PUBLIC-PRIVATE PARTNERSHIP MODEL FOR INFRASTRUCTURE FINANCING IN NIGERIA:

By

Engr Ademola Isaac Olorunfemi, FNSE
PRESIDENT, NIGERIAN SOCIETY OF ENGINEERS

The stock and quality of a nation’s infrastructure is a key indicator of the nation’s current and potential economic, social and environmental wellbeing and viability. Needed infrastructure investment is comprised of replacement, renewal, expansion of existing infrastructure as well as construction of new infrastructure in response to current and expected growth needs.

As a result of the paucity of funds for new infrastructure development a substantial amount of investment go to the operation and maintenance of existing infrastructure. For new infrastructure, Public-Private Partnerships (PPPs) will gain traction provided the government partners can show private investors both stability and a professional transactional capacity. However, the key to successfully raising enough investment for tomorrow’s essential infrastructure will rest in finding the optimum balance between public and private money.

There is a large and growing gap between the State’s infrastructure needs and its ability to pay for those needs. PPPs could help fill the gap, but steps should be taken to limit the risks that are associated with these relatively new approaches to public procurement.

The three main needs that motivate governments to enter into PPPs for infrastructure are:

- To attract private capital investment (often to either supplement public resources or release them for other public needs);
- To increase efficiency and use available resources more effectively; and
- To reform sectors through a reallocation of roles, incentives, and accountability.

Public-Private Partnerships (PPPs) are based on the idea that the State can maximize the value of the public's assets by taking advantage of the private sector's profit motive and market discipline. The public sector is given a share of the benefits of the free market that come from increased competition, more accurate and sensitive pricing, expanded financing options, and more timely response to customer demand. In return, the private sector is given the opportunity to earn profits that might otherwise be unavailable. A well-designed PPP balances public and private sector capabilities and interests.

Although PPP agreements can cover almost any type of public service or activity, the most popular types of public-private infrastructure partnerships have involved roads, bridges, buildings, water and wastewater facilities. A Public-Private Partnership is not the same as full Privatization. In a PPP, the Public Partner retains a major role in determining the specific purpose and nature of the project, and almost always retains a significant degree of control over the Private Partner’s use of the public asset.

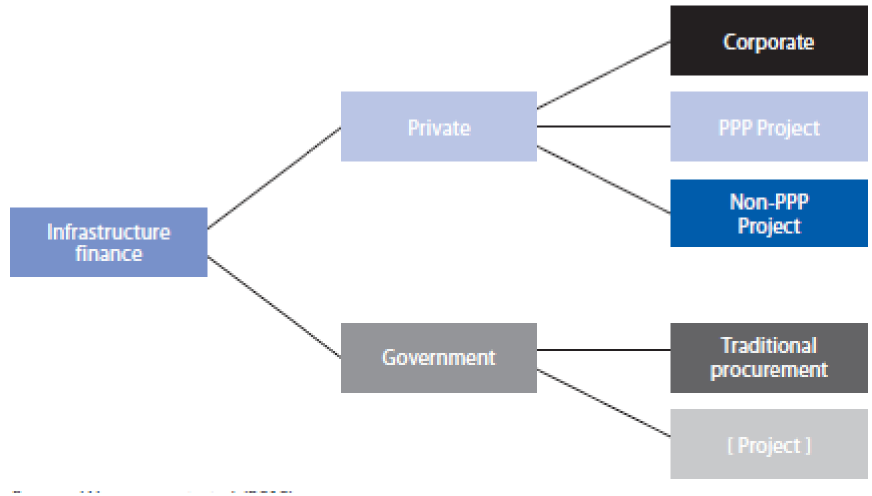

Figure 1: Infrastructure Financing

Project Procurement Options

MORE PUBLIC ⟷ MORE PRIVATE

TYPE OF FACILITY	PUBLIC CONTROL	PRIVATE OPERATIONS & PUBLIC FINANCING	PRIVATE OPERATIONS & PRIVATE FINANCING	PRIVATE CONTROL
New Facilities	**Design-Bid-Build (DBB)** Design Separate from Construction Bid	**Design-Build (DB) Private Sector Designs & Builds Facility in One Bid**	Private Sector Finances, Designs, Builds and/or Operates Facility	Private Sector Controls Entire Process
Existing Facilities	Operated by Public Agency	**Private Sector Bids For Operation & Maintenance Contract**	Private Sector Secures Long-Term Lease	Private Sector Buys Facility from the Public
OWNERSHIP	**PUBLIC**	**PUBLIC**	**PUBLIC**	**PRIVATE**

