NIGERIA INFRASTRUCTURAL DEFICIT AND AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA): WHAT CONNECTIONS? WHAT SOLUTIONS?

Protocol

- ✓ Mr. President of our great Institute
- ✓ Members of the governing council
- ✓ The body of Fellows here present
- ✓ The Registrar of the Institute
- ✓ Associate Members

I am pleased to be here. Thank you very much for considering me worthy to be invited as a Speaker.

The organizers have invited me to speak on the first Sub-theme of the conference **"Nigeria Infrastructural Deficit and African Continental Free Trade Area (AfCFTA): What Connections? What Solutions?"** In other words, we shall be engaging ourselves on the nexus between AfCFTA and infrastructural deficit.

Mr. President Sir, you will remember that in May 1963 in Addis Ababa, Ethiopia, the Organization of African Unity (OAU) was established with 32 Governments signing the Treaty. It was the first regional body in the Continent. The OAU later transformed into African Union (AU) in 2002 and now has all the 55 countries in the continent as members without prejudice to the recent suspension of Sudan.

In January 2012, at the 18th Ordinary Session of the Assembly of Heads of States and Governments of the AU in Addis Ababa, Ethiopia, the summit agreed to establish the

Continental Free Trade Area and endorsed the action plan on boosting Intra-Africa Trade which identifies seven areas of cooperation, namely:

- Trade Policy,
- Trade Facilitation,
- Productive Capacity,
- Trade Related Infrastructure,
- Trade Finance,
- Trade Information and
- Factor Market integration.

These are expected to lay the foundation for the establishment of a Continental Customs Union at a later stage.

The rationale behind the trade agreement is to create a single market for goods and services. This trade agreement is aimed at helping African Countries to boost economic and trade growth, transform their economies and achieve SDGs and AU agenda 2063 (UNCTAD 2019). The AU agenda 1963 is a shared framework for inclusive growth and sustainable development for Africa to be realized in 50 years.

The basis for economic integration at a continental level is multi-faceted and fairly well established. A Free Trade Agreement like the AfCFTA, promises a number of benefits for diverse players in the economy. For instance, from a consumer point of view, continental integration is likely to increase access to a wider variety of products as well as fostering competition among continental producers.

The idea of continental integration is not new. Suffice to say that there are a number of Regional Economic Communities (RECs) within Africa, eight of which are recognized by the AU and these are:

i. The Arab Maghreb Union (AMU)
ii. Common Market for Eastern and Southern African (COMESA)

iii. Community of Sahel – Saharan States (CEN-SAD)
iv. East African Community (EAC)
v. Economic Community of Central African State (ECCAS)
vi. Economic Community of West African States (ECOWAS)
vii. Inter-Governmental Authority on Development (IGAD) an eight country trade bloc in Africa which includes governments from the Horn of Africa, Nile Valley and the African Great Lakes
viii. Southern African Development Community (SADC)

According to the World Bank, the AfCFTA will create the largest Free Trade Area in the world measured by the number of countries participating and connecting **1.3 billion people across 55 countries** with a combined GDP valued at **US $3.4 trillion**. It also has the potential to lift 30 million people out of extreme poverty, though this depend on putting in place significant policy reforms and trade facilitation measures.

Trade between African Countries is considerably low if we compare with trade between Africa as a continent and other continents and again, if we compare with what volume of trade the other continents do among themselves.
According to the "Economic Development in Africa" Report 2019 by UNCTAD.

- Total trade from Africa to the rest of the world averaged **US $760 billion** in current prices in the period 2015 -2017, compared with **$481 billion** from Oceania, **$4,109 billion** from Europe, **$5,104 billion** from America and $**6, 801 billion** from Asia.
- The share of export from Africa to the rest of the world ranged from 80% to 90% in 2000 – 2017. The only other region with a higher export dependence on the rest of the world is Oceania.
- Intra- African exports were 16.6% of total exports in 2017, compared with 68.1% in Europe, 59.4% in Asia, 55.0% in America and 7.0% in Oceania.

