



Understanding the Economic Value of the Capital Market

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Preamble

The **Economic Value** of something is how much a product or service is worth to someone relative to other things (often measured in monetary term)". The economic value of the capital market can only be assessed relative to its contribution to the economic development of the country

Economic Development then can be described "as the achievement of a quality of life for the average citizen of a country that is comparable to that enjoyed by the average citizen of a country with a modern economy". It is a process of transformation in structures which ultimately impact on the living standard of the people. It is the noticeable change over time of real output of goods and services in an economy.

Economic Growth.

Increase in real output of an economy. The growth in real output is facilitated by how well the factors of production are combined to achieve the required level of growth

Improved Standard of Living.

Improvement in living standard vis a vis poverty alleviation, improvement in health services, education etc

Creating Economic Value

FACTORS OF PRODUCTION

LAND

Land in whatever form whether for agriculture, manufacturing or office space is required.

CAPITAL

Capital within this context is defined as the finance resources which is required to be deployed in the value creation process.

Personal Sources. Savings, inheritance, gift and loans from families and friends

Financial system provide the second and most suitable source of finance to the entrepreneur

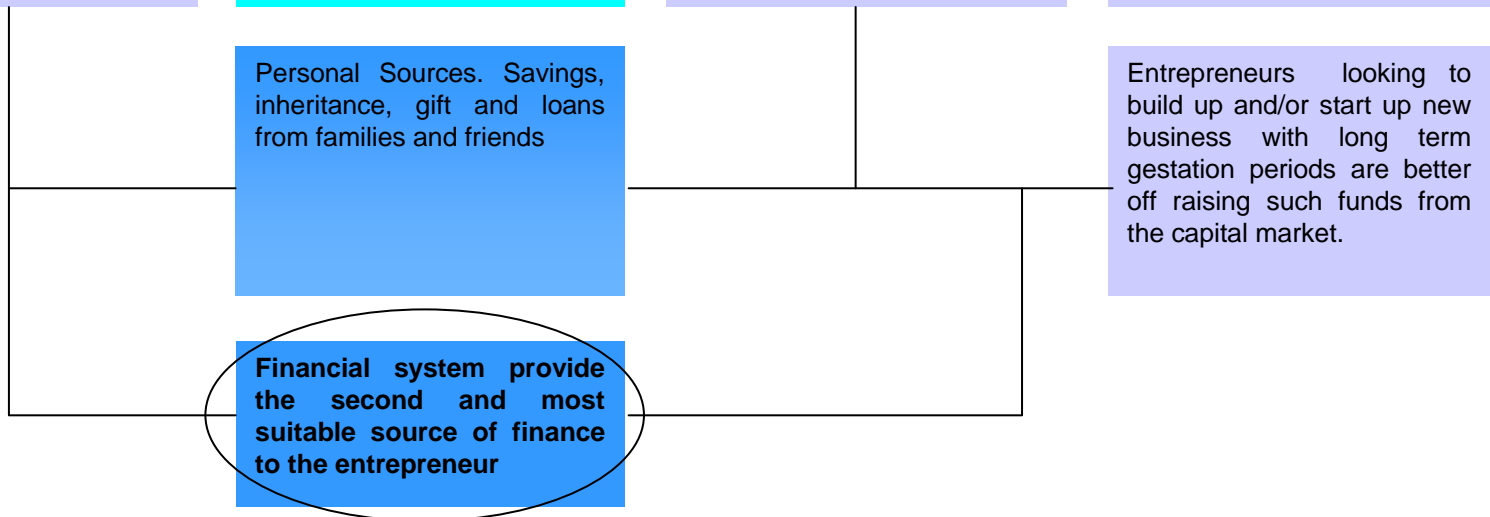
LABOUR

the motivation for labour (whether skilled or unskilled) in contributing to the value creation process is its wage.

