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# CAPITAL MARKETS LEVERAGE DRIVING SUSTAINABLE ECONOMIC DEVELOPMENT

Presented by

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for

Assoc. of Nigerian Development Finance Institutions

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# Outline

- Economic Development
- Economic Growth and Financial Markets
- Equity Market Performance
- Baseline Statistics
- Key NSE Initiatives
- NSE Vision and 5-Year Outlook
- Working Together



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# Nigeria's Challenge

- Rapid economic development
  - Hindered by:
    - Political sensibilities
    - Sub-optimal management of the economy
    - Policy inconsistencies
    - National security
    - Insufficient infrastructure
    - Terms of trade
    - Encumbered legal system
    - Structural unemployment
    - Deficient quality education
    - Inadequate government funding



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# Economic Development

- A sustained concerted effort by policymakers and community to promote the standard of living and economic health of a country
- A policy intervention effort with aims of economic and social well-being of people
- *Economic growth* is one aspect of the process of economic development
- **Financial markets are the backbone of economic development**

\* *Economic growth is the occurrence of market productivity and rise in GDP*

# What We Know: Part I

Economic growth requires an efficient financial market

- Pool domestic savings and mobilize foreign capital

Capital markets are important to economic development because of their efficiency

- Assets can be traded at a fair price

# What We Know: Part II

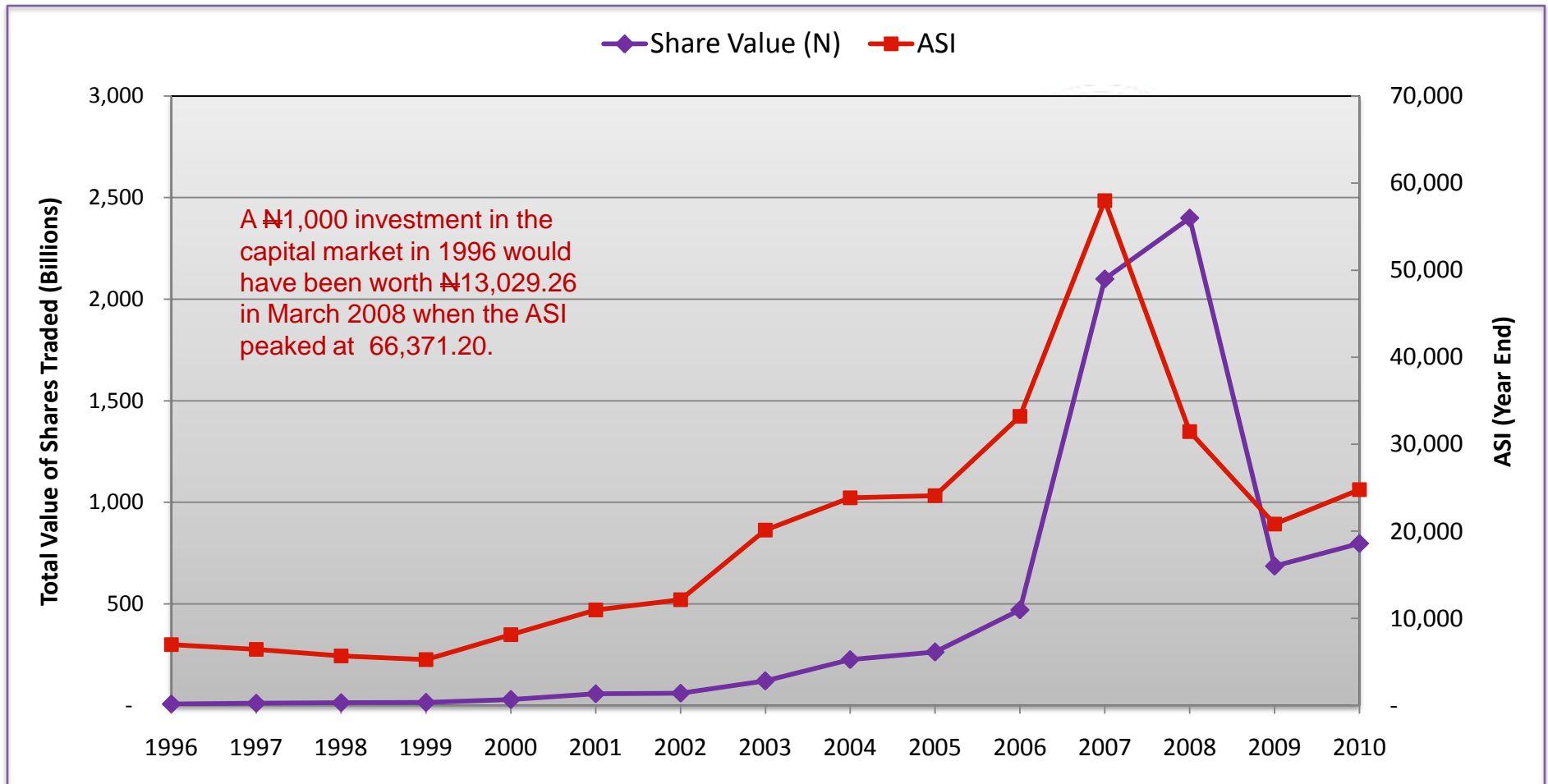
## Capital markets play several key roles

