OFFICE OF THE VICE PRESIDENT FEDERAL REPUBLIC OF NIGERIA

Nigeria: A Compelling Destination of Capital (Some Insights on the Development of the Nigerian Economy)

A KEYNOTE ADDRESS DELIVERED AT THE 2019 FMDQ CAPITAL MARKET CONFERENCE AND GOLD AWARDS

Delivered by the Vice President Prof. Yemi Osinbajo, GCON

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The Governor of Central Bank, represented by Emmanuel Ikeja Presidential Adviser on Economic Matters, Dr. Dipeolu The Board of FMDQ Securities Exchange, Distinguished Ladies and Gentlemen
Good morning. I am very delighted to be invited to the 2019 FMDQ Capital Market Conference and Gold Awards. More importantly, I feel highly honored to represent the Special Guest of honor, the Vice President of the Federal Republic of Nigeria, His Excellency, Professor Yemi Osinbajo, at this occasion. I hereby convey his warm greetings to the organizers of this event, the FMDQ Securities Exchange and everyone present. His Excellency strongly wished to be here today but was held up with other pressing national engagements. He has sent me to represent him and read his address.

The Conference of today and the Gold Awards of tomorrow are evidence of our joint resolve to move the Nigerian capital market, and by extension, the economy, forward

In its few years of existence, FMDQ has made appreciable contributions towards the development of the Nigerian capital market, particularly, at the debt segment of the market. The platform is providing visibility and liquidity to debt and other financial instruments, thereby engendering transparency, price discovery and market confidence. At the national level, we also acknowledge FMDQ's involvement in the development of a National Housing Strategy for Nigeria, its pivotal role and supports towards achieving the mandates of the Presidential Enabling Business Environment Council (PEBEC), among others. As many of us are aware, PEBEC was set up in July 2016 by His Excellency, President Muhammadu Buhari, to remove bureaucratic constraints to doing business in Nigeria and make the country a progressively easier place to start and grow a business. A major mandate of the Council is to move Nigeria upwards in the Doing Business Rankings. I am therefore glad to inform you that our initiatives in this direction are yielding some positive results. In the new Ease of Doing Business Index, Nigeria ranks 131 out 190 countries, having moved upward 15 places from the 141-position recorded last year.

Our One-Stop Investment Centre at the Nigerian Investment Promotion Commission brings together relevant government agencies, about 27 of them, to one location to provide fast-tracked services to investors. Also, various reforms at the Corporate Affairs Commission have simplified the business registration process in Nigeria. These achievements, amidst several others, show that we are consciously improving on Nigeria's business environment, which is necessary if we must attract and efficiently use capital. This also speaks to the theme of this year's Conference; that is, Nigeria: A Compelling Destination of Capital. Capital is central to economic growth and development. Countries that are currently enjoying economic prosperity have been observed to have experienced transformation in their human and physical capital. This is often facilitated through the process of attracting, accumulating and effectively deploying financial capital.

As a country, we require more capital to grow, develop and attain our potentials. We need to mobilize domestic savings and capital as well as attract the necessary foreign capital to finance our needs in the areas of infrastructure, agriculture, mining, industry, housing, SMEs, information and communication technology, transportation and other services. Taking infrastructure as an example, an African Development Bank report on Nigeria's Infrastructure Plan in 2013 estimated that Nigeria would need to invest about $350bn in ten years in order to meet up with its peers. Other sources have estimated a slightly higher figure.

In recognition of this need, the administration of President Muhammadu Buhari is doing everything possible to close the gap in our infrastructure deficit. This is being done through our direct expenditure and by incentives given to private investors, domestic and foreign, to invest in the critical sectors of the economy. Our Economic Recovery and Growth Plan (ERGP) (2017-2020) has a major objective of building a globally competitive economy through investment in infrastructure, improvement in business environment and promotion of digital-led growth. No doubt, this objective requires fresh and adequate capital. The need to attract capital is further underscored by the ERGP's initiatives such as the promotion of innovation and technology-led industries, encouragement of private equity and venture capital players as well as the issuance of green, infrastructure and diaspora bonds towards sustainable financing

So far, the Federal Government has issued two (2) green bonds in December 2017 and June 2019 valued at ₦10.69bn and ₦15bn respectively. Equally, two (2) Sukuk bonds have been issued, consisting of ₦100bn in September 2017 and another ₦100bn in December 2018. Between February 2017 and November 2018, we have explored the international market to raise capital by issuing series of Eurobonds and a Diaspora bond in June 2017. This is part of our policy to restructure the country's debt towards cheaper, longer-term foreign capital and therefore compete less with domestic borrowers.

