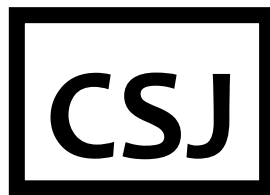
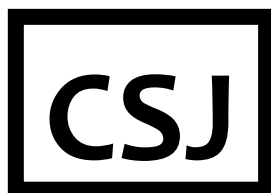


# **Engaging the Approved 2016 Federal Transport Budget**



**CENTRE FOR SOCIAL JUSTICE (CSJ)**  
*(Mainstreaming Social Justice In Public Life)*

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*(Mainstreaming Social Justice In Public Life)*

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**By**

**Centre for Social Justice (CSJ)  
17 Yaounde Street, Wuse Zone 6,  
Tel: 08055070909**

**Website: [www.csj-ng.org](http://www.csj-ng.org) Email: [censoj@gmail.com](mailto:censoj@gmail.com)  
Facebook: Centre for Social Justice, Nigeria. Twitter: @censoj**

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## LIST OF ACRONYMS

BOO:	Build, Operate and Own
BOT:	Build, Operate and Transfer
EAE:	Ethiopian Airports Enterprise
ECOWAS:	Economic Community of West African States
EU:	European Union
FGN:	Federal Government of Nigeria
FMOT:	Federal Ministry of Transport
FRA:	Fiscal Responsibility Act
GCR:	Global Competitive Report
GDP:	Gross Domestic Product
ICT:	Information and Communication Technology
MMIA:	Murtala Mohammed International Airport
MTEF:	Medium Term Expenditure Framework
MTSS:	Medium Term Sector Strategy
NAMA:	Nigerian Airspace Management Agency
NCAA:	Nigerian Civil Aviation Authority
NIIMP:	National Integrated Infrastructure Master Plan
NPA:	Nigerian Ports Authority
NPC:	National Planning Commission
NRC:	Nigerian Railway Corporation
NV 20: 2020:	Nigeria Vision 20: 2020
PPP:	Public Private Partnership
UNCTAD:	United Nations Conference on Trade and Development

## EXECUTIVE SUMMARY

Transport infrastructure occupies a strategic position in any nation's economy. It facilitates the integration and connection of various parts of the country and provides a spur for economic growth and social development. The Nigerian transport system comprises all modes: roads, railways, water, air and pipeline transport<sup>1</sup>.

The review focuses on the public funding of the Federal Ministry of Transport (FMOT) in the year 2016. The review tries to analyse the responsiveness of the budget towards Nigeria's transport policies and action plans. It reviews the adequacy of the resources deployed and whether Nigeria is using the maximum of available resources to meet its challenges in the transport sector. It also explores possible new sources of funding the sector to achieve increased impact on the national economy.

Nigeria's Vision: 20:2020 and the NIIMP have made provisions for the improvement of infrastructure including transport related infrastructure. To achieve the goals and objectives of the NIIMP, with a significant additional investment in infrastructure, NIIMP estimated that about US \$775 billion will be needed for investment in the transport sector over the three decades of the master plan<sup>2</sup>. The NIIMP stipulated that about US \$75bn will be needed for scaling up the rail sub sector, with US \$5bn being required for the first five (5) years. It also stipulated that US\$50bn will be the sum needed for investment in the aviation sub sector, with US \$5bn needed for investment in the near term (by 2018). It also specified that US \$50bn will be needed for maritime for the three decade period.

Available statistics in terms of adequacy of railway lines and its facilities among selected countries in Africa shows Nigeria lagging behind South Africa and Egypt. Our rail lines are still the old narrow gauge with only the recently commissioned Abuja-Kaduna on standard gauge. According to 2016 data, the aviation industries of Egypt, South Africa, Kenya and Morocco created 1,011,000, 493,000, 617,000, 828,000 jobs respectively whilst the Nigerian aviation industry created 93,000 jobs only. The aviation industry's contribution to the GDP in Egypt, South Africa, Kenya and Morocco stood at USD \$13,150m, \$12,473m, \$3,151m and \$9,473m respectively whilst the Nigerian aviation industry contributed a paltry \$1,295m. There is evidence that our aviation industry can afford to create more jobs and contribute more to the GDP if the right policies and investments are in place. In terms of departures and number of persons transported, the figures in these countries, despite our large population are far higher than Nigeria's. Our port facilities take a back seat when compared to Egypt and South Africa.

FGN voted 0.65%, 0.45%; 0.14% and 2.54% of the overall federal allocations to rail transport in 2013, 2014, 2015 and 2016 respectively. This is an average allocation of 0.95% over the four year timeframe. The variance between the allocations and the NIIMP projections for the four years cumulatively amounts to N644,060,658,664 whilst it came up to an average of N161.015 billion a year. It is imperative to state that the funding gap for 2016 would have been smaller but for the naira that lost value from N199 to 1USD to the present rate of N315 to 1USD. If the naira had remained at N199 to 1USD, the variance would have been N45.076bn.

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<sup>1</sup> This review will not focus on roads because the subject has been treated by the analysis of the budget of the Ministry of Works.

<sup>2</sup> It arrived at this estimate through international benchmarks of investment needs.

In 2013, only 44.78% of the capital allocation to the sector was utilized; the utilization rate declined to 41.64% in 2014 and moved up to 73.87% in 2015. Only in 2015 did the utilization surpass the three year average utilization rate of 53.43%. The paltry capital expenditure was hardly utilized and this is poor compared to international benchmarks.

The findings indicate that old sectoral challenges continued in the sector whilst the opportunities remained untapped; extant policies are proactive but the basis for the costing of investment requirements in the aviation and railway sectors in the short term, under the NIIMP remains unclear as the investment requirements seem to be understated. Projecting the investments at \$1bn a year for each of the subsectors is low. The policies envisage private sector participation in the sector although government has not fulfilled its obligations that will pave the way for investors to come in. The cost of construction, repairs and renovation in the sector in Nigeria remains one of the highest in Africa. The sector is underfunded; capital budgets are not fully released and utilized.

In the light of the foregoing, the review made the following recommendations.

**i. Popularize the NIIMP and Review the Funding Requirements in NIIMP:** The funding requirements for aviation, railways and maritime needs to be reviewed to bring them in line with the infrastructure deficit and the demands of the sector. The funding needs are currently under-estimated. Furthermore, FGN should ensure that across the board, MDAs understand the investment needs and requirements of their sector as stated in NIIMP and use same as a basis for budgeting and engagement of stakeholders including the private sector. This will include the identification of sectoral linkages especially, which show the contribution of the Transport sector to employment and economic growth.

**ii. Increase Public Funding to the Sector:** The sector requires increased public funding to meet up the challenges. Savings made from more efficient and leaner government operations could be channeled to the sector. FGN should consider setting up clear economic and fiduciary frameworks to ensure good returns on investment and use public pension funds to grow the sector. Special bonds should be floated and tied to specific sectoral infrastructure projects after good feasibility studies, proper costing and approval by the legislature.

**iii. Enhance Value for Money and Reduce Construction Costs:** The cost of construction and repairs in the sector could be benchmarked with the cost in other African countries with the same terrain and environmental conditions. It is imperative that the Bureau of Public Procurement devises a standard database of prices of aviation, railways and maritime construction in Nigeria to guide procurements in the sector. Fiscal incentives such as tax rebates, pioneer status and duty waivers should be granted on a rules based approach which will entail clear guidelines made applicable on a case by case basis after weighing the advantages and disadvantages; it should not be a blanket offer to all transport investments.



**iv. Rationalize and Prioritize Projects in the Sector:** Projects for budgetary funding should be carefully selected after a rationalizing and prioritizing exercise to avoid spreading the little available resources too thinly. FGN needs to consider a moratorium on new projects in the sector; existing projects should be completed before commencement of new ones.

**v. Engage the Private Sector:** The quantum of resources needed to improve transportation infrastructure in aviation, railways and the maritime subsector is massive and cannot be provided by government alone. The need to bring in private investments into the Transport sector has arisen. The laws listed in the NIIMP need to be amended to create the necessary legal environment for private sector participation. They are Federal Highways Act, the National Railway Corporation Act, Nigerian Civil Aviation Authority Act, Nigerian Ports Authority Act and the Nigerian Inland Water Ways Act. Also, the private sector's expectation from government as stated in NIIMP needs to be fulfilled. Furthermore, FGN should consider the establishment of Special Purpose Vehicles that provide the opportunity for citizens to invest in transport infrastructure. The current idea of investors as foreigners does not tally with the reality of the resources available in Nigeria.

