# Walk or talk?

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Every project deal to date in Nigeria has set a benchmark – the NLNG financings, the Unicem and Obajana cement deals, the Satellite Oil Field programme and the Vmobile financing. All have been local sector or financial engineering firsts and have pushed up the length of borrowing tenor available.
It is easy to savage that progress. Political indolence and institutionalised corruption have, to date, squandered the economic benefit of Nigeria's oil and gas wealth and retarded infrastructure development – in effect any major project deal is likely to be a progression.

And despite the anti-corruption and energy reform promised by president Umaru Yar'Adua there is little belief at grassroots that much will change unless it is private sector driven. Nicknamed by his critics 'Baba go-slow', Yar'Adua presides over a country where a fifth of oil production remains shut due to violence in the Niger Delta, vast gas resources are still being flared, transport and social infrastructure is decrepit and the state-owned Power Holding Company of Nigeria (formerly NEPA) produces just 3,500MW, despite the previous president Olusegun Obasanjo having taken $8.442 billion from the country's excess crude account to finance power projects – all of which remain unfinished.

Even private sector projects in Nigeria's cash-rich oil and gas sector – OK LNG and Brass LNG – have yet to confirm a final investment decision because of politically-driven changes to the tax regime and concerns over asset security. And although there is vast demand for electricity, both the Geometric and Ibom independent power projects (IPP) have yet to finance (Ibom will now be finished by the state of Akwa Ibom and then sold to private equity) and have been held up by gas feedstock negotiations.

Despite a history of government by vested interest, the Nigerian project and financial markets are developing. The naira is stabilising and apart from a hiccup in August, interest rates are dropping. Bank reform/consolidation has created a much stronger lending sector, banks that have had fairly lazy balance sheets are starting to use them and the new naira bond market hit $45 billion in market capitalization at the beginning of this year. Most recently the Nigerian government issued a $500 million 10-year naira-denominated bond to set a Nigerian risk and interest rate benchmark for potential private sector borrowers and investors in Nigerian infrastructure development.

But of most significance for would-be infrastructure investors is the financial close (the deal still has some CPs to sign but is 70% done) of the Lekki-Epe Expressway – Nigeria's first true PPP project debt facility.

**Lekki-Epe and MMA2**

Lekki-Epe is not completely unprecedented. Murtala Muhammed Airport Terminal 2 (MMA2 – the domestic terminal in Lagos) was awarded in 2003 as a 35-year BOT to Bi-Courtney. But the deal was financed via a N20 billion ($150 mllion) corporate, rather than project, facility from Oceanic Bank, Zenith Bank, GT Bank, First Bank, First City Monument Bank and Access Bank.

The success of MMA2 demonstrated that PPP in Nigeria infrastructure can work – but it was not sophisticated. In fact, as the project neared completion the government made sure all domestic operators used the terminal making the financing attractive and enabling Oceanic, which originally bankrolled the project, to sell down the debt.

Conversely, Lekki-Epe Expressway is backed by true project debt and sets a mature structural blueprint for a whole new Nigerian infra market. As Opuiyo Oforiokuma, CEO of Lekki Concession Company, says: "The project has a lot of 'bells and whistles' and because it is the first deal of its kind we were determined it be done the way it should be done."

The $427 million deal could have closed a year ago but had to be revamped when the original international tranche lender, JP Morgan, pulled out at the last minute only to be replaced by Standard Bank.

Sponsored by Lekki Concession Company (LCC) – an ARM Group special purpose company with Macquarie's African Infrastructure Investment Fund (AIIF) as a minority investor – the 30-year concession is part of the wider Lagos Infrastructure Project and involves upgrading and creating new road along the first 49.4km of the Lekki-Epe Expressway (Phase I) and developing the first 20km of Lagos' Coastal Road with an option to also do the Southern Bypass (Phase II).

The financing started life as a miniperm-style structure (5+5+5 years) with FMO providing a liquidity guarantee. But because the sponsor was uncomfortable with the refinancing risk, the arrangers were forced to structure a more sophisticated deal with enough lender comfort that local banks would go to a 12-year tenor – unprecedented for a Nigerian project financing – and with no Nigerian government minimum revenue guarantee for the sponsor.

