

NIGER STATE GOVERNMENT

Niger State Investment Promotion Agency (NSIPA)

PROJECT FACILITATION FUND (PFF)

Business Plan

Strategic and financial plan for the establishment and operation of the PFF

Issued by the Niger State Investment Promotion Agency / NSPP Unit

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Acronyms / Abbreviations

Abbreviation	Meaning
AfDB	African Development Bank
CA	Contracting Authority
DFI	Development Finance Institution
E&S	Environmental and Social
ESIA	Environmental and Social Impact Assessment
ExCo	Executive Council
FBC	Full Business Case
FCCL	Fiscal Commitments and Contingent Liabilities
FGN	Federal Government of Nigeria
IGR	Internally Generated Revenue
MDB	Multilateral Development Bank
MDA	Ministry, Department or Agency
MOFEP	Ministry of Finance, Economic Planning and Budget
NSG	Niger State Government
NSIPA	Niger State Investment Promotion Agency
NSPP	Niger State Public-Private Partnership Unit
OAF	Officer Administering the Fund
OBC	Outline Business Case
PFF	Project Facilitation Fund
PPP	Public-Private Partnership
PPP&PC	PPP & Privatization Committee
SABER	Sustainable Access to Basic Infrastructure and Energy Resources
SDG	Sustainable Development Goals
SPV	Special Purpose Vehicle
VGF	Viability Gap Funding
VfM	Value for Money

1 Market Overview

1.1 Macro-economic environment

Nigeria is Africa's largest economy based on GDP (USD 432bn in 2020) ahead of both Egypt (USD 363bn) and South Africa (USD 302bn). With a population of over 200 million, it is also the largest market on the continent. Nigeria's GDP per capita of about USD 2,400 ranks 17th among African countries.

The 2020 national debt figures for Nigeria stood at an estimated NGN 33 trillion (approximately USD 80bn), with a projected upward trajectory. In the same year, Nigeria's debt-to-GDP ratio was estimated at about 35%. Government spending, financed from tax and non-tax sources, has continued to rise and was exacerbated by the COVID-19 pandemic. Yet revenue remains largely unchanged, which has led to a fiscal deficit and uncertainties in the level of public investment in infrastructure.

Inflation in Nigeria has remained in double digits since 2016, with implications for project costs and for the real value of resources available to the Fund.

1.1.1 Overview of Niger State economy

Niger State is one of the largest states in Nigeria by landmass and plays a strategic role in the country's agricultural, energy and logistics landscape. The State's Gross State Product (GSP) is estimated at approximately NGN 4.6 trillion (about USD 3.1 billion at 2024 prices), placing Niger State among the top ten sub-national economies in Nigeria.

Agriculture, mining and services account for over 75% of the State's economic output, with Niger State being a leading producer of rice, maize, yam and livestock. The State also hosts critical national energy assets, including major hydroelectric power stations.

Niger State maintains a relatively moderate debt profile, with debt-to-GSP estimated below 20%, supported by stable statutory allocations and growing internally generated revenue (IGR). However, like most Nigerian states, Niger remains fiscally dependent on federal transfers, which account for approximately 70% of total revenues. The State therefore needs to strengthen its IGR and diversify its revenue base, including through its agricultural and solid minerals value chains, and to attract private investment into infrastructure.

1.1.2 Investment targets

The Niger State Development Plan (NSDP) 2021–2025 outlines an ambitious infrastructure investment programme aligned with Nigeria's National Development Plan. Total projected capital expenditure across priority sectors is estimated at NGN 3.8 trillion (approximately USD 2.6 billion) over the plan period.

Sectoral allocation is projected as follows:

- Transport and logistics – 35%
- Energy and power – 25%
- Water supply and sanitation – 15%
- Health – 12%
- Education – 10%
- Agriculture and agro-processing – 3%

The State targets significant private-sector participation, particularly through Public-Private Partnerships, to bridge infrastructure financing gaps.

1.1.3 PPP Project Pipeline

Niger State has an emerging but rapidly developing PPP framework, supported by the Niger State PPP Policy and institutional arrangements established within the Niger State Investment Promotion Agency (NSIPA) / Niger State Public-Private Partnership Unit (NSPP).

A preliminary PPP prioritisation exercise has identified projects across transport, energy, agriculture, housing and water sectors. Most projects are at Concept or Pre-Feasibility Study (PFS) stages and require structured project preparation support.

