



Imperative of Mainstreaming the Nigerian Capital Market Master Plan into National Economic Development Policy

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Abstract

The Nigerian economy is facing significant challenges inhibiting the attainment of its full potential. On its part, government has been implementing policies aimed at addressing the challenges by running expansionary budgets, investing in infrastructure and further diversification of the economy. The capital market has proven to be one of the key sources for mobilizing the funds needed to finance these lofty objectives. In order to reposition the market to serve its numerous purposes, the Securities and Exchange Commission has developed a ten-year capital market master plan. The plan outlines ambitious initiatives whose implementation will engender the emergence of a more robust capital market capable of financing socioeconomic development priorities of government. To enhance chances of its implementation success, there is the need to mainstream the master plan into national economic policy.

Key words: capital market master plan, socioeconomic development, mainstream

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1. Introduction

The structure of the Nigerian economy has remained overly dependent on crude oil, with the attendant risks associated with swings in crude oil prices, export earnings and government revenues. The authorities in Nigeria are committed to diversifying the economy and achieving sustainable development. As the regulator of the capital market in Nigeria, the Securities and Exchange Commission (SEC) has in various ways supported the drive of government aimed at achieving growth and diversifying the economy. Through its regulations of the capital market, the SEC has provided the necessary enabling and regulatory environment for the Nigerian capital market to raise long-term funds for investment and growth. In the last decade (2006-2015) the capital market raised over 10.3 trillion naira for corporations and state governments. Yet, as a regulator of the capital market the SEC believes that much more needs to be done, and has indeed taken steps (often in partnership with other stakeholders in the capital market) to raise the ability of the market to perform its function of raising funds for long-term investment and growth.

Among a series of measures so far undertaken by the SEC since it came into being in 1978, the Nigerian Capital Market Master Plan (CMMP) is the latest and most ambitious project, coming as it does in the wake of renewed determination by the Nigerian government to achieve poverty reduction and diversification of the economy while promoting sustainable development and inclusive growth. The main objective of this paper is to demonstrate how this project (CMMP) contributes to the achievement of these lofty objectives and in that way to make a case for mainstreaming it into the national economic policy. The rest of the paper is divided into four sections. Section two provides the background, emphasizing the macroeconomic and policy events that have necessitated the SEC's concern for the need to develop and implement the capital market master plan. Section three is devoted to the importance of the capital market in an economy. In section four, key provisions of the master plan are discussed with a synopsis of the attendant benefits of its implementation. Section five presents the conclusion.

2. Macroeconomic and Policy Background

The Nigerian economy is the largest in Africa but has faced daunting macroeconomic challenges which current policies are poised to overcome. In the second quarter of 2016, the economy went into recession. Inflation, in double digit, is high. Crude oil prices have tumbled on the world market, causing both import earnings and government revenues to fall. Revenue allocation to various tiers of government has nosedived, falling from N568 billion in March 2015 to N300 billion in March 2016 according to figures from the Federal Ministry of Finance. It is therefore unsurprising that some state

governments are unable to meet their financial obligations as they become due. Unemployment is equally high, and has been a source of concern for the authorities. Although Nigeria is the largest economy in the continent, on some measures it still remains behind other countries in the region. In 2015 for example, while South Africa was ranked 49th in terms of global competitiveness index of the World Economic Forum, Nigeria came a distant 124th out of a total of 189 countries in the ranking. Average incomes in Nigeria are equally low in comparison to those of many African countries. With per capita income of US\$2,758 in 2015, Nigeria ranked 128th in the world by the World Bank. This compares with an average of US\$5,784 for South Africa which ranked 87th.

Significant success has been recorded on several fronts such as security improvement in the north-east. A budget of N6.06 trillion was passed by the Senate in March 2016. The deficit of N2.65 trillion was planned to be funded through local and external sources. A fiscal stimulus package is being conceived and Senate is working on a proposal for external loans to reflate the economy. Government policy aimed at diversifying the economy has given priority in infrastructure development. World Bank estimates put the core stock of infrastructure at between 35% and 40% of the country's GDP, far less than the average of about 70% for other middle income countries of comparable size.

