



**THE Nigerian
STOCK EXCHANGE**

Financing The Next Level:

Alternative And Innovative Long-term Financing For Nigeria's Critical National Infrastructure

Presented by:
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National Economic Council, Abuja | 22 August 2019.

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The Nigerian Stock Exchange
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Marina, Lagos Island
Lagos, Nigeria

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1. About the NSE

2. Assessing Nigeria's infrastructural challenges

3. Innovative capital market financing solutions

4. Discussions, Questions and Answers



**THE Nigerian
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The Council is invited to consider the following:

For information

- Nigerian Stock Exchange (NSE) has actively supported Nigeria's growth story since 1960.
- The capital market is highly correlated and therefore crucial to the country's economic development.
- The capital market offers innovative financing solutions for Nigeria's c.\$100bn infrastructural challenge.

For discussion

- The untapped state investment opportunities in \$1 trillion global privatisation market and ₦9 trillion local pension fund sector.
- Unlocking the value in:
 - Public-private partnerships (PPPs) and Special Purpose Vehicles (SPVs)
 - Initial Public Offers (IPOs) and Corporate Bonds.
 - Infrastructure, Sukuk and Green Bonds; Real Estate Investment Trusts (REITs); ...
 - Refinancing bank debt through capital market instruments.
 - Partnerships with Development Finance Institutions (DFIs) – onshore/local currency bonds.

For decision

- NSE membership as capital market representative/advisor on National Council on Privatisation (NCP); Industrial Policy and Competitiveness Advisory Council (IPCAC); Infrastructure Concession Regulatory Commission (ICRC); Presidential Enabling Business Environment Council (PEBEC), Economic Management Team (EMT).
- Capacity building for NEC Secretariat and relevant officials of state public service on capital market.
- Initiate partnership with States on holistic needs assessment and roadmap to listing of SOEs on the NSE.

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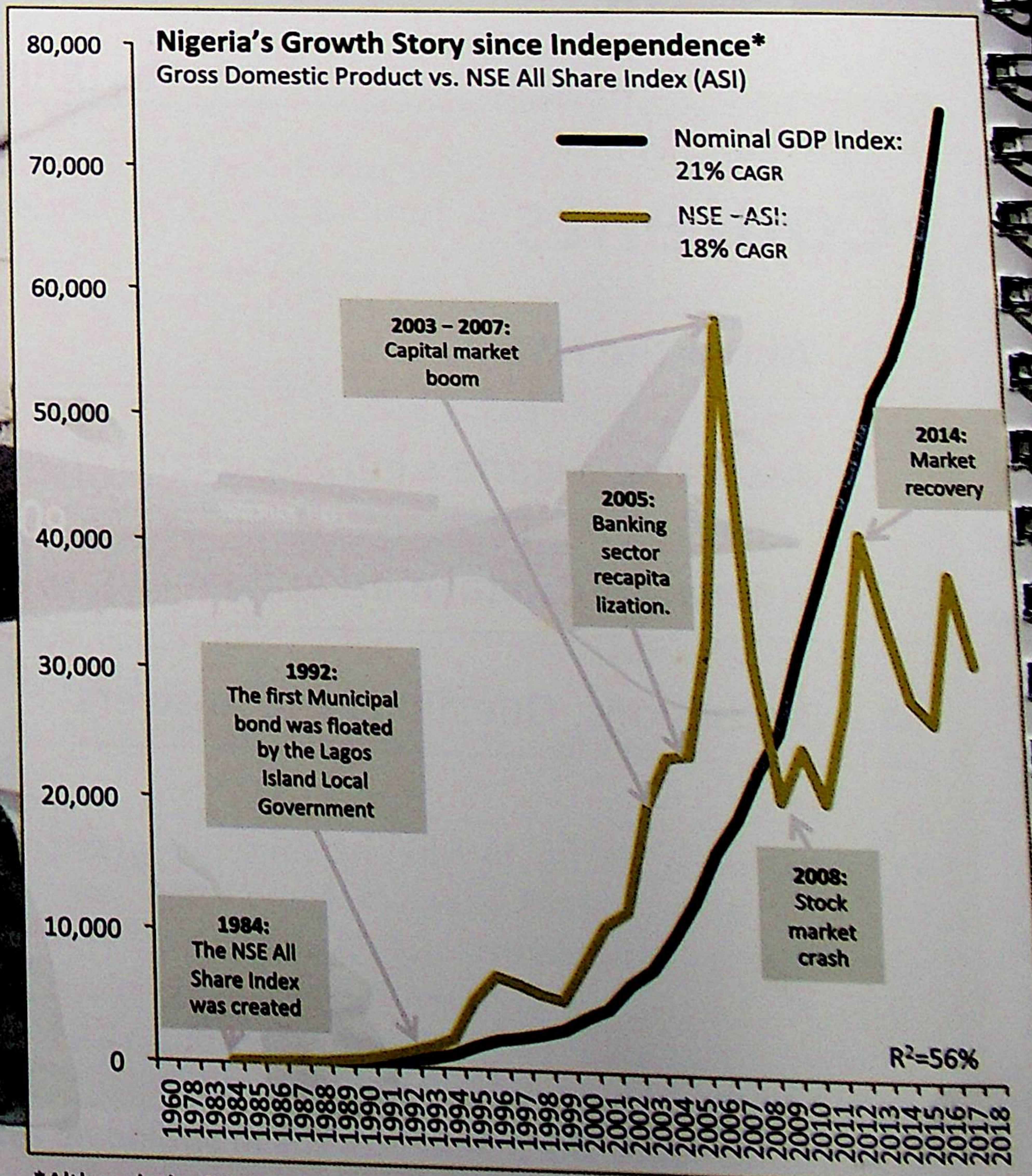


**THE Nigerian
STOCK EXCHANGE**

The NSE has supported Nigeria's growth story since 1960.



Year	NSE Milestones
1960	▪ The Nigerian Stock Exchange was founded.
1977	▪ The Lagos Stock Exchange renamed The Nigerian Stock Exchange
1978-79	▪ Kaduna and Port Harcourt branches/trading floors opened.
1984	▪ The NSE All-Share Index was launched.
1986	▪ President Ibrahim Babangida opened new NSE trading floor in Lagos.
1989-90	▪ Kano, Onitsha, Ibadan trading floors opened.
1999	▪ Abuja Area Office opened and remote trading on the Automated Trading System (ATS) commences.
2004	▪ The 1 st Federal Government Bond (₦150bn) admitted to the NSE Official List.
2007	▪ NSE exceeded ₦1tr cumulative annual turnover.
2008	▪ Global financial crisis hits Nigeria. ▪ NSE market crash.
2017	▪ Nigeria's 1st FX denominated bonds admitted. ▪ NSE Demutualization Process approved by members
2018	▪ DMO Lists ₦100bn FGN Ijarah Sukuk on the NSE. ▪ DMO lists 1st Sovereign Green Bond in Nigeria and Africa on NSE.



*Although the NSE was established in 1960, the NSE ASI was launched in 1984

Today, we are one of Africa's foremost Exchanges servicing her No. 1 economy...



THE Nigerian STOCK EXCHANGE

The Sustainable Stock Exchange Championing Africa's Growth



MARKET PARTICIPATION



197

active dealing members

164**

Equities
(N13.69Tn)

153

Bonds
(N12.35Tn)

9

ETFs
(N12.36Bn)

OPERATING COMPANY



164

Listed Companies



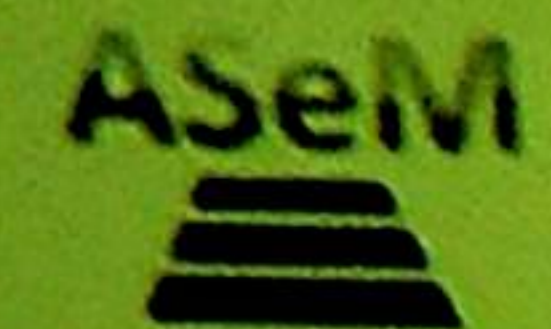
PREMIUM BOARD

8 Domestic Companies



MAIN BOARD

1 Foreign & 145 Domestic Companies



9 Domestic Companies

*as at August 17, 2019

** Incl 2 Closed End Funds and 5 REITs

...with visible (sub-)national impact and global reach.



Government Bonds Listed at NSE

₦10.3tn in long-term capital raised by federal and state over the last 5 years...



Total No. of Outstanding Issue ₦ (no. of tranches)

>304 billion	(6) – Lagos
15 billion	(1) – Bauchi
4.95 billion	(1) – Borno
8 billion	(1) – Cross River
25 billion	(2) – Gombe
8 billion	(2) – Kogi
5 billion	(1) – Nasarawa
41.4 billion	(2) – Osun
4.8 billion	(1) – Oyo
28.2 billion	(1) – Plateau
7 billion	(1) – Zamfara
8 billion	(2) – Ekiti

...with **₦457.32bn**
raised by state
governments
(as of August 2019)

...with visible (sub-)national impact and global reach.



The NSE's national impact and global reach

Globally competitive exchange



Partner with leading global associations that promote best practices and financial system stability

