

MOBILISING FINANCE FOR INFRASTRUCTURE

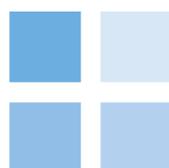
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The views expressed within it are those of CEPA and do not represent DFID's own policies or views. Any discussion of the content should therefore be addressed to the authors and not to DFID.

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ACRONYMS

AfDB	African Development Bank
AIIM	African Infrastructure Investment Managers
AIIF	Africa Infrastructure Investment Fund
ARM	Asset & Resource Management Co Ltd
BoI	Bank of Industry
BOOT	Build-Own-Operate-Transfer
BOT	Build Operate and Transfer
BPE	Bureau of Public Enterprises
CBN	Central Bank of Nigeria
CDC	UK Development Finance Institution
DEG	German Development Finance Institution (subsidiary of KfW)
DFI	Development Finance Institution
DFID	Department for International Development
DISCOS	Electricity Distribution Companies
DMBs	Deposit Money Banks
EAIIF	Emerging Africa Infrastructure Fund
EPSRA	Electric Power Sector Reform Act
FERMA	Federal Roads Maintenance Agency
FMO	Netherlands Development Finance Institution
GDP	Gross Domestic Product
GENCOS	Electricity Generation companies
ICRC	Infrastructure Concession Regulatory Commission
IFC	International Finance Corporation
IPP	Independent Power Producer
KfW	German Development Finance Institution
LCC	Lekki Concession Company
LSE	London Stock Exchange
MMA2	Murtala-Muhammed Airport
MDAs	Ministries, Departments and Agencies
MYTO	Multi-Year Tariff Order

NBET	Nigeria Bulk Energy Trading Co
NEPA	National Electric Power Authority
NERC	Nigerian Electricity Regulatory Commission
NGN	Nigerian Naira
NIAF	Nigeria Infrastructure Advisory Facility
NI-IMP	National Integrated Infrastructure Master Plan
NRC	Nigerian Railway Corporation
NSIA	Nigeria Sovereign Investment Authority
OPIC	Overseas Private Investment Corporation
PAIF	Power and Airline Intervention Fund
PENCOM	National Pension Committee
PHCN	Power Holding Company of Nigeria
PPA	Power Purchase Agreements
PPP	Public Private Partnerships
PRG	Partial Risk Guarantee

EXECUTIVE SUMMARY

This report was produced by Cambridge Economic Policy Associates (CEPA) as part of a wide-ranging research programme funded by the Department for International Development (DFID) that explores the factors constraining the provision of private finance to support infrastructure investment in DFID's focus countries.

This report provides an overview of the market for infrastructure finance in Nigeria (focusing on economic infrastructure sectors: energy, transport and water) using evidence gained from sixteen consultations held with stakeholders (in the period December 2014 to February 2015) and complementary desk-based research.

The study provides background on the key policy reforms implemented by the government of Nigeria in an attempt to provide a framework more conducive for private finance; an overview of the main transactions that have taken place across the different infrastructure sectors; and then sets out the findings on the main factors constraining increased private finance for infrastructure drawing largely on the views of stakeholders.

The findings of the analysis are summarised below.

Status of reforms and private finance transactions by sector

For each of the main economic infrastructure sectors, the research reviewed the extent to which the different sectors have been able to attract private finance. Figure ES.1 gives a summary overview of the different sectors, while Figure ES.2 provides examples of some of the projects that have been able to attract private finance across the different sectors.

It is worth highlighting that with the exception of the telecoms sector, there has been quite limited progress in attracting private finance; overall there remains a reliance on the provision of finance by DFIs and/ or the use of government/ development partner guarantees for deals involving the private sector to go through.

Figure ES.1: Summary of progress in attracting private finance in economic infrastructure sectors

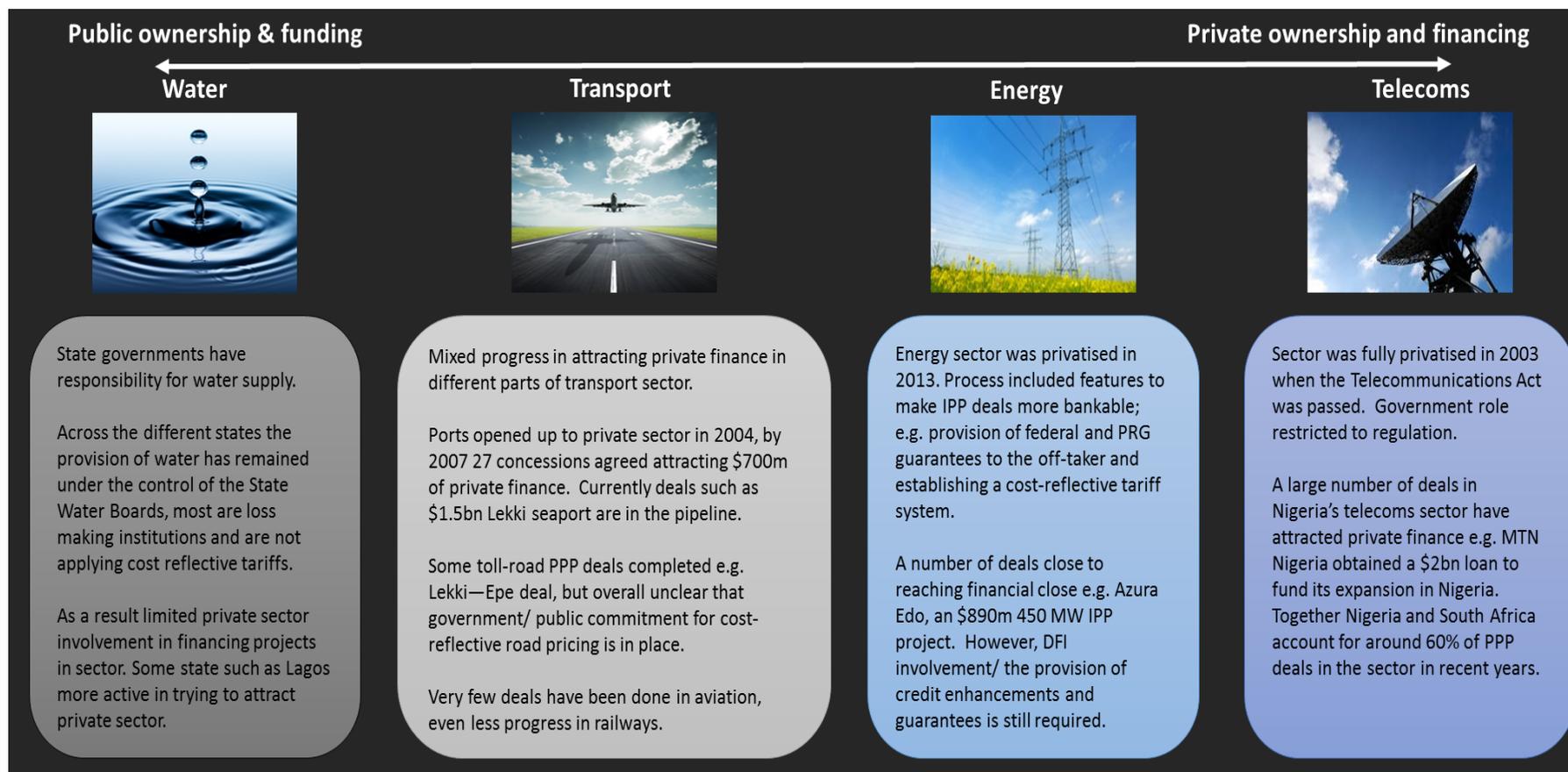
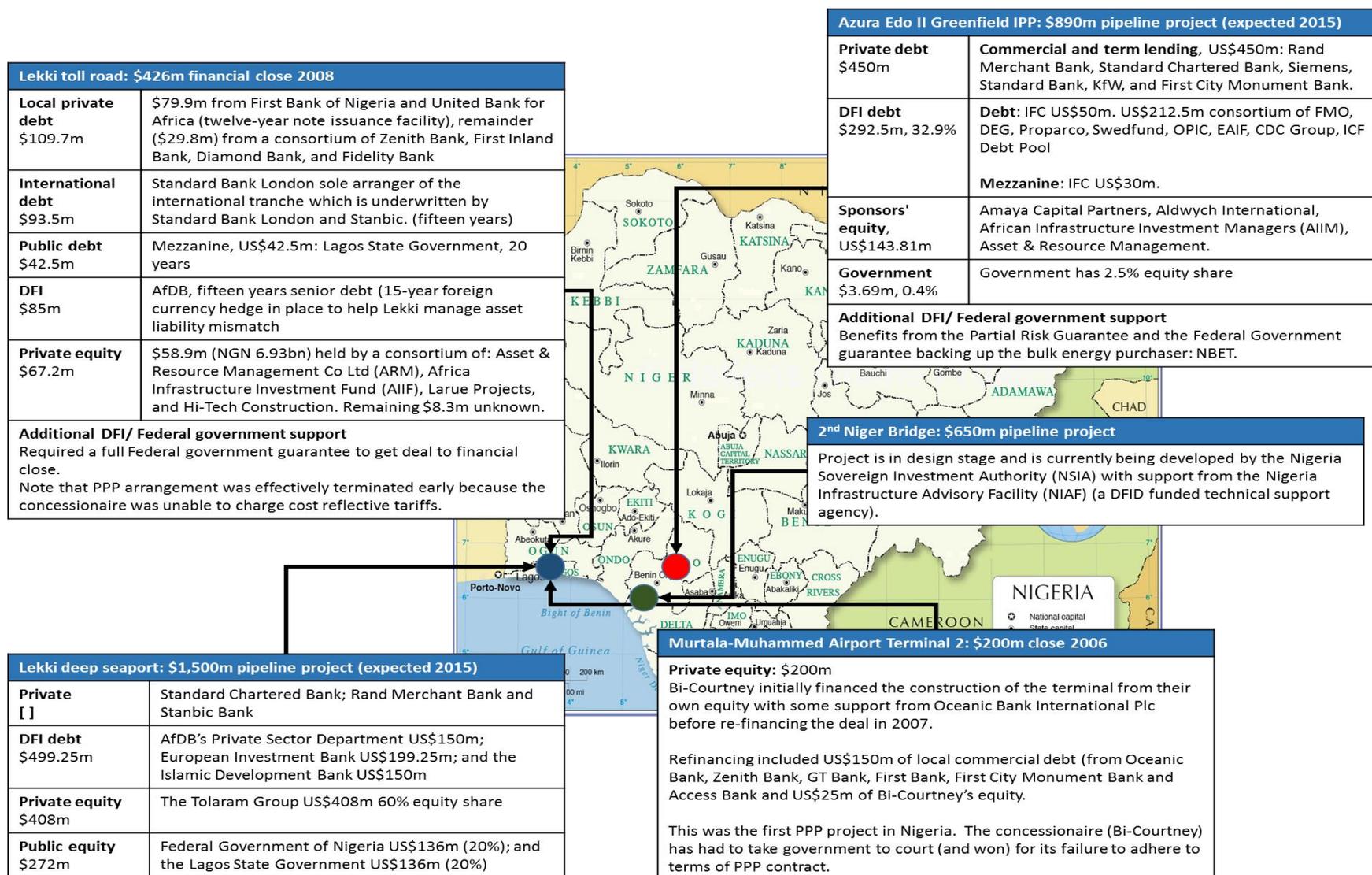


Figure ES.2: Examples of infrastructure projects that have received private finance



Although some progress has been made in attracting private finance in the telecoms sector; there is still a considerable financing need in the other economic infrastructure sectors. This report also focused on providing some evidence on the main factors constraining the increased provision of private finance to those sectors.

