

SECURITIES AND EXCHANGE COMMISSION



NIGERIAN ECONOMY: IDENTIFYING THE SILVER LININGS

KEYNOTE ADDRESS AT
THE 5TH ANNUAL INVESTOR CONFERENCE OF
THE ASSOCIATION OF ASSETS CUSTODIANS OF NIGERIA

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Introduction

1. It is my pleasure and an honour to give the keynote address on this auspicious occasion: the 5th Annual Investor Day of the Association of Asset Custodians of Nigeria (AACN). I also specially acknowledge the excellent collaborations between the Securities and Exchange Commission and the AACN in the past, which has seen the Commission deliver keynote addresses at previous editions of this conference.
2. I commend the AACN for its continued contributions to the transformation of the Nigerian capital market. Custodians generally play a pivotal role in the maintenance of market integrity which is vital to the development and sustenance of any market. From the Commission's standpoint as apex regulator of the Nigerian capital market, custody is critical as it allows the proper segregation of assets, which forestalls comingling of clients' funds by capital market operators. This gives investors a level of comfort and promotes transparency, which results in increased investors' confidence in the market.
3. The theme of this conference **“Nigeria Economy: Identifying the Silver Linings”** could not have come at a more strategic time, in the face of current Global and national economic realities. Having had the privilege of going through the agenda for this conference in preparing this address, I observe that the theme of the conference would be exhaustively analyzed by Dr. Samir Ghado in his paper. Consequently, this keynote would focus more on the Role of the Nigerian capital market in providing support for the country's economy in these critical times, while highlighting important initiatives currently being implemented by the Commission in its efforts to create a market we all would be proud of.

The Nigerian Economy: Current Realities

4. Nigeria is the largest economy in Africa; a feat it recorded in 2014 following the rebasing of the economy. Based on the International Monetary Fund's (IMF) World Economic Outlook 2015, Nigeria ranked 23rd among the world's economies ahead of South Africa which was ranked 32nd (Knoema). Its favourable GDP figures notwithstanding, Nigeria ranked 128th (\$2758) in per capita income, 124th out of 140, in the World Economic Forum's, Global Competitiveness Index 2015-2016 as well as 133rd and 124th in terms of infrastructure and institutions, respectively. Similarly, Nigeria lagged behind in the World Bank Ease of Doing Business Report 2016, ranking 169th out of 189 countries behind countries like Niger, Guinea, Burundi and Zimbabwe.

5. Crude oil remains a dominant source of government revenue in Nigeria, representing close to 70% of Nigeria's export earnings and more than 50% of government revenue in Q4 2015. The decline in global oil prices by up to 70% has had a negative impact on the revenues of all tiers of Government. Allocation from the Federation Accounts Allocation Committee (FAAC) dwindled from N370billion in January 2016 to N345billion in February 2016 which was over N150billion less than the figure of N500.1billion received in February 2015. Indeed, concerns rose as prices fell below \$30pb in February 2016 from a high of over \$110pb in mid-2014. Although prices have rebounded (over \$40) in recent times, the oil market remains volatile.

6. The weak crude oil price has reechoed the urgent need for the diversification of the Nigerian economy. The country must therefore look

beyond crude oil to revive and sustain the economy. Revenue from crude should be utilized to diversify the economy and not be relied on as a permanent and prominent government revenue source. The experience of some of the oil producing Gulf States in using oil revenue for economic diversification is instructive in this regard.

7. The economic headwinds have impacted real GDP, which according to The National Bureau of Statistics (NBS) grew by 2.79% in 2015. In Q4 2015, GDP grew by 2.11% year-on-year as against 2.84% in Q3 2015 and 5.94% in Q4 2014. The World Bank predicts a modest recovery in the medium term with significant downside risk and a slower growth to 2.3% in 2016. Increasingly, inflation has been a concern with upward swings in headline inflation in March 2016; rising to 12.8% in contrast to 11.4% year-on-year in February and higher than the 9.6% and 9.55% recorded in January 2016 and December 2015 respectively. Unemployment showed similar trend rising to 10.4% in Q4 2015. Pressure on the exchange rate has continued, while the debate on whether to devalue or not has not abated. The exchange rate uncertainty, the recent fuel crisis, the drop in power supply and rising price levels are also taking their toll on industries.
8. Despite these challenges, a cardinal “silver lining”, which is the potential of Nigeria as a global economic power house, is well known and with the right steps, the country should actualize its developmental aspirations. McKinsey for instance, predicts that “should Nigeria reach its full potential, annual GDP could exceed \$1.6 trillion in 2030 and the country could be a top-20 economy” (see *Nigeria's renewal: Delivering inclusive growth in Africa's largest economy*). Goldman Sachs had in 2005 grouped Nigeria among the “Next 11” Emerging economies after the BRICS. More recently, Nigeria has been listed among the MINT- an acronym coined in 2011 for a

group of four countries- Mexico, Indonesia, Nigeria and Turkey that are expected to show strong growth and provide high returns for investors over the coming decade. The MINT countries have been grouped together because of their large markets, favorable [demographics](#) and emerging economies.

