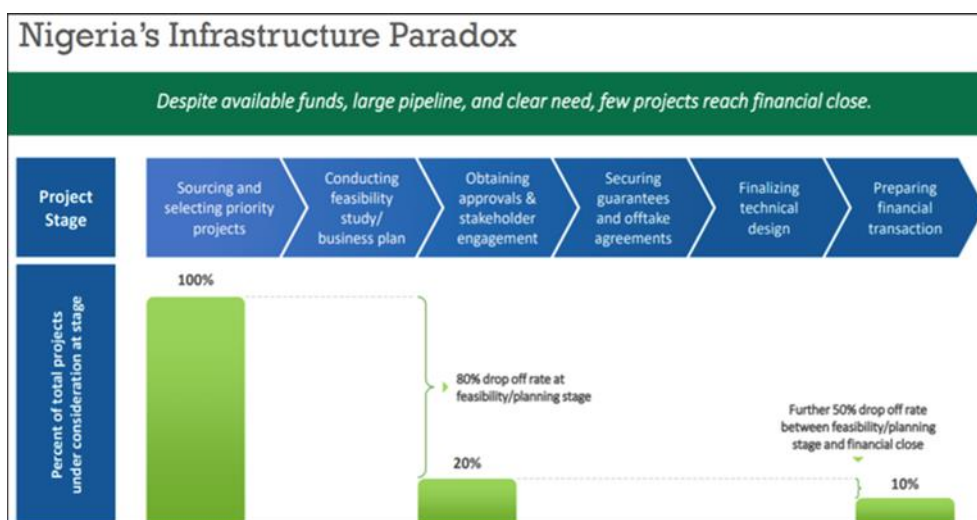


# BRIEFING

## What makes a project bankable?

Nigeria faces a major public infrastructure paradox: **Despite available funds, a large pipeline, and clear needs, very few projects reach financial close.**

For every 100 public projects that are conceptualised and selected during the initiation phase of the project life-cycle, only 20 will reach the execution phase and, of those, only 10 will reach financial/project close. Most projects in Nigeria will complete only the first stage of the project life-cycle. Overall, public projects originated in Nigeria have only a 10% chance of being implemented.



In most cases, after development of the business plan/feasibility study, projects go on to stumble and fall due to a range of challenges that can usually be traced back to project origination. Plainly, project origination is the most important phase of a project's life-cycle. It is when the desired structure, characteristics, and nature of the transaction will be decided.

### The project origination gaps in Nigeria

- Institutional gaps:** there is **no written guide or framework** for how projects are originated in most states. Investment Promotion Authorities (IPAs), and state development strategies and plans *should* guide development priorities. But this is not standard practice – while most states in Nigeria do have Investment Promotion Authorities (IPAs), very few have a development plan and even fewer have an economic development strategy.



<sup>1</sup> Source; Azubike C. (2021) Maximising the use of DFIs & Donor funding in driving PPPs in Nigeria. PPT presentation by infraCredit for BPE webinar.

