PACKAGING CAPITAL AND DEBT ISSUES SOURCES AND COSTS IN NIGERIA

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CERTIFICATION

This thesis entitled "Packaging Capital and Debt Issues and Costs in Nigeria" by Alhaji Hon. A. M. Sani meets the regulations governing the award of the degree of Masters in Business Administration of Ahmadu Bello University, Zaria, and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

To my wife, children and friends.

ACKNOWLEDGEMENT

I am thankful to all who contributed to the successful completion of this study. In particular, I am grateful to my project adviser Mallam M. N. Maiturare, the Management and Research Staff of the Securities and Exchange Commission and The Nigerian Stock Exchange for their guidance and assistance.

ABSTRACT

This study was conducted to identify the sources of capital and the cost of packaging those funds in the Nigerian Capital Market. It examined the institutional framework for packaging capital and debt issues, highlighted the role of financial intermediaries and some recent development in the Nigerian Capital Market.

To determine the cost of raising funds in the Nigerian Capital Market, data were collected by the administration of questionnaires, in addition, personal interviews were held with The Nigerian Stock Exchange officials, The Securities and Exchange Commission, Chief Executives of Issuing Houses and Stock broking Finns, Accountants, Lawyers. Journals of the Central Bank of Nigeria as well as Seminar and Workshop papers and textbooks written by scholars and renowned authors were consulted.

The study revealed that the Nigerian money market is well developed and accessed easily by fund raisers. The cost of funds in the capital market was established to average 10%, while it may cost a company up to 20% to raise funds in the market. This cost was found to be high and discouraged small and medium scale enterprises.

It is suggested that as a way of reducing the cost of raising funds in the capital market, the Regulatory authorities should review downwards then registration and listing fees. It is further suggested that more stock broking and issuing houses should be licensed and the stringent condition attached for granting quotation on the Stock Exchange should be reviewed. Issuers of securities should make use of competitive bidding to select intermediaries and market operators.

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ABBREVIATIONS

AGM	Annual General Meeting
SEC	Securities and Exchange Commission
NSE	Nigerian Stock Exchange
ICAN	Institute of Chartered Accountants of Nigeria
ACIB	Chartered Institute of Bankers of Nigeria
NEPA	National Electric Power Authority
NIPOST	Nigerian Postal Services and Telecommunication
NITEL	Nigerian Telecommunications Limited
CBN	Central Bank of Nigeria

DEFINITION OF TERMS

Dividend Yield price	A Stock's dividend per share divided by the market
Ordinary Shares:	Ordinary Shares
Floatation:	The issue of security by a new company or on behalf of that company by an issuing house.
Institutional Investor: e.g.	A company having substantial funds invested in securities Pension Funds, Provident Funds, ITF.
Listed (Quoted) Shares:	Shares admitted for trading on the Stock Exchange
Market Capitalisation:	The value of a firm as determined by the product of the market price and the number of shares on issue.
New Issue:	Stock sold to the public for the first time
CAC:	Corporate Affairs Commission
VAT:	Value Added Tax

CHAPTER ONE

1.0 BACKGROUND OF STUDY

Nigeria is endowed with lots of mineral and human resources. These resources are largely untapped. For many developing countries including Nigeria, Industrialisation is believed to be of utmost importance if meaningful economic development is to be achieved. The main objective of economic development is to raise the standard of living of people within a nation. Industrialisation strategies in the developing world are usually geared towards import substitution or export-led manufacture, particularly, of textile, leather works, fruit canning and other light industries. Only few developing economies have made reasonable strides in the areas of heavy and chemical industries such as ship building, automobiles, computers, machinery etc.

Industrialisation both at consumer and capital goods levels require input of scare local and foreign capital resources which in most cases are wooed by competing countries of the world.

The need to industrialise Nigeria has been recognised in the National Development Plans. To tackle and develop the industrial sector in Nigeria, the fourth development plan, among other, intended to:

(a) raise the level of domestic resource content of manufacturing production through increased substitution of local raw materials and manpower for import;

(b) improve the contribution of small scale industries to total value-added in the manufacturing sector;

(c) remove institutional constraints and bottlenecks which constitute obstacles to industrialisation;

(d) promote wide spread distribution of industries;

(e) promote the development of export industries;

(f) give maximum encouragement to private sector;

(g) improve the efficiency of public sector enterprises.

Most of these policies were also echoed in the Nigerian Industrialisation Policy and Strategy Guidelines to Investors published in 1980 by the Federal Government.

The basic objectives of the policy was "To achieve the degree of self-reliance and confidence without which a nation can neither have the stability necessary for social peace at home nor muster the respectability and means required for meaningful involvement in international affairs and interactions".

To achieve this broad objective, the government was to encourage the establishment of industries with high local value-added, high capacity for employment generation, and industries with export bias. Furthermore, priority was to be placed on Research and development (R & D), technology and wide spread industrial dispersal and infrastructure development. As an instrument for rural development, and mitigation of the rural/urban drift, growth of small scale industries was to be encouraged in these areas. In addition government was to stimulate the development of selected industries such as agro-allied, building materials, chemicals, engineering, transport, electronic and electrical, house-hold equipment and furniture etc.

It has been observed that most of the policies did not achieve the desired result while some did not even see the light of the day owing to financial and other constraints, particularly, in the 1980s when foreign exchange earnings started to dwindle rapidly.

It is in recognition of the importance and role of capital formation in the industrialisation process and consequently economic development that both developed and developing economies endeavour to have in place active and virile financial markets in order to facilitate the efficient mobilisation and channelling of savings into productive investment for economic growth and development. This recognition of the capital market as a catalyst for economic growth by countries, is evidenced in the presence of stock exchanges. Of recent, we have seen the evolution of stock market in the transitional economies of central and eastern Europe, as well as in the Peoples Republic of China. Sadly, its importance has not been fully realised by African Governments as well as the private sectors inspite of the region's economic problems.

A survey of African financial systems including Nigeria reveals that most countries tend to give greater attention to the development of the money market while neglecting the capital market. Thus, the observed trend is the use of short term funds for financing long term projects. Given the continent's declining per capita income, low savings and investment, low financial intermediation, escalating debt and balance of payment crisis, declining terms of trade as well as low foreign investment, increasing marginalisation of Africa in rapidly changing world economic and political orders among others, African countries have no choice but to develop and promote their domestic capital markets by packaging their capitals needs through domestic and international capitals markets.

1.1 STATEMENT OF THE PROBLEM

Both Governments (Federal, State and Local) and the private sector entrepreneurs have not been able to tap the full resources available within Nigeria because the facilities of the Nigerian capital market has been under-utilised. Majority of the industrial concerns are undercapitalised and therefore could not expand and diversify their operations.

This study investigated the reasons why the capital market is under-utilised. Further, this study sought to answer the following questions:

(a) Is the capital market a good source for raising funds?

(b) Why do Nigerian Governments and Private Sectors shun the capital market facilities?

(c) Is the cost of raising funds in the capital market too high?

(d) Is the packaging requirements in the capital market too stringent?

1.2 OBJECTIVES OF THE STUDY

The objectives of this study was to determine the various sources of capital available to government and business organisations to finance their projects together with the associated costs of each source. Other objectives of the study included:

(a) To highlight what is required to raise funds in the Nigeria Capital Market;

(b) To highlight the benefit of quotation on the Nigerian Stock Exchange;

(c) To identify the operators of the Nigerian Capital Market and their role in packaging capital and debt issues and loan syndication;

(d) To highlight recent developments in the International and Nigerian Capital Markets;

(e) To make recommendation based on findings of the study.

1.3 SIGNIFICANCE OF THE STUDY

The result of this study is expected to be specifically beneficial to the Governments and the Nigerian business community especially the small scale entrepreneurs who more often choose to rely on retained earnings and private savings to finance business expansion. An understanding of the issues involved in packaging capital, sources and costs will assist investors in designing and sourcing appropriate and optimum capital structure for their business. The Governments will also appreciate the cost effectiveness of raising development funds through the Capital markets rather littering our economy with several uncompleted projects.

This study would further be useful to market analyst, financial consultants, stockbrokers, lecturers and students of finance and management studies in tertiary institutions in the country including those preparing for professional examinations such as ICAN, ACIB etc.

1.4 BASIC ASSUMPTIONS

The following assumptions were made for the purpose of carrying out this study.

1. Countries with developed capital markets have a high per capita income;

2. The capital market provides the best avenue for the allocation of resources of the nation to productive projects;

3. Inefficient financial intermediary system tend to misallocate resources and stifle growth;

4. The cost of funds raised through the capital market is lower than those raised from the money market

1.5 SCOPE AND LIMITATION OF THE STUDY

This research is aimed at examining the various sources of raising money for business and government operation and the cost of raising these funds. Although the main sources of finance are basically the money market and capital market, the study is narrowed down to the capital market only.

In view of time and resource constraints, the study will examine the cost of raising funds from the Nigerian Capital market by private and government institutions between 1990 and 1995 as this constitute the central problem of the study.

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2. Fourth National Development Plan, 1981-1985

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 INTRODUCTION

This chapter review available works relevant to the problem of the study. The purpose is to highlight past scholarly works on the subject not only as theoretical basis for, but also as a guide to, a clear understanding and appreciation of the current research effort. Some portions of the chapter are specifically included to give readers wider knowledge of the general issues relating to packaging capital and debt issues and loan syndication - their sources and costs in Nigeria.

