# Goodluck by name…

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Nigeria's project finance market looks likely to go into slowdown in the remainder of 2010 as the country's political class – long pre-occupied by the drawn out illness of the late president Umaru Yar'Adua – switches into election mode, prolonging uncertainty over the future of power reforms and the direction of the country's fledgling PPP sector.

Yar'Adua's former deputy, Goodluck Jonathan, will now serve out the remainder of the presidential term, having consolidated his authority over the government earlier this year during Yar'Adua illness. But his position within the ruling party is weak. Many Nigerians see in this weakness an opportunity, hoping that instead of seeking an improbable victory at the 2011 presidential elections, Jonathan will grasp the opportunity to reform the country's corrupt electoral procedures while passing needed economic measures in a burst of reform before bowing out at the end of his term.

Political instability and the corresponding inability to deal with chronic electricity shortages have long been a part of the country's project finance landscape. The country has nevertheless achieved a consistency project finance deals a year over the past few years, albeit mostly in the oil and gas sector and in telecommunications. But for its long-term growth prospects and economic development, what Nigeria most desperately needs is investment in transport and power infrastructure.

So far the new president has not said whether he will make a run in 2011, and even if he chooses not to, he will still have his work cut out if he is to face down the vested interests that have made reform so difficult in the past. But already he has won admirers among bankers, with his more focussed, technocratic approach to solving the country's problems. Yar'Adua was admired for his personal probity, but his illness contributed to presidential decision being made at a glacial pace, whereas Jonathan has been praised for being decisive.

**Power emergency**

Jonathan clearly considers solving the country's energy shortfall, which has seriously retarded economic growth, as one of his top priorities and kept the power portfolio for himself when he appointed his first cabinet. Top of the agenda is financing new IPP projects, an objective throughout the past decade that has remained stalled. The government plans to raise a N500 billion fund to help IPPs get past the difficulties they have raising finance in a country where it is hard to secure reliable gas supplies and access to effective distribution networks.

Significant progress is expected on the Geometric IPP project. Work began on the 188MW gas-fired open cycle plant situated in Aba, south-east Nigeria, after Standard Bank and Diamond Bank granted a $25 million bridge loan for the project in 2008. But the $380 million project struggled to fulfil conditions precedent concerning the gas supply and power purchase agreement required to put a full financing in place, and it needs to raise an additional $100-120 million in order to proceed. Given that one of Jonathan's first acts as president was to appoint Geometric's chairman, Barth Nnaji, as head of a presidential advisory committee on power, the project is well positioned and among the first IPPs bankers expect to come to market.

The country's regular blackouts has meant manufacturers seeking to raise project finance funds have typically had to incorporate captive power plants into their designs in order to secure their own energy supply.

One of the two project financings so far in 2010 was a $350 million loan from Standard Chartered to the Dangote Group-sponsored Obajana Cement Plc to build a power plant at its new cement plant at its new cement facility in Lagos. Obajana had previously closed a landmark $479 million project financing in 2005 for another cement plant with a 130MW captive power plant in the Obajana region in Abuja with the involvement from of several multi-laterals and ECA as well as a local bank tranche. Standard Chartered is the sole provider of this year's loan, which is not ring-fenced.

Another major cement project to close last year, Lafarge's $573.8 million Lakatabu plant expansion, which closed in May 2009, also incorporated the construction of a 100MW captive power plant.

Cement is a particularly critical industry because it provides the basic input for so many other sectors that can provide growth – most notably large quantities of it will be required if the PPP sector takes off. Currently Nigerian cement demand is 18-20 million tonnes per annum and is expected to rise annually by 10%. The country's cement production is around 8mtpa, with imports making up the rest, using up valuable foreign currency. Obajana's Lagos plant will increase domestic cement production by 5mtpa while Lakatabu will take Lafarge's cement output from 2mtpa to 4.2mtpa.

**Oil and gas**

The tragedy of Nigeria's stalled IPPs is that a substantial portion of the natural gas extracted from Nigeria's ground is burnt – neither monetised through export nor used as feedstock to meet the country's own energy requirements. All the while the gas flaring damages the Niger Delta's environment and fuels grievances that have led to an armed insurgency that has shut in 500,000 barrels of oil per day out of an estimated productive capacity of around 2.6 million bpd.

The insurgency in the Niger Delta is one of the reasons why for the past four years there has been a move towards a greater emphasis on offshore projects, where installations are less vulnerable to rebel attack. In the case of LNG liquefaction plants, another cause of delays came with the change in energy policy – diverting gas away from export and towards internal use – that came with the transition from Olusegun Obasanjo's presidency to Yar'Adua's. On assuming office the latter closed some of the free trade zones that Obasanjo had set up and switched policy away from exporting gas towards domestic. The slow passage of Yar'Adua's flagship Petroleum Industries Bill together with the lack of progress in reforming the energy sector ensured that hasn't happened, and Nigeria is left with the worst of both worlds as gas continues to be flared.

