

ICRC's PPP Financial Model Guide: Pioneering Transparency In Nigeria's Infrastructure

OALP Infrastructure Newsletter

INTRODUCTION

Given persistent budgetary constraints and Nigeria's growing infrastructure needs, Public-Private Partnerships (PPPs) have become an essential tool for delivering critical projects across the country. Recognizing this, the Infrastructure Concession Regulatory Commission (ICRC)¹ has played a central role in shaping the policy and regulatory landscape for PPPs, beginning with the issuance of the PPP Manual in 2018 to guide project identification, business case preparation, procurement, and contract management.

While the 2018 Manual² acknowledged the importance of financial models in demonstrating project viability and bankability, it fell short of prescribing detailed methodologies or standards, resulting in inconsistencies and undermining investor confidence.

In response, the ICRC released the PPP Project Financial Model Guide in August 2025 (the **Guide**), a landmark reform that, for the first time, provides a codified framework for preparing, testing, and presenting PPP financial models in Nigeria.

This newsletter examines the new Guide, analyses the broad components and minimum requirements set out in the Guide for preparing a PPP financial model, its implications for investors and private parties, and offers our analysis of this significant policy development.

Project's Scope And Structure

The Guide requires the following details to form the introductory part of a financial model for a PPP project. It mandates a precise project overview that articulates the purpose, scope, and objectives of the relevant project.³

By setting this out at the outset, the model provides a solid foundation for subsequent analysis, enabling regulators and investors to confidently assess feasibility and compliance with statutory requirements. It also requires the identification of key stakeholders, including the Government, private investors, contractors, and operators, with a clear delineation of their respective roles and responsibilities.

In addition, the Guide emphasizes the importance of specifying the PPP contractual model, whether design-build-finance-operate-transfer, build-operate-transfer, or others.

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Finally, financial models must define the full project timeframe, covering both construction and operations phases, so as to test whether long-term financial and service delivery obligations will be met.

1. *The Infrastructure Concession Regulatory Commission (Establishment, Etc.) Act, 2005 (ICRC Act) established the Infrastructure Concession Regulatory Commission (ICRC) as the body charged with regulating and monitoring concessions and PPPs at the Federal level.*

2. *The PPP Manual, issued in 2018, was intended as a practical resource to guide Ministries, Departments, and Agencies (MDAs) through the development of PPP projects. It outlined the project lifecycle from*

identification and pre-feasibility to procurement, negotiation, and contract management, emphasizing value for money (VfM), optimal risk allocation, and transparency. The Manual also identified various financing sources, including equity, debt, mezzanine funding, and government support.

3. *Section 1.1 of the Guide.*

Revenue And Cost Assumptions And Projections

The Guide places significant emphasis on the accurate identification and projection of revenue and cost assumptions, recognizing these as the core financial drivers of any PPP project. The Guide requires that every financial model clearly state all sources of revenue necessary to drive the project, classifying them into user-pay, government-pay, and hybrid models, each with distinct legal and commercial implications. In the same vein, it is important that project sponsors in this section identify all projected revenue sources, including ancillary revenue streams, such as income from commercial developments, advertising, or other third-party activities.

The Guide further mandates that financial models must estimate and disclose the timing and frequency of revenue receipts, growth assumptions, including inflation, GDP growth, and other macroeconomic variables. Finally, the Guide requires robust sensitivity and scenario analysis, testing base, best, and worst-case scenarios to assess the project's resilience and to inform contractual remedies for revenue shortfalls and risk allocation.

Cost Assumptions And Projections

The Guide requires that financial models present comprehensive estimates of both capital and operational costs. All capital expenditures (CapEx), and operating expenditures (OpEx) must also be detailed, covering recurring costs such as maintenance, salaries, and utilities, with appropriate adjustments for inflation to ensure that these costs are anticipated and enforceable within contractual agreements. The Guide further emphasizes the importance of distinguishing between fixed and variable costs, and the need for a model to include contingency provisions to account for unforeseen events or cost overruns, thereby enhancing the project's financial resilience and reinforcing contract certainty.

It is particularly impressive that the Guide acknowledges the risk of financial variability and mandates project sponsors to include buffer provisions in the model that enhance the project's ability to withstand shocks and maintain financial stability.

From a practical perspective, the inclusion of these elements in the financial model is essential for both state parties and project sponsors and investors. For project sponsors, it is essential that all revenue and cost assumptions and projections are not only realistic but also carefully aligned with the project's risk profile. Given the criticality of the

financial model, these projections must be grounded in credible data and sound market analysis, as they will directly inform and shape the contractual documentation, risk allocation, and financing structure of the project.



Financing Structure

This section explains how the project will be funded and the implications for risk allocation and bankability.

The Guide mandates that projects should define the proportion of private equity and debt financing (either corporate finance or project finance) to support funding obligations of the project. Also, where debt financing is utilized, the Guide stipulates that it is necessary to specify interest rates, loan tenure, and repayment schedules.