Table 1-1: NSG current PPP project pipeline

S/N	Project Name	Sector	Stage	Est. Capex (USD mn)
1	Minna Affordable Housing Scheme	Housing / Urban Dev.	Concept	180
2	Rehabilitation & O&M of Shiroro–Minna Water Scheme	Water & Sanitation	PFS	220
3	Agro-Processing & Storage Hubs (3 locations)	Agriculture	PFS	310
4	Solar IPP Clusters (50 MW total)	Renewable Energy	Concept	450

Source: NSG PPP project pipeline data and NSPP records.

The PPP project pipeline comprises projects that have been identified and prepared in accordance with the provisions of the PPP Manual and PPP Policy and approved by the NSPP Unit. This excludes projects such as lease contracts and/or joint ventures that may have been entered into by CAs prior to the promulgation of the current PPP framework, even though these may involve some form of private-sector participation.

1.2 This document

This Business Plan provides an overview of the purpose and structure of the Project Facilitation Fund (PFF or the 'Fund'), and a plan for its financing and implementation. It has been revised and updated based on feedback from NSG stakeholders and is issued by NSIPA / NSPP.

2 PFF Overview

2.1 Purpose of PFF

The PPP project pipeline in Niger State is at early stages of development. As illustrated in Section 1.1.3, most projects are at concept or PFS stage. A significant proportion of the infrastructure requirements projected under the NSDP is expected to be developed through private investment and PPPs. There is therefore a need to provide NSG with the tools and mechanisms to source and channel funds to the investment sector, develop a robust PPP project pipeline and build the capacity of MDAs to prepare, procure and implement PPPs. The PFF, with its multi-pronged approach, will be instrumental in addressing these aspects.

A PFF is a widely used mechanism designed to support Contracting Authorities (CAs) in PPP project preparation, procurement and implementation. The ultimate objectives are to increase private investment in the Niger infrastructure market across multiple sectors, and to sustain this participation over an extended period of time.

The PFF is expected to support CAs for project preparation, procurement and implementation of PPP projects. Certain aspects of the process require specific expertise and experience which may not be readily available in the public sector. Therefore, the engagement of experienced external advisors might be required to undertake preparatory work which may be beyond the budgetary allowance of a CA.

Infrastructure projects typically require large capital outlays. They also have long construction and investment payback periods. PPPs enable the public sector to leverage private finance and expertise. It is not uncommon for CAs to provide funding, in a limited manner, to projects in the form of Viability Gap Funding (VGF) in order to de-risk the project and make it more attractive for private partners. VGF amounts vary from project to project, and their calculations depend on project-specific factors (such as projected revenues, gearing, debt service capacity, cashflows and equity returns), but they are another aspect of PPP projects that puts a strain on CA budgets.

The involvement of private partners in PPP projects might take different forms. The private partners could participate in a project just as a vendor/contractor or can play a much larger role and be responsible for the financing, construction, maintenance and/or operation of a project, assuming all the risks associated with these activities. A PPP project is based on a project agreement between a CA and private partner(s) for delivering a project which, amongst other things, clearly defines the rights and obligations of all parties to the agreement. The obligations of the CAs may include some fiscal commitments and contingent liabilities (FCCL), such as payments to be made to the private sector in the occurrence of certain default events (i.e. termination of the project agreement before its expiry date due to a default of the CA). Depending on the size of the project and at what stage the project is when the FCCL arises, the monetary value of such obligations could be quite significant.

A PFF provides an avenue for government support to PPP in the following forms:

- Enable CAs to prepare the projects for tender including the conduct of project appraisals to ensure that projects are bankable and attractive to potential bidders;
- In select cases, and where public financial resources are available, extend VGF to projects that are socially desirable but not viable in the absence of public financial support; and
- Provide a source of liquidity in case of materialisation of previously unanticipated and unbudgeted contingent liabilities.

2.2 Strategic objectives and priorities of support

2.2.1 Project lifecycle and windows of support

The PFF will be available to provide financial support to PPP projects across the project lifecycle as envisaged in the PPP Manual.

Figure 2-1: PPP Project Planning and Budgeting, Procurement and Approval Process Cycle

Step	Activity	Responsible
1	Identification of PPP projects	CAs / MDAs
2	Prioritisation of PPP projects	NSPP
3	Screening and validation of prioritised projects	NSPP
4	Approval of the PPP project pipeline	NSPP Unit
5	Approval of the PPP project pipeline	State Executive Council (ExCo)
6	Appointment of Transaction Advisor	NSPP
7	Preparation of the Outline Business Case (OBC)	NSPP, with support from MDA and Transaction Advisors
8	Approval of the OBC	NSPP
9	Selection of private partner through open competitive tender	NSPP
10	Approval of the Full Business Case (FBC) and ExCo approval	NSPP / ExCo
11	Signing of the PPP contract with the preferred bidder	MDA (CA), with NSPP as witnessing party

Source: Adapted from the Niger State PPP Manual.