The first part of the chapter is th conceptual framework in which three concepts fundamental to the study are extensively discussed. These concepts are Sources of capital; Packaging capital and Debt Issues; and Cost of Raising Capital. The second part of this chapter is devoted to tasks and issues of the study. This section review the cost of raising funds from the Nigerian Capital Market; assesses the extent to which the capital market has served as a vehicle for the mobilisation of funds for economic development and the reasons many business organisation do not make use of the capital market. The last part of the chapter introduce the state of the art of the problem. This portion of the chapter examines the need for a review capital market regulations; the role of Securities and Exchange Commission and the Nigerian Stock Exchange in fostering long term capital formation for industrial and economic development.

2.1 CONCEPTUAL FRAMEWORK

Three theoretical concepts in corporate finance are fundamental to this study. These are (1) Sources of Capital, (2) Cost of Raising Capital, (3) Packaging Capital and Debt Issues. All these concepts are discussed below:

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2.2.1 SOURCES OF CAPITAL

Capital is supplied to businesses through many channels. There are three major sources of capital namely: (1) Internal Sources, (2) The Money Market sources and (3) The Capital Market Sources. These markets provide funds for short and long term financing respectively.

2.2.2 INTERNAL SOURCES

The major internal sources of finance is retained earnings. Retained earnings refer to the portion of a company's earnings (available to ordinary shareholders) which the directors have decided not to distribute as dividends to shareholders but kept in the business.

In several organisations in Nigeria, this internal source of funds may be considered to be superior to other sources. This is because internal sources are easily accessible and perceived to be cost less. However, the amount available from this source for business expansion is considerably very limited. This limitation accounts for the major reason why business entrepreneurs resort to other sources of funds.

2.2.3 MONEY MARKET SOURCES:

The money market deals with short term instruments that are readily convertible into cash and whose maturity ranges between few days and two years.

Such money market funds or securities include 91 - day Treasury Bills, 1 - year or 2 years Treasury Certificates, Bankers' Unit fund, Certificates of Deposit and Commercial Papers of large trading concerns as well as eligible Development Stocks.

Thus, the money market provides opportunity for those having funds surplus to their immediate needs to lend at short term thereby meeting the demand of borrowers who are in need of temporary finance and can offer an acceptable claim to money. Participants in the market include the Commercial Banks, Merchant Banks, Discount Houses, Insurance Companies and other savings type institutions. Banks support the market as lenders of last resort through the provision of rediscount facilities for Federal government short term debt instruments and other eligible assets.

The reasons for establishing a money market in Nigeria were:

- To Nigerianise the credit base by preventing the outflow of funds to overseas markets as well as encourage the retention of funds in the country and thereby meet the working capital requirements of businessmen and industrialist.

- To create opportunities for the mobilisation of liquid funds to meet the temporary credit requirements of Government.

- To enable the banks to have recourse on their cash holdings and adjust their liquidity positions as conveniently as possible.

- To provide the basis for operating and executing an effective monetary policy.

Prior to independence, there was no money market in Nigeria and this had many implications. The first one was that businesses in the country had no market where they could raise funds for their working capital and they had to rely mainly on bank overdrafts and loans. Secondly, those who had surplus funds for their working capital

had to send them abroad for investment. This resulted in a net export of funds from Nigeria which was badly needed capital for development. Thirdly, banks and other financial institutions kept more cash float than was justified by the nature of their operations. This was because they had to incur cost when sending the funds abroad during off-seasons and when drawing on them for local use during the busy season, banks and other non-banking institutions made sure that they held cash to meet both their normal and unexpected cash demands.

Finally, the absence of a money market meant that the authorities had no monetary policy that could effectively control the activities of the financial institutions operating within Nigeria's territories.

Since inception, money market in Nigeria has succeeded basically in stemming the flow of funds abroad thereby enabling the Government to mobilise the nation's financial resources for economic development. However, it has been observed that the Nigerian Money Market has failed to supply the business community with adequate working capital. This is clearly demonstrated in the predominance of government securities as shown in table 1. It can be observed that the use of private sector instruments such as commercial papers and other private sector instruments is not wide spread. Thus, as long as many businesses continue to finance their working capital requirements with the aid of bank overdrafts and loans as opposed to funds tapped from the capital market, the market could be said to have failed to adequate respond to the needs of business organisations.

2.2.4 INSTRUMENTS OF THE MONEY MARKET

The financial assets or instruments dealt with in this market are characterised by a very high degree of safety and issued by borrowers of very high credit standing. The

instruments are readily marketable or convertible into cash. As already indicated, their maturities range between a few days and one or two years. The popular instruments or assets traded in the money market are: (1) Treasury Bills (2) Call money deposits (3) Treasury Certificate (4) Commercial papers (5) Certificate of Deposit (6) Bankers Unit fund.

a. **Treasury Bills:**

These are financial instruments which the Federal Government of Nigeria uses to borrow for short periods of about three months pending the collection of its revenue.

b. **Call Money**:

The call money scheme is of two types. One is administered by the Central Bank of Nigeria, while the other, which is purely on inter-bank borrowing is administered privately outside the central bank. The central bank-operated call money was abolished in 1974. The inter-bank call money which is still in existence was established by the commercial banks, involves the receipt of surplus funds which are normally secured with commercial papers as collateral, and these funds are later lent on call or on seven-day notices.

c. **Treasury Certificates**:

These are government securities with maturities ranging from one year to two years and are meant to bridge the gap between the treasury bills and the Development Stocks.

d. **Certificate of Deposits**:

This instruments is of two types viz.: Negotiable Certificates of deposits (NCDs) and non-negotiable certificates of deposits (NNCDs). They are

private sector inter-bank debt instruments devised principally to channel commercial bank surplus funds into the merchant banks. The Negotiable Certificate of Deposit (NCDs) is rediscountable at the Central Bank.

e. **Bankers Unit Fund**

In contrast to certificates of deposits the bankers unit fund (BUF) is operated by the central bank. It provides outlets for the commercial banks, merchant banks as well as other financial institutions to invest part of their temporarily idle funds in money market instruments linked to federal Government stocks. The operation of the scheme is subject to the availability of stocks. Those stocks maturing within three years are called **Eligible Development Stocks** and are included in the calculation of banks' liquidity ratio.

f. **Commercial Paper**:

Commercial paper is a short term debt obligation or promissory note of large, well established and sound organisations which are issued to their companies in recognition of a debt. It is similar to an IOU However, due to their high liquidity and low risk of default (since they are issued by well managed organisations) they are easily marketable in the financial market.

2.2.5 CAPITAL MARKET

A capital market is any domestic or international market in which government, banks, multilateral organisations (like World Bank or the European Community) and companies can borrow or invest large amounts of funds for medium-to-long term purposes.

Generally, a capital market is one in which money is raised /borrowed for more than 2 years.

The role of capital market is to facilitate effective use of capital offering a vehicle for investors to make surplus funds available to borrowers seeking to raise finance.

Loan instruments or securities traded in the market include equities or ordinary shares, Federal government bonds, State Government Revenue Bond, Local Government Revenue Bonds, Company bonds, Debentures and Mortgages. Participants in the market include banks, finance and insurance companies, provident and pension funds, other financial intermediaries such as mortgage institutions, and individuals. The non-bank institutions are dominant in the market just as commercial banks dominate the money market.

A domestic capital market operates within the financial system of a single country and is subject to regulations by the national government generally through the central bank. The international capital market do not differ substantially in role or instruments from the domestic market. An international capital market is outside the domain or control of any particular Government. In addition, the source of investment funds available to borrowers is broader.

Capital markets have several distinguishing features. The most important are:

a. **Negotiability of instrument:**

Borrowing and investing is done in this market generally through the use of financial instruments that are negotiable. This means that their ownership can be transferred from one party to another, giving the investor the possibility of selling the instrument before maturity.

b. **Non-Bank funding:**

Capital market instruments offer the borrower a means to raise money from sources other than banks. An issuer in the capital market does not borrow directly from a commercial bank but rather taps alternative sources of funds through the issue of instruments for sale directly to investors.

c. **Securities**:

Instruments in the capital markets are often called securities. This refers to the "Security" received by the investor in the form of a certificate signed by the issuer that states the terms of the issuers contract with the purchaser.

d. **Longer Maturities**:

The distinction between a capital market and money market is generally made on the length of time for which money is raised. Generally, a capital market is one in which money is raised /borrowed for more than 2 years.

2.2.6 INSTRUMENTS OF THE CAPITAL MARKET

These instruments can be divided into two categories:

a. **Debt Instruments**:

This is issued by a borrower in the form of a certificate that states the term and conditions of the borrowing. It is issued with a defined life, final maturity date, and agreed terms of payment to the investor.

The debt certificate establishes the debt of the borrower (ISSUER) and his obligation to repay the lender (INVESTOR) a fixed amount (the principal) on a specified future date (the maturity or redemption date). It also specifies the interest (income) to be paid to the investor (lender) at stated intervals during the life of the instrument.

The interest payable is usually expressed as a percentage of the principal of the instrument. The rate of interest paid to maturity could be determined either by a fixed-rate or a variable rate which is adjusted on specific dates.

The investor who holds the debt instrument of a given company has precedence over holders of equity in claims against the borrowers in the event of liquidation.

b. **Equity**:

Companies raise equity through the issue of two basic types of stock: (1) Ordinary Shares and (2) Preference Shares. Both Ordinary and Preference shares differ from debt instruments in that the shares have no maturity date, assures the right to a dividend if declared, offers greater potential for profit if the share appreciates significantly due to strong performance by the company

and/or the market. It also carries greater risk, since no dividend is paid in the event of a loss and also because shareholders claim on corporate assets in the event of bankruptcy are paid only after obligations to bank creditors and debt-holders.

