Constructive or Corrosive?
Examining China's Financing in Nigeria
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About CJID
The Centre for Journalism Innovation and Development (CJID), formerly the Premium Times Centre for Investigative Journalism (PTCIJ), is a West African media innovation and development think (and do) tank. Founded in 2014 as a non-governmental organisation in Nigeria. The Centre has been a leader in investigative journalism, civic technology, open data, verification, safety of journalists, elections and freedom of information and expression. It has a presence in Nigeria, Ghana, Sierra Leone, Liberia and The Gambia.

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Over the past few years, Nigeria has witnessed a profound increase in trade relations and aid contributions from China, provoking a debate about the nature of the capital inflows and implications for democracy, human rights, and the market. As of 31 March 2023, Chinese loans comprised 80% of Nigeria's bilateral debt stock, totalling $4.3 billion, a significant increase from $966 million in 2013. This report examines China's inflows into Nigeria using the Constructive Capital-Corrosive Capital framework and compares them to financing sources like the African Development Bank (AfDB). While Chinese financing has aided Nigeria's infrastructure development, the report highlights issues with transparency, accountability, negative impacts on the market, human rights, and democratic governance. It is crucial to address these negative issues to neutralise the corrosive effect of capital inflows.
Over the past few years, Nigeria has witnessed a profound increase in trade relations and aid contributions from China. The rapid increase and nature of Chinese investments have sparked debates about their impact on democratic governance, the economy, human rights, and the environment in Nigeria, Africa's largest economy. As of 31 March 2023, Chinese loans made up 80% of Nigeria's bilateral debt stock, totalling $4.3 billion, which is a significant increase from $966 million - or 11% of $8.8 billion external debt stock - in 2013. These loans were tied to at least 18 infrastructure projects in transportation, information and communication technology, water supply, electricity, and security, according to separate Freedom of Information responses from the Debt Management Office (DMO) and the Federal Ministry of Information and official debt service records. Typically, the loan-tied projects are carried out by Chinese firms chosen by Beijing, and Nigeria's public procurement law, which emphasises a competitive selection process, is not followed. The principles of participation, consultation, and public accessibility required by Nigeria's Environmental Impact Assessment law are not followed, raising these projects' environmental and social costs. Trade between the two countries has almost reached 26 billion USD, while at the same time, China's direct investment in Nigeria has surpassed $20 billion.

The pattern of undermining the statutory accountability and transparency safeguards in Nigeria's public procurement system is evident in the highly risky extractive sector in which Chinese private businesses are extensively involved. In addition to environmental risks that upend the livelihoods of communities, the extractive sector has been flagged as highly vulnerable to Illicit Financial Flows by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) and the Thabo Mbeki-led High-Level Panel on Illicit Financial Flows from Africa. Now, with Chinese private firms fluxing to the most untapped extractive space, which even has far less scrutiny than others, they carry with them the same pattern observable in the dynamics of the bilateral state-state relationship, which demonstrates non-adherence to the democratic rules of transparency, accountability and anti-corruption. In October 2022, a Nigerian High Court convicted and sentenced a Chinese national for illegal mining in the country's Kwara State amid recent reports of arrests of other Chinese business people for solid minerals theft and providing funds to militants to gain access to mining sites in Nigeria. Still, many more might be enjoying undue protection from the wrath of the law and community pushback when they engage in abuses in the extractive sector. During field exercises in Osun and Niger States, it was observed that

1. Nigeria's Debt Management Office.
5. https://www.thetimes.co.uk/article/chinese-bribed-nigerian-militants-for-access-to-vast-mineral-reserves-wlh37d2j
Chinese businesspeople, who were accused by communities of engaging in illegal mining and not demonstrating concern for the environment and society, were being protected by the police force.

The concerns about the lack of accountability in the state-state relationship over the loan deals and unethical business practices in private businesses, especially in the extractive sector, have drawn sharp criticism of China’s involvement in Nigeria. On the other hand, some believe that the criticism directed towards China is hypocritical, “unwise,” and intended to portray the West as better. They claim that Chinese investments have helped raise the infrastructure curve with concessionary loans without the difficult conditions that came with loans from the International Monetary Fund in the 90s. However, these Chinese investments come with other conditions that exploit Nigeria’s weak governance institutions, resulting in hostile political, social, and economic consequences. Also, there are questions about the quality and durability of these projects. For instance, the Abuja metro railway, built with a $500 million Chinese loan, has remained unused since 2020 despite being inaugurated in 2018 when it started skeletal operations. This means that Nigeria is still servicing the loan. At the same time, the infrastructure does not generate any revenue for the government, creating a financial crisis and missed opportunities for improving the lives and businesses of Nigerians.

The Constructive Capital-Corrosive Capital framework, developed by the Centre for International Private Enterprise (CIPE), is a suitable analytical basis for examining China’s capital inflows into Nigeria compared to other players. The framework focuses on the investments from authoritarian countries into younger democracies and their implications. Constructive Capital refers to public or private financing that serves transparent, market-oriented, and accountable purposes at both funding sources and destinations. Corrosive Capital flows, on the other hand, are not transparently governed, originating from authoritarian and opaque sources and ultimately harming governance, the market, and sustainable development at destinations.

Corrosive capital can exacerbate and exploit gaps in governance in countries with limited governing capabilities, leading to undermining democratic principles. See Figure 1. In the context of Chinese-backed investments, CIPE’s extensive research in the Asian region uncovers increasingly observable patterns of exploitation of governance gaps in democratic countries. A similar pattern has been observed in Nigeria. For instance, projects tied to Chinese loans are given to contractors selected by China without regard for Nigeria’s legislative appropriations and public procurement law, which stresses a competitive bidding process and transparency.

Therefore, amid China’s growing influence fueled by aid contributions and trade and investments in Africa, the Centre for Journalism Innovation and Development (CJID) analysed Chinese capital inflows through bilateral arrangements and private sector investments. The goal is to apply the objective methodology developed by CIPE in the BRI Monitor to assess the depth of transparency.

