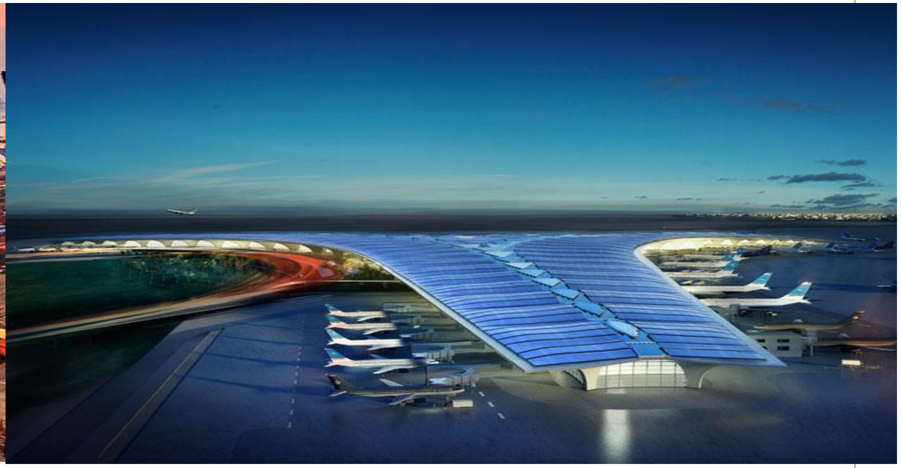
Public Private Partnership:

The Most Reliable Funding Option to Fast Track Development in the 21st Century



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INFRASTRUCTURE CONCESSION REGULATORY COMMISSION

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Outline

- Niger Delta Economic Outlook
- The Infrastructure Investment Gap
- Financing Infrastructure Gap
- Source of Funding Infrastructure Gap
- Public Private Partnerships
- Types of PPP Models
- Components of PPPs in Infrastructure
- Opportunities / Prospects in Infrastructure Sectors
- Lessons Learned / Conclusion

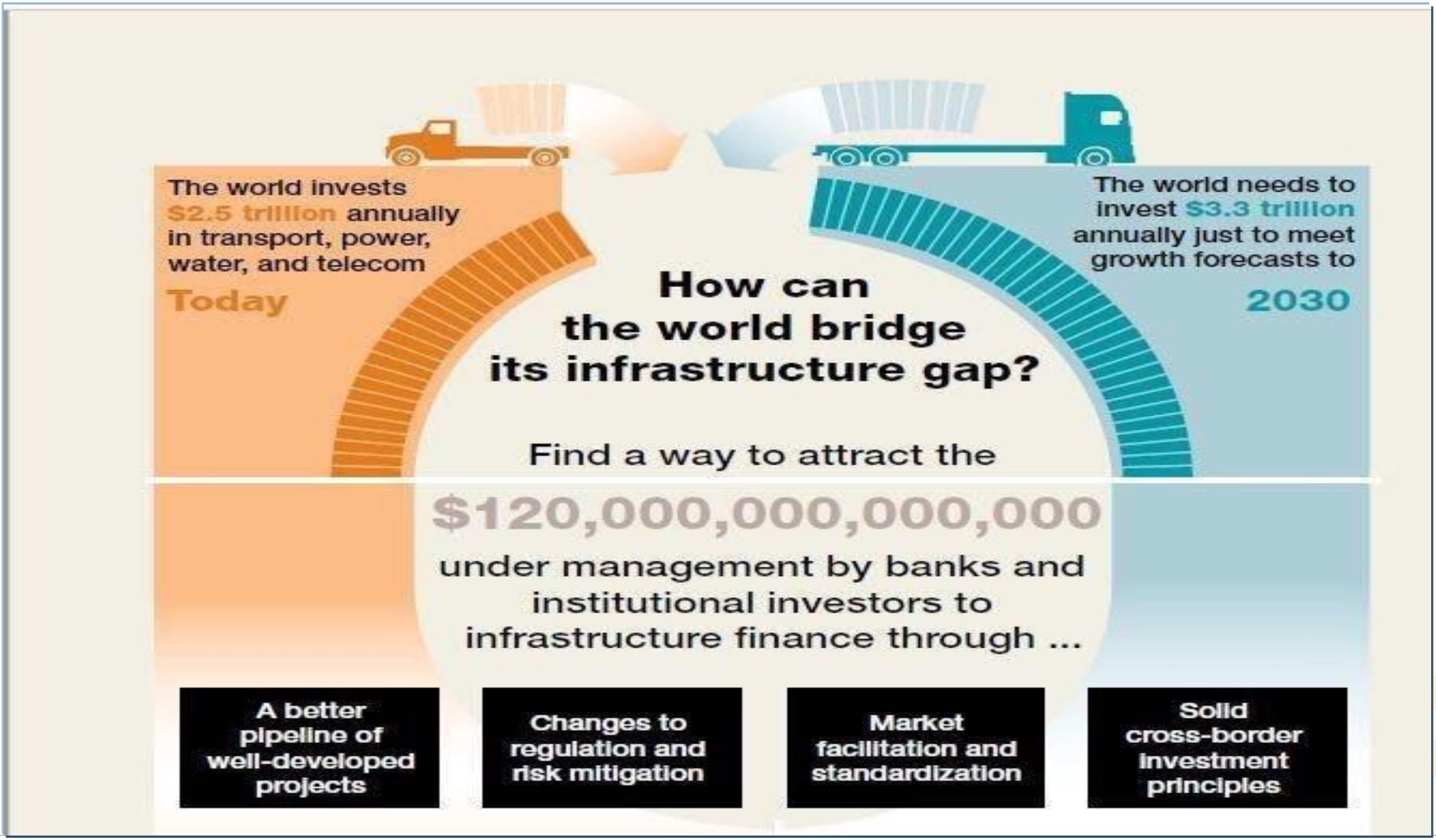
NIGER DELTA ECONOMIC OUTLOOK

- The Niger Delta economic outlook is influenced by a multitude of factors, including environmental degradation, unemployment, trade dynamics, and security concerns. Addressing these challenges will be crucial for promoting economic prosperity, providing employment opportunities and fostering sustainable development in the region.