Ordinary share dividends, if any are paid at the discretion of the company; preference shares receive priority in payment of dividend at a given year. Also Ordinary shareholders have the right to nominate company's board of directors and to vote on major decisions affecting the management and legal form of the company; preference shareholders do not have voting rights.

2.2.7 ARMS OF THE NIGERIAN CAPITAL MARKET

The Nigerian Capital Market is a network of facilities for mobilising and dealing in long term funds. The market has two segments:

(i) The market for newly-issued securities - these are principally concerned with the initial issuance of financial asset. A company wishing to raise fresh capital would do so in the primary market. With respect to equity shares, such issues can take any of the following basic forms:

(a) **Offer for Subscription (Direct Issue):**

This is an invitation to the general public to invest in the shares of a company. The proceeds from such offer to the company. The offer is usually handled by an issuing house (bank or stockbroker) on behalf of the company making the offer.

(b) **Private Placement:**

This is not an invitation to the general public. Rather, the shares to be sold are placed with an issuing house which then seeks out prospective investors through private contracts. Such shares can be new issues or existing shares. If new shares, the proceeds go to the company. But if existing issues, the proceeds go to the shareholders.

(c) **Offer for sale:**

Existing shareholders offer their shareholdership or part thereof to the public for purchase. The proceeds do not go to the company but to the shareholders. No new issues are made, only transfer of shares from existing to new holders.

(ii) The market for dealing in existing securities - the secondary market. These are markets for the exchange of existing or outstanding financial assets. A shareholder who wishes to sell his holding or part thereof would do so in the secondary market. It is actually the existence of this steady market for selling shares that motivates investors to buy shares in the first place. As Henning, et all remarked, "if there were no secondary market, any one who purchased a security would generally have to hold it until maturity (or for ever)".

An active and efficient secondary market is a necessary condition for marketing new issues effectively. The purchase of new securities by surplus units depends on whether these surplus units can readjust their asset mix of cash and securities if and when they so wish. The availability of a broad and resilient secondary market makes this possible.

The link between the primary and the secondary market becomes stronger as the latter is more equipped to transfer the risks of investment between investors. This greatly enhances the ability of business enterprises to mobilise funds, which in turn enhances capital formation and economic development. The relative size of the primary market and secondary market is determined by the volume and value of securities traded. The Nigerian Capital Market has been a great source of long term funding, even though, its potentials has not been fully harnessed, for Nigerian businesses as shown in table 2.

2.2.8 COST OF PACKAGING CAPITAL ISSUES

The Nigerian Capital Market, like that of any other nation, is a major source for long term. The demand side of the market is represented by industry, commerce and government through their need for increasing sums of capital to meet operational expenses and expansion costs. The supply side of the market is represented, through the Nigerian Stock Exchange, by individual and institutional investors such as pension and provident funds, insurance companies and banks.

A vital element concerning the search for capital is its cost. Other consideration, from the point of view of the company's treasurer which would have a bearing on sources of funds are flexibility in use, restraints on management, government control of dividend payment and interest rates policies and risk.

Although a company's choice of a source of capital is determined by the following parameters:

(i) its type of business;

(ii) the cost of financial resources;

(iii) its earning pattern;

(iv) taxation etc.;

It is usually prudent to look for an optimal financing arrangement that will reflect all the various components of capital.

In packaging capital and debt issues, the word "cost" as far as management is concerned means an expense that can reduce earnings on the income statement and therefore reduce investible funds available to the business. These costs are generally referred to as "Floatation Costs". Thus, the cost of packaging capital issues are fees paid to the regulatory authorities, professional and financial intermediaries (market operators) associated with the creation, protection, distribution, advertising and selling the issues. These expenses include fees paid to the following institutions:

1. Nigerian Stock Exchange:

    a. Listing Fee - Based on Market capitalisation of share capital.

    b. Application Fee - payable at the rate of 1.25% of the market value of the securities to be listed.

2. Securities and Exchange Commission:

a. Registration and Filing Fee - 1.5% of market value of the offer + =N=10,000

3. Issuing House Fee:

a. 2% of proceeds realised from issue.

4. Brokerage Commission to Receiving Banks and

Stockbrokers - 1% of proceeds of issues.

5. Printing.

6. Advertising.

7. Completion Board Meeting Expenses

8. Professionals:

a. Stockbroker to the Issue

b. Auditors

c. Solicitors to the Issue

d. Reporting Accountant

9. Registrar's Fee - Negotiated amount based directly on the number of applications processed as well as accounts maintained annually.

2.2.9 PACKAGING CAPITAL AND DEBT ISSUES

Packaging capital issue entails the provision of a vehicle through which the issue is to be sold. In a sense, it is a part of the "issuing mix" for a security and involves the creation, protection, distribution, advertising and selling of the issue.

The dominant role of packaging is therefore to attract and protect the consumer, in this sense the investor. In packaging capital and debt issues, financial intermediaries are involved. In addition, the government through the regulatory agencies are plays an active part.

The principal function of an intermediary is to match the financial needs of borrowers with the requirements of investors or principals. Borrowers expect intermediaries to have a good knowledge of, and contact with investors in the market place, and to know what types of securities will sell well and be successful at any given time. They should also be able to advise customers on market timings which is a crucial factor in determining the success of an issue. The choice of intermediary is often a major issue when packaging a capital issue. In Nigeria, there has not been any clear cut procedure for the selection of intermediaries. Some issuing houses seem to have been dominating the market. Further, it has been observed that the intermediaries are mostly concentrated in Lagos area.

The intermediaries associated with packaging a capital issue are:

1. Issuing House
2. Stock Broker to the issue

3. The Reporting Accountants
4. Auditors to the Company
5. Registrars
6. Trustees (if a Debenture/Loan Stock)
7. Solicitors to the issue
8. Solicitors to the company
9. Solicitors to the Trustees (if Debentures/Loan Stock)

a. **ISSUING HOUSE**

An issuing house can be described as a finance organisation having as one if its principal objects the aim of assisting prospective clients to raise capital whether on a medium term or long term basis. Such organisations are usually the merchant banks, investment banks and stockbroking firms. Some commercial banks have created departments that perform the functions of issuing houses.

The issuing house plays the role of project leader and co-ordinates the activities of the other parties. The organisation explain the function of other professionals to them and ensure that the functions are performed at the required time to avoid delays which may prolong the issue period. The issuing house also prepares application to the Nigerian Stock Exchange and Securities and Exchange Commission; the prospectus and other documents for the exercise. The issuing house also invites prospective investors to subscribe to the shares and stocks and allots the shares in conjunction with the directors of the company. The organisation is also responsible for the preparation of offer time table and offer costs.

"The general position is that the issuing house packages the capital raising proposal in such a way that it becomes very attractive and irresistible to investors. The nature of the business of the vendor, its products, its previous performance records, its "pay-out" (dividend/bonus) profile and the reputation of its management will go a long way in selling the offer" In the packaging public issues, the issuing house acts as the co-ordinator of all the issue activities and the other professionals".

b. **STOCKBROKERS**

The stockbrokers are licensed Dealing Members of the Nigerian Stock Exchange who liaise between the Issuing House and the Nigerian Stock Exchange. He has the responsibility to ensure that all data provided in both the application to the Exchange and the draft prospectus are correct and true. He takes the application for listing to The Nigerian Stock Exchange and defends the recommended issue price and purpose of the issue before the Council of the NSE. The stockbrokers also have a responsibility to obtain certificate of Exemption from the Exchange as required by section 553 of the Companies and Allied Matters Decree 1. 1990, in addition to participating actively in marketing the issue.

c. **REPORTING ACCOUNTANTS**

These are usually external, recognised firm of Chartered Accountants protecting the interest of the public in the issue. They would examine the books of the company and report on them in terms of consistency and acceptability of the accounting policies and the basis and assumptions of the profit forecast to be made by the directors of the company.

d. **AUDITORS**

These are also a recognised firm of chartered accountants engaged by the company to audit its account. Their audit reports form the basis of the report of the Reporting Accountants.

e. **REGISTRARS**

The registrars will receive return on all the subscriptions, collate them, keep records, make the necessary remittances to the Issuing House, return excess application monies (if any) and issue certificates to those allotted shares.

f. **TRUSTEES**

are required in debt issues such as debenture stocks and bonds. They are to be corporate bodies such as Banks, Insurance Companies etc., duly registered by the Securities and Exchange Commission, having minimum paid up capital of =N=600,000 who are to keep custody of the trust deed and ensure that the issuing house company fulfils its obligations under the trust deed.

g. **SOLICITORS TO THE ISSUE**

They would be a firm of external solicitors in practice who would ensure that all legal documents and statutory requirements are met. He would also be required to give legal advise as needed on the issue. They would be paid for their services.

f. **SOLICITORS TO THE COMPANY**

They would be the company's solicitors who would advise the company on the legal aspects of the issue and ensure that all relevant resolutions are properly passed and filed.

i. **SOLICITORS TO THE TRUSTEES**

These are to be engaged by the trustees with the sole responsibility of drafting the trust deed on its behalf. They are usually paid for their services.

2.2.10 PUBLIC SECURITIES ISSUE AND ISSUING HOUSES

Most public issues are sold through negotiated underwriting. In this process a firm chooses an issuing house, negotiates the price and conditions of the issue, and sells it to the issuing house. Underwriting is the process whereby the issuing house purchases the issue from the firm at a given price and then sells it as best he can. In an underwritten issue, the issuing house bears the risk that it will not sell well.

