Creating a Conducive Environment for the Success of PPPs in Nigeria

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ARM-Harith Infrastructure Investment Ltd

Presentation Focus

- Set global and local context around PPPs
- Observations on the Nigerian PPP environment
- Recommendations for making the environment in Nigeria more conducive for PPPs

- They are **procurement models** that enable:
  - Provision of social and economic assets and /or services through **utilizing a combination of public and private resources**
  - **Allocation of risks between the public and private sector** in such a way that:
    - specific risks are passed to the parties best-placed to manage them
    - enables private sector finance, best practice, expertise, and capabilities to be utilized in the delivery of public projects
  - Provision of public assets and services in an affordable and cost-effective way (**Value For Money**)
- They can be applied to just about any type of asset or service that was erstwhile provided by the public sector – but are **typically used on infrastructure projects**
- They are **fairly complex** contractually, financially, and socio-politically
  - They require full alignment between key stakeholders in order to succeed
  - They require professional skills, expertise, and experience to properly structure them and to achieve financial closure

Public Private Partnerships in infrastructure projects are in use worldwide

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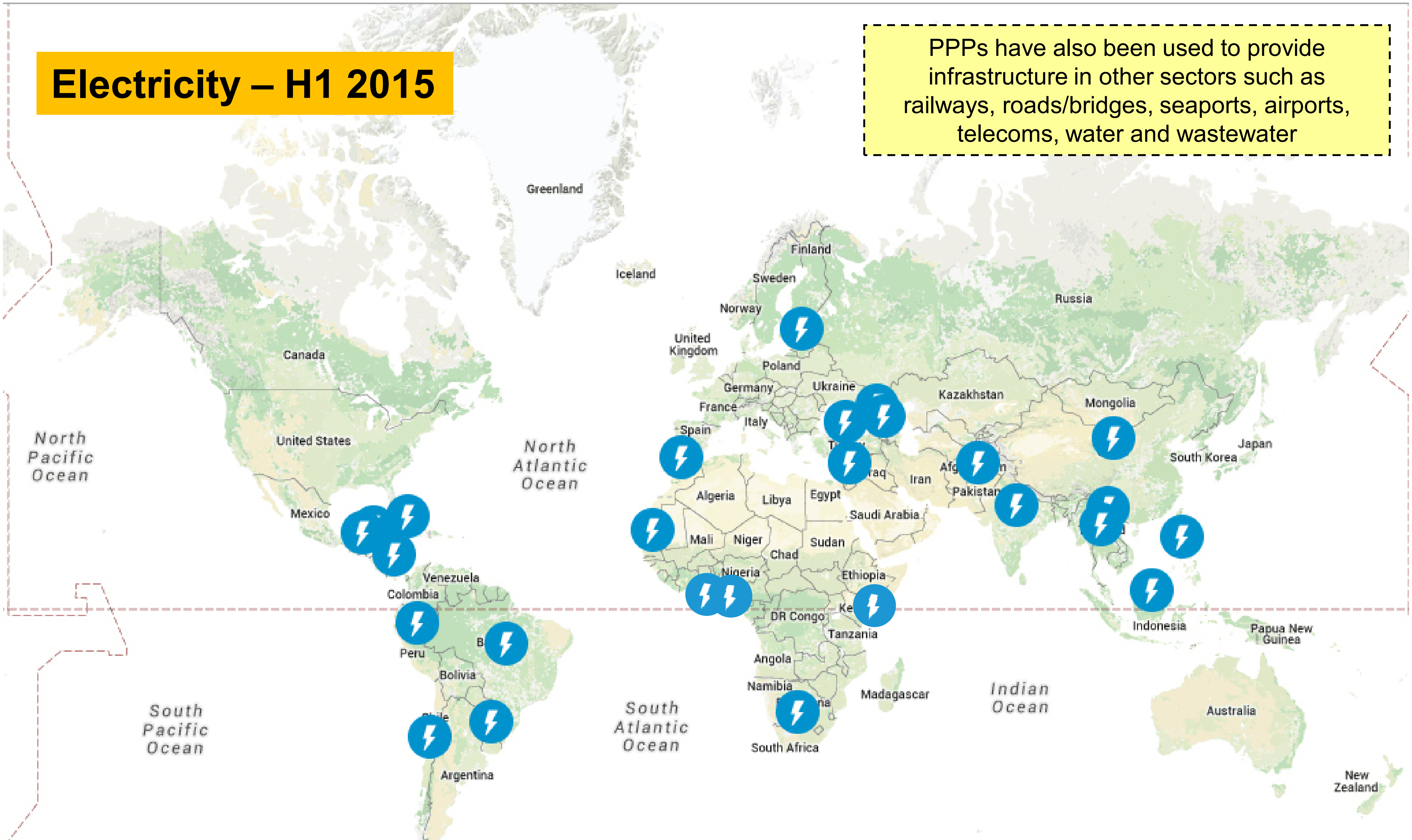


