FISCAL COMMITMENTS AND CONTINGENT LIABILITY (FCCL) FRAMEWORK

The Lagos State Office of Public-Private Partnerships

2024

Contents

Lagos State Public-Private Partnerships Fiscal Commitments and Contingent Liabilities Framework

1. Executive Summary

Purpose and scope – Public-Private Partnerships provide an important mechanism for mobilising private capital and expertise to deliver critical infrastructure. However, poorly designed PPPs can defer costs and hide liabilities that eventually crystalise on the public balance sheet. This framework therefore sets out processes for **identifying, assessing, managing and reporting** the fiscal commitments and contingent liabilities that Lagos State incurs when entering into PPP contracts. It is intended to be applied across all sectors and covers the full project life cycle – from project identification and appraisal through procurement, construction, operation and contract closure.

Strategic importance of PPPs in Lagos State – Lagos remains Nigeria's commercial hub and faces a large infrastructure deficit in transport, power, housing and social services. PPPs offer the opportunity to deliver infrastructure faster and transfer certain risks to the private sector. But international experience shows that without strong governance and fiscal rules PPPs can be used to **bypass budget constraints and create hidden deficits**. This framework therefore strikes a balance between enabling investment and safeguarding public finances.

Summary of fiscal and contingent risks – Key fiscal risks relate to **direct payment obligations** (availability payments, subsidies and viability gap funding) and **contingent liabilities** (guarantees, termination payments and legal claims). The scale of these obligations often spans decades, so affordability must be considered against the State's medium- and long-term budget constraints. Scenario analysis, stress testing and clear risk-allocation can help identify potential exposures before contracts are signed. The framework summarises the tools, governance structures and reporting mechanisms needed to keep these risks within sustainable limits.

Objectives of the Framework

- Establish clear institutional roles and coordination mechanisms for managing fiscal commitments and contingent liabilities.
- Integrate fiscal risk analysis into each stage of the PPP life cycle, with particular emphasis on value-for-money and affordability assessments during the business case stage.
- Introduce tools for quantification, budgeting, monitoring and disclosure of fiscal risks, including dashboards, risk registers and scenario models.
- Promote transparency and stakeholder engagement to build public trust and ensure projects remain politically and socially sustainable.
- Provide guidance on capacity building, communication strategies, aggregate exposure limits and periodic review so the framework evolves with emerging best practices.

2. Introduction

Background

Lagos State has implemented several PPP projects across transport, housing, energy, and health sectors. These projects have improved service delivery but have also exposed the State to long-term payment obligations and contingent liabilities. A formalised fiscal risk management framework is therefore essential to ensure that PPPs remain affordable and do not compromise future budgets.

Legal and institutional Context

PPP activities in Lagos are governed by the **Lagos State PPP Law (2011, amended in 2015)**, which established the Office of Public-Private Partnerships (OPPP), defined procurement processes and authorised the negotiation of concession agreements. The **Fiscal Responsibility Law** sets fiscal rules and ceilings, while the **Debt Management Office (DMO)** issues guidelines for state guarantees. The **Medium-Term Expenditure Framework (MTEF)** provides a three-year budgeting horizon that should incorporate PPP commitments. The State House of Assembly must approve guarantees and obligations that exceed statutory thresholds.

Key concepts – Table 1 defines core terms used throughout this framework. Understanding the distinction between fiscal commitments (legally binding payment obligations) and contingent liabilities (potential obligations triggered by uncertain events) is crucial for designing appropriate risk management instruments.

Term	Definition
Fiscal Commitment	A legally binding obligation for the government to make payments to the private partner. Examples include availability payments, subsidies and viability gap funding.
Contingent Liability	A potential obligation that may arise depending on the occurrence of a future event (e.g. demand falling below a threshold triggers a guarantee).
Viability Gap Funding (VGF)	A capital grant provided by the government to make an otherwise financially unviable project attractive to private investors.
Availability Payment	Periodic payments made to the private partner based on asset availability and performance standards.
Performance Bond	A guarantee provided by the private partner (often by a bank) to ensure project delivery and protect the government in case of default.

3. Governance and Institutional Arrangements

Effective governance is the backbone of fiscal risk management. Without clearly defined responsibilities, fiscal costs can be underestimated and moral hazard may arise when line ministries push ahead with projects assuming the finance ministry will cover any shortfall. Lagos State therefore assigns roles to multiple institutions and establishes coordination mechanisms to ensure that no single entity dominates the process.

