



THE NIGERIAN CAPITAL MARKET MASTER PLAN: 2015 – 2025

THE VISION, THE POTENTIAL AND THE IMPLEMENTATION

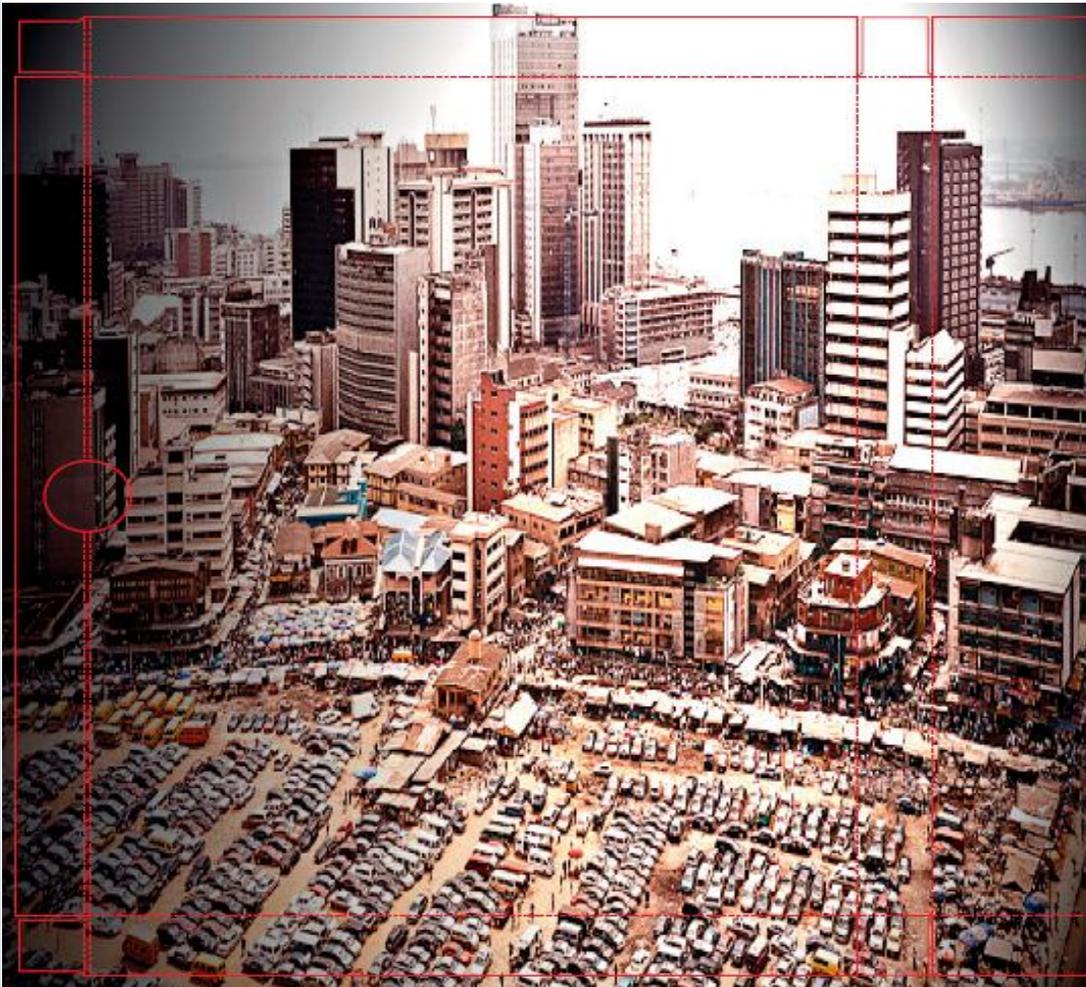
**Mr. Mounir Gwarzo,
Director General
Securities & Exchange Commission**

22nd June, 2015



SEC NIGERIA

SECURITIES AND EXCHANGE COMMISSION, NIGERIA



NIGERIAN CAPITAL MARKET MASTERPLAN

10 Year Plan
2015-2025



SEC NIGERIA
SECURITIES AND EXCHANGE COMMISSION, NIGERIA

OUTLINE

Why do we need a Master Plan?

Where we are coming from

Where we are presently

The potential

Where we want to be by 2025

How we will get there.... The Vision

How we will get there.... The Implementation

The Investment Decision

Conclusion

Why do we need a Master Plan?...