There will be four windows of support, under which funds will be channelled to support different aspects of the PPP project life cycle.

Figure 2-2: PFF Support Windows

Window 1	Window 2	Window 3	Window 4
Support to CAs for Project Preparation	Support to the PFF Secretariat	Viability Gap Funding to CAs (or Project SPVs)	Contingent Liability Liquidity Support to CAs

- Window 1: provides support to CAs for project preparation including engaging consultants and transaction advisors;
- Window 2: provides support to the PFF Secretariat for its own operations;
- Window 3: VGF to CAs (or Project SPVs) for projects including grants/loans to fund construction, operations, service payments and output-based payments. This also includes coverage of the project's fiscal commitments that have been estimated and approved at Full Business Case (FBC) stage; and
- Window 4: provides contingent liability liquidity support to CAs to meet any potential short-term liquidity gap in the implementation of a PPP project agreement.

FCCL arising from existing/operational projects that pre-date the PFF would not be eligible for funding under PFF.

2.2.2 Sectors

The PFF is envisaged as a multi-sector fund, with no specific earmarking of funds for a particular sector. Nevertheless, CAs will be encouraged to propose projects within the targeted sectors and projects listed in the NSDP (refer to Section 1.1.2) and/or the SDP, prioritising alignment with the Sustainable Development Goals (SDGs) and SABER frameworks.

2.2.3 Role of PFF

The PFF would support a diverse range of activities:

- Support the operations of the PFF Secretariat as well as provide support to finance capacity-building programmes for PPPs.
- Project-specific funding for development/implementation including project preparation and procurement activities.
- Vehicle to provide liquidity support to CAs in case contingent liabilities are triggered.
- Enable CAs to access funds from Multilateral Development Banks (MDB) and Development Finance Institutions (DFI) which may not have been possible otherwise.

Figure 2-3: Role of PFF

Build capacity	Fund projects	Liquidity support	Connect
Secretariat operations & capacity building for PPPs	Project preparation & implementation funding	Contingent liability liquidity facility	Access to MDB / DFI financing

2.3 Fund Metrics

The key fund metrics are as follows:

- Initial capitalisation: USD 10.1 million, including an annual contribution of USD 150,000 from NSG in each of the first four years and USD 300,000 annually in the following six years. The overall outlay of the Fund over its life is projected in the range of USD 150–172 million (refer to Section 3 for further details).
- Type of support: debt / equity / grants
- Operational life: 10 years
- Nature of project: Greenfield development, Brownfield (asset renewal / rehabilitation), and Operation and/or maintenance of existing assets
- Strategic partnerships: strategic agreements with MDBs and DFIs

2.4 Investment Prioritization criteria

Given the immense infrastructure investment requirements in the State and the importance attributed by NSG to ensuring the participation of the private sector in its ambitious plans, the PPP project pipeline can be expected to grow in the future.

While the PFF is expected to apply the first-come, first-served principle in reviewing all eligible funding applications, it will use the following criteria to prioritise projects:

- Extent to which a CA is able to co-fund the requested support.
- Potential economic impact of the project.
- Environmental and Social (“E&S”) impacts of the project.
- Value for Money (VfM) and affordability analysis for the project (if available).
- CA’s track record with PPPs.

Figure 2-4 presents how these criteria will be used to prioritise applications received into the various categories (A – Top Priority, B – High Priority, C – Mid Priority, D – Low Priority and E – Least Priority).

2.5 Application Process and Supporting Documentation

The sole beneficiary of Support Window 2 will be the PFF Secretariat. Any funds paid out under this support window will be subject to rules and regulations governing procurement at NSPP.

For Support Windows 1, 3 and 4, applicants will complete an Application Form and attach the supporting documentation required depending on the support window they would like to benefit from.

