KATSINA STATE GOVERNMENT

PROJECT FACILITATION FUND GUIDELINES



Prepared by

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Acronyms / Abbreviations

CA	Contracting Authority
CDF	Capital Development Fund
CoF	Commissioner of Finance
DMD	Debt Management Department
DML	Debt Management Law
DFI	Development Finance Institutions
E&S	Environmental, Social and Governance
ECBA	Economic Cost Benefit Analysis
EHS	Environmental, Health and Safety
ESIA	Environment and Social Impact Assessment
FBC	Full Business Case
FCCL	Fiscal Commitments and Contingent Liabilities
FMM	Financial Management Manual
FRC	Fiscal Responsibility Commission
FRL	Fiscal Responsibility Law
GOM	Governance and Operational Manual
KIPA	Katsina Investment Promotion Agency
BPP	Katsina State Bureau for Public Procurement
KATIMP	Katsina State Infrastructure Master Plan
KTSG	Katsiina State Government
KPI	Key Performance Indicators
KTSMOF	Katsina State Ministry of Finance
MDB	Multilateral Development Banks
MoF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
MoF	Ministry of Finance
MoJ	Ministry of Justice
OAF	Officer Administering the Fund
OBC	Outline Business Case
P&BC	Planning and Budget Commission
PFF	Project Facilitation Fund
PFS	Pre-Feasibility Study
GOM	Governance and Operational Manual
PAM	PFF Audit Manual
PPA	Public Procurement Authority
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Public Private Partnership
PPP&PC	PPP & Privatization Committee
PPP Manual	Public Private Partnership Manual
TSA	Treasure Single Account
UKNAIF	United Kingdom Nigeria Infrastructure Advisory Facility
VfM	Value for Money
VGF	Viability Gap Funding

1. Introduction

1.1 Background

The public-private partnership (PPP) landscape in Katsina State is still at a nascent state with the recent formalization of critical PPP framework instruments such as the PPP Policy (2024) and the PPP Manual (2024). However, Katsina State Government's (KTSG's) strategy for PPPs as a central mechanism to achieve its investment targets are well articulated in the SDP 2022 – 2026 and Katsina State Infrastructure Master Plan (KTIMP).

A report on PPP Project Prioritization and Institutional Strengthening prepared in 2018 identified many projects with potential to be developed as PPPs. Based on a multi-criteria analysis, some of the identified projects were selected as priority projects with others projects identified as high priority. These projects are spread across key infrastructure sectors of Katsina State, including:

- Energy projects;
- Transport projects;
- Water projects; and
- Agriculture projects

While not all of the projects have progressed further, concept notes have been prepared for some projects, part of the funding came from the United Kingdom Nigeria Infrastructure Advisory Facility (UKNIAF). A pre-feasibility study (PFS) is also underway for another identified project for the Operations and Management of the 3 Grains Aggregation Centres.

Table 0-1 presents a snapshot of the current PPP project pipeline comprising four projects (including – two in agriculture / agro-processing sector, 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 1.2 billion.

Table 0-1: KTSG current PPP project pipeline

S.No.	Name of project	Sector	Name of Contracting Authority	Stage of Project	Estimated Capital Investment
1	Green Economic Export Processing Zone	Economic / Industrial	Katsina Investment Promotion Agency (KIPA)	Project preparation	NGN 50,000 million
2	Integrated Agricultural Development Project	Agriculture	Katsina State Ministry of Agriculture	Business Case/Feasibility	NGN 45,000 million
3	10 MW Solar Energy Project (Various Sites)	Energy	Katsina State Department for Energy	Contract Negotiation	NGN 7,500 million
4	Climate-Smart Agriculture (10,000 ha)	Agriculture	Katsina State Ministry of Agriculture	Feasibility Studies	NGN 5,000 million
5	5,000 Hectares Soya Bean Production Project	Agriculture	Katsina State Ministry of Agriculture	Contract Negotiation	NGN 10,000 million
6	Zobe Dam Phase 2 Water Distribution Project	Water & Sanitation	Katsina State Water Board	Signing	NGN 2,500 million

Source: Katsina Investment Promotion Agency – PPP Projects in Katsina (2023) KIPA

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 KIPA Board. This excludes projects such as lease contracts and/or Joint Ventures that may have been entered into by Contracting Authorities (CAs) prior to the promulgation of the current PPP framework, even though these may involve some form of private sector participation[1].

1.2 Purpose of PFF

The PPP project pipeline in the state of Katsina is at early stages of development. As illustrated in section 1.1 above, most projects are at concept or PFS stage. A significant proportion of the infrastructure requirements projected until 2050 of over USD 48 billion under the KTIMP are expected to be developed through private investment and PPPs. Therefore, there is a need to provide KTSG 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 Project Facilitation Fund (PFF or the Fund) with its multi-pronged approach will be instrumental for addressing these aspects.

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) in order 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.

[1] As per clarification received from KTSG on October 26, 2021

The ultimate objectives are to increase private investment in the Katsina infrastructure market across multiple sectors, and to sustain this participation over an extended period of time.

1.3 Components of the PFF Framework

The PFF framework comprises two main components:

1. ***PFF Guidelines:*** These guidelines establish the uses of the PFF, eligibility criteria for funding under PFF, application process, review of applications, prioritization criteria, funding of the PFF, structure and management of the PFF, performance management, and Environmental and Social (E&S) principles to be adopted.

2. ***PFF Governance and Operational Manual:*** The PFF Governance and Operational Manual (GOM) is intended to provide instructions on the administrative, credit, financial and accounting structures, rules of operations and governance procedures to be followed by the Katsina Investment Promotion Agency (KIPA), the Officer Administering the Fund (OAF) (refer section 1.12), and the PFF Secretariat (refer section 1.13), as well as CAs. The PFF GOM will be informed by the core governance structure as outlined in the PFF Guidelines and shall be in line with regulatory framework.

1.4 Purpose of this Document

This document provides Guidelines that will govern the administration and activities of the PFF. These Guidelines have been revised and updated based on feedback and inputs received from the Client and KTSG stakeholders.

2. PFF Guidelines

1.5 Overview

1.5.1 Purpose and Scope

The objective of the PFF Guidelines is, amongst other things, to establish the:

(i) Types of PFF support (support windows);

(ii) Project Prioritization criteria;

(iii) Application process depending upon the support windows under which applications are received by the PFF;

(iv) Funding process of the PFF;

(v) Institutional structure and management of the PFF;

(vi) Disbursement process;

(vii) Funding sources for the PFF;

(viii) Performance management and review; and

(ix) E&S principles to be adopted.

1.5.2 Applicable Legal and Regulatory Framework

There is an established legal and regulatory framework for the development and implementation of PPP projects in Katsina State. Table 0-1 lists the major legislative documents and their potential impact on the PFF.

