ALP NG & Co.
AFRICA LAW PRACTICE NG & COMPANY

Financing Public-Private Partnerships in Nigeria: **The Bankability Bargain**

www.alp.company

A MEMBER OF
ALPi INTERNATIONAL PRACTICE GROUP

1. INTRODUCTION

It is tempting, when analysing the financing of public-private partnerships, to proceed in the natural order that comes to lawyers: first legal framework, then structure, then instruments, and finally the numbers. That order, however, produces a somewhat distorted picture. Financing is not simply one part or aspect of a larger project; it is, in a sense, the whole project. The structure of the Public-Private Partnership ("PPP") Agreement, the allocation of risk among project parties, the security package, the priority of creditors, the contractual obligations, and the cash-flow waterfall. These considerations emanate from a single animating question: will the project attract private capital on commercially viable terms? This question is the very essence of bankability,[1] and it is the right place to begin.

Nigeria's infrastructure gap is vast and well-documented. The National Development Plan projects an aggregate infrastructure investment requirement running into trillions of dollars, with a bulk of that investment expected to originate from the private sector.[2] The Federal Government's fiscal position, constrained by revenue shortages, subsidies and debt pressures, renders meaningful state-led infrastructure delivery structurally impracticable at the required scale. PPPs are, in this context, not merely a policy preference but a necessity, and the bankability of individual transactions is the mechanism by which that necessity is converted into reality.[3]

---

1 Infrastructure Concession Regulatory Commission's PPP Manual for Nigeria 2018, Chapter 5, page 120.

2 IFC's 2025 private sector diagnostic notes that domestic credit to Nigeria's private sector stood at 12.9 percent of GDP in 2024, below both Sub-Saharan African and lower-middle-income averages. That gap underscores why projects need disciplined capital stacks and why pure balance-sheet financing will not be enough.

3 NCDF Invest, 'Infrastructure & PPP in Nigeria Report 2026' available via: https://invest.ncdfgroup.com/wpcontent/uploads/2026/03/NCDF_Invest_Report_02_Infrastructure_PPP_Nigeria_2026.pdf

2. CORPORATE FINANCE V. PROJECT FINANCE

The private party in a PPP transaction faces an important choice at the beginning of a project: fund the project through corporate finance, where the lender relies on the strength of the Sponsor's balance sheet; or through project finance, where a separate legal entity is created and the lender relies on the project's own assets and cash flows.[4] This choice is often presented as a purely financial decision. It is not.

Project finance involves the creation of a "legally independent project company financed with non-recourse debt and/or equity from one or more sponsoring firms for the purpose of financing a single purpose capital asset, usually with a limited life."[5] There are three major features that distinguish project finance from corporate finance. Firstly, with project finance, the assets and liabilities of the project company do not appear on the sponsors' balance sheet, and this ultimately preserves the capacity of said sponsor to participate in future projects.[6] Secondly, with project finance, the project company exists solely for the purpose of executing the project and is usually dissolved at the end of the concession period or prior, when the asset has been handed back to the government. Thirdly, debt in project finance is structured as non-recourse debt to the sponsors. This means that debt repayment is hinged on the project's cashflows as well as enforceable security, in the event of default.[7] This last feature is particularly critical in relation to PPPs, as it directly aligns the interests of the lender(s) with project performance.

The practical consequence of the project finance structure is that the SPV becomes the legal and financial centerpiece of the project. All necessary arrangements, agreements, and security documentation revolve around this single entity. From a transactional perspective, one might say that the SPV is not a vehicle of convenience; but the point at which the entire matrix of commercial, regulatory and contractual rights and obligations is concentrated.

