

The 4th National PPP Stakeholders Forum

Aligning Interests

Thursday 10 July 2014



Agenda

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The 4th National PPP Stakeholders Forum:

Aligning Interests

Agenda

Time	Activity	Allotted Time	Anchored By
8:30-8:45	Registration & Tea / Coffee	15 Minutes	
8:45-9:30	Welcome Remarks	45 Minutes	HE Senator Ken Nnamani GCON (ICRC), Ngozi Okonjo-Iweala (HMoF/CME) Prof Onyebuchi Chukwu – Hon Minister of Health Prof Chinedu Nebo – Hon Minister of Power HE Mu’azu Babangida Aliyu (Gov Niger State) HE Capt Idris Ichalla Wada (Gov Kogi State) Dr. Sam Amadi – Executive Chairman NERC Aminu Diko (ICRC) Farouk Gumel (PwC)
9:30-9:45	Nigeria’s National PPP Framework and Focus Area’s/Projects	15 Minutes	Chidi Izuwah (ICRC)
9:45-10:30	Key Principles of Successful Infrastructure Projects (Focus on Transport and Healthcare)	45 Minutes	James Aiello (National Treasury of South Africa)
10:30-11:00	Case Study: Rail Transport PPP	30 Minutes	Andrew Shaw (PwC)
11:00-11:15	Tea Break	15 Minutes	
11.15-11.45	Case Study: Power Transmission PPP	30 Minutes	John Gibbs (PwC)
11:45-12:15	Key Principles of Bankable/ Financeable Infrastructure Projects	30 Minutes	Victor Williams & Soji Omisore (Stanbic IBTC)
12:15-1:00	Panel Discussion: Q&A Session with Speakers	45 Minutes	Farouk Gumel (PwC)
1:10-1:30	Closing Remarks	15 Minutes	Barr. Musa Elayo (ICRC)
1:30→	Lunch + Networking		

Speaker profiles

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ICRC



Senator Ken Nnamani, GCON

Chairman, ICRC Governing Board

Senator Ken Nnamani, who is currently the Chairman of the ICRC Governing Board, is an alumni of the Ohio University, USA where he graduated consecutively with Bachelor and Master's degrees in Business Administration.

He was elected into the Senate in 2003 and became the Senate President of the Federal Republic of Nigeria between 2005 and 2007.

Before his foray into politics and public service, he held many commanding positions in the private sector and worked variously as a consultant in Du Pont De Nemours International SA, Geneva and Nova Chemicals International SA, Canada.

He also founded the Ken Nnamani Centre for Leadership and Development: a foundation that promotes the essential values of ethical leadership and good governance, particularly among Nigerian youth leaders

ICRC



Ngozi Okonjo-Iweala

Member of the ICRC Governing Board and Minister of Finance

Ngozi Okonjo-Iweala, a 1977 Harvard University graduate, is Nigeria's Minister of Finance, a position she assumed in August 2011.

Prior to this appointment, she was the Managing Director of the World Bank (October 2007 - July 2011) and had previously served as Nigerian's Finance Minister between 2003 and June 2006 before her deployment as Foreign Affairs Minister. She resigned her position in August 2006 to rejoin the World Bank.

She is notable for being the first woman to head both the Finance and the Foreign Affairs Ministries. Okonjo-Iweala is from Ogwashi-Uku, Delta State South South Nigeria.

She earned her doctorate in urban and regional planning from the Massachusetts Institute of Technology (MIT).

Dr. Ngozi Okonjo-Iweala is an ex-officio member of the ICRC Governing Board.

ICRC



Aminu Diko

Director General/ CEO,
ICRC

a.diko@icrc.gov.ng

Mr. Aminu Diko is currently the Director General/Chief Executive Officer of the ICRC. He holds a Master's degree in Law and has close to three decades post-call experience in corporate legal practice.

He joined the ICRC in January 2010 as the Executive Director, Contract Compliance Centre, comprising the Monitoring & Compliance and Policy & Regulation Units. His responsibility entailed monitoring compliance with the terms and conditions of every concession agreement entered into by the Government, as well as ensuring its efficient execution.

Before joining the Commission, Diko worked as the Group Company Secretary/Legal Adviser of Dangote Group for 14 years, after a 10 year successful career in the banking sector. He is a Fellow of the International Bar Association.

ICRC



Chidi Izuwah

Executive Director, ICRC

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Engineer Chidi Izuwah is a seasoned and professional Oil, Gas, Civil and Hydraulic Engineer. Chidi started his career as a lecturer at the University of Port Harcourt. Thereafter, he held several senior oil & gas asset management positions in a career spanning over 21 years with SPDC (Shell Nigeria).

He was at various times Project Manager and Contract Manager for the Deepwater Bonga Mooring and Installation Contract. Chidi also held the position of Corporate Pipelines Asset Manager responsible for Shell's entire crude oil evacuation network in Nigeria.

The Executive Director – PPP Resource Department (P3RD) is responsible for catalysing Public and Private expertise and resources towards concluding the development phase of Federal PPP Projects, while ensuring that these projects are bankable and yield Value-for-Money for Nigerians. The P3RD has within it a Knowledge Centre and PPP Project Delivery Units.

National Treasury of South Africa



James Aiello

Senior Project Advisor
with the PPP division of
the Government
Technical Advisory
Centre (GTAC)

james.aiello@gtac.gov.za

James is a Senior Project Advisor with the PPP division of the Government Technical Advisory Centre (GTAC) at National Treasury in South Africa. He is currently focusing on finalizing the PPP Guidelines for the recently enacted Special Economic Zone legislation and the internal guidance framework for GTAC. He is also finalizing a PPP training regimen for a delegation from Bangladesh, having just undertaken such training for visiting officials from Sierra Leone. James came to the South African National Treasury in 2007 from PricewaterhouseCoopers. While at PWC in Johannesburg, James was a member of the team that advised the Government of Botswana on its PPP policy and regulatory framework which was launched in August 2009.

He previously completed an assignment leading the team which drafted National Treasury guidelines for municipal PPPs in South Africa. In 2008, he addressed a conference of nodal PPP officials from India's 28 States in Cochin, India and in April of 2012, he participated in a follow-up video conference organized by the World Bank to discuss specific PPP matters of interest to Indian PPP officials. Earlier, he provided the Government of Swaziland a PPP regulatory framework.

James is a seasoned business/government relations professional with more than 35 years of diverse experience in international and domestic business development, mostly involving alternative service delivery. He has spent about half of his career advising local, regional, provincial and national governments on PPP options and the other half as a senior manager in various multi-national corporations competing for multi-year PPP concessions.

Stanbic IBTC



Victor Williams

Executive Director,
Corporate and Investment
Banking, Stanbic IBTC

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ibtc.com

Mr. Victor Williams is the Executive Director, Corporate and Investment Banking, Stanbic IBTC Bank PLC. His responsibilities in CIB include global markets, investment banking, transactional products and services, and corporate banking.

Prior to this Victor was the Regional Director, Corporate Investment Banking (CIB) East Africa, Standard Bank Group overseeing all CIB activities in Kenya, Uganda, Tanzania, Mauritius and South Sudan.

He was also the Managing Director, Mergers and Acquisitions – Wells Fargo Securities LLC, (formerly Wachovia Securities) Charlotte, NC.

Victor Williams has an MBA from the Harvard Business School with over 15 years experience in Mergers and Acquisitions & Investment Banking.

Stanbic IBTC



Soji Omisore

Head Mining, Energy and Infrastructure, Stanbic IBTC

soji.omisore@stanbicibtc.com

Mr. Soji Omisore is Head, Mining, Energy and Infrastructure, Stanbic IBTC Bank PLC.

He joined Stanbic IBTC in July 2012 from International Finance Corporation/World Bank. Soji's core transaction and business valuation experience includes:

- Project Finance and structuring of transactions in more than 6 countries
- Leading a US\$3.3bn debt size transaction for the Dangote refinery and fertilizer projects where the bank provided US\$200m as well as the Indorama Eleme Fertilizer US\$1.2bn transaction
- Leading the bank's effort to support two of the PHCN privatisation bidders as well as the financing for the development of an independent Power Plant in SE Nigeria
- Advising on debt structuring and provision for one of the leading milling companies in East Africa (Tanzania, Rwanda, Malawi and Mozambique) to expand their operations and port infrastructure in the region

PwC



Uyi Akpata

Country and Regional Senior Partner, PwC

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Uyi is the Country Senior Partner for PricewaterhouseCoopers Nigeria and Regional Senior Partner for the West Market Area.

He was appointed Head of Energy Utilities and Mining Services Unit for Nigeria in 2003 and Africa Oil & Gas Industry Leader in October 2012 and is a member of the Global Oil & Gas leadership team.

He was admitted as a Partner in October 1992 and has obtained extensive experience in leading the audits of companies in various sectors of the Nigerian economy. Uyi has for the last 15 years been playing Engagement leader role on Assurance engagements; including those relating to the firm's notable Global audit clients, such as ExxonMobil and Chevron and of integrated regional Oil & Gas companies, such as Oando.

Uyi Akpata obtained a B.Sc. (Hons) degree in Accounting from the University of Lagos in 1984. He joined the legacy firm of Coopers & Lybrand in September 1984. He qualified as a member of the Institute of Chartered Accountants of Nigeria (ICAN) in November 1986 and is currently a Fellow of the Institute.

Uyi has recently been involved in supporting clients during the bid stage for various infrastructure assets and also in transformation initiatives being undertaken.



Farouk Gumel

West Africa Advisory
Leader, PwC

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Farouk is a member of the PwC West Africa executive management team as well as PwC Africa's Advisory leadership team. He currently heads PwC's West Africa Advisory business that has over 150 Partners and staff in Nigeria, Ghana, Liberia, Sierra Leone and Angola.

Before his permanent move to PwC Nigeria in November 2009, Farouk worked for PricewaterhouseCoopers in the UK and USA where he specialized in industrial products and oil & gas transactions. In Nigeria, he has led several transaction advisory and consulting engagements in various industries covering financial services, fast moving consumer goods (FMCG), public sector and energy.

Farouk is a chartered accountant with the Institute of Chartered Accountants in England and Wales (ICAEW) and Institute of Chartered Accountants of Nigeria (ICAN). He has a first class degree in Materials Technology from the University of Northampton, UK and a M.Sc. (Distinction) in Clean Technology (Chemical Engineering) from the University of Newcastle Upon Tyne, UK.

Farouk has participated in various presidential level and ministerial task forces/committees. He is a member of Nigeria Economic Summit Group (NESG) and Nigeria Leadership Initiative (NLI).

PwC



Jonathan Cawood

Capital Projects &
Infrastructure Africa
Leader, PwC

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Jonathan leads the firm's Advisory Strategy & Operations Practice for Southern Africa. He has worked extensively in the public sector at National, Provincial & Municipal government level and utilities and has a deep understanding of the issues and challenges facing this sector. Jonathan drives the practice's differentiation through extensively researched and powerful Points of View on key issues, a systemic approach to solving today's complex problems and a style of engagement which we call – the PwC Experience.

Through his extensive exposure with the firm over the past 24 years, he has worked across many industries and with many clients dealing with complex business challenges. His work has ranged from strategic facilitation of high powered leadership interventions through to managing and shaping large and long-term multi-firm and multi-client transformational projects. His core capabilities include strategy, systems and design thinking, business model architecture, business process engineering and transformational change.

He has also recently been appointed to lead the firm's Capital Projects & Infrastructure Big Bet across Africa. His areas of expertise include:

- Strategy, systems and design thinking
- Business model architecture
- Business process engineering
- Transformational change

PwC



Ian Aruofor

Capital Projects &
Infrastructure Nigeria
Leader, PwC

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Ian has over 13 years of client service advisory / execution experience across global markets.

He was a Vice President of a US investment banking platform where he executed marquee transactions including the \$1.6 billion merger between Lance, Inc. and Snyder's of Hanover, Inc.

He also served as a strategy / reengineering management consultant on other platforms.

A selection of his recent West African transaction experience includes:

- Financial advisor in the privatization / sale and optimization of five (5) electricity distribution companies
- Financial advisor in the on-going privatization / sale of three (3) successful NIPP asset bids
- Financial advisor to the consortium for the construction of a 40km urban rail infrastructure project
- Financial advisor to a in its deployment of a 300,000 MT steel pipe manufacturing facility

Ian holds a B.Sc. Economics from the University of Ibadan and an MBA from Goizueta Business School, Emory University (Atlanta)

PwC



John Gibbs

Capital Projects &
Infrastructure Power and
Utilities Leader Africa, PwC

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John is a Corporate Finance partner recently transferred to PwC in Johannesburg where he has particular responsibility for PwC's Capital Projects & Infrastructure Deals business across Africa.

John is a specialist in the application of PPP approaches in the Power & Utilities sector covering water, wastewater, waste management and power including renewable energy. John brings particular experience in the development of major infrastructure in Africa having worked extensively in Southern and Eastern Africa.

He is currently one of the lead advisers to the Department of Energy in South Africa on the Renewable Energy IPP programme, now in its third round of competitive capacity allocation. Across a 25 year career in infrastructure John has worked for public and private sector clients in Africa, Asia and South America as well as Europe and the UK.

He has worked for a number of IFIs including the World Bank, Asian Development Bank, EBRD and, most recently the EIB and DBSA. John is a recognised expert on the application of PPP models in emerging markets and co-authored the World Bank's most recent Toolkit on Water PSP.

PwC



Andrew Shaw

Transportation and
Logistics South Africa
Leader, PwC

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Andrew's experience is diverse; focusing on economic and financial appraisal, business case development, due diligence of infrastructure and operations projects, high-level development of strategy, as well as company governance, process improvements and turnarounds.

He has worked directly with or in a support capacity to a number of State Owned Companies as well as at National, Provincial and Municipal Government, and has a deep understanding of the issues and challenges facing infrastructure development and operation in the transport and telecommunications sectors.

Andrew has worked in various countries on infrastructure delivery assignments, including undertaking strategic planning, business case development, economic and financial due diligence, project finance and operations planning, and costing.

In addition to this project specific focus, he has experience of policy sector reform in the transport sector and an extensive understanding of the economics of network industries such as within the transport and telecommunications sectors. He has led a team focusing on the turnaround of a State Owned Company and has experience of the internal control environment and governance challenges faced by such entities.

During his tenure at the Development Bank of Southern Africa and Jacobs Consultancy in the UK, Andrew gained valuable experience in the due diligence and funding of large capital projects. He has worked at a policy level across the full spectrum of public and freight transport including rail, road, maritime and air transport. Much of this work encapsulates the changes and new demands imposed by global freight logistics and the need to align infrastructure delivery and improve the productivity of operations to deliver within an increasingly competitive supply chain environment.

PwC



Kalu Balogun

Associate Director, Capital
Projects & Infrastructure,
PwC Nigeria

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Kalu is an Associate Director in the Deals practice of PricewaterhouseCoopers Nigeria with specific focus on Capital Projects and Infrastructure. He has over 12 years of experience as a management consultant and as senior management executive in a few sectors.

Kalu has significant experience leading strategic transformational programmes and operational improvement engagements across the energy, agro-allied, financial services and public sectors.

A selection of Kalu's recent experience includes:

- Programme manager for oil field services company to determine strategic exit options for government-funded financial investor
- Strategy and corporate planning lead for large investment banking and asset management group in Nigeria
- Strategy and performance management lead for agro-allied group
- Provided advisory services to Government agencies and private sector clients on strategy development and alignment

Kalu holds a B Sc. Computer Science and Economics from Obafemi Awolowo University, Nigeria and an MBA from Emory University, USA.



INFRASTRUCTURE & NATIONAL TRANSFORMATION: THE PPP IMPERATIVE



By

Barr. Aminu Diko
Director General

Infrastructure Concession Regulatory Commission, Nigeria



Presentation Outline



1. Vision and Possibilities

2. Our Present Reality & Random Thoughts

3. Infrastructure Procurement Options & PPPs

4. Legal and Regulatory Framework for PPPs

5. PPP Project Pipeline

6. Transformation Possibilities



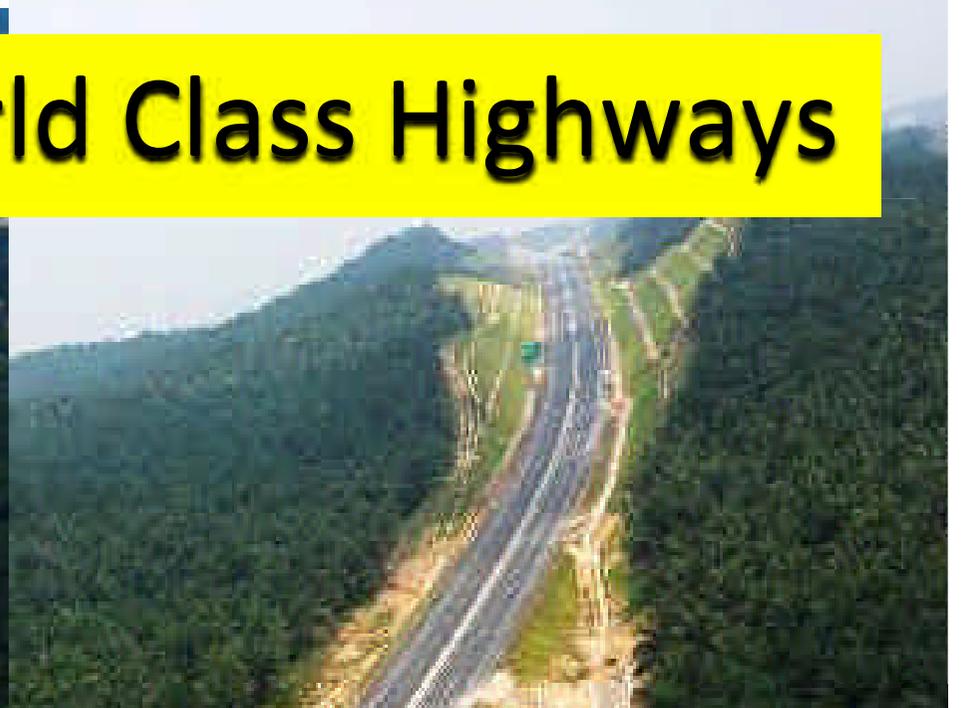
Imagine Our Nigeria – We must have dreams and a Vision.....

I C R C

Nigeria of Our Dreams



World Class Highways



W Class Health Facilities





Innovation Driven PPP Hospital



New Karolinska – Solna, Sweden



State of the art research and teaching hospital. Focus on patients' comfort, safety and privacy from architectural plans to the operation of the completed hospital.

Project Value ~\$3bn; The world's largest P3 hospital and Skanska's largest project. Financed by \$190M in equity together with bank loans and client contributions.

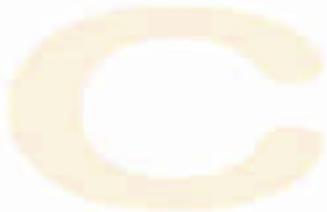
Will be one of the world's most sustainable university hospitals; seeking LEED Gold certification.

I think PPPs will be the model for the present future for developed and developing economies because we cannot, in the long run, keep or even afford a public sector monopoly in healthcare – Prof. Lennart Persson MD New Karolinska Solna University Hospital

W Class Power Transmission



NIGERIA'S PPP PORTS OF THE FUTURE



World Class Nigeria !!! Up Nigeria !!!





Our Present Reality and Random Thoughts.....

