

# Financial and Contractual Arrangement for a sustainable Infrastructure Concession: Financiers' Perspective

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*Seminar on "Infrastructure Concession: A Tool for Sustainable Economic  
Stability, Prospect and Challenges "  
Abuja, 14 -15<sup>th</sup> April, 2010*

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Overview

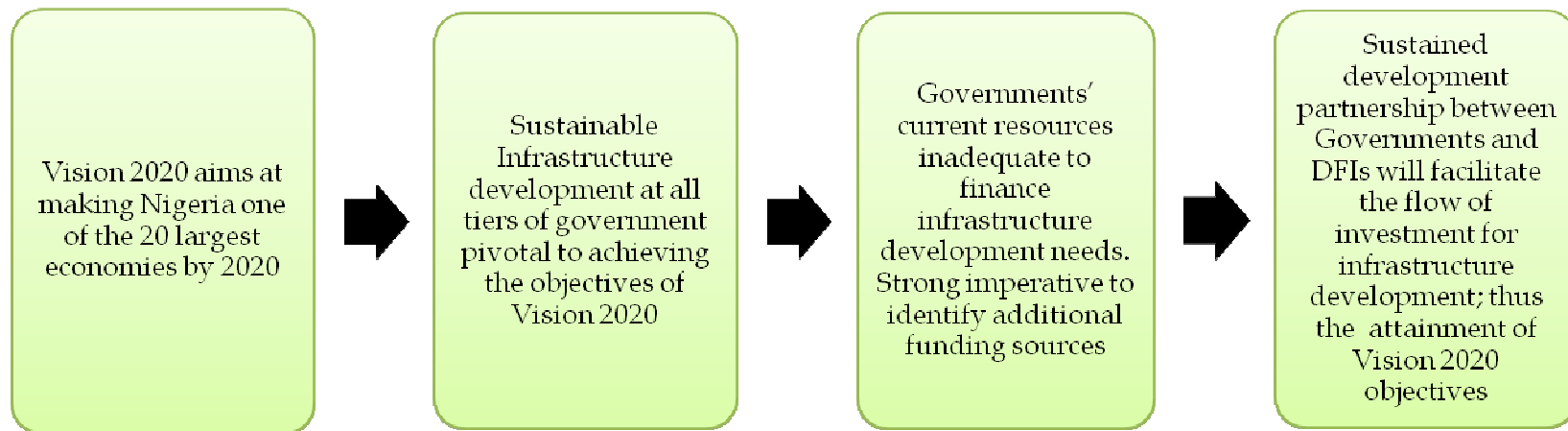
Infrastructure Deficit

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## Overview



Infrastructure Concession

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## Infrastructure Deficit

- ❑ Economic stagnation, declining welfare and social instability are some of the factors responsible for undermining Nigeria's potential for growth and development.
- ❑ Sustained investment in infrastructure is a critical element for poverty reduction and economic growth. Provision of infrastructure on a sustainable basis is therefore key to addressing these issues and engendering required transformation and achievement of Vision 2020.
- ❑ Infrastructure, health and education promote economic growth, raise living standards, income and employment.
- ❑ Infrastructure elements like water supply, sanitation, waste management, education etc improve living standards, reduce morbidity and mortality as well as attainment of most MDG Goals.
- ❑ Settlements with good infrastructure & services attract investments.

