PROJECT FACILITATION FUND (PFF) BUSINESS PLAN

Ondo State Government Public Private Partnership Support

September 2025

Ondo State Government Public-Private Partnership Support

The objective of the assignment is to increase private investment in the Ondo infrastructure market across sectors and to sustain this participation over an extended period.

Project Facilitation Fund (PFF) Business Plan

This Business Plan provides an overview of the purpose and structure of the PFF, and a plan for its financing and implementation. This plan has been revised and updated based on feedback from the Client and ODSG stakeholders.

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Acronyms / Abbreviations

AFDB	African Development Bank
BPP	Bureau of Public Procurement
DFI	Development Finance Institution
EOI	Expression of Interest
ESIA	Environmental and Social Impact Assessment
EXCO	Executive Council
FGN	Federal Government of Nigeria
IC	Investment Committee
IPA	Investment Promotion Agency
ISA	Infrastructure Concession Regulatory Commission Act
KPI	Key Performance Indicator
LGA	Local Government Area
MDA	Ministry, Department, or Agency
MOFI	Ministry of Finance Incorporated
MOFEP	Ministry of Finance, Economic Planning and Budget
MTEF	Medium-Term Expenditure Framework
MTSS	Medium-Term Sector Strategy
ONDIPA	Ondo State Investment Promotion Agency
OAF	Officer Administering the Fund
PAP	Project Acceleration Platform
PFF	Project Facilitation Fund
PIA	Petroleum Industry Act
PPP	Public Private Partnership
RFQ	Request for Qualification
SABER	Sustainable Access to Basic Infrastructure and Energy Resources
SDG	Sustainable Development Goals
SPV	Special Purpose Vehicle
TA	Technical Assistance
TOR	Terms of Reference
VGF	Viability Gap Funding

1 Market Overview

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 200mn, it is also the largest market on the continent, nearly twice the size of Ethiopia (110mn) or Egypt (102mn). However, 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 NGN33tn (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 leading to uncertainties in the level of public investment in infrastructure.

The inflation rate in Nigeria has remained in double digits since 2016. In recent months, the inflation rate has declined to 17.38% in July from the high of 22.28% in May 2021.

1.1 Overview of Ondo State economy

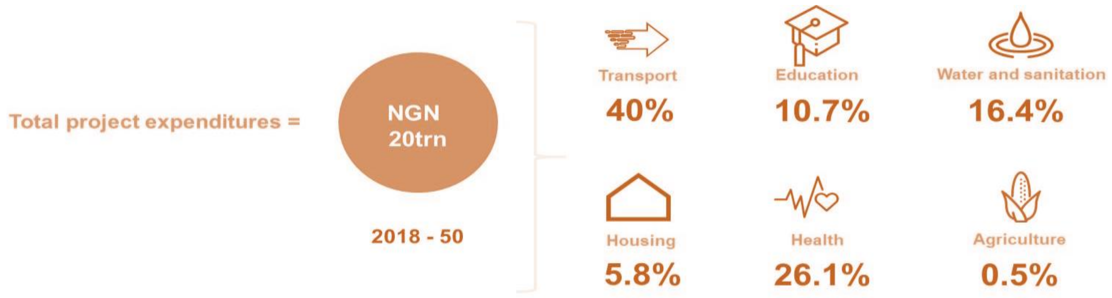
Ondo State is one of Nigeria's largest sub-national economies, with GDP estimated at about ₦5.10 trillion (12.63 billion USD equivalent) as of 2025, driven primarily by services and agriculture. The state's budget has been increasing, with a strong focus on capital investment and infrastructure. While public debt has grown in recent years, debt ratios remain manageable and below critical thresholds, and fiscal frameworks suggest sustainability through 2030.