The findings from the consultations were that the constraints are due mainly to a combination of political economy and macroeconomic constraints. There are also issues related to the technical and financial capacity to develop projects and also the availability of finance, but these are second order constraints.

Political economy constraints

Market participants have limited confidence in their ability to enter into sustainable long-term agreements with the government because of the nature of the political risks involved. Fundamentally this is because Nigeria has no track-record of being able to manage the politically powerful self-interested individuals that have undermined efforts to attract increased private investment in infrastructure. Specific risks highlighted include:

- The risk of policy reversal caused by a change in government and also a change of ministers within government.
- Uncertainty about the ability of government departments to enforce existing policies/ laws related to private investment in infrastructure.
- Disputes between state and federal government about projects that create additional uncertainty.
- Concerns about the role of the judiciary and its understanding of the requirements of the infrastructure sector.

Macroeconomic constraints

Macroeconomic instability in Nigeria is the other key factor that is constraining the provision of private finance for infrastructure. The main issue is that government debt provides investors a relatively risk-free high yielding investment option that is far more attractive than the option of investing in risky infrastructure projects; effectively crowding-out private finance.

In addition the continued prevalence of double digit inflation, high interest rates for loans and low saving deposit rates creates an economy with a limited pool of long-term deposits that can be used to enable the provision of long-term local currency debt by domestic financial intermediaries. Potential investors are thus reliant on foreign currency debt, which exposes projects to foreign exchange risk. Ultimately this increases the costs of providing infrastructure in Nigeria.

The above conclusion emerges from the findings of the consultations. It needs to be considered alongside the fact that government has taken steps to facilitate the provision of private finance for infrastructure. For instance the steps that government has taken to privatise the energy sector, (which remains in public hands in a number of SSA countries); and the steps made to develop the PPP framework.

Recommendations emerging from the study

To address the issues that are constraining the increased provision of private finance for infrastructure government needs to establish a track-record of consistently and transparently enforcing laws, regulations and policies related to the infrastructure sector. To achieve this, additional efforts to sensitise the senior officials working within government, politicians and the public about the benefits and the need for increased private sector involvement in infrastructure.

This could take place alongside the provision of increased training/ support to help government to negotiate PPP deals with the private sector more effectively. Another important area where interventions are needed is to strengthen the capacity of the main institutions involved in the infrastructure sector to improve their ability to deliver their mandates. There is also a need for the provision of specialised training to the judiciary to enable them to understand how to deal with legal issues related to the infrastructure sector more effectively.

The above are activities that could deliver improvements over time. As an interim measure, DFIs could play more of a role as a trusted partner for investors trying to close a deal. DFIs bring more assurance that best practice is adhered to, which brings more confidence to investors about the potential for a deal to reach financial close. In the minds of investors the government is also less likely to renege on agreements with DFIs. This could potentially be delivered through the increased use of instruments such as PRGs to bring in more private finance to projects.

In addition to DFIs, there was a call for government to do more in providing credit enhancements and guarantees to support more private infrastructure finance deals. Federal government should issue dedicated infrastructure bonds, pointing out that government is already using some of the proceeds from its bond issuances to fund infrastructure. This would help to create some liquidity in the market: if government provided the dedicated bonds to help finance the projects, once the project has been implemented and is successfully recovering user fees it could then be more suitable for pension funds to come in directly to projects and provide long-term finance. Government could then use the funds to invest in other infrastructure projects.

The more complex challenge of supporting the development of a market in long-term local currency debt will need the above political economy constraints to be addressed alongside interventions to improve Nigeria's macroeconomic environment.

1. INTRODUCTION

This report provides an overview of the market for infrastructure finance in Nigeria (focusing on economic infrastructure sectors: energy, transport and water) using evidence gained from sixteen consultations held with stakeholders (in the period December 2014 to February 2015) and complementary desk-based research.

The report examines the most recent infrastructure deals completed to identify the main factors that have enabled them to reach financial close. It also sets out stakeholders' views on the key barriers to mobilising increased private finance for infrastructure in Nigeria.

The report is structured as follows:

- Section 2 provides background on the development of the private sector investment framework in Nigeria.
- Section 3 sets out the evidence that is available in the public domain on the transactions that have been completed across the different sectors. It also identifies the main sectors/ type of deals in the pipeline.
- Section 4 uses the findings of the in-country consultations to consider what factors are viewed as constraining the flow of finance for infrastructure projects in Nigeria.
- Section 5 uses the findings of the consultations together with some desk-based research to review the issues around the available sources of finance for infrastructure and the key market players involved in infrastructure financing.
- Section 6 presents the conclusions.

The report also includes some annexes:

- Annex A lists the institutions/ individuals consulted as part of the process.
- Annex B provides some case studies on infrastructure projects that have been able to attract private finance.
- Annex C provides an overview of the institutional framework for PPPs in Nigeria.
- Annex D includes the references.

2. THE HISTORY OF PRIVATE FINANCING IN NIGERIA

Addressing Nigeria's infrastructure needs will require expenditure of almost US\$14.2bn per annum over the next decade, of which US\$7.6bn is needed in the power sector. This is set against annual government spending on infrastructure of around US\$6bn¹; highlighting the fact that Nigeria needs to attract private finance for infrastructure investment.

Over the last fifteen years government has worked to establish a framework that facilitates private sector involvement across the economic infrastructure sectors (power, transport and water). This section provides the background.

2.1. Development of the investment framework

The development of Nigeria's investment framework can be traced back to the 1980s when large public sector owned and operated institutions were responsible for delivering infrastructure services. Despite significant investment in these enterprises by government, they were seen as being inefficient loss-making organisations. It was estimated by the Nigerian Technical Committee on Privatisation and Commercialisation that US\$90bn was invested in them by government, but they never achieved more than a 2% return on investment. The end result was that Nigerians suffered from both a lack of availability and poor quality of infrastructure service delivery.

For instance, the inefficiency of the National Electric Power Authority (NEPA) was estimated to impose a cost of US\$1bn per annum on the economy and only 12% of Nigerians had access to metered electricity. While in the telecoms sector there were only three telephone lines per 1,000 people, which was estimated at the time to be one of the lowest tele-densities in the world.²

2.1.1. Phase 1 of the investment framework

Faced with the continued poor performance of the public enterprises and a growing investment need, government adopted a privatisation strategy in an attempt to bring in private investment and technical skills to improve the delivery of infrastructure services.

The first phase of Nigeria's programme to involve the private sector in both infrastructure financing and delivery started with the implementation of the 1999 Public Enterprises Act. This Act established the National Council on Privatisation, which was a high-level political institution responsible for formulating and approving policies; and also the Bureau of Public Enterprises (BPE), which was to be the implementing agency for privatisations in Nigeria.

The implementation of the 1999 Act led to a number of important developments across the economic infrastructure sectors:

- **Telecoms.** In 2003 the Communications Act was implemented. This Act formalised the opening up of the telecoms sector to the private sector.
- **Energy.** The Electric Power Policy was developed in 2001, which then led to the Electric Power Sector Reform Act (EPSRA) in 2005. This was an important step in the eventual full

¹ Vivien Foster and Nataliya Pushak (2011). Nigeria's infrastructure: a continental perspective.

² World Bank (2011). Implementation completion and results report for the privatisation support project.

privatisation of the electricity sector (Section 3.1). The Act restructured NEPA and established the Power Holding Company of Nigeria (PHCN).

- **Transport.** In the transport sub-sectors:
 - **Roads.** In 2002 the Federal Roads Maintenance Agency (FERMA) was established and was given the authority to enter into Maintain, Operate, and Transfer concession contracts with the private sector and provided for the ability to fund roads using tolls.
 - **Ports.** In 2004 the government began the process of concessioning the ports sector (see Section 3.2 for more detail).

2.1.2. Phase 2 of the investment framework

In the second phase the government established a PPP framework. The Infrastructure Concession Regulatory Commission (ICRC) Act was implemented in 2005. The Act eventually led to the establishment of the ICRC, which is responsible for policy guidance and for preparing, procuring and implementing all federal PPP projects. The ICRC is also responsible for ensuring that all PPP concessions comply with the law – though as highlighted during a number of the consultations and with the ICRC itself, it has no formal enforcement power over the Ministries, Departments and Agencies (MDAs), which remain responsible for contracting and implementing PPP agreements.

The ICRC has developed a National PPP Policy which was approved by the Federal Executive Council in 2009. The PPP policy provides the guidelines for the MDAs intending to enter into PPP agreements. The policy provides guidance on issues such as the procurement process and the roles and responsibilities of the private sector and government in PPP contracts.

At the state level, each state government is responsible for developing its policies with regards to PPPs. Some states such as Lagos have been active in promoting the use of private finance for infrastructure. For instance, the Lagos State Roads, Bridges, and Infrastructure Development Board Laws of 2005 and 2007 established a framework for the use of PPPs in roads. The State also created an Office of PPPs in 2008 to provide technical support to facilitate the implementation of PPPs. Since then, in 2011 the Lagos State PPP law was implemented which gave the Office of PPPs the authority to operate across all sectors and not just roads.

3. ANALYSIS OF PPP TRANSACTIONS BY SECTOR

The government has taken steps to develop a legal and regulatory framework in an attempt to facilitate the provision of private sector finance for infrastructure. This section details the progress made in attracting finance in the economic infrastructure sectors. The telecoms sector has not been covered in detail because the privatisation process was completed in 2003; the sector is now effectively in the hands of the private sector, with government's role largely restricted to the regulation of the sector.

3.1. Energy

Despite being endowed with abundant energy resources, including the world's eighth largest reserves of natural gas and untapped hydropower potential, access to energy services in Nigeria remains low. It is estimated that only a third of demand for power is supplied from the National Grid and those that are connected face frequent power cuts. It is estimated that more than 100 million Nigerians have no access to electricity at all.³

As a result of the lack of generating capacity many local businesses have to invest in their own generating equipment which costs around \$0.3 to \$0.5 per kWh compared to the grid based tariff of around \$0.13 per kWh. The Manufacturers Association of Nigeria and the National Association of Small Scale Industries estimated that their members have to spend an average of US\$12m per week on self-power generation.⁴

The current available generating capacity in Nigeria is estimated to be around 4,000 MW and the government has set a target for the sector to achieve 40,000 MW of generation capacity by 2020. To put this into an appropriate context, it is typically assumed that a developed economy needs 1,000 MW per 1 million citizens. This would put Nigeria's generation needs at around 160,000 MW.⁵

Privatisation of the electricity sector

Nigeria's need for investment in energy to address the demand for increased generation capacity, as well as operating efficiency in the sector is huge; Foster and Pashak (2011) estimate that \$7.6bn of investment is needed per annum. The more recent government National Integrated Infrastructure Master Plan (NI-IMP) estimates that the sector will require a total investment of \$1tn over the next 30 years.

To try to address this investment need the government published the Roadmap for Power Sector Reform in 2010. The Roadmap operationalised the 2005 Electric Power Sector Reform Act by implementing the process set out for the privatisation of the sector.

