Federal Republic of Nigeria

CHAPTER 6

Finance

Niger Delta Regional Development Master Plan

The financial constraints
faced by the Niger Delta Region
need urgent and vigorous attention
to ensure realization of the development
goals of the master plan.

NDDC Baseline Survey

Chapter 6
Niger Delta Regional Development Master Plan

6.1 Introduction

This section of the report outlines the financial requirements and approaches for the effective and sustainable development of the Niger Delta Region over the 2005-2020 period along the path elicited in this Plan.

At present the region's development is constrained by the efficiency of utilisation of natural, human and other resources. These constraints stem mainly from the low productive capacity of the agricultural and fishery sectors; the extractive industry sector other than Oil & Gas; by poor availability and poorer maintenance of physical infrastructure, by inadequate skill and organisational capacity of human resources, and by availability of financial resources.

Financial resources are a key constraint since funding is needed to create the enabling conditions for utilisation of all other resources and for mobilising private sector investment. The financial constraints faced by the Niger Delta Region need urgent and vigorous attention to assure realization of the development goals of the Master Plan, as restated below. Equally urgent and critical is the need to optimize the development and utilization of presently available financial resources, especially statutory revenues.

6.1.1 Strategic Objectives for Change

To create a defined focus for massive change effort, the Master Plan adopts the following economic and social goals which reflect the observed development imperatives of the region and the surveyed aspirations of the stakeholders;

- Accelerating economic development
- Improving the provision of human and community needs
- Protecting the natural environment for sustainable development
- Improving physical infrastructure to create enabling environment
- Establishing effective human and institutional infrastructure, especially governance

The specific objectives that stem out of these goals are as follows:

- To increase economic growth in the rural areas by improving the productivity of agriculture and fishing;
- To increase economic growth in urban areas by removing obstacles and creating enabling conditions that will encourage private enterprise;
- To substantially reduce the percentage of people below the poverty line, first to meet the MDG target by 2012 or earlier, then even further by 2020 which is the terminal year of this plan;
- To achieve socio-economic transformation of the region from a predominantly subsistence-agrarian and primary commodity (Oil & Gas) dependent region to one that is industrializing and economically diversified;
- To provide sustainable employment for the youths of the region and to maintain overall low unemployment rate by national and global standards (under 5% from the 6th year of the plan implementation onwards);
- To substantially improve the health of the population; including arresting and reversing the spread of HIV/AIDS, and the incidence of malaria;
- To provide adequate housing for existing and future households;
- To remove unnecessary regulation and to fully enforce necessary regulation;
- To improve the transparency, accountability and effectiveness of governance and of enforcement of law and order;
- To improve the availability and standards of essential physical infrastructure;
- To improve supporting services and financing for enterprise;
- To improve the standards of education to global standards and of research and development of useful products.
- To protect the natural environment
- To create and maintain a socio-political environment that is conducive for free enterprise, investment and private sector activities in general
- To strengthen the capacity of institutions and the people of the region towards efficient and effective utilization of resources

The overall plan vision is to transform the Niger Delta into Africa's most prosperous, most peaceful and most pleasant region by 2020. This is in line with the aspirations of the Niger Delta people and contributory to the national vision of becoming Africa's leading economy and a major player in the global economy (as defined in NEEDS)

Financial resources are a key constraint since funding is needed to create the enabling conditions for utilisation of all other resources and for mobilising private sector investment

6.1.2 Economic Development Targets

Table 6.1: Economic Development Targets for the Planned Period (2005 – 2020)

	National Averages		NDR Economic Targets		
	1983 - 1993	1993 -2003	2005-2010	2010- 2015	2015- 2020
Annual Growth in GDP	4.9%	2.9%	7.0%	8.5%	10%
Annual Growth inGDP per Capita	1.9%	0.3%	3.6%	5.0%	7.0%
Annual Growth in	4.8%	4.0%	6.0%	7.5%	10.0%
Agricultural Production	3.6%	1.5%	7.0%	8.0%	10%
Annual Sector Growth in Industrial					
Growth in Manufacturing Sector	4.7%	2.7%	7.0%	10%	15%
Annual Growth in Services Sector	6.9%	3.3%	8.0%	16%	24%
Imports of Goods/Services (as % of GDP)	34%	50%	40%	35%	30%
Annual Growth in Imports of Goods/Services	5.8%	8%	15%	15%	15%
Exports of Goods/Services (as % of GDP)	30.5%	48.5%	55%	60%	70%
Annual Growth in Exports of Goods/Services	4.4%	2.1%	30%	35%	40%
Growth in Credit to Private Sector	N/A	N/A	30%	30%	30%

Notes: Sources for the National Averages include: The Nigeria at a Glance report by the World Bank, and the NEEDS document. NDR Economic Targets are adapted from: a) The NEEDS Targets, and (b) NDR Sector Reports

On the economic front, the Master Plan aims to achieve the following additions to economic development Targets in the years 2005 -2020:

The above economic development targets can only be achieved as part of an integrated programme of activities that creates the enabling conditions for enterprise and development, which in turn require massive investments in numerous programmes and infrastructure projects over the plan period.