- In today's rapidly evolving world, the demand for infrastructure development, social services, and economic growth is enormous. At the same time, the Federal Government is faced with budget constraints and increasing public expectations.

- In light of these challenges, Public-Private Partnerships (PPPs) have emerged as a crucial and reliable funding option to fast track development and unlock infrastructure gains for National and Sub-national Governments globally.

ATTRACTING INVESTMENTS



ATTRACTING INVESTMENTS

- According to the National Integrated Infrastructure Master Plan (NIIMP) approved in 2015, Nigeria requires a total investment of US$3 trillion over the next 30 years to build and maintain infrastructure across the country.
- This stands at US$100 billion (N38 trillion) annually, which is almost three times larger than the combined overall budget expenditure of both the federal and state governments.
- With such a huge deficit, it is no doubt that Nigeria needs alternative and innovative methods of financing infrastructure development.
- **Public-Private Partnerships (PPPs)** are one of such models, which have been explored by many countries across the world.

THE INFRASTRUCTURE INVESTMENT GAP

Energy

- **$1trillion i.e. 33% of total**
- **Increase generation and transmission capacity**
- **Construct gas infrastructure**
- **Increase refining capacity**

ICT

- **$325billion** i.e. 11% of total
- Expand mobile network capacity and coverage area
- Expand broadband fibre optic network capacity &coverage

Transport

- **$775billion** i.e. 254% of total
- Rehabilitate & expand national and regional road networks
- Rehabilitate rail links, upgrade main airports and develop inland waterways

Housing and Regional Dev.

- **$350billion** i.e. 11% of total
- Increase the number of housing units to close current deficit (16 million units deficit)
- Develop urban infrastructure

Agriculture, Water and Mining

- **$400billion** i.e. 13% of total
- Develop water supply and irrigation networks
- Develop crop processing zones
- Build basic mining infrastructure

Social infrastructure

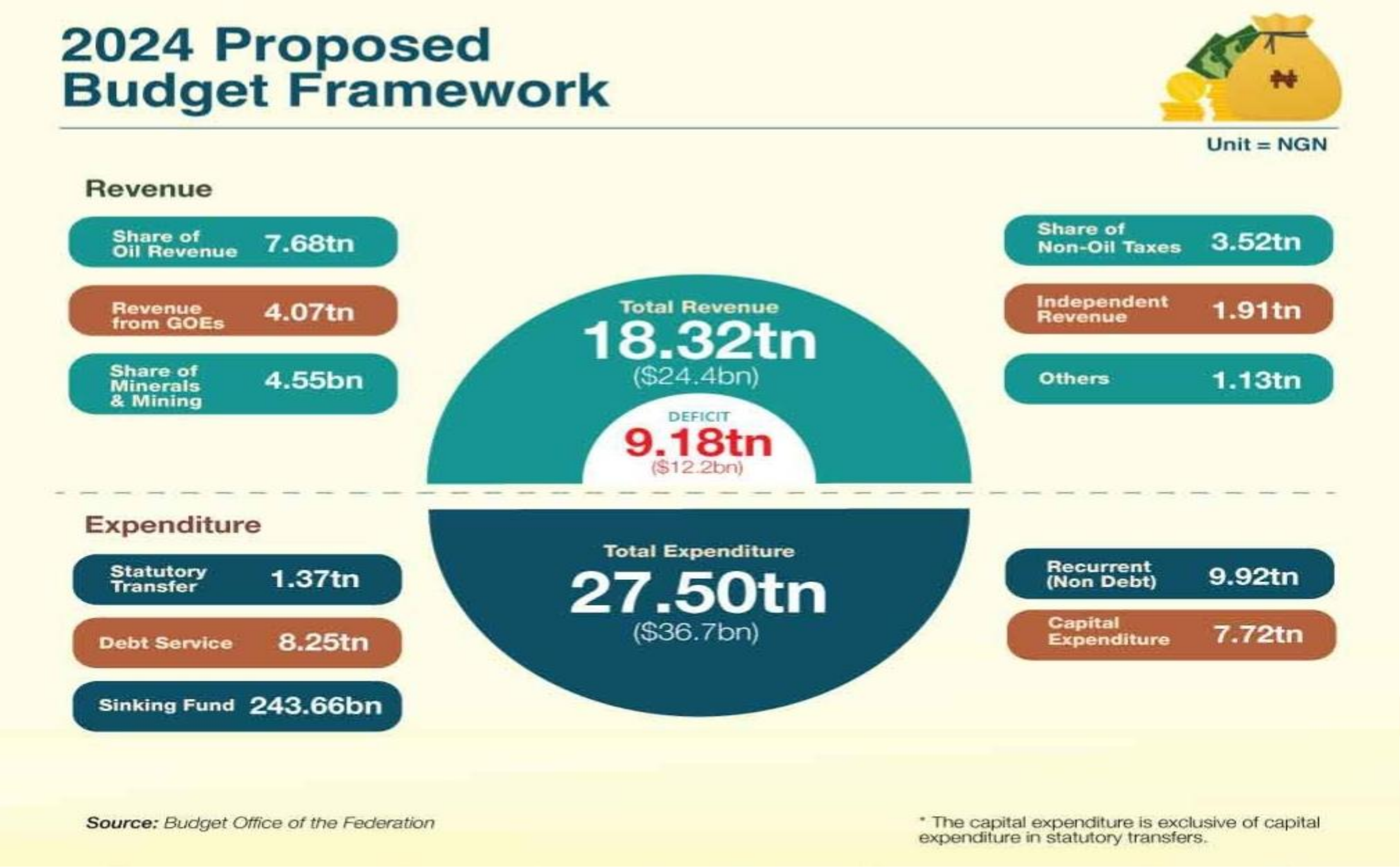
- **$150billion** i.e. 5% of total
- Construction of facilities for education, hospitals, women and youth development and sports centres