According to state fiscal data, Ondo's Internally Generated Revenue (IGR) has remained relatively modest, averaging around ₦30–₦40 billion annually between 2019 and 2023, compared with much larger federal allocations that often constitute the bulk of total revenue. Despite recent reforms that have boosted IGR growth, the state remains heavily dependent on transfers from the federation account. The size of Ondo's total budgets, rising into hundreds of billions, means that IGR covers only a small portion of total revenues, and in early 2025 nearly 40 % of IGR was consumed by debt servicing obligations alone. Ondo's total public debt has increased over the years, with domestic and external components, and the limited scope of internal revenue generation highlights ongoing fiscal pressures and the continued need to diversify revenue sources beyond federal allocations.

1.2 Investment targets

The Ondo State Development Plan (ODDP) projects the outlay for investment in the key sectors. The total projected expenditures under ODDP amount to NGN2tn (approximately USD 1.38 billion at 2025 exchange rates) for the 2021-25 period across the sectors of transportation (40%), housing (5.8%), education (10.7%), health (26.1%), water and sanitation (16.4%), and agriculture (0.5%), aligned with the national NDP 2021-2025.

Figure 1-1: ODSG Total Project Expenditure



The State Development Plan (SDP) 2055 had set an overall investment target of more than NGN 2.33tn (approximately USD 1.46 billion) over five-year period from public and private sources.

1.3 PPP Project Pipeline

The PPP landscape in Ondo State remains at an early but evolving stage, with recent efforts focused on strengthening and formalizing critical PPP framework instruments, including the review and validation of the State PPP Policy and Operational Manual (2024/2025) and ongoing institutional reforms aimed at improving private sector participation. However, the Ondo State Government's strategy of deploying PPPs as a central mechanism for achieving its investment and infrastructure targets is clearly articulated in the Ondo State Development Plan (SDP) and the State's Multi-Sectoral Investment Strategy (2025–2029).

A PPP pipeline and project screening exercise, undertaken as part of recent investment planning and institutional strengthening initiatives, identified a portfolio of projects with the potential to be developed as PPPs across priority sectors of the State's economy. Based on preliminary screening and prioritization criteria, a subset of these projects was identified for further development, with a smaller number classified as high-priority projects due to their strategic importance, commercial viability, and alignment with the SDP objectives. These projects are distributed across key infrastructure sectors of Ondo State, including:

- Energy – 2 projects
- Education – 3 projects
- Urban infrastructure / construction – 6 projects
- Agriculture and agro-processing – 2 projects

While not all of the identified projects have progressed beyond the early stages, concept notes have been prepared for several priority projects, and elements of project preparation and transaction support have benefited from development partner assistance, including technical support linked to UK-supported infrastructure and investment advisory programmes. In addition, pre-feasibility and project screening work is ongoing for selected projects, particularly in the areas of urban development, agro-logistics, and waste-to-wealth initiatives, with the objective of advancing these projects towards bankability and potential PPP structuring.

Table 1-1 presents a snapshot of the current PPP project pipeline comprising four projects (including – one in agriculture / agro-processing sector, one in construction and one each in renewable energy and transport sectors). The projects are at the early stages of preparation (PFS or Concept) and initial estimated capital investment is over USD 1.04 billion.

Table 1-1: ODSG current PPP project pipeline

S/No.	Name	Sector	Stage	Estimated Capex (USD mn)
1	Rex Forestry Limited	Agriculture	Development	$5.00 million
2	Johnvents Industries Limited	Manufacturing /Agriculture	Development	N400,000,000.00
3	Primary Power Limited	Energy	Development	24.00
4	Araromi Ayesan	Agriculture	Development	N11.400,000,000.00
5	Sudit Oils Limited	Agriculture	Implementation	N10,000,000.00

Source: ODSG Data on PPP Project Pipeline and ONDIPA records The PPP project pipeline comprises projects that have been identified and prepared as per the provisions of PPP Manual and PPP Policy and approved by the state executive council.

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. This plan has been revised and updated based on feedback from the Client and ODSG stakeholders.