The privatisation process was completed in 2013. The process was managed by the BPE using an open tender competitive bid process. The government sold the eleven distribution companies (DISCOS) for an estimated \$1.25bn and five generation companies (GENCOS) for \$1.7bn. The Nigerian Electricity System Operator has remained in government hands.

³ World Bank (2014). Project appraisal document for the power sector guarantees project.

⁴ IseOlorunkanmi Joseph (2014). Issues and challenges in the privatized power sector in Nigeria.

⁵ PwC (2012). Privatisation in the power sector. Navigating the transition.

According to the BPE (responsible for implementing the privatisation process), the government raised a total of approximately \$2.5bn, which it plans to use to facilitate investment in the power sector over the long-term.

Key aspects of the privatisation process

There are a number of steps that government has undertaken as part of the privatisation process to make the electricity market more suitable for attracting private finance:

- **Addressing the credit worthiness of the off-taker.** The poor financial performance of the distribution network combined with a continued reliance on recovering user fees from consumers, meant that the distribution companies (DISCOS) were not seen as being credit worthy. If not addressed, this would restrict private investment in generation capacity because of concerns about the ability of DISCOS to enter into credible Power Purchase Agreements (PPAs) with them. To address this issue the government created the Nigeria Bulk Energy Trading Co (NBET), which is responsible for acting as a bulk purchaser of all power generated by the generation companies (GENCOS) on behalf of the DISCOS as a transitional arrangement. Given that the NBET was a new entity without a credit history it has been necessary to back up its transactions by a full federal government guarantee and a \$700m Partial Risk Guarantee (PRG) from the World Bank. The PRG provides credit enhancements for the NBET on its nominated transactions.⁶
- **Multi-Year Tariff Order.** A key step in attracting sufficient private sector interest in the privatisation process was the establishment of a more cost reflective pricing mechanism in the electricity sector. The Nigerian Electricity Regulatory Commission (NERC) has implemented a Multi-Year Tariff Order (MYTO) under which energy prices are set based on a number of principles designed to reflect efficient and realistic cost levels and a fair rate of return for the Nigerian generation, transmission and distribution sectors. The MYTO in principle provides a fifteen-year price path for energy tariffs but in practice is set for a five-year period with scope for an annual review to account for changes in the inflation rate, gas price and foreign exchange rate assumptions. There is also scope for a more fundamental interim review in the event of any material changes to the private companies' business environment. This helps to provide investors with some protection from macroeconomic risks given the high inflation and exchange rate instability that has affected Nigeria over time.
- **Mechanisms in place to protect vulnerable consumers.** Since the implementation of the first MYTO in 2008 the aggregate retail tariff more than doubled from around \$0.06 per kWh to an average of \$0.13 per kWh. To mitigate the impact of the price increases on poorer consumers and to secure the political acceptability of the reforms, the government implemented a series of tariff mechanisms designed to subsidise the electricity consumption of the poorest consumers.

⁶ World Bank (2014) "Project appraisal document for the power sector guarantees project."

Projects undertaken/ in the pipeline

The privatisation process was completed in 2013, so it will take some time to evaluate the impact of the reforms and the extent to which the new market arrangements are sustainable. However, there has been more private sector interest in the sector in the last few years.

For instance, ANNEX B provides details of Azura Edo, an \$890m 450 MW greenfield Independent Power Producer (IPP) facility which is the first large-scale privately owned, project-financed IPP in Nigeria. The project is expected to start generating power in 2017.

The financing for Azura was signed in December 2014; the project has raised two-thirds of the finance required from the private sector which includes equity of \$143.8m from the project sponsors: Amaya Capital Partners, Aldwych International, African Infrastructure Investment Managers (AIIM), and Asset & Resource Management. The project financing structure also includes commercial lending of \$450m from: Rand Merchant Bank, Standard Chartered Bank, Siemens, Standard Bank, KfW, and First City Monument Bank.

At the time of writing the Azura deal has not yet reached financial close because the sponsors are waiting for the conclusion of one Condition Precedent and sign-off from the Nigerian Attorney General. The postponement of the general election could be a factor delaying the deal.⁷ However, the project demonstrates that the privatisation process has been able to secure private finance for investment, though this has required a full federal guarantee, the PRG from the World Bank and DFI investment of \$292.5m. This includes \$50m from the IFC in the form of a loan, US\$30m mezzanine finance, and US\$212.5m from a consortium: FMO, DEG, Proparco, Swedfund, OPIC, EAIF, CDC Group, ICF Debt Pool.

Another key feature in the ability of the Azura project to successfully attract private finance is that the sponsors were able to agree a fifteen years gas supply agreement with the Seplat Petroleum Development Company. The lack of certainty around the supply of gas to IPPs has been an important factor limiting the ability of potential generation projects to move forward.

At present the projects that have attracted finance or are in the pipeline are in the IPP sector. There has been less investment in the DISCOS, primarily because of the risks that they face in securing payment from their customers.⁸

Table 3.1 below provides an overview of some of the IPP deals that are in the pipeline based on information available in the public domain.

Table 3.1: IPP Projects in Nigeria post privatisation

Project	Financial close	Capacity (MW)	Total cost (US\$m)	Source of financing
Azura Edo (greenfield project)	Estimated 2015	450	\$890	<ul style="list-style-type: none"> • DFIs debt \$262.5m • DFI mezzanine \$30m • Commercial debt \$390m • Development bank debt \$60m

⁷ IJ Global at IJGlobal.com (11 February 2015). Nigeria's Azura-Edo waits on final CP.

⁸ Chukwubuike Onwuzurumba and Kodizie Acholonu, Ikeyi and Arifayan (2014). Money is power? Limits on financing options in the Nigerian electricity supply industry.

Project	Financial close	Capacity (MW)	Total cost (US\$m)	Source of financing
				<ul style="list-style-type: none"> Equity \$147.5m
Qua Iboe and transmission line (greenfield project)	n/a, project announced in 2013	533	\$1,080	<ul style="list-style-type: none"> Financing details unknown at this stage, expected that 50% will be equity (\$540m) to be private (Exxon Mobil) with other 50% from the Nigerian National Petroleum Corporation. World Bank has agreed to provide a partial risk guarantee of up to \$150m.
Lafarge Gas-Fired Plant (expansion of existing capacity)	Project announced in 2014	220	\$440	<ul style="list-style-type: none"> IFC expected to provide a loan and advisory services, and the private developers are expected to provide equity
Ughelli gas plant (rehabilitation of existing facilities and expansion of capacity)	Project announced in 2014	1000	Up to \$2,500	<ul style="list-style-type: none"> Transcorp who were awarded the plant during the privatisation process have made a \$2.5bn pledge to invest in increasing capacity. They plan to raise capital through combination of bank loans, selling shares and issuing bonds.

Source: CEPA analysis⁹

3.2. Transport

Progress in attracting private finance has varied across the different transport sub-sectors.

Port sub-sector

The port sub-sector has been opened up to private participation. In 2004 the government initiated a comprehensive reform of the port sub-sector, which included a port concession programme designed to bring in private investment to the sector. By 2007, twenty-five long-term port concessions had been awarded to the private sector. According to the World Bank PPI database these concession arrangements were successful in attracting over US\$700m for capital investment in the sector.

⁹ *Qua Iboe, Afam, Lafarge*: all from the transactions database at IJGlobal.com “Qua Iboe IPP” “Acquisition of 776MW Afam Power Plant” “220MW Lafarge Africa Gas-Fired Power Plant”

Sapele, Gereguu, Ughelli, Kainji Hydro, Shiroro Hydro: FT at FT.com (7 May 2013) “Nigeria’s dysfunctional state power plants set to go private”

Okija: Century Power at century-power.com (Accessed February 2015) Project page for CPG-Okija-IPP; and Punch at PunchNG.com (15 May 2014) “GE, Century power to build plant in Okija”

Ikot Abasi, Yellowstone IPP: African Development Fund (December 2013) “Project Appraisal Report for the Partial Risk Guarantee in support of the Power Sector Privatisation in the Federal Republic of Nigeria”

Egbin: Information from the transactions database at IJGlobal.com “1320MW Egbin Power Plant Privatisation”

Kainji hydro: Vanguard at vanguardngr.com (9 September 2014) “Kainji, Jebba rehabilitation to gulp N72bn”

According to Foster and Pushak (2011), the private investment in the ports has placed the sub-sector on a much more sound financial footing.

In addition to the original port concessions other projects have recently reached financial close or are in the project pipeline. For instance, the construction of a deep seaport in the Lekki Free Trade Zone¹⁰ of Lagos is intended to relieve some of the congestion and delays experienced at the Lagos Tin Can and Apapa ports.¹¹ Latest estimates place the cost of the port construction at around \$1,500m.¹² It is being developed as a 45-year Build-Own-Operate-Transfer (BOOT) concession.¹³ The project is being sponsored by the Tolaram group and is expected to reach financial close in 2015.

Although it aims to draw a proportion of the finance from private sources, largely in the form of sponsor equity, a significant proportion of the funds will come from public sources. At present the approx. \$500m secured for the project has come from the AfDB, the European Development Bank and the Islamic Development Bank.

Table 3.2: Breakdown of the Lekki Deep Seaport financing

Finance type	Finance source
Private Debt [amount unknown]	Standard Chartered Bank; Rand Merchant Bank and Stanbic Bank
Public debt US\$499.25m	AfDB's Private Sector Department US\$150m; European Investment Bank US\$199.25m; and the Islamic Development Bank US\$150m
Equity US\$408m	The Tolaram Group US\$408m (60%),
Public equity US\$272m	Federal Government of Nigeria US\$136m (20%); and the Lagos State Government US\$136m (20%)

Sources: CEPA analysis

Road sub-sector

The Lekki-Epe toll road was the first PPP deal to achieve financial close in the roads sub-sector. The project was successful in attracting \$290m of private investment from both local and international investors. This included the ability to attract long-term loans in local currency (twelve years) from the commercial banks - it received a loan of \$80m from First Bank of Nigeria. Other infrastructure projects in Nigeria have only been able to obtain finance for up to seven years.¹⁴

The Lekki Concession Company (LCC) was able to obtain long-term loans for the project because it was in receipt of a full federal guarantee for the project and in addition a long-term loan from the AfDB.

¹⁰ The Lekki Free Trade Zone is intended to be a satellite city to Lagos, an "offshore economic growth zone." It is being developed by a Chinese consortium (CCECC-Beyond) in a Joint Venture with the Nigeria Federal Government and the Lagos State Government since 2006. Source: Lekki Free Zone at lfdz.org (Accessed January 2015) "About Lekki Free Zone."

¹¹ African Development Bank, 2013 "AfDB and Nigeria: Leveraging Partnerships for Economic Transformation and Inclusive Growth" pp.26-27.

¹² IJGlobal Transaction Database "Nigeria Lekki Port PPP."

¹³ John Whiteaker from IJGlobal at IJGlobal.com (29 August 2014) "Nigeria completes due diligence on Lekki Port."

¹⁴ Patrick Mgbenwelu (2014) "Trends and outlook for Nigerian project financings."