Despite the examples given above on some of the teething macroeconomic and related challenges, confidence is high that Nigeria will achieve the set objectives of economic recovery, inclusive growth and diversification of the economy. For the first time in the last decade, the country did not appear in the list of ten most corrupt countries in the world. This is a good omen, but equally unsurprising. Government has made the fight against corruption an important pillar of policy. Fiscal environment has improved transparency and accountability. Measures have been pursued to improve tax collection and coverage, and the treasury single account (TSA) has been implemented.

The SEC is mindful of the concerted actions the authorities in Nigeria are pursuing to restore confidence, achieve economic recovery and growth; and has accordingly played a complementary role in the discharge of its mandates to ensure that the capital market in Nigeria is contributing more and helping to achieve the lofty objectives.

3. Importance of the capital market

In order to set the stage for the discussions in the subsequent sections of this paper, it is pertinent to explain albeit briefly the role of the capital market in an economy. Economic and finance literature attributes to the capital market a number of functions including fostering economic growth and development; promoting financial stability; enabling corporations and government to manage risk; diversifying sources of investment and lowering funding costs; attracting foreign portfolio investments and PPP funding; reducing illicit financial flows; creating wealth and enhancing investor wellbeing; serving as a barometer for measuring individual and corporate wealth; providing liquidity to listed securities; promoting good corporate governance; facilitating the development of agriculture and mineral sectors, thereby promoting diversification of the economy; promoting the development of contractual savings institutions; and supporting the success of privatization. These points are discussed in turn.

a. Promoting Economic Growth and Development

The current administration has a clear focus on the pursuit of economic growth through which employment creation on a sustainable basis could be achieved. For this reason, it is important to demonstrate the role of the capital market as a catalyst for economic growth. Supriya (2013) argues that a well-functioning capital market increases confidence and encourages savings which in turn contribute to investment and growth. The capital market is therefore an avenue for raising funds for infrastructure development, which as mentioned above is in dire straits. The Nigerian capital market can also provide such opportunity for significant infrastructure funding. It has indeed financed some state governments' infrastructure projects and has enabled financial institutions such as banks and insurance companies recapitalize and undertake key expansion projects; all of which have had positive development impacts. The Federal Government has continued to access financing through the capital market to meet its funding gap. The DMO has raised a total of N4.2 trillion in the last five years on behalf of the Federal Government. Tapping the domestic market for such funds would have been difficult had the capital market not existed.

b. Capital market and financial stability

Financial stability is an important requirement for economic development and growth. In the face of double-digit inflation amid exchange rate depreciation and trade and fiscal imbalances, the country's pursuit of fiscal and financial stability has not wavered. The capital market regulation in Nigeria has pursued the development of a wide variety of instruments such as equities, bonds, mortgage backed securities, sukuk, derivatives and collective investment schemes that enable economic agents to mobilize funds and ensure their more efficient utilization. The instruments either developed or strengthened by the CMMP, have the potential to ensure financial market stability in the country by reducing the excessive dependence on money market products.

c. Enabling corporations and government to manage risk

Economic and finance literature posits that risk management is an important objective well-informed investors pursue. Using simple statistical formula for the computation of mean and variances, Markowitz (1952) has demonstrated that the risk of a portfolio is less than the sum of the risk of individual constituent assets in the portfolio. In other words, risk reduction is an inevitable concomitance of diversification. By offering a wide array of investment instruments the capital market therefore is a sure guarantee for risk reduction. Corporations therefore taking advantage of the instruments available in the CMMP are more likely to manage risk. As both theory and evidence have shown risk management is related to reduction in cost of borrowing since funds can be raised at lower costs by corporations able to manage and reduce risks compared to others less able to do so.

d. Attracting foreign portfolio investments and PPP funding

As finance literature is clear about the role of the capital market in attracting portfolio investments and public-private partnership (PPP), Nigeria's capital market plan has incorporated elements that seek to recognize and promote this role. A number of features come to mind in relation to this. One, the CMMP is pursuing the strategic objective of expanding existing and developing new attractive savings products (some of which are mentioned in the preceding paragraphs). A second example is the strategic objective seeking to monitor capital market policy on institutional investment strategies. Third, the plan seeks to engage insurance sector in savings mobilization. These strategic objectives exemplify just how the CMMP seeks to contribute in resource mobilization from both domestic and international sources.

