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MOBILIZING DOMESTIC RESOURCES FOR ECONOMIC DEVELOPMENT IN NIGERIA: THE ROLE FO THE CAPITAL MARKET

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EXECUTIVE SUMMARY

Context

The stock exchange in a market economy plays a critical role in mobilizing resources for long-term investment. It is expected to encourage broad ownership of productive assets and provide a competitive pricing environment. The stock exchange in Nigeria was established in 1960 with the aim of doing just that, and a cursory glance at the exchange's statistics might indicate that it was succeeding. For example, the number of listed securities grew from 10 in 1960 to 49 in 1970 and then to 217 by 1990. Government's stock share declined from about 60% to less than 20% over the same period. Dealing members increased from 3 to 80, and principal intermediaries (commercial and merchant banks) rose from 26 to 82. A lower-level, second-tier securities market, aimed at attracting small- and medium-scale entrepreneurs, began operations in 1985 and currently has 18 listed members.

What is the problem?

The statistics are deceiving. Despite its considerable growth, *the performance of the Nigerian Stock Exchange has failed to live up to expectations.* This is true even when compared to exchanges of about the same age in a number of other developing countries. By virtually

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all indicators—market capitalization, value of stock traded, number of listed companies, etc.—the NSE falls behind dramatically. Simply stated, the problem is that the listed securities are but a drop in the bucket compared to the number of firms operating in Nigeria, representing only a very small fraction of the capital market. Moreover, of those that are listed, the top 10 companies account for more than 60% of active stocks traded.

Profile of the Nigerian Stock Exchange

The Nigerian Stock Exchange began operations in 1960 as the Lagos Stock Exchange, which was incorporated under the companies ordinance as an association limited by guarantee. It had ten listed securities. In 1978, the exchange took the name Nigerian Stock Exchange and established branches in other parts of the country; these now number six. A second-tier market was introduced in 1985.

The top regulatory body for the NSE is the Securities and Exchange Commission, which was established in 1979. The SEC has authority to, among other things, determine the price, amount, and time at which securities are sold. It is also mandated to create the necessary atmosphere for order, growth, and development of the capital market.

In 1990, there were 235 listed securities (including 18 on the second-tier market), 80 market traders, and 82 banks serving as intermediaries. The banks extend share purchase services, serve as registrars to quoted companies, dispatch dividend warrants to shareholders, accept and document credit, provide financial advice, issue government bonds and loan stocks, and provide a variety of other services. The involvement of the banks has greatly boosted the development of the capital market, and some of the banks have established subsidiary stock brokerages.

Development of the exchange notwithstanding, the relative level of participation by Nigerian companies remains low. The authors of the current study sought the reasons for this lack of participation by surveying a wide variety of both listed and non-listed companies. They also analysed the composition, performance, and regulatory environment of the exchange over the years.

A major conclusion of the analysis is that, despite the very real growth and some very positive actions by the government, the exchange looks more like an outfit for the government to finance its own operations rather than an instrument for mobilizing industrial capital. Regulations require the Provident Fund to invest only in government securities and debentures listed on the exchange. Insurance companies must invest 25% of their premiums in government securities. Interest rates favour the banks and money market to the detriment of the capital market, and regulatory changes (e.g., deregulation of the capital market) have not kept pace with institutional changes. Stringent entry requirements effectively keep many firms away from the exchange.

Tax and dividend policies do not discriminate between quoted and unquoted companies. Securities prices may not accurately reflect the value of the security, which simply frightens many companies away. The net result of all of these constraints is lack of participation by

Nigerian companies.

Only nine of the 59 listed companies that responded to the survey were owned entirely by Nigerians; the others were joint ventures. This responds directly to the government requirement that all firms with foreign ownership be listed on the exchange. The top 20 companies account for more than 70% of market capitalization and the ten most active stocks account for over 60% of value traded.

The majority of the 192 unlisted companies that responded to the survey were sole proprietorships or partnerships that employed more than 100 persons. They rely on local banks and equity as their major source of funds because it is a cheaper and more attractive means of raising capital.

Seventeen of the unlisted companies had actually applied for listing. More than half of these applications had been delayed because the firms did not meet the requirements. The most difficult requirements were cited as the minimum of 500 shareholders, full disclosure of company information, and public ownership of 25% of shares. Nearly half of these firms re-applied when their applications were rejected, fewer than one-fifth did not re-apply, and over 37% sought funds elsewhere.

The other unlisted firms gave the following reasons for not even applying for NSE listing: they wanted to maintain their limits on ownership and avoid public scrutiny, they currently had sufficient capital, they were discouraged by dividend tax policies, share prices were too low, and it was cheaper and easier to raise funds elsewhere, especially from banks.

In addition to all of this, Nigeria in general lacks an adequate, reliable telecommunications network and power supply, which means that the infrastructure is not in place for rapid settlement of sales and transfer of securities.

Policy implications

A number of government policies and actions were seen to have encouraged the growth of the exchange. Government decrees in 1972 and 1977 requiring foreign firms to seek quotation on the exchange resulted in a big jump in the number of listed companies. Similarly, the introduction of the second tier securities market in 1985 also saw a number of firms seek listing. Moreover, the ongoing privatization of parastatals should result in an increase in listed securities.

On the other hand, a more conducive policy environment could do much to favor the growth and development of the Nigerian Stock exchange. Continued liberalization of interest rates and privatization of the insurance sector, for example, will contribute to that enabling environment. In addition, the government and the NSE would do well to consider the following:

- Reassess tax and dividend policies with an eye toward making participation in the market more attractive, e.g., through concessions to listed companies and tax penalties on those companies that do not go public.

- Adjust share pricing mechanisms to assure a more accurate reflection of the actual value of listed securities.
- Revise entry conditions by, among other actions, reducing the minimum number of shareholders from 100 to 50 and tying the amount to be raised to the actual capital funds held by the company, rather than setting arbitrary limits.
- Take steps to improve the telecommunications and power supply infrastructure, which will benefit not only the NSE, but the productive sector and the country as a whole.
- Market the market. As a matter of policy NSE should systematically endeavour to educate potential users about the advantages of participation in the exchange. This should become an ongoing, continuous marketing and publicity campaign through the national media and other mechanisms.

Other related AERC publications

"Taxation of Financial Assets and Capital Market Development in Nigeria" by Inanga and Emenuga, forthcoming.

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Mobilizing domestic resources for economic development in Nigeria: The role of the capital market

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Abstract

This study focuses on the role of the capital market in mobilizing domestic resources for economic development in Nigeria, with emphasis on the role of the Nigerian Stock Exchange (NSE). The objectives of the study are to identify the major problems confronting the stock market and to determine the impact of government policies on the operations of the Exchange.

In addition to secondary data, the study used primary data derived from a survey of 251 companies, 192 of which were not listed on the Nigerian Stock Exchange.

The results show that in spite of the growth witnessed during the period under study, the Nigerian stock market still lacks depth and breadth. The volume and value of transactions are still very low and financial instruments are few. Security pricing policy has constrained the rapid development of the NSE. Government policies need to provide market friendly incentives that can enhance the number of companies listed and the value and volume of transactions on the stock market.

I. Introduction

The problem

The stock exchange, as an important component of the capital market, plays a significant role in the capital formation process because of the tremendous opportunities that ensue from its activities.

The stock exchange is expected to mobilize long-term savings to finance long-term investment by providing risk capital in the form of equity or quasi-equity to entrepreneurs. Indeed, the stock exchange is really not just a financial institution, but the very hub of the capital market, the pivot around which every activity of the capital market revolves. Hence, the exchange is expected to encourage broader ownership of productive assets and enhance the efficiency of the capital market through a competitive pricing mechanism.

There is an argument that the capital markets in developing countries in general have not lived up to expectations in terms of the extent and degree of capital mobilization for economic development. In spite of policies instituted by the government at various times, the performance of the Nigerian Stock Exchange over the nearly 30 years of its existence has been relatively poor compared to other stock exchanges of similar age in some developing countries.

A comparison of the Nigerian capital market with, for example, those of Korea, Malaysia and India, based on such indicators as market capitalization as a proportion of GDP and value of stock traded, shows the dismal condition of the Nigerian capital market. Market capitalization as a percentage of GDP increased remarkably in all the countries except Nigeria (see Table 1). Only in Nigeria did this ratio increase by less than a percentage point.

Other indications such as the number of listed companies and the value of stock traded also indicate the relative poor performance of the Nigerian capital market vis-a-vis those of the other countries.

It is against this background that this study aims to analyse the performance of the Nigerian Stock Exchange (NSE), with emphasis on its resource mobilization role. The interaction between the stock exchange and other financial intermediaries is examined in order to determine how the performance of the NSE can be enhanced.

Table 1: Comparison of selected stock markets (1983-1993)

Country	Market capitalization as a proportion of GDP (%)		
	1983	1993	Increase %
India (Bombay)	3.0	37.0	34.0
Indonesia	0.1	22.7	22.6
Korea	5.0	42.0	37.0
Malaysia	76.0	341.0	265.0
Nigeria	3.3	3.5	0.2

Source: IFC, 1990 and 1995.

Objectives of the study

The specific objectives of this study are:

- To examine critically the performance of the Nigerian stock market and identify the major problems confronting it;
- To examine the impact of government policies on the operation of the stock exchange;
- To identify the pattern of interaction between the stock exchange and the banking system and ascertain the impact of the banking sector on the performance of the stock exchange; and
- To make policy recommendations on how to improve the performance of the stock exchange.

In an attempt to provide a framework for understanding the performance of the stock exchange, a set of hypotheses was designed to be tested. These hypotheses are:

- That government policies are detrimental to the performance of the stock market because they create distortions that place the stock market at a relative disadvantage.
- That indigenous companies are generally unwilling to be quoted on the stock market because there are cheaper sources of funds available to them.
- That the lack of awareness of the benefits of being quoted on the NSE is partly responsible for the small number of companies listed on it.

Methodology

The study proceeded in two ways. First, there was a review of existing literature and various documents obtained from government offices and other bodies. The materials

provided a basis and opportunity for examining the performance of the Nigerian stock market, and for assessing the impact of government policies on market operations.

The second approach was to survey a number of listed and unlisted companies. This allowed us to identify some of the constraints to stock market development in Nigeria and to assess NSE performance from the listed companies' point of view.

The survey

A survey of 131 quoted companies and 262 unlisted companies was conducted between January and April 1992. However, owing to logistic problems, the actual number reported in this study is 59 quoted companies and 192 unquoted companies. The unwillingness of some companies, especially the quoted companies, to complete the questionnaire and the bureaucracy associated with large organizations are responsible for the low returns.