3.1 Key institutions and their roles

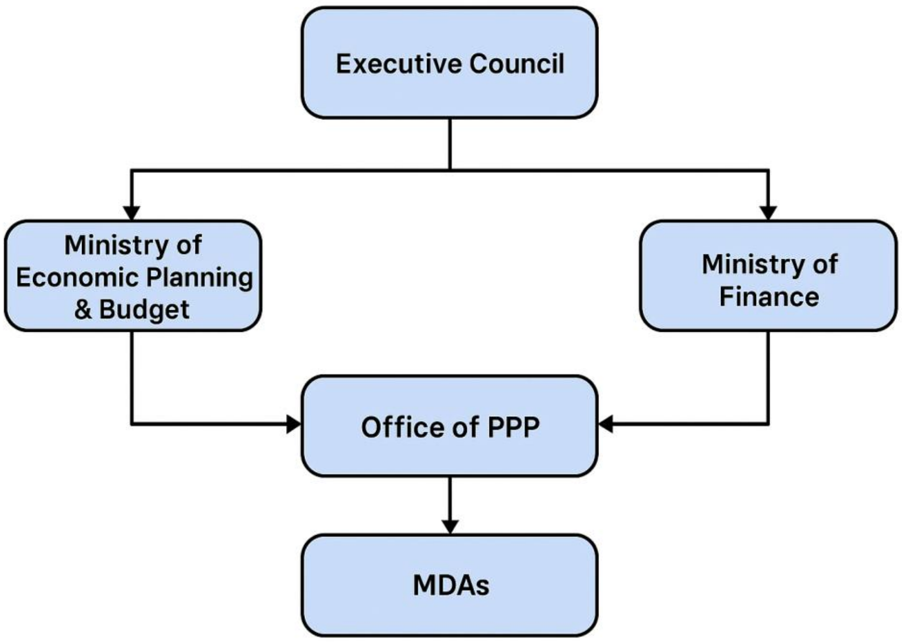
Institution	Role
Office of Public-Private Partnerships (OPPP)	Coordinates PPP project development, procurement and contract management. Provides technical assistance to line ministries, ensures compliance with PPP law and maintains standardised procurement documents.
Ministry of Economic Planning and Budget (MEPB)	Integrates PPP fiscal commitments into the **Medium-Term Expenditure Framework (MTEF)** and annual budgets. Ensures that long-term payment obligations are consistent with fiscal ceilings and sectoral priorities.
Ministry of Finance (MoF)	Leads fiscal policy, assesses guarantees, viability gap funding and payment obligations. Maintains the fiscal commitment tracker and contingent liability dashboard, performs scenario analysis and approves risk-mitigation instruments. International experience shows that having the finance ministry centrally review PPP proposals demonstrates government commitment to private partners and reduces uncertainty.
Debt Management Office (DMO)	Evaluates whether PPP debt should be recognised as public liabilities for debt sustainability analysis; manages guarantees and monitors contingent liabilities.
Attorney-General's Office	Provides legal vetting of PPP contracts, ensures enforceability of risk allocation and termination clauses.
Lagos State House of Assembly	Approves fiscal commitments and guarantees exceeding statutory thresholds, providing democratic oversight.
Line Ministries and Contracting Authorities	Identify projects, prepare business cases, implement projects and monitor performance. They are responsible for first-level risk identification and must cooperate with OPPP and MoF for fiscal assessments.

3.2 Institutional coordination mechanism

To ensure that fiscal risk management is not fragmented, the framework establishes a **PPP Fiscal Risk Management Committee (PFRMC)** comprising senior representatives from the OPPP, MEPB, and MoF. The committee:

- **Reviews fiscal risk assessments** during the Outline Business Case (OBC) and Full Business Case (FBC).

- **Approves risk mitigation strategies**, including guarantees, reserve funds and insurance instruments.
- **Monitors compliance with aggregate fiscal ceilings** and recommends corrective actions when limits are approached.
- **Reports to the State Executive Council and the House of Assembly**, ensuring accountability and transparency.



Regular meetings (e.g. quarterly) allow early identification of emerging risks and coordination of budget allocations.

3.3 Legal and policy instruments

Instrument	Purpose
Lagos State PPP Law	Provides the legal foundation for PPPs, defines institutional roles, sets procurement procedures and specifies approval requirements.
Fiscal Responsibility Law	Sets fiscal rules, defines debt and deficit limits and requires disclosure of contingent liabilities.
Debt Management Guidelines	Establish criteria for issuing guarantees, managing public debt and determining when PPP obligations should be recognised as public liabilities.