Source: National Integrated Infrastructure Master Plan

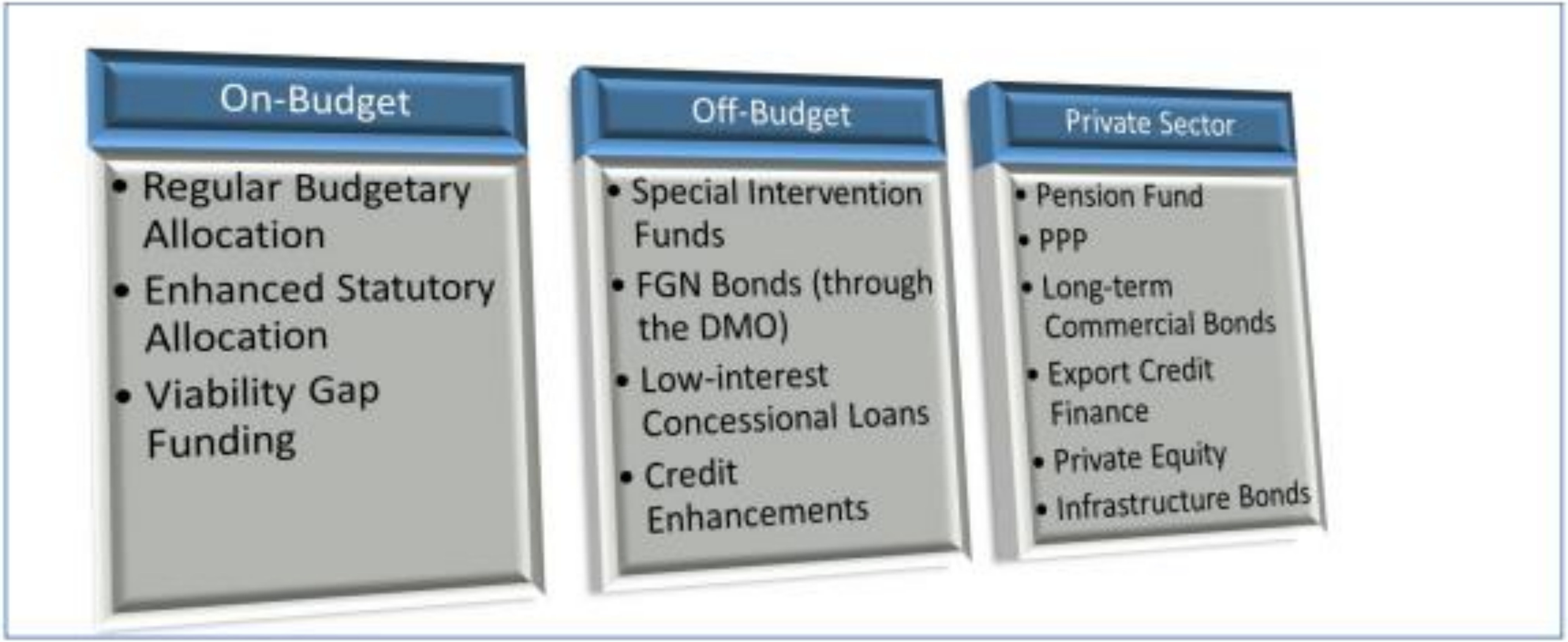
FINANCING INFRASTRUCTURE GAP

- Nigeria requires a huge outlay of resources to close current infrastructure gaps and boost its economic performance.
- A total expenditure of **27.5 trillion Naira** is proposed for the Federal Government in 2024. This includes 2.42 trillion Naira spending by Government Owned Enterprises.
- Government will develop projects that are good candidates for Public Private Partnership (PPP) by their nature for private sector participation.
- The ICRC (Est. 2005) Act enables the pursuit of critical infrastructural development in Nigeria through the use of alternative sources of funding, by attracting private investment capital into infrastructure development.
- This allows the Private Sector to effectively partner with the Public sector in the provision of critical infrastructure, which the government was unable to provide due to pressure on scarce revenue, through a clear framework which provides regulatory guidance.

