

Nigeria's Lekki-Epe Expressway PPP

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30/10/2008

Many African states have identified PPPs as the most effective way of improving infrastructure and stimulating economic growth in their countries. Nigeria is the latest state to engage private participation to assist the government in fulfilling its mandate to the people.

The present administration made its commitment to improve the transport network, water supply, waste management and commercial infrastructure of Nigeria's commercial capital - Lagos.

This will however require substantial financial input which the state government has been unable to fully pay for out of its own pockets. It therefore decided to adopt a PPP model to address these problems.

It is estimated that Lagos State needs US\$2 billion to expand its water supply, US\$715 million to provide an efficient road network, US\$185m for new housing stock, US\$100m to improve its waste management system, US\$100m for a new Bus Rapid Transit System and millions more to rectify power supply problems.

The state's PPP initiative is open to various investment options, ranging from equity participation, various leasing options, a BOT system and concessions.

Both foreigners and local Nigerian firms are allowed to participate and this is clearly highlighted by the financial close of Nigeria's flagship PPP project - the Lekki-Epe Expressway - which marks the end of several years of detailed financial structuring and negotiations with lenders.

The project

The PPP project is for the construction of the Lekki-Epe expressway and is a partnership between the Lekki Concession Company (LCC) - a special purpose vehicle - and the state government.

It includes the upgrading of the first 49.4km of the Lekki-Epe road. Phase Two of the project involves the development of the first 20km of the Coastal Road with an option to do develop the southern bypass as well.

According to the agreement, LCC will build, operate and maintain the road for 30 years, after which the asset will be handed over to the state government. LCC will earn a return on its investment through raising tolls.

Benefits of the project to the population of Lagos State will be traffic decongestion and a number of services that will be available on the road such as street lighting, breakdown assistance, an ambulance service, and a customer call centre.

The expressway will also have much improved security which should decrease the occurrences of hijackings. The project will also have spill-over effects such as employment creation and higher real estate values in the area.

Investor assurances

The PPP model does however have a number of risks in Nigeria. One of the concerns often cited by investors is the risk of significant changes in government policy.

A solid legal system to protect their investments and honour contracts are also essential. Given Nigeria's somewhat negative image around the world, Lagos State's main aim has been to give proper assurance to investors.

Lagos State has opened up a dedicated PPP office which serves as a one-stop-shop for investors. The PPP unit has also been placed under the supervision of the Commissioner for Finance to ensure sound financial analysis and quick implementation of projects.

It seems Lagos State is determined to make its PPP strategy work and foreign investors in all sectors are likely to turn their radars to the host of opportunities in this city after the successful close of the Lekki-Epe expressway project.

Financing

Standard Bank and its local subsidiary Stanbic IBTC Bank alongside the Lekki Concession Company closed financing for the US\$426 million (N50.1bn) Lekki-Epe Expressway PPP on 17 October.

Standard Bank acted as co-financial advisor as well as an arranger, underwriter and largest lender to the project.

Funding for the project - which will take three years to complete - comes from Lagos state which invested US\$42 million (N5bn) in a 20 year mezzanine debt tranche. The African Development Bank provided US\$85 million (N10bn) senior debt over 15 years.

Local lenders including First Bank of Nigeria and United Bank for Africa provided a 12-year note facility of US\$80 million (N9.4bn). The other banks to provide this tranche were:

- Zenith Bank
- First Inland Bank
- Diamond Bank
- Fidelity Bank

The remaining term funding was provided by Standard Bank which became the sole arranger of the US\$93 million (N11bn) 15-year international tranche - underwritten by Standard Bank and local subsidiary Stanbic IBTC Bank.

Mike Waller from Standard Bank, said: 'To source 15 billion Naira in this climate is testament to a well structured and solid deal. Standard was able to use both its offshore and onshore Naira risk management platforms to structure the long-dated cross currency swap, allowing dollar funded institutions to participate.'

