PPP AS A DEVELOPMENT STRATEGY: Implications for the Political Economy of Nigeria

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Abstract

Nigeria's significant infrastructure financing needs, tight fiscal space, and urgent growth and welfare imperatives have propelled renewed interest in public–private partnerships (PPPs) as a development strategy. This paper examines how PPPs interact with Nigeria's political economy, its institutions, incentives, and distributional conflicts, to shape outcomes across sectors such as transport and power. Drawing on official documents and recent project experience (e.g., Lekki Deep Sea Port; Azura–Edo IPP; Lagos Lekki–Epe Expressway), we assess opportunities to crowd-in private capital, transfer appropriate risks, and improve service delivery, while highlighting fiscal, governance, and affordability risks. We find that (i) Nigeria's policy and institutional architecture anchored by the Infrastructure Concession Regulatory Commission (ICRC) and federal PPP policy has matured, including a public portal for contract disclosure; (ii) PPP activity has been material (dozens of projects; multi-billion-dollar commitments), but outcomes vary significantly across projects and tiers of government; and (iii) credible risk allocation, tariff and FX frameworks, and systematic management of contingent liabilities are decisive for sustainability. We propose a practical agenda: transparent project selection, competitive procurement with standard contracts, explicit contingent-liability caps using PFRAM, tariff and viability-gap funding (VGF) rules, and better coordination between federal and state PPP units.

Keywords: public–private partnership, infrastructure, fiscal risks, contingent liabilities, Nigeria, political economy, development strategy

1. Introduction

Nigeria faces chronic infrastructure gaps constraining productivity, trade, job creation, and welfare. The National Integrated Infrastructure Master Plan (NIIMP) estimates investment needs on the order of trillions of US dollars over three decades, an ambition far beyond public resources alone, hence the turn to PPPs to leverage private finance and expertise while preserving fiscal space.

Fiscal realities reinforce this logic. The Debt Management Office (DMO) publishes regular updates showing a high and rising public debt stock, underscoring the importance of procurement choices that deliver value for money and manage contingent liabilities. For instance, the DMO released an official update on Nigeria's total public debt stock as of March 31, 2025, amounting to ₦149.39 trillion.

At the federal level, PPPs are governed by the ICRC Act and national policy, with an institutionalized project pipeline and a disclosure portal developed with the World Bank to improve transparency. This architecture sets the stage for PPPs as a plausible development strategy, but whether PPPs advance inclusive development depends on their fit with Nigeria's political economy.

2. PPPs, risk allocation, and political economy

PPPs are long-term contracts where the private party designs, finances, builds, and/or operates assets in exchange for performance-contingent payments (from users or government). Their developmental case rests on transferring controllable risks to parties best able to manage them and on hard-wiring lifecycle cost discipline. However, PPPs also create hidden liabilities, minimum revenue guarantees, termination payments, and FX/tariff undertakings whose mismanagement can erode fiscal space and credibility.

Internationally, the IMF's PPP Fiscal Risk Assessment Model (PFRAM 2.1) provides a structured approach for identifying, quantifying, and budgeting these obligations, a good practice that Nigeria can institutionalize across tiers of government.

In Nigeria's political economy, key frictions include:

(a) center–state coordination and overlapping mandates

(b) tariff-setting under social and electoral pressures

(c) currency and inflation shocks affecting PPP cash flows

(d) capacity asymmetries in contract preparation and oversight.

An effective PPP strategy must therefore balance bankability with legitimacy (affordability and equity), and growth with resilience (fiscal and macro risk).

3. Nigeria's PPP architecture and activity

3.1 Institutions and disclosure

The ICRC oversees federal PPPs under the ICRC Act and the National Policy on PPP. Nigeria also operates a PPP disclosure portal developed with the World Bank, and has published diagnostics on improving contract transparency—important for credibility and investor confidence.

3.2 Scale of activity

According to the World Bank's Private Participation in Infrastructure (PPI) data summarized in a Nigeria disclosure diagnostic, 56 PPP projects with around US$39 billion in investment commitments reached financial close over time.

ICRC documentation shows periodic gazetted pipelines of eligible, bankable projects—for example, lists worth US$17 billion (2021) and a planned US$22 billion set (2022)—signalling deal flow across sectors.

4. Sectoral experience: evidence and lessons

4.1 Transport and logistics

Lekki Deep Sea Port (Lagos) structured as a PPP anchored by Tolaram and partners—has come onstream as a modern gateway port intended to decongest Apapa and catalyse the Lekki industrial corridor. The project company reports key features (e.g., container capacity, phased development) and the PPP structure underpinning operations.

Lessons: Strong anchor sponsors, ring-fenced project revenues, and clear regulatory interfaces can deliver complex greenfield assets, provided land, access, and customs/port community systems align.

Lekki–Epe Expressway (Lagos) one of Nigeria's earliest toll-road PPPs experienced political economic headwinds around tariff acceptability and compensation, culminating in a state buy-back and eventual assumption of full ownership of the concession company by Lagos State.

Lessons: Early projects often confront tariff politics and social license challenges; robust affordability analysis, targeted subsidies, and stakeholder engagement are essential.