Some firms use competitive bidding, rather than negotiation, both to pick the issuing house and to determine the price of the issue. In competitive bidding situation, the firm announces that it wishes to issue securities and invites bids from issuing houses. On large issues several issuing houses join together in a syndicate and submit a single bid for the group. The firm specifies the type of security and any conditions or features that is has. The issuing houses then submit bids on the price (interest rates) for the issue, and the issuing house making the best bid is awarded the issue.

Regardless of whether the issuing house is chosen by negotiation or bidding, the issuing house acts as an underwriter. Another approach is for the firm to ask an issuing house to sell its securities on a best efforts or agency basis. In this case the issuing house is not acting as an underwriter but merely sells the securities for a commission. This procedure is used either by very large companies, which are confident that their securities will sell fairly easily or more frequently by very small firms, when the issuing house feels the risk of an unsuccessful issue are too high. Many issuing houses prefer

this approach because the capital base of most items are small and according to the Securities and Exchange guidelines, no issuing house is permitted to underwrite an amount more than 2.5% of its paid up capital at any point.

A typical security issue begins with discussion by the firm's financial manager with one or more issuing houses. At this stage the issuing house can provide helpful advice to the firm, especially regarding investors' reactions to debt policy, the possible features or conditions of a debt issue, and an estimate of the price or interest rate that investors will require. The financial manager will usually ask for a written proposal as to what the security issue might be and when discussion are carried out with more than one issuing house, the proposals provide a basis for choosing among them. The issuing house chosen in this process is called the **originating house**. Large firms often establish continuing relationships with an issuing house that may last for many years. For large issues, other issuing houses may be brought in to form the underwriting syndicate. The originating house will normally serve as the manager of the syndicate and underwrite the largest portion of the issue.

2.3 TASK AND ISSUES OF THE STUDY

The three basic concepts in this study, sources of capital; cost of packaging capital issues; and Packaging capital and debt issues, have been extensively discussed in the preceding section. As stated earlier, the principal task of the study is to establish the cost of raising funds in the Nigerian Capital Market; establish the reasons why the Nigerian businesses and government neglect or shun the facilities of the capital market; and examine the requirements of raising funds from the capital market with a view to establishing how stringent they were.

2.3.1 COST OF RAISING MONEY IN THE NIGERIAN CAPITAL MARKET

Seeking quotation and raising funds through the stock exchange is essentially an expensive business. Apart from brokers' commission there are other fees and stamp duties that must be paid to register the securities. According to rule 57 of the Stock Exchange Regulation, Brokers shall charge all clients on whose behalf they deal in local securities, whether as buyer or seller commission according to the scale prescribed by the Council of the Stock Exchange. The rates of commission are as follows:

(a) for government, municipal statutory corporations and other local authority securities:

i) with maturities under five years, commission shall be .375% of the nominal value

ii) with maturities over five years, the rate shall be .5% of the nominal value

iii) for matching transactions involving the Central Bank of Nigeria and the National Provident Funds, the rate shall be 0.02125% of the nominal value.

(b) for other securities in respect of which a quotation is maintained the rate of commission shall be 1.25% of consideration or market capitalisation, which is higher.

However, it costs much more than these commission to raise funds on the capital market. For example, the following are the minimum costs to a company wishing to raise just =N=1 million through a public issue by prospectus on the official list of the Nigerian Stock Exchange.

	=N=
Stamp Duties (up to =N=4,000,000)	7,500
Issuing House Fee	1,000
Solicitors to the Issue	7,000
Solicitors to the Company	7,000
Auditors and Reporting Accountants	20,000
Printing	40,000
Advertising and Publicity	35,000
Brokerage Fees	5,000
Issuing Fees	15,000
Total	137,500
Average cost of funds	13.75%

It costs on the average about 13% of the total funds to be raised, to obtain funds through the Exchange. This has had the effect scaring away prospective fund raisers, especially smaller businesses. The factor responsible for the expansiveness of these issues is the fixed element of issuing costs associated with:

i) administrative and other charges incurred in the process of investigating the company;

ii) advertising expenditure;

iii) legal, accounting, registrar and stock exchange fees

iv) other miscellaneous expenses

These costs, especially those incurred in connection with the printing and advertising, accounting and investigation of the issue, are lumpy and cannot be scaled down to meet the needs of small issues and only when the issues are large can one expect economies of scale with very low issues costs for large issues. Where the company that makes the small issue is coming to the market for the first time and is relatively unknown, additional expenses that are necessary for a strong marketing effort in order to sell their shares may increase the already high cost of issue.

Besides the administrative and other expenses incurred in floating shares, there are sometimes market cost associated with the issue of shares. The market cost arises where the issue price is fixed below the price which the company's share will realise on the market when dealings start. When these market cost or discounts are added to the flotation costs, the total issue costs are greater and can be prohibitive for small issues. Market discounts are found to be high in Nigeria because of the price fixing activities of the Security and Exchange Commission. The implication of this very high market

discount in Nigeria would be to make the new issues market an insignificant source of capital formation for a long time unless the price fixing activities of the securities and Exchange Commission are discontinued. Fortunately, this has been done and the issue price is now being determined by the issuing houses subject to clearance from the Securities and Exchange Commission.

2.3.2 PROBLEMS OF THE NIGERIAN CAPITAL MARKET

The Nigerian capital market from all indication have not been able to perform the expected role. The capital market has largely been functioning at a much lower scale and volume. For instance, despite the relative large size and diversity of the financial sector, capital markets have been discouraged from expanding due to excessive control, higher cost of equity relative to debt (higher taxes on equities, absence of deduction for capital losses, higher underwriting expenses to mention only a few). It has been observed that even though the Nigerian Stock market has been operational since 1960, it is still at a very early stage of development in terms of depth, i.e. its security/GNP ration is under 15% compared to 30% in Korea. Its Bond/GNP and Share/GNP are less than 10% and 5% respectively. The most important single challenge that faces all those interested in the emergence of an active capital market is the problem of imparting depth and breadth to the market. By breath to the market is meant the number and range of securities which are available for trading and by depth is meant the volume of and value of such securities. The market has not succeeded in generating sufficient securities from companies and institutions. At 192 at the end of June 1996, for example, the number of equities quoted on the Stock Exchange cannot be considered adequate, although the situation has not encouraged active buying and selling in the market.

Secondly, it has also been observed that the market is dominated by government securities in terms of value as shown in table 3.

In fact, up till 1990, government stocks account for not less than 90 per cent of the value of total market transactions.

Thirdly, the market is characterised by infrastructural inadequacies. There are delays in effecting transactions between issuing houses, brokers-dealers, registrars, investors and their banks due largely to the inadequacy of our postal and telegraphic services. The drag in the delivery services discourages investors who sometimes view with distrust their registrars and brokers when share certificates are undelivered or proceeds of shares sold are not received promptly. Other problems of the market has to do with ignorance on the part of most members of the Nigerian public as to the meaning of shares and stocks as well as benefits derivable from market operations, and reluctance of the Nigerian businessman to go public for fear of losing control of family business.

With all these problems present, majority of the Nigerian businesses prefer to source their funds from the Money market, where with little effort and presentation of acceptable securities, large sums of money are always sourced at interest rates lower than dividend yields. However, the amount of money that can be generated from the money market by issue of private sector securities has been limited by lack of confidence in the ability of the companies to honour their obligation. Therefore, the capital market remain the only viable option for raising substantial amount of capital for development

2.3.3 REQUIREMENT OF THE SECURITIES AND EXCHANGE COMMISSION AND STOCK EXCHANGE FOR RAISING MONEY IN THE CAPITAL MARKET

Before prospective fund raisers can source money from the capital market, certain conditions stipulated by the Securities and Exchange Commission and the Stock Exchange must have to be complied with. These conditions requires that:

Application to the Securities and Exchange Commission and the Nigerian Stock Exchange must be made concurrently and must comply with the provision of the Listing Requirements of the Nigerian Stock Exchange as well as the Rule and Regulations of SEC. before funds can be raised from the Nigerian Capital Market.

Specifically, the application to SEC must comprise of:

- The purpose of the offer
- The terms of the offer
- Recommended price of the offer

and must be accompanied with the following documents:

(a) A copy of the draft prospectus

(b) A letter of draft underwriting Agreement and commitment letters from consortium of underwriters.

(c) Audited and Signed Annual Accounts for the five years immediately preceding the application, or actual number of years since commencement of operation if less than 5 years.

(d) Detailed Manufacturing, Trading and Profit and Loss accounts for the relevant years listed above.

(e) If a Company's audited account is more than six months, audited account for six months into the new year shall be provided.

(f) Reports of Accountants on the audited accounts as stipulated in the companies and allied matters Decree 1, 1990.

(g) Profit Forecast stating the basis of such forecast.

(h) Brief history of the enterprise stating date of incorporation, changes since incorporation, capitalisation.

(i) Full description of the nature of business and the operation of the company.

(j) Statement about the staff and management of the company;

(k) Particulars of any litigation involving the company;

(l) Contingent liabilities;

(m) A copy of memorandum and articles of Association

(n) A certified copy of the certificate of incorporation.

The application to the stock exchange on the other hand must be accompanied with the following documents:

(a) Ten copies of abridged 'Application for Quotation and Listing on the Nigerian Stock Exchange;

(b) Two copies of the certified certificate of Incorporation and evidence of attaining a public limited company (PLC) status;

(c) Two copies of the Memorandum and Articles of Association;

(d) In the case of loan stock or debentures, a draft of the Trust deed (or documents securing or constituting the stock) which must comply with stipulations of the listing requirements of the exchange.