In the rest of this report, Section II presents a review of literature and a brief highlight of developments in some selected securities markets in other countries, as well as in Nigeria. Section III presents a profile of the Nigerian Stock Exchange. Section IV reviews the performance of the Nigerian Stock Exchange, and Section V examines the impact of government policies, while also identifying the general constraints on capital-market development in Nigeria.

The analysis of the survey results is presented in Section VI. Section VII concludes with a general overview and summary of findings, as well as some policy recommendations.

II Literature review

Issues in capital market development

The celebrated works of Gurley and Shaw (1967), Shaw (1973), and McKinnon (1973) recognized the important roles played by financial institutions in economic development. Capital markets have important and strategic roles providing risk capital for long-term structures that ensure the liquidity and stability of the financial system. Thriving capital markets are often closely associated with vibrant private sector development and strong economic growth (Sethness, 1988).

Within the broad classification of the capital market are the securities and the non-securities markets. The non-securities markets, which comprise banks and bank-related institutions, mainly intermediate in debt and debt related instruments. In most developing and developed countries, this type of financial institution performs most of the functions of financial intermediation and is quite developed relative to the securities markets. Increasingly, attention is shifting to the securities markets for a number of reasons, including the dissatisfaction with bank-based finance — which is fraught with government controls — and the growing awareness of the need for a more integrated approach to financial sector development, resource mobilization, and the promotion of investment and economic growth (Dailami and Atkin, 1990). The purposes of securities markets, which reinforce their desirability, include:

- mobilizing long-term savings to finance investments of a long-term nature;
- providing equity-risk capital to entrepreneurs;
- encouraging broader ownership of means of production; and
- improving the efficiency of resource allocation through a competitive pricing mechanism (Popiel, 1990).

With regard to the developing countries, it may be noted that there is no consensus in the literature on the effects of the securities markets on economic development. Wai and Patrick (1973) argue that securities markets have generally not contributed positively to the economic development of those countries that created the markets. A stronger case against securities markets is made by Calamati (1983), who posits that securities markets increase economic fluctuations, distort wealth allocation and therefore hinder economic development. Stiglitz (1989) argues that the contribution of securities markets as a source

of funds is limited because of fundamental problems of enforcement, adverse selection and incentives undermining the protection of investors. However, Arowolo (1971), Van Agtmael (1984) and Drake (1985) contend that securities markets do contribute to economic development.

The conclusion that the securities markets in developing countries do not contribute to economic development might have arisen from the malfunctioning of these institutions. The reasons for the poor performance of the markets, as noted by Killick and Martin (1990), are as follows:

- There is an insufficient supply of shares and a small number of quoted companies.
- There is insufficient demand for securities.
- There is over-dependence of companies on bank finance and other forms of borrowing.

These problems, which in fact impinge on the efficiency and performance of the securities markets, are indeed real for the Nigerian securities market. Studies of the market by Nemedia (1982) and Ike (1984) conclude that the market is thin and narrow, while Gill (1982) notes the absence of large volumes of transactions. The paucity of shares to trade in the market was attributed to the "buy-and-hold" attitude of Nigerian investors (Phillips, 1985). It has also been pointed out that the investing public is largely unaware of the opportunity for investing in the securities markets (Soyode, 1978; First Bank, 1988).

The features of the Nigerian securities markets listed above obviously retard the role of the market in mobilizing domestic resources. Generally, the mobilization of domestic savings through the securities market in developing countries is seen as typically inefficient (Adam *et al.*, 990). The factors that contribute to this include discriminatory tax policies on different financial assets, direct credit allocation policies and interest rate controls (Popiel, 1990).

The presence of distortions in the process of developing securities markets calls for regulatory mechanisms. The Securities and Exchange Commission (SEC) in Nigeria is one such regulatory institution put in place to supervise and regulate the activities of the players in the securities market to ensure its healthy development.

Policy instruments and capital market development

It is clear that policy reforms and institutional changes are needed to ensure the competitiveness and smooth operation of securities markets. Many of the emerging capital markets have relied on policy measures in the development of the securities market. Table 2 presents a sketch of the various policy measures that have been applied to develop the markets in Brazil, Korea, Malaysia and Nigeria. It shows that the weight of policies, especially in Brazil and Korea, has been on tax-related and dividend measures, indicating that these could be relevant in developing the Nigerian securities market.

Table 2: Comparative policy measures for capital market development

Country	Tax policy	Dividend policy	Other policy measures
Brazil	Tax incentives to listed companies Reduction of tax incidence on the inflation component of profit Interest on debentures is taxable Corporate tax rate of 35% Profits in excess of US$20,000 are subject to a tax surcharge of 10% or an effective rate of 45% on such profits Capital gains realized by individual are subject to a withholding tax of 1% at source Capital gains realized after five years from acquisition date are tax exempt Capital gains realized by legal entities constitute taxable income Capital gains realized in share transactions carried out on a stock exchange are tax exempt	Dividends paid or credited by corporations are subject to tax withheld at source Tax rate of 23% on dividends paid to legal entities Tax rate of 25% on dividends paid by held companies to resident individuals and by any company to foreign residents A withholding tax of 23% on dividends paid by an "open" company to resident individuals Stock dividends do not constitute taxable income	Use of fiscal incentives Encouragement of brokerage and investment banking firms Improvement in accounting standards Strengthening of stock exchange procedures Creation of market support mechanisms and facilities for institutional investors

Table 2 continued...

Country	Tax policy	Dividend policy	Other policy measures
Korea	Tax rate of 20% on the first W50 million of taxable income for all domestic corporations, with the excess being taxed at 30% The effective maximum tax rate on interest income is 18% Tax exemption of government securities Tax incentives for the demand and supply of equities Tax penalties to unlisted companies Capital gains are not subject to personal taxation	Stock dividends from revaluation or capital reserves are tax exempt Tax exemption on dividend incomes Dividends paid by unlisted corporations attract a 25% witholding tax and are subject to global or progressive tax Dividends received from listed and small non-listed corporations entitle individual shareholders to a credit against their global tax liability	Restriction of offer to the par value Promotion of ownership of stocks by employees
Malaysia			Introduction of new capital market instruments, players and techniques. New markets were established to incorporate bonds, commodity futures, mortgage bonds, government paper, etc. Introduction of country-funds into the capital market.

Table 2 continued ...

Country	Tax policy	Dividend policy	Other policy measures
Nigeria	Withholding tax rate of 15% on fees, commissions and contract payments to cover both companies and individuals in the country Withholding tax rate of 15% on interest income Reduction of the companies' tax rate from 45% to 40%	Tax-free dividends to individuals and corporate investors for a period of 3 to 5 years	Deregulation of the market Promotion of an effective and expanded bonds market in the country Reduction in the minimum rediscount rate (MRR) Amendment to the rates of capital allowance on corporate assets Introduction of new companies' income tax procedures Abrogation of import levy Reduction in the advance payment of import duty Debt-equity conversion Privatization and commercialization State government borrowings Banks' equity participation in small- and medium-scale business Borrowing by specialized fiancial institutions Deregulated interet rate policy

III. The Nigerian stock exchange profile

Evolution and structure of the Nigerian Stock Exchange

The genesis of the Nigerian Stock Exchange (NSE) can be traced to the issue of the first Nigerian government registered stock in 1946 under the ten-year plan local loan ordinance. However, the basic institution for the operation of a capital market was not provided until the establishment of the Lagos Stock Exchange in 1960 as a formal and specialist capital market institution. The Lagos Stock Exchange was incorporated under the Companies Ordinances as an association limited by guarantee. The functions as set out in the memorandum of association of the exchange include the following:

- Creating an appropriate mechanism for capital formation and efficient allocation of savings among competing productive investment projects;
- Mobilizing long-term financial resources for industrial projects with long-term gestation periods;
- Maintaining discipline and confidence in the capital market; and
- Broadening the share ownership base of enterprises.

The Nigerian capital market comprises several markets – the market for new issues (primary market) and a market for existing securities (secondary market). There is also a market for debt securities and a market for equities (Alile and Anao, 1986).

The primary market is concerned with the offering of new shares or the initial issue of securities in the exchange. In the primary market two types of securities are issued, debt and equity. Debt instruments include the federal government development stocks and the industrial loans and preference stocks/bonds.

The secondary market provides the mechanism for converting illiquid assets to liquid cash This market provides the means whereby investors monitor the values of their shares and liquidate them when they so desire.

To facilitate its smooth operations, the stock exchange functions under rules and regulations to which its members are expected strictly to adhere. Some of the rules are:

- Restriction from public advertisement or canvassing.
- Restriction from charging exorbitant fees.
- Restriction from "marrying" deals between two of its clients without giving other brokers a chance to offer or bid.

The NSE is governed by a Council (Board) of the Stock Exchange, which is the highest policy-making body of the exchange (Alile and Anao, 1986). The council is presided over by a president and the administration of the stock exchange is vested in the director-general. The powers and functions of the council include:

- Enforcing the articles as well as the rules and regulations of the exchange.
- Taking disciplinary measures against erring members and policing the market.
- Granting quotations to companies and decisions to delist, suspend or withdraw quotation from any quoted company as it may deem fit.
- Protecting the interests of the investing public.

The council facilitates its functions through the use of committees drawn from its members to deal with specific matters.

The Securities and Exchange Commission (SEC) is the top regulatory body for the NSE. It was established under the Securities and Exchange Commission Decree of 1979 (re-enacted as Decree No. 29 of 1988). The SEC's functions can be grouped into two broad areas, regulatory and developmental. Among other things, it determines the price, amount and time at which securities of a company are to be sold either through offer for sale or by subscription in the primary market. It also creates the necessary atmosphere for order, growth and development of the capital market.

The year 1978 was perhaps one of the most momentous in the history of the stock exchange. During that year the company took the name Nigerian Stock Exchange and established branches in other parts of the country, thereby ensuring participation in the stock market of an increased number of investors. In 1978 and 1980 the exchange started branches in Kaduna and Port Harcourt. In 1989 a fourth branch was established, in Kano. Two other branches, one in Onitsha and the other in Ibadan, were established in 1990, bringing the total number of branches or trading floors to six.

Growth of the Nigerian Stock Exchange

The stock exchange started operation formally in June 1961 with ten securities (six government bonds, one industrial stock and three equities) that had all been previously quoted on the London stock exchange.

The major types of securities listed on the NSE since its establishment are government loan stock, industrial loan stock and equities. From a modest beginning in 1961, the number of listed securities increased from 10 to 49 in 1970, and to 217 in 1990.

The composition of the listed securities also changed rapidly during the period. For example, in 1961 about 60% of the listed securities were in the form of government stock as against 10% industrial stock and 30% equity. In 1990, government stock's share was 19.82%, industrial 19.82% and equity 60.36% (see Table 3).

