NIGER DELTA DEVELOPMENT FORUM

GENERATING ECONOMIC DEVELOPMENT THROUGH INFRASTRUCTURE INVESTMENT IN THE NIGER DELTA

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SUMMARY REPORT

NIGER DELTA DEVELOPMENT FORUM

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About

The vision of the Niger Delta Development Forum (NDDF) is a Niger Delta region where all persons that are economically active are able to generate income and employment and take full advantage of existing resources and opportunities, unhindered by constraints from within and outside the market system. The Forums are catalytic information sharing and collaboration opportunities for government, private sector, and civil society organizations pursuing approaches for equitable economic growth in the Niger Delta. For many participants, the NDDF provides a platform to connect with other partners to collectively pursue improved development policies and practices in the Niger Delta.

The first NDDF was held in November 2012 in Port Harcourt, Nigeria and subsequent forums have been held over the years in Nigeria, Washington, D.C. and London, UK. The forums are presented by the Niger Delta Partnership Initiative (NDPI) Foundation, the Foundation for Partnership Initiatives in the Niger Delta (PIND) Foundation and their partners.

INTRODUCTION

Economic growth in Nigeria's Niger Delta region is constrained by inadequate electric power and transport infrastructure. As part of series of stakeholder dialogues, this Forum brings together a select group of investors, transport and power experts, development finance institutions and government representatives to examine this challenge.

There is a new economic reality in the Niger Delta. Economic and political developments in Nigeria (largest economy in Africa; new President; new state governors in five of the nine Niger Delta states; and falling oil prices which reduces both government foreign exchange as well as import or export earnings) present new opportunities for economic development pursued by public and private actors working together.

According to the 2014 Nigeria National Integrated Infrastructure Master Plan, an investment of US $2.9 trillion (NGN 460 trillion) is required over the next 30 years—an average of US $25 billion (NGN 4 trillion) annually—to meet Nigeria's entire infrastructure needs. The federal government's allocation to capital projects (including infrastructure) for the 2014 budget year is US $6.8 billion (NGN 1.1 trillion). To address the deficit, the government of Nigeria is encouraging private sector investment and expertise.

The high level, invitation-only convening in Washington, D.C. sought to produce practical recommendations for infrastructure projects in the Niger Delta that take advantage of the vast investment opportunities that exist today. It built upon the work of the Niger Delta Partnership Initiative (NDPI) Foundation and its public, private and civil society partners as they collaborate to promote equitable economic growth in the region and set the stage for the subsequent NDDF Asaba, Nigeria on Nov. 17 and 18, 2015.

OBJECTIVES

1. Facilitate leadership commitment (governments, private sector, civil society, donor agencies) to take action in support of the economic development of the Niger Delta.
2. Assess the viability of innovative investment models and finance structures to support infrastructure development in the Niger Delta.
3. Promote multisector partnerships and potential infrastructure investment opportunities.
4. Share data and information on the infrastructure gap in the region and evaluate where and how it impacts development.

PARTICIPANTS

1. Government representatives, and representatives from regional cooperation bodies
2. Private equity and debt investors, institutional investors, foundations and fund managers
3. Development finance institutions (DFIs) and multilateral and bilateral agencies
4. Domestic and international project developers
5. Engineering procurement & construction companies

FORMAT & PROTOCOL

NDDF Washington was structured around a series of interactive panel-led sessions and roundtable discussions to encourage a frank exchange of views. Proceedings adhered to Chatham House Rules whereby participants were free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.

SUMMARY POINTS

1. Past master infrastructure plans for Nigeria have failed to be fully implemented thus, new plans must be practicable, sustainable and create new jobs for Nigerians.
2. Government and investors must establish a clear and mutual understanding of what constitutes a “bankable” infrastructure project.
3. The most important component of a “bankable” project is a high quality project sponsor. The sponsor must be a viable business that makes commercial and economic sense; has a track record of delivering projects in emerging markets; and is managed by leaders who can pass very rigorous integrity and due diligence checks. Another important factor is the political and regulatory environment of the country where the project will take place.

KEY CONCLUSIONS AND RECOMMENDATIONS

SESSION 1

The State of Play: The Investment Enabling Environment for Infrastructure in the Niger Delta
A discussion about infrastructure opportunities and existing enabling economic policies in sectors such as power, transportation, roads and land development in the Niger Delta today? What do lenders, investors, developers and governments require to create a bankable project?

> "There's a need for a change of attitude, a change of behavioral pattern at the leadership level… leaders with a vision and the commitment and the knowledge to drive a process and also involve the people at the end of the day."