**vi. Transparency in Debt Procurement:** Loans from any source whatsoever to be invested in the transport sector must be transparently handled so that the terms and conditions of the loan are matters of public knowledge. This will prevent any under the table deals that will militate against value for money.

**vii. Ring-fence Capital Budgets for the Sector:** FGN needs to consider devising strategies to ring-fence the capital budget of the parent Ministry to ensure that allocated funds are released and utilized. The perennial under release and under-utilisation of approved funds will not lead to major improvements in the sector. This experience is not limited to Transport but it is cross sectoral. The FGN therefore needs to enforce fiscal discipline to guarantee that recurrent expenses do not over shoot whilst the capital vote bears the brunt. Also, revenue forecasting should be more empirical and less overtly optimistic which leads to perennial shortfalls that impede capital budget implementation.

**viii. Prepare MTSS for the Sector:** In accordance with the Fiscal Responsibility Act (FRA), the appropriation process should properly start with the preparation of Medium Term Expenditure Framework and its underlying Medium Term Sector Strategies. The MTSS should be prepared by a properly composed sectoral team where all major stakeholders including civil society are represented.

# 1. INTRODUCTION

## 1.1 Background

Transport infrastructure occupies a strategic position in any nation's economy. It facilitates the integration and connection of various parts of the country and provides a spur for economic growth and social development. The Nigerian transport system comprises all modes: roads, railways, water, air and pipeline transport<sup>3</sup>. According to policy provisions, a good and well integrated transport system<sup>4</sup>:

- *Stimulates national development and enhances the quality of life for all;*
- *Allows markets to operate by enabling the seamless movement of goods and people;*
- *Provides vital links between spatially separated facilities and enables social contact and interaction;*
- *Provides access to employment, health, education and services;*
- *Alleviates regional inequality and fosters national integration;*
- *Increases access to markets and links local, regional, national and international markets;*  
*and*
- *Promotes economic development by increasing access to labour and physical resources thus facilitating the realization of a country's comparative advantages.*

A thriving transport sector is usually supported by a developed and efficient transport infrastructure. Nigeria's transport infrastructure and indeed that of many African countries is still under-developed and inefficient. Figures from the World Economic Forum's 2012/2013 Global Competitive Report<sup>5</sup> (GCR) show that only seven (7) African countries, located mainly in the Northern and Southern Africa, have transport infrastructure that is developed and above the African average level. These countries are Tunisia, South Africa, Namibia, Mauritius, Morocco, Seychelles and Gambia.

In the Medium Term Expenditure Framework (MTEF) 2016-2018, the Federal Government of Nigeria (FGN) pledged to improve transport infrastructure and linked this with strategic goals to improve the standard of living, create jobs, enhance economic growth, reduce the cost of doing business in Nigeria and enhance our competitiveness rating. The FGN promised to set up an Infrastructure Development Fund to tackle infrastructure challenges including the prevalent ones in the railways, air transport and marine subsectors. Nigeria's policy focus in the rail subsector places emphasis on rehabilitating existing railway lines to make all of them functional, and to build additional railway lines to upscale the railway network<sup>6</sup>. Moreover, building rail links to sites of economic importance are envisaged. For aviation – the air transport sector needs to

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<sup>3</sup> This review will not focus on roads because the subject has been treated by the analysis of the budget of the Ministry of Works.

<sup>4</sup> Federal Government of Nigeria Draft National Transport Policy, pg 1; Aug., 2010. Available from [http://kyg.nigeriagovernance.org/Attachments/Organization/Act/262\\_Draft%20National%20Transport%20Policy.pdf](http://kyg.nigeriagovernance.org/Attachments/Organization/Act/262_Draft%20National%20Transport%20Policy.pdf)

<sup>5</sup> Transport in Africa, KPMG. <https://www.kpmg.com/Africa/en/IssuesAndInsights/Articles-Publications/Documents/Transport%20in%20Africa%20-%20final.pdf>

<sup>6</sup> National Integrated Infrastructure Master Plan; [http://www.niimp.gov.ng/?page\\_id=1339](http://www.niimp.gov.ng/?page_id=1339)

upgrade and expand the existing airport infrastructure. In particular, 11 airports are to be renovated and their facilities upgraded to international standards. Further, in the maritime subsector, the short-term focus is on increasing the share of inland waterway transportation through dredging of waterways and upgrading inland ports. Also, there are plans to construct two new seaports, upgrade and expand existing ports<sup>7</sup>.

Aviation, including airports, safety of aircraft and carriage of passengers and goods by air is in the Exclusive Legislative List of the 1999 Constitution<sup>8</sup>. But this does not preclude states from investing in airports with the consent of the aviation authorities. Maritime, shipping and navigation are also on the same List but states in collaboration with FGN can invest in port facilities. Again, Railways are in the Exclusive Legislative List of the 1999 Constitution. Nigeria has ten (10) international<sup>9</sup> and eighteen (18) local airports which are generally characterized by poor reputation for operational inefficiency. The nation's 8600 km inland waterways are yet to be developed to its full potential. The parts most used, especially by larger powered boats and for commerce are in the Niger Delta and along the coast from the Lagos Lagoon to Cross River State.

### 1.2 Objectives of the Review

The review focuses on the public funding of the Federal Ministry of Transport (FMOT) in the year 2016. The review tries to analyse the responsiveness of the budget towards Nigeria's transport policies and action plans. It will review the adequacy of the resources deployed and whether Nigeria is using the maximum of available resources to meet its challenges in the transport sector. It will also explore possible new sources of funding the sector to achieve increased impact on the national economy.

## 2. TRANSPORT SECTOR POLICY INITIATIVES IN NIGERIA

From Nigeria's independence in 1960, the transport sector has experienced various challenges. These challenges are summarized in Table 1 below.

*Table 1: The Challenges of the Transport Sector in Nigeria*

Issues	Air	Maritime	Rail	Road	Pipelines	Inland Waterways
<b>Infrastructure</b>	1. Many uneconomic airports 2. Poor airport facilities	1. Uneconomic seaports 2. Old port facilities 3. Poor port	1. Old, narrow gauge 2. Poor gradient, many curves	1. Poorly Maintained roads 2. Poor rural access and	1. Poorly protected and ageing pipes 2. Poor distribution	1. Shallow channels 2. Seasonal water levels 3. Presence of

<sup>7</sup> NIIMP, supra

<sup>8</sup> Second Schedule, Part 1 of the Constitution of the Federal Republic of Nigeria, 1999.

<sup>9</sup> They are Nnamdi Azikiwe International Airport, Abuja; Akanu Ibiam International Airport, Enugu; Mallam Aminu Kano International Airport, Kano; Murtala Mohammed International Airport, Lagos; Port Harcourt International Airport, Port Harcourt; Margaret Ekpo International Airport, Calabar; Maiduguri International Airport, Maiduguri; Sadiq Abubakar III International Airport, Sokoto; Asaba International Airport, Asaba; and Gombe Lawanti International Airport, Gombe.

	3. Poor and inadequate maintenance	access 4. Unmaintained terminal facilities	3. Dilapidated Rail Stations 4. Poor Communication and signaling system	interchange facilities 3. Poor road complimentary facilities	3. Poor road links to depots	sand bars 4. Numerous wrecks and weeds
<b>Vehicle</b>	1. Aging Aircrafts 2. Low fleet	1. Preponderance of foreign vessels	1. Aging Locomotives and wagons 2. Unavailability of spare parts	1. Numerous small capacity vehicles 2. Old Rickety vehicles	-	1. Unsafe local boats
<b>Operations</b>	1. Low level of indigenous participation 2. Funding problems 3. Heavy debt burdens	1. Low level of indigenous participation 2. Poor handling 3. Excessive government participation	1. Poor operators and management 2. Poor funding 3. Large staff strength 4. Huge pension	1. Numerous operators 2. Inadequate skills 3. Increasing accidents and high fatalities	Pipeline vandalism	Unorganized operators
<b>Policy/ Planning</b>	1. Absence of integrated policy 2. Institutional conflicts	1. Institutional frictions 2. Excessive Bureaucracy 3. Poor plan implementation	1. Absence of road policy 2. Poor planning	1. Uncoordinated road development 2. Erratic funding	No integrated policy	Poorly integrated

Source: Sumaila A. F. (2013), Building Sustainable Policy Framework for Transport Development, pg 3<sup>10</sup>

Successive administrations in Nigeria have taken steps to tackle these challenges. The transport sector received 19%, 23%, 22% and 15% of total public capital outlays respectively for the periods 1962-1968, 1970-1974, 1975–1980 and 1981 – 1985 (corresponding to the various National Development Plans). The efforts to restructure the transport sector are encapsulated in the various policy initiatives of the sector which are reviewed below. Emphasis is on the most recent ones.

