Building a Strong Partnership for Transformative Public
Private Partnerships in Nigeria: A way Forward

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Distinguished guests, ....

Excellencies, Governors, ladies and gentlemen.

I am very delighted to be here today to discuss this topic which is of critical
importance to the future of Africa and Nigeria in particular. I want to thank the
IFC and Solomon Quaynor in particular for organizing this very timely event.

Lagos has had a number of conferences on the subject of Public Private
Partnerships in Nigeria. So the question is why another one? What is different this
time around?
I think today there is a sense of urgency and an even greater understanding of the mutual benefits we can get from pulling our resources together to transform Nigeria. That is why I am here.

I will break my talk into four parts; first, I will like to say something about the global economic environment; second and related I will discuss some of the lessons we have learnt from around the world on PPPs and finally I will like to talk about some of the government’s ideas about how we as Nigerians can work together on a number of PPP projects for the good of all and what projects we have in mind.

I am sure all the Governors are expecting me to come up with a list of projects in their states which the Federal Government will support. Well you know it is budget time and we are working hard ensure that there is budget for investment projects to build (power) and Transform Nigeria and I know we need the private sector and other partners to deliver on the agenda.

Let me say something about the global economy to put this discussion in context. For a while, Africa, it appeared was almost removed from the turmoil that raged over Europe and US. Post the 2008 crisis, Africa’s resilience stunned many. In fact
for the first time in recent history, Africa came out of the crisis much faster than many other regions. Following a drop in GDP growth to 1.9 percent in 2009 Africa bounced back to 5.5 percent in 2010 and is estimated to grow at about 5 percent in 2011. Many regions today are envious of these numbers.

**A prolonged slowdown in Europe will affect our exports.** With the increasingly disturbing news out of Europe we cannot ignore the global consequences of a prolonged slow down in Europe on us. Export numbers from Africa are already slowing down, even if not as fast. The USA and Europe account for over 60 percent of our imports. And slow growth will mean drop in demand for oil and oil prices. Oil as you know accounts for over 70 percent of our budget revenue. So we cannot be complacent about what is going on.

**China may help.** The picture from China is mixed. Growth has slowed somewhat mainly as a result of decreasing exports. But imports continue to increase. China's exports growth slowed to an eight-month low of 15.9% y-o-y in October. But imports have remained strong. And in fact commodity imports have increased in some cases. Growth in crude oil imports increased by 26 percent year on year reversing a decline in earlier months, while growth in imports of copper surged by 40 percent year on year in October. Demand for other commodities such as steel
also rose. The domestic demand driven growth in China may keep the need for raw materials up in China but a sustained slowdown in exports from China would certainly impact Africa over the long run and impact Africa’s exports to China. A strong drop in exports, especially demand for commodities will substantially reduce growth, reduce revenues and tighten the room governments has to increase spending.

**The second and more related issue for us is the financial and credit market.** Asset market sell offs in response to the market uncertainty is already affecting us. A deeper crisis in Europe will be the pace of deleveraging will accelerate. The amount of money and investment into the continent will contract. In large part our growth post recovery has depended on increased private sector investment in Africa. But as the crisis in Europe rages from Greece over to much larger Italy markets are tightening. In Europe the European Central Bank for example has increased the capital ratios of Bank’s, and the cost of credit, interest rates, are rising in many countries. This means the availability of capital for investments would decrease. Thanks to the work done by our governor our Banks today are on much sounder footing that they were in 2008. But we need more and cheaper capital to finance our growth.

**Faced with severe credit crunch we will have to do more with less.** Nigeria’s estimated critical infrastructure investment requirement, in the next four year, is
$67 billion. Our roads need upgrading, our bridges need fixing, we need to fix the energy sector, the ports need upgrading and even in the social sectors our hospitals, schools, and universities all need investments. Even the IT sector needs more investment. We must invest in all these sectors to create jobs and attract even more investment into Nigeria.

The budget alone cannot finance all of this. We must build partnerships. We must forge partnerships with the States, the private sector, the donors and even our citizens.