FISCAL BUDGETARY OUTLOOK



SOURCES OF FUNDING INFRASTRUCTURE GAP



ADDITIONAL SOURCES OF FUNDING

Infrastructural projects are by nature long term, ranging between 15-25 years. One of the main problems affecting infrastructural developments is the non availability of long term financing for these very critical sectors.

- Nigerian Sovereign Investment Authority Act Bill
- Financial Intermediary Loan (FIL)
- Nigerian Pension Fund (Modality being developed)
- International Funds, Donor Agencies
- Islamic Finance

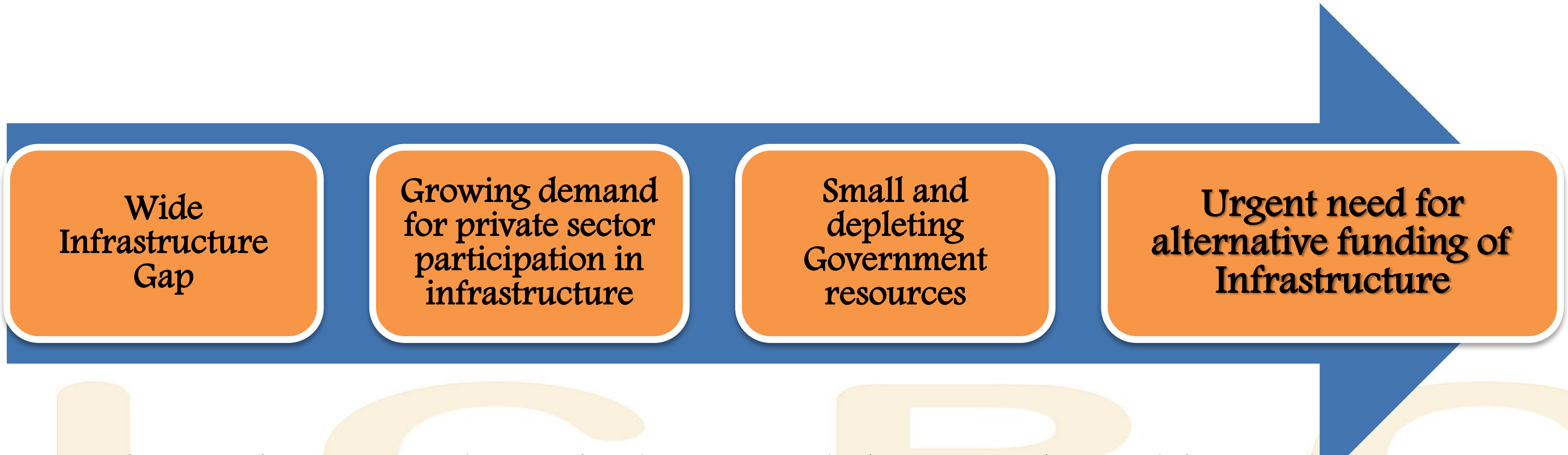
PPPs AND PRIVATE INVESTMENTS

- Capital investments in infrastructure have been widely recognized as a veritable route for engendering sustainable economic development and inclusive growth.
- With fiscal and budgetary funding constraints plaguing governments at all levels, the cold reality is that private participation in infrastructure is an economic necessity, rather than an optional financing solution.
- Our dependence on the mono-economic model is an unsustainable path for financing capital intensive projects like infrastructure.
- With a current Infrastructure deficit of $3.2 trillion, Public Private Partnerships remain the most viable alternative to traditional procurement for Infrastructure development and delivery in Nigeria, and the easiest way to bridge the gap in infrastructure funding.

Public Private Partnership Model

DEFINITION OF PPP

A Public-Private Partnership is a <u>contractual agreement</u> between a <u>public agency</u> (federal, state or local) and a <u>private sector entity</u>. Through this agreement, the <u>skills and assets</u> of each sector (public and private) <u>are shared</u> in delivering a service or facility for the use of the general public. In addition to the sharing of resources, <u>each party shares in the risks and rewards</u> potential in the delivery of the service and/or facility (Nat. Council on PPP USA)



The goal is to combine the best capabilities of the public and private sectors for mutual benefit

KEY BENEFITS OF PPPS

- Rigorous project preparation – since the focus shifts to developing bankable projects
- Delivery of a whole life solution – going beyond asset creation and including Operation and Maintenance (O&M)
- Focus shifts to service delivery – construction responsibility is integrated with O&M obligations and together with appropriate quality monitoring and service delivery-linked payments such an arrangement could enhance the levels of service delivery
- It is possible to adopt a programmatic approach to infrastructure development and service delivery – various time bound projects can be integrated under a programme and have a time-bound implementation plan
- Can lead to better overall management of public services – transparency in selection and ongoing implementation

TYPES OF PPP MODELS

- **BOT (Build, Operate and Transfer)** – This is used for contracts where the capital investment is associated with the building of a new infrastructure asset, operating and maintain for a defined period and then handing back to the Public Authority.

- **BOOT (Build, Own, Operate and Transfer)** – Generally the private partner is regarded as the owner only in “economic terms”, but the asset remains in legal terms under the ownership of the government.

- **ROT (Rehabilitate, Operate and Transfer)** – This is used for contracts where the capital investment is associated with the rehabilitation or upgrading of the infrastructure asset.