Because...

Producing and Implementing a Master Plan is in line with international best practice

Many emerging and developed markets have implemented master plans for their respective markets at different times

Brazil

Launched a Master Plan in 1998

- ✓ 2000: Introduced the Novo Mercado
- ✓ 2003 – 2012: Explosion in IPOs; 261 offerings out of which 131 were IPOs
- ✓ Average GDP growth was above 4.2% during the period
- ✓ New products introduced, market infrastructure reformed and diversified investor base achieved

EU

Europe ran the Financial Services Action Plan which helped to remove barriers to the movement of capital across borders.

- ✓ The EU's Financial Services Commission has announced ambitious plans to create a Capital Markets Union to enhance jobs, growth and financial stability across Europe
- ✓ Strategic move away from Europe's over-reliance on bank financing

Malaysia

Launched its first Master Plan in 2001, by 2010

- ✓ Market size doubled from \$317 billion in 2001 to \$606 billion by 2010
- ✓ Deepened Islamic finance making Malaysia one of the major Islamic finance centers in the world
- ✓ Became the largest sukuk market and the 3rd largest local currency bond market in Asia
- ✓ Plan was so successful a second master plan was launched currently being implemented till 2020

Nigeria carefully studied the blueprints and experiences of others in developing her own capital market master plan

Where we are coming from... 2003 to Crisis in 2008

Market capitalization and value of new shares



What Happened?...

- ✓ Growth was rapid and regulator-induced
- ✓ Between 2003 and 2007, market capitalization increased by over 66% CAGR from N1.4 trillion to N10.2 trillion.
- ✓ In March 2008, market capitalization reached a then all time high of N12.6 trillion
- ✓ 2005/2007, recapitalizing banks and insurance companies raised over \$10 billion
- ✓ The All-Share Index (ASI) dropped 52.6% by December 31, 2008 from the high in early 2008
- ✓ Average daily trading volume also dropped to about 77% of high levels
- ✓ The Nigerian capital market between March 5 and December 31 lost about N5.7 trillion, or 45.1% in value.

Crash during the months of 2008



Why it Happened

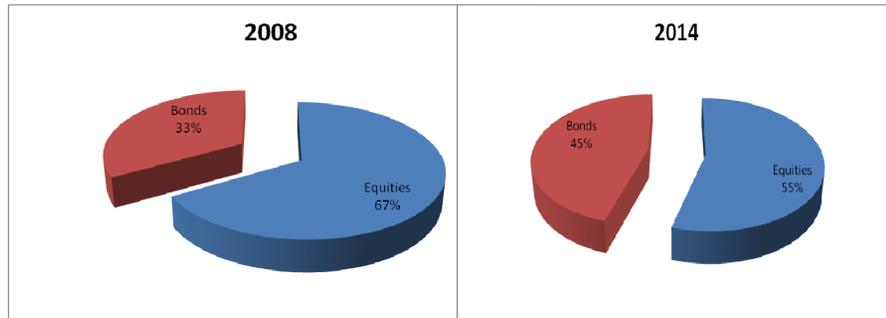
- ✓ Market was highly concentrated dominated by the banking sector which made up 53% of the market as at then
- ✓ 15 of the 20 most capitalized companies were banks, together accounting for almost 60% of market capitalization
- ✓ Risk management and corporate governance did not evolve commensurately to support the fast growth leading to inappropriate market behavior and abuse of margin lending

“Naturally, confidence was lost and domestic investors have since then not fully returned to the market”

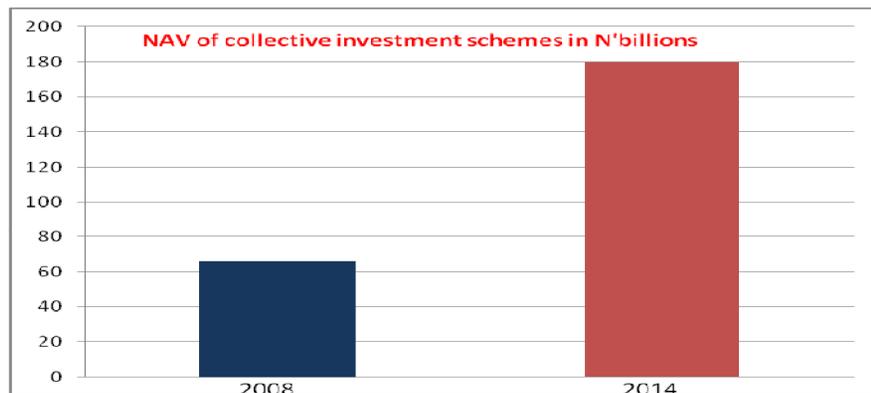
Source: SEC, NSE

What we did from 2008 to 2014

Growing bond market reduces equities dominance



Collective investment schemes are growing...



