Assessing Foreign Capital Flows in Nigeria:
Assessing Foreign Capital Flow Promoting Constructive Capital for Sustainable and Inclusive Development

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Executive Summary

Foreign Direct Investment in Nigeria averaged $826.62 million from 1990 until 2022, reaching an all-time high of $11.8 billion in 2021. This policy document explores the impact of these foreign capital flows on Nigeria’s democratic governance. It acknowledges the positive contributions of these investments to economic growth while addressing concerns regarding efficiency, transparency, compliance with regulations, and their effects on local communities. The document aims to assess these factors and offer recommendations for fostering constructive capital investment that benefits both investors and local communities while ultimately ensuring the sustainable and inclusive development of Nigeria.

The document also addresses issues such as inadequate oversight and implementation of debt-funded capital projects, environmental degradation, and the financial burdens of abandoned projects. It emphasises the urgency of improving project management practices, the efficiency of funds allocation, procurement procedures, and combating corruption. The need for comprehensive reforms, effective governance, political stability, and strengthened institutions is also stressed.

In conclusion, this policy document advocates for a shift towards effective capital investment in Nigeria by addressing debt management, transparency, accountability, project implementation, environmental impact, and corruption. It calls for the implementation of recommended reforms and promoting sustainable and inclusive development to leverage the benefits of foreign capital flows, prioritise the well-being of local communities, and foster long-term economic growth.
Introduction

With a new president, Bola Ahmed Tinubu, having taken office in Nigeria, revitalising the nation’s economy has become a paramount concern. Key development indicators, such as growth, unemployment, poverty, inflation, expenditure, revenue, and debt, present alarming figures that require immediate attention to and action on. In this context, Foreign Capital Investment and Foreign Direct Investment (FDI) have been crucial in propelling Nigeria’s infrastructure development and economic growth. However, examining these capital flows critically is essential, alongside the analysis of insights into how constructive or corrosive the investments have been on the country’s economic landscape.

The Center for International Private Enterprise (CIPE) defines corrosive capital as “financing, whether state or private, that lacks transparency, accountability, and market orientation.” This sort of investments may hinder sustainable and inclusive development by perpetuating inefficiency, impacting governance processes negatively, the lack of transparency in project awards, non-compliance with local governance regulations, and have dire environmental effects on the country. It is crucial to assess these indices and their implications.

This policy paper aims to analyse the corrosive nature of certain capital investments in the country in a comprehensive manner, while offering recommendations for reforms and measures that can foster a more responsible and beneficial approach to capital investments in Nigeria. By addressing these issues, we can create an environment conducive to development, where investments contribute positively to the nation’s economic growth, governance, and overall well-being.
Nature of Foreign Capital Investment in Nigeria

In 2021, the cumulative inflow of Foreign Direct Investment (FDI) into Nigeria since 1995 reached an impressive $91.8 billion. Notably, the country experienced a continued and significant upsurge in investment, with a notable $4.8 billion inflow in 2021 alone and a further $7 billion in international project finance deals (mostly due to a resurgence in oil and gas investments). The Nigerian government has historically relied on foreign investments to finance capital-intensive projects, with notable successes including the construction of the Kainji Dam, which was funded through international loans. However, economic downturns, such as the crash in crude oil prices in the 1980s, led to a shortage of foreign currency, a halt in debt servicing, and an increase in debt. In 2006, Nigeria resorted to seeking debt write-offs internationally\(^2\). As they say, those who don’t learn from history are bound to repeat it.

As of December 2022, Nigeria’s debt stood at $103.1 billion or N46.2 billion\(^3\), breaching the borrowing limits set by the Fiscal Responsibility Act of 2007\(^4\).

Furthermore, there are indications that not all borrowings are for infrastructure or productive projects, raising concerns about the purpose and sustainability of debt accumulation. All these have raised questions about the fiscal responsibility of the government.

On the basis of the findings of Ncanywa and Masoga (2018) on the relationship between public debt, public investment, and economic growth in South Africa, their study

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2. [https://nairametrics.com/2020/10/14/the-great-debt-buy-back/](https://nairametrics.com/2020/10/14/the-great-debt-buy-back/)
recommends borrowing to accumulate more capital. However, it also shows that in the long run, there is a negative relationship between public debt and investment. This indicates that borrowing can contribute to increasing capital in the economy but only as a short-term measure. However, it is important to note that of the three financing activities that governments can use to boost the economy, comprising the printing of money, collecting taxes or borrowing, governments are encouraged to borrow and incur public debt, when they need to fill the gap between tax revenues and expenditures to carry out developmental functions. As such, it is recommended that countries with limited capital resources, like Nigeria, should consider borrowing to accumulate capital while refraining from excessive debts that could lead to subdued growth in the long term. Thus, a country like Nigeria must exercise caution by carefully managing its debt profile to ensure sustainable economic development.

