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Managing Political Risk in Nigeria's Electric Power Sector Reforms

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Abstract:

Nigeria recently concluded the initial phase of the reform of its electric power sector. This basically involved the unbundling and subsequent divestiture of hitherto wholly owned government electric power assets. As a prelude to the asset sale, the sector was liberalized in order to enable and catalyse private sector investment and operations. Since a number of the investors involved in the purchase of the assets were from abroad, the mitigation of political risk became very prominent in the negotiations between the government and the private sector investors. This paper seeks to identify some aspects of political risk that were of concern to the private sector investors and discuss how they were managed in practice. The paper also evaluates whether the management of political risk had the desired impact of encouraging and stimulating further private sector investments in the sector. The paper concludes that political risk was managed in a haphazard manner thus stalling further overseas investments in the Nigerian electric power sector.

Keywords: Political risk, power sector, power sector reforms, Nigeria

1. The Power Sector Reform

The Federal Government of Nigeria opted for the reform of its power sector due to the dearth of electric power supply in Nigeria and its attendant negative impact on the social and economic wellbeing of the citizens and the country. According to the National Electric Power Policy, reform in the sector was necessary due to the limited access to infrastructure, low connection rate, inadequate power generation capacity, insufficient usage of capacity, lack of capital investment, ineffective regulation, high technical losses and vandalism, insufficient transmission and distribution facilities, inefficient use of electricity by consumers, inappropriate industry and market structure and unclear delineation of roles and responsibilities. NEPRP (2001), Aderibigbe (2010) For instance, electricity generation in 2012 just before the completion of the divestiture of the assets by government ranged between 2,500 megawatts to about 3,000, MW, while estimated national consumption was in excess of 10,000 megawatts. Yusuf M.O (2004). It was estimated that the country spent US\$13billion in fueling power generators to cover part of the deficit in power needs Ekanem N.G. (2010) and also projected that the demand for electric power would double within a few years. Ekanem N.G. (2010) The Federal Government of Nigeria realizing that It could not solely afford the investments required to turn this dire problem around, resorted to private sector management and investment in the sector.

Thus, the National Electric Power Reform Policy and the Electric Power Sector Reform Act (EPSRA) ushered in a new era for Nigeria's electric power sector. The major aim of these revolutionary policy instrument and legislation was to liberalize the electric power sector by unbundling the then existing wholly owned Federal Government Monopoly into distinct electric power business entities as a precursor to their privatization. In summary, Nigeria's electric power sector reform went through three phases: The first was the legal and regulatory reform which basically liberalized the electric power sector, eliminating government's monopoly in the sector, creating an electric power market for the first time and providing a platform and route for private sector participation in the country's electric power sector.

The second phase was the institutional reform, which led to the creation and strengthening of a number of institutions to enable and regulate the participants in the sector. This led to the establishment of the Nigerian Electricity Regulatory Commission (NERC) to act as the technical and economic regulator for the industry. Also, the creation of the Nigerian Bulk Electricity Trading Company (NBET) to carry out contract management and bulk trading of power during the transitional period and finally the founding of the Nigerian Electricity Liability Management Company (NELMCO) to assume the stranded assets and liabilities in the power sector post privatization.

The third phase of the reform involved the unbundling and subsequent privatization of the then existing monolithic government monopoly, Power Holding Company of Nigeria (PHCN), into 18 successor companies, comprising 6-generation companies, 1 transmission company and 11 distribution companies. These successor companies, along with a further 10 National Integrated Power Projects (NIPP) generation assets have been subsequently privatized and the management of the PHCN successor companies handed over to the private sector while the NIPP assets are going through the final stages of privatisation and handover.

The involvement of foreign companies in the privatisation process brought forth the issue of the management and mitigation of political risk in the Nigerian privatisation programme in a manner never experienced before. Consistently, throughout the different phases of the privatisation process, the different private sector investors demanded the de-

risking of different aspects of the transaction through the introduction of certain contractual provisions and measures. The negotiations between the government and private sector investors introduced some conventional and at other times very unique political risk mitigation techniques into Nigeria's privatisation programme that are discussed below.