## 2.1 2008 Draft National Transport Policy

This policy document was commissioned by the Bureau for Public Enterprises following the decision of government to withdraw from direct provision of services including transport. Convinced that privatization and deregulation are the way forward and in line with global best practices, the FGN sought to shift the responsibilities of its direct involvement in the functioning of the transport system to the private sector.

The policy thrust of this initiative is that of deregulation while its goal was to achieve a market-driven transport system. The policy objectives for the various modes of transport include:

- Rail: Resuscitate rail transport and identify areas of private sector involvement.
- Air: Identifying the existing problems and bottlenecks in the sector as a precursor to the solution; and reorganize existing airports.

<sup>10</sup>Sumaila A. F. (2013), "Building Sustainable Policy Framework for Transport Development: A Review of National Transport Policy Initiatives in Nigeria", International Journal of Development and Sustainability, Vol. 2 No. 2, pp. 505-520.

- Maritime and Water: Improve port efficiency; harmonize laws of agencies and resolve conflicts; and to prepare an inland waterways master plan.
- Roads: Private sector participation in road construction and maintenance.

## 2.2 Nigeria Vision 20: 2020 (NV 2020)

The NV20:2020 economic transformation blueprint is a long term plan for stimulating Nigeria's economic growth and launching the country onto a path of sustained and rapid socio-economic development. It envisions a Nigeria that will be one of the 20 largest economies in the world by the year 2020, with a GDP of US \$900bn and per capita income of US \$4,000 per annum. The policy initiative of NV 2020 is captured in its vision statement<sup>11</sup>:

*“By 2020, Nigeria will have a large, strong diversified, sustainable and competitive economy that effectively harnesses the talents and energies of its people and responsibly exploits its natural endowments to guarantee a high standard of living and quality of life to its citizens”.*

The policy hinges on three pillars: guaranteeing the productivity and wellbeing of the people; optimizing the key sources of economic growth and fostering sustainable social and economic development. The goal of the Vision 2020 in the transport sector is enshrined in its economic transformation strategy – the expansion of investment in critical infrastructure. The strategic objective of strengthening the linkages between key sectors of the economy which is contained under pillar number two (optimizing the key sources of economic growth) captures what NV 2020 hopes to achieve in the transport sector:

*“...concerted efforts will be made to encourage private sector investments in other means of transportation in order to ensure effective distribution of resources in the real sector.*

*Nigeria will create an integrated and sustainable transport system that will be safe, reliable and cost efficient. The transport system will incorporate different modes of transportation in order to adequately convey necessary materials- inputs and resources - that are required by primary industry, manufacturing industry and market as required.*

*Specifically, investment will be encouraged through concessions - BOT ( Build Operate and Transfer), BOO (Build Operate and Own)- in rail, road, water, and air transport for the purpose of haulage and distribution of inputs and other materials to primary and manufacturing industries and subsequently to domestic and international markets for trading purposes”<sup>12</sup>.*

<sup>11</sup> Nigeria Vision 20: 2020, Dec. 2009. Available at <http://www.nationalplanning.gov.ng/images/docs/NationalPlans/nigeria-vision-20-20-20.pdf>

<sup>12</sup> Nigeria Vision 20: 2020, Dec. 2009.

## 2.3 National Integrated Infrastructure Master Plan (NIIMP)

This policy document was developed by the FGN with the target of accelerated infrastructural development. NIIMP provides the roadmap for building a world class infrastructure that will guarantee sustainable economic growth and development. This thirty (30) year master plan<sup>13</sup> cuts across sectors of the economy: energy, transport, ICT, agriculture, water, mining, housing etc.

The policy objectives include<sup>14</sup>:

- *Adopt a coordinated approach to infrastructure development;*
- *Strengthen the linkages between components in the infrastructure sector and the national economy;*
- *Review, upgrade and harmonize existing sub-sector master plans and strategies in the infrastructure sector, to ensure consistency with national development aspirations;*
- *Prioritize projects and programmes for implementation in the short to medium term;*
- *Promote private sector participation in infrastructure development;*
- *Strengthen the policy, legal and institutional frameworks for effective infrastructure development; and*
- *Enhance the performance and efficiency of the economy.*

On the current state of infrastructure in Nigeria, the National Planning Commission (NPC) stated that:

*“..Nigeria’s current transport infrastructure is not aligned with the country’s aspiration to become one of the world’s 20 largest economies by 2020. Increased maintenance and capacity expansions are needed to improve the current state of Nigeria’s infrastructure”<sup>15</sup>.*

### 2.3.1 Sector Aspirations and Targets under the NIIMP

The overall vision of the transportation sector is<sup>16</sup>:

*“To achieve an adequate, safe, environmentally friendly, efficient, affordable and sustainable integrated transport system within the framework of a progressive and competitive market economy for Nigeria”*

This overall vision was broken down into objectives<sup>17</sup> for the various sub sectors under transport. For rail transport, the objectives include:

- *Provide adequate rail infrastructure for even economic development of the country.*
- *Sustain continued rail network rebuilding and expansion so that rail services are commercially viable, both passenger and freight.*

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<sup>13</sup> 2014 to 2043

<sup>14</sup> National Planning Commission website; [http://www.niimp.gov.ng/?page\\_id=997](http://www.niimp.gov.ng/?page_id=997)

<sup>15</sup> National Planning Commission website, [http://www.niimp.gov.ng/?page\\_id=1099](http://www.niimp.gov.ng/?page_id=1099)

<sup>16</sup> National Planning Commission website, [http://www.niimp.gov.ng/?page\\_id=1099](http://www.niimp.gov.ng/?page_id=1099)

<sup>17</sup> National Planning Commission website, [http://www.niimp.gov.ng/?page\\_id=1105](http://www.niimp.gov.ng/?page_id=1105)

- *Develop capacity to sustain and continuously improve the quality of rail infrastructure*
- *Create an enabling environment for private sector participation in the provision of road and rail infrastructure*

For Aviation, the objectives include:

- *Provide a safe, secure and comfortable air transport sector that is self-sustaining and pivotal to socio-economic growth, in line with international best practice;*
- *Transform the aviation industry into an efficient, profitable, self-sustaining, effective and preferred mode of transportation; and*
- *Establish Nigeria as the regional aviation hub in West Africa.*

For the Maritime sub sector, the objectives include:

- *Significantly increase the capacity of and emphasis on inland waterways transportation;*
- *Attain enhanced performance and competitiveness of seaports;*
- *Improve port productivity and competitiveness;*
- *Implement a port management model that attracts full private sector involvement and promotes market principles; and*
- *Establish Nigeria as a regional port hub.*

### **2.3.2 Strategic Objectives**

NIIMP has strategic targets in the various sub sectors which it plans to achieve in its 30 year span. In rail transport, it plans to totally rehabilitate and rebuild the rail network in the short to medium term. A high speed rail network between major Nigerian cities is central to this plan so as to facilitate adequacy of viable transport options for passengers and freight. It also hopes to do same to connect the nation with other ECOWAS region countries by rail.

In aviation, rehabilitation and scaling up of the existing airport infrastructure to meet demand of increased air passenger traffic is one of the short term targets. Improving airport and airline security to align with international standards by 2023 while expanding and improving the nation's international airports is another short term objective. Becoming a major aviation hub in the region by 2043 is the long term objective.

Significantly improving the capacity of transporting passengers and freight via inland waterways, expand current port throughput and establish Nigeria as a regional port hub is NIIMP's aspiration for the maritime sector. Ramping up performance, efficiency and competitiveness of the ports and inland waterways is the core objective for 2023 while aspiring to become a major sea hub for West Africa is its 2043 objective.

### **2.3.3 Required Infrastructure Investment**

To achieve the above goals and objectives with a significant additional investment in infrastructure, NIIMP estimated that about US \$775 billion will be needed for investment

in the transport sector over the three decades of the master plan<sup>18</sup>. The master plan stipulated that about US \$75bn will be needed for scaling up the rail sub sector, with US \$5bn being required for the first five (5) years. It also stipulated that US \$50bn will be the sum needed for investment in the aviation sub sector, with US \$5bn needed for investment in the near term (by 2018). It also specified that US \$50bn will be needed for maritime for the three decade period.