The foregoing notwithstanding, corporate finance presents distinct advantages that warrant closer consideration. Where the private party is a publicly listed enterprise with strong credit metrics, the ability to raise debt at lower cost, owing to diversification of risk across a portfolio of activities, may deliver better value for money than the more expensive, transaction-specific financing of a project finance structure.[8] Nonetheless, project finance

4 PPP Manual, 120–121.

5 E.R. Yescombe, 'Principles of Project Finance' (2nd edn, Academic Press 2014) 3. Available via: https://www.researchgate.net/profile/E_R_Yescombe/publication/335189201_PRINCIPLES_OF_PROJECT_FINANCE/links/5d5576b5299bf151bad4e00d/PRINCIPLES-OF-PROJECT-FINANCE.pdf

6 Benjamin C. Esty, 'The Economic Motivations for Using Project Finance' (Harvard Business School, Boston, MA, 2003).

7 PPP Manual, 122–123.

8 Hanxue Zhang, 'Analysis of the Advantages and Disadvantages of Corporate Financing Channels and Case Studies' (2026). Available via: https://www.researchgate.net/publication/403082935_Analysis_of_the_Advantages_and_Disadvantages_of_Corporate_Financing_Channels_and_Case_Studies

is the more used method for large-scale infrastructure with long concession periods.

Islamic Finance as a Structural Complement

The equity-based, asset-backed character of Islamic financing instruments notably, Istisna, Ijarah, Musharakah and Wakala-Ijarah structures align naturally with infrastructure PPPs, which involve the creation and operation of tangible assets over long periods. The Istisna-Ijarah structure, under which a funding company commissions construction and then leases the completed asset back to the project company, is functionally analogous to a build-operate-transfer arrangement and can be accommodated within the standard PPP contractual framework with deliberate structuring.

In December 2024, Nigeria's first blended local currency green infrastructure forward Ijarah lease Sukuk for a Solar-powered rural infrastructure project was arranged.[9] This transaction is an important proof of concept: it demonstrates that Shariah-compliant financing instruments are not only theoretically compatible with Nigerian PPP structures but are practically deployable in the domestic capital market. The structuring of Ijarah-based PPP financing requires careful attention to the sequencing of asset ownership transfers, the characterisation of rental payments in the concession agreement, and the interaction of the Ijarah documentation with the security and intercreditor arrangements that conventional lenders will require.

9 https://infracredit.ng/infracredits-guarantee-supported-by-uk-funded-climate-finance-blending-facility-cfbf-mobilises-its-first-guaranteed-fixed-rate-senior-green-infrastructure-forward-ijarah-lease-sukuk-for-a/ https://infracredit.ng/about-us/ ; https://thenationonlineng.net/infracredit-mobilises-green-sukuk-for-solar-powered-rural-infrastructure-project-in-nigeria/

3. SOURCES OF CAPITAL IN PROJECT FINANCE

There are three primary sources of project finance: equity, senior debt, and mezzanine or quasi-equity funding.[10] In practice, what determines the relative contribution of each source are factors such as: the nature of the project, the credit quality of the SPV, the risk appetite of available project parties, and the regulatory environment.

Equity in a PPP project is contributed by project sponsors, that is, the parties with an operational interest in the project, as well as financial partners, who are solely introduced into the project as providers of capital.[11] The equity component serves several purposes: it absorbs first losses, provides a signal of sponsor commitment to lenders, and determines the leverage structure of the transaction.[12]

Moreso, PPP projects usually contain a requirement that sponsor equity be maintained for a specified period[13] (typically until financial close, and in some structures, until project completion). This requirement is designed to prevent opportunistic exits that would leave lenders stranded without an experienced operator in place.

Bank Debt and the Asset-Liability Mismatch

Bank loans are the most widely used form of debt financing for Nigerian PPP projects.[14] They can be drawn in tranches across the construction period, avoiding the negative carry costs that attend a fully upfront bond issuance.[15] The syndicated loan structure, in particular, under which a consortium of banks shares exposure under a single Facility Agreement, is the standard formula for large transactions.