New products introduced



Bond market is now attractive...

- ✓ We streamlined the bond issuance process, introduced shelf registration and bookbuilding, and reduced issuance costs
- ✓ The bond market is now attractive for all categories of issuers including corporates, state governments and multilateral institutions
- ✓ FMDQ was registered to revolutionize fixed income securities trading

Collective investment schemes initiatives and New Products

- ✓ Number of registered funds grew from 38 to 54 and their NAV tripled
- ✓ Reviewed the regulatory framework to support product innovation, so far ETFs, REITs and sukuk have been introduced.
- ✓ Products like derivatives and securitization are in the pipeline

General Initiatives by SEC

- ✓ Intervened to replace management of the NSE
- ✓ Reviewed market structure and reduced transaction costs
- ✓ Introduced new rules and amended existing ones to strengthen regulatory framework

“Between 2008 and the last year, SEC had focused on leading the market to recovery while working on the strategy document that would guide market development for the next 10 years”.

Source: SEC, NSE

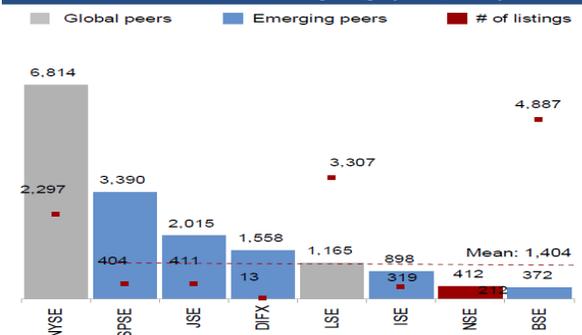
Where we are presently... (compared to our peers)

Size



Inadequate depth and liquidity...

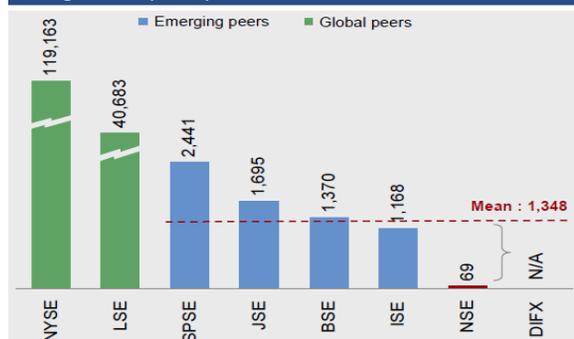
Market value/ listed company (US\$mm)



“Despite the remarkable progress we have made in recent years, we are not where we want to be”

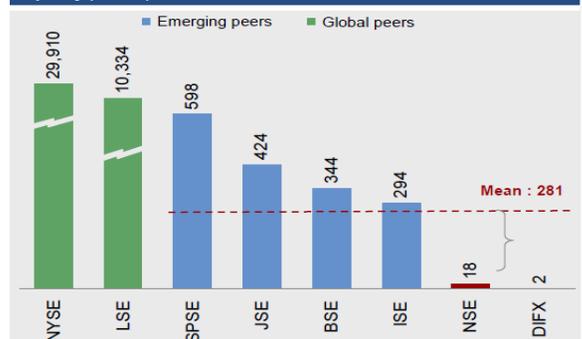
✓ **Nigeria compares less favourably to virtually all peer countries on most of the indices for size, liquidity, depth and breadth**

Trading volumes (US\$bn)



■ Nigeria trading volumes are significantly smaller than selected glob al peers
 ? 19.5x times smaller than emerging peer average

Liquidity (US\$bn)



■ Nigeria is significantly less liquid than selected global peers
 ? 15.5x times less liquid than emerging peer average

✓ **Market cap to GDP in Nigeria is still very low at only 16% compared to 247 % in Malaysia, 207 % in South Africa and 112% in Brazil**

