MDGIF INVESTMENT POLICY STATEMENT

ISSUED BY

MIDSTREAM AND DOWNSTREAM GAS INFRASTRUCTURE FUND (MDGIF)

2024

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1 INTRODUCTION

1.1 The Midstream and Downstream Gas Infrastructure Fund

a. The Midstream and Downstream Gas Infrastructure Fund (MDGIF or the Fund) is established by Section 52 of the Petroleum Industry Act 2021 (PIA) as:

   i. a body corporate with perpetual succession and a common seal; and to

   ii. reside in the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA or the Authority).

b. According to the Act, the MDGIF shall have the power to acquire, hold and dispose of property, sue and be sued in its corporate name.

c. The MDGIF has a Governing Council which shall supervise and make investment decisions for the Fund comprising:

   i. the Minister, who shall be the Chairman of the Council;

   ii. representative of the Central Bank of Nigeria not below the rank of a director;

   iii. representative of the Ministry of Finance not below the rank of a director;

   iv. the Authority Chief Executive, Nigerian Midstream and Downstream Petroleum Regulatory;

   v. Executive Director, Midstream and Downstream Gas Infrastructure Fund;

   vi. Three independent members, who shall be appointed by the President; and

   vii. Legal Adviser of the Authority who shall serve as the Secretary to the Governing Council.

d. The Fund has an Executive Director, who the Act specifies shall be responsible for the project management and administration of the Fund.

1.2 Source of Funds to the MDGIF

In line with Section 52 (7) and 52(15) of the Act, the sources of the Midstream and Downstream Gas Infrastructure Fund shall be:

   i. 0.5% of the wholesale price of petroleum products sold in Nigeria, which shall be collected from wholesale customers and such levy shall be in addition to the levy provided for under section 47 (2) (c) of the PIA;

   ii. 0.5% of the wholesale price of natural gas sold in Nigeria, which shall be collected from wholesale customers.

iii. funds and grants accruing from multilateral agencies, bilateral institutions and related sources dedicated partly or wholly for the development of infrastructure for midstream and downstream gas operations in Nigeria;

iv. interest, if any, payable in respect of money in the Midstream and Downstream Gas Infrastructure Fund;

v. Earnings, interest and other income accruing from the Fund's equity investment.

vi. money received from gas flaring penalties by the Commission under section 104 (4) of the Act, which shall be for the purpose of environmental remediation and relief of the host communities of the settlor on which the penalties are levied;

vii. money received from gas flaring penalties by the Authority under section 33(y) of the Act, shall be utilised for midstream and downstream investment within the Host Community of a designated facility; and

viii. any other sum, freely donated or accruing to the Midstream and Downstream Gas Infrastructure Fund for development of infrastructure in midstream gas operations.

1.3 Purpose of the MDGIF Investment Policy Statement

a. According to section 52 (10) of the Act, the purpose of the Fund shall be to make equity investments of Government owned participating or shareholder interests in infrastructure related to midstream and downstream gas operations aimed at:

   i. increasing the domestic consumption of natural gas in Nigeria in projects which are financed in part by private investment;

   ii. encouraging private investment through risk sharing by participating initially in selected high risk projects and in such other equity investments that encourage investment in midstream and downstream gas infrastructure; and

   iii. reducing or eliminating gas flare.

b. This MDGIF Investment Policy Statement (MIPS) document outlines the investment philosophy, practices and procedures by which the Fund shall be managed and administered by the Executive Director, MDGIF under supervision of the Governing Council to fulfil its purpose pursuant to the Petroleum Industry Act 2021.

c. The MIPS is the official policy document that provides a framework and guideline for the management and operation of the MDGIF and is designed to be a strategic document that ensures the realization of the objectives, goals and efficient operations of the Fund.

d. This MIPS is effective and operational on the date it is approved by the MDGIF Governing Council (the Effective date of MIPS) and remains in effect, unless it is revised in line with the provisions of this MIPS and with the approval of the Governing Council.

1.4 Scope of the MDGIF Investment Policy Statement

The MIPS outlines the general policy objectives, investment policy objectives, investment processes and the framework for the administration of the Fund. The MIPS is binding upon all persons with authority over MDGIF assets, including investee companies, staff of the Fund, the Executive Director, MDGIF and the Governing Council.

1.5 Definition of Terms

For purposes of ease of administration and understanding of this MIPS, the following terms are defined or clarified:

Act:	Petroleum Industry Act 2021
The Authority:	Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA)
FGN:	the Federal Government of Nigeria.
Executive Director:	Executive Director, Midstream and Downstream Gas Infrastructure Fund
Investee Company:	An organisation that MDGIF has invested in, following requisite investment procedures outlined in the MIPS and execution of definitive transaction documents and legal agreements.
Governing Council:	Governing Council, Midstream and Downstream Gas Infrastructure Fund
MDGIF or "the Fund":	Midstream and Downstream Gas Infrastructure Fund
Minister:	Minister of Petroleum Resources and the Chairman of Council
Project Promoter:	An organisation or person (s) that has expressed interest to obtain equity investment from the MDGIF and submitted a proposal in this regard.
Transaction Advisor:	the MDGIF transaction advisor.

2 INVESTMENT ROLES AND RESPONSIBILITIES

The MIPS specifies the roles and responsibilities of the key parties with the relevant authority, skills and competencies for its implementation.