Sustained Investment in Infrastructure - Key to Vision 2020

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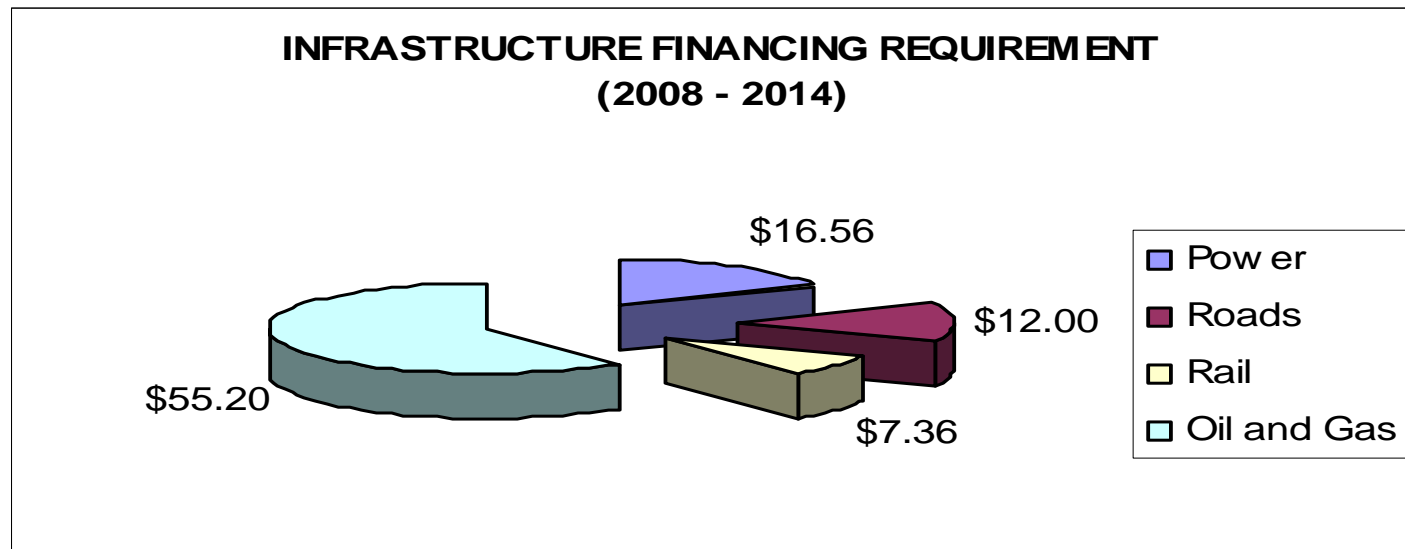
## Infrastructure Deficit

- ❑ Nigeria has huge Infrastructure deficit. \$12b to \$15b: required annually for the next 5 to 6 years
- ❑ FGN's annual Capital Budget can only cover a fraction.
- ❑ There is also a severe limitation in Capacity for project development, management, operations and maintenance.
- ❑ Therefore, resort to Private Sector inevitable if we are to attain Vision 2020 aspirations.

Infrastructure Provision Requires all hands to be on deck and urgently too

## Infrastructure Deficit Contd.

Over the next 8 years Nigeria needs to invest in:



\*Ministry of Finance estimates. This figures are not exhaustive: KPMG draws estimates that 1% growth in GDP requires investment of 1% of GDP in infrastructure; over the next 6 years to achieve 13% growth, cumulative investment in infrastructure is in the region of USD 140bn – 150bn

**Infrastructure Provision Requires all hands to be on deck and urgently too**

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## Concession to the rescue

### Definition and Background

Concession may be used broadly to refer to any arrangement in which a firm obtains from the Government the right to provide a particular service for an agreed period of time.

The past nearly 3 decades have witnessed a fundamental change in the governments' thinking about infrastructure in rich and poor countries alike, private ownership and operation have been replacing public provision.

Concessions though gained popularity recently, are an old innovation dating back to the nineteenth century. Some famous 19<sup>th</sup> century economists like Alfred Marshall and Edwin Chadwick had extensive discussions on it.

Concessions have proven efficient in regulating natural monopolies and may not necessary confer legal monopoly when the necessary clauses are incorporated (and enforceable) in the concession agreement.

**Concessions have proved efficient in many parts of the globe**

## Concession to the rescue Contd.

### Role of governments in Infrastructure Concession

- ❑ Framework: Adopting legal provisions to enable the granting of concessions have better knowledge of local needs and priorities
- ❑ Project identification and analysis: A preliminary analysis may be necessary especially on market risk but should not duplicate the analysis to be performed by the private sector
- ❑ Enabling and supporting measures for specific projects e.g. granting permits and other necessary authorizations
- ❑ Design of the concession arrangements: legal instrument, pricing rules, performance targets, duration and termination etc
- ❑ Concession award: choosing the method of award, bid structure and evaluation, bidding rules and procedures, negotiating etc.
- ❑ Exercise of regulatory function: supervising and monitoring as well as enforcing rules.

**Governments can engender rapid development of infrastructure**

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## Financial and Contractual Arrangement

To achieve a sustainable Infrastructure Concession, the importance of a well structured concession can not be overemphasised.

Concession is all about implementation of a predetermined structure to ensure timely provision of desired services.