The quality of the project sponsors and equity holders are also cited as key factors in the ability of the project to attract private finance.¹⁵

In addition, giving the pioneering nature of the deal, the LCC had to take additional risk to obtain financing for the project. They started the construction on 4km of the project having only received partial finance from local banks. When the ‘abridged’ works programme was completed they were then able to obtain financing for the full construction programme. This was a risky approach as it was possible that they would not be able to agree the longer-term financing needed for the full project. The LCC together with Lagos State decided that they had to do this because there was a lot of scepticism about the project ever going ahead, and by demonstrating visible progress of the works they could attract further finance. The LCC were able to adopt this approach because they received an approx. \$32.5m guarantee from Lagos State for the abridged works programme.

The financial structure of the deal is set out in Table 3.3 below (Annex B provides a case study on the project).

Table 3.3: Financing arranged for the Lekki-Epe toll road

Finance type	Finance source
Government ¹⁶ US\$42.5m, 11%	Mezzanine, \$42.5m: Lagos State Government, 20 years
DFI US\$85m, 21%	Debt, US\$85m: AfDB, fifteen years senior debt-
Private US\$270.4m, 68%	<ul style="list-style-type: none"> Local debt, US\$109.7m equivalent: US\$79.9m from First Bank of Nigeria and United Bank for Africa (12-year note issuance facility), remainder (US\$29.8m) from a consortium of Zenith Bank, First Inland Bank, Diamond Bank, and Fidelity Bank International debt, US\$93.5m: Standard Bank London sole arranger of the international tranche which is underwritten by Standard Bank London and Stanbic (fifteen years). Equity, US\$67.2m: US\$58.9m (NGN 6.93bn) held by a consortium of: Asset & Resource Management Co Ltd (ARM); Africa Infrastructure Investment Fund (AIIF); Larue Projects; and Hi-Tech Construction. Remaining US\$8.3m unknown.

Source: CEPA analysis

The Lekki toll road demonstrated that a greenfield toll road project developed in Nigeria was capable of attracting private finance. However, the 30-year concession agreement did not prove to be sustainable because of various factors including the difficulty that the LCC faced in trying to charge a toll-fee at a level required for it to recover its investment over time.

There are other road projects that have sought to attract private finance or are in the project pipeline. This includes the \$650m 2nd Niger Bridge project.

There were initially concerns about the way in which the Niger Bridge project was brought to the market by the government; according to some stakeholders there was a rush to complete the required traffic studies without giving the transaction advisers enough time to review the evidence. The project is now being developed by the Nigeria Sovereign Investment Authority (NSIA) with support from the

¹⁵ SSATP (2014) “Private sector involvement in road financing.”

¹⁶ All financing figures have been reached through using two sources: (1) Opuiyo Oforiokuma, CEO/Managing Director of LCC (September 2009) “Lekki-Epe Expressway Toll Road Concession”, presentation at the Ghana 2009 PPP Conference. (2) Standard Bank (2009) “Annual Report 2008” pp.46-67.

Nigeria Infrastructure Advisory Facility (NIAF) – whose support to help restructure the project has reportedly reduced the estimated project costs from approx. \$660m to \$540m. However, according to the publically available information no other road projects have been successful in attracting private finance.

According to stakeholders consulted, there is still some uncertainty about the extent to which government is committed to the concept of road user charges. The government is reportedly currently working to develop a National Tolling Policy and has draft legislation (National Road Fund Bill and the Federal Roads Authority Bill) under consideration by the National Assembly, which are meant to formalise the government’s commitment to increasing the level of private finance in the road sub-sector. However, both bills have been in development for a number of years – the concept of establishing a road fund and a federal road authority were initially developed in 1997 by the Steering Committee for Road Vision 2000.

Airports

Similar to the roads sub-sector, there have been a few examples of infrastructure projects attracting private finance in the aviation sub-sector. Two of the important PPP projects that have occurred in the sector are:

- the \$200m twelve-year concession contract awarded to the Bi-Courtney Ltd to construct a new Domestic Terminal at the Murtala-Muhammed Airport in Lagos (MMA2) (see case study in Annex B); and
- the \$35m ten-year Build, Operate and Transfer (BOT) to rehabilitate the international terminal at Lagos airport awarded to the Maevis group.

Both of these projects ended up with the private sector partner taking the government to court, and winning their cases, because of the government’s failure to adhere to the terms of the PPP contract agreement.

There are projects in the pipeline such as the Design-Finance-Operate and Maintain Lekki-Epe International Airport PPP project that is being led by the Lagos State PPP Unit. The project cost is estimated to be between \$600 - \$700m. The project is reportedly currently out to tender but has not been awarded.¹⁷

Rail

There is no evidence that any infrastructure projects in the rail sub-sector have been successful in attracting private finance to date. The projects that are in the process of being completed in the sub-sector have required donor/ government to fund the projects; for instance, the Abuja Light Rail project sponsored by the Ministry of Transport received a US\$500m loan from the Export-Import bank of China.

The Eko Rail PPP project is currently in the pipeline. It is a twenty-five year \$400m project sponsored by the Lagos Metropolitan Area Transport Authority. The concession arrangement was signed in 2010

¹⁷ IJGlobal at IJGlobal.com (23 August 2011) “Nigeria’s Lekki Airport PPP launched.”

with Eko Rail appointed the preferred bidder. However the concessionaire and the Transit Authority are still carrying out negotiations on key elements related to the project such as revenue risk.¹⁸

The BPE has drafted the Nigerian Railway Authority Bill, which has recently been approved by the Federal Executive Council and now needs to be passed by the Nigerian National Assembly. This Act will open up the railway sector to the private sector. The bill allows the private sector to build, operate and maintain the infrastructure currently owned by the Nigerian Railway Corporation (NRC).

3.3. Water and sanitation

In the water sector the individual state governments have responsibility for urban water supply, while local governments are responsible for rural water supply. The federal government is responsible for the overall management of water resources.

Across the different states the provision of water has remained under the control of the State Water Boards. Most of the State Water Boards are loss making institutions. They charge tariffs for water services that are not cost reflective, and are ineffective in collecting payments – in some cases revenue collection is estimated to be as low as 10%.¹⁹

Given the current status quo in the sector, in which the service providers are not able to charge cost reflective tariffs, there has naturally been limited progress in attracting private finance for investment. The projects that are being carried out in the sector are being funded by government, DFIs or donors. For instance, the AfDB has invested over \$900m in the water and sanitation sector through its sovereign operations.

During consultations, one stakeholder noted that it is a politically difficult issue to use PPPs in the water sector and that there are various political interests/ ministries involved that might make it difficult for a pipeline of investable projects to develop in the sector.

Some of the states, such as Lagos, are more active in trying to attract private finance to the water sector. Lagos State implemented the 2004 Lagos Water Sector Law to facilitate investment by unbundling the Lagos State Water Corporation into six subsidiaries. The State wants to attract around \$310m of private investment to finance the construction of ten new waste water treatment plants, rehabilitate some existing plants and to increase the length of the sewer network. This has created some opportunities that are in the Lagos State project pipeline, such as the Odomola water plant and the Ishashi water treatment plant.

¹⁸ IJGlobal at IJGlobal.com (20 October 2014) "Dispute holds up Nigeria's Eko Rail PPP."

¹⁹ AfDB (2013) "An infrastructure action plan for Nigeria: closing the infrastructure gap and accelerating economic transformation."

4. BARRIERS TO INVESTABILITY / BANKABILITY

The analysis presented in Sections 2 and 3 explain that by implementing a number of legal and regulatory reforms government has made some progress in attracting private finance to infrastructure, particularly in the telecoms sector, but also in power and transport. However the evidence presented in Foster and Pushak (2011) shows that there is still a huge financing gap and a need to bring in much more private finance from both domestic and international investors.

Consultations were completed with stakeholders involved in Nigeria's infrastructure sector to examine whether the lack of private finance flowing to economic infrastructure projects is caused by a limited supply of 'bankable' projects or because of a lack of available finance. The findings of the consultations are presented below.

4.1. Supply of bankable projects

4.1.1. Political economy risks

The evidence received from the consultations points clearly to constraints within the enabling environment as being the primary factor limiting the provision of private finance to infrastructure. Market participants reported that they have limited confidence in their ability to enter into sustainable long-term agreements with the government because of the risks inherent in the political economy due to the weakness of the policy, legal and regulatory environment.

During the consultations, stakeholders cited examples of PPP arrangements agreed between the government and private sector collapsing because of a reported failure of the government to adhere to the contractual provisions of PPP arrangements and of outstanding court orders.

The findings from the consultations suggest that there is limited confidence in the 'sanctity of contract' amongst potential investors. From their perspective this makes investment in infrastructure an unattractive proposition given the huge opportunity costs involved.

Stakeholders identified specific political economy risks:

- **Policy inconsistency.** Fears about policy inconsistency and reversals following not just a change of government but also changes in the individual ministers/ officials responsible for infrastructure sectors. Market participants cited examples such as the cancelled Lagos-Ibadan expressway concession and the Lagos International Airport concession as examples of the government's failure to stick to policy commitments in an infrastructure sector, creating significant costs for the private sector and undermining their confidence/ willingness to get involved in future opportunities.
- **Lack of policy framework for PPPs in some sectors.** Related to this, there are concerns that there is no established policy framework in place for bringing in private sector participation in some infrastructure sectors. For instance it was noted that while the government has a stated policy of making use of toll roads to bring in additional investment in the transport sector it was reported that there is no distinct policy framework to help develop and implement these projects. It was considered that this creates scope for ambiguity and dispute between the government and the private sector if and when future deals come to the market.

- **Uncertainty about the ability of departments to enforce existing policies.** Stakeholders reported that the departments responsible for infrastructure policies are technically competent, and are capable of developing and implementing policies according to good practice. The role of the BPE in the electricity privatisation was cited as an example. However, there is limited confidence that these institutions have the power to enforce their policies particularly when political interests are at stake.
- **Disputes between state and federal government.** There were also reports of uncertainty created by disputes that have occurred between different states and the federal government. For instance, the process of negotiating and then constructing the Lekki toll road concession arrangement was reported to have been subject to significant delays as a result of these disputes, adding to the costs faced by the private sector in trying to develop and then implement the project.
- **Role of the judiciary in PPPs.** Stakeholders were also of the view that the judiciary needs to have a better understanding of the requirements of the infrastructure sector; in particular the need to expedite cases related to PPP projects. Lengthy legal cases are highly costly in the context of a PPP project as they can limit the ability of the private sector operator to collect user fees which weakens the financial viability of a given project. It was suggested by some private sector stakeholders that there have been instances in which some self-interested individuals in government have used the threat of lengthy disputes as a tactic to extract rent.

The risks caused by the political, legal and governance environment were reported by stakeholders as being the main factor blocking the provision of private finance for infrastructure. This has created a situation in which the flow of infrastructure deals has become reliant on a project obtaining some form of guarantee or credit enhancement from the federal or state government or projects that have included involvement from the DFIs.

The main reason advanced for these political risks during the consultations was the self-interest of a selected number of politicians / powerful individuals. Other explanations include either mistrust and/or a lack of understanding within the government about the merits of using private finance for infrastructure.

To address these problems some stakeholders suggested that there is a need for continued advocacy and training for senior politicians to sensitize them about the merits of private involvement in infrastructure to try to make progress in reducing the level of political risk.

