

## BANWO & IGHODALO

### **DEEPENING THE NIGERIAN CAPITAL MARKET AMIDST GLOBAL TURMOIL; PENSION FUNDS AS A VITAL HOME-GROWN RECIPE**

For the Nigerian capital market, whilst there is light at the end of the proverbial tunnel, it is clear that painstaking, domestic policies and strategies coupled with disciplined implementation are central to the market's revamp. In this article, we seek to provide some insight into the workability of stimulating capital market activities with the home-grown pension fund assets, a pool of investment funds which undoubtedly, is most appropriate for the long-term capital required in any viable capital market; more so in an emerging economy such as Nigeria.

#### **BACKGROUND**

Data from the Nigerian Stock Exchange ("NSE") indicates that a return to those market indices achieved in the period prior to the 2008 global economic crisis, may take a little longer than expected<sup>1</sup>. There are clear reasons for this.

First, the global stock market declines<sup>2</sup> have continued to impact foreign portfolio investments ("FPIs") in Nigeria, affecting liquidity and therefore, the volume of deals closed on the floor of the NSE. This, especially since 2013, has been responsible for the exodus of most of the FPIs that used to catalyze activities on the NSE. Consequently, the stock market has been propelled almost perennially in a bearish direction.

Second, the country's seeming monolithic dependence on oil for foreign exchange earnings (about 90% of Nigeria's income is derived from crude oil sales) at a time that international oil prices are plummeting<sup>3</sup>, is consistently hurting the economy. Erosion of investors' confidence, added to the widespread credit-crunch amidst other negative fundamentals, further aggravate market-apathy among retail and institutional investors alike.

#### **WHAT TO DO**

Nigeria needs to look inward at this stage and harness its domestic potentials for growth. One strategic solution for catalyzing activities with the aim of ensuring that the capital market begins to fulfil its role in the Nigerian economy lies in making use of the somewhat "idle" pension funds accumulated since the pension reform was first introduced in 2004, to enlarge the breadth as well as increase the depth of the market.

#### **LEGAL FRAMEWORK**

The **Pension Reform Act 2014** ("PRA 2014"), the governing law of the Nigerian pension industry which repealed and replaced the Pension Reform Act 2004, provides for the investment of pension fund assets in the capital market<sup>4</sup>.





Specific capital market products are further listed as parts of the “Allowable Instruments”<sup>5</sup> in the **Regulation on Investment of Pension Fund Assets 2012** (“RIPFA”), which is the extant investment guideline made by the National Pension Commission (“PenCom”) and preserved under the PRA 2014.

There are ongoing reforms by PenCom to make more capital market investment windows open to Pension Fund Administrators (“PFA”). These are contained in a “2015 Draft Regulation on Investment of Pension Fund Assets” that is presently awaiting approval to become operative<sup>6</sup>.

### **CURRENT STATE**

As at December 2015 total pension assets under management stood at *circa* ₦5 trillion. According to sector analysts, only 12% of this sum (about ₦600 billion), is currently invested in equities and some 15% (about ₦750 billion) invested in debt instruments while a whopping 70% (about ₦3.5 trillion) is held in the Federal Government’s bonds and treasury bills.

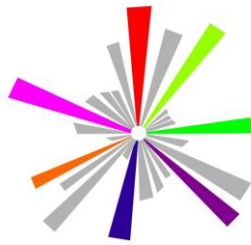
Mounir Gwarzo, director-general of the Securities and Exchange Commission recently opined that the huge funds “are not supposed to be in FGN bonds or treasury bills, they are supposed to be in the market”. As a domestic long-term source of capital, pension fund assets, are a most important institutional investor within a country for boosting liquidity on the stock exchange as well as deepening the capital market<sup>7</sup>.

### **CONSTRAINED BY PAST EXPERIENCE**

Past experiences in pension policy and implementation in Nigeria have stalled the actualization of consistent calls for utilization of the pension assets in investments in the capital market. The hardship of retirees who were deprived of their pension entitlements under the defunct government-controlled pension regime, mismanagement of funds by past managers and the relative volatility of the capital market among others; are the reasons why the RIPFA has largely restricted investment of pension assets in Nigeria. However, we believe that the National Pension Commission should learn from other climes where pension investments have been successful, by striking a balance between the “safety” of the populace’s pensions and the development of the capital market. Broadly speaking, this can be achieved by making the regulations more accommodating and flexible while strengthening corporate governance ethos in the market.

### **CONCLUSION**

Investment of pension fund assets contribute significantly to the development of major capital markets in the advanced and fast-growing emerging nations of the world (in 2012 alone: 48.9% in the US; 46.0% in Australia; 41.6% in Chile; 37.1% in Finland and over 50% in Germany, Spain and Norway)<sup>8</sup>. The time for Nigeria to follow these examples is “now”. We urge the SEC and other stakeholders in the



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Nigerian capital market to develop more attractive products while the government should provide an enabling legal/regulatory environment to assure sanity in the market and thus protect pension funds invested. This way, a sustainable self-reliant growth in line with “The Nigerian Capital Market Master Plan (2015-2025)” will be triggered.

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