Table 3: Types and characteristics of securities in the NSE 1961-1989

Year	Government loan stock	Industrial loan stock	Equity stock (including SSM)	Total share of equity	(%)
1961	6	1	3	10	30
1965	17	5	6	28	21.43
1970	30	6	13	49	26.53
1972	34	9	22	65	33.85
1975	42	7	36	85	42.35
1980	54	12	91	157	57.96
1985	57	28	96	181	53.04
1990	43	43	131	217	60.36
1992	36	62	153	251	60.95

Source: NSE, *Annual Report* (various issues).

The phenomenal growth of the capital market during the last two decades was perhaps brought about by government legislation — the Nigerian Enterprises Promotion Decrees of 1972 and 1977. The two decrees compelled foreign firms to seek quotation on the stock exchange and thereby expand the capital market. NSE membership increased from 17 in 1972 to 296 in 1992. This represents an increase of 279 members in 22 years at an average growth rate of 15% per annum. The dealing members, who are the licensed market traders, increased from 3 to 140 during the 22-year period (see Table 4).

Table 4: Membership of the Nigerian Stock Exchange 1972-1990

Year	Number of ordinary members	Number of dealing members	Total
1972	14	3	17
1977	37	4	41
1980	63	10	73
1985	75	23	98
1990	131	80	211
1992	156	140	296

Source: NSE, *Annual Report* (various issues).

The number of commercial and merchant banks, which are the principal intermediaries in the capital market, increased from 20 and 6 in 1981 to 48 and 34 in 1989, with a total branch network of 1,676 and 42, respectively.

Second-tier securities market

The recent development in the Nigerian Stock Exchange that augurs well for the future of Nigeria's capital market is the establishment of the second-tier securities market (SSM). The second-tier securities market, launched on 30 April 1985, marked the beginning of a

turning point in making the Nigerian capital market available to small-scale and medium-size Nigerian entrepreneurs in the hope that they will take advantage of the services of the securities market for expansion and modernization. The second-tier securities market is a lower market. It is aimed at indigenous companies that cannot fulfil the more stringent conditions for full listing on the stock exchange. Among the attractions of the SSM are the reduced capital requirement for listing and the relaxed requirements for disclosure.

The number of securities currently quoted on the SSM is 18, all comprising equity stocks. About 83% of the companies listed on the SSM have a higher share quotation value than the par value. However, the level of participation is relatively small compared with other similar markets around the globe. For example, the unlisted securities market (USM) on the London Stock Exchange, which was inaugurated in 1980 with ten companies, now has well over 300 listed companies. So one might ask, why is the development and effects of the second tier securities market very slow in Nigeria? The results of the survey presented in Section IV provide some answers to this question.

The stock exchange and other financial institutions

The existing institutions that comprise the Nigerian capital market include the Nigerian Stock Exchange, the Securities and Exchange Commission (SEC), the commercial banks, the merchant banks, the insurance companies and the development finance institutions. Each of these institutions plays some role in resource mobilization. This section explores the roles of the financial institutions in relation to the stock exchange in resource mobilization. In this regard, the roles of the other institutions could be complementary, competitive or unrelated to that of the stock market.

The institutions and their roles

The commercial banks serve as media for collecting funds from all parts of the country for investment in stocks. Stockbroking firms do not have branches outside the state capitals. It could, therefore, be very difficult, or even impossible, for rural dwellers to invest in stocks if the commercial banks did not extend share-purchase services through their rural branches. The commercial banks, especially the dominant few with a widespread branch network, serve as registrars to quoted companies.

The compilation of stock-ownership registry of quoted companies, the dispatch of dividend warrants to shareholders and the payments of dividends are functions performed by these banks, even though inefficiently.

The main services provided by merchant banks can be grouped into two broad categories:

- Banking: acceptance credit, documentary credit, short and medium-term loan advances, certificates of deposit, equipment leasing, foreign credit, and loan syndication.
- Corporate finance: financial advice on company securities location, private

placement, stock exchange quotation, mergers and acquisitions, issuing of government bond and loan stocks, equities, preference and debenture stocks.

The involvement of Nigerian merchant banks in the second aspect of these functions brings them to the core of stock market operations. The emergence of more merchant banks in the country seems to have given a boost to the development of the Nigerian capital market in the last few years, since the majority of these banks now form subsidiary stock-brokerage companies that undertake services such as fund management, corporate finance, stock brokerage and stock exchange dealings. However, their full impact on the capital market in general, and on the NSE in particular, needs to be empirically investigated.

Four specialized banks supply development banking services in Nigeria. These are the Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI), the Nigerian Agricultural and Cooperative Bank (NACB), and the Federal Mortgage Bank of Nigeria (FMBN). The objective of each of these financial institutions is to speed up the process of development in its sector(s) of emphasis.

The Nigerian Industrial Development Bank has been directly involved in the development of the stock exchange. The ICON Securities, a subsidiary of the bank, was one of the early stockbrokers in the country. The NIDB operates on both the supply and the demand sides of the stock exchange. The bank provides equity capital and loans to quoted companies, and, on the other side, raises debenture loan stock from the stock exchange for its operations.

The Nigerian Bank for Commerce and Industry played a unique role in the implementation of the indigenization decrees of 1972 and 1977. Even though the NBCI is empowered to operate all aspects of merchant banking, including the issue and sale of securities, the operations of the bank in relation to the stock exchange have not, so far, gone beyond offering financial services to stock-quoted companies.

The NACB and the FMBN make loan advances and provide other financial services to companies in the agricultural and construction sectors, respectively. As yet, these two banks have not come into direct contact with the stock exchange. Ways of making these banks participate actively in the stock exchange need to be explored.

At the end of 1989, there were about 105 insurance and reinsurance companies operating in the country. Insurance companies have played a major role in the development of the capital market. The investment of insurance funds in Nigeria is controlled by the Insurance Act of 1976, which stipulates that up to 30% of the assets must be held in government securities and publicly quoted shares.

Table 5: Composition of national savings 1980-1988 (₦ million)

Year	Savings and time deposits with commercial banks (%)	Savings with National Provident Fund (%)	Time deposit with merchant banks (%)	Federal savings bank (%)	Federal mortgage bank (%)	Total National Savingsl (%)
1980	5,153.2	338.9	219.7	7.3	40.7	5,796.9
	(89.4)	(5.9)	(3.8)	(0.1)	(0.7)	
1981	5,796.1	375.3	328.0	7.1	56.0	6,562.6
	(88.3)	(5.7)	(5.0)	(0.1)	(0.9)	
1982	6,338.2	411.5	691.3	4.0	69.3	7,514.4
	(84.3)	(5.9)	(9.2)	(0.1)	(0.9)	
1983	8.082.9	472.3	793.7	5.0	89.9	9,443.9
	(85.6)	(5.0)	(8.4)	(0.1)	(0.9)	
1984	9,391.3	504.1	970.6	8.0	114.0	10,998.1
	(85.5)	(4.6)	(8.8)	(0.1)	(1.0)	
1985	10,550.9	540.5	1,318.2	8.1	104.0	12,521.8
	(84.3)	(4.3)	(10.5)	(0.1)	(0.8)	
1986	11487.7	577.4	1,739.7	8.1	121.1	13,934.1
	(82.4)	(4.1)	(12.5)	(0.1)	(0.9)	
1987	15,088.7	593.5	2,822.8	16.9	133.7	18,655.8
	(80.9)	(3.2)	(15.1)	(0.1)	(0.7)	
1988	19,397.1	605.0	3,982.8	22.4	180.4	24,187.8
	(80.2)	(2.5)	(16.5)	(0.1)	(0.7)	
1989	16,976.9	679.1	2,505.2	37.5	229.1	20,198.8
	(84.0)	(3.4)	(12.4)	(0.2)	(1.1)	
1990	23,188.0	n/a	4,091.8	n/a	287.4	27,537.4
	(84.2)		(14.9)		(0.1)	
1991	30,359.7	650.0	5,007.0	-	433.7	37,738.2
	(80.5)	(1.7)	(13.3)		(1.2)	
1992	43,438.8	719.8	8,342.5	-	729.4	54,116.8
	(80.3)	(1.3)	(15.4)		(1.4)	
Period average %	83.8	4.0	11.2	0.1	0.8	

Source: Computed from figures from *Statistical Bulletin* C.B.N. Vol. 1 Nos. 1 & 2, (December) 1990.

Pattern of interaction with the NSE

Though the stock market is related to the other financial institutions in many respects, the relationship is not quite so strong in terms of resource mobilization and investment. The stock of quasi-money (savings and time deposits) in Nigeria is composed of:

- Savings and time deposits with commercial banks.
- Savings and time deposits with the National Provident Fund (NPF).
- Time deposits with merchant banks.

- Savings with the Federal Savings Bank.
- Savings with the Federal Mortgage Bank.

Table 5 shows the share of each of these five sources of savings in the aggregate national savings. Over the period 1980-1992 the share of commercial banks averaged 83.8%, in a decreasing pattern over the period. The National Provident Fund contributed 4.0% of the total savings with its share also decreasing over the years. The second largest contributors to the total figure are the merchant banks, whose average percentage share stood at 11.2%. This class of bank recorded the highest growth in their share of national savings, rising from 3.8% in 1980 to 14.9% in 1990. The contribution of the Federal Savings Bank remained unchanged at 0.1% while that of the Federal Mortgage Bank was fairly unchanged and averaged 0.8%.

A relevant analysis in this study is the proportion of each component of the aggregate national savings that is invested in securities. Policy requires that savings with the National Provident Fund be invested only in government securities in the stock market. Therefore, through the operations of the NPF, about 4.0% of the total national savings flowed into the government securities in the stock market during 1980-1992. The existence of the NPF, per se could then be seen as healthy for the securities market, although it is only the government securities and not equities that benefit from the fund's savings. However, the declining proportion of the contribution of NPF to the total savings figure indicates that this component of savings that benefit the stock market may not be a reliable source of funds for that market far into the future. The declining share of the National Provident Fund in national savings could be explained in terms of the low yield of government securities in which the proceeds of the fund are invested, and the poor management of the fund, which discourages organizations from contributing to it. Efforts to strengthen resource mobilization through the National Provident Fund will have to address these two problems.

Savings mobilized by the Federal Mortgage Bank are meant for direct investment in the real estate sector and are therefore unavailable for the securities market. The Federal Savings Bank which is more or less the peasants' savings institution, mobilizes an insignificant proportion of national savings. The bank has changed to full commercial banking operations and can now be considered with other commercial banks in savings mobilization.