It is important to specify the roles of all parties as fiduciaries to ensure operational efficiency, clear lines of authority and accountability in all aspects of operation or implementation of objectives of the MDGIF.

2.1 Governing Council

a. The Fund's Governing Council has ultimate responsibility for supervision and investment decision making for the Fund, pursuant to the Act.

b. Operationally, in executing this mandate the Governing Council shall:

   i. Be the final approving authority for all decisions in respect of the Fund.

   ii. Approve all investment decisions of the Fund on proposed equity investment in midstream and downstream gas infrastructure projects.

   iii. Approve the Midstream and Downstream Gas Infrastructure Fund's programme of action with its cost implications at the beginning of every financial year.

   iv. Approve the investment programs of unutilised funds in the Fund's account as proposed by the Executive Director in line with MIPS.

   v. Approve the re-investment of interest and other incomes accruing from the equity investment of the Fund in other secured low risk investments;

   vi. Review the annual statement of the Fund prepared and submitted to it;

   vii. Review the certified annual audited accounts of the Fund, together with operational report of the Fund; and

   viii. Do such other things as may be determined to be in furtherance of the objectives of the Fund.

c. In executing above stated responsibilities, the Governing Council shall be supported in operating capacity by the Executive Director.

2.2 Executive Director, MDGIF

a. The Executive Director is responsible for project management and administration of the Fund pursuant to the Act.

b. The Executive Director shall be responsible for day-to-day operations and activities of the Fund; and report to the Governing Council for strategic direction, and approvals of decisions on behalf of the Fund.

c. Operationally, in executing this mandate, the Executive Director shall:

i. Oversee day-to-day operations of the Fund, the implementation of the objectives of the Fund and ensuring compliance with the MIPS and other regulatory statutory guidelines as approved by the Governing Council.

ii. Lead the origination, screening and review of potential equity investment proposals to the Fund prior to presentation to Governing Council.

iii. Manage the selection process for the Fund's Transaction Advisor for the approval of the Governing Council.

iv. Liaise with the Transaction Advisor in the technical and commercial evaluation of potential equity investment proposals for the Fund.

v. Prepare investment memo for proposals and present to the Governing Council for approval.

vi. Manage treasury and investment activities of unutilised funds in the Fund's account in line with the MIPS and investment program approved by the Governing Council.

vii. Manage disbursement of projects funds for approved equity investments in line with the terms of investment approved by the Governing Council.

viii. Lead monitoring and oversight for the investment projects of the Fund through the development, construction and operating phases.

ix. Represent the interests of the Fund on the Board, Project Steering Committee or other corporate governance structures of the Fund's investee projects and companies.

x. Do such other things as may be determined by the Governing Council.

2.3 Management Investment Committee (MIC)

a. The Management Investment Committee (MIC) of the Fund shall be led by the Executive Director and shall comprise the following key management team members of the MDGIF (or their representative):

i.	Executive Director, MDGIF	Chairman
ii.	Director, Strategy Research and Deal Origination	Member
iii.	Director, Project Management	Member

iv.	Director, Fund Administration	Member
v.	Director, Internal Audit	Member
vi.	Director, Governance, Risk and Compliance	Member
vii.	Secretary to the Governing Council	Member

b. Operationally, the role of the MIC shall be to:

i. Review all investment proposals for the Fund.

ii. Authorise screening and due diligence of investment proposals

iii. Consider the report of the Transaction Advisor on the technical and commercial evaluation of the potential equity investment proposals for the Fund.

iv. Review individual and portfolio investment performance for the Fund's investments.

v. Recommend policies and strategies for adoption by the Fund to review or amend the MIPS; and

vi. Do such other things as may be assigned by the Governing Council.

2.4 Transaction Advisor

a. In accordance with the Act, the MDGIF shall appoint a Transaction Advisor on a need basis, to carry out transaction advisory services, including:

i. technical and commercial evaluation of investment proposals,

ii. reviewing policy statement and guidelines issued by the MDGIF.

iii. defining project screening criteria and profitability targets for projects,

iv. preparing a report on findings and recommendations from the technical and commercial evaluation of investment proposals to the Governing Council via the Executive Director,

v. any other duty as may be assigned by the Governing Council on behalf of the MDGIF.

b. The selection of the Transaction Advisor shall be through a competitive and transparent criterion and is to be managed by the Executive Director based on the guideline approved by the Governing Council.

3 GENERAL POLICY AND OBJECTIVES

Investment under MDGIF shall be guided by the following general policy and objectives.

3.1 Purpose of the MDGIF

In accordance with the Act, the MDGIF shall make equity investments of government-owned participating or shareholder interests in infrastructure related to midstream and downstream gas operations that are aimed at:

i. Increasing the domestic consumption of natural gas in Nigeria in projects which are financed in part by private investment;

ii. encouraging private investment through risk sharing by participating initially in selected high-risk projects;

iii. such other equity investments with private entities that encourage investments in midstream and downstream gas infrastructure; and

iv. encourage project development that would reduce or eliminate gas flare. The gas flare-out project developed for such a purpose would bring relief to the host communities.

3.2 Investment Philosophy of the MDGIF

a. The primary objective of the MIPS is to promptly and effectively provide funds for equity investments in infrastructure related to midstream and downstream gas operations; which are proven to be viable and aligned with the purpose of the Fund.

b. In order to do so, the Fund must:

   i. accumulate and maintain financial reserves necessary to fulfil this obligation.

   ii. invest prudently in projects that fit its purpose pursuant to the Act.

   iii. prioritise impact in deepening domestic gas utilisation and consumption in the country, and

   iv. follow clear operating guidelines and delegation of authority pursuant to the Act.