- **DBFOM (Design, Build, Finance, Operate and Maintain)** – The principle of this model allows the Private Partner to propose the design, finance the project, build-operate-maintain through the stipulated tenure of implementation. Some variations include:

  DBFM (Design, Build, Finance and Maintain)

  DBFO (Design, Build Finance and Operate)

TYPES OF PPP MODELS – 2

- **O&M (Operate and Maintain)** – An O&M contract is a contract in which the scope or functions include operations and maintenance, but not capital investment. It is regarded as a PPP when the contract is clearly long-term and life-cycle cost management is transferred to the private partner to some extent.

- **Joint Venture (JV)** – A JV is a structure where the contracted party is a company owned by public and private shareholders. The public investor may be an existing SOE that wants to partner with a private economic operator to jointly develop and operate a new or existing project.

- **Leases** – As with concessions, leases refer to the legal institution that allows the government to grant economic rights over the infrastructure or the economic ownership of the asset. Leases will be more commonly seen with O&M contract types on the basis of existing infrastructure (that is, with no material capital needs) and more normally applied to user-pays PPPs.

TYPES OF PPP MODELS – 3

- **Management Contract** – This is an alternative name used for many O&M contracts where the core or the only object/function transferred to the private sector is the long-term maintenance of equipment or infrastructure assets. In other cases, it may refer to a "service only" contract with no implications for infrastructure management (life-cycle costs), especially in water.

- **Service Contract** – This is a model which refers to a transfer of the operation of a public service in the strict legal sense (for example, a service related to water or transport of passengers, rather than maintaining or operating a road).

CRITICAL SUCCESS FACTORS FOR PPPS

ACCESS TO CAPITAL

Availability of long tenor private capital

INSTITUTIONAL FRAMEWORK
Public sector competence and expertise to ensure efficient and effective detailed preparation of projects and faithful implementation of transact ions

SUCCESSFUL PPPs

POLITICAL WILL AND TRANSPARENT POLICY

A PPP 'Champ' with the transperency Track record and power to make it happen cleanly

LEGISLATION

To enable private sector participation in an efficient and effective manner

COMPONENTS OF PPPS IN INFRASTRUCTURE DELIVERY

This typically include various elements that govern the partnership between the public and private entities. Some key components of PPPs in infrastructure financing:

- **Legal and Regulatory Framework:**

Establishing a clear legal and regulatory framework is essential for PPPs. This includes defining the rights, responsibilities, and obligations of both public and private parties. Legislation and regulations may address issues such as procurement, dispute resolution, and risk allocation.

- **Risk Allocation:**

One of the key features of PPPs is the allocation of risks between the public and private sectors. Risks related to construction, operation, revenue, and force majeure events are identified and allocated to the party best equipped to manage and mitigate them.

COMPONENTS OF PPPS IN INFRASTRUCTURE DELIVERY ~ 2

- **Financing and Funding Mechanisms:**

PPPs involve structuring financing arrangements to fund the infrastructure project. This may include a mix of equity, loans, and other financial instruments. The private sector partner often contributes capital, and debt financing may be secured from banks, capital markets, or other sources.

- **Revenue Generation:**

PPPs aim to make infrastructure projects financially sustainable. Revenue streams may include user fees, tolls, availability payments from the government, or a combination of these. The private sector partner may be responsible for collecting and managing revenues.

- **Life Cycle Considerations:**

PPPs often take a life cycle approach, considering the entire project life, including design, construction, operation, and maintenance. Contracts may outline maintenance standards and procedures to ensure the ongoing functionality of the infrastructure.

COMPONENTS OF PPPS IN INFRASTRUCTURE DELIVERY ~ 3

- **Performance Standards and Monitoring:**

PPP contracts establish performance standards that the private sector partner must meet. Monitoring mechanisms are put in place to track the performance of the project, ensuring that it meets agreed-upon service levels and quality standards.

- **Public Participation and Stakeholder Engagement:**

PPPs often involve public participation and stakeholder engagement to ensure transparency and address community concerns. In some cases, the public sector may retain ownership of the asset, and the private sector partner is responsible for its operation and maintenance.

- **Dispute Resolution Mechanisms:**

PPP contracts typically include mechanisms for resolving disputes between the public and private sectors. These mechanisms may involve negotiation, mediation, arbitration, or other methods agreed upon in the contract.

OPPORTUNITIES/ PROSPECTS IN INFRASTRUCTURE SECTORS

- A concession is a contractual arrangement where a government or public authority grants a private entity the right to operate, maintain, finance and develop infrastructure assets.

- Concessions have been used as a form of intervention in various infrastructure sectors globally. Some infrastructure sectors where concessions have been commonly used as a form of intervention include:

1. Energy
2. Transportation
3. Water and Sanitation
4. Telecommunications
5. Education
6. Real Estate and Urban Development
7. Tourism and Leisure
8. Mining and Natural Resources
9. Public Facilities
10. Healthcare