Instrument	Purpose
Public Procurement Law	Ensures competitive and transparent procurement, outlines bidding procedures and prohibits direct negotiation without competitive tendering.
Budget Rules and MTEF Procedures	Require that PPP commitments be integrated into multi-year budgeting and disclosed in fiscal risk statements. Some countries introduce specific limits on the present value of PPP commitments relative to GDP or government revenue; Lagos may adapt similar rules (see Section 13).

3.4 Accountability and oversight

Accountability mechanisms underpin stakeholder confidence. The framework therefore mandates:

- **Internal audit units** within each agency to verify compliance with procurement processes, contract terms and fiscal limits.
- **External audits** by the Auditor-General and independent auditors to ensure transparency and uncover hidden liabilities.
- **Public disclosure** of fiscal commitments, contingent liabilities and performance indicators in budget documents and annual reports. Transparency helps deter off-balance-sheet financing and builds public trust.
- **Penalties for non-compliance**, such as suspension of approvals or budget allocations when agencies fail to disclose commitments or exceed authorised ceilings.

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4. PPP Lifecycle and Fiscal Risk Integration

Fiscal risk management is most effective when embedded throughout the PPP lifecycle. This section expands the outline provided in the original framework with detailed guidance on how to incorporate value-for-money analysis, affordability assessments and risk management tools at each stage.

4.1 PPP lifecycle stages and fiscal risk integration

Stage	Description	Fiscal risk integration
1. Project identification	Line ministries identify projects aligned with sectoral strategies and Lagos State's development plan.	**Initial screening**: OPPP and MoF perform a high-level assessment of fiscal viability, potential contingent liabilities and strategic fit. Projects with obvious unaffordable commitments or excessive risk are rejected or redesigned early.
2. Feasibility and appraisal	The Outline Business Case (OBC) and Full Business Case (FBC)	**Quantitative risk analysis**: The finance ministry leads scenario modelling and stress testing to

Stage	Description	Fiscal risk integration
	develop detailed demand forecasts, technical solutions and procurement options.	estimate direct and contingent liabilities. Value-for-money analysis compares the PPP option with traditional public procurement and other alternatives. Affordability assessment determines whether the project fits within the government's inter-temporal budget constraint. For major commitments, the House of Assembly may require independent reviews.
3. Procurement	Competitive bidding identifies a private partner and financial offers are evaluated.	**Evaluation of financial offers**: Bids are assessed not only on price but also on proposed risk allocation, guarantees and payment obligations. The MoF scrutinises proposed guarantees to ensure they are necessary and proportionate.
4. Contract negotiation	Finalisation of the PPP agreement, definition of risk allocation, payment mechanisms and termination clauses.	**Fiscal safeguards**: Contracts include clear provisions for termination payments, step-in rights, revenue-sharing and force majeure. The Attorney-General ensures that obligations are enforceable and consistent with law. Termination compensation formulas should be transparent and capped where possible.
5. Implementation (construction and service delivery)	The private partner designs, finances, constructs and operates the asset. Government monitors compliance.	**Monitoring fiscal commitments**: OPPP and MoF update the fiscal commitment tracker and contingent liability dashboard quarterly. Any changes (e.g. variations or change orders) are subject to PFRMC approval.
6. Contract management	Ongoing oversight during the operational phase.	**Updating risk registers**: Risks evolve over time; demand may fall, or costs may increase. Risk registers and models should be updated annually to reflect reality. The finance ministry uses this information to adjust budget allocations and contingencies.
7. Closure or transfer	At the end of the contract, the asset is	**Final reconciliation**: All outstanding commitments and liabilities are settled.

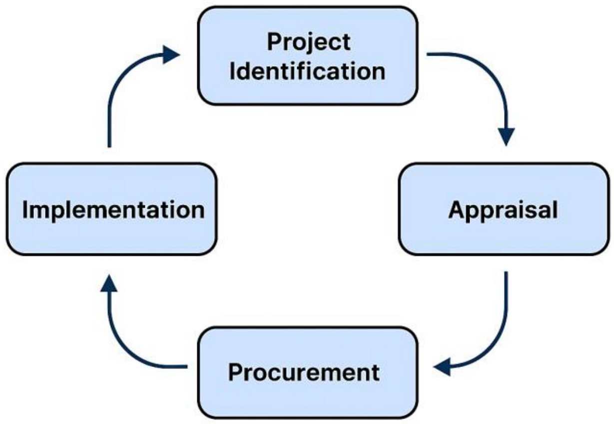
Stage	Description	Fiscal risk integration
	transferred or the contract is terminated early.	Lessons learned are documented and fed back into future project preparation.