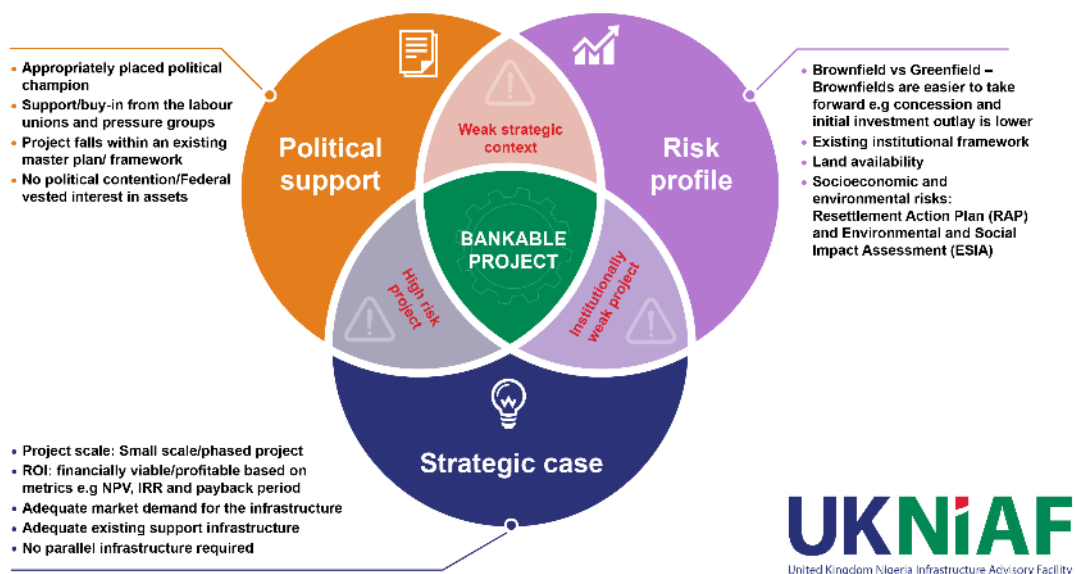


- **Project screening framework:** most states have **no screening framework** to guide project selection.  
As a result, projects are not adequately vetted and those that are selected are often too risky, politically irrelevant or too politically contentious, or not strategically designed or positioned to stimulate private participation/financing.
- **Project structuring:** many projects are improperly 'located'.  
Projects that should be developed through private sector participation are targeted for public financing and projects that should be developed through public funding are positioned to be taken forward through private investment. This mis-focusing leads to significant delays and sometimes complete standstills in the project implementation process.

### A framework for bankability

Based on UKNIAF experience, we identify three key factors common to high-quality successful projects in Nigeria.

## What makes a project successful?



### Political support

Political support shows up in two main forms:

- a **political champion** to endorse and promote the project; and
- support from associated **pressure groups** and **labour unions**.

The support of these actors will give confidence to investors and greatly improve the prospect of successful project execution.



### Role/influence of the political champion:

- To smooth the progress of approvals required for the project to progress through the various phases.
- To signal to private participants that the project has government backing and approval.
- To act as the *face of the project* when engaging with pressure groups and labour unions and to assure them that government is taking their concerns seriously.
- To interface and liaise with other high-ranking government officials who might otherwise impede progress.
- To make quick decisions that could be delayed due to chain of command and bureaucratic processes.

The need for a political champion usually becomes clear during the planning and execution phase of the project cycle, when permits and approvals are required. Without a well-situated champion, approval processes can be long and unwieldy. A political champion can also give investors confidence in continuing support through the project cycle.

### Role/influence of the labour union/pressure groups and cooperatives:

- Examples include:
  - the union of road transport workers, which can greatly influence the implementation of mass transit systems;
  - the union for railway workers, which can influence rail projects; and
  - environment pressure groups and youth groups within a community.
- In the case of mass transit projects, the introduction of a more formal structure, enforcement, and new infrastructure can affect the livelihood of the existing operators. The feasibility of a progressive and pragmatic transition process should be considered at a project origination as a key requirement for mass transit reform.
- Projects need to establish and maintain acceptance amongst key actors. All affected unions should be brought along with the process and workable solutions to address their concerns should be identified and effectively communicated as part of project origination.
- Grassroots outreach and small side projects which benefit the affected communities positively should be considered.
- Without engaging with activists' concerns, the project may be stalled due to subversive action, such as strikes, protests, lawsuits and, potentially, public disorder. While subversive action is unlikely to overwhelm government determination, it may delay the project long enough to deter investors and frustrate the proponents involved.



The influence of labour unions and pressure groups will usually most affect the project during the stakeholder engagement process and during the development and approval of the ESIA. It may also adversely affect the project during implementation, as seen with some mass transit systems where informal operators were not effectively assimilated into the system.

### Vested interests:

Although economic growth and social returns should be the primary objectives of public projects, the vested interests of specific groups in the public service or government can influence decision-making and implementation. Driven by various motivations, public servants may have incentives to allocate public investment—or to favour financing approaches—in ways that reflect their own interests and priorities.

Projects that entail mine development, port, cargo, freight, power distribution through IPPs, and inter-state rail projects should be considered with great care as they are potentially politically risky projects with significant vested interests. The legal and regulatory framework required for a project to be successfully executed needs to be assessed during the origination phase; to ensure that the project can be state-driven and that the project will not lead to political dissent.

Vested interests: these impact the project during the execution phase, when federal or MDA approvals and support are required.

### Existing masterplan/framework:

A masterplan provides a long-term vision for a community's development. A masterplan/framework helps to realise a development plan's true economic, social, and environmental potential. Once the vision has been established, the feasibility, phasing, and requisite outcome for the project are easier to pin down. A detailed delivery framework supports the masterplan and focuses on the technical aspects such as planning regulations, design strategy, etc. Situating a project within an established masterplan or framework provides the following benefits:

- The credibility and visibility of projects are boosted.
- The project developers can present a project case with clear estimates and references.
- Masterplans may aid with effectively phasing projects, which can enable revenue generation before full project completion.