Worth scrutinising on the issue of loans to and the Foreign Capital Investments of the Nigerian government is the issue of transparency in relation to the cost of projects, terms of loans, spending on projects, alongside the management and sustainability of these projects.

Were past projects compliant with Nigerian laws and processes; procurement processes, processes for awarding contracts, documentation, loan disbursements and etc.

The Infrastructure Concession Regulatory Commission (ICRC) exists to regulate the Public-Private Partnership (PPP) endeavours of the Federal Government of Nigeria. The Commission works with the private sector to construct and maintain federal infrastructure, priority projects, guarantee concession agreements and other activities. However, there have been concerns about secrecy and opacity in the conditions attached to loans obtained for infrastructure projects funded by foreign capital and issues around market-estimated and project-estimated costs. These issues raise questions about the accountability and proper usage of loans and project implementation, completion, and operationalisation.
Corrosive Capital

Since 2015, the Center for International Private Enterprise (CIPE) has identified a troubling pattern in which authoritarian governments leverage international investments to exert control over markets in emerging democracies globally. This form of investment presents a significant danger to democratic systems and the principles of open and fair markets. CIPE has coined this type of investments as “Corrosive Capital.” This type of capital typically flows into vulnerable democracies with the goal of creating economic dependence, which ultimately causes harms both to local people and business sectors. This type of capital typically flows into vulnerable democracies with the goal of creating economic dependence, which ultimately harms both local populations and business sectors indirectly. Corrosive capital breeds more corrosive capital and pushes out constructive capital, leaving recipient countries vulnerable to a phenomenon known as interest subversion. In simpler terms, this means that the influx of harmful capital at highly reduced rates weakens the economic and financial interests of these countries, making them susceptible to external manipulation and control.

In 2022, the World Bank highlighted the increasing debt risk faced by developing economies, including low- and middle-income countries, and how they use over one-tenth of their export revenues in servicing long-term external debts. The emergence of corrosive capital presents challenges to recipient countries, as it often lacks transparency and accountability, thereby exacerbating governance gaps and impeding sustainable development efforts. Indermit Gill, the Senior Vice President and Chief Economist of the World Bank Group, once said, “Poor debt transparency is the reason so many countries...”
For the World Bank's International Development Association (IDA) countries, China is considered to account for 66% of the debt-service payment receipts on the official bilateral debts of these countries.

This underscores China's growing influence as a major lender to IDA countries. The World Bank has also highlighted the changing composition of debts owed by IDA countries, with an increasing share owed to private creditors and non-Paris Club government creditors like China, India, Saudi Arabia, United Arab Emirates, and others.

According to Nigeria’s Debt Management Office (DMO), Nigeria’s largest creditor is the World Bank Group, with a total debt of $13.93 billion as at December 2022, increasing from $7.46 billion in March 2015. The terms of the World Bank’s credit engagement with Nigeria are stated on the Bank’s website, according to its policies and guidelines.

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NB: Nigeria's largest creditor is the World Bank Group

Nigeria’s Bilateral Credit Loans from China

Jun. 2015 $1.39 Billion
Dec. 2022 $4.29 Billion

These figures also amounted to 84% of Nigeria’s bilateral credit loans on the 31st of December, 2022, making China to be Nigeria’s largest bilateral creditor.

7. Ibid
Also, Nigeria's debt to China amounted to $4.29 billion as of December 2022, constituting approximately 10.30% of the country's total external debt stock. This was a 208% increase from the June 2015 figure, when Nigeria had initially borrowed $1.39 billion. The figure also amounted to 84% of Nigeria's bilateral credit loans on the 31st of December, 2022, making China to be Nigeria's largest bilateral creditor.11 A press release by the DMO in 2020 provided insights into Nigeria's indebtedness to China, stating that the Federal Ministry of Finance, Budget, and National Planning collaborates with the relevant ministries, departments, and agencies (MDAs) of government responsible for loan proposals, while approval is granted by the Federal Executive Council (FEC).

However, the document failed to offer explicit information with regard to loan documentation, the non-monetary terms of the loan, and the consequences of defaulting on its payment obligations to China.

