

## **The Delta state N5 billion bond in perspective**

**By**

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THE present stage in the evolution of the Nigerian economy demands a lot from all the tiers of governments. Hence, Delta State government has taken the bull by the horn as it goes to the Nigerian capital market to source for long term funds that would help build, complete and reactivate development projects and infrastructure in its domain.

The success of any state government is measured by the welfare of its citizens, in terms of gainful employment and provision of infrastructures that would spur industrialization.

There is no tier of government that lacks good policies, the problem is always proper budget planning and lack of funds to execute them.

The Delta State government at the Grand Hotel in Asaba recently signed the N5 billion first Delta State floating rate redeemable revenue Bond 2003/2007.

Although, this is not the first time a state government would be going to the capital market to raise funds. However, it is not only the first time for the Delta State government but also the largest simple issue in the history of the Nigerian capital market. Before Delta State, the Edo State government had been to the capital market to raise N500 million to finance Ogba Riverside Housing Estate.

Besides, a local government in Lagos State has successfully raised N1 billion from the capital market.

Also, in 1978, Lagos State created N30 million floating rate revenue Bonds. No doubt, capital market remains the best option for financing long term capital projects.

The people that witnessed the endorsement of the N5 billion first Delta State floating bond include, the Governor, who was represented by his deputy, Mr Benjamin Elue, the officials of the Government of Delta, BGL Securities limited and ICON Stock brokers Limited both joint issuing houses.

Others were ICMG Securities limited, Consolidated Investments Limited, both joint stock brokers to the offer, Auditor General of Delta Sate, Akintola Williams Adetona Isichie and Co., Ajumogobia and Okeke, Solicitors to the offer and solicitor to the state respectively; UBA Trustees Limited, Union Trustees Limited, both joint trustees to the offer; Abdullai Taiwo and Co., Giwa Osagie and Co. both solicitors to the joint Trustees and IMB Plc, registrars to the offer, cream of financial journalists and other well meaning Nigerians.

Meanwhile, the managing director of BGL Limited, Mr Albert Okunmagba in his remark noted that

the Bond offer by the Delta State is a remarkable achievement and as specified in the prospectus would be issued in two tranches. The first now being issued is for N3.5 billion and the 2<sup>nd</sup> for N1.5 billion to be issued during the first quarter of the year 2001. He was also optimistic that the bond would be fully subscribed owing to the enormous potentials the state have, in terms of mineral resources.

At the press briefing by the Commissioner for Finance and Economic Planning of Delta State, Mr David Edevbie, shortly after the endorsement of the offer noted that the bond issue is to enable the State Government build, complete and reactivate development projects and infrastructure in four areas necessary for the achievement of their economic objectives for the state.

These areas he said are Water Supply, Education, Health and Market development. Explaining further, he said "our plan is that the proceeds of the first tranche, estimated at about N3.2 billion would be applied as follows:

- *Education N1.1 billion;*
- *Health N1.2 billion; Market Development (through Delta State Trust and Investment Company) NO.9 billion, while the second tranche will be applied on Water N1.0 billion, while Education would be NO.4 billion.*

He explained that post primary schools of which there are 316 in Delta State would be the main focus, stressing that work to be financed in the area of education include rehabilitation of classrooms and construction of additional blocks, provisions of furniture and fixtures, equipping libraries and laboratories and supply of stationery.

On the provision of water, he said that government tend to part finance the completion of the Warri/Effurun Water Scheme form the proceeds of the bond issue. The plan, according to Elue is to increase the exploitation of groundwater resources to supply the urban areas of Warri and Effurun to meet the ever increasing demand for portable water and accelerate the industrialization and development objectives of the State Government.

On health provision, the Commissioner explained that 12 hospitals over an eight month period would be rehabilitated. These include: Arbor General Hospital, Echuca General Hospital, Bammed General Hospital, Bared General Hospital, Ekpan Central Hospital, Ogwashi-Uku General Hospital, Oleh General Hospital, Sapele Central Hospital, Otu-Jeremi Hospital, Ughelli Central Hospital and Warri Central Hospital.