4.2 Fiscal risk assessment tools

Several tools support fiscal decision-making:

- **Risk register** – Captures identified risks, likelihood, impact, responsible party and mitigation measures. Updated through the project life cycle.
- **Fiscal commitment tracker** – A database that records all payment obligations (availability payments, subsidies, VGF) and links them to budget lines and funding sources. Helps the MEPB plan future budgets.
- **Scenario analysis** – Models the fiscal impact of different macro-economic and operational scenarios (e.g. high inflation, traffic shortfalls). Corrects for optimism bias and ensures that both best- and worst-case outcomes are considered.
- **Stress testing** – Evaluates resilience under extreme events such as currency devaluation or force majeure. Provides input into reserve fund sizing and guarantee decisions.
- **Public sector comparator (PSC)** – Compares the cost of delivering the project through traditional procurement versus a PPP, adjusted for risk transfer. Countries like the UK and Victoria require a counterfactual public sector comparator; Lagos can adapt a simplified PSC to support value-for-money analysis.

Here is a visual representation of the PPP lifecycle stages and where fiscal risk management is embedded



PPP Lifecycle

4.3 Integration into budgeting and planning

Fiscal risk analysis should inform budget decisions. The finance ministry and MEPB should:

- **Incorporate PPP commitments into the MTEF**, forecasting annual payment obligations and contingent liability exposures over at least 10–20 years.
- **Disclose contingent liabilities** in fiscal risk statements appended to budget documents. Transparency encourages prudent decision-making and allows markets to price sovereign risk appropriately.
- **Establish fiscal ceilings** for annual availability payments and guarantees (see Section 13). When proposed commitments approach these ceilings, the PFRMC must recommend prioritisation or restructuring.

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5. Fiscal Commitments Management

This section sets out how Lagos State identifies, budgets for and controls direct fiscal commitments arising from PPP contracts. Without clear rules, governments often underestimate the true cost of risk bearing.

5.1 Types of fiscal commitments

The main categories of direct payment obligations are summarised below. Each commitment type should be justified during the business case and approved by the MoF:

Commitment type	Description
Availability payments	Regular payments to the private partner based on the asset meeting performance standards. Payments may be adjusted for unavailability or poor performance.
Viability Gap Funding (VGF)	Capital grants disbursed during construction to cover the funding gap between project cost and expected revenue. VGF should be used only when projects deliver significant social benefits and no alternative funding (e.g. user charges) can achieve the same outcome.
Subsidies	Operating subsidies or tariff buy-downs provided to ensure affordability for users. Subsidies should be time-bound and taper off as demand grows.
Guarantees	Undertakings by the State to compensate the private partner for specific risks (e.g. revenue shortfalls, currency conversion, debt service). Guarantees are contingent liabilities but often become fiscal commitments when triggered.

5.2 Budgeting and MTEF alignment

To ensure fiscal sustainability, Lagos State will:

1. **Integrate fiscal commitments into the MTEF** – All projects must prepare a payment schedule projecting annual obligations over the life of the contract. These projections inform medium-term budget ceilings and sector allocations. The finance ministry checks that commitments remain within the inter-temporal budget constraint and that sufficient budget space exists to accommodate them.

2. **Reflect commitments in annual budgets** – Availability payments, VGF and subsidies must be included as line items in the budget with designated funding sources (e.g. general revenue, sector levies). The MEPB should allocate resources based on the payment schedule approved during contract signing.

3. **Use fiscal commitment trackers** – The MoF maintains a central repository of commitments, updated quarterly. The tracker records project names, commitment types, amounts, payment schedules and funding sources. Deviations from the approved schedule require PFRMC approval.

4. **Coordinate with the debt management function** – The DMO evaluates whether PPP obligations should be classified as debt for the purposes of debt sustainability analysis. Some countries treat long-term availability payments as equivalent to debt.

5. **Establish affordability and exposure limits** – To prevent excessive accumulation of obligations, Lagos may adopt rules limiting aggregate PPP commitments to a percentage of revenue or GDP (see Section 13). Budget officers should compare estimated annual costs with available sector budgets, and new projects should not proceed if they would breach the limit or crowd out essential spending.

5.3 Fiscal commitment dashboard

The dashboard provides a snapshot of commitments by project, type and year.

Project Name	Liability Type	Trigger Event	Estimated Exposure (NGN)	Probability (%)	Mitigation Strategy	Status

This dashboard includes:

- Project name
- Commitment type
- Amount (NGN)
- Budget year
- Funding source
- Status

Decisionmakers can quickly identify the largest obligations and plan cash flows accordingly. Additional fields such as the procurement method, contract end date and performance adjustments may be added to enhance transparency.

