



# **NIGERIA INFRASTRUCTURE BUILDING CONFERENCE 2014**

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## **ROLE OF BANK DEBT IN FINANCING INFRASTRUCTURE PROJECTS**

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# The Need...

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- ❑ According to the National Integrated Infrastructure Master Plan, the “core infrastructure” stock (road, rail, ports, airports, power, water, ICT) of OECD countries, including the United States, United Kingdom, Canada, Germany, etc.) averages **70% of their Gross Domestic Product (GDP)**
- ❑ To bridge this gap between Nigeria and the developed countries on infrastructure provision, it has been proposed that Nigeria needs to spend between 18-20% of its GDP (about **US\$100billion) per annum**
- ❑ Nigeria presently spends significantly less than the aforementioned, annually on infrastructure with about 50% coming from the **private sector**
- ❑ Government has the **basic objective to provide infrastructure** to its citizens across the nooks and crannies of the country but lacks the **financial capacity** to deliver on this objective.

# Traditional Infrastructure Funding...

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- ❑ **Traditionally**, public infrastructure in Nigeria is solely procured by the government at different levels via the budgetary allocation, wherein government bears 100% of the financing burden whilst reaping the benefits in increased economic activities.
- ❑ Today, with a ballooning population (from 56 million in 1970 to over 170 million today), this **model of infrastructure delivery is clearly inadequate**, in the face of plateauing government revenues and government's inability to effectively deliver infrastructure development
- ❑ Infrastructure development in Nigeria is now held hostage to abandoned projects, occasioned by **Government's inability to fund such projects** till completion, and a culture of suboptimal operation and maintenance of the nation's infrastructure stock.
- ❑ Banks could play crucial a role here by **plugging the funding gaps** for traditionally procured projects via provision of financing to the Government for specific projects

# Private Sector Intervention...

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- ❑ Wholesale private sector intervention in infrastructure development **through mindfully structured people-centric PPP project finance methodologies** allows for private sector funding through Financial Institutions and other fund providers:
- ❑ Using this approach, the private sector is involved in:
  - the **project design process** from the conceptualization Phase to receipt of key consents/approvals – **Financed by risk capital from friends, families; equity, et al**
  - **project preparation studies Phase**, including the pre-feasibility studies, technical and financial viability studies, legal and regulatory due diligence, detailed feasibility studies, - **Financed by business angels, venture capitalist, & proprietary equity**
  - **project implementation Phase**, including preparation of financing scheme, procuring the Constructors and other service providers/suppliers that may be required; **Financed by bridge funding from Commercial Banks and other Financial Institutions**
  - **post-construction activities Phase**, including securing a world-class operation and maintenance operator for the project and commencement of the O & M phase – **Financed by long term funds from Contractual Savings Sector**

# Bank Debt and Infrastructure

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- ❑ Commercial Banking, the heart of the Private Sector, has proven a **first mover and willing risk taker** for infrastructure financing in the country.
- ❑ **With N24trillion+ sector balance sheet**, bank debt for successful funding of large-ticket infrastructure deals is indispensable.
- ❑ For PPP infrastructure financing deals, Bank debts could serve as the **primary source of bridge financing** for infrastructure projects in the country.
- ❑ Banks are **key enablers for reaching financial close** on infrastructure deals, allowing financial and technical Sponsors to lock in key aspects of any project prior to securing long-term funding of the right temperament..
- ❑ Banks are able to quickly mobilise ahead of other large debt providers because of their **well-established speed of decision making, deep knowledge of Nigeria's operating environment, and high levels of liquidity that has historically characterized the Banking industry.**

# Game-changers...

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- ❑ **The convergence of three game-changing trends may exponential grow Banks' funding of infrastructure deals**
- ❑ **Firstly, the ability of Commercial Banks to raise longer tenured “deposits” via the issuance of corporate bonds will continue to grow. Today, most Commercial Banks have five to seven year bonds in the market:**
  - ❑ In the near to medium term, the tier-1 banks (enjoy “too big to fail” status and have a combined 50% of total banking assets) could be raising bonds with 15 to 20 year life, as confidence in the sector continues to surge.
  - ❑ Banks will have access to long term liabilities that need to be safely deployed to matching high quality long term assets, an asset segment wholly dominated by infrastructure projects.

# Game-changers...

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- ❑ **The convergence of three game-changing trends may exponential grow Banks' funding of infrastructure deals**
- ❑ **Secondly, the operating environment pertaining to enabling laws and effective regulation for large ticket infrastructure projects is rapidly evolving towards an increasingly investor-friendly and private-sector centric ecosystem**
  - ❑ sponsors and lenders can safely take predictable long term risk without looking over their shoulders in fear of the famed *Nigerian factor*.
  - ❑ the establishment of enduring institutions for facilitating private-sector involvement in infrastructure development such as the Infrastructure Concession Regulatory Commission (ICRC).
  - ❑ enactment of various economic sector reform laws that have provided for a comprehensive legal and regulatory framework for private sector involvement in financing infrastructure development in various sectors of the economy.