Table 0-1: Applicable Legal and Regulatory Framework

Legislative Documents	Brief Description	Potential Impact on PFF
KTSG Public Procurement Act 2020 (as amended)	The Law governs the principles and process for public procurement of goods, works and services in Katsina. Katsina State Bureau for Public Procurement (BPP) was established as per this Law.	Funding for the PFF is expected to come from two main sources: KTSG budget, through the Treasure Single Account (TSA), and Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs). Funding from KTSG, being direct expenses, would impact PFF financial management as well as the government accounts. For funds sourced from MDBs/DFIs, their accounting treatment will depend on whether such contributions are loans or grants (and whether they need to be considered revenue for government accounting purposes).
KTSG Public Finances Management Law 2021 (as amended)	The TSA, into which all revenues and monies, grants and donations are paid, was established by this Law. The Commissioner of Finance (CoF) is entrusted with the responsibility of authorizing the use of funds, in	The Law stipulated the establishment of various public funds, the Capital Development Fund (CDF) being one of these. The objective of CDF is defined in the Law as financing the construction of capital projects necessary for the

Legislative Documents	Brief Description	Potential Impact on PFF
	compliance with all relevant regulations concerning public funds in Katsina. On the other hand, the Accountant General is responsible for the investment of public funds.	continued economic and social development of Katsina. KTSG contributions to the PFF are likely to include transfers from the CDF.
KIPA PPP Policy 2020	The Policy sets out the strategies and processes that KTSG will introduce to encourage new investment in Katsina's public infrastructure with the participation of the private sector. It presents the legal, institutional and regulatory framework for PPPs as well as implementation principles. The Policy was designed to provide guidance to CAs regarding the vision of KTSG in leveraging PPPs for infrastructure development and service delivery.	PFF, once established, will be a crucial part of the PPP framework set out in the Policy. It therefore will have to be in harmony with the existing framework and interact with the institutions that are part of the framework on a collaborative basis to achieve its objectives.
KIPA PPP Manual 2024	The PPP Manual sets out the institutional framework for PPPs in Katsina and prescribes the process for preparation, procurement and implementation of PPP projects.	The PFF Guidelines will have to be aligned with the PPP Manual, particularly with a view to design different windows of support and instruments for projects at different stages of the PPP project lifecycle, as described in the PPP Manual.
KIPA Law 2024 (as amended)	KIPA was established in 2017 as per this Law, with the primary objective of promoting investments by the private sector in Katsina through a wide variety of procurement methods, including PPPs. The Law requires KIPA to develop appropriate institutional and regulatory frameworks for encouraging private sector participation.	PFF will be managed by KIPA, though at an arm's-length basis, in accordance with its own Guidelines and PFF GOM. The beneficiaries of the support windows are envisaged to be the CAs of the PPP projects in the PPP projects pipeline approved by the KIPA board.
Debt Management Law 2015	The Law, which came into effect in 2015, culminated in the establishment of the Debt Management Department (DMD) within the Katsina State Ministry of Finance (KSMOF). The functions of the Department include maintaining databases of loans and loan guarantees; verifying and servicing both external and domestic debt guaranteed or directly taken by KTSG; being the point of contact for international financial institutions and donor agencies.	DMD is an entity with which the PFF will interact with on matters concerning the proposed FCCL support window.

1.5.3 Institutional Framework

The Guidelines will be in harmony with the relevant legal and regulatory framework. The PFF Secretariat shall also interact and collaborate with the institutions that are part of the existing framework. Table 0-2 lists the current institutions which may interact with PFF.

Table 0-2: Institutions which may interact with PFF

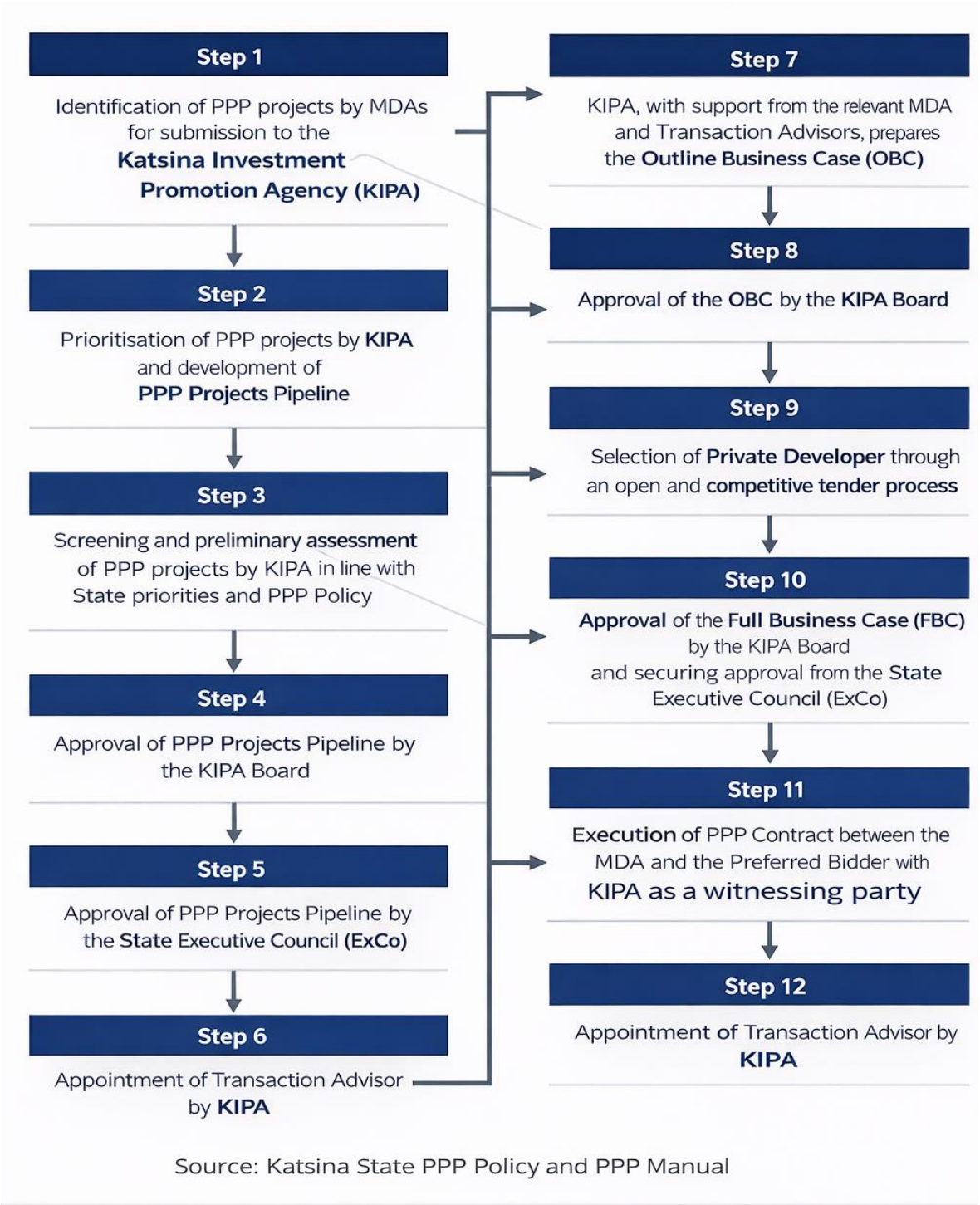
Institution	Interaction with PFF
KIPA	KIPA is the principal institution for facilitating private sector-led investments in Katsina. PPP projects developed and vetted by KIPA will benefit from the PFF support windows. It is envisaged that the PFF secretariat will be housed within KIPA and the personnel will be secondments from KIPA. The KIPA Board will be directly supervising the operations and activities of PFF.
MOF – DMD	A major source of funding for PFF is expected to be the Katsina State budget which comes under the authority of MOF. And DMD, within MOF, is responsible for managing both the state debts and the contingent liabilities concerning PPP projects.
Fiscal Responsibility Commission	The Fiscal Responsibility Commission (FRC) was created in 2016 under the Katsina State Fiscal Responsibility Law (FRL) to provide for prudent public financial management and discipline to ensure a long-term macroeconomic stability in Katsina State. In the context of the PPP environment, the main role of FRC is to provide fiduciary assurance of public money. The FRL defines the procedure for the preparation and approval of the Medium-Term Expenditure Framework (MTEF) for Katsina State, a framework that outlines the expenditure plan for the State government over three financial years. The financing under PFF will need to be captured appropriately as part of the MTEF and reported by the respective CAs, KIPA and PFF.
Planning and Budget Commission	The Planning & Budget Commission (P&BC) is responsible for the promotion and co-ordination of domestic and international donor support to Katsina. Since funding from MDBs/DFIs will be the other primary source of funding of the PFF, PBC will have an important role to play in the financial sustainability of PFF.
CAs	CAs are responsible for the identification of PPP projects, development of the Outline Business Case (OBC), and the implementation of projects. CAs will be amongst the main beneficiaries of PFF support programs, particularly the one for project preparation costs.
Ministry of Justice	Katsina State Ministry of Justice (MOJ) is responsible for the approval of all PPP contracts and shall perform this task as an integral member of the KIPA Board and through their representatives who shall provide legal support to KIPA and BPP during the PPP procurement phase. In this role, MOJ could be expected to play an advisory role in the agreements to which PFF will be a party.
Public Procurement Authority	BPP's responsibilities include, among others, formulating policies and laying standards for public procurement of goods, works and services in Katsina State. The procurement for consultants and advisors for the preparation and implementation of PPP projects fall within the purview of BPP. Therefore, the administration of PFF will have to comply with the BPP guidelines in these areas.

