

SECURITIES AND EXCHANGE COMMISSION, NIGERIA



STRATEGIES TO ACHIEVE DOUBLE DIGIT GROWTH FOR NIGERIA: THE CAPITAL MARKET OPTION

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PROTOCOL

1. Good Morning Ladies and Gentlemen, permit me to stand on already existing protocol.
2. I am delighted to be in your midst today to speak on a very important topic at a very important time in the history of our country. Nigeria desperately needs to provide infrastructure and jobs in a period of moderate oil prices. The Government must diversify the economy and its source of funds for its numerous projects and the private sector through capital markets is ready to support these efforts.
3. I will talk to you today about economic growth, the Nigerian capital market, the ERGP and initiatives in the capital market.

4. Economic Growth

- 4.1. Economic growth rate is the rate at which a nation's Gross Domestic Product (GDP) changes/grows from one year to another while the GDP is the market value of all the goods and services produced in a country in a particular period.
- 4.2. Over the years, we have witnessed countries such as China and India experience unprecedented growth, which has lifted millions of their citizens out of poverty.
- 4.3. However, double-digit growth is not as common as high GDP growth rate. We may have double-digit growth over a specific period or recorded annually.
- 4.4. In Nigeria, the last time we experienced double-digit growth was in 2002 and during the post-war period of 1969-1975.
- 4.5. Other notable countries that have recorded such growth during the last 15 years include China, Qatar while in Africa, we have had Ethiopia, Angola, and Equatorial Guinea
- 4.6. The Nigerian economy continued to improve in 2018 following the recovery from the recession of 2016-2017 as the Gross Domestic

Product (GDP) expanded for the sixth consecutive quarter to 1.81% in Q3 2018.

- 4.7. More pressing for Nigeria is to sustain and improve the recent positive growth to a level beyond the population growth rate of 2.6% so that the growth can translate to improved welfare for the citizenry.

5. The Capital Market

- 5.1. Many capital market products and mechanisms can be used to stimulate economic development.
- 5.2. Bonds are issued by corporate, sub-national, national and supranational institutions to raise funds for their expenditures and investments. At the end of 2018, the bond market capitalization of the Nigerian Stock Exchange (NSE) stood at N10.16trn. The FMDQ also provides a platform through which these bonds and other instruments are traded.
- 5.3. Recently, the Nigerian government issued N100bn Sukuk to finance 25 road projects with a total Subscription of N132.20 billion, which represents a Subscription Rate of 132.2%. This shows the appetite of investors towards these instruments. Similar opportunities also exist to issue revenue bonds to finance revenue-generating projects, which will exert less pressure on government budget and allocation.
- 5.4. The Nigerian bond market, therefore, has the potential to close the country's huge infrastructure deficit. An AfDB (2013) report shows that Nigeria needs to invest US\$350 billion in its infrastructure sector between 2011 and 2020. A total sum of \$131b is expected to be mobilized from the private sector.
- 5.5. Equities have also been issued by many public companies to raise funds and expand their operations. This has engendered improved productivity, employment, and governance. Equally, the government has 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's lean resources.

- 5.6. The capitalization of the equities market on the NSE stood at N13.88trn at the end of 2018 while public companies that are not listed on the NSE have their shares traded on the NASD platform.
- 5.7. The commodities value chain and trading are other areas where the capital market makes a significant contribution to economic growth and development. Nigeria is endowed with agricultural resources but pricing, storage, and transportation have continued to pose problems. These problems can be addressed by a vibrant commodity exchange system, which the SEC is working towards achieving. AFEX commodity exchange is operational while the Nigerian Commodity Exchange (NCX) is undergoing some restructuring to further deepen the commodities market.