Table 2-1: Supporting Document Requirements (summary)

Support Window	Uses (examples)	Key Supporting Documentation
Window 1 – Project Preparation	Consultancy, feasibility studies, tender process, transaction advisory, land acquisition	CA project team details; concept note; screening results; approved OBC; resettlement plans
Window 3 – VGF	Construction grant, operational grant, service/availability payments, demand/output-based payments	Approved OBC & FBC; Financial Risk Assessment; Project Agreement; financial model; ownership details; CL estimate
Window 4 – Contingent Liability Liquidity	Liquidity for contingent liabilities that cannot be handled under alternative frameworks	Signed project agreement; approved OBC & FBC; Financial Risk Assessment; approved financial model

2.6 Approval Process

The PFF Secretariat will follow a systematic, disciplined approach to manage the whole funding process, from the receipt of applications to the monitoring of the approved funding.

2.6.1 Support Windows 1, 3 and 4

The funding process under Support Windows 1, 3 and 4 will follow seven steps:

Figure 2-5: Funding Process for Support Windows 1, 3 and 4

Step	Stage	Description
1	Application receipt and management	PFF Secretariat receives and acknowledges applications from CAs (and project companies under Window 3).
2	Screening of applications	Eligibility, priority and completeness of the application and supporting documents are confirmed.
3	Assessment	Detailed review of the application, with input from technical experts where required.
4	Approval	Approval by the PPP & Privatization Committee of the NSIPA Board; Window 4 additionally requires the approval of the Governor.
5	Contracting	Execution of a Funding Agreement between the Fund and the CA or project company.
6	Disbursement	Release of funds from the relevant support window in line with the Funding Agreement.
7	Monitoring and evaluation	Tracking of fund utilisation, reporting and, where applicable, repayment to the Fund.

Support window	Point at which the window may be accessed
Window 1 – Project preparation	After approval of the PPP project pipeline by ExCo (Step 5 of the PPP project cycle)
Window 3 – Viability Gap Funding	After NSPP approves the FBC and secures ExCo approval (Step 10 of the PPP project cycle)
Window 4 – Contingent liability liquidity support	Post-award, based on need

2.6.2 Support Window 2

Support Window 2, which will cover the eligible expenses of the PFF Secretariat, will follow a different process and be subject to the procurement rules and regulations in effect at NSPP.

The PFF Secretariat will prepare a work plan and budget for each fiscal year to be reviewed by the Officer Administering the Fund (OAF) and submitted for the approval of the PPP & Privatization Committee. Disbursements from Support Window 2 for eligible expenses may be made only upon such approval. Regular reporting (quarterly or semi-annually) will be required to monitor how the disbursed funds have been used. Disbursements under Window 2 shall not exceed ten per cent (10%) of the Fund's annual allocation in any given year.

2.7 Institutional Structure

Figure 2-7 presents the institutional structure for the PFF.

Figure 2-7: PFF Structure (summary)

NSIPA Board
PPP & Privatization Committee (PPP&PC) — Finance Sub-Committee Audit & Risk Sub-Committee
Officer Administering the Fund (OAF) — Director, PPP and Privatization, NSPP
PFF Secretariat (Fund Manager, Accountant, Procurement Officer, Internal Auditor + technical support)
Interfaces: Contracting Authorities Development Partners Technical / Legal / Monitoring services

2.7.1 NSPP Unit through the PPP & Privatization Committee

The NSIPA Board, through the PPP & Privatization Committee (PPP&PC), shall provide oversight of the PFF. PPP&PC may delegate its functions to respective sub-committees established by the PPP&PC.

A Chairperson will lead the PPP&PC and ensure that it is effectively carrying out its duties and responsibilities. The OAF will serve as the Secretary to PPP&PC, while also being the head of the PFF Secretariat, ensuring the PFF's strategic, operating and financial objectives are met. The OAF and PFF Secretariat will be accountable to PPP&PC, acting on behalf of NSG and other key stakeholders.

It is envisaged that PPP&PC's size, membership composition and tenure of its members will be determined following discussions organised by NSPP among relevant stakeholders. Its members are expected to be drawn from various NSG institutions and MDAs, which enable the PPP&PC to leverage wide-ranging experience and expertise within NSG.

Sub-Committees that will handle the affairs of the PFF are: Finance Sub-Committee; and Audit and Risk Sub-Committee. PPP&PC will recruit any person whose knowledge and skills meet the requirements to perform the sub-committee functions.

2.7.2 Officer Administering the Fund

OAF will be the Director, PPP and Privatization at NSPP, and be responsible for the supervision and control of the PFF.

2.7.3 PFF Secretariat

OAF will be supported by the PFF Secretariat. The Secretariat will consist of such NSPP staff as the OAF deems necessary, subject to the approval of the Executive Secretary / Managing Director of NSIPA.