1.6 PFF Windows of Support

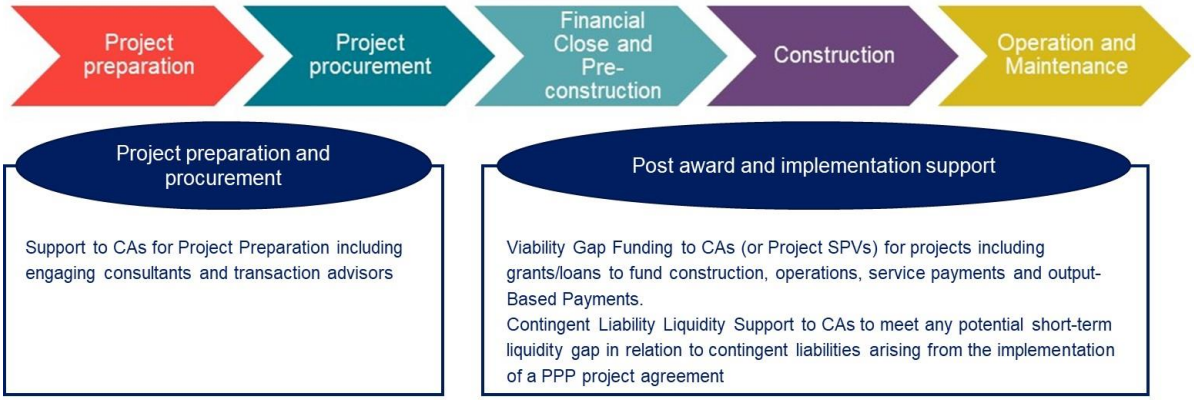
1.6.1 Project lifecycle and windows of support

To address the gaps identified in Section 1.2, the PFF will be available to provide financial support to PPP projects across the project lifecycle as envisaged in the PPP Manual (refer Figure 0-1), and projects which are eligible and developed under the PPP framework as prescribed under the PPP Manual and PPP Policy.

Figure 0-1: PPP Project Planning and Budgeting, Procurement and Approval Process Cycle

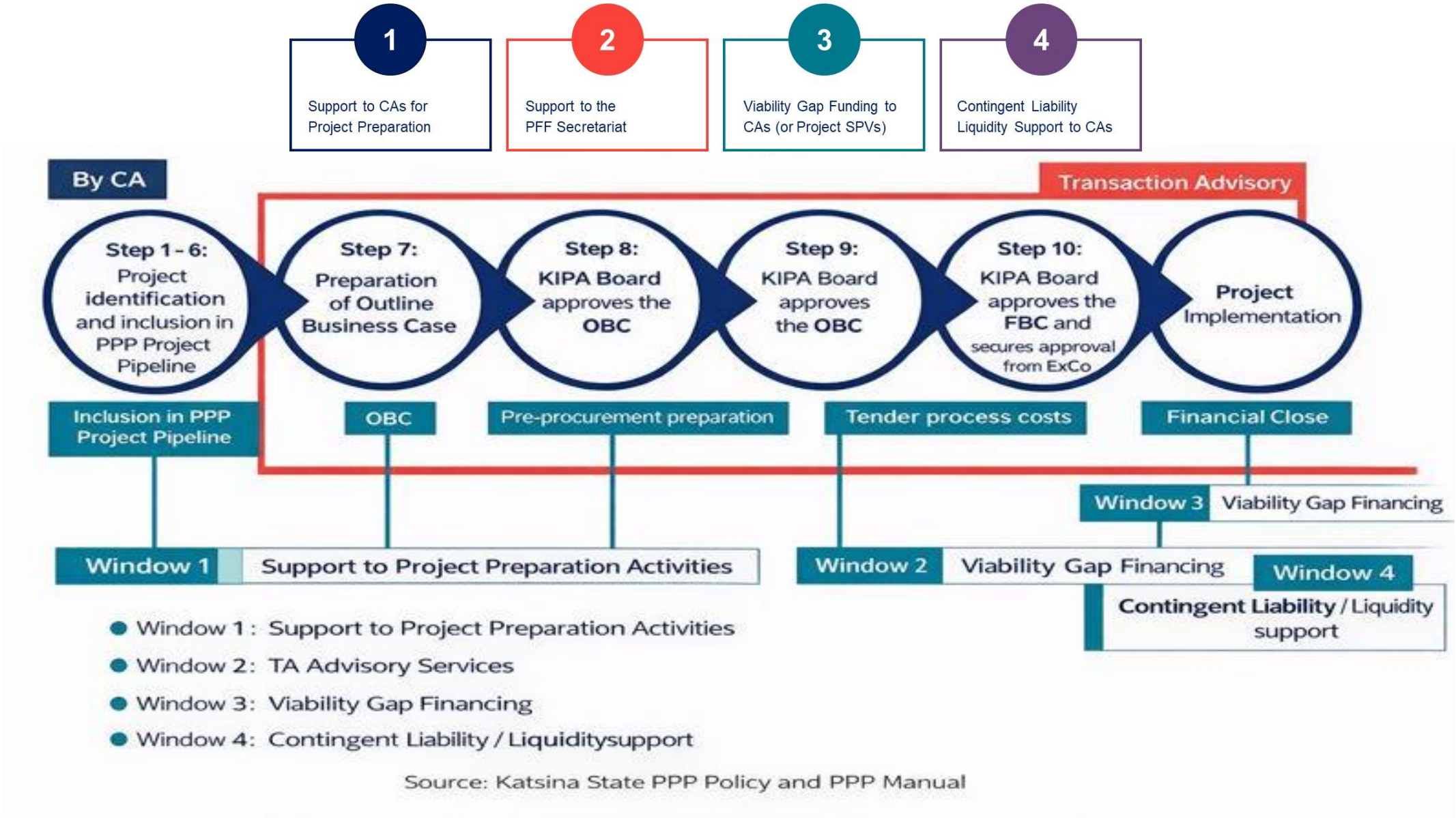


Source: Katsina State PPP Policy and PPP Manual


Project preparation
Project procurement
Financial Close and Pre-construction
Construction
Operation and Maintenance
Project preparation and procurement
Support to CAs for Project Preparation including engaging consultants and transaction advisors
Post award and implementation support
Viability Gap Funding to CAs (or Project SPVs) for projects including grants/loans to fund construction, operations, service payments and output-Based Payments.
Contingent Liability Liquidity Support to CAs to meet any potential short-term liquidity gap in relation to contingent liabilities arising from the implementation of a PPP project agreement

