

Place of Power Sector in Public-Private Partnership: A Veritable Tool to Promote Sustainable Delivery of Infrastructural and Economic Development in Nigeria

^{1*}Lawal M., ²Adeleke D.A., ³Chukwunyeaka C., ⁴Ejura G.J., ⁵Nafisa M.A
Energy Commission of Nigeria

ABSTRACT: Public Private Partnership involves private sector engagement in infrastructural development. Though in the past, the country infrastructure had been experiencing a decline in the system, this is because, government had been the sole contributor to infrastructural finance and had often taken responsibility for implementation, operations and maintenance as well. This decline in the system is caused by escalating population growth depending on available infrastructure, decaying of existing power infrastructure, political instability and corruption in the system. The ongoing reform is about bringing the system to a lime light. Hence, Public Private Partnership participation in the infrastructural development in Nigeria, will create favorable environment for an investors, provide job opportunities, long time policy, decision making and efficient use of the available resources. This paper therefore dwells on overview of the public private partnership with regards to energy and other infrastructural development of Nigeria. Challenges of the partnership and possible solutions towards subduing the problems are proffered.

Keyword: Infrastructure, Energy, Economy, Public-Private, Partnership, Power.

I. INTRODUCTION

Public Private Partnership is a prescribe arrangement which is formed between public and private sector partners which involve the private sector in the development, financing, ownership, or operation of a public facility or service to make available adequate infrastructure through public private partnership development. In such a partnership, public and private resources are position and divided so that the partners' efforts are complementary. The private sector partner usually makes a substantial cash or equity investment in the project and the public sector gains access to new revenue or service delivery capacity, and this arrangement between the public and private sector differ from service contracting. Egbewole Qasim A, (2011) In general, PPP refers to form of cooperation between public authorities and the private sector to finance, construct, renovate, manage, operate or maintain an infrastructure or service. It also involves some form of risk sharing between the public and private sector to provide the infrastructure or services. The allocation of sizable and, at times significant, elements of risk to the private partner is essential in distinguishing a PPP from the more traditional public sector model of public service delivery. There are two basic forms of PPP: contractual and institutional. Although institutional PPP have been quite successful in some circumstances, particularly in countries with well-developed institutional and regulatory capacities, contractual PPP are significantly more common, especially in developing economies.

Risks are distributed between the public partner and private partner and are allocated to the party best positioned to manage each individual risk. PPP are complex structures, involving multiple parties and relatively high transaction costs. PPP is a procurement tool where the focus is payment for the successful delivery of the service. In PPP arrangements, the private partner is typically compensated through either: User-based payments (i.e., toll roads, airport or port charges) Availability payments from the public authority [i.e., PFI, power purchase agreements (PPAs), water purchase agreements (WPAs)] A combination of the above in user-based payment structures, the government or public authority often needs to provide some financial support to the project to reduce specific risks, such as demand risk, or to ensure that full cost recovery is compatible with affordability . Government support mechanisms can take many forms, such as contributions, investments, guarantees and subsidies, but they should be carefully designed and implemented to allow for optimal risk allocation between the public and private sectors. When government supports are present, the objective is to increase private capital mobilization per unit of public sector. Egbewole Qasim A, (2011).

Table 1: Nigeria Infrastructural Project Undergoing PPP Development

S/N	Project	PPP Model
1	Rehabilitation and upgrade of Muritala Airport Road	Build Operate and transfer(BOT)
2	2nd Niger Bridge	Build Operate and transfer(BOT)
3	River Niger Bridge at Nupeko	Build Operate and transfer(BOT)
4	Small and Medium Hydro Power Projects	Rehabilitate/Build Operate Transfer (RBOT) mode
5	PHCN 3 Large Hydro Power Plants	Build Operate and transfer(BOT)
6	25 Silos complexes	Rehabilitate/Build Operate Transfer (RBOT) mode
7	National Centre for Women Development	Rehabilitation Lease and Transfer (RLT)
8	Rehabilitation and Upgrade of Kiri Kiri Lighter Terminals I & II	Landlord Port Model” for the Nigerian ports in line with the ports reform programme
9	Development of Katampe District	Build Operate and transfer(BOT)
10	Development of Four Districts	Design, Build, Finance, Operate and Transfer (DBFOT)