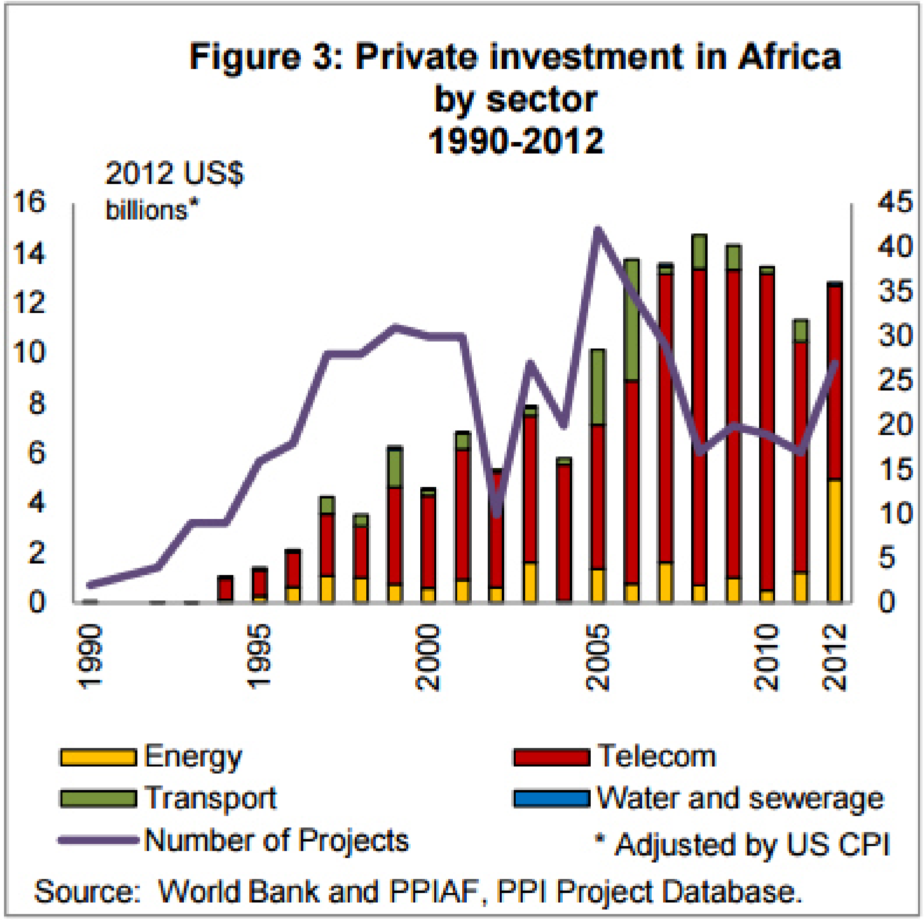
Source: World Bank Group & PPIAF, PPI Database / ARM-Harith Infrastructure Research

Project Example: Azura Edo-IPP

- 20-year license for the generation of electricity in Edo State, Nigeria
- Key parties: Federal Government of Nigeria, Edo State Government, Azura Power West Africa Ltd
- Phase 1 – Development, construction, O&M of a 450MW gas-fired Open Cycle Power Generation

