IMPACT OF PENSION REFORM ON NIGERIA’S CAPITAL MARKET FROM 2004 - 2008

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ABSTRACT

The paper is aimed at examining the impact of Nigeria’s pension reform on its capital market development from 2004 - 2008. Nigerian government prior to 2004 was faced with myriad of problems associated with its then pension scheme. The problems included inability to pay retirees pensions on time, decreased revenue base and increasing workforce. The government to curtail this decided to reform its pension and changed it from a pay as you go system to contributory scheme. The paper made use of secondary data and it was found out that pension reform has contributed to the development of the Nigeria’s capital market through revamping of the moribund bonds sector, increase market capitalisation and improving the performance of stocks in the market.

KEYWORDS: Pension Reform, Capital Market

INTRODUCTION

In 2004, the Federal Government of Nigeria faced with enormous pension debt amounting to about N2 Trillion, decreasing income base and expanding workforce set up several committees tasked with the responsibility of restructuring the country’s pension sector. The committees’ report was sent to the parliament and passed into Law referred to as Pension Reform Act 2004 (PRA2004). The Nigerian pension reform was formulated mainly based on similar reform done in Chile in 1980. Before the passage of the pension reform act, there were in existence various pension schemes in the country. The National Social Insurance Trust Fund (NSITF) catered for private sector workers and there were special schemes for federal public servants, Police, Security services and the Military. At the same time, each of the 36 states of the federation, the federal capital and the 774 local government authorities under them, had a pension system for their employees. There are also several government owned firms across the country with each having its own pension scheme. In addition, to catering for different categories of staff, the various schemes had different source(s) of financing. While the federal, state and local civil servants pension schemes were non-contributory and un-funded, the NSTIF scheme operated, effectively, on a Pay as you go (PAYGO) basis, being financed by employee and employer contributions and the pension schemes for parastatals were non-contributory but they were, at least nominally, funded. (Oyedele 2008)

After it became law, the pension reform repeals all the previous legislations regulating the administration of pension benefits in the country and established a uniform set of rules, regulations and standards in the public and private sectors of the Nigerian economy on matters of pensions. The Act established a contributory, fully funded pension scheme for the Federal civil servants, employees of the Federal Capital Territory (FCT) and employees of any private sector organisation with five (5) or more employees, based on individual accounts that will be privately managed by a Pension Fund Administrators (PFA) duly licensed by the National Pension Commission (Pencom), with pension funds’ assets held by licensed Pension Funds Custodians (PFC). The new system requires a minimum contribution of 15% from both the employee and the employer. Each employee is to contribute 7.5% (2.5% for Military personnel) of his/her monthly basic, housing and transport allowance and the remaining balance of 7.5% contribution (12.5% for Military personnel) is to be paid by their employers. The contribution when collected is credited into the employees retirement savings account which
are maintained with a PFA and these funds are thereafter invested in line with the regulation set up in the act and the assets kept by the PFC. The investment regulation stipulated that pension fund should be invested on Bonds (Federal Government, State and Corporate), Money market platform approved by the Central Bank of Nigeria (CBN), and Shares issued by companies listed on Stock Exchange recognised by the Securities and Exchange Commission of Nigeria.

