

Transborder Energy Cooperation and integration Prospect in Economic Community of West Africa (ECOWAS) Through Project Finance (Nigeria as a case study).

Kolade Nasir (B00262360) 2nd Year PhD Student; nasir.kolade@uws.ac.uk G320 Gardner Building Paisley campus

Supervisors: Prof. Heather Tarbert and Prof. John Struthers

School of Business and Creative Studies, University of The West of Scotland



Background: This research work focuses on financing Economic Community of West Africa Countries (ECOWAS) energy sector integrations and cooperation through project finance using Nigeria as a case study. It involves researching on how to finance major energy projects within the oil, gas and electricity (power) sectors.

1 Introduction

1.0 Aim

The main aim of this research work is to critically examine how to use project finance as an alternative source of financing energy projects in West Africa region (Nigeria as a case study) in order to solve the challenges of energy infrastructural deficits that have effect on economic growth and development in the region. The following objectives were developed to accomplish the aforementioned aim.

1.1 Objectives

- Critically appraise the use of project finance in enhancing the execution of energy infrastructure projects.
- Analyze the use of project finance as a driver of economic growth and development.
- Examine how investors (financial institutions, foreign direct investment and private sectors) can participate actively in energy assets infrastructure development using project finance to strengthen capital formation roles in Nigeria.
- Critically appraise the governance structure in Nigeria.

1.2 Project finance is a source of financing that is structured in order to create a specific economic activity; this can be called a Special Purpose Firm (SPF) or a project company. SPF uses equity and debt or mezzanine debts as a means of finance, while the lenders only take into consideration project cash inflows as a sources of loan repayment/servicing and the assets financed represent only the collateral (no recourse to project sponsors or limited recourse). Fig. 2.1(Adapted from Yescombe 2013=-Principles of Project Finance, 2nd Edition) project finance structure .

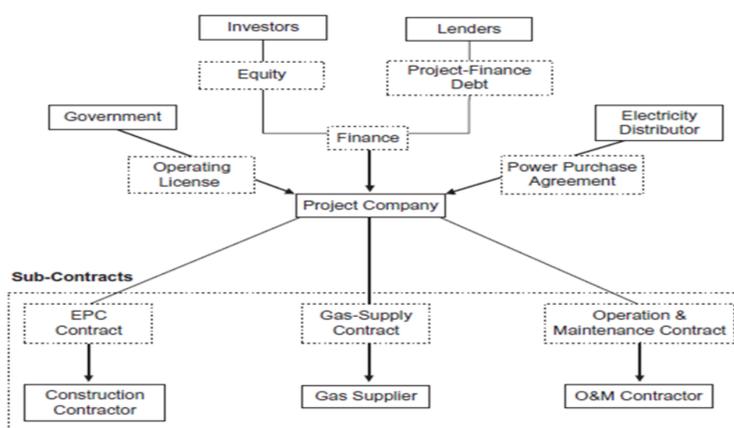


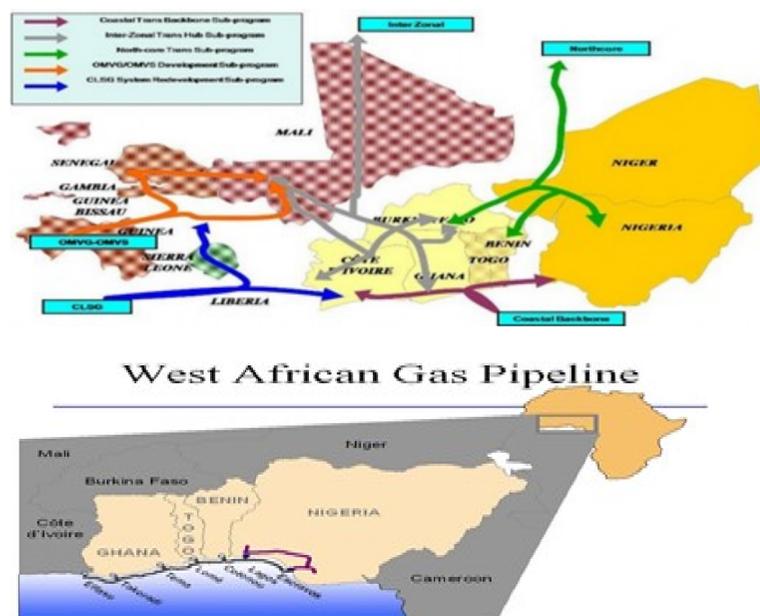
Figure 2.1 Process-plant Project.

1.3 This source of finance is used mostly in regulated sectors developing countries such as energy sectors in India, Phillipin Qatar .It has unique characteristics as a globalized source of fur and also commonly used by both developed and developi countries.

