

SOURCING AND SUSTAINING INVESTMENT FINANCE IN LOCAL GOVERNMENT MASS TRANSIT OPERATIONS IN NIGERIA: A STUDY IN SUSTAINABLE DEVELOPMENT

Eze Anoke EZE¹ and Makodi BIEREENU-NNABUGWU²

¹Department of Economics, Nnamdi Azikiwe University, Awka, NIGERIA

²Department of Political Science, Nnamdi Azikiwe University, Awka, NIGERIA

Abstract

This study interrogates the subject of sourcing and sustaining effective investment finance for sustainable local government mass transit operations in Nigeria. From a prism of a segmented and underserved market that is neglected despite its economic and demographic potentials, the study underlines the place of clearly defined sources of finance and sustainable financial investment in effective mass transit operations in the Nigerian Local Government system. Using the analytical method of social research, the study explores the financial status, source options and models for sustainable investment in local government mass transit operations in Nigeria. Secondary data and other information were gathered and analysed procedurally through the identification of themes, patterns and alternative explanations. Despite the manifold forces militating against successful mass transit operations, it was found that a properly structured programme, based on the private-public partnership model and anchored on the buy in of institutional stakeholders, has the potential to provide local government mass transit services on a sustainable basis.

Keywords: Investment finance, Local government, Mass transit operations, sustainable development

Introduction

There is no gainsaying the fact that public transportation is indispensable in the growth and development of every society, the level of digital penetration notwithstanding. Categorized into modes - air, rail, river and land – the land mode can be subdivided into models in formal and informal of minibuses, vans, taxis, station wagons, three wheelers and motorcycles. Informal transit provides benefits especially flexibility to the poor, jobs for the low skilled and serves areas that lack formal transit coverage (Cervero, R. and Golub, A., 2007).

On the other hand, is the public transit model which is traditionally considered to be the responsibility of the government. In developing countries with resource and capacity constraints, government provided public transport is often inadequate thereby making the privately operated mode largely responsible for catering to the mobility needs of the

populace. Perceived as unsafe, highly polluting and traffic congesting, among other ailing, it makes unacknowledged contributions towards the supply of mobility to the population. By bridging a large transportation gap, it has to be profitable for which safety and regulation corners like road worthiness, overloading, breach of contract of carriage and unsafe cargo management are often cut (Megha,K.; Seema ,S.;Akshima, T.G.;Sarbojit,P and Sangeeta, A.W.,2016).

These pitfalls of informal privately operated models are usually expected not to be prevalent in the formal public mass transit model. Mass transit or mass transportation or public transportation involves the movement of people within urban areas using group travel technologies such as buses and trains extendable to sub-urban and rural areas. In developing countries where the majority of the people live in rural and semi-urban areas, public transportation is a desideratum. According to the English Living Oxford Dictionary (2008) public transport is a system, in contrast to private transport, for passengers by group travel systems that are available for use by the general public typically managed on a schedule operated by established routes and that charge a posted fee for each trip. Attributes of public transportation include speed, comfort, safety, cost, proximity, timeliness and directness. All public transport runs on infrastructure - roads, rail, airways or seaways- and when seamlessly integrated, is then called inter or multimodal to constitute the ideal transport system

Mass transit in Nigeria has had a unenviable history up to the present day where the United States Embassy website described Nigeria's situation thus: "Public transportation vehicles, such as buses and motorbikes, are unsafe due to poor maintenance, high speed and overcrowding" (www.vanguardngr.com, January 08, 2020) and one may add that to the decrepit road and rail infrastructure, even as the inland waterways are crying for channeling and operational river crafts.

