Unlocking Nigeria's pension funds for impact investing

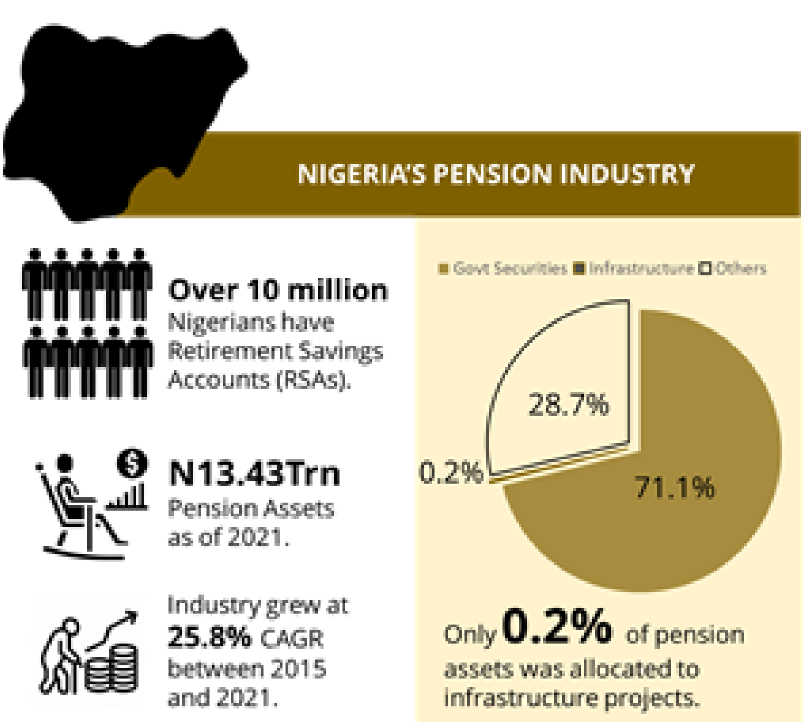
KEY MESSAGES

- Nigeria's impact investment market is closely linked with the realisation of the SDG targets by 2030.
- Regulations limit pension asset allocation to sectors with significant social and environmental impacts.
- There is a need to include impact investing criteria in Pension Fund Administrator's investment guidelines.
- The government should guarantee pension asset allocation to impact sectors.

CONTEXT SETTING

The business environment poses significant challenges globally as impact investing continues to gather momentum. Many institutional investors have started considering Environmental, Social and Governance (ESG) criteria in addition to financial returns.
For pension fund managers in Nigeria, the challenge is finding investment opportunities that support profitability targets and meet sustainability requirements. This is a divergence from the global Impact investing market, where PFAs are increasingly becoming one of the primary drivers and sources of impact capital. The PFAs explicitly focus on impact projects on social infrastructure such as affordable housing development.

Despite growing to N13.42 trillion in 2021 from N3.39 trillion in 2015, only an average of 0.2 percent of the country's pension assets was allocated to infrastructure projects. Even with the validity of prominent roles in the Impact Investing Market, the PFA's investment regulation limits pension fund exposure to less than 10 percent for infrastructure but 100 percent for federal government securities. Considering the recent drought in foreign capital inflows in Nigeria and the country's huge saving gaps, redirecting the pension industry's assets for developmental purposes becomes imperative.



WHY IS THE ISSUE IMPORTANT?

Considering the volatile state of the Nigerian macroeconomic environment, the regulatory restrictions on asset allocation could be beneficiary to safeguarding the industry. However, these regulations have been found to stifle the industry's potential growth by preventing fund managers from exploring the creative and innovative deployment of the fund to generate social and financial benefits.

The Nigerian Pension Industry still needs to include the sectors (Real Estate and social infrastructure development) with a high correlation of induced financial and social returns. These sectors account for a meagre 2 percent impact investing in the last six years. Furthermore, Nigeria's growing scourge of poverty and other socio-economic deprivation is more likely to dent its realisation of SDG targets by 2030. To reverse the poverty narrative, Nigeria has to fulfil its SDGs funding needs, which the United Nations estimated at US$10 billion per annum before the COVID-19 outbreak in 2020. With the advent of the global pandemic's impact, Nigeria requires additional spending equivalent to 18 percent of Gross Domestic Product (GDP).

Meanwhile, public spending on SDG-related sectors is infinitesimal. Given the unending fiscal constraints, the Nigerian government cannot be the only prime mover of the SDG Agenda, thereby making alternative financing sources (including pension funds) worth exploring. Largely untapped, PFA funds appear as a promising source of SDG-related funding in Nigeria.

WHAT ARE THE NEXT STEPS FOR THE POLICYMAKERS?

Considering the increasing relevance of PFAs in the global impact investment market, the policy environment around the Nigerian Pension Industry is amenable to asset re-allocation towards sectors with high and positive social and environmental impacts, including Agriculture, Health, Education, Real Estate and Infrastructure.

As highlighted by Nigeria's former Minister of Works and Housing, Mr. Babatunde Raji Fashola (SAN), the government had long sought to deploy the pension fund for infrastructural development in the country. However, a scarcity of projects compiled with Pencom's regulations for pension fund investments in infrastructure funds has been a major impediment . Taking cues from other emerging markets and developed economies that have achieved significant successes in integrating impact-investing criteria in the investment guidelines for pension funds. The following are strategies to unlock the pension fund for the impact investing market in Nigeria.

- Inclusion of impact investing criteria in investment guidelines for pension fund
- Increase asset allocation to impact investing products such as the Wholesale Impact Investment Fund (WIIF), Sukuk Bond, Green Bond, Ocean Bond, Social Impact Bond, Outcomes-based contracting, Private Equity etc.
- Upgrade of Fund I and Fund VI for impact investing market.
- Approval of direct investments in companies, especially listed local companies and MSMEs.

[1]*Key Informant Interview with Pension Fund Operators Association of Nigeria (PENOp).*

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