



## **PAPER ON CONDUCTING FINANCIAL MANAGEMENT OF PUBLIC – PRIVATE PARTNERSHIP (PPP) PROJECTS:**

**BEST APPROACH BY THE PUBLIC SECTOR PARTNER**

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## OUTLINE 1.0: INTRODUCTION

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1.1 Public–Private Partnerships (PPPs) have become a strategic instrument for delivering critical infrastructure in situations where government resources alone are insufficient to meet national development needs. Governments across the world increasingly rely on PPP frameworks to leverage private sector capital, expertise, and efficiency in delivering public infrastructure and services.

1.2 Nigeria has adopted PPPs as a key infrastructure financing strategy through a regulatory and institutional framework led by the Infrastructure Concession Regulatory Commission (ICRC) and supported by several public sector institutions.

1.3 For the public sector partner, financial management of PPP projects is one of the most critical determinants of project success. Sound financial management ensures that projects are economically viable, government fiscal exposure is carefully managed and controlled, public interest is safeguarded, and private sector participation remains sustainable and attractive over the life cycle of the project.

1.4 The role of the public sector partner therefore goes beyond procurement oversight. It involves rigorous financial due diligence, risk allocation, value for money assessment, and sustained financial monitoring throughout the life cycle of the PPP project.

## OUTLINE 02: UNDERSTANDING FINANCIAL MANAGEMENT IN PPP PROJECTS

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2.1 Financial management in PPP projects refers to the processes through which government evaluates, structures, allocates, and monitors financial resources and risks associated with infrastructure projects delivered through private sector participation.

2.2 From the public sector perspective, financial management involves:

- i. Project financial viability assessment
- ii. Structuring bankable projects
- iii. Ensuring fiscal responsibility
- iv. Risk identification and mitigation
- v. Monitoring financial performance during implementation and operation

2.3 PPP financial management is therefore not a one-off activity, but a continuous process across the project lifecycle.

## OUTLINE 03: INSTITUTIONAL FRAMEWORK SUPPORTING FINANCIAL MANAGEMENT OF PPPS IN NIGERIA

3.1 Nigeria's PPP ecosystem operates through multi-agency collaboration, which represents a best practice approach to financial governance. Key institutions supporting financial management include:

- i. **Infrastructure Concession Regulatory Commission (ICRC)** - The ICRC plays a central role in PPP regulation by Reviewing Outline Business Cases (OBC); Certifying Full Business Cases (FBC); Ensuring compliance with PPP guidelines; and Providing technical and financial advisory support, amongst others.
- ii. **Federal Ministry of Finance** - The Ministry of Finance evaluates fiscal implications and ensures that PPP projects do not expose government to unsustainable financial liabilities.

- iii. **Debt Management Office (DMO)** - The DMO assesses Government contingent liabilities; Debt sustainability implications; Guarantees or sovereign support mechanisms;
- iv. **Bureau of Public Enterprises (BPE)** - BPE provides expertise in Transaction structuring, concession frameworks; Private sector engagement strategies.
- v. **Line Ministries, Departments and Agencies (MDAs)** - MDAs such as the Federal Ministry of Housing and Urban Development act as project sponsors, ensuring sectoral alignment, policy compliance, and effective project oversight.

3.2 This inter-agency collaboration strengthens financial scrutiny and enhances the robustness of PPP project structures.

## OUTLINE 04: THE PPP PROJECT DEVELOPMENT PROCESS AND FINANCIAL DUE DILIGENCE

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4.1 The financial integrity of a PPP project is largely determined during the project development stage. Two major instruments guide financial management:

4.2 **Outline Business Case (OBC)** - The OBC establishes the strategic and financial justification for the PPP project. Key financial elements assessed include: Capital expenditure (CAPEX); Revenue projections; Economic benefits; Fiscal implications; Risk identification; Preliminary financial model; Value for Money (VfM) assessment. Projects that demonstrate negative Net Present Value (NPV) or poor economic returns are typically not advanced. This stage ensures that only financially and economically viable projects proceed to procurement.

4.3 **Full Business Case (FBC)** - The FBC provides a more detailed financial assessment prior to contract award. The FBC includes Final financial model; Bankability assessment; Risk allocation structure; Project financing plan; Detailed Value for Money analysis; Sensitivity and scenario analysis. Approval of the FBC confirms that the project structure is commercially viable, fiscally responsible, and financially sustainable.