The document, however, explicitly stated that the loans were project-tied.12 The Centre for Journalism Innovation and Development (CJID) conducted a transparency assessment desk research on 22 major infrastructure projects funded with loans from China and identified critical issues around transparency and governance gaps in these arrangements.13

Section 30, paragraph 2 of Nigeria's Fiscal Responsibility Act states, with regard to projects, that “The Minister of Finance shall cause the report prepared pursuant to subsection (1) of this section to be published in the mass and electronic media and on the Ministry of Finance’s website, not later than 30 days after the end of each quarter.” No such information has been provided on projects being implemented in recent times. These laws must be upheld to address the challenges to establishing a more transparent and accountable system for capital investments and projects in Nigeria. The formulation of the Fiscal Responsibility policy in Nigeria aimed at establishing a financial management framework in the country that prioritises prudence, transparency, and accountability. This policy was developed in conjunction with the Public Procurement Policy as a direct response to identified issues of fiscal policy challenges. The earlier mentioned challenges were evident in the inconsistent budgetary frameworks and processes, and the lack of value for public spending that
emerged during the transition from military to civilian rule, and the Act was passed as a framework to address it.

**Non-Operationalisation of Capital Infrastructure in Nigeria**

Inefficient utilisation of borrowed funds has resulted in Nigeria's high public debt and hindered economic growth. The mismanagement of projects, such as Abuja's light rail, highlights the negative impact of inadequate oversight of the implementation of capital-related infrastructure in the country. The project, commissioned in 2018 to address transportation challenges, sought to promote mass transit through rail in the Federal Capital Territory.

**Project Details**
- **7 years Span**
- **$824m Cost**
- **$500m primary fund from China**

**Lot Details**

<table>
<thead>
<tr>
<th>Lot 1</th>
<th>Lot 2</th>
<th>Lot 3</th>
<th>Lot 4</th>
<th>Lot 5</th>
<th>Lot 6</th>
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42.5km

$3 Million
Average cost per Km Rail in Africa

$2.8 Million
Average cost per Km Rail for the project

Loan fully accessed ✓
Due to a ban on commercial motorcycles, residents had to rely on private vehicles and minibuses for commuting, thereby leading to an overreliance on informal transportation methods with their attendant risks. The project, spanning 290 kilometres and costing $824 million, was primarily funded by a $500 million concessional loan from China, with a grace period of seven years and a maturity date in 2032. The cost of the project at $2.8 million per kilometre (km) is lower than the African average for rail construction projects, as published by the African Union (AU) in the Towards The African Integrated High-Speed Railway Network (AIHSRN) Development document\(^\text{14}\), which is $3 million per kilometre. The loan has been fully accessed, and 42.5 kilometres, Lot 1 of the project has been completed. There are five other lots of this rail construction that are pending\(^\text{15}\).

Despite successfully attracting significant foreign investments, the Abuja light rail project has remained neglected and abandoned for more than two years. Consequently, the lack of maintenance and attention has led to the deterioration of this crucial infrastructure.

\textit{Regrettably, Nigeria remains saddled with the responsibility of the capital investment, having received the full loan amount, yet failing to finalise the project and leaving the infrastructure non-operational, whilst currently repaying both the principal and interest on the $500 million loan acquired for the project.}

This is unacceptable for a country experiencing high national debt\(^\text{16}\).

The specific terms and conditions of the loan agreement with the Chinese Exim Bank remain unclear, with limited information provided by the Debt Management Office (DMO) and relevant federal ministries. The contract for the project was awarded to China Civil Engineering Construction Corporation (CCECC), and the rolling stock contract was assigned to China Railway Rolling Stock Corporation (CRRC), which, as their names suggest, are both Chinese companies. The project’s planning documents are hidden from the public, hindering the transparency efforts and demands of the media and civil society organisations (CSOs). In addition, the lack of transparency in procurement processes raises doubts about the project’s economic viability. Outdated legislation, the lack of imposition of fines, and the politicisation of Nigerian institutions contribute to a governance framework that allows corrupt politicians and state-supported foreign investors to bend the rules and operate within institutional gaps effortlessly.

\(^\text{14}\) https://au.int/sites/default/files/documents/32186-doc-towards_the_african_integrated_high_speed_railway_network_aihsrn_development-e.pdf
\(^\text{15}\) https://leadership.ng/abuja-light-rail-project/
Environmental Impact Assessment and Land Settlement

Beyond local corruption, there are profound worries about environmental degradation and the long-term fiscal impact that completing the project will have on Nigeria for decades to come. The development of railway infrastructure has significant human-induced implications, as it involves the extensive utilisation of energy and material resources, resulting in detrimental environmental effects, such as climate change, acidification, and other associated impacts. Nigeria has an Environmental Impact Assessment Act, established in 1992\(^\text{17}\), that requires that environmental impact assessments be carried out on development projects that are likely to have significant adverse effects on the environment. These assessments are not carried out often\(^\text{18}\). Developments that are clearly detrimental to the environment still take place and these are sometimes triggered by the government too. Perhaps one reason for non-compliance with the law lies in the provision of its enforcement. The prescribed monetary penalty is grossly inadequate.