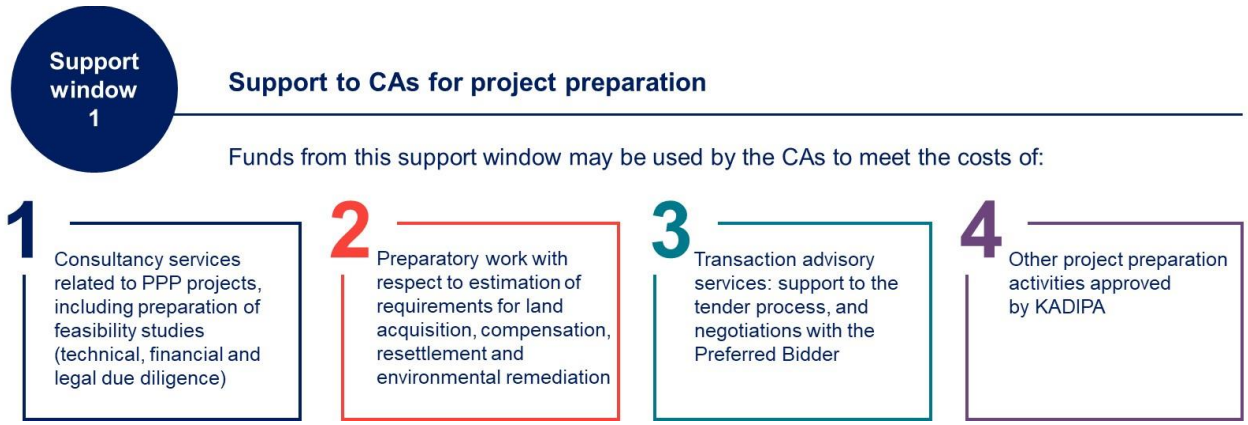
There will be four windows of support, under which funds will be channeled for supporting different aspects of the PPP project life cycle. Refer Figure 0-2.

Figure 0-2: PFF Support Windows



Source: Katsina State PPP Policy and PPP Manual

1.6.2 Window 1: Support to CAs for Project Preparation

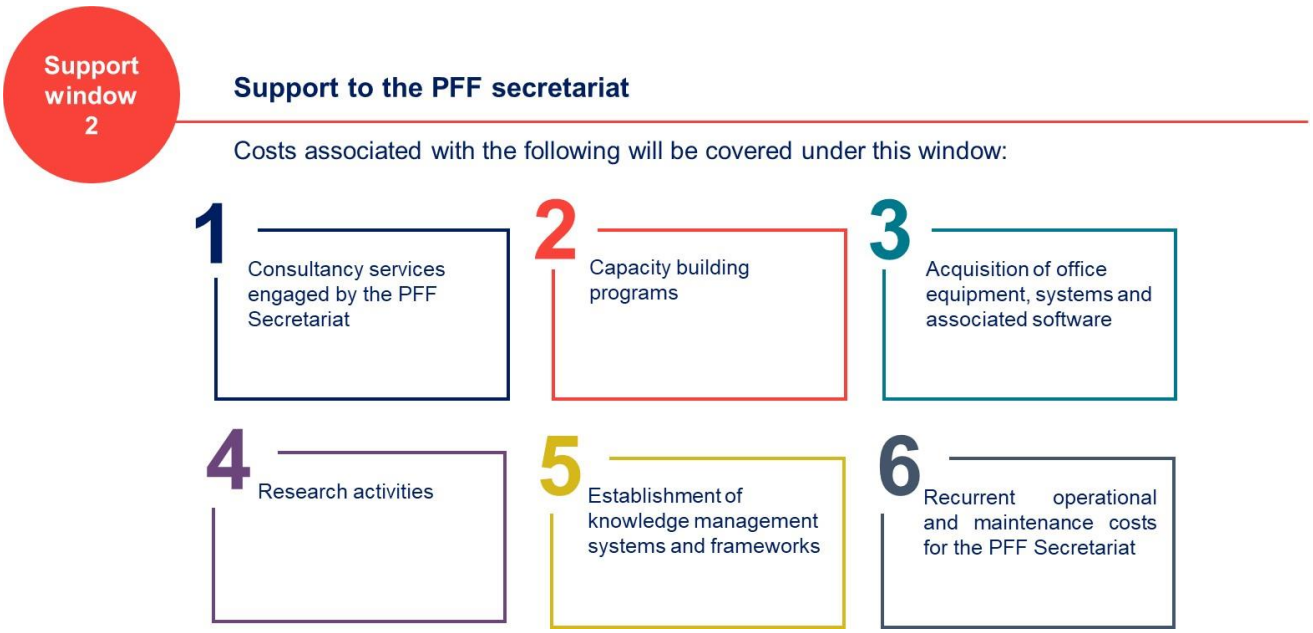


Funds from this support window may be used by the CAs to meet the cost of:

- Consultancy services related to PPP projects, including preparation of feasibility studies (technical, financial and legal due diligence); OBCs, etc.;
- Preparatory work with respect to estimation of requirements for land acquisition, compensation, resettlement and environmental remediation;
- Transaction advisory services: support to the tender process, including marketing, bid document preparation, proposal evaluation, and negotiations with the Preferred Bidder; and
- Other project preparation activities approved by KIPA.

Any support provided to a CA under this window may be recoverable based on the terms and conditions set out in the Funding Agreement that is entered into between the CA and the Fund.

1.6.3 Window 2: Support to the PFF Secretariat



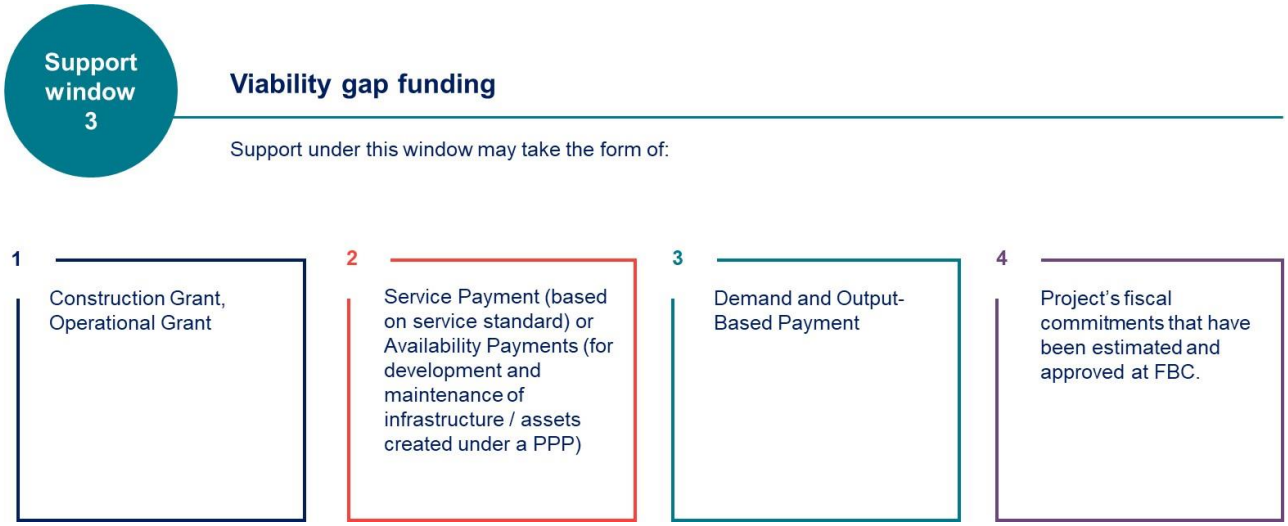
Funds from this window will be dedicated towards supporting the activities of the PFF Secretariat (refer 1.13). Costs covered under this window include the following:

- Consultancy services engaged by the PFF Secretariat;
- Capacity building programs;

- Acquisition of office equipment, systems and associated software;
- Research activities;
- Establishment of knowledge management systems and frameworks; and
- Recurrent operational and maintenance costs for the PFF Secretariat that is responsible for assisting the OAF manage the day-to-day operations of the Fund. Refer to section 0 on institutional structure of the PFF.