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7. Nigeria’s former Vice President Yemi Osinbajo [https://www.arise.tv/osinbajo-chinese-loans-reduced-africas-dependency-on-imf-world-bank/]
of Chinese capital comparatively with other capital sources such as the AfDB. This offers a better-dimensioned understanding of the layers of concerns about Chinese-backed investments in Africa’s most populous and fastest-growing economy.

While Chinese financing has aided Nigeria’s infrastructure development, the report highlights issues with transparency, stakeholder accountability, net negative impacts on the market, democratic and governance institutions, and human rights.

Figure 1: **Corrosive versus Constructive Capital** (Source: CIPE)
China and Africa had intermittent but significant and defining contacts before the turn of the 21st century. In the Cold War between 1950 and 1980, China placed itself as the "champion of the Third World", pursuing South-South cooperation and creating an alternative to the West and Soviet blocs. Approximately US$2.4 billion in official Chinese foreign aid was extended to Africa at the time\(^\text{10}\). China, under the Maoist regime, also supported Africa's liberation struggles, pitching itself against the USSR/Russia in Angola, for instance. \(^\text{11}\) Between 1967 and 1975, the Tanzania–Zambia (TAZARA) railway, which cost over $600 million, was built with the help of 15,000 Chinese workers. \(^\text{12}\) Nigeria and China opened formal diplomatic relations in 1971, when African nations supported Beijing's admission into the United Nations, rejecting the West-supported Taipei.

China's African policy shifted in the mid-1980s from supporting Maoist-inspired revolution to seeking new commercial engagements to strengthen the Chinese economy. This change replaced Cold War ideology with the pragmatism of economic growth. \(^\text{13}\) The Chinese economy has since continued to grow rapidly, which explains the economic push factor behind China's involvement in Africa: markets for its exports and secure supplies of resources in support of domestic production\(^\text{14}\). China has entered into resource-backed loan deals with several African countries, such as Angola and the Democratic Republic of Congo. However, these deals have been criticised for their lack of transparency and underpriced commodities. For instance, China owns a 68% stake in Sicomines, a copper and cobalt joint venture with Congo's state mining firm, Gecamines. This joint venture was established in 2008 as an infrastructure-for-minerals deal. However, Congo is now seeking to review the agreement due to its concerns that it receives too little benefit from the arrangement. The President of the African Development Bank (AfDB) has also criticised resource-backed loans, stating thus:\(^\text{15}\)

"The natural resource-backed loans are non-transparent, expensive and make debt resolution difficult...it will be a disaster for Africa."

Additionally, loans tied to resource exploitation can undermine the market as they limit open and competitive participation in the extractive sector, a key aspect of the sub-Saharan African economy. According to the latest official disclosure, 44.6% of the Chinese foreign aid expenditure of $37 billion (270 billion RMB) between 2013 and 2018 went to 53 African countries.

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China's foreign aid delivery is characterised by non-interference, at least in principle. Beijing's Foreign Aid White Paper of 2014 affirms that China upholds the principles of avoiding any political conditions, refraining from meddling in the internal affairs of recipient countries, and fully respecting their right to chart their own paths and development models. This stance has made China an appealing alternative to African leaders who perceive conditionality criteria attached to IMF financing as indicative of neo-colonialism, neo-imperialism, and the imposition of Western standards unsuited to the African context. This perception may have been influenced by the negative consequences of International Monetary Fund-sanctioned Structural Adjustment Programs (SAPs). This is obvious from the view of Nigeria's former Vice President, Yemi Osinbajo, who stated:

"The memory of the destructive conditionalities of the Brenton Woods loans are still fresh, and the debris is everywhere, and the preoccupation of Western governments and media with the so-called China debt trap might well be an overreaction."  

However, British economist Paul Collier raises concerns that China's financing in Africa lacks conditionality and sensitivity to governance issues, which could exacerbate authoritarianism. This viewpoint has garnered support from commentators and researchers who argue that China's approach undermines the progress made by the West in promoting good governance, human rights, and environmental protection in Africa.

China's aid is known for being “streamlined” and prompt. The process involves a recipient identifying a project that requires assistance, then China's EXIM Bank providing a concessional loan with interest subsidies from the Ministry of Commerce (MOFCOM). MOFCOM selects a Chinese contractor to execute the project without an open and competitive bidding process in the recipient's country. Indeed, a former Sierra Leonean envoy to China, Sahr Johny, infamously said:

"The Chinese just come and do it. They don’t hold meetings about environmental impact assessments, human rights, bad governance and good governance. I’m not saying it’s right, just that Chinese investment is succeeding because they don’t set high benchmarks."

In theory, this process prevents cash from going directly to the recipient officials, minimising the diversion risk. However, some instances have been reported in Nigeria where Chinese companies subcontracted to local firms linked to officials and engaged in money laundering. Additionally, in certain countries like DR Congo and Angola, the loan is repaid with the recipient's

The first China loan agreement with Nigeria was signed in March 2002 to finance two 335 MW gas-fired power plants at Olorunsogo and Omotosho in Ogun and Ondo states, respectively, for $114.9 million each. The loan was obtained at a 6% interest rate and covered 65% of the project costs, with Nigeria covering the remaining 35%. Both projects were launched in 2007 and privatised in 2014. According to an analysis of debt service records and FOI responses from the Ministry of Finance and Debt Management Office, Nigeria has obtained at least 18 loans from China to finance infrastructure projects in public security, highways, railways, aviation, water supply, energy, and ICT totalling more than $6 billion since the first deal in 2002. Outstanding debt stood at $4.3 billion as of 31 March 2023.