5.4 Monitoring and reporting

Proper reporting prevents surprises and builds trust with investors and citizens. The framework mandates:

- **Quarterly updates** to the fiscal commitment tracker, including explanations for any variations (e.g. change orders or penalties).
- **Annual fiscal risk statements** published alongside the budget summarising commitments, contingent liabilities and their expected evolution. The statement should include sensitivity analyses showing how variations in inflation, exchange rates or demand affect obligations.
- **Audit trails and independent reviews** – The Auditor-General and external auditors should verify the accuracy of reported obligations and assess whether payment adjustments have been applied correctly.

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6. Contingent Liabilities Management

Contingent liabilities are potential obligations that may crystallise if specified events occur. They include guarantees of debt, revenue or demand, termination payments and compensation arising from legal claims. When triggered, they can have a significant impact on public finances. Proper identification, quantification and management are therefore critical.

6.1 Types of contingent liabilities

Liability type	Description
Demand guarantees	Payments triggered if user demand falls below an agreed threshold (e.g. minimum revenue guarantee).
Debt guarantees	The State agrees to cover debt service if the private partner defaults. This ensures lenders recover their principal but exposes the State to credit risk.
Termination payments	Compensation owed to the private partner if the contract is terminated prematurely (e.g. due to government default or force majeure).
Legal claims and arbitration	Costs arising from disputes, litigation or arbitration. Many claims occur when risk allocation is ambiguous or the government changes policy.
Operational guarantees	Assurances covering specific inputs (e.g. fuel supply for power projects) or exchange rate fluctuations.

6.2 Identification and classification

Contingent liabilities should be identified early in the project cycle and documented in a **contingent liability register**. Each liability is classified by:

1. **Trigger event** – The specific circumstance that would cause the liability to crystallise (e.g. traffic below x vehicles per day, debt default, regulatory change).

2. **Risk owner** – The party (State, private partner, insurers) responsible for the liability. Good risk allocation assigns risks to the party best able to manage them.
3. **Probability** – An assessment of how likely the trigger event is to occur, based on historical data, market analysis and expert judgment.
4. **Time horizon** – When the liability might materialise (e.g. during construction, early operations or end of contract).

6.3 Quantification and modelling

Quantification translates potential liabilities into monetary values. The finance ministry uses:

- **Estimated exposure** – The NGN value of the liability in the event it materialises, often the net present value of future payments.
- **Probability assessment** – Likelihood assigned to each trigger. Multiple scenarios may be considered (high, medium, low probability) because some events are difficult to predict.
- **Scenario modelling** – Combining probabilities and exposures under different scenarios (best, base, worst case) to estimate expected fiscal cost and budgetary impact【944760669030290†L330-L361】.
- **Stress testing** – Testing extreme scenarios such as large currency devaluation, severe demand collapse or interest rate spikes to assess whether reserve funds are sufficient.
- **Fiscal risk matrix** – A matrix summarising all sources of risk and their mitigation measures, similar to the one used by the World Bank. Lagos State can adapt this tool to summarise direct and contingent liabilities, probability, magnitude and responsible institutions.

6.4 Mitigation strategies

Mitigation reduces the probability or impact of contingent liabilities:

Strategy	Description
Contractual safeguards	Clear clauses allocate risks to the party best able to manage them. Termination compensation should be capped and formula-based to avoid negotiation disputes.
Insurance instruments	Transfer specific risks to insurers (e.g. political risk, construction risk, revenue guarantee insurance). Premium costs must be weighed against expected savings.
Reserve funds	Dedicated funds set aside to meet contingent liabilities, such as a PPP contingency reserve or maintenance reserve. Annual contributions should be made during fiscal surpluses to build buffers.
Performance bonds and parent guarantees	Require the private partner to post financial guarantees that can be called upon if the partner defaults or fails to deliver.

Strategy	Description
Indexed tariffs and revenue adjustment mechanisms	Adjust user charges based on inflation or demand to reduce the likelihood that demand guarantees are triggered.

The PFRMC approves mitigation plans and ensures that any guarantees are supported by thorough risk assessments. As the World Bank notes, without specific rules to manage fiscal risk, governments tend to underestimate the cost of risk bearing. Lagos must therefore ensure that guarantees are granted only where necessary and are properly priced.