Most of the Chinese loans to Nigeria are for rail projects, and rail travel is the most environmentally friendly mode of transportation. It contributes less than 2% of the total direct emissions from the transport sector and consumes less than 2% of the total transport energy use\(^\text{20}\). Erdogan S. (2020) shows that rail investment helps achieve the establishment of sustainable transport systems and the low environmental pollution targets of the SDGs, whereas road and air investments hamper these\(^\text{21}\), while a contribution from the International Journal of Sustainable Transportation shows that rail transport could reduce environmental impact, in terms of tons of oil equivalent, environmental loads, and fuel consumption, in addition to ensuring reasonable shipment times\(^\text{22}\). Hence, promoting and prioritising rail travel as a sustainable and environmentally friendly transportation option can contribute significantly to mitigating the impacts of the transport sector, whilst achieving long-term environmental sustainability goals for Nigeria.

Offending individuals are liable to a fine of N100,000. Firms or corporations can be fined between N50,000 and N1 million\(^\text{19}\). Not only are the penalties too low to compel compliance, but they are also hardly ever imposed on offenders.

High Sunk Value of Abandoned Projects in Nigeria

To compound the effect, Nigeria has a significant scale of abandoned projects, and this becomes highly apparent when considering the staggering sunk cost associated with these projects, estimated at N12 trillion ($14.9 billion)23 in August 2022. This enormous financial burden reflects a combination of factors, including inadequate project planning, mismanagement of funds, and a lack of proper oversight. The implications of such a substantial financial loss are far-reaching and detrimental to the country’s economy and development goals. The sunk cost of abandoned projects represents a significant drain on public resources that could have been allocated to other pressing needs, such as infrastructure development, social services, or poverty alleviation programmes. The sheer magnitude of N12 trillion underscores the urgent need for comprehensive reforms, including improved project management practices, effective governance in project implementation, and more efficient allocation of funds.

N12 trillion ($14.9 billion) in unfinished projects is a quarter of Nigeria’s total debt.

It is clear that Nigeria’s current investment, which is not yielding any income or benefiting Nigerians, is contributing to Nigeria’s overburdening debt stock, and only fiscal discipline can get the country back to more sustainable debt levels.

A World Bank assessment in 1999 revealed a significant correlation between weak procurement procedures and corruption. Nigeria’s current public procurement and fiscal laws have become breeding grounds for corruption. There exist several sources of leakages in public contracting, including the inflation of contract costs, absence of procurement plans, poor project prioritisation, inadequate budgeting processes, the lack of competition and value for money, and manipulations of procurement and contract award processes. These issues contribute to the misallocation and mismanagement of public funds, hindering the efficient execution of projects. Despite the Public Procurement Policy and Fiscal Responsibility Act, misconduct still persists within the system. Some individuals exploit the thresholds in the procurement law to engage in contract-splitting and bypassing the approval processes. While some offenders have faced prosecution and imprisonment, others continue to evade accountability, posing challenges to the integrity of the procurement process.


In the first quarter of 2023, the Centre for Journalism Innovation and Development (CJID) embarked on a study to assess Nigeria’s proactive disclosure of loans and loan-tied projects, to establish whether these foreign loans are corrosive or constructive. Using the Belt and Road Initiative (BRI) Monitor’s qualitative research methodology, the Centre studied the regulatory environments governing these large infrastructure projects. The aim is to uncover governance gaps, the nature of the projects, and their levels of transparency.

The BRI Monitor is a collaborative effort of five civil society organisations in South Asia and the Pacific supported by CIPE, created to promote transparency and accountability in major infrastructure projects funded through the Belt and Road Initiative (BRI). It uses 38 indicators to assess the transparency of BRI projects, and these cut across the five stages of the project lifecycle: Identification, preparation, procurement, implementation and completion.