✓ **Weak domestic investor base as evidenced by the low ratio of NAV to GDP at only 0.2%**

✓ **Despite recent declines tied to a number of geopolitical factors, Nigerian capital market is among the most profitable globally**

Challenge of Shallow Markets

	Market Cap-to-GDP (%)	Debt-to-GDP (%)	Mutual fund assets-to-GDP (%)
Nigeria	16	13	0.2
South Africa	207	46.1	30.61
Brazil	112	56.58	46.47
Malaysia	247	54.8	28.31
United States	107	101.58	77.59
United Kingdom	191	90.6	33.61
Russia	40	13.41	0.16
India	47	67.72	4.61

“The SEC is working hard to ensure Nigeria gets the kind of capital market that befits its status as Africa’s largest economy and the world’s most populous black nation”

Source: World Bank, IMF, CBN, WFE

The potential...

Key Economic Facts

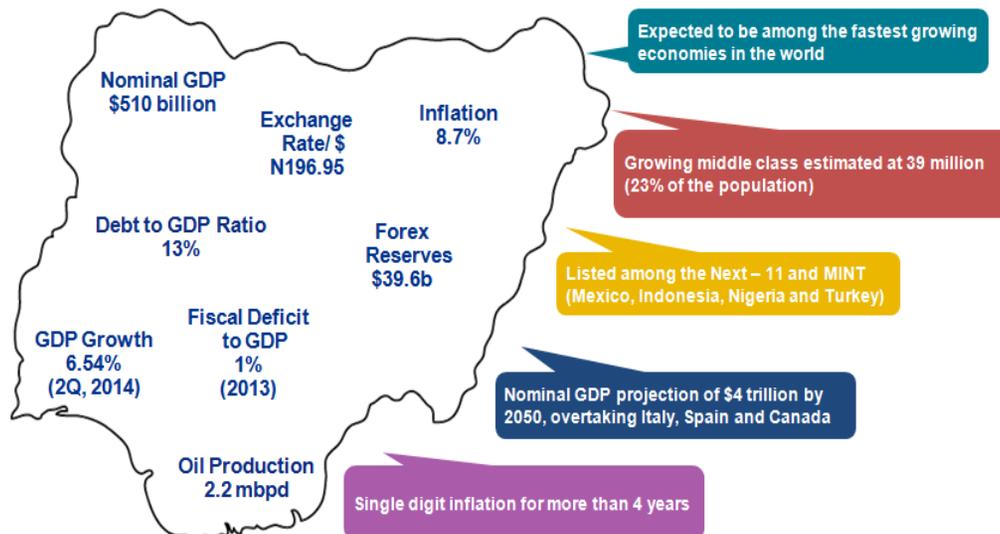


Few countries in the world can match Nigeria's amazing potential

✓ Every study of frontier markets that will attract the most investor interest in the future features Nigeria

✓ By 2050 Nigeria would be the 3rd most populous country in the world and according to Goldman Sachs Global Research by 2050, Nigeria would be the 12th largest economy in the world overtaking Italy, Canada and many other present G-20 members

Nigeria...a land of opportunities...



Nigeria needs a vibrant capital market in order to actualize her true potential

✓ To finance massive infrastructure deficit estimated at \$3.9 trillion over the next 30 years

✓ To boost financial inclusion and engender inclusive growth

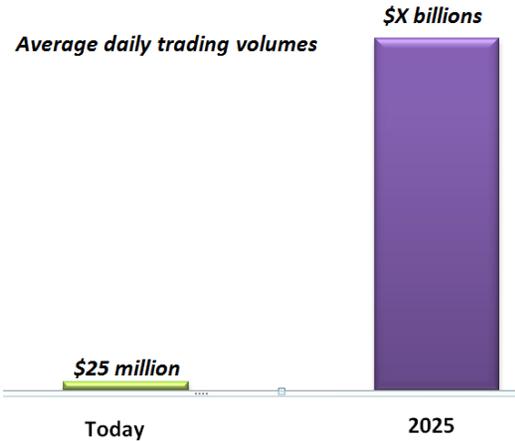
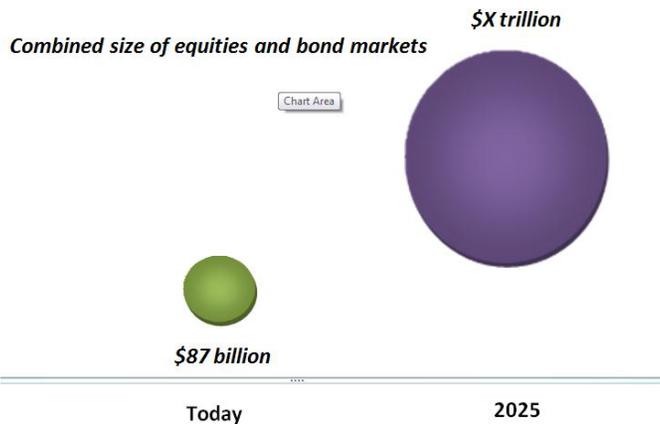
✓ To entrench corporate governance and meritocracy