(e) A certified copy of the resolution:

a. Authorising the issue of all securities for which listing is sought;

b. Of the board approving or authorising the issue of the prospectus; and

c. Increasing the share capital of the company in order to absorb the proposed issue

(f) One copy of the Annual Report and Accounts for each of the five (or three completed financial years of the applicant company immediately preceding the date of application);

(g) A copy of the draft underwriting Agreement (Where applicable) and commitment letters from consortium of underwriters. A signed copy should be submitted latter;

(h) A true copy of the Reporting Accountants statements on:

a. The five (or three) years financial results (incorporating the Statement of Adjustments); and

b. The profit forecast and the cashflow projection for the next two or five years

(i) One copy of the Pricing Proposal submitted to SEC

(j) One copy of the Draft Prospectus;

(k) An estimated cost of the issue (final cost shall be submitted later);

(l) Offer timetable;

(m) A certified copy of report, valuation, resolution or other documents any part of which extracted or referred to in the prospectus;

(n) Consent letters from all the parties to the issue.

The application to The Nigerian Stock Exchange is normally submitted by the Stockbrokers to the issue while that of SEC is submitted by the Issuing House.

Apart from the above conditions, companies wishing to raise funds from the capital market must also ensure that other conditions relating to obtaining quotation for the shares must also be complied with. These conditions are:

2.3.4 BASIC RULES GOVERNING LISTING ON THE NSE

1. Company must be registered as registered as Public Limited Company under the provisions of the Companies and Allied Matters Decree 1990.

2. Must submit to The Exchange financial statements/business record of past 5 years.

3. Date of last audited accounts must not exceed 9 months.

4. Amount of money that can be raised is unlimited depending on the borrowing power of the Director/Company

5. Annual quotation fees based on market capitalisation

6. At least 25% nominal value of share capital must be offered to the public.

7. Number of shareholders must not be less than 300

8. After listing, Company must submit quarterly, half yearly and Annual Accounts.

9. Securities must be fully paid-up at time of allotment.

10. Unallotted Securities must be sold on NSE Trading Floors

11. There is Provision for issue of mergers, acquisitions, units trusts and mutual funds.

2.4 STATE OF THE ART OF THE PROBLEM

The various sources of capital, and the cost of raising funds through the capital market; the requirements of the Securities and Exchange Commission and the Nigerian Stock Exchange for raising funds in the capital market which form the conceptual framework and the principal task and issues of the study have been examined in detail in the preceding sections. As indicated earlier, this section will examine the current capital market reforms especially those aimed that reducing the cost of raising funds, increasing the depth and breath of the market and encourage local and foreign investment in the Nigerian economy.

2.4.1 MARKET BUREAUCRACY

Fund raisers in the Nigerian capital market pass through lots of trouble before sourcing money in the capital market. It was against this background that funds seekers decry market bureaucracy and called on the Securities and Exchange Commission to review the procedures and requirements for sourcing funds from the capital market in a bid to reduce the duration and cost. It has been observed that it took companies about 2 years to complete the arrangement to source money from the market. Aside from this,

it may still take companies about six months to obtain the proceeds of the offers they have closed because of the need to collect returns from receiving agents, allot the shares to subscribers and got allotment clearance from SEC.

There are about seven stages involved in public offer of shares apart from the listing and registration requirements of the NSE and SEC. The stages include consultation stage, decision making stage, documentation and packaging stage, NSE quotation stage, marketing stage and actual listing of the shares.

However, according to the Director- General of the NSE, the exchange was planning to make the stock market the preferred efficient provider of long term capital to the Nigerian industry and the public sector by the year 2000. Therefore, as part this, the exchange would by 1997 reduce the time cycle for raising funds in the market to between one and two months through effective underwriting of new issues.

It is however to noted that the elaborate procedures and requirements initiated by SEC and NSE among others were designed to ensure full disclosure of information by companies intending to raise funds in a bid to enhance the confidence of investors in the market.

2.4.2 ACTIVITY IN THE STOCK MARKET

In 1995, about =N=4.4 billion Naira was raised under new issues through the capital market which was the highest in the last five years. According to the Securities and Exchange Commission report of 1995, the primary market mobilised a total of 27.7 billion Naira in ten years ending December 31st 1995. showing an annual average contribution of 2.77 billion Naira.

It is believed that with concerted efforts and commitment of all, the market's capacity to significantly tap both domestic and international savings for socio-economic development would be actualised.

One interesting aspect of the capital market activity in the recent years is the predominance of the equity issues. As at mid August 1996, there were 274 securities traded on the floor of the stock exchange, of which 183 were equity listings, covering virtually every sector of the economy, from manufacturing to aviation. Equity capitalisation has continued to account for the bulk of the total market capitalisation on the exchange representing 97.1 percent in 1995. However, the bond market has continued to record a disturbing inactivity. The most cogent reason being the low pricing of bonds. An active bond market, particularly in an era of economic and capital market deregulation is vital to the development of the industrial sector as well as commercial parastatals such as NEPA, NITEL and NIPOST. The solid minerals sector also stands to benefit from this market.

Investors' acceptance of most public issues in the last six years has been quite impressive as evidenced by a study conducted by the SEC on the level of subscription to public issues during the reviewed period. The study revealed that on average public issues were 137.2 percent subscribed (i.e. an oversubscription rate of 37.2 percent) and indicative of the capacity and interest in the market.

2.4.3 COST OF RAISING FUNDS:

Investors in the Nigerian Capital market have renewed clamour for downward review of what it costs a prospective fund seeking company to raise equity finance if more companies are to join the fold. However, in May 1996, the Securities and Exchange Commission reviewed the tariffs. Companies raising a minimum of N500 million are

to pay N5 million to the commission for registration of securities while any amount above N1 billion attracts N250 million. Until the review in May, this year, such companies had been paying about N7.5 million to register an issue worth over N500 million.

Consequently, shareholders are canvassing vigorously for an urgent cut in the charges. The latest call was on Tuesday in Lagos at Nestle Foods extra Ordinary general Meeting where investors sealed the company's merger with Nestle Foods of South African. Specifically, the shareholders took a swipe at N75 million cost of the merger describing it as too high. The shareholders at the meeting berated the cost of funds and called for immediate review of the cost structure. It has been observed that the cost of funds determines investors response to the stock market. A recent world bank study on transaction costs on equity market posited that the cost of transacting in equity market affects the level of investments. It was further noted that the cost of transacting in equity markets affect not just the level of investment, but kinds of investments that are undertaken and once equity markets allow the ownership of capital to be transferred economically, reductions in costs tends to favour the use of longer-maturity investments. Thus, the efficiency of an economy's financial system (measured by the cost of transacting in equity markets) has implications for the choice of which investments are undertaken. The issue of which investments are undertaken, in equilibrium, affects the productivity of investment, as well as capital formation. This implies that equity cost largely affects the volume of financial market activity.

The securities and exchange commission had in May indicated its plan to review various fees the fund raising companies pay to other parties after consultation with the parties. Further, the exchange has reduced downwards the requirements for seeking funds for solid minerals to attract operators in this area.

Generally, a cut in the overall charges for raising funds has the potency of encouraging many prospective companies into seeking quotation and prevent them from seeking funds from the money market where protocols are less emphasised.

2.4.4 CAPITAL MARKET REFORMS:

There is no gain-saying that without appropriate macro-economic and political environment not much can be expected in form of new investment flows into the country or indeed the retention of existing foreign investment, be it direct or portfolio investment. Fortunately, Nigeria has taken some bold steps in the area of macro-economic reforms aimed at entrenching sustainable growth and development. As a result, the economy is today considerably free of controls, market-led and consistent in policy, with greater recognition of the private sector as the engine of growth.

The country's reform have included the embrace of privatisation which is considered to be one of the first and most transparent on the African continent. The government has also made progress in the area of debureaucratizing and promoting fiscal discipline as well as accountability in the public sector, while reforming the financial sector to restore confidence and its efficiency.

The capital market as an integral aspect of the economy is also undergoing reforms to enhance its domestic and global competitiveness. In 1993, Nigerian made a shift from merit-based to full disclosure-based regulation of its capital market with the abolition of official pricing of primary security issues and its transfer to issuing houses which traditionally and internationally perform such function.

Conscious of the fact that efficient infrastructural facilities would encourage investment in the capital market, The Nigerian Stock Exchange has made reasonable progress towards installing a more efficient clearing and settlement system. When it takes off, the system is expected to reduce clearing and settle of transactions to an internationally acceptable level of T + 3 (i.e. transaction day plus three days). The envisaged introduction of custodial services would eliminate the present problems with delivery of securities and create a far more efficient market which should further engender confidence and participation in the market. Additional to these measures is the planned modernisation of the trading system which is presently a call-over system.

Major obstacles to foreign investment in many countries were legislative provisions and investment policies which discriminated against foreigners and /or created difficulties in the remittance of funds. Nigerian has removed these obstacles to investment with the repeal of the Exchange Control Act of 1962 and the Nigerian Enterprises Promotion Decree 1989. With these two decrees off the statute books, foreign investors can now enter and exit the Nigerian market with ease. Similarly, such investors are now free to fully own any business enterprise in the country with the exception of activities on the "Negative List" and petroleum enterprises as defined in the Nigerian Investment Promotion Commission Decree 1995.

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CHAPTER THREE

RESEARCH DESIGN, METHODS AND PROCEDURE

3.1 INTRODUCTION

We have discussed the conceptual framework of this study in the previous chapter but this chapter is going to focus on various methods and procedures adopted in carrying out the study. In this chapter, therefore, attention will be focussed on Population description, Research Design , Sampling Procedures, Instruments used for data collection, Method of Organising Data and Methods of Data Analysis.