Mobilize savings for investment



13.2 Million investor accounts

₦329.69 Billion in retail trades YTD



₦3.53 Trillion value traded YTD



₦472.7 Billion in Foreign Portfolio Investor trades YTD

Source: NSE market data

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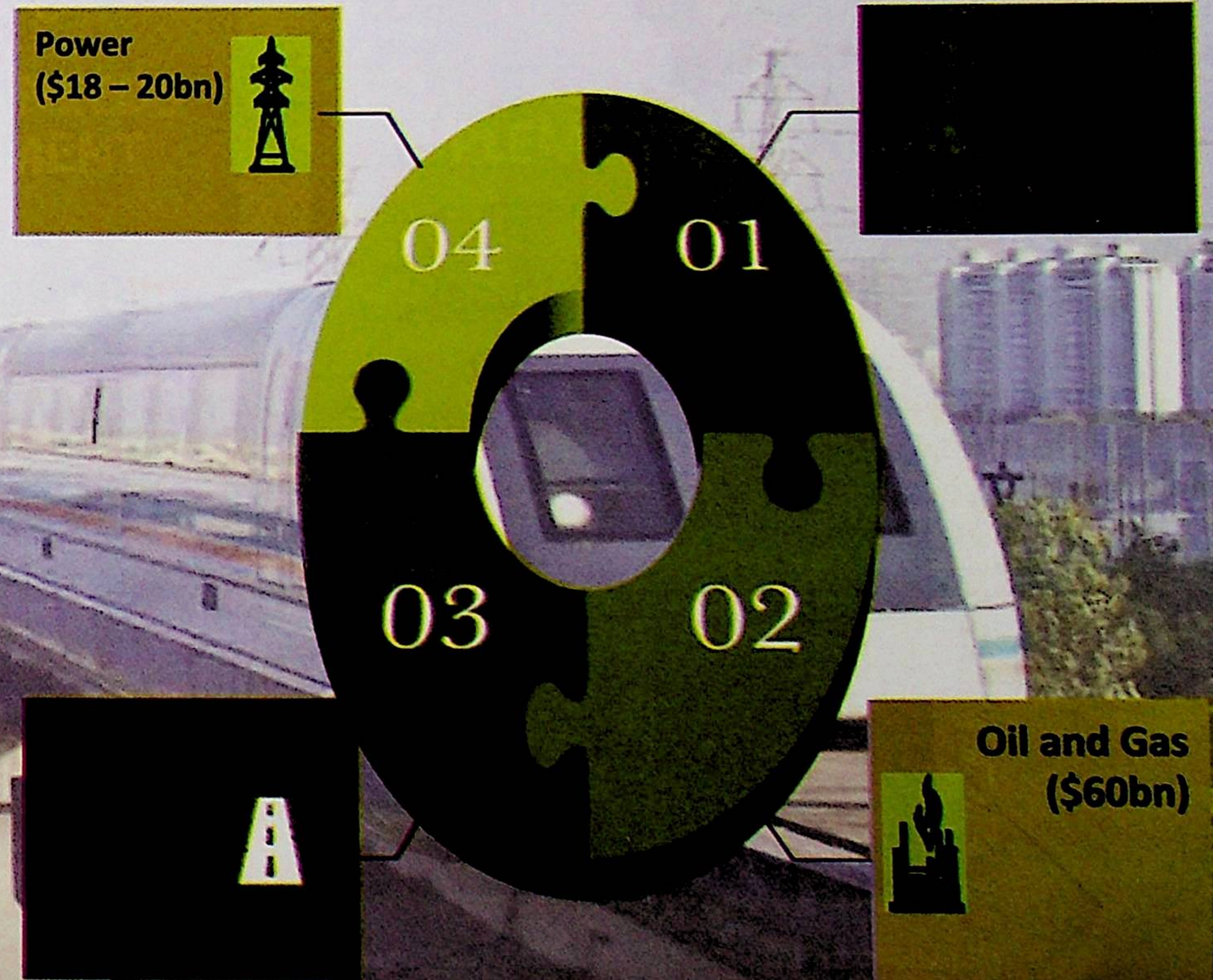
**THE Nigerian
STOCK EXCHANGE**

Solving Nigeria's infrastructure challenges remains the panacea for actualising the country's full economic potential.



- The development of infrastructure and public facilities is a very significant factor to any economic growth.
- The National Integrated Infrastructure Master Plan (NIIMP) stipulates that Nigeria will need an average of US\$33.2 billion per annum (~5.4% of GDP) investment over a 5-year period.
- According to PwC's 2014 report titled "Trends, Challenges and Future Outlook: Capital Projects & Infrastructure in East, South & West Africa" infrastructure spending in Nigeria is estimated to grow from \$23 billion in 2013 to \$77 billion in 2025.
- The government has budgeted ₦2.09 trillion (\$5.8bn) for capital expenditure in 2019, which will mostly be financed by local and foreign debt. This budgetary allocation is insufficient in meeting the infrastructure deficit.
- It has therefore become necessary to develop innovative and alternative financing solutions to bridge the gap in capital expenditure requirements.

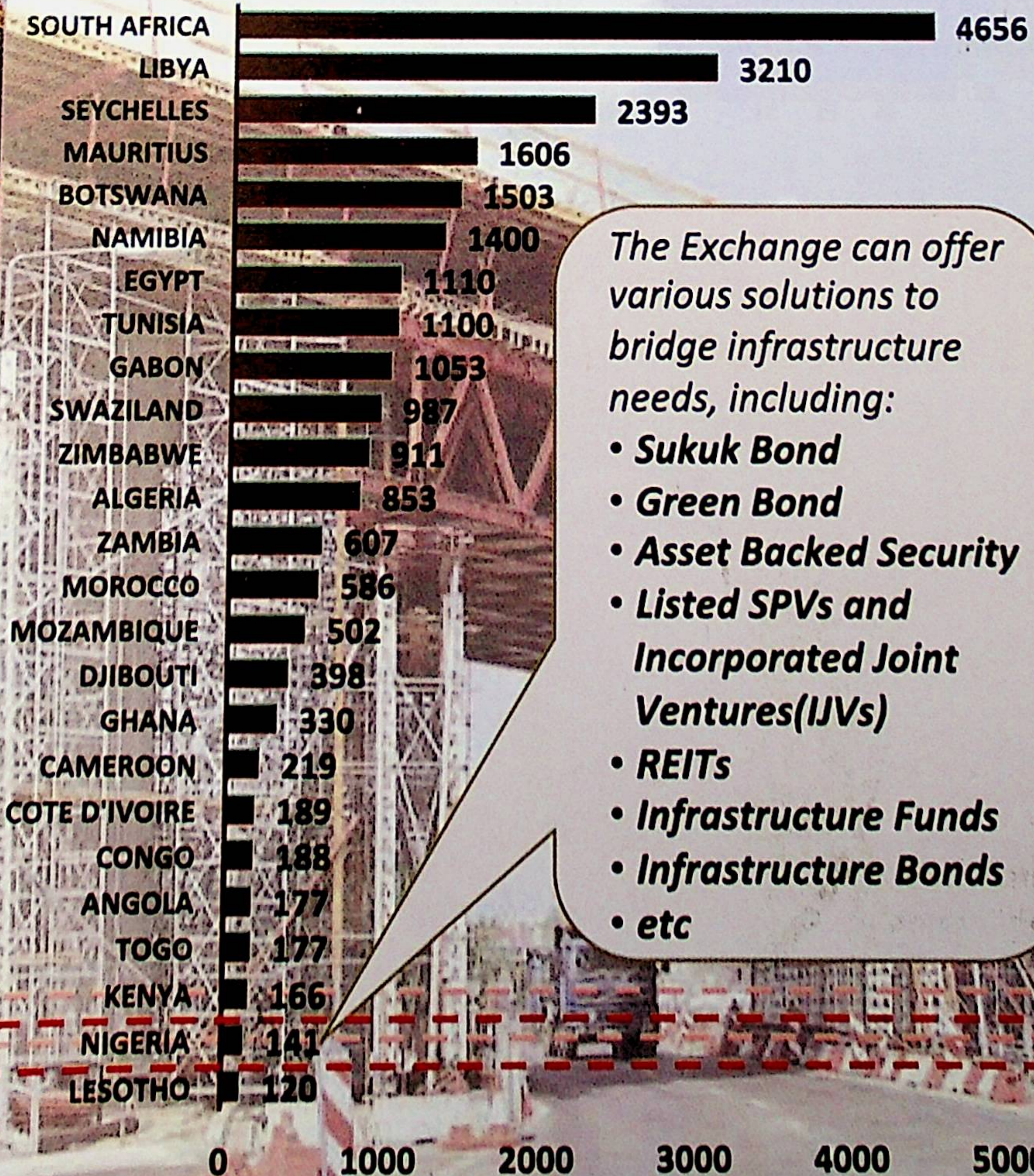
Nigeria requires over \$166 billion to meet capital expenditure and infrastructure development over the next five years...



Source: Infrastructure Concession Regulatory Commission (ICRC)