- Project Summary and Status
  - Financial close achieved 28th December 2015 – US$876M raised in debt and equity
  - Long term Gas Supply Agreement involving US$200M investment + proximity to national gas trunk main (ELPS II)
  - World Bank Partial Risk Guarantee underpinning offtaker (NBET) risk; MIGA PRI; Put-Call Option Agreement with Federal Ministry of Finance covering Termination scenarios
- The ARM-Harith Infrastructure Fund is an equity investor in the project and also provided development capital pre-financial close
- Construction work is now in progress on site

Public Private Partnerships are increasingly prevalent in Sub-Saharan Africa



- ❑ Growth of private infrastructure investment in 2012 was strongest in the Energy Sector
  - ➢ Investment in the sector increased to US$5Bn, the highest since 1990
  - ➢ 22 projects reached financial close
  - ➢ All the projects were greenfield
  - ➢ Contract tenors ranged between 20 and 25 years
  - ➢ The majority were openly tendered
- ❑ Telecoms received US$7.7Bn of infrastructure investment in 2012. Investment in the sector has been on the decline in recent times though
- ❑ Transport received limited attention in 2012
- ❑ Water has continued to exhibit negligible activity in Sub-Saharan Africa

Examples of African Transport PPP Projects

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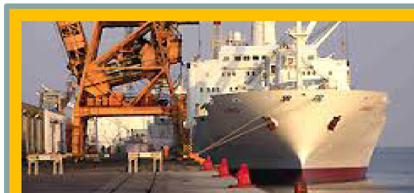
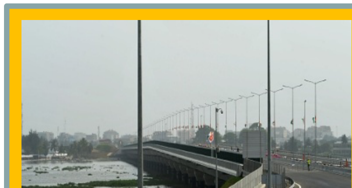
- **Dakar- Diamniado Toll Road, Senegal**
- 30-year O&M concession
- €375M project cost / FC 2010
- Multilateral/DFI-financed

- **Blaise Diagne International Airport, Senegal**
- 25-year O&M concession
- €525M project cost / FC 2011
- Multilateral/DFI-financed



- **Maputo Port, Mozambique**
- 15-year concession
- US$70M project cost / FC 2003
- 49% government-owned



- **Henri Konan Bedie Bridge, Cote D'Ivoire**
- 30-year DBOT concession
- US$365M project cost / FC 2012
- DFI/Concessionaire-financed

- **Lekki Toll Road, Nigeria**
- 30-year BOT concession
- US$427M project cost / FC 2008
- 100% financed by concessionaire
- Investor exit via sale to host government

- **Gautrain, South Africa**
- 20-year DBOM concession
- US$3Bn project cost / FC 2007
- 80% financed by government

Nigeria has benefited from investments generated through Public Private Partnerships

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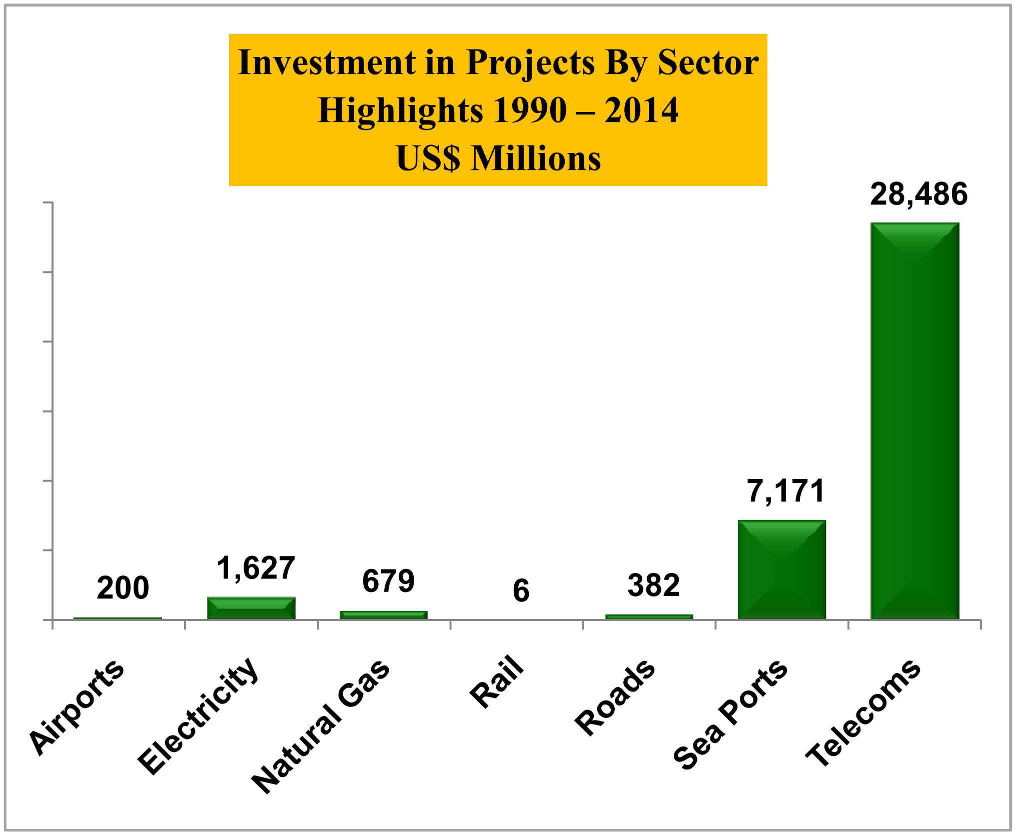

