

# ENHANCING DOLLAR LIQUIDITY IN NIGERIA THROUGH **SECURITIZATION**: PROSPECTS AND RISKS

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## **Introduction**

The Federal Government of Nigeria (FGN) has recently taken a major step to enhance dollar liquidity in the country by announcing its plan to securitize its expected dividends for a period of 5 years in Nigeria Liquefied Natural Gas Limited (NLNG) in favor of its lenders, with the aim of raising \$7 billion. This move holds significant opportunities for the country's economy, but it also comes with inherent risks that need to be carefully evaluated.

Securitization of expected dividends represents a unique opportunity for the FGN to enhance dollar liquidity in Nigeria. By leveraging the future cash flows from NLNG, the government can access immediate funds, which can be crucial for addressing liquidity constraints. This influx of dollars into the Nigerian economy has the potential to bolster the country's foreign exchange reserves, thereby stabilizing the local currency and reducing the pressure on the naira. Additionally, the injection of such a substantial amount of dollars could stimulate economic growth, facilitate imports, and further drive investment and infrastructure development in the country.

Furthermore, this securitization effort can potentially improve Nigeria's credit rating and attractiveness to foreign investors. By demonstrating a commitment to honoring its financial obligations through innovative financing solutions, the FGN can strengthen its credibility and appeal to international lenders and investors. This, in turn, could lead to increased foreign direct investment and borrowing at favorable terms, ultimately supporting the country's economic advancement.

## ***Potential Risks***

The move to securitize NLNG dividends also carries inherent risks that must be carefully managed to safeguard the economy and the interests of all stakeholders. One potential concern is the long-term implications of committing future cash flows from NLNG. While the immediate influx of funds may address short-term liquidity challenges, it is essential to consider the impact on the government's ability to leverage NLNG's future earnings for other critical national priorities, such as infrastructure development and social programs.

There is also the risk of over-reliance on securitization, as it could lead to a debt burden that may become difficult to sustain if the expected dividends do not materialize as anticipated. This could potentially strain the government's financial position and lead to future challenges in meeting debt obligations.

Given Nigeria's historical challenges with fund management, implementing thorough oversight becomes imperative to mitigate the risk of potential abuse. There is the crucial need for transparency and effective governance in managing the proceeds from securitization, ensuring that they are utilized wisely and contribute to sustainable growth and development. It is also imperative for the FGN to establish clear guidelines and accountability mechanisms for the utilization of the funds raised through securitization. Transparency in the allocation and management of these resources will be essential in

ensuring that they are deployed efficiently and effectively to support key economic initiatives, as well as to service existing debts.

Another critical consideration is the potential impact on NLNG as a significant contributor to Nigeria's economy. The company's ability to reinvest its earnings for expansion and capacity development could be constrained by the securitization arrangement. It is essential for the government to engage in robust consultations with NLNG's stakeholders to address any concerns regarding the impact of securitization on the company's operations and growth prospects and to ensure that the arrangement aligns with the long-term interests of all parties involved.

Furthermore, the FGN must implement rigorous risk management and monitoring mechanisms to evaluate the performance of the securitized assets and make adjustments as necessary to mitigate any adverse developments. A proactive approach to managing risks associated with securitization will be crucial in safeguarding the stability of Nigeria's financial system and avoiding potential disruptions to the broader economy.

### ***Conclusion/Recommendations***

In conclusion, the FGN's move to securitize its expected dividends from NLNG presents a compelling opportunity to enhance dollar liquidity in Nigeria and strengthen the country's economic position. However, the government must carefully weigh the opportunities against the potential risks and ensure that the securitization arrangement is managed prudently and transparently. By addressing these considerations, the FGN can leverage securitization as a strategic tool to support sustainable economic growth, attract investment, and bolster the country's financial stability. This approach presents a strategic path for addressing immediate financial challenges and fortifying FGN's financial standing

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