These economic development programmes will be financed mainly by the private sector with public sector spending channelled mainly to building human and institutional capacity as well as creating conducive environment for the private sector to flourish. It is also envisaged that some financing for the proposed programmes will come from NGOs and Donor Agencies.

6.2 Sources and Application of Funds in the Region

There are several key players in terms of development funding and interventions in the Niger Delta Region. These include the Federal, State and Local Governments, NDDC, the organised private sector, some NGOs, and the International Development Agencies. Rapid acceleration of development with attendant reduction in poverty level and socio-economic transformation of the Niger Delta Region would result from co-operation and synergy amongst all the stakeholders.

It is estimated that a total sum of about US$48 billion has been invested or spent in the Niger Delta Region, by the public and private sectors, between 1999 and 2004. See summary of inflows in the Table 6.2below.

These funds have come through the following sources and in the following amounts/ proportions:

It is noteworthy that about 98% of the inflow of private capital was into the oil/gas sector. However, it is also widely accepted that the domestic component (local content) is less than 4% of the oil/gas expenditures that is captured locally. Currently therefore, the oil and gas investments make very little difference to the local (Nigeria/Niger Delta Region) economy. These figures reflect the near total dependence of the region (and indeed Nigeria) on the whole on the Oil and Gas sector. Thus, appropriate policy recommendations have been made in the Master Plan and in line with the Federal Government Local Content Policy to restructure and diversify the region's economic base as well as to improve local content of the Oil and Gas sector.

While the private sector funds go directly to capital investments in productive ventures including essential physical infrastructure needed to support their operations and some social services in host communities, the NDDC, the NDR States and Local Governments' funds are generally expended in the following proportions:

- State Governments ~ 70% Recurrent and 30% Capital Expenditure
- Local Governments ~ 80% Recurrent and 20% Capital Expenditure
- NDDC ~ 20% Recurrent and 80% Capital Expenditure.

This spending pattern has resulted in the under-funding of the infrastructural and institutional development needs of the region. This would partly explain the pallid state of physical infrastructure in the region.

Going forward, therefore, the Master Plan has made appropriate provisions for the investments required to improve physical infrastructure, as well as for the systemic changes required to institutionalize best practices in budgetary allocations. Provision has also been made in the Master Plan for the following:

These economic development programmes will be financed mainly by the private sector with public sector spending channelled

- Public Sector reforms
- Democratization of the developmental process and decision making
- Instituting transparency in the management of public funds
- Increasing the attractiveness of the region for investments and private sector activities
- Monitoring and evaluation, and efficient dissemination of information

6.3 Financing Requirements and Funding Mix of the Master Plan Introduction

Preceding sections of the Master Plan have described the proposed interventions in many sectors of activity, grouped under the five general theme and have stressed that the interventions are inter-related (for example reducing unnecessary regulation, extending lending facilities, skill training, and infrastructure, which are required for industrial development) and need to be conducted under integrated programmes of the relevant themes and projects, as outlined

Table 6.2: Estimates of Sources of Funding/ Investment, 1999-2004

	1999	2000	2001	2002	2003	2004	Total
FUND SOURCES	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Statutory NDDC Sources							
15% FG Contribution	*	*	81,290	87,398	108,144	142,709	**419,540**
3%Oil/Gas Industry Contribution	*	*	117,775	121,699	130,475	219,278	**589,227**
3% Gas Processing Industry	*	*	-	-	-	-	**-**
Net Statutory NDDC Funds			199,065	209,097	238,619	361,987	1,008,768
State/Local Govt Sources							
Statutory Allocations to States	384,057	1,058,670	1,132,790	1,306,829	1,711,290	2,337,122	**7,930,759**
Internally Generated @ +10%	38,406	105,867	113,279	130,683	171,129	233,712	**793,076**
States' Statutory Allocations to LGs	145,431	356,258	361,471	576,712	703,819	819,672	**2,963,364**
LGs'Internally Generated @ +2%	2,909	7,125	7,229	11,534	14,076	16,393	**59,267**
Net Statutory State/LGA Funds	570,803	1,527,921	1,614,770	2,025,759	2,600,314	3,406,899	11,746,467
Net Total Statutory Sources	726,041	1,720,064	1,813,836	2,234,855	2,838,933	3,768,887	12,755,234
Discretionary Dev. Grants & Aids							
Oil/Gas Ind. CD Projects	4,500	4,800	5,194	5,408	5,764	6,000	**31,666**
Int. Dev. Agency Grants/Aids	5,000	5,000	5,000	5,000	5,000	5,000	**30,000**
50% Ecological Funds to States	-	-	-	-	-	-	**-**
Misc. Grants/Aids	2,000	2,000	2,000	2,000	2,000	2,000	**12,000**
Total Discr. Dev. Sources	11,500	11,800	12,194	12,408	12,764	13,000	73,666
Discretionary Private Investments							
Dev. Fin. Agency Loans	2,000	2,500	3,000	3,500	4,250	5,000	**20,250**
Private Investments, E&P	4,500,000	4,750,000	5,194,440	5,407,747	5,764,161	6,000,000	**31,616,348**
				950,000	950,000	950,000	**2,850,000**
Private Inv.,Gas Processing	-	-	-	0	0	0	
Private Inv., Telecoms	500	750	1,000	1,250	1,500	2,000	**7,000**
Private Inv., Electr. Power	-	-	135,000	150,000	150,000	15,000	**450,000**
(Agip IPP) – No other IPP in the Region? Priv. Inv, Mfg, etc	500	750	1000	1250	1500	2000	**7,000**
Total Expected Private Investments	4,503,000	4,754,000	5,334,440	6,513,747	6,871,411	6,974,000	34,950,598
TOTAL FUNDS INFLOW, estimates	5,085,303	6,293,720	7,160,470	8,761,010	9,723,108	10,755,887	47,779,499