Challenge (1): Low infrastructure base

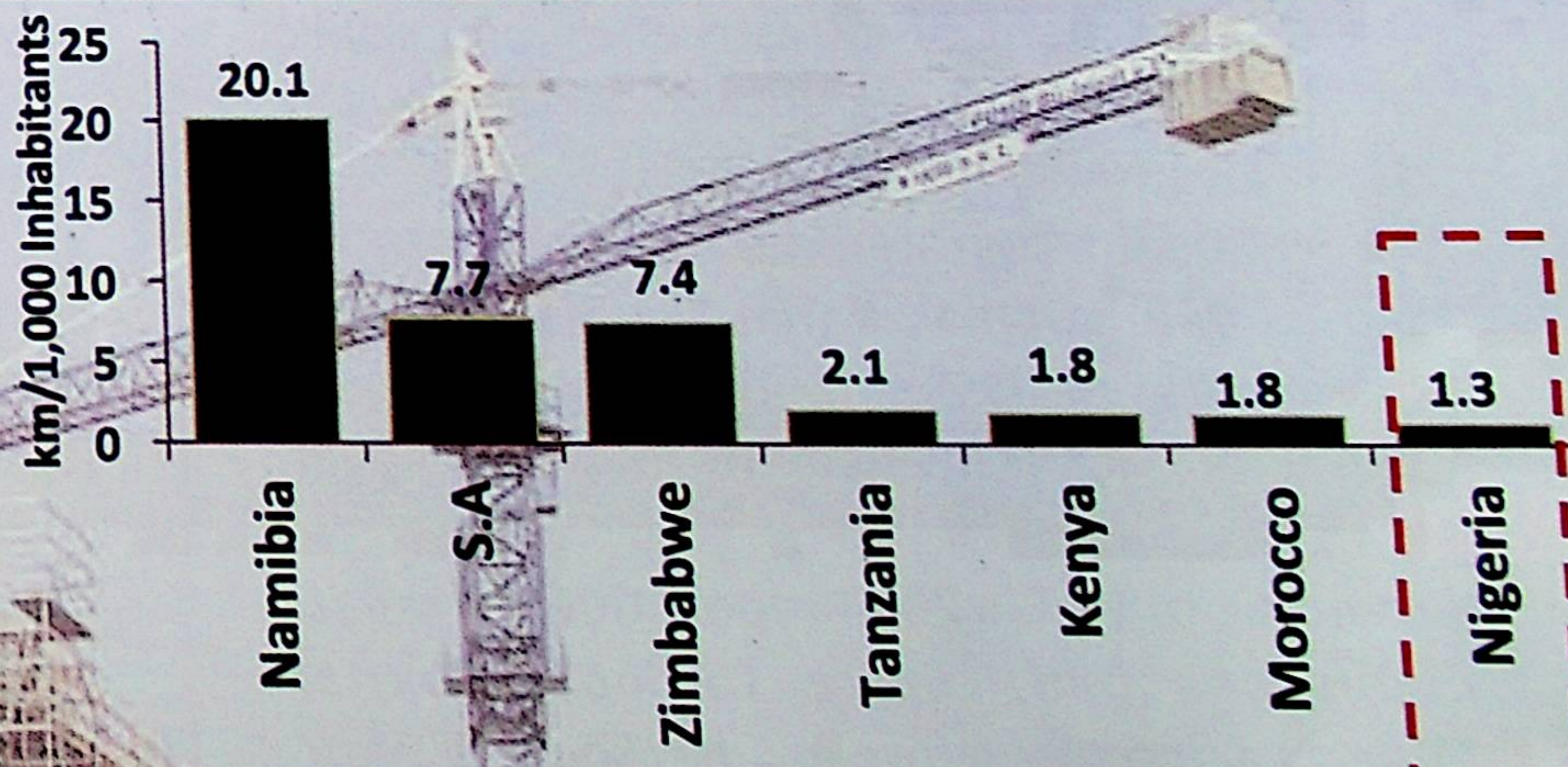
ELECTRICITY CONSUMPTION PER CAPITA, KW/H



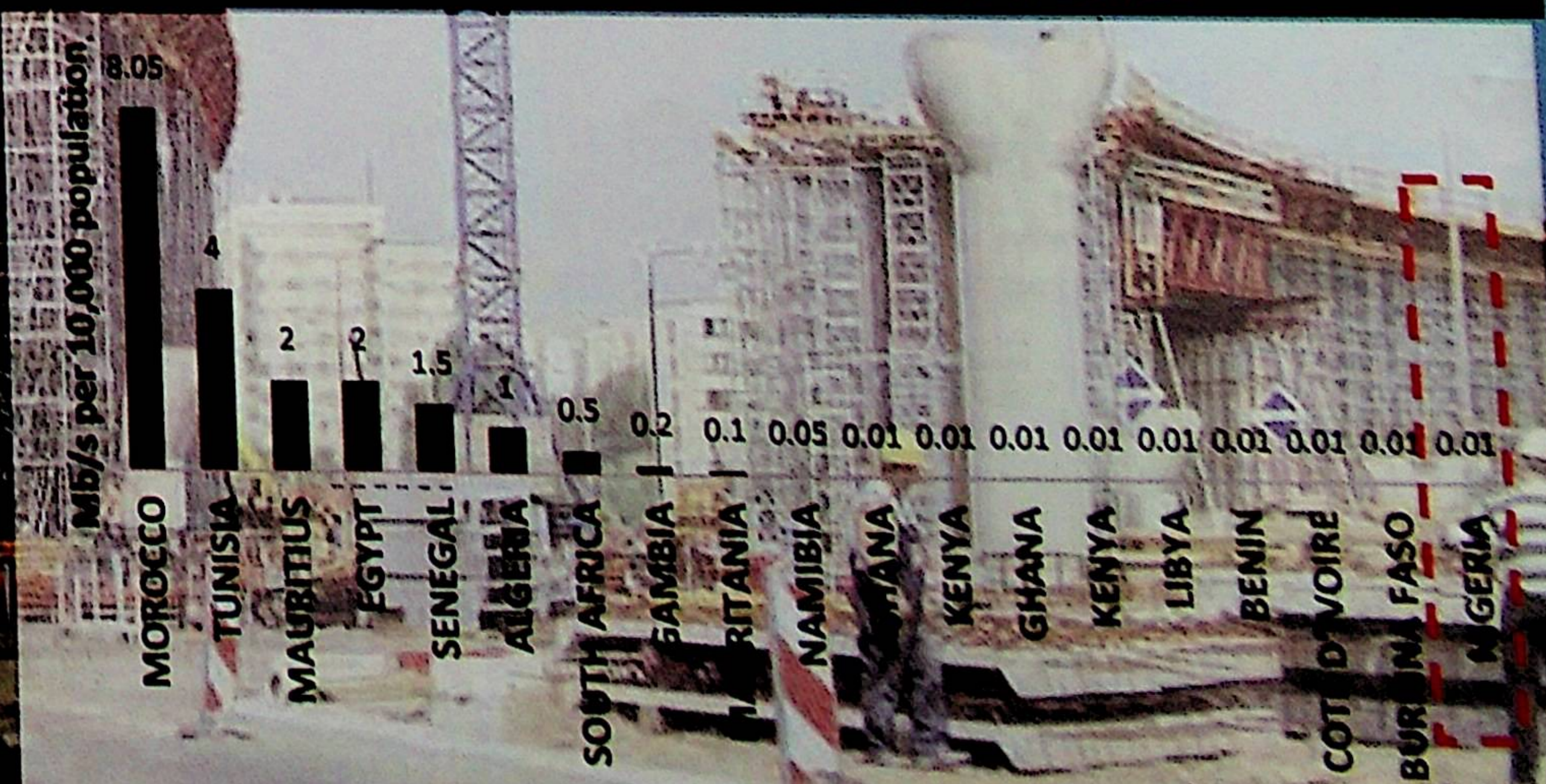
The Exchange can offer various solutions to bridge infrastructure needs, including:

- Sukuk Bond
- Green Bond
- Asset Backed Security
- Listed SPVs and Incorporated Joint Ventures(IJVs)
- REITs
- Infrastructure Funds
- Infrastructure Bonds
- etc

AFRICA ROAD NETWORKS (KM/1,000 INHABITANTS)