3.2. POPULATION

The population for this study essentially covers all the companies that raised funds in the Primary Market of the Nigerian Capital Market between 1990 and 1995. However, due to time constraint and inability to gather data for the period 1990 to 1993, the population for this study has been limited to securities raised in the primary market for the period between 1st January 1994 and 31st December, 1995. Therefore, all issues from 1990 to 1993 and 1996 have been excluded.

Table 3.2(a) and 3.2(b) shows a full list of all companies that raised funds in the primary market in 1994 and 1995. The type of funds raised, the mode of issue, the nominal value of issue, and the amount raised are also indicated.

TABLE 3.2. (a)

NEW ISSUES FOR PUBLIC SUBSCRIPTION IN 1994

OFFER FOR SUBSCRIPTION

COMPANIES	TYPE OF ISSUE	NOMINAL VALUE (K)	OFFER PRICE (K)	VALUE (=N= M)
Towergate Ins	Subscription	50	75	12.90
Afprint Nig	Subscription	50	100	61.70
Premier Paint	Subscription	50	90	27.00
Int. Brewery	Subscription	50	90	180.00
UACN Plc	Subscription	50	560	228.70
Premier Brewery	Subscription	50	120	39.19
Eko Int. Bank	Subscription	100	200	100.00
Nig Wire & Cable	Subscription	50	120	48.00
Academy Press	Subscription	50	150	45.74
Golden Guinea Brewery Plc	Subscription	50	145	32.89
Sub-Total	10			776.12

RIGHTS ISSUES

Afprint Nig	Rights	50	100	38.30
Unipetrol Nig	Rights	50	475	118.75
Tower Gate Ins	Rights	50	75	4.80
Delta Glass	Rights	50	170	153.00
WTN	Rights	50	80	14.40
Premier Brewery	Rights	50	120	28.00
Academy Press	Rights	50	150	29.76
A.G. Leventis	Rights	50	105	152.78
Golden Guinea	Rights	50	145	65.77
Sub-Total	9			605.66

DEBENTURE

African Paints	Debenture	Par	Par	20.00
Guinness Nig	Debenture	Par	Par	200.00
Guinness Nig	Debenture	Par	Par	100.00
WTN Plc	Debenture	Par	Par	30.00
Eko Int Bank	Debenture	Par	Par	120.00
Academy Press	Debenture	Par	Par	10.00
A.G. Leventis	Debenture	Par	Par	100.00
CFAO Nig Plc	Debenture	Par	Par	150.00
Sub-Total	8			730.00

UNIT TRUST

Centre-Point Unit Trust		50	50	50.00

TABLE 3.2(b)

NEW ISSUES FOR PUBLIC SUBSCRIPTION IN 1995

OFFER FOR SUBSCRIPTION

COMPANIES	TYPE OF ISSUE	NOMINAL VALUE (K)	OFFER PRICE (K)	VALUE (=N= M)
Trade Bank	Subscription	50	90	80.72
Trans Int. Bank	Subscription	50	100	60.00
Amicable Ass.	Subscription	50	70	18.50
Lennards Nig	Subscription	50	90	48.91
Intercity Bank	Subscription	100	120	60.00
Gamji Bank plc	Subscription	100	100	150.00
Afribank Nig	Subscription	50	550	550.00
Seven-Up Bottling Co.	Subscription	50	190	230.85
Costain (WA)	Subscription	50	120	51.42
Sub-Total	9			1,250.40

RIGHTS ISSUES

Guinness Nig	Rights	50	850	1530.00
Coldense Nig	Rights	50	150	24.57
First				
Aluminium	Rights	50	300	180.00
Nig.Wire Ind.	Rights	50	220	16.50
Aba Textile	Rights	50	280	199.20
CFAO Nig Plc	Rights	50	500	325.00
SPN Plc	Rights	50	140	44.80
Northern Nig				
Flour Mills	Rights	50	450	111.38
Sterling Prod.	Rights	50	400	158.08
Costain WA Plc	Rights	50	120	70.25

Sub-Total	10			2659.78

DEBENTURE

Seven-up				
Bottling Co	Debenture	Par	Par	115.43
The Tourist Co.	Debenture	Par	Par	400.00

Sub-Total	2			515.43

Source: The Securities and Exchange Commission - Reports and Accounts for the ended 31st December 1994 and 1995 respectively.

From this universe, a sample of 20 issues/companies was studied. The procedure for selecting the 20 companies/issues in the sample, the source of data, are explained in this chapter.

3.3. SAMPLING PROCEDURES

All the companies in the population were sent questionnaires to complete on the subject of this study. However, the first twenty companies that responded were used as sample, since the population was finite, and the companies had no distinguishing characteristics with respect to access to the capital market and the problem of the study.

3.4. INSTRUMENTS OF DATA COLLECTION

Data for the study was obtained from the analysis of records kept by the Securities and Exchange Commission, The Nigerian Stock Exchange and the questionnaire administered on the companies. Supporting qualitative data were also obtained through interviews with market operators such as Chief Executives of Issuing Houses, Stockbrokers, Accountants, Lawyers, Advertising practitioners and discussions at Workshops and Seminars I attended on Capital market operations and development in Nigeria.

3.5. METHOD OF ORGANISING DATA

The data were organised using tables. For example, in the computation of fees paid to regulatory authorities and market operators. Percentages were also used to determine the cost of funds raised by each company selected in the sample.

3.6. METHOD OF DATA ANALYSIS

The problem of the study was not essentially a cause-effect relationship between companies and the market. Therefore, regression and correlation is not appropriate. However, simple analysis of the data to establish the cost structure of funds sourced in the primary market was adopted and presented in chapter four of this research project.

CHAPTER 4

PRESENTATION AND ANALYSIS OF DATA

4.0 INTRODUCTION

According to Adam Smith, the four factors of production are Land, Labour, Capital and Entrepreneur. These factors refer to the major categories of inputs used in the production process. Land represent the God given resources such as good Agricultural climate, soil and forest products; mineral resources and water resources such as rivers, oceans etc. Labour on the other hand refers to the mental and physical efforts made by human beings All these three factors are abundantly endowed in Nigeria. In order to harness the potentials of these other three factors, Capital is most essential. Without Capital, there would be no meaningful development. The capital market is one major source of funds to Government and Private business institutions. The cost of funds is a necessary factor in deciding which source to patronise. This chapter will focus on the presentation of the companies used as sample in the study, the analysis of the cost structure of funds raised in the Nigerian Capital Market, and the determination of the cost of funds per company in the sample together with the overall average cost of raising funds in the Nigeria Capital Market.

4.1 SECURITIES IN THE RESEARCH SAMPLE

Table 4.1 (i) shows the sample of 20 companies/issues through a simple random process. The table also contain the key variables relevant for the study, namely, Amount raised, and the names of the companies involved. Tables 4.1 (ii) to 4.1 (vi) are presented in the appendix. The tables shows fees paid to the regulatory authorities, Intermediaries (market operators), Professionals and others - Advertisement and Publicity, Printing and Distribution, Vat, Contingencies, Completion of Board Meetings and Annual General Meeting. The total amount of fees paid to these operators as a percentage of Total cost and Gross Proceeds are also highlighted in the table.

TABLE 4.1

SECURITIES IN THE SAMPLE

4.1(i) AMOUNT RAISED IN THE CAPITAL MARKET

S/No.	Name of Company	Amount Raised (=N= 'M)
1.	Afribank Nig Plc	550.0000
2.	Amicable Assurance Plc	18.4996
3.	African Paints Nig Plc	75.0000
4.	Lennards Nig Plc	48.9094
5.	Nigerian Wire Industries Plc	16.5000
6.	Delta Glass Plc	153.0000
7.	Northern Nig Flour Mills Plc	111.3750
8.	Trade Bank Plc	80.7201
9.	Premier Breweries Plc	67.2000
10.	Golden Guinea Breweries Plc	98.6580
11.	Eko Int. Bank (Subscription)	100.0000
12.	Eko Int. bank (Debenture)	120.0000
13.	Trans. Int. Bank Plc	60.0000
14.	CFAO Nig Plc (Rights)	325.0000
15.	CFAO Nig Plc (Debenture)	150.0000
16.	Aba Textile Mills Plc	199.1958
17.	WTN Plc (Rights)	14.4000
18.	WTN Plc (Debenture)	30.0000
19.	Colodense Nig Plc	24.5700
20.	Studio Press Nig Plc	44.8000
	TOTAL GROSS PROCEEDS RAISED	2,287.8279

4.2 ANALYSIS AND INTERPRETATION

The cost of raising funds in the Nigerian Capital Market and the percentage of the fees paid to the regulatory bodies and other operators are analysed below with a view to establishing the average cost of raising funds in the market. Also analysed is the average cost raising rights issues, offer for subscription and fixed interest securities.

FEES TO REGULATORY AGENCIES AND OPERATORS

(20 COMPANIES EXAMINED)

(i) COST STRUCTURE OF FEES PAID	%
Fees paid to regulatory authorities:	
SEC	1.59
NSE	1.23
	2.81
Fees paid to Intermediaries (Market Operators)	4.20
Fees paid to Professionals	0.50
Fees for other miscellaneous Exp.	2.50
Average Cost of funds raised	10.01

The highest fees went to the market operator reflecting their position as the market markers. The task of packaging successfully any issue rest with the issuing houses and other operators. Thus the average fees earned by market operators was 4.20% of the total proceeds which represent the cost obtaining their services in packaging capital and debt issues. The Securities and Exchange Commision earned more the prescribed flat fee of 1.50%.