Nigeria faces significant challenges due to its inadequate infrastructure in all areas, which hinders its economic growth. Thus, financing aimed at improving the country’s infrastructure, such as the construction of railways connecting Lagos and Ibadan, metro rail service in the capital city Abuja, the establishment of a railway between Abuja and Kaduna, or the building of a 700 MW hydropower plant in Zungeru, is essential for the country’s socio-economic development.

There are concerns, however, about the effectiveness of the railway projects, particularly the Abuja metro, which received a $500 million loan from China. Although Nigeria continues to repay the loan amid worsening fiscal difficulties, the metro has yet to operate since 2020. This has not only worsened Nigeria’s financial situation but has also failed to alleviate the transportation challenges experienced by Abuja residents. The $1.267 billion loan-financed Lagos-Ibadan railway currently offers two return services in the morning and late afternoon every day on a route widely recognised as the busiest in the country. Railway users have expressed dissatisfaction with the train’s slow pace, making commuting a tedious experience. This has not been much of a help in improving the quality of living, working, and trading in the region. Additionally, concerns about transparency, accountability, and possible revenue losses due to the lack of electronic ticketing and POS payment services amidst government fiscal difficulties with repaying debts have been raised.

In addition to allegations of labour abuses against Nigerian workers working locally for Chinese companies, there are legitimate concerns about transparency and competition hampered by China’s selection of companies to carry out loan-related projects. As a result, Nigeria’s public procurement law, which requires pricing scrutiny and a transparent and competitive bidding process, is ignored, harming the market and being disadvantageous to local firms. An official of the Bureau of Public Procurement (BPP) confirmed that the agency does not participate in the selection of contractors. Still, documents relating to the process were publicly accessible until the previous administration of Muhammadu Buhari (2015-2023).

Nigeria and China have yet to enter into resource-backed loan deals. Still, proceeds from the country’s oil wealth contribute the overwhelming majority of its foreign exchange earnings, and tax revenues have been used to offset the debts. An oil-for-$50 billion infrastructure bid by China
failed after late President Umaru Yar’Adua’s government judged Nigeria’s oil was underpriced (See case 5). Nigeria uses most of its revenues for debt payments, impeding its ability to finance education, healthcare, and infrastructure developments. However, it should be noted that loans from China only accounted for 10% of Nigeria’s debt stock as of 31 March 2023. Multilateral sources, namely, the International Development Association (World Bank), the International Monetary Fund, and the African Development Bank Group, accounted for 32%, 7.7%, and 6%, respectively.

Case 1

Railway Modernisation Project I (RMP 1 Lagos-Ibadan)

Many Nigerians who are old enough still feel a sense of longing for the days when they used to travel and transport their goods across different regions of the country by train, using the Western Line. The 700-mile railway was built by the British colonial government and connected the southern coastal city of Lagos and Nguru in the far, dry north. Unfortunately, this railway line has now become dysfunctional. As roads have also fallen into disrepair, the collapse of the rail line has led to increased financial and security risks and costs for Nigerians travelling or trading between states across regions. There is also the issue of increased pressure on the existing fragile road infrastructure due to the excessive use of heavy trucks for cross-country transportation of goods following the collapse of the country’s rail infrastructure. This situation, therefore, created a need to build new railway infrastructure.

<table>
<thead>
<tr>
<th>Location</th>
<th>Type of Project</th>
<th>Project Developer(s)</th>
<th>Main Contractor(s)</th>
<th>Known Financiers</th>
<th>Cost</th>
<th>Project Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagos, Ibadan</td>
<td>Transportation</td>
<td>Federal Ministry of Transport</td>
<td>China Civil Engineering Construction Company (CCECC)</td>
<td>China Exim Bank</td>
<td>USD $1.27 billion</td>
<td>Completed</td>
</tr>
</tbody>
</table>
The Nigerian Railway Modernisation Project is a major infrastructure initiative that aims to improve transportation in the West African nation. The project involves the construction of a new standard gauge railway line that will stretch from Lagos, Nigeria’s most important commercial city, to Kano in the north, which is also an important centre of commerce. It will replace the comatose colonial government-built Western Line. The railway line will connect to the capital city, Abuja, via Minna and Kaduna, covering a total distance of 1315 km. In addition, the railway developments have been justified as a means of promoting economic development and, as in other African economies, to spur the development of new industrial zones to enable faster movement of goods and people between the two cities (Idu -Abuja and Kaduna).

The project’s second phase is the Lagos-Ibadan section, which spans a distance of 156.65 km. This phase (following the Idu-Kaduna section, which is Phase I) was awarded to the China Civil Engineering Construction Corporation (CCECC) at $1.267 billion provided by China. The initial cost was $1.19 billion but was raised to $1.267 billion following a redesign to extend the line from its terminal point at Ebutte-Metta to the Lagos Ports Complex at Apapa. The Federal Executive Council approved the redesign and the new cost following a memo by the Ministry of Transportation, the implementing agency, on 30 November 2016, according to a council record reviewed for this report.

After an initial delay in fund disbursement, the CCECC began construction work in 2017 with a 36-month execution duration. The railway line started commercial operations in June 2021, one year after schedule, due to delays caused by excessive rains in 2018, impediments on the right of way, and the COVID-19 pandemic in 2020. Nevertheless, it was an unusual success in Nigeria, where similar large projects take several years to be completed. Since its inauguration, the line has had two daily return services in the morning and late afternoon. As the route is known to be the busiest in the country, the railway was expected to offer multiple and faster services to facilitate business and living. However, users have expressed dissatisfaction with the slow pace of the train (2 hours and 47 minutes), making commuting a tedious experience.

Unfortunately, the slow pace and the limited number of train services have not helped improve the region’s quality of living, working, and trading. Additionally, the lack of electronic ticketing and POS payment services has raised concerns about accountability. Dataphyte,20 in one of the stories completed with the CIPE-CJID grant, reported on this issue.