3.3 Investment Objectives of MDGIF

a. In order to ensure an effective and sustainable implementation of the purpose of the Fund pursuant to the Act, the investment objectives of the MDGIF as documented in this MIPS shall be as follows:

i. To viably invest in the Nigerian midstream and downstream gas industry and fund projects directed at increasing the domestic capture, processing and utilisation of natural gas in Nigeria, while at the same time growing the Fund for further value-adding impact.

ii. To build a performing and diversified investment portfolio capable of generating fair returns, provide liquidity for investments in projects, and enhance the value of the Fund.

b. In developing the investment program, the Fund shall be guided by a set of precepts from which its investment decisions shall flow, and which shall be the foundation and guiding principle for all investment activities.

c. Each investment transaction shall be limited to those activities defined as eligible under the guidelines contained in this MIPS. These precepts are as follows:

3.3.1 Risk

The Fund's investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required to ensure that the Fund prudently identifies and manages applicable investment risks.

3.3.2 Liquidity

Adequate consideration is to be given to the Fund's liquidity position vis-à-vis its investment program and commitments on an ongoing basis. The investment portfolio shall provide sufficient liquidity to enable the Fund meet all project commitments and other operating expenses on the Fund's budget.

3.3.3 Return on Investment

The portfolio shall be managed to achieve a positive return on investment (ROI), in line with a benchmark rate of return established for the Fund from time to time by the Governing Council.

3.3.4 Maintenance of Public Trust

The Fund shall seek to avoid any transaction under the Investment Policy that might impair public confidence in the Fund and its stakeholders.

3.4 Asset Allocation

In order to achieve the Fund's investment policy objectives, effective asset allocation is a critical investment strategy. The Fund's asset allocation shall follow these guidelines:

i. The asset allocation should reflect a proper balance between the Fund's financial and investment objectives, risk tolerance and need for liquidity.

ii. All idle funds shall be invested in safe and liquid investments to optimise the Fund portfolio, prior to being deployed for equity investment in gas projects.

iii. The Fund shall maintain adequate cash balance in its liquidity position to finance its investment program and funding commitments for equity investments in projects.

iv. The Fund will maintain an equal prioritisation on its various target investment areas, provided that all investments considered meet the Fund's qualifying criteria.

v. The Fund shall review and evaluate gas infrastructure opportunities for investment across all geopolitical zones and regions in Nigeria with no geographic preference within the country.

vi. The Fund shall adhere to limits specified in this MIPS on the maximum absolute and percentage amounts of the Fund's value or annual total investments that may be invested in a single project or transaction.

vii. The Fund shall avoid concentration risk but ensure that resources are efficiently deployed per project. The diversifications shall provide reasonable assurance that no project will have a disproportionate impact on the Fund's aggregate results and to ensure even spread of the benefit of the investment capital available to the Fund;

viii. The Fund may reinvest all realized interest, proceeds, dividends and other incomes accrued from the equity investment of the Fund in other secured low risk investments as may be approved by the Governing Council.

3.5 Geographic Focus

The MDGIF shall review and evaluate gas infrastructure opportunities for investment on a non-discriminatory basis across Nigeria.

3.6 Target Sectors for MDGIF Investment

The MDGIF will invest in the development of critical gas infrastructure projects within the midstream and downstream gas sectors based on the priority areas approved by the Governing Council from time to time. The target sectors shall include but not be limited to

i. Gas processing facilities and projects such as natural gas processing plants, liquefied natural gas (LNG) plants, liquefied petroleum gas (LPG) plants, compressed natural gas (CNG) plants projects.

ii. Gas transportation projects including gas transmission, distribution networks and virtual transportation systems.

iii. Gas storage facilities for LNG, CNG, and LPG

iv. Gas flare utilization projects – aimed at environmental remediation relief, sustainable development and flare elimination projects.

v. Other Gas utilization projects such as in gas-based industries, Energy Intensive Industry etc.

vi. National widespread retailing infrastructure- Auto gas, refilling plants, virtual transportation means, residential gas infrastructure etc; and

vii. Other large scale with nationwide spread industrial, commercial, and related projects that will enable private investment in the midstream and downstream gas operations.

3.7 Investment Guidelines

i. The MDGIF's investments shall be made based on the availability of suitable opportunities and in accordance with the limits specified in this MIPS.

ii. The MDGIF shall consider the infrastructure priorities in the various policy interventions, programmes and initiatives of the Federal Government and other MDAs including, but not limited to; National Gas Policy, Nigerian Gas Master Plan (NGMP), Nigerian Gas Flare Commercialization Programme (NGFCP), National Gas Expansion Programme (NGEP), Decade of Gas Program, Presidential Compressed Natural Gas Initiative (P-CNGi) as well as other gas-based midstream and downstream infrastructure projects.

iii. The Fund will invest in such priority infrastructure projects after careful review and analysis of the proposed project viability, the outcome of the due diligence process requirements and its satisfaction with same as well as the approval of the Council.