The situation of a project within the implementation of a masterplan or framework may positively impact it during the preparation phase, when institutional and regulatory feasibility is being assessed. Developers may, otherwise, be led to pause a project until such a governance framework has been established.



## Case study: Lagos State Bus Rapid Transit (BRT) system project

### Completion Date:

March 17th 2008

### Estimated project

**value:** \$1.7 million per kilometre.

### Expected project outcome:

The overall objective of the Lagos BRT system is 'to improve mobility and transport affordability in the city of Lagos through regulatory reform and facilitation of person movement on major corridors through a combination of traffic management and implementation of a high quality, high-performance bus rapid transit system'.

The first phase of the Lagos BRT, which is already running from Mile 12 through Ikorodu Road and Funsho Williams Avenue up to CMS started, runs a 16-hour operation from 6.00 a.m. to 10 p.m. every day. The system uses 220 buses to move more than 200,000 passengers daily. In the last five years of operations, the BRT system has moved more than 400 million passengers.

**Project Structure:** Public Private Partnership (PPP)

### Political champion:

The Governors of Lagos state championed and were instrumental in the development of the BRT system within the state. During his tenure as Governor, President Asiwaju Bola Ahmed Tinubu initiated the Lagos Urban Transport Project and sponsored the development of the BRT feasibility study, which was articulated by his commissioner of transport, Muiz Banire, who chaired the BRT Steering Committee. President Tinubu's term as state governor ended in May 2007 and Babatunde Raji Fashola was elected. Governor Fashola, who was from the same political party as Governor Tinubu, shared the same beliefs and commitment to the integrated transport approach as his predecessor. The political commitment even with a government change was a key determinant in the success of the BRT-Lite system.

Governor Fashola was the face of the BRT mandate, even when the project faced significant criticism from the public during the construction phase. By championing the project, he ensured that political risk, often present in fledgling public-private partnerships, did not present a barrier to private sector participation.

### Pressure groups/labour unions:

During the construction of the BRT system, there was intense criticism of the Lagos State Government by various interest groups who thought they would be adversely affected by the reforms. Private vehicles were threatened by the prospect of disrupted traffic, incumbent minibus operators were concerned they would be displaced by increased competition. And ordinary residents of Lagos were worried about the possibility of sunk state capital. These concerns were taken seriously by the state and the success of the BRT can in part be attributed to systems that were established for citizens to express their views and have them addressed.

The Lagos State Government negotiated extensively with the politically powerful NURTW and convinced union officials of the widespread benefits of a BRT system – in particular, the prospect that BRT could offer direct employment via hiring, training, and renumeration existing drivers as well as indirect employment through enhancing Lagos' competitiveness. One of the key negotiating tools for the state was that they sponsored visits for the union officials to see BRT and other bus services in other international cities, including Curitiba (Brazil) and Bogota (Colombia). Seeing how such systems had been successfully integrated with existing bus services elsewhere, helped to persuade the NURTW to adopt and franchise the BRT concepts locally, smoothing the later transition of existing operators into the formal system.

### Vested interest:

Delivering the transport sector reform required a complete redesign of the organisations governing transport in Lagos. LAMATA's creation facilitated a shift towards better coordination of planning, regulation, and management of transport in the city. Before LAMATA, the wide array of local, state, and federal government agencies involved in transport provision operated in siloes, with little regard for the effect their policies had on other areas of the system, or even how the decisions of other agencies affected them.

LAMATA was responsible for coordinating all of the major stakeholders in the transport sector. This helped to integrate the activities of different agencies, ensuring they could cooperate effectively based on common objectives. Supporting legislation and planning strategies enshrined the particular roles and responsibilities of different agencies. It also made clear how each agency could leverage one another's distinct powers to deliver the city's plan

### Masterplan/existing framework:

In order for the project to be situated within the context of the state's masterplan for land use and spatial development, representatives of the state masterplan sat on the BRT Steering Committee. This ensured that synergy was maximised between development of the BRT-Lite system and the masterplan.



## Strategic Case

Successful projects have:

- a strong strategic case with a clear rationale;
- good strategic fit with government policy, in particular the National and sub-national planning framework and development plan; and
- a clear financial case.

A common cause of problems in projects in Nigeria, nationally and sub-nationally is a failure to clearly specify objectives and desired outcomes at the outset. A number of factors should be considered in respect of this.