The Secretariat will benefit from Support Window 2 of the Fund to cover its eligible expenses. The services of third-party consultants will be available to close any gaps in the skill set of the Secretariat staff to successfully perform their duties, build capacity and streamline operations of the Fund.

Some of the staff for the Secretariat may be drawn from other relevant MDAs with requisite experience (e.g. MOFEP, Planning & Budget Commission, Niger State Public Procurement Authority) to enable capacity

development and transfer of knowledge to NSG stakeholders and also reduce over-reliance on external vendors. This would also leverage the extensive experience of such staff in areas of risk assessment, investment, monitoring and evaluation, and accounting.

The roles, functions and powers of all stakeholders in the structure are detailed in the PFF Governance and Operations Manual.

3 PFF Financial Plan

3.1 Fund Size and Life

The size of the PFF will be a function of: the requirements of the proposed PPP projects (including the overall PPP market and trends in private investment); the State's macro-economic environment; the availability of NSG's internally generated funds and funds that can be mobilised from development partners; and the ability of the national / regional financial sector to support infrastructure projects. The schedule and terms of the flow of funds from the donors into the Fund will affect its operational life.

Given the current uncertainty regarding the sources and quantum of funds that can be mobilised, assumptions regarding the amount of funds to be obtained and the life span of the Fund have been made for planning purposes. It has been assumed that the total size of the Fund will reach approximately USD 150–172 million (including repayment of loans and sale of equity) and that its operational life will be ten years.

3.2 Sources of Funding

The Fund is expected to have three main sources of finance:

- Annual budget allocations from MOFEP / NSMOF;
- Grants from international donors (either through a Multi-Donor Trust Fund and/or individual donor grants); and
- Funds generated internally through the activities of the Fund, such as the repayment of loans extended and the sale of equity stakes acquired in project companies.

3.2.1 Niger State Budget

NSG contributions are expected to be in the form of annual budgetary injections of USD 150,000 (or its Naira equivalent at the prevailing Central Bank of Nigeria exchange rate) in each of the first four years and USD 300,000 in each of Years 5 to 10, amounting to USD 2.4 million over the life of the Fund. Given the overall outlay anticipated for the PFF, this constitutes less than 1.5–2% of total funds. The extent to which funds can be mobilised from MDBs and DFIs will therefore be critical.

3.2.2 MDBs and DFIs

It is assumed that NSG will be able to obtain grants from MDBs such as the World Bank, International Finance Corporation and African Development Bank, and DFIs such as AFD (France), FMO (the Netherlands) and Swedfund (Sweden) throughout the proposed life of the Fund. This list is not exhaustive. Grants from international donors (either through a Multi-Donor Trust Fund and/or individual donor grants) will be encouraged. In mobilising funds from donors, NSPP / NSIPA will ensure that donor contributions are untied and in line with the priorities of NSG. Potential conflicts of interest will be assessed at the time of resource mobilisation and deployment.

3.2.3 Internally Generated Funds

The Fund is expected to extend loans to and make equity investments in project companies to support PPP projects through the VGF support window. The repayments of the loans and the sale proceeds of the equity stakes in the project companies at the end of the proposed life of the Fund will be kept within the Fund.

Payments/levies paid by bidders in the form of Upfront Fees or Success Fees paid by the Preferred Bidder Consortia on PPP projects may also be utilised to contribute to the PFF. These often pay the transaction

costs of the CA. The quantum of this source is difficult to estimate at this stage as the PPP project pipeline data is yet to be confirmed by NSG.

For the avoidance of any doubt, the internally generated funds do not include any dividends that could be paid on the shares held in project companies or any interest that could be earned on cash balances held by the Fund.

3.3 Intra-Fund Allocation

As defined in Section 2.2.1, the PFF will have four support windows. The annual outlay of the PFF will be allocated amongst the four support windows every year. Flexibility in allocation between support windows will be adopted. However, recurrent (annual / periodic) support for VGF or PFF Secretariat once committed will need to be taken into account while illustrating caps / deployment of funds across the four support windows.

Any unused funds at the end of a year could be reallocated to one or more of the support windows to be used in the same year or carried forward to the next year. If the PFF is wound up before or at the end of its proposed life of ten years, any unused funds will be returned to NSG and MDBs/DFIs.