2 PFF Overview

2.1 Purpose of PFF

The PPP project pipeline in the state of Ondo 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 until 2025 of over USD 12.5 billion under the ODSDP are expected to be developed through private investment and PPPs. Therefore, there is a need to provide ODSG 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 for addressing these aspects.

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

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 the CAs to provide funding, in a limited manner, to projects in the form of Viability Gap Funding (VGF) 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 define the rights and obligations of all parties to the agreement. And 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:

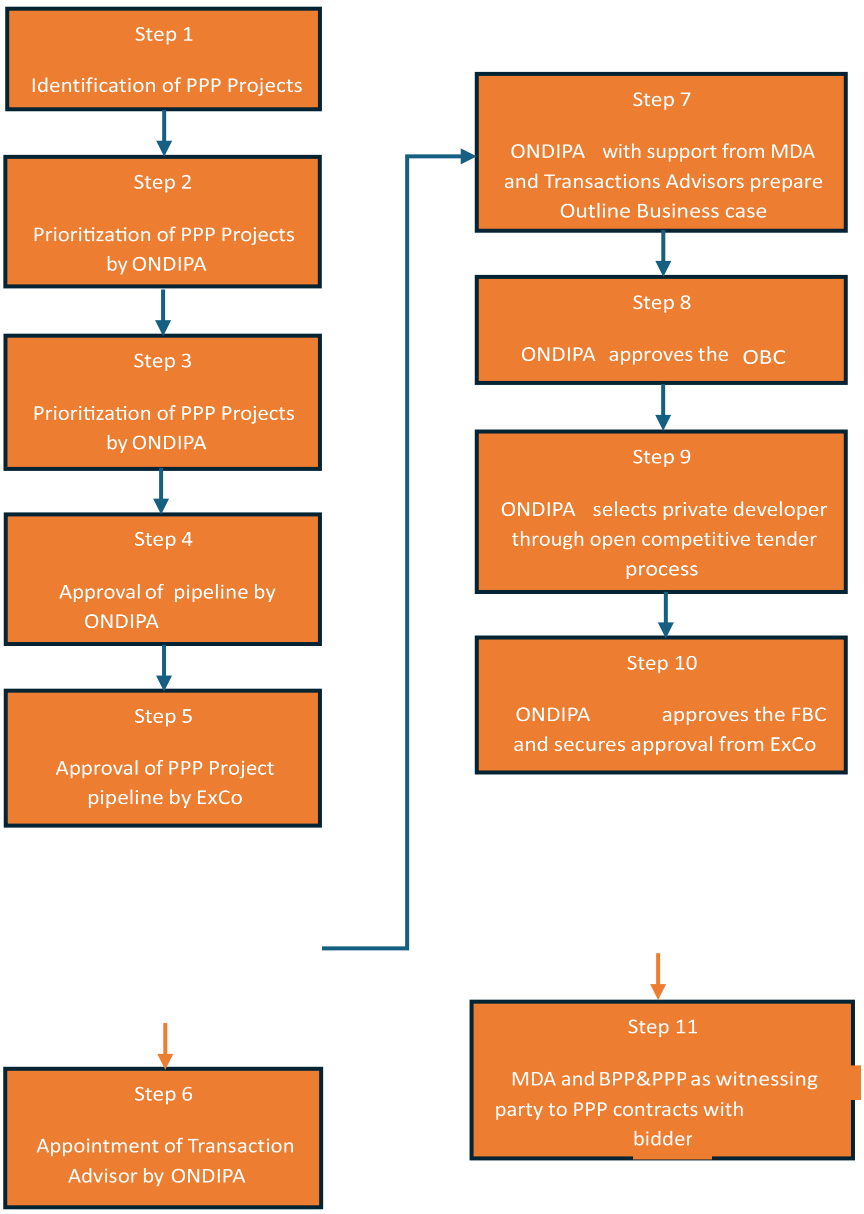
- Enable CAs to prepare the projects for tender including the conduct of project appraisals to ensure that projects are bankable and attractive to potential bidders;
- In select cases, and where public financial resources are available, extend VGF to projects that are socially desirable but not viable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

2.2 Strategic Objectives and Priorities of Support

2.2.1Project 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



There will be four support windows, under which funds will be channeled for supporting different aspects of the PPP project life cycle.