LITERATURE REVIEW

Pension reform has gradually become a very popular concept that is being adopted across the globe. Since 1992 more than 110 countries have undertaken minor adjustments to their existing systems while some 20 countries have undertaken major pension reforms in the sense of adopting new systems or replacing their old regimes (Demirguç-Kunt and Schwarz 1996). The reasons for this increase were given by various writers. According to Hinz (2003) reform is done because it leads to capital market development and help to address social consequence of development. Roldos (2004) stated that “Pension reform has generally been motivated by the need to address political and demographic pressures that threaten the financial stability of pay-as-you-go (PAYG) systems”. While Vitas (2000) stated that pension reform generate long-term savings that would help stimulate the development of capital markets and the economy. In addition, Barrientos (1993) quoted Piiera who stated that “The objectives of the reform were to transfer pension provision to the private sector, thus reducing the government’s financial commitments, strengthening and improving the workings of capital and labour markets, and widening the scope for individual choice and responsibility in pension arrangements. The new pension scheme was expected to raise savings and therefore investment, and to ‘channel workers’ pension saving towards profitable productive activity, leading to higher rates of economic growth”. And according to Masilela (2008) “the triggers for reform globally are: Short term budgetary constraints; Demographic pressures, ageing and dependency ratios; inefficient public systems; untrustworthy governments and unsustainable PAYG system”. Dowers, Stefano and Stefano (2001) in their paper stated that “most pension systems around the world suffer from systemic flaws and inefficiencies at the management level. Over commitment by the pension institutions, preferential treatment of some sectors of the economy and near sightedness in the design of the parameters, are only some of the results of political instability, administrative corruption, and bureaucratic inefficiency”. The World Bank in a study aimed at reviewing how reforms have worked and taking account of criticism and new ideas stated that “most pension systems in the world do not deliver on their social objectives, they contribute to significant distortions in the operation of market economies, and they are not financially sustainable when faced with an ageing population” as such gave its support for the reform to the new defined contribution scheme. More especially given the immense benefits derived by the countries that have adopted the new system. In Latin America, for example, reforms to the expensive pay-as-you-go schemes have improved governments’ long-term fiscal positions and the new funded individual accounts have generally delivered impressive returns. In the European Union the reform is motivated by three main factors: high budgetary or expenditure pressure and the tendency of an aging population; socio-economic changes, which render current provisions inadequate; and European economic integration and common currency, which tend to prompt higher levels of internal and external migration that current retirement provisions could hardly support. (Holzmann et al, 2003). As was the case in Europe, pension reform in Nigeria was also rationalised by arguments over the inability of financing prior commitments and the need to make pension systems more sustainable in terms of a move towards a greater role for privately managed funded systems and the conversion of the pay-as-you-go systems into defined contributory systems. (Aborisade 2008).

In Nigeria, the reform was done because the pension schemes were bedevilled by many problems. This as stated by Mschelia are “the public pension’s pay-as-you-go was un-funded, weak, inefficient, less transparent and cumbersome and the private sector schemes had been characterized by very low compliance ratio largely because they were neither
regulated nor supervised”. And according to Ogbonna and Opara (2008) “The Defined Benefit - Pay As You Go scheme in the public sector has increasingly become unsustainable and further compounded by increases in salaries and pensions as pension costs constitute a significant proportion of the personnel costs of the various tiers of government. The pension system was therefore, fiscally unsustainable”. Henshaw (2008) further stated “the pension scheme operated in the public sector was characterized by inadequate funding, discrimination in coverage, demographic shifts and weak administration and in the private sector there was also discrimination in the coverage couple with cases of malpractices between the Fund Managers and Trustees of the pension fund. These factors led to the accumulation of unsustainable pension liabilities and huge pension arrears”. Abade (2004) stated “the most important reasons given in support of pension reforms in Nigeria are chronic under funding, delays/non-payment of pension, inflationary trends, massive fraud and diversion of pension funds by pension fund managers. This led to a situation where aged pensioners slumped and passed away while waiting on queues to get their pension paid”. The reform process is therefore adopted because the defined contribution scheme are believed to have the potential to generate positive economic externalities, including the promotion of deeper, more competitive, and more liquid financial markets”(PenCom, 2004).

**Pension Reform and Capital Market Development**

A major catalyst of economic growth and development of any nation is its capital market. It impacts positively on the economy by providing financial resources through its intermediation process for the financing of long-term projects. The projects which could be promoted by governments or private sector institutions in such areas as infrastructure, agriculture, solid minerals, manufacturing and other real sector areas. Hence, without an efficient capital market, the economy may be starved of the required long term funds for sustainable growth. Do pension reform lead to the development of the capital market or not? This is a contentious issue with diverse opinions offered by different authors. Chan-Lau (2004) stated that pension reform has contributed to raising the savings rate, fostering the growth of institutionally managed assets, and creating a strong domestic investor base and this has in turn fostered the development of securities markets. Walker and LeFort (2000) also stated that in the cases of Chile, Argentina and Peru (the countries with the longest tradition of reform), the social security reform contributed significantly to the accumulation of “institutional capital”, a combination of an improved regulatory and legal framework, greater professionalism in investment decision making processes and an increase in transparency and integrity. They also point out that the accumulation of funds was accompanied by the growth of mortgage bonds and other asset-backed securities and the creation of closed mutual investment funds.

The pension funds and insurance companies have facilitated the introduction of important innovations in trading and custody of securities, as also in other auxiliary industries such as credit ratings. Acuña and Iglesias (2001) pointed out that both the adoption of the electronic system of trading in the Santiago Stock Exchange in 1987 and the creation of a centralized electronic system of securities custody in 1995 had their origins in the growing needs of the pension funds and insurance companies. In addition, a private risk-rating industry arose to meet the need for rating the securities to be acquired by the pension funds.