Table 3-2: Indicative Allocation of Funds amongst the Support Windows

Support window	Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Yr8	Yr9	Yr10
Window 1 – Project prep.	90%	90%	15%	15%	–	–	–	–	–	–
Window 3 – VGF	–	–	75%	75%	80%	80%	80%	80%	80%	80%
Window 2 – Secretariat	10%	10%	10%	10%	5%	6%	6%	7%	8%	7%
Window 4 – Contingent liability	–	–	0%	0%	15%	14%	14%	13%	12%	13%

It is assumed that more funds will be required for project preparation costs in the early years of the Fund. A corpus of over USD 21 million will be available to support project preparation and initial project expenses (including land acquisition) under Support Window 1. This should be sufficient to cover 10–20 projects but will be highly dependent on the nature of projects.

Data provided by NSG on the projects in the PPP project pipeline does not include clear requirements for VGF and FCCL. The projects are currently at early stages of preparation and it is possible that these requirements may become clear by the OBC stage.

The assumption for VGF is that it would be needed the most during the construction stage, just after Financial Close of the prioritised projects and before the commencement of their commercial operations. VGF is projected to account for 75% of the total annual allocation of the Fund in Years 3 and 4 (disbursed through a mix of loans, equity investments and grants) and 80% in the remaining years (disbursed mainly as grants), amounting to about USD 120 million.

Support for the PFF Secretariat will cover costs such as new equipment, hardware and software that might be required to set up the Fund, as well as consultancy services. These consultancy services will include capacity-building programmes and training as well as project assessment during the development and construction phases of the Fund and project monitoring during the operation phase. This is projected at USD 1.01 million for the first four years, after which an annual indexation of 10% has been projected, subject always to the Window 2 limit of 10% of the annual allocation.

Finally, contingent liability liquidity support will very likely be most needed once several projects in the PPP pipeline become operational. The allocation for this window ranges from 12% to 15% of the annual allocation from Year 5.

3.4 Terms of Financing

The funds to be provided under Support Window 3 for VGF are expected to mostly take the form of loans, equity investments or other forms including grants.

3.4.1 Currency of funding

The financing under the PFF is envisaged to be denominated in USD. This is predicated on the basis that most international donors are likely to provide grants to PFF in USD and most project expenditures on PPP projects, specifically capital expenditure, are likely to be denominated in USD.

3.4.2 Debt financing terms

It is envisaged that loans will be denominated in USD and have an annual all-in interest rate of 7%. This rate is close to the cost of financing for the Federal Government of Nigeria (“FGN”) and chosen to make the support provided attractive for project companies.

Coupon rates of USD Eurobonds issued by the FGN with retirement dates from 2023 to 2049 range between a low of 6.375% to a high of 9.248%. However, the majority fall in the 7.0%–8.0% band.

The term will be six years door-to-door (one-year grace period plus repayment period of five years). The debt service will be in annuity style (equal instalments every year).

The term of the loans will be dependent on the life of the Fund itself. However, the objective of the Fund will be to provide medium-term loans (three to five years) to support projects in the early years with the expectation that these loans will be replaced with longer-term senior debt once projects establish an operational track record of a few years.

3.4.3 Equity

The Fund will also invest in the common shares of project companies to obtain a minority stake with the expectation of an exit at the end of its proposed life.

It is assumed that such sale of shares will be at an exit multiple of 1.2 times. The buyer of shares will very probably be one or more of the existing shareholders of the project company and the terms and conditions of a share buy-back will be detailed in the relevant Funding Agreement.

3.4.4 Other Instruments

The Fund may offer other financial instruments (such as preferred shares, shareholder loans, and convertible debt), credit enhancement products (facilitate a partial risk guarantee) and/or risk mitigation instruments (such as foreign exchange hedging instruments and payment guarantees) in the future.

However, the following factors will have to be taken into consideration before the introduction of such instruments:

- The sophistication and depth of the financial markets in Nigeria and the enabling legal and regulatory environment;
- The capacity of the PFF Secretariat staff to understand, issue, manage and record the instrument(s); and
- Risks that will be associated with the instrument(s).

3.5 Financial Projections

The Fund has a unique mandate compared with a typical private equity fund. Amongst many other differences between the two, the Fund will not aim to make a high risk-adjusted return for its investors and managers. Funds will be used to support carefully vetted and selected PPP projects as per the PFF Guidelines, not only through financial instruments (loans and equity under the VGF support window) but also through non-recoverable grants and advances.

The financial projections take these characteristics of the Fund into account. Table 3-1 summarises the key sources and uses of funds over the ten-year life of the Fund.

