



Encouraging Investments in Nigerian Gas and Power through the Partial Risk Guarantee Mechanism

Preamble

It is typical for power industry experts to emphasize the importance of gas as a veritable source of fuel for the Nigerian electric power sector. This importance, for example, is buttressed by the fact that the Nigerian Electricity Regulatory Commission, the chief regulator of the electric power sector in Nigeria, has determined that the lowest-cost and most efficient new entrant generator in the power sector is an open cycle gas turbine (OCGT) power generator, using natural gas as fuel.

It would therefore appear to be the case that any investor in power generation wishing to run its business efficiently and at a profit should take a keen interest in the gas subsector of the Nigerian economy.

The Gas to Power Challenge

In spite of Nigeria's large gas reserves there are claims that a number of power plants have been either completed or nearing completion but have no gas to 'fire' them. It is thus, a paradoxical situation that a country which has an abundance of gas (at over 184tcf P90) has insufficient domestic use.

It is on the premise of lack of sufficient supply of gas despite the country's huge reserves and potentials, that the Federal Government of Nigeria (the "FGN") has initiated a number of programs including the Nigerian Gas Master plan to deal with the challenge of achieving a gas driven economic growth with emphasis on gas to power. In furtherance of the overall policy, there is a domestic gas supply obligation for all gas suppliers with emphasis on supply of gas to government owned power plants for electricity generation.

Despite the FGN's efforts, it has been difficult to achieve success, as every gas producer in the country is wary of the lack of credit worthiness of government owned entities, the Power Holding Company of Nigeria Plc and its proposed successor generator companies in particular. As a result of this, the FGN has been in talks with the World Bank to help initiate programs and products that would give comfort to gas producers who by the way, are



willing to do business in Nigeria if the FGN provides the enabling environment.

The Partial Risk Guarantee (PRG) is therefore the mechanism expected to be utilized in the domestic gas sector to give comfort or "securitization" to gas producers under the Gas to Power policy of the FGN. Although, the term "Securitization" traditionally has a single generally understood meaning to most lawyers and commercial persons, it has derived an additional meaning in the Nigerian energy lexicon. In Nigeria, the term is also understood to mean a credit risk management arrangement which gives comfort to investors in Nigeria's energy sector.

What is the PRG?

The PRG is a Partial Risk Guarantee given by the World Bank (or "the Bank") to protect private lenders or private sector investors against the risk of a government or a government-owned entity failing to perform its contractual obligations as regards a private project. The PRG is generally available to countries eligible to borrow from the International Bank for Reconstruction and Development (the "IBRD") and the International Development Association (the "IDA").

Since its first use by the Bank, in the Hub Power Project the Bank has considered the PRG together with its sister product, the Partial Credit Guarantee, a veritable tool in the Bank's effort to increase private sector investment in infrastructure particularly in developing and less developed countries.

Simply put, the PRG backstops government's payment obligations to a private investor / lender. In this case, a private investor renders services to a government entity with the latter expected to make payment subsequent to the receipt or enjoyment of such services. The PRG tends to ensure that such an investor gets paid through the involvement of the World Bank which assures the private investor/lender of a payment by the Bank upon a payment default by the government entity.