Source: (Infrastructure Regulatory Commission, 2012)

II. Why Public Private Partnership in Infrastructural Development in Nigeria

In the past the government has been the sole financial of infrastructure finance and has often taken responsibility for implementation, operations and maintenance as well. There is a gradual recognition which is the best way to execute/finance these projects. This recognition is based on considerations such as cost efficiency, equity considerations, allocation efficiency, and fiscal prudence, most countries have adopted the PPP policy about two or three decades ago as a way of fixing their infrastructural gap and at the same time, delivering good welfare for their citizens. From the World Bank report, since 1984, 86 industrialized and developing countries have privatized 547 infrastructures in developing countries. This is far beyond the public sector’s capacity and clearly highlights the opportunities for private sector involvement. In the light of this many developing countries including Nigeria have therefore begun a review of previously natural monopolies in order to create opportunities for the private sector to add value in the provision of infrastructure and to provide relief to their already overstretched budgets. The restructuring of public enterprises is an efficient strategy and an important first step towards private provision of infrastructure. Through reform and privatization of public enterprises, new private infrastructure companies will emerge, with incentives to seek additional opportunities for further development. (Ikpefan, Ochei. Ailemen, 2015).

III. Models of Public-Private Partnerships

- The following terms are developed from commonly used terms to describe PPP agreements globally as in Nigeria.
 - Design-Build (DB) or “Turnkey” contract: The private sector designs and builds infrastructure to meet public sector performance specifications, often for a fixed price, so the risk of cost overruns is transferred to the private sector. (Many do not consider DB’s to be within the spectrum of PPP’s).
 - Service Provision (e.g., Specific customer services or operation & maintenance) contract: A private operator, under contract, operates a publicly-owned asset for a specified term. Ownership of the asset remains with the public entity.
 - Management contract: A private entity contracts to manage a Government owned entity and manages the marketing and provision of a service.
 - Lease and operate contract: A private operator contracts to lease and assume all management and operation of a government owned facility and associated services, and may invest further in developing the service and provide the service for a fixed term.
 - Design-Build-Finance-Operate (DBFO): The private sector designs, finances and constructs a new facility under a long-term lease, and operates the facility during the term of the lease. The private partner transfers the new facility to the public sector at the end of the lease term.
 - Build-Operate-Transfer (BOT): A private entity receives a franchise to finance, design, build and operate a facility (and to charge user fees) for a specified period, after which ownership is transferred back to the public sector. This has been used in telecommunications service contracts.
 - Buy-Build-Operate (BBO): Transfer of a public asset to a private or quasi-public entity usually under contract that the assets are to be upgraded and operated for a specified period of time. Public control is exercised through the contract at the time of transfer.

- **Build-Own-Operate (BOO):** The private sector finances, builds, owns and operates a facility or service in perpetuity. The public constraints are stated in the original agreement and through on-going regulatory obligations.
- **Build-Own-Operate & Transfer (BOOT):** The Private Sector builds, owns, operates a facility for a specified period as agreed in the contract and then transfers to the Public.
- **Operating License:** A private operator receives a license or rights to build and operate a public service, usually for a specified term. Similar to BBO arrangement. This is often used in telecommunications and ICT projects.
- **Finance Only:** A private entity, usually a financial services company, funds a project directly or uses various mechanisms such as a long-term lease or bond issue. (Dominic E. Obozuwa Wali-Uwais & Co.2013)