6.5 Monitoring and reporting

Contingent liabilities are monitored through the **contingent liability dashboard** maintained by the MoF and DMO. Key practices include:

- **Regular updates** to reflect changes in contract conditions, macro-economic variables and project performance.
- **Annual disclosure** in the fiscal risk statement, including the estimated probability-weighted cost of contingent liabilities and the amounts covered by reserve funds or insurance.
- **Independent audits** of the contingent liability register and dashboard to verify accuracy and completeness.
- **Alert mechanisms** – When a liability is likely to be triggered, the PFRMC is alerted so that budget reallocations or draws on reserve funds can be planned.

Downloadable Template

Project Name	Liability Type	Trigger Event	Estimated Exposure (NGN)	Probability (%)	Mitigation Strategy	Status

This includes:

- Project name
- Liability type
- Trigger event
- Estimated exposure
- Probability
- Mitigation strategy
- Status

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7. Risk Mitigation Instruments

This section describes instruments available to Lagos State to transfer or reduce fiscal risks. The choice of instruments should balance cost and risk exposure.

7.1 Contractual safeguards

Well-drafted PPP contracts are the first line of defence against fiscal risk. Key clauses include:

Clause	Purpose
Termination clause	Specifies conditions for early termination and a formula for compensation. Limits the government's exposure by capping payments and distinguishing between termination due to government default, private partner default, or force majeure.
Force majeure clause	Defines events beyond the control of either party (e.g. war, natural disasters) and sets out the fiscal consequences. May include suspension of payments or early termination rights.
Step-in rights	Allows the State or lenders to temporarily take over operations if the private partner fails to perform. Reduces the risk of prolonged service disruptions and ensures continuity.
Revenue sharing	Allocates excess revenue between the State and private partner, aligning incentives and providing upside for the government.
Change in law and currency clauses	Provide mechanisms to adjust payments if laws or tax regimes change or if significant exchange rate movements occur, thereby reducing uncertainty for both parties.

7.2 Reserve fund structures

Creating dedicated reserve funds helps the government meet potential obligations without disrupting general budgets:

Fund type	Description
PPP Contingency Reserve Fund	A pool of resources earmarked for meeting contingent liabilities like guarantees and termination payments. Contributions may come from budget surpluses, project user fees or earmarked taxes. The fund should have clear rules governing deposits and withdrawals, be managed by the MoF/DMO and be audited annually.
Viability Gap Reserve	A fund dedicated to capital grants for socially beneficial projects that are not financially viable. Helps spread the fiscal impact of large grants over time.
Maintenance Reserve Fund	Ensures that adequate funds are available for major maintenance and asset renewal, thereby protecting service quality and reducing the likelihood that poor maintenance leads to contingent liabilities.

Annual contributions should be budgeted in the MTEF. Withdrawals require PFRMC approval and must be reported in the fiscal risk statement.

7.3 Insurance instruments

Insurance can transfer specific risks to third parties. Common products include:

Insurance type	Coverage
Political risk insurance	Covers losses arising from expropriation, currency inconvertibility, civil unrest and government actions. Offered by multilateral agencies (e.g. MIGA) and commercial insurers.
Construction risk insurance	Covers delays, cost overruns and accidents during construction. The private partner usually procures this but the government should verify coverage as part of due diligence.
Revenue guarantee insurance	Ensures minimum revenue levels for private partners. Premiums may be expensive; alternatives include capped guarantees or revenue adjustment mechanisms.

7.4 Performance bonds and guarantees

The private partner may be required to provide:

- **Performance bonds** to guarantee completion of construction and delivery of services.
- **Advance payment guarantees** to protect government funds disbursed before work begins.
- **Parent company guarantees** or corporate guarantees, ensuring that obligations are backed by financially strong entities.
- **Letters of credit** issued by banks to guarantee payment obligations. The PFRMC should verify that guarantees are sufficient and enforceable.

7.5 Institutional oversight

The **PFRMC** oversees risk mitigation instruments and ensures that contracts comply with legal and fiscal requirements. Legal and financial advisers review complex instruments and monitor market developments to update guidelines. The Auditor-General conducts periodic reviews to assess whether instruments are used appropriately.

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8. Monitoring, Evaluation and Reporting

Robust monitoring and evaluation (M&E) systems enable Lagos State to track project performance, ensure compliance and manage fiscal risks. The framework mandates continuous M&E and transparent reporting.

8.1 Monitoring framework

Component	Description
Contract compliance	Tracks adherence to contractual obligations, including service quality, maintenance standards and payment mechanisms.
Performance indicators	Measures service delivery (e.g. traffic volume, train punctuality), financial performance (e.g. revenue collection, cost recovery) and user satisfaction. Indicators should be defined in the contract and monitored regularly.