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America - Nigeria's Infrastructure Report Card 2013



Infrastructure Class <i>AMSCE*</i>	USA	NIGERIA
		<i>My Report Card</i> <i>Your Report Card</i>
Roads	D	F
Bridges	C+	F
Transit	D	F
Rail	C+	NE
Aviation	D	F
Energy	D +	F
Drinking Water	D	NE
Wastewater	D	NE
Dams	D	F
Inland Waterways	D-	NE
Schools	D	F
Solid Waste	B-	NE
Overall GPA	D+	Not Available

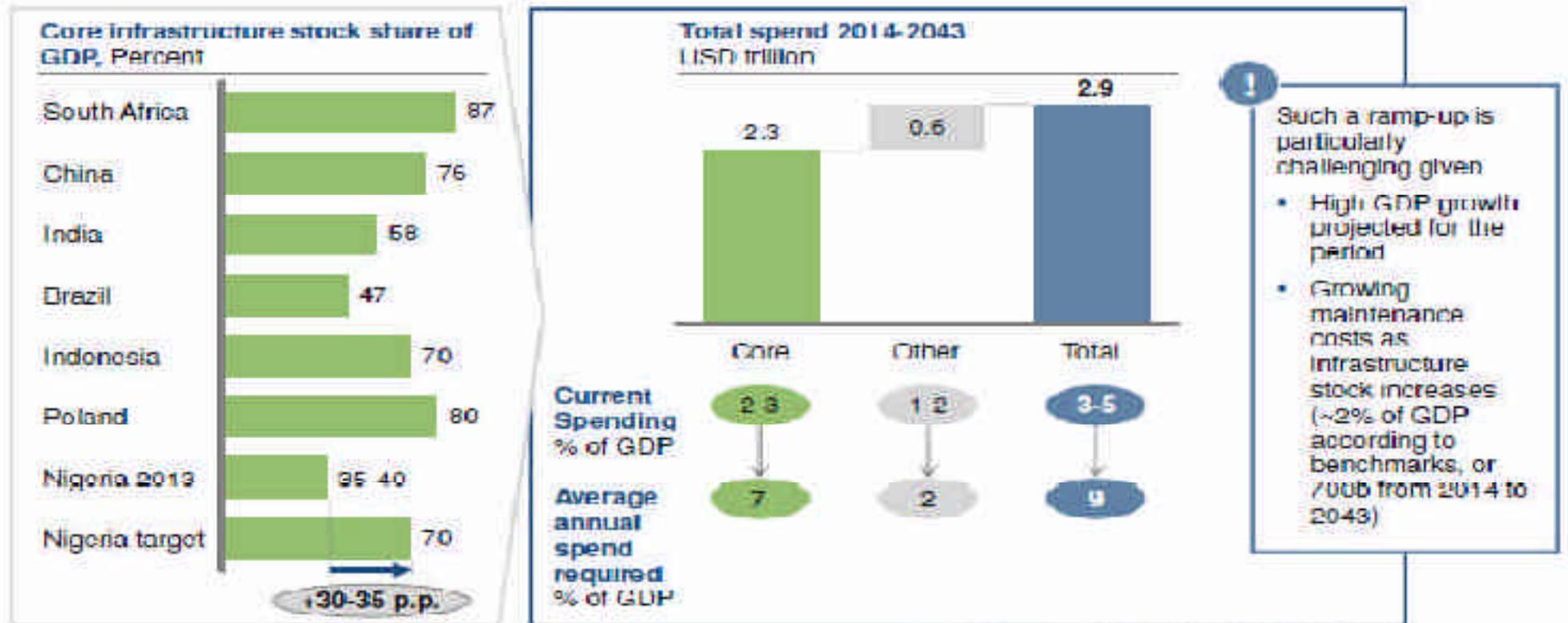
▪American Society of Civil Engineers

A = Exceptional; B = Good; C=Mediocre; D = Poor; F = Failing; NE = Non-Existent

NIIMP - Stock of Infrastructure



1 Most countries globally have a core infrastructure stock value of ~70% of GDP; Nigeria will need to invest \$2.9 trillion over the next 30 years to reach this benchmark

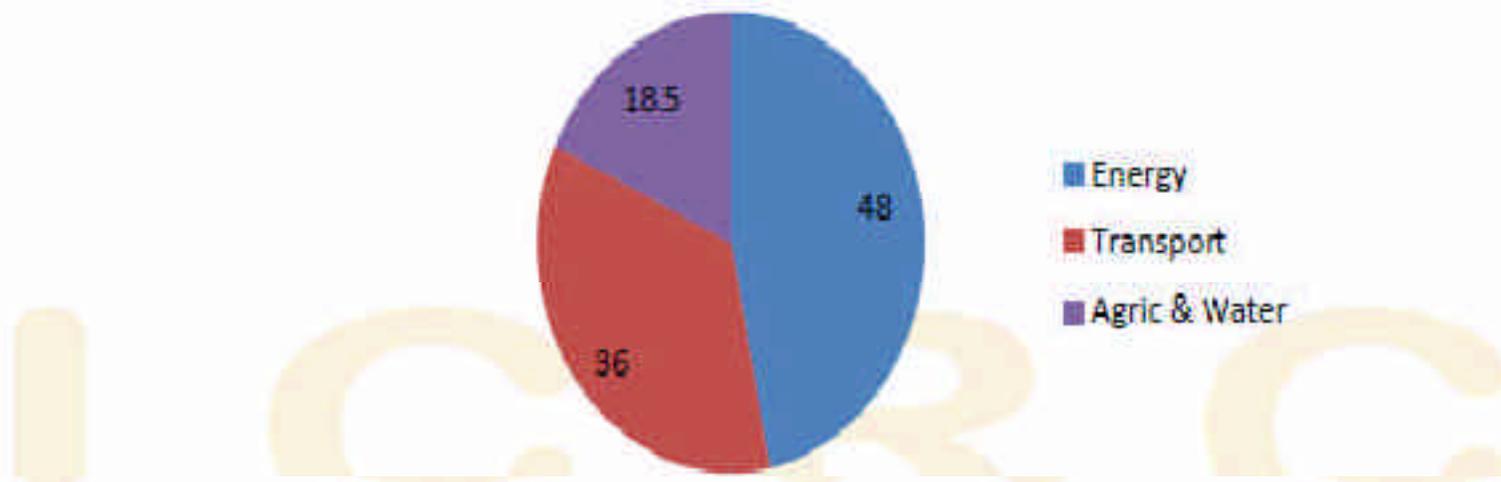
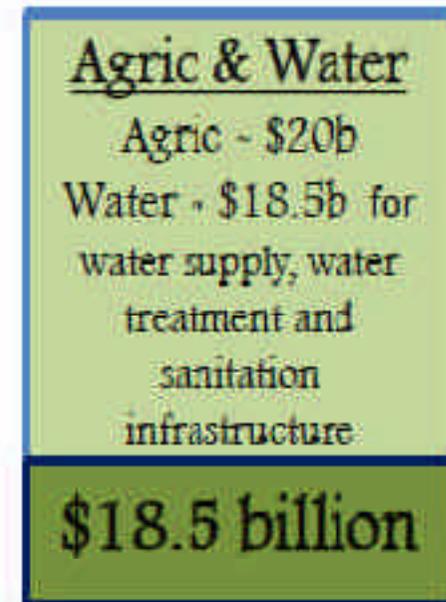
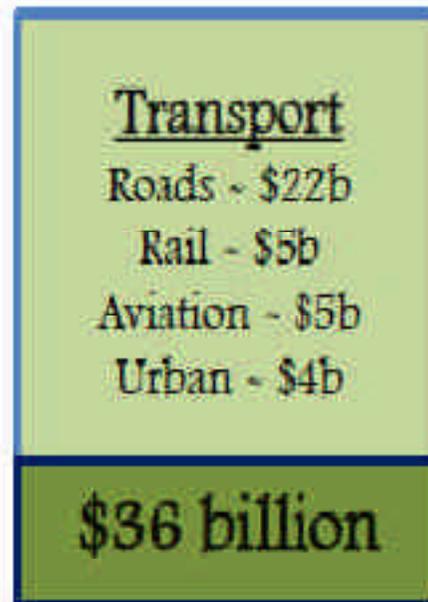
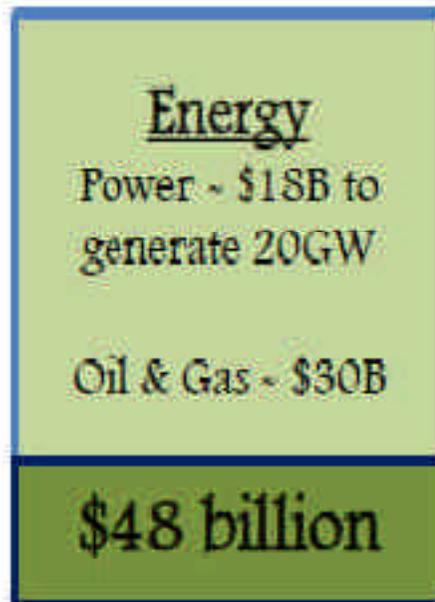


NOTE: Core includes Transport, Energy, ICT and Water. Other includes Agriculture, Mining, Social Infrastructure, Housing, Security and Vital registration

SOURCE: IIF, GWI, IHS Global Insight, McKinsey Global Institute analysis; Team analysis



NIIMP – Infrastructure Spend next 5 years



“If Nigeria was a three legged stool I would say its stability and future depends on how well and how fast we tackle the infrastructure problem – the shaky leg of the stool”

**Dr. Ngozi Okonjo-Iweala –
HMF/CME**

“An internationally competitive economy needs internationally competitive infrastructure ...”

“He who does not recognize he is in a race is bound to loose it...we are in a race for capital, development etc...we need to act fast”

1% increase in infrastructure stock results in a 1% increase in GDP – World Bank

If you want to grow rich – build a road first (Chairman Mao)





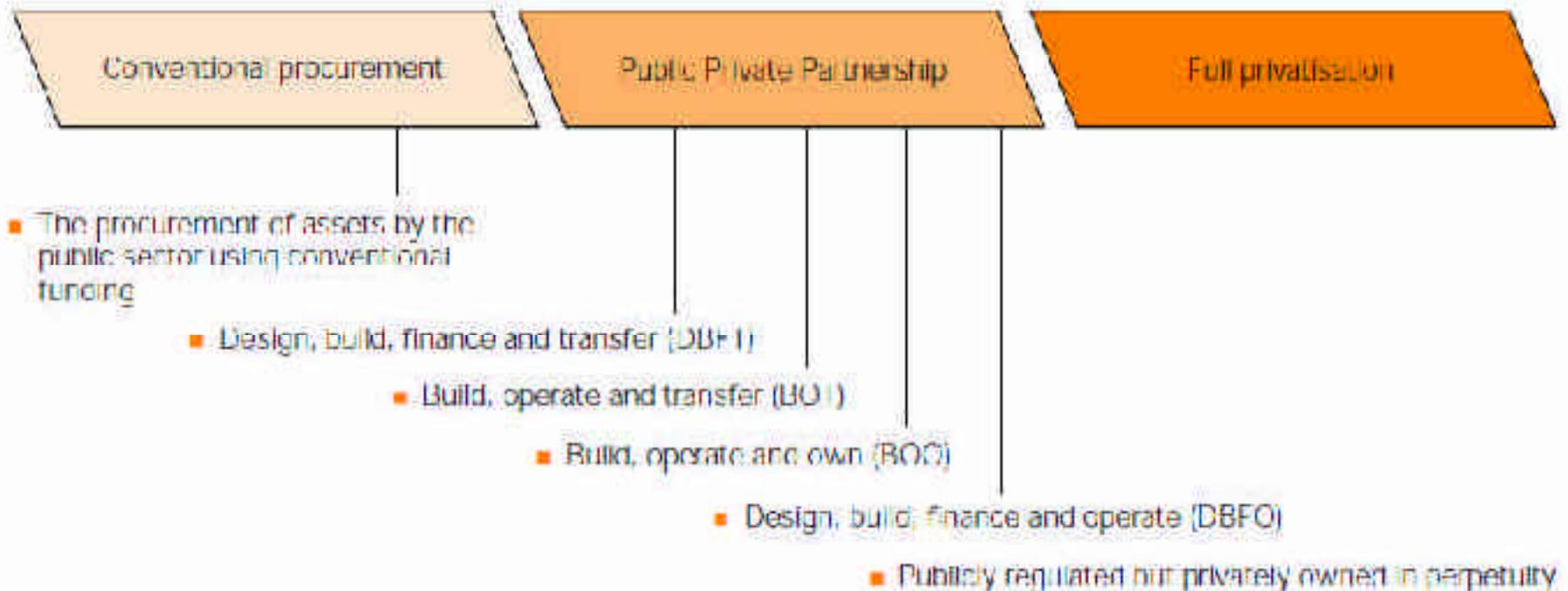
Infrastructure Procurement Options

I C R C

Asset Procurement Options



PPP represents a balance between state ownership and privatisation as indicated below:



Source: KPMG, KLegal

**Public
Sector**



**Private
Sector**

Risk Spectrum

Traditional Procurement

- **The public and private sectors have always worked together...**
 - Companies have paid taxes
 - Companies have supplied governments with goods
 - Companies have constructed projects for the government
- **Traditional infrastructure procurement**
 - Gov designs / finances
 - Private company constructs
 - Government owns / operates / maintains

Example

- Government designs a bridge joining 2 islands
- Runs tender and gets cheapest construction company to build it
- Government pays for the construction from the budget
- When built the government operates and maintains the bridge
- If anything goes wrong the government pays



Public Private Partnership: Definition



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

Wide
Infrastructure
Gap

Growing demand
for private sector
participation in
infrastructure

Small and
depleting
Government
resources

Urgent need for
alternative funding of
Infrastructure

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

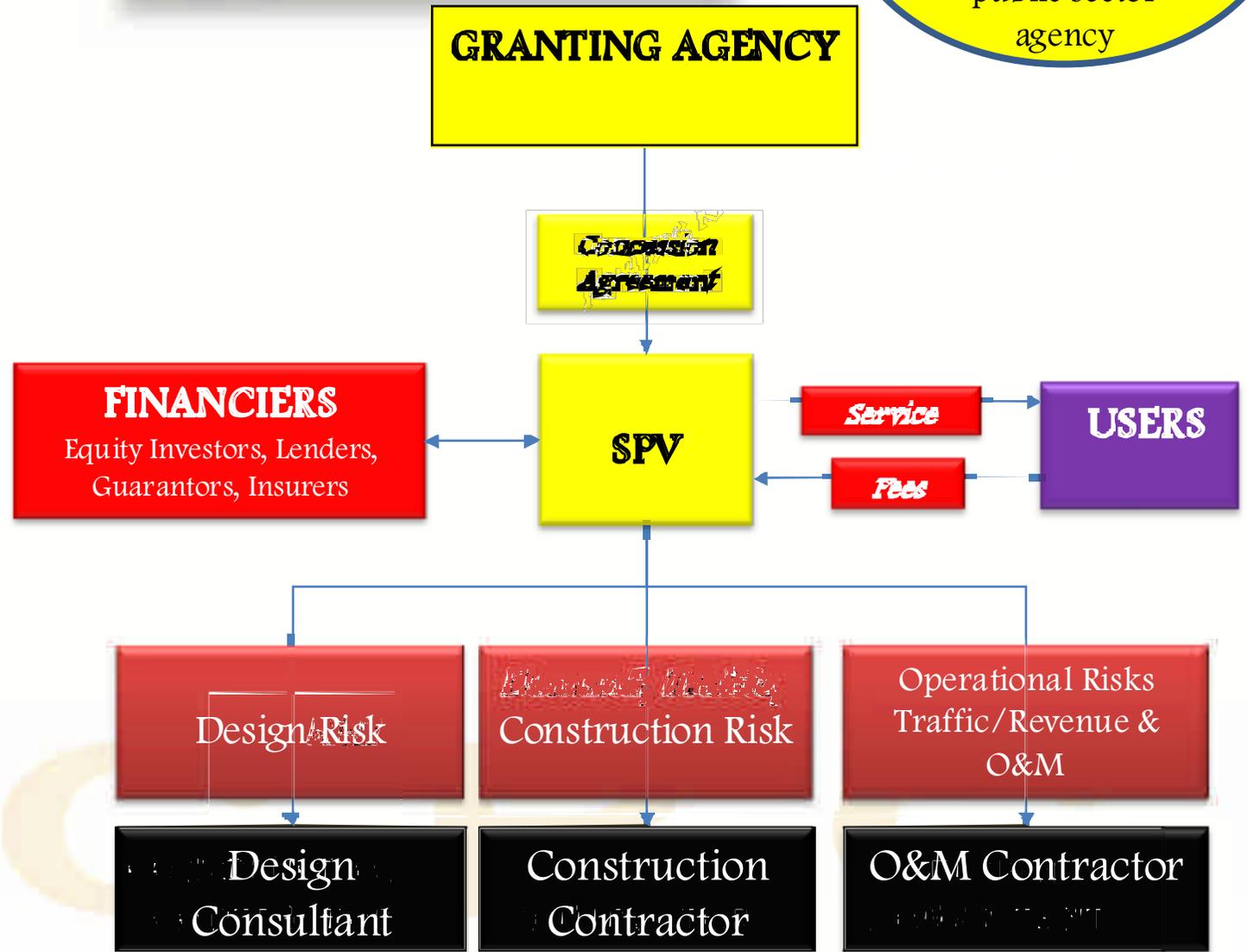
7 Essential Conditions That Define Public Private Partnerships



The final responsibility for service delivery continues to remain with the public sector agency

- 1 **Arrangement**
Between public & private
- 2 **Provision**
Of services for public benefit by private partner
- 3 **Investments**
In and/or management of public assets by private partner
- 4 **Time Period**
For a specified time
- 5 **Risk Sharing**
Optimally between contracting parties
- 6 **Standards**
Focus on quality of service / performance
- 7 **Payments**
Linked to performance

BOT- Airport Transit Rail Project



PPPs are Fundamentally Different

- **Formal contract** between public and private partner (over the years duration the service will be provided) – usually multiple years duration
- Entered through **competitive procurement**
- Using **output specification** – government specifies ‘what’, private sector can define ‘how’
- With suitable **risk allocation** between parties
- Putting **private investment at risk**
- With **regulation or contract management of performance** of the private partner

Example

- Government defines output = connection to let 1,000 vehicles p.d. travel between islands
- Government tenders for best solution over 30 years – e.g. ferry, tunnel, bridge??
- Government enters 30-year contract with private company
- Private company designs, builds, finances bridge, then operates and maintains it for 30-years
- Private company receives payment if the bridge works and is available for traffic
- Government checks on safety and availability
- If the bridge is closed, or unsafe, the private company loses money



Nigerian Legal and Regulatory Framework for PPPs

**A good PPP project, like a good marriage, takes time and effort.
Trying to do things quickly and easily leads to failure –
Bart Van Uythem (Head of Economic and Infrastructure Sector
Delegation of the EU in South Africa)**

The ICRC Act (2005)



- Establishes the Infrastructure Concession Regulatory Commission (ICRC) Sec. 14.1
- MDAs may enter into a contract with or grant concession to any duly pre-qualified private sector proponent for the financing, construction, operation, and maintenance of any infrastructure that is financially viable or any development facility of the Federal Government. (Section 1.1).
- Empowers the ICRC to:
 - Provide general policy guidelines, rules and regulations.
 - Take custody of every concession agreement entered by the Federal Government
 - Ensure efficient execution of any concession agreement or contract entered by the Federal Government.
- Section 11 (Arbitrary Variation etc) No agreement reached in respect of this Act shall be arbitrarily suspended, stopped, cancelled or changed except in accordance with the provisions of this Act.