- Intra – Africa trade, defined as the average of intra- Africa exports and imports, was around 2% during the period 2015- 2017, while comparative figures for America, Asia, Europe and Oceania were, respectively 47%, 61%, 67% and 7%.
- In 2016, intra – regional economic community trade was highest in SADC **($34.7 billion,** followed by CEN-SAD **($18.7 billion)**, ECOWAS **($11.4 billion)**, COMESA **($10.7 billion),** EAC **($3.1 billion)**, IGAD **($2.5 billion)** and ECCAS **($0.8 billion).**
- With regards to the share of intra – regional economic community trade in total trade in Africa, in 2016, there were deeper levels of per cent), IGAD (49.0 per cent), EAC (48.3 per cent) and ECCAS (17.7 per cent).
- The 10 leading intra-African exporters in 2015-2017 were Eswatini (70.6%), Namibia (52.9%), Zimbabwe (51.6%), Uganda (51.4%), Togo (51.1%), Senegal (45.6%), Djibouti (41.9%), Lesotho (39.9%), Kenya (39.3%) and Malawi (38.3%).
- The 10 countries with the lowest share of intra – African exports were Chad (0.2%), Guinea (1.6%), Eritrea (2.3%), Equatorial Guinea (3.5%), Cape Verde (3.6%), Angola (3.9%), Libya (4.5%), Guinea Bissau (4.7%), Liberia (5.1%) and Algeria (5.5%).
- On average, applied tariff rates to intra-regional economic community members amount to 7.4% in CEN-SAD, 5.6% in ECOWAS, 3.8% in SADC, 2.6% in AMU, 1.89% in COMESA in ECCAS, 1.86% in IGAD and zero in EAC.
- Sub-Saharan Africa has the highest cost to export compared with all other regions and the highest cost to import with the exceptions of Latin America and the Caribbean based on border compliances and South Asia, based on documentary compliance.
- In 23 developing countries (13 in Africa) and LDCs during 2010-2013, 35% of the most difficult non-tariff measures applied by partner countries to manufacturing exports concern rules of origin and related documentation.

A quick look at the Continents with seemingly high volume of internal trade reveals that they share certain positive variables that may have aided the high level of trade. These variables range from the improved infrastructure, such as power, good transport networks, affordable internet services, to more efficient trade structures and policies. Conversations around tariffs and taxes are also clear and there is enhanced certainty around trade policies and their implementation.

If these variables are the major catalysts of intra continental trades in these other regions, one will then not be surprised by the abysmal low level of trade amongst African nations. There is a visible imbalance of the required variables and most African countries are still battling the dual monsters of a tremendous infrastructural deficit and policies that are impossible to implement, given the present structure.

Moreover, the Continent has constantly operated on a faulty trade equation, where nations consume what they have no capacity to produce and produce what it has no intention to consume, at least not in the raw state of production. Hence, its only option of a meaningful exchange is to explore external markets. This explains the reason for a higher level of trade engagements between Africa and America and European nations, than among nations in Africa. Trade barriers, outrageous tariffs and rigorous procedures have not helped matters either.

Nigeria Infrastructural Deficits

Infrastructure is the general term for the basic physical systems of a business, region or nation. Examples include Transportation System, Communication Networks, Sewage Water and Electric Systems. These systems tends to be capital intensive and high cost investment and are vital to a country's economic development and prosperity.

It is the foundation upon which the structure of the economy is built. And very often involves the production of either public goods or goods that lend themselves to production by natural monopolies.

Infrastructure can be put into several different types including:

i. Soft Infrastructure – These types of Infrastructure make up institutions that help maintain the economy. Examples include the healthcare system, financial institutions, governmental systems, law enforcement and education system.
ii. Hard Infrastructure – these make up the physical system that make it necessary to run a modern industrialized nation. Examples include roads, highways, bridges well as the capital assets to make them operational (transit buses, vehicles etc.).
iii. Critical Infrastructure – these are assets defined by a government as being essential to the functioning of a society and economy, such as telecommunication, public health, agriculture etc.