The railway line has ten stations, one of which is the Apapa Port branch line station. In September 2023, freight services started from the Apapa port to Ibadan, a long-awaited solution to ease the evacuation of cargoes from the port. This is progress against climate change as it decreases dependence on fossil fuel-powered trucks. During the flag-off of the freight service, the Nigerian Railway Corporation (NRC) said three trains of 30 wagons would move out of the port daily, thereby decongesting the environment.

The stations in Ibadan, namely Akinyele and Omi Adio, are far away from the city's business districts and urban areas. This may affect the railway project's potential contribution to the market. Ibadan-based businesses commonly transport their goods from Lagos. However, taking the train seems challenging due to the long road journey from the remote stations to the city centre's business districts. A future study would help assess the project's impact on business and daily life.

The implementing agency, the Ministry of Transportation, did not release the project's Environmental and Social Impact Assessment report and feasibility study when requested via a Freedom of Information request.

These documents are also not publicly accessible, limiting public scrutiny and accountability in areas such as project tracking and community impact. This spotlights a violation of Nigeria's Environmental Impact Assessment Act, which makes an environmental and social impact assessment mandatory for all major public and private projects.

The law requires public participation in the assessment process and that the assessment report approved by the Federal Ministry of Environment is publicly accessible in physical locations that the project affects and online.

It is unclear whether the low performance of the infrastructure in terms of speed and frequency of the services is due to the Chinese contractor's delivery not meeting good standards or Nigeria's incapacity. Unfortunately, the project specifications and handover details are not publicly available, making it difficult to determine what is wrong. Regardless of the cause, it is evident that the infrastructure does not sufficiently respond to market and development needs, despite its potential benefits if properly designed, delivered, and operated. This situation spotlights the importance of transparency, which would have provided the necessary information to hold all stakeholders accountable.

Also, greater control of the contractor selection process and the project design, together with an independent expert agency to oversee the contractor and ensure quality delivery, could have produced better infrastructure performance.

The loan taken for the project matures in 2037.

**Case 2**

**Lekki Deep Sea Port**

The Lekki Deep Sea Port is the deepest port in Nigeria and one of the most modern in West Africa, and it is of great importance to Nigeria. The Apapa and Tin Can ports in Lagos have had capacity constraints, and the need for a new port was compelling. The Nigerian Ports Authority granted the concession for 45 years to Lekki Port LFTZ Enterprise Limited, LPLEL, on a Build, Own, Operate, and Transfer (BOOT) basis. As per the agreement, LPLEL is responsible for financing, constructing, operating, and transferring the port to the NPA at the end of the concession term. LPLEL will earn revenues through the port's operations.

<table>
<thead>
<tr>
<th>Location</th>
<th>Type of Project</th>
<th>Project Developer(s)</th>
<th>Main Contractor(s)</th>
<th>Known Financiers</th>
<th>Cost</th>
<th>Project Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagos</td>
<td>Transportation</td>
<td>Lekki Port LFTZ Enterprises</td>
<td>China Harbour LFTZ Enterprise (CHELE)</td>
<td>China Development Bank</td>
<td>USD $629 million</td>
<td>Completed</td>
</tr>
</tbody>
</table>

According to the company, the completed Lekki Port will have three container berths, one dry bulk berth, and three liquid berths. It will help bridge Nigeria’s port infrastructure gap by accommodating larger vessels, optimising storage area and ease of expansion, offering modern equipment, and integrating industrial and petroleum logistics complexes. The infrastructure is worth $1.5 billion and is primarily controlled by China Harbour Engineering Company Limited, with a 52.50% shareholding. Tolaram Group, which owns the Lagos Free Zone where the port is located, holds 22.50%, and the Lagos State Government has a 20% government shareholding. In contrast, the Nigerian Ports Authority holds the remaining shares.

The project was officially flagged off on 29 March 2018 by former President Muhammadu Buhari, about 12 years after the intention to build the port was announced. However, due to financial closure problems, construction work only started 27 months later.
On 23 October 2019, the Lekki Port LFTZ Enterprise Limited signed a $629 million loan facility agreement with the China Development Bank, which provided an equity capital infusion and lifted the port project. Construction of the port began on 15 June 2020 and was ready for operations on 24 October 2022, according to an official disclosure.

### Shareholders Percentage

<table>
<thead>
<tr>
<th>S/N</th>
<th>Shareholders</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China Harbour Engineering Company Ltd (CHEC)</td>
<td>52.50%</td>
</tr>
<tr>
<td>2</td>
<td>Tolaram Group</td>
<td>22.50%</td>
</tr>
<tr>
<td>3</td>
<td>Lagos State Government</td>
<td>20.00%</td>
</tr>
<tr>
<td>4</td>
<td>Nigerian Ports Authority</td>
<td>05.00%</td>
</tr>
<tr>
<td></td>
<td><strong>Total:</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

In a story\(^{21}\) completed with the CIPE-CJID grant, one official said:

*“Once the Chinese came on board the deep seaport project, funding was available, and we completed everything you see here in 27 months.”*

However, the local communities have raised concerns about environmental rights violations. They claim that the government took their land for the consortium to construct the port without compensation and that the port's construction has made fishing difficult for them. Although the port generates enormous benefits for the nation, the local communities seek environmental protection to safeguard their livelihoods.

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An Environmental and Social Impact Assessment was carried out; however, it is not available to the public, limiting public scrutiny and accountability regarding the impact on the stakeholder host communities.

These communities rely on the now permanently altered marine environment for their livelihoods. As noted in Case 1, the non-availability of the environmental and social impact assessment report violates Nigeria’s law guiding such a project. While the railway projects show an abysmal level of value for money and enormous economic loss, the deep port project shows negative environmental and social impacts that could have been averted if proper procedures were followed and if the project had been approached with a focus on human rights.

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Nigeria, Africa's largest economy and most populous nation, is still facing a significant problem of inadequate electricity supply. Between 2000 and 2018, the total loss to Nigeria's GDP caused by poor electricity was estimated at approximately USD 530 billion, or nearly USD 29 billion per year, according to the African Development Bank. Despite having an installed capacity of 13 thousand MW, only an average of 4 thousand MW is available daily.