Lagos Ibadan Expressway



- DFBOT Toll Road agreement between the Federal Ministry of Works and Bi-Courtney Consortium, signed in 2009
- Duration: 25 years
- Value: N89Bn (\$593 Million)
- 4 phases of construction of the 105KM road to last 4years
- Project Cancelled

Lessons

- Inadequate Project Development
- Procurement not competitive and transparent
- Signed with no firm traffic model, financial model or evidence of financing capacity
- Risk allocation and transfer not well defined
- Asymmetry of knowledge between concessionaire and Government partner
- Not enough due diligence (technical and financial) by grantor



ICRC

Port PPPs



- Major Ports reform in 2004, to improve clogged, inefficient, and very expensive ports.
- Experienced private operators engaged through Concessions to rehabilitate and Manage 26 ports.
- *Months after the concession of the Apapa-Lagos container terminal, delays for berthing space had dwindled, and shipping lines reduced congestion surcharge from \$525 to \$75, saving the Nigerian economy an estimated \$200 million a year.*
- *Goal of concession yet to be fully achieved due to external factors and actors*

Lessons

- *Transaction activities should not be targeted at the signing of concession contracts*
- *Risk allocation should consider Government Capacity to deliver (channel depth, wrecks, RoW)*
- *The transaction lead agency should be the grantor who remains accountable for services*
- *'Political Clock' not the same as Project time*
- *Success requires an integrated approach (Roads, Customs, Rail, Security, State Govts)*



ICRC



Bad Roads at the main access to Ports

Physical Examination (up to 4 hrs per container)



A Flooded terminal due to blocked canal in Lagos

Automated Scanning (About 1 minute per container)



General Lessons Learned: Project Development



- **Project Preparation:** A well prepared project will attract funding and support during implementation. A poorly prepared project will ultimately fail, no matter how well funded.
 - There is Need for **experienced transaction advisers** and thorough project Preparation (**time spent in preparation is always regained during smooth and effective implementation**)
- **Operating Environment:** Only a conducive, transparent, and competitive environment can attract the right partners
- **Data:** Technical and Economic data are critical for thorough project preparation. Data gathering must be a continuous programme
- **Transaction Management:** Agency responsible for implementation must take **Ownership and Responsibility from inception to completion**
- **Stakeholder Consultation:** Engagement should include all stakeholders that will be directly or indirectly affected throughout the life of the project

General Lessons Learned: Procurement and Contracts

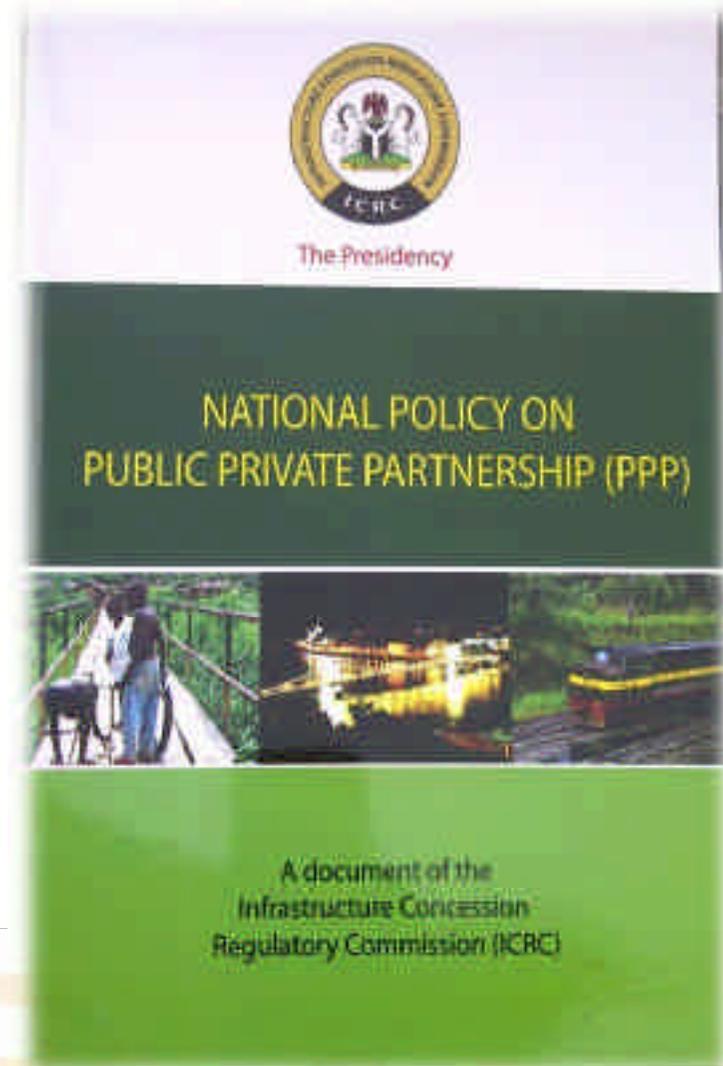


- **Procurement is Most Critical** to ensuring a vibrant PPP market. Procurement processes must be **Transparent and Competitive**
- Govt. must **understand, in totality**, what they are committing to, with clear roles and responsibilities (conditions of contracts)
- In-depth **due diligence** (Legal, 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**. Govts 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

National Policy on PPP



- **Government Commitment**
- **Policy Objectives**
 - Economic
 - Social
 - Environmental
- **Enabling institutional environment**
 - Guidelines for the PPP
 - Coordination and planning
 - Capacity building
 - Effective communication
 - Roles and responsibilities
 - Market development
 - Collaboration with states and other stakeholders



ICRC at a Glance....



Who is ICRC?

ICRC is the agency of the FGN responsible for catalyzing and regulating public private partnerships for the development and implementation of a world class PPP framework towards the development of world class brown field and greenfield infrastructure for the benefit of Nigerians

WHAT ICRC DOES...

- **Policy, Guidelines, Regulations, and Capacity Building**
- **Ensure Bankability of PPP Projects**
- **Ensure VfM and Appropriate Risk Sharing between Parties**
- **Drive Robust PPP Market Interface**
- **Take Custody and Ensure Compliance**

WHAT ICRC DOES NOT DO...

- **Project Initiation & Approval**
- **Determine Output Requirements**
- **Contracting Authority**



PPP Phased Evolution



- Development Phase - OBC
- Procurement Phase – FBC
- Implementation Phase
- Contract Maturity

I C R C

PPP Unit in MDAs- ICRC Interface in PPP Project Delivery

Pre-Contract

Post-Contract

ICRC

Continuous
planning by
FGN
through
NFC

Preliminaries

Development Phase

Procurement Phase

Implementation Phase

- Identification
- Prioritization
- Selection

MDA; BOF; MoF

- Needs Analysis
- Economic Assessment
- PPP Options appraisal
- Value for Money
- Affordability
- Sustainability
- Prelim Risk Matrix
- Viability/Bankability
- VGF assessment
- **OBC approval**

- Policy, Regulation, Capacity Building
- Ensure Bankability
- **Recommend OBC Approval**

- Transaction adviser
- EoI and RFP
- Bidding
- Bidders Conference
- Bid Evaluation
- Value for Money Test
- Preferred Bidder
- Full Business Case
- **FEC Approval**

- Ensure VFM and Appropriate Risk Sharing
- Create a Robust PPP Market Interface
- **Recommend FEC Approval**

- Technical Adviser
- Project Monitoring
- Commissioning Test
- Verify Output Requirements
- **Contract management**

- Take custody and Ensure Compliance with Terms and Conditions of Agreement
- **Contract management**

MDA

FOCUS ON BANKABLE PPP PROJECTS TO MARKET



- **IRR > Weighted Average Cost of Capital**
- **RoE > Shareholders Requirement**
- **Debt Service Cover Ratio > Bankers or Lenders Requirements**
- **Loan Life Cover Ratio > Bankers or Lenders Requirements**

Focus on not just comparative but competitive advantage !!

Viability Gap Funding and FGN Capital Grant

NSIA – Infrastructure Enabler Investments

Ideas don't get funded bankable projects get funded. We are taking to market projects with robust cash flows and cost reflective returns

We are providing an environment where investors will invest, to provide services, recoup their investments without exploiting the masses – HE GEJ



PPP Project Pipeline

ICRC

Nigerian PPPs First Mover Projects Pipeline



- Power (Hydro Gencos)
- Transport (Roads)
- Transport (Rail and Ports)
- Urban Infrastructure (FCT)
- Social (Hospitals)

ICRC

Katampe District Infrastructure PPP



Key Facts

- 1st of 5 Districts in FCT approved for development through PPP
- Type: Design, Finance, Construct, and Transfer
- Scope: Roads, Sewage Network, Water Supply Network, Storm Water Network, Electrical Distribution Network, Telecom Ducts
- Parties: The FCDA of Nigeria and Deanshanger Project Ltd
- Value: N61 billion (\$400 million)
- Contract Period: 5 Years
- Construction Risk: Private Sector
- Revenue Risk: Public sector
- FGN Sovereign Guarantee Approved



PPP Pipeline – Other Project Opportunities



- 2nd Niger Bridge, MMIA Airport Rd
- High Speed Rail, NRC Narrow Gauge Railway and Stations Redevelopment
- Agro Processing – SCPZ, Silos, Irrigation
- Deep Sea Ports – Ibeja & Lekki; Inland Ports (Onitsha, Lokoja, Baro etc)
- Dams and Hydro Power
- Hospitals and co location facilities (Imaging, Diagnostics, Dialysis)
- Social Housing and Urban Infrastructure/Abuja Light Railway
- National Theatre
- Independence Building – WTC (Unlock land value)
- Unsolicited Proposals (Swiss Challenge Process) Ilorin Kaduna Road,
- List of 19 projects published. More to come
- NIIMP (Integrated PPP Project Pipeline List)

PPP Opportunities— States and LGs



- Integrated Markets, Slaughter Houses
- Agro Processing – SCPZ, Silos, Irrigation, Farm Mechanization Centres
- Small Dams and Hydro Power
- Hospitals and co location facilities (Imaging, Diagnostics, Dialysis)
- Mobile Clinics
- Social Housing and Urban Infrastructure/Light Railway/BRT
- Transport/Bus Terminals with Commercial Complexes, Truck Stops
- Student Housing
- State Roads

I C R C

... Challenges



GOVERNMENT COMMITMENT

- Needs patience & commitment to follow through

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 and unreliable (**NIIMP**)
- Capacity/Skills & commitment to Planning
- Tendency to short-circuit procedures

PROJECT DEVELOPMENT AND PROJECT MANAGEMENT

- Lack of skills in project identification, risk analysis, financial modelling and project management framework/skills;
- 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

Good governance lessons for PPPs from other climes?



- Stable policy & regulatory framework – competition/ entry criteria, role of the private sector, use of limited natural resources, setting of tariffs, real estate
- Long term strategy/ plan – owned by the govt.
- Adequate project development – capacity to develop projects of requisite scale
- Equitable contractual framework – risk allocation
- Transparent selection process – competitive bidding
- Reliable revenue sources - sustainability
- Managing the unexpected – implementation & monitoring/ partnership in practice
- Political will – central to governance

(Source – Cherian Thomas IDFC India)

Transformational Possibilities



Dubai 1990

**UAE – 1971
74 Public and
Private
Schools, 7
Hospitals, 40
Graduates no
University –
Sheik
Maktoum**



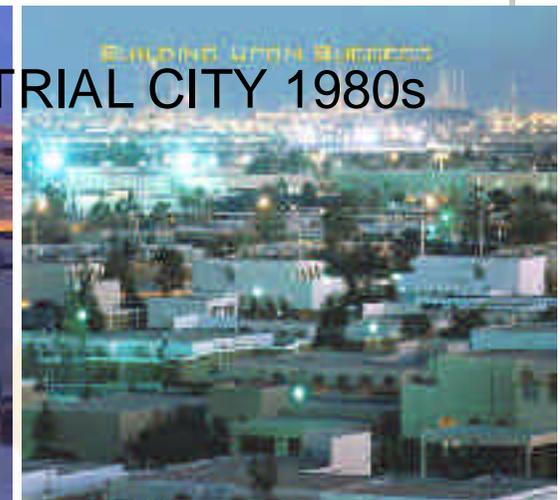
Same Street in 2008

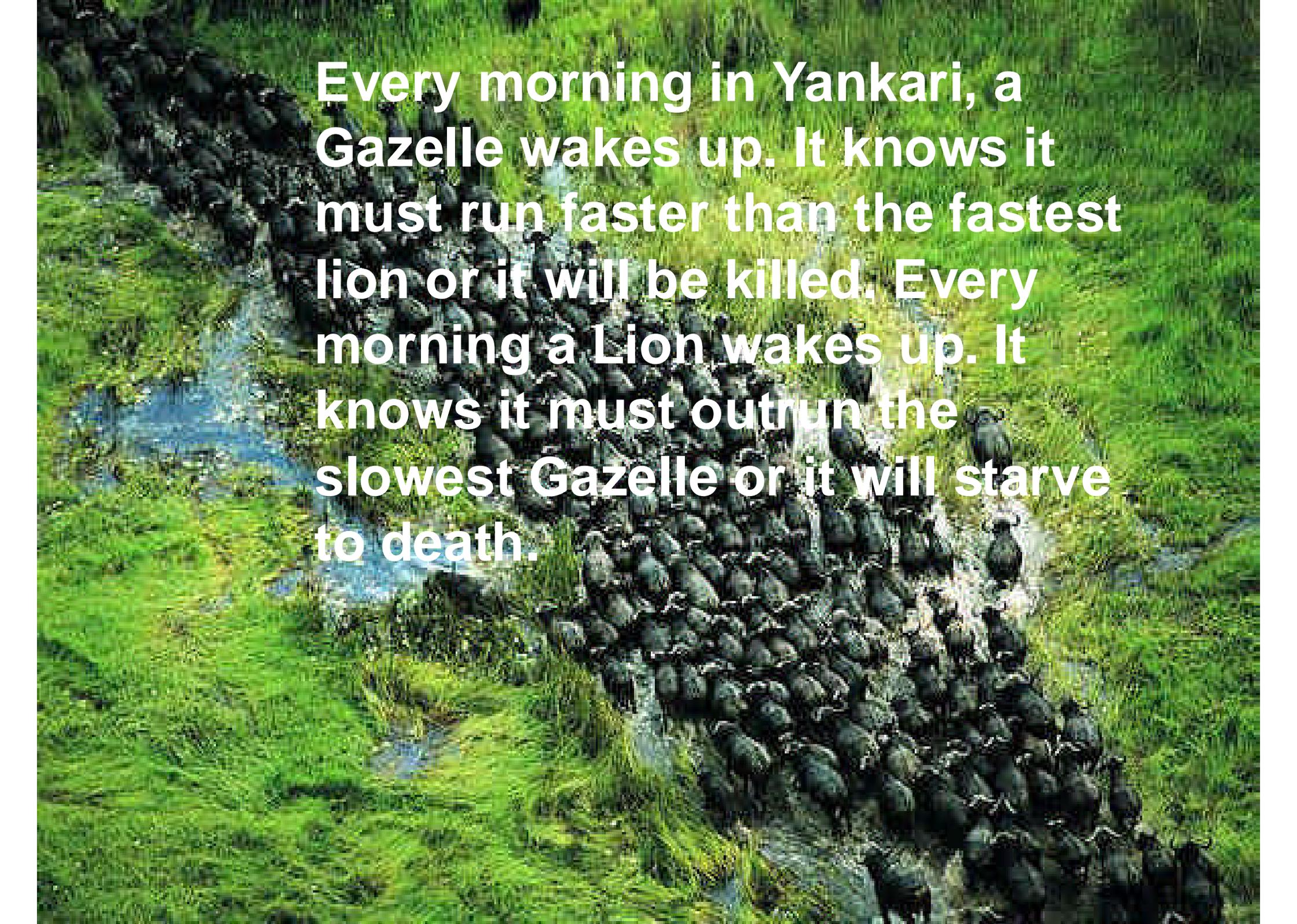


SAUDI JUBAIL FISHING VILLAGE – 1970s



SAUDI JUBAIL INDUSTRIAL CITY 1980s



A large herd of gazelles is captured in the middle of a river, splashing water as they run. The background shows a lush green savanna with tall grass and scattered trees under a bright sky. The text is overlaid on the left side of the image.

Every morning in Yankari, a Gazelle wakes up. It knows it must run faster than the fastest lion or it will be killed. Every morning a Lion wakes up. It knows it must outrun the slowest Gazelle or it will starve to death.

**It doesn't matter whether
you are a Lion or a
Gazelle... when the sun
comes up, you'd better
be running.**





Office of the Director General

Infrastructure Concession Regulatory Commission

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Public Private Partnerships in South Africa– what has worked and what has not

PRESENTER: James Aiello

10 July 2014

CONTENTS OF PRESENTATION

- Introduction and background
- Challenges to any PPP
- South African success factors
- Fundamentals of South African PPPs
- South African PPP processes
- Successfully-implemented projects
- Projects that didn't work out as planned
- The future: Specialized Procurement Services

INTRODUCTION AND BACKGROUND

- In 1997, the South African Cabinet appointed an inter-departmental task team to create an enabling environment for PPPs
- In 1999, the Public Finance Management Act was adopted as well as the *Strategic Framework for PPPs*
- In 2000 the PPP Unit was established in the Department of Finance and the first PPP regulations enacted
- The mandate was to support PPPs in the national and provincial spheres of government
- In 2004 the *Public Private Partnership Manual* and the *Standardised PPP Provisions* were adopted providing technical and contractual guidance
- In 2005 the mandate was expanded to include supporting PPPs in the municipal sphere of government, and the *Municipal services and PPP Guidelines* were published

PPP UNIT TODAY

- Total staff complement is 18
 - Thirteen professionals
 - Four support staff
 - One office manager
- A division of the Government Technical Advisory Centre (GTAC), an agency of the Department of Finance
- Offices in Tshwane (Pretoria) South Africa
- Closed 24 PPP projects in excess of R60 billion
- Provided specialized procurement services to the Department of Energy (IPPs) and the Department of Transportation (PRASA) for non-PPP projects valued in excess of R153 billion

CHALLENGES TO ANY PPP

- The biggest challenge is TIME
 - Procurement of infrastructure is intensely political
 - Politicians are keen—
 - To produce infrastructure quickly
 - To preserve their decision-making prerogatives
 - To reward supporters
 - PPPs require
 - TIME to undertake a proper comprehensive feasibility study
 - TIME to secure required approvals and
 - TIME to conduct a fair, equitable, transparent and competitive procurement process

CHALLENGES TO ANY PPP

- The financial community in any country is risk averse
 - Key PPP requirement is transfer of financial risk to private party
 - Lenders resist accepting risk
 - Greatest time is spent negotiating level of risk they will accept
 - South Africa has a policy of selectively providing a capital grant to the PPP project sponsor to reduce the amount of debt the private party must provide
 - Considerable time has been spent with representative of lenders to try to find an acceptable solution

CHALLENGES TO ANY PPP

- Dealing with the lack of capacity within governmental entities to undertake PPPs
 - There is a massive skills shortage in many African nations which affects government as well
 - Lack of capacity is particularly acute in terms of the appointment of a Project Officer to guide a project through a feasibility study and procurement
 - Government should maintain a special account to provide funding for the procurement of a Project Officer and other Consultants
 - Dealing with lack of reliable information
 - Dealing with government staff turn-over

CHALLENGES TO ANY PPP

- Even when properly done, PPP processes take a certain amount of time
 - A feasibility study can take from six to eighteen months
 - A Request for Qualifications (RFQ) process can take six to eight months
 - The Request for Proposals process, including negotiating with the preferred bidder can take a year or more
 - There is no simple answer – these are complex matters
 - Worldwide and in Africa, the knowledge that a project has undergone the rigours of a feasibility study and a transparent bidding process typically ensures a successful project, whereas a conventional procurement may – and often does -- not