Merchant banks typically invest in long-term projects. Neither the merchant banks nor the commercial banks in Nigeria make direct investments in securities. Even though the banks have since 1988 been allowed to invest directly in risk ventures, their involvement, though quite insignificant, is only in direct participation in the ownership of manufacturing enterprises not quoted on the stock market.

The normal investment relationship between the banks and the stock market is based on the banks' provision of loans to investors for the acquisition of shares in stock-quoted companies. This relationship is practically nonexistent in the Nigerian capital market. However, during the indigenization exercise and the ongoing privatization/ commercialization exercise, individuals interested in share-ownership were expected to obtain loans from commercial banks for that purpose. In a bid to discover the reasons for

the low response of commercial banks in providing loans to individuals for investment in securities, the views of a cross-section of investors and bankers were sought. Seventy-five individuals were interviewed. A total of 58% of the respondents expressed willingness to take up bank loans for the purchase of shares in quoted companies. Of the investors 27% were willing to take up bank loans but preferred to invest in business ventures over which they would have direct control, rather than invest in public companies. The remaining 15% believed that taking up loans to buy shares was an unviable investment for two reasons:

- Dividend income from the investment would not repay the loan and the accrued interest; and
- It might not be possible to sell the shares when the loan became due for repayment.

Even for investors who want bank loans for the acquisition of shares, such loans are not available. Of the commercial and merchant bank officials interviewed, the consensus was that it amounts to financial irresponsibility for banks to offer loans for investment in shares when those shares would not be accepted as collateral for the loans. The non-acceptability of share certificates as loan collateral, in the opinion of the bankers, stems from the illiquidity of Nigerian securities. The implication of the banks' attitude towards stock market instruments of investment is that of the more than 80% of total national savings that come from savings and time deposits in commercial and merchant banks, none is channelled directly to the stock market for investment by the banks.

Insurance companies are financial institutions through which funds usually flow into the stock markets. The percentage distribution of investments of insurance companies in Nigeria is presented in Table 6, which shows that insurance companies' investments in stocks, shares and bonds constituted only 11.8%. The table also shows that the proportion of the investments flucutated over the years. On the other hand, investments in government securities increased within the period and stood at an average of 18.1%. Thus, nearly 30% of insurance companies' investments are directed to both government and industrial securities. The current privatization of insurance companies will no doubt increase the flow of funds from this sector to the capital market.

One fact emerging from the analysis is that, on the whole, financial savings in Nigeria do not readily flow into the stock market as investments. Among the reasons for this is that other investment outlets, such as real estate development, financing of local purchase orders (LPO), etc., are more profitable than investment in securities. As Table 6 shows, as much as 38% of insurance companies' investment goes to miscellaneous items.

Table 6: Distribution of the investments of insurance companies in Nigeria (%)

Year	Government securities	Stocks, shares and bonds	Mortgage and loans	Cash and bills receivable	Miscella-neous	Total (%)
1980	11.6	12.9	19.0	20.6	35.9	100.0
1981	13.2	14.3	14.6	15.7	42.2	100.0
1982	11.6	16.7	19.1	15.6	37.0	100.0
1983	18.5	15.3	18.5	13.2	34.0	100.0
1984	15.9	15.0	14.8	14.7	39.6	100.0
1985	23.8	14.3	15.4	12.2	34.3	100.0
1986	33.1	11.7	11.2	11.6	32.4	100.0
1987	32.1	12.2	10.2	10.6	34.9	100.0
1988	30.6	7.7	24.5	12.5	24.7	100.0
1989	34.7	7.8	9.7	11.1	36.7	100.0
1990	29.2	7.9	8.1	11.0	43.8	100.0
1991	8.5	8.6	18.2	15.6	49.1	100.0
1992	6.4	10.0	7.1	17.6	58.9	100.0
Period average	18.1	11.8	14.7	14.0	38.7	100.0

Source: Computed from the *Statistical Bulletin*, CBN, Vol. Nos. 1 & 2 (December) 1990.

IV. Performance of the Nigerian Stock Exchange

The performance of the Nigerian Stock Exchange can be assessed on the basis of the size (value) and number of primary market issues, volume and value of trading, market capitalization, and new companies being listed on the exchange. Other indicators include stock market concentration and percentage of new issues to the gross fixed capital formation.

New issues

New issues are savings mobilized for investment purposes by companies and governments. The new issues market represents the primary arm of the capital market and shows how many financial resources are invested in long-term securities of corporate bodies and governments.

Table 7a: New capital issues (1980-1992) (N million)

Year	Government stock	Corporate bond	Equity	Total
1980	300.0	69.0	3.3	372.3
1981	300.0	32.0	4.2	336.2
1982	300.0	140.0	14.3	454.3
1983	300.0	158.0	21.4	479.4
1984	-	25.0	-	25.0
1985	600.0	71.6	3.8	675.4
1986	615.0	8.7	22.3	646.0
1987	240.0	30.0	15.8	285.8
1988	60.0	45.6	175.3	280.9
1989	30.0	580.7	1,016.9	1,627.6
1990	-	981.5	8,982.9	9,964.4
1991	0.0	642	1,228.0	1,870.0
1992	100	567	2,545.5	3,212.5

Source: Central Bank of Nigeria (CBN.), *Annual Report* and *Statement of Accounts* (various issues).

Table 7b: Real value of new capital issues (1980-1992) (N million)

Year	Government stock	Corporate bond	Equity	Total
1980	300.0	69.0	3.3	372.3
1981	248.0	26.5	3.5	278.0
1982	230.4	107.5	11.0	348.9
1983	187.2	98.6	13.4	299.2
1984	-	11.2	-	11.2
1985	253.8	30.3	1.6	285.7
1986	247.2	3.5	9.0	259.7
1987	87.6	11.0	5.8	104.4
1988	15.8	12.0	46.3	74.1
1989	5.6	108.6	190.2	304.4
1990	-	142.3	1,302.5	1,444.8
1991	0.0	642	1,228.0	1,870.0
1992	100	567	2,545.5	3,212.5

Source: (CBN), *Annual Report* and *Statement of Accounts* (various issues).

The real values were based on 1980 prices.

Table 7a shows the nominal value of new issues raised through the capital market. The nominal value stood at ₦372.3 million in 1980; by 1992 it had increased to ₦9.96 billion, an increase of 2,576.4%. The increases in 1989 and 1990 are even more remarkable given that no government development loan stocks were issued during the period, except ₦30.0 million in state government bonds.

A total of ₦9.96 billion was raised from the market in 1990. This amount was higher than the total amount raised from the capital market between 1980 and 1989 (₦5.18 billion). Activities in the new issues market were virtually dormant in 1984. This was because the Board of the Securities and Exchange Commission, dissolved in 1983, was not reconstituted until December 1984. Thus, the commission could not exercise its function of determining and approving the prices of new issues in 1984. This is one of the consequences of government regulation.

The real value of new issues raised in 1989 was four times larger than the 1988 value. In 1988, a total of 12 issues valued at N280.9 million was raised in the capital market. In 1989, 138 issues valued at ₦1.63 billion were raised in the primary market. This remarkable increase in activities in the primary market was influenced by the sharp rise in interest rates, as well as the public issue of the shares of privatized enterprises. In 1990 a total of 165 new issues valued at ₦9.96 billion were raised in the capital market. In terms of volume, the 1990 figure shows a decline of 189 million issues over that of 1989 (see Table 8a).

The sharp increase in the value of new issues for 1990, compared with 1989, was due mainly to the issue of 1 million shares of Nigerian LNG Limited at US$1,000 per share. At the ruling exchange rate of ₦7.89 to the US$1.00, the issue amounted to ₦7.89 billion or 79.2% of the total amount raised in the year. Offer for subscription has remained a major method of raising funds in the Nigerian capital market; its share of total new

Table 8a: New issues in the capital market (1989–1990)

Mode of offer	New issues raised off the NSE			New issues raised on the NSE			Total New Issues 1990			Total New Issues 1989		
	No of issues	Volume (₦ million)	Value (₦ million)	No of issues	Volume (₦ million)	Value (₦ million)	No of issues	Volume (₦ million)	Value (₦ million)	No of issues	Volume (₦ million)	Value (₦ million)
Offer of subscription	60	485.6	8294.6	9	147.2	114.5	69	632.8	8409.1	73	879.4	615.2
Right issues	34	236.6	178.8	18	398.3	370.0	52	634.9	548.8	40	528.4	401.7
Preference shares	4	23.3	23.3	2	30.0	30.0	6	53.3	53.3	12	152.8	152.8
Debenture stocks	22	–	313.2	15	–	615.0	37	–	928.2	12	–	427.9
State government bond	–	–	–	–	-	-	–	–	–	1	–	30.0
Unit trust	1	50.0	25.0	–	–	–	1	50.0	25.0	–	–	–
Total	121	795.5	8,834.0	44	575.5	1,129.5	165	1,371.8	9,964.4	138	1,560.6	1,627.6
% of Total	73.3	58.0	88.7	26.7	42.0	11.3						

Source: CBN, *Annual Report* and *Statement of Accounts*, 1990.

Table 8b: New issues in the capital market by method of offer (1989-1990)

Mode of offer	1989 Value (₦ million) (1)	1989 (%) (2)	1990 Value (₦ million) (3)	1990 (%) (4)	1990 Raised off NSE (₦ million) (5)	1990 Raised on the NSE (₦ million) (6)	(5) as % of (3) (7)	(6) as % of (3) (8)
Offer for subscription	615.2	37.8	8,409.1	84.4	8,294.6	114.5	98.6	1.4
Right issues	401.7	24.2	548.8	5.5	178.8	370.0	32.6	67.4
Preference shares	152.8	9.4	53.3	0.5	23.3	30.0	43.7	66.3
Debenture stocks	427.9	26.3	928.2	9.3	313.2	615.0	33.7	66.3
State government bond	30.0	1.8	–	–	–	–	–	–
Unit trust	–	–	25.0	0.3	25.0	–	100.0	–
Total	1,627.6	100.0	9,964.4	100.0	8,834.9	1,129.6		

Source: Computed from Table 7a.

issues increased from 37.8% in 1989 to 84.4% in 1990. However, the bulk of this fund is raised off the Nigerian stock exchange. In 1990 as much as 98.6% of funds mobilized through offer for subscription was raised off the Nigerian Stock Exchange (see Table 8b). The privatization programme offered the shares of federal and state governments in 22 companies for sale to the general public (20 of these companies are new entrants into the stock exchange). The scarcity of loanable funds arising from the Central Bank of Nigeria (CBN) guidelines on the transfer of public sector deposits from banks to the central bank added to the high cost of raising funds through the money market. This was largely responsible for the increased attention to the capital market for new issues by the enterprises in 1989-1990.