Source: Index Consulting, N+D Consortium & Federal Government Sources

* NDDC only took off in December 2000

Statutory Sources (States, LGs & NDDC)	**US$ 13 billion or 27%**
Development Grants and Aids	**US$ 74 million or 0.2%**
Private Investment Inflows	**US$ 35 billion or 73%%**

Oil/Gas Exploration & Production	**US$ 31.62 billion or 90%**
LNG Processing	**US$ 2.85 billion or 8%**
Independent Power Projects	**US$ 450.00 million or 1.3%**
Telecommunications	**US$ 7.00 million or 0.02%**
Manufacturing	**US$ 7.00 million or 0.02%**
Others/DFI Loans & Grants	**US$ 20.25 million or 0.06%**

below:

1. Economic Development, which is essential to reduce poverty and support better living standards for a growing population, diffusion of social tensions and urban regeneration. It includes growth in Agriculture, Fishing, Micro and Small Enterprises, Medium and Large industries, Solid minerals, Financial Instruments, and Investment Promotion.

2. Community needs, concerning the welfare of individuals within their social and physical environment. It includes Health-care, Housing, Water and Sanitation, Education, Vocational Training, Security, Social Welfare, Community Development, Art, Sport and Culture, Women and Youth, and Leisure.

3. The Natural Environment - protection of Bio-diversity and the quality of air and water including Oil & Gas operations, Environmental Management, Waste Management, Intensive Agriculture and Fishing, Emissions and Waste from Industry, and Emissions from Vehicles and other Internal Combustion Engines.

4. Physical Infrastructure, necessary to enable economic growth and human and community welfare. It includes Energy, Telecommunications, Transportation, Utilities, and Community buildings (schools, clinics etc).

5. Human and Institutional Resources, necessary for the delivery of proposed activities. It includes Capacity Building in Government and other Organisations, Liberalisation and Reorganisation of Controls over Market Activities, Capacity Building of Law Enforcing Institutions, Operation of Financial / Lending Institutions, Capacity Building of the Labour Force, Capacity Building of Community Institutions, Enabling Statutory Provisions on Human Rights, Law & Order, Planning Capacity, etc

The anticipated costs of implementing the Master Plan during the periods 2005, 2006-2010, 2011-2015, and 2016-2020 are estimated on the basis of partial information provided in the Sector Consultants' reports. This information should be read together with the Implementation Guidelines which accompany the Master Plan and focus on the precise financial requirements as estimated for the first three years of the plan period.

The proposed Public, Private and Public-Private-Partnership (PPP) development expenditures in the Regional Master Plan amount to about US$50 billion (in 2004 prices) over the 2005-2020 period. A summary of the cost projections by theme and by operational programme for the short, medium and long-term is presented in Table 6.3 below.

It is pertinent to note, however, that these estimates represent expenditures aimed at providing the necessary enabling environment for the required socio-economic development of the Niger Delta; they do not include private sector investments in profit-driven commercial and industrial ventures, such as mining, manufacturing and services.

it is also widely accepted that the domestic component (local content) is less than 4% of the oil/gas expenditures that is captured locally

Annex I & 2 to this part of the Master Plan provides detailed yearly cost estimates for the programmes and projects by theme and for specific sectors using information gathered from the Sector reports. Going by these estimates, it is envisaged that about 24% of the cost of the development programmes and projects will be borne partly by the private sector and by private individual efforts. For example, social services such as education and healthcare should attract private investments, while most economic activities should attract even more interest from the private sector.

The estimated 24% financial involvement of the private sector is based on a 'best estimate' assumption regarding the extent to which the private sector will be financially involved in each area of development, as outlined in the Table 6.4 below:

It is envisaged that the Public Sector, NGOs, Donor Agencies and Local/International Development Finance Institutions will bear about 76% of the development costs related to the implementation of the Master Plan for the Niger Delta Region over the plan period.

6.4 Public Sector Financing Strategy

It is estimated that about 95% of the public sector investments required to develop the Niger Delta Region is expected to go into infrastructure/public works, human and social services and institutional development. As such, only about 5% will be expended on economic development.

Public sector financial resources are therefore a key constraint since funding is needed to create the enabling conditions for utilisation of all other resources and for mobilising private sector investment. Considerable public investment is necessary to kick start change through initiatives such as the demonstration projects and to ensure competent and stable management of change.