IV. Public-Private Partnerships and Power Infrastructural Development in Nigeria.

Inadequate supply of electric power has been a big problem confronting Nigeria. It has led to high cost of using generator as an alternative supply of power. Less than 40% of the Nigerian population is supplied with electricity leaving the rest without. The generating capacity of electricity in Nigeria in year 2000 when the reform started was 2000MW. By generating less than 4,000MW of electricity, the Nigeria's per capita consumption was 0.03kw. This per capita consumption of electricity evidences the level of industrial activity going on in the country, hence the level of development and the standard of living of people in this country. The problem was attributed to lack of increase in the existing generating units from 1990 to 2000, lack of overhauling for up to a period of 15 years, and rapidly decaying of existing generating infrastructure and under pricing of electricity services. To tackle the problem the Federal Government embarked on transformation of the sector through some reform processes. The transformation agenda includes maintenance, rehabilitation and upgrading of existing units in the 8 power stations in Nigeria.

The government embarked on construction of four thermal power stations in various parts of the country; the unbundling of NEPA into 18 companies and establishing PHCN in 2005. The 18 successor companies created consist of: 6 power generation, 1 transmission and 11 distribution companies. Approval was also given for the construction of seven new power stations in the Niger Delta in order to take advantage of the huge gas resources in that area. As part of the reform programme, the Federal Government embarked on the process of deregulating the power sector and therefore encouraged private sector participation in generation of electricity under the Independent Power Producers (IPP) arrangement so that the IPPs would generate power and sell to PHCN under power purchase agreement. The administration's target then was to generate up to 10,000MW by the year 2007 when it would hand over power to another government but this objective was not achieved. The Public Private Partnership (PPP) is now being extended to the distribution of power in the country. Involvement of the private sector becomes imperative because Nigerian Government alone cannot afford the capital requirements for development of the electricity sector in the country. The welcome development in the participation of public private partnership in the sector would provide growth for the sector, give financial discipline, reduce corruption in the public sector, and reduce the financial burden of infrastructural provision on the national budget. The reform gave rise to the establishment of the Nigerian Electricity Regulatory Commission (NERC) to regulate and control tariffs by providing different pricing options for arriving at tariffs to power generators via the Multi-Year Tariff Order {MYTO}. (Grace N. O, and Steve E. E, 2013).

Table 2: Public Private Partnership Power Infrastructure in Nigeria

Power Station	Fuel Type	Installed Capacity(MW)	Ave. Actual Gen Capability(MW)	Ownership
----------------------	------------------	-------------------------------	---------------------------------------	------------------

Egbin	Gas/HPFO	1320	756	S C
Ibom Power	Gas	35	30	IPP
Delta	Gas	960	388	S C
Geregu	Gas	414	156	FGN
Omotosho	Gas	335	56	FGN
Kainji	Hydro	760	393	S C
Afam	Gas	623	86	S C
Calabar	Diesel	5	0	
Afam VI (Shell)	Gas	625	400	IPP
Ajokuta(ASCO)	Gas	80	0	IPP
Okpai	Gas	480	337	IPP
Omoku	Gas	150	54	IPP
AES	Gas	300	192	IPP

Source: (Nigerian Electricity Regulatory Commission, 2010)

V. Benefits of Public Private Partnership

The advantages of Public Private Partnerships (PPP's) include the following:

- Speedy, efficient and cost effective delivery of projects.
- Value for money for the taxpayer through optimal risk transfer and risk management.
- Efficiencies from integrating design and construction of public infrastructure with financing, operation and maintenance/upgrading.
- Creation of added value through synergies between public authorities and private sector companies, in particular, through the integration and cross transfer of public and private sector skills, knowledge and expertise.
- Alleviation of capacity constraints and bottlenecks in the economy through higher productivity of labour and capital resources in the delivery of projects.
- Competition and greater construction capacity (including the participation of overseas firms, especially in joint ventures and partnering arrangements).
- Accountability for the provision and delivery of quality public services through performance incentive management/regulatory regime.
- Innovation and diversity in the provision of public services.
- Effective utilization of state assets to the benefit of all users of public services.
- Faster implementation.