Figure 2-2: PFF Support Windows

- Window 1: provides support to CAs for project preparation including engaging consultants and transaction advisors;
- Window 2: provides support to the PFF Secretariat (refer section 2.7.3) 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 KSDP (refer to section 1.1.2) and/or the SDP, prioritizing alignment with SDG 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 programs 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

2.3 Fund metrices

The key fund metrics are as follows:

- Initial capitalization: USD 10.1 million including an annual contribution of USD 150,000 from ODSG for the first four years and USD 300,000 annually in successive six years. The overall outlay of the Fund is expected to be over USD 172.22 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

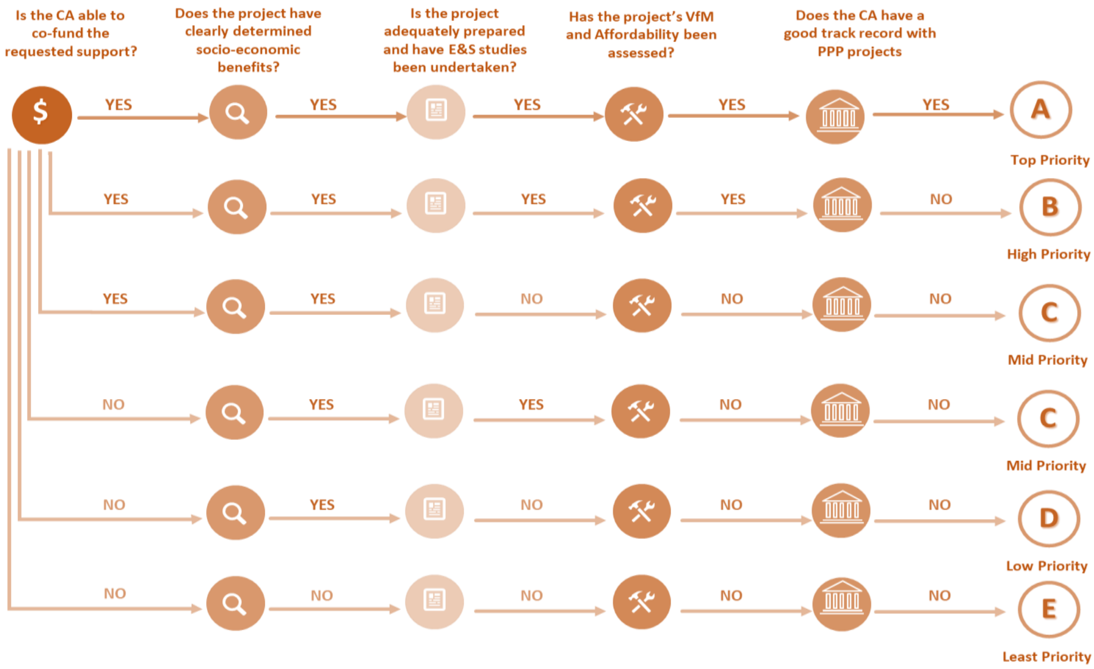
Given the immense infrastructure investment requirements in the state and the importance attributed by ODSG to ensuring the participation of the private sector in its ambitious plans, the PPP project pipeline can be expected to grow in the future.

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

- Extent to which a CA can 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 prioritize applications received into the various categories (A – Top Priority, B – High Priority, C - Mid Priority, D – Low Priority and E – Least Priority).

Figure 2-4: Project Prioritization Criteria



2.5 Application Process and Supporting Documentation

The sole beneficiary of the 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 ONDIPA.

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

Table 2-1 lists the supporting documents needed for applications under the support windows.