✓ To spur job creation and innovation

Where we want to be by 2025

SIZE

LIQUIDITY



Our Target

✓ To make Nigeria one of the biggest, most liquid, broadest, most diversified and most sophisticated emerging markets by 2025

✓ To have a highly competitive market boasting of a favorable operating environment that engenders best practice, innovation and efficiency

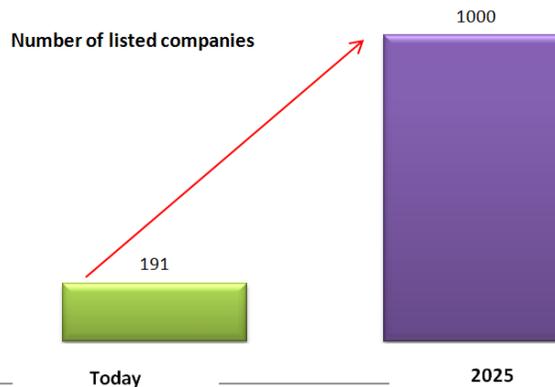
✓ We want a market that does more for housing finance, enabling Nigeria close down the 17 million housing unit deficit while supporting entrepreneurship by doing more for SMEs and startups

DEPTH

&

BREADTH

Market Cap to GDP



✓ We want a capital market that combines all the elements needed to support Nigeria actualize her aspirations of peace and prosperity for all citizens

“Our market will serve as a global financial hub offering opportunities into other parts of Africa”

How we will get there.... The Vision



Capital Market Master Plan (2015 – 2025)

- ✓ **Size:** *The market must grow to be a multiple of the country's GDP*
- ✓ **Relevance:** *The capital market must be nationally and internationally recognized*
- ✓ **Robustness:** *Efficiency, liquidity, depth of product offering, etc must improve significantly*
- ✓ **Growth:** *Even after attaining the envisioned scale, the market must keep growing*
- ✓ **Regulatory Framework:** *The regulatory framework must continually be facilitative and conform to international best standards*



Capital Market Literacy Master Plan (2015 – 2025)

- ✓ **Targeted public enlightenment:** *Covering the entire country and targeting retail investors in their local dialects*
- ✓ **Partnership with the education system:** *Developing curriculum for schools and introducing capital market related courses at the tertiary levels...*
- ✓ **Engaging various stakeholder groups:** *Media, Academia, Shareholder associations, etc*
- ✓ **Strengthen regulation and improve complaints resolution**