2. Definition of Political Risk

The different definitions of political risk available in literature may be broadly categorised into four groups. Fitzpatrick (1983) The first group views political risk from the prism of political events or constraints imposed on a specific industry or firm. In this light, political risks have been defined as "managerial contingencies arising from political events and processes". Stephen (1981)

Secondly, political risk has been viewed as arising out of government or sovereign action. In this regard, political risk has been described as "any activity of the state resulting in the reduction of companies' value and capital". Ostojic S. & Unkovic (2011) It may also be defined in this regard as "arbitrary or discriminatory actions taken by home or host governments, political groups or individuals that have an adverse effect on trade or investment transactions". Wagner (1999) and Root (1972) This category of definitions of political risk have been criticized for looking at political risk only from the purview of negative unwanted consequences of political activity from host governments.

The third group of definitions, views political risk in terms of changes in the business environment. According to Robock and Simmonds, political risk in International investment exists when three factors are present: 1) when discontinuities occur in the business environment, 2) when they are difficult to anticipate, and 3) when they result from political change. Robock and Simmonds (1973)

The fourth viewpoint classifies political risk from an environmental perspective; but differs from the third category because there is no detailed searching for a definition of political risk by proponents of this theme. This group tend to look at political risk more holistically and their work have led to new line of literature, which sees political risk as being encompassed in 'country risks'. The definition offered by Meldrum is a good exposition of the philosophy of this group. Meldrum (2000) and Stobaugh (1969) According to the author:

All business transactions involve some degree of risk. When business transactions occur across borders, they carry additional risk that are not present in domestic transactions. These additional risks called country risks typically include risks arising from a variety of National differences in economic structures, policies, socio political institutions, geography and currencies Meldrum (2000) and Stobaugh (1969)

The argument for looking at traditional political risk in this manner is that it is important to take into consideration all the different sources of political risk, or even risk generally. This is because all the sources of political risk interact with one another and possibly affects all sectors of the economy if they finally eventuate.

The successful injection of foreign direct investment into a country depends on a stable political environment. The reason for this is simply that most countries, particularly developing ones, rely on the influx of private capital from overseas to finance infrastructure under privatisations or public-private partnerships (PPPs). It makes sense that the private sector will not invest in a country unless it is satisfied that the political environment is conducive for its investments to flourish. In rare cases where the private sector decides to invest regardless of the existence of political risk, it will usually demand a great premium, whether in the form of guarantees, discounts or larger profit margins for assuming the risk.

The need to ensure the recovery of capital is even more crucial in PPPs (and in most privatisations) in contrast to other traditional investment models. This is because PPPs are consummated primarily through non-recourse financing, where a syndicate of banks and other financial institutions typically provide the required funds. Such monies are normally recoverable from the project cash flow and not from any other form of collateral or security from the private sector investor, which is more often than not, a mere Special Purpose Vehicle (SPV). Therefore, the financial institutions providing funding for the projects will go to greater lengths to secure project cash flows. As we shall see later below, the existence of political risk puts project cash flows at risk, making the mitigation of the risk a priority for investors. Like a number of authors, Reside concludes after an analysis of events affecting many PPP projects around the world that the single most important and most influential risk driving project outcomes is political risk. Reside (2009) He also pointed out that political risk is not always independent of other project risks and is usually positively correlated with other risks. Reside (2009) In essence, political risk may be triggered by the occurrence of other project risks and have consequences that include the prompting of subsequent discretionary actions by host governments that put private capital at risk. Reside (2009)

In summary, it can be said that the exercise of political power is the root cause of political risk Wagner (2000) Political risk is however a large amorphous category. It is said to contain virtually all "risks associated with business or investment in a country which would not be present in another country with a more stable and developed business and economic climate and regulatory regime". Some of the components of political risk are currency inconvertibility and transfer restriction, expropriation, breach of contract, political violence, legal, regulatory and bureaucratic risks and non-governmental action risks. Investors will avoid countries where there are high incidences of these factors. This is why it is said that political risks have an impact on a country's development. Sachs and Robert (2007)

For purposes of this paper, the constituents of political risk are defined as widely as possible, as referring to any action by government, agencies of government or its employees that adversely affect transactions. It is also acknowledged that political risk is very wide in scope, it can range from a revolution in which all foreign businesses are disrupted and eventually nationalized (macro political risk) to a revision of tax law that negatively affects an individual company's profit margin (micro political risks). Robock and Simmonds (1973)

Adopting the classification put forward by Tilmann Sachs et al, political risks can be roughly classified under six

broad headings:

- Currency inconvertibility and transfer restriction Risk: any action of the host government restricting the conversion and transfer of currency outside the host country.
- Expropriation Risk: any legislative or administrative action from the host government that has the effect of depriving an investor of ownership or control of or substantial benefit from its investment.
- Breach of contract Risk: any repudiation or breach of a contract by a host-government, when either there is no recourse to judicial or arbitral forum to determine the claim; or a decision by such forum is not rendered within reasonable period of time, or such decision cannot be enforced.
- Political violence: acts of war, civil war, insurrection/civil disturbance, terrorism, sabotage, or landowner and/or indigenous people's disturbance in the host country.
- Legal, regulatory, and bureaucratic risks: risks within the administrative process that cannot be directly attributed to one of the above. These include the legal enforceability and execution of laws, conflict of authority, corruption, transparency, issuing of approvals and consents, change of government causing changes in law, policy, and taxation, and obstruction during arbitration process.
- Non-governmental action risks: risks that the government has no direct influence on and do not fall within any of the above categories. These include actions by environmental and union activists, religious fundamentalism, ethnic tensions etc. Sachs, T. et al (2007)

3. Political Risk Mitigation in the Power Sector Reform

Bearing in mind that the major thrust of the Nigerian electric power sector reform programme was to accelerate the process of private sector participation in the sector, it would have been reasonable to assume the existence of a formal policy aimed at incentivising private sector participation in the sector. However, there was no such explicit policy (at least in writing) in existence at the commencement of the privatisation exercise. This notwithstanding, some of the incentive schemes available to private sector investors may be discerned from the EPSRA and other fiscal legislations, others are purely contractual, a result of detailed negotiations between the parties. A number of these incentives involved the management and mitigation of political risk. Interestingly, due to its successful implementation, a number of these incentive schemes are now being offered to investors, even outside of the power sector as a matter of standard practice. Below are some of the discernible schemes:

3.1. Good Project Governance

Perhaps the first place to start the discussion of the management of political risk in the power sector privatisation programme was the implementation of good project governance throughout the transaction process. The assurance of good project practice was essential in order to give investors' confidence to participate in the process in the very first place. The bedrock of a good project governance process is the employment of a transparent procurement process. UNESCAP (2008) It was realised from the onset that a "fast track arrangement" favouring a particular firm or bidder may lead to public suspicion of corruption and underhand deals. Apart from deterring prospective bidders, the toxic public opinion that this was likely to generate would have forced the hands of the government, especially succeeding governments, to nullify the deals in order to score political gains with the public. It was therefore essential that clear and unambiguous rules and regulations were put in place prior to the commencement of the procurement phase of the transactions. Such regulations were strictly adhered to in order to avoid undue benefits accruing to any particular entity. The rules were so strictly adhered to that a number of bidders who submitted their bids late were locked out of the transaction and this drew widespread commendation from several quarters.

3.2. Creation of the Bulk Trader (NBET)

It was obvious that the nascent distribution companies were not viable enough to meet their financial commitments in the new electricity market. Since actual installed generation capacity was insufficient to generate sufficient cash flows and the collection rate (which was dependent on the reduction of Average Technical and Commercial Losses) was low and insufficient to fund the market, it was obvious to all market participants that a stopgap measure was needed. Prospective investors in the power sector required a level of comfort that ensured that generated power would be bought and paid for promptly. In order to give comfort to these investors, the Nigerian Bulk Electricity Trading Company (NBET), a fully government owned entity, was created, issued an electricity trading license and capitalized. NBET's major role was to negotiate Power Purchase Agreements and purchase electricity on behalf of the distribution companies. NBET is therefore a key incentive for the private sector to invest in the sector as it is mandated to execute bankable Power Purchase Agreements (PPAs) with the private sector. Its capitalization by the Government also provided comfort to investors that the institution would be able to meet whatever shortfalls to arise from electricity trading in the interim and transitional market periods.

NBET itself is designed as a temporary institution and it is assumed that it would only be required during the interim and transitional periods of the market. In other words, it will be gradually eased out as generation capacity in the country grows, the distribution companies reduce their technical and commercial losses and the market generally becomes more competitive. Upon the maturing of the market, the PPAs negotiated by NBET will be novated to the distribution companies and NBET wound down. As a prelude to the distribution companies assuming the risk, which NBET currently shoulders, they would be required to post revolving letters of credit that would be called in the event of that they fail to meet their obligations

The true test of the potency of NBET to assume the market risk in the power sector arose immediately after the takeover of the old successor companies by private sector parties. Even though it had been anticipated that there would be a major shortfall in the revenue collection of the distribution companies, the extent of the shortfall was much more than projected. It became quickly apparent that the realised revenues were not enough to settle the debts that had accrued from the power that was generated and sold. As the debt to the generation companies mounted, investors in the sector looked to NBET to come forward and settle them but the institution was unable to do so. This non-liquidity in the market persisted until the Central Bank of Nigeria stepped in recently to provide financing that is now being used to settle the accrued debt in the sector.