The pension fund reforms have also contributed to the modernization of the financial industry in Latin America. In Chile there is also some evidence of increases in market liquidity as a result of pension fund investment. But liquidity is well below what would be expected for this market, given its high capitalisation. Part of the reason for this muted effect can be traced to the structure of the pension industry as well as investment and performance rules. The pension fund administration industry is highly concentrated, and there is little product differentiation in investment strategies and performance. Pension fund managers have essentially pursued “buy and hold” strategies that are detrimental to the liquidity
of capital markets. As pension funds have become large relative to the market, such strategies have become institutionalised since large block sales of securities can turn prices against them. (Acuña and Iglesias 2001)

The extent to which the Chilean reform has had a positive impact upon capital market development is however disputed. There are those who have credited it with generating “a financial deepening process that can be a decisive factor in order to develop a domestic capital market” (Haindl, quoted in Matijasic and Kay, 2006, p. 12). The IMF, in its review of the Chilean pension scheme, has repeated this position, arguing that “the new system has created a significant demand for investment assets and has helped develop capital markets” (IMF, 2005b). A more nuanced view given in a World Bank study suggested that “capital market development in Latin America (and in Chile in particular) has been driven largely by regulations imposed by the government on the pensions industry and other financial institutions” and that “the role of pension funds in the development of capital markets in Latin American countries is largely determined by government instructions that touch every aspect of their operations, from the amount of contributions that the industry receives to the investment of pension assets” (Yermo, 2004, pp. 2-3). Others have been more sceptical. Uthoff, quoted in Matijasic and Kay (2006) stated that “it is only the combination of pension reform, privatization of public utilities, and effective regulation, against the background of very favourable macroeconomic conditions, that can explain the rapid development of capital markets in Chile” (Barrientos, 1998, p. 143). The major increase in corporate savings so much touted as one of the achievements of the pension reform could be attributed to a 1984 reform that reduced tax rates on both undistributed and distributed profits (Yermo, 2004). In addition, the growth in capital market operations was also challenged as not related to pension reform. Singh (1996) stated “it will be appreciated that this huge development of stock markets has occurred in most countries without private pension schemes of the kind advocated by the World Bank. Indeed, as Vittas (1992) observes, "it is fair to say that few, if any emerging equity markets owe their impressive performance in the 1980s to the presence or impact of contractual savings institutions." Uthoff (1993) notes, "due to the fact that this period has been accompanied by high and stable GDP growth rates, together with important incentives for arbitrage of international interest rates causing large capital inflows and currency appreciation, we are unable to draw any direct causal effect between pension funds and stock market developments.” In support of Uthoff’s conclusion, Singh (1996) stated “it may also be observed that the expansion of equity markets in Chile is not out of line with that of other fast expanding equity markets in developing countries. It is equally significant that on some other principal indicators of stock market development, Chile does not do as well as a number of other emerging markets for example the number of listed companies actually declined in Chile over the period 1980 to 1992 from 265 to 245 respectively while in India the number rose from below 1,031 to 2,781”.

Asher and Vasudevan (2008) wrote “Pension reform has been credited with being a key reason for Chile’s high economic growth. However, the growth of pension funds was supported by improved policies and institutions: during 1981-2002, Chile implemented product market liberalization, macroeconomic stabilization and financial reforms, which pushed the average annual GDP growth to 4.6 per cent in this period”.

Thus pension funds were put to good use by the government and regulatory authorities. (Corbo, 2004). Catalan, Impavido and Musalem (2000) also found out that pension fund and stock market development are indeed positively correlated across a large number of countries, and they conclude that the development of pension funds leads to stock market development. Walker and Lefort (2001) surveyed literature and provided statistical and econometric evidence on the links between pension reforms and capital markets development in Chile, Argentina and Peru’, and find evidence that the accumulation of assets by pension funds lowered the corporate cost of capital, and increased the liquidity of domestic capital markets in those countries. Stock markets, in particular, can be bolstered by pension funds through different
channels. Pension funds could trade frequently, increasing the liquidity of the domestic stock markets, and thus crowding in savings and new investors. Similarly, the intense trading of stock by pension funds and their large size may induce them to seek the introduction of innovations and new financial instruments to lower transaction costs, again attracting additional savings and new market participants. More important, pension funds could develop stock markets by improving the corporate governance of publicly traded firms. (Catalan 2004).

