

Security, finance and Nigeria's bumpy road to cleaner energy

As the pressure of energy transition continues, Nigeria and other African countries are faced with the dilemma of retaining their revenue, which predominantly comes from fossil fuel and finding the finance to energize homes and industries. Security, transition and finance have been a challenge for the global community, especially in countries like Nigeria that is already heavily indebted. At this year's Nigerian International Energy Summit, industry players, including Chief Financial Officer of Lekoil Limited, Edward During, see a leeway amid the enormous challenges, KINGSLEY JEREMIAH writes.

NIGERIA'S population has been projected to more than double in the coming decade. This development is expected to among other implications escalate energy demand and increase pressure on revenue. Sadly, energy transition poses critical challenges for fossil fuel economies like Nigeria which has been witnessing dwindling oil revenue and investment for oil and gas projects.

For the global community, it is believed that dwindling investment in fossil fuel could create a situation where demand and supply imbalance in the oil and gas sector would lead to an increase in oil price, a development that may not be favourable for the global economy.

Currently, Nigeria has about 37 billion barrels of oil reserves and about 209 trillion standard cubic feet (SCF) of associated gas. While its production had at some point remained the highest in Africa at above two million barrels per day (bpd) in around 2019, prevailing challenges, including funding issues, poor fiscal, regulatory loopholes, and harsh operating environment created challenges for many organisations. These organisations are now divesting their portfolio given prevailing realities.

Though Nigeria's oil production stands at about 1.42 million barrels per day according to the Organisation of Petroleum Exporting Countries (OPEC), last year, the production fell below one million barrels leaving the economy in a fix. Stakeholders have however noted that the country's production would improve significantly this year given current effort by the new government.

With the energy transition, there is mounting global advocacy aimed at halting all-new Final Investment Decisions (FIDs) for fossil fuels, especially oil, and gas. Investments in new fossil fuel projects will need to stop immediately if the world is to limit global warming to 1.5°C, the International Energy Agency had boldly warned after years of being a pro-fossil fuel body.

The Ukraine war provided an opportunity for most developed countries to do a reality check on renewable energy even as countries like Nigeria strengthened their stand on a gradual energy transition plan.

While speaking at the NIES in Abuja, During said: "Renewable energy field has not yet really matured enough to be able to take care of our needs, the energy needs of the world and suddenly all investments have been stopped or blocked into the fossil fuels, which is what we still depend on, for energy needs. So, this is a sudden shock, you know, where countries like the US and UK have all kinds of advice or told their financial institutions not to lend any money to projects or to companies that are involved in fossil fuel projects.

"So basically, what this means also for the world and also Africa, is that more and more projects can no longer be done because there's no funding, which means that the supply eventually will reduce and at the same

time, we know that demand for oil or energy is increasing. So basically with that problem, you are going to end up in a situation where you have chaos, I mean, significant oil prices in the future."

OPEC had stated that the oil industry would need about \$14 trillion in investment from now to 2045, to meet global demand. Going by OPEC predictions, oil would continue to represent 30 per cent of the energy mix by 2045.

Africa boasts a youthful and dynamic population. According to OPEC's World Oil Outlook, the Middle East and Africa region is projected to become the global population leader by 2045, with an expected addition of 723 million people from 2022 to 2045. At the same time, the continent houses five of the top 30 oil-producing countries, and its proven oil reserves will reach approximately 119 billion barrels by the close of 2022.

The implications are that without investment in fossil fuel, energy access, unemployment, industrial growth and economic crisis will escalate on the continent.

Coming at a time that the call for a just transition is intensifying along with a unique energy transition road map for Africa, which contributes less than three per cent to climate change, During said there is a need to have a unified voice against the international community to let them know that Africa has a unique situation.

"Over 600 million people don't have access to proper electricity. So, it's unique. We have to make a case, the same case that we made when we've been going to get funding for projects with banks or international institutions. We must make those cases again, to let them allow the upstream industry in Africa and Nigeria to continue to invest in them. We need their investments as well. We cannot generate it in Africa alone," he said.

However, During noted that sustainable energy would remain a place where operators would start investing, transferring their skills and expertise towards renewable energy.

He however noted that there is a need to make the economics work, adding that while renewable energy is good for the climate and the world, it still has to make economic and financial sense.