The private sector appears ready to come to the table in Africa; are we as Government ready. The numbers on private participation in infrastructure in Africa are encouraging. In 2010, 13 infrastructure projects with private participation reached financial or contractual closure in 11 countries in Africa, involving investment commitments of US$1.5 billion. In addition, infrastructure projects implemented in the 1990–2009 period attracted new investment of US$11.1 billion, bringing total investment commitments to infrastructure in the region to US$12.6 billion in 2010. In fact in 2010, investment in new projects increased by 21% compared with 2009 while investment in previously implemented projects declined by 3%. 
The private sector appears increasingly willing to come in on the ground floor. Most of the private investment activity was concentrated on greenfield projects such as Build-Operate-Transfer projects which attracted 79 percent of regional investment and five of the thirteen of new projects in 2010. Nigeria and South Africa accounted for 41% of regional investment in 2010.

Despite the enormous infrastructure investment needs the private sector is very selective in its partnerships and investments.

Telecommunications accounted for 95 percent of the regional investment, representing $12 billion of the total infrastructure investments. • Nigeria and South Africa accounted for 42% of regional investment in telecom and these investments went mainly to mobile operators (64%) and multi-service providers (33%).

Despite the huge needs in the energy sector, PPP investment partnerships in the sector remain low. Only US$370 million of new investments were made in four countries, an 11 percent increase from 2009. With all the continents needs only four countries convinced investors to invest in the sector. I think there is a message here for us. And Nigeria was not among the four countries. In Nigeria according to the latest investment climate survey the cost of and lack of electricity
accounts for over 53.1 percent of costs of doing business. And we still could not attract investment into the sector. We must do something about this in Nigeria.

On the transport front the situation is worse, the number of investments in PPP projects declined by 43 percent. Across the sub-continent only three new projects worth US$250 were concluded.

These numbers are telling us something. There is a strong message to us. First the private sector is willing to enter into partnership with governments on PPP investments, but you go where you can get the highest return and where the regulatory framework is clear. In energy you may be interested in partnerships but are waiting for a better environment, you are testing the environment and in transport roads especially the projects do not appear to be structured in a way that attracts the private sector – right of way and environmental issues probably continue to weigh on investments and like in the energy sector you need a clear cost recovery and tariff regime in place for these projects to be profitable.

So what have learnt from our past experiences and from other countries that can help us accelerate PPPs in Nigeria.
First we need a good policy environment. Some successful examples of countries that have put in place a good PPP framework are the UK and France. Infrastructure UK (IUK) the dedicated agency in charge of working on this has gone a long way in promoting PPPs in the UK by putting in place a consensus and more importantly transparent PPP framework with clear roles and responsibilities for each of the agents and government agencies involved in the process. It is expected that IUK will lead in delivering the government’s US$ 200 billion infrastructure program over the next five years. The IUK is overseen by the Economic Affairs Sub Committee of the Cabinet and its core functions are to provide greater clarity and coordination over the planning, prioritisation and enabling of investment in UK infrastructure; and to improve delivery of UK infrastructure through achieving greater value for money.

IUK is set up as a separate unit within HM Treasury, providing advice to the Commercial Secretary to the Treasury who leads on infrastructure issues and who reports to the Chancellor of the Exchequer. The strength of the IUK is its coordinating and financial supervision role.

The French have also developed a good scheme with a national PPP unit in the ministry of finance that primarily provides advisory and compliance support role to other Ministries or local governments undertaking PPPs. India on the other side has
not established a national PPP unit as most PPPs are undertaken at the states level. The Ministry of Finance focuses on policy issues and creates the incentives for states to increase private investments in infrastructure.

In the developing world, Indonesia has come closest to these models. Indonesia created a PPP coordinating agency to help organize and evaluate PPP projects. This agency is gaining strength but has been undermined by some internal fights between line ministries and the PPP coordinating body and as usual line Ministries find ways to get their projects underway through SOEs under their oversight or inserted into the budget after talking to the president. In Nigeria, we will say that you go to the Villa in the evening to get your projects in.

So what we need is a clear institutional framework for the implementation, management and assessment of PPP projects within government with clear roles and responsibilities for regulation, preparation, assessment, supervision, and finally monitoring and evaluation. I insist on monitoring and evaluation because we all know stories of projects which have been tendered and paid out but no one ever saw the project !!! So for the public sector we need to get our act together and organize ourselves to do PPPs in a transparent, efficient, cost effective and timely manner.
I insist on the issue of timeliness. We cannot and do not have time to waste because the people are waiting to see some results, they want to get more hours of electricity, spend less time commuting and even less time getting their goods out of the ports.