Source: World Bank Group & PPIAF, PPI Database

Infrastructure sectors reported on	Airports, Electricity, Natural Gas, Rail, Roads, Sea Ports, Telecoms
Number of projects reaching financial close	55
Total investment	US$ 38.6 billion
Sector with the largest investment share	Telecoms
Type of projects with the largest share	Greenfield
Number of projects cancelled or under distress	7

Nigerian Integrated Infrastructure Masterplan

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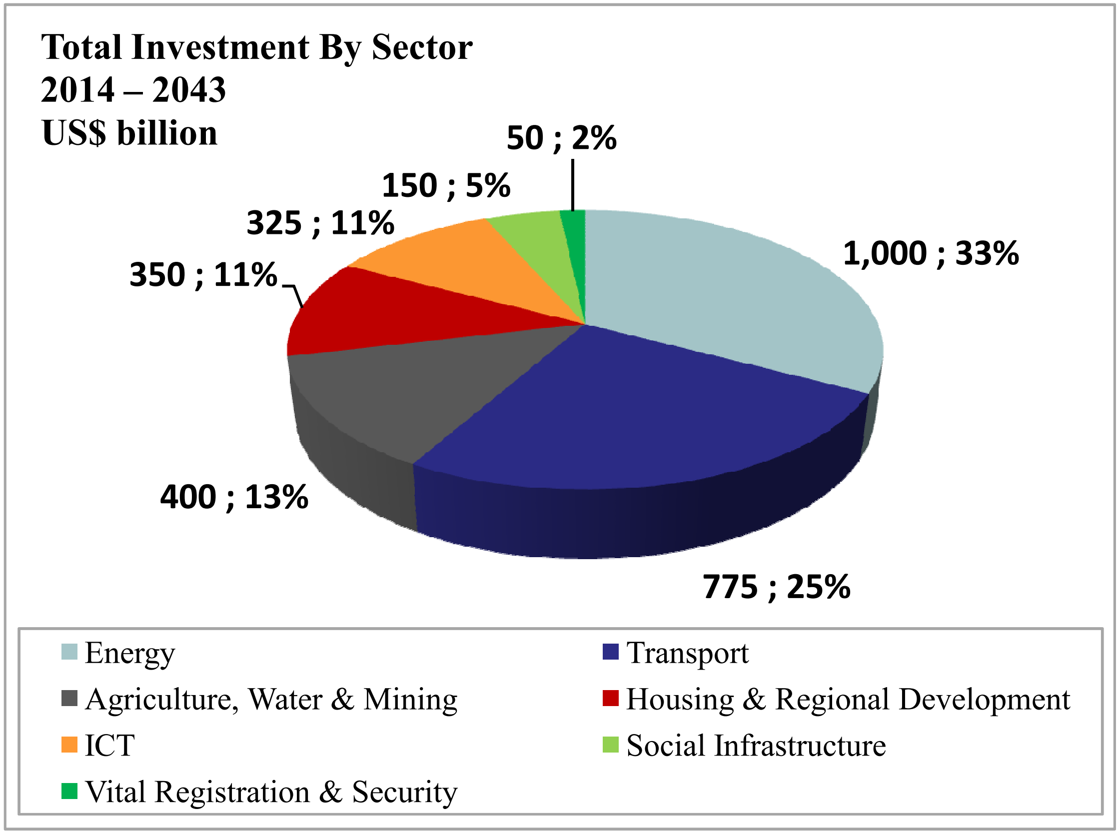
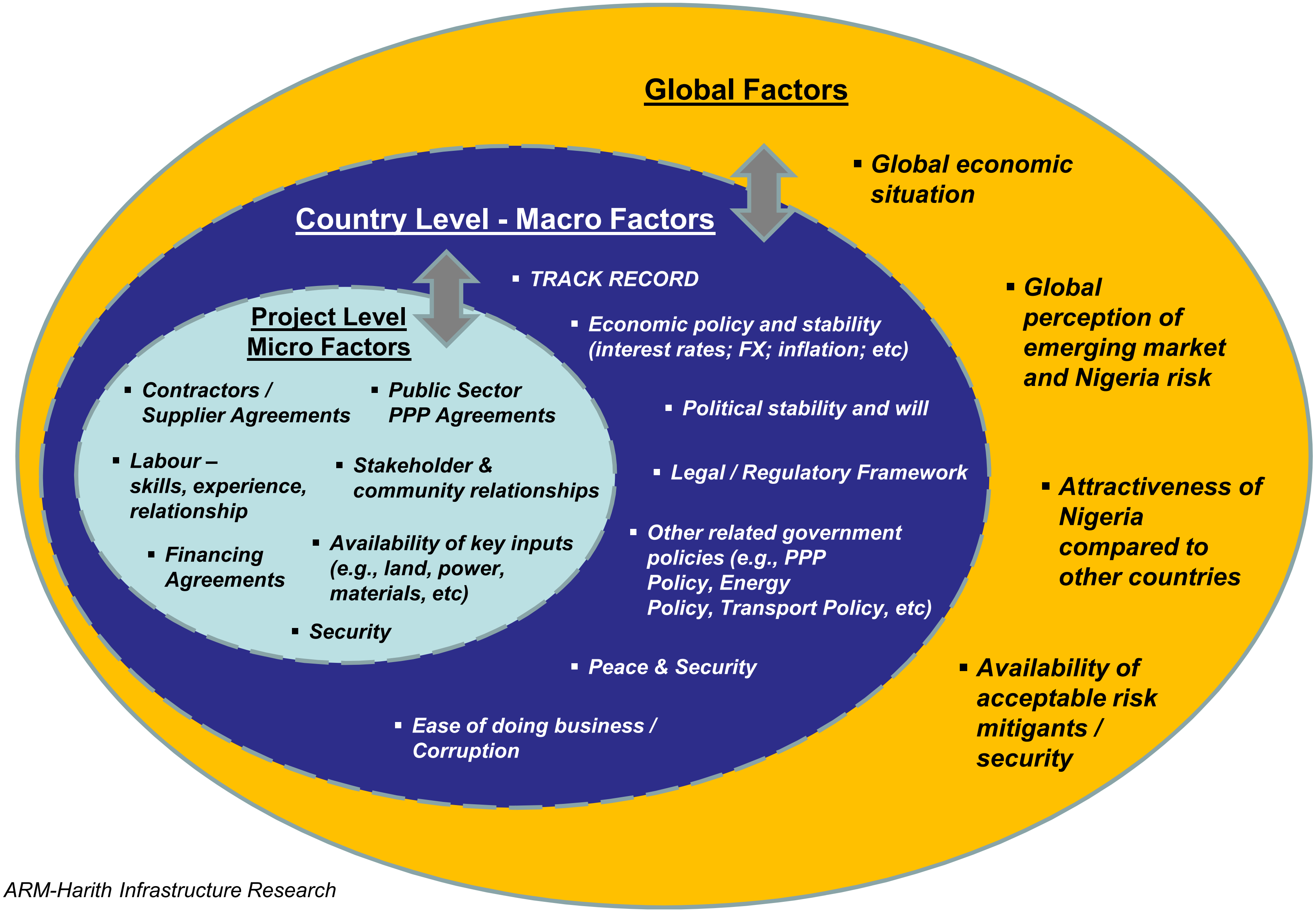


