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NATION BUILDING AND INTERNATIONAL FINANCINGS – A LEGAL PERSPECTIVE

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ABSTRACT

This article explores the challenges and opportunities for nation building in Nigeria in the context of the immediate aftermath of the 2023 elections, the twilight of the inauguration of the new administration, led by Senator Bola Ahmed Tinubu and the urgent need to address the critical issues of infrastructure deficit, palpable poverty, and inadequate access to basic services.

The article discusses the importance of international financing as a critical source of funding for sustainable development and highlights the importance of aligning national financing objectives with the United Nations' Sustainable Development Goals (SDGs). It emphasizes the need for clear development plans, coordination of risk mitigation mechanisms, cooperation of multilateral financial institutions and national and subnational committees and agencies, transparent legal and regulatory framework, as well as a robust judicial process, to attract international lenders and ensure effective deployment of financing towards the achievement of national development priorities.

Keywords: International Financing, Nation Building, Sustainable Development Goals, Multilateral Financial Institutions, Development Finance Institutions, Private International Financing, Public International Financing, Nigeria.

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1. INTRODUCTION

There may be no better time to discuss nation-building in the Nigerian context than now – a few weeks into what may very well be an inflection point in Nigeria’s history. The recent elections have exposed the cracks in the country’s fragile democracy and the reaction and increasing tension in the populace ring very resounding alarms. The many things that could go wrong if real solutions are not unearthed to address the deep-rooted sustainable development problems facing the country have never been so glaring. Indeed, challenges of poverty, hunger, illiteracy, weak institutions, and poor infrastructure require urgent attention.

Yet, solving this myriad of challenges will not be an easy task. The data alone is nothing short of appalling. The National Bureau of Statistics reports that there are One Hundred and Thirty-Three Million Nigerians living in multi-dimensional poverty. That is more than three in every five Nigerians without access to basic health, education, employment or security. It gets worse - in the rural areas, more than 72% of the population is poor and more than 90% of the children live in poverty.

According to the Reviewed National Integrated Infrastructure Master Plan, Nigeria has a $2.3tn infrastructure gap. The African Development Bank notes the country needs over US$100 billion annually to close its infrastructure gap. So wide is this gap that the World Bank recently warned that it may take Nigeria 300
years to bridge its infrastructure gap if it continues with the current rate of expenditure allocations. But we don’t have 300 years. With our population projected to hit 400 million by 2050, every second spent not solving and fixing the current deficit is a second bringing us closer to a point where the patience of those under the current strain of the deficit will thin out.

Other critical sectors of the Nigerian economy like agriculture and energy also require billions of dollars in investment in order to be viable. Over 90 million Nigerians do not have access to electricity. Infrastructure assets such as bridges, roads, tunnels and power grids to hospitals, schools, telecommunication networks and ports are critical to sustainable economic growth and progress and we will attempt to address the pathways to this.

2. THE FINANCING OPTIONS

So how can a country such as Nigeria source the capital needed to plug the infrastructure deficit? Capital sources abound and they can be grouped into the four broad heads of

a) Domestic Public Sources;
b) Domestic Private Sources;
c) International Public Sources; and
d) International Private Sources.

The subsequent section provides a short overview of each of these sources.

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2.1 Domestic Public

This source refers to sources such as government income from taxes and proceeds from the sale of natural resources and related products. For most countries, domestic public finance is the largest resource to fund national development plans. In Nigeria, taxes and revenues from oil, gas and other naturally occurring resources form the significant bulk of domestic finance source. Several commentaries and opinions have been expressed on the existence of significant latitude and room to improve non-oil revenues across the country and this would undoubtedly go a long way in providing much needed funds for the implementation of any form of strategy or plan for combating the existing infrastructure deficit. It has also been acknowledged that oil revenues can also improve significantly if effective frameworks for combating corruption and prevalent oil theft in the country are established.

Available reports have consistently confirmed that recurrent expenditure of the government in Nigeria have historically accounted for a significant portion of the annual budget, often surpassing the allocation for capital expenditure (which includes investments in infrastructure and development projects). This clearly indicates that the funds from domestic public sources are inadequate to address the compelling investment needs of the country.