Note: The PFF will not be used to cover staff cost or other internal expenses of CAs or the KIPA PPP Unit.

1.6.4 Window 3: Viability Gap Funding



VGF refers to financial assistance provided to infrastructure projects that are economically viable but fall short of being financially viable. The VGF provides government support to eligible, socio-economically beneficial, but commercially unviable PPP projects. Support under this window may be made by way of loans, grants, equity, or any other financial instrument required to improve the financial viability of a project. It may take the form of:

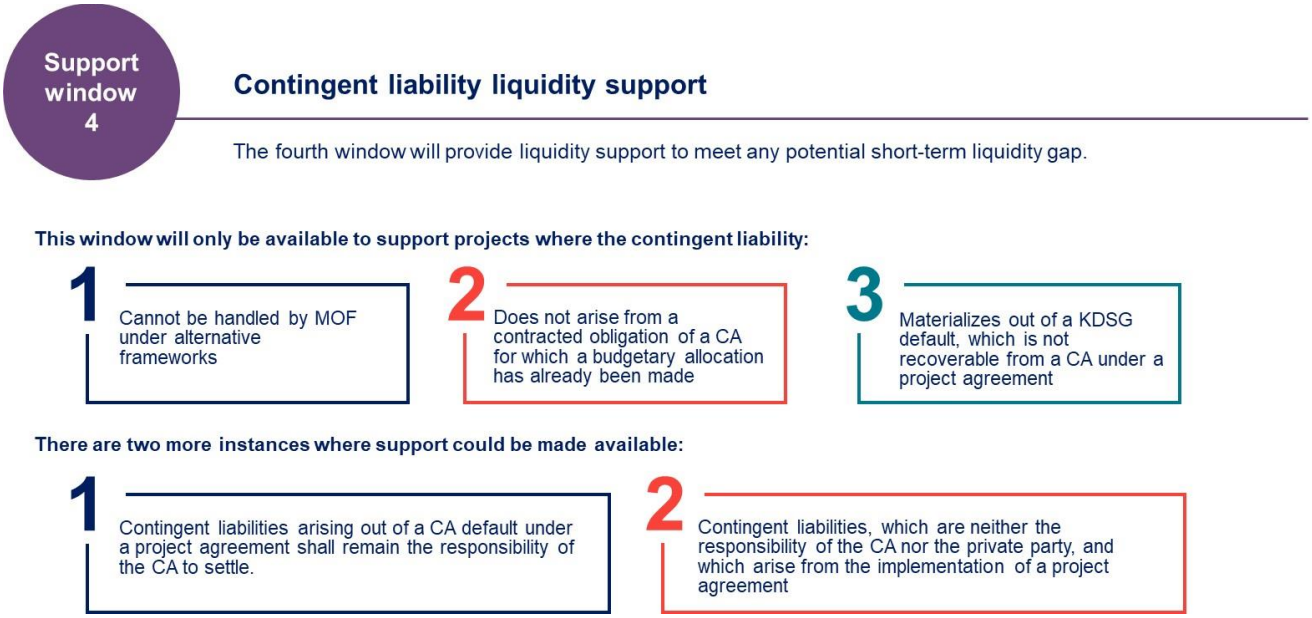
- Construction Grant, including but not limited to construction expenditure, cost of land acquisition, compensation for resettlement and environmental remediation measures to be undertaken after signing of a project agreement; Operational Grant, to meet the shortfall between project revenues and the 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; and
- Project's fiscal commitments that have been estimated and approved at FBC.

The VGF shall not exceed **[.]**[2] of the project's estimated capital cost. Support under this window will be contingent to there being a signed project agreement between a CA and private partner for delivering the project; and the private partner having been procured through a public procurement process in accordance with the provisions of the PPP Manual.

Note: FCCL arising from existing/operational projects that pre-date the PFF would not be eligible for funding under PFF.

[2] This range varies between 30% to 50% of the estimated capital cost of a project. This cap is to be determined based on consultation with KTSG.

1.6.5 Window 4: Contingent Liability Liquidity Support



The fourth window will provide liquidity support to meet any potential short-term liquidity gap for contingent liabilities arising from the implementation of a PPP project agreement. The OAF shall open a dedicated sub-account within the Fund, known as the Contingent Liability Reserve Account, whose sole purpose will be to ensure/provide ready liquidity to meet contingent liability disbursement requirements of the Fund.

This window will only be available to support projects where the contingent liability:

- Cannot be handled by KSMOF under alternative frameworks;
- Does not arise from a contracted obligation of a CA under a project agreement for which a budgetary allocation has already been made; and
- Materializes out of a KTSG default, which is not recoverable from a CA under a project agreement.

There are two more instances where support could be made available:

- Contingent liabilities arising out of a CA default under a project agreement shall remain the responsibility of the CA to settle. As a last resort however, the CA, may apply to the Fund for a recoverable advance in settling such liabilities.
- Contingent liabilities, which are neither the responsibility of the CA nor the private party, and which arise from the implementation of a project agreement, shall be eligible for settlement under the Fund, subject to any guidelines issued.

Payments made to meet materialized contingent liabilities under a project agreement upon the request of a CA shall be refunded by the CA in its immediately subsequent budget cycle.

1.6.6 Beneficiaries of the Support Windows

Table 0-3 below summarizes the beneficiary of each proposed support window under the Fund.

Table 0-3: Beneficiaries of Support Windows

Support window	Beneficiary
1 – Support to CAs for project preparation	CAs
2 – Support to PFF secretariat	PFF Secretariat
3 – VGF	CAs and Project Companies
4 – Contingent liability liquidity support	CAs

1.7 Project Prioritization Criteria

Given Katsina state's extensive infrastructure investment requirements, and the importance attributed by KTSG to ensuring the participation of the private sector in its ambitious plans in this respect, the PPP project pipeline is expected to expand.

Therefore, the Fund may need to evaluate the Applications received and prioritize PPP projects to ensure that funds are available to support projects which are viable and will have greater impact socio-economic impact. Furthermore, applications that might put a strain on the resources of the PFF Secretariat (in terms of time and cost) to assess and/or require large amounts of funds that will seriously deplete the funds allocated to a specific support window will need to be treated cautiously.