Infrastructure projects are usually very expensive with attendant high risks requiring participation of parties taking-on risks that is best mitigated by each party.

Utilization of Available Complementary Resources Crucial to Overcoming Challenges

## Financial and Contractual Arrangement Contd.

### Contractual Arrangement

The long-term success of a new infrastructure project is dependent on the correct identification of both benefits and the risks associated with it.

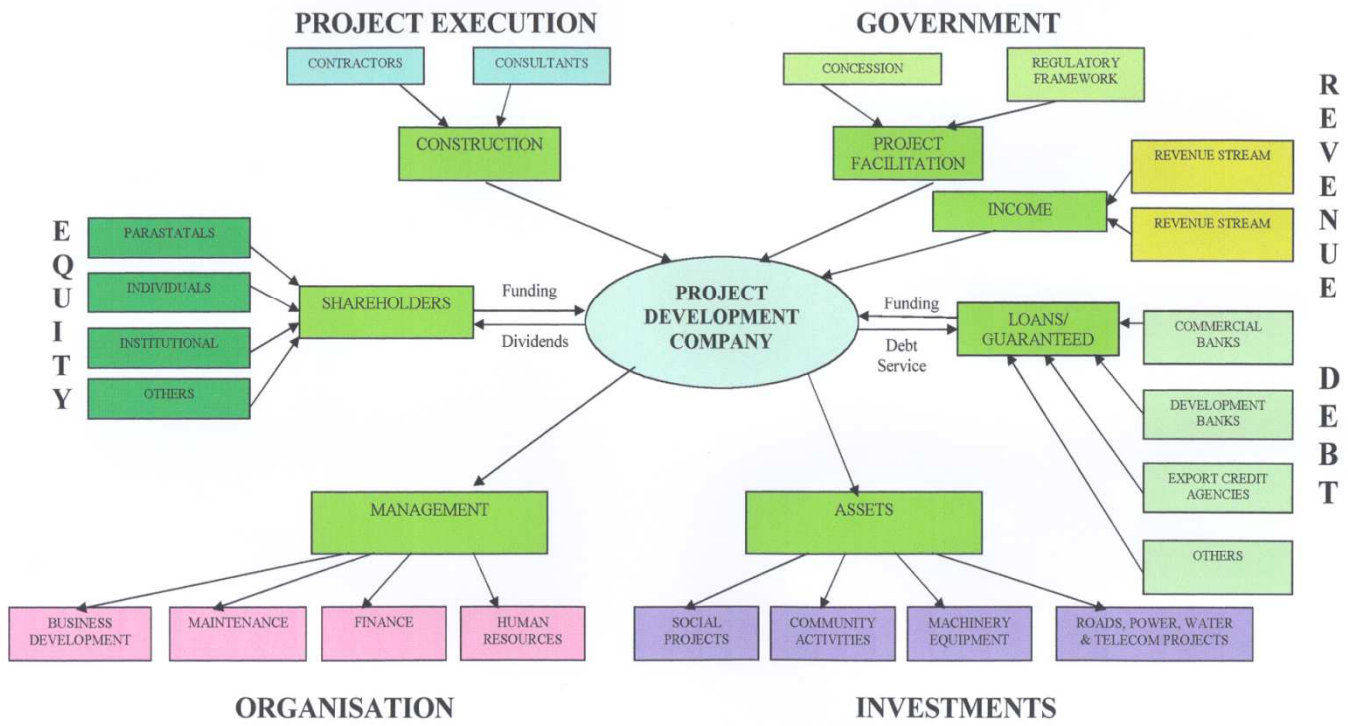
Correct identification must be followed by appropriate allocation of the benefits and risks- the latter to the party best able to minimise or control them at realistic cost.

Given that a number of parties with differing interest interests will be involved, the final pattern of allocation will be made within a contractual framework.