9. An abundance of human and natural resources further bolsters Nigeria's economic promise. Nigeria is home to the highest concentration of black people on the planet and has been Africa's largest population for a century. Nigeria's population is a "goldmine" as it portends great latitude for both domestic investment and Foreign Direct Investment (FDI), especially in view of the projection that by 2050, Nigeria will be the third most populous country in the world with 440 million people and would have a \$4.5 trillion economy. In addition, a large number of solid minerals exist in commercial quantities but remain unexploited including iron ore (over 3 billion metric tons), talc (over 40 million tons), lead/zinc (over 10 million tons), bitumen (over 42 billion tons), coal (over 600 million tons), kaolin (over 3 billion tons), etc. Nigeria also has 82 million hectares of arable land, although only 42% of it is currently being cultivated to produce the world's highest quantity of cassava, the 4th largest output of cocoa and significant quantities of beans, sesame, cashew nuts, groundnuts, corn, palm oil, rubber, soybeans, etc.

10. Another silver lining is the zero tolerance of the current administration of President Muhammadu Buhari, *GCFR* to corruption, characterized by efforts to recover the huge quantum of looted funds which would be ploughed into major economy-stimulating projects as well as strides to effectively manage the county's resources, thereby reducing leakages and wastages. Key initiatives in this regard include the introduction of the

Treasury Single Account (TSA), creation of the Efficiency Unit, improved tax collection/coverage and the reform of the payroll system.

11. As earlier stated, I am confident that a more robust presentation would be made on the silver linings later in the conference. I will now proceed to discuss the Role of the capital market in the current efforts by the government to reposition the economy.

Role of the Capital Market in National Economic Development

12. Distinguished Ladies and Gentlemen, with the nation's quest for rapid and sustainable economic development, a well-developed capital market serving as the bedrock for long term capital raising and industrial development is imperative. Towards repositioning the capital market for an accelerated development of the national economy, a ten - year Capital Market Master Plan ("Master Plan" or "CMMP") was launched by the Securities and Exchange Commission in 2014. The Master Plan articulates a blueprint for the transformation of the Nigerian capital market to facilitate its emergence as Africa's most modern, efficient and internationally competitive market, capable of catalyzing Nigeria's emergence as a top twenty global economy.

13. The Master Plan which contains over 100 initiatives clearly articulates the role of the capital market in national economic development. As a mark of the importance placed on economic development, the CMMP has dedicated an entire chapter (chapter 4) to the "Contribution of the capital market to the economy", especially in tough times such as these.

14. One of the fundamental ways the capital market could impact significantly on the economy is with respect to the diversification of the economy. The Master Plan anticipates significant growth in the Capital Market that would translate into and drive the development of the real sector and in fact all sectors of the economy. Indeed, a strategic theme of the Master Plan is **to drive and facilitate capital raising across industries and by all tiers of government for sustainable national development and transformation of the 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 corporates and governments. Developing a strong local capacity complemented by foreign capital is a priority of the Master Plan.

15. 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 burdened 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 foregoing will require the existence of a well-functioning commodities exchange, warehouses 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. The SEC is committed to promoting the emergence of well – functioning commodities exchanges. In this regard, the Commission

has continued to give support to the Nigeria Commodities Exchange (NCX) and the Africa Exchange Holdings Limited (AFEX). This support has come in form of robust advocacy as well as expeditious approval of proposed Rules and Regulations of these exchanges. At the seminar organized recently (19th-20th April 2016) by AFEX in Abuja on the Commodity Trading and Risk Management, I was privileged to give the keynote address. The Commission is resolved to continue supporting seminars and other initiatives of this nature in the future.

16. Another critical role of the capital market is 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 socio – economy of a country. Huge investments in infrastructure are acknowledged as one of the quickest means of stimulating an economy particularly in times of declining economic activities. 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 safe guards should be attractive to Pension Fund Administrators (PFAs) with over N5trillion under management. There are also collective investment schemes focused on the bonds/infrastructure asset class which would be attracted to government's infrastructure instruments. To create a sound regulatory platform for this initiative, the Commission has come up with robust Rules on infrastructure funds.