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During

While Nigeria has an ambitious energy transition plan, the country's debt profile stands at over N77 billion as most people are finding a stand on whether the country should borrow more to finance these projects or not.

During said: "Nigeria has a lot of debt already. So why would you borrow more and put it in an area that has not been fully developed yet? When you have, as I mentioned, you have transmission, fuel, like natural gas, which Nigeria has plenty of, if anything, if you're going to borrow money or do anything with your money you need to focus mainly on that.

"For green energy, there are a lot of investments like green bonds. There are development banks, governments not just in Africa that will fund a project on something related to renewable energy, green energy, etc. It's very easy to get your funding. Even in the transition field if you don't want to do LNG, they'll give you lots of money, and some of that money can be used for the fossil fuel side," he said.

According to him, the current government seems to be very flexible, and very fast to do things, including the removal of subsidies, adding that while everything is not happening fast yet, things will improve.

"I think Nigeria would probably produce more oil than last year because now NNPC is a private company and no longer part of the government, and they have a mandate to get more so I think we'll get more."

He urged the country to focus on boosting production to increase dollar earnings and address the foreign exchange crisis.

He said Lekoil is prioritizing its existing portfolio for the best value, especially in existing oil well development, offshore gas projects and possible LNG to be delivered onshore for power generation.

"We aim to get as much investment whether it's in Nigeria or somewhere else. There's still a lot of money in Nigeria that people are investing in, but we will need money from outside as well," During said.

Each asset in our portfolio plays a distinct role. Otakikpo, our prolific producer, is currently yielding over 10,000 barrels daily. Another asset, OPL 276, located near Calabar, shares proximity with Otakikpo and is poised for development, requiring an estimated 18 to 24 months before production initiation. Additionally, we have the offshore Lagos project, including areas like Eko Atlantic, forming a sole-risk endeavor," During said. The Special Adviser to the President on Energy, Olu Arowolo Verheijen said the Federal Government is pushing to improve the country's competitiveness to investors locally and internationally.

According to her, when the government accesses investment along with operators, it



Verheijen

discovered about \$100 billion worth of investment in the next decade.

Verheijen admitted that regardless of where the investment could be coming from, there is a need for Nigeria to be attractive.

"One of the focus areas for this administration is to ensure that the government doesn't stay in the business of investing capital in a cycle that can't easily attract private sector capital. We want to make sure that the opportunity sets are just as attractive and rank high in the portfolios of investors," she said.

The Secretary-General of the African Petroleum Producers Organisation (APPO), Dr Omar Farouk Ibrahim revealed that March 31, 2024 is the deadline for a decision on the host country for Africa Energy Bank.

He added that seven African countries are bidding for the host country of the Energy Bank, and stressed that the bank should take off on or before June 30, 2024.

Farouk believes that Nigeria and other African countries do not need the Western region to develop its energy sector, stressing that the narrative around renewable energy is flawed and only favoured the developed countries. Chief Executive of Africa Energy Investment Corporation (AEICORP) APPO Fund, Zakaria Dosso stated that through negotiations with Afrexim Bank, there are plans to establish a development bank, akin to the African Development Bank (AfDB), with a primary focus on financing the energy sector in Africa, especially hydrocarbons.

He emphasized the significance of Africa utilizing its abundant resources to fund the sector, as opposed to relying on Western funding. Additionally, he mentioned that the initial capital for the bank is set at \$5 billion, and there are projections for it to increase from \$20 billion to \$50 billion within two to three years.

He explained that in response to global trends, a reform was initiated to establish a dedicated financial institution named the Africa Energy Investment Corporation, with a capital of one billion dollar and is primarily oriented towards financing the development of the hydrocarbon sector and energy projects in Africa.

"In 2008 Africa was producing 12 per cent of crude per day while in 2022, Africa was producing seven per cent, so the production decreased mainly because of lack of investment not because of not enough reserves, so that is showing us the critical situation of investment in Africa oil sector and we need to invest, though while we have the challenges, we also have opportunities," he said.

Secretary General of OPEC, Haitham Al Ghais, said Africa is home to five of the top 30 oil-producing countries and its proven oil reserves amounted to around 119 billion barrels at the end of 2022.