Utilization of Available Complementary Resources Crucial to Overcoming Challenges

# Financial and Contractual Arrangement Contd.

PRIVATE FINANCING OF INFRASTRUCTURE: PROJECT DEVELOPMENT MODEL



Utilization of Available Complementary Resources Crucial to Overcoming Challenges

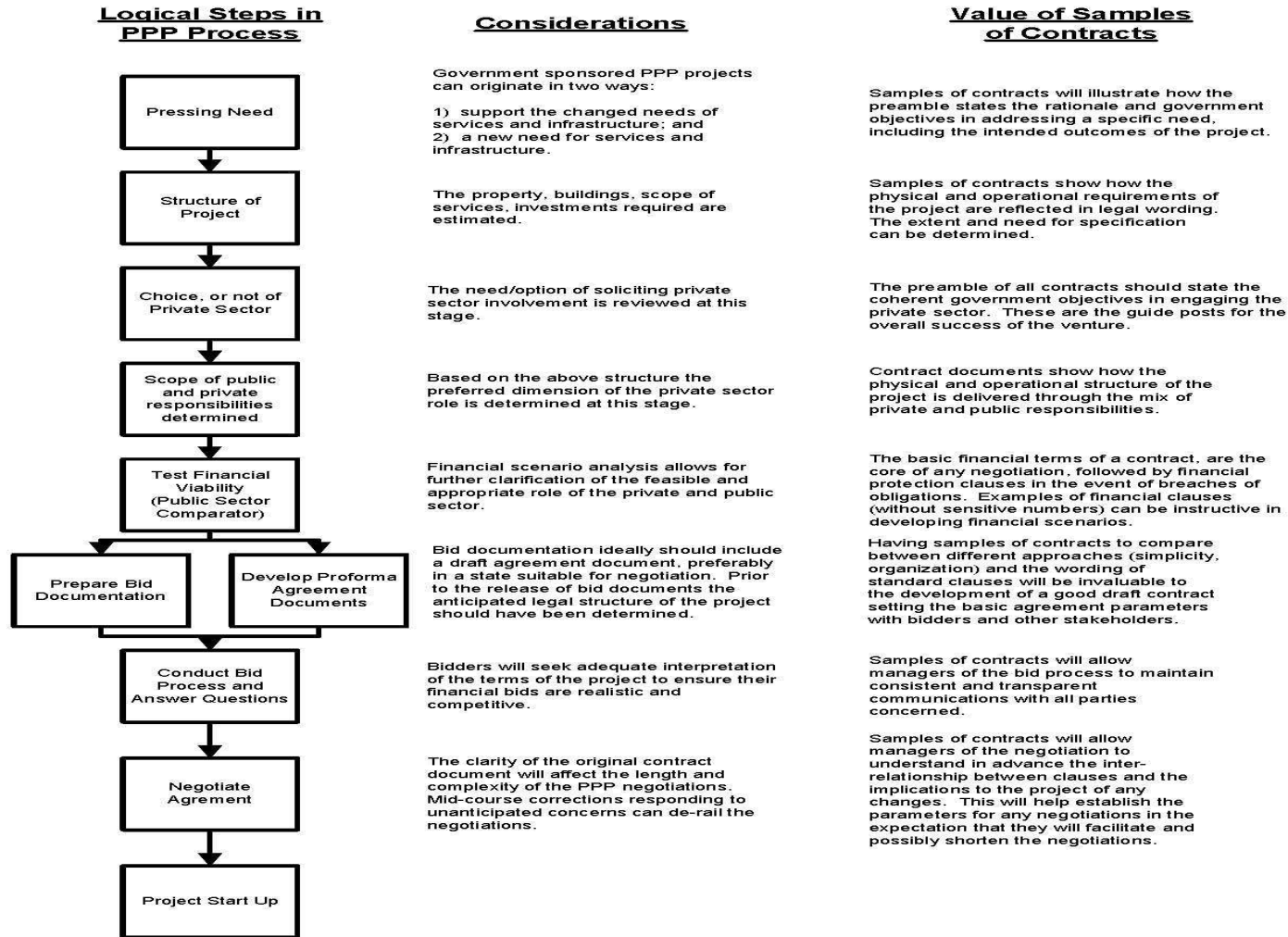
## Financial and Contractual Arrangement Contd.

### Security Package:

- Concession Agreement
- Marketing , Supplier, EPC & Service Agreements
- Customer Credibility & Credit Worth
- Performance Bond
- Liquidated Damages
- Insurance
- Escrow Account
- Asset Pledge: Land & Equipment
- Pledge of Present and/or Future Receivables
- Debt Service Reserve Account
- Other Guarantees: Government Support, Shareholders Guarantee, etc.