Component	Description
Risk monitoring	Updates risk registers, fiscal trackers and contingent liability dashboards. Identifies emerging risks and triggers corrective actions.
Financial reporting	Tracks payments, liabilities, budget alignment and reserve fund balances. Financial reports should reconcile with the fiscal commitment tracker.

8.2 Evaluation mechanisms

- **Mid-term reviews** – Conducted at key milestones (e.g. after construction, halfway through the concession) to assess whether the project meets performance targets and remains affordable. Recommendations may include renegotiation of terms, adjustment of tariffs or reallocation of risks.
- **Post-implementation reviews** – Undertaken after the contract closes to evaluate outcomes, fiscal impact and lessons learned. Findings inform future project preparation and updates to the framework.
- **Independent audits** – Annual audits by the Auditor-General or external auditors cover both financial compliance and performance. Audit reports are submitted to the House of Assembly and published.

8.3 Reporting requirements

Report type	Frequency	Responsible agency
Performance dashboard	Quarterly	OPPP, in coordination with line ministries and private partners
Fiscal risk statement	Annually	MoF/MEPB
Audit reports	Annually	Auditor-General
Public disclosure	Ongoing	MEPB & OPPP – publishes project summaries, contracts (redacted where commercially sensitive), fiscal commitment data and contingent liabilities on the State's website

Additionally, the PFRMC prepares a brief **PPP fiscal risk bulletin** after each meeting summarising new approvals, emerging risks, mitigation actions and decisions taken. The bulletin is circulated internally and to oversight bodies.

Downloadable Template

Project Name	Key Performance Indicators (KPIs)	Target Value	Actual Value	Variance	Reporting Frequency	Responsible Agency	Status

This dashboard includes:

- Project name
- KPIs
- Target vs. actual values

- Variance
- Reporting frequency
- Responsible agency
- Status

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9. Case Studies and Lessons Learned

This section provides illustrative examples from Lagos's PPP portfolio, highlighting fiscal and contingent liabilities, governance practices and lessons learned. Real-world cases encourage continuous improvement.

9.1 Lekki-Epe Expressway

Overview – Lagos's first major toll road PPP involved a concession agreement with the Lekki Concession Company (LCC) to finance, build, operate and maintain the expressway. The contract was structured as a 30-year concession with toll revenue as the main source of remuneration.

Fiscal commitments – The State provided **viability gap funding** and future **availability payments** to ensure the project remained bankable. Tolls alone were insufficient to cover capital costs and debt service. Budgetary allocations were made within the MTEF, but the magnitude of long-term payments was not fully appreciated at the outset.

Contingent liabilities – The concession included a **minimum revenue guarantee** and termination compensation provisions. When traffic volumes fell short and public opposition to tolling grew, the government renegotiated the contract. Termination payments and the buy-back option created significant fiscal exposure.

Lessons learned –

1. Transparent tolling policies and effective communication with road users are vital. Lack of consultation contributed to public opposition.
2. Robust contract renegotiation mechanisms are needed to adjust terms without undermining investor confidence.
3. Early fiscal risk assessments could have highlighted the scale of potential liabilities and informed the design of mitigation instruments.

9.2 Blue Line Rail Project

Overview – This urban rail project connects Marina to Okokomaiko, implemented in phases with private sector participation. The project aims to reduce congestion and promote modal integration.

Fiscal commitments – The State has financed the infrastructure and plans to enter into availability payment contracts for operations and maintenance. The payment structure must be incorporated into long-term budgets.

Contingent liabilities – Demand risk is significant because ridership depends on fare levels, complementary transport modes and urban development. A demand guarantee may be considered but should be carefully designed to avoid large liabilities.

Lessons learned –

1. Phasing reduces upfront fiscal exposure by allowing adjustments as demand materialises.
2. Integration with bus rapid transit and other modes increases viability.
3. Strong project governance and procurement processes prevent cost overruns and delays.

9.3 Island Power Project

Overview – A PPP for embedded power generation on Lagos Island with a private energy provider. The project improves electricity supply reliability for hospitals, courts and government offices.

Fiscal commitments – Tariff subsidies were provided to ensure affordability for public institutions. The government funded supporting infrastructure (cables, transformers) and guaranteed payment for consumed electricity.

Contingent liabilities – Demand guarantees and fuel supply assurances were included. Termination clauses linked to regulatory changes expose the State to compensation payments if tariffs are unbundled or regulations change.

Lessons learned –

1. Clear risk allocation increases investor confidence; the private partner assumed construction and operating risks, while the State assumed regulatory risk.
2. Regulatory stability is critical for energy PPPs. The project underscores the need for consistent policies and transparent tariff setting.
3. Performance-based contracts incentivise quality service delivery and reduce the likelihood of contingent liabilities.