There is also IT Infrastructure which in technical system are also specially considered such as networking equipment and servers. Due to the critical function they provide within specific business environment without the IT Infrastructure or if it falls, many business function cannot be performed.

Infrastructure deficit, in other words Infrastructure gaps is used to indicate the correct need for investment in Infrastructure, whether at global, regional or national level. It is a monetary value that can be expressed in absolute or relative terms

Poor infrastructure is one of the major obstacles to doing businesses in Nigeria. The infrastructural deficit is the result of a steady decline in government infrastructure spending combined with a steady increase in the cost of building additional infrastructure.

Olaseni and Alade, (2012) stated that poor funding, poor governance, corruption, economic sabotage, poor maintenance culture, population explosion, neglect of urban and regional planning laws accounted majorly as the factors responsible for inadequate infrastructure provisions in Nigeria.

Nigeria's growing infrastructure deficit remains a major concern among economic experts and stakeholders because poor infrastructure is one of the biggest impediments to smooth business operation and it also limit capital inflows into the country. The paucity of investment in physical and social infrastructure over the years has continued to limit the growth potential of Africa's largest economy, restricting its ability to exploit its vast amount of natural and human resources towards achieving a broad based, sustainable and inclusive growth.

From poor Port infrastructure, to dilapidated transport networks, epileptic power supply, huge housing deficit, Nigeria infrastructure gap cannot be overemphasized. The IMF estimates Nigeria infrastructure stock at C. 25% of GDP, far below the 70% international benchmark, underscoring the need for government to consider unconventional methods of financing to bridge this huge infrastructure deficit.

More than ever before, the future of Nigeria depends on her ability to build and modernize its infrastructure. Thank God, both past and present governments are aware of this.
In 2015, a 30-year Plan was created for the National Integrated Infrastructure Master Plan (NIIMP) by the National Planning Commission. The plan focused on core infrastructure development at an estimated cost of **$3 Trillion US Dollars**. NIIMP reasonates with recommendation made in the World Bank (2003) Report in which the institution underscored the fact that **"a sound infrastructure development policy setting, is a key ingredient for sustainable long-term growth".**

Unfortunately, the Nigerian geographical terrain is littered with abandoned projects. In 2011, the Federal Government established a Project Assessment Committee which identified and recorded **11,866 projects** that have been abandoned for myriad of reasons.

Nigeria is the largest economy in sub-Saharan Africa but limitations in the Power sector constraint growth. We are endowed with large oil, gas, hydro and solar resources and we have potential to generate **12,522 Megawatt** of electric power from existing plants. On most days however, it is only able to dispatch about 4000 Megawatt which is insufficient for a country of over 200 million people. As a result of that, only few percentage of the population has access to the electricity grid which in any event, is highly unreliable.

Secondary Power System (mostly diesel-powered generators) are common and most factories rely, at great expense on their own energy generators. The absence of reliable electricity power is a major constraint on the cost competitiveness of Nigerian products and industrial space. The creation of a natural power infrastructure that would deliver efficient and reliable power would result in economics of scale and lower costs of production.

The advent of the COVID-19 Pandemic really exposed the decay in the Nigeria health care delivery system. The present infrastructure is mostly worn and need extensive upgrading having been built mostly around the independence of Nigeria in 1960 and left to rot over the years for lack of maintenance. For example, UCH Ibadan was commissioned in 1957, Lagos University Teaching Hospital (LUTH) was commissioned in 1962, and the UBTH in 1973 respectively. Akinsete (2016) reported that as at 2015, there were more than 3,500 healthcare Institutions in Nigeria with about 27% being owned by the Public Sector.

Akinsete (2016) highlighted the imperative for Nigerian tertiary healthcare institutions to explore innovative approaches for closing the yawning healthcare infrastructure gap and that this can be achieved by exploring mutually rewarding partnerships with the Private Sector to drive healthcare infrastructure delivery projects. Policy makers in the Public Sector healthcare institutions should identify variable expansions projects that will significantly contribute to growth objectives through alignment with market demand and supply trends.