VI. Challenges of Public-Private Partnership in Nigeria

Public Private Partnerships in Nigeria are face with challenges such as: financial limitations, dominance of public companies, corruption, inability of private companies to access local currency and affordable long term loan. Others include, incessant changes in relevant political office holders and the Chief Executives of Regulatory agencies is also a major problem with PPP projects. For example many of the Chief Executives officers in Nigeria agencies have different policies, divergent opinions and perspectives on Concession Agreement and concession itself. In the same time, the sizes of the Nigerian banks pose a problem to the survival of such projects as they are unable to give a long term loan, when such loans are available, the interests on them will be too high to cope with. Many of the banks officials also lack experience in project financing .There is no sound legal and institutional frame work backing Public Private Partnership in the country, in a situation where there is problem with the arrangement(s) the private sector or investors are left to bear the brunt financially and otherwise (Dabak, Panmun Dantala, 2014).

VII. CONCLUSION

With the current state of dilapidated infrastructure in our economy development for the past 50 years of our National existence, it is cleared that public and private sectors of our economy would seize the opportunities provided by evolving global partnerships to create enduring infrastructures and development in Nigeria. The bane of our national development has been a dearth in infrastructures. This must change and as the parties take practical steps in this regard by harnessing the PPPs strategy, while tailoring them to the needs of the different sectors of the economy, they must look critically at the legal implications of such arrangements to further mutually beneficial partnerships.

Finally, In order to guarantee value for money, the relative strengths and weaknesses of each PPP scheme should be considered. Depending on the sector of application, some models are better suited than others in delivering targeted outputs and in ensuring accurate risk management. Choosing the wrong model or

inaccurately evaluating the risk management capacities of each party may have extremely costly consequences and a negative impact on public accounts.

VIII. RECOMMENDATIONS

- There is need for a wide representative participatory decision-making process that takes into account concerns of all concerned stakeholders including those who may be adversely affected.
- There should be a fair and transparent rule-based administrative process by which projects are developed and procured.
- An enabling environment such as security, good road and power should be put in place that will guarantee effective management of the PPP projects.
- There is need for a long term policies that will favour the PPP by government to guide against incessant changes which usually occurs anytime there is change in the leadership.
- An arrangement for project delivery that ensures efficient utilization of human, financial, natural and other resources without sacrificing the needs of the future generations.

REFERENCES

- [1]. Ikpefan, Ochei. Ailemen, (2015): Challenges Of Public-Private Partnership In Infrastructural Financing In Nigeria
- [2]. eprints.covenantuniversity.edu.ng/id/file/22798
- [3]. Dominic E. Obozuwa Wali-Uwais & Co. (2013): PPP as a tool for Development in Nigeria.
- [4]. www.fpppn.org/index.php/articles-a.../231-national-development. Accessed 27/08/2015.
- [5]. Dabak, Panmun Dantala, (2014): Public-Private Partnership: The Answer to Nigeria's Development Challenges. Journal of Economics and Sustainable Development.
- [6]. Egbewole Qasim A, (2011): Examining Public Private Partnership In Nigeria: Potentials and Challenges. resourcedat.com/.../Examining-Public-Private-Partnership-in-Nigeria1.pdf
- [7]. Grace N. Steve E. E, (2013): Recovery of Cost of Electricity Supply in the Nigerian Power Sector. Research Journal of Finance and Accounting. Vol.4, No.17. www.iiste.org
- [8]. Nigerian Electricity Regulatory Commission, (2010): Electric Power Sector: Current Status And Future Perspectives.

*Adeleke D.A. "Place of Power Sector in Public-Private Partnership: A Veritable Tool To Promote Sustainable Delivery of Infrastructural And Economic Development in Nigeria." International Journal Of Modern Engineering Research (IJMER) 7.7 (2017): 32-36.