Priced over the yield of tenure on a 10-year Nigerian government fixed-rate bond, the full financial package comprises a $43 million 20-year mezzanine loan from Lagos State, an $85 million 15-year loan from the African Development Bank (AFDB); a $78 million 12-year local tranche from First Bank, UBA, Zenith Bank, Diamond Bank and Fidelity Bank, a 15-year international loan from Standard Bank/Stanbic and a $30 million standby facility from First Bank and UBA. All lending is in naira – hence comes with a natural hedge – apart from the AFDB tranche which features a long term naira/dollar currency swap.

Standard Bank and Rand Merchant are financial advisors with Aluko & Oyebode and Trinity International LLP providing sponsor legal counsel, and Orrick and G Elias & Co as counsel for the lenders.

While there is no revenue guarantee, lenders can take comfort from step-in rights and a federal government support agreement under which they are repaid as if the debt were still amortizing should the project end up in termination scenario (for a full deal analysis of Lekki-Epe Expressway go to page 45).

**A new PPP impetus**

The deal sets a remarkable precedent for long-term debt in a country where local banks have been loathe to go beyond five years. It also demonstrates that at state government level, in Lagos at least, there is considerable political will to get PPP working, with both present and past governors cutting the project a path through much red tape. Furthermore, the politicians have learnt from PPPs elsewhere and incorporated a profit sharing agreement into the concession on earnings above a certain cap.

Other state-level road deals will follow, given a number of administrations have been waiting to see if the Lekki-Epe template works. The market is a potentially lucrative one for international lenders given the lack of alternative transport, high margins, predictable cash flows and good asset security relative to deals done in other Nigerian sectors.

The first of forthcoming concessions is likely to be the $700 million-$1 billion Port Harcourt Ringroad, for which the Africa Finance Corporation (AFC) and the Rivers State government signed a memorandum of understanding in April.

Although in its early stages, UBA is already working on financing the deal. The 88km road forms an integral component of the Rivers State Government's plan for revitalization and China Harbour Engineering Company (CHEC) has already been appointed EPC contractor with Roughton International as technical adviser.

**Federal government plans – again**

Whether federal government can mimic the Lagos success is uncertain. Its track record to date has been weak. The rehabilitation of the Lagos-Kano rail lines and the construction of the second Niger Bridge at Onitsha – both launched as PPP projects under the previous Obasanjo administration – have been dropped. Similarly the Benin-Ore-Sagamu

Expressway and the Ibadan-Ilorin road, both vital links to the east and north respectively, are in desperate need of upgrade and have yet to be tackled effectively.

The federal government has unveiled a three-year plan to improve Nigerian roads and is also revisiting the railway modernization project initiated under Obasanjo's administration. Its recent $500 million naira bond was also initially publicized as a bid for infrastructure development funding which was then retracted and the interest rate benchmark story adopted. If the $500 million does go to infrastructure it might fund at least one road.

Aside from a lack of mandates at federal level, there is still no specific national PPP law that brings the host of existing strands of infrastructure law together. The Lagos State Government, in 2004, created the catchily named Lagos State Roads, Bridges and Highway Infrastructure (Private Sector Participation) Development Board Law under which Lekki-Epe has been procured. So the template is in place, but the federal government has yet to act.

That said, the government has set up the Infrastructure Concession and Regulatory Commission (ICRC) to develop and oversee the PPP sector. The former head of the interim government, Chief Ernest Shonekan, has been appointed chairman of the ICRC board. But with no regulatory framework for toll concessions at national level it may prove difficult to get PPP deals ratified by government – even for an ex-president.

It is clear that Nigeria could deliver a meaningful PPP pipeline and given the benchmark Lagos has set with Lekki-Epe, those deals would be far from the simplistic government guaranteed PPPs normally associated with emerging markets. Furthermore, unless Nigeria begins to develop its economic infrastructure it will remain an underachieving economy doomed to poverty as soon as the oil and gas sector dries up. The need is there, the template is there, the private sector is geared up to lend and international banks are looking for higher margin deals – but the political will may not be.