It is suggested that since the technical and commercial losses experienced by the distribution companies are still high, that new debts will soon accrue and that the bulk trader would still be unable to meet these obligations unless it is further capitalized. Indeed, in the long run, distribution companies should be held strictly accountable to meet all their obligations including the rate of reduction of the Aggregate Technical and Commercial Losses as agreed in their post-acquisition plans. This will improve liquidity in the Nigerian power sector and give confidence to investors.

3.3. *Partial Risk Guarantees*

Due to the fear of the investors that the government may interfere with the procurement process and breach its contract with investors and in extreme cases even expropriate the assets, the Federal Government was required from the onset of the privatization process to procure the World Bank Partial Risk Guarantees (PRGs) to give prospective investors comfort. This instrument typically covers losses arising from the breach of host government's contractual obligations to private sector investors. In summary, they cover risks such as expropriation, breach of contracts, sovereign debt default and currency transfer or convertibility risk. PRGs have the advantage of upgrading the host government's credit rating and lowering financing costs of the project, because the premium placed on the guaranteed risk by the private sector when pricing the risk is considerably lower.

Most investors were disappointed when the PRGs were not provided as promised from the onset of the privatisation exercise. There were several meetings with the World Bank and even the African Development Bank without any success. Investments in the Nigerian power sector have however continued at an impressive rate despite the non-availability of this risk mitigation instrument. In some cases, investors have been encouraged to obtain the instrument themselves and bear the costs if they so desire. However, the major shortcomings of PRGs are that they are too expensive and usually have limited coverage. For instance, they do not cover political violence and do not extend to all types of projects.

In any case, it is suggested that risk mitigation instruments like PRGs are no panacea for all political risks; robust legislations play a better role. However, it is conceded that PRGs may help bridge the gap while a country establishes a sound legal and policy framework that will reduce the risk and even afterwards support efficient risk sharing. Matsukawa & Habeck (2007) The relative success of the privatisation programme despite the non-availability of the PRGs may be an indication that investors have found adequate comfort from the other risk mitigation instruments offered by government or in the alternative, that the investors might have priced the political risk into their offer price made to government for the assets.

3.4. *Put and Call Option Agreements*

The Put and Call Option Agreements (PCOA) give potential private sector partners comfort that if during the operational phase of the asset, the government fails to meet its obligations under the Power Purchase Agreement (PPA) and other supporting documents, that the private investor may "put" the asset to the government which in turn is obliged to purchase the asset from the private sector based on an agreed formula. Note that the government may also exercise the option to "call" the asset, in which case it is obliged to adequately compensate the investor.

The use of the PCOA is predicated on the principle that power plants once built were sunk assets and therefore not viable for the investor to move it to another location in the event that the business is no longer feasible. It is believed that in such cases it is better for the government to buy the asset from the private sector. This is also a politically astute policy since it is not seen as government granting the private sector subsidy, which is usually frowned against by taxpayers. Rather, it allows the government more policy flexibility to step in and save the asset in situations, which would have led to depriving the citizens, the use of essential services.

In practice, while the PCOA has been provided to some investors, a number of other investors have been denied this instrument. The willingness of government to provide this incentive seems to be dependent on the negotiation skills of potential investors rather than a consistent policy of the government. This discretionary approach is flawed and will potentially lead to a lot of confusion in the sector. It is believed that the PCOA is a very good risk mitigation instrument that is beneficial to both the private sector and government and should therefore be applied consistently across all investors and assets.

3.5. *Multi-Year Tariff Order (MYTO)*

The Multi-Year Tariff Order (MYTO) is essentially a tariff model that seeks to provide a fair cost reflective tariff for the electric power sector in Nigeria. It attempts to achieve this through a transparent mechanism, which adjusts tariffs periodically in relation to inflation, cost of fuel and even foreign exchange fluctuations amongst other variables. Under MYTO the wholesale tariff to be paid to generation companies is pegged at a level estimated to cover the life cycle costs of new entrants into the market. However, it is apparent that MYTO works better with brown field assets like the power plants that were privatized by government and that Greenfield plants which are site specific would require a slightly

amended methodology. It is in response to this that NERC allows special tariff rates for individual companies building Greenfield power generation plants.

