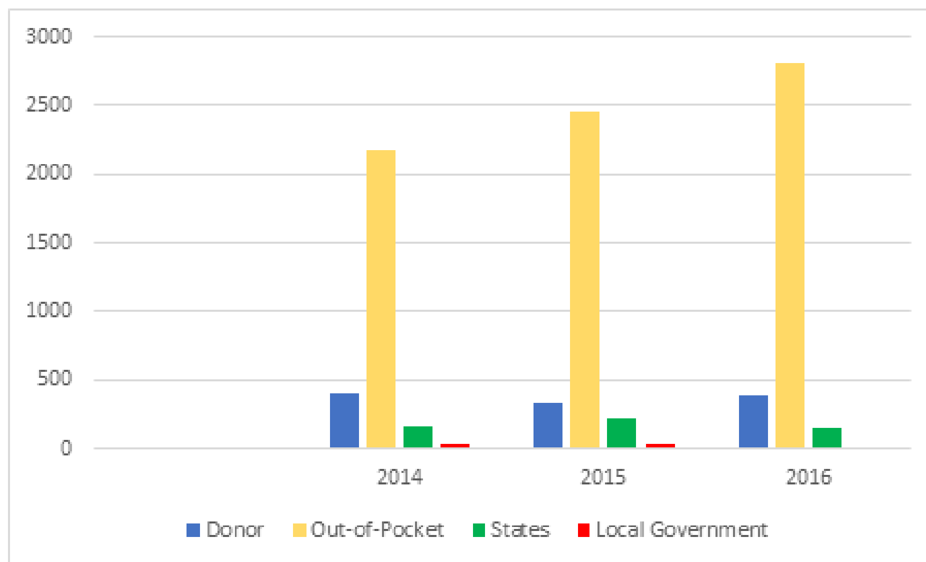
2018	7,165.87	113,088.88	6.2%	0.4%
2019	6,967.00	139,811.509	6.7%	0.3%

The figures fall far short of the benchmarks discussed above of the Abuja Pledge of 15% or the 4-5% of GDP recommended by WHO to achieve universal health coverage.

Turning attention from financing to staffing levels does not yield grounds for optimism. The WHO reports and other peer-reviewed studies reveal that the growth rate in staff per 10,000 members of the populace has flatlined since 2004. In absolute terms, the number of doctors, midwives or nurses in Nigeria are grossly inadequate to provide primary healthcare at the level WHO recommends. For this to be achieved, staffing levels must grow at an annual growth of 7.5%.

Another expression of the fact that government healthcare expenditure has actually dropped in the 2015-2019 period with dire consequences is in regards to infant, under-5 and maternal mortality compared to many of its peers. This is one of the areas investigated in the TAPI research – Nigeria is compared to Ethiopia, Indonesia, Kenya and South Africa. When attention is turned to death rates attributed to malaria and tuberculosis, the picture that emerges is the same. With government's avowed determination to create jobs, it stands to reason that addressing incidence of malaria estimated at 57 million cases of malaria per annum would positively impact productivity.

Equally worrying, healthcare in Nigeria today is mainly something accessible only to those who can privately afford it as an out-of-pocket (OOP) expense. A glance at the figures for the period covered in this study from 2014-2016 reveals the following:



OOP expenditure compared to combined spending by the states and local government authorities (S&LGAs) for 2015 show that total S&LGA expenditure came to a mere 10.43% of OOP. In 2016, the comparable figure was only 6.51%, and the relationship was clearly skewed even further toward OOP healthcare spending. If we include the Ministry of Health budget alongside the S&LGA outlays, then total public-sector expenditure for 2015 and 2016 still mounted to only 21.03% and 15.4% of the respective OOP expenses.

This shows that the Nigerian populace is directly paying for healthcare. Evidence suggests this has been the case since 2006. Since then, out-of-pocket spending has increased by almost 20% over the period reviewed, government spending fell by close to 7.5%. For a large section of the population such payments amount to “catastrophic health spending”, meaning they constitute more than 10% of the household’s possible spending. The household then faces a catastrophic decision: Choose between healthcare or other necessities in life.

