NIGERIA: A COMPELLING DESTINATION OF CAPITAL

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Very Distinguished Ladies and Gentlemen

I am really delighted to join you for the 2019 Nigerian Capital Markets Conference and I thank the Board and Management of FMDQ Holdings for the kind invitation. The theme ''Nigeria: A Compelling Destination of Capital' is a compelling one. It resonates well with our national aspiration to attract substantial capital flows to underpin our development objectives.

It is good to note that FMDQ has been very active in promoting and deepening Nigerian capital markets. Just one year ago, FMDQ hosted the ease of doing business sensitisation session alongside the Office of the Vice President. FMDQ has put itself forward as an advocate and an advisor to policy makers on infrastructure financing through the Nigerian debt capital market. As such it is a pleasure to be here to discuss with key actors on how we can adopt policies that will further boost investment and capital inflows into Nigeria.

Quite evidently, capital flows and formation are essential for economic growth. The capital market is critical to the process of mobilising capital for both government and the private sector alike. It also has a key role to play in encouraging private equity and venture capital players through attractive fiscal and regulatory framework to promote innovation and technology-led industries.

In the evolving world of capital markets, the importance of a country's ability to attract capital cannot be overemphasised. Here in Nigeria, the capital market is central to the Buhari Administration's objective of lifting millions of Nigerians out of poverty and providing them with education, healthcare, shelter, water supply and sanitation amongst other things. Through the mobilisation of long-term savings for investment as well as efficient pricing of financial instruments, the capital market will support the attainment of sustained, inclusive and equitable socio-economic growth.

Given the limits of the government budget, the financing to close the national infrastructural gap can be met by harnessing resources available from investors across the globe. We look forward to the capital market developing more products that will be suitable for Small and Medium Enterprises (SMEs) and Nigerians in the Diaspora who are desirous of investing in various sectors of the economy.

The development of the Nigerian capital market has been impressive. Worthy of note in this regard is the achievement by FMDQ of becoming a full-fledged securities exchange and enabled to trade in all securities including fixed income, equities, derivatives, commodities and foreign exchange. As Africa's first vertically integrated Financial Market Infrastructure (FMI) group, FMDQ Holding Plc is strategically positioned to play a major role in providing the platforms for mobilising the much-needed capital for economic development.

Government of course realises that its policies are key in enabling capital inflows to the country with the objective of making Nigeria an attractive capital destination. It is also aware that its own requirements should not crowd the private sector out of capital markets and that the nature of capital inflows should ideally support long-term development and reduce vulnerability to exogenous shocks.

Our commitment to making Nigeria a compelling destination for capital is demonstrated in progress made on the ease of doing business, stability of macroeconomic indices and proactive and coherent investment policy choices and responses. Through its Economic Recovery and Growth Plan incorporating and integrating macroeconomic and real sector policies, Nigeria has attained fairly stable macroeconomic conditions, and there is incipient growth in agriculture, manufacturing and mining which should begin to improve once the effects of the various infrastructural investment kick-in fully.

We have in this regard had positive growth for 7 quarters with the annual growth rate now trending at about 2% per annum. Inflation has also declined significantly from 18.7% in 2017 to about 11.4% today.. The exchange rate market has also been relatively stable thereby reducing volatility and foreign exchange risks that could affect investment. As you heard earlier the Importers and Exporters window has attracted up to $50 billion since it was established over two years ago.

Indeed capital importation has increased steadily in the past two quarters and is on the increase relative to 2018. Inflows reached a cumulative total of $14.3 billion for the first half of 2019 compared to $11.8 billion in the corresponding period in 2018. This was an increase of 5.56% over the inflows in the same period of 2018.

Portfolio investment mostly money market instruments continue to dominate our capital inflows accounting for about 73.8% of total capital importation in the second quarter of this year. Foreign Direct Investment accounted for only 3.83% while Other Investment mostly loans contributed 22.4%.

What this shows however is that most of our capital importation is on flows that can be easily reversed. Beyond, stable economic policies therefore, we must bear in mind that the behaviour of foreign portfolio investors is driven to a large extent by external factors such as changes in global interest rate. This was particularly evident in the 3-month period between August and October 2018 which saw a sharp decline in our foreign reserves from $47.12bn in July 2018 to $41.99 in October 2018. This necessitates that we double down on efforts to increase inflows of patient capital to complement our domestic savings. Evidence abounds that an investment to GDP ratio of at least 25% is needed to ensure long term development.