## Risk Identification



## OUTLINE 05: FINANCIAL RISK IDENTIFICATION AND ALLOCATION

5.1 One of the most important principles in PPP financial management is optimal risk allocation. The guiding principle is:

- i. Risks should be allocated to the party best able to manage them.
- ii. Typical PPP financial risks include:
  - iii. Construction cost overrun risk
  - iv. Revenue and demand risk
  - v. Inflation risk
  - vi. Exchange rate risk
  - vii. Financing risk
  - viii. Political and regulatory risk
  - ix. Operation and maintenance risk
  - x. These risks are carefully addressed during the project structuring phase and captured in:
    - a. Financial models
    - b. Project agreements
    - c. Concession contracts

5.2 Effective risk allocation improves bankability, investor confidence, and long-term project sustainability.

## OUTLINE 06: LESSONS FROM THE HIGHWAY DEVELOPMENT AND MANAGEMENT INITIATIVE (HDMI)

6.1 The Highway Development and Management Initiative (HDMI) represents one of Nigeria's most ambitious PPP programmes in the transport sector. During the period when the Federal Ministry of Works and Housing operated as a unified ministry, the PPP Unit coordinated the development and structuring of HDMI concessions. The initiative involved:

- i. Concessioneering selected federal highways
- ii. Private sector financing for rehabilitation and expansion
- iii. Long-term operation and maintenance by concessionaires
- iv. Revenue generation through tolling

6.2 Key financial management lessons from HDMI include:

- i. **Rigorous Project Structuring** - Extensive financial modelling was undertaken to ensure project bankability and investor confidence.
- ii. **Competitive Procurement** - The procurement process attracted credible investors and ensured transparency in concession awards.
- iii. **Robust Financial Due Diligence** - Financial risks were carefully evaluated during the OBC and FBC stages with inputs from multiple government institutions.
- iv. **Multi-Agency Collaboration** - The initiative benefited from strong collaboration between:
  - a. ICRC
  - b. Federal Ministry of Finance
  - c. Debt Management Office
  - d. Bureau of Public Enterprises
  - e. Sector ministries

This collaborative framework strengthened financial oversight and ensured fiscal responsibility.

## OUTLINE 07: FINANCIAL SAFEGUARDS IN HOUSING SECTOR PPP PROJECTS

Within the housing sector, additional financial safeguards are applied to protect public assets and ensure delivery. These include:

- i. **Performance Bonds** - Developers and concessionaires are required to provide performance bonds to guarantee project execution.
- ii. **Proof of Funding** - Investors must demonstrate verifiable financial capacity before project commencement.
- iii. **Development Milestones** - Project timelines are tied to measurable milestones to prevent speculative land holding.
- iv. **Financial Monitoring** - Project implementation is monitored to ensure financial commitments are honored.

These safeguards ensure that PPP housing projects remain credible, deliverable, and financially accountable.



## OUTLINES 08: VALUE FOR MONEY ASSESSMENT

Value for Money (VfM) is a fundamental principle guiding PPP decisions. A PPP project is only adopted where it can demonstrate:

- i. Lower lifecycle cost compared to traditional procurement
- ii. Improved service delivery
- iii. Efficient risk allocation
- iv. Better infrastructure quality

The VfM assessment compares the PPP option against the Public Sector Comparator (PSC) to determine the most economically efficient procurement method.

## OUTLINE 09: CONTINUOUS FINANCIAL MONITORING DURING IMPLEMENTATION

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Financial management does not end at contract signing. Government continues to play a critical role in:

- i. Monitoring financial compliance
- ii. Ensuring service delivery standards
- iii. Managing fiscal commitments
- iv. Enforcing contractual obligations

Regular financial reporting mechanisms and performance monitoring systems help ensure the long-term sustainability of PPP projects.

## Public Private Partnership (PPP)



# OUTLINE 10: BEST PRACTICES FOR PUBLIC SECTOR FINANCIAL MANAGEMENT IN PPP PROJECTS

From experience and global best practices, the following principles are essential:

- i. Strong institutional coordination
- ii. Comprehensive financial due diligence
- iii. Transparent procurement processes
- iv. Proper risk allocation
- v. Bankable project structuring
- vi. Robust financial modelling
- vii. Continuous financial monitoring
- viii. Clear regulatory oversight
- ix. Protection of public interest
- x. Ensuring value for money



## OUTLINE 10: CONCLUSION

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11.1 Public–Private Partnerships offer a viable pathway for addressing Nigeria’s infrastructure deficit. However, the success of PPP projects depends significantly on the quality of financial management exercised by the public sector partner.

11.2 Through rigorous project appraisal, collaborative institutional frameworks, transparent procurement processes, and effective risk allocation, the government can ensure that PPP projects deliver sustainable infrastructure while safeguarding public resources.

11.3 Experiences from initiatives such as the Highway Development and Management Initiative (HDMI) demonstrate that with strong financial governance and strategic partnerships, PPPs can significantly contribute to national infrastructure development.

11.4 Ultimately, the goal of the public sector partner is to ensure that PPP projects deliver efficient infrastructure, financial sustainability, and long-term value for the Nigerian people.

**THANK YOU**