PPP PROSPECTS – ROAD NETWORKS

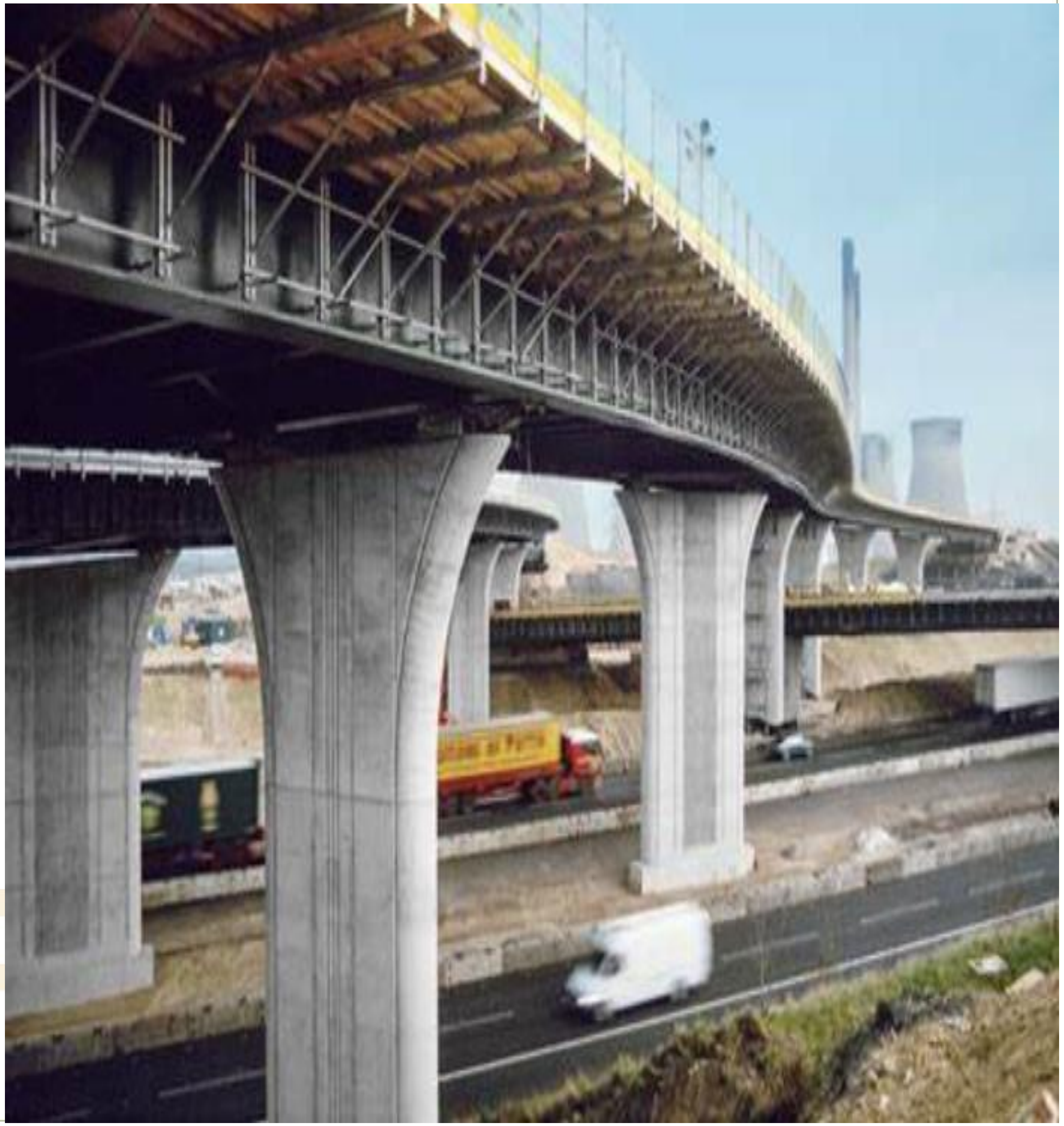
- Road network projects represent an expansionary economic approach geared towards city-wide accessibility, trade facilitation and business enablement.

- **Roads as Market Enablers**

  Roads are essential to any type of socio-economic and socio-agricultural development. Roads connect destinations and boost trade facilitation.

- **Tolling mechanisms**

  Using structured toll mechanisms where viable, the Federal and State Governments can stake their interests into ensuring access to a more economically vibrant state with thriving business and opportunities.



PPP PROSPECTS – ROAD NETWORKS HDMI CASE

- The *Highway Development and Management Initiative* (HDMI) is an initiative set up to ease the financial burden of road construction projects on the Federal Government. The programme is designed in a manner that the Concessionaires can recoup their investments through toll and non-toll revenues, as applicable.

- The initiative is made up of nine (9) road corridor networks spanning approx. 1,374km over a 25-year operational tenure. Collectively the projects are estimated to generate NGN11.54Trn over the concession period.

- The scale of the project promises job creation, improved quality of roads and better overall maintenance to mitigate deterioration.

Emergent Concessionaires will recoup their investment through the use of road tolls and other land value-capture infrastructure such as but not limited to rest areas, advertisements and vehicle towing services.