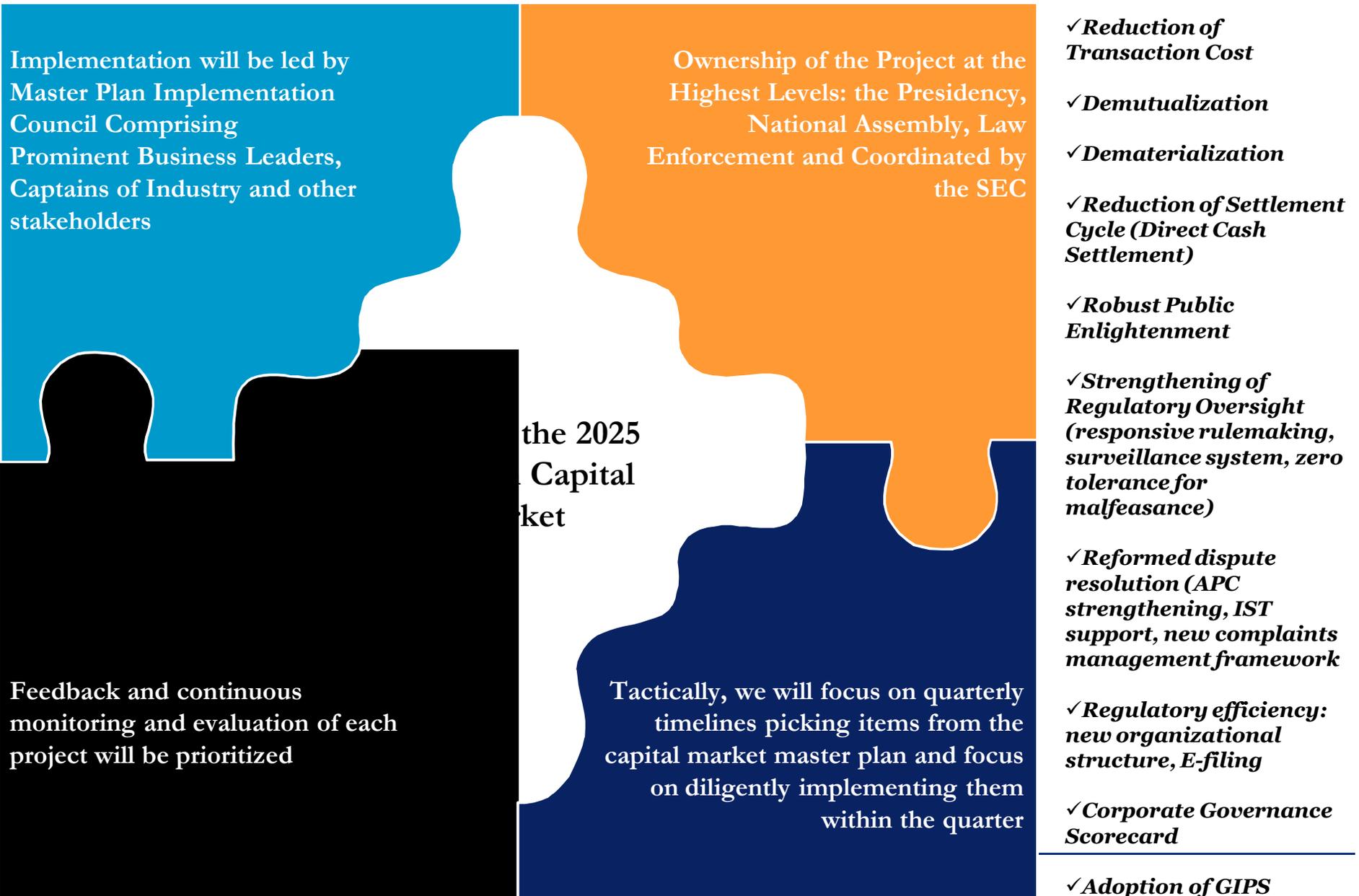


Non-Interest Capital Market Products Master Plan (2015 – 2025)