### Project scale: small scale/phased project

Project scale is typically measured by investment size. 'Big projects' are typically those costing more than \$100 million, incorporating both major projects (over \$100 million) and 'mega' projects (over \$1 billion).

- Major projects are often *downwards inflexible* in that, while it may be relatively straightforward and economical to up-scale them, they are extremely difficult and costly to down-size if economic/market circumstances require this. It follows that it is prudent to adopt a phased approach if a large-scale project must be considered.
- Big projects are riskier and more expensive to finance. If a state chooses private capital to bear the up-front costs of large-scale projects, then investors will demand a higher return for carrying the associated risk. Due to the volume of investment required, fewer institutions will be willing to invest in large-scale projects; with reduced competition entailing higher return requirements by financiers.
- Big projects are more likely to be subject to opposition and delay; as they affect more people. They are also likely to have a larger and more complex set of stakeholders and, as a result, require more stakeholder management and debate. This can result in significant delays and, potentially, failure to complete.
- In comparison, small-scale projects are easier to appraise accurately small projects as their impacts are limited and usually geographically concentrated.
- However, conversely, small projects (typically below \$10 million) can struggle to attract investment as the transaction costs of managing such investments are too high for major investors. Furthermore, the scale of the need in Nigeria requires a level of ambition that leans towards larger projects – although these may be more complicated. The key is to match projects to investors and delivery capacity.



The scale of the project will affect project development during the preparation phase. Projects need to be sized appropriately to balance risk, impact and investability.

### **Financial viability:**

Financial viability relates to the ability of a project to generate enough revenue to cover its initial investment outlay and to generate a profit. Financial viability needs to be assessed from the perspective of the different project participants. It is not enough, for example, that a project satisfies the financial performance requirements of a private partner, if it imposes contingent liabilities on a state that it cannot prudently meet. If a project is not financially viable from the investor's standpoint, it is unlikely to attract investors or secure funding. Even if the project can secure funding, it may be unable to sustain itself in the long-run if it is not financially viable.

Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period and Return on Investment (RoI) are some of the most widely used tools in project management and finance. They measure the profitability, efficiency, and risk of your projects.

### **Adequate market demand for the infrastructure:**

Underpinning financial viability is the market demand for the services a project will deliver. Weak demand also means the project is unlikely to be economically or socio-economically productive. Demand for the infrastructure being higher or lower than anticipated will affect the commercial viability of the project and projected cashflows. It is vital that close and careful attention is given to a realistic, indeed conservative, assessment of likely market demand at project origination and that the potential adverse implications of weaker-than-forecasted demand are properly understood.

### **No associated or support infrastructure required:**

The success of some complex projects such as the development of Special Economic Zones (SEZs) or port projects requires the existence or provision of basic urban infrastructure such as roads, water resources, power, commuter railway lines, water, and sewerage facilities. Some projects may also require more complex support infrastructure. For instance, an SEZ developed to stimulate Foreign Direct Investment (FDI) should be close to exit points such as ports and airports to facilitate export and transportation of domestic and foreign staff and operators that work within the zone.

The absence of key associated infrastructure can make projects significantly more expensive and more difficult to market to private developers. It is clearly less expensive, and less complex, to develop a port in isolation than to develop a port and an associated highway to serve as its evacuation corridor. By the same token, the government can reduce risk and increase project attractiveness to developers by building support infrastructure before beginning the procurement process.

## Case study: A tale of two free zones

### Lekki free trade zone

**Completion Date:**

Established in 2006, development is still ongoing

**Estimated project value:**

USD \$400 – \$500 million

**Expected project outcome:**

To “establish a free economic zone and an international city with multi-functions of industry, commerce, trade, tourism, recreation and residence to attract foreign investment, create employment and expedite economic growth”. In real terms the project is expected to:

- To generate employment opportunities and skills acquisition; it will produce 300,000 direct jobs and 800,000 indirect jobs.
- To stimulate the Nigerian economy
- To create and encourage integration with foreign partners.
- To ensure effective exploration of the country’s abundant resources.

**Project Structure:** PPP - Joint Venture comprising of a consortium of Chinese Companies by the name China-Africa Lekki Investment Ltd [CALIL] (formerly known as referred to as CCECC-Beyond International Investment & Development Co. Ltd) as the majority shareholder (60%), the Lagos State Government [LASG] (20%) and Lekki Worldwide Investments Limited [LWIL] (20%).