Others highlighted the importance of the increased involvement of DFIs directly in infrastructure projects and or the development of the government's policies with regards to different sectors. The view was that not only do the DFIs bring more assurance that best practice is adhered to, which brings some comfort to investors; they also provide investors with a strong partner that the government is less likely to push around.

4.1.2. Cost reflective tariffs

The issue of the ability of infrastructure service providers to charge cost reflective tariffs was also indicated as being an important constraint in the Nigerian context. For instance, the protests that occurred when the Lekki Concession Company (LCC) (see Annex B) tried to set a toll-fee at a level high enough to enable to recover the costs of its investment led to the suspension of tolling. The protests

reduced the level of political commitment to charge for the use of the road, and was part of the reason behind the eventual decision by Lagos State to buy-back the project from the LCC just five years into a thirty year concession arrangement.²⁰

However, some market participants are of the view that the size of the Nigerian market creates a number of opportunities to develop infrastructure projects that do have potential to charge reflective tariffs. But that these projects are currently unattractive because of the level of political risk involved in working with the government. Examples of opportunities given included the millions of consumers that have to pay for expensive electricity generators, and the additional costs that are faced by some consumers in Lagos to access water. Moreover, Foster and Pushak (2011) estimate that there would not be any significant affordability issues in setting cost reflective tariffs in the water sector.

In the view of some investors this creates the potential to provide infrastructure projects that charge a reflective tariff, improve infrastructure service delivery for consumers and also reduces costs for consumers. Along those lines, the main intervention suggested to improve the environment for setting cost reflective tariffs is to engage more effectively with consumers both in general and at the early stages of any specific project so that they understand better the merits of involving the private sector in the financing and delivery of infrastructure.

4.1.3. Macroeconomic environment

In addition to the political risks the other main factor reported as limiting the provision of private finance was the macroeconomic environment in Nigeria. The environment was reported as being unconducive to the provision of affordable long-term finance. The main issue given was that the government is crowding out the private sector by issuing debt to cover its budget deficits.

Government debt is currently offering yields of around 15% for tenors of around 7 years. Nigerian commercial banks and institutional investors therefore have a choice between investing in a high yielding risk free asset, or investing in infrastructure assets that cannot offer much higher returns and face the political risks described above alongside the more typical construction and performance risks associated with infrastructure projects. Investors were of the view that given the option of investing in government debt the opportunity costs of investing in infrastructure projects are comparatively too high.

An additional problem raised is that Nigeria continues to experience double digit inflation, high interest rates for loans and low saving deposit rates. According to the Central Bank of Nigeria saving deposit rates are around 3 – 4%, while loans are given out to most sectors at over 20%.

This creates an economy with a limited pool of long-term deposits that financial intermediaries can then use to provide long-term debt instruments. As a result, banks have found it difficult to offer tenors much longer than seven years – the only example where they have provided finance over a longer time period was the twelve year local currency debt offered to the Lekki Toll road concession, which as discussed, only possible because of the guarantees offered to the project by the federal government, alongside the investment provided by the AfDB.

²⁰ Lagos State Government at LagosState.gov.ng (30 August 2013) Press Statement: “Lagos State government buys back LCC’s concession rights in Eti-Osa Lekki-Epe expressway.”

It was reported that the long-term aim should be to get Nigeria to a position in which banks can issue long-term local currency debt to support investment in infrastructure. At present, the interest rates offered by banks for local currency loans are too high, so projects have to take on US dollar/ Euro debt, which exposes them to significant exchange rate risks given that their project cash flows are typically generated in local currency. Nigeria has a history of relatively stable Naira/ US \$ exchange rate for a period before large depreciations occur.

Figure 4.1 illustrates the trend in the Naira compared to the dollar over the last twenty years, it shows that there have been a number of instances in which the economy has been hit by large depreciations. For instance in the period between June and December of 2014 the exchange rate depreciated by 11%.

Figure 4.1: Naira to \$ exchange rate 1995 - 2015



Source: OANDA

Overall, stakeholders were of the view that macroeconomic instability has limited the ability of local banks to issue local currency debt, requiring projects to be taken on foreign currency, which then exposes them to significant foreign exchange rate risks. This makes the financing of infrastructure projects more expensive in the Nigerian environment, which ultimately limits the ability of private finance to support infrastructure investment.

4.1.4. Project development

The consultations suggest that there are also issues with the quality of the projects that are being brought to market, due to both a lack of capacity and limited funds to support project development activities in the private sector and government institutions. However, the project development issues were seen as being less of a critical factor than the constraints created by the political risks and the macroeconomic environment.

The main areas identified to strengthen project development capacity were the need for donors to continue to support the main institutions involved in the infrastructure sector: the BPE; ICRC; NSIA; and the State level PPP Units.

It was also suggested that the DFIs should provide directly technical support and capital alongside local project developers. This is because the involvement of donors/ donor funded interventions such as NIAF can bring additional credibility to a project, which can help to attract other investors and potentially bring down the cost of finance. Some of the stakeholders suggested that there would be some benefit in creating a single institution that is responsible for carrying out project development activities in Nigeria – though others noted that the Africa Finance Corporation already exists, is playing that role and could benefit from additional strengthening.

5. AVAILABILITY OF SOURCES OF FINANCE

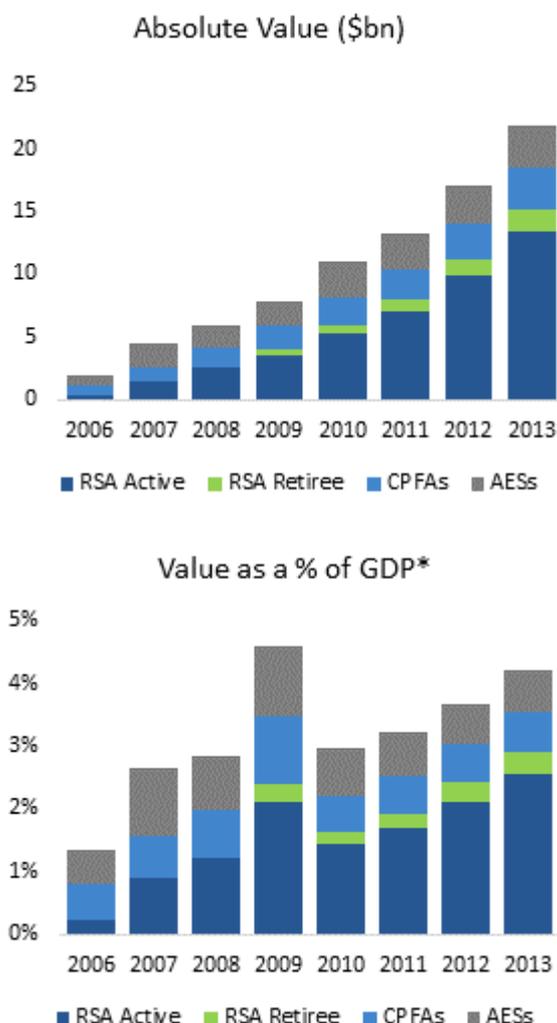
The consultations identified a number of positive developments in the Nigerian financing environment that could help to free up more capital for investment in the future. However, stakeholders were of the view that unless these efforts are combined with more progress in addressing the political and macroeconomic constraints these efforts will yield only marginal improvements in the flow of finance to infrastructure.

The different sources of finance for projects are presented below.

5.1. Pension funds

As shown in the figure below, the size of funds invested in pensions in Nigeria has been growing in recent years. The total amount was estimated to be around \$25bn in 2013 and is reported to have grown to nearly \$28bn in 2014. Although, as a percentage of GDP pension fund assets are still low compared to more developed economies where pension fund assets can be higher than GDP.

Figure 5.1: Pension Fund Portfolio of Nigeria, by type of pension contribution



Source: Pension Fund Portfolio from the Pencom Quarterly Reports.

* The peak in 2009 is due to the fall in GDP that year, as reported by the World DataBank.

Following revisions made to the National Pension Committee's (Pencom) regulations on the investment of pension fund assets in 2010, Nigerian pension funds are now allowed to invest in infrastructure assets. Up to 5% of assets can be invested in infrastructure funds (or directly in projects) and up to 5% in infrastructure bonds. Thus up to \$2.5bn is available that could be provided to finance more infrastructure investment in Nigeria under existing regulations.

Despite the reforms, stakeholders reported that there has been minimal investment by pension funds in infrastructure to date. Stakeholders in the sector confirmed that this is because of the opportunity costs that they face given the option of investing in a risky asset such as infrastructure projects when compared to the high returns offered by the government debt.

The pension funds consulted also confirmed that the main reason why they see infrastructure projects as such a risky investment is because of political economy constraints, such as the government's willingness and ability to honour long-term contractual agreements; and the related fear that the government will reverse its policies with regards to private involvement in sectors or specific projects.

However, the consultations identified that there is a lot of action/ thinking going on about how best to encourage pension funds to invest more in infrastructure:

- One issue that is currently under consideration is reform of the structure of pension funds in Nigeria. At present, all the pension fund assets held by an individual pension fund are held in a single fund. Regulations are under consideration by Pencom that would allow the establishment of multi-funds i.e. holding the assets of those close to retirement in a different pot from those just entering the workforce. This would create a tranche of pension fund assets that are better suited to accepting some greater risk in the portfolio and also providing a source of longer-term funding. Though the pension sector suggested that if these reforms were implemented in the short-term they would probably look to invest more in listed companies before considering infrastructure projects. However, this would at least start to build their experience of investing in different asset classes and understanding about the different risks vs. rewards involved.
- In the last year a new infrastructure fund has been created: the Asset and Resource Management Company Ltd (ARM) Infrastructure fund, which is the first fund in Nigeria to secure investment from the pension sector. The fund raised US\$91m at first close, with \$20m coming from the AfDB and the remainder from pension funds and other private partners. Until the pension funds develop more capacity/ experience of investing in infrastructure projects the option of using dedicated infrastructure funds gives them a potential avenue for investment. The infrastructure funds, critically allow pension funds to benefit from a diversified portfolio of projects limiting the risks involved of directly investing in a single project.
- GuarantCo is currently working together with the NSIA to assess the feasibility of establishing a credit enhancement facility in Nigeria. This facility would provide guarantees to Nigerian infrastructure projects giving pension funds more security so that infrastructure projects can become a more investable class of asset.

In terms of future interventions, the pension funds suggested that the federal government should issue dedicated infrastructure bonds, pointing out that government is already using some of the proceeds from its bond issuances to fund infrastructure. This would help to create some liquidity in

the market: if government provided the dedicated bonds to help finance the projects, once the project has been implemented and is successfully recovering user fees it could then be more suitable for pension funds to come in directly to projects and provide long-term finance. Government could then use the funds to invest in other infrastructure projects.

A number of stakeholders also suggested that pension fund managers should be supported with capacity building to improve their ability to understand and appraise project risks. Though it is not clear how much of a barrier this is, as some pension funds reported that they have internal capacity and/ or can access capacity to review projects from their partner institutions.

5.2. Sovereign Wealth Fund

Nigeria has created a sovereign wealth fund: the NSIA. The NSIA was established with \$1bn of seed capital making it the third largest sovereign welfare fund in Sub-Saharan Africa (SSA).