SOUTH AFRICAN SUCCESS FACTORS

- Detailed Legislative Framework in place
 - Public Finance Management Act (PFMA)
 - PFMA Treasury Regulation 16
 - Public-Private Partnership Manual
 - Standardised Public Private Partnership Provisions
 - Public Private Partnership Toolkit for Tourism
 - Local Government: Municipal Systems Act
 - Municipal Finance Management Act (MFMA)
 - Municipal PPP regulations
 - Municipal Service Delivery and PPP Guidelines

SOUTH AFRICAN SUCCESS FACTORS

- Highly Capacitated PPP Team in Place
- Work is allocated to staff by sector

Health

Energy

Water

Transport

Tourism

Business Development

Accommodation

Education

Contract Management

Project Development Account

Waste

International Relations

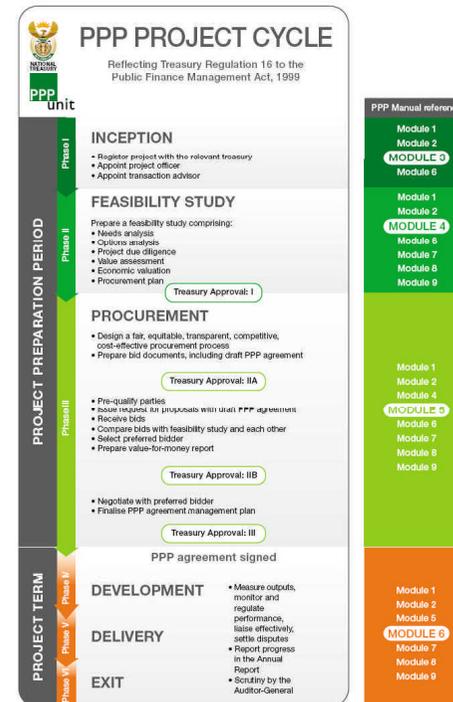
GOING FORWARD

- Team won't only be advising on PPPs
- Will also advise on all significant capital expenditures above a specified floor
- These projects will be required to complete a comprehensive feasibility study to ensure that all such expenditures provide the best value for money for the nation
- The team will also be available for international assignments, particularly within Africa

FUNDAMENTALS OF SOUTH AFRICAN PPPS

- Three tests for a PPP:
 - **Affordability**
 - **Value for money**
 - **Appropriate risk transfer**

- Applied in a set PPP project cycle:
 - Inception
 - Feasibility
 - Procurement
 - PPP agreement management



FUNDAMENTALS OF SOUTH AFRICAN PPPS

- Worldwide, experience has shown there are certain requirements for successful PPPs, all of which are present in South Africa
 - A functioning judicial/legal system
 - Capacitated, committed government officials
 - Demonstrated, capable private sector and
 - An enabling PPP framework

SOUTH AFRICAN PPP PROCESSES

- Inception
 - Government Department registers project with PPP Team
 - Meets with team to discuss
 - Nature, parameters of the project
 - Appointment of Project Officer
 - Procurement of Transaction Advisors
 - Procures Project Officer
 - Procures Transaction Advisor
 - Project Development Account is available

SOUTH AFRICAN PPP PROCESSES

- *Feasibility Study*
 - Needs analysis
 - Options analysis
 - Project Legal Due Diligence
 - Value Assessment
 - Public Sector Comparator (PSC)
 - Risk-adjusted PSC
 - Private Sector Reference
 - Value-for-Money determination
 - Economic Valuation
 - Procurement Plan
 - Environmental/other consents
- Treasury Approval (TA I)

SOUTH AFRICAN PPP PROCESSES

- *Procurement*
 - Fair, equitable, transparent, competitive, cost-effective bid process
 - Request for Qualifications (RFQ)
 - Short List
 - Request for Proposals (RFP), with draft PPP agreement
 - Treasury Approval IIA (TA IIA)
 - Issue RFP to short-listed bidders
 - Compare with feasibility study and each other
 - Select preferred bidder
 - Prepare value-for-money report
 - Treasury Approval IIB (TA IIB)

SOUTH AFRICAN PPP PROCESSES

- *Procurement, continued*
 - Negotiate with Preferred bidder
 - Prepare PPP Agreement Management Plan
 - Treasury Approval III (TA III)
- *PPP Agreement Management*
 - Development
 - Obtain environmental/other consents
 - Construct infrastructure
 - Delivery
 - Service delivery
 - Exit
 - At expiry, Government Department takes over project

SUCCESSFULLY-IMPLEMENTED PROJECTS

- The South African PPP Team has closed 24 PPP projects in the following sectors:
 - Health Care, including medical equipment installation, operation and maintenance, hospital co-location, provision of renal dialysis services, and hospital refurbishment, maintenance and operation at various hospitals
 - Office Accommodation, for the financing, design, construction, maintenance and operation of office accommodation facilities for government departments
 - Toll Roads, for commercial and tourism activities
 - Social Grants, for the distribution of social grants, including the accounting therefor
 - Fleet Management, for the provision and maintenance of motor vehicle fleets for government departments
 - IT, for the provision, maintenance and upgrading of IT equipment for government departments
 - World Heritage Site, for the design, construction, maintenance and operation of the Cradle of Humankind World Heritage Site
 - Rapid Rail, for the partial financing, design, construction, maintenance and operation of a Rapid Rail system
- Note: PPP regime is not applicable to State Owned Entities

SUCCESSFULLY-IMPLEMENTED PROJECTS

- Some significant projects –
 - Albert Luthuli Hospital – the first “paperless” hospital in Africa
 - Polokwane renal dialysis facility – private sector rendering both facility and clinical services
 - Biovac Institute – country-wide vaccine repackaging and distribution
 - Gautrain Rapid Rail Project -- first of its kind in Africa
 - Chapman’s Peak toll road – one of South Africa’s most scenic drives
 - Department of Transportation transversal fleet management – fleet management services for most national departments including the Office of the Presidency
 - Head Office Accommodation
 - Department of Trade and Industry Campus
 - Department of Basic Education
 - Department of International Relations
 - Department of the Environment
 - Statistics South Africa
 - (soon) Tshwane (Pretoria) City Hall (Munitoria)
 - Cradle of Humankind World Heritage Site

POLOKWANE KIDNEY AND DIALYSIS CENTRE

- Before 2000, haemodialysis patients transferred 300 kms to Pretoria from Polokwane for treatment – some as many as three times a week
 - In 2004, registered as a PPP and issued a Request for Qualifications (RFQ)
 - Request for Proposals (RFP) issued in 2005
 - Sought proposals for design, construction and upgrade of existing dialysis unit, construction of a new unit and provision of facilities management, maintenance and replacement of renal dialysis equipment and the staffing of the new renal dialysis unit at the Polokwane hospital complex
 - PPP agreement signed 10 November 2006 – service commenced 1 December
 - Winning bidder provided all of the financing – no lenders involved
 - Construction commenced 5 March 2007
 - Phase I completed 22 August 2007
 - Phase II completed 15 November 2007
 - Completion certificate awarded 12 May 2008
 - Full service commenced 1 April 2008
 - NPV of Unitary Payments to service provider for 10 years of project = R88.3 million

POLOKWANE KIDNEY AND DIALYSIS CENTRE

- Partners
 - Government of Limpopo Province
 - Clinix Renal Care (Pty) Ltd– the SPV for the project, with Emang/Thagang Joint venture as the Construction subcontractor
 - Fresenius Medical Care South Africa (Pty) Ltd – performance guarantor to Clinix Renal Care
- Operations
 - Facility able to cater for 80 haemodialysis and 50 peritoneal dialysis patients – previously could only cater for 30 patients
 - Concession Period is 10 years
 - Target Black Economic Empowerment in the project: 50%
 - Payment mechanism: Unitary Payment based on a “procedure fee” subject to annual CPI escalation
- Current Status
 - Treatment of 1500 Haemodialysis Dialysis patients a month
 - Acute dialysis services and peritoneal dialysis outpatient services in place
 - All facilities management service ISO 9001 & ISO 14001 certified
 - Staff training – six staff training to be nephrology nurses
- Management
 - Joint management, monthly meetings, all processes audited

PROJECTS THAT DIDN'T WORK OUT AS PLANNED

- Social Grant Distribution – really not a PPP because no significant financial risk carried by the private party. When project came to an end, was not re-tendered.
- Department of Labour IT PPP – IT technology changes so fast that value for money was difficult to maintain. However, when contract expired, Department had to keep private party on because it lacked the capacity to take the project over.
- Cradle of Humankind World Heritage Site – tourist attractions don't make good subjects for PPPs unless private sector party is an experienced, capable marketer
- Pharmaceutical distribution system – this project could have been one of the most successful, but at the conclusion of the tender processes, the government of the province changed, and the new government terminated the project without ever trying to implement it

THE FUTURE: SPECIALISED PROCUREMENT SERVICES

- As a division of GTAC, the PPP Unit's mandate has been expanded to include providing specialist procurement services which will include
 - Comprehensive feasibility studies
 - Disciplined, robust procurement processes
- Mandate has also been expanded to include providing technical advisory services outside the Republic
- Will continue to provide PPP training services within the Republic and internationally as well

CONCLUSION

- Based on Partnership UK principles the PPP processes have been contextualized to reflect the realities of both government and the private sector in South Africa
- That contextualization is never complete – we are always evolving
- We don't claim to have all the answers or to do everything right the first time, but we are keen to learn from our mistakes and to offer our insights to any other government, in Africa and elsewhere, where PPPs are being considered.

Thank you for your attention

James Aiello

Senior Project Advisor

PPP Division, GTAC

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Republic of South Africa

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South African Experience - Localising the Largest ever Locomotive Order

*Strictly Private
and Confidential*

9th & 10th July 2014



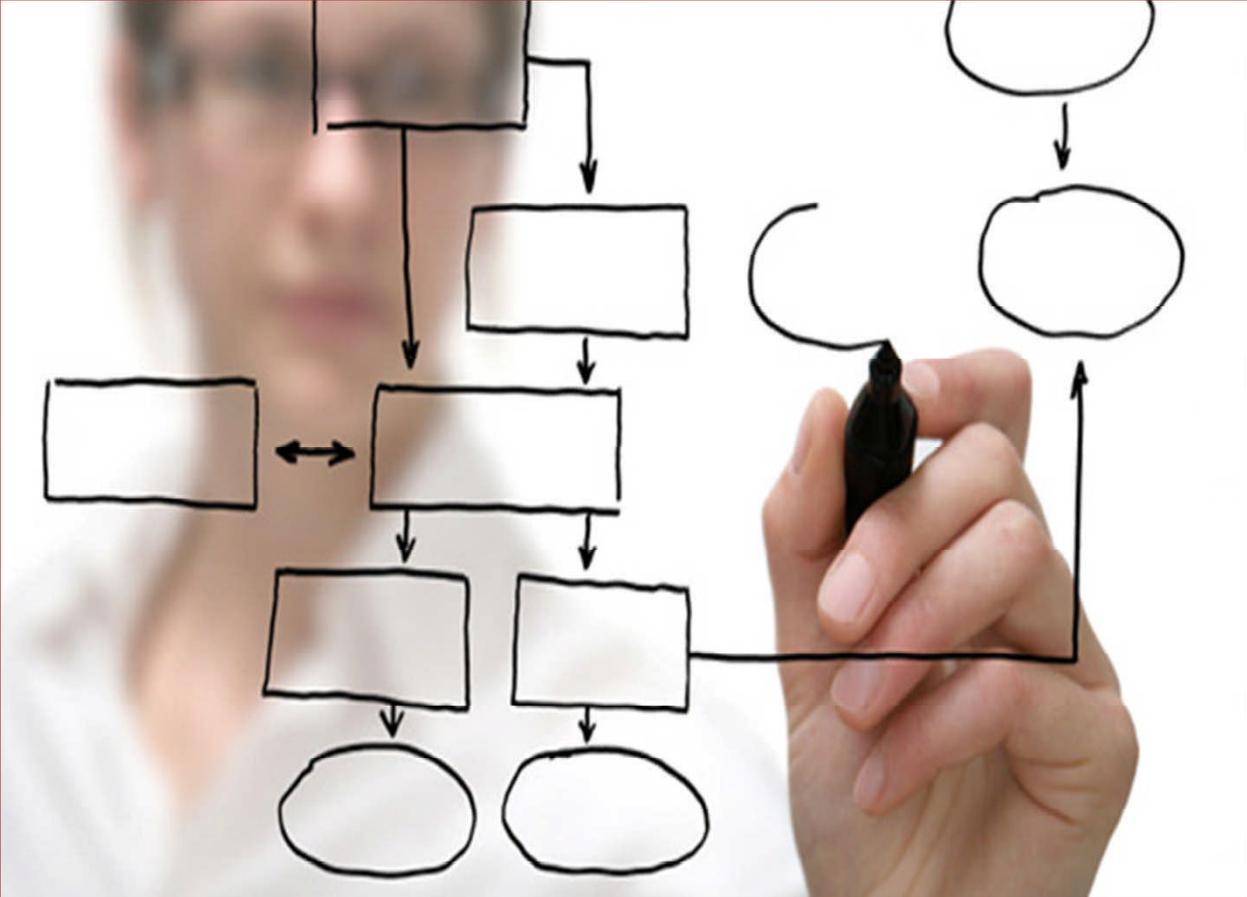
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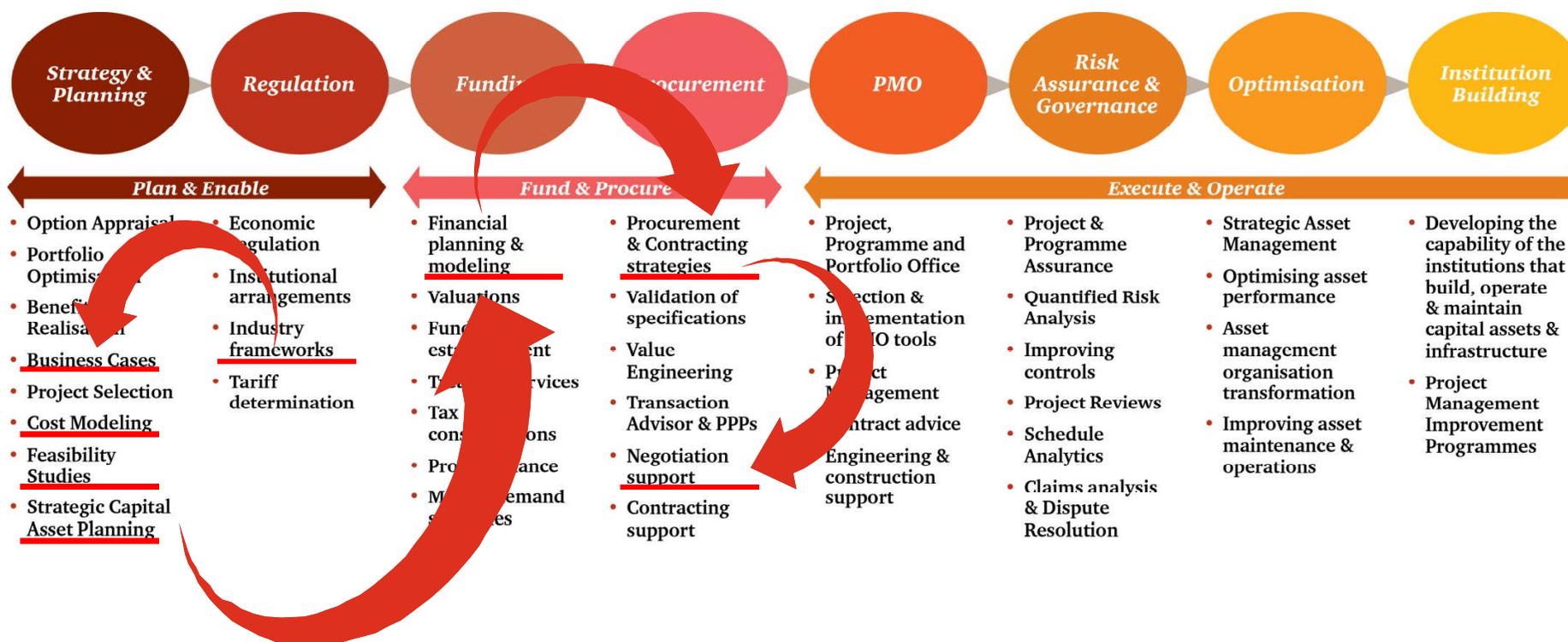
The locomotive localisation opportunity for South Africa