In a forward-thinking manner, the Guide emphasizes incorporating grants, guarantees, or viability gap funding to improve the bankability of the project.⁴ Given the uneven risk profile of PPPs in the country, the acknowledgement that project sponsors will require a viability gap and a clear inclusion of the same in the financial model is a welcome development for the investment landscape in Nigeria is often critical to improving the project's bankability and risk profile.

The financing structure section of the financial model is a direct extension of the revenue and cost assumptions and projections. The anticipated cash flows and funding needs established in those sections inform the optimal mix of equity and debt, as well as the necessity and scale of government support. For sponsors and investors, this remains a critical component of the financial model and viability.

Taxation And Accounting Assumptions

The Guide requires that every PPP financial model clearly set out the tax framework and accounting methodology to be applied to the project.⁵ The Guide also mandates that asset depreciation be aligned with the expected useful life of the assets, using standard accounting methods to ensure that financial statements are both accurate and contractually consistent⁶. Additionally, the model should account for any anticipated applicable tax incentives⁷.

4. Section 4.4 of the Guide

5. Section 5.2 of the Guide

6. Section 5.3 of the Guide

These elements flow directly from the revenue and cost assumptions and projections, as taxes and depreciation can significantly impact net cash flows, project profitability, and the overall financial viability of the PPP. For sponsors and investors, it is critical to base these assumptions on current tax laws and accounting standards, and to regularly update them in response to regulatory changes.

The Guide requires a detailed analysis of expected cash inflows and outflows throughout both the construction and operational phases of a project. During the construction phase⁸ It emphasizes the importance of tracking all sources and uses of funds. In the operational phase, the model must capture all revenue receipts, operating expenditures, debt service payments, and equity distributions⁹.

The Guide also highlights the necessity of precise scheduling for all cash inflows and outflows¹⁰. While the utility of these requirements is quite clear, as these help with providing clarity on contractual obligations and safeguarding project liquidity at critical stages, we note that the Guide treats project cash flows as a distinct section. In practice, however, much of this analysis is inherently linked to the revenue and cost projections already discussed in earlier parts of the model. The key distinction, however, is that revenue projections focus on the quantum and sources of income, while the cash flow statement provides a time-based view of when those revenues (and associated costs and financing flows) actually materialize. In our view, however, the cash flow analysis could be subsumed under the broader revenue and cost projections, since cash flows are essentially the net result of these projections, adjusted for timing and financing activities.



Risk And Sensitivity Analysis _____

The Guide requires that every PPP financial model include a comprehensive risk and sensitivity analysis.¹¹ Key project risks, including those related to construction, revenue, operations, regulatory changes, and market fluctuations, are to be identified prior to.

In addition, the Guide requires robust sensitivity testing, where the impact of variations in critical assumptions, such

as capital expenditure, revenue, operating costs, and financing terms, is evaluated. The Guide also emphasizes the importance of incorporating mitigation strategies, such as insurance, guarantees, and financial derivatives, to further limit exposure and strengthen the project’s financial resilience.

This component of the financial model is particularly critical, as it empowers project sponsors to proactively de-risk the project and allocate risks in a manner that is both standard and bankable.

Financial Metrics And Key Performance Indicators (KPIs) _____

The Guide sets out a range of financial metrics and key performance indicators (KPIs) that every PPP financial model must include.¹² The Guide requires every financial model to calculate the Debt Service Coverage Ratio (DSCR) to confirm the project can cover debt obligations, recommending a DSCR above 1. It also mandates computing the Weighted Average Cost of Capital (WACC) for NPV discounting, reflecting the blended cost of equity and debt, which guides investment decisions. In addition, the Internal Rate of Return (IRR) shows expected annual returns, and when higher than the WACC, signals project attractiveness.

Projected cash flows must be discounted to determine Net Present Value (NPV), supporting value-for-money and investment decisions. The Profitability Index compares present value of inflows to the initial investment, while Value for Money (VfM) uses a Public Sector Comparator (PSC) with both quantitative and qualitative analysis. Projects must also calculate Return on Equity (ROE) to ensure realistic expectations and estimate the Payback Period to determine how quickly invested capital is recovered.

Together, these metrics set realistic expectations, guide investment planning, and provide an objective basis to assess whether a PPP project is financially viable, equitable, and sustainable.

Revenue to Government and ICRC Fees _____

The Guide requires revenue sharing in user-pay and hybrid PPPs, while excluding it in government-pay PPPs. However, it does not prescribe a fixed percentage. Instead, the government’s share should be based on each project’s risk profile, underlying revenue and cost assumptions, and the project’s capacity to bear such obligations without undermining financial viability. This ensures that revenue sharing is tailored rather than rigidly set by policy.¹³

8. Section 6.1 of the Guide
9. Section 6.2 of the Guide
10. Section 6.3 of the Guide

11. Section 7 of the Guide
12. Section 8 of the Guide
13. Section 9 of the Guide

In addition, PPP projects are subject to ICRC fees, including a one-off entry fee of up to 5% and an annual fee of 1% of gross revenues, with payment schedules to be stated in the Concession Agreement. The Guide is unclear on whether the annual 1% fee is intended as part of the government’s revenue share or an additional obligation. This ambiguity highlights the importance of clear structuring in project agreements to prevent excessive burdens on the project and to balance the interests of sponsors and the government.¹⁴

Financial Statements

The Guide further mandates the preparation of key financial statements, income statements, balance sheets, and cash flow statements, detailing revenues, operating costs, depreciation, taxes, and net income over the project lifecycle¹⁵.