### 3. RELEVANT STATISTICS ON TRANSPORT

#### 3.1 Railway

The Nigerian Railway Corporation (NRC) operates the nation's rail network which consists of 3,505km, narrow gauge (1,067m) single track rail line running from Lagos to Kano and Port Harcourt to Maiduguri and the uncompleted 349km standard gauge from Itakpe to Warri via Ajaokuta<sup>19</sup>. The country has recently completed the Abuja –Kaduna standard gauge line. Other planned standard gauge lines are Lagos-Ibadan (181km); Ibadan-Ilorin (200km); Ilorin-Minna (270km); Minna-Abuja; Kaduna-Kano (305km)<sup>20</sup>. Efforts are currently being made to rehabilitate the old narrow cape gauge network built during the colonial days. The current operational state of the Nigerian Railway is not the same as what it used to be in the past when it recorded the highest number of passengers and freight of 15.5 million passengers in 1984 and 2.4 million tonnes of goods in 1977 respectively<sup>21</sup>. According to the Green Paper<sup>22</sup>:

*“In 2005, rail carried only 753,000 passengers and 93,000 metric tonnes of goods. The railway at present does not evacuate goods from the Nigerian seaports, unlike in the 1970 and 1980s. This shift has significantly increased the use of road transport and heightened demand for an expanded and efficient road network”.*

Reviewing the cost of rail construction among selected African countries provides a good background to the Nigerian railway crisis. The Kenyan Government is constructing 2,937 km Standard Gauge Rail Line to link Rwanda, Uganda at the cost of \$13.5 billion. This amounts to \$4.6 million per km. The Standard Gauge Railway in Ethiopia, from Mieso to Djibouti is 339 km at the cost of \$1.12 billion. This amounts to \$3.3 million per km. The Lagos-Ibadan Standard Gauge Railway is 181 km, awarded at the cost of \$1.53 billion. This amounts to \$8.5 million per km. The Abuja-Kaduna Standard Gauge Railway is 186 km, constructed at the cost of \$876 million. This amounts to \$4.7 million per km. The Government of Ghana awarded a concession for the 500km Awaso to Hamile Eastern Rail Line at the cost of \$1.4 billion. This amounts to \$3.2 million per

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<sup>18</sup> It arrived at this estimate through international benchmarks of investment needs.

<sup>19</sup> Draft Green Paper on Federal Roads and Bridges Tolling Policy, Federal Ministry of Works, Oct. 2013; pg. 1. Available at <http://www.works.gov.ng/download/GreenPaperonTollingpolicy.pdf>

<sup>20</sup> [https://en.wikipedia.org/wiki/Lagos%E2%80%93Kano\\_Standard\\_Gauge\\_Railway](https://en.wikipedia.org/wiki/Lagos%E2%80%93Kano_Standard_Gauge_Railway)

<sup>21</sup> Supra, Draft Green Paper on Federal Roads and Bridges Tolling Policy, Federal Ministry of Works, Oct. 2013.

<sup>22</sup> Page 1 of the Green Paper.



kilometer<sup>23</sup>. Clearly, Nigeria's rail construction rates per kilometer are higher, without reasonable justification(s) - based on factors such as difficult terrain.

In the African Continent, the state of rail network development is summarized in Table 2 below:

*Table 2: African Countries' Rank by Rail Network Size*

Country	Railway Length (km)	Date of Information	Electrified Length (km)	Area (km <sup>2</sup> ) per km track	Population per km track	Privatized or Nationalized
South Africa	31,000	2014	24,800	39.39	1,742	Nationalized
Egypt	6,700	2010	-	149.47	12,075	-
Algeria	4,316	2012	283	551.83	8,595	-
DR Congo	4,007	2008	-	585.19	16,463	-
Nigeria	3,528	2006	-	261.84	44,904	-
Kenya	2,778	2010	-	208.92	13,899	-
Angola	2,761	2006	-	451.54	6911	-
Tanzania	2,722	2006	-	348.02	15,866	-
Namibia	2,382	2006	-	346.05	877	-
Tunisia	2,218	2007	-	73.76	4,756	-
Morocco	1,989	2008	-	224.51	16,227	-

Source: International Union of Railways data<sup>24</sup>

The International Union of Rail Network ranked these countries based on their rail transport size in which Nigeria came 4<sup>th</sup> amidst a select group of African countries. One observation that should be noted is that Nigeria has the highest population per km track (44,904) with DR Congo and Morocco the closest to Nigeria by a wide margin of 16,463 and 16,227 respectively.

The World Fact Book gave the total route length of Nigeria's railways to be 3,798 km in 2014<sup>25</sup>. When the population per km track is worked out with the 2014 population estimate of 167,000,000 persons, the result (43,970) is not too different from the picture in the above Table. This stresses the need for increased investment in rail infrastructure in Nigeria so as to improve the situation.

### 3.2 Air Transport

The Nigeria Airspace Management Agency (NAMA) is responsible for air traffic control, regulation and navigational aids while the Nigerian Civil Aviation Authority (NCAA) is charged with the responsibility of safety oversight and other civil aviation issues. The national analysis for employment and GDP supported by aviation was carried out by

<sup>23</sup> Source: : <https://www.wikipedia.org>

<sup>24</sup> The above figures include the urban/suburban mass-transport systems and also lines which are not used for passenger services. This is from

[https://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_rail\\_transport\\_network\\_size](https://en.wikipedia.org/wiki/List_of_countries_by_rail_transport_network_size)

<sup>25</sup> Available at <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2121rank.html>

Oxford Economics for a select group of African countries where reliable data was available and estimations are possible on a national level. The result of the analysis is presented below.

*Table 3A: Contribution of Aviation Sub Sector to Employment 2012 (000s)*

Country	Direct	Indirect	Induced	Tourism	Total
Egypt	46.1	76.9	36.4	1,230.8	1,390.1
Kenya	14.3	12.2	11.5	206.5	244.6
Morocco	32.2	41.0	28.0	818.2	919.4
Nigeria	45.3	62.8	50.2	96.1	254.5
South Africa	42.4	119.9	56.0	206.6	424.9

*Table 3B: Contribution of Aviation Sub Sector to GDP 2012 (US\$ Millions)*

Country	Direct	Indirect	Induced	Tourism	Total
Egypt	1,332	847	401	14,805	17,385
Kenya	195	91	86	1,769	2,141
Morocco	648	374	255	8,373	9,650
Nigeria	462	266	212	464	1,404
South Africa	3,258	3,396	1,585	5,455	13,694

Source: Aviation Benefits Beyond Borders, 2012<sup>26</sup>

From the above analysis, 254,500 persons were employed as a result of Nigeria's aviation sub sector related activities and US \$1.4bn was the contribution to the nation's GDP from the same sub sector activities. Compared to other African countries like Morocco or South Africa, these figures leave much to be desired as Moroccan aviation sub sector's contribution to employment (919,400 persons) more than tripled Nigeria's (254,500 persons) and South African aviation sub sector contribution to GDP was more than that of Nigeria by over nine fold (US \$13.69bn compared to \$1,404bn). This analysis shows that there is need for improvement.

The latest statistics of July 2016 on the same subject matter shows a decline by Nigeria. This is as shown in Tables 4A and 4B.

*Table 4A: Contribution of Aviation Subsector to Employment 2016 (000s)*

Country	Direct	Indirect	Induced	Tourism	Total
Egypt	70	96	18	827	1,011
Kenya	18	129	58	412	617
Morocco	35	36	16	741	828
Nigeria	28	19	8	38	93
South Africa	70	133	57	234	493

Source: [http://aviationbenefits.org/media/149668/abbb2016\\_full\\_a4\\_web.pdf](http://aviationbenefits.org/media/149668/abbb2016_full_a4_web.pdf)

In terms of the contribution to employment, Table 4A shows a decline compared to the 2012 figures in the continental leader (Egypt's) numbers while Kenya moved from 244,600 to 617,000. South Africa also moved up from 424,900 to 493,000. Morocco

<sup>26</sup> Estimates are conducted based on indicators such as airport employment, airport passenger traffic (ACI Airport Economic Survey 2013) and airline passenger numbers (IATA Economics). More from [http://aviationbenefits.org/media/26786/ATAG\\_\\_AviationBenefits2014\\_FULL\\_LowRes.pdf](http://aviationbenefits.org/media/26786/ATAG__AviationBenefits2014_FULL_LowRes.pdf)

suffered a decline while Nigeria suffered a geometric decline from 254,500 to a paltry 93,000 jobs.