Reliability of many different agreements is key to successful concession

# Financial and Contractual Arrangement Contd.



Reliability of many different agreements is key to successful concession

# Financial Arrangement

## Financeability/Bankability

Financeability of a concession is the ease of access of fund required to provide the required services in an infrastructure concession.

It's not an absolute concept in itself as whether a project is financeable will depend on a number of factors taken together, ranging from:

- The identity of participants
- The credit risk of offtakers
- The adequacy of supply of relevant raw material or fuel supply
- The terms of the concession agreements
- The political risk of the host country
- Lenders' appetite given their own country and sector limits

In Broad terms, the foregoing factors may be broken down into main areas: country issues and project specific

Utilization of Available Complementary Resources Crucial to Overcoming Challenges

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## About UDBN

- ❑ Established in 1992 under Act 51 of the Federal Republic of Nigeria, as a Development Finance Institution, to foster rapid development of infrastructure throughout the Federation through the provision of finance and banking services
- ❑ UDBN is now restructured with private sector majority stake (54%), Federal Government has 10%, State Governments 10%, Local Governments 21% and the Nigeria Labour Congress 5%.

Benefits of the new structure include:

- ❑ Private sector efficiency
- ❑ Comfort to the international community to utilize UDBN as a channel through which development funds flow to Nigeria

**UDBN Specifically Chartered to Assist Infrastructure Development**

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## About UDBN -contd

### Product Offerings:

- Development Loans
- Project Finance Arranging and Advisory
- Proprietary Equity
- Capacity Building and Technical Assistance

UDBN Established by Government as Nigeria's Infrastructure DFI

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# About UDBN -contd

 <p>Railways</p>	 <p>Power</p>	 <p>Roads</p>	 <p>Water</p>	 <p>Urban Mass Transportation</p>
<ul style="list-style-type: none"> <li>➤ Rehabilitation</li> <li>➤ Expansion</li> </ul>	<ul style="list-style-type: none"> <li>➤ Generation</li> <li>➤ Distribution</li> </ul>	<ul style="list-style-type: none"> <li>➤ Rehabilitation</li> <li>➤ Maintenance</li> <li>➤ Construction</li> </ul>	<ul style="list-style-type: none"> <li>➤ Water Supply</li> <li>➤ Sanitation</li> <li>➤ Waste Management</li> <li>➤ Ports</li> </ul>	<ul style="list-style-type: none"> <li>➤ Bus</li> <li>➤ Light Rail</li> <li>➤ Waterways</li> <li>➤ Air</li> </ul>
 <p>Social Infrastructure</p>	 <p>Retail &amp; Leisure</p>	 <p>Housing</p>	 <p>Municipal Ventures</p>	
<ul style="list-style-type: none"> <li>➤ Education</li> <li>➤ Health</li> </ul>	<ul style="list-style-type: none"> <li>➤ Tourism &amp; Hotels</li> <li>➤ Shopping Centres</li> </ul>	<ul style="list-style-type: none"> <li>➤ Mass Housing</li> </ul>	<ul style="list-style-type: none"> <li>➤ Markets &amp; Parks</li> <li>➤ Local Craft Industries</li> </ul>	

Identified Current Demand for Infrastructure Development **₦6.5 trillion**

## About UDBN -contd

### UDBN's Value Proposition

- ❑ Dedicated resources in the UDBN Municipal Finance Desk (MFD) cater exclusively to the infrastructure development needs of LGs
- ❑ Assistance to LGs to leverage other available financial resources to implement more infrastructure projects.
- ❑ Provision of appropriately priced and structured funds to finance infrastructure projects
- ❑ Provision of Technical Assistance in the preparation of Infrastructure Development Plan (IDP), Capital Investment Plan (CIP), improving IGR strategies and efficiencies, introducing fiscal discipline, Capacity Building, Training, Workshops etc.

Municipal Finance Desk Caters Exclusively to LGs

## About UDBN -contd

### UDBN's Value Proposition (cont'd)

- ❑ Facilitate re-orientation of LGs (through various technical assistance & capacity building programmes) on the merits of using structured debt finance
- ❑ Facilitate increased access by LGs to the domestic Capital Market
- ❑ Project Development Services including Advisory to enable structuring of bankable projects
- ❑ Establishment of Infrastructure Fund for LGs
- ❑ Complementary Services to ALGON's existing infrastructure programmes with LGs

UDBN/LGs – Partnering Towards Vision 2020

# Contact Details

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