2.2 Domestic Private

The domestic private financing sources refers to funding and capital from financial institutions like domestic commercial banks, and institutional investors such as pension funds, insurance funds, and sovereign wealth funds. Since the banking consolidation policy of the Central Bank of Nigeria implemented in 2004, the Nigerian banking industry experienced unprecedented growth and expansion, leading to more favourable ratings from local and foreign rating agencies, thereby enabling domestic banks to access long term debt from foreign sources. As bigger repositories of

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capital since then, Nigerian banks have been able to improve their participation in transactions focused on infrastructure development. However, the focus on profit has meant that deployed funds from Nigerian banks are only available at highly competitive rates, which may not be feasible for the long term socio-development projects critically needed in the country.

The implementation of the Pension Reform Act of 2004 and 2014 has also led to the evolution of pension fund administrators with a decent quantum of assets under management. The National Pension Commission reported that contributory pension in Nigeria is nearing 10 million registered contributors, with assets under management by Pension Fund Administrators (PFAs) standing at N15.5 trillion as of February 2023. This pool of capital also provides a potent source of funding for infrastructure projects. To harness this source of capital, the National Pension Commission in Nigeria regularly issues guidelines to Pension Fund Administrators (PFAs) regarding the investment of pension funds in infrastructure project. These guidelines provide the framework and requirements for PFAs to invest a portion of pension assets in infrastructure, subject to prudential limits and risk management considerations which are regulated on an ongoing basis, but these guidelines are yet to sufficiently address the risks relating to the development of infrastructural developments in a manner that will propel the deployment of the pensions funds as a fulcrum for attracting much needed international private and public funds into critical areas of infrastructural needs.

2.3 International Public

This source includes aid, grants, and concessional finance provided by other countries and development institutions. This source is sometimes characterized as official development assistance (ODA). ODA is a key source of international financing for sustainable development given the developmental slant and concessionary terms. It involves the transfer of funds from developed countries to developing countries for the purpose of

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supporting their development efforts. ODA can take many forms, including grants, loans, and technical assistance.

According to the World bank, the net official development assistance received by Nigeria in 2021 was USD3,357,189,941. Whilst this figure is significant, the needs in Nigeria and other African countries are significantly higher than the current levels of grant and there is an undisputable need for international financial institutions and donor countries to increase the availability of financial resources for Africa’s development. In this regard, the African Development Bank has led the clarion call for a greater proportion of International Monetary Fund’s Special Drawing Rights (SDRs) (i.e., an international reserve asset through which the International Monetary Fund supplements member countries’ official reserves) to be channelled towards African countries’ sustainable development.10

2.4 International Private

This source comprises a broad range of financing options and sources. The primary forms include foreign direct investment, in the form of bilateral and syndicated loans, short-term and long-term debt flows in the form of loans and bonds from international commercial banks, multilateral development banks and financial institutions and foreign export credit agencies. It also includes remittances and other forms of market-based financing like portfolio equity and debt flows from global pension funds, sovereign wealth funds, and private equity firms.

According to various estimates and reports, the global pool of private capital available for infrastructure investment is substantial. For instance, the Global Infrastructure Hub’s 2019 Global Infrastructure Outlook estimated that the global infrastructure investment need between 2016 and 2040 was around $94 trillion, with a significant portion expected to come from private sources.11 In the decade since the global financial crisis of

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2007 through 2009, it is estimated that well over US$200bn has been raised by investment funds to deploy long term capital into infrastructure investments globally.\(^{12}\) It is also estimated that at least the same level of capital has been allocated to infrastructure projects by organisations seeking to invest directly rather than through investment funds and other sources. In fact, IJGlobal, the global infrastructure journal estimates that over US$110bn of private capital is available globally for infrastructure projects from unlisted equity funds\(^{13}\)

3. ADDRESSING THE CHALLENGES TO THE FLOW OF CAPITAL

The effective deployment of the various sources of capital addressed above are critical to addressing the extant deficit and they can be adapted and deployed to infrastructural projects and transactions under various financing structures and frameworks. Structured financing mechanisms such as public private partnership, project finance, leveraged finance, pre-export finance, forward sale/prepayment, reserve base lending, securitization, asset finance, aircraft finance, shipping finance, real estate finance, Islamic finance and international trade finance can be deployed for the achievement of bespoke objectives. It is important to note that each of these financing tools has its own strengths and weaknesses, and the effective deployment of these cocktail of financing structures and tools are critical to achieving and supporting sustainable development. It is therefore critical that these are carefully considered to ensure that the appropriate models and tools that are best suited to specific development needs are deployed per time.

In view of the visible need and the spectrum of available funding sources enunciated in the previous section, it would be fair for the


\(^{13}\) Ibid.
layman to wonder why lenders and other investors (i.e. financiers) are not pouring in to finance the development of critical infrastructure in Nigeria. Attempting to find the answer to this question will unearth some of the key concerns that international financiers may have with lending and investing in Nigeria. The subsequent section examines some of the critical factors in this regard.