However, as noted above with respect to cash flow projections, this requirement largely repeats information already captured in earlier sections of the model.

Reporting and Documentation

As part of its final provisions, the Guide requires that the results of sensitivity and scenario analyses be presented in a way that clearly illustrates the impact of changes in key assumptions, enabling stakeholders to anticipate risks and plan effective mitigation strategies¹⁶. Each financial model must also include an executive summary that concisely highlights the project’s financial viability, key risks, projected returns, and critical assumptions, making it easier for regulators, investors, and lenders to make informed decisions¹⁷.

Finally, the Guide calls for project sponsors to conduct an independent audit and review of the financial model to verify its accuracy, logical consistency, and completeness before submission to the ICRC¹⁸.

Final Output and Decision-Making

The final segment of the Guide emphasizes the critical role of the financial model in informing final decisions by investors, lenders, and regulators. Specifically, sponsors are required to conduct a thorough financial viability assessment¹⁹ using key metrics as described in the Guide. It is also expected that they provide a risk-adjusted analysis incorporating sensitivity testing and presenting comprehensive financial information to all relevant stakeholders²¹.



OUR THOUGHTS

With the issuance of the Guide, investors can now structure their models with confidence, knowing that the centrality of the financial model in any PPP cannot be overstated. It is the analytical engine that translates technical, legal, and commercial project features into a coherent set of financial forecasts, performance metrics, and risk allocations.

For both public and private stakeholders, the financial model is the single source of truth that underpins procurement approvals, lender decisions, and the drafting of concession agreements. Its outputs shape every major commercial parameter, tariffs, viability gap funding, incentive structures, project duration, and capital structure, ensuring that the project is not only affordable and bankable but also resilient to the uncertainties inherent in long-term infrastructure delivery.

For the grantor, rigorous review and approval of the financial model is a core governance function. The financial model is the primary tool for testing value for money, stress-testing affordability, and ensuring that risks are optimally allocated and priced. It also provides the fiscal transparency needed to integrate PPP commitments into broader public financial management frameworks. Without a robust model, the public sector risks exposure to unbudgeted liabilities and suboptimal risk transfer, undermining the very rationale for PPPs.

The introduction of the Guide by the ICRC is a significant step forward for Nigeria’s PPP landscape. For project sponsors and investors, the Guide offers much-needed clarity and predictability. By setting out minimum requirements and a standardized framework for model preparation and review, it reduces subjectivity and inconsistency in the approval process. This enhances investor confidence, supports bankability, and aligns Nigerian practice with international standards. The Guide’s emphasis on transparency, scenario analysis, and enforceable contractual assumptions which also helps sponsors to de-risk projects and present a more compelling case to lenders and equity partners.

14. Section 10 of the Guide
 15. Section 11.1 of the Guide
 16. Section 12.1 of the Guide
 17. Section 12.2 of the Guide

18. Section 12.4 of the Guide
 19. Section 13.1 of the Guide
 20. Section 13.2 of the Guide
 21. Section 13.3 of the Guide

However, the Guide is not without its challenges for sponsors and investors. The increased level of detail and documentation required may raise transaction costs and lengthen project preparation timelines (especially as many sponsors in the region may not be used to this level of detailing). The need for audit-ready, transparent models and the inclusion of regulatory fees and revenue-sharing mechanisms could also impact project returns, and it will be important for the relevant state parties and project sponsors to work together effectively to avoid any risk of the Guide becoming overly prescriptive, stifling innovation or deterring investment in marginal projects. It would also be prudent for the ICRC and government to maintain a degree of flexibility in applying the Guide, allowing for project-specific tailoring and periodic review of its requirements in light of market feedback.

One area for further improvement is the integration and streamlining of overlapping sections within the Guide, such as those relating to cash flow projections and financial

statements. Merging these could reduce duplication and make the model more user-friendly.

Separately, given the utility of the Guide, and notwithstanding the fact that the ICRC's mandate does not extend to state-level PPPs, the Guide is a welcome development and serves as a model policy document that state governments, especially those without robust PPP frameworks, can model or adapt. Its adoption at the subnational level would help harmonize standards, reduce investor uncertainty, and promote best practices across Nigeria's infrastructure sector

In conclusion, the Guide is a critical tool for strengthening the PPP ecosystem in Nigeria. It provides a transparent, objective, and bankable framework for project development, while also highlighting the indispensable role of the financial model in safeguarding public interest, attracting private capital, and ensuring the long-term success of PPP projects. With careful implementation and ongoing refinement, the Guide can help unlock greater value for both the public and private sectors.

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