Table 3-1: Summary of Sources and Uses of Funds (USD million, 10-year Fund life) – Indicative

Item	USD million	Basis
Sources of funds		
NSG budget contributions (USD 0.15m p.a. Years 1–4; USD 0.30m p.a. Years 5–10)	2.40	Section 3.2.1
Development partner / DFI grants and internally generated funds (loan repayments and sale of equity stakes)	~147–170	Balance of Fund size
Total sources	~150–172	Section 3.1
Uses of funds		
Window 1 – Project preparation (including land acquisition)	≥ 21.00	Section 3.3
Window 3 – Viability Gap Funding (loans, equity and grants)	~120.00	Section 3.3
Window 2 – PFF Secretariat and Window 4 – Contingent liability liquidity support	Balance	Allocation per Table 3-2
Total uses	~150–172	

The detailed year-by-year projections will be maintained in the PFF financial model held by NSPP / NSIPA.

4 Implementation Plan

4.1 Operationalizing the Fund

Certain important tasks need to be completed before the Fund can commence operations. The most important of these are: developing a pipeline of PPP projects, raising the funds required to be used under the support windows, the staffing of the Fund, and selection of consultants that will support the core staff of the Fund in capacity building as well as project assessment and monitoring.

4.1.1 Staffing

It is assumed that the core staff of the Fund will be on secondments from NSPP. The OAF will select the staff for the PFF Secretariat in consultation with and subject to the approval of the Executive Secretary / Managing Director of NSIPA. Once the core staff is in place, the Fund is expected to utilise third-party consultants for building capacity of the core staff but more importantly project assessment and monitoring. Outsourcing is discussed further in Section 4.2.

4.1.2 Fund Raising

The financial projections depend on a steady stream of contributions from both the NSG budget and MDBs/DFIs during the proposed life of the Fund.

Securing annual allocations from the NSG budget will require ongoing communication with relevant bodies in Niger State, particularly MOFEP.

The same level of effort will be required for MDBs/DFIs. NSPP will need to reach out to a targeted group of MDBs/DFIs as soon as possible to identify the ones with the appetite to support the Fund and provide them sufficient time to conduct their appraisal.

4.1.3 Timeline

Based on the assumption that approval for the Fund will be obtained by the end of 2025, it is envisaged that the Fund could become operational at the beginning of 2026, with a Phase 2 transition by Year 5.

The first task will be staffing. The period allocated for this task will be spent on not only selecting the personnel but also training them on the PFF Guidelines and PFF manuals.

Fundraising is expected to be the most challenging and time-consuming of the tasks mentioned. It is therefore essential that work on this front starts as soon as possible and continues non-stop throughout this 12-month preparation period.

The selection of consultants is a task that will be undertaken by the core staff of the Fund and will start once they are appointed and determine the nature and level of support they need to achieve the objectives of the Fund.

4.2 Assessment of Outsourcing Options

The decision on whether to outsource one or more functions of the PFF requires a careful consideration of several factors to ensure efficient operations.

4.2.1 Factors to Consider

Some factors that play a crucial role in the insourcing vs. outsourcing decision could be summarised as follows:

- Strategic importance of the role within the context of PFF's operations.
- Classification of the role as a core or non-core function of the PFF. PFF's capacity to undertake the function (i.e. staff numbers and expertise, systems and experience).
- Level of skill required and availability of skills within the PFF and the job market.
- Cost of undertaking the function in-house in comparison to outsourcing it.
- Emerging sources of competitive advantage such as technology which the PPP Unit may not have.

4.2.2 Functions to Outsource

Another dimension to the insourcing vs. outsourcing decision is the selection of the function(s) to outsource. The functions deemed most appropriate for outsourcing at PFF are:

- Technical review of applications and monitoring of the applications accepted.
- Procurement and contract management of transaction advisors for the CAs.
- Financial risk management.

It shall however be emphasised that outsourcing regarding these functions could be on an as-and-when-needed basis and the PFF could choose to retain certain functions in-house for reasons such as strategic importance, security and quality control.

4.2.3 Advantages and Disadvantages

Table 4-1: Advantages and Disadvantages for Outsourcing

Advantages	Disadvantages
PFF management will have more time to focus on the strategic aspects of the operations.	Loss of control.
PFF will pay only for specific services delivered, resulting in reduced costs, particularly in off-peak periods.	Certain government protocols might limit the extent of outsourcing and result in duplication of roles/processes.
PFF will be spared labour shortages and gain access to a wider array of skills.	PFF might have limited experience and/or capacity to manage the relationship with the contractor(s).
Outsourcing will allow the PFF to access more advanced technologies without necessarily having to own them.	Lack of opportunity for NSG staff who may be seconded to PFF Secretariat to develop their own capacity for appraising and monitoring PPP projects.
Outsourcing will allow for a service level agreement that is linked with performance, resulting in improved productivity.	