However, the planned investments of financial resources are expected to come from various sources including statutory and non-statutory/discretionary,, public and private sector sources, and local and foreign sources, as outlined below:

The proposed PPP development expenditures in the Regional Master Plan amount to about US$50 billion

A. Statutory NDDC Sources

- 15% Federal Government Contribution
- 3% Oil/Gas Industry Contributions
- 3% Gas Processing Industry Contributions
- 50% Ecological Funds due to Niger Delta States

B. Indirect Fed/State/Local Govt Sources

- Federal Government's Development Spending in the Niger Delta region
- Niger Delta State Governments' Development Spending
- Niger Delta Local Governments' Development Spending

C. Discretionary Development Sources

- Oil/Gas Industry Community Development Project Budgets
- Development Financial Agency Grants and Aids
- Miscellaneous Grants/Aids into the NDR from various sources passed through various government agencies and non-governmental development agencies operating in the Niger Delta region

D. Discretionary Private Investments

- Development Finance Agency Loans flowing into the NDR from various sources passed through various governments, government agencies, non-governmental development agencies and private sector investors operating in the Niger Delta region
- Direct Private Sector Investments, For-Profit
- Community Self help efforts
- Private Sector Foundation and Charity spending

Annex II provides a detailed breakdown of the funding expectations and sources. These are summarised in Table 6.5 below:

(Source: Index Consulting (Sector Consultants on Medium & Large scale Industries) Estimates)

The financial resource estimates will be revised at the end of each financial year and the programme adjusted accordingly.

Since considerable public investment is necessary to create the enabling conditions for utilisation of all other resources and for mobilising private sector investment, there is a clear need to enhance the public sector's capacity for mobilizing the needed funds. Key recommended strategies include:

- Increasing Federal and State Governments' Capital Outlay and Reducing Recurrent Outlay

  Since 1999, the Federal Government, and by implication, State Governments have tended to spend a high proportion (or over 70%) on recurrent expenditures. This is despite substantial increases in the revenue since 1999 on account of galloping crude oil prices. Only recently, the Federal Government of Nigeria has been making efforts to increase its capital outlays by rightsizing and streamlining the bureaucracy. It is highly recommended that the NDR state governments should pursue similar programmes, to free up funds for developmental investments. The medium term goal should be to expend as much as 50% of their respective budgets on capital/development projects and programmes. This can be achieved by rightsizing the civil service and reinventing government for increased efficiency, accountability/transparency, and service excellence. It is envisaged that the Institute of Governance recommended in this Plan will stimulate progress in this direction,

Table 6.3: Summary Cost Projections

SOURCES	Total Projected Expenditures	YEARS 1-4 (Short Term)	YEARS 5-9 (Medium Term)	YEARS 10-15 (Long Term)
	$'000	$'000	$'000	$'000
A: Economic Development				
Agriculture	438,235	223,529	185,294	29,412
Fishing/Aquaculture	438,235	223,529	185,294	29,412
Micro/Small Enterprises	420,744	79,625	160,511	180,607
Med/Large-Scale Industries	594,110	198,037	198,037	198,037
Solid Minerals	102,750	62,750	20,000	20,000
Tourism	296,897	110,723	95,047	91,127
Financial Instruments	300,000	100,000	100,000	100,000
Investment Promotion	150,000	50,000	50,000	50,000
Econ. Dev Sub Total	**2,740,971**	**1,048,193**	**994,183**	**698,595**
B: Human/Community Needs				
Healthcare	2,003,166	869,094	720,093	413,980
Housing	6,617,647	3,970,588	1,985,294	661,765
Water/Sanitation	6,617,647	3,970,588	1,985,294	661,765
Education	4,006,336	1,738,188	1,440,188	827,960
Vocational Training	337,500	112,500	112,500	112,500
Security	337,500	112,500	112,500	112,500
Social Welfare	59,703	31,273	14,215	14,215
Community Development	337,500	112,500	112,500	112,500
Art, Sports & Culture	296,897	110,723	95,047	91,127
Women & Youth	296,897	110,723	95,047	91,127
Leisure	148,449	55,362	47,523	45,564
Hum/Community Needs, Sub Total	**21,059,239**	**11,194,038**	**6,720,198**	**3,145,002**

Table 6.4: Percentage Private Sector Investment Assumptions

SOURCES	YEARS 1-15 TOTAL DEV. INVESTMENT	PRIVATE SECTOR SHARE,%	PRIVATE SECTOR INVESTMENT
	$'000	%	$'000
A: Economic Development			
Agriculture	438,235	2.5%	10,956
Fishing/Aquaculture	438,235	2.5%	10,956
Micro/Small Enterprises	420,744	5%	21,037
Med/Large-Scale Industries	594,110	10%	59,411
Solid Minerals	102,750	5%	5,137
Tourism	296,897	5%	14,845
Financial Instruments	300,000	2.5%	7,500
Investment Promotion	150,000	20%	30,000
Econ. Dev Sub Total	2,740,971		
B: Human/Community Needs			
Healthcare	2,003,166	10%	200,316.6
Housing	6,617,647	40%	2,647,059
Water/Sanitation	6,617,647	20%	1,323,529
Education	4,006,336	25%	1,001,583
Vocational Training	337,500	10%	33,750
Security	337,500	0%	0
Social Welfare	59.703	2.5%	50,079
Community Development	337,500	1%	3,375
Art, Sports & Culture	296,897	10%	29,690
Women & Youth	296,897	2.5%	7,422
Leisure	148,449	0%	0
Human/Community Need sub total	**21,059,239**		
C: Protecting The Natural Environment	3,841,176	50%	1,920,588
D: Physical Infrastructure	19,677,794	20%	3,935,559
E: Human & Institutional Infrastructure			
Cap. Bldg in Govt/Other Organisations	296,897	0%	0
Market Liberalisation/Deregulation	296,897	5%	14,845
Cap. Bldg of Law Enforcement	296,897	0%	0
Ops of Fin/Lending Institutions	296,897	2.5%	7,422
Cap. Bldg of Labour Force	593,794	50%	296,897
Cap. Bldg of Community Institutions	593,794	0%	0
Enabling Statutory Provisions, Human Rights, etc	296,897	0%	0
Human & Inst Infrastructure, Sub Total	2,672,074		
Total Cost Projections	49,991,254	24%	11,437,612