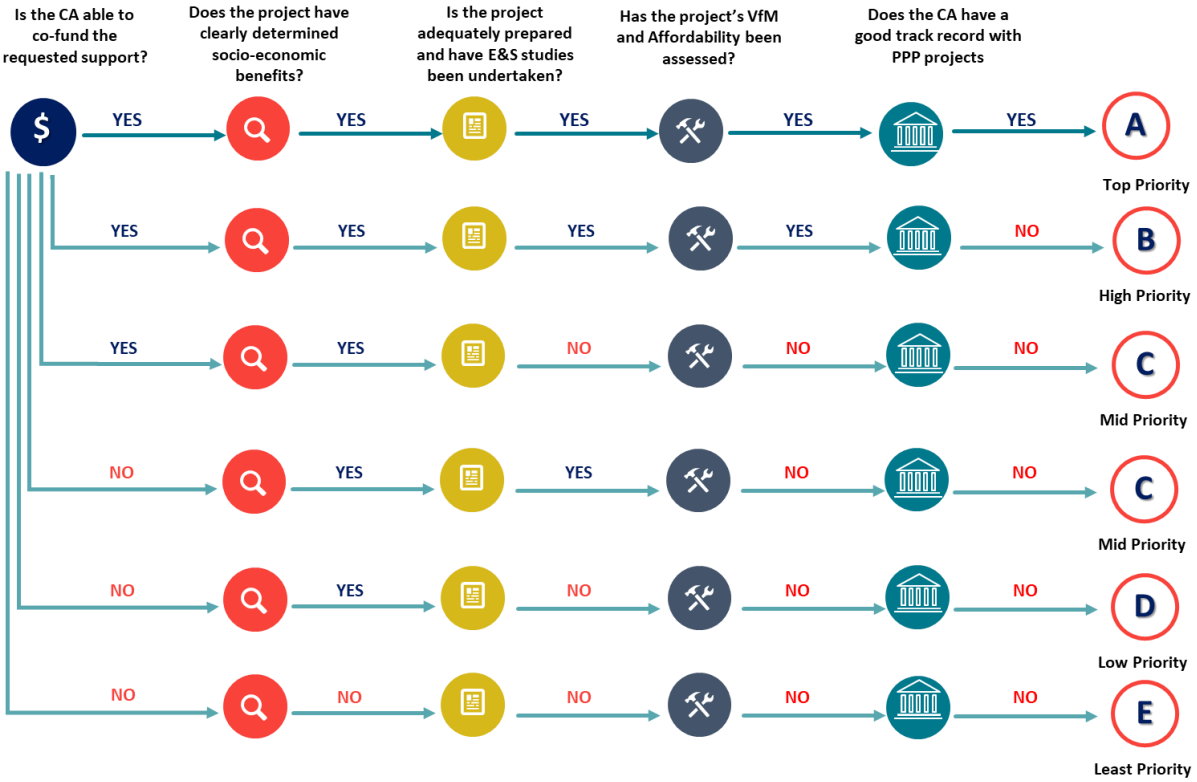
The PFF is expected to apply the **first-come, first-served principle** in reviewing all eligible funding applications. It will apply the criteria presented in Table 0-4 when prioritizing the Applications received.

Table 0-4: Project Prioritization Criteria

Criteria	Explanation
Extent to which a CA is able to co-fund the requested support.	If a CA making an Application under support windows 1, 2 or 4 is also willing to participate in funding a matching portion of the support required, its application shall have priority.
Potential economic impact of the project.	Applications where the underlying projects/activities have a more significant economic impact (economic growth, employment opportunities, industrialization) will be given priority. A comparison of the Economic Cost Benefit Analysis ("ECBA") conducted as per the Katsina State PPP Manual amongst the projects for which applications have been received.
Environmental and Social ("E&S") benefits of the project.	Applications where the underlying projects/activities have E&S benefits will be given priority. Katsina State PPP Manual requires all PPP projects complete relevant studies and adequately address all E&S issues.
Potential Value for Money (VfM) and affordability of the project.	Applications where the required support is expected to provide better VfM in comparison to others shall have priority.
CA's track record of PPs	Applications of CAs with good track records of effective use of funds and compliance will be given priority.

Figure 0-3 visually presents how these criteria will be used to prioritize applications received into various categories. (A – Top Priority, B – High Priority, C - Mid Priority, D – Low Priority and E – Least Priority).

Figure 0-3: Project Prioritization Criteria



1.8 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 KIPA.

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

Table 0-5 lists the supporting documents needed for applications under the support windows.

Table 0-5: Supporting Document Requirements

Support Window	Uses	Supporting Documentation
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,	▪ The names and contact details of the team in charge of the project in

Support Window	Uses	Supporting Documentation
	marketing and communications, tender documentation and due diligence;	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 KIPA.	▪ 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; 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 OBC and FBC; ▪ 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 MOF under alternative frameworks; ▪ Does not arise from a contracted obligation of a CA under a project agreement for which a budgetary allocation has already been made; and ▪ Materializes out of a federal government default, which is not recoverable from a CA under a project agreement.	▪ Copy of the signed project agreement; ▪ Copy of the approved OBC and FBC; ▪ Copy of the Financial Risk Assessment Report; and ▪ Copy of the approved project financial model.

1.9 Funding Process

PFF Secretariat will follow a systematic, disciplined approach to manage the whole funding process, from the receipt of applications to the monitoring of the funds disbursed.

1.9.1 Support Windows 1, 3 and 4

The funding process under support windows 1, 3 and 4 will follow the seven steps outlined in Figure 0-4.

Figure 0-4: Funding Process for Support Windows 1, 3 and 4



The PFF Secretariat will receive the 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 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, if and when required. Applications that have been found to merit support will then be submitted for the approval of KIPA.

Following KIPA'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.

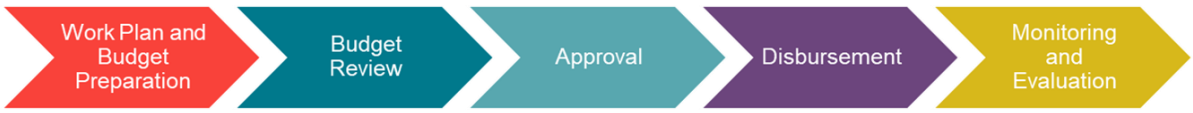
Each disbursement will be monitored and evaluated to ensure the funds are deployed as stated in the application and, depending on the type of support, paid back to the Fund in full and on time. This stage will involve regular reporting requirements both for the Fund and the CA/project company that executed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

1.9.2 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 in effect at KIPA.

The funding process under support window 2 is expected to follow the steps presented in Figure 0-5.

Figure 0-5: Support Window 2 Funding Process



PFF Secretariat will prepare a work plan and budget for each fiscal year to be reviewed by the OAF and submitted for KIPA's approval. It will be possible to make disbursements from the support window 2 for eligible expenses only upon KIPA's approval. Regular reporting (i.e. quarterly or semi-annually) 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.

1.10 Intra-Fund Allocation

As defined in section 1.6.1, 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 taken into account 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 KTSG and MDBs/DFIs. Table 0-6**Error! Reference source not found.** shows the proportion of the allocation of funds amongst the four support windows throughout the proposed life of the Fund[3].

Table 0-6: Allocation of Funds

	Development		*Construction*		*Operation*					
Years	1	2	3	4	5	6	7	8	9	10
Project Preparation Costs	90%	90%	15%	15%						
Viability Gap Funding			75%	75%	80%	80%	80%	80%	80%	80%
Debt			20%	20%						
Equity			20%	20%						
Grant			35%	35%	80%	80%	80%	80%	80%	80%
Support for PPP Unit	10%	10%	10%	10%	5%	6%	6%	7%	8%	7%
Contingent Liability Support			0%	0%	15%	14%	14%	13%	12%	13%
	100%	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***

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 21 mn 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 KTSG 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

[3] To be discussed and updated after consultations with KTSG.

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 set-up the Fund up, as also for consultancy services (refer section **Error! Reference source not found.**). 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.