One of the key objectives of the NSIA is to support increased investment in infrastructure in Nigeria. To that end it has established the \$400m Nigeria Infrastructure Fund. In addition the NSIA is managing around \$550m of the federal government's funds. \$200m of this is allocated to provide finance to facilitate increased investment in the energy sector and the balance of \$350m is allocated to provide liquidity to the Nigeria Bulk Electricity Trading Company (NBET) (which is responsible for buying power from the IPPs and selling it on to the DISCOs).

The fund is mandated to invest across all the economic infrastructure sectors; they are required to achieve a commercial return on their investments and are looking at projects of a minimum size of \$5m.

The NSIA has also allocated 1.5% of the Fund's budget to enable them to carry out project development activities; in some instances, they are helping the government to review the terms of potential PPP arrangements to help ensure that the government gets a fair deal before the contracts are signed.

For instance, NSIA is currently working with the DFID-funded NIAF to carry out project development work on the second Niger Bridge which will help to improve connectivity between the South-South and South-East of Nigeria. Their initial work on this project has reportedly helped to renegotiate the project costs, reducing them by around \$100m. NSIA is currently acting as the project sponsor for the bridge and is actively trying to secure additional investment for the project.

5.3. Nigerian Bank of Industry

Nigeria has a dedicated infrastructure bank: the Bank of Industry (BoI) that is mandated to invest in projects/ private companies to support the development of the Nigerian economy. The Bank is owned jointly by the Federal Ministry of Finance and the Central Bank of Nigeria (CBN).

The BoI is currently managing the N300bn (roughly \$1.5bn) to establish the Power and Airline Intervention Fund (PAIF). The funds were provided by the CBN in 2010.

The fund is designed to support directly increased investment in power and aviation projects as well as serving as a credit enhancement instrument to improve the financial position of the Deposit Money Banks (DMBs), and to provide leverage for additional private sector investments.

PAIF can issue local currency loans at 7% for tenors up to fifteen years and receives technical support from the Africa Finance Corporation (AFC), which is responsible for reviewing the feasibility of individual projects that try to access loans from the fund.

According to the CBN by the end of 2013, just over Naira 115bn (approx. \$600m) had been disbursed to fifteen projects in the aviation industry and around the same amount had been provided to support thirty six power projects.

5.4. Commercial banks

Similar to pension funds, the commercial banks are largely focused on investing in the government securities. In addition, as discussed in Section 4.1.3, commercial banks are not able to offer long-term financing beyond seven years given the short term nature of their liabilities.

The reforms carried out in 2009 by the CBN strengthened the commercial banking sector in Nigeria. This is seen as playing a major role in improving the liquidity of banks, which helped them to provide some of the financing for the recent deals completed in the power and oil and gas sectors as shown in Table 3.1.

In addition, a number of commercial banks have been able to reportedly raise in excess of \$2.5bn in international markets by issuing Eurobonds. For instance, the Eco Bank Nigeria issued a \$200m 8.75% seven year bond in 2014 and Zenith Bank issued a \$ 200m 6.25% five-year Eurobond in 2014.

This followed the US\$500m five-year and a US\$500m ten-year Eurobonds issued by the federal government in 2013 that helped to establish a benchmark. These additional funds available for the commercial banks could be used to refinance the existing debt stock or to support new infrastructure investment in the future.

5.5. State government infrastructure bonds

In addition to the bonds issued by the federal government a number of state governments have successfully issued bonds with the stated aim of providing them with a source of funds for their infrastructure projects.

For instance Lagos State government has issued a number of infrastructure bonds to provide an additional source of funds for infrastructure investment in the state. In 2012 it raised an 80bn Naira bond (approx. \$420m) through the issuance of a seven year 14.5% bond to support investment in a range of projects such as the construction of the Blue Line Rail Project and the reconstruction of a dual carriageway.

As shown in Table 5.1 overleaf, a number of other states in Nigeria have issued Naira bonds to support infrastructure investment. Since 2010, eight such bonds have been issued; each of them has been fully subscribed raising over \$1bn in the process.

Another important point is that the states have issued the bonds on a general obligation basis, secured on their own budgets rather than as dedicated infrastructure project bonds (that is, revenue bonds): where the bond is priced based on the financial profile of the relevant infrastructure projects. States such as Lagos have a credit rating; it is rated A+ by local credit rating firms and thus is considered an

investment grade debt issuer for the purposes of local currency debt (it is rated BB-, the same as Nigeria's sovereign rating by Fitch which is below investment grade).^{21,22}

Some stakeholders suggested that the state government (and the federal government) could consider issuing dedicated infrastructure bonds to help build the practice of institutional and other investors directly investing in infrastructure projects. It was reported that private sector stakeholders view the fact that state governments have yet to do this may suggest that the infrastructure projects in its pipeline are not of sufficient quality to attract finance directly.

²¹ Lagos State Government at LagosState.gov.ng (2013) "Naira 167,500,000,000 debt issuance programme."

²² Reuters at reuters.com (21 March 2014) "Fitch Affirms Nigeria's Lagos State at 'BB-'; Outlook Stable"

Table 5.1: Bonds issued by States since 2010 with the aim of supporting infra investment

State	Issued	Tenor	Rate	Amount (\$m)	Projects supported by bond
Kaduna State	2010	5	12.5%	42.5	Zaria regional water supply (treatment plant), construction of Tum Madakiya road and construction of 4th bridge across River Kaduna (as well social infrastructure projects).
Ebonyi State	2010	5	13.0%	82.5	Repayment of outstanding bank facilities and financing the construction of Ebonyi State International Market, Abakaliki, Ebonyi State regional water schemes, Ebonyi roads and bridges of Unity and Ebonyi rice world project.
Edo State	2010	6	14.0%	125	Refinancing total debt obligations and financing of on-going infrastructure projects.
Benue State	2011	5	14.0%	65	Refinancing of existing debt obligations and financing of on-going projects.
Niger State	2011	7	14.0%	45	Construction of roads.
Gombe State	2012	7	15.5%	100	Building of township and regional roads.
Lagos State	2012	7	14.5%	400	Construction of Adiyen Waterworks (Phase II), infrastructure developments (roads, rail, buildings and bridges etc.) and some social infrastructure projects.
Osun State	2012	7	14.8%	150	Road infrastructures, commercial infrastructure (O-Hub, Dagbolu, Osun), urban renewal (Ilesa, Ikire, Osogbo, Ede and Iwo), Ede waterworks.

Source: Nigeria Securities and Exchange Commission

5.6. International investors

The findings of the consultations suggest that while there are some individual instances of international investors coming into the Nigerian market the scale of the political risks combined with the negative perception of the country is a major issue that prevents many international investors from even considering opportunities in Nigeria.

Other issues raised include the fact that the size of a number of the project opportunities is too small. The typical global infrastructure funds are too big to operate in Nigeria; their minimum investment size is such that if they were to become involved they would have too much ownership of the projects. In addition the limited development of the financial sector means that the sophisticated financial products that international investors typically use are not available on the Nigerian market.

Another critical issue raised is that there is no clarity in the legal and regulatory framework about how international investors can successfully exit projects at present.

In terms of efforts to address some of these issues GurantCo has developed a concept that is currently at a very initial stage, but would see the creation of an investment vehicle that would be listed jointly on the London Stock Exchange (LSE) and the Nigerian Stock Exchange. This vehicle would allow investors to keep their funds in the LSE, but the funds could then be used to invest in Nigeria, and other African countries' infrastructure sectors.

5.7. DFIs and development partners

One of the most recent developments by DFIs identified during the consultations is that the AfDB issued its first local currency bond on the Nigerian capital market in 2014. The bond was a seven-year tenor, US\$80 million and was priced 75 basis points below the federal government benchmark. The bond was successful in attracting investment from pension funds, banks and insurance companies. The objective is to enable the AfDB to lend to its borrowers in local currency thereby eliminating their currency risks and also provide a new investment product for local institutional investors.

The message coming from the consultations on the work of DFIs is that the DFIs should scale up their support for the investment in infrastructure projects providing guarantees and direct investment where appropriate.

The main gap identified is that there is currently a limited focus on providing support to smaller infrastructure projects. An example given was an entrepreneur with a track record in the rice sector that is seeking to expand his operations and wants to invest in some dedicated infrastructure. There is potentially a strong pipeline of these smaller projects that reportedly have few places to go to get support.

There was also some concern emerging from the private sector about the need for DFIs and the wider international development community to speed up their activities, and a need for them to consider the appropriateness of applying 'western' standards on the project development requirements given the nature of the environment.²³

²³ A point also noted by local Kenyan sponsors.

6. OVERALL CONCLUSIONS ON KEY CONSTRAINTS TO PRIVATE FINANCING OF INFRASTRUCTURE

The development of the private infrastructure market in Nigeria is being limited by a combination of political economy and macroeconomic constraints. There are also issues related to the technical and financial capacity to develop projects and also the availability of finance, but these are second order constraints.

Political economy constraints

Market participants have limited confidence in their ability to enter into sustainable long-term agreements with the government because of the nature of the political risks involved.

Fundamentally this is because Nigeria has no track-record of being able to manage the politically powerful self-interested individuals that have undermined efforts to attract increased private investment in infrastructure. Specific risks highlighted include:

- The risk of policy reversal caused by a change in government and also a change of ministers within government.
- Uncertainty about the ability of government departments to enforce existing policies/ laws related to private investment in infrastructure.
- Disputes between state and federal government that create additional uncertainty.
- Concerns about the role of the judiciary and its understanding of the requirements of the infrastructure sector.

Macroeconomic constraints

Macroeconomic instability in Nigeria is the other key factor that is constraining the provision of private finance for infrastructure. The main issue is that government debt provides investors a relatively risk-free high yielding investment option that is far more attractive than the option of investing in risky infrastructure projects.

In addition to this Nigeria continues to experience double digit inflation, high interest rates for loans and low saving deposit rates. This creates an economy with a limited pool of long-term deposits that can be used to enable the provision of long-term local currency debt by domestic financial intermediaries. Potential investors are thus reliant on foreign currency debt, which exposes projects to foreign exchange risk. Ultimately this increases the costs of providing infrastructure in Nigeria.

The above conclusion emerges from the findings of the consultations. It needs to be considered alongside the fact that government has taken steps to facilitate the provision of private finance for infrastructure. For instance, the steps that government has taken to privatise the energy sector (which remains in public hands in a number of SSA countries) and the steps made to develop the PPP framework.

An example of this progress is the commitment that government has made to privatise the electricity sector. A great deal of effort has been expended over time to open up the sector to increased private sector participation. The government has provided a federal guarantee and the DFIs are providing

political risk guarantees to try to stimulate more investment in the sector. As a result of these reforms there is evidence that the sector is having some success in attracting increased private finance. However, as indicated by the delay in the close of the Azura deal, investors are waiting to see if the regulatory and policy framework is sustainable, particularly given the forthcoming election. Given the history that Nigeria has had with PPP deals this is understandable. There are instances in which innovative PPP deals, such as the Lekki-Epe toll road have been agreed, only to collapse just years into long-term concession contracts because of policy reversal.

Recommendations emerging from the consultations

To address the issues that are constraining the increased provision of private finance for infrastructure government needs to establish a track-record of consistently and transparently its enforcing laws, regulations and policies related to the infrastructure sector. To achieve this, additional efforts to sensitise the senior officials working within government, politicians and the public about the benefits and the need for increased private sector involvement in infrastructure.