Table 2-1: Supporting Document Requirements

Support Window		Uses	Supporting Documentation based on type of Use the funding is applied for
Support to CAs for Project Preparation	▪	Consultancy services related to PPP projects, including preparation of feasibility studies;	▪ The names and contact details of the team in charge of the project in the CA; and ▪ A project concept note.
	▪	Conducting a tender process, including advertisements, marketing and communications, tender documentation and due diligence;	▪ The names and contact details of the team in charge of the project in the CA. ▪ Project screening results; and ▪ Copy of the approved OBC.
	▪	Transaction advisory services;	▪ The names and contact details of the team in charge of the project in the CA; and ▪ A project concept note.

	▪	Other project preparation activities approved by ONDIPA.	▪ The names and contact details of the team in charge of the project in the CA; and ▪ A project concept note.
	▪	Land acquisition, compensation, resettlement and environmental remediation.	▪ Copy of the approved OBC[1]; and ▪ Land acquisition, compensation and resettlement action plans.
VGF	▪ ▪ ▪ ▪	Construction Grant, including but not limited to construction expenditure, cost of land acquisition, compensation for resettlement and environmental remediation measures to be undertaken after signing of a project agreement; Operational Grant, to meet the shortfall between project revenues and the operational expenditure of the project Service Payment (based on service standard) or Availability Payments (for development and maintenance of infrastructure / assets created under a PPP) Demand and Output-Based Payment	▪ Details of project origination (Solicited vs. unsolicited); ▪ Copy of the approved Feasibility Study; ▪ Copy of the Financial Risk Assessment Report. ▪ Project Agreement. ▪ Copy of the approved project financial model. ▪ Project company ownership details; and ▪ Contingent liability estimate for the project.
Liquidity Support for Contingent Liabilities	▪	Cannot be handled by ODSG Ministry of Finance (KSMOF) under alternative frameworks;	▪ Copy of the signed project agreement. ▪ Copy of the approved FBC;

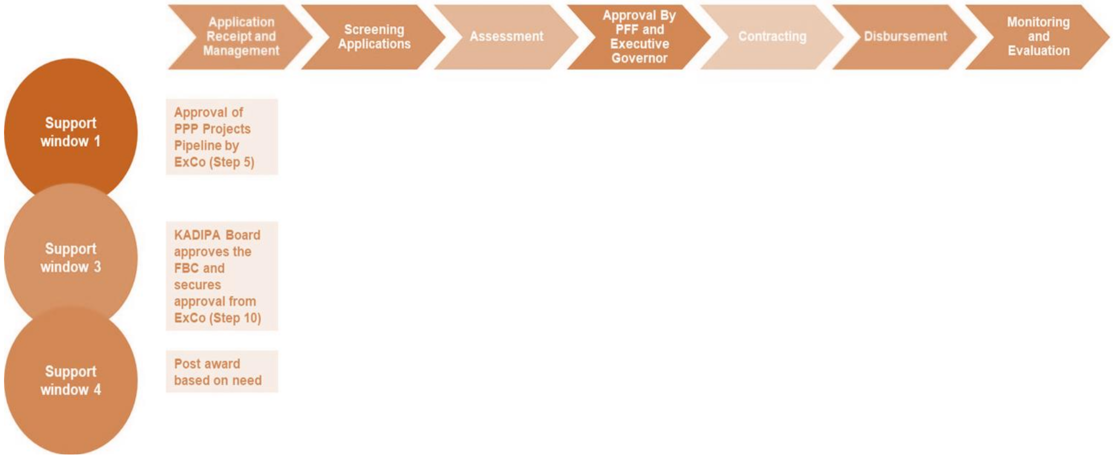
2.6 Approval Process

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 the seven steps outlined in Figure 2-5.

Figure 2-5:



Funding Process for Support Windows 1, 3 and 4

The PFF Secretariat will receive applications from CAs (and project companies in case of support window 3) to benefit from funds under the relevant support windows. The Secretariat will acknowledge receipt of each application and inform the applicant of the process to be followed.