RESEARCH METHODOLOGY

The paper is aimed at assessing the impact of Nigeria’s pension reform on capital market development from 2004 - 2008. In trying to determine this, various literatures written on Pension were reviewed, including National Pension Commission Annual reports, Newsletters, other publications and web site, Annual reports, publications and web sites of various Pension fund Administrators and Custodians were also reviewed and those of Nigerian Stock Exchange and Securities Exchange Commission. The scope of the paper is 2004 – 2008. 2004 was the year that the pension reform act was passed into law as such the reason for its selection and 2008 year was chosen because it was in this year that most of the gains made in the capital market were overturned due to the global financial crisis which affected not only the Nigerian capital market but global capital markets. Even though the impact on the Nigerian capital market was not tremendous due to restriction place on investment in the capital market which requires a maximum of 25% of pension funds to be invested in the stock market.

RESULTS/FINDINGS

After about four years of pension reform in Nigeria, the achievement has been highly commendable. Increase in total pension funds has made a tremendous impact on not only the Nigerian capital market but the economy as a whole. The funds have been growing steadily since the passing of the law in 2004 as indicated in the table and graphs below. It needs to be noted however that even though the law was passed in 2004, and pension funds were deducted and accumulated by the pension commission and kept with the Central Bank of Nigeria, the effective year of operation of the pension funds administrators was 2006. As such the table below will only show figures from 2006. The total funds was N=1,991.77 million in May 2006 and it rose to N=9,229.8 million in June 2006. By September 2006, it jumped to N=288,928.52 million when part of the funds were transferred from the central bank to the administrators. In January 2007 it was N=393,156.58 million and by December of the same year it has increased by more than 100% to N=815,186.52 million. The funds continue to grow at virtually the same rate in 2008. It was N=886,130.54 million in January and rose to N=997,500.23 million by end of September. The monumental increase in the pension funds within just few years of the reform process has significant impact on the country as a whole. The country’s GDP increased from N=11,674 Billion in 2004 to N=22,907.3 B in 2007 and inflation felled from 16.2% in 2004 to 5.5% in 2007. The trend is shown in the table below:

In 2004, the Nigerian capital market had a capitalization of little over 20 per cent of GDP, compared to some 100 per cent or more in countries such as the Netherlands, the UK and the United States. In terms of liquidity, the Nigerian exchange was even less important. The value of securities traded in that year was under two per cent of GDP compared to 100 per cent or more in the other countries mentioned, and volumes traded relative to capitalisation were similarly low. With pension and other reforms however, the economic indicators all changed. For instance capitalisation which was ₦2,112.5 Billion in 2004 representing 20% of GDP rose by more than 500% to ₦13,917.2 Billion representing about 60% of the GDP, the value of securities also jumped from 2% of GDP to 16%, the volumes also experienced similar increase. This is shown in the table below:


Pension assets being managed by the administrators also undertook very rapid growth in line with the growth of the pension funds (see tables and charts above) from the time they started investing in 2006 to date. By end of December 2006, the total value of the assets was N=405,951.11 million and this increased to N=815,186.52 million by end of 2007 and by September 2008 it was N=997,500.23 million.

The funds were invested in line with the National Pension regulation. In 2006, N=375 billion was invested in ordinary shares representing 27.24% of the total investible amount, N=293 billion was invested in Federal Government bonds and N=327 billion was deposited with money market institutions. Other investments include those in open/close end funds, real estates, corporate bonds, etc. the most noteworthy is investment in foreign ordinary shares, foreign money market securities and investment in unquoted companies and this as stated earlier were done under the then existing pension scheme prior to the pension reform.

Similar investments were undertaken in 2007. The sum of N=2,043 billion was invested in ordinary shares representing 29.13% of the total investible amount, N=1,816 billion was invested in Federal Government bonds and N=1,438 billion was deposited with money market institutions. Other investments include those in open/close end funds, real estates, corporate bonds, foreign ordinary shares and foreign money market securities.

In 2008 also, the sum of N=2,574 billion was invested in ordinary shares representing 27% of the total investible amount, N=1,886 billion was invested in Federal Government bonds and N=2,228 billion was deposited with money market institutions. Other investments include those in open/close end funds, real estates, corporate bonds, foreign ordinary shares and foreign money market securities.