*Table 4B: Contribution of Aviation Sub Sector to GDP 2016 (US\$ Millions)*

Country	Direct	Indirect	Induced	Tourism	Total
Egypt	1,248	1,115	210	10,577	13,150
Kenya	756	492	220	1,683	3,151
Morocco	418	373	166	8,516	9,473
Nigeria	390	251	114	540	1,295
South Africa	2,969	3,066	1,320	5,118	12,473

Source: [http://aviationbenefits.org/media/149668/abbb2016\\_full\\_a4\\_web.pdf](http://aviationbenefits.org/media/149668/abbb2016_full_a4_web.pdf)

In terms of contribution to GDP, Egypt still led the pack although it suffered a decline. South Africa came second with a slight decline compared to the figures of 2012. Kenya moved up from \$2,141m to \$3,151m. Morocco declined in its contribution to GDP whilst Nigeria again declined and occupied the rear position. The foregoing buttresses the need for improvement.

The Open Skies Agreement for Africa – Implementing the Yamoussoukro decision<sup>27</sup> called for liberalization of tariffs, fair competition, full liberalisation of intra-African transport service with respect to terms of service, capacity, frequency, etc. The Agreement committed the 44 signatory African countries to deregulate air services and promote regional air market so as to unlock the potential of aviation as a catalyst for growth and development. An analysis of the traffic impacts of intra-African liberalization<sup>28</sup> carried out by InterVISTAS Consulting Ltd projected that liberalization will result in an increased passenger volume of about 51% for Nigeria and 141% for Algeria. The selected African countries who were among the Yamoussoukro decision signatories include Algeria, Egypt, Tunisia, Ethiopia, Kenya, Uganda, Angola, Namibia, South Africa, Ghana, Senegal and Nigeria. In a much broader picture, Ethiopia has signed bilateral air service agreements with over 90 countries both within and outside Africa while Morocco and the EU open skies agreement came into force in 2006.

Data from the World Bank development indicators showing the number of registered carrier departure for a select group of African countries reveals that the level of operation of the Nigerian aviation sector has some catching up to do. Table 5 tells the story.

<sup>27</sup> The details of this decision of which can be found at <http://www.worldbank.org/en/topic/transport/publication/open-skies-for-africa.print>

<sup>28</sup> Transforming Intra-African Air Connectivity: The Economic Benefits of Implementing the Yamoussoukro Decision, InterVISTAS, July 2014. Available at [http://www.iata.org/whatwedo/Documents/economics/InterVISTAS\\_AfricaLiberalisation\\_FinalReport\\_July\\_2014.pdf](http://www.iata.org/whatwedo/Documents/economics/InterVISTAS_AfricaLiberalisation_FinalReport_July_2014.pdf)

*Table 5: Number of Registered Carrier Departures Worldwide*

Country	2013	2014	2015	Average
Nigeria	59,182	57,238	52,497	56,305.59
Egypt	100,736	95,744	101,350	99,276.48
South Africa	184,763	197,784	198,083	193,543.3
Ghana	16,560	16,764	20,539	17,954.49
Cameroon	5,640	5,640	5,499	5,592.89
Ethiopia	68,131	71,166	83,940	74,412.44
Kenya	98,244	81,636	81,437	87,105.78

Source: World Development Indicators, World Bank Website<sup>29</sup>.

Table 5 reveals that Nigeria has an average of 56,305 worldwide registered carrier departures for the period of 2013 to 2015. The gap between Nigeria's average departures and those of the top two group leaders – South Africa and Egypt is a whopping 137,283 and 42,971 respectively. The averages of Ghana and Cameroon are the only ones less than that of Nigeria and one can argue that the size of the population of these countries have a bearing on this statistics.

In terms of airport and related construction costs, the following statistics show the trend among selected African countries. The design and construction of the second runway at the Nnamdi Azikiwe International Airport, Abuja would cost US \$421 million. Egypt is undertaking refurbishment of Cairo International Airport Terminal 2 at a cost of US \$387 million by the Turkey-based Limak Holding. The Ethiopian Airports Enterprise (EAE) awarded a US \$29 million contract to Afro-Tsion Construction Plc for the construction of Jinka airport. In Tanzania, a project has been awarded to BAM International for the expansion and renovation of Kilimanjaro International Airport at the cost of US \$40 million. The airport upgrading project will involve construction of new terminal buildings, runways, aprons and taxiways, with completion expected by 2017. In Zambia, the Government is constructing a passenger terminal building at the Kenneth Kaunda International Airport. The renovation building will cost US \$385 million. Zambia is also constructing Simon Mwansa Kapwepwe Airport in Ndola at a cost of US \$522 million<sup>30</sup>. Again, these statistics shows Nigeria's construction costs as one of the highest in the African region. The construction of a mere runway in Nigeria will cost more than a full airport.

<sup>29</sup> <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>

<sup>30</sup> Source: <http://constructionreviewonline.com/2015/04/african-airports-in-massive-expansion/>

### 3.3 Maritime and Water Transport

The Green Paper states as follows about the Maritime and Water Transport sector:

*The Inland Waterway and the Seaports make up the Nigerian water transport system. Nigeria has 12 major inland navigable rivers of about 3,800 km, with extensive coastline of about 852km. The waterways extend across 20 out of the 36 States of the Federation. The seaports handle most of the nation's imports and exports, with the potential to serve the landlocked countries of Chad and Niger Republic. The ports are controlled by the Nigerian Ports Authority (NPA). The nation has 13 major ports, 11 oil terminals and 128 jetties with a total annual handling capacity of 35 million tonnes. In 2006, most of the ports were concessioned based on the landlord model<sup>31</sup>.*

Table 6 made up of data from World Bank Development Indicators showing the perception of countries' port facilities by business executives for the period 2013 – 2016 is detailed below. The data is from the World Economic Forum's Executive Opinion Survey, conducted for 30 years in collaboration with 150 partner institutes. Scores were on a scale of 1 to 7 with 1 representing port infrastructure considered extremely underdeveloped and 7 representing port infrastructure considered efficient by international standards.

*Table 6: Quality of Ports Infrastructure*

Country	2013	2014	2015	Average
Egypt	4.1	4.2	4.3	4.2
South Africa	4.7	4.9	4.9	4.8
Ghana	4.2	3.7	3.5	3.8
Cameroon	3.7	3.6	3.3	3.5
Algeria	2.7	2.8	3.0	2.8
Nigeria	3.4	3.2	3.0	3.2

Source: World Development Indicators, World Bank Website<sup>32</sup>

Analysis from Table 6 shows that Nigeria ranks 5<sup>th</sup> out of a group of six (6) African countries with an average score of 3.2 which is only better to the Algerian average score of 2.8. Countries like South Africa and Egypt with average scores of 4.8 and 4.2 respectively lead the group on better infrastructural development.

Table 7 gives the Liner Shipping Connectivity Index. This captures how well countries are connected to global shipping networks. It is computed by the United Nations Conference on Trade and Development (UNCTAD) based on five components of the maritime transport sector: number of ships, their container-carrying capacity, maximum

<sup>31</sup> The Green Paper at page 1.

<sup>32</sup> <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>

vessel size, number of services, and number of companies that deploy container ships in a country's ports. With a maximum value of 100 representing the best in this index and 0 the worst score, Table 7 rates a select group of African countries.

*Table 7: Liner Shipping Connectivity Index*

Countries	2013	2014	2015	Average
Nigeria	21.35	22.91	32.68	25.65
Egypt	57.48	61.76	61.45	60.23
South Africa	43.02	37.91	41.41	40.78
Ghana	19.35	21.69	21.85	20.96
Cameroon	10.85	12.74	10.96	11.52
Algeria	6.91	6.94	5.92	6.59

Source: World Development Indicators, World Bank Website<sup>33</sup>

Table 7 shows that Nigeria with an average score of 25.65 is 3<sup>rd</sup> in terms of Liner Shipping Connectivity to global shipping networks with only Egypt and South Africa having a better index score than Nigeria - 60.23 and 40.78 respectively. Notwithstanding Nigeria's position in Table 7, the low index score of Nigeria (and other African countries) which is below the six countries' average index of 27.62 needs to be improved upon.

## **4. PROVISIONS FOR TRANSPORT IN THE 2016 BUDGET AND TREND ANALYSIS**

### **4.1 Issues in this Part of the Review**

This part will review the key provisions in the overall transport envelope, recurrent and capital expenditure and their comparisons to other sectors as well as the funding gap (if any). It will also highlight capacity deficits and frivolous, inappropriate and wasteful expenditure heads.

### **4.2 Allocations to Transport and the Funding Gap**

An analysis of NIIMP stipulations show that a sum of US \$1bn per year is needed on average from 2014 to 2018 for investment in the rail and aviation sub sectors, given that it was stipulated that US \$5bn will be needed in the first five (5) years. The review in this section concentrates on aviation and railways but includes maritime in the analysis of the overall releases and utilized sums. Table 8 and 9 below shows the funding gap in railway and aviation infrastructure investment with respect to FGN annual budgets so far. The exchange rate of N159.9n to 1USD was used in 2013; \$1 to N183.5 was used for 2014; \$1 to N199.1 was used for 2015 and \$1 to N315 was used 2016<sup>34</sup> to get the US \$1bn equivalent in naira.