However, as previously noted, the bulk of the new issues was raised through private placement (off the stock exchange). This does not enhance the development of the secondary market, since these shares cannot be traded on the stock exchange.

Other reasons besides the cost of getting quoted on the stock exchange and the cost of public placement may be responsible for this large private placement. Okereke-Onyiuke (1990) noted that for quotable companies, the cost of raising funds in the money market is somewhere between 25% and 38%, whereas the cost of capital in the stock market is between 4% and 9%, excluding net dividends, which are discretionary.

Table 9 shows the gross fixed capital formation of the country between 1980 and 1989 and the contribution made by the stock exchange. The country's gross fixed capital formation increased from ₦15.2 billion in 1980 to ₦17.2 billion in 1989. Although it actually witnessed a steady decline between 1981 and 1984, the proportion of the gross fixed capital formation invested through the stock exchange increased steadily, from 2.7% in 1980 to 14.4% in 1984, and fluctuated between 1.3% and 9.5% for the period 1985-1989.

The performance seems even less satisfactory when the industrial contribution share of total gross fixed capital formation is considered for the period 1980-1989. Between 1980 and 1988, the industrial contribution through the stock exchange averaged 1%. The industrial share of 9.3% in 1989, which was higher than its share for the period 1980-1988 combined, was due to the activities of the Technical Committee on Privatization and Commercialization

Trading activities

Table 10 shows the growth in the number of listed securities between 1980 and 1990. The total number of securities increased from 157 in 1980 to 217 in 1990; this represents about a 38% increase. The composition of listed securities reveals that government stocks' share declined from 54 in 1980 to 43 in 1990, while industrial bonds' share increased from 12 in 1980 to 43 in 1990. Equities, including those on the second-tier securities market, increased from 91 in 1980 to 131 in 1990. The share of equities in total listed securities for the period ranged between 51.69% and 60.37%.

Table 9: Gross fixed capital formation and share of stock exchange at current prices (1980-1989) (₦ million)

Year	Total gross fixed capital formation (1)	Stock exchange contribution Government (2)	Industrial (3)	Total (4)	Stock market share of total capital formation (%) (5)	Industrial share of total capital formation (%) (6)
1980	15,234	300	40	340	22.2	0.3
1981	12,180	300	334	334	2.7	0.3
1982	10,618	300	90	390	3.7	0.8
1983	8,132	468	96	564	6.9	1.2
1984	4,316	540	80	620	14.4	1.9
1985	5,319	390	76	466	8.8	1.4
1986	7,323	565	94	659	9.0	1.3
1987	11,389	480	98	578	5.1	0.9
1988	16,506	60	151	211	1.3	0.9
1989	17,164	30	1,598	1,628	9.5	9.3

Source: The Nigerian Stock Exchange.

Table 10: Growth in the number of listed securities

Year	Government stock	Industrial Loan stock	Equities (including SSM)	Total	Share of equity (%)
1980	54	12	91	157	57.96
1981	56	14	93	163	57.06
1982	57	18	93	168	55.36
1983	61	25	92	178	51.69
1984	56	27	92	175	52.57
1985	57	28	96	181	53.04
1986	58	29	99	186	53.23
1987	54	31	100	185	54.05
1988	51	35	012	188	54.26
1989	47	40	111	198	56.06
1990	43	43	131	217	60.37

Source: NSE and CBN, (various *Annual Reports* and *Statement of Accounts*).

Table 11: Volume of activities on the Nigerian Stock Exchange (1980–1990)

Year	Government securities (1)	Industrial stocks (2)	Total volume (3)	(1) as % of (3) (4)
1980	211	6,843	7,054	3.00
1981	117	10,101	10,218	1.15
1982	188	9,218	9,407	2.00
1983	291	11,625	11,916	2.91
1984	195	17,170	17,965	1.09
1985	320	23,060	23,380	1.37
1986	279	26,404	26,583	1.05
1987	230	19,353	19,583	1.17
1988	100	21,460	21,560	0.46
1989	171	33,273	33,444	0.51
1990	111	38,881	38,992	0.28

Source: Securities and Exchange Commission, *Annual Report* (various issues).

Table 11 shows the number of activities on the Nigerian Stock Exchange in 1980-1990. In terms of volume, industrial stocks dominate. However, Table 12, which shows the value of transactions on the stock exchange, reveals that government securities, though small in number, accounted for 88.0% of total transactions for each of the years between 1980-1989. In 1990 the share declined to 56.4%. This result seems to confirm the view that only a small proportion of industrial securities is actively traded on the Nigerian Stock Exchange.

Table 12: Value of transactions on the Nigerian Stock Exchange by major classification

Year	Government securities (₦ million) (1)	Industrial stock (₦ million) (2)	Total value (₦ million) (3)	(1) as % of (3) (4)
1980	503.40	8.60	512.00	98.33
1981	326.02	6.10	332.12	98.16
1982	206.54	8.31	214.85	96.13
1983	384.87	13.00	397.87	96.73
1984	402.75	15.44	418.19	96.31
1985	195.30	23.20	318.50	92.63
1986	472.29	23.70	495.99	95.22
1987	338.20	42.30	380.50	88.48
1988	219.30	34.00	253.30	86.98
1989	490.50	62.70	553.20	88.67
1990	153.90	118.90	272.80	56.40

Source: Securities and Exchange Commission, *Annual Report* (various issues).

Table 13 shows the Nigerian securities transactions (value), market capitalization and turnover rate between 1980 and 1989. Total yearly transactions on the exchange range between 2.5% and 11.5% of the total market capitalization in aggregate forms. The turnover rate for government securities is considerably higher than that for industrial securities. The former ranges from 4.4% to 18.2%, while the latter is considerably below 1.0%, except for 1987 when it was 1.05%.

Market capitalization as an indicator of the depth of the market increased from ₦4.46 billion in 1980 to ₦16.0 billion in 1990 (see Table 14a). This represents an increase of about 3.6 times between 1980 and 1990. Although this shows a modest improvement when compared with some other emerging capital markets, the situation leaves much to be desired, especially when using the US dollar exchange rate (see Table 1).

The increase in market capitalization is essentially a nominal phenomenon. In fact, using 1980 prices, Table 14b shows that in real terms, market capitalization declined over the years from 1980 to 1990, except for 1983, 1985 and 1987, when it increased. The same trend can be observed in the real value of new issues (see Table 7b). The value of new issues decreased over the years, except in 1982, 1985, 1989 and 1990. But like the nominal values, the growth of new issues was astronomical in 1990, rising by 374% of its value in the previous year.

Table 15 shows the stock market concentration of the top 20 companies by market capitalization of equities in 1989. These companies account for nearly 71% of total market capitalization, showing that the Nigerian stock market still lacks breadth.

Table 13:The Nigerian Stock Exchange: Securities transactions (value), market capitalization and turnover rate, 1980–1989

	Value of transactions			Market capitalization			Turnover rate		
Year	Government securities (₦ million) (1)	Equities and industrial (₦ million) (2)	Total of securities (1) + (2) (₦ million) (3)	Government securities (₦ million) (4)	Equities and industrial (₦ million) (5)	Total market capitalization (₦ million) (6)	(1) as % of (4) Government securities (7)	(2) as % of (5) Equities and industrial (8)	(3) as % of (6) Total of securities (9)
1980	503.4	8.6	512.0	2,766.1	1,698.1	4,464.2	18.2	0.51	11.5
1981	326.0	6.1	332.1	3,059.9	1,916.9	4,979.8	10.7	0.32	6.7
1982	206.5	8.3	214.8	3,048.9	976.8	4,025.7	6.8	0.85	5.3
1983	384.7	13.0	397.7	3,545.2	2,222.8	5,768.0	10.9	0.58	6.9
1984	402.8	15.4	418.2	2,996.0	2,579.0	5,575.0	13.4	0.60	7.5
1985	295.3	23.2	318.5	3,928.0	2,742.0	6,670.0	7.5	0.85	4.8
1986	475.6	20.0	495.6	3,107.0	3,688.0	6,795.0	15.3	0.54	7.3
1987	338.2	42.3	380.5	4,266.0	4,032.0	8,298.0	7.9	1.05	4.6
1988	219.3	34.0	253.3	4,932.0	5,089.0	10,021.0	4.4	0.67	2.5
1989	490.5	62.7	553.2	5,321.0	7,489.0	12,810.0	9.2	0.84	4.2

Source: NSE, *Annual Reports and Accounts*, 1980–1988; Securities and Exchange Commission, *Annual Reports and Accounts*, 1980–1989.

Table 14a: Market capitalization 1980–1990 (N million)

Year	Market capitalization
1980	4,464.2
1981	4,976.8
1982	4,025.7
1983	5,768.0
1984	5,514.9
1985	6,670.0
1986	6,794.8
1987	8,297.6
1988	10,020.8
1989	12,848.7
1990	16,000.0

Source: NSE, *Annual Reports* (various issues).

Table 14b: Market capitalization 1980–1990, real values (N million)

Year	Market capitalization
1980	4,161.2
1981	4,118.2
1982	3,093.7
1983	3,597.1
1984	2,463.9
1985	2,824.1
1986	2,730
1987	3,025.9
1988	2,643.0
1989	2,405.5
1990	2,313.6

Source: NSE, *Annual Reports* (various issues).
The low real values for 1988–1990 in spite of the huge nominal increase in market capitalization may be partly due to the fact that the weights of the components of CPI were changed by FOS during that period.

Table 15: Stock market concentration: Top 20 companies by market capitalization of equities as at 1989.

Position	Companies	Market capitalization (₦ million)	Percent of top 20	Percent of total
1	UACN	790.6	12.22	8.62
2	Lever Brothers	678.8	10.49	7.40
3	NBL	639.9	9.89	6.98
4	Guinness	556.0	8.59	6.06
5	NBC	473.5	7.32	5.17
6	NTC	280.0	4.33	3.05
7	PZ	274.6	4.24	3.0
8	JHL	274.2	4.24	3.0
9	First Bank	272.8	4.22	2.98
10	UNTL	271.3	4.19	2.96
11	Union Bank	254.0	3.93	2.77
12	AP	222.9	3.45	2.43
13	UBA	210.0	3.25	2.29
14	WAPCO	208.6	3.22	2.28
15	Mobil	203.2	3.14	2.22
16	Total	175.0	2.70	1.91
17	CFAO	173.2	2.68	1.89
18	Texaco	172.1	2.66	1.88
19	Food Specialities	171.3	2.65	1.87
20	National Oil	168.0	2.60	1.83
21	Sub-total	6,470.13		70.58
22	Others	2,697.40		29.42
23	Total (Equities)	9,167.53		100.00

Source: Nigerian Stock Exchange.