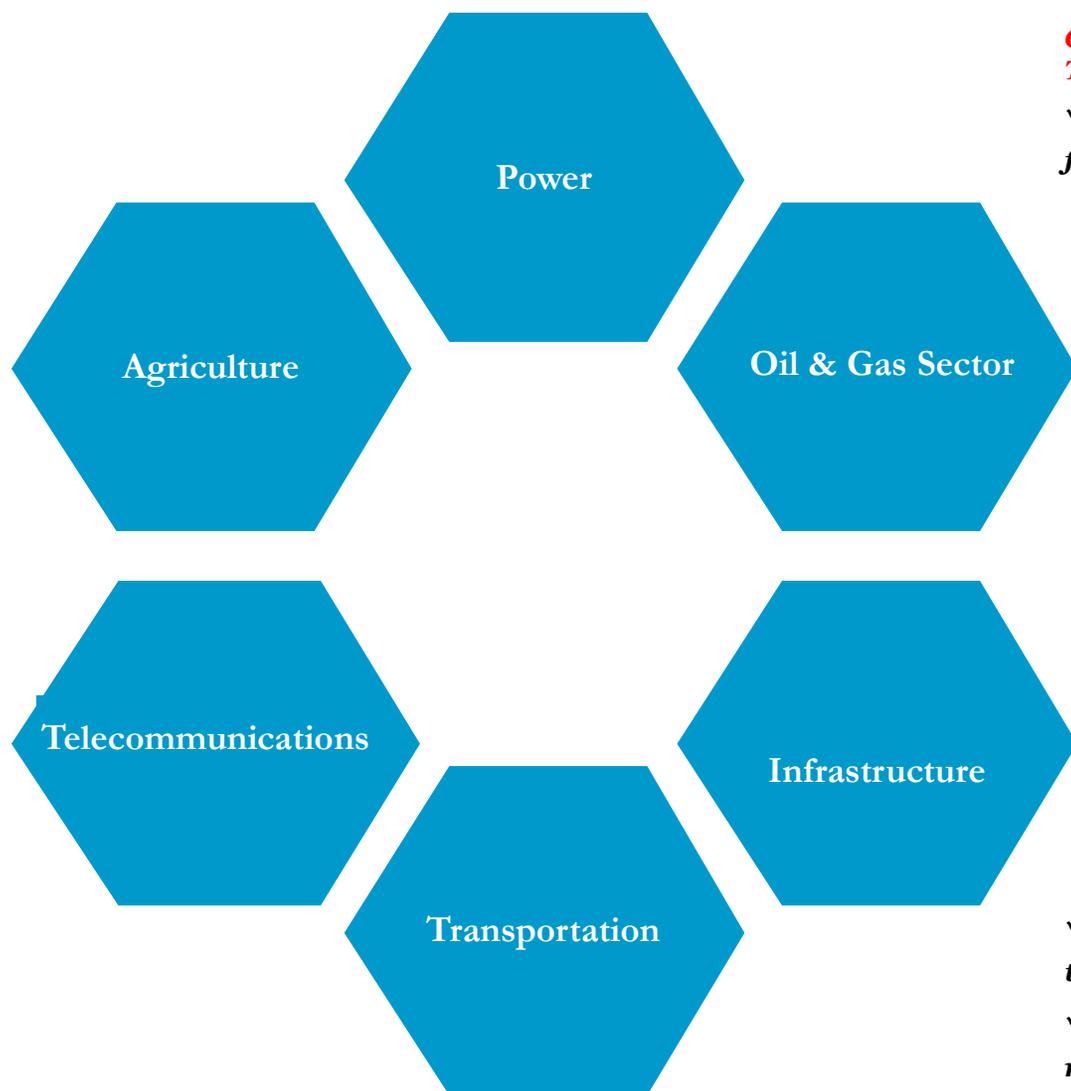
- ✓ **Build Strong Regulatory Foundation for Non-Interest Capital Market:** *Strengthen SEC capacity, introduce rules relating to non-interest capital market products*
- ✓ **Encourage development of stakeholder groups on Islamic finance**
- ✓ **Encourage product innovation and financial inclusion**
- ✓ **Make Nigeria a regional hub for Islamic capital market (there are about 3 times more Muslims in Nigeria than people in Malaysia)**

How we will get there.... The Implementation

Initiatives already being Implemented:



The Investment Decision.... Early bird advantage



**Opportunities abound in various sectors of the economy
There are always advantages for the early mover**

✓ **Nigeria has a lot of incentives in place to encourage foreign investors including:**

✓ **Pioneer Status:** Tax holiday granted to eligible industries of up to 7 years. At the moment, there is a list of 69 approved industries declared pioneer industries, which can benefit from tax holiday e.g. agribusinesses, building materials production, vehicle manufacturing, real estate, tourism, etc

✓ **Tax Relief for Research and Development (R&D):** Up to 120% of expenses on R&D are tax deductible, provided that such R&D activities are carried out in Nigeria

✓ **Capital Allowance:** ranging from 60% of profit to 100% for some industries

✓ **Export Incentives:** Benefit from preferential tariffs exporting products to North America and Asia

✓ **We see FDI as an important pipeline for future listings to increase market depth and breadth**

✓ **Ultimately, we believe the capital market should be representative of the economy. These important sectors are therefore expected to list on the Exchanges.**