This could take place alongside the provision of increased training/ support to help government to negotiate PPP deals with the private sector more effectively. Another important area where interventions are needed is to strengthen the capacity of the main institutions involved in the infrastructure sector to improve their ability to deliver their mandates. There is also a need for the provision of specialised training to the judiciary to enable them to understand how to deal with legal issues related to the infrastructure sector more effectively.

The above are activities that could deliver improvements over time. As an interim measure, DFIs could play more of a role as a trusted partner for investors trying to close a deal. DFIs bring more assurance that best practice is adhered to, which brings more confidence to investors about the potential for a deal to reach financial close. In the minds of investors the government is also less likely to renege on agreements with DFIs. This could potentially be delivered through the increased use of instruments such as PRGs to bring in more private finance to projects.

In addition to DFIs, there was a call for government to do more in providing credit enhancements and guarantees to support more private infrastructure finance deals. federal government should issue dedicated infrastructure bonds, pointing out that government is already using some of the proceeds from its bond issuances to fund infrastructure. This would help to create some liquidity in the market: if government provided the dedicated bonds to help finance the projects, once the project has been implemented and is successfully recovering user fees it could then be more suitable for pension funds to come in directly to projects and provide long-term finance. Government could then use the funds to invest in other infrastructure projects.

The more complex challenge of supporting the development of a market in long-term local currency debt will need the above political economy constraints to be addressed alongside interventions to improve Nigeria's macroeconomic environment.

ANNEX A CONSULTATIONS

List of consultations held with stakeholders in the Nigerian infrastructure sector.

Table A.1: Institutions consulted

Institution	Individual	Position
London Stock Exchange	Ibukun Adebayo	Senior manager
GuarantCo	Lasitha Perera	Senior investment officer
African Infrastructure Investment Managers	Olusola Lawson	Regional Director, West Africa
Asset and Resource Company Ltd (ARM) Infrastructure fund	Opuiyo Oforiokuma	Managing Director
Union Bank	Wale Shonibare	Managing Director
PAL Pensions	<ul style="list-style-type: none"> • David Uduanu • Mezu Ibiyemi 	Managing Director
Lagos State PPP Unit	<ul style="list-style-type: none"> • Temitope George • Shola Shasore 	n/a
Bi-Courtney group	<ul style="list-style-type: none"> • Christophe Penninck • Tola Oshobi 	<ul style="list-style-type: none"> • CEO • Lawyer
Bureau of Public Enterprises	Fidelis Kur	Assistant Director
Maevis Group	Tunde Fagbemi	CEO
Nigeria Sovereign Investment Authority (NSIA)	<ul style="list-style-type: none"> • Tunde Alao-Olaifa • Tom Northover 	
AfDB	Andoh Mensah	Chief country programme coordinator
Nigeria Bulk Electricity Trading Plc (NBET)	Longe Alonge	Head Power contract and procurement
Infrastructure Concession Regulatory Commission (ICRC)	Chidi Izuwah	Executive Director
Stanbic IBTC Pensions Nigeria	<ul style="list-style-type: none"> • Dr Demola Sogunle • David Alao • Charles Omoera 	<ul style="list-style-type: none"> • CEO • Investment manager • Research manager
National Infrastructure Bank	Taiwo Dauda	Executive Director

ANNEX B PROJECT CASE STUDIES

This section provides some case studies of projects that have involved private sector investment in infrastructure.

B.1. Azura Edo IPP

Sector	Sub-sector	Capacity	Financial close	Total cost	Percent Government	Percent DFI	Percent private
Energy	Electricity Generation	450 MW	Expected 2015	\$890m	0.4%	32.9%	66.7%
<p>The gas-powered Azura Edo IPP is part of a wider 1,500MW IPP facility being developed.²⁴ It is the first large-scale, privately owned, project-financed IPP in Nigeria. The project is expected to start generating power in 2017.</p> <p>The financing was signed in December 2014 with a total commitment of US\$890m; however financial close has not been reached because the sponsors are waiting for the conclusion of one Condition Precedent and sign-off from the Nigerian Attorney General. The postponement of the general election could also be a factor delaying the deal.²⁵</p> <p>Despite not having fully closed yet, Azura is generally considered by stakeholders to be a success story which provides lessons for other IPPs in Nigeria that are coming to the market following the electricity privatisation process.</p> <p>The project was able to gain 67% of its financing from private sources. It was conceptualised in 2010 and pushed through the Nigerian PPP Programme.²⁶ There are several factors which have contributed to the ability of the project to raise private finance, a number are discussed in 3.1 which examines the electricity privatisation programme in more detail, in addition to these points it is important to note:²⁷</p> <ul style="list-style-type: none"> • <i>Support from the Edo State Government.</i> The Edo State Government is a minority shareholder in the Azura-Edo IPP through its provision of land and infrastructure. Furthermore, the State has been instrumental in helping Azura work closely with the local communities to secure acceptance for the proposed arrangements.²⁸ • <i>Partnerships with world-class suppliers, contractors, service providers and advisers who have deep experience in their respective industries and in operating in Nigeria/Africa.</i> Standard Chartered Bank Nigeria have stated that their involvement in the project - referring to their advisory role in the structuring of the finance as well as their financing commitment - acts as part of their pledge to President Obama's Power Africa Campaign launched in 2013.²⁹ There has been a range of American involvement in the project also as a result of Power Africa.³⁰ 							
Government US\$3.69m, 0.4%		The Federal Government of Nigeria is a 2.5% equity holder in the project, reflecting the value of the land allocated to the project, as required by Nigerian law. ³¹					

²⁴ Azura West Africa at AzuraWA.co.uk (Accessed August 2014) "Azura-Edo IPP"

²⁵ IJ Global at IJGlobal.com (11 February 2015) "Nigeria's Azura-Edo waits on final CP"

²⁶ Vanguard at vanguardngr.com (5 October 2014) "\$1bn Azura-Edo power plant kicks off"

²⁷ See for instance: Azura West Africa at AzuraWA.co.uk (Accessed August 2014) "Frequently Asked Questions"

²⁸ This Day Live at thisdaylive.com (2 Dec 2014) "Investors Sign \$890m Financing for Azura-Edo IPP"

²⁹ Azura West Africa at AzuraWA.co.uk (Accessed August 2014) "Azura Power completes signing of US\$1 billion 450MW gas turbine IPP" Note that this press release states a financial commitment total of \$750m, an amount that was widely reported in early 2014 before the announcement of a \$890m package in December 2014.

³⁰ OPIC at opic.gov (5 August 2014) "American Capital Energy & Infrastructure's Azura-Edo Power Project Receives \$50 Million Financing Commitment from OPIC"

³¹ Azura West Africa at AzuraWA.co.uk (Accessed August 2014) "Frequently Asked Questions"

DFI US\$292.5m, 32.9%	<i>Debt:</i> IFC US\$50m. US\$212.5m consortium of FMO, DEG, Proparco, Swedfund, OPIC, EAIF, CDC Group, ICF Debt Pool <i>Mezzanine:</i> IFC US\$30m.
Private US\$593.81, 66.7%	<i>Sponsors' equity, US\$143.81m:</i> Amaya Capital Partners, Aldwych International, African Infrastructure Investment Managers (AIIM), Asset & Resource Management. <i>Commercial and term lending, US\$450m:</i> Rand Merchant Bank, Standard Chartered Bank, Siemens, Standard Bank, KfW, and First City Monument Bank. ³²

B.2. Lekki-Epe toll road concession

Sector	Sub-sector	Capacity	Financial close	Total cost	Percent Government	Percent DFI	Percent private
Transport	Roads - Highways	50 km	2008	\$426m ³³	11%	21%	68%

The Lekki-Epe toll road expressway was a greenfield BOT project which was implemented in an attempt to reduce the level of traffic on an important road linking the Central Business District in Lagos and Victoria Island. It was the first infrastructure project to be financed using the project-finance approach in Nigeria and had to overcome many barriers before it could reach financial close. However the concession contract only lasted a few years. By August 2013, the Lagos State Government purchased the LCC shares (the SPV for the project).

The case study demonstrates that it is possible to attract private finance to support investment in a toll road in Nigeria, and attract long-term local currency debt.. It also illustrates clearly the difficulty of trying to establish a long-term contractual agreements with the government highlighting the nature of the political risks involved.³⁴

How the project was able attract finance?

When the project was being developed it reportedly experienced significant difficulties in attracting finance. The LCC was only offered short-term debt at high interest rates from the commercial banks. This reflected the perceived level of risk associated with the project at the time – these risks related to the general economic and political environment in Nigeria, and also the pioneering nature of the proposed deal.

Because the toll road was the first project to try to use finance through the project-finance approach, the appropriate legal and regulatory framework was not in place to facilitate such an arrangement. It was explained during the consultations that the negotiations between the concessionaire and the government around the project had to take place on an ad hoc basis because of this.

In addition, the project was the first attempt to implement a toll road in Nigeria. There was uncertainty about the ability of the toll road approach to work on a sustainable basis. It was therefore not clear that the LCC would be able to charge the toll fees to enable it to recover the costs of the investment.

In the end, the project was only able to attract private finance because the federal government gave a full guarantee, which provided termination compensation to any private lenders. The AfDB also provided finance to support the project and the political risks associated with the project were covered by the Export Credit Insurance Corporation of South Africa.

As a result of the guarantees that were put in place the project was able to attract over US\$290m in private finance from both local and international investors. This included the ability to attract a long-term loan (twelve years) from the commercial banks. Other projects have struggled to get finance for longer than seven years.

Why the concession agreement terminated?

The experience of implementing the toll road project was very challenging for the LCC. They faced a number of challenges in trying to construct the toll road. For instance significant delays and costs were incurred in trying

³² Source of the finance breakdown is IJGlobal at IJGlobal.com (Accessed August 2014) Transaction Database: "450MW Azura Edo Independent Power Plant"

³³ Financing has only been found for \$400m of the project cost.

³⁴ Peter Brocklebank at SSATP (2014) "Private Sector Involvement in Road Financing" pp.69-81

to obtain the right of way to construct the road. Part of the reason for these delays is attributed to disputes between federal and state governments which created uncertainty.

The concession arrangement was effectively cancelled because of difficulties in charging a toll fee necessary to enable the LCC to recover the costs associated with the investment (and a suitable return given the risks involved). There were lots of protests about the implementation of the tolls, thereby reducing the level of political support for the approach to road pricing. This ultimately led the Lagos State government to buy back the rights for the project. The ICRC stated that one of the main lessons learned from the cancellation of this project is the importance of undertaking stakeholder engagements early in a project's development, preferably at the feasibility stage, since the protests regarding tolls began only in the construction phase.³⁵

Government ³⁶ US\$42.5m, 11%	<i>Mezzanine, US\$42.5m: Lagos State Government, 20 years</i>
DFI US\$85m, 21%	<i>Debt, US\$85m: AfDB, fifteen years senior debt</i>
Private US\$270.4m, 68%	<p><i>Local debt, US\$109.7m: US\$79.9m from First Bank of Nigeria and United Bank for Africa (twelve-year note issuance facility), remainder (\$29.8m) from a consortium of Zenith Bank, First Inland Bank, Diamond Bank, and Fidelity Bank</i></p> <p><i>International debt, US\$93.5m: Standard Bank London sole arranger of the international tranche which is underwritten by Standard Bank London and Stanbic. (fifteen years)</i></p> <p><i>Equity, US\$67.2m: US\$58.9m (NGN 6.93bn) held by a consortium of: Asset & Resource Management Co Ltd (ARM), Africa Infrastructure Investment Fund (AIIF), Larue Projects, and Hi-Tech Construction. Remaining \$8.3m unknown.</i></p>

B.3. Murtala-Muhammed Airport Terminal 2 (MMA2)

Sector	Sub-sector	Capacity	Financial close	Total cost	Percent Government	Percent DFI	Percent private
Transport	Airports - Terminal	5 million passengers per annum	2006	\$200m	0%	0%	100%

This project, originally advertised for bids by the Ministry of Aviation in 2003³⁷, was for the construction of a new domestic terminal at the Murtala-Muhammed Airport (MMA 2) in Lagos.

