



INFRASTRUCTURE : FINDING FINANCING IN AN UNCERTAIN WORLD

A Case Study of Power Projects in Nigeria



**Being presentation made by
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Outline

- Preamble
- Power Infrastructure Gap
- Sector Characteristics
- Funding Needs
- Global Developments
- Back Home
- Funding Sources
- Way Forward

Preamble

- Infrastructure is arguably the single most important factor militating against the competitiveness of developing economies.
- Investment in Infrastructure in most developing countries has over the years been inadequate.
- In Nigeria this under-investment is probably best illustrated in the power sector.

Infrastructure Gap in the Nigerian Power Sector

🕯️ Limited access to grid supply (*less than 60%*)

🕯️ Watts per person = 27 watts (*less than a light bulb per person*)!!!



🕯️ Low electricity production per capita

Infrastructure Gap in the Nigerian Power Sector.....cont'd

Country	Electricity Production Per Capita (Kwh)
Nigeria	234
Vietnam	1,021
Iran	4,723
Indonesia	1,905
Malaysia	6,378
South Korea	10,875

Infrastructure Gap in the Nigerian Power Sector.....cont'd

Country	Power Gen. Capacity Increase (1985-2000)
Nigeria	10%
Vietnam	332%
Iran	142%
Indonesia	237%
Malaysia	243%
South Korea	205%

Efforts aimed at Closing the Gap

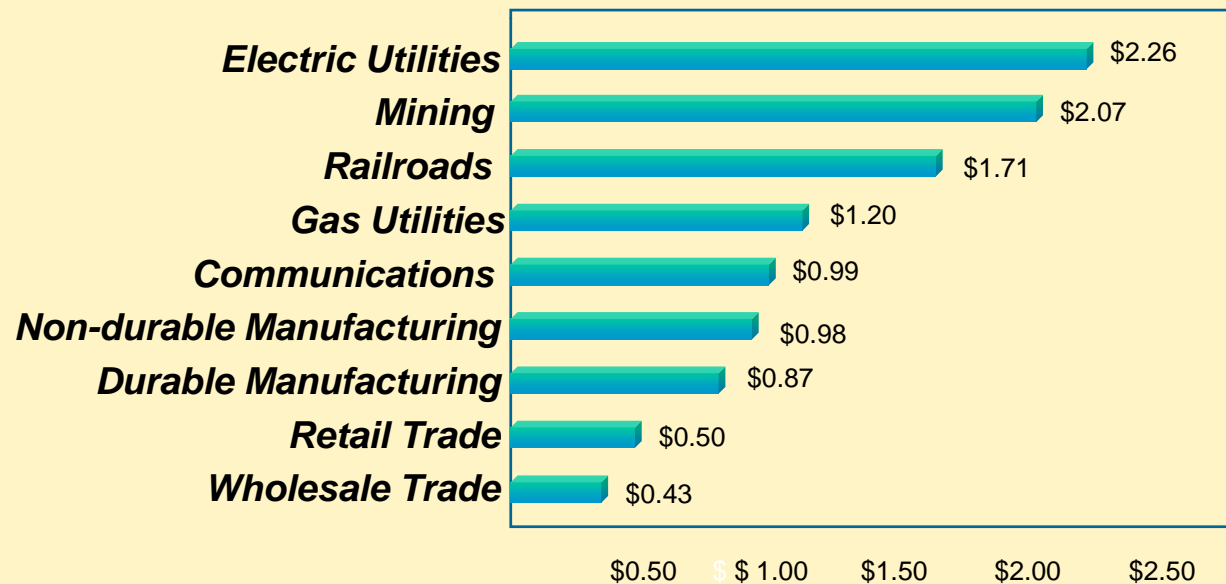
- ✓ Rehabilitation of existing infrastructure
- ✓ Capacity Expansion
 - *NIPP power stations (>3000MW)*
 - *Numerous transmission and distribution projects all across the country*
- ✓ Independent Power Projects
 - *Three JV-IOC power stations (> 1000MW)*
 - *Several licenses issued by NERC (>7000 MW)*

Sector Characteristics

- Highly capital and technology intensive
- Long project gestation periods
- Very specialized/technical
- Inputs are almost entirely foreign exchange dependent
- Real time consumption