4.2 Power

Azura–Edo 459 MW IPP, a flagship independent power project, came close with a security package that included World Bank partial risk guarantees and a federal put–call option agreement (PCOA) to backstop off-taker risks.

Lessons: Credible risk-mitigation (sovereign and multilateral) can mobilize large-scale generation in a market with weak off-takers, but it also creates contingent liabilities that must be transparently monitored and budgeted.

The broader power sector context remains challenging: tariff adjustments and market reforms continue to test the political feasibility of full cost recovery, with recent reporting highlighting the fiscal and social strains of price hikes and legacy shortfalls.

4.3 Fiscal innovation adjacent to PPPs

Nigeria introduced the Road Infrastructure Development and Refurbishment Investment Tax Credit Scheme (Executive Order 007 of 2019), allowing companies to finance eligible roads in exchange for tax credits. This instrument mobilizes private balance sheets for public infrastructure even when not structured as a classic PPP.

5. Political-economy implications

- State capacity and credibility: The ICRC framework and disclosure portal have raised standards, but outcomes hinge on consistent application across ministries and state governments, predictable approvals, and contract enforcement.
  Transparency publishing contracts, fiscal commitments, and performance reduces scope for rent-seeking and supports value for money.

- Distributional conflict and affordability: User-pay PPPs (ports, toll roads, urban services) intersect with poverty and informality. The Lekki–Epe case shows that where willingness-to-pay is overestimated or engagement is weak, social pushback can derail projects, imposing costs on both investors and the public purse.
- Macro-fiscal risk management: PPPs shift spending off-budget but not off-balance-sheet economically. Nigeria needs a uniform contingent-liability framework, integrating PFRAM analysis during appraisal, recording obligations (guarantees, availability payments, termination liabilities), and capping exposure in line with debt sustainability analyses and annual budget statements.
- FX and inflation risk: Where revenues are in naira and finance in foreign currency, shocks can impair bankability or shift risk to the government via guarantees or tariff undertakings. Power sector experience illustrates how FX and tariff indexation require explicit policy and social protection measures to be credible.
- Market development and competition: Competitive procurement, standardized contracts, and credible dispute resolution lower risk premiums and expand the investor base. Nigeria's growing PPP pipeline should be matched with sound project preparation (Pre-feasibility, demand studies, environmental and social safeguards) to avoid overreliance on unsolicited proposals.

6. Policy recommendations

- **Strengthen "gatekeeping" and disclosure.**

Adopt a no-obligation-with-disclosure rule: publish draft and signed contracts (with justified redactions), contingent-liability statements, and annual performance reports on the PPP portal for all federal PPPs—and encourage states to mirror this standard. Build on the World Bank–supported disclosure diagnostics to close gaps.

- **Institutionalize PFRAM and fiscal risk limits.**

Mandate PFRAM analysis at Outline and Full Business Case stages; require the Ministry of Finance to publish an annual PPP Fiscal Risk Statement with exposure limits, sensitivity tests (FX, demand, inflation), and budget provisions for guarantees and availability payments.

- **Tariff and affordability frameworks.**

Create cross-sector tariff principles (indexation rules, social tariffs, targeted subsidies) to reduce ad-hoc political interventions—especially in power and transport—coupled with time-bound viability-gap funding (VGF) rules when user charges cannot cover efficient costs. Evidence from power and toll-road experience shows the cost of ambiguous tariff commitments.

- **FX-risk management.**

Develop standardized clauses for FX indexation, hedging options, and eligibility for multilateral risk cover. Prioritize naira financing where feasible (pension funds, domestic bond market) and deploy partial credit/guarantee enhancements to extend tenors, reducing reliance on sovereign guarantees. (See the Azura–Edo risk-mitigation package as a template—adapted to limit sovereign exposure.)

- **Pipeline discipline and competitive procurement.**

Maintain the ICRC-gazetted pipeline as the sole gateway for federal PPPs; restrict unsolicited proposals to narrow, pre-specified circumstances with Swiss-challenge rules; and require independent value-for-money (VfM) and public sector comparator (PSC) analyses before tender.

- **Federal–state coordination.**

Create a National PPP Council (or strengthen existing intergovernmental fora) to harmonize standards, share model contracts, and develop joint capacity via the Nigeria Institute of Infrastructure and PPP (NII3P), reducing fragmentation and transaction costs.

- **Leverage adjacent instruments carefully.**

Scale the Road Infrastructure Tax Credit Scheme with transparent project selection and ex-post audits; treat it as complementary to PPPs, not a substitute for competitive procurement or VfM testing.

7. Conclusion

PPPs are not a panacea, but—properly prepared, competitively procured, and transparently governed—they can be a powerful development strategy for Nigeria: accelerating infrastructure delivery, catalysing private investment, and improving service quality while managing fiscal risk. Nigeria's recent experience shows both sides of the ledger: thriving port and power assets built on robust risk-sharing and credible commitments, and early toll-road experiments where social license and political risk were underestimated. The path forward is clear: deepen institutional credibility (disclosure and gatekeeping), hard-wire fiscal-risk discipline (PFRAM and risk limits), and embed affordability and FX frameworks up front. If Nigeria executes on this agenda, PPPs can support sustained growth, job creation, and structural transformation—without overburdening the sovereign balance sheet.

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