17. Furthermore, in promoting financial inclusion of the populace and capital raising by various entities, the Capital Market Master Plan focuses on developing a virile non-interest capital market segment which will appeal to issuers and investors with preference for Non-Interest Capital Market Products (NICMPs). An important non-interest product is the sukuk or Islamic bond which is designed to mobilize funds for both industrial and infrastructure development. Both governments and the private sector can issue such bonds to meet funding requirements in Nigeria. The oversubscription of the N11.4Billion (about \$76 Million) Sukuk issued by the Osun State Government (a state in the western part of the country) in 2012 confirmed the appetite for NICMPs in the country. The funds were utilized by the State to build and upgrade Schools amongst other projects. In many countries, sovereign sukuk are periodically issued to fund specific infrastructure projects. The master plan expects an enabling environment for these instruments to thrive. The Commission is already collaborating with the DMO and CBN to structure modalities for the issuance of a sovereign sukuk.

18. A cardinal function of the capital market is savings mobilization for businesses and projects which require a constant supply of funds. The master plan among things proposes a National Savings Strategy to improve long term savings by Nigerians, which can be harnessed for investment. This strategy seeks to provide funds that can be channeled through the capital market for infrastructure and project financing. There are examples of schemes in other jurisdictions such as National Savings & Investments in the United Kingdom and the postal savings scheme in Japan, under which depositors funds provide financing for government.

19. The capital market is also one of the most credible and important means of attracting foreign and diaspora capital flows into the country. This is more so with globalization and technology advancement which have remarkably eased the flow of capital internationally. Many private equity funds and other global funds looking at emerging markets also consider the capital market as a credible investment window. In Public-Private Partnership (PPP), counterpart funding by the public or private sector are sometimes sourced from the capital market. Indeed the market is one of the most important sources of counterpart funding of projects globally. Private equities, venture capitalists and other institutional investors use the market as an exit mechanism for their investments. Without the market, divesting from such investments would be difficult and may in turn discourage investing in the first place.

20. This address would be incomplete without highlighting key initiatives in the master plan implemented in 2015 and areas for implementation in 2016.

❖ **Corporate Governance Scorecard:** The Master Plan emphasizes the need to improve corporate governance practices in our market. We dedicated ourselves to completing the Corporate Governance Scorecard which heralds a new era in disclosure and compliance in Nigeria. The Scorecard was developed with support from the International Finance Corporation (IFC) and is the first of its kind in Africa. We were pleased to have the distinguished Chief Olusegun Osunkeye unveil the Scorecard on 26th November 2015 in Lagos.

❖ **National Investor Protection Fund (NIPF):** Since the 2008 financial crisis, investor confidence has yet to be fully regained. Compensating investors with genuine cases will be an important

step towards restoring their confidence and attracting them back to the market. Having inaugurated the NIPF's Board and Verification Committee, we are delighted that 580 eligible investors have had their compensation claims approved by the NIPF Board and were compensated in 2015.

- ❖ **Launch of the Capital Market Master Plan Implementation Council (CAMMIC):** The CAMMIC which will oversee implementation of the Master Plan was inaugurated on behalf of the Finance Minister by Dr. Mahmood Isa-Dutse, Permanent Secretary of the Ministry of Finance. The CAMMIC will play a major role in the Master Plan implementation by leading advocacy at the highest levels and providing strategic direction. We selected as CAMMIC members Nigerians of rich experience and influence, led by Mr. Olutola Mobolurin. We have also set up an in-house Capital Market Project Management Team (CMPMT) to coordinate the multiple initiatives tied to the Master Plan.
- ❖ **Recapitalization:** The Master Plan highly recommends that market institutions are strong and well-capitalized. With stronger, better capitalized institutions, investors would be safer because corporate governance would improve, infractions would be fewer, the market would be more efficient, liquidity would improve and financial intermediation would be enhanced. The SEC therefore completed the recapitalization exercise on 30th September 2015. Following rigorous verification by accounting firms, we were able to release the list of compliant operators. We also began cleaning up our records of registered market operators, especially by giving 94 inactive CMOs pre-notice of cancellation of their registration and on expiration of the deadline, 84 CMOs could not justify why their

licenses should not be cancelled and thus, their licenses were cancelled.