- Lower the cost of equity capital
- Stimulate investment and growth by spreading the risks of long-term investment projects
- Contribute to more efficient investment
- Enhance the supply of investable funds by attracting foreign portfolio capital
- Contribute to the mobilization of domestic resources and provision of fresh equity capital to the corporate sector

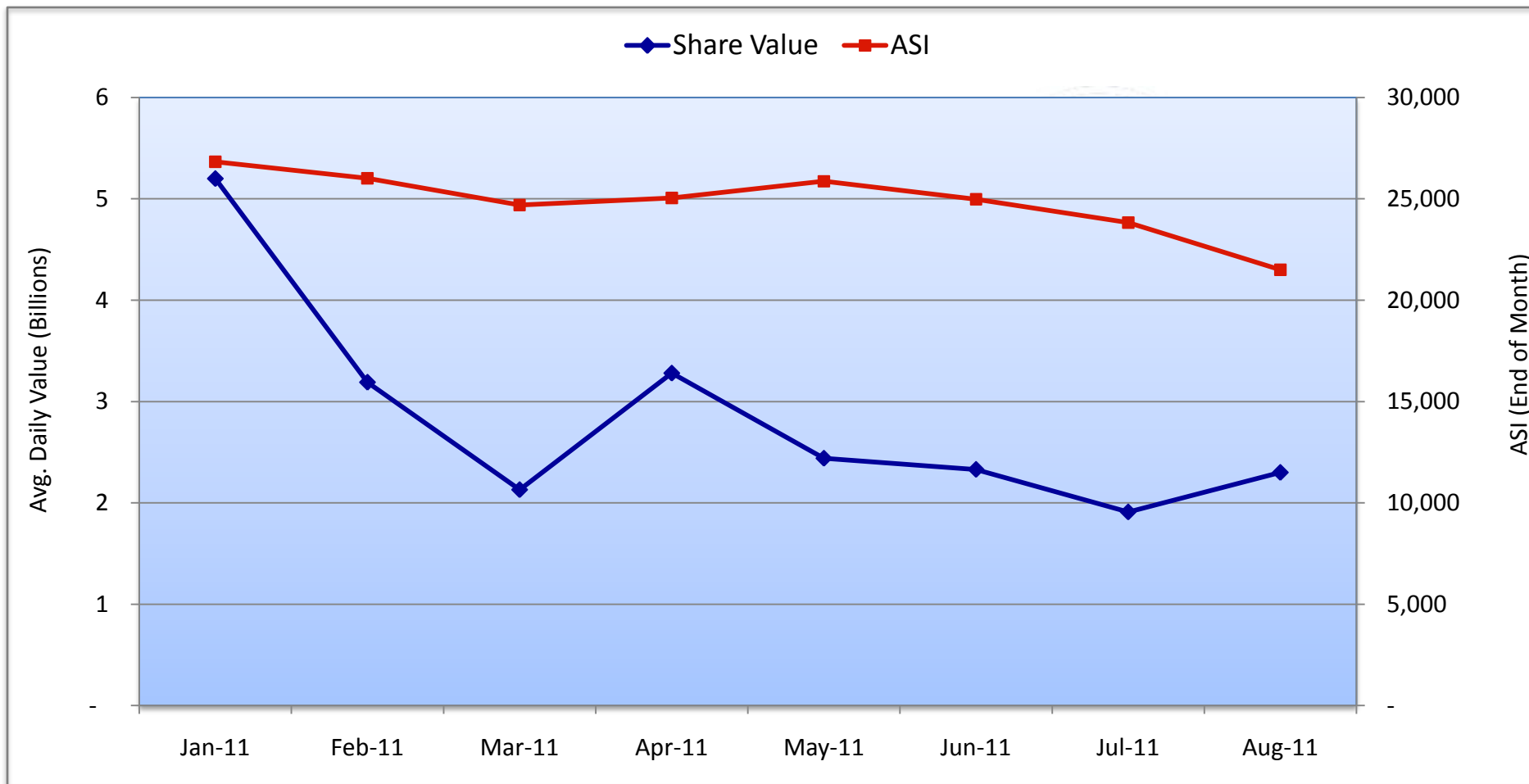
# Nigeria's Solution

1. Facilitate the success of economic and structural reforms
2. Revitalize the capital market for mobilization of funds required to finance development
  - Efficient mobilization of domestic and international savings
  - Channeling of savings to productive sectors