There was important progress on the $3 billion Brass LNG project – a joint venture between the Nigerian National Petroleum Corporation (NNPC), Agip, ConocoPhillips and Total – in March this year when the tender for the EPC contract was launched. A final investment decision has still not been made for the project, however.

In upstream exploration and development, new financings are still quite regular. In March Afren closed a $450 million reserve-based loan for the development of its offshore Ebok field. BNP, Natixis and Credit Agricole led the five-year loan, which priced at between 450bp and 550bp over Libor. The initial deal is for $150 million but the loan can be upsized to the headline amount as the Ebok base grows.

Later this year a new tranche is expected for the Satellite oilfields reserve based lending facility, which originally financed in 2005 involving a $150 million local tranche and a $450 million international tranche. Last August Exxon Mobil, the joint venture sponsor with NNPC, closed a refinancing of the second tranche, raising $450 million with a 4.5-year tenor, lead arranged by Royal Bank of Scotland, Societe Generale and Standard Chartered, with Calyon, Natixis, ING, BNP Paribas and Credit Suisse also participating.

**Transport PPPs**

On the PPP front, Nigeria has yet to follow up 2008's landmark N50 billion ($332 million) Lekki-Epe Expressway with any other major project financings, but there are a number of roads, trams and airport projects in the pipeline. For the most part it is the various state governments that are tendering these projects rather than the federal government, which needs to put in place some overarching structure to coordinate and ensure certain levels of standardisation in the process nationwide.

The fact that most PPP projects have been tendered at the state level means that they have not been disrupted too much by the power struggles for the presidency. However, gubernatorial elections will also take place in 2011, so while project finance bankers expect some concession tendering for the remainder of this year, they are not too optimistic of any major projects reaching financial close.
Lagos state has been particularly active, pushing forward plans for the first two lines of a new light rail network and for a new airport on the Lekki peninsula. There is also the $1 billion Lekki Port concession, sponsored by Eurochem Corporation Pte Limited with Standard Chartered acting as financial adviser.

The plan for the $3 billion Lagos Light Rail is for it to eventually comprise seven lines, with the first two of these so far being approved: the blue line and the red line. A Chinese contractor, CCECC, has been appointed to build the rail link for the blue line while tender process is ongoing for a concessionaire to operate it. The red line is expected to be tendered more like a full PPP, with the concessionaire raising the financing to build the line and operate the trains.

Some of the projects that have been touted across the country have been met with a degree of scepticism by project finance bankers, and seem unlikely to be financed. For example, some bankers have described the $600 million Minna Airport City, a project in southern Niger State, as a potential “white elephant”.

Rivers State authorities are said to be rethinking the viability of the $700 million Port Harcourt Ring Road as a PPP concession, and it now looks likely to be financed as a straightforward public procurement. The real toll project will be competing with more established roads in the city and traffic projections do not support the revenue streams required for a project financing.

One road that can be expected to attract bankable traffic volumes is the N89.5 billion Lagos-Ibadan Expressway, a 25-year concession that is being tendered by the federal government and was awarded last year to Bi-Courtney, also the sponsor for the country's first PPP, the Muhammed Airport Terminal 2 in Lagos, financed in 2003 using a corporate structure. Lagos-Ibadan, which involves the expansion of the existing road to eight lanes between Lagos and the Shagamu interchange and to six between Shagamu and Ibadan, is not close to coming to market soon, however, and there are said to be remaining political issues that need to be resolved.

Other road projects in the pipeline include the Shagamu-Benin Dual Carriageway, and the Abuja-Kano road, which is broken up into two separate concessions, Abuja-Kaduna and Kaduna-Kano.

**Tough lending climate**

Aside from the politicians shifting their focus to election issues, PPP projects looking to close at present face a tougher lending climate than when the Lekki-Epe Expressway closed. A new central bank governor has in the last year got tough with Nigeria's banks, tightening regulation. This compounded the effects of the financial crisis for local banks and for a while caused a drying up of naira liquidity as well as dollar liquidity. Banks are now lending once more, but are choosier than before.

The main challenge is securing the long tenors that are congenial for PPP deals – something that was hard on Lekki-Epe and has got harder since. The naira-denominated local bank debt on Lekki-Epe had a 12-year tenor, but according to one Nigerian banking source the maximum tenor, beyond which local banks are struggling to lend, is seven years.

But as things stand, the primary obstacle to getting infrastructure projects financed is not the absence of liquidity but the absence of the broader regulatory frameworks empowering sponsors and banks to put together projects that are commercially viable. Disfunction in state institutions is the main impediment to such frameworks working, and any president has a tough job overcoming it.