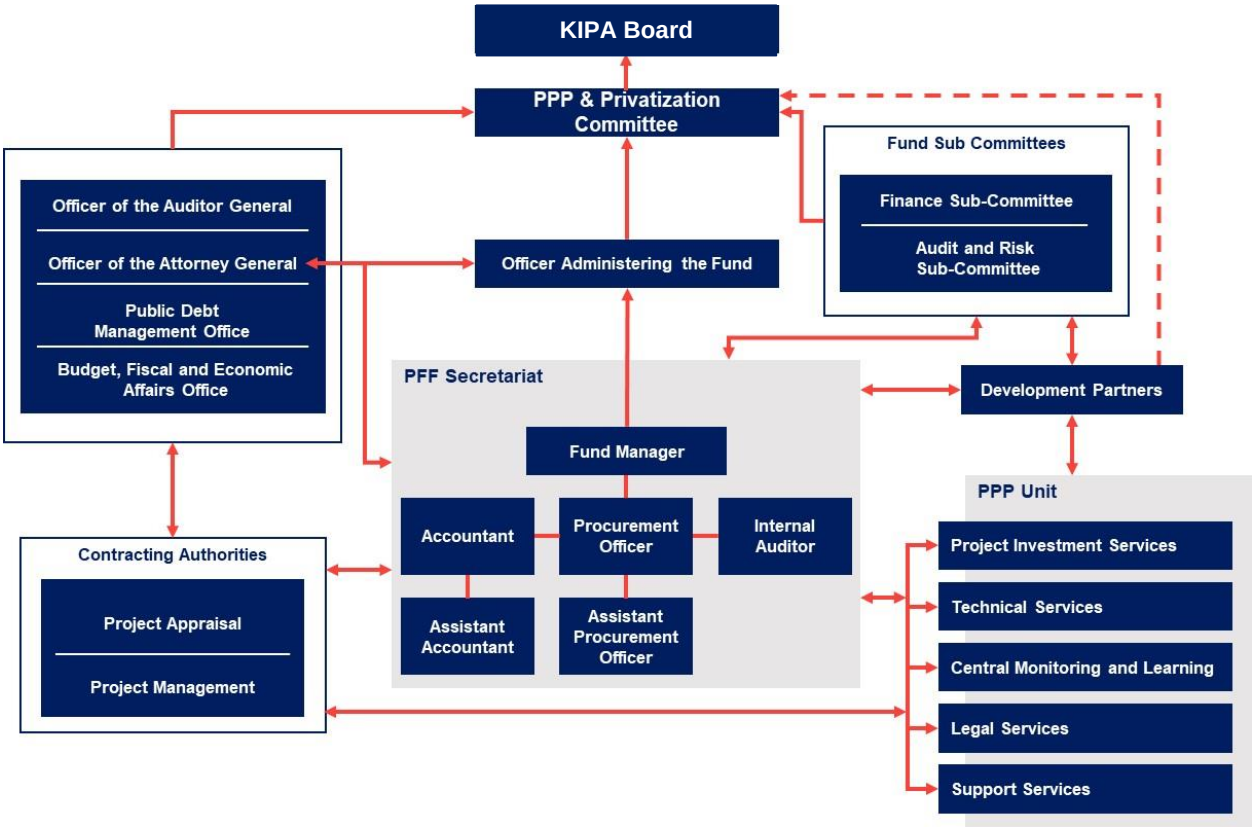
Finally, contingent liability liquidity support will very likely be most needed once several projects in the PPP pipeline become operational. The support for this ranges from 13% - 15%.

3. Institutional Structure

1.11 KIPA Board through the PPP & Privatization Committee

The KIPA Board through the PPP & Privatization Committee (PPP&PC) shall provide oversight of the PFF (refer Figure 0-1). PPP&PC may delegate its functions to respective sub-committees established by the PPP&PC.

Figure 0-1: PFF Institutional Structure



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 KTSG 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 KIPA, among relevant stakeholders. Its members are expected to be drawn from various KTSG institutions and MDAs, which enable the PPP&PC to leverage wide ranging experience and expertise within KTSG.

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.

1.12 Officer Administering the Fund

OAF will be the Director, PPP and Privatization, KIPA, and be responsible for the supervision and control of the PFF.

1.13 PFF Secretariat

OAF will be supported by the PFF Secretariat. The Secretariat will consist of staff from KIPA 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 staff to successfully perform their duties, build capacity and streamline operations of the Fund. Provided disbursements under this window do not exceed [15%] of the Fund in any given year.

Some of the staff for the Secretariat may be drawn from other relevant MDAs with requisite experience eg. KSMOF, Planning & Budget Commission (P&BC), Katsina State Bureau for Public Procurement (BPP), to enable capacity development and transfer of knowledge to KTSG stakeholders and also reduce the over reliance on external vendors. This would also leverage the extensive experience of such staff 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).

4. Disbursements

1.14 Funding Agreement

Each approved disbursement from support windows 1, 3 and 4 shall require the execution of a Funding Agreement which will be a tripartite instrument between the PFF, the CA and the project company (if applicable) where such agreement relates to a VGF support request.

1.14.1 Preparation of Funding Agreement

The PFF Secretariat will draft the Funding Agreement, working closely with the Legal Counsel of KIPA. If required, legal advice from external experts may be solicited. The Agreement will need to be consistent with the type of support required in the application and also consider the requirements of the MDBs and DFIs supporting the project. The Agreement will be released to the CA or the project company after OAF's review and approval. The signatory on the Agreement will be OAF, representing the PFF.

1.14.2 Structure of Funding Agreement

The Agreement will comprise the following main components:

- Parties to the Agreement
- Rights and obligations of each party under the Agreement
- Purpose for which the funds will be used
- Amount and duration of funding
- Type of funding (grant, recoverable advance, loan, equity)
- Disbursement schedule and requirements
- Expected completion timeline of the task/investment being funded
- Reporting and documentation requirements
- Repayment terms and conditions for recoverable advances, loans and equity investments

5. Funding

1.15 Funding Sources

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.

1.15.1 Katsina State Budget

It has been indicated that KTSG contributions would be in the form of annual injections of NGN 50 million or USD 150,000 for the first 4 years and USD 300,000 in years 5 to 10. Given the overall outlay anticipated for the PFF, this constitutes less than 1.5% of total funds. Therefore, the extent to which funds can be mobilized from MDBs and DFIs would be critical.

1.15.2 MDBs and DFIs

It is assumed that KTSG will be able to obtain grants from MDBs such as the World Bank Group (Public Private Infrastructure Advisory Facility, 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[4]. 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 be ensured that donor contributions are untied and in sync with the priorities of KTSG. Potential conflicts of interest would be assessed at the time or resource mobilization and deployment.

1.15.3 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 the 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 KTSG.

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.

KIPA will be responsible for fundraising and managing the relationships with KTSG and donors.

1.16 Application of PFF funds

The Fund, if it reaches a certain size and secures funding from donors on a recurrent basis, 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

[4] This is not an exhaustive list.

of the equity stakes in the project companies at the end of the proposed life of the Fund will be retained within the Fund.

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 KTSG internally generated funds; 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. Data provided by KTSG 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.

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 172.22 million (including repayment of loans and sale of equity) and its operational life will be ten years

For more details, please refer to Section 3 of PFF Business Plan.

6. Performance Management and Review

1.17 Introduction

Performance management and review is pivotal to the achievement of the Fund's objectives.

The main objective of the Fund is to provide financial support for the implementation of qualified projects in the KIPA PPP project pipeline. Such financial support might take the form of grants, advances, loans, equity and other financial instruments.