Note also thatless than 5% of those eligible are signed up to the NHIS. TAPI research shows that many rural communities are starved of primary healthcare facilities, as the health centres are located in main towns in the relevant ward or LGA. The situation is compounded by the fact that as the World Bank has outlined, the cash primary healthcare centres have at their disposal tends to stem from “user fees” (even for services that the 2014 National Health Act says should be free).

As one of Nigeria’s main lenders the World Bank offers a sobering assessment of Federal Government health financing:

“Low government health spending over the last two decades has limited the expansion of

highly cost-effective interventions, stunting health outcomes and exposing large shares of the population to catastrophic health expenditures.Nigeria spends less on health than nearly every country in the world. … Funding for primary health care is especially affected as the bulk of spending occurs at the central level and is focused on tertiary and secondary hospitals.

Coverage of promotive, preventive, and primary health care interventions is low with the universal health service coverage index – defined as the average coverage of tracer interventions for essential universal health coverage – at just 39 percent.”

Primary health centres receive little to no operating budget.Primary health centres are meant to receive cash and in-kind support through the various fund flow arrangements … However, the 2016 National Health Facility Survey (NHFS) confirmed that on average providers received salaries with a two-to-three-month delay and only a third of facilities received any form of cash grants to meet their operational costs.” (World Bank 2018)

And now the Federal Government of Nigeria has further cut the primary healthcare budget. When what it should be doing is massively increasing it if it is to provide primary healthcare to all the country’s citizens as per SDG 3. Before the cuts were announced, Nigeria was already spending well over three times its healthcare expenditure on debt servicing. We can therefore only assume a general lack of political will to achieve SDG 3 is the cause of the malaise.

The conclusion can only be that government has not dared prioritize healthcare over other sectors and that unless it does the situation will not change and funding will continue to fall. Alternatively, government must look for alternative sources of financing. To say that there is already a state of emergency in the Nigerian healthcare sector as regards financing is to understate the magnitude of the problem. Capital and operating expenditures need to be radically increased (infrastructure, drugs and medicines, human resources). The original commitment to 15% of budget as stated in the Abuja Pledge would be a minimum starting point in light of the number of years of ‘negative’ investment in healthcare when compared to population growth. To paraphrase the old chestnut: If there were political will then there would be a way.

Image by Arek Socha from Pixabay

Losses and Poor Electricity Supply

The old adage "Money makes the world go around" is apt in describing one of the fundamental problems of the Nigerian electricity industry. The problem revolves around inadequate revenues, which undermines performance and viability. In a nutshell, the industry, as presently operated and regulated, is incapable of generating enough money to pay for: (a) gas used by the generating companies to produce electricity, (b) transmission facilities used in transporting the electricity from the power stations to distribution companies' networks, and (c) distribution assets used in ultimately getting the electricity generated and transported to the final end users, namely, households and factories. The ensuing inadequacies and inefficiencies wreak havoc on gas supply, transmission, distribution and marketing businesses that are interlinked in the production and supply of electricity.

So what causes revenue shortage in the industry?

The production chain alluded to above implicitly traces costs of electricity services to respective sectors involved in the production and supply process. The cash paid by end users for the electricity they consumed is the only source of cash flow for the companies involved along the electricity industry supply chain. Any shortage in that cash flow will invariably reduce the cash available to some or all of the companies. In such a case, the implication is that they will not, in the short-term, be able to cover their operating expenditures, and in the long-term, capital expenditures for expansion and asset replacement will be negatively impacted. In short, as a result of energy losses along the supply chain, revenue collected is inadequate to meet the expenses incurred in the generation and onward supply of electricity. The expenses can be categorised as either energy or capacity costs. The former refers to direct cost of generating electricity and the latter to the gamut of equipment costs involved in the generation and supply of electricity to end users.