There are estimated 197,000 Km of Federal roads in Nigeria, yet less than 18% of these are in good condition. Rising traffic volumes exacerbate the situation by creating congestion and delays that have predictably adverse economic consequences.

Lagos state Government estimated in 2015 that living with frequent traffic gridlock in Lagos has an estimated cost of **$1.7 billion US Dollars** per annum. An efficient railway system is a potential solution to achieving faster growth in the region.

Nigeria Infrastructural Deficit and African Continental Free Trade Area: What Connection?

Mr. President Sir, Infrastructure is basically the base in which economic growth is built upon. Roads, water system, mass transport, Airports and utilities are all examples of infrastructure. It also covers those supporting services that help the growth directly productive activities like agriculture and industry.

Structuralists consider that availability of infrastructure plays important role in markets connectivity and trade promotion while the lack of infrastructure disrupts markets and retards trade. Infrastructure makes a huge difference in the process of development and the comparative edge of an economy particularly in trade (Ahmad et al 2015).

Countries with better infrastructure (such as Singapore, Hong Kong etc.) perform well in International Trade and punch above their weight while other countries with weak infrastructure (such as Bhutan and Pakistan) perform poor on external sector **(Portugal – Perez and Wilson 2021)**. This mean infrastructure is crucial for trade promotion and global economic integration (Brooks and Menon 2008).

Despite the fact that infrastructure affects the cost of production and level of trade (Clark et al 2000), many International trade theories overlooked the role of infrastructure. Traditional International Trade Theories assumed Zero transportation and energy cost which hardly justify the realities on ground especially at a time when infrastructure services play a dominant role in the regional as well as International Trade **(Djankov et al 2010).**

Hoekman and Niceta (2008) argues that 10% decrease in transport costs increase trade by 6% while 10% increase in overall investment in infrastructure contributes 5% to exports in developing countries. On the other hand, lack of infrastructure increase the cost of production, reduces profitability and causes unnecessary delay in economic activities (Duval and Utoktham 2009). There is therefore no gain-saying in the fact that improvement in infrastructure alters the comparative advantage of production, as it reduces the production costs and increase the comparative prices of the products to be exported.

We can learn from the problems we currently face as members of the Economic Community of West African States which was set up to promote economic cooperation among Member States and promote economic development by developing a Free Trade Area and adopting a common external tariff much like the AfCTA. Despite these integration policies, infrastructural issues remain a hindrance to achieving the goals for which the agreement was established. For example, the difficulties in transporting goods within the ECOWAS remains a hindrance. In an example cited by a UN Report, a trader imports leather from Hamburg in Germany to Lagos in Nigeria and pays **$968** for a 40-foot container however, to transport the same container from Lagos to Tema Port in Ghana costs **$1566** due to transportation challenges.

The state of infrastructure does not only affect the transportation of goods but also affects business owners and their ability to be competitive. The infrastructural problem is so poor that private individuals and business owners have to take the initiative and invest their resources to construct roads leading to their factories, dig boreholes and generate electricity to facilitate production and logistics.

Infrastructural development plays a pivotal role in enhancing economic growth, improving living standards, reducing poverty and contributing to environmental sustainability. Between 2009 and 2013, Nigeria invested a paltry **$664 per capital** per annum in infrastructure (3% of GDP) compared with an average investment of **$3,060** (5%GDP) in developed countries. This has widened the country's infrastructure gap and has been a major impediment to economic growth. According to Moody a leading rating agency, Nigeria's infrastructure gap is estimated at **$3trillion** which is six times the size of its annual GDP. This poses a major funding challenge in the face of current fiscal imbalances. Besides, the country is currently grappling with the hydra headed problems of inflation 17.33%, unemployment (33.3%) and rising debt.