V. Impact of government policies on the stock exchange

In recognition of the role of stock markets as agencies of resource mobilization, the Nigerian government has at various times formulated policies related to the operation of the stock market.

First, the government set up the Securities and Exchange Commission (SEC), charged with the responsibility of regulating and controlling the stock market under the Securities and Exchange Commission Act of 1979 and the Amended Securities and Exchange Commission Act of 1988, which abrogated the permanent status of the Nigerian Stock Exchange on the Board of the Securities and Exchange Commission.

In addition, various policies aimed at enhancing the resource mobilization role of the stock market were formulated. These include the Indigenization Decrees of 1972 and 1988, the Tax and Dividend Policy, the Insurance Miscellaneous Provisions Act (1964), the Trustee Investment Act (1962), and the recent privatization of public enterprises.

The indigenization exercise

The indigenization of the Nigerian economy, which was brought into effect in 1972 and 1977, sought to enlarge the shareholding capacity of Nigerian citizens in Nigerian business enterprises. Though there is no documented evidence that the government wanted to give a boost to the stock market by the indigenization policy, the way the exercise has been carried out did have a positive impact on the market. As many as 78 companies complied with the provisions of the indigenization decrees through the stock exchange, though the number is a far cry from the total that reorganized their ownership structure as required by the indigenization laws (Alile and Anao, 1986). A total of 300 million shares valued at ₦210 million at the time of issue were transferred through the stock market during the indigenization exercise. The exercise also increased the number of listed companies on the exchange.

Between 1961 and 1970 the number of listed equities grew from 3 to 13; by 1975 the number had risen to 36, and then to 91 by 1980. The explanation for the increase in the number of equity securities in the market over the period is largely found in the indigenization exercise, which began in 1972.

Although the indigenization exercise is known to have increased the number of companies quoted on the stock market, it did not affect trading activities. Areago (1990)

notes that despite the indigenization programme, trading on the listed securities remained as dull as ever.

Gill (1982) also observes that only a small proportion of the equity shares ownership in companies was restructured through the stock exchange; other companies transferred their ownership through private placement or the informal capital market. In fact, between 1977 and 1978, over 1,000 of the 1,120 companies required to comply with the indigenization measures chose to sell their shares through private placement (Gill, 1982). This is why the impact of these measures has not been greatly felt on the stock exchange. More companies are currently offering their shares through private placement; it seems that they find such conditions much easier to meet. It was contended that the impact of the indigenization exercise on the stock market would have been greater if the government had required companies to go through the stock market (Gill, 1982).

Tax and dividend policies

Both fiscal and incomes policies can promote savings mobilization. Tax policies can effectively encourage savings and investment in the modern sector, or they can be applied in a way that discourages investment in certain types of companies. In Nigeria, corporate income tax, which at present has a ceiling of 40%, applies equally to both public and private companies. When we consider all forms of taxation in the country, the tax system can be seen to discriminate against investments in stock quoted companies; in addition to corporate income tax there are taxes on capital gains and on dividend income. The former is rated at 20% and the latter at 15%. The capital gains tax applies to gains from the disposal of shares and other capital assets.

The Nigerian government has also interfered with the dividend policies of stock quoted companies. Companies practiced high dividend payment, especially after the Indigenization Policy of 1972 (Uzoaga and Alozieuwa, 1974; Inanga, 1975; Odife, 1977). By 1976, the government felt that the dividend outflow from companies was having an inflationary effect on the economy and sought to curtail the practice. A ceiling of 30% dividend payment out of profit after tax was imposed in the 1976/77 fiscal year; the ceiling was subsequently revised to 60% and 50% in 1986 and 1987, respectively. In 1988 the government abolished the dividend ceiling policy, allowing companies to pay out as dividends whatever percentage of their profit after tax they desired.

The intervention of government in the dividend policies of companies is clearly a distortion of the market mechanism in mobilizing savings through the stock market. The effects of government policies on dividend payment by companies needs to be investigated.

Legislation relating to investments in government securities

The National Provident Fund established by the National Provident Act of 1961 requires workers in establishments with a minimum of ten employees to contribute 5% of their

salaries, subject to a maximum of ₦4 per month, to the scheme. The management of the fund invests the proceeds to earn returns for the contributors. Provisions of the Provident Fund Act and the Trustee Investment Act of 1962 require that the investment of the collected revenue by the fund's management should only be made in government securities and debentures quoted on the Nigerian stock market. The Insurance Miscellaneous Provisions Acts of 1964 and 1976 provide that insurance companies operating in Nigeria must invest locally at least 25% of the premium received on locally insured risk in any financial year in government securities. The revenues from these sources have been a steady source of funds for the stock market. The policy of limiting the investment of these funds to government securities only may have to be reviewed, however, now that competitiveness and efficiency in the use of resources are being encouraged in the financial system. Government securities may have to compete with equities for these funds. Refer to Table 6 for the percentage distribution of the outstanding investment of insurance companies, which could be attributed to the relevant government policies. Insurance companies investment in government securities averaged 21.2% over the period 1980-1988.

Privatization of public enterprises

In 1988 the federal government set up a programme to privatize certain public enterprises as part of the policy to restructure the economy to achieve a higher degree of efficiency. The transfer of ownership of the companies affected by the privatization policy has been carried out through the stock exchange, which has greatly contributed to the growth of the exchange itself. By the end of 1990, the Technical Committee on Privatization and Commercialization had transferred 159.1 million ordinary shares in 21 companies to private investors. The deals, in which over 500,000 Nigerians participated, amounted to market capitalization of ₦258.8 million. This demonstrates the positive effect the privatization policy has had on the stock market.

VI. Survey results

Size and characteristics of the sample

In order to identify some of the constraints to stock market development, a survey of listed and unlisted companies was carried out. In all, 59 listed companies and 192 unlisted ones responded to the questionnaires. The survey was conducted between January and April 1992.

Unlisted companies

Of 192 unlisted companies, 70 are sole proprietorships, 67 are partnerships and 55 are private limited liability companies. In terms of location, 66.1% (i.e., 127) are in Lagos, 16.7% (32) are in Ibadan, 13.0% in Kaduna and 2.6% in Kano; the remaining 1.6% are in other areas, including Port Harcourt. The ownership structure shows that 100 of the companies (52.1%) are wholly owned by Nigerians, the remaining 47.9% are jointly owned by Nigerians and foreigners. The majority of the companies (about 69.0%) were established between 1961 and 1980. The distribution of the responding companies among industries shows that 85.4% are in manufacturing, 7.8% in commercial trade, 4.7% in services and 2.1% in financial sectors. These companies have experienced growth and structural changes, which can be deduced from their employment and capital fund structure.

Employment figures show that 62.3% of responding companies employed up to 50 persons at inception (see Table 16). The numbers have changed dramatically over the years. While fewer than 20% of the companies employed more than 100 persons at the time of their inception, nearly 57% of the companies now employ more than 100 persons (see Table 16).

In terms of the capital fund used both at inception and currently, table 17 shows the remarkable change in the structure. While only about 44% of the companies used a capital fund of over ₦500,000 when they started, over 87% of the companies currently employ over ₦500,000 as a capital fund.

In terms of the sources of total capital funds, Table 18 shows that the majority of the respondents rely on local backers and equity as a major source of funds. Bank loans are used by a smaller proportion of the respondents.

Table 16: Employment structure

	At inception No. of firms (%)		Currently No. of firms (%)	
Number of persons	Frequency	Percentages	Frequency	Percentages
1-50	81	62.3	42	23.5
51-100	24	18.5	35	19.6
101-200	17	13.0	50	27.9
Over 200	8	6.2	52	29.0
Total	130	100.0	179	100.0

Table 17: Capital funds used

	At inception No. of firms (%)		Currently No. of firms (%)	
Capital fund (naira)	Frequency	Percentages	Frequency	Percentages
1–50,000	19	12.0		
50,001–100,000	21	13.3	3	1.8
100,001–500,000	49	31.0	18	10.8
500,001–1,000,000	30	19.0	22	13.3
1,000,001–5,000,000	31	19.6	64	38.6
Over 5,000,000	8	5.1	59	35.9
Total	158	100.0	166	100.0

Table 18: Sources of total capital funds

Sources	Frequency	Percentages
Foreign		
Equity	73	28.6
Debt	3	1.2
Local		
Backers fund	114	44.7
Bank loan	45	17.6
Private borrowing	11	4.3
Others	9	3.6
Total	255	100.00

Note: Respondants can indicate more than one source.

The structure shown in Table 18 is not unexpected if we recall that a majority of the companies are sole proprietorships and partnerships.

Listed companies

Of the 59 listed companies, only 9 are entirely owned by Nigerians; 50 are joint ventures (Nigerians/foreigners) and none are entirely owned by foreigners. About 91.3% of the companies are located in Lagos, 2.9% in Kaduna/Kano and 5.8% in other locations, including Ibadan and Port Harcourt. This distribution is explained by the fact that a majority of these companies have their head offices in Lagos; hence questionnaires were often directed to the headquarters. About 81.2% of the companies were established before 1971. The distribution of the companies by industrial category is shown in Table 19.

Table 19: Industrial category of listed companies

Category	Frequency	Percentage
Financial	8	13.6
Manufacturing	21	35.6
Services	16	27.1
Commercial	12	20.3
Agriculture	2	3.4
Total	59	100.0

The dominant groups of industries quoted on the NSE are from the manufacturing, services and commercial sectors.

Table 20 shows that most of the companies were quoted on the NSE during the periods 1971–1980 and 1986–1991.

Table 20: Years when companies were quoted on the NSE

Period	Frequency	Percentage
1960–70	4	6.8
1971–80	33	55.9
1981–85	4	6.8
1986–91	18	30.5
Total	59	100.0

A majority of the companies were listed on the stock exchange during 1971–1980, a period that coincided with the indigenization exercise. Another sizeable proportion (30.5%) was quoted on the NSE during the privatization exercise. Thus, government policies not directly aimed at the stock exchange have also had a tremendous impact on its growth. Only 11.5% of the quoted companies that responded to the questionnaire are listed on the second-tier securities market.

Analysis of results

Unlisted companies

Nearly all (94.3%) of the 181 responding unlisted companies indicated that they are aware of the operations of the NSE as an avenue for raising equity or debt capital. Thus, only 5.7% of the respondents were not aware of the NSE as a means for mobilizing funds. But about 9% of the respondents (17 companies) had ever applied for listing on the NSE. The reasons for not applying are indicated in Table 21.