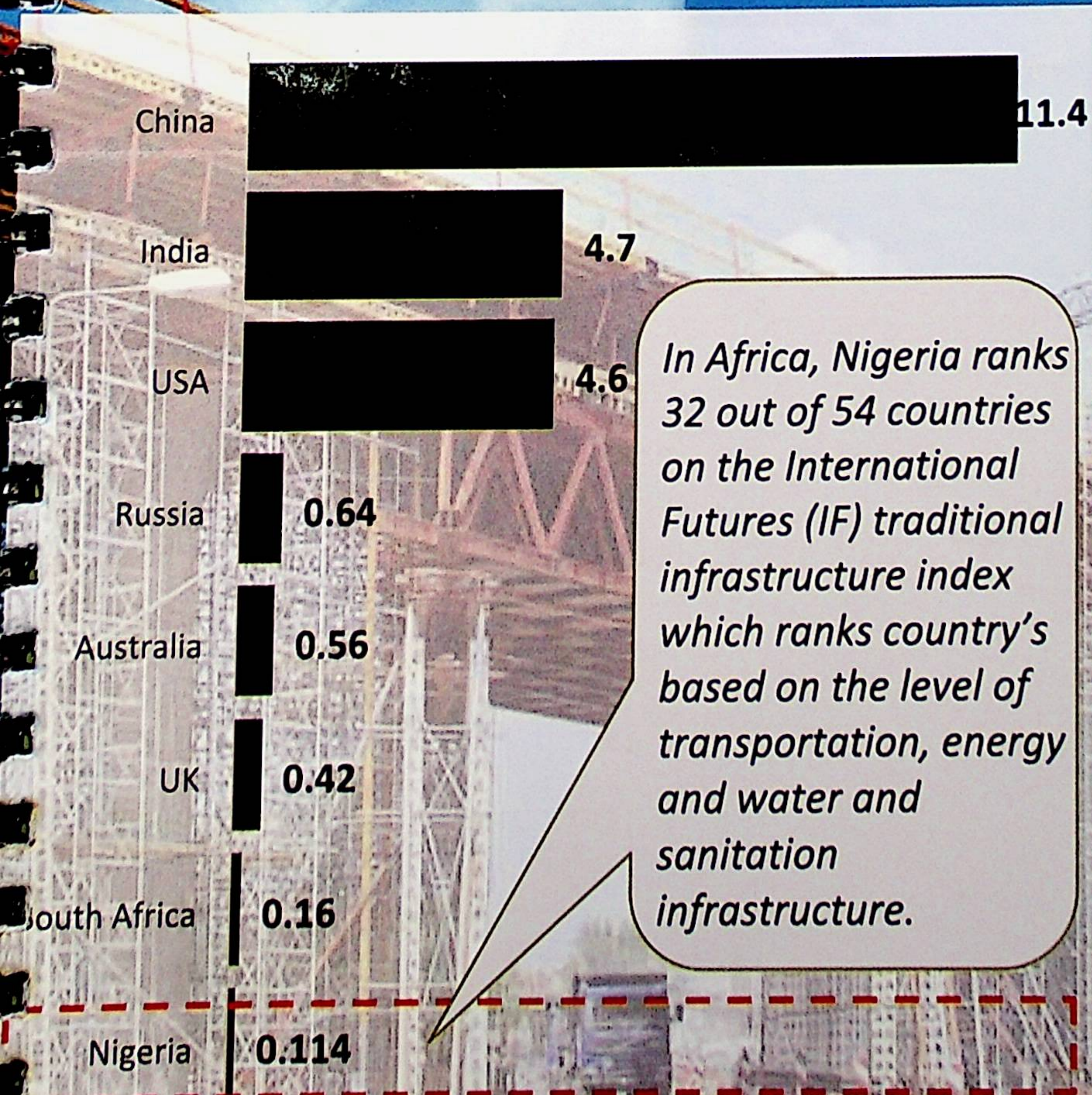


AFRICA'S BANDWIDTH PROFILE



Challenge (2): Poor government spending

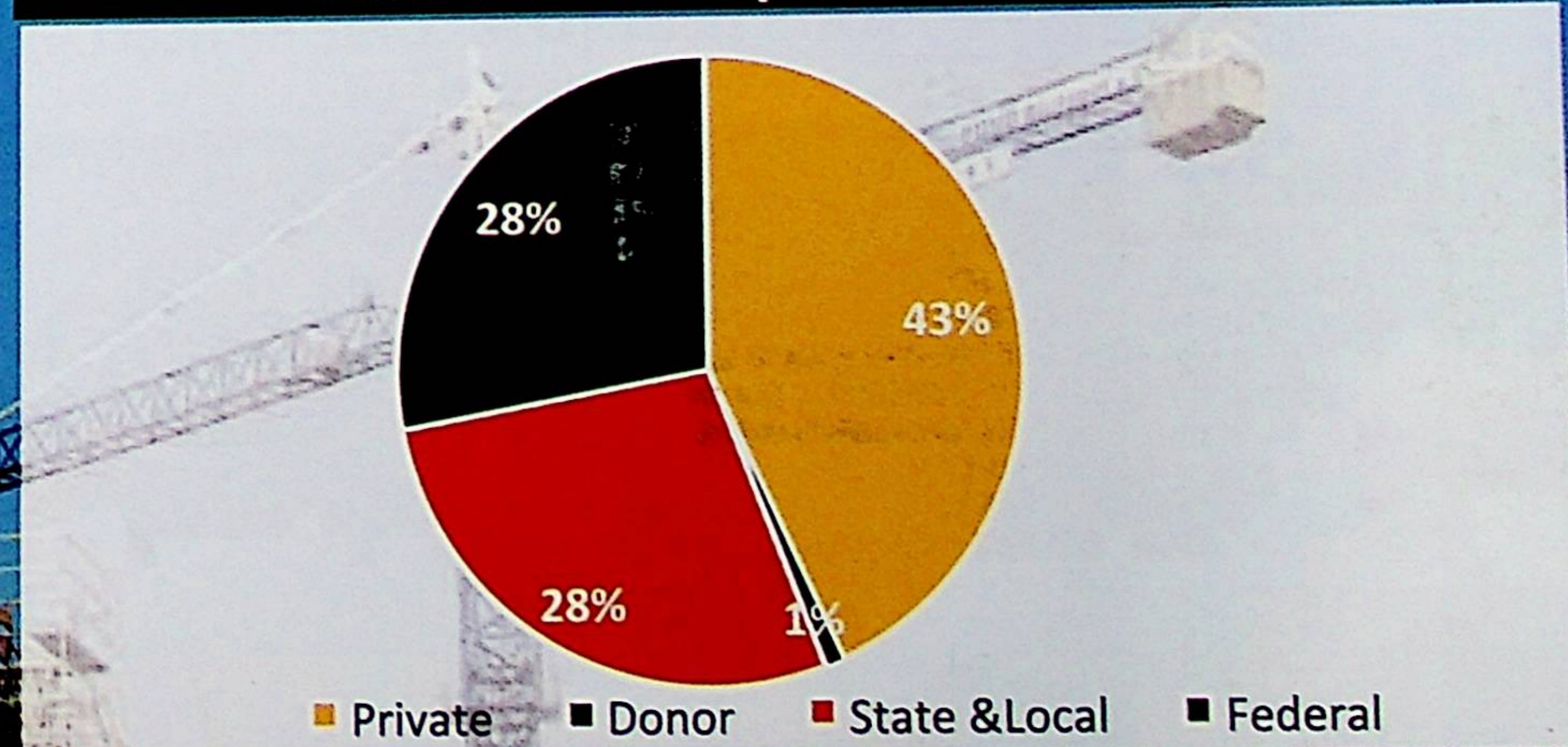
Annual Average Infrastructure Spending (\$trillion)



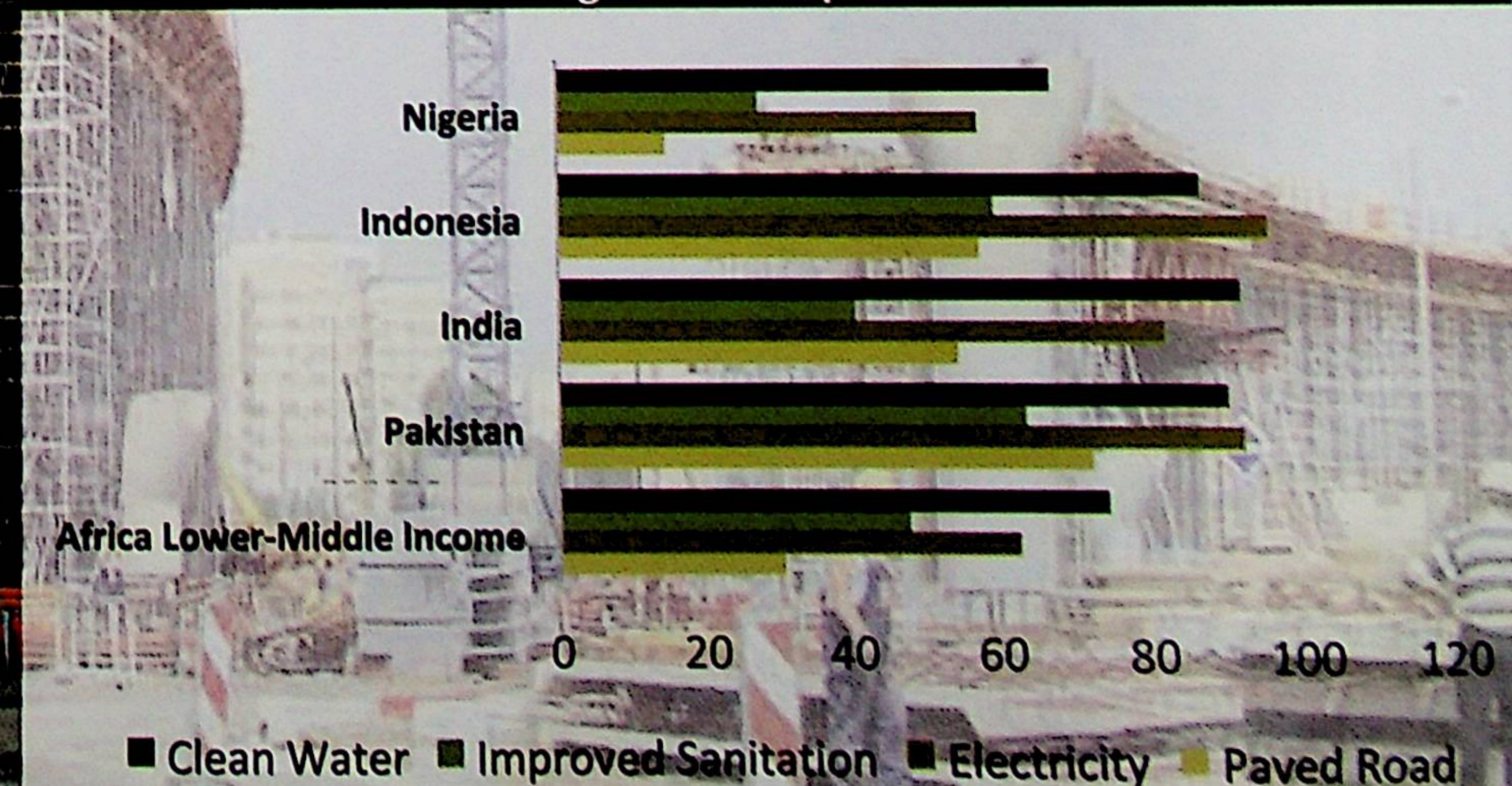
In Africa, Nigeria ranks 32 out of 54 countries on the International Futures (IF) traditional infrastructure index which ranks country's based on the level of transportation, energy and water and sanitation infrastructure.

Source: Statista 2019

Infrastructural Spend Source 2018



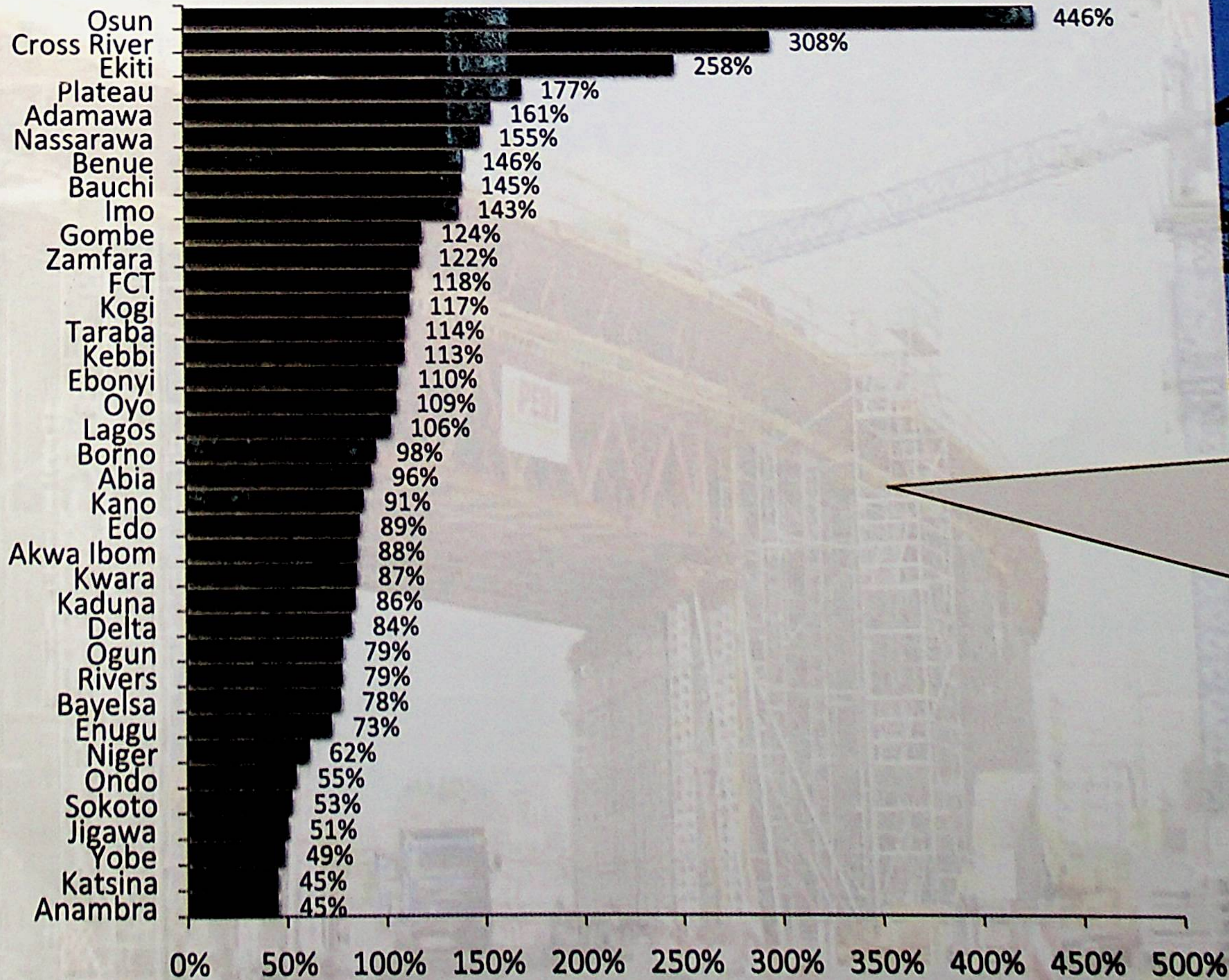
Levels of access to basic infrastructure (percent of population) in 2016, Nigeria in comparison



Challenge (3): High debt-to-income profiles



STATE DEBT TO INCOME RATIOS (%)



State governments' debt servicing capacities have been stretched to fiscal limits, thereby **"necessitating non-debt alternative funding options."**

Source: National Bureau of Statistics

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NSE has taken the bold step of creating innovative products towards bridging the infrastructure gap in Nigeria

SUKUK BONDS

Sukuk bonds are certificates of equal value representing undivided shares in ownership of assets of particular. Sukuk Bonds have been utilized for notable infrastructure projects in Nigeria, such as:

- Construction of 26 Schools by Osun State Government using Ijarah Sukuk of N11.4 billion.
- Construction of Roads by FGN using Ijarah Sukuk of N100 billion.