3.8 Potential Investment Partners

a. The MDGIF will identify and invest in the midstream and downstream gas operations through equity investments:

   i. in viable existing midstream and downstream focused entities, or,

   ii. by establishing new partnerships with credible investors for joint investments.

b. All Project Promoters and equity partners shall possess relevant registrations, approvals, permits, licences and concessions from the Authority and any other relevant government agency required for operating in the midstream and downstream gas sector.

3.9 Intervention Strategies

The MDGIF shall provide financial and non-financial interventions to eligible projects.

3.9.1 Financial Intervention:

a. The MDGIF may take any of the approaches and forms for executing its equity investments in midstream and downstream gas projects.
b. Direct financial intervention through provision of equity investment can be made by the Fund in various types of infrastructure projects in the midstream and downstream gas operations such as, but not limited to:
   i. Brownfield priority gas projects and operations that will improve efficiency of gas supplies and contribution to economic development.
   ii. High value gas projects which can expand faster with capital injection.
   iii. Additional investment to projects in eligible gas infrastructure target sectors.
   iv. Existing high value projects which have been unable to reach maturity due to financial limitations of current project owners/sponsors.
   v. Greenfield projects, covering project development, structuring, and financing.
   vi. Abandoned projects that are proven to be bankable.

3.9.2 Non-Financial Interventions:

The MDGIF can provide required advisory services and support necessary for efficient project development, and execution in line with the Fund's purpose and objectives pursuant to the Act.

3.10 Investment Horizon and Exit Strategy

3.10.1 Investment Holding Period

a. The investment horizon of the MDGIF is driven by the following considerations:
   i. One of the critical challenges facing the midstream and downstream gas infrastructure sector is the lack of adequate long-term financing.
   ii. The long-term nature of gas infrastructure projects means significant upfront capital investments are required while revenue streams are often distanced away to post-completion of the projects. As such, the perceived risk by lenders is high.
   iii. Pursuant to the Act, MDGIF is well-positioned to act as an institutional equity investor with patient capital that would encourage risk sharing.

b. In line with the above, the investment horizon of the Fund is defined as medium to long-term. Specifically, the Fund shall seek to structure its investments as follows:

i. **Short-term investments:** This will apply to the Fund's investments of its idle funds in interest bearing accounts, treasury and other liquid instruments to optimise portfolio returns.

ii. **Medium-term investments:** This will apply to the categories of equity investments in projects with a short gestation period and an investment structure that is suited for a quick exit by the Fund. This investment horizon is estimated at 3-7 years and the Fund will seek to exit such investments within the estimated timeline.

iii. **Long-term investments:** This will apply to equity investments made by the Fund where participation is for over 7 years into perpetuity, subject to an exit event by the Fund regarding to its equity holding in the project or entity. This investment horizon is estimated at over 7-20 years, into perpetuity. The Fund may explore exit strategies or choose to remain a participating shareholder in this category of projects. For the avoidance of doubt, notwithstanding the long-term nature of such investments, they shall remain subject, at all times, to the MDGIF's right and election (at its discretion) to exit at any time.

3.10.2 MDGIF Exit Strategies

a. Pursuant to the Act,

> *"The purpose of the Fund shall be to make equity investments of Government owned participating or shareholder interests in infrastructure related to midstream and downstream gas operations…"*

i. Accordingly, the MDGIF will invest in viable projects that align with its mandate pursuant to the Act as a minority equity investor without emphasis on potential for exits as a criteria for investment decision making.

ii. However, the Fund will be guided by its classification of each potential investment proposal vis-à-vis the investment horizon provisions of this MIPS. The Fund shall design appropriate strategies in the transaction structure for each investment.

b. Where it is appropriate for the Fund to consider an exit strategy, the appropriate strategy will differ for each investment and will reflect the Fund's position as a minority equity investor. The options may include:

i. Sale of the Fund's shareholding or participating interests to the Project Promoters or other project shareholders; or

ii. Sale of the Fund's shareholding or participating interests to other strategic investors or funds.

c. The MDGIF would, to the extent possible, retain relevant rights and provisions in agreements with its investee companies, to allow a seamless exit in all its investments.

3.11 Relationship with MDGIF Equity Partners

The MDGIF shall collaborate with equity partners in its investee companies at every stage of the project lifecycle to develop and operationalize the project while expanding the MDGIF's impact on the development of the gas infrastructure value chain.

3.12 Conflicts of Interest, Anti-Corruption and Fraud

3.12.1 Conflicts of Interest

i. Project Promoters shall not have any conflict of interest in relation to their proposals and shall disclose to the MDGIF all affiliations and any relationship that might involve a conflict of interest.

ii. Failure to disclose said situations may lead to the disqualification of the project promoters or the termination of any Investment Agreements.

iii. All Members of the MDGIF Governing Council are mandated to disclose to the Council all affiliations and any relationship that might involve a conflict of interest.

iv. All Members of the MDGIF Governing Council shall recuse themselves from taking any action, position or interest that conflicts with the interest of the MDGIF or gives the appearance of a conflict.