Table 21: Unlisted companies; Reasons for not applying for NSE listing

Reasons	Frequency	Percentage
Low share prices	17	6.2
Discouraging dividend tax policy	24	8.7
To limit ownership	119	43.3
Current capital is enough	44	16.0
Cheaper to borrow from banks	9	3.3
Cheaper to borrow elsewhere	8	2.9
Easier to obtain funds from the bank	8	2.9
To avoid public scrutiny	46	16.7
Total	275	100.0

Table 21 shows that the primary reason given by responding companies for not seeking a listing on the NSE was to limit ownership (43.3%). Other reasons include the desire to avoid subjecting the affairs of the company to public scrutiny and the claim that current capital is enough, in that order. A further examination of the companies wanting to limit ownership shows that they include three categories of company, although partnerships and sole proprietorships are more prone to this problem (see Table 22).

Table 22: Unlisted companies: Type of company desiring to limit ownership

Type of company	Frequency	Percentage
Sole Proprietorship	44	37.0
Partnership	48	40.1
Private limited company	27	22.6
Total	119	100.0

Similarly, the table showing the distribution of respondents and the desire to limit public scrutiny of company activities indicates that more partnerships and sole proprietorships avoid listing on the stock exchange for this reason (see Table 23).

Table 23: Unlisted companies: Type of company avoiding public scrutiny

Type of company	Frequency	Percentage
Sole proprietorship	23	50.0
Partnership	19	41.3
Private limited company	4	8.7
Total	46	100.0

Out of the 17 companies that had applied for a listing on the stock exchange, nine (i.e., 53%) had their applications delayed, mainly as a result of not meeting the listing requirements. When asked what they did when their applications were rejected, about 47% of them re-applied, 15.7% of them did not re-apply and 37.3% turned to other sources for funds. Table 24 shows which requirements for listing on the NSE were considered most difficult to meet.

Table 24: Unlisted companies: Requirements considered stringent for listing on the NSE

Requirements	Frequency	Percentages
Five years audited accounts	16	8.07
25% of shares in public hands	26	14.1
Minimum of 500 shareholders	76	41.3
Listing fee exceeding N2,000	5	2.7
Full disclosure of company information	61	33.2
Total	184	100.0

The requirements of a minimum of 500 shareholders (41.3%) and full disclosure of company information (33.2%) are the most difficult for these companies to meet. This corroborates the earlier finding that a majority of the companies do not want to diffuse the ownership or subject the company to public scrutiny.

When asked what types of amendments they would wish in the present listing requirements on the first-tier market, about 58% of respondants suggested reducting the minimum number of shareholders (see Table 25).

Nearly 23% of those that responded prefer partial disclosure of company information, and 13% want the percentage of shares in public hands reduced. Since some of these issues have been addressed in the entry conditions for the second-tier securities market, we decided to find out if the respondents were aware of the existence of conditions of entry to the second-tier securities market. Our results show that only about 78% of the respondents are aware of that market; the remaining 22% are not. Some of the entry conditions for the SSM are still considered to be stringent by the responding companies (see Table 26).

Table 25: Unlisted companies: Suggested amendments to listing requirements

Requirements	Frequency	Percentage
Reduce the years of audited accounts	3	4.8
Reduce the percentage of shares in public hands	8	12.9
Reduce the minimum number of shareholders	36	58.1
Reduce the listing fees	1	1.6
Partial disclosure of company information	14	22.6
Total	62	100.0

Table 26: Unlisted companies: Requirements considered stringent for entry onto the SSM

Requirements	Frequency	Percentage
Three years of audited accounts	13	10.8
10% of shares in public hands	14	11.7
Minimum of 100 shareholders	31	25.8
Total amount raised not exceeding ₦5 million	57	47.5
Annual charge of ₦2,000	5	4.2
Total	120	100.0

Note: The total response is more than 59 because respondents identified more than one requirement.

About 48% of the companies that responded to this question do not want the total amount that can be raised limited to ₦5 million. Also, 26% still see the requirement of a minimum of 100 shareholders as stringent. We should recall that this number has been reduced from 500 for the first-tier securities market to 100 for the second-tier market. There is need to re-examine these entry conditions in view of the fact that not many companies are involved in the SSM after about eight years of its existence.

In terms of the unlisted companies' perception of the problems confronting the stock exchange, Table 27 shows that poor publicity is a major problem. This is followed by inappropriate government policy and a high listing requirement.

Among the improvements these companies would like to see are better publicity, including informing the masses who are unaware of the services of the NSE; lowering the listing requirement; and increasing the number of stock exchange branches. There is need for appropriate policies and incentives to attract many unlisted companies to the stock market. This will require further analysis of the second-tier securities market and the performance of companies already listed, to determe their experiences and the obstacles they face, and to discover how more companies might be attracted into the market.

Table 27: Unlisted companies: Perception of problems confronting the NSE

Problems	Frequency	Percentage
Inappropriate government policy	44	21.0
High listing requirements	44	21.0
Undervaluation of shares	37	17.6
Poor publicity	65	31.0
Private placement	17	8.0
Others	3	1.4
Total	210	100.0

Note: The total response is more than 192 because respondents chose more than one problem.

This analysis of the unlisted companies shows that Nigerian companies' aversion to being listed on the stock exchange is not mainly a result of the availability of alternative sources of cheap funds, but because companies find the conditions of entry very difficult to meet.

Listed companies

The listed companies were also asked to indicate which were the major problems confronting the stock exchange. They identified inappropriate pricing of securities, poor infrastructural facilities, and poor publicity (see Table 28).

Table 28: Listed companies: Perception of problems confronting the NSE

Problems	Frequency	Percentage
Unfair pricing of securities	33	25.4
Poor publicity	21	16.2
High listing requirements	14	10.8
High transaction cost	12	9.2
Low demand for securities	10	7.7
Poor infrastructural facilities	23	17.7
Rigid bureaucratic procedures	15	11.5
Rising rate of private placement	2	1.5
Total	130	100.0

Note: The total number is greater than 59 because respondents chose more than one problem.

Other problems identified include rigid bureaucratic procedures, high listing requirements and high transaction costs. Among the problems listed companies encounter when dealing with the stock exchange are underpricing of shares and delay in processing of applications (see Table 29).

Table 29: Listed companies: Problems encountered when dealing with NSE

Problems	Frequency	Percentage
Delay in processing application	21	29.6
Lack of demand for shares	4	5.6
Underpricing of shares	35	49.3
Poor publicity	11	15.5
Total	71	100.0

Given that the actual users of NSE services have also identified unfair pricing of securities and poor infrastructural facilities, there may be need to evaluate empirically the pricing of securities at both the primary and secondary markets in the NSE. Table 30 lists the quoted companies' preferences in terms of strategies through which the current performance of the NSE can be improved.

Table 30: Listed companies: Suggestions for improving the performance of NSE

Suggestions	Frequency	Percentage
Reduce the listing requirement	16	15.2
Conduct public enlightenment programme	38	36.2
Review share-pricing policy	32	30.5
Lower transaction costs	17	16.2
Others	2	1.9
Total	105	100.0

About 36% of the respondents favour a public enlightenment programme as one way to improve the performance of the NSE. Another 31% favour a review of share-pricing policy. Other suggested measures include lowering the listing requirement as well as the transaction costs. The importance of such direct policies to stimulate growth of the stock market cannot be overemphasized, as some 86% of responding listed companies were not public at inception (see Table 31).

Table 31: Listed companies: Public company at inception

	Frequency	Percentage
Yes	8	13.6
No	51	86.4
Total	59	100.0

It will be necessary for the government to make a number of concessions to allow many of the unlisted companies with the potential to be listed on the stock exchange to do so. This will no doubt increase the number of listed companies and thus the supply of equities in the NSE. The supply of equities is a more pressing problem than the demand, because the few companies that have ventured into the capital market have witnessed either over-subscription or full subscription of their shares. Very few shares are not fully subscribed. For example, many of the companies that were privatized through the stock exchange were over subscribed or fully subscribed out of the 59 listed companies that responded to our survey, 87% had their share capital fully subscribed.

VII. Summary and recommendations

Summary of major findings

This paper presents the findings of the study of the role of capital markets in the mobilization of domestic resources for investment finance in Nigeria. It reviews the recent body of literature on issues in capital market development, especially as it affects developing countries, in order to draw some lessons for Nigeria. Various policies and programmes that affect capital market development such as the indigenization programme, regulation of institutional investors, and privatization and commercialization programmes were discussed.

Although the Nigerian Stock Exchange has experienced some remarkable growth in terms of the number of companies listed, the number of securities listed and market capitalization, the market still needs further development. Market concentration shows that the top 20 companies accounted for nearly 71% of market capitalization in 1989. In fact, the top 10 companies accounted for 50% of market capitalization (49.2%) in 1989. The level of transactions is still not very impressive, and in 1990 the ten most active stocks accounted for 60.7% of value traded.

Our preliminary conclusion is that the Nigerian stock market has been constrained by policies that tend to make the stock exchange look like a mechanism by which government raises loan finance rather than an instrument for mobilizing industrial finance. There are relatively few policies aimed at increasing the growth in the number of companies listed on the stock exchange. For example, in the past, interest rate policies favoured the money market and the banks to the disadvantage of the capital market. In the late 1980s, when the cost of borrowing in the money market increased sharply, many companies moved to patronize the capital market, although many of them prefer to raise funds by private placement because they do not want to dilute the ownership of the enterprise.

The low level of supply of securities is largely due to the seeming reluctance of companies, particularly sole proprietorship and partnership types, to go public. There are many Nigerian companies large enough to meet quotation requirements of the Nigerian Stock Exchange that have not yet applied despite the benefits associated with listing on the stock market, possibly due to low level of awareness.

The lack of financial instruments also contributes to the low level of demand for and supply of securities in the capital market. In the Nigerian market, the range of instruments available to investors appears limited even though there is a large number of market

intermediaries such as brokers, dealers and underwriters.

Inadequate and inefficient infrastructural facilities such as telecommunication and power supply are another constraint to the Nigerian capital market. The alleged delays in the settlement and transfer system have often led to investors' frustration. The general claim is that it may take months for share certificates to be received by investors. There is also a low level of market automation. All these hinder easy information on the market.

As noted earlier, government regulation of institutional investors such as insurance companies, pension funds, etc., has been biased in favour of government securities. This has constrained the development of the industrial and equity segment of the stock market. However, with privatization, we expect the investment pattern of these insurance companies to change radically in favour of industrial and equity securities.

The Nigerian Enterprises Promotion Decree No. 54 of 1989, which amended the earlier indigenization decrees, has reduced the number of enterprises exclusively reserved for Nigerians, thus encouraging foreign participation. There is still lack of effective policies to encourage enterprises owned wholly by Nigerians or in partnership with foreigners to go public by getting listed on the stock exchange. A majority of the listed companies have foreign participation.