Applications will be screened to check if:

- The cost/investment for which support has been requested is eligible under the relevant support window.
- The application has higher/lower priority; and
- The Application Form has been duly completed and all required supporting documentation has been submitted.

The assessment stage will entail a detailed analysis of the documentation by the Secretariat with the input of technical experts (third-party consultants) commissioned by the Secretariat, when required. Applications that have been found to merit support will then be submitted for the approval of ONDIPA.

Following ONDIPA 's approval of an application, a Funding Agreement, which sets out the terms and conditions of the support to be provided, will be entered into between the Fund and the CA or the project company. Funds will then be disbursed from the relevant support window.

Each disbursement will be monitored and evaluated to ensure the funds are deployed as stated in the application and, depending on the type of support, paid back to the Fund in full and on time. This stage will involve regular reporting requirements both for the Fund and the CA/project company that executed the Funding Agreement with the Fund. The Secretariat will benefit from the services of technical experts during this stage of the process as well.

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.

The funding process under support window 2 is expected to follow the steps presented in Figure 2-6.

Figure 2-6: Support Window 2 Funding Process

PFF Secretariat will prepare a work plan and budget for each fiscal year to be reviewed by the Officer Administering the Fund (OAF) (refer section 2.7.2) and submitted for ONDIPA's approval. It will be possible to make disbursements from the support window 2 for eligible expenses only upon ONDIPA's approval. Regular reporting (i.e. quarterly or semiannually) will later be required to monitor how the disbursed funds have been used. It is assumed that this would account for 10% of the total PFF annually.