- Various estimates exist about Nigeria's infrastructure needs
- 30-year Nigerian Integrated Infrastructure Masterplan
  - US$3 trillion estimated cost over the plan horizon
  - US$166 billion estimated cost during the 1st 5 years
  - Private sector assumed to fund at least 48% of the cost in the 1st 5 years
  - The remaining 52% is assumed to be funded from a combination of public and private finance sources

Nigerian PPPs operate in a complex and dynamic environment …. but not in a vacuum



Source: ARM-Harith Infrastructure Research

Successfully delivering an economically viable PPP project is about managing risks and cashflows

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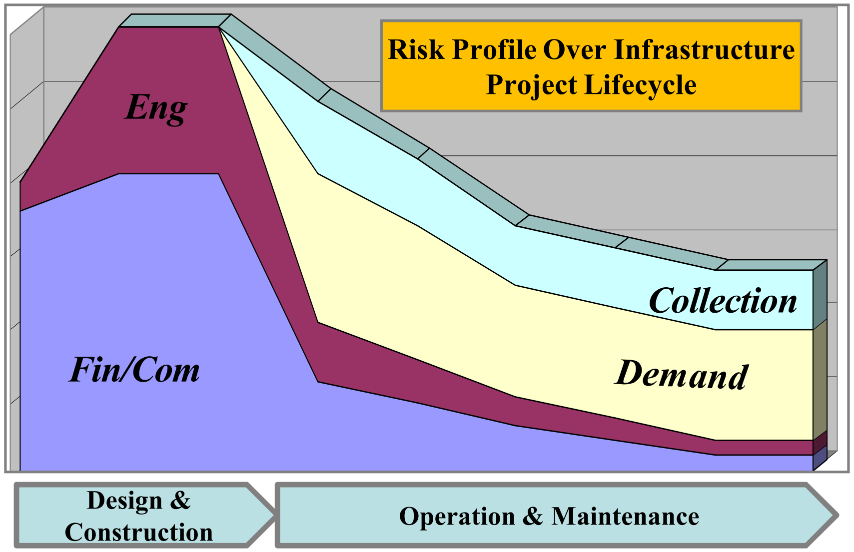

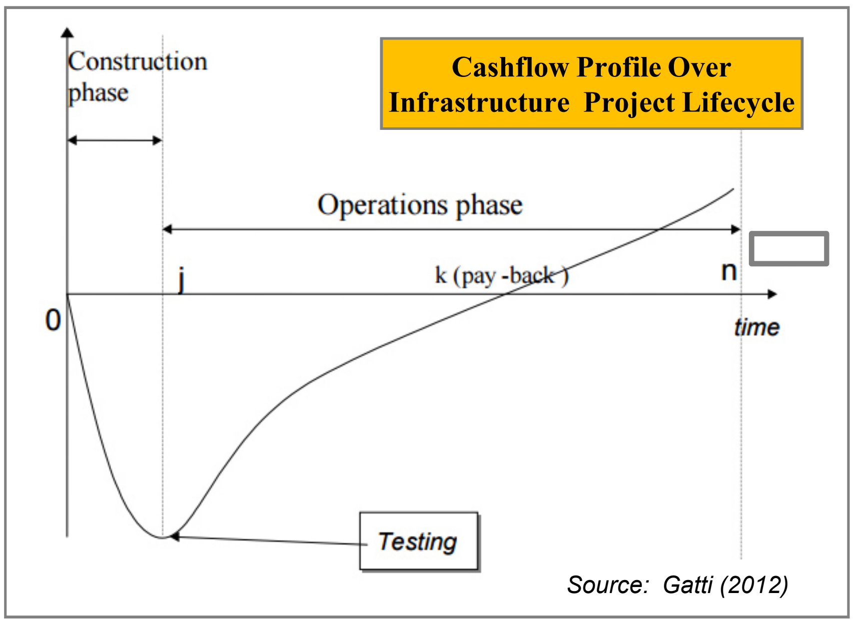

- There is an inverse relationship between the risk and cashflow profiles on an infrastructure project
- The highest risk phase is during construction
  - No revenues; delays and disputes can be costly
  - Inadequate financing can result in a moribund project
- It can take 7-10 years or even longer for project payback to be achieved
  - Any actions that strain, interrupt, or delay cashflows will likely be problematic
- Not every project is commercially viable without some form of support
  - Private investors will be unwilling to take on a project if they foresee viability risks
  - They may want guarantees, e.g, around demand/volume risks, or to protect against public sector counterparty risk