e. Reducing illicit financial flows;

The enforcement of disclosure requirements, transparency and corporate governance ensures that funds flowing through the market are compliant with anti-money laundering/counter financing of terrorism (AML/CFT) laws and regulations. All entities within the market have specific responsibilities regarding AML/CFT to the regulators with strict penalties for non-compliance. This makes it difficult for illicit funds to be laundered through the market.

f. Serving as a barometer for measuring individual and corporate wealth; providing liquidity to listed securities;

Investors are motivated by benefits such as dividends, interest income and capital gains. These benefits improve the financial worth of investors. The capital market thus, through these benefits, creates wealth in society (although wealth can also erode from losses) and enhances wellbeing of investors. The capital market lays the platform for the populace to own interest in companies and by extension, the industrial sector.

g. Barometer for measuring individual wealth;

The capital market is a veritable source of wealth valuation for companies and individuals. It provides a picture of the financial worth of individuals through the efficient price discovery mechanism of the market and enables the public and officials to estimate the measure of wealth which may help in tracking tax returns, etc. Financial media institutions such as Forbes use the capital market amongst other sources to estimate and rank companies' and individuals' financial worth. This enhances transparency and helps to reduce evasion of tax responsibilities by high net worth individuals.

h. Facilitating the development of agriculture and mineral sectors, thereby promoting diversification of the economy;

The development of commodities exchanges is very vital to the development of the agriculture and solid mineral sectors which are important to the economic diversification objectives of the government.

i. Supporting the success of privatization.

The capital market has been used to implement credible and inclusive privatization programmes and can provide capital post-privatization to improve the operations of such companies.

4. Key Provisions of the Master Plan

As earlier stated, in realization of the strategic role the capital market must play to align with the nation's economic vision, the Capital Market Master Plan was developed. The Master Plan maps out strategies which would spring-board the Nigerian capital market as one of the world's deepest and most liquid capital markets as well as the largest on the continent of Africa by 2025. 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 like agriculture, power, transportation, oil and gas and telecommunication. Implementation of the CMMP has commenced in earnest and the Capital Market Master plan Implementation Council (CAMMIC) has been inaugurated.

Implementation of the CMMP is even more urgent at this challenging time given its potential to bolster the economy. This paper argues that the CMMP document, whose key elements are highlighted below, should be mainstreamed into the nation's current economic development policy. This has been the case with capital market master plans in some jurisdictions such as Brazil, Kenya, Malaysia and South Africa. Its adoption by government should strengthen stakeholders buy-in and facilitate the faithful implementation of the Plan.

Table 2 outlines some of the strategic objectives and initiatives which are expected to serve as catalysts to the growth of the real sector and facilitate capital raising for critical economic sectors.

Table 2: Strategic Initiatives from the Master Plan

Objectives	Strategic Initiatives	Resultant Effect
Establish policies to drive personal, corporate, institutional and national savings and for channelling them to the capital market	<ul style="list-style-type: none"> • Establish a National Savings Strategy • Expand existing and develop new attractive savings products • Monitor capital market policy on institutional investment strategies • Engage insurance sector in savings mobilization 	Infrastructure Development Financial Inclusion Inclusive Growth
Drive the mobilization and allocation of capital to the critical and significant sectors of the economy	<ul style="list-style-type: none"> • Grant tax relief and incentives for priority economic sector investments • Establishment of Government sponsored SME Investment company program • Establish specialized funds to support players and boost critical sectors • Increase private sector participation in venture capital and private equity funding • Reposition the National Development Bank to be strong and well-capitalized 	Infrastructure Development Financial Inclusion Economic Growth
Contribute to increased formalization of the economy and promote financial inclusion	<ul style="list-style-type: none"> • Resolve property/land title allocation and transfer issues to facilitate securitization • Simplify processes for capital market participation 	Financial Inclusion Economic Growth Expanded Tax net
Increase participation of critical economic sectors	Create a National monoline financial guarantor	Diversification of the economy Infrastructure Development