With over 193,000km of roads in Nigeria, only 29,000km or 15% are paved including 30% of which is in a deplorable state. The distribution of trunks A (Federal), B (State) and C (Rural) roads in Nigeria is about 32,000km or 17%; 30,500km or 16% and 130,600km or 67% respectively with only 50%, 30% and 5% respectively that are paved in good condition and only 6%, 7% and 4% of the unpaved that are in good condition. (Road Vision 2000 Steering Committee Information Brochure, P.4 Transport in Nigeria in 2020, in Oni, S.I. n.a). The economic crises of the early 1980s, the Structural Adjustment Programme (SAP) of 1986, the years of the locust between 1993 and 1998 to the present era of deregulation and privatization, exchange rate devaluation, inflation and economic recession together with road transportation mode accounting for over 90% of internal passenger and freight throughput (Oni, n.a), it is little wonder that Nigeria's "transport crisis" has been worsening over time.

This part of the section relies on the insightful work of Eze and Nwobi (2014). Oriental Lines of the defunct East Central State, as well as Ibadan, Kano, Plateau, Kwara lines collapsed in the mid-1970s to 1980s; due to mismanagement and fraud (Adeniyi 1983; Barret, 1993 in Eze and Nwobi, 2014). From the mid-1980s, other public transport

companies were set up in Lagos, Kaduna, Port Harcourt, Kwara, Edo and other states. Except Water Lines, Lagos State Transport Corporation (LSTC), and a few others, have also collapsed completely (Adesanya, 2002, Adeniji, 1983, Barret, 1986 in Eze and Nwobi, 2014).

The collapse of the public transport system and ascending of individual or private system left the space at the mercy of private operators who operate arbitrarily and increase fares without control or regulation in pursuit of higher profit, business expansion and payback of loans in the shortest possible time to minimize interest payments. Exorbitant fares, insufficient number of vehicles and disorganized operational conduct led to severe hardship on commuters, steep decline in motorization, introduction of 'tokunbo' or used and discarded vehicles, pollution and increase in road accident fatalities (Adesanya, 2002, Adeyemi, 2001 in Eze and Nwobi, 2014).

Up till 1988, the 1965 draft policy on transportation in Nigeria was as by the Transport Coordination and Policy implementation unit in the Federal Ministry of Transport and Aviation though not formally adopted until 1993. The chaotic situation of transportation post Structural Adjustment Programme (SAP) forced the government to introduce the Federal Urban Mass Transit (FUMT) programme in 1988 as an intervention mechanism to alleviate the sufferings of Nigerian commuters owing to high cost of new vehicles, currency devaluation, inflationary rise in the prices of spare parts, scarcity of vehicles and high maintenance cost, increase in fares by private operators and long queues in counters and terminals and routes (Eze and Nwobi, 2014).

State owned mass transit companies were formed as target groups and FUMTP offered grant -aided facilities to the states in the form of maintenance workshops/equipment, mobile workshop/tools and buses. 2000 buses were introduced into Nigeria's public transport network with 85% going to states and 15% to tertiary institutions and specialized agencies (Filani and Abumere, 1993 in Eze and Nwobi, 2014)

Thus the tiers of government - Federal and State- have worked to develop transportation by establishing their own mass transit companies with administrative structures, staff guided by public service rules, workshops and maintenance facilities which the private operators do not have. Unlike private operators, their services are scheduled for definite routes, times and fees (Adeyemi, 2001; Filani, 2002; Osita et al, 2003 in Eze and Nwobi, 2014). These efforts notwithstanding, the problems of transportation increased with increase in population. Inflation, fuel subsidy removals, high cost of vehicles and spare parts, inadequate capital etc combined to make public operators charge market rates like the private operators who started depending on used vehicles (tokunbo) and motorcycles (okada) and even private vehicles (kabu-kabu) to get the masses moving.

The 1993 National Transport Policy aimed to achieve adequacy, efficiency and modal development of the transport sector and to strengthen whatever successes that the FUMTP recorded. But as there was no implementation guideline and deadline for deliverables, it failed to achieved a sustainable transport system in Nigeria (Mabogunje, 2008 in Eze and Nwobi, 2014). In 2003, the National Council of Transport aimed for an integrated transport

system while retaining the goals of adequate, efficient, safe and pro-people transport system.