### BRI Monitor qualitative research methodology.

<table>
<thead>
<tr>
<th>Project phase</th>
<th>Project information</th>
<th>Contract phase</th>
<th>Contract information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Identification</td>
<td>Project owner&lt;br&gt;Sector, subsector&lt;br&gt;Project name&lt;br&gt;Project Location&lt;br&gt;Purpose&lt;br&gt;Project description</td>
<td>Procurement</td>
<td>Procuring entity&lt;br&gt;Procuring entity contact details&lt;br&gt;Procurement process&lt;br&gt;Contract type&lt;br&gt;Contract status (current)&lt;br&gt;Number of firms tendering&lt;br&gt;Cost estimate&lt;br&gt;Contract administration entity&lt;br&gt;Contract title&lt;br&gt;Contract firm(s)&lt;br&gt;Contract price&lt;br&gt;Contract scope of work&lt;br&gt;Contract start date and duration</td>
</tr>
<tr>
<td>Project Preparation</td>
<td>Project Scope (main output)&lt;br&gt;Environmental impact&lt;br&gt;Land and settlement impact&lt;br&gt;Contact details&lt;br&gt;Funding sources&lt;br&gt;Project Budget&lt;br&gt;Project budget approval date</td>
<td></td>
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<tr>
<td>Project Completion</td>
<td>Project status (current)&lt;br&gt;Completion cost (projected)&lt;br&gt;Completion date (projected)&lt;br&gt;Scope at completion (projected)&lt;br&gt;Reasons for project changes&lt;br&gt;Reference to audit and evaluation reports</td>
<td>Implementation</td>
<td>Variation to contract price&lt;br&gt;Escalation of contract price&lt;br&gt;Variation to contract duration&lt;br&gt;Variation to contract scope&lt;br&gt;Reasons for price changes&lt;br&gt;Reasons for scope &amp; duration changes</td>
</tr>
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</table>
The CJID reviewed 22 projects (estimated at over $8 billion) funded through loans from China. Data for the assessment was obtained from Boston University’s Chinese loans to Africa database and Nigeria’s Debt Management Office (DMO), through a dataset running from 2002 to 2020. The loans all have a seven-year grace period each and 20-year tenors at between 2.5% and 3% interest rates. They, however, have varying maturity dates.

Of the 22 projects evaluated, 19 were recorded as ongoing, completed or abandoned, while funds were yet to be disbursed for the remaining three, including the popular Nigerian Parboiled Rice Processing Plant. Regarding funding sources, 16 of these 19 projects were supported directly with loans from the China Import-Export (Chexim) Bank. In contrast, the others were obtained from financial institutions in China, such as the Industrial and Commercial Bank of China (ICBC) and China Development Bank.

### All Projects Under Review

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Amount (Year)</th>
</tr>
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<tbody>
<tr>
<td>Ogun State, Papalanto Gas Power Project 335MW</td>
<td>$114.8m(2002)</td>
</tr>
<tr>
<td>Ondo State, Omotosho Gas Power Plant Project 335MW</td>
<td>$170m(2002)</td>
</tr>
<tr>
<td>ZTE Nigerian Local Government Rural Telephony Project</td>
<td>$82.2m(2002)</td>
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<tr>
<td>ALCATEL Nigerian Local Government Rural Telephony Project</td>
<td>$77.5m(2002)</td>
</tr>
<tr>
<td>Nigerian Communications Satellite(NIGCOMSAT) Project and NIGCOMSAT 1R(Replacement Project)</td>
<td>$200m(2004)</td>
</tr>
<tr>
<td>Nigerian Railway modernization project (Idu-Kaduna)</td>
<td>$500m(2010)</td>
</tr>
<tr>
<td>Nigerian National Public security communication system project</td>
<td>$470m(2010)</td>
</tr>
<tr>
<td>Nigeria ICT Infrastructure backbone Project (I)</td>
<td>$100m(2013)</td>
</tr>
<tr>
<td>Zungeru Hydroelectric Project 700MW</td>
<td>$1.30bn(2013)</td>
</tr>
<tr>
<td>4 Airports Terminal Expansion Projects</td>
<td>$500m(2013)</td>
</tr>
<tr>
<td>Nigerian 40 Parboiled processing plants projects</td>
<td>$325.67m(2016)</td>
</tr>
<tr>
<td>Greater Abuja water Supply Project</td>
<td>$379.69m(2018)</td>
</tr>
<tr>
<td>Enugu Housing - 72 Units (FIT Consult/ICBC)</td>
<td>$42.5m(2017)</td>
</tr>
<tr>
<td>Four Airport Terminal Expansion Ancillary Project</td>
<td>$183.6m(2017)</td>
</tr>
<tr>
<td>Four Airport Terminal Expansion Incremental Project</td>
<td>$328m(2018)</td>
</tr>
<tr>
<td>Nigeria Supply of Rolling Stocks and Depot Equipment for Abuja Light Rail Project</td>
<td>$157m(2018)</td>
</tr>
<tr>
<td>Nigeria Electrification (NEP)Worldbank, AfDB and AGTF</td>
<td>$1.2bn(2018)</td>
</tr>
<tr>
<td>Nigeria federal Roads Development Project - Worldbank</td>
<td>$365m(2018)</td>
</tr>
<tr>
<td>Four Airport Terminal Expansion Incremental Project</td>
<td>$208.9m(2019)</td>
</tr>
<tr>
<td>Nigeria Transmission Expansion Project 1 - AfDB and AGTF</td>
<td>$260m(2019)</td>
</tr>
</tbody>
</table>
Project Breakdown by Sectors