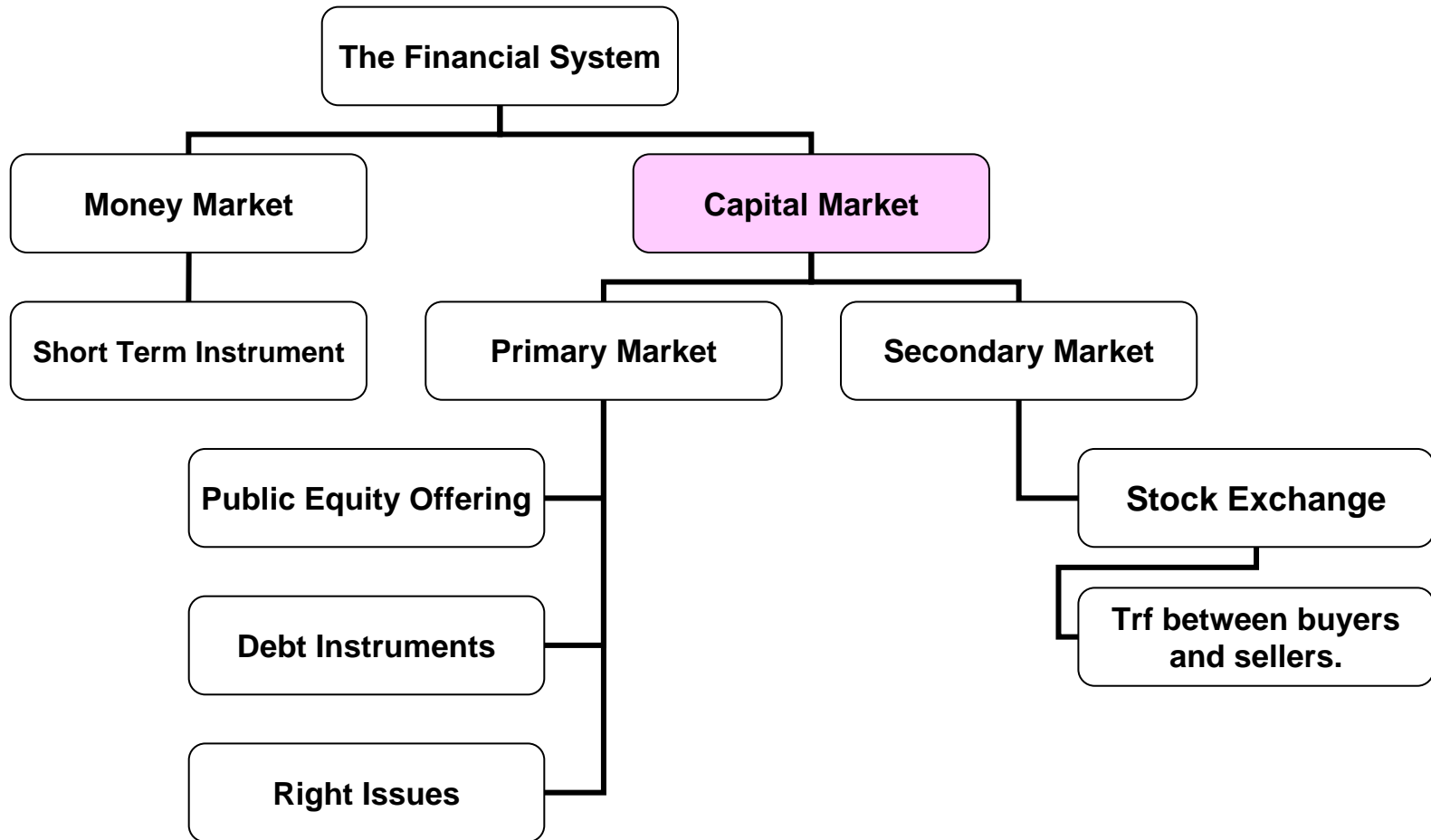
ENTREPRENEUR

The Entrepreneur organises all the other factors of production. Finance plays a key role in this respect

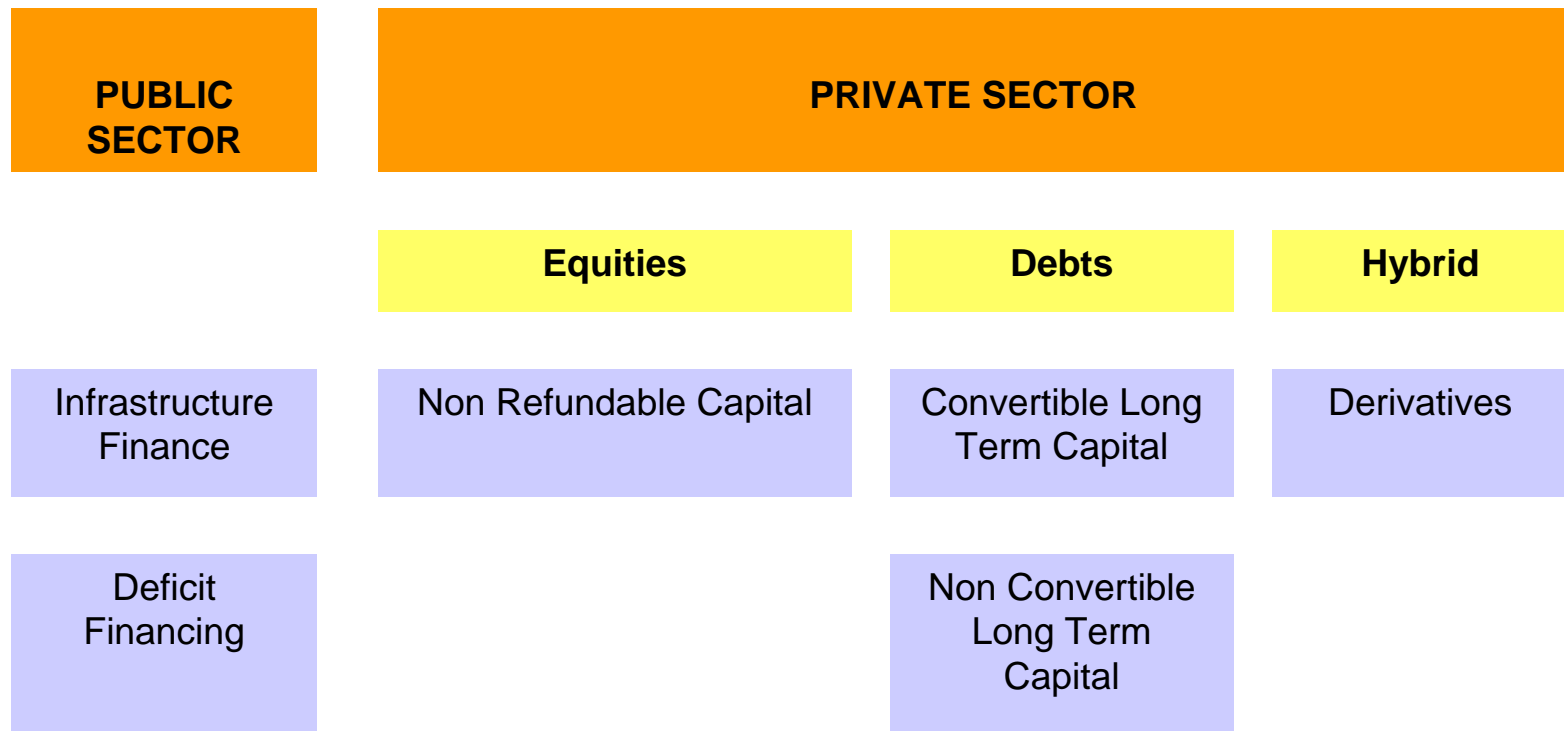
Entrepreneurs looking to build up and/or start up new business with long term gestation periods are better off raising such funds from the capital market.