1



The PwC Capital Projects & Infrastructure (CP&I) Project Lifecycle

How we can help



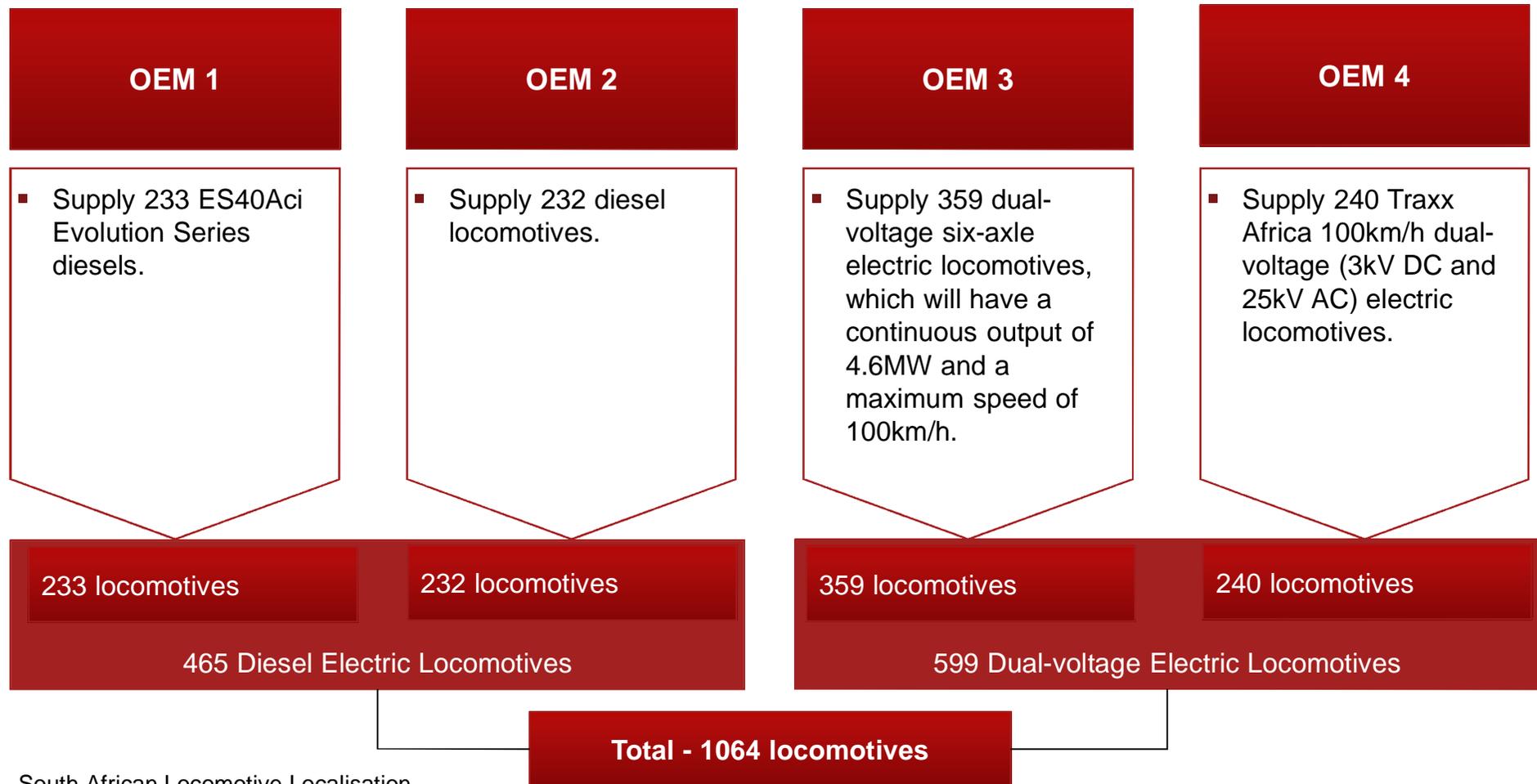
The 1064 locomotive transaction

2



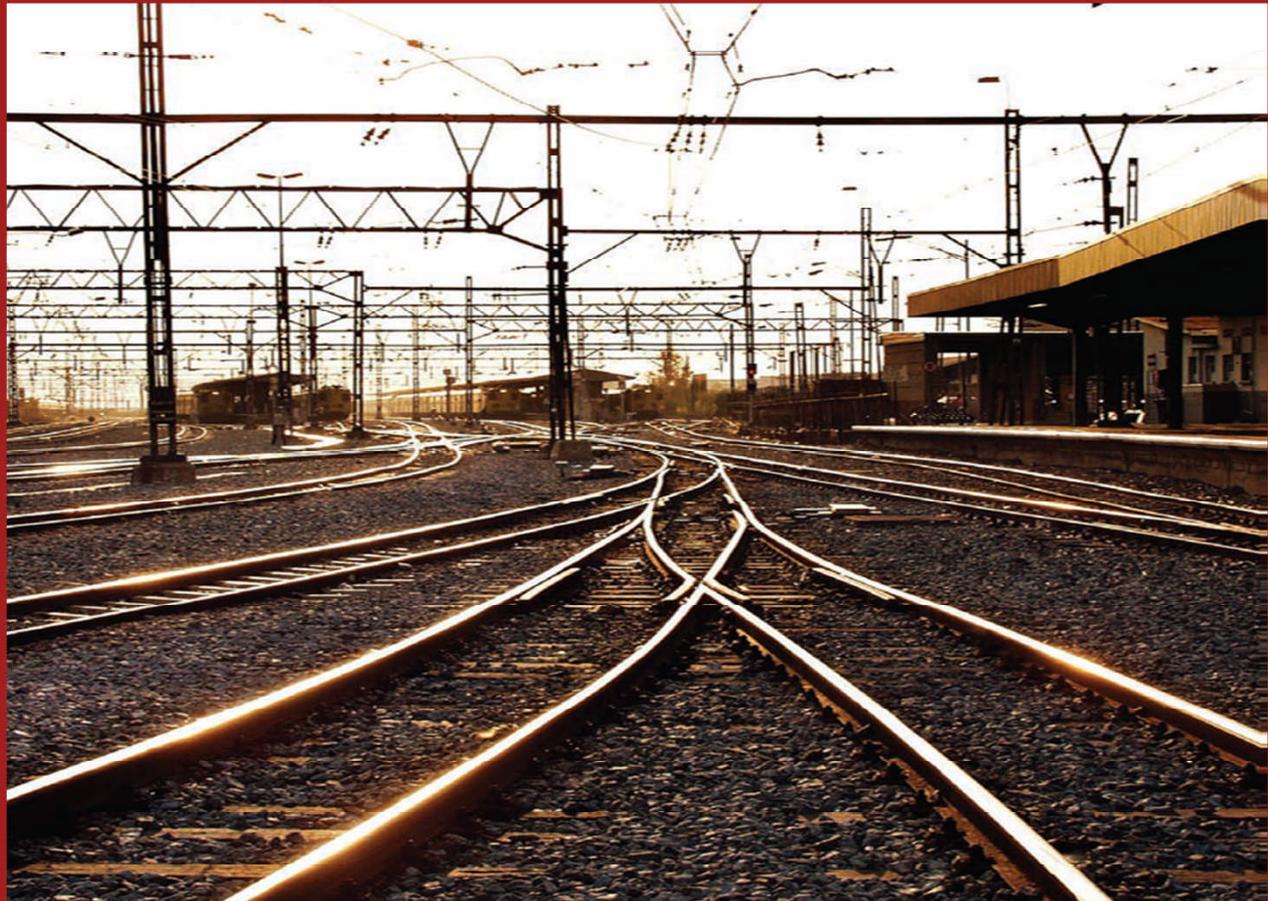
The Transaction

The 1064 locomotive order is made up of 599 dual-voltage electric locomotives and 465 diesel locomotives.

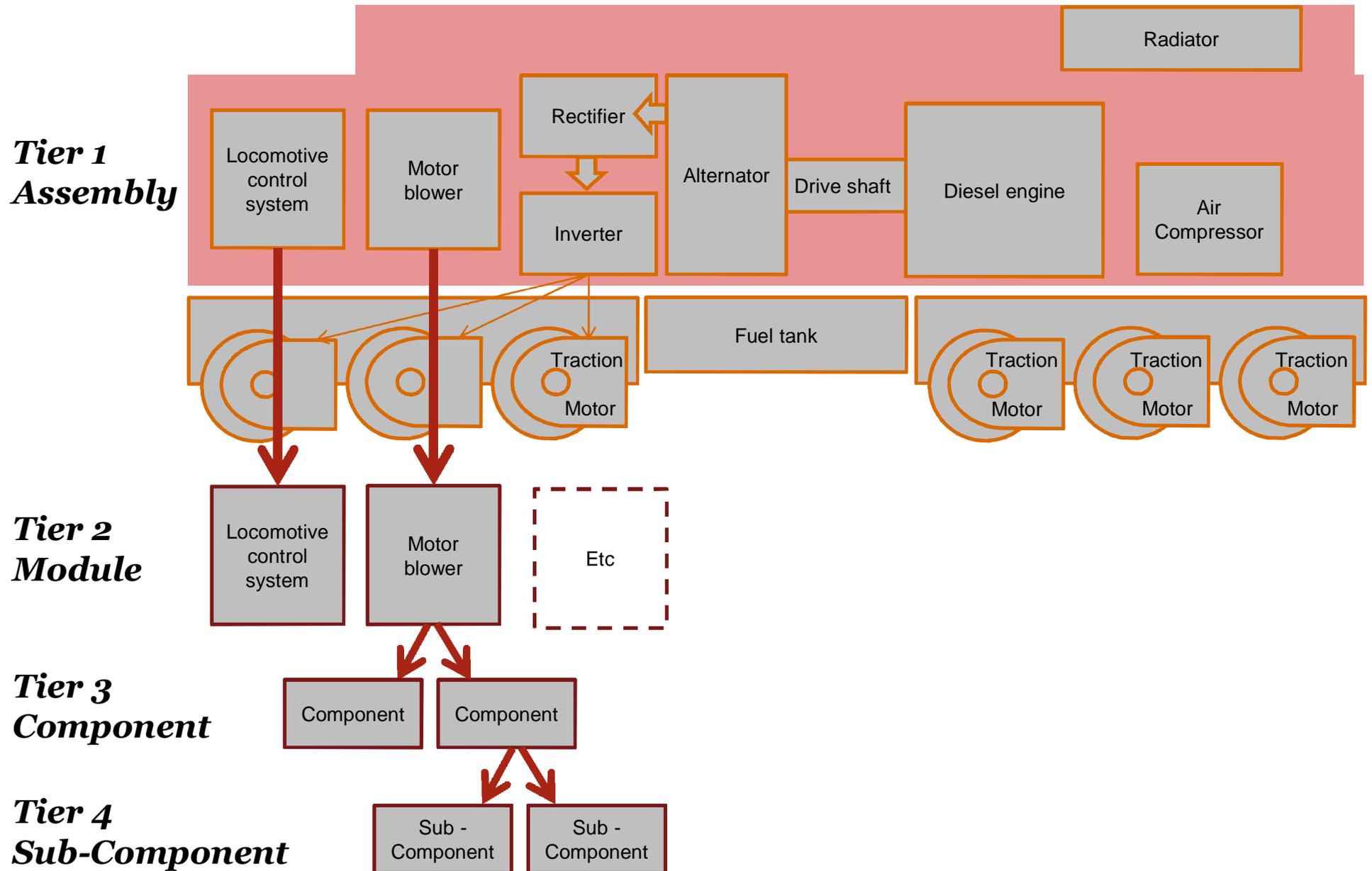


Creating strategic capability to manufacture rolling stock in South Africa

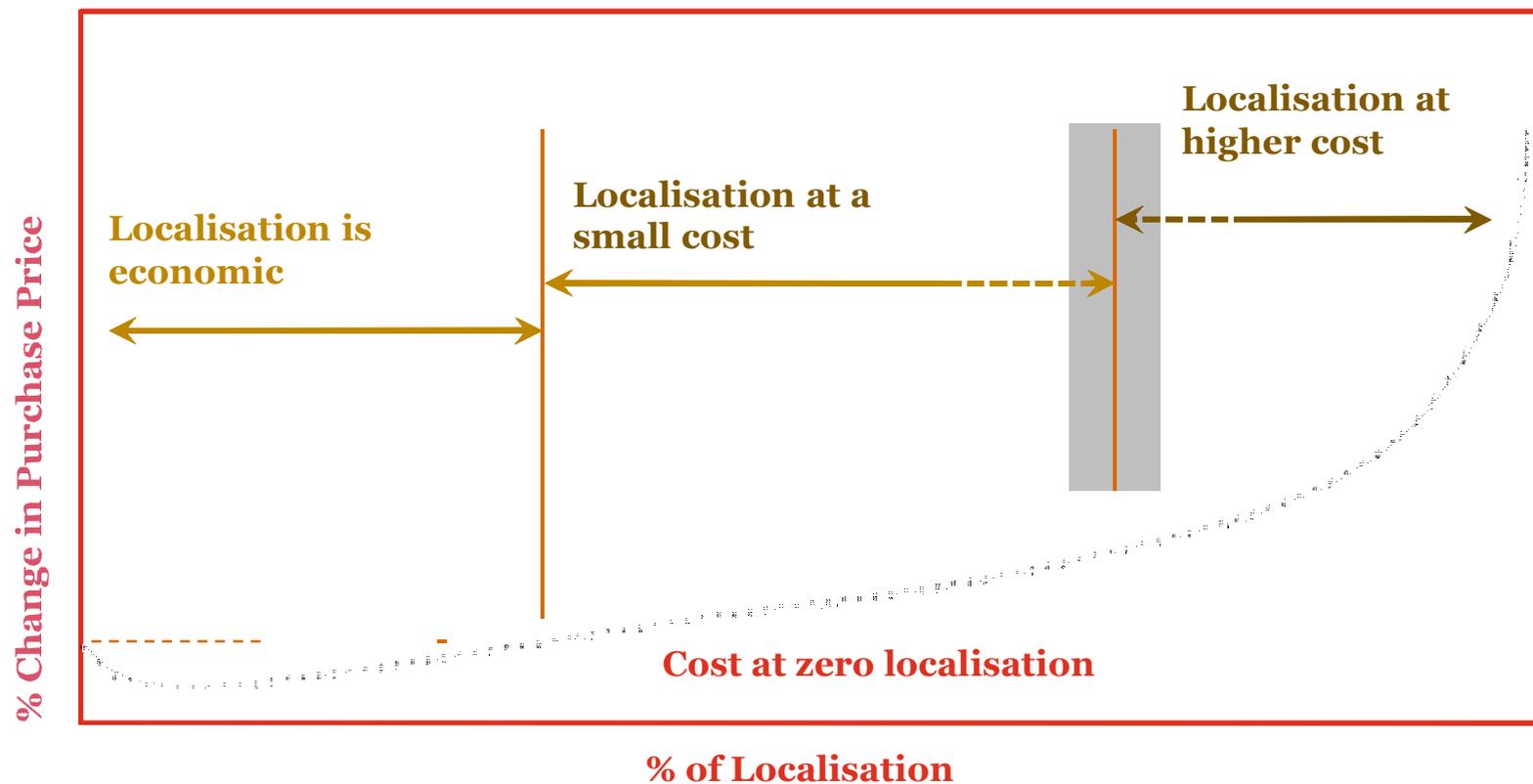
3



Diesel locomotive Mapping - Concept

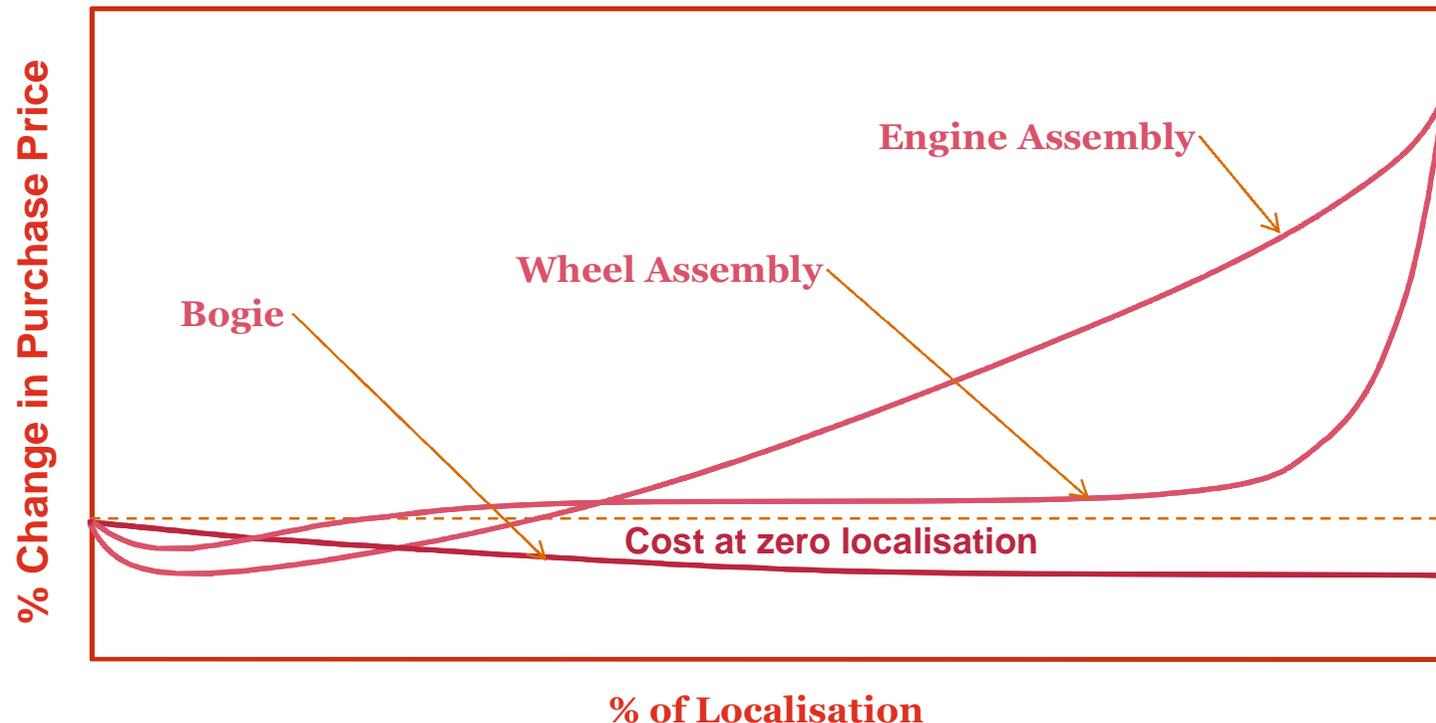


Cost to Localise increases with increasing level of localisation



- A grey zone exists where the limit of localisation is dependent on OEM investment in manufacturing in South Africa.

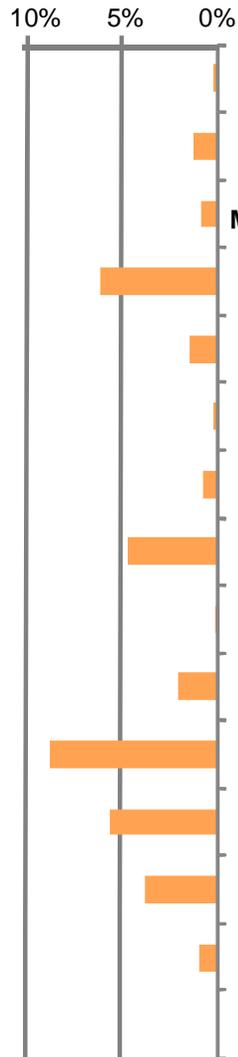
Each component within a locomotive has its own price verse localisation curve



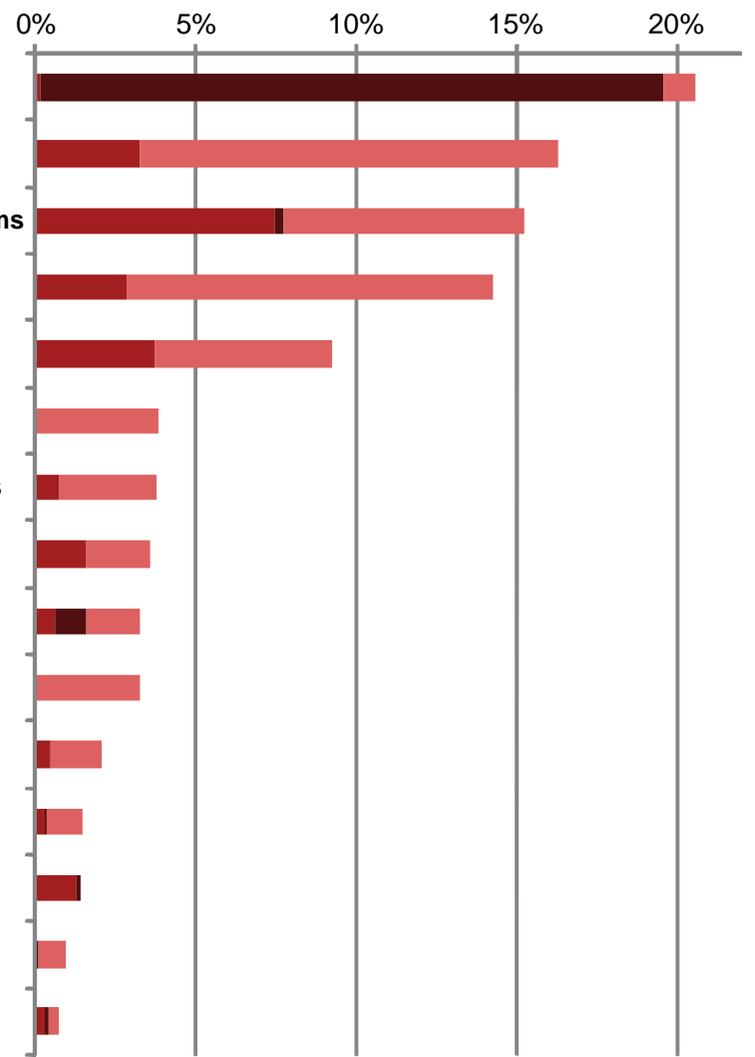
- One of the characteristic of the price to localisation curve for many component items is that the price-cost of localisation grows rapidly at high levels of local content requirements (80% to 100%).
- Forcing high localisation requirements on complex components will result in uneconomic price cost of localisation as well as possible compromises in safety critical items

Electric locomotive

Estimated cost to localise (%)