The fundamental structural impediment to bank lending in Nigerian PPPs is the asset-liability mismatch. Nigerian commercial bank deposits are predominantly short-to-medium term, typically in the five-to-seven-year range, whereas Infrastructure PPP projects require financing over concession periods of fifteen to thirty years.[16] There are two possible solutions to this mismatch; the first being take-out financing, under which a specialist institution assumes the

10 PPP Manual, 126–130.

11 Madu Itu and W. Emmanuel Kenigua, 'The Role of Public-Private Partnership (PPP) on Infrastructural Development in Nigeria', Journal of Global Social Sciences, March 2021, Volume 2, Number 5, 23-43. Available via: https://www.researchgate.net/publication/361741210_THE_ROLE_OF_PUBLIC-PRIVATE_PARTNERSHIP_PPP_ON_INFRASTRUCTURAL_DEVELOPMENT_IN_NIGERIA

12 A Project SPV would typically be structured as a consortium of equity contributors including equipment suppliers, O&M operators, project developers and end users, each allocated to manage risks that correspond to their area of expertise.

13 Referred to as 'lock-in' period.

14 Alade, Khadijat and Okubio, Collins, 'Innovative Infrastructure Finance as a Catalyst For Economic Development in Nigeria' (September 26, 2025). Available at SSRN: https://ssrn.com/abstract=5534078 or http://dx.doi.org/10.2139/ssrn.5534078

15 PPP Manual, 130. The cost of negative carry arises because bond proceeds must be invested in lower-yielding risk-free securities during the construction phase while interest accrues at the bond rate.

16 Cambridge Economic Policy Associates Ltd., 'Mobilising Finance For Infrastructure A Study For The Uk Department For International Development (DFID):Nigeria as a Case Study', pg 20. Available via: https://ppp.worldbank.org/sites/default/files/2022-02/DFID_-_Mobilising_Finance_for_Infrastructure_-_Nigeria_Case_Study_%282015%29.pdf

bank's loan after a pre-agreed medium-term period, enabling long-term funding to be assembled from a sequence of shorter-term tranches. The other option is refinancing[17], which provides a partial and project-specific solution,[18] but does not ultimately resolve the structural gap.

Multilateral Lenders

Multilateral lenders and DFIs, including the International Finance Corporation, the African Development Bank, the Africa Finance Corporation and the Islamic Development Bank, remain important stakeholders in the Nigerian PPP financing ecosystem.[19] Their value is not primarily financial as in essence, their lending capacity falls far short of Nigeria's infrastructure need. Thus, their more important function is catalytic: providing first-loss cover, counter-guarantees and technical assistance that enable the domestic capital market to step into positions that multilaterals would otherwise have to fill themselves. The PIDG-GuarantCo-InfraCredit model exemplifies this logic: a modest initial injection of contingent capital from PIDG has mobilised a multiple of that amount in domestic institutional investment,[20] and InfraCredit's model has since been replicated in Pakistan and Kenya.

Mezzanine Financing

Mezzanine or quasi-equity financing, including subordinated loans, convertible subordinated debt, redeemable preference shares and instruments with equity conversion rights, occupies the middle capital structure layer, between senior debt and sponsor equity.[21] It serves several functions in a PPP context. It can bridge viability gaps where equity returns are insufficient to attract sponsors but where the project has positive NPV characteristics. It can also absorb cost overruns that would otherwise trigger construction-phase default; and it can enable a more aggressive senior debt quantum by absorbing first-loss positions that senior lenders are unwilling to hold.[22]

In the Nigerian market, mezzanine financing is significantly underdeveloped. Dedicated mezzanine infrastructure funds of the kind that exist in more mature markets have no direct equivalent here, and the structuring of mezzanine tranches within domestic project finance transactions remains technically demanding in a market where inter-creditor arrangements are not yet standardised. The development of standardised intercreditor terms for Nigerian PPP transactions would reduce transaction costs and encourage the entry of mezzanine providers who currently find the documentation burden prohibitive.

17 the substitution of existing project loans with new facilities at lower rates upon the elimination of construction risk;

18 PPP Manual, 129–130. The Manual explains refinancing as the substitution of existing project loans with new facilities at lower interest rates, reflecting the elimination of construction risk upon project completion.

19 ibid, 131; Nigeria Integrated National Financing Framework, pg. 65, available via: https://www.undp.org/sites/g/files/zskgke326/files/2022-10/INFF_Report%5B100%5D.pdf

20 PIDG, 'Enabling Infrastructure Projects in Nigeria to be More Bankable' (PIDG Case Study, 2025) https://pidg.org/portfolio/infracredit-nigeria/ accessed 20 June 2026. InfraCredit expects its guarantee book to grow to USD 500 million by 2026.