3.1 Clear and Transparent Legal and Regulatory Framework

The importance of a clear and transparent regulatory framework cannot be overemphasized. From the international financier’s perspective, this goes to the root of project bankability (i.e., the assurance that risks relating to a project are appropriately addressed or mitigated). Financiers need to be confident that the country’s legal and regulatory regime will enable the projects being financed to take off and operate efficiently.

Thus, where there is a web of opaque laws governing the regulatory permits, consents and licenses required for a project, this becomes a red flag for potential lenders. Conflicts between federal laws, state laws and local government regulations on what is required to commence or operate a project constitute potential red flags for financiers. Additionally, power struggles between agencies of federal, state and local governments over the right to supervise projects, often lead to higher supervisory oversight and related costs in connection to a project.

Similarly, where there are inordinate delays in procuring the required permits and approvals or were such permits and approvals cannot be procured without encountering arbitrages, leading to moral hazards that encourage public officials to create bottlenecks, potential lenders and investors will be discouraged and disincentivized to offer the required level of financing. This is more so because the issues of bribery and corruption have potentially fatal effect on the reputation of entities involved in any project marred in such practices. Potential lenders will therefore evaluate the transparency, accountability, and predictability of governmental processes and business practices in determining the preferred projects and jurisdictions for investment.

The solutions to these issues are not far-fetched and include the development of a clear legal and regulatory framework for infrastructure development and financing and the development of
a framework that ensures the continuity of government rules and regulations. Nigeria is not bereft of these regulatory policies but there is urgent need for active monitoring of the implementation of enacted laws and related policies and regulations.

3.2 Commercial and Equitable Judicial Process

As a rule of thumb, financiers require effective mechanisms for recourse and dispute resolution in jurisdictions where they provide financing. In this regard, lenders look to the quality of the jurisdiction’s legal system and judicial process. The judicial process is the ultimate recourse that financiers have in respect of any dispute regarding the financing provided. Even where there are provisions for arbitration in the transaction documents, there is often a recognition that ultimately, the courts of law will be the final adjudicators in dealing with the issues. So, where there is a sense that the judicial process of a jurisdiction cannot be trusted or that the government or even “connected individuals and corporates” can disregard court judgments, financiers are understandably wary of advancing capital to projects in that jurisdiction.

Most international, and sometimes domestic financiers, typically address the risk associated with judicial and jurisdictional integrity by designating English law, New York Law or the law of some other preferred jurisdiction as the governing law in the documentation for international commercial transactions. Also, preference would often be had for dispute resolution to be handled in these jurisdictions due to the assumption that the matters will be predictably, timeously and commercially adjudicated. However, financiers are constrained to still rely on a country’s legal and regulatory framework for the recognition and validation of their property rights and enforcement of those rights in a predictable and efficient manner. Where financiers take security over real property, as they would often do, they are constrained to rely on the legal and enforcement regime of the jurisdiction where the real property is situated. The relevant security granted in connection with infrastructure projects would therefore be governed by Nigerian law in the case of Nigerian infrastructure projects. Thus, where the lender is not 100% confident that the legal regime in Nigeria will afford it a transparent and quick means of enforcing security when necessary, it will be hesitant to finance projects in the country.
The independence and integrity of the judiciary in a manner that ensures the effective and speedy resolution of commercial disputes is therefore non-negotiable for the attraction of international capital for infrastructure development.

3.3 Political and Macroeconomic Stability

There is no doubt that political instability creates risks for financiers. In the global investment competitiveness report 2019/2020, investors identified political risk as one of the top concerns and a key factor in investment decisions. Lenders are therefore wary of countries with potential for conflict or reescalation of conflicts, electoral violence, and political turbulence. To attract international financing, Nigerian leaders cannot afford to continually heat up the polity in every election cycle. The lines of hatred, tribalism and religious intolerance that are stoked for selfish political agenda constitute red flags for international lenders that would otherwise finance projects in Nigeria. Institutions like the Independent National Electoral Commission and the security agencies therefore need to be strengthened to ensure peaceful transition of power across the country in order to create a perception and a reality of peaceful and stable political transition and administration in order to attract much needed international financing.