(ii) **% OF TOTAL COST PAID TO EACH BODY** **%**

Regulatory authorities	28.07
Market Operators (Intermediaries)	41.92
Professionals	5.04
Others (Adv., Printing etc.)	24.97
	100.00

(iii) **ISSUE COST AS A PERCENT OF PROCEEDS**

RIGHTS:

NAME OF COMPANY	**SIZE OF ISSUE (=N= Million)**	**COST %**
Nigeria Wire Ind Plc	16.5	17.62
Delta Glass	153.0	7.30
Northern Nig Flour Mill	111.4	8.81
CFAO	325.0	8.28
Average		7.08

OFFER FOR SUBSCRIPTION:

NAME OF COMPANY	**SIZE OF ISSUE (=N= Million)**	**COST %**
Trade Bank	80.7	16.05
Trans Int Bank	60.0	14.55
Afribank	550.0	10.44
Amicable	19.0	15.12
Lennards	49.0	14.87
Average		14.20

FIXED INTEREST SECURITIES -DEBENTURE:

NAME OF COMPANY	SIZE OF ISSUE (=N= Million)	COST %
African Paints	75.0	19.29
Eko Bank	120.0	6.26
CFAO	150.0	12.75
WTN	30.0	6.65
Average		11.40

From the above two important points can be observed about flotation cost i.e. cost of raising issues:

1. The Cost of floatation for ordinary shares is greater than for fixed interest stocks.

2. The cost of rights issue as a percentage of gross proceeds is lower than the cost of offer for subscription.

One reason for the greater expense involved in marketing ordinary shares lies in the fact that fixed interest securities are generally bought in large blocks by a relatively few institutional investors, whereas ordinary shares are more volatile than fixed interest securities, so underwriting risks are greater for the former. Costs also tend to be greater, as a percentage of total proceeds, for small issues, as demonstrated in the case of Nigeria Wire Plc (Rights); Amicable Assurance (Offer for subscription), than for large issues. There are two explanations for this. First, certain fixed expenses are associated with any issue of securities, since these expenses are relatively large and

fixed, their percentage of the total cost of floatation runs high on small issues. Second, small issues are typically those of less well-known firmss, so underwriting expenses may be larger than usual because the danger of omitting vital information is greater.

Cost of raising funds are lower for larger companies for each type of security and most companies can cut their flotation costs by making full use of rights issues as a method of issuing new securities as shown above.

The average cost of raising funds generally in the Nigerian Capital market has been established to be 10%. This cost is rather on the high side. In the Advanced economies, the average cost of cash offers i.e. offer for subscription is about 6.2% and that of Rights issues is about 6.1%, as shown in the above below. Therefore, the public outcry can be said to be justified. Many small and medium scale enterprises can hardly afford to source funds in the capital market under this circumstance. The recent downward review of the fees charged by SEC and NSE notwithstanding, there is need to review generally the cost of raising funds in the Nigerian Capital market to a maximum of 5%.

ISSUE COST AS A PERCENT OF PROCEEDS FOR REGISTERED ISSUES ORDINARY SHARES DURING 1971 - 1975.

UNDERWRITTEN CASH OFFERS.

Size of issue (million of dollars)	Underwriters' Compensation (Percent)	Other Expenses (Percent)	Total cost (Percent)
.50-0.99	7.0	6.8	13.7
1.00-1.99	10.4	4.9	15.3
2.00-4.99	6.6	2.9	9.5
5.00-9.99	5.5	1.5	7.0
10.00-19.99	4.6	0.7	5.6
20.00-49.99	4.3	0.4	4.7
50.00-99.99	4.0	0.2	4.2
100.00-500.00	3.8	0.1	4.0
Average	5.0	1.2	6.2

UNDERWRITTEN RIGHTS ISSUE.

Size of issue (million of dollars)	Underwriters' Compensation (Percent)	Other Expenses (Percent)	Total cost (Percent)
.50-0.99	3.4	4.8	8.2
1.00-1.99	6.4	4.2	10.5
2.00-4.99	5.2	2.9	8.1
5.00-9.99	3.9	2.2	6.1
10.00-19.99	4.1	1.2	5.4
20.00-49.99	3.8	0.9	4.7
50.00-99.99	4.0	0.7	4.7
100.00-500.00	3.5	0.5	4.0
Average	5.0	1.7	6.1

Source: C.W. Smith -"Alternative Methods for Raising Capital; Rights versus Underwritten Offerings," Journal of Financial Economics, 5: 273-307 (December 1977) table 1. p.

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CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATION

This study investigated the cost of raising funds in the Nigerian Capital Market. A sample of 20 issues made between 1994 and 1995 was selected for the study from a finite population of 49 issues/companies.

For the 20 issues in the sample, each of the variables relevant to the study, namely, name of the company, fees paid to regulatory authorities, market operators (intermediaries), Professionals and miscellaneous expense, and the size of issue and amount raised between 1994 and 1995 was represented.

5.1 SUMMARY OF FINDINGS:

1. The highest cost paid by a company between 1994 and 1995 to raise funds in the capital market was 19.29%. This was on debt issue.

2. The average cost of funds was 10%

3. The bulk of the fees paid to by companies to source funds in the market went to the market operators (41.92%).

4. The cost of raising funds in Nigeria was higher than those of advanced economies, which is about 6%.

5. The increased cost of funds has led to excessive leverage and deteriorating debt/equity ratios for many business enterprises, as well as a high dependence on short term borrowing even for financing long term investments.

6. The Securities and Exchange Commission charged more than the prescribed flat fee of 1.5%.

7. The cost of rights issue is generally lower than offer for subscription.

8. The cost of large issues is lower than small issues.

9. Lack of competitive environment is responsible for the high issuing and brokerage fees.

10. The cost of underwriting and issuing house fee was 2%

11. The average cost of advertising and publication was 1.16%

12 Commpanies issuing securities to the public hardly select issuing houses by competitive bidding.

13. Most issuing houses was unable to underwrite public issues due to low capital base.

5.2 CONCLUSIONS:

Based on the findings of this study, the following conclusions were made:

1. The cost of raising funds in the Nigerian Capital market is high.

2. The cost is one major factor that inhibit the growth of the capital market.

3. Many small and medium scale enterprises cannot afford to source funds in the market.

4. The under-development of the capital market is responsible for the expansion of the financial system in favour of savings mobilisation through deposit type instruments.

5.3. RECOMMENDATION

Amidst public outcry, against the high cost of raising funds in the capital market this study has shown that the cost of raising funds in the Nigerian Capital Market was quite high. Base on this and other conclusions of this study, the following recommendations are made:

1. The regulatory authorities notably the Securities and Exchange Commission and the Nigerian Stock Exchange should review downwards their charges.

2. Issuers should be allowed to negotiate underwriting fees and other charges with market operators.

3. The stringent conditions attached to the licensing of stockbrokers and issuing houses should be reviewed to ensure more entry by participants to encourage competition.

4. Competitive bidding of new issues should be encouraged as this is the only way of reducing underwriting and brokerage fees.

5. More branches of the Nigerian Stock Exchange should be opened.

6. Issuing houses and Stockbroking firms should spread their branches. A situation where 90% of the stockbroking and Issuing houses are located in Lagos is not conducive to the development of the capital market.

7. The stringent conditions for quotation of companies on the Exchange should be reviewed.

8. The capital base of the issuing houses should be raised from =N=5.0 million to about =N=25.0 million.

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TABLE 1

MONEY MARKET ASSETS =N=' MILLION

YEAR	1 =N=	2 =N=	3 =N=	4 =N=	5 =N=	6 %	7 %	8 %
1960	18		2.3	-	20.3	89	-	11.3
1961	34	-	2.2	-	36.2	94	-	6.1
1962	48	-	6.2	-	54.2	89	-	11.4
1963	60	-	14.8	-	74.2	80	-	19.8
1964	68	-	30.1	-	98.1	69	-	30.7
1965	80	-	42.0	-	122.0	66	-	34.4
1975	616	-	32.4	49.8	984.2	92	5	17.8
1976	616	286	27.0	175.4	1,470	86	2	1.9
1977	619	652	26.3	437.3	2,055	77	21	0.9
1978	816	900	45.6	248.2	2,810	89	9	.9
1979	2,119	1,700	24.3	247.1	4,600	94	5	.8
1980	2,119	2,710.6	48.1	180.9	5,076	95	4	.7
1981	5,619	2,727.6	73.1	286.8	8,286	96	3	0.9
1982	9,619	2,307.6	110.4	461.0	11,859	95	4	0.9
1983	13,476	1,668.6	153.3	527.4	19,051	96	3	0.9
1984	15,476	4,894.4	156.7	366.6	22,412	98	2	0.8
1985	16,976	6,413.1	139.0	258.2	24,017	98	1	0.7
1986	16,976	6,644.1	259.0	477.3	24,412	97	2	0.6
1987	25,226	6,654.7	496.4	1,365	24,017	95	4	1.1
1988	35,476	6,794.6	668.9	1,905	24,367	94	4	1.5
1989	24,126	6,944.6	737.2	1,321	33,752	94	4	1.5
1990	25,476	34,215	913.5	1,906	62,510	98	3	2.2
1991	56,728	34,215	1,032	1,107	93,0821	98	1	1.5
1992	10333	35,241	1,702	537	139,771	98	.4	1.2
1993	103,327	36,584	5,091	100.8	145,103	96	.1	3.5

SOURCE: CENTRAL BANK OF NIGERIA

DEFINITIONS:

Column 1 : Treasury Bills Outstanding
2 : Treasury Certificates Outstanding
3 : Commercial Papers Outstanding

4 : Certificate of Deposit, Bankers' Unit Fund and Eligible Development Stock
5 : Total Outstanding (Column 1+2+3+4)
6 : Government Instruments as Percentage of Total
7 : Certificate of Deposit, Bankers' Unit Fund and Eligible Development Stock as Percentage of Total
8 : Commercial Papers as Percentage of Total

TABLE 2
NEW PUBLIC ISSUES (1990-1995)

YEAR	SUBSCRIPTION =N= 'M	RIGHTS =N= 'M	Sub-Total Equities =N= 'M	INT. BEARING SECURITIES =N= 'M	TOTAL =N= 'M
1990	139.51	370.01	509.52	645.0	1,154.52
1991	551.45	192.54	744.03	355.00	1,099.03
1992	684.73	824.64	1,209.37	515.00	1,724.37
1993	706.17	1,517.25	2,223.42	413.50	2,636.92
1994	826.12	605.56	1.431.68	734.00	2,161.68
1995	1,250.40	2,659.78	3,910.18	515.43	4,425.61

SOURCE: The Securities and Exchange Commission. Report and Accounts for the year ended 31st December, 1995.