<sup>33</sup> <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>

<sup>34</sup> <http://fx-rate.net/USD/NGN/>

*Table 8: Allocations to the Rail Subsector and the Funding Gap in the Rail Transport*

Year	Overall Federal Budget (₦ Millions)	Total Allocation to Rail Transport (₦ Millions)	% of Vote to Rail Transport to Overall Vote	NIIMP Rail Transport Allocation Projection (₦ Millions)	Variance between NIIMP Projection and Allocation to Rail Transport (₦ Millions)
2013	4,987,220,425.601	32,299,734,520	0.65	159,900,000,000	127,600,265,480
2014	4,695,190,000,000	21,101,190,090	0.45	183,500,000,000	162,398,809,910
2015	4,493,363,957,158	6,114,246,225	0.14	199,100,000,000	192,985,753,775
2016	6,060,677,358,227	153,924,170,501	2.54	315,000,000,000	161,075,829,499

Source: Annual Budgets, Budget Office of the Federation

Table 8 shows that the Federal Government voted 0.65%, 0.45%, 0.14% and 2.54% of the overall federal allocations to rail transport in 2013, 2014, 2015 and 2016 respectively. This is an average allocation of 0.95% over the four year timeframe. The variance for the four years cumulatively amounts to N644,060,658,664 whilst it came up to an average of N161.015 billion a year. The total allocation to rail transport in 2015 was exceptionally low and stands in sharp contrast with that of 2016. The overall budget for 2016 is higher by 29.08% and 34.88% when compared to the 2014 and 2015 votes respectively. It has to be noted that the funding gap for 2016 would have been smaller but for the naira that lost value from N199 to 1USD to the present rate of N315 to 1USD. If the naira had remained at N199 to 1USD, the variance would have been N45.076bn. The high sums in the variance column show the level of funding gap in the sector. Thus, Table 8 shows that the FGN is lagging behind in achieving its set infrastructural goals through the NIIMP.

Table 9 shows the allocations to aviation subsector and the funding gap.

*Table 9: Allocations to the Aviation Subsector and the Funding Gap in Aviation*

Year	Overall Federal Budget (₦ Millions)	Total Allocation to Aviation (₦ Millions)	% of Vote to Aviation to Overall Vote	NIIMP Aviation Allocation Projection (₦ Millions)	Variance between NIIMP Projection and Allocation to Aviation (₦ Millions)
2013	4,987,220,425,601.00	54,850,890,397.00	1.10	159,900,000,000.00	105,049,109,603.00
2014	4,695,190,000,000.00	32,308,750,792.00	0.69	183,500,000,000.00	151,191,249,208.00
2015	4,493,363,957,158.00	12,203,889,393.00	0.27	199,100,000,000.00	186,896,110,607.00
2016	6,060,677,358,227.00	31,755,261,546.00	0.52	315,000,000,000.00	283,244,738,454.00

Source: Approved Budgets- Budget Office of the Federation

Table 9 shows that the Federal Government voted 1.10%, 0.69%, 0.27% and 0.52% of the overall federal allocations to aviation transport in 2013, 2014, 2015 and 2016 respectively. This is an average allocation of 0.65% over the four year timeframe. The variance for the four years cumulatively amounts to N726,381,207,872 whilst it came up to an average of N181.595 billion a year. The total allocation to aviation transport in 2015 was very low. The overall budget for 2016 is higher by 29.08% and 34.88% when

compared to the 2014 and 2015 votes respectively. Table 9 shows that the FGN is lagging behind in achieving its set infrastructural goals through the NIIMP.

Table 10 shows the allocation to the rail subsector within the context of overall allocation to the Transport sector. The Transport sector votes for the years 2013 to 2015 are calculated by merging the votes of the old Transport Ministry with the votes of the Ministry of Aviation so as to make them comparable with the figures of the 2016 Transport Ministry which combines both. This is also the basis to be used for the calculation of the votes to the Aviation subsector.

*Table 10: Vote to the Rail Subsector as Percentage of Overall Transport Allocation*

Year	Total Amount Allocated to Transport Sector	Total Amount Budget to All Related Rail Projects	% of Allocation to Rail to the Overall Transport Budget
2013	107,719,865,036	32,299,734,520	29.98
2014	72,310,265,964	21,101,190,090	29.18
2015	29,764,701,924	6,114,246,225	20.54
2016	202,341,802,265	153,924,170,501	76.07

Source: Annual Budgets, Budget Office of the Federation

Table 10 shows that the rail subsector received an average of 38.94% over the four years. Although the subsector seems to be treated fairly under the Transport sector; it has not received a sizeable portion of the allocations except in the year 2016. However, the overall available resources are not enough to meet the demands of the sector.

Table 11 shows the allocation to the Aviation subsector within the context of overall allocation to the Transport sector.

*Table 11: Vote to the Aviation Subsector as a Percentage of Overall Transport Allocation*

Year	Total Amount Allocated to Transport Sector	Total Amount Budgeted for All Aviation Related Projects	% of Allocation to Aviation to the Overall Transport Budget
2013	107,719,865,036	54,850,890,397	50.92
2014	72,310,265,964	32,308,750,792	44.68
2015	29,764,701,924	12,203,889,393	41.00
2016	202,341,802,265	31,755,261,546	15.69

Table 11 shows that the aviation subsector received an average of 38.07% of the overall transport allocation over the four years. The resources are not enough to meet the needs of the subsector.



### 4.3 Distribution and Composition of the Allocations 2013-2016

Table 12 shows the distribution of the FGN allocation between capital and recurrent expenditure in the Transport sector over the 4 year period of this review.

*Table 12: Composition of the Allocations 2013-2016*

Year	Total Allocation to Transport Sector (₦ Mn)	Recurrent Expenditure (₦ Mn)	% of Recurrent Expenditure to Total Transport Allocation (₦ Mn)	Capital Expenditure (₦ Mn)	% of Capital Expenditure to Total Transport Allocation (₦ Mn)
2013	107,719,865,036	14,832,191,311	13.77	92,887,673,725	86.23
2014	72,310,265,965	14,344,265,012	19.84	57,966,000,953	80.16
2015	29,764,701,924	15,624,701,924	52.49	14,140,000,000	47.51
2016	202,341,802,265	13,677,122,591	6.76	188,674,679,674	93.25

Source: Appropriation Acts, Budget Office of the Federation.

Table 12 shows that FGN allocated over the four years an average of 23.22% of the total transport allocation to recurrent expenditure while it allocated an average of 76.79% of the total transport allocation to capital expenditure. With the least total allocation to transport in 2015, the FGN allocated more to recurrent expenditure (N15.624bn) and less to capital expenditure which did not measure up to the four year capital vote average of 76.79%. This trend of allocation reveals that investment in transport infrastructure as articulated in NIIMP stalled in 2015 with lesser funds available for investment. It picked up in 2016 but the whole voted sum should be released and fully utilized. Overall, there seems to be consistency in favour of capital expenditure in the distribution of funds between recurrent and capital expenditure over the four years of this review.

Table 13 below shows capital allocation to transport as a percentage of overall capital vote. In view of the fact that the current Transport Ministry merged the old Transport and Aviation Ministry, this is the capital vote of the old Transport and Aviation Ministries combined between 2013-2015.

*Table 13: Capital Allocation to Transport as a % of Overall Capital Vote*

Year	Total Capital Allocation to All Sectors (₦ Mn)	Capital Allocation to Transport Sector (₦ Mn)	Capital Allocation to Transport as a % of Overall Capital Allocation for the Year
2013	1,591,657,252,789	92,887,673,725	5.84
2014	1,119,614,631,407	57,966,000,953	5.18
2015	556,995,465,449	14,140,000,000	2.54
2016	1,587,598,122,031	188,674,679,674	11.88

Source: Appropriation Acts, Budget Office of the Federation.

The sector attracted 5.84%, 5.18%, 2.54% and 11.88% of the overall capital expenditure for the years 2013, 2014, 2015 and 2016 respectively. Apart from the 2016

capital allocation, the rest depict a low level of commitment towards revitalizing the sector.

Table 14 shows the recurrent allocation to Transport as a percentage of the overall recurrent vote for the years 2013 to 2016. It is also the recurrent of the old Transport and Aviation Ministries between 2013-2015.