among other things.

- Raising State Governments' Internally Generated Revenues

It is a known fact that the NDR state governments depend almost totally on federally distributed revenues with poorly developed internal revenue sources. As a result, it is estimated that state and local governments generate less than 10% additional revenue internally on average. However, significant revenues can be generated internally with some effort by the state governments. It is therefore recommended that the State Ministries of Finance enhance their revenue generation capacity. This can be done by tying the provisions of certain state services and benefits to evidence of payments of taxes and rates; placing firm revenue targets on Officers; and engaging Consultants and Agents for certain areas like the informal sector. Proper tracking through computerized databases can also enhance collections.

- Mobilizing International Donor Funds

To enable the region tap into International Donor Funding sources, a three-pronged approach is recommended:

- The relevant organisational unit (the Investment Promotion Unit or Financial Instruments/Finance Unit) within the NDDC will identify all known sources and mobilize such funds for pan-regional projects and programmes. Continual research and systematic environmental scan by the responsible unit is recommended in this regard to spot all opportunities.
- NDDC should work with and facilitate the efforts of credible NGOs to mobilize and invest such funds in support of the Master Plan agenda.
- NDDC should also liaise with and train/empower state agencies in their efforts towards mobilizing and investing such funds efficiently.
- Mobilizing Fund Form Development Finance Institutions' Funds

Similar strategies as for Donor Funds should be adopted to mobilize Local and International Development Finance Institutions' funds. Several sources abound, such as:

International Sources ~ World Bank/IFC, African Development Bank, US-EXIM Bank, etc

Local Sources ~ Bank of Industry, Federal Mortgage Bank, SMEIES Fund, SMEDAN, etc

Mobilizing Public-Private Sector Partnerships

It has been established that long-term economic growth in the Niger Delta will require substantial sustained investment in efficient infrastructure in order for the region to realize its full potential.

It is estimated that in the next fifteen to twenty years, the Niger Delta Region will need to invest about US$20 billion in basic infrastructure such as transport, water, power, and telecommunications, in addition to another US$30 billion in other related programmes and projects, if it is to achieve the stated development objectives in the Master Plan.

Raising these vast sums and effectively implementing this development appears far beyond the capability of the Niger Delta Region governments alone. Therefore, international and local development banks and supporting institutions will have to facilitate private investment flows. This is by assisting private investors and governments, not only with finance, but with the institutional reforms necessary to build the required public-private partnerships for attracting and retaining private infrastructure investment.

It is estimated that about 95% of the public sector investments required to develop the Niger Delta Region is expected to go into infrastructure/ public works

Most infrastructural projects involve variations on new techniques such as BOOT (Build-Own-Operate-Transfer), BOO (Build-Own-Operate), BLT (Build-Lease-Transfer) or ROOT (Rehabilitate-Own-Operate-Transfer).

To mobilize Public-Private-Partnerships, we recommend the following:

- The NDDC should create a PPP Support Unit at an appropriate organisational level to be responsible for championing PPP development in the region, linking this work to that of the proposed Niger Delta Investment Promotion Agency
- The NDDC should empower the unit through training and the engagement of capable external advisors to work with them, at least initially
- The Unit should identify, disseminate and champion all PPP opportunities
- The Unit should work with/support the relevant state

Table 6.5: Potential Financial Resources (U$$)

SOURCES	YEARS 1-5	YEARS 5-10	YEARS 10-15
	$'000	$'000	$'000
A: Statutory NDDC Sources			
15% FG Contribution	766,381	989,088	1,403,503
3% Oil/Gas Industry Contributions	1,549,566	1,666,514	1,681,132
3% Gas Processing Industry Contributions	288,000	90,000	60,000
B: Indirect Fed/State/ Local Govt Sources			
FG Development Spending	3,207,307	4,139,334	5,873,663
State Development. Spending	3,704,845	4,781,454	6,784,823
LG Development Spending	224,264	289,434	410,703
C: Discretionary Development Sources			
Oil/Gas Industry CD Project Budgets	51,652	55,550	56,038
Dev. Fin. Agency Grants and Aids	25,000	25,000	25,000
50% Ecological Funds to States	-	-	-
Miscellaneous Grants/Aids	-	-	-
D: Discretionary Private Investments			
Dev. Finance Agency Loans	-	-	-
Direct Private Sector Investments, For-Profit	3,812,537	3,812,537	3,812,537
Total	13,629,553	15,848,911	20,107,400

agencies in pursuit of their PPP objectives, providing expert resources across the region

The PPP Unit in NDDC will have responsibility for the following:

- Framing infrastructural development strategies to take full advantage of the potential for private sector involvement
- Building consensus for appropriate policy, regulatory and institutional reforms
- Designing and implementing specific policy, regulatory and institutional reforms
- Supporting the design and implementation of pioneering projects and transactions
- Building the various governments' capacity in the design and execution of private infrastructure arrangements and in the regulation of private service providers
- Identifying, disseminating and promoting emerging best practices.