1. **Leadership is key.** Ethical leadership is necessary to change how government works, and to begin to create a vision and serious commitment to infrastructure improvements. Niger Delta state governors must create an environment that will encourage infrastructure investment.

2. **Security** in the region must improve to attract investment.

3. **Immediate opportunities for infrastructure development exist in improving connections between the south of Nigeria and Lagos,** for example, making ports functional and expanding domestic air travel routes between major cities.

4. **There must be a clearly defined policy of what infrastructure development the government can and cannot do and when it is beneficial for government to partner with the private sector.** Rather than the national government continuing to giving road construction projects to state governments that do not have the capacity to build the roads, state governments should partner with companies in the region that have the technical expertise and capacity to fully implement a project.

5. **States must look beyond the national government master plan for infrastructure development and focus on public-private partnership.** There is a current national government infrastructure master plan, but like others in the past, it has not been fully implemented. It's time to move ahead with public-private infrastructure projects that sustainable, integrate lessons-learned from past master plans and deliver economic opportunities for Nigerians, most importantly in the form of new jobs.

SESSION 2

Opportunities in Power and Distributed Electricity Models for Catalyzing Investment in the Region
Electricity distribution models were discussed and the suitability of those models for creating real investment in power in the Niger Delta. Also examined were the issues of minimizing risk to investments, ensuring payments by the end user and greater reliability of power for industry.

> "I believe anybody who stands up and says the answer to the Niger Delta power problem is 'X' doesn't know what they're talking about. There's a string of answers to which the government needs to provide an overarching strategy and a method for moving forward."

1. **There is no single answer to improving Nigeria's power sector.** An overarching strategy must knit together various solutions and take into account the impact on industry because market value chains such as agriculture cannot be improved without more access to power that is reliable.

2. **Five ideas for solving energy poverty and access across Nigeria**:
    a. Embedded generation that bypasses transmission and connects directly to distribution networks.
    b. Captive power plants that can generate electricity not exceeding one megawatt for consumption by the individual who generates it and not for resale to a third party and also bypasses transition and distribution.
    c. Renewables while simultaneously enabling civic engagements with the energy sector to promote energy efficiency and conservation.
    d. Build local content and capacity; power projects should be built with Nigerian manufactured parts and maintained by Nigerian workers.
    e. Reduce barriers to entry to Nigeria's power sector.

3. **Address the $100 million per month revenue shortfall in Nigeria's power sector.** Historically, the focus has been on expanding the capacity of the power sector, but all capacity expansion efforts are doomed to fail until the electricity market pays for itself. Up until 2013, the Nigeria government subsidized this shortfall. During a 15-month transition to privatization of the electricity sector that was completed in February 2015, revenue shortfalls totaled $2.1 billion. To pay for that shortfall, the Central Bank of Nigeria had to devise a bailout in the form of the Electricity Supply Industry Facility. We understand the technical, commercial and collection problems that lead to revenue losses. Going forward, solutions to Nigeria's energy needs must pay for themselves in order to be sustainable. Almost one-third of power in Nigeria today has been built to support business activities and now we are trying to develop a market system where the customer pays. This shift requires the examination of very different power generation, supply and payment models.

4. **The social contract for paying for electricity service in Nigeria is broken because** the supply of power is very unreliable. When we talk about demand and market we are examining the intersection between supply and demand. Collections from distribution companies are insignificant because people paying those companies today are often not provided with any power. Base revenues should be calculated on actual usage. As we examine the potential demand for on-grid power, we must also examine how much is spent on self-powered diesel generation. Many people connected to the electric grid don't receive reliable power; the biggest alternative is diesel generation. Is there a difference in the real size of both markets? Once people experience reliable power, they are likely to support an electric grid supply model.

5. **Invest in renewables that build local content and capacity.** To date, pilot renewable projects have failed to match local engineers with private sector investors from outside of Nigeria to ensure the transfer of skills and technology to the local community. Also, broader agreements should be established that obligate private sector investors to complete their work or be penalized and also to maintain their installations. Take advantage of Power Africa initiatives. Understand what prerequisites need to be met for these. Find mentors in the U.S. for Nigeria.

   CASE STUDY: Cross Boundary (investment firm) recently completed the largest solar installation in Nairobi, Kenya with no support from the government other than permission to enter into a business-to-business deal. Cross Boundary has completed market studies in other African countries. Nigeria should examine the potential for the Solar City model as a way to mitigate reliance on government utilities, at least in the short term.