But to create the institutions and make them work we need leadership and transformative leadership at the very top to drive the program forward. I would not say much about this other than to say I believe today in Nigeria we have that leadership. Successful infrastructure projects on the continent in the last decade such as Morupule in Botswana, and the West Africa Power Pool all benefitted from direct and committed leadership from the countries involved. In many cases the need was urgent. No important infrastructure projects on the continent have been successful without the direct involvement of the leaders.

So we have the leadership, we know what the right institutional framework is to get PPP projects off the ground.

Finally we need bankable projects. The private sector is looking for bankable projects. The reason Indonesia is not working as well as it should is because of the failure to get good costed bankable projects to market.
In Senegal, the PPP unit called APIX has for example done an excellent job of developing bankable projects. APIX has built some good capacity to attract FDI and does good job in promoting projects. The new toll road underway in Dakar is a good example of how having a good bankable project with the right policy and pricing environment can attract investors. With Bankable projects that deliver value for money and the data and analysis is clear and public we would have more and more private investors coming to us.

Yes in Nigeria we believe we have all we need and that people should be coming to beg us to invest in Nigeria. I too believe that this is the case but we must be realistic If we do not get the framework for investment right. If we do not organize ourselves to be more efficient, if we are not time conscious, - we know that in Nigeria every project takes at least twice as much time to complete at least because of regulatory failures, because of lack of consensus—and in the end our projects are the most costly. Firms cannot tie up capital in these projects. Investors can take their scarce capital somewhere else. We must compete for this capital. Our Energy sector is an attractive sector if we provide the right framework. But we must do it and I am happy to say we have begun.
This takes me to my last point. What will this government do? What can we commit to? PPPs take a long time to nurture even in the best of times. And the more a project is spread out the more difficult and more complex it becomes. So we are proposing to undertake some more straight forward but very important PPP projects as a way to launch the program under this administration while we work on the more complex ones such as energy.

What does this mean? We would focus on a few airports and bridges and some simple roads at entry.

We have four priority PPP projects on the list.

The Second Niger bridge;
The Lagos-Ibadan Expressway;
The Abuja International Airport; and
Benin – Shagamu Expressway.

Airports and bridges are self contained infrastructures which do not induce complex resettlements, environmental or social issues. This helps to reduce the preparation time. Also and more importantly, an airport usually generates revenues in hard currency therefore reducing the exposure of the granting authorities regarding the need to extend foreign exchange guarantee or any other forms of
state guarantees as the demand for landing and take offs is driven by the economy and well known traffic sharing agreements. This provides certainty to potential bidders as they can infer very precisely the cash flow streams and what to do in terms of management in order to deliver the promised RoR or EoR. In most modern airport up to 30% of the revenues are generated by duty shops and ancillary services provided within the airport compound.

Bridges have similar properties and the pricing and economic rate of returns are straightforward and resettlement issues are much more contained. Bridges can also be an excellent undertaking if all environmental and social studies have been prepared. The transaction for bridge projects can be reasonably closed within 24 months. This is almost impossible to do for a road/highway or a railway. Ports terminal concessions can also be undertaken within a limited amount of time.

**On energy, we now have the power sector roadmap.** We have the leadership from Mr. President who is determined to address this issue. The map has identified a number of clear areas we must work on. We must do better to generate, transmit and distribute stable and reliable electricity. Complete the privatization process for generation and distribution; complete key transmission projects across the country and finally and most importantly implement cost effective tariffs. The
energy minister has begun work on this and the whole government is behind this agenda.

In closing I want to say that this government is committed to moving this agenda forward to create jobs, improve Nigeria's infrastructure and create a better investment climate for growth. However we need good partners on the other side of the table. We need a committed private sector. A transparent private sector and we need an understanding development partner community. We need to appreciate the sense of urgency with which we need to undertake these developments and get on with the task of doing.

(if you want to say something about the social sectors and the youth you could add this)The Federal government can also join force with states to deliver quick wins with some social sector PPPs - Government offices, School buildings or Medium size hospitals --- through facilities management PPPs. This can be done extremely quickly if concerned projects are self contained and not made too complex.

To show that the private sector rules we have to come to you in Lagos to discuss this...when we start delivering on the PPP agenda the next conference on results will be in Abuja !!

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