This situation has led to frequent blackouts for those connected, with only about half of the country's population accessing grid electricity: liquidity crises, generation constraints such as gas supply, and inadequate distribution infrastructure plague the electricity sector. Moreover, inadequate transmission capacity has also contributed to the problem.

As part of Nigeria's economic recovery and power reform plans, the Transmission Company of Nigeria (TCN) intends to expand its network's wheeling capacity, thereby conceptualising the National Transmission Rehabilitation and Expansion Programme. This will be achieved through a combination of measures, such as expanding existing lines and substations, constructing new ones, and upgrading transmission lines by replacing their conductors with higher-amperage ones to reduce bottlenecks.
The Nigeria Transmission Expansion Project, Phase 1 (NTEP 1) is a critical component of the National Transmission Rehabilitation and Expansion Programme (TREP). It is funded by the African Development Bank (AfDB) and the Africa Growing Together Fund (AGTF). The AfDB provided a loan of $160 million, while the AGTF contributed $50 million, and the Nigerian government provided $42.56 million in counterpart funding, bringing the total cost to $252.56 million. According to a Freedom of Information response by the TCN, the implementing agency, the loans were signed in November 2019, and the execution contract start dates for transmission substations and transmission lines were 14 July 2023 and 2 August 2023, respectively. The project is expected to be completed in December 2025, TCN said.

**NTEP-1 project timeline**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>Loan signed</td>
</tr>
<tr>
<td>2023</td>
<td>Contract execution for substations and transmission</td>
</tr>
<tr>
<td>2025</td>
<td>Expected date of completion</td>
</tr>
</tbody>
</table>

The AGTF, administered by AfDB and sponsored by China, was established in 2014 to provide a $2 billion loan facility to finance mega projects in Africa between 2014 and 2024.

The primary objective of NTEP-1 is to rehabilitate and upgrade Nigeria’s electricity transmission substations and lines, thereby increasing the power transmission network’s capacity and improving supply to consumers. NTEP 1 comprises brownfield and greenfield projects and involves resettlement and compensation for affected communities.

The project involves various components, including the reconstruction of two 330kV double circuit quad transmission lines, namely, the 138km Alaoji-Onitsha and the 125km Delta-Benin; the construction of one 330kV double circuit quad transmission line, which spans 204km from Kaduna to Kano; the construction of two 330/132kV, 2 x 150MVA substations at Zaria and Millennium City; and the construction of two 132/33kV, 2x 60MVA substations at Rigasa and Jaji, respectively.

The project’s first phase will address the most critical power sector issues by enhancing and increasing grid wheeling capacity in the Northwest and Southsouth regions, where transmission lines are most constrained.

Research indicates that the project financing has been made more transparent, with detailed information available on the databases of both AfDB and TCN. For instance, AfDB has published a comprehensive appraisal report\(^\text{22}\) that covers the need basis, scope, timeline, milestones, environmental and social impacts, feasibility, and project performance indicators.

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The project’s Environmental and Social Impact Assessment report is available to the public. The report provides detailed guidelines on addressing the project’s adverse socioeconomic and environmental effects, such as compensation and resettlement. The project also provides consulting with individuals and communities affected by the project using a Free, Prior, Informed, and Consent-based approach to stakeholder engagement. In effect, TCN has requested NGO monitoring during the resettlement implementation, which advances public scrutiny and accountability.

Furthermore, contracts for implementing the project were openly advertised, creating a fair opportunity for competition in line with Nigeria’s public procurement law.

As the project execution just recently commenced, a future study on the outcomes would be required.

Figure 2: Results-Based Logical Framework, published in the AfDB’s Appraisal Report

| Country and project name: Nigeria Transmission Expansion Project – Phase 1 (NTEP) |
| Purpose of the project: Increase the wheeling capacity of the grid to avail of the stranded generation capacity and improve reliability of the grid and power to consumers |

<table>
<thead>
<tr>
<th>RESULTS CHAIN</th>
<th>PERFORMANCE INDICATORS</th>
<th>Baseline 2018</th>
<th>Target 2022</th>
<th>MEANS OF VERIFICATION</th>
<th>RISKS/MITIGATION MEASURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMPACTS</td>
<td>Footnote economic growth and reduced poverty in Nigeria</td>
<td>GDP growth rate (%)</td>
<td>1.9%</td>
<td>2.5%</td>
<td>- Publications from:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- ENP</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- PCN</td>
<td></td>
</tr>
<tr>
<td>IMPACTS</td>
<td>Increased wheeling capacity and efficiency of the grid</td>
<td>Transmission Grid Capacity (MW)</td>
<td>7,000 MW</td>
<td>10,000 MW</td>
<td>- Publications from:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Volume of Energy Wheeled (GWh)</td>
<td>25,000 GWh</td>
<td>39,058 GWh</td>
<td>- NERC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Stranded (unutilized) Generation (MW)</td>
<td>2,000 MW</td>
<td>0 MW</td>
<td>- TCN</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Peak load (MW)</td>
<td>5,375 MW</td>
<td>8,000 MW</td>
<td>- NERC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transmission losses (%)</td>
<td>9.5%</td>
<td>8%</td>
<td>- NERC</td>
</tr>
<tr>
<td>OUTCOMES</td>
<td>Increased electricity access</td>
<td>Average annual electricity consumption per capita (kWh)</td>
<td>150 kWh/y (2014)</td>
<td>230 kWh/y</td>
<td>- FME</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Electricity access rate (%)</td>
<td>55%</td>
<td>65%</td>
<td>- Project progress and completion reports</td>
</tr>
<tr>
<td>OUTCOMES</td>
<td>Reduced overall GHG emissions</td>
<td>Installed Self-generation capacity (MW)</td>
<td>14,000 MW</td>
<td>10,000 MW</td>
<td>- Riska</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Volume of CO2 emissions avoided</td>
<td>0</td>
<td>11,460 ktCo2e per year</td>
<td>- Riska</td>
</tr>
<tr>
<td>OUTPUTS</td>
<td>Transmission line built</td>
<td>km of 330kV transmission line built</td>
<td>0</td>
<td>240km</td>
<td>- Published reports from:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>km of 330kV transmission line rebuilt</td>
<td>0</td>
<td>263km</td>
<td>- NERC</td>
</tr>
<tr>
<td>OUTPUTS</td>
<td>Substations built</td>
<td>Number of new 150/33kV substations</td>
<td>0</td>
<td>2</td>
<td>- NERC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Number of new 330/132kV substations</td>
<td>0</td>
<td>2</td>
<td>- NERC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transformer capacity installed (MW)</td>
<td>0</td>
<td>420 MW</td>
<td>- NERC</td>
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</tbody>
</table>