3.12.2 Anti-Corruption and Fraud

i. The MDGIF will require that every Project Promoter observes the highest standard of ethics during the application processes and during the execution of any Project in relation to the MDGIF.

ii. Project promoters shall submit all accounts, records and other documents on demand to MDGIF for audit by an independent auditor.

iii. MDGIF shall not partner with project promoters on the "debarred lists" of the Economic and Financial Crimes Commission, the 'Independent Corrupt Practices and

Other Related Offences Commission' or any similar agency anywhere in the world.

iv. If, in the sole judgment of the MDGIF, a project promoter has or has in all reasonable likelihood engaged in any corrupt practice or fraudulent practice, the MDGIF may, at its sole discretion, disqualify such project promoter at any stage of the project.

v. Additionally, each MDGIF partner shall permit and shall cause their agents (where declared or not), subcontractors, sub-consultants, service providers, suppliers, and their personnel, to permit the MDGIF to inspect all accounts, records, and other documents relating to the performance by MDGIF partner under the Investment Agreements, and to have them audited by auditors appointed by the MDGIF, as applicable.

vi. Any project promoter executing the Investment Agreement must represent, warrant, and covenant that it has not engaged in any corrupt practices in relation to accessing the Funds.

3.13 Non-Conforming Proposals

i. The MDGIF shall only accept proposals that are in conformity with Investment Proposal requirements and MIPS.

ii. In cases of minor deviations, MDGIF may request clarification from the project promoters. Where project promoters does not provide a satisfactory clarification, MDGIF may reject the investor's proposal.

iii. In the event that any proposal is rejected, MDGIF shall promptly notify the project promoters stipulating the reasons for rejection. Such project promoters shall not then be permitted to amend its proposal to become compliant.

3.14 Response Timeline

The MDGIF shall communicate its approval or rejection of an application within six (6) months.

4 INVESTMENT POLICY AND GUIDELINES

4.1 Investment Principles

4.1.1 Alignment with National Strategic Development Goals

The MDGIF shall align with government critical components of achieving energy security, diversified energy mix, drive economic growth and sustainable development.

The Fund shall:

i. Ensure that the investments to be made have significant development impact and are complementary to the priority projects and sectors, as identified by the Federal Government. Specifically, reference must be made to the government's policies and programs such as 'National Gas Policy', 'Decade of Gas', 'Gas Master Plan', National Economic Sustainability Plan, P-CNGi etc.

ii. Support projects that would enhance the production and consumption of natural gas in Nigeria, leading to considerable reduction in the importation of such gas products or derivatives.

iii. Stimulate massive infrastructural development, growth in industrial hubs, enhance employment, and create a multiplier effect on the domestic economy in Nigeria.

iv. Support gas flare commercialization and carbon reduction projects based on gas utilization.

v. Take on board projects with substantial capacity and scope to stimulate investments in high-risk projects that would meet national strategic goals and objectives.

4.1.2 Long-term Focus with Clear Exit Strategy

i. All investments by MDGIF shall be on equity participation (not core-investor) to catalyse the business.

ii. Equity investments shall be based on received proposals from project promoters or MDGIF- initiated partnership in line with the MDGIF objectives.

iii. The MDGIF shall have a long-term investment horizon to enable investments in gas infrastructure projects with long gestation periods to improve bankability and attractiveness for other investors.

iv. The MDGIF can invest Interest and other incomes accruing to the equity investment of MDGIF in low-risk investments with optimal return for strategic quick wins and re-investments.

4.1.3 Diversification of Portfolio

i. The MDGIF would maintain a diversified portfolio of investments across different gas infrastructure in the midstream and downstream sectors as well as at different regions in the country to manage risks and enhance returns.

ii. These include adopting an optimal diversification strategy in its choice of investment region, sector/value chain, investment size, and concentration.

4.1.4 Environmental, Social, and Governance (ESG)

i. MDGIF shall conduct its business in a sustainable manner and shall apply local and international environmental, social, health and safety regulations, laws and practices.

ii. These include applicable ESG rules and regulations in Nigeria and other best practices such as the International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability, and the Equator Principles.

4.1.5 Transparency and Accountability

i. The MDGIF shall promote transparency, good governance and accountability in the administration of the Fund.

ii. MDGIF shall apply due process in all proposals for investments and shall ensure that investment evaluations are consistent, objective, and transparent.

iii. No undue favour or preference shall be shown to any project promoter, or partner in the evaluation of project proposals for investments.

4.1.6 Collaborative Project Management

i. Every MDGIF investee project or company, shall constitute a Project Steering Committee or Board, on which the Executive Director or a representative shall be a member during project implementation and commercial operations.

ii. The Executive Director shall be responsible for project management of the Fund's investments in projects and shall execute this responsibility by working closely with project promoters and relevant staff of the Fund.

iii. The Fund shall ensure adequate due diligence, project monitoring and oversight during all phases of the project execution in line with the project plan and schedule.

iv. The Fund shall make disbursements of funds for all approved investment projects based on confirmed achievement of the minimum milestones of the project in line with the project plan and schedule.

4.2 Project Screening and Evaluation

a. All project investment proposals shall be subject to a screening process supervised by the Management Investment Committee where the proposals are reviewed and assessed vis-à-vis the Fund's screening criteria checklist.

b. The purpose of the project screening is to identify projects that align with the Fund's purpose and have the complete documentation and requisite readiness for detailed technical and commercial evaluation by the Transaction Advisor.

c. Based on the project screening results, proposals shall be classified as one of the following:

	Screening classification	Action
i.	Eligible investment	Refer for technical and commercial evaluation by Transaction Advisor
ii.	Ineligible investment	Communicate decision to project promoter
iii.	Incomplete documentation	Request additional information from project promoter

d. All project proposals shall be screened based on the screening and evaluation criteria of the Fund.

