Urban Development Bank
OF NIGERIA PLC

PPP and Sub-Nationals:
Lessons from Around the World

Presentation to IFC Public-Private Partnership Conference
November 2011
Few PPP Projects exist at the Local Government Level
LGs don’t have resources to establish PPP units
State Governments have taken up that responsibility by establishing PPP Offices and attendant legislation, to guide PPP projects
ICRC (National PPP Regulator), has been assisting State Governments to set up PPP Units and identify viable projects
UDBN has designed a Product, MUCOSEP, that would assist LGs (especially contiguous ones) in the implementation of large-ticket infrastructure projects
MUCOSEP would pool together contiguous LGs, build an institutional framework around their identified projects which would attract interest from private sector in the implementation of the projects
Challenges: Fiscal Federalism Approach

<table>
<thead>
<tr>
<th>Sphere of Government</th>
<th>Infrastructure Provision Responsibility</th>
<th>Organizational Management Capacity</th>
<th>Access to Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>✓</td>
<td>✓✓✓✓</td>
<td>✓✓✓✓</td>
</tr>
<tr>
<td>State</td>
<td>✓✓ ✓</td>
<td>✓✓</td>
<td>✓✓</td>
</tr>
<tr>
<td>Local/Municipal</td>
<td>✓✓✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
Challenges: Fiscal Federalism Nigeria style

- Strong-Weak-Weak 3-tier Government Structure
- Negative correlation with responsibility for infrastructure and common services delivery: >50% of national revenue allocation directed to Federal; whilst State and Local share <50%
- Result: woefully inadequate and badly maintained infrastructure and common services
The LGs are responsible for development & mgt of over 60% of the country’s infrastructure.

Lack of a National Integrated Infrastructure Development Plan/Framework.

Lack of strong contracting procedures and requisite institutional structures.

State Government’s overall control of LGs funds appropriated and allocated through the FGN and associated MDAs.

Poor institutional, regulatory and legal support framework at the LG level.

Lack of manpower and associated or requisite skillset to effectively deliver and manage infrastructure assets.

Poor maintenance culture and poor planning by the LGC Authorities.
Opportunities

- LGs can leverage on IGR and other revenue sources to secure other lines of credit or access capital market for further infrastructure development in the constituency.
- LGs control over 60% of the country’s infrastructure, which when improved upon and adequately maintained would lead to increased productivity and Gross Domestic Product (GDP).
- Private sector expertise and resources are provided in complementing Government’s efforts and resources, through PPPs.
- LGs are closer to the people at the grassroots and have better knowledge of local needs, priorities and probable solutions.
Opportunities: Fiscal Federalism Idyll

- Weak-Weak-Strong 3-tier Government Structure
- Positive correlation with responsibility for infrastructure and common services delivery
- Result: adequate and well maintained infrastructure and common services to facilitate enhanced productivity; and sustainable social and economic development and growth
Guarantees & Credit Enhancements

- These are more often than not “credit enablers”, (catalysts and credit enhancements) that would be structured around projects.
- Give investors the impetus and/or confidence to be a part of a project.
- Some of these credit enhancements include:
  - Government Guarantees, Irrevocable Standing Payment Orders (ISPOs);
  - Subsidies and Grants;
  - Intervention Funds and Government Subventions;
  - Multilateral Investment Guarantee Agency (MIGA), Partial Risk Guarantees (PRGs), and so on etc;
  - Project Preparation Fund;
  - Viability Gap Funding; and
  - Counterpart funds.
Investors’ Interest & Sub-national Regulatory Environment

- **Investors Interest:**
  - Investors’ are always interested in projects that are bankable with clear exit strategies.
  - Whilst there are some bankable projects at the State Government level, finding same at the LGCs level is rare.
  - Availability of Project Preparation Funds channeled to projects at the LGs & States will assist to create bankable projects that will stir investors’ appetite.

- **Sub-national Regulatory Environment:**
  - Institutionalize a PPP Office.
  - Enact a PPP Bill through appropriate Legislative/Institutional/Regulatory Laws and framework.
  - Capacity building for PPP implementation.
  - Set up a Resource Centre.
  - Identify and prioritise Projects.
  - Commence project preparation on a project by project basis.
Case Study – Ngurore Intl’ Cattle Market

- **Reconstruction of an International cattle Market and construction of 5km Access Road**
  - UDBN developed project to attract below market rate funding
  - Designed Principal Agreements to transcend several LG Administrations
  - Appointed independent collection agent
  - Appointed independent technical consultant to give feedback during project construction
  - Provided moratorium to match construction period
  - Designed rates and revenue strategy to ensure profit maximization
  - Introduced value added services, which users were willing to pay for
  - Revenue collected more than monthly repayments which leaves LG budget neutral
  - Attracted private sector funding, and expertise (facilities management) to develop and manage public sector asset, through appropriate project structuring and development