Nine Transport Sector Projects: The 78-kilometre Railway Modernisation Project 1 (Idu-Kaduna); Abuja Light Rail Project; four Airport Terminal Expansion Projects; Lagos-Ibadan Railway Modernisation Project II; Abuja-Keffi-Makurdi Road Rehabilitation and Upgrade; 227-kilometre Supply of Rolling Stocks and Depot Equipment for Abuja Light Rail Project; Lekki Deep Water Port; four Airport Terminal Expansion/Incremental Projects; four Airport Terminal Ancillary Projects.

Seven ICT Sector Projects: ALCATEL Nigerian Local Government Rural Telephony Project; ZTE Nigerian Local Government Rural Telephony Project; Nigerian Communications Satellite (NIGCOMSAT); Public Security Communication System Project; Nigerian Communications Satellite (NIGCOMSAT) Replacement Project; ICT Infrastructure Backbone I Project; National ICT Infrastructure Backbone Phase II Project.

Three Power Sector Loans: The 335 MWs Ogun State Papalanto Gas Power Project; 335 MWs Ondo State Omotosho Gas Power Plant Project; and 700MWs Zungeru Hydroelectric Project.


Other Social Projects: 72 Units of Enugu Housing, and 40 Nigeria Parboiled Rice Processing Plants Project (Federal Ministry of Agriculture and Rural Development).
Details revealed that the loans of $100 million for the four Nigerian Airport Terminal Expansion Projects (Abuja, Kano, Lagos and Port Harcourt) and $984.32 million for the 700MW Zungeru Hydroelectric Project, were obtained in July and September 2013 respectively. Loans for the four Nigerian Airport Terminal Expansion Projects have 91% disbursement rates, while that for the Zungeru Hydroelectric Project has a 53% disbursement rate.

In terms of loans for the 40 Nigerian Parboiled Processing Plants Project at $325.67 million and for the Supply of Rolling Stocks and Depot Equipment for the Abuja light Rail Project of at $157 million, no amount had been disbursed by the 21st of March, 2020, and no interest had been paid either.

The loans for the Nigerian Railway Modernisation Project (the Lagos-Ibadan section) at $1,267.32 million and the Rehabilitation and Upgrading of the Abuja-Keffi-Markurdi Road Project at $460.82 million, were both obtained in August 2017, with an interest rate of 3% each. The Nigerian Railway Modernisation Project has a disbursement rate of 61%, while the Upgrading of the Abuja-Keffi Markurdi Road Project has a disbursement rate of 18%.

The Nigeria Greater Abuja Water Supply Project loan was obtained in May 2018, with an interest rate of 2.50%. No amount had been disbursed as of 21 March 2020, and no interest has been paid either.

Limitations of the Research On Nigeria’s Loans

During CJID’s assessment of Nigeria’s capital flows and investment processes, it was identified that there is a significant shortage of information available to the public on these issues.

Despite laws and established processes, crucial details and key dates regarding project processes and funding are not readily accessible.

This lack of transparency hinders the ability to track the flow of funds and raises concerns about accountability in the system.

Unavailable and Inadequate Information in the Ecosystem

The research findings highlight a crucial issue concerning the non-availability of and inadequate public dissemination of information regarding loan timing, disbursement, and the utilisation of counterpart funding. The absence of transparency in these areas creates significant challenges for citizens and relevant stakeholders who seek to comprehend the allocation and flow of financial resources to the projects and ensure effective public monitoring and oversight.

Gaps in information on loan timing, contracting processes or lending institutions impede the public’s ability to assess when funds will be available for specific projects or initiatives. Similarly, the limited dissemination of details regarding loan disbursement poses significant challenges. Without access to information on how funds are allocated and distributed, citizens and stakeholders face difficulties in understanding how financial resources are channeled into the various projects and sectors. This lack of transparency can lead to concerns about mismanagement, corruption, or favouritism pertaining to specific projects over others.

Moreover, the research revealed a lack of transparency in the utilisation of counterpart funding, which refers to the financial contributions made by recipient states or government entities to complement the external loans received. Ensuring that these resources are effectively and efficiently deployed becomes challenging without sufficient information on how counterpart funding is utilised. The absence of transparency may raise suspicions about the appropriate use of the funds, further undermining public trust and confidence in
Challenges with “Following the Money”

The lack of correlation between the funds allocated or borrowed for the execution of capital projects and the availability or completion of the end products raises significant concerns about financial management and project implementation. This disconnect undermines transparency, accountability, and the efficient utilisation of resources.