- ❖ **Dematerialization:** Dematerialization has been a legacy issue in Nigeria. It was identified within the Master Plan as one of the low-hanging fruits. We therefore committed ourselves to achieving substantial dematerialization of share certificates within 2015. At the beginning of the year, (2015) less than 40% of share certificates were dematerialized and by the end of 2015 over 97.4% dematerialization had been achieved. Today, over 98% of share certificates have been dematerialized. With renewed commitment from SEC, the Nigerian Stock Exchange (NSE), the Central Securities Clearing Systems (CSCS) and Registrars, the market will soon achieve 100% dematerialization.
- ❖ **E-Dividend:** With great support from the Central Bank of Nigeria (CBN) and the Nigerian Inter Bank Settlement System (NIBSS) we were able to launch the portal that enables both banks and registrars to share information about investors and boost efficiency of processing E-mandate forms. Training was also conducted for users of the portal. We embarked on far-reaching public enlightenment campaigns to get investors aware of the opportunity to register for E-Dividend free of charge.
- ❖ **Direct Cash Settlement:** Direct Cash Settlement is another key initiative that impacts investor confidence. Under this initiative, investors would receive the proceeds of sale of their securities directly in their bank accounts and not through their brokers as previously practiced. Working closely with the Nigerian Stock Exchange, CBN and NIBBS, the scheme took off on 4th January 2016. Initial bottlenecks associated with this initiative after its take-off have largely been resolved and investors are responding favourably.

- ❖ **Deepening the Non-Interest Capital Market:** We are diligently pursuing the targets concerning non-interest products in our market. In 2015, we held the first regional roundtable event in Kano and a similar event was successfully organized in Sokoto in the first quarter of 2016. We will be conducting more of such in other regions of the country, targeting potential issuers of non-interest products.
- ❖ **Robust Public Enlightenment:** This is a continuous exercise in which we reach out to investors through all available media outlets sensitizing them about various market issues. 2015 was a landmark year for public enlightenment in the history of Nigeria's capital market during which investors were sensitized on issues like E-dividend, dematerialization, direct cash settlement, ponzi schemes, etc. The advertisements ran in all states of the Federation in English and some major languages in Nigeria as well as Pidgin. So far in 2016, the Commission has raised the bar by organizing elaborate road shows on the above mentioned initiatives in Abuja, Lagos and Kano, while other road shows for the remaining geo-political zones would be conducted later in the year.
- ❖ **Zero Tolerance for Infractions:** The Master Plan emphasizes the need to rid our market of all forms of infractions. In 2015 we maintained our stronger enforcement posture; revamped our rulemaking mechanism and reconstituted a stronger SEC Administrative Proceedings Committee.

21. In 2016, we intend to continue pursuing the reduction of transaction costs in the market, creation of a unified licensing model, the deepening of the Non-interest capital market and support for the commodities market. In addition, led by CAMMIC, the Commission hopes to secure the buy-in of the Federal Government for the mainstreaming of the master plan into

the National economic development policy. CAMMIC would also spearhead the development of a National Savings Strategy as well as efforts to attract new listings (TELCOs, GENCOs, DISCOs and SMEs) on exchanges in the capital market. Internally, a number of initiatives have been proposed by the Commission to significantly upscale its HR capacity and overhaul its ICT infrastructure.

22. The 2016 Edition of the SEC Judges workshop represented yet another highlight for the capital market. The two day event, with the theme **“effective dispute resolution- A Panacea for the Transformation of the Nigerian Capital Market”** was graced by a rich audience of distinguished Honourable Judges and Legal luminaries in addition to a number of top Government functionaries, through which the exhaustive deliberation of issues eventually translated into a unanimous adoption of a communiqué. A technical committee is being set up to ensure the full implementation of the Communiqué.

23. Distinguished participants, as you are well aware, Custody essentially involves safekeeping of assets. Investors would therefore expect that custodians in the capital market, under the auspices of the Association of Asset Custodians of Nigeria would continue to keep their portfolios safe and secure.

24. Available figures however show that only a small fraction of the over \$1trillion foreign investments under custody in Africa is domiciled in Nigeria. While this may be seen as a not-too-positive statistic on one hand, it undoubtedly reveals that there still exists wide latitude for growth in the Nigerian assets under custody industry. It is therefore my firm belief that as Nigeria continues to attract more attention and establish itself as the

premier investment destination in Africa, much more of those (foreign investment) assets would flow into your custody.

25. A conference of this nature presents an opportunity for reassessment and re-evaluation of the Role custodians play in the development of a viable capital market and the Nigerian economy in general, especially in the tough economic conditions we find ourselves. The Commission is more than ever before prepared to partner with the Association of Asset Custodians of Nigeria towards the continued actualization of its important mandate.

Thank you for your kind attention.