2
Listed Sukuk Bonds / ₦200bn
Sukuk Bonds

GREEN BONDS

Green Bonds are any type of bond instrument where the proceeds are exclusively applied to finance or re-finance green projects.

Green Initiatives Currently in progress:

- The maiden FGN Sovereign Green Bond issued in 2018
- Corporate Green Bonds – Access Bank and North-South Power in 2019

3
Listed Green Bonds / ₦38.19bn
Green Bond Market Cap.

REITS

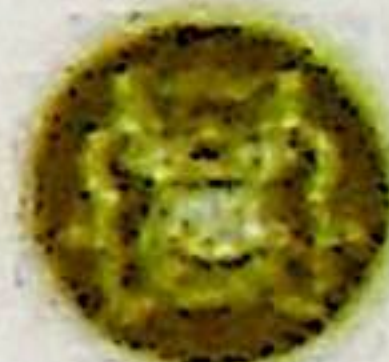
- REITs have played a significant role in stimulating development of the primary real estate market and infrastructure development.
- Nigeria's REITs is in its infancy stage and yet to attain full growth potential.
- REITs provide a practical and effective conduit for greater private sector investment and management of state owned properties/assets.

5
Listed REITs / ₦31.4bn
REITs Market Cap.

SPV

- Special purpose vehicle (SPV), also known as special purpose entity (SPE), refers to a legal entity that is created to isolate a parent company from financial risk, including bankruptcy.
- They are new corporate entity created to manage assets, either wholly or in partnership with the Private Sector

5
Listed SPVs / ₦3.15bn
Market Cap.



Yet, infrastructure funding challenges remain.

Declining Revenues

Nigerian states face declining revenue profiles with only 3 states accounting for over 53% of the total states IGR in 2018.

Lack of Investors' confidence

Unfavourable risk perception of PPP projects arising from associated political uncertainty, resulting in widespread investor apathy for PPP projects

Low Approval Rate

States with budget deficit or declining revenues experience difficulties in getting Debt Management Office approval to issue bond to fund infrastructural projects

Sanctity of contracts

Inconsistency in enforcing policies and unpredictable regulatory regimes that limit investors' ability to protect investments;

Lack of economic incentives

Lack of economic incentives in some sectors to encourage private sector investment

Public sector Incapacity

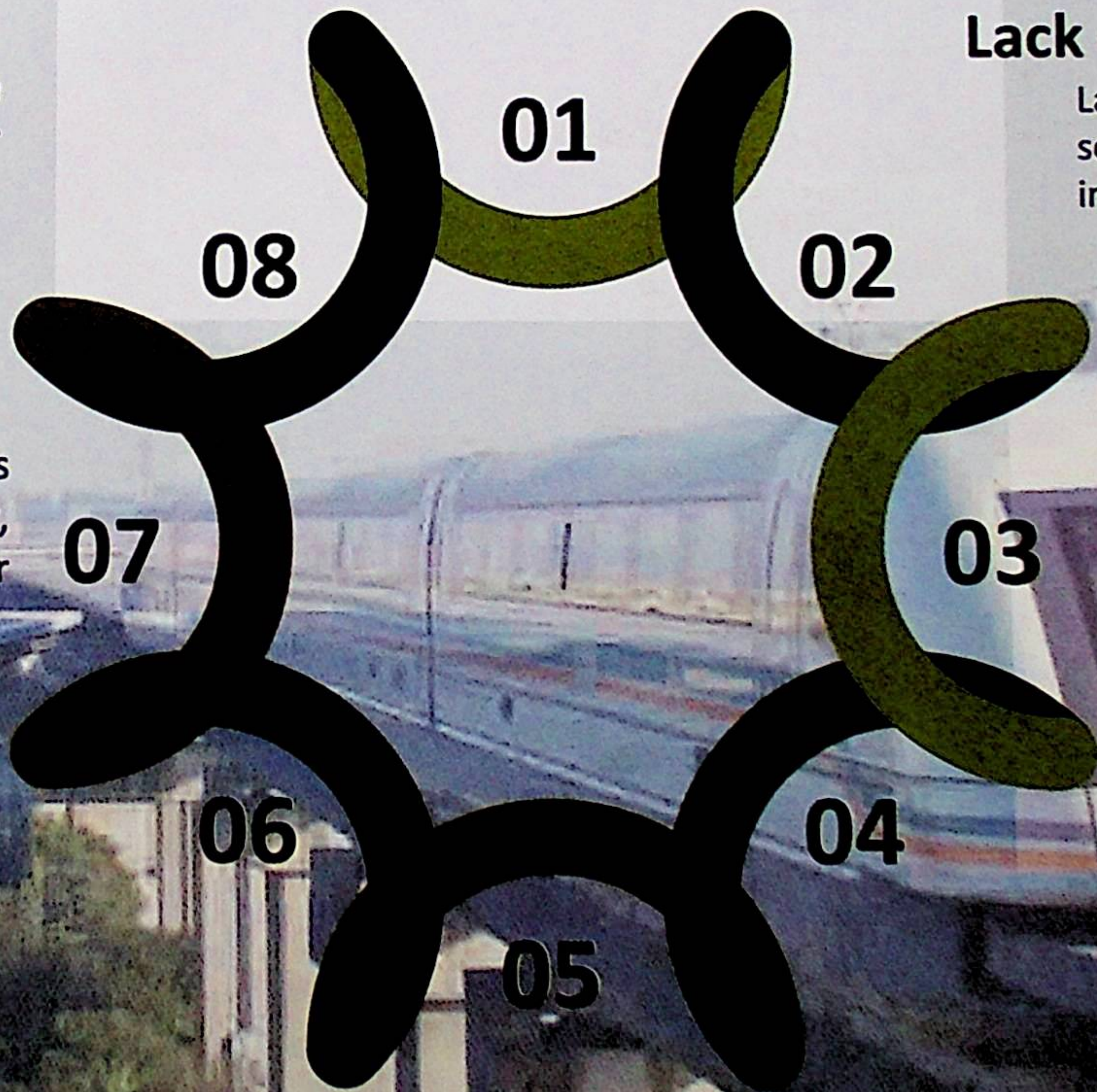
Limited capacity in public sector to design and implement PPP projects

Difficulties in accessing finance

Difficulties in accessing financing due to high costs and lack of maturity associated with Nigeria's credit/venture capital market

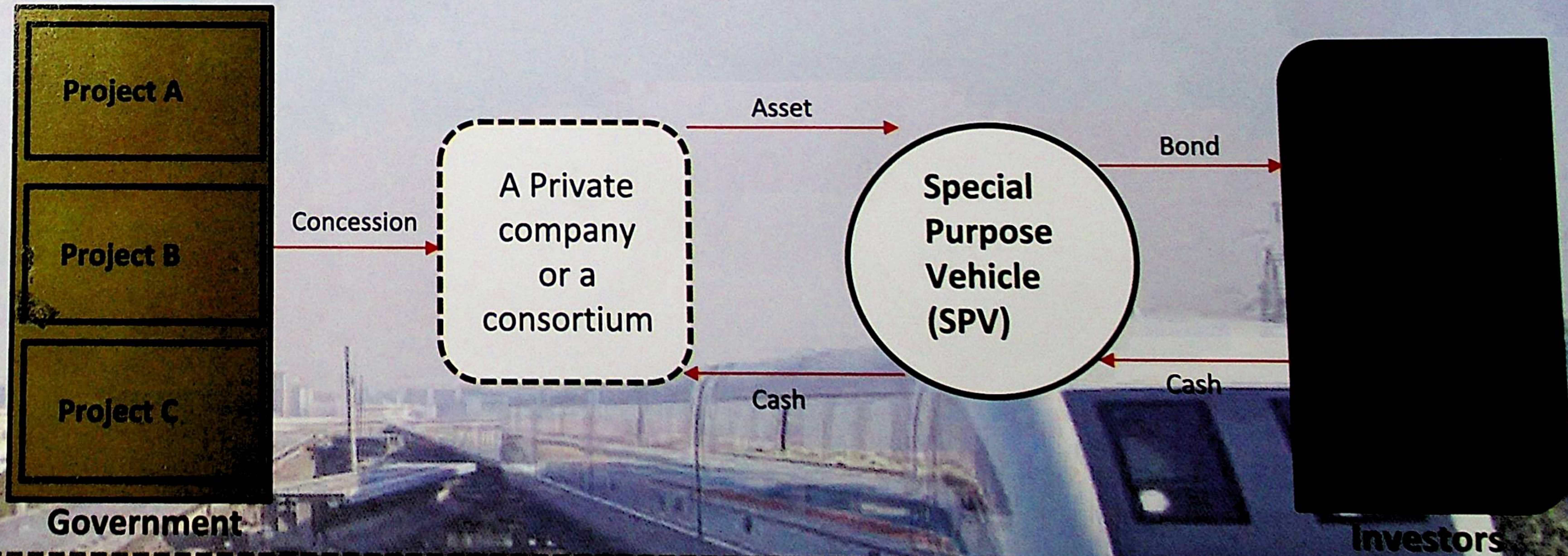
National Insecurity

Security, corruption and other governance issues are among the Global Peace Index (GPI) indicators that affect the country's PPP investment





We must unlock the hidden value and opportunities in: (1.1) Public-Private Partnerships (PPPs) and Special Purpose Vehicles (SPVs)



- Government at all levels is encouraged to consider concession option in the privatization process of some commercially viable Government entities within their domain with a strong Payment security mechanism
- The concessionaires are expected to take up management of these entities and drive adequate value and economic returns to the state. This implies that the private entity should be a professional project developer
- The Private entity will create a Special Purpose Vehicle (SPV) which will bear the project specific risk.
- Bonds will be issued by the SPV in different tranches and sold to a wide range of investors.

We must unlock the hidden value and opportunities in: (1.2) Real Estate Investment Trusts (REITs)



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REITs provide a practical and effective conduit for greater private sector investment in state real estate sector and management of state owned properties/assets.