As Government prepares the successor plan to the Economic Recovery and Growth Plan (ERGP), capital market operators will be actively engaged in the process so as to ensure alignment of our development aspirations with the objectives of the Capital Market Masterplan and to further attract capital into the economy. Given its objectives of improving efficiency of the market, transparency of dealings, transferability of assets and investor confidence in the market, the Capital Market Master Plan will certainly help in this regard. It is heartwarming that several reform efforts in this direction such as the dematerialisation, demutualisation and e-dividend mandate management system have taken off and are expected to significantly improve efficiency. Government will continue to support these initiatives and ensure policy integration and coherence for a more attractive and competitive investment landscape.

There are several other initiatives that will help to attract capital into Nigeria. The Road Infrastructure Tax Credit Scheme is one of such policies that will encourage investment financing of infrastructure. The scheme allows private sector capital investment in road infrastructure and allows recovery of expenditures through tax credits. Unused tax credits will be re-sellable and transferable in alignment with relevant approvals. So far, this scheme has attracted over N205billion investment from the private sector.

Other initiatives under consideration include leveraging pension fund assets as a domestic source of capital for investment in infrastructure and housing schemes. Consideration is being given to develop a system to de-risk pension fund assets and channel them through Special Purpose Vehicles (SPV) towards investment in infrastructure.

As a critical element of its efforts to make the economy attractive to capital, Government is working consistently to improve the operating environment for business in Nigeria. This is evident from the conscientious efforts of the Presidential Enabling Business Environment Council (PEBEC) chaired by the Vice President. As a result, Nigeria was recently rated as one of the top ten global improvers in the World Bank Ease of Doing Business Index for 2020; a rating that saw Nigeria move up 15 places to the 131st position, marking a 39 place improvement over the past four years. This was made possible by eliminating bottlenecks, improving the regulatory climate and promoting transparency within the system. The goal is to continue to improve operating conditions for investors in Nigeria as well as local businesses. These doing business reforms are targeted at areas that would stimulate investor confidence such as starting a business; paying taxes; enforcement of contracts, trading across borders and resolving insolvency.

In terms of investment promotion, the Nigeria Investment Promotion Council (NIPC) and Federal Inland Revenue Service (FIRS) have jointly released a compendium documenting incentives which make Nigeria an attractive destination for investment. Of course, the Federal Government remains committed to protecting foreign investment and protecting the property rights of investors.

Tax based incentives include the pioneer status which exempts new investors in specified priority sectors from tax for three years renewable by another two years. Government remain committed to transparent implementation of general and sector specific incentives aimed at promoting investment in the real economy. As testimony to these efforts, just yesterday the Executive Vice President of Canada Trade Link said following the Nigeria-Canada Investment Summit that Nigeria is the best market place for business to grow in Africa.

In furtherance of this objective, the Executive recently submitted a Finance Bill to the National Assembly to accompany the Appropriations Bill for the 2020 budget. The idea of the Finance Bill is to update relevant tax laws and ensure that the tax system helps government to meet its revenue targets while also ensuring equity and taking into account developments in the international tax regime amongst other things. It is hoped that the submission of the Finance Bill will become an annual exercise to accompany the Appropriations Bill.

The recently submitted Finance Bill demonstrates active steps by Government to incentivise investments in infrastructure and capital markets. Notable in this regard are provisions to ensure the workability of Real Estate Investment Trusts (REIT) and to enable securities lending.

The establishment of the African Continental Free Trade Area also provides a huge opportunity for Nigeria to attract capital into the economy. To start with, given its relative size and relentless efforts to improve the business environment, Nigeria can be the base into which capital first comes into the continent. Similarly, given the growth of African multinational companies, Nigeria will continue to attract cross-border investments in the continent. In this regard, I would urge our capital markets to be prepared and position themselves for cross-border listings.

Given all this initiatives, it is evident that Government is committed to providing enabling environment that attracts capital and facilitates sustainable investment. These efforts need to be complemented by the private sector which must continue to act transparently and also adopt practices that boost investor confidence in the capital markets. Financial technology has given us the opportunity to widen the reach and deepen the service offerings in the financial services sector.

Going forward there is a lot that can still be done by Government and capital market operators to optimise Nigeria's huge potential in increasing and sustaining foreign investments. Notably, we need to consider the impact of technology on the conduct of capital market operations. Also how can we deepen our markets and extend participation to other areas such as mortgage and more sophisticated instruments and products? How can we further leverage new areas such as green bonds? How can we improve the time taken to conclude transactions in the market?

Government will continue to stay true to its course in making the country a viable place to channel capital for development. I expect that FMDQ and other capital market operators will also do their part in this regard. I expect that participants will find deliberations at this conference enriching and I encourage the articulation of actionable recommendations that will accelerate capital inflows into Nigeria.

Thank you very much.