The Financial System



What does the Capital Market Offer



Capital Market Instruments

Capital Market Instruments

Equities

Debts

Derivatives

Government Bonds

Rights

Corporate Bonds

Options and Futures

Preference Shares

REITs

Debentures

Exchange Traded Funds

Is the Capital Market of Economic Value?

Public Policy Perspective

- Indigenisation Programme (1972 – 1977).
- Privatisation Programme (1988 – 1992).
- Bank Consolidation – 2004
- Insurance Consolidation – 2006.
- Pension Reforms

Development of Infrastructure.

- Edo State
- Delta State
- Lagos State
- Cross Rivers State
- Akwa Ibom State
- Yobe State

Private Sector

- Expansion of Operations.
- Debt refinancing
- Long term working capital.
- Developing new markets.
- Developing new production lines

Has The Capital Market Helped Itself

Market Incentives

- Concession on the Application and Listing fees for Federal Government Bonds.
- Over 96% discount given to bank and insurance company in pursuit of the banking and insurance reform policies.
- Reduction in the transaction fee for the Bond market from 1% on trade value to 1 per mille.

Investment in Technology

- Deployment of sophisticated trading apparatus (time saving, efficient, transparent) in the market.
- Establishment of the Central Securities Clearing System
- Transaction cycle reduce to T+3, and this has facilitated liquidity in the market.

Enforcement of Post Listing Requirement

- Quarterly accounts to be submitted within 6 weeks of end of quarter
- Disclosure of shareholding above 5%.
- No director of any listed company is allowed to buy or sell shares in the company in which he sits on the Board two (2) week before or after the announcement of the result of the company.

Investors' Education

- Enlightenment Programmes
- Factory Visits
- Facts behind the figures
- National essay competition
- Television and radio talk shows
- Local / International road shows
- Workshops and seminars

Is There A Need To Help Develop The Market

| Description | Needed Action | Justification |
|--|---|---|
| Corporate Bonds and other debt instruments. | All debt instrument issue and quoted in the Nigerian capital market should attract a zero percent rate for Value Added Tax | To encourage corporate organizations to seek long term funding in the capital market. This will boost their level of operation and ultimately lead to increase in tax payment |
| Corporation Tax | The Companies Income Tax rate for companies classified as small and medium enterprise and quoted on the second or third tier of the Nigerian Stock Exchange should be reduced to and charged at 10%. | To encourage the listing of indigenous companies. Increase the government's non oil tax revenue, Considering that quoted companies generate over 70% of the non oil tax revenue. Any form of tax incentive will cause a lot of the companies to seek listing and the discipline which the market demands of its participants resulting in a lot of market disclosures which ordinarily would be hidden from the tax authorities. |
| Mortgage Development (Real Estate Investment Trust) | A 0% tax rate on the fund | <p>The product has not been developed because of lack of tax incentive. It would provide the finance to meet and bridge the housing gap in the country. The nature of the Fund will require that it distributes 75% of profit accruing to it to the Unit holders and the Unit holders will be susceptible to tax at the applicable rates.</p> <p>Moreover, the construction industry would be boosted considering that it is a major employer of labour in the country.</p> |



THANK YOU