Creating a more conducive environment for PPPs in Nigeria

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1 Global Factors

- Recognize that Nigeria is in competition with other countries for investment
- Deal with the country's high-risk external image
  - Deliver tangible results from the anti-corruption drive
  - Respect sanctity of contracts and investor protections
  - Minimize/eliminate political and government interference in PPP commercial arrangements
  - Urgently reform Nigeria's FX policy – it has slowed down FDI and is placing severe strain on local businesses
  - Ensure peace and security

2 Country Level Factors

- Consistency and clarity of policies
- Strengthen public institutions and allow them to do their work
- Enabling economic environment
  - Lower interest rates and longer debt tenors
  - Currency stability and FX availability
  - Minimize government interventionist measures – *"you can't buck the market"*
- Minimize bureaucracy and red tape – *"block gateways to corruption"*
- Establish transparent and effective legal/regulatory systems
- Publicise PPP opportuities /enable more effective tender processes

3 Project Level Factors

- Carry stakeholders along every step of the way – *"government has a key role to play"*
- Government support may be required to make particular projects bankable
- Public sector counterparties should fulfill their obligations
  - Budget on a long-term basis to match contract terms and ensure prompt payment
  - Understand and respect the PPP agreements – *"get good advice"*
  - Avoid actions that delay or disrupt construction and operations
  - Deal with contractual issues/claims swiftly

Will the Nigeria-China Deal change anything for PPPs in Nigeria ?

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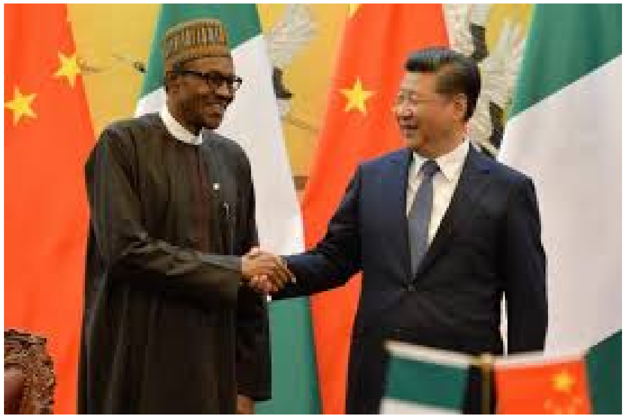

Key Deal Highlights

- *US$6Bn Chinese investment into Nigerian infrastructure*
- *US$15Bn Chinese investment into Nigerian agriculture*
- *A portion of Nigeria's reserves to be held in Chinese Yuan instead of USD*
- *'Currency swap' to facilitate trade between Nigeria and China, e.g., through the issue of Yuan-denominated, rather than USD-denominated, LCs*

Implications

- It's **hard to call right now** as there are still unknowns:
  - **What's the deal?** Has China offered Nigeria loans, or are we dealing with a bilateral trade agreement of some sort?
  - **Who will decide** what projects to invest in, and what procurement model(s) to use? Nigeria or China?
  - Will there be **local content protections and knowledge-transfer provisions** to safeguard Nigerians?
  - **Is it realistic to look mainly to China** (at the expense of our other trading partners) as the answer to our needs?
  - 80% of the US$14.9Bn Nigeria-China trade comprises Chinese exports to Nigeria. 20% are Nigerian exports to China, mainly oil - it's hard to see how this deal will **redress, rather than accelerate, the trade imbalance**
  - Switching our main currency of trade from USD to Yuan may create a **short term 'optical' improvement in the value of the Naira vis-à-vis USD**; however, it's hard to see how that will be sustained in the medium/long term unless Nigeria's balance of trade improves

Thank You

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