Issues faced in bringing the project to close

The project was initially designed with a cost of approximately US\$10m, however it was later redesigned and the project cost increased to at least US\$150m.³⁸

The Ministry of Aviation initially awarded the project to Royal Sanderton Ventures Limited, however after six months they had not begun construction and therefore the Ministry revoked the contract and instead awarded it to Bi-Courtney through direct negotiations.

The concessionaire, Bi-Courtney, experienced some difficulty in attracting finance for the project. They initially financed the construction of the terminal from their own equity with some support from Oceanic Bank

³⁵ The ICRC's PPP Toolkit at ppptoolkit.icrc.gov.ng (Accessed January 2015) "PPP Project Case Studies"

³⁶ These figures use the exchange rate at the time, 1 NGN = 0.0085 USD, as used in Standard Bank's 2008 Annual Report (pp.46-47), which is significantly different to recent levels as it hasn't been above 0.0065 since 2011. All financing figures have been reached through using two sources: (1) Opuiyo Oforiokuma, CEO/Managing Director of LCC (September 2009) "Lekki-Epe Expressway Toll Road Concession", presentation at the Ghana 2009 PPP Conference. (2) Standard Bank (2009) "Annual Report 2008" pp.46-67.

³⁷ The ICRC's PPP Toolkit at ppptoolkit.icrc.gov.ng (Accessed January 2015) "PPP Project Case Studies"

³⁸ Source: Country consultations

International Plc before re-financing the deal in 2007.³⁹ The refinancing included US\$150m of local commercial debt (from Oceanic Bank, Zenith Bank, GT Bank, First Bank, First City Monument Bank and Access Bank and US\$25m of Bi-Courtney's equity).⁴⁰

Further issues faced with the project

There have been a number of disputes between the concessionaire and the government during the life of the project. In particular, the economic case for the project involved assumptions on the number of passengers that Bi-Courtney assumed would use the new Terminal. These were based on the assumption that the government would stop operating the MMA1 terminal. However, the government has kept the MMA1 terminal in operation, significantly reducing the number of passengers using the MMA2 facilities. Bi-Courtney have pursued this issue through the Nigerian courts, and have a court order in place that effectively bans the Federal Airports Authority of Nigeria (FAAN) from continuing to operate MMA1. This court order has been ignored. The disputes between the government and the concessionaire have made it difficult for the company to recover the costs of the investments that they have made in the domestic terminal demonstrating the risks involved in committing to a long-term agreement with the government.

³⁹ The ICRC's PPP Toolkit at ppptoolkit.icrc.gov.ng (Accessed January 2015) "PPP Project Case Studies"

⁴⁰ Steer Davies Gleave and the ICRC (May 2012) "Study to assess the potential for enhanced private participation in the maritime and air transport sectors in Africa: Final Report"

ANNEX C INSTITUTIONAL FRAMEWORK

This section presents an overview of the institutional framework the infrastructure sector in Nigeria:

- The Infrastructure Concession Regulatory Commission (ICRC), which specifically covers PPPs;
- The Bureau of Public Enterprise, responsible for managing privatisations in Nigeria;
- The Nigerian Sovereign Investment Authority (NSIA), which manages Nigeria's Sovereign Wealth Fund;
- The Nigeria Infrastructure Advisory Fund (NIAF), a DFID-funded initiative providing transaction advisory support to encourage private sector investment;
- The National Pensions Commission (NPC), which has implications for the investment of pension funds in infrastructure projects; and
- The Lagos State PPP Office, an example of state-level (rather than federal-level) PPP management.

C.1. The Infrastructure Concession Regulatory Commission

The ICRC was inaugurated in 2008⁴¹ after being established by the ICRC Act 2005 which outlines the requirements and remit of the ICRC, and conditions for electing board members and selecting staff. The ICRC Act 2005 also outlines some general PPP legislation such as the circumstances under which a concession or PPP contract is permitted.

The ICRC acts as the national PPP centre, and its Contract Monitoring Unit is responsible for monitoring compliance with the Act for all relevant projects, assisting Federal Governments where necessary and monitoring compliance with the Act for all projects which fall under its remit.⁴²

The ICRC is also responsible for maintaining a pipeline of projects and ensuring overall general awareness within Nigeria of the ICRC and Nigeria's PPP pipeline and ongoing projects.⁴³ According to the guidelines the MDAs should inform it when a new PPP project is being developed, and is involved in the project from the making of the business case onwards to ensure that the entire process leads to an efficient and compliant outcome.⁴⁴

The PPP Resource Centre within the ICRC provides expertise on legal, financial, and public administration aspects of PPPs to provide assistance to public institutions when required.

C.2. The Bureau of Public Enterprises

The Bureau of Public Enterprises (BPE) is has overall responsibility for the implementation of Nigeria's policies on privatization and commercialization. It was established following the implementation of the 1999 Public Procurement Act.

The functions of the Bureau as provided for in the Act include:

⁴¹ Patrick Okey Mgbenwelu, FBN Capital Limited "Privatisation and public private partnerships in Nigeria"

⁴² The ICRC at icrc.gov.ng (Accessed December 2014) "Corporate overview"

⁴³ The ICRC at icrc.gov.ng (Accessed December 2014) "PPP projects in Nigeria"

⁴⁴ The ICRC at icrc.gov.ng (Accessed December 2014) "Frequently Asked Questions"

- Implementing the Nigerian policy on privatization and commercialization.
- Preparing public enterprises approved for privatization and commercialization.
- Ensuring the update of accounts of all commercialized enterprises for financial discipline.
- Making recommendations on the appointment of Consultants, advisers, investment bankers, issuing houses stockbrokers, Solicitors, trustees, accountants and other professionals required for the purpose of either privatization or commercialization.
- Ensuring the success of the privatization and commercialization exercise through effective post transactional performance monitoring and evaluation.

C.3. Nigerian Sovereign Investment Authority

The Nigeria Sovereign Investment Authority (NSIA) manages Nigeria’s Sovereign Wealth Fund, and was established by the Nigerian Sovereign Investment Authority (Establishment etc.) Act of 2011,⁴⁵ and commenced operations in 2012. The revenue source for the NSIA is the government’s oil revenues in excess of those accounted for in the budget. The NSIA comprises three funds which directly address its three objectives:⁴⁶

- The Future Generations Fund (40 per cent of assets) which invests its assets with the intention to grow the assets into an appropriate savings base for the future when the oil and gas revenues slow down;
- The Nigeria Infrastructure Fund (40 per cent of assets) which invests in domestic infrastructure projects to develop essential infrastructure to further Nigerian economic development and the interest of foreign investors, with 10 per cent allocated to developing Social Infrastructure; and
- The Stabilisation Fund (20 per cent of assets), which is to act as a buffer against short-term macroeconomic instability at the Ministry of Finance’s request.

The current sector focus of its Infrastructure Fund includes motorways and power (in addition to agriculture, healthcare, and real estate). It has already been involved in supporting the project development of the Second Niger Bridge. It has also allocated a small amount of its funding (1.5 per cent) to assist project development activities.

C.4. The Nigeria Infrastructure Advisory Facility

The Nigeria Infrastructure Advisory Facility (NIAF) is a DFID-funded that provides technical assistance to Nigerian Government departments to assist the development of policies and strategies to further

⁴⁵ Federal Republic of Nigeria Official Gazette No.64 Vol. 98 (3 June 2011) “Nigeria Sovereign Investment Authority (Establishment etc.) Act, 2011”

⁴⁶ NSIA at nsia.com.ng (Accessed January 2015) “Overview”

the country's planning and implementation of projects, with an emphasis on encouraging private sector investment.^{47,48}

NIAF has recently assisted in the Second Niger Bridge, which was suffering from poor governance and high construction costs before the NIAF provided the parties involved (the Nigeria Sovereign Investment Authority and the Federal Ministry of Works) with embedded transaction, legal, and policy advisers to assist in a restructuring of the project consortium.⁴⁹

C.5. National Pensions Commission

The Pension Reform Act 2004 established Pencom. PenCom's main function is to regulate and supervise the Pension Scheme as established under the Act, and in particular to issue guidance for the investment of pension funds.

The Pension Reform Acts, of 2004 and 2014,⁵⁰ predominantly aimed to increase the number of people contributing to their pension funds, and the value of the pension fund assets. The reforms also made the scheme defined contributory, replacing the existing long-running defined benefit scheme,⁵¹ and approached the issues of mismanagement of pension funds which had been rife beforehand.

The investment of pension fund assets in infrastructure projects is first focused on in Pencom's 2010 revision to the "Regulation on Investment of Pension Fund Assets"⁵². The Regulation specified that pension fund assets may be invested in infrastructure projects or infrastructure funds with a value of at least N5bn (\$27m). It also outlined minimum standards for projects and funds invested in, and requires that funds invest a minimum of 75 per cent of the fund value in Nigerian projects.

C.6. Lagos State PPP Office

The Lagos State PPP Office was established in 2008. The Lekki-Epe toll road was one of its first projects to reach financial close with the assistance of \$42m of mezzanine financing.⁵³ The PPP Office is tasked with:⁵⁴

- developing the Lagos strategic PPP master plan;
- assisting and advising the Government regarding PPPs;
- facilitating the financing of projects (for example by forming Limited Liability Companies); and
- monitoring concessionaires' adherence to their terms and conditions.

It also provides guidelines and a full proposal template for PPP projects, making provision for both public sector (MDAs, transaction advisers, and potential investors) and private sector developers.⁵⁵

⁴⁷ Nigeria Infrastructure Advisory Facility at niafng.org (Accessed January 2015) "About NIAF"

⁴⁸ Adam Smith International at AdamSmithInternational.com (Accessed December 2015) "Explore Our Work: Future-Proofing Nigeria's Cities"

⁴⁹ NIAF (7 August 2014) "Financing Infrastructure Through Public-Private Partnership"

⁵⁰ There was also a Pension Reform (Amendment) Act in 2011

⁵¹ World Bank Presentation (Date unknown) "Pension Reform In Nigeria"

⁵² First issued in 2006. There are four versions (2006, 2008, 2010, 2012) of the Regulation on Investment of Pension Fund Assets, and they can be found on Pencom's website.

⁵³ Although the Lagos State Government later bought back the concession through purchasing the shares of the SPV. See the Lekki-Epe Expressway case study in ANNEX B.

⁵⁴ Lagos State PPP Office at lagosstateppp.gov.ng (Accessed February 2015) "About Lagos State PPP"

⁵⁵ Lagos State PPP Office at lagosstateppp.gov.ng (Accessed February 2015) "Policy and Guidelines"

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