A remarkable achievement associated with the pension reform is the revival of the comatose bond sector. Prior to pension reform the bond sector of the Nigerian Capital market was virtually dead but pension funds have revived it and led to its growth as seen in the table of securities listed on the Nigerian Stock Exchange. The reform has contributed significantly to the accumulation of long term funds, the development of a better legal and regulatory pension framework, increased professionalism in the sector, and increased transparency and integrity. The availability of a large pool of investible pension funds created and then deepened the market for instruments of varying risk tenor and durations. The housing mortgage market and infrastructure development projects have also benefited from pension fund financing. It has also led to creation of more mutual funds; asset backed securities and local rating companies, as well as the introduction of innovations in securities trading and custody.

An analysis of the Nigerian capital market and the investment portfolio of the pension funds administrators show

### Table 1: Securities Transactions (Value), Market Capitalisation and Turnover Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Govt. Securities (1)</th>
<th>Industrial Securities (2)</th>
<th>Total (3)</th>
<th>Govt. Securities (4)</th>
<th>Industrial Securities (5)</th>
<th>Total (6)</th>
<th>Turnover Ratio (3) as % of (6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>8.1</td>
<td>28,146.5</td>
<td>28,154.6</td>
<td>2,131.3</td>
<td>470,158.7</td>
<td>472,290.0</td>
<td>6.0</td>
</tr>
<tr>
<td>2001</td>
<td>24.6</td>
<td>57,612.6</td>
<td>57,637.2</td>
<td>8,289.2</td>
<td>654,272.1</td>
<td>662,561.3</td>
<td>9.6</td>
</tr>
<tr>
<td>2002</td>
<td>777.3</td>
<td>59,311.3</td>
<td>60,088.6</td>
<td>12,711.1</td>
<td>752,264.7</td>
<td>764,975.8</td>
<td>7.9</td>
</tr>
<tr>
<td>2003</td>
<td>6,547.0</td>
<td>114,156.0</td>
<td>120,703.0</td>
<td>25,211.1</td>
<td>1,334,063.1</td>
<td>1,359,274.2</td>
<td>8.9</td>
</tr>
<tr>
<td>2004</td>
<td>2,026.6</td>
<td>223,794.0</td>
<td>225,820.6</td>
<td>178,144.4</td>
<td>1,934,052.5</td>
<td>2,112,549.6</td>
<td>10.7</td>
</tr>
<tr>
<td>2005</td>
<td>8,049.2</td>
<td>254,880.6</td>
<td>262,929.7</td>
<td>365,470.0</td>
<td>2,534,592.1</td>
<td>2,900,062.1</td>
<td>9.1</td>
</tr>
<tr>
<td>2006</td>
<td>1,665.4</td>
<td>468,588.4</td>
<td>470,253.8</td>
<td>888,880.0</td>
<td>4,232,063.3</td>
<td>5,120,943.3</td>
<td>9.2</td>
</tr>
<tr>
<td>2007</td>
<td>-</td>
<td>2,086,294.6</td>
<td>2,086,294.6</td>
<td>2,976,578.4</td>
<td>10,318,006.5</td>
<td>13,294,584.9</td>
<td>15.7</td>
</tr>
</tbody>
</table>

**Source:** Securities Exchange Commission, Nigeria
a positive correlation of 0.997 since the start of pension funds investment in the capital market in 2006. But the overall pension funds investment in the market is relatively small even though it is growing. In 2006 it was N=374.63 billion represent 7% of total market capitalisation of N=5,121 billion. In 2007, it was N=1,770.02 billion, representing 13% of the total market capitalisation of N=13,294.60 billion. And in 2008 (January – October), it was N=2,024.49 billion representing 15% of total market capitalisation of N=13,917.20 billion. The Nigerian pension funds are equally small when measured as a percentage of GDP.

For instance in 2006 it was 2.79%, 4.39% in 2007 and 4.34% in 2008 (Jan-Sep). In other countries however, the pension funds can be large in terms of GDP, while being small as equity holders. For instance, pension funds’ in the Netherlands hold only 8% of the domestic equities, but they hold assets that are worth almost 120% of the country’s GDP. On the other hand, pension funds in the United States hold almost 26% of domestic equity, while their assets are 75% of GDP. Similarly, pension funds in Denmark are significant domestic equity holders (25%) while their assets are only 25% of GDP. One can say that macroeconomic significance does not necessarily lead to stock market significance, and, conversely, that stock market significance does not require an extremely large pension fund sector. Although most of the pension reforms in Latin America are recent, the Chilean case shows that, as the private pension systems mature, the assets accumulated by pension funds eventually reach high proportions of GDP, and pension funds become significant from a macroeconomic standpoint. (Catalan, Mario 2004).

