

SECURITIES AND EXCHANGE COMMISSION, NIGERIA



CAPITAL MARKET AS A CATALYST FOR ECONOMIC GROWTH AND DEVELOPMENT

MARY UDUK, FCIB
Ag. Director General

KEYNOTE ADDRESS AT THE 2ND CAPITAL MARKET STAKEHOLDERS FORUM

SHERATON HOTEL, ABUJA

Monday, July 23, 2018

PROTOCOL

Good morning, distinguished guests, ladies and gentlemen

1. I am highly honored to deliver this keynote address at the 2nd Capital Market Stakeholders' Forum with the theme: "**Capital Market as a Catalyst for Economic Growth and Development**".
2. This Forum and its theme are very relevant and timely given the pressing needs to grow our economy and achieve sustainable development. There is no doubt that the capital market can serve as a key catalyst for Nigeria's economic growth and development, as it offers a credible platform for obtaining long-term financing.
3. I, therefore, congratulate the National Assembly Capital Market Committees and other stakeholders that organized this Forum. Learning from the experience and achievement of the maiden edition in 2016, I am confident that the outcome of this meeting will achieve its purpose.
4. Economic growth can be seen as an increase in the production of goods and services in a country, often measured by changes in real Gross Domestic Product (GDP). However, the concept of economic development is larger as it includes improvement in the quality of life and living standards of the citizens. These include improvements in literacy, health and life expectancy, better savings-investment culture as well as improved wealth distribution, housing, and environment.
5. There are many capital market instruments that can be used to stimulate economic development, with relevant instances in Nigeria. Let us consider bonds, equities and commodities briefly:

- i. **Bonds** are issued by corporate, sub-national, national and supranational institutions to raise funds for their expenditures and investments. At the end of the second quarter of 2018, the bond market capitalization of the Nigerian Stock Exchange (NSE) stood at N10.11trn. The FMDQ also provides a platform through which these bonds and other instruments are traded.

Recently, the government of Nigeria issued ₦100bn Sukuk to finance 25 road projects and issued ₦10.791bn Green bonds to finance afforestation, renewable energy and provision of clean energy.

Opportunities also exist to issue revenue bonds to finance revenue-generating projects which will exert less pressure on government budget and allocation.

The Nigerian bond market, therefore, has the potential to close the country's huge infrastructure deficit, estimated at \$350bn by AfDB (2013).

All these will be supported by the credit enhancement offered by institutions like InfraCredit and GuarantCo as well as the operations of the infrastructure funds registered by the Commission.

- ii. **Equities** have also been issued by many public companies to raise funds and expand their operations. This has engendered improved productivity, employment, and governance.

The Government has also utilized the platform of the capital market to privatize some of its enterprises in order to make them profitable, less bureaucratic and less dependent on government lean resources.

Through these equities issuances and privatization, citizens are able to invest, own and partake in the wealth of companies, thereby aiding financial inclusion and wealth creation.

The capitalization of the equities market on the NSE stood at N13.88trn at the end of the second quarter of 2018. In addition, public companies that are not listed on the NSE have their shares traded on the NASD platform.

- iii. **Commodities** are also areas where the capital market contributes to economic growth and development. Nigeria is endowed with agricultural resources but pricing, storage and transportation mechanisms have remained problems. Most of these problems can be addressed by a vibrant commodity exchange system which the SEC is working towards achieving. AFEX commodity exchange is currently operational in the country while the NCX is undergoing some restructuring to further deepen the commodities market.

- 6. In addition to the above instruments, the activities of various capital market participants contribute to economic growth and development. Examples include activities of domestic retail and institutional investors and foreign capital inflow.

- i. **Domestic retail investors** are able to earn income on their investments in capital market securities. This has the potential of reducing household poverty and inequality levels which are key measures of economic development. So far this year domestic retail investors accounted for 20.2% of the transactions on the NSE.