For market Development, he noted that it would be implemented through a special purpose vehicle - Delta State Trust and Investment Company under joint venture arrangement.

"We intend to enter joint venture arrangement with Uvwie and Ughelli North Local government Areas through the special purpose vehicle with a view to developing modern markets consisting of 1,159 units of lock-up shops and stores at Effurun and Ughelli," he said.

In addition, he added that the local government areas will provide land as counterpart funding for the projects, and that each of the markets is expected to have warehouses, refuse and sewage infrastructure, public toilets, banks, restaurants, clinics and post offices, among other facilities.

On the technical details of the bond issue, Edevbie noted that the application list for the first tranche of N3.5 billion which had started since 6<sup>th</sup> December would close on Friday, 29<sup>th</sup> December 2000.

The second issue he said would begin in the first quarter of the year 2001, adding that the sum to

be raised is N1.5 billion and that the excess monies from the first tranche if any will automatically be credited to the second tranche.

Meanwhile, controversies have started emerging from market operators. Some believed that the time was too short, while many concluded that the time was not only reasonable but timely.

Those operators who supported the timing as well as the period the offer is expected to last opined that the confidence in which the Delta State Government, under the administration of Chief Ibori had instilled in the stakeholders coupled with its governance as predicated on openness, transparency and accountability would make the offer to be fully subscribed, if not over subscribed within the limited period.

They added that Capital market strive on information dissemination which had been the stride of the current Delta State Government.

The supporters also counteract their opponents that the Christmas period may affect the offer:

According to them many big institutions would want to invest in the Bond issue at this period rather than tying their money in the banks. "It is not likely expected that units of individuals will go for the bond issue since there are option like the equity issue for them to invest," they emphasized.

Besides, the Commissioner for Finance and Economic Planning also assured all interested stakeholders to the offer that their interest and principal would be adequately paid for by the State Government. According to him "it is as a result of this confidence that you find an increasing level of economic activities in Delta State. Since the inception of this administration, more business have been attracted to Delta State. When compared to two years ago, you cannot help notice that Asaba our state capital has experienced positive changes particularly by way of commercial activities." Continuing on the technical analysis of the Bond issue, Edebie informed that the Bond would be registered in units of 100. The minimum application he said is N1,000.00 and multiples of N100 thereafter.

He explained that the Bond will attract a coupon of a floating rate of 2.5 percent per annum above the minimum Rediscount Rate MRR of the Central Bank which may not likely fall below 14 percent.

Although, he said in the event of fluctuations in interest rate in the economy, the Bond shall at no time attract less than 15 percent per annum or more than 22 percent per annum, stressing that the interest would be payable semi annually, that is 30<sup>th</sup> June and 31<sup>st</sup> December of each year.

Edebie also hinted that the Bond will be redeemed at maturity from the sinking fund created by the Delta State government, stressing that the fund is to be managed by the joint Trustees, union Trustees limited and UBA Trustees Limited.

Explaining further he noted that redemption will commence from the third year, that is 2003, as already the Delta State government has executed an irrevocable standing payment (SPO) on its Federation Account in favour of the sinking fund account to be managed by the joint Trustees.

To further enhance the yield, he said that an application to the joint Tax Board for inclusion of the Bond as a tax exempt security has been made.

Finally, the Commissioner assured all stakeholders to the Bond that it is secured. "There is no doubt that this Delta State Bond is a very good opportunity for the astute investors" he remarked.

Meanwhile, market analysts had given kudos to the Delta State government for the bold step taken

in sourcing funds from the capital market, saying that the efforts of securities and Exchange Commission (SEC) in reactivating the bond issue is beginning to yield fruits. They expressed that Delta State Bond offer would be fully subscribed hinging their claim on the potentials of the State.

According to them, the State is richly endowed with natural resources and is the Nigeria's leading producer of crude oil and natural gas.

They described the Bond offer to be the most well articulated issues in the capital market as could be seen from the prospectus.

The writer wrote in from Asaba, Nigeria