On the output side, what is observed in Nigeria is a significant discrepancy between electricity generation and consumption. This discrepancy, termed system losses, is above 25 percent. What NERC refers to as aggregate technical, commercial and collection (ATC&C) losses, is comprised of line losses across transmission and distribution networks, and commercial and collection losses, with respect to the energy delivered to the transmission network. When the latter set of losses are added to the network losses, the aggregate losses exceeds 55 percent – this compares unfavourably with global best practice of approximately 7 percent. ATC&C losses, according to figures published by NERC, range between 32 and 71 percent.

First, let us put the problems associated with losses in proper context. Total system losses at present stand at around 55 percent of electricity injected into the transmission network. What this implies is that on any given day, if the generating companies inject 3000MW into the transmission network, it is likely that revenues collected will only cover 1350MW of the total generation (compared to 2790MW if the system were operated in line with best practice). It follows that either the service providers bear the losses and accept non-payment of 1650MW or the incidence or burden of the losses is transferred to the end users by way of tariff increases. From a monetary perspective, the value of lost electricity, assuming 3000MW output and average end user tariff of N25/kWh, is approximately N360 billion per annum. For emphasis, that is about N1 billion per day. If tariff increase is opted for as the means to deal with this shortfall, 1350MW must be effectively rebased to amount to 3000MW by over 200 percent to make good the positions of generation, transmission and distribution companies – and by extension, the gas suppliers. Tariff increase as an option is fraught with issues such as regulatory lag (delay) as rate determination is a protracted process: the authorities have to balance increases with affordability, and the industry must contend with reduction in consumption by end users in response to higher prices. The overall impact is reduction in electricity consumed, which normally sets off a cycle of tariff increases. The implication of either tariff increase or poor financial performance are dire: reduced profitability and financial viability for the service providers and/or higher cost of electricity services to end users. The long-term result: inadequate and unreliable electricity services make it difficult for service providers to raise the capital required for investment to address losses and improve services.

This begs two questions: What is the source of the losses? Who bears the burden of the losses? The answer to the first question can be found in the ubiquitous revenue formula of price multiplied by output. If the regulated tariff is low or the discrepancy between electricity generated and consumed is significant, then revenues will be lower than expected.

What can cause tariff to fall below cost of service? Regulatory lag or poor calculation of unit costs, *ex post* production and cost inefficiencies. Since our focus is on losses, and given the importance of pricing, we will return to issues surrounding non-cost reflective tariffs in a different paper.

Another way of looking at losses is in terms of technical and non-technical categorisation. Losses ascribed to the former are as a result of the physics and engineering involved in transporting electricity. Losses ascribed to the latter category are caused by human omission or commission. By omission we mean inadequate energy accounting – especially in the aspects of billing, metering and collection. By commission, we mean wilful acts of

circumventing and undermining legitimate services such as theft, tampering with meters, non-payment of electricity consumed etc.

Since privatisation in 2013, the way revenue shortfalls have been dealt with by government is to avail the market participants of direct tariff support. The total sum expended since 2015 is in excess of N1 trillion. Put differently, government continues to plough cash into a predominantly privatised sector to address a problem that hitherto was non-existent. In addition to this, which effectively amounts to income redistribution, current regulatory practices compound the situation by allowing service providers to recover their entire asset base rather than what is actually used in supply of electricity. This practice encourages service providers to engage in "gold-plating" in the knowledge that all their assets will be included in the tariff determination thereby putting upward pressure on electricity tariffs. For instance, no more than a quarter of the total transformation capacity of distribution networks that is in excess of 20,000MW is used in distributing power to end users, yet the distribution companies, in principle, get paid for all. Apart from the fact that end users have to contend with higher tariffs, this practice impacts negatively on government's fiscal position through tariff/market support and high-cost energy purchase obligations demanded by IPPs and gas suppliers.

The simple point is that the losses are just too high and neither make a good story for investment nor improvement in electricity services. This position is simply not sustainable – not for the government, not the service providers and certainly not for the end users. Something must be done urgently.