# Game-changers...

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- ❑ **The convergence of three game-changing trends may exponential grow Banks' funding of infrastructure deals**
- ❑ **Thirdly, the capacity of the banking industry to structure infrastructure projects to safely deliver on the promise of return of, and return on, capital has grown exponentially**
  - ❑ Banks have the benefit of **complimentary sector focused specialist institutions** that now bridge the capacity gap.
  - ❑ This class of financial institutions in Nigeria is led by international and domestic **Development Finance Institutions (DFIs)**.
  - ❑ Institutions that possess the requisite structuring skills to develop and package infrastructure projects into bankable projects.

# Convergence of the three

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- ❑ The combination of these three emerging trends:
  - increasing share of long tenured liabilities on Banks' balance sheet;
  - improving operating environment; and
  - growing industry technical capacity
  
- ❑ **Bank debts will soon be taking a leading role as a funding source for infrastructure projects such as tolled roads, rail lines, power plants, gas pipelines, port development, etc**

# Our Experience...

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- ❑ Nigeria's infrastructure space has **yields attractive enough to woo any investor/financier in today's world.**
- ❑ It is the **safety part of the equation (institutional, regulatory, and legal framework)** that has kept the floodgates of private capital shut to badly needed infrastructure investments.
- ❑ As **Stakeholders in Nigeria's infrastructure space**, the challenge for TIB is to leverage the world-class financial expertise; relentless innovation and invention.
- ❑ Fierce work ethic, inherent in the private sector, to **unlock and channel** commercial banking funds and other pools of investment capital into our country's infrastructure sector.
- ❑ **The Infrastructure Bank Plc, with the mandate to foster the rapid development of infrastructure throughout the Federation through the provision of finance and banking services, is fully committed to funneling bank debt and other forms of private capital into credible and well-structured large scale public infrastructure projects.**

# Why The Infrastructure Bank Plc?

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# Our Vision

***To be the premier focal point for infrastructure development in Nigeria***

- by being the premier institution in the area of infrastructure development*
- by serving as a rallying point for all other stakeholders*

# Our Mission

***To facilitate the transformation of Nigerian infrastructure for enhanced productivity***

*- by identifying and structuring infrastructure projects that will have a transformational effect at Local, State and National level*

*- by modernizing Nigeria's infrastructure base for a more productive Nigeria*

# Who We Are

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- ❑ Private sector leadership and discipline
- ❑ Internationally trained and experienced staff, skilled in infrastructure project finance structuring
- ❑ Sound risk management regime
- ❑ Robust corporate governance structure (9 NXD's, 3 ED's)
- ❑ Strategic alliances with international financial and technical partners (DBSA, PwC, IDC, Aurecon, CANAC, Banco Efisa, ICF-GHK)
- ❑ Strong advisory services capabilities; in alliance with strategic partners, TIB is developing and preparing infrastructure projects in line with global best practices

# Wind at Our Backs...

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- ❑ Unique position as an institutional PPP
- ❑ Licensed to tap and manage Local and Foreign Direct Investment for infrastructure development funding in Nigeria
- ❑ Significant market gap in satisfying Pension Funds' requirement for quality long-term debt products
- ❑ Huge latent infrastructure demand nationwide
- ❑ Dearth of suitable training and technical assistance programs locally

# TIB Financial Services

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- ❑ **Project Finance Advisory and Arranging:** We offer bespoke transaction advisory services to Clients to assist them in the preparation of projects, prior to arranging funds required from both local and offshore sources.
- ❑ **Development Loans:** The Bank provides price-competitive development loans to commercially viable projects that have significant developmental impact.
- ❑ **Proprietary Equity:** The Bank has developed equity and quasi-equity (mezzanine financing) investment products for projects that require risk capital as a form of catalytic funding.
- ❑ **Fund Management:** The Bank offers fund management services to both domestic and external sovereignties and institutions seeking to fund infrastructure development.
- ❑ **Capacity Building and Technical Assistance:** The Bank collaborates with other multilateral agencies and DFIs to promote, organize and deliver technical assistance and capacity building programs.

# TIB Focus Sectors

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- ❑ **Transportation infrastructure** (road, rail, air and water)
- ❑ **Municipal enterprises and ventures**
- ❑ **Power and renewable energy**
- ❑ **Mass housing & District Development**
- ❑ Water and sanitation
- ❑ Hospitality
- ❑ Solid Waste

Thanks...Q & A