SESSION 3

Opportunities and Challenges in Improving Transportation Infrastructure

The growth of many significant industries in the Niger Delta region is constrained by inadequate transit infrastructure. It's been estimated that raising the country's infrastructure level to that of the region's middle-income countries could boost annual real GDP growth by four percentage points. During this session, the transport infrastructure necessary to support economic growth in the region was discussed including ports, rail, feeder/tertiary roads and connecting highways.

> "Infrastructure is supposed to be a growth enabler. And there are two ways that that happens. One is through the delivered infrastructure... and the other is what it does–the capacity building and the job opportunity and the supply chain opportunity and everything else that goes with it. If you don't take advantage of all those things, you're missing half the benefit because of the multiplier effect."

1. **It is important not to embrace a purely Western view of the economic equation necessary for infrastructure projects in Nigeria**. Public works projects are worth considering. Purchasing locally made materials and training local workers adds time and costs, but it is a great investment for the multiplier effect it has on economic development, job creation and local capacity.

2. **Maximize local contracting opportunities** and the key indicators for doing so are: human capacity building, job development and other positive economic development impacts.

3. **There is a need to professionalize the project development process**. Combine U.S. expertise with Nigerian priorities and establish a commercial relationship between the two. Ideas include creating an agency that brings professionalism, best practices and business ethics to project development and implementation. Workforce training and mentoring also should include instruction on good business ethics.

4. **A good model of public-private partnerships is one that focuses primarily on the sharing of technical expertise**. It requires working side-by-side with the local partner and transitioning from shared project funding to 100 percent country supported funding.

5. **Coordination between Nigeria government ministries would help produce more infrastructure development**. Currently, ministries are not good at partnering with one another; they tend to have separate agendas and typically do not coordinate their efforts which results in duplication and inefficiency. There is a real opportunity for ministries to talk to one another and align strategies and tactics on infrastructure development.

6. **The United States Trade and Development Agency is an underutilized and important resource** for linking U.S. businesses to infrastructure project opportunities in Nigeria because of its focus on funding project planning activities, pilot projects, and reverse trade missions while creating sustainable infrastructure and economic growth in partner countries.

7. **There are many things NDPI, PIND and their partners can add** to infrastructure project development since they have teams and resources in the region.

SESSION 4

Innovative Mechanisms for Financing Infrastructure

"The demand is there. We know there are eager suppliers. There's money out there. In this room, there are developers, financiers, consultants, government officials; we have all the pieces of the puzzle together. We need to be thinking about and we're asking the question: how do we do this in a better way and how do we fill the gaps that are not happening when we look at the mega investments?"

1. **Establish shared and explicit understanding of the term "bankable" infrastructure projects for the region.** Government and investors need to agree upon a mutually understood definition of the term.

2. **Nigeria state governments must create an enabling environment** for the investment process to flourish and for infrastructure projects to succeed.

3. **Think outside of the box by using innovative financial products and mechanisms.** Consider a business-to-business model for projects rather than public-private partnerships exclusively.

4. **The quality of the sponsor of a project is the most important consideration in securing financial backing for an infrastructure project.** Financial institutions are concerned about the sponsor's experience, capitalization, track record for delivering successful projects in emerging markets and the viability of the business enterprise. Transparency also is vital.

5. **The political and regulatory environment must be right for investment** because investors, such as the International Finance Corporation (IFC), may work with local banks to provide capital, share risk and provide expertise to assess credit worthiness and project viability. IFC can also work with a company to aggregate a large number of smaller transactions to share the risk, provide some financing, and directly select and develop projects.

6. **Take a systemswide "special economic zones" approach to infrastructure projects.** For example, pursue opportunities outside of the existing regulatory framework (which is moving very slowly in Nigeria) and create pockets of opportunities that will be self-sustaining. Rather than establishing one successful project and duplicating the exact same project nationwide, examine it from a whole value chain perspective and utilize that insight to scale it up nationally.

7. **There are opportunities to create bankable projects for private sector engagement.** For example, Infraventures Group sought project sponsors to co-create bankable projects. In one case, Infraventure invested a 35 percent stake in a project as an equity shareholder and lender. They acted as a co-developer by providing legal and engineering expertise. They took the proposed deal to banks for financing. They seek investment projects valued at $200 million and above.

8. **The key impediments to infrastructure project investment are:** expropriation; currency convertibility and transfer restrictions; currency depreciation; civil unrest; and credit and revenue risk including breach of contract, payment or default.

9. **The key mechanisms for minimizing risk in power and infrastructure projects** are well drafted and balanced Power Purchase Agreements and host governments that provide guarantees and other credit.