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Securing Finance for Infrastructure Development (PUBLIC PRIVATE PARTNERSHIP) Projects IN NIGERIA

Why is financing critical to projects?

Securing financing is a critical aspect of PPP projects because of the considerable capital required for projects. For example, the reconstruction of Lekki-Epe expressway undertaken by a PPP arrangement between Lekki Concession Company and the Lagos State Government costs an estimated N43.6 Billion.

What makes PPP Projects attractive to financiers?

Private sector investors in PPP projects are generally motivated by financial gain. With its population of about 140 million people and a considerable infrastructure deficit across core sectors such as transportation and power, Nigeria should be a destination of choice for financiers. Other factors include:-

- A potentially large and lucrative market for infrastructure finance from a vibrant population yearning to leverage on better infrastructure. The growth of the mobile phone users in Nigeria is a good example – growing from 266,461 to 46million people between year 2001 and 2007.

- Investors can choose from a considerable number of projects with varying risks. Projects range from large core infrastructure projects such as airports, highway construction, operation and maintenance to small-sized projects such as local water sanitation projects.

- International investors see the growing infrastructure needs in Nigeria as a unique opportunity to invest long term capital.

- One effect of the recent events in the Banking sector is that Banks are choosing to finance stable long-term projects, having suffered great losses on short-term high risk/high return transactions. A number of financial institutions have expressed real interest in financing infrastructure development projects.

Why is there a funding gap?

Despite the potential benefits, there is insufficient funding for PPP projects in Nigeria. This funding gap could be attributed to the following factors:-

- *Preference for 'Quick Win' Sectors*. Most private sector investments in African infrastructure have been in quick return sectors such as telecoms. Telecoms projects have a quicker gestation period whilst investment in concessions will be recouped over a much longer period ranging from 25 – 30 years.

- *Relatively High Cost of Projects*. Due to economic and political factors, the cost of undertaking PPP projects in Nigeria is relatively higher compared to costs of similar projects in other countries. Thus the opportunity cost of financing infrastructure development projects in Nigeria is relatively high.

- *Inadequate Legal and Regulatory Framework*. The Federal government and a number of state governments have made significant strides to create a suitable legal and regulatory framework that will encourage private sector participation in infrastructure development projects. However, this framework is yet to be fully established and tested, which may create apprehension and reluctance in the private sector.

- *Few Bankable Projects*. The project preparation process is not yet sophisticated enough to address bankability issues from the onset. Challenges in the project preparation stage include securing funding for costly feasibility tests and limited project precedents due to the short history of PPP projects in Nigeria.

What can be done to increase investor participation in PPP projects?

The government as well as the private sector proponent can take certain steps to enable a greater number of infrastructure development projects attract adequate financing:-

- *Proper Project Appraisal*. In deciding which infrastructure development projects to undertake, emphasis should be laid on indentified public needs which can only be met by direct public private partnership intervention. These are the types of projects that will provide the requisite cash-flows from which private sector investment will be recouped.

- *Government Intervention*. Government can provide support in a number of ways including giving guarantees on the continuity of the project, which acts as an assurance to investors. Some state Governments in Nigeria such as Lagos State, Imo State and Delta State have also adopted this approach, raising state bonds for infrastructure development.

- *The Viability Gap Fund.* Government can provide active financial support through schemes such as the Viability Gap Fund. The Viability Gap Fund is a sovereign grant to close the commercial gap on a PPP infrastructure development project. This is necessary where the cost of infrastructure financing is so high that the revenue stream therefrom may be insufficient to yield sufficient returns.

- *Excellent Legal Framework*. he Government must establish and implement a coherent and comprehensive framework for such projects at both the State and Federal level covering recurring issues including risk allocation and mitigation strategies and government support and guarantees.

Conclusion

Despite the global financial market meltdown, the World Bank reports that the principal problem in Nigeria is not a shortage of capital but a shortage of bankable projects with a world class legal and financial framework. Therefore, the combination of the right project with requisite government support and a growing appreciation of the benefits of financing such projects should mark an increase in infrastructure development funding in Nigeria.

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Published
08:58:20 01.11.2009