In ideal situations, the funds allocated or borrowed for capital projects should align with the availability and successful completion of the intended infrastructures, facilities, or initiatives.

However, when there are no correlations between the allocated funds and the end products, these suggest breakdowns in several key areas.

First, they indicate failure in the planning and budgeting processes. Proper planning and budgeting are crucial to ensuring that the financial resources allocated to capital projects are realistic, adequate, and aligned with the desired outcomes. The lack of correlations suggests that either the initial estimations of costs were inaccurate or that funds were allocated without a clear understanding of the requirements of these projects.

Secondly, they point to potential issues in project management and execution. Effective project management involves monitoring the progress, cost, and quality of projects to ensure that they remain on track and within the allocated budgets. The absence of correlations in this regard suggests the lack of effective oversight, which can lead to cost overruns, delays, or even abandoned projects.

Thirdly, the lack of correlations raises concerns about financial accountability. It then becomes challenging to track and account for the utilisation of funds if there are no clear connections between the allocated resources and the tangible outcomes. Such opacity opens the door for mismanagement, corruption, or the diversion of funds from the intended purposes.
Implications for Transparency and Accountability

The absence of information negatively impacts transparency and accountability within the capital investment landscape. Holding relevant stakeholders accountable for their actions and decisions becomes challenging without clear visibility of funding sources, disbursement timelines, and project progress. This lack of transparency undermines public trust, hampers effective governance, and increases the risk of mismanagement or corruption.

The lack of transparency enables potential corrupt practices, as decision-makers can exploit the lack of oversight and accountability to divert funds for personal gain or non-productive purposes.

Inadequate information dissemination thus creates an environment where capital flows can be easily manipulated, misused, or misappropriated, leading to corrosive capital.

When capital flows cannot be effectively monitored and traced, this perpetuates corrosive practices and undermines the integrity of the investment processes. These factors create environments conducive to corruption, mismanagement, and the diversion of funds, thereby undermining the intended benefits of capital investment and hindering Nigeria's sustainable and inclusive development. These corrupt environments give lenders the opportunity to exploit Nigeria, inciting debt dependencies, providing opportunities for them to achieve their underlying political motives, and yielding negative impacts on local communities and private sectors.

Recommendations for Transitioning from Corrosive to Constructive Capital

The transition from corrosive to constructive capital is crucial for Nigeria's sustainable development and economic growth. By implementing the following recommended measures, Nigeria can attract investments that adhere to market principles, contribute to inclusive development, and address the needs of local communities. This policy report underscores the importance of governance, transparency, stakeholder engagement, market intelligence, regulatory reforms, and capacity building in driving the shift towards constructive capital. Through these efforts, Nigeria can position itself as an attractive investment destination while ensuring long-term benefits to its people and the nation.
Enhance Institutional Independence and Strengthen the Rule of Law

Separating politics from the polity is crucial to moving Nigeria from corrosive to constructive capital. This involves separating men (leaders of institutions) from institutions (overall governance systems). Laws and institutions need to carry more weight than whoever is in charge. This can be achieved by de-politicising institutions, enhancing their capacities, strengthening the rule of law, promoting transparency and accountability, encouraging citizen participation, and fostering a culture of political ethics. By establishing this separation, Nigeria can ensure that state institutions are independent, effective, and responsive to the needs of the people. This will potentially lead to a governance system that is more stable and capable of attracting constructive capital for economic growth and fosters an environment where political and economic interests are aligned, ultimately benefiting both the nation and its citizens. This will potentially lead to a governance system that is more stable and capable of attracting constructive capital for economic growth and fosters an environment where political and economic interests are aligned, ultimately benefiting both the nation and its citizens.

Improve Transparency and Accountability in Procurement Processes

To address the issue of government officials and individuals exploiting loopholes in existing laws, it is crucial to improve transparency and accountability in procurement processes. This can be achieved by implementing measures such as the public disclosure of procurement contracts, ensuring fair and competitive bidding processes, and establishing independent oversight bodies to monitor and investigate potential corruption cases or misuse of public funds. The Public Procurement Act 2007 established the Bureau of Public Procurement (BPP) as the regulatory authority responsible for the monitoring and oversight of public procurement, harmonizing the existing government policies and practices by regulating, setting standards and developing the legal framework and professional capacity for public procurement in Nigeria. By increasing transparency, governments can be held accountable for their actions, therefore reducing the opportunities for misconduct and enhancing public trust in the procurement system.
Strengthen Procurement Laws and Governance

Reinforcing procurement laws is essential for preventing corruption and ensuring effective governance. This involves regularly reviewing and updating existing laws to address emerging challenges and changing dynamics in the procurement landscape. Measures can include establishing clear guidelines and regulations, streamlining procedures, and implementing strict penalties for violations. In addition, providing adequate training and capacity-building programmes for procurement officials can enhance their understanding of the legal framework and promote ethical conduct throughout the procurement process. Again, this responsibility is constitutionally saddled on the BPP.