Slay the monster before it consumes everything in its path

The distinction along technical and non-technical lines gives insights into how the problem can be approached. Technical losses consistent with best practice (design and network operations) are considered to some extent to be non-discretionary due to the characteristics of electricity. Non-technical losses, on the other hand, are within the discretionary control of service producers. Some allowance is usually made for losses in rate setting but not to the extent we see in Nigeria. The level of ATC&C losses we see in the Nigerian electricity industry is essentially rewarding inefficiencies and poor practices. It effectively provides a disincentive to the distribution companies to undertake necessary loss reduction programs that will boost quantity and quality of power, and ultimately provide cheaper electricity. One of the reasons why residential customers dominate power consumption in Nigeria, contrary to what is observed in other countries, is that apart from the epileptic supply, the losses have amplified

the vicious cycle of incessant tariff increases and have indirectly made industrial customers uncompetitive, which have made many of them close down or relocate to neighbouring countries, while those that remain are buffeted by hostile operating conditions. These have combined to exacerbate socioeconomic problems and challenges such as unemployment, poverty, rural-urban development etc.

Another way of looking at losses is from an accounting perspective. The industry burns more gas than required, this is a resource that otherwise would be sold to enhance government revenues and fiscal position, not to mention ensuing environmental degradation. More investment in transmission and distribution facilities is required to address the losses as ultimately, high technical losses translate into losses to the nation, and high non-technical losses are corporate losses to the service providers. This situation is further compounded by a moral hazard problem on the part of the service providers as the losses are borne by end users and government.

What must be done?

The good news is Nigeria is not the first to contend with high losses as other nations who were in similar positions have successfully curbed and reduced them to tolerable levels. The bad news, however, is the attention of the industry is yet to be properly trained on losses – ATC&C performance targets ranging between 21 and 38 percent set by NERC are not stringent enough and performance of the distribution companies come nowhere close to those targets. This needs to change given the significance of electricity to economic growth and development. Irrespective of the argument that energy consumption drives economic growth or vice versa we subscribe to, the dragon must be slain if the nation is to see electricity play its rightful role as the engine of growth and development. Policymakers must take cognisance of the fact that simply committing public funds to transmission and distribution networks, or providing financial backing for the development of generating plants will not alter the fundamental problem caused by technical and non-technical losses.

Improving Fiscal Position: Converting Losses to Sustainable Revenues

Macroeconomics and all its attendant jargon are not the métier of most and so we can perhaps be forgiven occasionally for overlooking glaring red flags. As a consequence, we do not notice causes of great concern and as such government’s shortcomings and illogical decisions. In this article, we will avoid esoteric terminology and focus on some of the key

issues, be they logical or not, behind decisions of government that affect all of us.

The Federal Government of Nigeria (FGN) is on a borrowing spree, ostensibly to fund a budget resolved in very different times. Essentially, the budget has been adjusted by removing capital expenditure and the new borrowing requirement is estimated at over ₦4 trillion. Out of this, N1.94 trillion will be sourced externally (US$3.4billion from IMF, US$1.5billion from World Bank, and US$500million from Africa Development Bank). The balance of N2.06 trillion will be raised in the domestic market. The FGN has already sought and received approval from NASS to convert the N850 billion foreign borrowing in the 2020 Approved Budget into domestic borrowing.

N4 trillion amounts to about US$11.4 billion.

Based on findings by the World Bank, Nigeria loses about US$10 billion in revenue annually because of inefficiencies in the agriculture sector. Moreover, the Nigerian Electricity Supply Industry (NESI) losses significant sums on an annual basis as a result of so-called system losses. The power plants produce electricity but the revenues collected by the distribution companies cover only a fraction of the cost of the electricity produced, which is why the FGN regularly has to bail the sector out by way of monetary releases. In 2017, N213 billion was given to the industry, and as of 2019, N500 billion was approved for the sector.

The question all these numbers beg is: Why borrow to fund recurrent expenditure and increase the nation’s debt burden (and thus annual long-term debt-servicing bill), instead of plugging these leakages that cut across various sectors of our economy and saving much more in the process?