A country’s macroeconomic condition also affects the viability and bankability of its most critical projects. Whilst international financing may be utilized to fund projects and infrastructure in Nigeria, there still lies a great responsibility on Nigeria’s leadership to ensure sound macroeconomic and socioeconomic policies. Managing inflationary pressures; ensuring the independence of the central bank, diversifying the economy, expanding the tax net, combating illicit financial flows, ensuring the security of lives and property and combating corruption are some of the key actions that can radically improve Nigeria’s macroeconomic performance and risk perception index. It is important to note that good macroeconomic conditions would not only help increase the flow of international finance in Nigeria but

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would also have a positive impact on the perception of risk and the pricing of the financings available to the country.

3.4 Bankable Projects and Project Facilitation Mechanisms

In addition to all the aforementioned points, the government can further stimulate international financing flows into Nigeria by preparing a pipeline of bankable infrastructure projects in the country. Whilst there has been activity in this regard like the Highway Development and Management Initiative recently kicked off by the Federal Government of Nigeria, similar innovative initiatives in sectors other than transportation are critical.

The government can develop a pipeline of bankable projects by effectively deploying project facilitation and risk mitigation mechanisms. These mechanisms will create an enabling environment and condition for collaboration between domestic public, domestic private and international private finance to work with multilateral development banks and international financial institutions to facilitate investment. This can include infrastructure project development facility to finance early project development activities, providing political risk insurance, credit guarantees, and investment promotion services. These initiatives will help reduce investment and credit risks and attract more international private finance flows to unlock the country’s development potential.

Deploying these initiatives in collaboration with international financial institutions, international commercial banks, bilateral donors, regional organizations, and the various levels of governments will improve harmonization efforts, avoid duplication, and ensure that financing initiatives are aligned with national development strategies. In this regard, there is a greater need for coordination and collaboration. It will be critical for the incoming administration to device a mechanism or arrange a coordinating model that ensures that the project facilitation initiatives offered by development finance institutions like the Multilateral Investment Guarantee Agency (MIGA), the covered facilities offered by international finance institutions like the International Finance Corporation (IFC), the project development facility of African focused development finance institutions like the African Development Bank and the Africa Finance Corporation (AFC) are appropriately leveraged in a coordinated manner for the advancement of the most critical identified projects.
in the established pipeline of projects. Such a coordination mechanism must also be made to ensure that institutions such as the Nigerian Sovereign Investment Authority, Nigerian Export Import Bank, Infrastructure Credit Guarantee Company Ltd, the Infrastructure Bank Plc, Development Bank of Nigeria Plc, Nigerian Infrastructure Fund, the Federal Mortgage Bank, Nigeria Infrastructure Fund, Infrastructure Corporation of Nigeria, the Bank of Industry and other similar agencies and institutions function in a more coordinated and targeted manner with the ultimate objective of unlocking available international private capital for the financing of much needed infrastructure in the country. The question may be asked by an inquisitive mind - what value has the foreign currency reserve deposited by the Central Bank of Nigeria with foreign private international commercial banks had on the development of the country over the last half century? Is there a better way for that reserve to be maintained and systematically utilised to derisk viable and much needed infrastructure in the country?

The coordination approach espoused in this paper much consider some of these questions and the mechanism must also engender and foster a coordinated framework for knowledge sharing, project prioritization, capacity building and technical assistance to ensure the effective use of the limited available resources for innovation, radical development and sustainable business growth in the infrastructure sectors.

4. FINANCING FOR DEVELOPMENT AND NATION BUILDING

Having addressed the critical factors that will encourage financing and investments in infrastructure in the country, it is also essential to ensure that the rationale and objective for the deployment of the sourced capital for infrastructure projects are geared towards “nation building”. In other words, the deployment of international and domestic financing for critical infrastructural developments must be geared towards the achievement of the UN millennium goals (MDGs) and the UN sustainable development
goals (SDGs) in the interest of the majority of the people of the country.\(^{15}\)

The MDGs, which were meant to be achieved in member countries by 2015 are a set of goals established by the United Nations in the year 2000 and are aimed at addressing global challenges, including poverty, hunger, disease, gender inequality and environmental degradation\(^{16}\). While progress was made towards achieving these goals, not all of them were fully met by the target date.\(^{17}\) In 2015, the UN therefore launched a new set of goals called the Sustainable Development Goals (SDGs) to continue the work of the MDGs.\(^{18}\) Like the MDGs, the aim of these goals is to address various global challenges, including poverty, hunger, health, education, gender equality, clean water and sanitation, affordable and clean energy, economic growth, infrastructure, reduced inequalities, sustainable cities and communities, responsible consumption and production, climate action, life below water, life on land, peace, justice and strong institutions, and partnerships for the goals. The SDGs are intended to provide a roadmap for sustainable development that is inclusive and leaves no one behind, and require the collective efforts of governments, civil society, the private sector, and individuals to achieve. Whilst progress is being made in Nigeria, it is self-evident that more still needs to be done for Nigeria to achieve these MDGs and SDGs. Therefore, in sourcing much needed capital and deploying same, certain other critical considerations must be borne in mind in the interest of the greater majority and these are considered below under the head of macro-economic considerations in sourcing and deploying financing for infrastructure development.