One fact that emerges from the analysis is that savings in Nigeria do not readily flow into the stock market as investments. Other investment outlets such as real estate development, financing of local purchase orders (LPO), etc., are more attractive than investment in securities. As Table 6 shows, as much as 35% of insurance companies' investment goes to miscellaneous items. Investments in stocks should be made more profitable by removing controls on prices in the secondary market, as well as those on dividend payments.

The link between the stock market and other financial institutions, though multidimensional, is not quite strong enough in terms of resource mobilization and investment in the Nigerian Stock Exchange. Banks and other financial institutions should be allowed to play active roles in the investment opportunities in capital market.

In conclusion, the Nigerian capital market has witnessed some growth especially during the structural adjustment period. The deregulation of the capital market, when fully effected, is expected not only to enhance the competitiveness of the capital market, but also to stimulate more rapid development of the NSE.

Recommendations

There is need to appraise and modify the "restrictive" policies that constrain the development of the capital market. These include tax policies and government regulations of institutional investors such as pension funds, insurance companies, etc. At the same time, there is need for policies to discriminate between listed and unlisted companies. This will encourage more companies to source funds through the capital market.

An intensive public enlightenment programme about the role of the NSE should be directed not only to companies but also to individuals who invest in shares. Inadequate information available to investors may be responsible for the buy-and-hold attitude of

most Nigerians, as well as the low supply of equities by companies in the NSE.

Policies should provide more incentives in terms of simplifying and lowering the listing requirements to encourage companies to get listed even if in the SSM. Government needs to grant some concessions to listed companies with respect to tax rates, access to the capital market, etc., through its incentive system to enhance the operations of listed companies. Policies should also be directed toward enhancing the infrastructural facilities at the NSE to ensure smooth access to information by both investors and dealing members of the Exchange.

The link between other financial institutions and the NSE needs to be improved through increased information flow and greater accessibility. Most of the new issues were raised off the stock exchange, thus making it difficult for these stocks to be traded. Appropriate policies such as competitive interest rates, provision of tax incentives to quoted companies, simplified listing requirements, etc., will enable more companies to raise funds from the stock market. This, in turn, will contribute more to the overall development of the capital market.

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Annex A: Sample questionnaires

Questionnaire on the Nigerian capital market (stock exchange) for companies listed on the Nigerian stock exchange

Sponsored by the African Economic Research Consortium,
Nairobi, Kenya

1. Name of company:
2. Address of head office:
3. Location of factory (if different from above)
4. Ownership structure:
   (i) Entirely Nigerian:
   (ii) Joint venture (Nigerian/foreigners):
   (iii) Entirely foreign:

5. When was the establishment founded? 19 (year)

6. Number of people employed by this company:
   (i) At inception: (approximately)
   (ii) Currently: (approximately)

7. Industrial category:
   (i) Financial
   (ii) Manufacturing
   (iii) Services
   (iv) Commercial
   (v) Agriculture

8. (i) What is the major product produced in this establishment?
   (ii) What other products are produced, if any?

9. (a) When was this company quoted on the stock exchange?
19 (year)
(b) In which of the markets are you listed?
1. First-tier:
2. Second-tier:

10. What was the company's share capital when listed?

11. What was the volume of this company's shares when listed on the stock exchange?

12. What is the company's current share capital?
(i) Value ₦ (approximately)

13. a) Number of shareholders:
(i). At inception:
(ii). Currently:
b) No. of shares:

14. What was the company's quoted shares price at inception?

15. What is the current share price of this company?

16. In which of the following ways has the Company benefited from the stock exchange?
(i) Publicity:
(ii) Raising of funds:
(iii) Broadening the Company's ownership:
(iv) Enhancing the quality of management:
(v) Others (specify):

17. How would this company rate the performance of the Nigerian Stock Exchange? (Please tick one.)
(i) Excellent
(ii) Good
(iii) Fair
(iv) Poor
(v) Very poor

18. What does this company consider to be problems confronting the Stock Exchange?
(i) Inappropriate pricing of securities:
(ii) Poor publicity:

(iii) High listing requirement:
(iv) High transaction cost:
(v) Low demand for securities:
(vi) Poor infrastructural facilities:
(vii) Rigid bureaucratic procedures:
(viii) Increasing rate of private placement by companies:
(ix) Others (specify):

19. What problems does this company encounter while dealing with the stock exchange?
(i) Delay in processing application:
(ii) Lack of demand for shares:
(iii) Underpricing of shares:
(iv) Poor publicity:
(v) Others (specify):

20. What benefits has this company derived from being listed on the Nigerian Stock Exchange?
(i) Greater public patronage:
(ii) Increased productivity:
(iii) Higher productivity:
(iv) Better publicity:
(v) Expansion of physical assets:
(vi) Others (specify):

21. Does this company consider the publicity currently being adopted by the Stock Exchange?
(i) Adequate
(ii) Inadequate
(iii) Grossly inadequate

22. How does this company think the performance of the stock exchange can be improved?
(i) Reduce the listing requirement:
(ii) Adopt public enlightenment programmes:
(iii) Review share pricing policy:
(iv) Lower the transaction costs:
(v) Others (specify):

23. (a) What has happened to the share capital of this company since listing on the Stock Exchange? (Tick one)
(i) Increased
(ii) Decreased
(iii) Remains unchanged

23. (b) Please give reasons for this development:

24. How often does this company pay dividend to its shareholders? (i) Yearly (ii) Once in two or more years (iii) Not regular

25. If not regular, give reasons for non-regular payment of dividend: (i) Company not making profit: (ii) Profit is capitalized: (iii) Others (specify)

26. Are the shares of this company fully subscribed? Yes No

27. Was this company a public company right from inception? Yes No

28. If No to question (27), why did you decide to go public?
(i)
(ii)
(iii)
(iv)
(v)

29. If this company has further comments on the structure, performance and operation of the Nigerian Stock Exchange, please use this space for such comments:

Thank you for your cooperation.

Questionnaire on the Nigerian capital market (stock exchange) for companies not listed on the Nigerian stock exchange

Sponsored by the African Economic Research Consortium, Nairobi, Kenya

1. Name of company:

2. Address of head office:

3. Nature of company (Tick one):
   (i) Sole proprietorship:
   (ii) Partnership:
   (iii) Limited liability company (private):

4. Ownership structure:
   (i) Entirely Nigerian:
   (ii) Joint Venture (Nigerians/Foreigners):
   (iii) Entirely Foreign:

5. (a) When was the Establishment founded? 19 (year)
   (b) No. of people employed by this organization:
   (i) At inception: (approximately)
   (ii) Currently: (approximately)

6. Industrial category:
   (i) Financial:
   (11) Manufacturing:
   (iii) Services:
   (iv) Commercial:

7. What was the value of the capital fund of this company at inception?
   ₦ (approximately)

8. What is the current value of the capital fund of this company?
   ₦ (approximately)

9. What are the sources of your total capital fund employed? (Give percentages only)

(i) Foreign
(a) Equity
(b) Debt
(ii) Local
(a) Promoters' Fund:
(b) Bank Loan:
(c) Private Borrowing:
(d) Others (specify):

10. Is this company aware of the operations of the Nigerian Stock Exchange as an avenue for raising equity or debt capital (fund)?
Yes No

11. If yes, has the company ever applied for listing on the exchange?
Yes No

12. If no, what are the reasons for not applying for listing on the stock exchange? (Tick as applicable; more than one option is allowed.)
(i) Share prices are usually too low:
(ii) Discouraged by the dividend tax policy:
(iii) Wants to limit ownership to the existing owners:
(iv) The current capital is enough:
(v) It is cheaper and faster to borrow from the bank:
(vi) It is cheaper to borrow elsewhere (e.g., private borrowing)
(vii) It is easier to obtain funds through the banks:
(viii) Does not wish to subject the affairs of the company to public scrutiny:

13. If your answer to Question 11 is yes, has the application been delayed?
Yes No

14. If you have applied for listing and your application was rejected or is being delayed, give reason(s) for this. (Tick as applicable.)

(i) Non-satisfaction *of* the listing requirements:
(ii) Other reasons (specify):

15. If the application was rejected what did the company do?
(i) Re-applied:
(ii) Did not re-apply:
(iii) Sourced fund from other sources:
(iv) Others (specify):

16. Which of the following requirements of the Nigerian Stock Exchange for listing a company do you consider too difficult to companies wishing for get listed.

(i) 5 years audited account:
(ii) 25% of shares to be in public hands:
(iii) a minimum of 500 shareholders:
(iv) a listing fee based on the share capital of the company but obviously exceeding ₦2,000:
(v) full disclosures of all information about the company:
(vi) What amendments would you wish in the above listing requirements? (Ex plain briefly):

17. Are you aware of the existence of the second-tier securities market?
Yes No

18. (a) Which of the following requirements for listing a security in the second-tier securities market do you consider to be unnecessarily stringent?
(i) 3 years audited account:
(ii) 10% of the share capital to be in public hands:
(iii) a minimum of 100 shareholders:
(iv) a total amount to be raised not to exceed ₦5 million:
(v) a flat annual charge of ₦2,000:
(b) What amendments would you wish in these listings requirements? (Explain briefly):

19. How would you rate the current performance of the Nigerian Stock Exchange?
(i) Excellent
(ii) Good
(iii) Fair
(iv) Poor
(v) Very poor

20. Kindly provide justification for your rating in few words:

21. What do you consider to be the problems confronting the Stock Exchange?
(i) Inappropriate government policy:
(ii) High listing requirements:
(iii) Undervaluation of shares of companies seeking listing:
(iv) Poor publicity:
(v) Increasing rate of private placement by companies:
(vi) Others (specify):

22. How would you rate the current publicity being adopted by the Stock Exchange?
(i) Adequate
(ii) Inadequate
(iii) Grossly inadequate

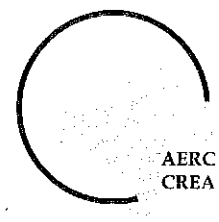
23. Which of the following is required for the Nigerian Stock Exchange to improve the quality of its services? (Tick. More than one option allowed.)

(i) Lower listing requirements:
(ii) Faster processing of application for listing:
(iii) Creation of more branches:
(iv) Giving higher offer prices for new shares:
(v) Educate the masses further:
(vi) Increase publicity:
(vii) Others (specify):

24. If you have further comments on the structure, operations and performance of the stock exchange, please use the space below for such comments:

Thank you for your cooperation.

AFRICAN ECONOMIC RESEARCH CONSORTIUM



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