The 2008 National economic Empowerment Development Strategy (NEEDS) transport policy called for it to be private sector driven with government guaranteed safe environment that addresses the issues of wealth creation, employment generation and poverty reduction (FGN, 2010 in Eze and Nwobi, 2014). Consequently, the entire Federally Assisted Mass Transit Scheme and state owned companies were leased out to private individuals and companies to pay agreed amounts to governments periodically. Operators fix fares freely, register other privately owned vehicles as chartered or hired vehicles, etc., yet the suffering of commuters persisted. The 2010 proposal was just a draft, the implementation of which was at the whims and caprices of the Minister.

In 2012, the Federal Government intervened by promising 1,600 but releasing 1,100 buses under a scheme involving FGN, State Governments, the 774 Local Governments, Central Banks of Nigeria and commercial Banks. (Thisdayonline.com, August 09, 2012 in Eze and Nwobi, 2014). This was the fallout of the hardship occasioned by the removal of petroleum subsidy.

The 1100 buses were donated to private operators during the post petroleum subsidy crisis to repay the cost within 8 years. The vehicles were not only highly inadequate to serve the commuter population but also subject to political patronage and profit maximization occasioning the neglect of local government routes but concentration on "viable" intra and interstate routes especially Lagos, Abuja, Onitsha, Enugu and Kano. Consequently, the exercise was not pro people in convenience; not safe in passages or accommodation for late night commuters; do not pay compensation for commuters' missing, damaged or stolen luggage; no special provision was made for pregnant women or physically challenged; no provision was made for medical services for accident victims and thus there was no difference with the modes of operation of private mass transit operators (Eze and Nwobi, 2014)

The essential characteristics of today's local governments in Nigeria are largely traced to the Local Government reform of 1976 and the provision of the Fourth Schedule in the 1999 constitution as amended. Reflecting on this, Local Government Year Book (1998) opines that Local Government in Nigeria

has assumed a position of crucial importance in the nation's attempt at building a representative and sustainable political system based on democratic political culture of transparency, accountability and efficient management of resources. The need for the need for the latter has been heightened by the fact that the constitution assigned enormous responsibilities to the local government (in Nwankwo, 2001: 6).

Thus far, it should be obvious that when compared with Federal and State outcomes in mass transit operations, the state of the 774 local governments in Nigeria must have reached disaster proportions. Most of the local governments and their headquarters and villages are located far away from the urban towns. The informal sector as a percentage of

GDP has been estimated at 46.99% in 2020 of which the rural subsector is preponderant (Etim and Daramola, 2020). Regarding population, the World Bank estimated that 49% of Nigerians live in rural areas (WBG Nigeria Population 1960-2019, 2021). In addition, the International Finance Corporation(IFC) estimates that SMEs 'account for over 96% of Nigeria's businesses and generate about 84% of the jobs, are still cash starved'(www.nguardian.com, January 29,2021).

A combination of this huge demographic and economic size holds huge potentials for unlocking exponential economic growth, employment generation, poverty reduction and sustainable socio-economic development. Beyond digital penetration is the imperative of sustainable mass transit to link informal to formal markets and bridge the dualistic economic structure impeding the unlocking of the rural economy for real growth and sustainable development.

Consequently, the central problem of this work is to find and propose a model for sourcing sustainable finance for Local Government Mass Transit Services adoptable by the 774 Local Governments in Nigeria. It is also the main objective. To achieve this objective are two research questions as follows (a) What sources of investment finance are attainable in Local government Mass Transit operations in Nigeria? (b)What sustenance models are critical in the achievement of sustainable investment finance for local government mass transit services in Nigeria? The essence of this paper is to answer these questions. Towards this end, the rest of the paper is presented in the following sections: (2) Conceptual and Contextual Reviews (3) Methodological Considerations (4) Sourcing Investment Finance in local Government Mass Transit operations (5) Sustaining Investment in Local Government Mass Transit operations and (6) Conclusion and Policy Recommendations.