*Table 14: Recurrent Allocation to Transport as a % of Overall Recurrent Vote*

Year	Total Recurrent Allocation to All Sectors (₦ Mn)	Recurrent Allocation to Transport Sector (₦ Mn)	Recurrent Allocation to Transport as a % of Overall Recurrent Allocation for the Year
2013	2,415,745,972,812	14,832,191,311	0.61
2014	2,454,887,566,702	14,344,265,012	0.58
2015	2,607,132,491,708	15,624,701,924	0.60
2016	2,646,389,236,196	13,677,122,591	0.52

Source: Appropriation Acts, Budget Office of the Federation.

From Table 14, it could be deduced that there has been some consistency in the trend of recurrent budget allocation to the transport sector. The 2013 recurrent vote has been the highest for the four years.

#### **4.4 Releases, Cash Backed and Utilised Parts of the Capital Budget**

There are variances between the budgeted sums and the released sums in the Nigerian budgeting practice. Sometimes, the released sums are not always fully cash backed. The utilization of the released sums is also low. Table 15 shows a picture of the position in the Transport sector between 2013 and 2015. These figures do not include aviation because the information on aviation releases and utilization is not readily available.

*Table 15: Capital Utilization in the Transport Sector*

Year	Total Allocation to Transport (₦ Mn)	Capital Expenditure (₦ Mn)	Total Amount Released (₦ Mn)	Total Cash backed (₦ Mn)	Total Utilized (₦ Mn)	Utilized as % of Annual Capital Appropriation	Utilized as % of Cash backed Sum	Utilized as % of Budgetary Releases
2013	52,868,974,639	44,527,673,725	23,713,533,190	23,713,533,190	19,938,710,474	44.78%	84.08%	84.08%
2014	40,001,515,172	31,808,108,913	13,584,872,873	13,584,872,873	13,246,336,970	41.64%	97.51%	97.51%
2015	17,560,812,531	8,300,000,000	6,490,740,671	6,490,740,671	6,131,870,209	73.87%	94.47%	94.47%
2016	202,341,802,265	188,674,679,674	-	-	-	-	-	-

Source: Budget Implementation Reports, Budget Office of the Federation.

In 2013, only 44.78% of the capital allocation was utilized; the utilization rate declined to 41.64% in 2014 and moved up to 73.87% in 2015. Only in 2015 did the utilization surpass the three year average utilization rate of 53.43%. The paltry capital expenditure was hardly utilized and this is poor compared to international benchmarks.

Table 16 shows other parameters between released and cash backed percentages of the Transport sector budget.

*Table 16: Released, Cash Backed Sums as a Percentage of Total Transport Capital Vote*

Year	Total Transport Capital Budget (₦ Mn)	Total Sum Released (₦ Mn)	% of Capital Budget Released to Total Capital Budget	Total Sum Cash Backed (₦ Mn)	% of Cash Backed to Total Transport Capital Budget
2013	44,527,673,725	23,713,533,190	53.25%	23,713,533,190	53.25%
2014	31,808,108,913	13,584,872,873	42.71%	13,584,872,873	42.71%
2015	8,300,000,000	6,490,740,671	78.20%	6,490,740,671	78.20%
2016	188,674,679,674	-	-	-	-

Source: Appropriation Acts, Budget Office of the Federation.

Table 16 shows the released and cash backed sums were the same all through. The 2015 released and cash backed sums stand out from the rest of the review period as they surpassed the 58.05% average. It is unclear why the 2013 and 2014 released and cash backed sums were comparatively low.

#### 4.5 Inappropriate and Unclear Line Items in the Budget

This section details a few of the inappropriate and unclear expenditures in the 2016 transport budget with comments on what is wrong with them. The FMOT proposes to build a transit hotel at MMIA and a provision of N158.469million is made for it. Purchase of apron passenger buses attracts N323.090million. These two provisions raise the poser about the role of FGN in the aviation sector. At a time of scarce resources, these are matters that can be taken up by the private sector. Government has a poor reputation in service delivery. Will FGN construct and run a hotel? Private sector transport operators should have been brought in to supply and operate the apron buses. Some unclear line items are listed as follows:

*Table 17: Inappropriate and Unclear Line Items in the 2016 Budget*

CODE	PROJECT NAME	TYPE	AMOUNT	COMMENT
FMT04A017658	To ensure effective operation of the Parastatals	New	N16,250,000	This is very unclear. The purpose of this line item should have been spelt out clearly.
FMT07A018052	Inspection visits to all the six sites and negotiations where possible	New	N52,000,000	This sum for inspection alone is on the high side and should have been reduced accordingly.
FMT16A018463	Procurement of 2 Prado land cruiser and 4 no Hilus pickup	New	N29,000,000	For whom and for what use are these vehicles for? What happened to the existing ones if these are for the directors or senior staff in the ministry?

FMT17A019560	Capital budget implementation/ monitoring schedule Auditor General office of the Federation & officials of audit dept. of the ministry.	New	N34,400,000	This is highly unclear. More clarity is needed for this line item.
FMT17A019567	Monitoring and evaluation of capital projects by the ministry.	New	N66,493,440	This is a repetition of the line item above (FMT17A019560). Secondly, the amount voted for this is on the high side.
FMT20A019510	Airport Development	New	N1,537,250	The small sum voted for this line item notwithstanding, projects should be clearly specified.

Source: 2016 Approved Budget, Budget Office of the Federation

These are but a few of the unclear and inappropriate line items in the 2016 Budget of the FMOT. This is a sign of misplaced priorities and should not be replicated in the 2017 budget.

## **5. MATTERS ARISING FROM THE POLICIES, RELEVANT STATISTICS AND BUDGET**

This section reviews the matters arising from the policies, relevant statistics and the annual appropriations and their contribution to the current state of the sector.

### **5.1 Old Challenges Continue**

The challenges in the transport sector are not new. But they have remained unsolved for decades and rather than improving, the transport sector is in a state of deterioration. Planning, policy and budgeting have been uncoordinated to proffer solutions to sectoral challenges and the result is a sector that lags behind comparator countries in Africa. The old railway network that linked sources of raw materials to the seaports built by the colonial masters still remains the norm.

### **5.2 Opportunities in the Sector Remain Untapped**

The Transport sector has the potential to create millions of direct and indirect jobs. But the underdevelopment of the sector has prevented the jobs from materializing. Sectoral contribution to the GDP can also be improved and this will also improve the ease of doing business in the country. With Nigeria virtually entering a recession, the repositioning of the Transport sector can go a long way in facilitating our exit from the recession.

### **5.3 Extant Policies Are Proactive**

The provisions of Vision 20:2020 and the NIIMP have articulated the steps to be taken to improve infrastructure including the railways, aviation and maritime transport. NIIMP

makes projections for the short, medium and long term and evidently is a proactive document. However, the basis for the calculation of the required investments in railways and aviation for the short term in NIIMP (first five years stated to need \$5bn each) is not clear. The dearth of infrastructure and facilities in the subsectors of aviation and railways makes it clear that massive investments are required to upgrade their facilities. More than the stated amounts will be required to come up to the standard of comparator countries in Africa before attempting to catch up with world standards. For instance, the challenges facing the aviation sub sector for a sustained period of time include lack of new runways, terminal buildings, control towers, conveyor belts, instrument landing systems, communication equipment, runway lighting and fire tenders. Other challenges include manpower development and training on equipment handling and maintenance. These cannot be tackled by an investment of \$1bn a year for the first five years.

#### **5.4 Policies Envisage Private Sector Participation**

Extant policies in Vision 20:2020 and NIIMP envisage massive private sector participation through PPPs and other investment models. However, the available information indicates that the private sector is still not allowed by law to participate in the development of railways and its facilities as the outdated colonial Railway Act is yet to be amended or repealed. When the assumptions for sectoral improvements are not based on obtainable reality, the expected improvements will definitely not materialize. The ports have been concessioned to attract private sector investments but the improvements have not been profound since then.

The expectations of the private sector in transportation include<sup>35</sup>:

- Addressing the state of undercapitalisation, especially within the aviation sub-sector, and the sector's weak corporate governance;
- Reducing the high operational charges and tariffs needed to operate in the transport sub-sectors;
- Developing connectivity to address the limited intermodal connectivity between ports, airports and roads, and limited connectivity with other African and regional hubs;
- Improving public contracting, tendering and quality control;
- Revising laws that place the construction and management of road, rail, aviation and maritime infrastructure under the exclusive purview of the federal government;
- Establishing fiscal incentives (e.g., pioneer status), particularly for ancillary and rolling stock in all sub-sectors;
- Increasing the concession management of infrastructure, aligning with bilateral service agreements, reducing agency fees and improving infrastructure maintenance capabilities.