Government



Real Estate Mgt.
Company/Trust

Equity/Mortgage/Hybrid
REITs

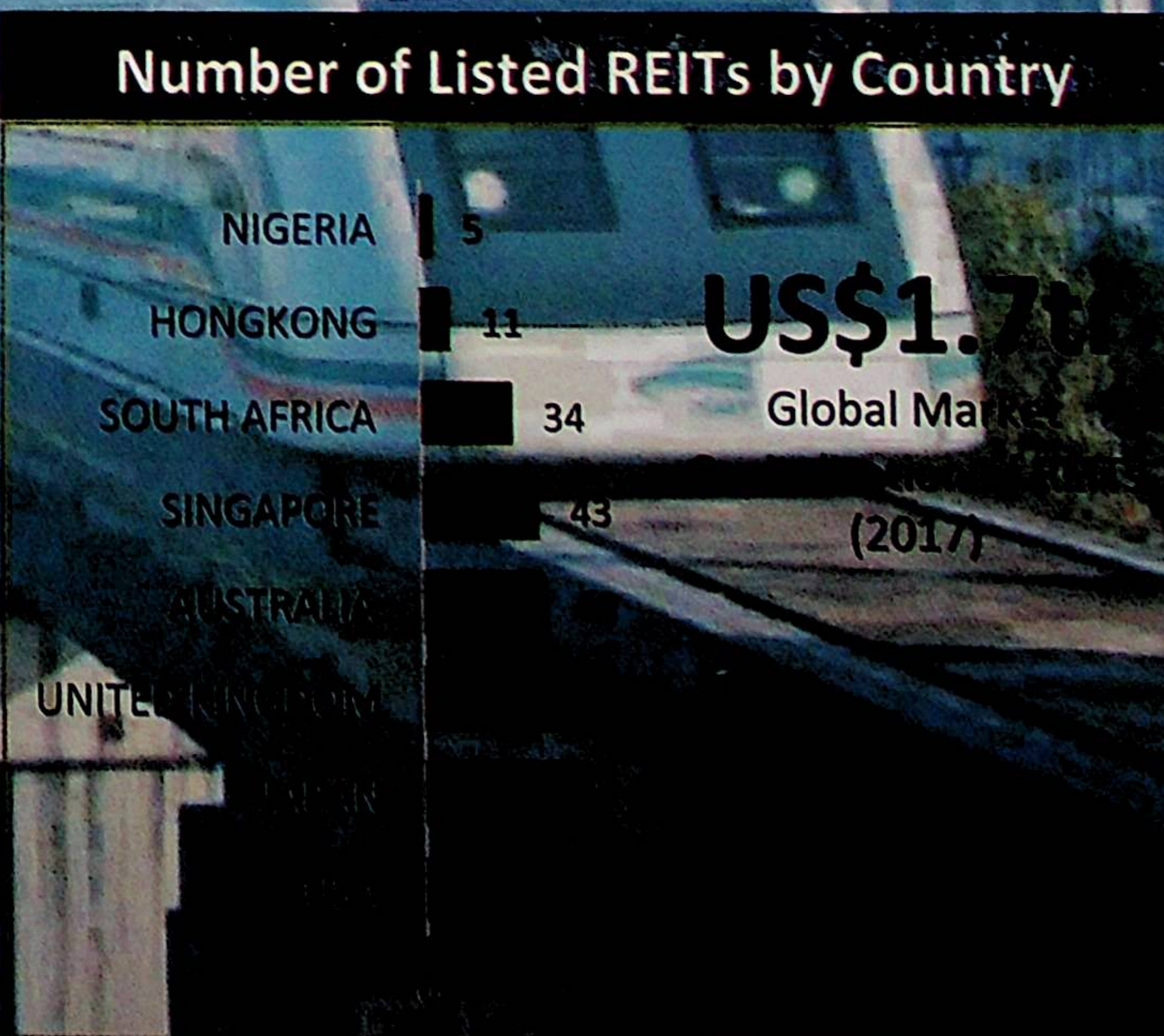
List



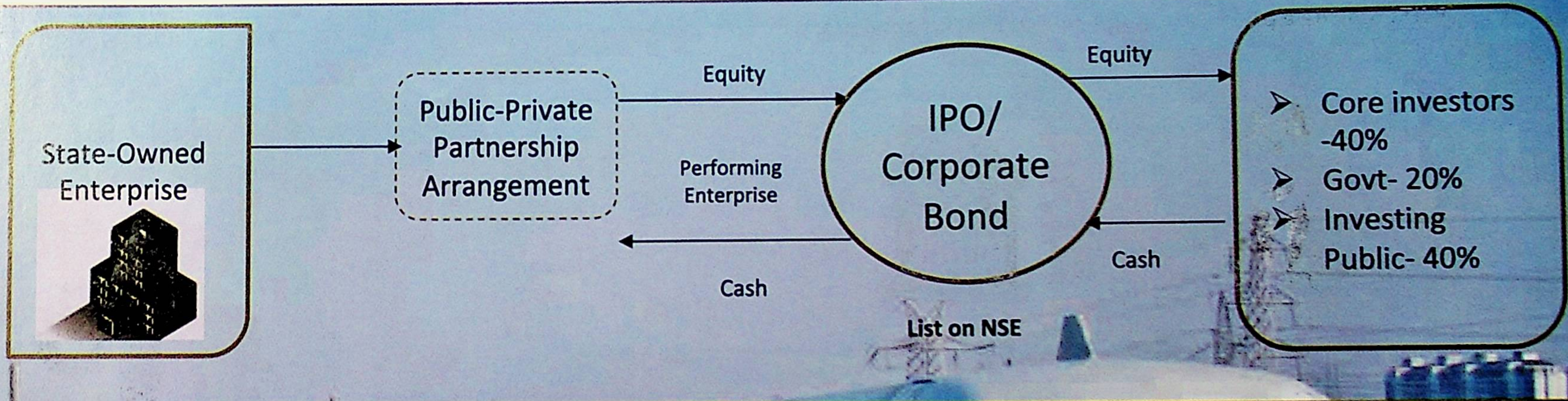
Investors

Cash

	Opportunities
Economy	<ul style="list-style-type: none"> - Huge housing/infrastructure deficit. - Low real estate contribution to GDP. - Employment generation & economic competitiveness. - High interest rate regime. - Ease of capital formation.
Strategic Investors	<ul style="list-style-type: none"> - Diversification – Higher private sector participation & increased transparency. - Dividend – consistent income stream to investors. - Liquidity – NSE listed REITs can be easily traded. - Performance –REITs returns outperform other sectors.



We must unlock the hidden value and opportunities in:
(2.1) Privatization (IPO/Corporate Bond)



Action

Privatization of State-Owned Enterprises

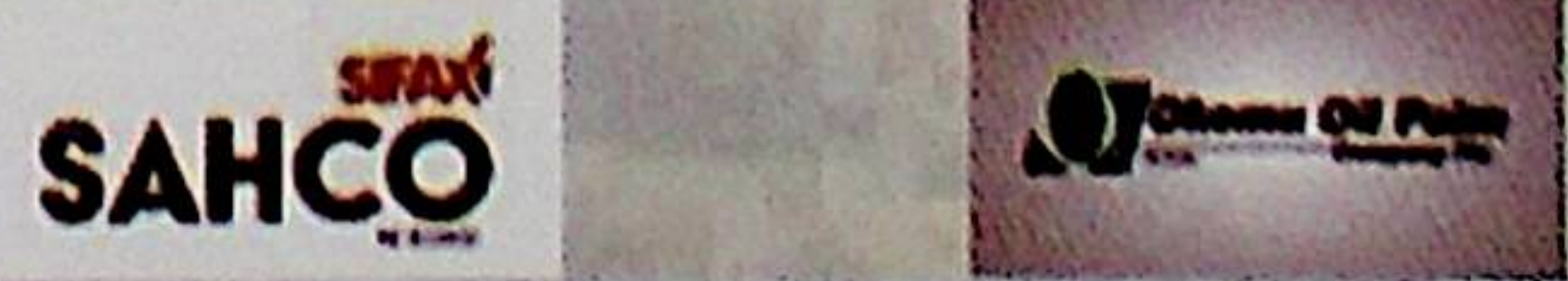
Advantages

- Entities providing critical public service are under adequate regulation and broader shareholder control
- Public gets to participate in wealth created in strategic economic sectors
- Greater financial transparency to government
- Transparency in governance and corporate social responsibility
- Business Continuity and trans generational transfer of wealth

Outcomes

- Greater efficiency
- Higher productivity and output
- Increased revenues from taxes and dividends
- More inclusive wealth creation

Examples



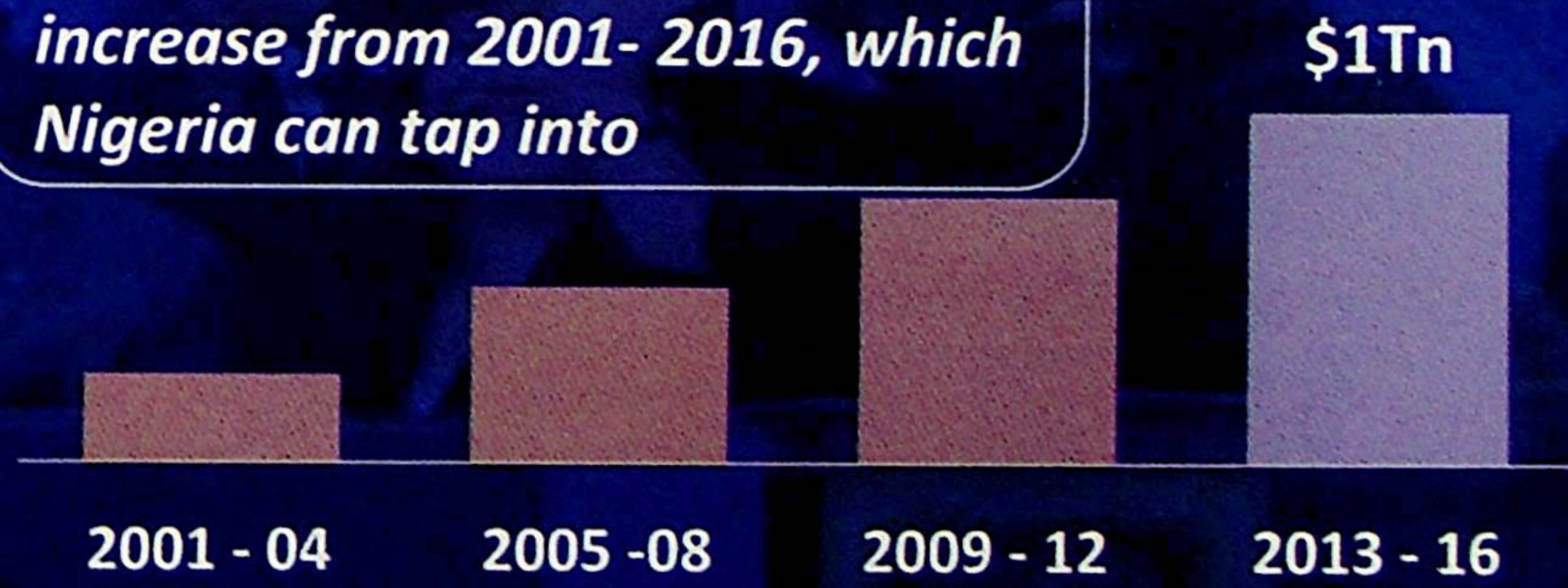


We must unlock the hidden value and opportunities in: (2.2) Privatization opportunities for long-term project financing

- ✓ Opportunity to access over ₦9 trillion in asset in Pension Funds and US\$100bn in foreign investment commitments
- ✓ Increases productive and operational efficiency
- ✓ Globally competitive investment policy framework
- ✓ PPP models financed via the Capital Market for infrastructure projects

Trending Privatization Opportunity

Growing global trend of privatization as illustrated by 4x increase from 2001- 2016, which Nigeria can tap into



Growing Emerging Market PPP Opportunity

Shanghai S.E.