Conceptual and Contextual Reviews.

Literature - both theoretical and empirical - revolve around the concepts of intermediation, sustainability, finance, sustainable mobility and other explicit and implied words and phrases germane to the work at hand. Essentially, the theories of pecking order, intermediation, sustainability, sustainable mobility and others form the framework of this paper. The concept of sustainable development had been growing over the centuries up to the 1992 Earth Summit in Rio de Janeiro. On the theme of Environment and Sustainable Development, the United Nations recognized the fundamental need to live within the earth's means and the implications of passing on the same or greater amount of total resources to the future generations (Zegras, 2011). This bodes well for and extends to the Millennium Development Goals (MDG) 2015 and the current Sustainable Development Goals (SDG) 2030.

The essence of sustainability is meeting present needs while maintaining the capability to meet future needs. It has proved invaluable in making the society aware of the needs to pass on natural resources to future generations and encompasses a broad development agenda focusing on the balance of environmental, societal and economic objectives. (Zegras, 2011). The concept dovetails to sustainable mobility such that present commuters

are expected to pass on the same or better commuting experience to future generations anchored on accessibility. In the developing world, a large share of citizens still suffers from low levels of accessibility to daily needs and wants including mass transportation. Sustainable mobility, rather than transport per say, should aim at sustaining the system's capabilities to provide such accessibility, over time, on an affordable basis. It has been said that a developed country is not a place where the poor have cars; it is where the rich use public transport (Penalosa, 2014).

The pecking order theory holds that firms favour internally generated resources over external capital followed by debt and equity in financing decision of business activities (Akorsu, 2014 in Dije, 2017). Sustainable mobility can be modeled by : Measures to increase mobility which include; access to means of mobility, equity in access to mobility, appropriate mobility infrastructure and inexpensive freight transportation and Measures to reduce mobility which include; congestion, conventional emissions, greenhouse gas emissions; transportation noise, other environmental impacts, disruption of communities, transportation related accidents, demand for nonrenewable energy and transportation related solid waste (WBCSD 2001 in Zegras, 2011). Essentially, for small and medium enterprises to which local government mass transit belong, operators prefer and are more capable of using internal financing through personal savings, family sources etc before injecting external funding in the forms of loans (government intervention and bank credit) and finally addition of equity, in that order.

Financial intermediation is simply the linking of saving surplus with savings deficit economic units as a business and that is what the banking institutions do best. However, the limitations or constraints of bank funding source include collateral coverage, stringent conditions, high charges, documentation and records and paucity of information (Dije, 2017). The International Finance Corporation(IFC) reported that while big organizations may have been taking advantage of the all-time low bond yields to raise funds through debt instruments, some SMEs borrow at above 20% where available (www.ngrguardian.com, January 29, 2021).

Methodological Considerations

To clarify concepts and sharpen the focus of the study, analytical method of social research involving comparative systematic review of relevant data and textual analysis of works published in the internet, published case studies, interviews and questionnaire findings of researchers on mass transportation in Nigeria. Essentially, the study relied on secondary information distilled into three financing models for examination of their comparative sustainability.

(a) *A Wholly Public Sector Model:* A wholly public model implies that governments, at all levels, have the responsibility of providing mass transit to the citizens. From the foregoing, it is evident that the resources to provide mass transportation are not available. And even when made available for a start, it is not sustainable due to political interference, corruption, ineffective cum inefficient management, over subsidization, lack of market

discipline and negative externalities due to lack of use of the appropriate social discount rate to cost the delivery of services. Consequently, this model is not sustainable.