Whilst MYTO has provided a level of certainty and confidence to investors, its review process has been tested recently with limited success. Lately, the Naira dropped massively against the United States Dollar and other currencies impacting negatively on the profits of the investors in the sector since most of the debt borrowed for the purchase of the assets was denominated in Dollars. However, it took several months before the value of the Naira tariffs was adjusted to address this reality. The delay in adjusting tariffs ensures that the private sector would have already suffered considerable losses, as the reviews are never sufficiently made retroactive.

3.6. Direct Agreements

During the privatization process, one of the requests by the financiers that provided the funds for the private sector purchasers of the assets was for the government to grant the financiers step in rights in the event that the private sector was unable to fulfil its obligations to them. These rights would allow the banks or other financial institution take over the asset and recover their investments in the event of default from their private sector borrowers. This was to be achieved through the entering into of direct agreements between the government and the banks. The direct agreements were a condition precedent given by the banks to their private sector customers before drawing down on the loans. After several meetings between the different parties, the government acceded to these requests. In essence, these direct agreements create a contractual nexus, which would otherwise never have arisen between the government and the financiers.

3.7. Contractual Clauses

Contractual clauses are good tools for mitigating political risk and this was skilfully utilised during the negotiation process between government and the private sector investors. Some of the contractual clauses that were skilfully employed during the privatisation process for the management of political risk were: arbitration clauses, Multilateral, Bilateral Investment Treaties and Free Trade Agreements, Government guarantees, force majeure clauses and stabilization clauses.

3.8. Arbitration Clauses

Arbitration clauses were one of the commonly used contractual remedies. This was not surprising as most disputes arising due to the occurrence of political risk events are usually referred by the contract to arbitration as opposed to the local courts. More potency was added to the use of arbitration as the dispute settlement procedure by the use of a "favourable jurisdiction clause" and the use of a "favourable governing law clause", which suggested for instance the application of a neutral law and jurisdiction for the resolution of disputes between the parties. Parties during the privatisation process routinely chose United Kingdom law and London as the favoured place for arbitration. Note however that the agreement to refer a dispute to arbitration is itself a contract that can also be breached and is in most cases difficult to enforce.

3.9. Multilateral, Bilateral Investment Treaties and Free Trade Agreements

According to the International Institute for Sustainable Development (IISD), there exists approximately 3000 investment treaties, including bilateral investment treaties, regional agreements and investment protection provisions in free trade agreements. IISD (2012) Nigeria is a signatory to number of these multilateral treaties. The typical clauses found in an investment treaty are "a) Clauses providing for rules on indirect expropriation b) clauses on fair and equitable treatment of foreign investors; and c) clauses on the protection of investment agreements concluded between a foreign investor and a host country ("umbrella clauses)". Dolzer (2005) The major advantage of Investment treaties and free trade agreements is that a private sector party who suffers or anticipates a violation of its contractual rights under the treaties may have recourse to arbitration through for instance the International Centre for the Settlement of Investment Disputes (ICSID) rather than subjecting itself to the courts of the host state. The uniqueness of these treaties is that even though they are entered into between states, private sector entities can enjoy the benefit of the treaties. Therefore, the fact that Nigeria is a signatory to ICSID in particular was very helpful in giving investors' confidence to make investments. These treaties have however been criticised for their tendency to limit the sovereignty of host states and may result in reverse discrimination to the detriment of investors who are nationals of a host state as they contain only rights for foreign investors. Dolzer (2005)

3.10. Sovereign Government Guarantees

In some cases, especially during subsequent negotiations for the construction of Greenfield power plants, the government was requested by the private sector to issue additional sovereign guarantees. The argument for sovereign guarantees is that it helps reduce the financial cost of the private sector because the government expressly assumes the risks mentioned in the guarantee instruments. However, guarantees have been criticized because it creates enormous and sometimes even unintended contingent liabilities for the government. It has been suggested that providing for impartial arbitration, regulatory independence and/or renegotiation can lower the probability that political guarantees will be called, IMF (2006) Note however that these sort of blanket guarantees were not widely provided in the privatisation of brown field assets as the government insisted on appropriate transfer of commercial risks to the private sector. Their use in the electric power sector has been restricted to mostly Greenfield transactions. Nevertheless, it is advised that governments should be especially careful in the use of guarantees because it may be dubiously used to bypass imposed

fiscal constraints, due to its discretionary nature, undermine good governance and may lead to a guarantee culture where the private sector seeks guarantees as an alternative to properly managing project risks. IMF (2006)