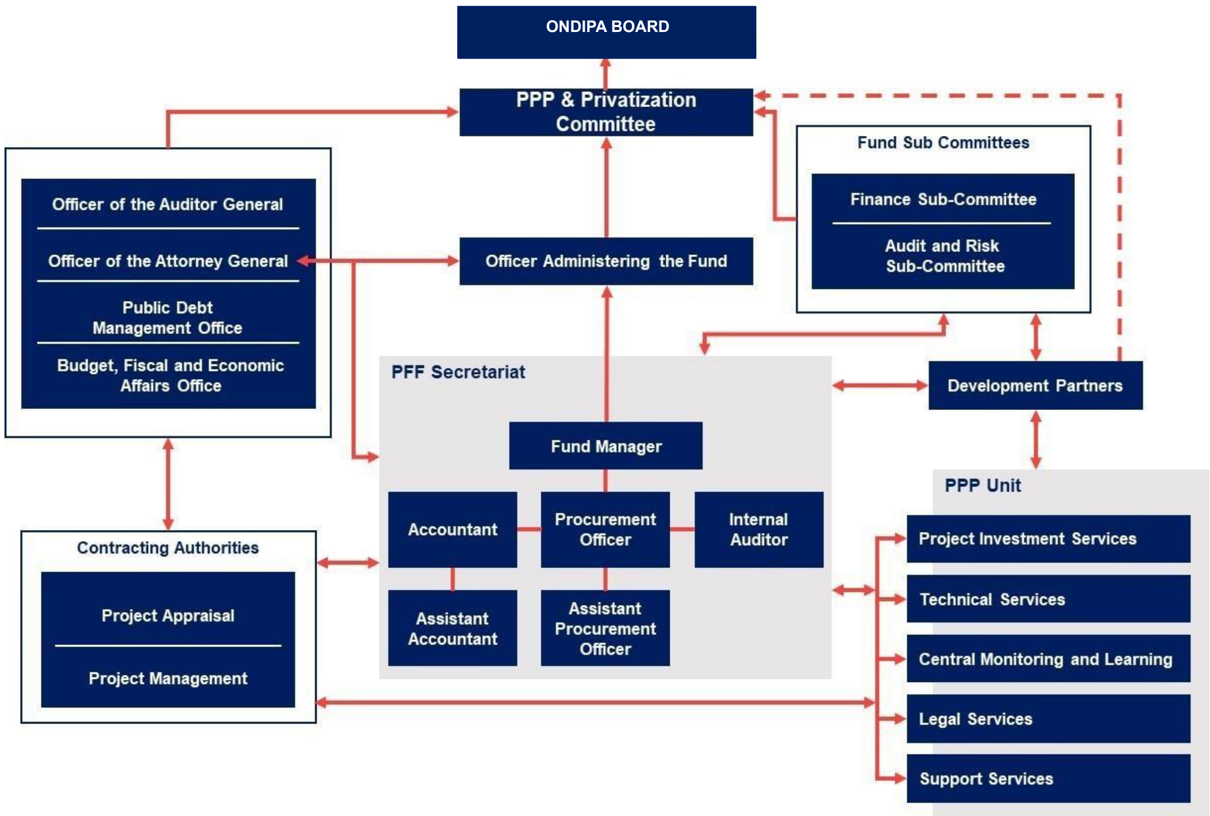
2.7 Institutional Structure

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

Figure 2-7: PFF Structure

ONDIPA BOARD

ONDIPA BOARD



2.7.1 ONDIPA through PPP &Privatization Committee

ONDIPA 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 be the head of the PFF Secretariat, ensuring PFF's strategic, operating and financial objectives are met. The OAF and PFF Secretariat will be accountable to PPP&PC, acting on behalf of ODSG and other key stakeholders.

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

Sub-Committees

PPP&PC will establish sub-committees it may consider necessary to provide oversight of the exercise of its functions under PFF Guidelines.

Sub-committees that will handle the affairs of 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. PPP&PC may delegate the performance of a particular activity to any member, officer, employee or agent of PPP&PC.

2.7.2 Officer Administering the Fund

OAF will be the Director, PPP and Privatization at ONDIPA 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 state from ONDIPA the OAF deems necessary and approved by the Executive Secretary.

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 State to successfully perform their duties, build capacity and streamline operations of the Fund.

Some of the state for the Secretariat may be drawn from other relevant MDAs with requisite experience e.g. ODSMOF, Planning & Budget Commission (P&BC), Ondo State Bureau of Public Procurement (ODBPP)

to enable capacity development and transfer of knowledge to ODSG stakeholders and also reduce over-reliance on external vendors. This would also leverage the extensive experience of such state 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 Operational Manual (refer section 1.3).

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 ODSG 's internally generated funds and funds that can be mobilized 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 mobilized from various sources, assumptions regarding the amount of funds that will be obtained and life span of the Fund had been made for discussion purposes. It has been assumed that the total size of the Fund will reach USD 162 million (including repayment of loans and sale of equity) and 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 the KSMOF
- Grants from International donors (either through a multi-Donor Trust and/or individual donors 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 Ondo State Budget

It has been indicated that ODSG contributions would be in the form of annual injections of NGN 200 million (approx. USD 250,000–300,000) for the first 3 years, NGN 400 million (approx. USD 500,000) in years 4 to 6, and NGN 600 million (approx. USD 700,000) in years 7 to 10. Given the overall outlay anticipated for the PFF and the size of Ondo's PPP project pipeline, this constitutes less than 2–3% of total funds. Therefore, the extent to which funds can be mobilized from Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs) would be critical.

3.2.2 MDBs and DFIs

It is assumed that ODSG will be able to obtain grants from MDBs such as the World Bank, International Finance Corporation and African Development Bank) and DFIs like AFD (France), FMO (the Netherlands) and SWEDFUND (Sweden) throughout the proposed life of the Fund. Grants from international donors (either through a Multi-Donor Trust Fund and/or individual donors grants) would be encouraged. While mobilizing funds from donors, it would ensure that donor contributions are untied and in sync with the priorities of ODSG. Potential conflicts of interest would be assessed at the time or resource mobilization 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 Fee paid for by the Preferred Bidder Consortia on PPP projects may also be utilized to contribute to the PFF. These often pay the transaction costs of 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 ODSG .