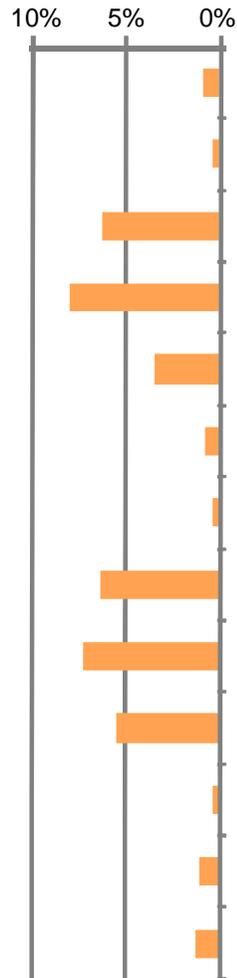
Current and target localisation (%)



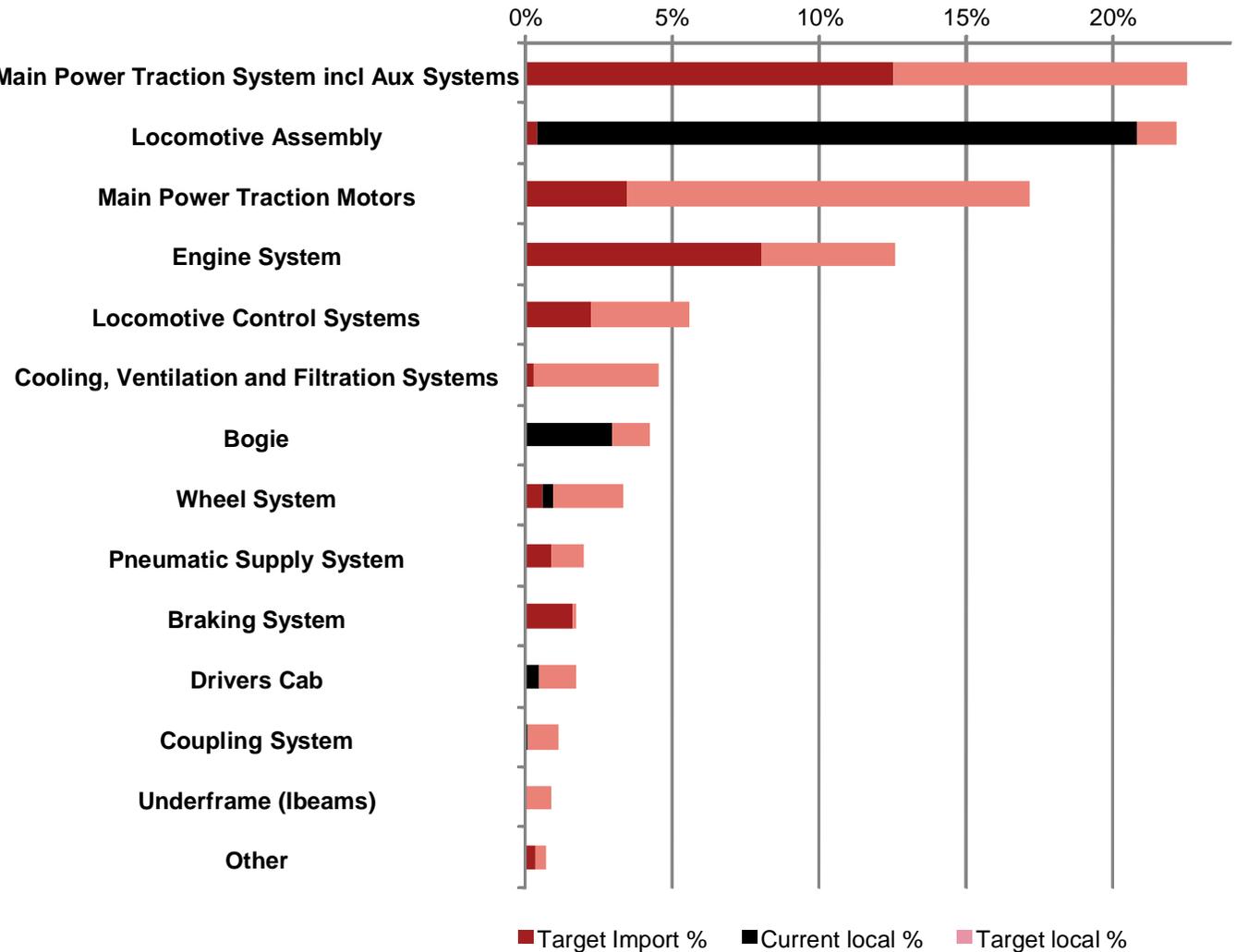
■ Target Import % ■ Current local % ■ Target local %

Diesel locomotive

Estimated cost to localise (%)



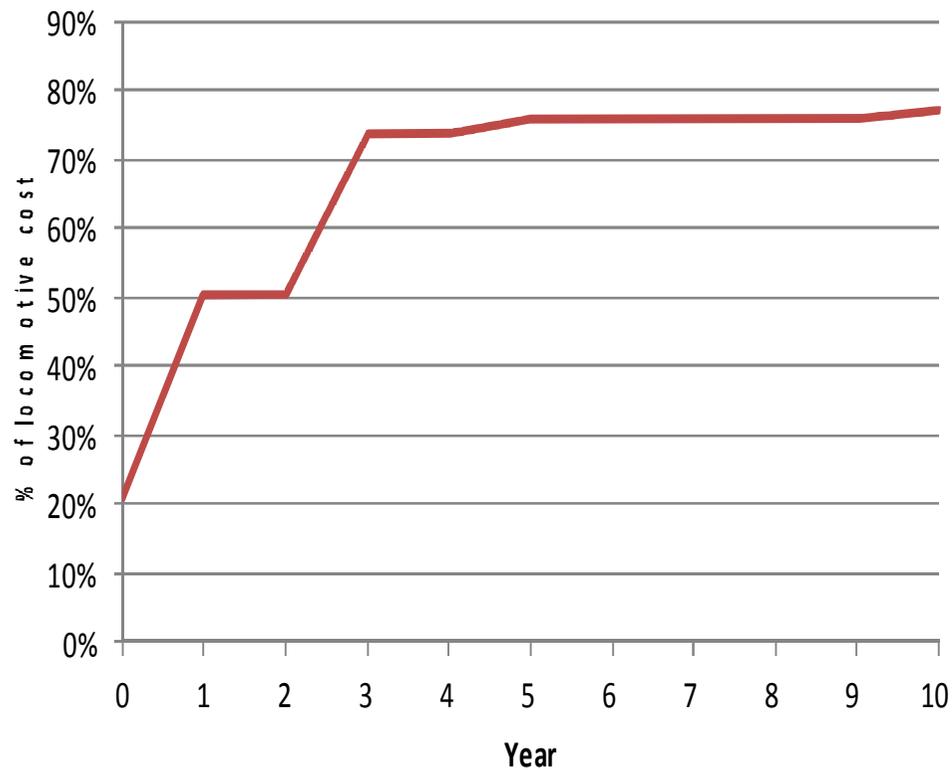
Current and target localisation (%)



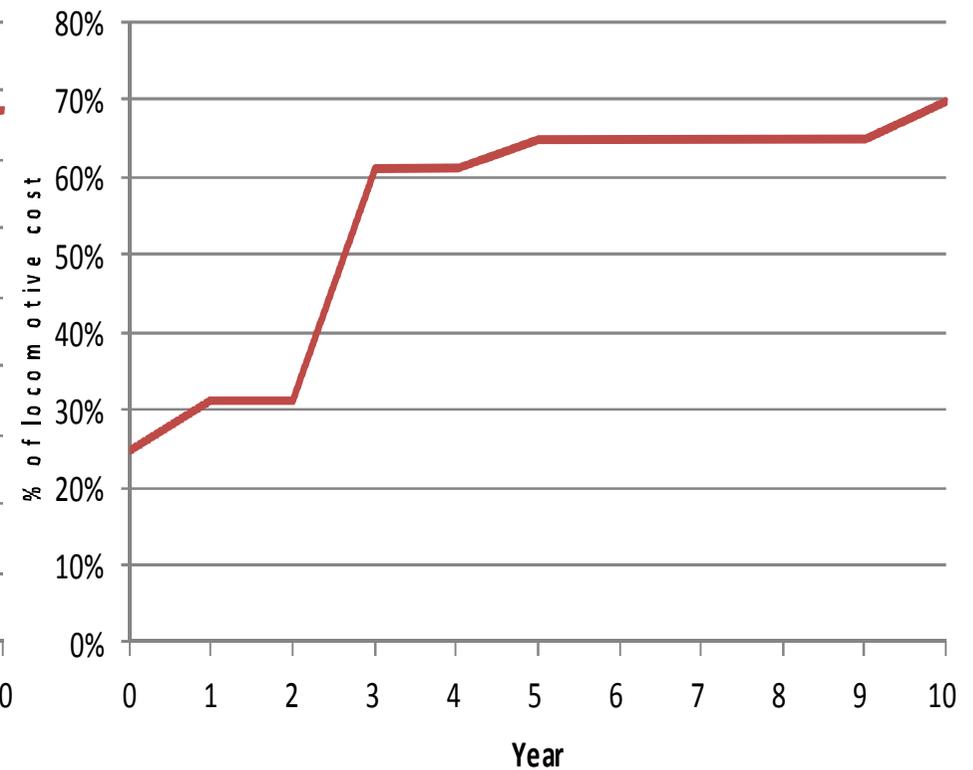
Time to localise

SA component suppliers are not yet able to produce full range of components. It will take 3 years to gear industry up

Electric Locomotive



Diesel Locomotive



Price competitive localisation at a low price cost of localisation is dependent on managed process that can provide scale

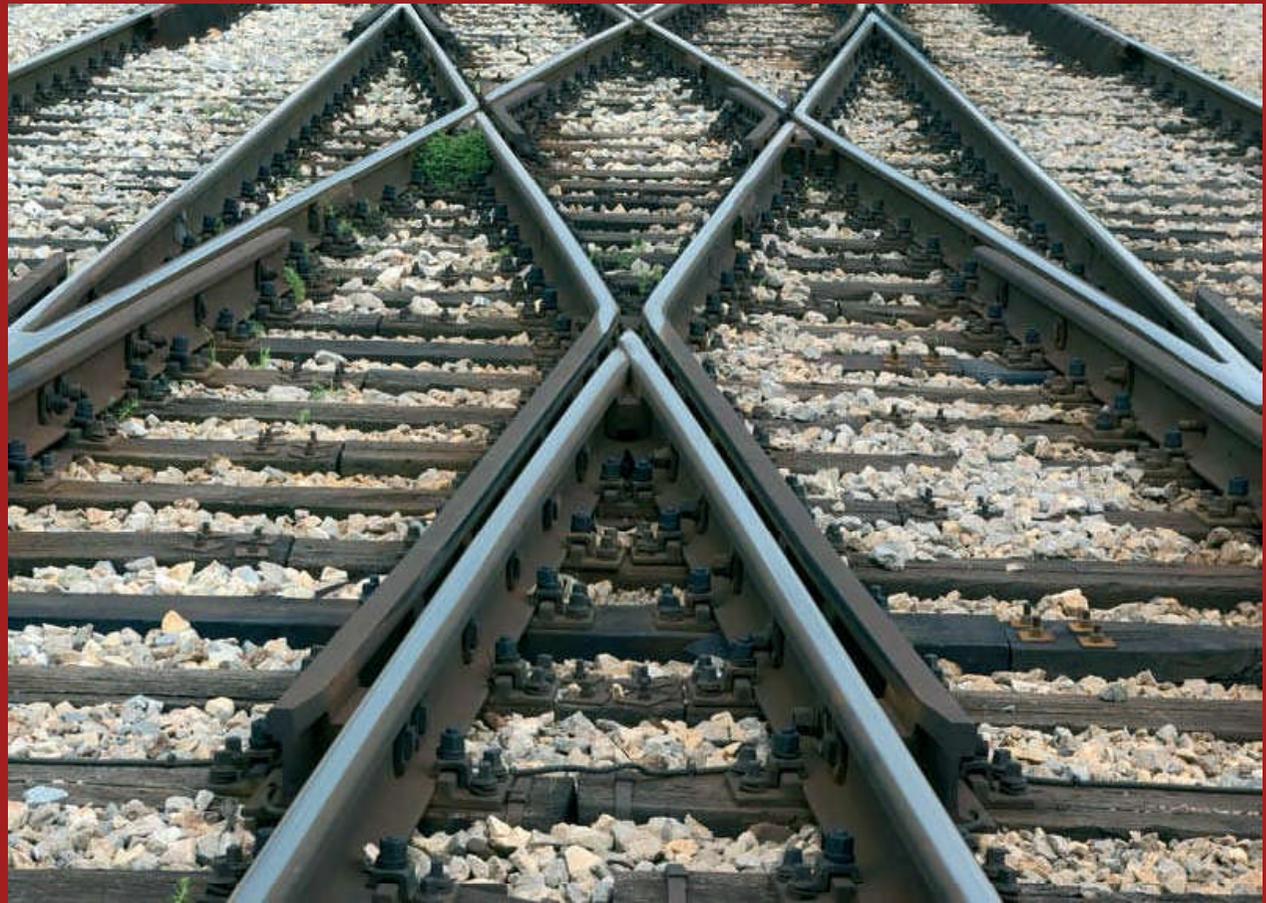
Three conditions need to be met:

1. Components are localised up to a level that is economically viable (i.e. that price cost of localisation for each set of components are economic),
2. Realistic time frame targets are set to reach full localisation potential. Shortening these time periods results in uneconomic price-cost of localisation, and
3. Minimum annual order size for locomotive production must be guaranteed to sustain localisation commitment.

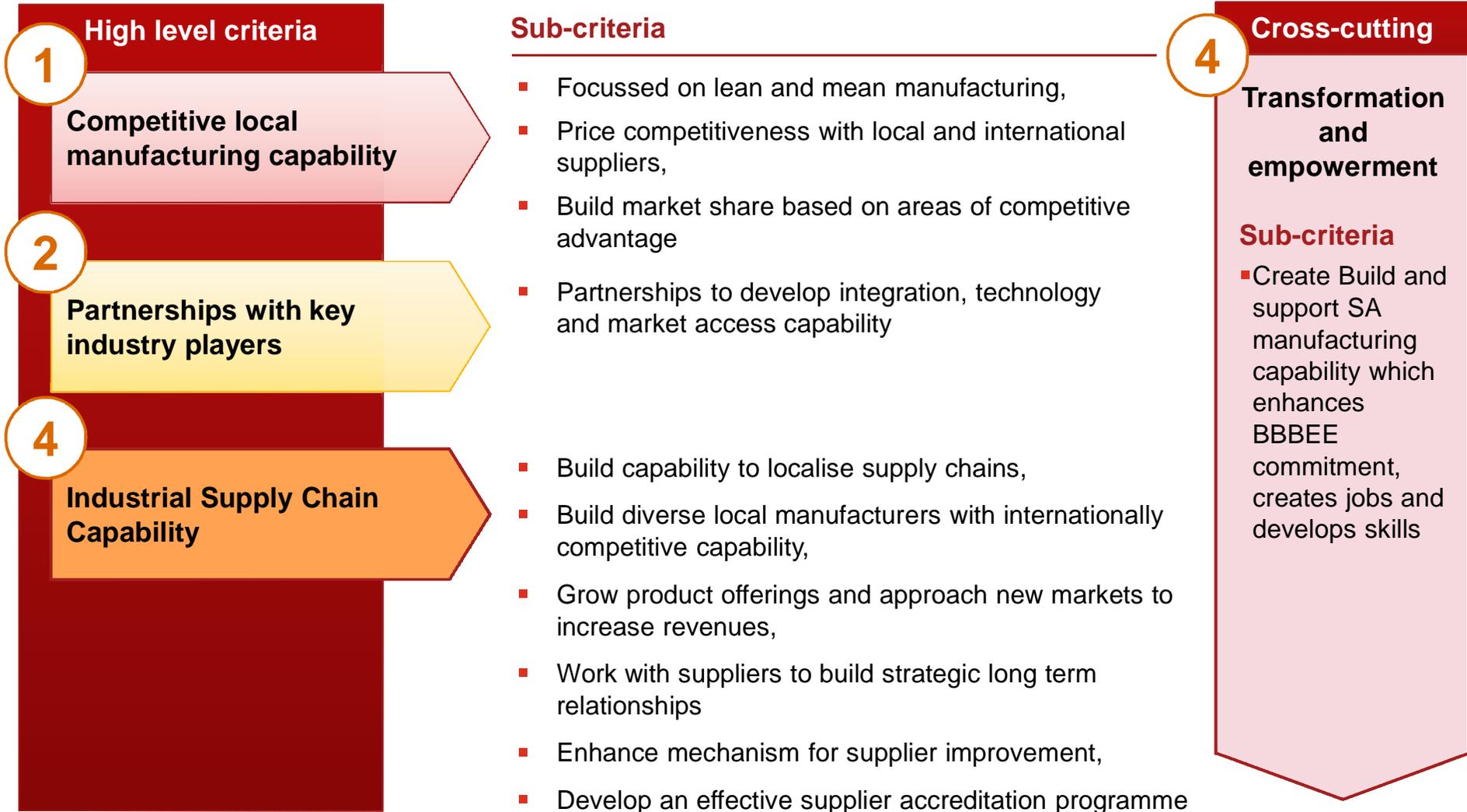
Sustainable local content requires scale. SA's ability to sustain scale requires a competitive growing heavy manufacturing sector. Localisation in one sector will benefit others.