Nigerian Local Government Rural Telephony Projects

Nigeria has now made remarkable progress in telephony connections. According to the Nigerian Communications Commission, as of August 2023, there were 220.7 million active telephone subscribers, and the teledensity, which is defined as the number of active telephone connections per one hundred (100) inhabitants living within an area, was 115.63 per cent. Additionally, internet subscriptions increased from 105 million in August 2018 to 159 million in August 2023.\(^\text{25}\)

Nonetheless, several rural communities lack network coverage, undermining the rural economy and livelihoods. This chasm stems from the failure of the Nigerian Local Government Rural Telephony Project in 2002, which was tied to two Chinese loans. The NRTP was conceived during the Olusegun Obasanjo administration (1999-2007) to expand telephony coverage to rural areas.

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\(^{25}\) NCC industry data https://www.ncc.gov.ng/statistics-reports/industry-overview
communities across the country's local government areas, limiting rural-urban migration and facilitating rural development.

On 5 July 2002, a Chinese loan deal worth 82.25 million USD was agreed upon for a contract awarded to ZTE to execute the project. The loan had a 3.5% interest rate and a 12-year tenor.

According to a Freedom of Information response by the Federal Ministry of Communications and Digital Economy to a PREMIUM TIMES investigation under the CJID-CIPE project, ZTE was to deploy Code Division Multiple Access (CDMA) technologies nationwide in 110 local government areas. (Another Chinese company, Alcatel, was to deploy wireless systems in 108 local governments under the same NRTP with a 77.5 million USD Chinese loan.)

Furthermore, ZTE was to provide Base Transceiver Stations (BTS) in 110 LGAs across the country and Main Switching Centres in Bauchi, Kano, Kaduna, Ibadan, and Enugu states. According to Nigeria’s Ministry of Communication and Digital Economy, in response to another FOI request by PREMIUM TIMES, ZTE delivered the project in 2010, and the Technical Provisional Acceptance Test (PAT) and Final Acceptance Certificates (FACS) were issued in November 2010.

**Nigerian Rural Telephony project timeline**

- **2002**: Contract of $82.25 million awarded to ZTE
- **2010**: ZTE provided BTS in 110 LGAs across Nigeria
- **2010**: PAT and FACs issued to ZTE

13 years later - NITEL infrastructure becomes moribund
The NRTP was designed to be integrated into the network of NITEL, the government-owned telecommunications company that monopolised the country's telecommunications industry. The NRTP integration, however, could not take place due to the collapse of NITEL due to a botched liberalisation process, and the project remains non-working 13 years after it was successfully delivered, according to the Ministry of Communications and Digital Economy. NITEL infrastructure has also become moribund.

“The integration of the network to the NITEL transmission network and the Public Switch Telephone Network (PSTN) to ensure seamless connectivity to other networks could not be achieved as the NITEL transmission network had become moribund as a result of pending privatisation and poor funding of NITEL to maintain and operate its network.” - Federal Ministry of Communications and Digital Economy in FOI response to PREMIUM TIMES, 1 September 2023.

The Nigerian government attempted to get the NRTP (National Rural Telephony Project) operational by bringing in private capital to operate some parts of it, specifically the telephony exchanges built in the six geopolitical zones. After years of bidding involving the Bureau of Public Enterprise (BPE), the Infrastructure Concession Regulatory Commission (ICRC), the Communications Ministry, and the Ministry of Justice, concession awards were issued to successful companies. However, bureaucratic bottlenecks and mismanagement have prevented the companies from effectively taking over the assets.

“How can a government spend so much money on a project and allow it to waste away? They got a loan from China to execute the project and have even finished paying the loan, and the ministry is not concerned that the project is wasting away. We wouldn’t have gotten involved if we knew it would be like this. The loss is incalculable. It is billions of naira; the time lost and wasted efforts are unimaginable.

All these are just complications so that nothing will start. The ministry is interested in something other than a project that is supposed to have commenced operation three years ago. Between the last three years and now, the government would have made billions of naira on tax, employment generation and levies. The project could create 10 million direct and indirect jobs in five years. As a result of the delay in completing this process by the government for nearly seven years, most of the financial arrangements made by the NRTP operators both locally and internationally have abated, as most of the financial partners have either withdrawn support or no longer have confidence in the project.” Dr Tony Maduake, an executive of Hezonic, one of the companies that won the concession awards, Vanguard, 18 May 2014.26

Like the failed integration of NRTP into the NITEL network, there goes the failure of the privatisation process.

26. https://www.vanguardngr.com/2014/05/200m-rural-telephony-project-risk/
Today, while the government has completed the loan repayment and the project delivered, the NRTP has never been operational, highlighting how endogenous forces undermine the effectiveness of capital inflows in Nigeria. Consequently, apart from the financial loss to the government and taxpayers, costs include having rural communities without telecommunications coverage, de-harnessing development potential and stalling progress against financial inclusion.