6. Capital Market Option in Nigeria's Economic Growth via the ERGP

- 6.1. In response to the need to lay a solid foundation for the economy to emerge out of recession and restore economic growth, the Economic Recovery and Growth Plan (ERGP) was launched in 2007 with the following three broad strategic objectives:
 - i. restore growth through macroeconomic stability and economic diversification;
 - ii. build a globally competitive economy through investment in infrastructure, improvement in business environment and promotion of digital-led growth and;
 - iii. Invest in the Nigerian people through programmes on social inclusion, job creation, youth empowerment, and improved human capital.
- 6.2. The ERGP's target of GDP growth range from 2.19% in 2017 to 7.00% in 2020. Although a double-digit growth is not envisaged in the medium-

term focus of the Plan, there are many areas where the capital market can improve on this growth forecasts through its contribution to the different aspects of the ERGP:

- 6.3. **In restoring Macroeconomic Stability**, the capital market should take advantage of the privatization efforts the Plan seeks to implement through the sale of its assets and enterprises. Government's enterprises can be privatized by listing on the stock exchange. This will serve the purposes of generating funds for the government, allow the Nigerian public to participate in the ownership of privatized government assets and deepen the capital market. Concerning debt, the plan is to reduce domestic borrowing, and by helping to lower interest rates and cost of borrowing, this will permit corporates better access to funds from the capital market.
- 6.4. **For Economic Diversification**, capital markets can be quite useful by lending to government priority areas like agriculture and solid minerals on a more long-term basis at affordable rates. The capital market also provides an avenue for obtaining capital towards meeting the re-capitalization requirements of some financial institutions identified in the plan. Various instruments in the capital market such as infrastructure fund, Real Estate Investment Trusts (REITs) and Mortgage-Backed Securities (MBS) will also be useful towards achieving the government's objective of housing for the populace.
- 6.5. **Towards Building a Competitive Economy**, the capital market can source funding for the Federal Government by issuing bonds like infrastructural bonds for financing the building of the Mambilla hydropower plant as well as other major infrastructures. In addition, the privatization of NIPP generating assets could be done through the stock market for efficient pricing, wealth distribution, and liquidity. Assets slated for concession may also be considered for listing now or later when turned around.

- 6.6. **In investing in our people**, the green bond mentioned in the Plan is evidence of government interest in this instrument. This calls for more studies and awareness in the structuring, pricing, and regulation of this instrument and other avenues that the capital market can support the environment.
- 6.7. **For Governance**, the recommendations by the Fiscal Strategy Paper (FSP) to the subnational government are quite relevant given the dwindling FAAC allocations and the pressing needs for infrastructure development. Beyond issuing general-purpose bonds, states should take advantage of the improved capital market guidelines to issue revenue bonds. These have the feature of using a state's debt to develop key infrastructure, generate revenue and diversify the economy.

7. The Capital Market Master Plan (2015-2025)

- 7.1. As you are aware, a major initiative to tap the potential of the Nigerian capital market was the development of a ten-year Capital Market Master Plan (CMMP) launched by the Commission in 2014. The Plan has numerous 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.
- 7.2. 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.
- 7.3. Some of these initiatives include e-Dividend payment, Direct Cash Settlement, Dematerialization, Financial Literacy, Non-interest Capital Market, Complaints Management Framework, Liquidity Enhancement, and Equity Listing Enhancement. Each of these initiatives is contributing to the growth and development of the Nigerian capital market, and by extension, the economy.

7.4. In addition to the foregoing, there are various committees working on and proffering solutions to different issues concerning the market. Some of these include enhancement of market liquidity, the introduction of electronic Initial Public Offering (e-IPO), the establishment of minimum operating standards, enhancement of commodities trading ecosystem and development of non-interest capital market.

8. Conclusion

8.1. I commend the Chartered Institute of Stockbrokers for coming up with such an important theme with the aim of raising issues for discussion in our collective bid of developing the Nigerian economy. It is clear that no country develops without an active role of its capital markets essentially in providing the necessary capital to fund projects.

8.2. Nigeria is in dire need of capital for its infrastructure and growing SMEs. The Nigerian capital market is eager to support the government in achieving its promises to Nigerians.

8.3. Thank you.

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