Other Potential Sources of Financing

In addition to the above identified sources, the Investment promotion Unit of NDDC will continuously design and/or seek out new funding sources, such as aids and grants, and mobilize funds from such sources for the massive investments envisaged for the next fifteen to twenty years.

Such sources include but are not limited to the following:

- Grants, Aids and Subsidies from donor agencies, e.g. UNDP, Ford Foundation, MacArthur Foundation, Japan International Cooperation Agency, etc.
- Public Finance & Bond Funding

6.5 Financing Private Sector Investment Programmes

The financial requirements of any enterprise micro, small, medium or large can be grouped under two broad headings - fixed capital and working capital. Fixed capital refers to investment in assets such as land, buildings and equipment, the economic lives of which extend for the medium to long term. Working capital, on the other hand, consists mainly of cash, inventories of raw materials, work-in progress and finished goods, as well as accounts receivable. Working capital can thus be thought of as representing the funds required to operate the enterprise over the production period. Implicit in this definition is the notion that working capital funds are 'self-liquidating' over the short-term - a period akin to the enterprise's production cycle - whereas funds invested in fixed capital are only recovered from cash-flow surpluses over the medium to long term.

As established in Section 6.3, about 24% (or US$ 11.44 billion) of the investments in development programmes and projects are projected to be borne by the private sector and private individual efforts. For example, such social services as education and healthcare will attract private investments, while activities such as Power, Telecommunications, Transport infrastructure, Housing, etc, will attract even more interest from the private sector.

However, the bulk of private investments have traditionally gone into, profit-driven activities. These activities create jobs, improve GDP and per capita income, reduce poverty thereby, and are what really bring development. It is estimated that "pure" private sector investments into the Niger Delta are currently as high as US$7 billion per annum, including investments in Upstream Oil/Gas. See a breakdown of estimates in Table 6.6 below.

With increased investments in non-oil sectors, it is expected that average annual investments of US$10 -12 billion can be sustained over the plan period. Therefore, beyond attracting foreign investors/inflows, there is a need to also facilitate the development of a supportive financial environment, especially for local investors and entrepreneurs.

This can be achieved by improving the spread of Banks and non-bank financial institutions and SME financial and Micro and SME Financing. The master plan has articulated specific strategies for improving FDI and access to finance by the private sector, including:

- Improving FDI and Other Financing for Large Industrial and Commercial Ventures
- Improving Funding to Micro, Small and Medium-Scale Enterprises

Improving FDI and Other Financing for Large Industrial and Commercial Ventures

The thrust of the effort to attract FDI and bolster large-scale enterprise development is rolled into an investment promotion strategy built around a regional Investment Promotion Agency to be championed by the NDDC, in partnership with other regional State governments.

It is estimated that in the next fifteen to twenty years, the Niger Delta Region will need to invest about US$20 billion in basic infrastructure such as transport, water, power etc.

Role of Niger Delta Investment Promotion Agency (NDIPA): As part of the institutional machinery for attracting increasing shares of large scale local and foreign investment, it is recommended that the NDDC in partnership with the NDR state governments establish a regional Investment Promotion Agency (IPA) to "market" the region's attraction and create a one-stop shop to smoothen the path of in-coming investors. It supports the view that an IPA can be effective in influencing the decision to invest in a country and that their operation may bring substantial increases in FDI inflows.

Four major roles are envisaged for the Regional IPA, as follows:

- To communicate and disseminate information about the business environment of the Niger Delta Region and states, as well as the business opportunities among prospective investors
- To coordinate activities aimed at improving the business environment in the region. These may range from providing assistance to potential and existing investors in their day-to-day problems to lobbying for key policy and legal reforms.
- Investment generation into the Niger Delta Region, that is, activities aimed

at identifying potential investors and targeting specific sectors and companies in order to increase investment leads.

- Image building activities, that is, creating a positive image of the region, will constitute an important part of the operations of the IPA, especially in the initial stages of investment promotion. In particular, these will include various kinds of advertising in international media, generation of favourable stories about the progress in reforms and positive changes occurring in the region. Its activities will also include other public relations events like participation in investment exhibitions, fairs, conferences and organization of investment opportunity seminars. Image building is particularly important for the Niger Delta Region, given its current poor investment climate and low level of FDI, in order to generate investment interest.

- Working with NDDC's Finance/Financial Instruments Unit, establish and manage a medium/Large-scale Enterprise Credit Guarantee Scheme to encourage financiers willing to support NDR investments.