In 2007, the Nigerian government attempted to commence the second phase of NRTP with a $99 million loan from China. However, the loan was never disbursed despite the Nigerian government making a partial payment of $14 million (15% counterpart funding) to the contractor, ZTE. The project could not proceed due to a lack of funds, resulting in the Federal Government of Nigeria reviewing the entire NRTP and invoking the ‘Changed Scope’ clause in the contract agreement of Phase II. As a result, ZTE was requested to use Nigeria's down payment of $14 million to deploy a standalone telecommunications network infrastructure on the 700 MHz frequency band, using 4G-Long Time Evolution (4G-LTE) technology. The ministry confirmed that the equipment has arrived in Nigeria from China and was inspected by a government team of engineers led by the ministry's permanent secretary, Dr. Williams Alo, on 25 July 2023. The ministry added that equipment will be installed at various sites across Nigeria's northeastern zone.

No Environmental and Social Impact Assessment and feasibility study reports are publicly available and were not released by the communications ministry when requested via a Freedom of Information request.
The Oil-for-$50 billion Infrastructure Investments that Failed

Nigeria does not have a resource-backed loan deal with China. Still, at least on one occasion, China did make “tempting” $50 billion worth of infrastructure investments to acquire massive oil reserves. According to a former presidential spokesperson, Olusegun Adeniyi, in his “front row” account of the Yar’Adua presidency, In November 2007, a Chinese consortium led by the state-owned China National Offshore Oil Company (CNOOC) proposed to Nigeria’s late President Umaru Yar’Adua to acquire a large number of oil and gas assets estimated to contain six billion barrels of oil reserves. The consortium offered $50 billion to be paid with infrastructure investments, namely the Mambilla and Zungeru hydropower projects, 300,000 barrel-per-day export refinery in Lagos, 100,000 barrel-per-day refinery in Calabar and Katsina; construction of an 800,000 metric ton-per-day compound fertiliser in Sokoto; concession and construction of five super highways across the country to include Abuja to Kano, Lagos to Badagry; and coastal highways from Calabar to Lagos and Maiduguri to Kebbi. They were also said to have proposed executing the Nigerian gas master plan with a $3 billion provision for gas gathering and the Lagos-Kano rail project.

The government then constituted a committee of professionals to confirm the availability of uncommitted reserves worth 2 to 3 billion barrels and negotiate with the Chinese consortium, CNOOC Africa Ltd., Sinohydro Corporation, and China State Construction Company, about a possible sale. The consortium’s initial proposal to the government included an offer of $25 billion for six billion barrels of oil reserves and a further investment of $25 billion in economically viable infrastructural projects in Nigeria. These projects included hydropower projects, refineries, fertiliser plants, superhighways, and rail projects. The identified oil fields were OML 67, 68, and 70, for which they offered farm-in fees of $5 per barrel for 3 billion barrels, $2 per barrel for 49% interest in OML 11 and 13, and $3 per barrel for 49% interest in OML 71, 72, 74, 77, 79, 83, 85, 86, 88, 90, 91, 95, 116, 118, 127, 133, 140, and 326.

According to data and records from the NNPC, there were 11.562 billion barrels of oil and 1.082 billion barrels of condensate. This meant that the Chinese consortium’s offer would technically be an offer of $1.8 per barrel of oil equivalent. Given the country’s situation, the Chinese

Constructive or Corrosive?: Examining China’s Financing in Nigeria

Centre for Journalism Innovation and Development

negotiators offered to invest in infrastructure projects, which was tempting to the Nigerian government. However, technical people, not politicians, handled negotiations, and the Chinese did not progress in that direction. The committee examined the offer using market benchmarks. The government considered the offer absurd because the consortium left out gas and condensate in their analysis. The Chinese consortium cited the risk associated with the transaction due to the prevailing volatility of the Niger Delta as the significant factor for their low valuation. Still, the government believed that the reward far outweighed the risk. Even though tempted by the offer to develop critical infrastructure, the government believed that the Chinese offer needed to be higher. Interestingly, while these negotiations were ongoing, political lobbyists of different backgrounds pressured the president and his officials to allow the transaction to work, Adeniyi said.

A Versus Analysis

China’s assistance has been instrumental in Nigeria’s development of infrastructure. Notably, three railway projects—Lagos-Ibadan, Idu-Kaduna, and Abuja metro—and three energy projects—the Zungeru hydropower plant with a capacity of 700 MW hydropower plant and the Omotosho and Olorunsogo gas-fired power plants with a combined capacity of 670 MW—have been completed. Chinese investment has also played a pivotal role in constructing the new deep port at Lekki, which is expected to boost Nigeria’s growth in the blue economy.

Where there was a failure, such as with the rural telephony project, it is evident that it was due to the Nigerian authorities’ mismanagement and incapacity. The infrastructure integration into the NITEL network was unsuccessful, and they could not complete the privatisation process. Despite China providing the credit facility and ZTE delivering the project, the local handling capacity was insufficient to achieve the desired positive impacts following the project delivery. Local expertise and resources are essential in ensuring successful project outcomes, and this has been observed to be the difference between China-funded projects that Nigeria has been able to put to use and others that have failed.
In all cases, however, legitimate concerns about transparency, accountability, and market competition result from how China selects contractors and executes projects, disregarding Nigeria's local procurement and environmental laws. This makes much of Chinese financing corrosive, which needs to be addressed. Nigeria needs to improve the operational capacity and effectiveness of its Chinese loan-tied assets, such as railways, that are supposed to generate revenues and ease repayments. The country must also address the issue of solid mineral theft and the conflicts and environmental risks associated with Chinese involvement in its extractive sector.

The AfDB-funded NTEP 1 project serves as a model for constructive capital investment, demonstrating excellent transparency and stakeholder accountability.