If we juxtapose these losses to FG’s voracious appetite for borrowing, in the present climate exclusively to fund non-capital expenditures (salaries, government cars, etc.), the absurdity becomes clear. If borrowing were dedicated specifically to fixing sectors of the economy where avoidable losses in tens of billions of dollars are incurred then it could be justified. In fact, we could even find it laudable owing to the fact that these sectors, if addressed and properly administered, have the potential to generate considerable revenue for government while diversifying the economy and driving economic growth sustainably.

The Nigerian landscape is littered with such losses and such potentials, but let us focus simply on the two sectors mentioned above, namely, agriculture and NESI. As stated, the agriculture sector in Nigeria loses US$10 billion annually as a result of “wastage”. This

wastage is a direct consequence of inadequate transport and energy infrastructure to convey agriculture produce post-harvest to markets, to store them and to convert them into higher-value goods. It goes without saying that were government to invest strategically in this sector, addressing the challenges holistically, creating and implementing policies to support this sector, then agriculture would grow and thrive, contributing substantially more to GDP and generating revenues by way of taxes.

Agriculture as a sector is perhaps the most baffling as it has huge potentials but continues to underperform, despite the FGN reportedly ‘throwing money at it’. If properly harnessed, Nigeria’s agriculture has the potential to become a force to be reckoned with in the global food supply chain. In fact, in addition to the above losses due to wastage, there’s another major negative: only 48 percent of arable land is being cultivated. According to the World Bank, “The value of agriculture in Nigeria is projected to grow to US$256 billion by 2030. The growth is expected to come from yield expansion (about 44 percent), area expansion (about 33 percent) and diversification into high value crops (about 23 percent)”. However, this will not be achieved if the wastage is not first addressed, which in turn requires losses in the power sector and the significant shortfall in transportation infrastructure serving agriculture to be fixed.

The power sector consistently records high system losses, which are comprised of both technical and non-technical losses. The former are line losses, which are inevitable but can be minimised, whereas the latter, also known as ‘commercial losses’ refers to theft, billing irregularities and non-payment of electricity consumed. Total system losses run at as much as 50%. In other words, the country is simply tolerating half the power generated either not being used or not being paid for. Socio-economic development is impossible without electricity as it is a significant input for various other sectors.

If the issues and challenges in these two sectors are addressed, then we could expect a surge in economic growth. Multiplier and spill-over effects would heighten the positive outcomes. In power for instance, the more losses that are eliminated, the more electricity there would be to extend those poorly served and the greater the number of paying customers the lower the resulting cost of service and lower prices all around, which would make NESI more competitive – and the industries using the power. In agriculture, the higher the quantity of food available in the market, the lower the cost would be and the faster we can attain food security. All of this would spur higher economic growth and generate government revenue that could then be devoted to areas such as rural healthcare, education and development, which would in turn spark further growth, and so on…

In light of the above, surely it would make sense for the FGN to focus on taking up loans to address the losses in the above two sectors – with a view to garnering the revenue that can be derived from them. This way it would address the perennial losses and ensure that the gains from reversing the losses contribute to debt defeasance. It of course goes without saying that were wastage to be addressed, the US$10 billion would not accrue to the FGN. What will flow to government would be revenue by way of taxes, interest and other statutory charges. For the sake of this argument we shall assume it would not exceed 10 percent which amounts to US$1 billion a year – more than enough to service the loans required. To put things in context, a billion dollars every year for the past four decades since government has been spending on the agriculture and power sectors would be in the excess of US$40 billion and that is from agriculture alone. It stands to reason that this money would have gone a long way in addressing all the infrastructure deficits that continue to cause wastage and revenue losses.

It is pertinent to note only two sectors were highlighted in this discourse, if one were to take cognisance of losses in other sectors across board such as gas flaring in oil exploration and petroleum product subsidies, the potential would be much more higher and encouraging.

Precisely in times when revenues are tight, it would be logical for the FGN to devise policies, strategies, and programmes that prioritize eliminating losses. The country can simply not afford to ignore such potential revenues and borrow at significant cost to the economy and the next generation without addressing one aspect of the problem that got us into the situation in the first place. The current situation is simply not sustainable.