2 Integreation/Cooperation

2.0 Integration /cooperation has been a recurring trend among countries in the same region/continents or among continents. This integration/cooperation serves as motivating forces when it comes to economy, socio political and cultural purposes.

Economic Community of West Africa State (ECOWAS-15 countries formed in 1975, situated geographically on the South west region of Sub-Sahara Africa which has a population of over 326 million . (See diagrams below-1 Map of Ecowas;2 West Africa Power pool;3 West Africa Gas Pipelines). Courtesy of ECOWAS Central April report 18th, 2014 SweetCrudereports.com.



3 Ecowas Economics/ Energy Needs and Methodology

3.0 Energy infrastructural development in ECOWAS through traditional (corporate) finance has not been sufficient to provide the finances needed to catalyse the socio-economic development of the region .Energy infrastructure assets were basically financed using public funds (Public Sector Financing) otherwise known as budgeted funds

More than 57% of ECOWAS population (AFDB 2014) do not have access to energy (clean and sustainable), and it is needed (energy) for social and to service productive activities in the region .Globally the availability of adequate, efficient and economically priced energy is one of the main requirements for socio-economic and geographical development of any region/country. For the past three to five decades, most resident o000f West Africa have inadequate access to energy supply(power generating infrastructures/refineries ,gas flaring, unfavourable weather and lack of funds).Therefore, finance as a critical success factor, became central issue concerning various growth (economic) and developmental efforts of those that leads and the led. Governments have to look towards the private sector for strategic partnership (majorly finance) in order to finance the much needed critical infrastructure needed for human sustenance.

3.1 METHODOLOGY

This study will employ both qualitative and quantitative methods to investigate how project finance can be used to finance energy infrastructural projects in ECOWAS countries. In this regard, the study relies on questionnaire instruments and documented data based on content analysis from various database: World Bank, IMF, Government budget (including stabilization funds), and private/institutional investors, local and international banks. Samples includes investments made through project finance, budgets, multilateral financing and corporate finance.

4 Analysis of Ecowas Economic and Energy outlook

ECOWAS ECONOMIC AND ENERGY OUTLOOK							
COUNTRY	POP.	GDP	CRUDE	REFINERIE	ELECT	ENERGY	HDI
	(million)	(Billion)	OIL PROD.(million/g)		GEN.	ACCESS	
		\$	(million/pd)			(Electricity) %	
1 Benin	10.32	8.307	0	0	0.15	27.4	165
2 Burkina Fa	16.93	11.58	0	0	0.58	14.6	181
3 Cabo verd	0.498	1.888	0	0	0.31	87	123
4 Cote D'lv	20.32	30.91	35.56	64	5.87	47.3	171
5 The Gamb	1.849	0.9143	0	0	0.23	Not avail.	172
6 Ghana	25.9	47.93	97.48	0.083	10.91	60.5	138
7 Guinea	11.75	6.19	0	0.005	0.95	Not avail.	179
8 Guinea Bi	1.704	0.8587	0	0	0.06	10	177
9 Liberia	4.294	1.951	0	15	0.34	Not avail.	175
10 Mali	15.3	10.94	0	0	0.52	Not avail.	176
11 Niger	17.83	7.356	20	0	0.3	8.6	187
12 Nigeria	173.6	522.6	2,524.40	445	25.7	50.6	152
13 Senegal	14.13	15.15	0	25	2.8	42	163
14 Sierra leo	6.092	4.929	0.03	10	0.15	Not avail.	183
15 Togo	6.187	4.399	0	0	0.14	20	166
	326.704						

Sources : US Energy Information and Administration. ECOWAS, World Bank, United Nation Dev. Prog. IRENA-Inter Renewable Energy Agency . Human Dev Index (HDI)

4.1 ECOWAS ECONOMIC DEVELOPMENT OUTLOOK

UNDP in its review out of 187 countries classified 13 out of 15(except Ghana and Cape Verde-Medium Human development) countries as low human development, while United Nation in her classification stated that 11 countries are Least Developed Countries (except Cape Verde, Ghana and Nigeria). (See above table). This view was also supported by the and International Monetary Fund -IMF they classified the ECOWAS countries as low income group as well as emerging and developing economies. in his work stated that the region have 13 out of 15 countries which are Heavily Indebted Poor Countries (HIPC).

References

1. Africa Development Bank (2014) West Africa Monitor Quarterly Issue 3 July 2014
2. http://www.chevron.com/chevron/pressreleases/article/08161999_chevronnamedprojectmanagerforwestafricangaspipelineproject.news
3. http://www.ecowapp.org/?page_id=168