Achieving this main objective will require:

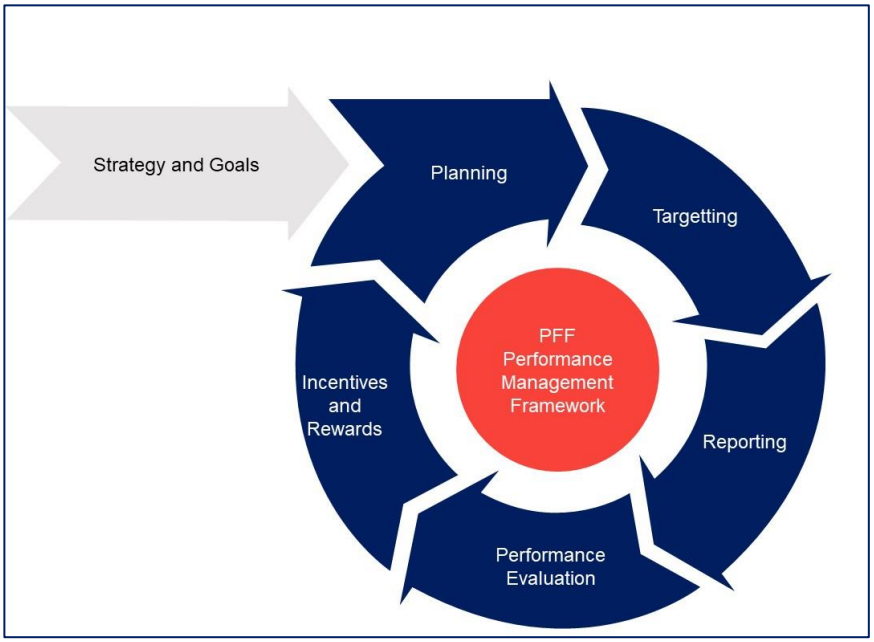
- Increasing the resources available to the Fund and ensuring their sustainability; and
- Strengthening the capacity of the Fund to better meet stakeholder needs.

1.18 Performance Management Framework

Fund's performance management framework will comprise five key aspects (Figure 0-1):

1. **Planning** – Alignment of actions at individual, functional and departmental levels towards a common goal to ensure superior performance.
2. **Targeting** – Setting goals and determining the Key Performance Indicators ("KPIs") for the achievement of those goals.
3. **Reporting** – Collecting data to measure/calculate the KPIs for each goal.
4. **Performance Evaluation** – Undertaking objective, regular performance reviews to ensure proper actions have been taken toward achievement of the goals.
5. **Incentives and Rewards** – Rewarding good performance and sanctioning bad performance in line with relevant KIPA and or KTSG human resources policies.

Figure 0-1: PFF Performance Management Framework



1.19 Basis for performance evaluation



The KIPA Board (or an agency appointed by the KIPA Board) will review the performance of the PFF in the following four broad areas or KPIs once every two years:

A. Internal Perspective – *Efficiency and effectiveness of the Fund's operations.*

- Quality of services
- Development of an efficient and effective operating environment
- Regulatory compliance
- Capacity to deliver results

B. Financial Perspective – *Sufficiency and sustainability of the funds at the disposal of the Fund.*

- Fund's attractiveness to CAs/project companies and donors
- Level of support provided to CAs/project companies
- Fund's viability

C. External perspective – *Stakeholders' satisfaction with the Fund.*

- Achievement of objectives in line with stakeholder expectations
- Effective support, capacity building, knowledge dissemination and engagement with stakeholders
- Overall impact of the Fund on the PPP landscape in Katsina

D. Innovation & Growth – *Fund's capacity to improve / renew itself and stay relevant.*

- Adaptation to changes in the operational environment and risk management
- Innovation and creation of solutions for various challenges
- Drawing lessons and applying the lessons learned to improve operational efficiency and effectiveness
- Growth of the PFF in terms of size as well as the number of projects supported

1.20 Monitoring and Evaluation

The Fund will undertake a bi-annual review of its work plan. This will be led by the OAF. The findings will be reported to the KIPA board.

This review will include:

- Assessment of the status of the Fund's goals and KPIs to determine whether they are being delivered/implemented on schedule (as defined in the annual work plan);

- Identification and analysis the impediments, risks and constraints (internal and external) related to the Fund's key activities and focus on areas where progress is deemed less than optimal;
- Comparison of actual expenditures against budget and analysis of discrepancies;
- Identification of necessary revisions in the action plans and goals; reschedule or revise activities and/or KPIs.

The review will then be submitted to KIPA Board for approval of any proposed corrective actions/ interventions.

1.21 Financial Management and Audit

The PFF will operate under defined financial management and audit framework consistent with the existing KTSG regulatory framework and international best practices. The financial management and monitoring are detailed in the PFF Financial Management Manual (FMM). The PFF Secretariat and the financing provided to projects under the PFF will be subject to defined audit mechanisms – external and internal audit. These are detailed in the PFF Audit Manual (PAM).

7. Environmental and Social Principles

1.22 Applicable E&S Principles

The PPP Manual prescribes a screening process for environment and social risks to be completed as part of the OBC and where relevant for a detailed ESIA to be conducted.

E&S principles shall be firmly integrated into the Fund's operations. The Fund shall ensure that all its funding operations are reviewed, evaluated and monitored against the following E&S requirements[5]:

- All relevant Nigerian federal as well as Katsina State laws and regulations;
- The World Bank Performance Standards for private sector activities; and
- Relevant World Bank Group Environmental, Health and Safety ("EHS") Guidelines.

The Fund further commits to:

- Integrating E&S risks into its application assessment process;
- Supporting projects to be designed, built, operated and maintained in a manner consistent with the E&S requirements;
- Ensuring that all PFF Secretariat staff are trained in, and are aware of their roles and responsibilities with respect to E&S principles and E&S policy commitments;
- Promoting projects with E&S benefits;
- Promoting projects that avoid or minimize land acquisition and resettlement through selection of appropriate locations and/or design. Where land acquisition and resettlement are unavoidable, then compensation shall be provided as per the E&S requirements and livelihoods of all affected individuals/communities restored.

1.23 Impact on Applications to PFF

The Fund will require CAs and project companies to comply with E&S requirements in the development, construction and operation their projects. E&S aspects of projects shall also be sufficiently covered in the supporting documentation that will accompany application forms to be submitted to the Fund.

[5] To be discussed with KTSG stakeholders. The OAF could be empowered to provide an exemption to projects which are smaller in size.

Appendix A PFF Application Form

Name of Contracting Authority / Project Company:	
Details of the Contact Person:	
Amount of Support Requested:	Applicants will express the amount of support requested in either NGN or USD, as appropriate
Support Window and Purpose of Support Requested:	Applicants will state which of the four support windows under the Fund they would like to benefit from and how the funds requested will be used. It is essential that the funds be used only for the eligible uses under each support window specified in Section 2.2.
Timing of Disbursement:	Applicants will state and justify (describing any underlying contractual obligations, if applicable) when the amount of support requested needs to be disbursed by the Fund.
Repayment Plan:	If the amount of support is repayable (i.e. recoverable advances, loans, equity investments), then the Applicants will need to provide a credible repayment plan.
Co-funding by Contracting Authority / Project Company:	Co-funding is one of the prioritization criteria mentioned in Section 2.3. Applicants shall therefore state if they are contributing funds from their own resources towards the same purpose for which support is requested.
Project Name:	
Description of the Project:	
Project Rationale:	
Proposed PPP Modality:	
Estimated Project Costs:	
Tentative Financing Plan:	
Estimated Project Development Expenses:	
Economic and Social Benefits of the Project:	
Expected Returns of the Project:	Depending on the detail level of any financial analysis undertaken, Applicants shall present: - Economic Internal Rate of Return or ECBA - Project Internal Rate of Return - Equity Internal Rate of Return
Attachments:	Attachments shall include the supporting documentation specified in Section 2.4 for the support requested.