4.2.4 Using a Fund Manager

One option available for PFF is to outsource the management of the Fund completely to a third-party fund manager.

Remuneration will be the most significant issue to be considered for such an option. Typical remuneration of a private equity fund manager follows the rule known as “2 – 20” in the industry: a 2% annual management fee calculated on the amount of funds under management and 20% of the profits realised at exit over a certain promised benchmark return rate.

Annual management fee and share of profits realised vary depending on a variety of factors, such as the size of the fund, track record of the fund managers and size of the commitment of a particular investor.

Nevertheless, a sizeable annual management fee could safely be expected to be paid for the services of a fund manager, particularly in the light of the fact that the Fund will not pursue returns to its donors and channel all funds available to support projects.

5 Risks

5.1 Risks Peculiar to the Fund

Investment in a typical private equity fund involves a multitude of risks related to the investments to be undertaken by the fund (such as environmental and social, credit, market and country/political risks) as well as the operations of the fund itself (such as operational, reputational, funding and liquidity risks).

Most of these risks are relevant in the PFF context as well despite the structural and strategic differences from typical private equity funds, with additional emphasis on E&S safeguards.

5.1.1 Lack of Qualified Staff

The core staff of the Fund will comprise personnel to be seconded from NSPP. PFF is a new concept not only in Niger State but also in Nigeria and it is reasonable to assume that not many current employees of NSPP/NSG will have the relevant experience and expertise.

On the other hand, NSPP is one of the premier investment support and promotion agencies in Nigeria with a highly qualified workforce. Furthermore, financial support from the Fund will be available to support the core staff in capacity building and allow them to benefit from the services of third-party consultants in project assessment and monitoring. Overall, this risk is considered to be minimal.

5.1.2 Operations

This risk relates to issues such as political interference into the Fund's affairs, fraud, mismanagement and business interruption.

The Fund will be run as per the detailed guidelines, manuals and other relevant laws, rules and regulations. It will be audited on a regular basis. The involvement of MDBs/DFIs as donors will very probably result in additional scrutiny on the operations of the Fund. Therefore, this risk is considered to be minimal.

5.1.3 Lack of robust PPP project pipeline

Niger State has a growing pipeline of PPP projects, supported by its strategic geographic location, agricultural base and energy assets. While project preparation remains at early stages, the breadth of identified projects reduces the risk of pipeline insufficiency. The risk of not being able to find qualified PPP projects to support is therefore considered to be moderate, and will be mitigated through the project preparation support available under Window 1.

5.1.4 Environmental and Social safeguards and associated risks

E&S principles are an integral part of corporate affairs and investment activities. The Fund's operations will be subject to the applicable Nigerian federal and Niger State laws and regulations, internationally recognised E&S performance standards and the safeguard requirements of Development Partners financing the relevant projects, including an ESIA for all projects. Therefore, environmental and social risk is considered to be minimal.

5.1.5 Credit

The Fund will be extending loans to and make equity investments in project companies under the VGF support window. Credit risk refers to the risk of the loans and equity investments not being recovered in full or partially from the project companies.

The VGF support will go to carefully vetted and selected PPP projects that have undergone a process of due diligence by other lenders (PFF will never be lead creditor) and project sponsors (PFF will not acquire

majority stakes in project companies). Furthermore, the Fund will have access at least to a minimum level of collateral as per the security packages defined in the relevant contracts setting out the terms and conditions of the Fund's support. Security packages could include reserve accounts and/or a pledge on assets in case of loans and a pledge on shares of the project company.

Though it seems to be a remote possibility for the Fund to suffer substantial losses on its loan book and/or the equity positions in project companies, there still is a medium level of credit risk.

5.1.6 Funding

PFF will rely on budget allocations from NSG and grants from MDBs/DFIs for most of its funding, particularly in the early years of the proposed life of the Fund.

It is indeed a possibility that PFF might not be able to obtain the funds assumed in the financial projections. Therefore, funding risk is considered to be high.

If the initial funding targets are not met then the financial projections can be adjusted to reallocate funds amongst the four support windows with a view to make the best use of available funding (such as prioritising applications under the support window for project preparation costs to benefit the highest number of projects).

In a worst-case scenario, the lack of funds could lead to the winding up of the Fund before its proposed 10-year life.

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