<p>Develop a thriving commodities trading ecosystem</p>	<ul style="list-style-type: none"> • Build supporting and functional ecosystem for commodities trading • Provide the Legal framework and appropriate legislation for commodities trading • Build centres of excellence in areas of comparative advantage (Oil, Gas, Cocoa) • Develop efficient Commodities Exchange(s) and Trading Platforms • Sponsor legislation to ensure Nigeria's crude oil sales are traded on local exchanges 	<p>Diversification of the economy - expansion of agriculture and its value chain</p> <p>Ensure macro-economic stability (real GDP growth)</p>
<p>Grow the Nigerian non-interest capital market to contribute to total market capitalization</p>	<ul style="list-style-type: none"> • Commence issuance of Sovereign Sukuk • Develop other non-interest capital market products 	<p>Infrastructure Development</p> <p>Delivering Inclusive Growth</p> <p>Financial Inclusion</p>

BENEFITS OF MAINSTREAMING THE CAPITAL MARKET MASTER PLAN INTO THE NATIONAL ECONOMIC DEVELOPMENT AGENDA

The Nigerian economy stands to benefit from implementation of the master plan in a number of ways exemplified below.

i. DIVERSIFICATION OF THE ECONOMY

The Master Plan anticipates significant growth in the capital market that will translate into and drive the development of the real sector and in fact all sectors of the economy. A key strategic theme of the Master Plan is to drive and facilitate capital raising across industries and by all tiers of government. This will facilitate sustainable national development and transformation of critical sectors such as infrastructure, agriculture, solid minerals, ICT and education. The market is being reformed to considerably expand its capacity for domestic funds mobilization and become, at all times, the preferred choice for capital raising by both businesses and governments. Developing a strong local capacity complemented by foreign capital is a priority of the Master Plan.

With the current focus on the development of agriculture, experience has shown that an effective off-take system for producers and farmers goes a long way in stimulating production and growth of the agricultural sector. Companies presently engaged in the processing of agricultural produce for export are beleaguered by high cost of production, absence of reliable off-take contracts, inadequate technical, operational and quality expertise as well as lack of access to adequate working capital.

Part of addressing the challenges facing agriculture in Nigeria will require the existence of a well-functioning commodities exchange and well-funded processing factories. The Master Plan therefore advocates the development of a thriving commodities trading ecosystem. This will not only aid the diversification of the economy and foster real GDP growth, but will create jobs within the value chain of the ecosystem thereby engendering inclusive growth.

ii. INFRASTRUCTURE DEVELOPMENT

The 2016 Budget seeks to stimulate the economy by, inter alia, focusing on infrastructure development which is critical for job creation, poverty reduction and overall development of the economy. Infrastructure is a key growth driver with significant multiplier effect on the economy of a country. Investment in infrastructure is acknowledged as one of the quickest means of stimulating an economy particularly in times of recession. In what can be seen as a first step, the budget, as stated earlier, provided a capital expenditure of N1.6trillion. The Master Plan envisages that the capital market will be an important source of funding infrastructure projects through a variety of instruments by which the Federal Government, its agencies, state governments and other entities can raise funds. Such

instruments like infrastructure funds and infrastructure bonds can be structured specifically to attract capital for identified infrastructure projects. These instruments, if well-structured with necessary safeguards should be attractive to Pension Fund Administrators (PFAs) with about N6 trillion assets under management. There are also collective investment schemes focused on bonds and infrastructure asset classes which would be attracted to government's infrastructure instruments.

In 2015, Federal and State governments as well as corporates raised about N1 trillion in debt capital from the capital market. Over the years, many states of the federation have accessed the market to mobilize funds to finance various development projects as indicated in a few examples listed in Table 3.