### Applicable Lessons

**Political champion:**

The project scale is incredibly ambitious, the entire Lekki Free Zone covers an area of 16,500 hectares and is divided into two peninsulas by the Lekki lagoon and sectioned into four (4) quadrants. The quadrants are being developed in phases and have been named in kind. Phase 1 quadrant is being developed as a mixed-use industrial zone and accounts for 3000 hectares of investment space. According to the March 2009 feasibility study, about 1,176 ha was supposed to be developed over a period of five years with a startup area of 780 ha. However, this plan was scaled down considerably. The pilot development eventually accounted for only about 154 ha. The scale of even just phase 1 was evidently larger than feasible, to this end, the development had to be scaled down significantly.

**Financial Viability and market demand for the infrastructure:**

According to the feasibility study, phase 1 is being developed to attract the following industries: light industry including furniture, textile & garments, footwear & headwear, construction & building materials, household electrical appliances & other consumer products; vehicle assembly including buses, trucks, tractors, motorcycles as well as construction and engineering equipment; warehousing and logistics including for petroleum products; and real estate development for urban services, finance, trade, hotel, recreational and business and residential facilities.

Unfortunately, even 18 years after establishment, only 15% of the land allocated to Phase 1 has been developed, with off-takers from the following sectors: Manufacturing, Oil and Gas, Logistics and Warehousing. Phase 1 has struggled to attract investments, with an occupancy level of only about 12% of its total developed infrastructure.

**Parallel/support infrastructure**

One of the major challenges that surely dissuaded investors from establishing within Lekki Free Zone was the lack of a suitable evacuation corridor out of the zone and into the city centre. Traffic gridlock constantly affected commuters who utilised the only road network that connected the corridor and the main city. The lack of an evacuation corridor would have caused significantly logistical issues for large scale manufacturers trying to transport merchandise, produced within the zone, into the city.

### Lagos free trade zone

**Completion Date:**

Established in 2012, development is still ongoing

**Expected project outcome:**

Lagos Free Zone is the first private free trade Zone in Nigeria. It is fully equipped with world-class infrastructure, a single clearance window for ease of doing business, and integrated with the 90 hectares Lekki deep seaport, which will allow for access to regional and international markets.

**Estimated project value:**

N/A

**Project Structure:** Lagos Free Zone is the first private free trade Zone in Nigeria, promoted by Singapore based Tolaram.

### Applicable Lessons

**Project scale:**

The zone covers an area of 850 hectares, including the integrated 90 hectares Lekki deep seaport and is being developed with a phased approach. Phase 1, 300 Hectares, was developed between 2019 and 2022.





**Financial and economic viability:**

In 2024, Phase 1 has recorded about 50% occupancy, received over \$2.5 billion in investments and created more than 4000 direct and 15,000 indirect jobs.

The active sectors include: Manufacturing, Construction, Marine services, Telecoms, and Logistics; with manufacturing accounting for the highest percentage of occupants.

**Parallel/support infrastructure:**

in consideration that a free trade zone focuses on manufacturing export produce, the project developers integrated the Lekki deep seaport within the zone. Further to this, to support this beneficial private enterprise, the government of Lagos state have committed to the accelerated expansion of the road network (the coastal road) and power supply enhancements.

Lagos free zone has seen relatively more success than the Lekki free trade zone because of its strategic context. Lagos free zone was developed by private entities, who identified the opportunity, quantified the market demand, and approached the Government with a proposal to initiate the project. To ensure financial viability, the private developers were economical in their project scale and in how they applied the phased approach to development. However, such unsolicited proposals risk undermining Government policy objectives if they are not well aligned.

In 2023, Lagos free zone won the industrial champion category of the global free zone of the year award 2023. The award was granted on account of the integration of the Lekki deep seaport which created opportunity for manufacturers to export their goods as needed.



### Risk Profile

Risk forms an inherent part of any infrastructure project. The way risks are allocated, mitigated, and managed influence their likelihood of occurrence and their impact on the Project. At the origination and planning stage, a sound identification, allocation, and mitigation strategy for risk will increase investors' interest in the project during execution phase and will lower the cost of financing and increase the likelihood of financial close.