4.3 Investment Criteria

a. **Infrastructure focus**: The investments to be undertaken by the project promoter must align with the primary definition of midstream and downstream gas operations i.e., they must be in the target sectors of MDGIF investments. These projects must also have stable and predictable cash flows, as aligned with the national strategic goals.

b. **Economic impact**: The investments must contribute directly to the promotion of domestic gas utilization & infrastructure development in Nigeria, which will ultimately support economic growth and development in the country.

c. **Development impact**: Investments to be made must have significant development impact and be complementary to the priority projects and sectors, as identified by the FGNs programs and projects e.g. 'Decade of Gas', 'Gas Master Plan', P-CNGi etc.

d. **Economic viability**: The projects or operations to be considered must be economically viable, as indicated through such measures as clearly defined by tariff principles, user charges, consumer willingness to pay, sustainable consumption rate, etc.

e. **Financial strength**: The financial strength of the projects will be determined based on the following:

   i. Ability to generate cash flows: Key measures to determine the adequacy of the project cash flows such as equity internal rate of return, positive cash flows and profitability, etc. will be measured to determine viability of projects and companies. Potential projects must be able to provide an achievable path to achieve positive cash flows.

   ii. Capital structure: The amount of leverage in a project will be considered a critical factor in selection of projects. This will be to ensure that projects have a sustainable capital structure vis-à-vis the project cash flows.

   iii. Project funding: The projects will be required to be sufficiently funded for MDGIF to invest in such projects i.e. a fully funded transaction with clear line of sight on all funding requirements for the project. In addition, disbursements of funding to the project shall be efficiently managed to ensure that there are no apparent gaps in availability of cash flows to fund construction and adequate working capital for operations.

f. **Effective Internal Control**: The potential investments must inherently, or deliberately institute control measures to provide assurance to MDGIF against misappropriation, misapplication, loss of capital etc.

g. **Environmental, Social and Governance**: Investments shall be made in accordance with the MIPS.

4.4 MDGIF Involvement in Infrastructure Projects

The MDGIF involvement in projects (through the provision of capital and other required support) may cover any parts of the entire project lifecycle. Specifically, the MDGIF may invest in projects across the following stages:

i. **Project preparation and development:** needs analysis, options analysis; stakeholder consultation; project registration with the relevant authority; technical, financial, legal and economic planning; compliance with the legal framework; risk analysis; development of indicative contractual framework; development of funding arrangement; obtaining approvals and clearances; site selection; completion of technical, financial, legal, environmental & social, insurance, commercial due diligence. This is applicable to MDGIF initiated Projects.

ii. **Procurement and financing:** request for qualification & proposal; project information memorandum & draft agreement development; competitive procurement strategy development; selection of parties to the project (e.g., O&M operator, EPC contractor, etc), signing of concession agreement; finalisation of financing agreements; risk management, etc.

iii. **Delivery and construction**: deployment of required inputs for construction and project delivery; monitoring of delivery team.

iv. **Operations and maintenance:** ongoing operations and maintenance of infrastructure assets.

4.5 Base Currency

MDGIF account and reports shall be produced in both Naira and US dollars components.

4.6 Return Target

4.6.1 Forms of Equity Investment Returns:

a. The MDGIF shall earn adequate returns on its equity investments in infrastructure related to midstream and downstream gas operations. The return on investment may accrue to the Fund via any combination of the following; cumulatively the Fund's return on investment (ROI):

i. cash dividend payments being the Fund's share of profits paid out of the investee project or company's free cash flows;

ii. capital appreciation on the fair value of the Fund's shareholding or participating interest in its investee project or company.

4.6.2 Return Benchmark:

a. Benchmark returns on investments in individual projects will be based on reasonable IRR for target sectors.

b. The MDGIF, however, could make exceptions where there is a clear rationale to support investments that do not meet the returns benchmarks identified in sections 4.6.2(a) where the following is applicable:

i. Opportunities for follow-on investments.

ii. Opportunities to catalyse a new industry or space that could eventually have outsized returns; or

iii. Other factors which may contribute to significant long-term economic growth and development opportunities.

c. Considering the need to balance long-term capital preservation and the impact of expected inflation the MDGIF aims to target projects having a positive NPV.

4.7 MDGIF Reinvestments

In line with the MDIGF's investment policies and objectives, all earnings, and returns accruing to the MDGIF shall accumulate and be reinvested by the MDGIF in new gas infrastructure projects to further expand the MDGIF's investment portfolio and increase overall returns.

4.8 Asset Allocation and Exposure Limits

4.8.1 General

a. The MDGIF would invest in a diversified mix of gas infrastructure assets that is consistent with its investment objectives, risk tolerance, liquidity requirements and market conditions.

b. The MDGIF's asset allocation shall be underpinned by sound and efficient capital allocation principles to avoid concentration risks and minimise excessive exposures to any single project, single client or group-companies, market segments and industries within the midstream and downstream gas value chain (balanced portfolio).

c. The MDGIF may allocate a significant portion of its capital towards core gas infrastructure assets that provides stable and predictable returns at lower risks such as long-term contracted gas transportation and distribution assets.

d. In addition, a considerable proportion of the MDGIF's capital may be allocated to value-added investments within the midstream and downstream gas infrastructure value chain which are targeted at enhancing the value of existing gas assets or developing add-on new assets such as the development of processing facilities, expanding existing midstream and downstream gas infrastructure to new markets etc.