Lack of infrastructure increases the cost of production, reduces profitability and causes distortion in economic activities. Besides, it prevent serious investors from coming to Nigeria. For example Toyota Tsusho Manufacturing Ghana Co Ltd started first vehicle assembly by Japanese Company in Ghana this year with the manufacturing of "Toyota" Hilux Pick-up Truck. The company also plans to start SKD production of Suzuki Motor Corporation Swift Compact Car in 2022. Moreover the South Korean Car manufacturers Hyundai motor company and KIA motors will set up car manufacturing unit in Ghana by the end of 2022. Ghana also announced that it would offer Car making companies like Volkswagen and Nissan tax break of up to 10years in a bid to attract automakers to the West African economy. In totality it is estimated that Ghana Auto Development Programme will create 6600 manufacturing parts jobs in Ghana.

Why is Ghana so attractive to these manufactures? One may ask. Simply because they have a better infrastructure than Nigeria. Nigeria is the biggest economy in Sub Saharan Africa and by the letters of AfCFTA which Nigeria is a signatory, I won't be surprised if the target market for all these vehicles is Nigeria.

Closing the infrastructural gap will help the economy:

a). **<u>Forster industrial development</u>**

The level of capital formation and an increase in productivity are keys variables in determining the optimal levels of industrial development. Infrastructural development helps to reduce the constraints to growth. The industrial sector accounts for about 21.55% of Nigeria GDP. South Africa is a great example. The country is one of the top five countries in Africa with the best infrastructure and it is the most industrialized and technologically advanced country in the continent.

b). **<u>Employment Opportunities</u>**

Anecdotal and empirical evidences have shown a positive correlation between infrastructure development and employment generation. Countries with adequate infrastructure seem to attract investment, which in turn helps in creating more employment. According to the African Infrastructure Development Index, Nigeria ranks 23 out of 54 African economic developments. No wonder Nigeria has the second highest unemployment rate in Africa (33.33%) after Namibia (33.4%). Although, South Africa recently overtaking Namibia with 44.4% in the Second Quarter of 2021.

c). Serves as Catalyst for Growth

Infrastructure development plays a crucial role in the economic development of a country. Investing key infrastructure projects such as transportation and communication networks and reliable electricity infrastructure will impact positively on growth and development. This is because improved infrastructure helps to lower production costs and has a positive impact on the ease of doing business.

Nigeria Infrastructure Deficit and African Continental Free Trade Area: What Solutions?

The current fiscal structure of government is characterized by low internally generated revenue, undiversified export earnings, rising recurrent expenditure profile, high cost of governance, wasteful way of life, etc. and all these have contributed to the reliance on borrowings with attendant high cost of servicing. It has been estimated that a large percentage of our country's revenue is used to service debt.

The Government needs to explore unconditional methods of financing to bridge the huge infrastructural deficit.

The efforts of the present Administration in tackling the infrastructural decay in Nigeria is commendable. No Government in the history of Nigeria has been more committed to upgrading the infrastructural facilities in this country as this Government has done since 2015.

The Federal Government has tackled our infrastructural challenges with a combination of improved capital budgeting and implementation, initiatives such as Public Private Partnership (PPP) model, concessioning and privatization of state owned enterprises, raising of Sukkuk of model funding to finance road projects. All these efforts are commendable.

A reduction in the country's infrastructure gap will not only boost economic growth, it will also give the country a competitive advantage under the Africa Continental Free Trade Area (AfCFTA) agreement.

In February 2021, President Muhammad Buhari approved the establishment of public partnership Infrastructure Company named "Infra Co" with an initial capital seed of One Trillion Naira (#1 trillion) which is expected to grow to Fifteen Trillion Naira (#15 trillion) in assets and capital over time. The approval by Mr. President to establish "Infra Co" has confirmed the sincerity of the President and his determination to put Nigeria in the right direction as far as upgrading the country's infrastructural facilities is concerned.

The establishment of "Infra Co" is expected to attract private sector participation in the nation's quest to bridge its infrastructure deficit that are necessary for the growth across all sectors of the economy.

<u>Policy Recommendation and Conclusion</u>

Mr. President Sir, ladies and gentlemen, a discussion of this nature will not be complete without some Policy Recommendation and Conclusion.