PPP PROSPECTS – ROAD NETWORKS HDMI CASE

List of Concessioned HMDI Routes

SN	ROAD CORRIDOR		CONCESSIONAIRE
1	125Km	Benin – Asaba Road	Africa Plus Consortium
2	195Km	Abuja – Lokoja Road	Avia Infrastructure Services Ltd
3	161.2Km	Onitsha – Owerri – Aba Route	Eyimba Economic City Consortium
4	258Km	Shagamu – Benin Road	AFC/Mota Engil Consortium
5	175.9Km	Abuja – Keffi – Akwanga Route	China Harbour Engineering Co. Ltd
6	100Km	Kano – Shuari Road	Dafac Consortium
7	200Km	Enugu – Port harcourt Road	Eyimba Economic City Consortium
8	80Km	Lagos – Ota – Abeokuta Road	Africa Plus Consortium
9	79Km	Lagos – Badagry – Seme Border	AFC/Mota Engil Consortium

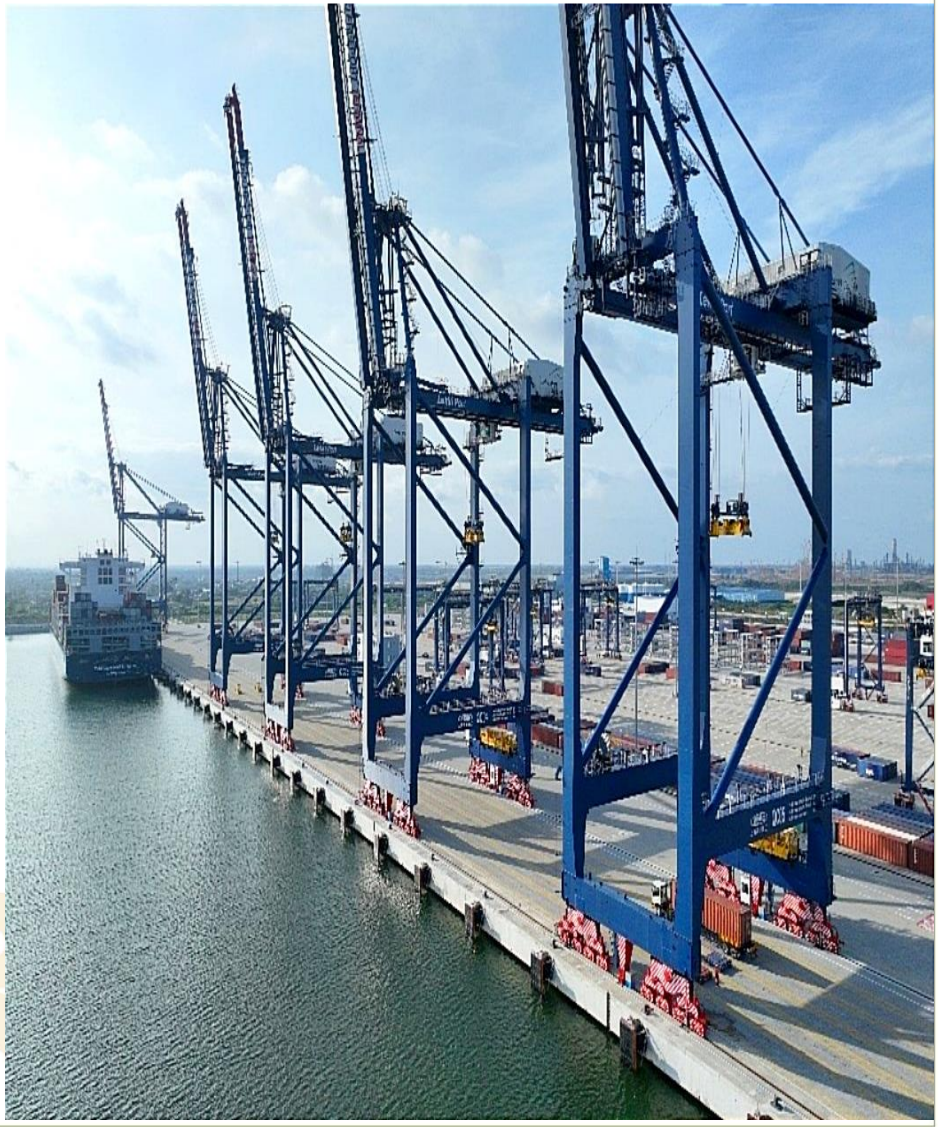
PPP PROSPECTS – LEKKI DEEP SEAPORT CASE

- **Location:** Lagos Free Zone 65Km East of Lagos
- **PPP Mode:** Build, Own, Operate Transfer (BOOT) by NPA
- **Land Area:** 90 Hectares
- **Concession Scope:** 3 Container, 3 Liquid and 1 Dry Bulk Berth
- **Concession Period:** 45 years
- **Concessionaire:** Lekki Port LFTZ Enterprise Ltd (LPLEL)
- **Project Cost:** US$ 2.33 Billion (Fixed assets + Construction)

- **Port Operations**

The Lekki Deep Seaport commenced operations on April 1st 2023 as the deepest multi-purpose port in West Africa with a draught of 16.5 metres depth and Quay Wall of 1,523 metres length.

The Port has recorded over 71 vessel berths to date.



PPP PROSPECTS – LEKKI DEEP SEAPORT CASE

The Transformation

Original Lekki Site

Lekki Deep Sea Port

PPP PROSPECTS – HEALTHCARE SYSTEMS

- Healthcare partnerships improve access to health services by increasing the quality and availability of utilities and specialized medical facilities.

- **Medical Equipment (SOM)**

  Supply, Operate and Maintain models have continued to be a hallmark feature of healthcare partnerships enabling the effective utilization and workability of medical equipment over a longer course of time.

- **Public Hospital Development**

  Extending health and medical diagnostics and treatment services for easy and affordable access to communities can greatly enhance the health outcomes of the population.

PPP PROSPECTS – GARKI HOSPITAL CASE

- **Garki Hospital, Abuja** was concessioned to *Nisa Premier Hospital Ltd* on 24th March 2007 for a duration of 15-years.