4.8.2 Fund Allocation Principles

The following allocation limits shall apply;

i. The MDGIF's exposure to a given project or project sponsor shall not exceed forty nine percent (49%) of the total project cost.

ii. The MDGIF may not, within a financial year, commit more than [fifteen per cent (15%)] of the MDGIF's annual investment capital to any single project, or single Project Promoter (which shall include related parties or projects of project promoters of the Fund beneficiaries in the same period), unless approved otherwise by the Council.

iii. The MDGIF's equity participation in any Project shall not exceed [fifteen per cent (15%)] of the MDGIF's Fund balance.

4.8.3 Project Account

As a requirement for the MDGIF's participation in any project, the MDGIF and the Project Promoter may establish a joint signatory project account, where all funds (Inflow and outflow) for the project shall be channelled.

4.9 Capital Reinvestment and Compounding

Pursuant to the provisions of the Act, and guidance of the Governing Council, the MDGIF may reinvest all realized proceeds including, dividends, interest income on the MDGIF account, fees, other ancillary earning inflows of the MDGIF as well as those sources of funds captured in the Act, in new or existing gas infrastructure assets.

4.10 Socio Economic Investments

i. The MDGIF may make investments to generate a measurable positive social or environmental impact alongside financial returns.

ii. These include investing in projects that increase access to clean and affordable energy, promote energy efficiency, improve energy security, environmental remediation, create jobs, and support local communities.

iii. Such projects are expected to generate social benefit but may not achieve an equal level of financial return set in this MIPS, especially one that is commensurate with the risks associated with the investment.

iv. Subject to approval by the Council, the MDGIF shall ensure that socio economic investment, does not exceed [ten per cent (10%) of the fund balance of the MDGIF and shall develop an evaluation framework with metrics that adequately measure the social impact generated by such investments.

4.11 Investment of Idle Funds

4.11.1 General

i. Idle funds in this context refer to cash balances that have not yet been invested in infrastructure projects.

ii. All idle funds would be invested in short-to-medium term, low-risk financial instruments to generate income while prospecting for profitable and commercially viable investment opportunities in the midstream and downstream gas sector.

iii. The Executive Director shall manage investment of the MDGIF's idle funds on a day-to-day basis in line with this MIPS and investment program approved by the Governing Council.

4.11.2 Investment Criteria for Idle Funds

i. **Liquid instruments**: Idle funds are only permitted for investment in instruments that are highly liquid and easily convertible to cash, to allow the MDGIF quick and flexible access to capital when a profitable midstream and downstream gas infrastructure project emerges. The MDGIF shall maintain a sufficient level of liquidity to meet its cash flow requirements.

ii. **Low-risk**: The investments should be low-risk to protect the capital and ensure the preservation of funds for the eventual investment in the gas infrastructure opportunities.

iii. **Instruments**: The idle funds should be invested in instruments which may include, but are not limited to; money market instruments, short-to-medium term government securities, or certificates of deposit (CDs).

iv. **Yield**: The investments should provide a reasonable yield that is consistent with short-to-medium term investment returns.

v. **Currency**: The MDGIF shall invest its idle funds in instruments denominated in both local and foreign currencies with the ultimate goal of preserving capital in its original currency value while prospecting for suitable midstream and downstream gas infrastructure investment opportunities.

5 INVESTMENT FRAMEWORK

5.1 Steps to Investments Decisions for MDGIF

a. The steps to the investment decision making for the Fund's equity investments in infrastructure related to midstream and downstream gas operations shall be as follows:

   i. Project Origination and Sourcing
   ii. Screening and Due Diligence
   iii. Management Investment Committee Review
   iv. Technical and Commercial Evaluation
   v. Governing Council Investment Decision
   vi. Financial Close

b. Each step of the investment decision process shall be implemented in line with the guidelines in this MIPS.

5.1.1 Project Origination and Sourcing

The Fund shall originate and source potential equity investments in midstream and downstream gas projects through the following:

i. Receipt of investment proposals from project promoters in line with MDGIF's objectives for consideration.

ii. The MDGIF may source for gas infrastructure opportunities within the midstream and downstream gas sectors.

5.1.2 Screening and Due Diligence

For all potential investments, the Fund shall conduct a screening and due diligence review to ensure the project meets its selection criteria for investment as follows:

i. A robust policy and procedures for opportunity screening and due diligence in line with documented criteria and requirements shall be used.

ii. Screening of potential opportunities to be carried out by staff of MDGIF under the direction of the Executive Director in line with the MIPS.

iii. The MDGIF would conduct a due diligence evaluation of the project covering commercial, financial, technical, legal, environmental, and social viability of the project.

iv. The required due diligence exercise would vary depending on the complexity of the project or opportunity.

5.1.3 Management Investment Committee Review

Following the screening and due diligence review, all investment proposals shall be presented to the Fund's Management Investment Committee for review. The Management Investment Committee shall review as follows:

i. The report of the screening and due diligence shall be reviewed by the MIC for completeness, and the basis of classification of the project shall be ascertained as being in line with the criteria and procedure.

ii. Based on their review of the findings and recommendations of the screening and due diligence report, the MIC decides whether to decline or approve the investment for further evaluation by the Transaction Advisor.

iii. The MIC would also use the screening and due diligence report as a basis to determine proposed investment terms and structure for the investment project proposal.

iv. The MIC shall refer approved projects to the Transaction Advisor for technical and commercial evaluation by the Transaction Advisor.