Risk category	Description of identified risk	Risk mitigation strategy
Site risk	Land acquisition and/or Right of Way (RoW) is an important risk that must be considered and addressed during the project origination process. If the Certificate of Occupancy (C of O), <b>Right of Occupancy (R of O)</b> and other similar documentation are not in the custody of the Government, then recovering that land may constitute significant risk that will materially delay the project if the current landowners decide not to sell.	The project sponsor needs to carry out a site survey to establish land ownership complete with acquisition and resettlement plan at the onset of the project.
Environmental and Social Risks	There are potential Environmental and Social (E&S) consequences from the construction and operations of most projects that will be originated. To this end, all projects must consider the risk that the project design and operations are compliant with applicable E&S laws, which could result in changes in project design, site selection, implementation timeline, or costs.  From a social perspective, there must be considerations for resettlement of local community members who carry out local economic activities, like farming or fishing, or those who are resident within the area of the proposed project sites.	This can be mitigated through appropriate site selection. If unavoidable, the project sponsor needs to start planning for requisite remedial actions. If applicable, the sponsor should procure reliable land surveying and resettlement plan.
Political risk	The risk that developers/investors/operators will be adversely affected by political activities (i.e., change in government, termination or repudiation of contract, lack of consistency in relevant government policies and regulations, unfavourable public perception of the project, and/or delays in securing the required approvals) must be considered. Private investors value predictable political environment where changes can be foreseen and adequately planned for.	To the extent possible, the project sponsor should facilitate disassociation between the project life-cycle and the political cycle of the region where the project is being implemented. This will make scheduling and annual budget line items (for funding) mutually exclusive. The private sector will be cushioned against too much political interference.
Legal and regulatory risk.	Legal risk arises from a lack of precision in the legislation and regulations that will govern a project. This may arise because the project is not in the national or subnational plan, or if there is no framework or authority that guides the implementation or the project. They also occur because of changes in the legislation and regulations governing a project.  The allocation of risk is governed by the legal agreements in place – if these risks are not appropriately allocated or fairly shared, this will negatively affect bankability.	The sponsors need to ensure that there is a credible legal and regulatory framework that protects private sector interests and property rights and enables commercial contracts to be legally enforced.  The project sponsor needs to create mechanisms that will facilitate the resolution of disputes and potential conflicts of interests in a cost-efficient, fair and enforceable manner.



Brownfield/Green field projects	Brownfield projects entails the remediation of existing assets/infrastructure by the state through revitalisation projects funded by the state or concessions with the private sector. The remediation of these sites can create jobs and produce other economic impacts. The alternative to this green field project in which new infrastructure is developed.	The clear advantage of a brownfield investment strategy to Nigerian states is that the assets and infrastructure are already constructed. The risks, costs and time of start up may thus be greatly reduced as the requisite permit approvals may already be in place.
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**Case study: Concession of Federal government of Nigeria silo complexes**

**Completion Date:**

May 2019

**Expected project outcome:**

In 2014 the Federal Government of Nigeria (FGN) through the Federal Ministry of Agriculture and Rural Development's (FMARD) with technical support from the World Bank commenced the process to concession 22 of its 33 silo complexes across the country to the private sector. Their goal was to bring the inherent private sector advantages into the running or management of the Strategic Grain Reserves silo complexes. They were successful in this endeavour and in May 2019, 17 silo complexes were handed over to the private sector for operations and management.

**Estimated project value:** \$1,349,171

The silo complexes were established by the government to provide immediate food relief in times of emergency, provide appropriate mechanism, and guarantee minimum price scheme to make farmers earn remunerative prices for their produce. They were also designed to provide a mechanism for price stabilisation and storage capacity for excess production and reduce post-harvest losses.

**Project Structure:** PPP Concession

**Applicable Lessons**

**Brownfield:**

Most of the silo complexes had already been developed or were in the final stages of development. To this end, concessioning the assets was a matter of assessing their operational viability, during the planning stage, and concessioning those that were most operationally viable and required the least renovation/revitalisation. The merit of this phased approach is the opportunity to utilise the funds received from the upfront fees to revitalise the other assets and prepare them for concessioning.

**Political, legal, and regulatory risk:**

The FGN managed the legal risk by executing the project in compliance with the PPP legislation, with oversight and regulation from ICRC. They ensured that each silo complex had a legal status that was free from all encumbrances. They supported value chain stakeholders and provided transparent and consistent incentive policies for agriculture investments.

**Environmental and social risks:**

The environmental risks were addressed during the initial development of the silo complexes. To address social risks, the FMARD carried out active stakeholder engagement and contractually required the concessionaires to provide a stipulated threshold service and tariffs to farmers.

**Site risk:**

The site belongs to the Government; as the complexes were brownfield, thus the permits, and approvals required to develop and operate the complexes had already been sought and obtained.