# Equities Market Activity (1996-2010)

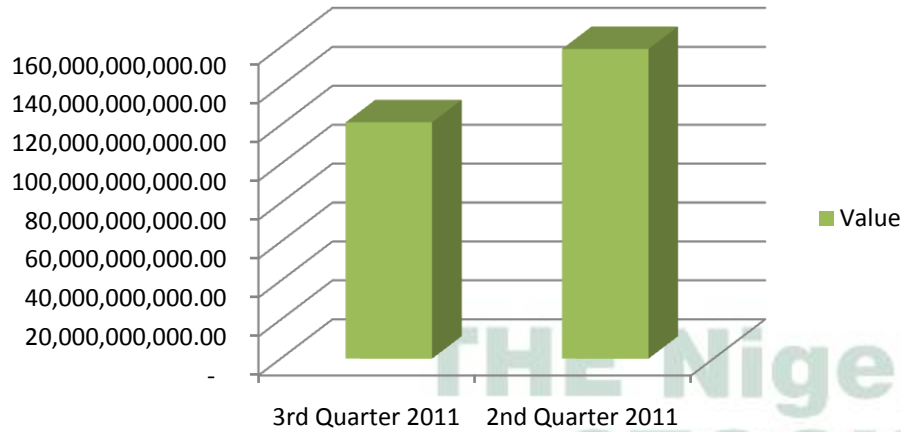


# Equities Market Activity in 2011 (Jan-Aug)

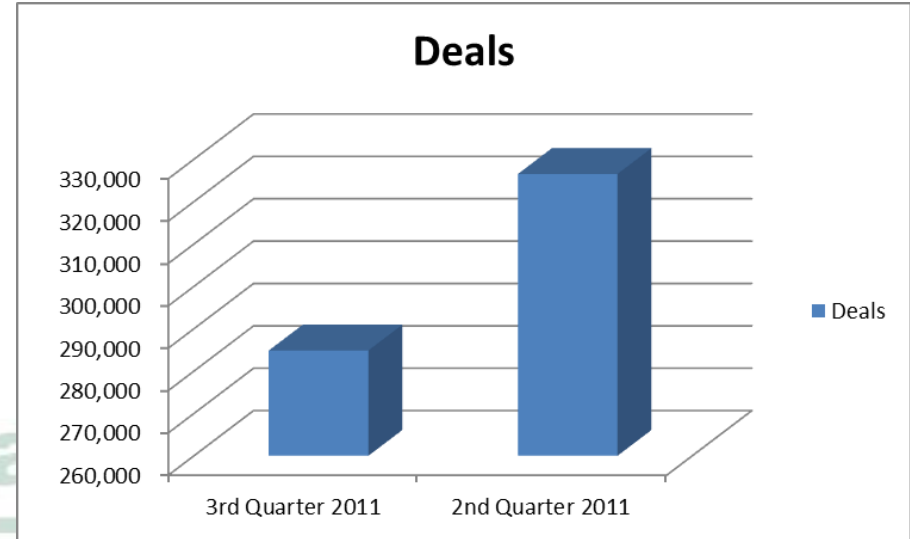


# Baseline Statistics 3Q 2011

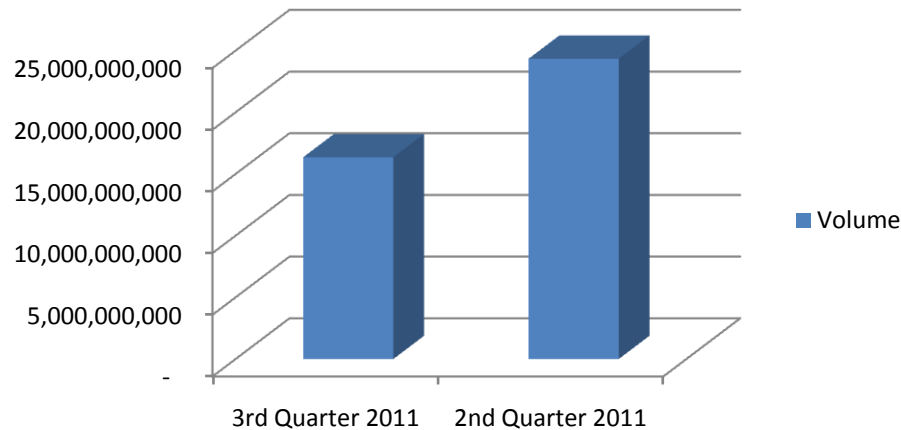
## Value



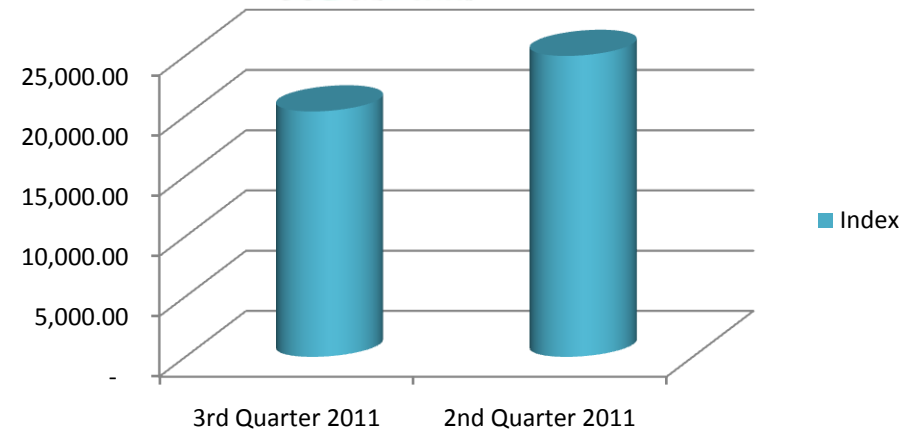
## Deals



## Volume



## Index



# Drivers of Baseline Stats

- Low investor confidence
- Banking crisis (NSE Banking Index down 22.4%)
  - Nationalization of 3 banks (N30b erased in 1 day)
  - Uncertainty around completion of bank recapitalization by Sept 30
- Low broker-dealer participation rates
  - Margin loan debt overhang
  - Lack of access to financing (New prudential guidelines by CBN)
- Spate of bombings by Islamic fundamentalist group
  - Foreign investors are cautious
- Lack of liquidity and depth
  - Low equity issuance, no IPO in 3Q2011
  - PFA and CPFA on the sidelines

# Key NSE Initiative in the Short Run

		Term
		<i>Short (2011)</i>