Measuring the effectiveness of local content programmes

4



Criteria for measuring local content potential



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PwC Capital Projects & Infrastructure

ICRC Infrastructure Conference

Case Study – Power Transmission PPP

*Strictly Private
and Confidential*

10 July 2014



*PPP in the power sector –
Key success factors*

1

Key Success Factors



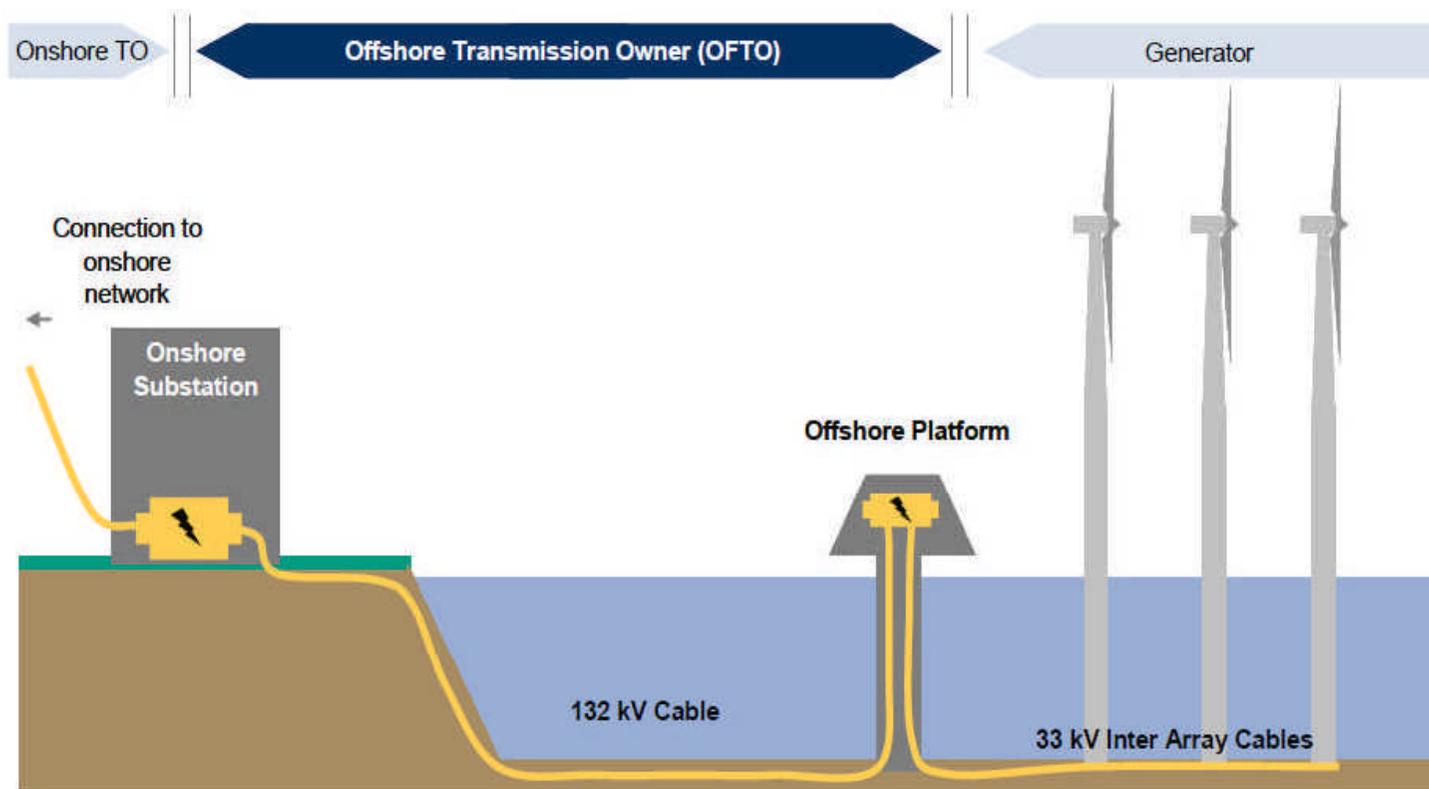
Case Study: UK Offshore Transmission

2

Offshore transmission

Unbundling offshore generation and transmission

- UK legislation from 2004 provides for competitive tendering of licences for offshore transmission ($\geq 132\text{kV}$)



Source: Ofgem

Tender process

Pre-qualification (PQ)

Qualification to tender (QTT)

Invitation to tender (ITT)

Best and final offer (BAFO)

Preferred Bidder (PB)

OFTO

9 February 2014

Offshore transmission

OFTO tender rounds and bidders

Asset	Value £m	OFTO / Preferred Bidder (PB)	Status
Transitional Round 1			
1 • Robin Rigg East & West	66	TCP(1)	Closed Mar 2011
2 • Gunfleet Sands I & II	49	TCP(1)	Closed Jul 2011
3 • Barrow	34	TCP(1)	Closed Sep 2011
4 • Walney I	105	Blue Transmission(2)	Closed Oct 2011
5 • Ormonde	104	TCP(1)	Closed Jul 2012
6 • Walney II	110	Blue Transmission(2)	Closed Sep 2012
7 • Sheringham Shoal	187	Blue Transmission(2)	Closed Jun 2013
8 • Thanet	c.163	Balfour Beatty	PB appointed
9 • Greater Gabbard	344	BB GET(3)	Closed Dec 2013
Transitional Round 2			
10 • Lincs	c.282	TCP(1)	PB appointed
11 • London Array	c.428	Blue Transmission(2)	Closed Sep 2013
12 • Gwnt y Mor	c.306	BBEC(4)	PB appointed
13 • Westof Duddon Sands	c.255	N.A.	PQ completed

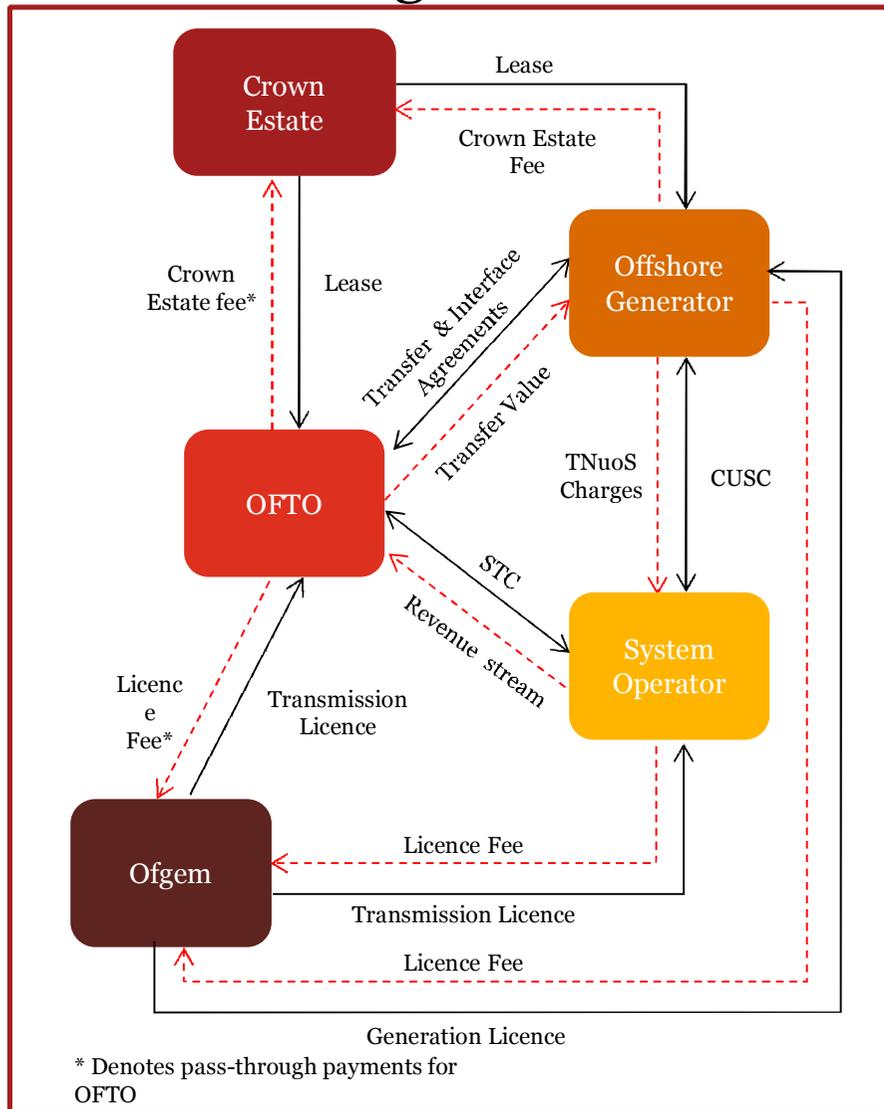
- (1) Consortium of Transmission Capital Partners and International Public Partnerships
 (2) Consortium of Barclays Infrastructure Funds and Mitsubishi Corporation
 (3) Consortium of Balfour Beatty, AMP Capital and Equitix
 (4) Consortium of Balfour Beatty and Equitix



9 February 2014

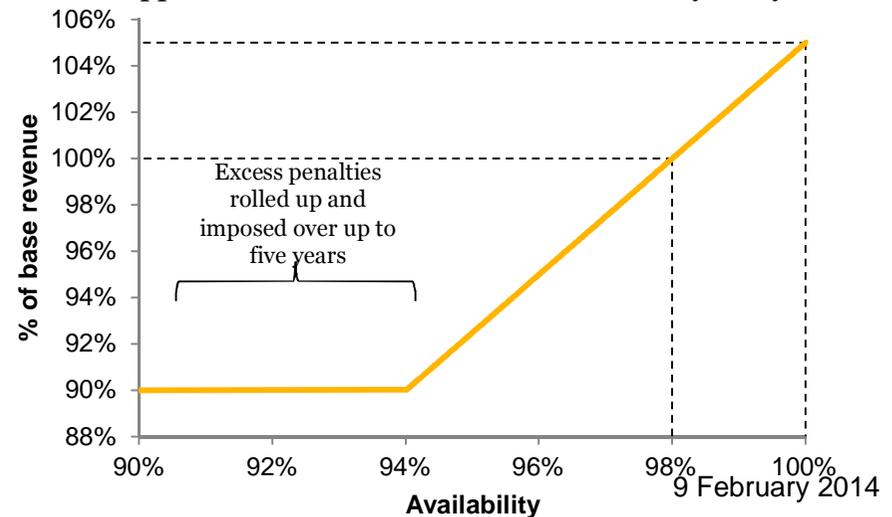
Offshore transmission

OFTO licencing and contractual arrangements



Revenue structure

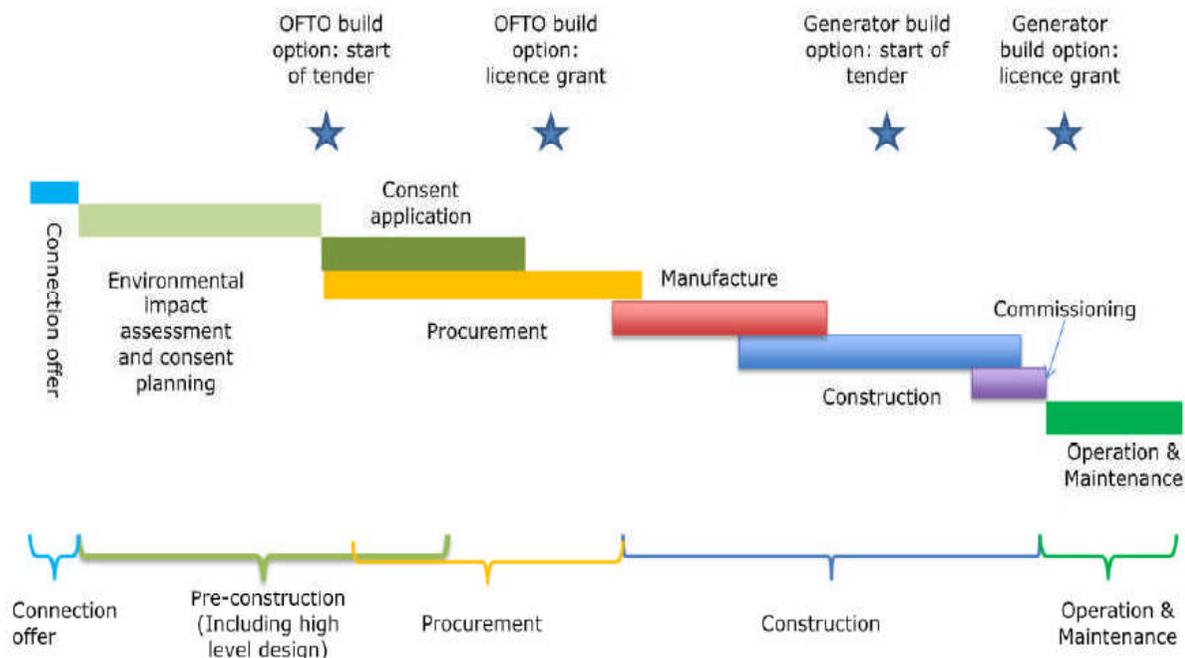
- 20-year fixed, fully RPI-indexed Tender Revenue Stream (TRS)
- Pass-through of pre-defined costs e.g. business rates, The Crown Estate lease costs, Licence fee
- Availability-based (independent of wind farm operations):
 - Target availability of 98%, monthly performance weighting
 - $\pm 2.5\%$ of revenue per 1% variance in availability
 - Capped deductions of 10% of revenue in any one year



Offshore transmission

OFTO enduring regime

- For the remaining assets generators will have a choice of the stage of development for asset transfer:
 - Generator Build** – transfer commissioned asset under similar process to transitional regime, or
 - OFTO Build** – undertake process to appoint an OFTO to take up responsibility for construction and design.



Source: Ofgem

Key issues

- Delivery of complex, bespoke assets**
 - Alliance contracting, target costing and other collaborative build models seen as more suited than competitive procurement tenders to delivering the “right” asset
- Timeliness**
 - Providing incentives for early development of the grid connection, a critical path item for wind farm operations
- Cost and fair return**
 - Treatment of anticipatory (potentially abortive) investment
 - Cap on “interest during construction” component of asset transfer values in the transitional rounds (10.8% then 8.5% pre-tax nominal WACC from Dec 2011) seen as low

Thank you

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What Makes an Infrastructure Project Bankable?

Infrastructure Stakeholders Forum

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10 July 2014

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Section 1

Introduction

Nigeria Infrastructure Overview

Key points

Historical Challenges

- Infrastructure development since Nigeria's independence has had significant challenges, owing to inadequate government funding and lack of the enabling legislature for private sector investment.



Rail	<p>Since the country's independence, Nigeria's railway system has grown to be the second largest in Sub-Saharan Africa. Currently, Nigeria's rail system accounts for approximately 1% of the freight and a sixth of the passengers transported.</p> <p>As a result of the reduction in rail capacity, road transport has become the primary source of travel and freight, resulting in significant decaying of road surfaces.</p>
Roads	<p>Despite having 197,000 km of roads, only 18% of the road network is paved. The quality of the roads remain a critical challenge owing to a suboptimal maintenance culture.</p>
Power	<p>Lack of planning and maintenance in the Power sector has led to power generation plants operating well below capacity, and widespread power shortages.</p> <p>Widespread power cuts have had a severe negative impact on the economic potential of the country, and the hidden costs of Nigeria's power sector remain the highest in West Africa.</p>
Water	<p>The water and sanitation sectors remain underdeveloped when compared to other services. Piped water coverage is only a fraction of the nation's electrification rate.</p>
Housing	<p>The provision of low-cost and affordable housing remains a concern. The high cost of houses coupled with a predominantly low-earning population has resulted in a housing deficit estimated at 17million units.</p>

Nigeria Infrastructure Overview (cont'd)

Key points



Current Status

- The Federal Government, through the Infrastructure Concession Regulatory Commission, is encouraging and implementing Public Private Partnerships (“PPP”), as a means of financing and developing infrastructure projects.
- The Central Bank of Nigeria (“CBN”) has estimated that Nigeria will require US\$100bn of investment over the next 10 years:-
 - \$18-\$20bn investment in Power;
 - \$8-\$17bn investment in Rail;
 - \$14bn investment in Roads; and
 - \$60bn in Oil & Gas infrastructure.
- Despite the operational challenges in the infrastructure sector, interest among investors is high. The Federal Government’s continued investment in infrastructure has seen the interest of many global construction companies including:-
 - Bouygues Batiment
 - Effiage
 - Julius Berger Nigeria
 - Orascom
 - China Civil Engineering Construction Company (“CCECC”)
 - Chinese Harbour Engineering Company (“CHEC”)
- In addition, China has increased its footprint Nigeria, and the greater part of West Africa, through an increased presence of Chinese construction majors. The companies are forming strategic alliances with the Federal Government to assist with infrastructure development.

Section 2

Defining Public Private Partnerships

Role of the Private Sector

Key points

PPP arrangements shift construction and maintenance risks from the Government to the Private sector.

Public-Private Partnerships (PPP)

- PPPs are a “cooperative venture between the public and private sectors, built on the expertise of each partner, that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards”.
- In recent years, PPPs have emerged as a preferred mode of funding and delivering Infrastructure projects.
- When properly structured, PPPs enable Governments to focus more attention on the outcome (public value they want to create) and less on the inputs.
- In PPP arrangements, the Project Risks are transferred to the party best positioned to manage them.

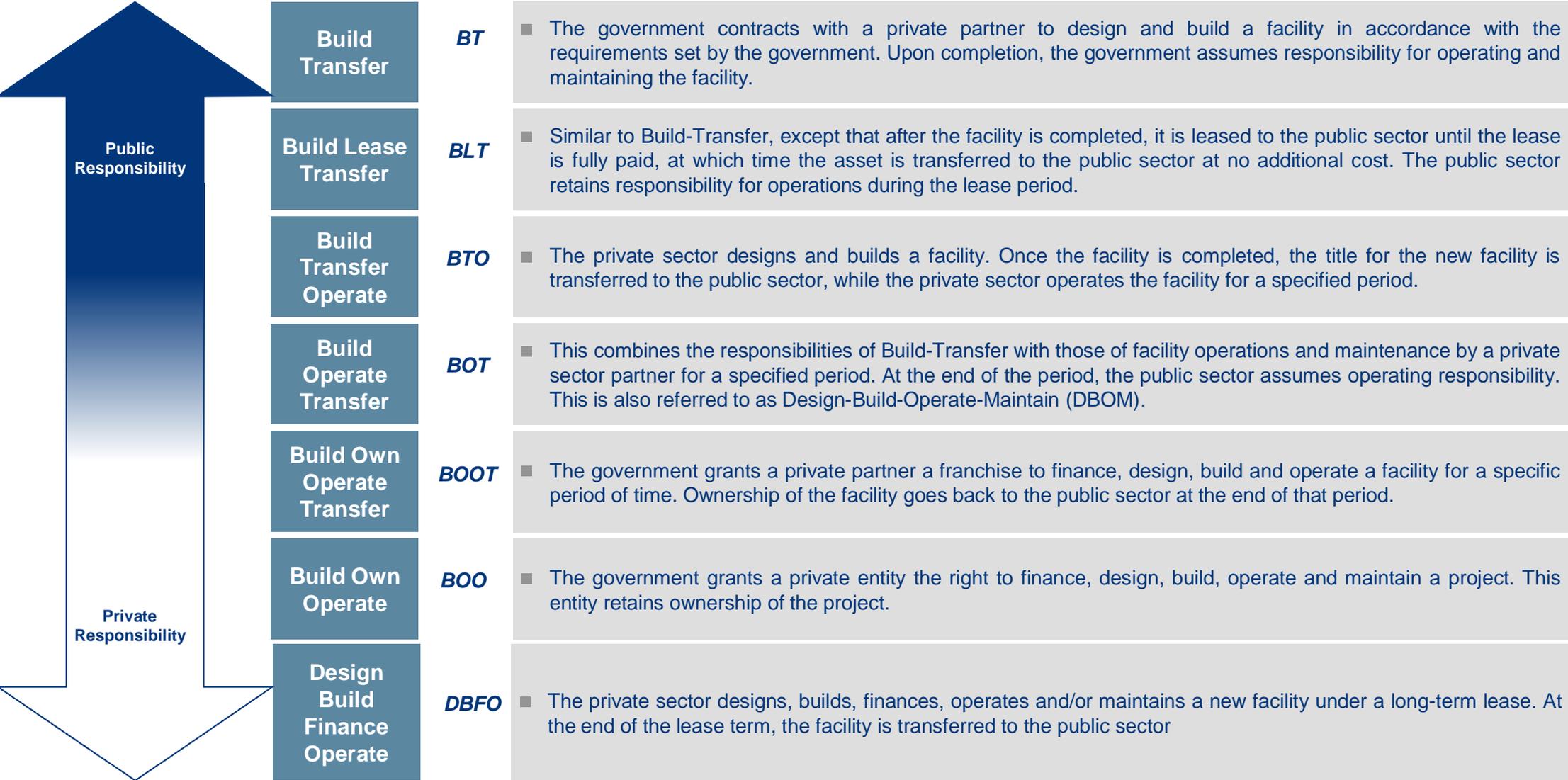
EFFICIENCIES OF PPPs		
Efficiency	Definition	Description
Resource Allocation	<ul style="list-style-type: none"> ▪ Efficiencies are gained from the private sector's ability to allocate resources more effectively. 	<ul style="list-style-type: none"> ▪ The private sector's motivation is on the completion of the project to a set of performance standards. ▪ Conversely, the public sector will have competing interests for operating resources, which may reduce the performance of the project over its life-cycle.
Production	<ul style="list-style-type: none"> ▪ The ability to be more productive is developed during the private sector organization's years of practice delivering similar projects. 	<ul style="list-style-type: none"> ▪ The construction and operation of infrastructure may be completed in less time and/or lower overall cost by using market tested techniques and incentives for innovation.
Economic and Social	<ul style="list-style-type: none"> ▪ Access to more capital allows more projects to be funded on a fixed capital budget. ▪ Social benefits of infrastructure accrue faster as the infrastructure is built sooner. 	<ul style="list-style-type: none"> ▪ More efficient movement of goods and people ▪ Improved quality of life resulting from increased access to infrastructure