Integrate Environmental Considerations in Procurement Policies and Practices

Prioritising green issues and sustainable development practices is crucial to preventing environmental degradation. Governments should integrate environmental considerations into their procurement policies and practices while preferring suppliers and contractors who demonstrate environmentally responsible approaches. This can involve assessing the environmental impact of goods and services throughout their lifecycles, promoting energy efficiency and resource conservation, and supporting sustainable supply chains. By prioritising green initiatives, governments can contribute to mitigating climate change, reducing pollution, and ensuring the long-term sustainability of natural resources.

Promote Good Governance through Incentives and International Alignment

Exerting additional pressure on governments can be achieved by providing credible guarantees of eventual membership in various Western clubs. This can include offering incentives, such as access to preferential trade agreements, financial support, and technical assistance, contingent on the adherence of governments to good governance principles, including transparency, accountability, and anti-corruption measures. By aligning incentives with desired outcomes, governments can be motivated to improve their governance practices and demonstrate commitment to international standards.
Strengthen Civil Society Engagement for Governance Accountability

Coordinating messaging with civil society actors on the ground is essential to raising awareness about governance issues and promoting accountability. Collaborating with local and regional media can help to disseminate information, uncover corruption cases, and hold culpable individuals accountable for their actions. By working together, these actors can create a united front in demanding good governance practices and pressuring the government to address existing loopholes and improve transparency in procurement processes.

Address Political Instability and Governance Challenges

Nigeria's unstable political environment often leads to leaders being in perpetual states of crisis management, in which they are more focused on short-term fixes rather than implementing systemic, long-term reforms that can support sustainable development and structural transformation. It is crucial to address the underlying issues in the political system to move Nigeria from a state of corrosive capital to constructive capital. Dr Zainab Usman of the Carnegie Endowment for International Peace (CEIP) has argued that for long-lasting development and progress to be achieved in Nigeria, comprehensive and sustainable reforms that address the root causes of political instability and governance challenges must be implemented.

Conclusion

Nigeria's economic growth and infrastructure development are essential for its future prosperity. However, while the country tends to rely heavily on borrowed funds, the inefficient utilisation of these resources has impeded its economic progress. To address the attendant challenges, Nigeria must promote constructive capital investments. Constructive capital investments are essential for propelling Nigeria's infrastructure development, which is crucial for economic activities to thrive. Adequate investments in transportation systems, power generation, and water supply are essential for fostering economic growth and further attracting foreign investors. Improved infrastructure enhances connectivity and stimulates trade and commerce, ultimately contributing to Nigeria's overall
prosperity. Moreover, constructive capital investments create employment opportunities across various sectors. These involve projects that require substantial workforces, ranging from construction workers to engineers and technicians. By generating employment, Nigeria can alleviate poverty and enhance the living standards of its people and communities.

Furthermore, constructive capital investments have the potential to support economic diversification by encouraging investment in non-oil sectors. Historically, Nigeria has relied heavily on oil revenues, rendering it vulnerable to global oil price fluctuations. Diversifying the economy will enable Nigeria to establish sustainable sources of income and stimulate growth in sectors such as agriculture, manufacturing, and services. Through partnerships with foreign investors and multinational corporations, constructive capital investment facilitates technology transfer and knowledge exchange. This invaluable exchange allows the country to acquire advanced technologies, innovative practices, and managerial expertise, thus fostering the development of domestic industries while enhancing productivity and promoting innovation across various sectors.

Nigeria must improve on governance and transparency in project implementation to achieve these goals. Adhering to proper procurement processes, ensuring transparency in project financing and costs, and enforcing accountability mechanisms will help to combat corruption, mitigate the risk of fund mismanagement, and promote efficient project execution. Strengthening governance frameworks will build trust with investors, encourage responsible capital investment, and safeguard the interests of local communities.

In summary, promoting constructive capital investments is necessary and a fundamental step towards Nigeria’s development and economic growth. By driving infrastructure development, creating jobs, diversifying the economy, facilitating technology transfer, supporting sustainable practices, and improving governance and transparency, Nigeria can foster inclusive and sustainable development that benefits both the investors and local communities.