Span of Control	<i>Within NSE Control</i>	<ul style="list-style-type: none"> <li>- Market Making</li> <li>- Securities Lending</li> <li>- Short Selling</li> <li>- Market Segmentation</li> <li>- Introduction of ETFs</li> <li>- Revised Listing Requirements</li> <li>- Company Share Buy-Back</li> <li>- NSE Web Site</li> <li>- Investor Clinics</li> </ul>
	<i>Outside NSE Control</i>	<ul style="list-style-type: none"> <li>- Government Intervention</li> <li>- AMCON Debt Resolution</li> <li>- Broker Access to Funding</li> <li>- Tax Breaks on Transaction Fees</li> </ul>

# NSE Strategic Initiatives

- GDP Growth
  - Over 7% yearly
- Target Sectors
  - Agriculture: 40% of GDP                      \$107m / 0% of market cap\*
  - Oil & Gas: 15.9% of GDP                      \$2,147m / 4% of market cap\*
  - Power: 7.9% of GDP                              \$0 / 0% of market cap\*
  - Telecoms: 4.5% of GDP                        \$64m / 0% of market cap\*
- Market Segmentation
  - 33 to 12 industry sector classifications
  - 3 market capitalization classifications: Large, mid, small
  - 2 stock classifications: Growth, income