The financial requirements of any enterprise micro, small, medium or large can be grouped under two broad headings - fixed capital and working capital

Research suggests that the effectiveness of investment promotion activities depends on: the states; organization, personnel and budget of an IPA; and the functions it performs. For effective investment promotion, however, the organization and structure of an IPA must be business-oriented in order to develop strong links with the private sector, while having support from the highest political level.

Improving Funding to Micro, Small and Medium-Scale Enterprises (MSMEs)

A major path of fostering sustainable economic growth and social development in the region is to strengthen the indigenous private sector. This will be done through facilitating the development of the MSME and helping the vast operators in the informal sector to migrate to the formal sector.

As in other developing economies, the role of and the access to finance, through available financial instruments, have been a critical element militating against the development of MSMEs in Nigeria and especially in the NDR. The limited access of MSMEs to financial resources compared to larger organizations has been highlighted as a major reason for their lack of rapid and continuous growth and development.

In the NDR, the operations of oil companies offer significant opportunities for indigenous enterprises development to provide local content. At about $4 per barrel cost of production and 2 million barrels per day output, achieving a 50% local content could mean $1.4 billion per annum (excluding multiplier effects) with attendant job creation. In addition, a wide array of other goods and services are presently imported. The depth and scope of financial services available would be a significant variable in indigenous entrepreneurial involvement in the oil industry support services and in other spheres.

Currently, the most common financial services (credits) in the NDR offered to MSMEs involve Local Purchase Orders (LPO) financing, Invoice Discounting (ID), Performance Bonds (PB), Advance Payment Guarantees (APG), etc. It is clear, therefore, that local (NDR) financial intermediation is inadequately developed. There is need to facilitate growth of MSMEs through improving access to longer-term finance for capital formation and supporting indigenous entrepreneurial involvement in the Local (NDR) economy.

To improve funding to MSMEs in the Niger Delta, the following strategies are recommended:

- Promote the growth of Microfinance Institutions (MFIs) to cater for the needs of micro enterprises
- Establish an SME Development Unit within the NDDC, working closely with governments, non-governmental agencies and private sector stakeholders as strategic partners
- Establish a Regional MSME Development Fund and administered through strong banks in the region
- Promote and mobilize alternative financing sources for MSMEs

Promote Growth of Microfinance Institutions

Microfinance Institutions (MFIs) are Banks and Non-bank Financial Institutions whose primary function is to reach out to those who are currently not able to receive adequate

Table 6.6: Estimates of Private Sector Investments in the NDR, 1999-2004

Private Investments	**1999** *$'000*	**2000** *$'000*	**2001** *$'000*	**2002** *$'000*	**2003** *$'000*	**2004** *$'000*	**Total** *$'000*
Dev. Fin. Agency Loans	*2,000*	*2,500*	*3,000*	*3,500*	*4,250*	*5,000*	**20,250**
Private Investments, E&P	*4,500,000*	*4,750,000*	*5,194,440*	*5,407,747*	**5,764,161**	*6,000,000*	**31,616,348**
Private Inv. in Gas Processing	-	-	-	*950,000*	*950,000*	*950,000*	**2,850,000**
Private Inv. in Telecoms	*500*	*750*	*1,000*	*1,250*	*1,500*	*2,000*	**7,000**
Private Inv. in Electric Power	-	-	*135,000*	*150,000*	*150,000*	*15,000*	**450,000**
Private Inv. in Mfg, etc *500*	*750*		*1000*	*1,250*	*1,500*	*2,000*	**7,000**
Total Estimates	**4,503,000**	**4,754,000**	**5,334,440**	**6,513,747**	**6,871,411**	**6,974000**	**34,950,598**

Source: N+D Consortium

financial services, throughout the country, in rural as well as urban areas. The target audience are the poor and under-privileged of the society, especially women and rural dwellers.

Clearly, a fusion of features of both formal and informal financial institutions, the MFI was practiced in many countries long before the word "microfinance" was coined. It has been observed that the microfinance sector was quite distinct from the formal financial sector prior to the 1980s. However, "there has been a closing of ranks" since then, as the microfinance community perceived itself to be a "distinct development field" when pioneer institutions like the Grameen Bank and Bank Rakyat became success stories.

Grameen Bank of Bangladesh is currently the best-known microcredit programme, which effectively combines the features of both formal and informal financial institutions.

The microfinance institution (MFI) seems to be an answer to the finance access problem of many entrepreneurs in both developed and developing countries. It is therefore envisaged that the NDDC shall:

(a) Establish a Microfinance Development Unit with the primary responsibility for the promotion of MFIs in the region. The MFI Development Unit in NDDC will have responsibility for the following:

- Framing MFI development strategies to take full advantage of the potential for private sector involvement;
- Building consensus for appropriate policy, regulatory and institutional reforms;
- Designing and implementing specific policy, regulatory and institutional reforms;
- Supporting the design and implementation of pioneering projects and transactions;
- Building the various governments' capacity in the design and execution of MFI arrangements and in the regulation of private service providers, subject to an existing Central Bank or other Federal Government rules.
- Identifying, disseminating and promoting emerging best practices.

