AKK: The Project Pipeline or The Pipeline Project?

A vital aspect of economic success in any developing country is the development of its infrastructure as this spurs industrial growth and socio-economic development. This has been FG's justification for the Ajaokuta-Kaduna-Kano (AKK) gas pipeline project it embarked upon earlier in the year and for which a US$2.51 billion loan was taken up. The project is expected to be completed by mid-2022. The project financing structure is 15% equity, contributed by NNPC, and 85% debt, provided by China's Sinosure at 3.7% (repayable over 12 years, with a moratorium of 3 years) – meaning the total repayment is US$ 3.1537 billion.

Although it is ostensibly NNPC repaying the debt (it cannot meet its cash-call obligations to the IOCs most of the time), the Ministry of Finance has issued a sovereign guarantee for it. The most compelling of reasons given for the construction of this gas pipeline is that it will drive economic growth by providing gas for generation of electricity for towns and industries in its general vicinity, bring to life collapsed and moribund industries which would in turn have a multiplier effect on commercial activity in the area. This certainly seems appealing as it is meant to be 614km long and would cut across at least 3 major states – Kogi, Kano and Kaduna. How exactly does it intend to deliver on all it has promised?

Is the AKK pipeline project commercially viable and will it pay for itself? Claims have been made that the project will pay for itself within a 10-year period, long before the 15-year repayment term as contained in the contract. The reason for this optimism is that if implemented properly, gas pipelines are very lucrative, there are the tariffs to be paid by those who use the pipeline to transport gas and on the other hand the money to be earned from the gas off-takers. Clearly, the very premise on which its viability rests is dependent, however, on so many external factors and conditions.

Firstly, the gas off takers would need to be in place. Talks about power plants meant to be built by NNPC that would provide 3,600MW of power to the area are part of the equation, so also are the methanol and fertilizer factories, the textile factories and so on.

The NNPC press release claimed that the pipeline would "*support the addition of 3,600MW of power to the national grid and revitalize textile industries which alone boast of over 3 million jobs in parts of the country*." All very laudable. The release added that the AKK project would support "*the development of petrochemicals, fertilizer, methanol and other gas-based industries thereby generating employment opportunities and facilitating balanced economic growth*."

However, without these in place this project would quite simply be another white elephant project embarked upon by government. And if these conditions are not in place the country would be making a loss at the outset and that loss needs to be factored into the sum total of the loan as the government is paying the mortgage.

Consider this: Power plants cannot be designed and built anywhere near that fast and there has not been any ground-breaking for NNPC’s own claimed power plant. The average construction time for comparable projects worldwide is 54 months, factoring all the red tape, completion of tenders and so on we can realistically round its delivery up to 5 years.

Considering that the project would be complete in 2 years the pipeline would therefore make a loss for at least the first 3 years of its existence as the operators will not be able to sell any major gas volume. We need to know: does FG have to reimburse them for their losses? If so, then that figure needs to be added to the total. Another point to consider is whether NNPC can find customers for its 3,600 MW in the vicinity. Presumably, if it does not, but is still injecting the power into the grid, then NBET will have to reimburse NNPC and will end up in a far worse condition than it is in presently. Would it not be better to take the money and build hydropower plants and other renewables? After all, the north is well endowed with hydro resources that can be harnessed for power generation, irrigation etc. Building more on existing architecture does not take cognisance of the limitations of the grid that undermine its viability. The economics on which the project is based should be made public, and if one does not exist, it is not too late to work on one. This way, we know exactly what we are dealing with: an eagle or albatross.

What started out as a seemingly straightforward loan of US$2.51 billion may amount to a much greater figure when all is said and done. Sadly, it may very well end up being a millstone around the country’s neck. If the raison d’etre for infrastructure of any kind is economic growth, and the pathway to growth is not clearly defined from the outset then it makes no sense to further embroil the country in debt. This again is discussion for another day.