(b) *A Wholly Private Sector Model* This implies complete absence of the public sector and subject to the profit maximizing objectives of private operators. We have already seen that over time and due to the combined effects of inflation, foreign exchange devaluation and deregulation of the pricing of petroleum products, mass transit services offerings in urban areas have been dilapidating talk less of the rural areas. But for a few otherwise organized privately operated mass transit companies like ABC Transport, Peace Mass Transit, Autostar and The Young Shall Grow which can access bank financing of new vehicles, the vast majority of unorganized privately operated mass transit rely on second hand vehicles and even second hand tyres. Consequently, the attributes of a sustainable mass transit namely speed, comfort, safety, cost, proximity, timeliness and directness are lost on commuters thus making the model of sustainable mobility near impossible to achieve.

(c) *A Public - Private Sector Partnership Model:* In this option, the public sector provides the enabling environment that facilitate private sector operated Mass Transit as elaborated in section 5 below.

Sourcing Investment Finance in Local Government Mass Transit Operations

Dije (2017) did an empirical study of three enterprises located in Lagos, Abuja and Kano on the sources of financing for Micro, Small and Medium Enterprises (MSMEs) in Nigeria. He found out that personal savings, family sources, business associates, community leaders, government intervention, credit supplies and bank credit are the funding sources in Nigeria in agreement with the pecking order theory. He equally found that belonging to a business association or cooperative can fast forward access to bank funding.

The study findings also apply and are applicable to small scale enterprise mass transit operations in Local Government Areas. The vast majority of private mass transit operators finance their vehicles with personal funds largely devoid of bank loans and are highly fragmented, unorganized and dispersed to be considered for government intervention funding. This state of affairs can be made better in a partnership with the local government system to complement with sourcing formal and public funding which the IFC said costs above 20% where available. This is without prejudice to the work of Evbuomwan, Ikpi, Okoruwa and Akinyosoye (2013) in which most, if not all, the formal sources of finance for micro, small and medium enterprises in Nigeria were enumerated historically.

Sustaining Investment Finance in Local Government Mass Transit Operations.

A combination of local government and private operators will serve commuters from two angles: The local government modernizes the motor parks in the headquarters and other towns and villages under its jurisdiction. Modernization would include resting sheds to

protect commuters from the elements, security, functional rest rooms and bay for vehicular repairs and maintenance. This will send a powerful signal to existing private operators and commuters that the local government means business in encouraging quality mass transit operations. In addition to assisting private operators access federal, state and other intervention programmes, the local government should institute hire purchase schemes in collaboration with operators' cooperatives on terms mutually agreeable to both parties, including insurance of assets. Local governments can also guarantee bank loans on agreed terms and conditions. Effective programmes of franchises, licensing, sundry fees, taxes from property development around the parks and levies on business entities will assist part finance the partnership and even generate profit. In general, financing involves ticket revenue, government subsidies, advertising, land development, rental income from stores and vendors, parking fees and leasing premium.

On the part of the private operators, such partnership will assist them introduce vehicles or replace aging and aged fleet such that the reduced costs of redundancy, repair and maintenance will add to the bottom line. The more formalized system of passenger management will not only reduce the waste involved in haphazard chase and struggle for passengers amongst operators but also imbue more dignity and respect to the otherwise private informal nondescript operators.

For the commuters, the above scenario will be the progressive approximation to the model of sustainable mobility above referred in term of measures to increase and reduce in addition to the utilities of speed, comfort, safety, cost, proximity, timeliness and directness above noted. Apparently this model is very likely to be sustainable in financing and operations.

Conclusion and Recommendations.

From the foregoing, the answer to our research question number 1 is as per Dije (2017) above analysed in section 4 in agreement with the pecking order theory of private to public or formal before equity sources as attainable to finance local government mass transit operations. On the other hand, the answer to research question number 2 is as analysed in sections 3 and 5 above wherein the private-public-partnership model relevant to sustainable finance and operations.