...launches 2017 Guidelines for Advancing Asset Securitization Business for PPP Projects...while

Philippine S.E.

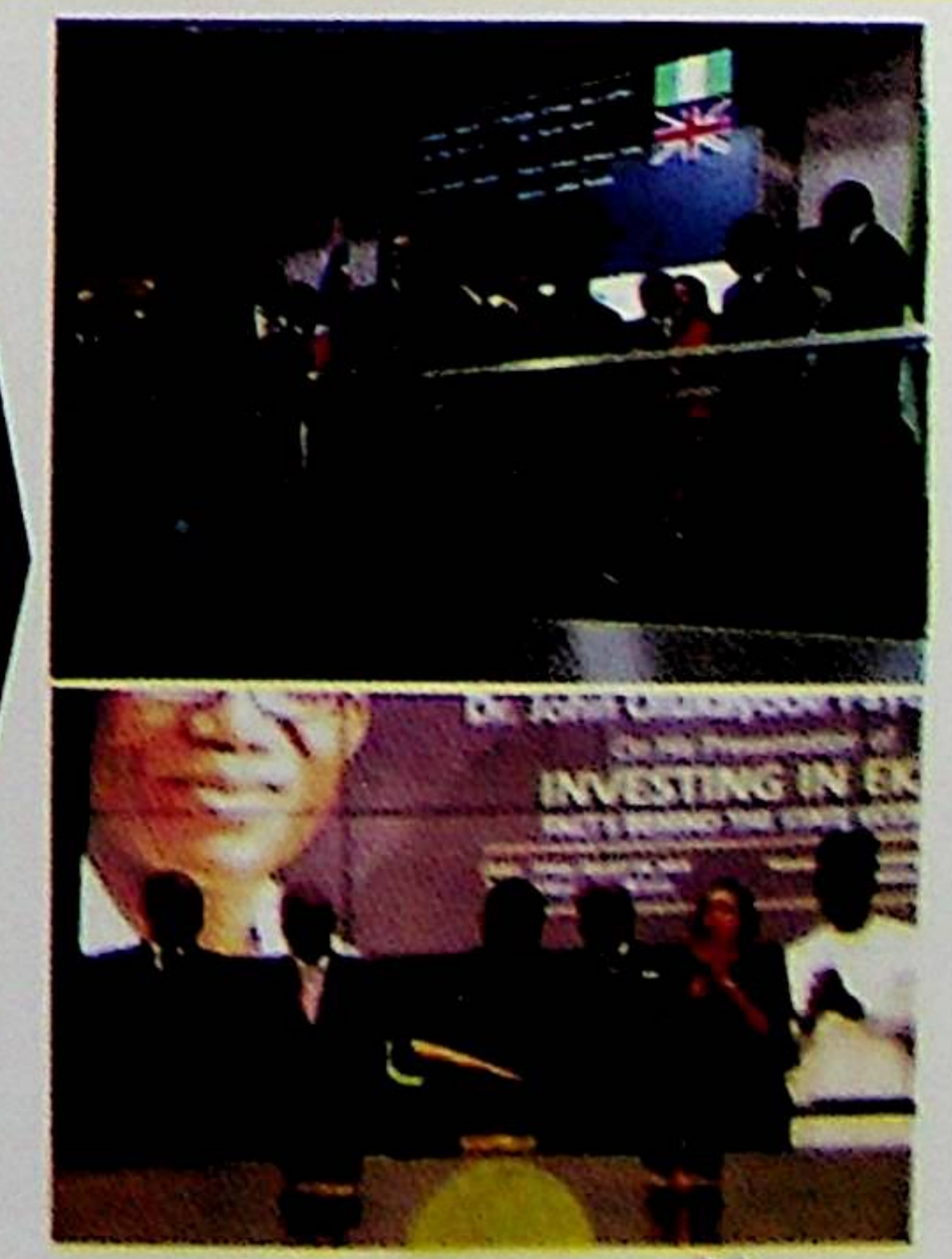
...published the rules for listing of companies involved in PPP projects, expecting IPO interest...and

Kuwait S.E.
August 2019

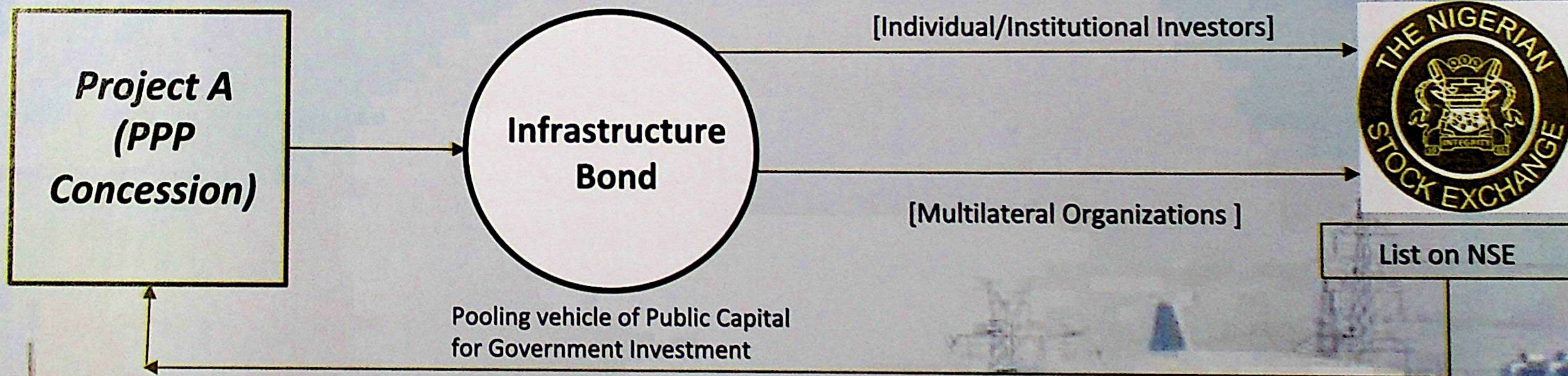
...says stock market offering for first PPP project in Q1 2018.

Continual Investment Promotion Opportunity

- Promote States' investment attractiveness via roadshows & global partnerships.
- Opportunity to partner with NSE in 2019 and beyond (London, New York, Hong Kong, etc. roadshows)
- Nigerian State Day at NSE (E.g., Ekiti State Day in Aug. 2019)



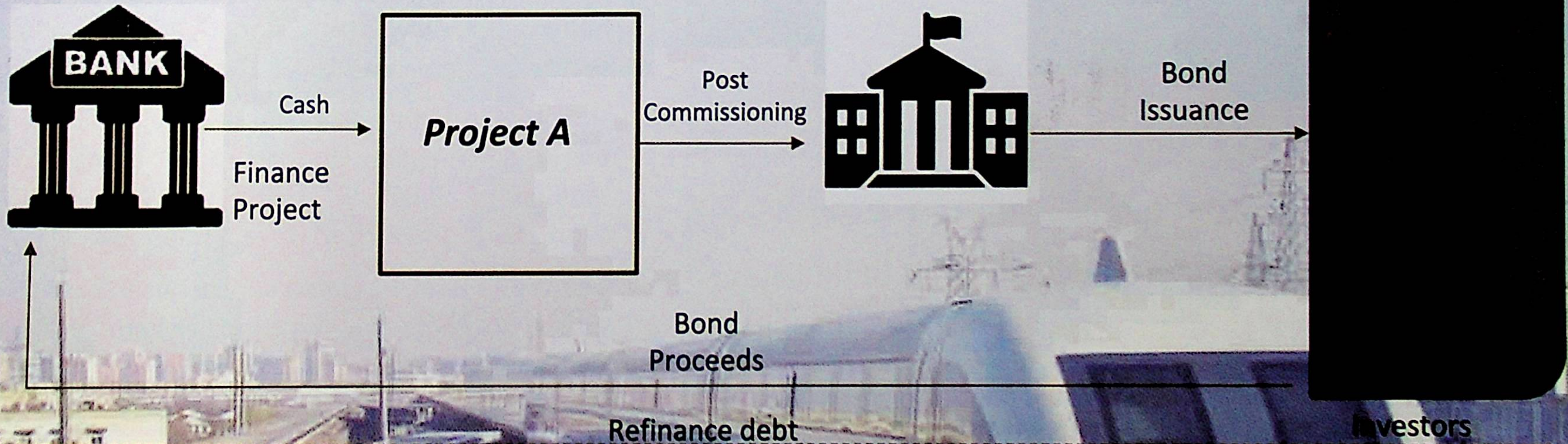
We must unlock the hidden value and opportunities in:
(3) Issuing Infrastructure Bonds



- ❑ Infrastructure Bonds can be established to raise financing from the Capital Market to finance infrastructure projects across the country. These bonds can be raised through Bond issuance and the bond listed on the Nigerian Stock Exchange.
- ❑ This structure is usually subject to concession contracts on public infrastructure with the public sector (PPP). financing and repayment of the debt is through Project Finance model and securitized by public guarantee private sector guarantee providers (InfraCredit).
- ❑ Infrastructural bond reduces the project funding cost compared to bank loans. It encourages (Individual/Institutional) investors to participate in infrastructure projects to superior risk-adjusted returns.