This approach to diversifying our sources of capital has assisted in making our country a destination of capital and further deepening our capital market. Private issuers are also encouraged to issue these instruments, leaning on the success recorded by the Federal Government. The secondary markets of some of these instruments are also getting more liquid as observed on the Exchanges.

Moreover, if you examine the structure of annual budget of this administration, you will notice increased allocation to capital projects. For instance, we have been allocating, on the average, close to 30% of our expenditure to capital projects. We are proposing about 21% of the ₦10.33trn of the 2020 budget as capital expenditure.

Going forward into 2020, we plan to sustain growth and create more jobs. We shall conduct major reforms on our Deep Offshore and Inland Basin Production Sharing Contract, leverage the private sector funding for capital projects through tax credit schemes, modernize the National Grid under the Presidential Power Initiative, issue more licenses to build modern terminals in our ports, while we continue to engage in innovative borrowing using Sukuk, Green Bonds and Diaspora Bonds. However, we recognise that government alone cannot muster and deploy enough resources that are necessary for Nigeria's development. This is due to competing and rising needs as well as challenges in revenue sources and collection. In agreement with the theme of this conference therefore, we need to make investors see Nigeria as a compelling destination of capital.

Investors often consider some push and pull factors when moving their capital into Emerging Markets and Developing Economies (EMDEs). While supply-side factors such as global liquidity and interest rates in advanced countries tend to push capital into EMDEs, other demand-side factors such as domestic GDP and growth, interest rate, trade openness, foreign reserves, exchange rate regime and capital market development tend to pull capital towards EMDEs.

With interest rate below 2% in the US and other advanced economies, it is expected that capital will flow into our country, given improved global liquidity and relatively higher domestic returns. Our attraction is further underscored by the size of Nigeria in terms of the estimates of over 200 million people, majority of who are educated youths, and ₦145.12trn GDP value.

Our laws have no limit to foreign participation in most sectors of the economy, with simple and clear procedures for capital repatriation. We have one of the most robust financial systems on the Continent, comprising a strong and stable banking sector, a robust and safe payment system, a relatively stable exchange rate regime and a robust capital market. Besides, we have a welcoming culture. Nigerians are hospitable and investors enjoy the warmth of the people.

In the capital market, which is the area of interest to many of us present here today, there are several initiatives targeted at attracting capital. For instance, an important goal of the Capital Market Master Plan (2015-2025) is to transform the Nigerian capital market, making it competitive, while contributing its quota to developing the nation through funds mobilization. The Plan is hinged on four strategic themes, namely; Contribution to National Economy, Competitiveness, Market Structure and Regulation & Oversight.

In contributing to the National Economy, the Securities and Exchange Commission (SEC), in conjunction with the market, has worked on initiatives that simplified the process of raising capital and reduced time to market. The recent efforts towards developing the Nigerian commodities ecosystem and the Fintech space are also important contributions to the Nigerian economy. In order to enhance market Competitiveness, the minimum capital requirements for capital market operators were raised, transaction costs have been reduced for both equities and fixed income segment of the market, a robust complaint management framework was introduced and various other initiatives are being implemented to enhance liquidity of the Nigerian capital market.

Towards improving the Market Structure, minimum operating standards for all market operators have been implemented. Some of the ongoing initiatives such as the e-dividend, multiple subscription, direct cash settlement and electronic distribution of companies' annual reports are geared towards achieving an innovative market structure. On Regulation and Oversight, the SEC has undertaken numerous initiatives to protect the interest of investors. A National Investor Protection Fund has been established, a Risk Based Supervision Framework is being implemented with focus on Systemically Important Financial Institutions (SIFI) and regulatory actions are often taken against illegal operators as well as violators of the corporate governance code.

The foregoing partly explains why foreign investors often see us as a market of choice and therefore conduct about half of the transactions on our Exchanges. All these are equally important in gauging the performance of our economy. Therefore, not only do we need capital inflow, we also have the market and the potential to optimise such flows. As we continue to improve on our macroeconomic, business and regulatory environment, we look forward to being able to retain more domestic capital and attract necessary foreign capital.

In attracting foreign capital, we also require a right combination of Direct and Portfolio Investments. While the former entails capital flowing directly into our productive assets, thereby generating employment and technical transfer, the latter entails investments in financial assets thereby aiding liquidity and easy entry and exit.

I therefore enjoin us all to continue to partner with the government in achieving its policies. Let us take advantage of the investment opportunities in our fiscal, monetary, trade and other sector policies to the benefit of everyone. In doing this, I will like to assure the market of the needed support that would help in achieving our economic growth and prosperity.

I wish to congratulate the FMDQ for putting this great Conference together; it is well themed and appropriately timed.

I thank you most sincerely for your attention.

May God bless the Federal Republic of Nigeria.