The Investment Decision.... Sectors, Drivers and Opportunities

Sectors	Drivers	Opportunities
Agriculture	<ul style="list-style-type: none"> ▪ Food Security ▪ Guarantee scheme to encourage banks to lend to agriculture. Zero % duty on all agricultural machinery ▪ Transition from subsistence to commercial ▪ Value chains developed for Cassava, cocoa, cotton, groundnuts, palm, rice, 	<ul style="list-style-type: none"> ▪ Investment in the entire Agric value chain ▪ Water resources development to support irrigation ▪ Agricultural Mechanization in land clearing and preparation ▪ Commodity Exchanges
Petroleum	<ul style="list-style-type: none"> ▪ April 2010 Nigerian Content Act ▪ Passage of the Petroleum Industry Bill (PIB) ▪ Full Deregulation of the Downstream 	<ul style="list-style-type: none"> ▪ Petroleum Exploration and Production ▪ Building new refineries ▪ Domestic Production and Marketing of Liquefied Petroleum Gas (LPG) ▪ Securitization of assets/receivables ▪ Participation in the Nigeria Gas Industry Development program
Telecommunication	Retail Market Penetration – more than 100 million active lines	<ul style="list-style-type: none"> ▪ Data; Mobile broadband ▪ Local manufacturing of ICT equipment

The Investment Decision.... Sectors, Drivers and Opportunities

Sectors	Drivers	Opportunities
Housing, Building & Construction	<ul style="list-style-type: none"> ▪ Physical infrastructure deficit ▪ Housing Deficit estimated 16 million units 	<ul style="list-style-type: none"> ▪ Commercial and Residential real estate development ▪ New Refinancing mortgage facility ▪ New cities and commercial centres including Centenary City and Eko Atlantic ▪ Development of holiday resorts, hotels and recreational facilities
Wholesale & Retail Trade	<ul style="list-style-type: none"> ▪ Large internal market ▪ Huge informal market ▪ Rising incomes/ middle class 	<ul style="list-style-type: none"> ▪ Increase in formal retail centers across Nigeria
Power	<ul style="list-style-type: none"> “ Nigeria’s per capita electricity consumption amongst the lowest in the world 7% of Brazil and 3% of South Africa) “ 40,000 MW target “ Privatization of distribution of generation and distribution companies concluded “ USD 3.5 billion investment requirements over the next 10 years 	<ul style="list-style-type: none"> ▪ Independent Power Generation using gas and renewable energy sources ▪ Development of energy resources and infrastructure ▪ Commercialization of energy ▪ Training , and exchange of information and experience
Financial Services	<ul style="list-style-type: none"> “ Financial Inclusion “ Cashless initiative “ Strengthening institutions, raising minimum capital requirements 	<ul style="list-style-type: none"> “ Mobile banking “ Technology infrastructure “ Mergers & Acquisition “ Capital raising

The Investment Decision.... Sectors, Drivers and Opportunities

Sectors	Drivers	Opportunities
Ports	<ul style="list-style-type: none"> ▪ Ports operates 24 hours /7days, 1st time in 50 years ▪ Clearing being handled within 7 days ▪ Nigerian ports could become West Africa hubs, with new infrastructure and technology 	<ul style="list-style-type: none"> ▪ Deep sea ports at Lekki & Badagry in Lagos, Ibaka in Akwa Ibom and Olokola in Ogun/Ondo State ▪ Concessions available for Jetties at Baro in Niger State, Oguta and Owerrinta in Imo State, Look in Kogi State.
Rail	<ul style="list-style-type: none"> ▪ Intra-city transportation challenges ▪ Renewal of Inter State railroads ▪ West African rail road connections 	<ul style="list-style-type: none"> ▪ Lagos and Port Harcourt light rail projects ▪ South West/North East rail roads; South East/North West rail roads
Roads	Renewal of Road network	<ul style="list-style-type: none"> ▪ Lagos/Ibadan express way; 2nd Niger Bridge, Other FG and SG Roads
Aviation	<ul style="list-style-type: none"> “ Nigeria has one of the fastest growing aviation markets in the world “ Six million passenger traffic with huge potential for growth 	<ul style="list-style-type: none"> “ Refurbishment of existing terminals “ Five new international terminals “ Six new cargo terminals “ Maintenance hangars, hotels, shopping malls, etc “ Alternative financing models e.g. sukuk for Terminals, aircraft, etc

CONCLUSION

SEC is putting all energy, resources and time into implementing these blueprints for the development of our capital market and by implication the economy. Investors can be assured of our determination to meet and exceed international standards.

**Mr. Mounir Gwarzo,
Director General
Securities & Exchange Commission**

22nd June 2015