The Federal Government also commenced issuing savings bonds in March, 2017 which allows retail investors to participate in the bond market. So far, 31 savings bonds have been issued with the total amount allotted of ₦8.52bn.

Further, opportunities exist for retail investors to reduce their risk exposure by investing in Collective Investment Schemes (CIS) comprising diversified baskets of securities. The volatility of these types of investments is less and they can be safer. The Net Asset Value of CIS in Nigeria currently stands at about N610bn and is growing.

- ii. **Domestic institutional investors** equally invest in capital market instruments to generate value for their clients and their institutions. Examples in Nigeria include the Pension Funds, Insurance companies, and Banks.

At the end of April, 2018, Nigeria's pension fund asset stood at N8.1trn and the bulk of the fund was invested in capital market instruments. Investment in FGN bonds stood at 49.34%; ordinary shares at about 10%; corporate debt at 4.4% and CIS at 0.23%.

- iii. **Foreign capital inflow** improves a country's profile in terms of exchange rate, external reserves, Balance of Payments and economic growth. A vibrant capital market is a major attraction to capital inflows.

In the first quarter of 2018, out of the \$6.3bn capital importation into Nigeria, portfolio investments into the capital market accounted for 16.5%. Further, foreign investors have accounted for about 50% of the transactions on the NSE this year and their participation aids market efficiency and liquidity.

However, there is still a need to encourage more retail investor participation, so that the market can be less vulnerable to the behavior of foreign investors as often seen. Some of the initiatives like financial literacy, e-dividend, direct cash settlement and investors protection funds are to raise the retail investors' confidence and participation levels

7. The foregoing show that the Nigerian Capital Market has actually been serving as a catalyst for economic growth and development. However, some potential is still untapped.
8. One major initiative to tap this potential was the development of a ten-year Capital Market Master Plan (CMMP) launched by the Commission in 2014. The Plan has over 100 initiatives to springboard the Nigerian capital market

as one of the world's deepest and most liquid as well as the largest in Africa by 2025.

9. It is also aimed at ensuring that the market contributes much more to the socio-economic development of the nation particularly in facilitating capital-raising for sustainable development and transformation of key sectors.
10. Some of these initiatives include the e-Dividend payment, Direct Cash Settlement, Dematerialization, Financial Literacy, Non-interest Capital Market, Complaints Management Framework, Liquidity Enhancement, and Equity Listing Enhancement.
11. I am glad to inform you, , each of these initiatives is contributing to the growth and development of the Nigerian capital market, and by extension, the economy.
12. My address will be incomplete without acknowledging the supports the Commission and the Nigerian Capital Market has received from the National Assembly, especially from the Capital Market Committees of both arms.
13. But we cannot but keep asking, until our joy is full.
14. Distinguished Senators and Honorable Members, kindly recall that certain legislations were identified as hindering investment and capital market practices. Following this, three committees were set up in June 2016 and they had since completed their comprehensive review of the following seven legislations:
 - i.** Investment and Securities Act,
 - ii.** Companies and Allied Matters Act,
 - iii.** Trustees Investment Act,
 - iv.** Pension Reform Act,
 - v.** Financial Reporting Council of Nigeria Act,
 - vi.** Warehouse Receipt Bill,
 - vii.** Demutualization of Stock Exchange Bill.
15. We are aware that these legislations are at different stages of consideration; our prayer is that the National Assembly adopts the reports of the various law review committees as the working documents and support the speedy passage into law of the proposed amendments.
16. The Nigerian Capital Market is set to be a catalyst for the country's economic growth and development. This Forum is a signal that with the appropriate collaboration among the legislators, regulators, and operators, we can exceed our targets sooner than expected.

17. I, therefore, urge all of us to sit back, contribute and enjoy the Forum. I am confident that the outcome will impact greatly and positively on the capital market in particular, and the economy as a whole.

Thank you and God bless!

Mary Uduk, FCIB

Ag. Director General

Securities and Exchange Commission