9.4 Cross-cutting lessons

Theme	Insight
Risk allocation	Clearly define and balance risks in contracts. Assign risks to the party best able to manage them and avoid transferring unnecessary risks to the State.
Transparency	Public disclosure builds trust, reduces resistance and enables public scrutiny. Transparency around tariffs, subsidies and guarantees helps avoid perceptions of unfairness.
Institutional capacity	Strong PPP units and inter-agency coordination are essential. Capacity constraints in line ministries can undermine project preparation and monitoring.
Legal framework	Robust laws and dispute resolution mechanisms reduce fiscal exposure by preventing prolonged litigation.

Theme	Insight
Monitoring and evaluation	Continuous performance tracking, risk monitoring and mid-term reviews prevent surprises and enable early corrective actions.

10. Appendices

The appendices provide tools and reference materials to support framework implementation.

10.1 Sample templates

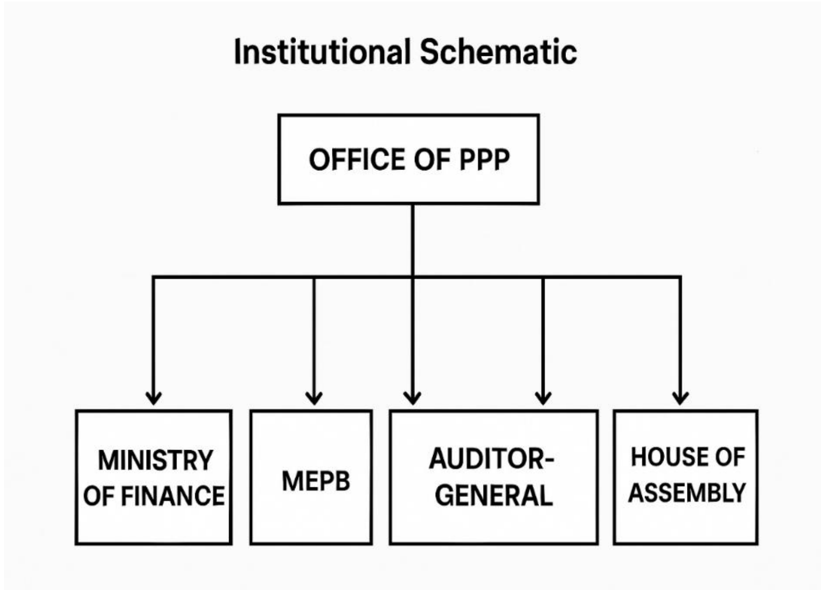
- **Risk register** – A table capturing risk description, cause, likelihood, impact, responsible party, mitigation measures and current status.
- **Fiscal tracker** – Records project-level commitments, amounts, payment schedules, funding sources and budget alignment.
- **Contingent liability dashboard** – Summarises liabilities by type, trigger event, estimated exposure, probability, mitigation strategy and status.
- **Performance dashboard** – Lists key performance indicators, targets, actual values, variances, reporting frequency and responsible agencies.

All templates are provided as editable spreadsheets so that agencies can customise them for specific projects.

10.2 Sample contract clauses

Clause type	Sample text
Termination clause	"In the event of termination due to government default, the State shall pay the outstanding debt and a pre-agreed compensation for equity based on a declining balance formula as set out in Schedule IV. In the event of private partner default, the State may assume operations without compensation and seek damages."
Force majeure clause	"A force majeure event is any act beyond the reasonable control of the parties. If such event continues for more than 180 days, either party may terminate the contract without liability other than payments due up to the date of termination."
Step-in rights	"The State, its lenders or nominees may assume operation of the facility upon 60 days' written notice to the private partner if (i) the private partner fails to meet service level obligations; (ii) insolvency occurs; or (iii) serious health and safety issues arise."
Revenue sharing	"Excess revenues above the base case projections shall be shared 60 percent to the State and 40 percent to the private partner after recovery of all operating costs and debt service."

10.3 Institutional schematic



10.4 Glossary of terms

A glossary of key terms (e.g. fiscal commitment, contingent liability, viability gap funding, availability payment, performance bond, step-in rights) is included at the end of this document for easy reference.

Term	Definition
Fiscal Commitment	Legally binding payment obligation.
Contingent Liability	Potential obligation triggered by future events.
Viability Gap Funding (VGF)	Capital grant for financial viability.
Availability Payment	Payment based on asset availability.
Performance Bond	Guarantee for project delivery.
Step-In Rights	Temporary takeover by the State.