Table 3: Selected State Government Bonds and Purposes

S/N	STATE	PROJECTS	AMOUNT RAISED
1.	Akwa Ibom	<ul style="list-style-type: none"> Financing infrastructure development 	N6B
2.	Bauchi	<ul style="list-style-type: none"> Part-financing of Bauchi Specialist Hospital Completion of Sir Abubakar Tafawa Balewa International Airport Refinancing of Bank Loan 	N15B
3.	Benue	<ul style="list-style-type: none"> Financing of new road and water projects, etc. 	N3.95B
4.	Cross River	<ul style="list-style-type: none"> Upgrading and Expansion of Obudu Cattle Ranch 	N4B
5.	Delta	<ul style="list-style-type: none"> Health, Water and Education 	N5B
6.	Gombe	<ul style="list-style-type: none"> Building of township and regional roads College of Education Billiri, School of Basic and Remedial Studies Kumo Development of Secondary Schools, Purchase of Earth Moving Equipment Construction of Mega Park, School of Nursing and refinancing of existing Loan 	N25B

7.	Kaduna	<ul style="list-style-type: none"> • Financing of Zaria regional water supply (150 MLD treatment plant) • Construction of 200 bed specialist hospital • Kaduna Millennium City, Kaduna • Construction of new government house office complex • Tum Madakiya road and 4th bridge across River Kaduna • Kafanchan Campus of Kaduna State University, Kaduna. • Ginger Factory 	N8.65B
8.	Kogi	<ul style="list-style-type: none"> • Housing Units • Water Schemes • University Teaching Hospital • Modern Motor Park 	N3B
9.	Kwara	<ul style="list-style-type: none"> • Stadium complex • International Aviation College • Asa Dam mixed use Development • Urban Roads, Ilorin metropolitan street lights • Kwara shopping complex • International vocational centre, Rural electrification, Rural Roads • Kwara State University, Ilorin water distribution project • Agricultural irrigation support project, Kwara advanced diagnostic centre • Loan re-financing 	N17B
10.	Lagos	<ul style="list-style-type: none"> • Multiple Capital Projects 	N225B
11.	Niger	<ul style="list-style-type: none"> • Construction and rehabilitation of Roads and industrial layout • Completion of Shiroro Bridge • Development of the Garam site and services scheme • Construction of an international market • Completion of Three Arms Zone 	N27B

12.	Osun	<ul style="list-style-type: none"> • Road Infrastructure, • Commercial infrastructure (O-Hub, Dagbolu, Osun), • Urban renewal (Ilesa, Ikire, Osogbo, Ede and Iwo), Ede waterworks and • Refinancing of loan. • Construction of Millennium Model Schools (Elementary, Middle and High Schools) 	N41.4B
13.	Oyo	<ul style="list-style-type: none"> • Mini-water works scheme • Road Transportation • Health care 	N4.8B
14.	Plateau	<ul style="list-style-type: none"> • Refinancing of Capital Projects 	N26B
15.	Yobe	<ul style="list-style-type: none"> • Construction of Urban Roads, Houses and Drainage Improvement 	N2.5B

iii. Delivering Inclusive Growth and Ensuring Macroeconomic Stability

More entities in the real sector would be encouraged to seek listing and funding from the capital market. Sectors such as telecommunications, power, agriculture, solid mineral, oil and gas and SMEs would be among the targets. Listing will give Nigerians the opportunity to part own companies in these sectors, share in their successes while deepening the capital market and improving its visibility.

iii. Improving the savings culture to increase funds for investment:

Businesses and projects require a constant supply of funds. The Master Plan highlights initiatives to improve long term savings by Nigerians which can be harnessed for investment. This will provide funds that can be channelled through the capital market for infrastructure and project financing.

There are examples of schemes in other jurisdictions such as National Savings and Investments in the United Kingdom and the Postal Savings Scheme in Japan under which depositors' funds provide financing for government.

iv. Budget Deficit-Financing through the Nigerian Capital Market

The capital market can be an effective vehicle for part-financing the FGN's proposed budget deficit in 2016 and the implementation of the Medium Term Expenditure Framework (MTEF). The 2016 Budget has a N2.2trillion deficit which is being financed by a combination of domestic and foreign borrowing. The capital market is a veritable avenue for the domestic portion of the borrowing.

5 Conclusion

Mainstreaming the CMMP into national economic development policy would boost its successful implementation. This will in turn be beneficial not just to the capital market but also to the entire economy. It will improve Nigeria's competitiveness, promote a savings culture, improve market depth and liquidity and catalyze economic growth. More importantly, since the capital market over time serves as the barometer of any economy, the successful implementation of the Nigerian Capital Market Master Plan will aid the actualization of the nation's economic development aspirations.

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