5.1.4 Technical and Commercial Evaluation

Following the screening decision on the investment proposal and classification as eligible for investment, the Transaction Advisor shall:

i. Evaluate project proposals for technical and commercial viability; and consistency with the MIPS.

ii. Conduct detailed analysis of the project proposal, and relevant supporting documents to confirm its technical and commercial feasibility, profitability and other financial metrics, and potential investment structure.

iii. In conjunction with Legal Counsel retained by the MDGIF or the Transaction Advisor for the project, review the draft transaction documentation, and provide recommendations on risks, mitigants, bankability of such documents and steps to be taken to ensure that the interests of the MDGIF are protected and the policies under this MIPS are adequately reflected.

iv. Prepare a report of its findings and recommendations from the proposal's technical and commercial evaluation for the Fund. The report shall provide an overview of the project review, the investment readiness and suitability for investment by the Fund.

v. Submit the technical and commercial evaluation report to MDGIF Governing Council through the Executive Director.

vi. Provide transaction advisory services on project proposals as may be directed by the Council.

5.1.5 Final Investment Decision (FID)

i. The Executive Director shall present an investment memo for proposed investments to the Governing Council along with the report of the Transaction Advisor's technical and commercial evaluation.

ii. The Governing Council shall review the investment memo, report of the Transaction Advisor, and other supporting documentation to determine final investment decision (FID) on the investment proposal.

iii. The Council shall approve or decline investment proposals presented, with documentation of its decision and justifications.

iv. Following approval of projects, the Governing Council shall direct the Executive Director to commence all necessary processes to formalize the investment in the project with an indicative MOU, non-binding offer letter or indicative term sheet to proceed with the transaction.

5.1.6 Financial Close

i. The MDGIF executes definitive final Investment documents, Investment agreements and ensure conditions precedent are satisfied.

ii. Project Promoters and equity partners shall submit drawdown request to the MDGIF for fund disbursement based on agreed milestones.

iii. MDGIF disburses funds based on milestones set out in the executed Investment agreements.

5.2 Investment Oversight, Monitoring and Reporting

5.2.1 General

i. The Fund shall ensure adequate oversight and monitoring of all its equity investments in its investee gas infrastructure projects and companies. This shall be led by the Executive Director and supported by staff of MDGIF.

ii. The Fund shall also establish adequate reporting requirements for its investee companies, to aid with the administrative management of the MDGIF's portfolio investments. The MDGIF shall ensure compliance with all relevant laws, regulations, policies and disclosure requirements.

5.2.2 Regular Monitoring:

The MDGIF will regularly monitor the performance of its investments. This includes the monitoring of financial and operational performance as well as compliance with relevant laws and regulations.

5.2.3 Reporting Requirements:

The MDGIF will require regular reporting from its equity partners. This includes status reports and updates, audited financial reports, operational reports, and updates on any material changes or events.

5.2.4 Risk Management:

i. The MDGIF will employ a robust risk management framework to identify, assess, and mitigate risks associated with its investments.

ii. This includes ongoing monitoring of risks and implementing appropriate risk mitigation strategies.

5.2.5 External Audit:

The MDGIF may engage external auditors to conduct periodic audits of its investments and ensure compliance with the MDGIF's policies and procedures.

5.2.6 Annual Audited accounts and Reporting of MDGIF

The MDGIF shall publish the annual report. This report includes:

i. MDGIF operations,

ii. Audited annual accounts.

5.2.7 Key Performance Indicators:

i. The MDGIF will establish key performance indicators (KPIs) to measure the success of its investments.

ii. These KPIs may include financial metrics, such as return on investment, as well as non-financial metrics, such as environmental impact etc.

5.2.8 Regular Communication:

The MDGIF shall communicate regularly with the project promoters, equity partners, and other stakeholders, receiving updates on the projects performance and providing any material changes to investment strategies and risk profiles.

6 REVIEW AND REVISION OF THIS INVESTMENT POLICY STATEMENT

The Governing Council of the MDGIF shall propose periodic changes to the MIPS and associated annexes if necessary. The updated version of the MIPS shall be published on the MDGIF website.

7 GLOSSARY

Abbreviations, terms, and references used in this document are explained hereunder:

Abbreviations	**Meaning**
CDs	Certificates of Deposit
CNG	Compressed Natural Gas
EPC	Engineering Procurement and Construction
ESG	Environment, Social and Governance
FID	Final Investment Decision
IFC	International Finance corporation
IRR	Internal Rate of Return
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
MDAs	Ministries, Departments and Agencies
MDGIF	Midstream and Downstream Gas Infrastructure Fund
MIPS	MDGIF Investment Policy Statement
MOU	Memorandum of understanding
NGFCP	Nigerian Gas Flare Commercialization Programme
NGEP	National Gas Expansion Programme
NGMP	Gas Master Plan
NMDPRA	Nigerian Midstream and Downstream Petroleum Regulatory Authority
NPV	Net Present Value
NUPRC	Nigerian Upstream Petroleum Regulatory Commission
P-CNGi	Presidential Compressed Natural Gas (P-CNG)
PIA	Petroleum Industry Act, 2021
ROI	Return on Investment
KPI	Key Performance Indicator
USD	United States Dollars

MDGIF INVESTMENT POLICY STATEMENT (MIPS)	
Oluwole Adama **Executive Director, MDGIF**	Adama Date 17/5/2024