3.11 Force Majeure Clauses

The creative use of force majeure provisions in contracts may also contribute to the mitigation of political risk. For instance, certain political events like strikes by sector unions may be categorised as a force majeure event, the occurrence of which will bring the contractual relationship between the parties to an end and compel the host government to pay the private sector partner compensation. The private sector requested that widely drawn force majeure clauses be inserted into the negotiated power purchase agreements.

3.12. Stabilization Clauses

Stabilization clauses are risk management devices used to stabilize the expectations of investors for instance preventing changes in the laws from adversely affecting the investment contract during the term of the investment. Depending on which side you are, stabilization clauses are either an absolute necessity or outright dubious. For Foreign investors, it protects them from sovereign risks like nationalisation, expropriation or obsolescence bargain.

There were different types of stabilization clauses that were negotiated during the sale of the power assets. This may be broadly categorized into three groups: freezing clauses, consistency clauses and economic equilibrium clauses. Freezing clauses "Freeze" (or restrict) the laws of the host countries by ensuring that the domestic law applicable to the contract is the one in force at the time the contract is concluded to the exclusion of subsequent legislations. Consistency Clauses stipulate that it is only the domestic legislation of the host state that is consistent with the investment contract that should apply to the project. Therefore, a new legislation will only be applicable to the project if it would not adversely affect the contract. Finally, Economic Equilibrium Clauses permit regulatory changes as long as any adverse effects are negated, by taking action to restore the economic equilibrium of the project. These clauses link alterations of the terms of the contract to a re-negotiation of the contract in order to restore its economic equilibrium or in the absence, to the payment of compensation. The government mostly preferred the economic equilibrium clauses.

Stabilization clauses have been criticised for making the public the guarantor or insurer of the private contractors expected revenues and also clothes private contractors with quasi-government status with powers to influence new laws, judicial decisions and other government actions. Dannin (2011) states, these clauses might unwittingly delegate government's constitutional powers to the private sector.

4. Suggestions and Conclusions

The number and level of political risk mitigation instruments that were afforded private sector investors by the government under the power sector reforms seemed initially to be adequate incentives for the private sector as evidenced by the high number of investors that participated in the different privatization exercises. However, it is suspected that the high participation in the procurement process, which was driven by the promises of incentives at the beginning of the reforms, will not be replicated in subsequent exercises due to the inconsistencies in the manner these incentives/mitigation instruments were implemented in practice. In some cases, government simply failed to honour its promises and this is bound to have negative consequences as government tries to consolidate the reforms. The signs are already obvious, as the completed transactions have not necessarily served as catalysts for further investments in the sector as earlier thought. Also, most of the new investors have not found it easy to raise additional funds for capital expenditure and maintenance of the plants. The present situation is obviously not good for the sustainability of the reforms.

The different political risk mitigation instruments were mostly incorporated into the reform programme through negotiations between the private sector and the government. This method is haphazard in nature and leads to manifest inconsistency in application. There is therefore now need for a more standardized framework that takes into consideration all the things that government have learnt so far from the reform exercise. Recent negotiations between the government and new investors have still not revealed any semblance of structure. The political risk instruments that are offered are still basically left to the discretion of government officials and the negotiation skills of the private sector. This unfortunately does not lead to consistency of enforcement and may result in the development of an unfair competitive landscape amongst the different private sector players in the sector. There is a need to ensure the uniform applicability of the incentives/instruments across all transactions and investors.

Finally, it has been suggested across several stakeholder groups that government was extremely generous in the offering of the wide spectrum of incentives discussed above. However, it must be pointed out that this was the price which investors were willing to pay for the assets at the time due to their perception of political risk within the country at the time. It didn't also help that this was the first privatisation exercise in the electric power sector in Nigeria. Therefore, it is understandable that government needed to be extremely "generous" in the use of the different incentive mechanisms discussed above. It is expected that as government continues to negotiate more deals and show fidelity to its obligations under the different agreements that it signed with the investors; it will not require these levels of guarantees as the perception of the country's political risk would naturally decline. Government may then gradually scale back on the quantity and level of risk mitigating instruments it provides as incentives.

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