\* Average market capitalization June 2010 to May 2011

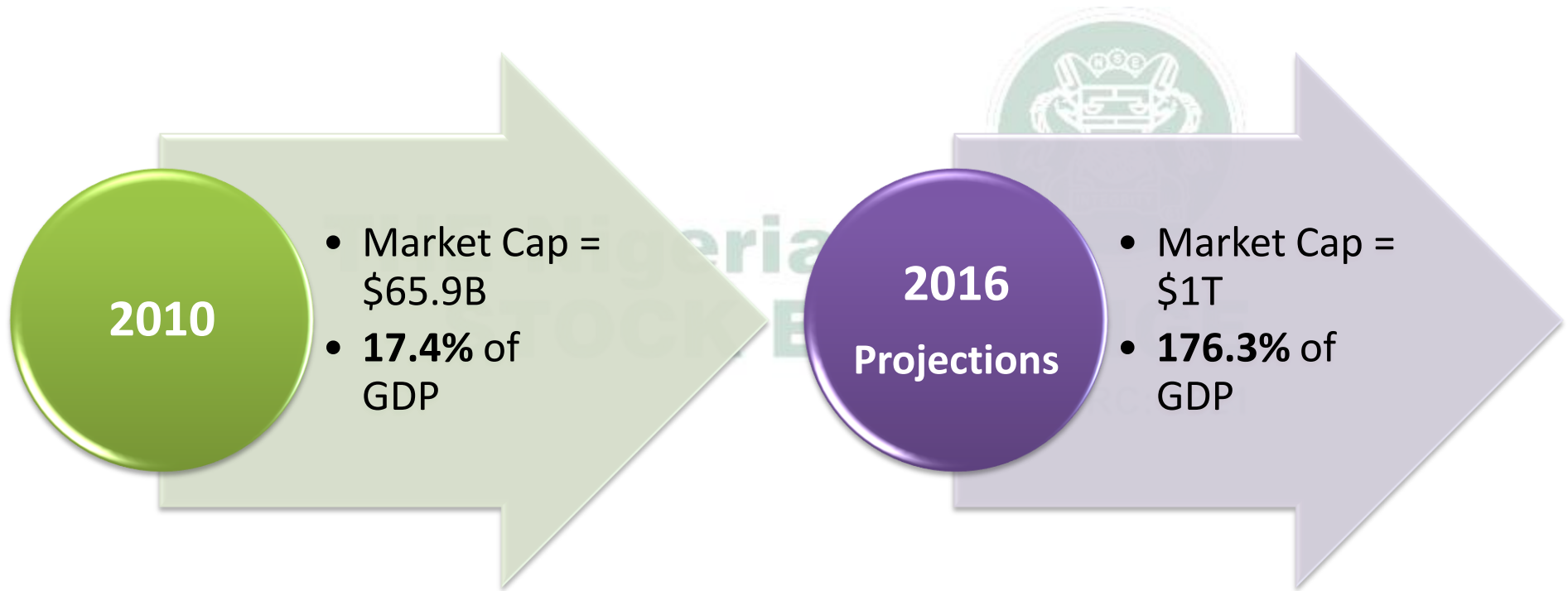
# The NSE's Vision

“To be the leading Stock Exchange in the African region for capital formation, driven by transparency, innovation, efficiency and liquidity.”

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To become the gateway to  
African Markets.

# 5-Year Outlook: Market Capitalization & GDP



Sources: GDP (\$377.9B)--[www.cia.gov](http://www.cia.gov); Exchange rate--[www.cenbank.org](http://www.cenbank.org); Projection based on 7% avg. GDP growth (aggregated)