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 considered while illustrating caps/ deployment of funds across the 4 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 ODSG and MDBs/DFIs. Table 3-2 below shows the proportion of the allocation of funds amongst the four support windows throughout the proposed life of the Fund.

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 21mn 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 ODSG on the 4 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 prioritized projects and before the commencement of their commercial operations. The funds allocated for VGF are projected to be disbursed equally in the form of loans, equity investments and grants (i.e. 75% of the total allocation for the Fund in Years 3 and 4 each, and 80% in the remaining years) amounting to USD 120 million.

Support for the PFF Secretariat will cover costs such as new equipment, hardware and software that might be required to make the Fund up, as also for consultancy services (refer section 4.1.1). These consultancy services will include capacity building programs 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.

Finally, contingent liability liquidity support will very likely be most needed once several projects in the PPP pipeline become operational. The support for this ranges from 13% - 15%.

3.4 Terms of Financing

The funds that will be provided under support window 3 for VGF is 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, is 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 terms 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 of 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 states 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 (above) shows the sources and uses of the funds calculated as per the principles set out in sections 3.1, 3.2 and 3.3.

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 state of the Fund, and selection of consultants that will support the core state of the Fund in capacity building as well as project assessment and monitoring.

4.1.1 Staffing

It is assumed that the core state of the Fund will be on secondments from ONDIPA. The OAF will select the state for the PFF Secretariat in consultation with and subject to the approval of the Executive Secretary of ONDIPA. Once the core state is in place, the Fund is expected to utilize third-party consultants for building capacity of the core state 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 ODSG budget and MDBs/DFIs during the proposed life of the Fund.

Securing annual allocations from the ODSG budget will require ongoing communication with relevant bodies in Ondo State, particularly the ODMOF.

The same level of effort will be required for MDBs/DFIs. ONDIPA 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 with 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 Phase 2 transition by Year 5.

The first task will be staffing. The period allocated for this task will be spent 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 state 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 Outstanding Options

The decision on whether to outsource one or more functions of the PFF requires 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 summarized 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. state 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 emphasized 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 summarizes some of the potential advantages and disadvantages of outsourcing for the PFF.

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 o<-peak periods.	Certain government protocols might limit the extent of outsourcing and result in duplication of roles/processes.
PFF will be spared labor shortages and gain access to a wider array of skills.	PFF might have limited experience and/or capacity to manage the relationship with the contractors(s).
Outsourcing will allow PFF to access more advanced technologies without necessarily having to own them.	Lack of opportunity for ODSG 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 that needs to be taken into consideration 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 realized at exit over a certain promised benchmark return rate.

Annual management fee and share of profits realized 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 state of the Fund will comprise personnel to be seconded from ONDIPA. PFF is a new concept not only in Ondo State but also in Nigeria and it is reasonable to assume that not many current employees of ONDIPA /ODSG will have the relevant experience and expertise.

On the other hand, ONDIPA 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 state in capacity building and allow them to benefit from the services of third-party consultants in project assessment and monitoring. Overall, this risk is minimal.

5.1.2 Operations

This risk relates to issues such as political interference in 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 minimal.

5.1.3 Lack of robust PPP project pipeline

There is a healthy pipeline of PPP projects at various stages of development in Ondo State. Detailed information on the project pipeline has been provided in Section 1.1.3.

The risk of not being able to find qualified PPP projects to support is therefore minimal.

5.1.4 Environmental and Social safeguards and associated risks

E&S principles are part and parcel of corporate affairs and all investment activities today. The Fund's operations will be subject to both the World Bank standards and the local rules and regulations, including ESIA for all projects. Therefore, environmental and social risk is minimal.

5.1.5 Credit

The Fund will be extending loans to and making 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 creditors) 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 ODSG 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 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 making the best use of available funding (such as prioritizing 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.