Figure 2: Project Procurement Options

100% Public Financing

- **Traditional public works development, funding and planning**
- **Traditional public works development, funding and operation, modified to employ design-build contracts for one or more key project elements or segments**
- **Design-Build (DB)contracting for an entire project with public funding and operation.**

Public and Private Financing

- **Design-Build (DB) contracting for an entire project with public operation and *primarily* public funding, but with the contractor providing limited cash-flow financing in the form of development cost advances, interim cash-flow financing and/or subordinated debt.**
- **Design-Build-Operate-Maintain (DBOM) contracting for an entire project with public funding, with the contractor providing long-term operation and maintenance services at predictable costs, and the government sponsor retaining operating revenue risk.**
- **Design-Build-Operate-Maintain (DBOM) contracting with primarily public funding and with the contractor providing limited cash-flow financing in the form of development advances, interim cash-flow financing and/or subordinated debt.**

Private Financing with Government Assistance

- **Design-Build-Operate-Maintain (DBOM) contracting with private financing secured by the government agency's obligation to make scheduled payments under the contract**
- **A private concession to design, build, operate and finance the project, with the design-build-operator receiving an interest in the operating profits of the enterprise, and the government providing limited financial assistance, taking such forms as development period cost-sharing or limited revenue guarantees.**

100% Private Financing with No Government Assistance

- **A private concession to design, build, operate and finance the project with no public subsidy or other government financial commitment.**

There exist several other possible sources such as the Sovereign Wealth Fund and the Pension Funds.

- SOVEREIGN WEALTH FUND
- PENSION FUND

A Sovereign Wealth Fund (SWF) is an investment fund owned by a sovereign state/nation with the mandate to invest in financial assets such as stocks, bonds, precious metals, property and other financial instruments.

Nigeria's SWF is composed of three distinct funds

- The Stabilisation Fund
- The Future Generation and
- The Nigeria Infrastructure funds.

PENSION FUND

The traditional sources of private finance (debt and equity) for infrastructure projects are becoming more constrained in their capacity to provide long-term capital.

Pension funds, with estimated assets of over $26 billion in Nigeria as at 2014, have the potential to be a much greater source of capital for urgently needed massive investments in infrastructure.

PENSION FUND INVESTMENTS IN INFRASTRUCTURE, LESSSONS FROM OTHER COUNTRIES

CANADA: Canadian pension funds are among the most active investors in infrastructure with some investors having portfolio allocation to equity infrastructure of 10% or more.

AUSTRALIA : Australian pension funds are active investors in infrastructure. The first Australian superannuation funds started investing in infrastructure more than ten years ago and have built up since then a significant allocation to the sector (for some above 10% equity investment of their total portfolio).

UNITED STATES: US pension funds have been investing little in infrastructure in the past, acquiring an exposure mainly to the energy sector through a few active funds in the country

EUROPEAN UNION: Despite the maturity of the infrastructure market,, European investors have started building up their allocation to infrastructure, only in the last five years. Allocations to such assets are still limited (e.g., 1 to 3% equity allocation of total portfolio)

BARRIERS TO INVESTING PENSION FUNDS ON INFRASTRUCTURE

- High upfront cost,
- lack of liquidity and
- long asset life involved in infrastructure projects

Infrastructure Ranking Scorecard Roadmap for Nigeria

The scorecard will grade the state of built infrastructure in all sectors and states; and provide policy makers an empirical guide in making choices and investment decisions with respect to infrastructure development. It will also drive the efficient allocation of resources for the renewal and continued development of infrastructure stock.

Conclusions

- **Public-private partnerships for Infrastructural Development have great potential.**

- **Access to private capital can be extremely important to governments, especially when revenues and/or borrowing capacity is constrained.**

- **Policymakers must be vigilant about the trade-offs between public and private financing.**
- **Government should declare a comprehensive National State of Emergency on the state of our infrastructural facilities and back it with the requisite Political Will for the provision of Sustainable Infrastructure**

Thank you