

Boosting Power in Nigeria

In June 16th, 2009, the Board approved the Nigeria Electricity and Gas Improvement Project consisting of a **\$400 million Partial Risk Guarantee (PRG), the largest-ever IDA guarantee operation together with a \$200 million IDA credit to Nigeria.**

Prasad Tallapragada, the Task Team Leader, said that this innovative use of guarantees along with credit aims to strengthen the value chain for power generation by ending the bottlenecks in the supply chain for power generation—previously a fundamental constraint to economic growth in the country.



Nigerians currently face electricity shortages, and illegal connections are rampant

The project takes a two-pronged approach. The PRG will support the Power Holding Company of Nigeria's gas supply payment obligations to international and domestic oil companies (Shell, Chevron, Exxon-Mobil, Total, Addax, Agip, and Pan-Ocean), which will help mobilize gas supplies for power generation. This is the first time that PRGs have been deployed to underpin a government's gas sector policy and reform program and to develop a gas market within a country. The PRGs are expected to boost domestic gas supply for power generation helping to create an enabling environment for private investment in the power, gas and industrial sectors; this will also provide opportunities for IFC and MIGA support.

The IDA credit will fund investments in transmission and distribution which will help in the distribution of increased power generated as a result of enhanced gas supplies bringing more power to more people.

Project preparation has included extensive multi-stakeholder consultations and communication activities, with some of the first consultations were held in the Niger Delta. The Nigerian government will also regularly convene a stakeholder forum for consultation on all aspects of project implementation and related sector issues.



Overview of the Egbin Thermal Station as Seen from the Lagos Lagoon

The current level of power generation is often constrained by inadequate gas supplies to power plants. So far, the low gas price has inhibited domestic and international oil companies to invest in gas gathering and processing equipment to supply the domestic market. Nigeria has announced a phased price increase to domestic gas suppliers, and at the same time it has introduced a Domestic Supply Obligation and bilateral contracting between gas suppliers and consumers. These steps are expected to bring commercial discipline in the gas sector. The PRG will then support the private sector led development of the gas sector.

The direct IDA investments will rehabilitate existing transmission and distribution infrastructure so that the increased power generated from the increased supply of can reach people. Poor infrastructure in the power sector is a key constraint to growth in Nigeria. Shortfalls in the availability of power have meant that around 60 million people continue to live in the dark and average annual per capita power consumption is among the lowest in the world. Poor access to power has forced companies to invest in self-generation, diverting substantial resources away from other more productive uses. By some estimates, self-generated power now substantially exceeds public sector-delivered power forcing about 90 percent of the population and almost all private enterprises to provide self generation.

If successful, these interventions will help to improve the availability and reliability of gas supply to increase power generation in existing public sector power plants; and improve the power network's capacity and efficiency to transmit and distribute electricity to the consumers.

Farida Mazhar, Lead Finance Officer, FEU, said that the Project provides a mechanism for convening greater confidence among the government, international and domestic oil companies to establish commercially enforceable contracts to develop domestic energy market and scale up private sector participation.

The project, if successful, will have a major long-term impact on the country's growth. "In this context, we see the project as representing the Bank's strengths—knowledge, risk-taking ability, and convening power," said Sector Manager S. Vijay Iyer, as this is a "transformative intervention."

"We are especially excited about the prospect that this project might help solve the perennial problem of generation capacity lying idle whilst Nigerians stay without light in a country with such abundant energy resources," said Onno Ruhl, Country Director for Nigeria.