Source: Deloitte Research, 2005

Private Sector Participation in infrastructure Projects

Key points

Range of PPP Models



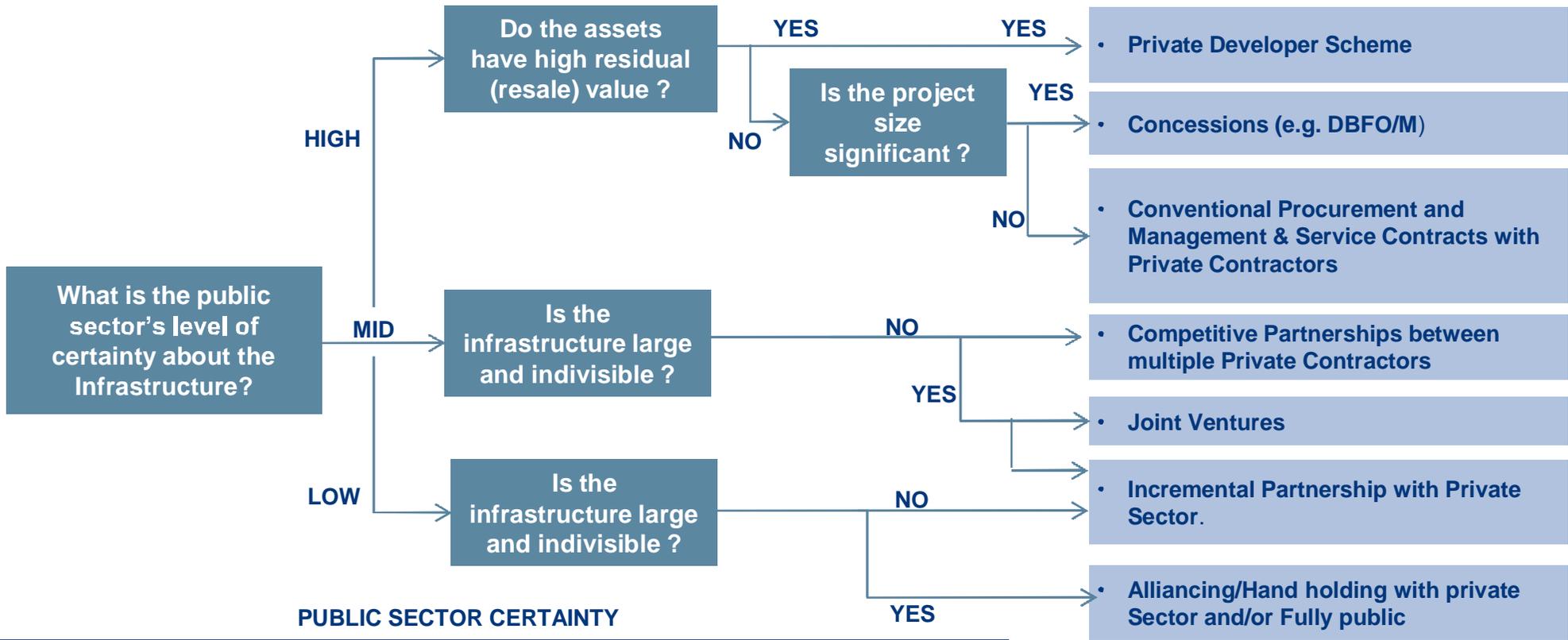
Source: Closing the Infrastructure Gap: The Role of Public-Private Partnerships, Deloitte Research Study.

Determining the Right PPP model for Infrastructure Projects

Key points

Degree of Public vs. Private Sector Involvement

HIGH PRIVATE INVOLVEMENT



HIGH PUBLIC INVOLVEMENT

- **High:** The Public sector knows it's infrastructure requirements to a great detail. A high level of certainty suggests that the government can shift substantial control and risk to the private sector
- **Medium:** The public sector knows the kind of Infrastructure it needs, but is less certain about the timing and exact extent of work it wishes to undertake.
- **Low:** The public sector is unsure about the infrastructure it needs (or even what is possible), let alone when or how it wishes to have it delivered.

Source: Building Flexibility: New Delivery Models for Public Infrastructure Projects, Deloitte Research, 2005

Section 3

How are Bankable PPP Projects Structured?

Key points

Sequential activities for PPP infrastructure delivery

The public sector should engage external advisory support for Legal, Financial, Environmental and Technical aspects of the Project

Policy and Planning phase

1. Infrastructure Situation analysis and Prefeasibility Studies
2. Establish Project objectives
3. Evaluate financing Structures
4. Plan: Feasibility Studies
Environmental assessments
5. Communicate Project benefits with major stakeholders.
6. Develop Legal Framework
7. Build Market Interest

Transaction Phase

1. Establish a realistic time frame for the project.
2. Establish modalities for Competitive Transparent Bidding Process
3. Shortlist qualified bidders
4. Establish performance standards
5. Request for proposals
6. Develop a draft Project Agreement that secures best Value for money
7. Preferred bidder selection and
8. Negotiations
9. Finalize project agreement
10. Establish Construction governance
11. Financial close

Construction and Concession Phase

1. Transition to construction (e.g., design/build)
2. Monitor bidder/concession and construction process
3. Facility operation (contract and relationship management)
4. Evaluate whether promised benefits materialized
5. Maintenance: hard and soft service provision
6. Termination/Handover

What Makes an Infrastructure Project Bankable?

Key Points

Private operators and commercial lenders have money to do their own due diligence on projects for which bankability has been reasonably established - but little to spend on preliminary assessments of bankability.

The Environmental Impact Assessments Should be done as a complementary exercise with the engineering work so that the design can anticipate and mitigate environmental impacts.

- Many potential infrastructure projects in developing countries struggle to secure financing, even projects that are socially or economically desirable, due to poor preparation and packaging of project proposals.
- A project's bankability can be determined only after establishing its feasibility in terms of social, economic, financial, technical, environmental, and administrative factors.
- The following 3 key preliminary assessments will significantly improve the “Bankability” of Infrastructure Projects.

Financial Prefeasibility Studies



- The Financial prefeasibility study examines the project parameters that are critical to establishing commercial viability.
- It models what the financial impact will be on the overall service sector based on the proposed project concept and currently available information about the sector.
- This study helps shape the projects technical design and financial structure to make it more commercially viable.

Market Demand Studies for Infrastructure Service



- Commercial investors are very concerned with market demand and customers' willingness to pay because these data can signal profit opportunities. In-depth Market demand studies survey various market customer classes and help in:
 - Forecasting future demand levels for the infrastructure service
 - Identifying user preferences
 - Determining customers' willingness to pay.

Environmental Impact Assessments



- The Environmental Impact Assessment identifies and evaluates the likely impacts of the proposed project on the environment, and thereby works out remedial action plans to minimise any adverse impacts.
- For an Infrastructure project to be bankable, it should be sustainably designed, in that the resources used to build and operate the services should not be depleted or damaged for the use of future generations. .

Section 4

Risks and Risk Management

Factors Affecting the “Bankability” of Infrastructure Projects

Key Point

The public sector build Mitigants into the PPP framework to enhance Bankability

High Impact Risks typically include:

1. Political Risk:

- Interference with projects
- Expropriation
- Civil Unrest or War

2. Fiscal Policy:

- Enabling Tax Regime

3. Legal Framework:

- Ability to seek recourse for breach of contract

Legal Framework

The capacity of the courts, body of Laws, and regulations to enforce project contracts.

Fiscal Space

The financial capacity and creditworthiness of the national and/or subnational entities to provide sustainable and credible support to a project

Size and Location

The effects of the size of a project and its location on decisions regarding asset ownership, project modality, exit strategies, and configuration of a specific project’s structure



Political Risk

The likelihood that a project will be significantly affected by a change in the political conditions of a given country or municipality.

Macroeconomic Factors

Economic volatility that includes the possibility of currency devaluations or high inflation as a consequence of international shocks or unsustainable macroeconomic policies

Tariff Sustainability

Consumer ability to afford the full cost recovery tariffs for water and sanitation provision.

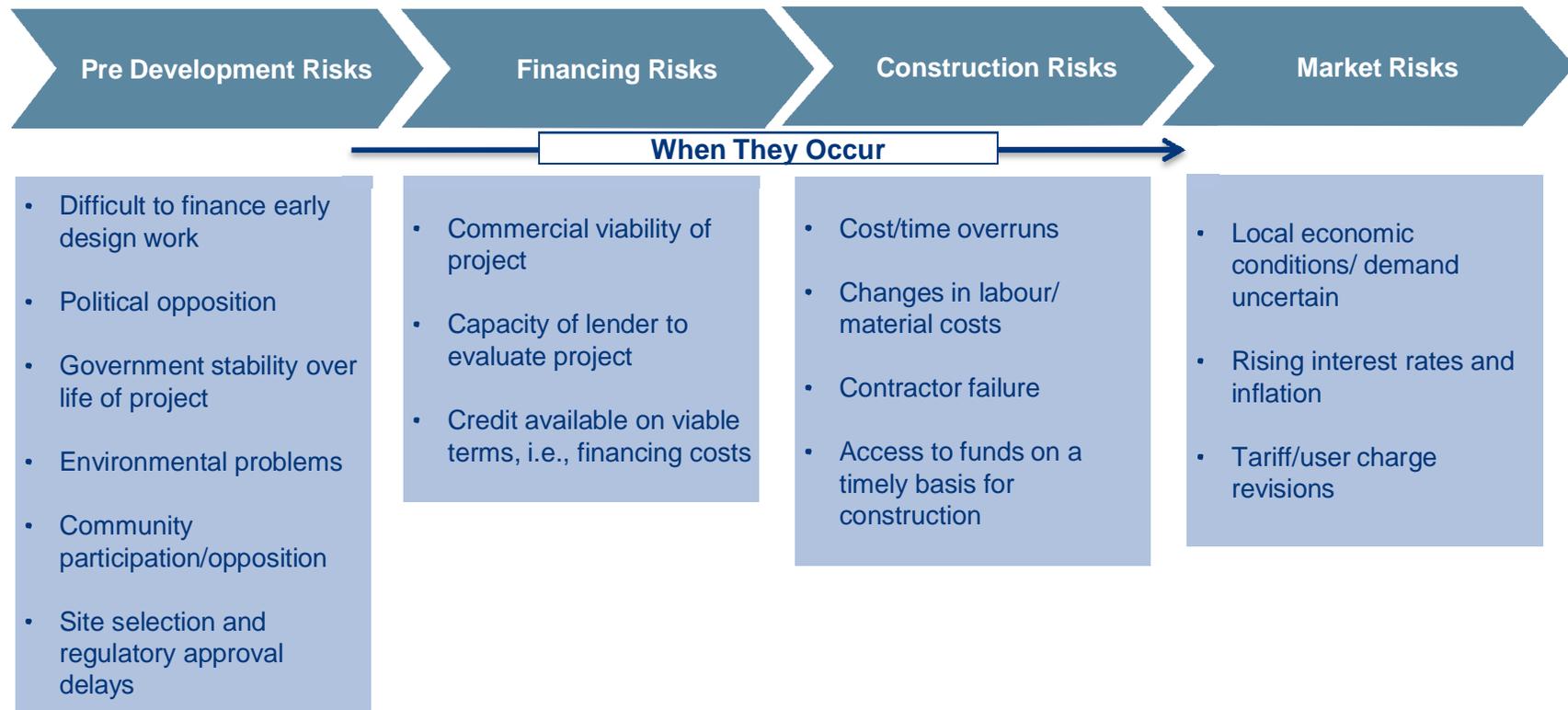
Key points

Considering the risks up front, even for those that occur later in the implementation process, helps to plan for and mitigate the most common ones.

The most project efficient structure delineates and allocates risk to parties that exercise the most control over it, and are best suited to mitigate and manage it.

Risks Management for Bankable Infrastructure Projects

- There are major challenges in each step of the process of developing bankable infrastructure projects.
- Well-developed projects identify risks up front, and then design the institutional arrangements, the financing package, and the contractual agreements to best mitigate and manage those risks. The best institutional arrangements seek to mitigate risks while improving service delivery.



➔ The assessment of these risks should be from the perspective of commercial investors, whose perception of risks determines the cost of capital lending.

Source: Developing Sustainable and Inclusive Urban Infrastructure Services: A Guidebook

Section 5

Key Success Factors

Key points

Key features of Bankable PPP Infrastructure Projects

1. Investment structures generate adequate revenues from project assets and services and from other dedicated sources to cover project costs (Capital, O&M, and other debt obligations)

2. Socially inclusive and operate in a systemic and sustainable manner

3. Environmentally sustainable and ensure a proper risk management framework.

Success Factors in PPP Projects

Project Preparation

- Streamlining licenses / permits
- Clear definition of project scope and objectives
- Flexibility in choosing PPP arrangements
- Choose a structure which suits the project and desired level of control

Integration of Economic Interests

- Avoid businesses cases being driven by individual parties

Transparency

- Clear costing mechanism
- Facilitate competition
- Measurable performance indicators

Long Term Financial Engagement

- Realistic Revenue Projections and guarantees
- Strong Commitment of stakeholders

Appropriate Risk Allocation

- Allocate risks to party which has better control on risk
- Utilise key strengths and capabilities

Government intervention is required to facilitate more Infrastructure Projects

Key points

Constraints in Infrastructure Development

Sector Constraints

Roads	Rail	Airport	Ports
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- Limited government funding to meet huge gap created by decades of poor maintenance, minimal new developments and high population growth rates
- Lack of enabling policy, framework and laws to support effective public private partnerships and poor enforcement of existing policies and framework
- Insufficient private development funding with the long tenors and affordable interest rates required to fund such huge projects
- Limited number of bankable deals to attract private funding (i.e. poorly capitalised sponsors, insufficient credit enhancements and so on)
- Poor project planning and project management practices and misappropriation of funds

Required Government Intervention

Government can play a big role in creating an enabling environment for private sector participation

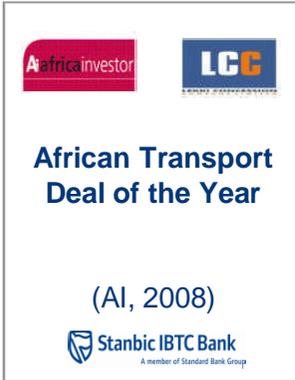
- Directly encourage issuance of infrastructure/project bonds at the federal level (a Mega Bond) or provide indirect support for third party infrastructure funds and bonds through provision of credit enhancements
- Intervention Funds for infrastructure projects and infrastructure elements of projects undertaken by large corporates/industrials
- Provision of credit enhancements for PPP infrastructure projects including tenor extension instruments and risk guarantees
- Capitalisation of the Infrastructure Bank and strengthening of the Infrastructure Concession Regulatory Commission (“ICRC”) to fulfil its mandate in driving PPP Projects.
- Creation of a central Project Management Office for monitoring projects being implemented across the country with the aim of removing/eliminating bottlenecks and current duplication of efforts
- Strengthening of PenCom’s efforts to encourage PFAs to invest in infrastructure funds and bonds

Section 6

Examples of Infrastructure PPPs - Standard Bank's Selected Case Studies

Lekki - Epe Toll Road – US\$400m Project Finance Transaction

Key points



Other Awards include; Euromoney “African PPP Deal of the Year” (2008), PFI “African Infrastructure Deal of the Year” (2008) and EMEA Finance “Best Africa Project Fi

Key Selling Points

- First PPP toll road in West Africa
- First 15 year tenured financing (longest financing at the time) in Nigeria
- Largest Public - Private Partnership deal closed in the country to date
- Longest tenured cross-currency swap done to date
- Financial close was achieved in the thick of the global financial crisis
- A test case for the first State level concession law, which is now the template for the Federal Government and other State governments concession laws

Company Overview

- Lekki Concession Company (LCC) is a special purpose vehicle set up for the 30 year concession to upgrade, operate and maintain the 50km Lekki Epe Expressway
- The key promoters and shareholders of the Company are Asset Resource Management Company and Larue Projects Company Limited.

Transaction Summary

Transaction:	Secured Medium Term Facility
Financial close:	October 2008
Standard Bank/ Stanbic IBTC Role:	Co-financial Adviser, Arranger and Underwriter
Transaction size:	US\$400 Million
Purpose:	Build, Upgrade, Operate and Transfer of the Toll Road
Instrument:	Term Loan
Tenor:	Up to 15 years

Transaction Overview

- The transaction size for the entire project is US\$400 Million funded by a mixture of equity, debt and mezzanine facilities.
- Debt funding for the project amounted to c.a. US\$258 Million with tenors of up to 15 years
- Standard Bank was mandated as the co-financial adviser on the transaction
- Stanbic IBTC and Standard Bank acted as arrangers and lenders to the Project.
- The Project has strong State and Federal Government support backed by guarantees and provisions for tax and other incentives

Gautrain High Speed Rail Link – USD 3bn Transaction

Key points



Key Selling Points

- Standard Bank was joint lead arranger and underwriter to the Bombela Consortium, for the development of the USD 3 billion, 80km Gautrain high-speed rail project linking Johannesburg to Pretoria, Sandton and Oliver Tambo International Airport.
- Standard Bank underwrote 50% of the senior, index-linked and mezzanine finance, and executed a substantial portion of the long-term currency and interest rate hedges.
- The project was supported by Gauteng Provincial Government through the provision of a development grant as well as ridership guarantees.

Transaction Summary

Transaction:	Long Term Facility
Standard Bank Role:	Joint Lead Arranger and Underwriter
Transaction size:	USD 3 billion
Purpose:	Development of a 80km Gautrain high-speed rail project linking Johannesburg to Pretoria, Sandton and Oliver Tambo International Airport.
Tenor:	17 years

Company Overview: Bombela Concession Company

- Bombela Concession Company was appointed by Gauteng Provincial Government to design, build, operate, maintain and partially finance the Gautrain project. The Concession length was 19.5 years including a 4.5 years for construction.
- The Concession Company comprises five shareholders:
 - Roberts Ltd – South Africa's leading engineering, contracting and construction services company.
 - Bombardier Transportation UK Ltd – A leader in aerospace and rail transportation, with presence in 21 countries.
 - Bouygues Travaux Publics SA - One of the world's foremost 'design and build' civil engineering contractors.
 - SPG Concessions Ltd – A black economic empowerment company represented at all levels within the Bombela family.
 - J&J Group – An investment holding and management company involved in the financial services, healthcare, information technology and industrial sectors.

Highlights and Key Features

- The Gautrain Project has been recognized as the largest infrastructure Public Private Partnership in Africa and it has created, directly and indirectly, in excess of 60, 000 jobs.
- Second largest rail PPP in the world after the London Underground PPP.
- The Rail Link offers a cost-effective, efficient, environmentally friendly and safe solution to transport problems in densely developed areas in Gauteng.
- International Standard Gauge track to allow for speeds up to 180 km/h.
- 10 stations, with approximately 15km of tunnels.
- Complex contractual structure completed in record time.

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