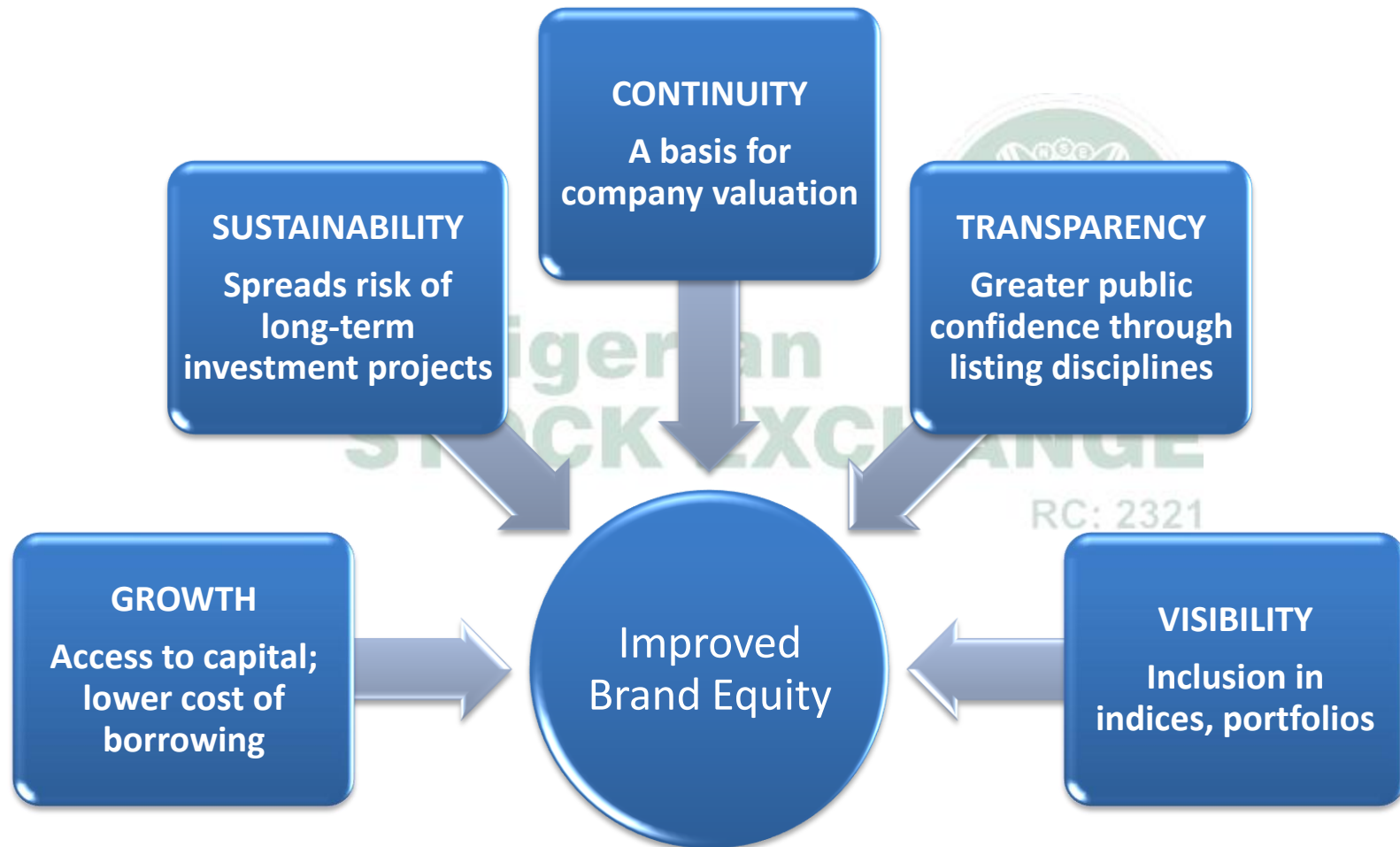
# Government Must-Do's

- Ensure political and economic stability
- Guarantee transparency in government
  - Augment national image and reputation
- Develop a well-structured regulatory and legal framework
- Comply with the rule of law
  - e.g., Minimum wage, trade-related contracts with the private sector, etc.
- Stabilize and make consistent market-driven policies
  - Protect from government volatility
- Float privatized state-owned businesses on the exchange
  - e.g., Power companies, NNPC – one year exit strategy, not two years
- Grant tax incentives to listed companies and trading fees
  - e.g., Morocco offers 25% rebate for listed companies & 50% rebate for IPOs

# Private Sector Must-Do's

- Comply with the rule of law and regulatory requirements
  - e.g., Taxes, Employment, IFRS, etc.
- Define and adhere to high corporate governance standards
- Efficiently mobilize and channel funds (local savings and FDI)
- Encourage and support continuity of economic policies and reforms
- Implement social responsibility strategies
  - Invest in the local community

# Working Together



# Thank You

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