Jonathan Wood, global head of project finance at Standard Bank said that Lagos last saw major investment in infrastructure in the late 1970's: 'The past five years of economic reform and rising oil income have been extremely positive for Lagos, triggering a boom in commercial and residential property and real estate.

'On the downside, the city has been crippled with traffic congestion. This has necessitated the development of innovative projects such as the Lekki-Epe Expressway.

'The project has had to navigate through five years of significant turbulence, including changes in Government at both State and Federal level, the fundamental reform of the local banking system, significant construction cost escalations and the global credit crisis.'

The project represents a milestone as it is the largest PPP deal closed in the country to date and is the first 15-year tenured financing and longest tenured cross-currency swap.

The total equity for the deal is US\$58.9 million (N6.93bn) and will be provided by:

- Asset Resource Managers (ARM)
- Africa Infrastructure Investment Fund (AIIF)
- Larue Projects

- Hi-tech Construction

The debt:equity ratio is 68:30. The total project value (N50 billion) comprises of the senior debt tranche of N30.4 billion, equity of N6.9 billion; mezzanine debt of N5 billion and balance from other sources including pre-completion revenues.

Aluko & Oyeboode and Trinity International provided legal counsel to the sponsors with Standard Bank acting as financial adviser. The legal advisers to the banks were G. Elias & Co and Orrick Herrington & Sutcliffe.

The technical advisers were:

- Project Management - High-Point Rendel
- Design Consultant - BKS Global & Africon Consortium
- Operations Management - Toll Infrastructure services

Conclusion

Years of poor management under nationalisation have left Nigeria's transport system in acute need of attention. But transport is one of the highest priorities on the seven point agenda of President Yar'Adua, and the present government is building on the successes of recent years to implement a far-reaching programme for development in the transport sector.

The government plans to increase its own investment in the sector, and it is seeking to attract private sector investment through both privatisation exercises and PPPs.

In its budget for 2008, the government has allocated US\$788.7 million for the transport sector, up from 2007's US\$108.8 million. The large majority of the government's transport budget is earmarked for the road sector with US\$611 million already set aside for road construction and improvement.

The project at a glance

Project Name	Lekki-Epe Expressway PPP
Location	Lagos, Nigeria
Description	A BOT project that involves the DBFO of a toll road corridor along the Lekki peninsular. The road is around 50km strip which heads towards the east of Victoria Island
Sponsors	Lekki Concession Company
Project Duration (Including construction)	30 years
Construction stage	3 years
Total Project Value	US\$426.4 million (N50.1bn)
Total equity	US\$58.9 million (N6.93bn)
Equity Breakdown	Shareholder funding - N6.93bn provided by: <ul style="list-style-type: none">• Asset Resource Managers (ARM)• Africa Infrastructure Investment Fund (AIIF)• Larue Projects• Hi-tech Construction
Lagos State Government	US\$42 million (N5bn) - 20 year mezzanine debt tranche
Total senior debt	US\$258.7 million (N30.4bn)
Senior debt breakdown	International Tranche – US\$178.7 million (N21bn) Local Tranche – US\$80 million (N9.4bn) - 12-year note facility
Senior lender for the international tranche	Standard Bank and Stanbic IBTC Bank - US\$93 million (N11bn) - 15 years AfDB - US\$85 million (N10bn) - 15 years
Senior lender for the local tranche	First Bank of Nigeria United Bank for Africa Zenith Bank First Inland Bank Diamond Bank Fidelity Bank
Debt:equity ratio	68:30

Mandated lead arrangers	MLA for Internation Tranche - Standard Bank Plc MLA for Local Tranche - First Bank and United Bank for Africa
Legal Adviser to sponsor	Aluko & Oyebode Trinity International
Financial Adviser to sponsor	Standard Bank Rand Merchant Bank
Legal adviser to banks	G. Elias & Co Orrick Herrington & sutcliffe
Technical adviser	Project Management – High-Point Rendel Design Consultant – BKS Global & Africon Consortium Operations Management – Toll Infrastructure services
Date of financial close	17 October 2008

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