Hence I hereby submit the following for our policy makers. All in a bid to improve in our joint efforts to make Nigeria a worthy place to live.

As earlier mentioned, Olaseni and Alade (2012) identified poor funding, poor governance, corruption, economic sabotage, poor maintenance culture etc. as bane of our infrastructure decay.

1. My first policy recommendation therefore would be for all of us both the government and the people to turn all these vices into way of life into virtues.

2. Sometimes ago, the Federal Government of Nigeria issued Sukkuk to finance some road projects in the country. For ease of understanding Sukkuk are Sharia – Compliant Financial Certificates through which investors gain partial ownership on an issuer's assets until maturity. The Minister of Finance, Budget and National Planning Mrs. Zainab Ahmed said that a sum of **#669b** was raised from the Nigerian Capital Market through three different issuance of Sukkuk Bonds. This financing was used to construct and rehabilitate forty – four (44) roads across the six (6) geo political zones of our country. Judging by the success of these mode of financing, one can only encourage Government to go for more as this will close our infrastructural gaps all the more and deepen the nation's capital market operations.

3. In August 2021, the Federal Executive Council approved the reintroduction of toll collection system on some selected dual motorways across the country with vehicles paying between #200 and #500 toll per trip, depending on the vehicle type. I am fully in support of this policy, provided the money realized will be ploughed back to maintain the roads and make our roads safer. I rather spend #200 as toll fee from Lagos to Ibadan rather than spend five (5) hours on a journey that should not ordinarily take more than one and half ($1^{1/2}$) hours. In the face of dwindling resources, Government alone lacks capacity of shouldering the responsibilities for taking care of all our infrastructure. Quid Pro quo is the right Latin phrase. To whom much is given much is expected. Nigerians are not averse to paying for facilities they enjoy. What they dislike is when they don't have value for their money or when they notice that their money finds its way into private purse.

4. One of the crucial functions of the Nigeria Security and Civil Defence Corps apart from protecting lives is to protect specifically our National Assets from vandalism. The Corps is hereby recommended to be strengthened both with Human and Material resources to enable it perform its statutory rules.

5. The Federal Highway System of Nigeria also known as Trunk A national roads connects economic and political centers within the country. In addition it links Nigeria with its neighboring countries. These roads are constructed and maintained by the Federal Government of Nigeria through the Federal Ministry of works and the Federal Maintenance Agency.

   I recommend that responsibilities for the maintenance of these Trunk A roads and indeed some of our National Assets under the supervision of the Federal Government should be transferred to the State Governments in whose jurisdictions such assets are domiciled. The State Governments are closer to these assets and they will be able to maintain them better. This will however involve constitutional amendment and review of Revenue Allocation Formula to enable the State Governments perform this function effectively.

6. The Infrastructure Concession Regulatory Commission is on agency of the Federal Government responsible for the development and implementation of Public Private Partnership (PPP) framework for the provision of infrastructure services. The commission was established in 2008 with the aim of addressing Nigeria's physical infrastructure deficit which hampers economic development. I strongly recommend that the Commission be strengthened with human and material resources together with its legal framework to enable it perform maximally in the realization of the objectives to which it is set up. The Commission should also embark on public campaign both nationally and internationally so as to create awareness in the mind of both private and public investors.

In conclusion Mr. President, the African Continental Free Trade Area Agreement is a noble concept that would reduce/remove tariffs and boost Intra African Trade. It is designed to put Africa on the global trade map in the same way similar arrangements have done for nations in South East Asia.

It is therefore important for us as a country to fix our infrastructural landscape and implement a more friendly custom reforms that will improve logistics and the ease of doing business in the country. This will enable us as a country take a better advantages of the agreement apart from turning our great country into dumping ground.

Africa policy makers must prioritize investments in regional infrastructure so as to catalyze integration and facilitate intercontinental trade. **"A sound infrastructure development policy setting, is a key ingredient for sustainable long-term growth".**

Thank you all for your kind attention.

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