NIAF NIGERIA INFRASTRUCTURE ADVISORY FACILITY

Overview of DfID Nigeria's support through The Nigerian Infrastructure Advisory Facility- NIAF II & PPP Lessons Learned

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NIAF – The program

- The **Nigeria Infrastructure Advisory Facility (NIAF)** is a DFID funded project designed to tackle bottlenecks in the infrastructure development needed to spur non-oil growth in Nigeria.
- NIAF operates successfully in six main sectors in Nigeria: **Power, Capital Projects, Roads, Northern Growth, Effective Cities and Climate Change.**
- It provides **high-quality local and international technical assistance** directly to the Federal Government of Nigeria, Ministries, Departments and Agencies and some Northern States in support of their infrastructure related goals.

The NIAF model

- Key features
  - Flexible and responsive
  - Strong emphasis on building client relationships
  - Willing to walk away from ineffective clients
  - Bottom-up ‘ownership’
  - Progressively strategic TA

The NIAF Sectors

NIAF Sectors

1. Power
2. Roads
3. Capital Projects
4. Northern Growth
5. Climate Change
6. Effective Cities

Cross Cutting Themes

- Value for Money
- Northern
- Pro-poor
- Gender
- Climate change
- Conflict

NIAF's Capital Projects Engagement

- Clients: Office of the Vice President, ICRC, Federal Ministry of Finance, Ministry of Budget and Planning and the Budget Office, Lagos State Office of Public & Private Partnership (LOPPPs), KADIPA

- Scope of Activities:
  - New FGN project appraisal and training manual. Standard templates to codify implementation. Training of trainers: BoF & FmoF
  - Project reviews: > $1 billion cost savings.
  - Re-launch of PPPs: New standardized FGN procedures and some states plus FMF coordination and capacity building
  - 'Flagship' PPPs: Second Niger Bridge, Lagos IPPs, Lekki Expressway, Ferries, Lagos-Ibadan
  - Asset database system to improve economic planning and decision-making on infrastructure investments

Examples Of Some PPP Projects I Have Been Involved With

Some which have closed

- M1 Toll Road (Cross country – Ireland & Northern Ireland UK)
- Airport Financing (Ireland)
- Divestiture and –refinancing of Bord Gais (Irish Gas company)
- Public Transport/LUAS (Irish Tram)
- Lekki Ikoyi Link Bridge (Nigeria)

Other PPP related activities and projects NIAF has been involved in:

- Lekki – Concession Company set-up (Nigeria)
- Lagos office of PPP set up and transaction support (Nigeria)
- Support to ICRC on PPP documentation
- Set up of the PPP desk in KADIPA (organizational structure)
- Capacity building exercises at Federal and State level (Lagos & Kaduna)
- Several EOIs & RFP preparations
- Completion of the PPP Manual (LOPPP)
- Gurara 2

Some which have not closed

- 2nd Niger Bridge (Nigeria)

PPPs Are Complicated

- Well-structured projects need time, capacity, skills, both in Ministries and private sector

Major Problems Arise Around:

- Governments "letting go" of the asset
- MDAs not understanding the PPP process
- Private sector reluctance to assume risks they cannot control.
- *"Central to the issue of PPPs is the issue of risk transfer."*
- *PPPs aim to optimise (but not necessarily maximise) the level of risk transfer and allocate it to the parties that are best equipped to handle it. Transferring risks to the private sector over a long period of time expedites project execution and encourages the whole-life costing approach, potentially increasing value for money.*

The Environment

- Political instability (federal and state). Short election cycles vs long term projects
- Insufficient political will and protracted process for obtaining relevant govt. guarantee.
  - Govt. is not homogenous. Reformers vs non-reformers.
  - Half the reforms do NOT yield half the benefits. Loss of political stamina.
- Cost reflective and indexed tariffs
- Need stable policy/regulatory rules and credible legal recourse to enforce agreements.
- Need a relatively stable macroeconomic environment: currency, interest rates, etc
- Importance of successful local/regional examples to build confidence
- Importance of learning from experience, so mistakes are not repeated

Execution

- Temptation for Governments to short cut / interfere in the concession awards process, AND for donors to insist on overelaborate time consuming procurement processes
- Credible Off-Taker with systems, management and track-record of good collections & payment. If off-taker not credible, need sovereign guarantee for overall project risk, payment guarantee & credit enhancements to secure payments
- Governments / Regulators with Capacity to Effectively & Efficiently Negotiate Key Project Agreements
- Weak or inexperienced sponsors (“haven’t done it before”)
- Reluctance to pay for professional advisors
- Few local project developers
- Lack of structuring capacity
- Over-elaborate legal and finance documents for the relatively simple underlying projects
- Government interference (or fear of)

Capital

- Lack of early stage risk capital to develop projects to bankability
- Lack of Long term finance and equity to enable sustainable project structure
- Lack of attractively priced local currency (and increasingly FX)

- **Sources of finance**

- Local/International banks/FIs
- PE Funds
- DFIs

- **Potential**
- Pension Funds
- Capital Markets
- Insurance companies
- Returning capital

Some Main Challenges

- Inconsistent political support (disagreements between Ministry, MOF Technical Units)
- Unclear rules on award process and rights of Concessionaire (govt interference/sabotage)
- Disagreements over procurement process
- A discredited aspect of a process is used by opponents to discredit whole PPP process
- Lack of track record of successful projects (perfection is the enemy of the good)
- Inadequate Advisors (or Advisors prevented from fulfilling their mandate)
- Constant movement of staff across ministries

Some Lessons

- Agreed role of federal and local governments UPFRONT
- Assign accountable individuals in relevant Ministry for projects success
- Commercial tariffs
- Stable macroeconomic environment (inflation, currency, interest rates, etc)
- Clear PPP framework, necessary but not sufficient
- Strong deep-pocketed sponsor able to carry the project through the inevitable delays
- Selective and careful use of Guarantees and credit enhancement instruments
- No sweetheart deals (they will be challenged later)
- Appropriate capital structure which allows for the inevitable delays which will occur
- Be ambitious, but AVOID trying to do too much too quickly. Selectivity is critical

Questions?