21 Nigeria PPP Manual (n 1) 131–132.

22 ibid 132.

4. GOVERNMENT SUPPORT

An important aspect of PPP financing is the role of government financial support. The Federal Government can contribute financial resources to a PPP project in many ways: capital grants, operational subsidies, minimum revenue guarantees, annuity or unitary payment mechanisms, and credit enhancement or debt service guarantees.

Government financial support is therefore best understood as a corrective mechanism that prices the gap between private returns and social value. The design of that support - its quantum, conditionality, duration and drawdown profile - is a matter of considerable sophistication, and the PPP contract must give it precise legal expression. To this end, a Federal Viability Gap Fund (VGF) capable of providing up to 40% of the capital or operating costs of Federal PPP projects exists and is administered through the Budget Office.[23]

The practical effectiveness of a VGF depends on the fiscal credibility of the funding government. Lenders evaluating projects whose revenues depend on government drawdown from a viability gap fund will need to satisfy themselves that appropriations for the fund are legally secured, that drawdown mechanics are clear and enforceable, and that the credit risk of the fund, which is ultimately a government payment obligation, is acceptable. In the current Nigerian fiscal environment, these are not abstract concerns. Advisers on projects with VGF dependency should evaluate whether additional credit support is necessary to achieve financial close.

23 Ibid, 135.

5. CONCLUSION

PPP financing in Nigeria is ultimately a systematic confidence-building effort. Lenders and investors will only commit capital to long-term, illiquid infrastructure assets if they are convinced (through contractual protections, regulatory clarity, government financial support, and financial structure) that their returns are adequately protected against the entire range of project risks.

Several conclusions are drawn from the analysis. First, the SPV is the most important legal and financial entity in a PPP transaction, and its proper structure - including the negotiation of agreements, identifying what sort of financing to deploy, the design of the security package, and the drafting of the necessary contracts - determines whether the project's risk allocation framework will withstand lender scrutiny. Second, properly structured and legally secured government financial support is a corrective mechanism rather than a transfer payment; knowing its economic purpose is critical for creating the legal instruments that put it into action.

Third, and most fundamentally, the PPP contract is a financial document. Its risk allocation provisions, termination payment structure, change-in-law clauses, dispute resolution mechanisms, and step-in rights are not just for administrative convenience; they are the terms on which private capital agrees to participate, and their drafting requires the same precision and commercial intelligence as the loan agreement and security documents.

Although, Nigeria has recorded notable achievements in infrastructure development, continued investment and innovation in project financing remain vital to meeting the country's long-term infrastructure needs. Thus, each transaction that reaches financial close - each SPV that achieves bankability, each institutional investor that adds an infrastructure bond to its portfolio for the first time, and each credit guarantee that extends the tenor of domestic capital - is a building block in a financing infrastructure that, over time, will be able to mobilise the private investment that the country requires. The practitioner who understands the design of that infrastructure and can skillfully and carefully build its legal foundations has a genuine impact on Nigeria's development trajectory.

AUTHORS

SOLAGBADE SOGBETUN

PARTNER

T: +234 809 815 3914
E: ssogbetun@alp.company

'SIMILOLUWA FASHANU

SENIOR ASSOCIATE

T: +234 201 700 257 0 Ext 122
E: sfashanu@alp.company

OLADUNNI BADA

ASSOCIATE

T: +234 201 700 257 0 Ext 147
E: obada@alp.company

OLAMIDE AKINTOLA

ASSOCIATE

T: +234 201 700 257 0 Ext 148
E: oakintola@alp.company

CONTACT US:

Lagos
15, Military Street, Onikan, Lagos

+234 201 700 2570-9

Abuja
3, Lobito Crescent, Wuse 2, Abuja

+234 209 700 2570-9

www.alp.company

alp@alp.company

ALP NG & Co

alpng.co

ALPNigeria