A good number of the expectations stated above are yet to be met by government.

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<sup>35</sup> As stated in NIIMP.

### **5.5 Government Needs to Fulfill its Obligations to Attract Investors**

In a bid to attract investors, government is obliged under the NIIMP to ensure policy stability and access to concessionary financing and long term capital so that private sector can participate in infrastructure development. There is hardly any private sector engagement in the aviation sector. The PPP investment by Bi-Courtney for the second airport in Ikeja Lagos is buffeted by a lot of administrative and bureaucratic headwinds that have arisen from governmental meddlesomeness. Although the airport seems to be thriving, the experience of the investor makes it difficult to recommend the experience as a best practice worthy of replication. This therefore brings sharply in view the need for the review of attitudes and practices towards private sector developers. It also calls for funding for transport infrastructure beyond the public treasury.

Again, NIIMP calls for amendments to the following laws for the private sector to come on board:

- Federal Highways Act
- National Railway Corporation Act
- Nigerian Civil Aviation Authority Act
- Nigerian Ports Authority Act
- Nigerian Inland Water Ways Act

The amendments are yet to be done.

### **5.6 Cost of Construction, Renovation and Repairs**

The cost of construction, renovation and repairs in the Transport sector seems to be one of the highest in Africa and as such, discourages public investments. The second runway in Abuja had to be discontinued due to the inflation of the price. It seems there is no domesticated benchmark to determine the actual cost of construction, renovation and repairs in the sector.

### **5.7 Rail Construction and Repair Work Taking Too Long**

The completion and rehabilitation of the Ajaokuta -Warri Rail Line has been in the works since 2011 when the sum of N4.605bn was voted for it; in 2012 and 2013, it received N3.218bn and N4.135bn respectively. It is still uncompleted and may not be completed in 2016 where it has a vote of N8.5bn. Preliminary studies and work on the Lagos-Ibadan Rail Line has been ongoing since 2012 with nothing concrete achieved since then. The recently completed Abuja-Kaduna Rail line has been ongoing since 2012. For instance in the 2013 budget, the following railway feasibility studies were paid for, vis; baseline studies for the Lagos-Ibadan, Lagos- Abuja, Iganyi-Abuja, Zaria-Kaura-Namoda-Isa-Goronyo-Ilella, Aba-Benin, Lokoja-Abuja, etc. None of them have seen the light of the day. This challenge may not be unconnected with the number of rail projects that have been in the pipeline or are ongoing and which available treasury funds cannot complete. This therefore brings sharply in view the need for rationalization and prioritization of projects for inclusion into the budget. This will prevent spreading the

available resources too thinly. This further brings sharply in focus the need for funding of railways beyond the public treasury.

### **5.8 Chinese Loans for Railway Funding**

In some of the railway projects, the Chinese Government and banks are providing a loan whilst Nigeria is providing counterpart funding. This can be seen in projects like the Lagos-Kano Standard Gauge Rail Line and the Calabar-Lagos Standard Gauge Rail Line where FGN is providing N60bn each as counterpart funding. Although the loans are stated to be long term and concessionary; the treasury will still pay back in due course. However, the full details of the terms and conditions of the loans are not in the public domain.

### **5.9 The Sector is Underfunded**

In terms of resources needed to turn around the sector, the sector is underfunded. Various ideas have been articulated in the NIIMP and other plans on alternative sources of financing infrastructure projects including the use of public pension funds, infrastructure or road bonds. Up to 20 per cent of the Nigerian public pension fund which is in excess of N5.729 trillion can be allocated to infrastructure under the Investment Rules but no such investments have yet been made. The implication is that about N1.15 trillion is available for investment into infrastructure including transport sector infrastructure. Access to the pension fund can be unlocked by collaboration between the Pension Commission, Debt Management Office, Central Bank of Nigeria, Ministry of Finance and the Presidency.

### **5.10 Capital Budgets are Not fully Implemented**

In accordance with the tradition across the sectors, capital budget votes are not fully implemented in a sector that requires massive capital infusion. Inadequate releases and poor implementation will over the years lead to time and cost overruns and thereby increase the cost of project delivery. This will not augur well for the implementation of improvements required by Vision 20:2020 and the NIIMP.

### **5.11 No MTSS for the Sector**

In accordance with the Fiscal Responsibility Act (FRA), the appropriation process should properly start with the preparation of Medium Term Expenditure Framework and its underlying Medium Term Sector Strategies. Both the MTEF and the MTSS are three year medium rolling frameworks in which the provisions of the first year of the framework determine the budget of the next financial year. Section 18 of the FRA is unequivocal in making the MTEF the basis for the preparation of the annual budget, including the need for the budget to be consistent with its sectoral and compositional distribution and its medium term developmental priorities. The MTSS reviews high level national policies in the sector, ongoing and new projects and seeks to determine the ones that will best facilitate the realisation of government's objectives in view of limited available resources.

## 6. RECOMMENDATIONS

The following recommendations flow from the body of the work and would guarantee the accelerated development of the transport sector.

**6.1 Popularize the NIIMP and Review the Funding Requirements in NIIMP:** The funding requirements for aviation, railways and maritime needs to be reviewed to bring them in line with the infrastructure deficit and the demands of the sector. The funding needs are currently under-estimated. Furthermore, FGN should ensure that across the board, MDAs understand the investment needs and requirements of their sector as stated in NIIMP and use same as a basis for budgeting and engagement of stakeholders including the private sector. This will include the identification of sectoral linkages especially, which show the contribution of the Transport sector to employment and economic growth.

**6.2 Increase Public Funding to the Sector:** The sector requires increased public funding to meet up the challenges. Savings made from more efficient and leaner government operations could be channeled to the sector. FGN should consider setting up clear economic and fiduciary frameworks to ensure good returns on investment and use public pension funds to grow the sector. Special bonds should be floated and tied to specific sectoral infrastructure projects after good feasibility studies, proper costing and approval by the legislature.

**6.3 Enhance Value for Money and Reduce Construction Costs:** The cost of construction and repairs in the sector could be benchmarked with the cost in other African countries with the same terrain and environmental conditions. It is imperative that the Bureau of Public Procurement devises a standard database of prices of aviation, railways and maritime construction in Nigeria to guide procurements in the sector. Fiscal incentives such as tax rebates, pioneer status and duty waivers should be granted on a rules based approach which will entail clear guidelines made applicable on a case by case basis after weighing the advantages and disadvantages; it should not be a blanket offer to all transport investments.

**6.4 Rationalize and Prioritize Projects in the Sector:** Projects for budgetary funding should be carefully selected after a rationalizing and prioritizing exercise to avoid spreading the little available resources too thinly. FGN needs to consider a moratorium on new projects in the sector; existing projects should be completed before commencement of new ones.

**6.5 Engage the Private Sector:** The quantum of resources needed to improve transportation infrastructure in aviation, railways and the maritime subsector is massive and cannot be provided by government alone. The need to bring in private investments into the Transport sector has arisen. The laws listed in the NIIMP need to be amended to create the necessary legal environment for private sector participation. They are



Federal Highways Act, the National Railway Corporation Act, Nigerian Civil Aviation Authority Act, Nigerian Ports Authority Act and the Nigerian Inland Water Ways Act. Also, the private sector's expectation from government as stated in NIIMP needs to be fulfilled. Furthermore, FGN should consider the establishment of Special Purpose Vehicles that provide the opportunity for citizens to invest in transport infrastructure. The current idea of investors as foreigners does not tally with the reality of the resources available in Nigeria.

**6.6 Transparency in Debt Procurement:** Loans from any source whatsoever to be invested in the transport sector must be transparently handled so that the terms and conditions of the loan are matters of public knowledge. This will prevent any under the table deals that will militate against value for money.

### **6.7 Ring-fence Capital Budgets for the Sector**

FGN needs to consider devising strategies to ring-fence the capital budget of the parent Ministry to ensure that allocated funds are released and utilized. The perennial under release and under-utilisation of approved funds will not lead to major improvements in the sector. This experience is not limited to Transport but it is cross sectoral. The FGN therefore needs to enforce fiscal discipline to guarantee that recurrent expenses do not over shoot whilst the capital vote bears the brunt. Also, revenue forecasting should be more empirical and less overtly optimistic which leads to perennial shortfalls that impede capital budget implementation.

### **6.8 Prepare MTSS for the Sector**

In accordance with the Fiscal Responsibility Act (FRA), the appropriation process should properly start with the preparation of Medium Term Expenditure Framework and its underlying Medium Term Sector Strategies. The MTSS should be prepared by a properly composed sectoral team where all major stakeholders including civil society are represented.