Capital Intensive Nature of the Sector

Capital Intensity
Assets per Revenue Dollar

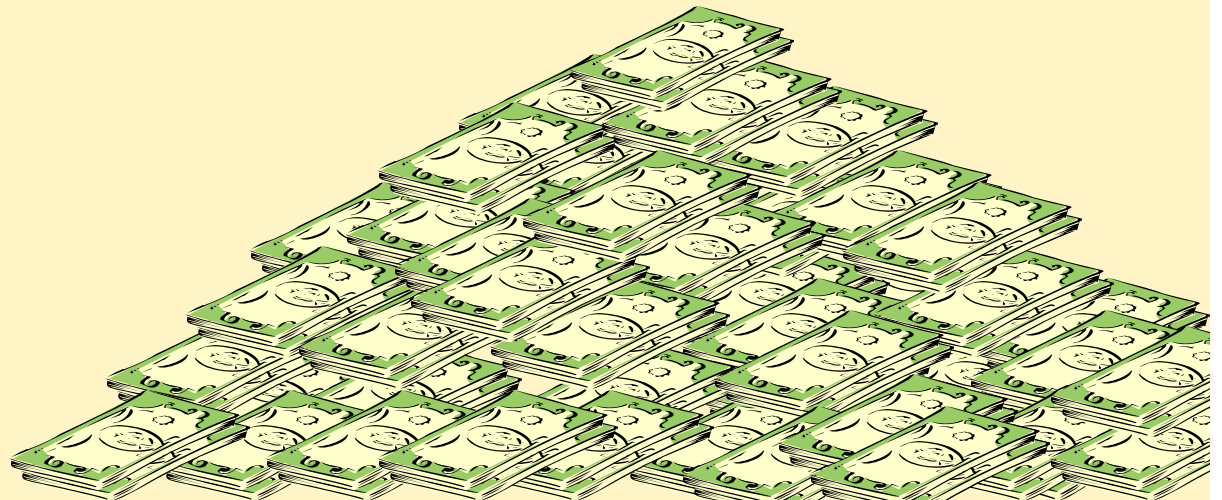


Source: Edison Electric
Institute, Finance &
Accounting Division

The electric utility industry is the most capital intensive in the world.

Estimated Funding Needs

To attain the double digit growth rates required to achieve V20:2020 it was projected that the sector will require an average annual investment of US\$3B - US\$5B between 2007 to 2020!



Recent Global Developments

- Economic Crisis :- *Economies contracting* (China, India etc), *some in recessions* (UK, USA etc); *others just emerging from recession* (France, Japan, Germany)
- Credit Squeeze:- *Wholesale money markets collapse*
- Plummeting Stock Markets:- *FTSE100, S&P500, DAX, CAC40, Nikkei225, Hang Seng, etc*
- Major Financial Institutions in trouble: *AIG, Citigroup, Lehman Brothers, Merrill Lynch, Bank of America, Royal Bank of Scotland etc*

Recent Global Developments.....cont'd

- Rising Unemployment: *Plant Closures, Corporate Bankruptcies, Bank Failures (74 bank failures in the US alone in 2009)!!*
- Deferred Projects:
 - “*Eskom will hold off on a number of new power projects worth US\$893 million until it can raise enough funds*” CNN International Business News, 28th Aug 2009
 - *Similar story all across the world, as many major projects have been delayed, postponed, scaled down (and even cancelled)....* These are indeed challenging times for finding financing for infrastructure projects

Recent Global Developments.....cont'd

- Bail-out Packages:

- *UK and other European countries have spent about US\$2 trillion on rescues & bailout packages.*
- *It is estimated that the US Government will spend over US\$6 trillion on bailout packages/plans!!.*
- *Figures released by the White House budget office projects a cumulative US\$9 trillion deficit from 2010-2019*

Coming Back Home

- Oil production “shut-ins” impacting adversely on budget (revenue) projections.
- Distress creeping into the banking sector- Five banks taken over by CBN.....more may follow?
- Pressure on the Naira - *>25% devaluation (from Nov-08)*
- Stock market meltdown (*75% decline from Mar-08*)
- Downward revision of GDP growth rate from 8% to about 5%.
- Sovereign credit rating (S&P) down to B minus

Possible Funding Sources

Government:

- Erratic & inadequate
- Competing needs in other sectors of the Economy

Private Sector Investment:

- Available (but now more difficult to secure)

Bilateral Loans:

- Not readily available (can be quite rigid in structure)

Multilateral Credits:

- Protracted procedure/ Relatively small sector
“envelope”

Précis

- Critical importance of power - *No country can transit from “under-development” to becoming a newly industrialized nation without fixing its power problems*
- Huge power infrastructure deficit
- Enormous capital requirement - *US\$1 to \$2M/MW for Gen. & Trx.*
- Challenging funding environment

What's the Way Forward?

Proposed Way Forward

FG

- ☞ Move away from erratic annual budgets and adopt a rolling plan approach
- ☞ Reflect the high priority of the sector in funds allocation (*N600B spent on fuel subsidy in 2008*)
- ☞ Continued collaboration with other tiers of government
- ☞ Restore integrity to collapsed infrastructure (sunk investment)
 - *Rehab. of existing infrastructure*
 - *Commissioning of new capacity projects (NIPP: over 3000MW)*

Bilateral/Multilateral Funding

- ☞ Actively seek out opportunities (rather than being a “passive recipient”)
- ☞ Set the Agenda- *outline our priorities*

Proposed Way Forward.....cont'd

Private Investment

- ☞ Make sector attractive for private capital – *on-going*
 - *Metering network (85%)*
 - *Cost reflective tariff (MYTO)*
 - *Sector Reform Cost*
 - *Securitization for private investors*
 - *Legislation (EPSR Act)*
 - *IPPs (gas and revenue security)*

- ☞ Ensure that Nigeria's power sector is the preferred destination for credible reputable investors (“GSM Conditions”)

Thank You