However, for the idea to fly, it must be predicted on an institutional structure that outlives the whims and caprices of local government regimes. It needs the buy in of the Federal and State Governments together with the Central Bank of Nigeria, Commercial Banks and Development Finance partners. As the umbrella organization of the 774 Local Government Areas, the Association of Local Governments of Nigeria (ALGON) is in a vantage position to relate with other stakeholders, obtain requisite fiscal autonomy and engage consultants to operationalize the idea of sustainably financing local government mass transit into templates for easy adoption and adaptation by participating local

governments. It should also categorize the local governments into phases of participation for viability and sustainability considerations.

This presupposes the dedication of a career civil servant as Local Government Transport Officer, whose unit will be motivated and mandated to drive the operational process in addition to the institution of annual awards to stimulate healthy competition among local governments and as a reward for desired outcomes.

References

- Biereenu-Nnabugwu, M (2019) *A Handbook on Critical Issues in Research*. Enugu: Quintagon Publishers.
- Cervero, R. and Golub, A. (2007). *Informal Transportation: A Global Perspective*. *Transportation Policy* 14(6) 445-457.
- Dije, Umaru Watse (2017). *Sources of Financing for SMEs in Nigeria*. scholarworks@walden.com.
- Enrique Penalosa, former Mayor of Bogota. "Public Transportation: Not only for the Poor. The Inclusive Model of Sustainable Mobility". *Himalayan Times*, April 01, 2014.
- Etim, E. and Daramola, O. (2020). "The Informal Sector and Economic Growth of South Africa and Nigeria: A Comparative Systematic Review". *Journal of Open Innovation: Technology, Markets and Complexity*, 6, 134.
- Eze, M. C. and Nwobi, F D. (2014). "The Political Economy of Mass Transit Programme in Nigeria: An Evaluation of Government Post Petroleum Subsidy Intervention". *Global Journal of Human-Social Science(F)* Vol 14, Issue 1 Version 1.
- Evbuomwan,G.O.; Ikpi,A.E.; Okoruwa,V.O. and Akinyosoye,V.O. (2013).*Sources of Finance for Micro, Small and Medium Enterprises in Nigeria*.www.ifmaonline.org-Congress Proceedings, July
- Federal Republic of Nigeria Local Government Year Book (1998), produced by States and Local Government Affairs Office, The presidency, Abuja- Nigeria
- Megha,K; Seema,S; Akshima,G; Sarbojit,P. and Sangeeta,A.(2016). *Informal Public Transport Modes in India: A Case Study of Five City Regions*. *IATSS Research* 39(2), 102-109.
- Ndulue, U. (2001) "How to Source and Sustain Investment Finance for Local Government Mass Transit Operations" paper presented at the *Workshop on Efficient Management of Local Government Mass Transit Operations in Anambra State* organized by Kodimak Institute, Enugu, held at Ikenga Royale Hotel, Awka, 11 – 12 July.
- Nwankwo, B. C. (2001) "Local Government Administration in Anambra State and the Mass Transit Initiative: A Positional Overview" paper presented at the *Workshop on Efficient Management of Local Government Mass Transit Operations in Anambra State* organized by Kodimak Institute, Enugu, held at Ikenga Royale Hotel, Awka, 11 – 12 July.
- Oni, S. I. (Not Available). *Public Private Partnership Relationships in Urban Transportations in Nigeria*. Department of Geography, University of Lagos, Nigeria.
www.ngrguardian.com, January 29, 2021. Accessed January 29, 2021.
- www.vanguardngr.com, January 08, 2020. Accessed January 29, 2021.
- World Bank Group (2021). Nigeria's Population: 1960-2019. Accessed January 29, 2021.
- Zegras, C (2011). *Maintaining Sustainable Urban Transit: Putting the Pieces Together*. Urban Transport in the Developing World, Edward Figar Publishing.

Biographical Note

Eze Anoke EZE, *PhD.*, is a Lecturer in the Department of Economics, Nnamdi Azikiwe University, Awka, NIGERIA

Makodi BIEREENU-NNABUGWU, *PhD.*, is a Professor in the Department of Political Science, Nnamdi Azikiwe University, Awka, NIGERIA