- **Hospital Management Scope**

  The hospital management set out to:

  i) Provide accessible affordable quality healthcare

  ii) Invest in world class medical equipment

  iii) Provide training

  iv) Provide for indigent patients

  v) Pay concession fee and share of profits.

- **Services rendered**

  a) Subsidized in Vitro Fertilization (IVF)

  b) Genetic Diagnosis

  c) Subsidized Renal Dialysis

  d) Open Heart Surgeries

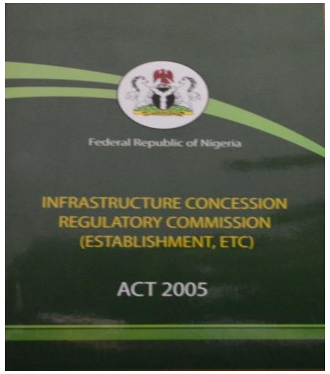
  e) Subsidized Kidney Transplants

  f) Endoscopic & Minimal Access Procedures

  g) Subsidized MRI and CT diagnosis

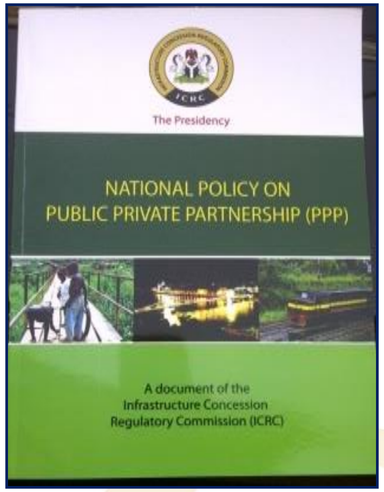
PPP FRAMEWORK NIGERIA

- Common Law Jurisdiction – Framework Precedes the ICRC Act



- The Infrastructure Concession Regulatory Commission Act (Establishment Etc,) Act 2005.

- National Policy on PPP (N4P)



- Regulations, Guidelines and Circulars.

ADVANTAGES OF PPPs

- Maximizes the use of each sector's strength
- Reduces development risk
- Reduces public capital investment
- Mobilizes excess or underutilized assets
- Improves efficiencies/quicker completion
- Improves service to the community
- Improves cost effectiveness
- Shares resources
- Shares/allocates risks
- Mutual rewards

CHALLENGES

❑ FUNDING

- Adequate funding by Government; required to carry out pre-contract & post-contract activities

❑ GOVERNMENT COMMITMENT

- Needs patience & commitment to follow through
- Cooperation and Collaboration between ICRC and MDAs

❑ LEGAL & REGULATORY

- Need harmonized and aligned laws and regulatory framework

❑ INSTITUTIONAL CAPACITY

- Project identification, evaluation, -VfM-risk analysis, financial modeling are key requirements for PPPs

❑ FINANCE

- Nigerian Financial Systems – majority short term based balance sheets so lacks long term funds
- Bond market still evolving but dominated by Govt. Bonds
- Project structuring & financing skills not adequate

❑ INTEGRATED PLANNING

- Planning data/statistics still weak (NIIMP to the rescue we believe)
- Capacity/Skills & commitment to Planning
- Tendency to short-circuit procedures

❑ PROJECT DEVELOPMENT AND PROJECT MANAGEMENT

- Lack of funding for project preparation
- Requires paradigm shift in looking at PPP projects as focused on service provision rather than asset development
- Ability to differentiate between PPP and traditional procurement lacking

GENERAL LESSONS LEARNED: PROCUREMENT AND CONTRACTS

- The Ministries Department and Agencies must understand in totality, with clear conditions of the contracts showing what they are committing the government to and having clear responsibilities defined to all parties. This must be actualized to avoid successive governments from finding loopholes and reneging on the terms of the contracts; thereby ensuring the sustainability of contracts
- In-depth due diligence (Legal, Technical, Financial, Environmental and Social) must be captured at the OBC level of all potential PPP projects
- Risks must be thoroughly assessed and shared between parties, with clear Understanding of the responsibilities
- Public partners must understand that PPPs imply a Loss of Management Control to the Private sector
- True Partnership implies equality in the relationship. Governments must appreciate and imbibe the qualities of partnership in a PPP environment
- PPP Procurement can be lengthy and costly. MDAs must appreciate this fact, and exercise Patience and Discipline, to maintain best practices

CONCLUSION

- PPPs offer a dependable and sustainable funding option, increased accountability, accelerated infrastructure provision and faster implementation of projects.
- On account of the huge infrastructure deficit, PPPs provide an opportunity to partner on a win-win basis with the private sector in virtually all economic and social infrastructure spaces.
- Project preparation and development is key to a successful PPP project.
- The use of concessions can vary by country and region, and the specific sectors and projects targeted for concessions depend on the economic, regulatory, and social context.
- Concessions are often employed to attract private investment, leverage expertise, improve efficiency, and accelerate the development of critical infrastructure and services. The success of concessions depends on well-structured agreements, effective risk management, and a regulatory framework that balances the interests of both public and private stakeholders.
- The Ministry of Niger Delta Development should identify and prioritize projects of critical impact and consider making available incentives, such as land use reforms, cost reduction programs, and tax exempt status that will ensure increased participation of private companies in the delivery of sound projects.

"America has good roads not because America is rich, but America is rich because it has good roads".

– John F. Kennedy

35th US President

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