4.1 Social and Macro-Economic Considerations

4.1.1 Debt Sustainability

International financing can be an important source of funding for the SDGs, but it is important to ensure that borrowing does not lead to unsustainable levels of debt. It goes without saying that the finance and economic experts within the relevant government agencies and advisory groups would need to consider the long-term implications and sustainability of any debt burden, including the potential impact on future generations and the ability to service the debt in the future. A situation where the debt servicing obligations cripple the ability of states to deploy capital to other critical areas of the SDGs is both irresponsible and unsustainable.

4.1.2 Financial Stability

The potential impact of international financing on the overall financial stability of the country would also need to be considered. Large inflows of capital can lead to exchange rate volatility and other macroeconomic imbalances, which can undermine the achievement of the SDGs. A delicate balancing act is therefore required to ensure that the deployment of international financing towards the achievement of one SDG does not inversely correlate to poor performance in another SDG.

4.1.3 Country Ownership and National Priorities

While international financing can be an important source of funding, it is important to ensure that the country maintains ownership over the SDG agenda and the financing mechanisms used to achieve it. It is critical that the right personnel and agencies are involved in the design and implementation of financing mechanisms and should have a say in how and when the funds are deployed. Taking ownership in that way would ensure that deployment of international financing is in line with the national priorities and goals.

International financing must also be aligned with national priorities and strategies. Taking international exposure on non-critical sectors in a way that diminishes the country’s ability to raise much needed financing for more critical sectors due to overall debt burden of the country will be self-defeating. The
available domestic and international financing mechanisms must therefore be deployed in a manner that supports well laid out development plans aimed at addressing specific national challenges in a pre-agreed order of priority.

In addition, after addressing the challenge of the massive investment required and ensuring that they are targeted at the right infrastructure projects, considerable focus must also be placed on the fact the infrastructure that is developed is affordable, socially equitable and environmentally sustainable, especially against the backdrop of climate change.

4.1.4 Transparency and Accountability

Finally, to ensure effective and efficient deployment of capital for infrastructure project in the country, it is critical that the deployment of international financing towards the achievement of SDGs within the framework of well laid out and existing development plans is transparent and accountable. This will ensure that there is adequate oversight and monitoring of SDG-related activities, and that there is public disclosure of relevant information for accountability and transparency.

5. CONCLUSION

It is beyond cavil that international financing is critical to nation-building and there are several examples of countries where international financing has been leveraged to transform a state in line with clear development plans. For example, in Indonesia, international financing has been used to support the country’s development plan called the National Medium-Term Development Plan, which outlines its priorities for economic growth and poverty reduction. International financing has been used to support the implementation of this plan, including funding for infrastructure projects, social programs, and education. Today, Indonesia is now widely acclaimed as a middle-income country given recent levels of developments.
Similarly, in 2012, the Government of Turkey launched its Health PPP Program, an ambitious initiative aimed at improving the country's health infrastructure, which was out of date and no longer appropriate for meeting the country's healthcare needs. The program’s main objective was to build up to 40 hospitals across the country, delivering up to 40,000 additional public hospital beds, over a 7-year period, with an estimated capital cost of €12 billion. Naturally, such an ambitious undertaking required an equally ambitious funding strategy, leading to the Turkish government establishing, alongside the European Bank for Reconstruction and Development and International Finance Corporation, a new PPP framework that could attract both local and international sponsors and lenders. Today, the program has increased the number of well-equipped modern hospitals and healthcare facilities in Turkey, particularly in underserved areas, and has improved the quality of care in many cases. The program has also helped to attract healthcare professionals into the country.

If the solutions discussed here are deployed to unlock and leverage public and private international capital for the implementation of Nigeria’s National Development Plan (NDP) 2021-2025, released in 2021, Nigeria will make significant advancement in the achievement of sustainable and inclusive economic growth, social development, and environmental sustainability.

I hope we get started – and soon!

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