(b) Explore the feasibility of setting up an MFI or MFIs in collaboration with state governments and other NGOs with a view to establishing same if found feasible. Such an

MFI should be modeled after internationally recognized best practice MFIs.

Establish a Regional MSME Development Unit

To promote the growth and development of MSMEs in the region, it is envisaged that the NDDC shall also establish an SME Development Unit within the NDDC, working closely with governments, non-governmental agencies and private sector stakeholders as strategic partners.

The SME Development Unit in NDDC will have responsibility for the following:

- Framing SME development strategies to take full advantage of the potential for private sector involvement
- Building consensus for appropriate policy, regulatory and institutional reforms
- Designing and implementing specific policy, regulatory and institutional reforms
- Supporting the design and implementation of pioneering projects and transactions
- Building the various governments' capacity in the design and execution of SME development arrangements
- Identifying, disseminating and promoting emerging best practices.

Research suggests that the effectiveness of investment promotion activities depends on: the states; organization, personnel and budget of an IPA; and the functions it performs.

As already stated, the unit shall be a public-private partnership and this forms the basis for funding it. The following funding arrangement is recommended:

- Take-off grant from NDDC
- Annual subvention from NDDC for a limited period, not exceeding 5 years from takeoff
- Entrepreneurship Development Fund
- Donations (cash and kind) and Grants from Individuals, State Governments, Companies, Embassies, National, Bilateral and Multilateral Agencies
- Fees and other internally generated income from the Agency's services

There are several organisations actively involved in SME development in the Region who are potential partners both from a technical and financial standpoint. These include:

- NDDC
- State Governments
- Local Governments
- Oil and Gas Companies
- Oil and Gas Service Companies
- Other Large Companies Coca Cola, MTN, Globacom, Microsoft
- Business Associations Chambers of Commerce, Nigerian Association of Small Scale Industrialists (NASSI), Nigeria Employers Consultative Association (NECA) etc.
- World Bank SME Department (Africa Project Development Facility [APDF], Support and Training Entrepreneurship Programme [STEP]) and other Multilateral Agencies
- Other Relevant International Agencies International Labour Organisation (ILO), United States Agency for International Development (USAID), United Nations Industrial Development Organisation (UNIDO) etc.
- Developed Nations US, UK, Netherlands, France, Sweden, Germany etc
- Relevant NGOs Fate Foundation, Friedrich Naumann Foundation, Women in Business and Management, Entrepreneurship Development Initiative (ENDIP), Community Development Partners (CODEP), Lift Above Poverty Organisation (LAPO) etc
- Relevant Federal Agencies - Federal Institute of Industrial Research Oshodi (FIIRO), Projects Development Agency (PRODA), National Office of Technology Acquisition and Promotion (NOTAP), Nigeria Export Promotion Council, Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) etc.

A programme implementation timeframe of 6-12 months is envisaged.

Mobilize Funds from Other Sources for SME Development

Developed financial markets provide payment services, mobilize savings, and allocate financing to firms wishing to invest. When these markets work well, they give firms of all types the ability to seize promising investment opportunities. They reduce firms' reliance on promoters' personal savings, on internally generated cash flows and money from family and friends -- giving them access to external equity and debt, something that smaller firms in particular often lack.

To this end, it is recommended that the Investment Promotion arm of NDDC be charged with the responsibility for identifying and promoting non-bank financial markets and facilitating access to them by investors and businesses in the region.

Such sources may include but are not limited to the following:

- Venture Capital sources
- Stock Markets/Traditional Equity sources
- Grants, Aids and Subsidies,
- Leasing
- Export Credit Finance
- Guarantees or Credit Enhancement Programmes
- The banking sector's Small and Medium Industries Equity Investment Scheme (SMIEIS)

6.6 Financial Regulations and Institutions

One of the features of the finance sector in the Region is people's reliance on the informal financial market and the dominance of high interest rates in the formal sector. These tend to deter enterprises especially micro and small businesses from using loan facilities to develop and expand their activities.

The key to more accessible and effective financial facilities could be the introduction of a well-managed region-wide micro credit programme and the development of simpler procedures for obtaining finance. The role of the traditional informal sector in complementing the activities of formal institutions should also be recognised in any programme designed to bring finance to the people and communities most in need of assistance that does not become a long-term burden on their capacity to develop.

6.7 Resource Allocation Process

The distribution of resources among the nine States must be fair and equitable. This does not mean spreading scarce resource thinly across the Region. While the benefits of development programmes should be felt in each State, the achievement of the maximum level of benefits will often be determined by the success of programmes in a manner designed to focus investment on targeted area, such as the development of growth poles, and their ability to then generate significant benefits to the whole Region through upstream and downstream linkage effects.

The transparency and general efficacy of the resource allocation process will be the subject of regular evaluation through the monitoring and review procedures to be adopted for assessing the performance of the programmes and projects within the framework of the Master Plan. The responsibility for the annual review of performance should be between PSD at various levels and independent professional Organizations with a sound reputation for evaluating organisational progress and programme performance. At any rate, NDDC, States, LGAs and other government departments and Oil Companies who implement the Plan should not exclusively undertake annual reviews.

To promote the growth and development of MSMEs in the region, it is envisaged that the NDDC shall also establish an SME Development Unit within the NDDC