It is important at this juncture to state that the development of the capital market should not be attributed only to the capital market as there were other reforms that were undertaken by the Federal government which had large significance in the development of the market. For instance, increase in the capital requirement of Banks from N=2 Billion to N=25 Billion in 2005 was a monumental issue so also the increase in the capital base of insurance companies and Stock brokers. Also the Nigerian capital market was affected by the global financial crisis from 2008 as such the scope of this paper is 2004 to 2008.

**Market Capitalization**

Total market capitalization of listed securities on the Nigerian Stock Exchange has been appreciating impressively over the years. The increase is however more glaring from 2004. It was 300.0 billion in 1999 and increased to 764.9 billion in 2002. It jumped to 2.1 trillion in 2004, 2.9 trillion in 2005, 5.1 trillion in 2006 and 13.3 Trillion in 2007. The percentage of market capitalization to GDP was 9.4% in 1999, 9.6% in 2001, 19.8% in 2005 and 28.3% in 2006. The figures show that the stock market is increasingly becoming more relevant to the economy.

**Table 2: Market Capitalization as Percentage of Gross Domestic Product**

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>10.4</td>
</tr>
<tr>
<td>2001</td>
<td>9.6</td>
</tr>
<tr>
<td>2002</td>
<td>9.8</td>
</tr>
<tr>
<td>2003</td>
<td>13.7</td>
</tr>
<tr>
<td>2004</td>
<td>18.5</td>
</tr>
<tr>
<td>2005</td>
<td>19.8</td>
</tr>
<tr>
<td>2006</td>
<td>28.34</td>
</tr>
<tr>
<td>2007</td>
<td>16</td>
</tr>
</tbody>
</table>

**Sources:** SEC, NSE & CBN

**Stock Index**

The Nigerian Stock Exchange All-share Index appreciated remarkably from 5,266.4 points in 1999 to 20,128.9 points in 2003, 23,844.5 in 2004, 24,085.8 points in 2005 33,189.3 points in 2006, and 57,990.2 in 2007. There are
presently 25 licensed Pension Fund Administrators (PFAs), 4 Pension Fund Custodians (PFCs), 7 Closed Pension Fund Administrators (CPFAs) and approved 18 existing Pension Schemes for continuation. A total of over 4.7 million employees of the public and private sectors have been registered, issued with Personal Identification Number (PIN) by the Commission and opened Retirement Saving Account (RSAs) with the PFAs of their choice.

The estimated size of the pension funds market is at =N 300 billion with a projected growth rate of about 15% per annum. Such growth rate in pension funds would have positive implications for the quantitative and qualitative development of the capital market. However, like other emerging economies, there may be limits to the development of the local capital market especially regarding finding enough equities that will satisfy the pension commission requirements. The question now arises as to whether the Nigerian capital market can respond to the increased pension fund growth. There will therefore be the need to further deepen the market by introducing more instruments such as futures, options and asset-backed securities and also reviewing the Commission’s regulation on investment in the capital market.

CONCLUSIONS

Various writers have done a lot of research on evaluating impact of pension reforms. While some are of the opinion that the reform contributes to economic development some do not agree with this. The proponents of the reform are saying that reform has led to increase savings, development of capital market and economic growth of the countries that adopted it and the critics even though acknowledging the growth, are of the opinion that the growth were not directly associated with pension reform but rather relates to other factors such as reduced interest rate, foreign direct investment, etc. In this paper, the various arguments put forward by both writers were considered and then examined in line with several data obtained from the Nigerian Pension Commission, Securities Exchange Commission and Stock Exchange. It has been established that there is a positive correlation between pension reform and capital market development.

In the sense that the funds have made a significant impact in revitalising the moribund bond sector of Nigeria’s capital market, generation of huge pool of long term investible funds, promoting foreign direct investment, reduce inflation rate, jobs creation, increase in return on investment, better and guaranteed retirement benefits, development of other institutional operators: Rating Agencies, Mortgage and insurance Companies, etc. and most importantly reducing the huge debt burden of the Federal government of Nigeria. There is however the need for consolidating and even improving the gains so far made in the sector by developing more alternative investment outlets in the capital market for example Islamic Finance products such as Sukuk, Ijara and other capital market products that are not too risky and will bring good returns.

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