It should be noted that a part of the funding for the project comes (indirectly) from China through the Africa Growth Together Fund (AGTF). However, the difference here is that the AfDB is administering it with more vital institutions and governance systems, demonstrated in the accessibility of documents and overall transparency. This underlines that foreign investment is not bad, but how it is invested and how projects are implemented matters. Also, it matters that the recipient's governance systems are strengthened to prevent the effects of corrosive financing.

These constructive capital qualities observed in the NTEP are largely absent in the investments made in the bilateral state-state relationship between China and Nigeria. Even when the credit facility was given to the private sector-led Lekki port, it was observed that the indigenous fishing communities, who are important stakeholders in the project, were not consulted with free, prior, informed, and inclusive consent. Although the port can potentially boost Nigeria's blue economy and maritime sector, there are concerns about its impact on the local communities hosting it.
Nigerian officials find Chinese loans appealing due to their lenient conditions. However, they must understand the consequences of disregarding local laws, such as those regulating public procurement and the environmental impacts of projects. Plus, when environmental and social impact assessment reports are kept private, it prevents stakeholder accountability and increases the risk of violating communities' human and environmental rights. This can hurt governance and society as a whole. **It is, therefore, imperative that Nigeria ensure comprehensive ESIA and feasibility studies are carried out for any project tied to international capital inflows.**

Nigeria must boost its capacity for domestic resource mobilisation and address other issues, such as public sector waste and endemic corruption, draining its finances. By doing so, Nigeria can alleviate its fiscal distress and reduce its desperation for loan agreements that do not align with the country's public procurement law. This law seeks to promote competition, transparency, and accountability. Nigeria can leverage this law in procurement exercises linked to international capital inflows to guarantee that projects, during both the construction and operational phases, are executed sustainably and transparently. This approach would benefit the country and its citizens in the most optimal way possible.

Nigeria is currently grappling with a substantial debt burden but still needs to enhance infrastructure and social amenities. However, the country has limited domestic resource mobilisation capacity and requires foreign investments to boost the economy and create jobs for its growing population. Therefore, the inflow of international capital, whether as direct investments or loans to the government or businesses, is vital to Nigeria's economy. However, it should be noted that these inflows can either be corrosive or constructive, depending on how they affect the market, governance, and broader society. To address the effects of corrosive capital, specific reforms are required.
Nigeria needs to take steps to improve its regulatory and law enforcement systems as there are numerous reports of abusive labour practices, theft of natural resources, and funding of violent groups to gain access to mining sites in the country for Chinese investments. The general belief among Nigerians is that the government cannot take action against these issues due to the nation's increased reliance on Beijing for loans to finance infrastructure development.

**Nigeria needs to improve its capacity to effectively utilise projects delivered to neutralise harmful inflow effects.** Though they have downsides, Chinese loan-tied projects are delivered upon fund disbursement. Once delivered and handed over to Nigeria, the country must make optimal and sustainable use of these projects to benefit its citizens and avoid monumental waste such as the rural telephony project.

To reduce the need for detrimental investments, Nigeria should consider alternative funding sources, particularly those for sustainable development financing. Nigeria's needs to build roads and generate more electricity or strengthen food security are compatible with climate change mitigation, adaptation, and resilience measures. Therefore, the country can align its development needs with sustainability goals to attract funding sources that benefit the economy and nature.

In line with the transparency indicators of the BRI Monitor, the following specific recommendations are made:

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### Transparency in Project Selection

1. **The Nigerian government should establish a transparent and accountable process for selecting projects that align with its development goals and priorities.** This process should involve public consultation and participation to ensure that the chosen projects address the actual needs of its citizens.

### Environmental and Social Risk Assessment and Mitigation

2. **In line with the country's Environment Impact Assessment law,** Nigerian project implementing agencies and private entities should implement a comprehensive risk assessment framework for projects associated with international capital, especially those tied to Chinese financing, given China's pattern of exploiting weak governance systems in Nigeria and other developing countries. This should include an evaluation of potential environmental, social, and economic risks, with clear strategies for mitigating these risks and transparency that the law requires.
Strengthening Legal Frameworks

Nigeria must enhance and enforce legal frameworks related to international investments to ensure they are aligned with national laws and regulations. Nigerian government should have control of the contractor selection process in line with the competitive procedures that the law requires, while the Bureau of Public Procurement exercises its scrutiny responsibility. Particularly, the National Assembly must ensure the executive respects the country's laws, such as those on public procurement and environmental and social impacts, and apply appropriate sanctions to Ministries, Departments, Agencies and officials that enable gaps that might allow for corrosive practices.

Monitoring and Evaluation

Nigerian Ministries, Departments, and Agencies implementing projects tied to foreign capital must establish a robust project monitoring and evaluation system focusing on transparency and accountability. Regular audits and assessments should be conducted to ensure that the funds allocated for projects are used efficiently and meet their intended objectives. To do this, the Nigerian implementing agencies can employ independent experts or consultants to evaluate contract performance and ensure quality delivery.

Public Disclosure of Agreements

The Nigerian government should push for the public disclosure of loan agreements and contracts associated with international capital projects. This will contribute to transparency, allowing citizens to understand the terms and conditions of these agreements and hold the government accountable for their implementation.

Civil Society and Media

Civil society organisations and media must pay greater attention to monitoring and reporting on projects tied to foreign capital. This will ensure that information is disseminated transparently and that citizens have the information to ask questions and demand accountability. Increased media and civil society focus will also pressure the government to push for more transparency in its relationship with China. The government must also proactively engage civil society and the media to create additional checks and balances.
International Collaboration

Nigerian agencies can collaborate with international organisations and other countries to share experiences and best practices in managing foreign capital-tied projects. This can provide valuable insights and support Nigeria in developing effective strategies for mitigating risks associated with such projects.

Promoting Responsible Business Conduct

Nigeria must encourage responsible business conduct among foreign investors, emphasising adherence to ethical standards, environmental protection, and social responsibility. This can be achieved by incorporating clauses on responsible business practices in project agreements.