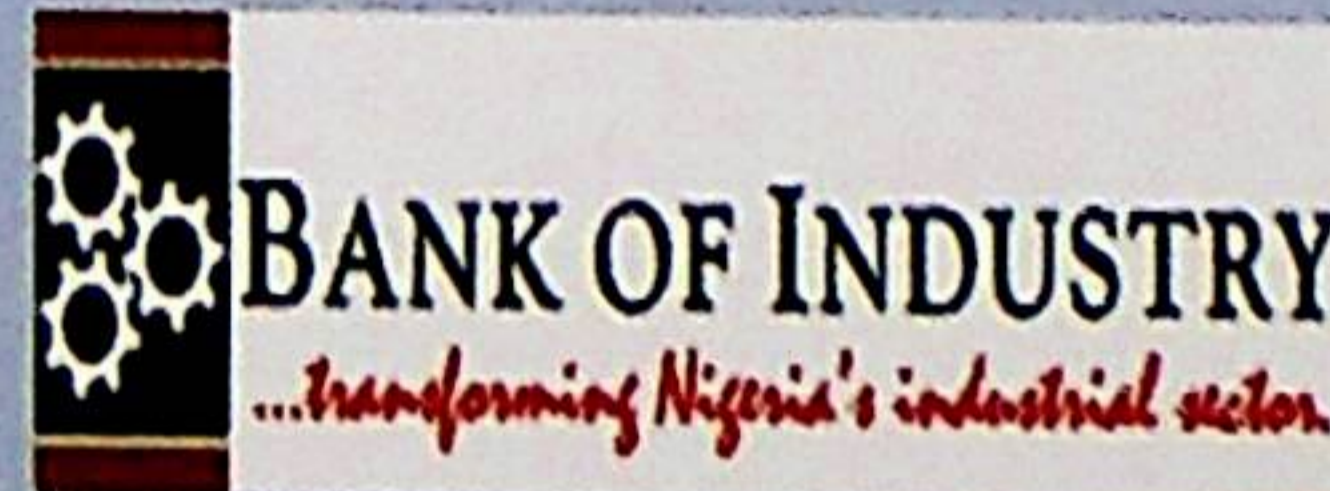
We must unlock the hidden value and opportunities in: (4) Refinancing Bank Debt through Capital Market Instruments



- Primary financing of critical government infrastructure by banks and refinancing such debt via Bond issuance is an ideal model for State Infrastructure funding and efficient state balance-sheet management.
- Through this model, the focus of commercial and merchant banks in debt issuance for state infrastructure will be on providing funding up to the pre-commissioning stage of projects.
- Post Commissioning however, States are encouraged to seek long-term investment in the capital market to refinance their existing bank debts (through bonds) to long-term investors.
- Refinancing via the Capital Market enables State funds and access longer repayment terms. When States can utilize these funds

We must unlock the hidden value and opportunities in:

(5) Partnership with Development Finance Institutions



- Most of the investment in urban infrastructure has traditionally been funded by the public sector through annual budgetary allocations
- However, utilities like the supply of potable water have been funded with loans from multilateral financial institutions such as the World Bank and African Development Bank
- The World Bank has been very active in financing water projects in Nigeria through various multistate projects.
- Equally they have been active in the urban sector financing, urban upgrading and the provision and rehabilitation of city wide urban infrastructure
- States external funding targets may be sourced from multilateral financial institutions such as African Development Bank, European Investment Bank, International Bank for Reconstruction and Development and International Finance Corporation (IFC)
- DFIs have the twin value of raising capital as incorporated entities and providing risk capital for economic development projects.

Unlocking these opportunities will require:



PARTNERSHIPS & ENGAGEMENTS

Articulate long-term goals and build consensus



HOLISTIC NEEDS ASSESSMENT

Needs assessment by NSE/Ministry of Finance to identify key catalysts of change



SEAMLESS IMPLEMENTATION

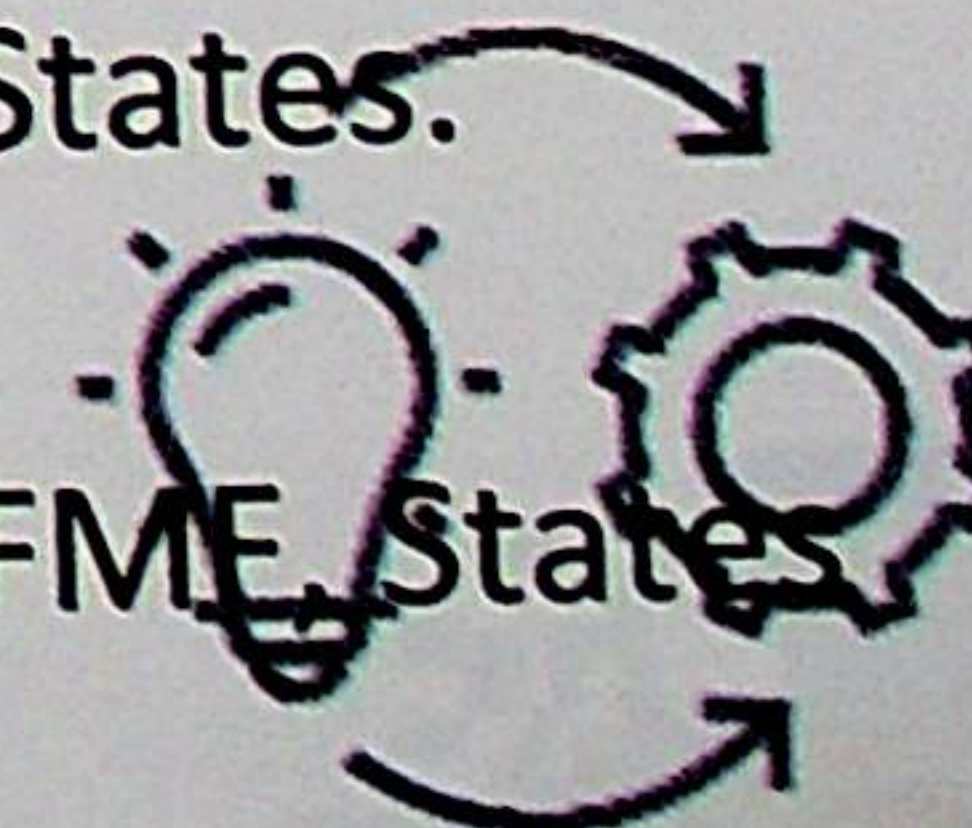
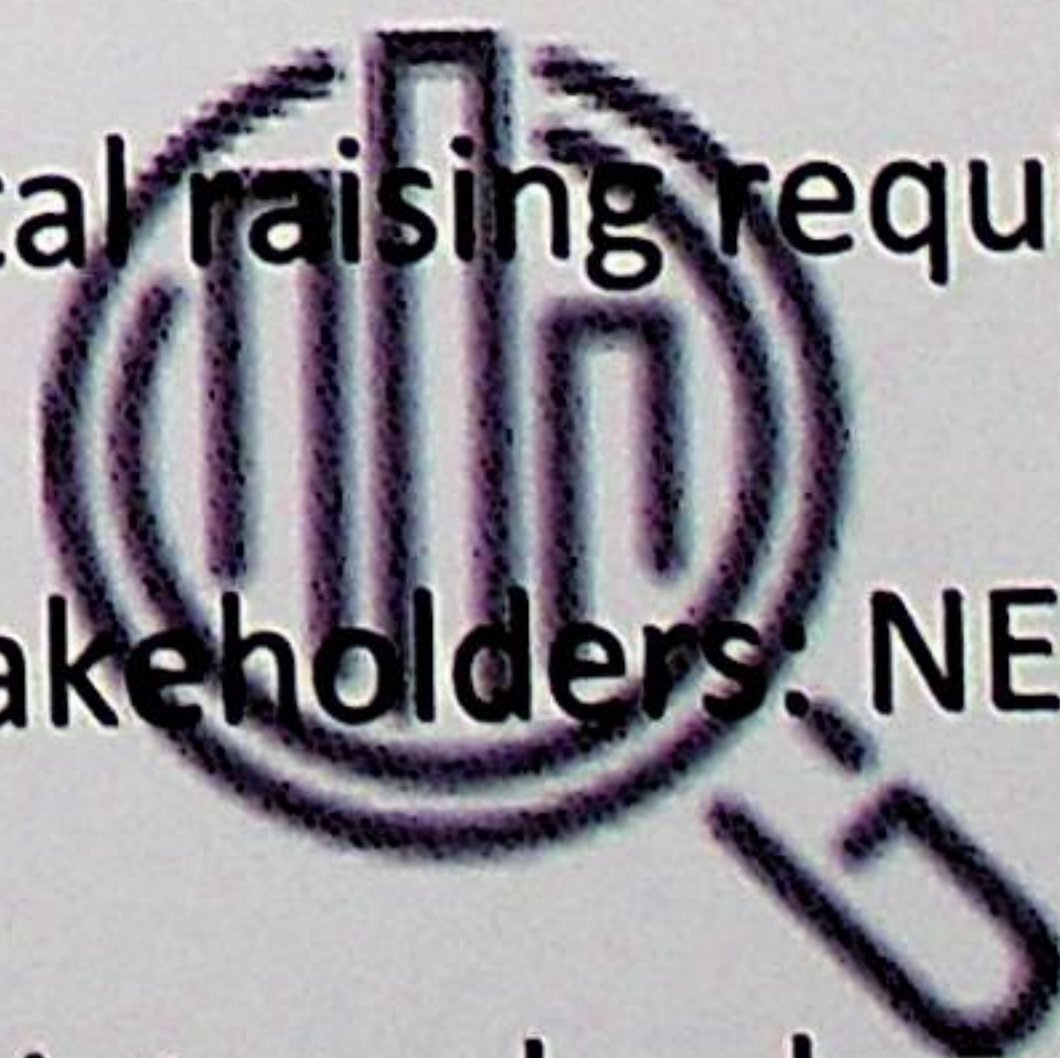
Execution of agreed objectives, in conjunction with capital market stakeholders



Next Steps



- Integrate NSE into relevant Councils, Commissions and Committees as Capital Market Representative/Advisor: ICRC, IPCAC, NCP, PEBEC, EMT ...
- Initiate Assessment of Capital Needs for State Infrastructure Development
- Articulate long-term goals and capital raising requirements with States.
- Build consensus around relevant stakeholders: NEC, CBN, DMO, FME, States
- Capacity building for NEC Secretariat and relevant officials of state public service on capital market.
- Engage state-by-state with a roadmap to listing SOEs and capital raising based on needs assessment.





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THANK YOU

Questions & Answers

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