TABLE 3
TRANSACTIONS ON THE NIGERIAN STOCK EXCHANGE

	NUMBER			VALUE N' MILLION		
YEAR	GOVERN-MENT	INDUS TRAIAL	TOTAL	GOVERN MENT	INDUS TRIAL	TOTAL
1961	62	242	334	1.4	0.1	1.5
1965	391	629	1,018	15.2	0.6	15.8
1966	501	595	1,096	15.2	1.2	16.4
1967	336	427	763	12.1	0.3	12.4
1968	286	360	646	12.3	0.2	12.5
1969	307	246	553	16.2	0.2	16.4
1970	303	331	634	16.4	0.2	16.6
1971	204	748	952	32.6	3.5	36.1
1969	258	640	898	52.3	2.0	54.3
1972	282	537	819	91.9	0.5	92.4
1973	256	2807	3,063	48.4	1.3	49.7
1975	193	501	694	63.7	0.6	64.3
1976	321	696	1,017	111.3	1.2	111.9
1977	337	1,314	1,651	178.8	2.4	180.0
1978	252	2,234	2,486	187.3	4.7	189.7
1979	124	3,099	3,223	249.7	7.9	254.4
1980	220	6,918	7,138	380.9	6.1	388.8
1981	110	10,081	10,199	298.7	6.0	304.8
1982	184	9830	10,014	207.0	13.0	215.0
1983	292	11,633	11,925	384.7	15.7	397.7
1984	194	17,250	17,444	241.0	23.2	256.7
1985	314	23,232	23,546	295.3	20.0	318.5
1986	270	27,448	27,718	475.6	42.3	495.6
1987	238	20,410	20,648	338.2	32.4	380.5
1988	96	21,466	21,562	217.1	62.7	249.5
1989	171	33,273	33,444	490.5	112.9	553.2
1990	111	38,881	38,992	153.9	149.4	272.8
1991	45	41,725	41,770	92.7	112.9	242.1
1992	71	48,958	49,029	85.0	406.7	491.7

TABLE 4.1 (ii)

FEES TO REGULATORY AUTHORITIES

NAME OF COMPANY	NO OF ISSUE	REGISTRATION FEES (SEC)	LISTING FEES (NSE)	STAMP DUTY	ANY OTHER FEES	SUB-TOTAL
AFRIBANK NIG PLC	1	9,010,000.00	11,764,250.00	262,500.00	N/A	21,036,750.00
% of the Total Cost		15.74	20.56	0.46	N/A	36.76
% of the Gross Proceeds		1.64	2.14	0.05	N/A	3.82
						0.00
AMICABLE ASSURANCE	1	287,494.00	285,245.00	0.00	0.00	572,739.00
% of the Total Cost		10.28	10.20	0.00	0.00	20.48
% of the Gross Proceeds		1.53	1.67	0.42	0.10	3.71
						0.00
LENNARDS NIG PLC	1	743,640.63	733,367.19	375,000.00	91,000.00	1,943,007.82
% of the Total Cost		10.22	10.08	5.15	1.25	26.71
% of the Gross Proceeds		1.52	1.50	0.77	0.19	3.97
NIGERIAN WIRE IND.	1	257,500.00	192,000.00	62,500.00	16,000.00	528,000.00
% of the Total Cost		8.76	6.53	2.13	0.54	17.96
% of the Gross Proceeds		1.56	1.16	0.38	0.10	3.20
DELTA GLASS PLC	1	2,295,000.00	1,171,000.00	1,050,000.00	0.00	4,516,000.00
% of the Total Cost		20.55	10.48	9.40	0.00	40.43
% of the Gross Proceeds		1.50	0.77	0.69	0.00	2.95
NORTHERN NIG FLOUR MILLS PLC	1	1,680,625.00	258,000.00	205,909.50	1,392,187.50	3,536,722.00
% of the Total Cost		17.12	2.63	2.10	14.19	36.04
% of the Gross Proceeds		1.51	0.23	0.18	1.25	3.18
TRADE BANK PLC	1	1,330,000.00	230,000.00	0.00	616,000.00	2,176,000.00
% of the Total Cost		10.27	1.78	0.00	4.75	16.80

% of the Gross Proceeds		1.65	0.28	0.00	0.76	2.70
PREMIER BREWERY PLC.	2	2,000,000.00	102,900.00	210,000.00	0.00	2,312,900.00
% of the Total Cost		42.89	2.21	4.50		49.60
% of the Gross Proceeds		2.98	0.15	0.31	0.00	3.44
GOLDEN GUINEA BREW PLC.	1	1,499,870.00	1,074,580.00	34,290.00	0.00	2,608,740.00
% of the Total Cost		15.04	10.78	0.34	0.00	26.16
% of the Gross Proceeds		1.52	1.09	0.03	0.00	2.64
EKO INT BANK PLC	1	1,504,545.00	0.00	380,000.00	0.00	1,884,545.00
% of the Total Cost		21.69	0.00	5.48	0.00	27.17
% of the Gross Proceeds		1.50	0.00	0.38	0.00	1.88
EKO INT BANK PLC (DEBENTURE)	1	1,805,455.00	0.00	190,000.00	0.00	1,995,455.00
% of the Total Cost		24.02	0.00	2.53	0.00	26.55
% of the Gross Proceeds		1.50	0.00	0.16	0.00	1.66
CFAO NIG PLC (DEBENTURE)	1	4,885,000.00	444,000.00	1,550,500.00	4,062,500.00	10,942,000.00
% of the Total Cost		18.16	1.65	5.76	15.10	40.67
% of the Gross Proceeds		1.50	0.14	0.48	1.25	3.37
CFAO NIG PLC (DEBENTURE)	1	2,260,000.00	1,150,000.00	0.00	0.00	3,410,000.00
% of the Total Cost		11.82	6.01	0.00	0.00	17.83
% of the Gross Proceeds		1.51	0.77	0.00	0.00	227.00
TRANS INTERNATIONAL BANK	1	910,000.00	146,000.00	0.00	750,000.00	1,806,000.00
% of the Total Cost		10.42	1.67	0.00	8.59	20.68
% of the Gross Proceeds		1.52	0.24	0.00	1.25	3.01
ABA TEXTILE MILLS PLC	1	3,002,937.00	157,000.00	0.00	1,991,958.00	5,151,895.00

% of the Total Cost		18.43	0.96	0.00	12.23	31.62
% of the Gross Proceeds		1.51	0.08	0.00	1.00	2.59
WTN PLC (DEBENTURE)	1	300,000.00	0.00	20,380.00	0.00	320,380.00
% of the Total Cost		15.03	0.00	1.02	0.00	16.05
% of the Gross Proceeds		1.00	0.00	0.07	0.00	1.07
WTN PLC (RIGHTS)	1	216,000.00	56,000.00	0.00	144,000.00	416,000.00
% of the Total Cost		9.48	2.46	0.00	6.32	18.26
% of the Gross Proceeds		1.50	0.39	0.00	1.00	2.89
COLODENCE NIG PLC	1	368,550.00	0.00	90,000.00	10,000.00	468,550.00
% of the Total Cost		17.77	0.00	4.34	0.48	22.59
% of the Gross Proceeds		1.50	0.00	0.37	0.04	1.91
STUDIO PRESS NIG PLC	1	682,000.00	118,000.00	520.00	560,000.00	1,360,520.00
% of the Total Cost		17.22	2.98	0.01	14.14	34.36
% of the Gross Proceeds		1.52	0.26	0.00	1.25	3.04
TOTAL	**22**	**36,183,616.00**	**19,133,342.00**	**4,744,100.00**	**9,708,645.00**	**69,769,703.00**
% of the Total Cost		**15.79**	**8.35**	**2.07**	**4.24**	**30.39**
% of the Gross Proceeds		**1.58**	**0.84**	**0.21**	**0.42**	**3.05**

TABLE 4.1 (iii)

FEES TO INTERMEDIARIES (MARKET OPERATORS)

NAME OF COMPANY	ISSUING HOUSE FEES	STOCKBROKERS FEES	REGISTRAR	FINANCIAL ADVISER	TRUSTEES	RECEIVING BANK	ANY OTHER FEES	SUB-TOTAL
AFRIBANK NIG PLC	13,750,000.00	1,650,000.00	1,462,500.00	0.00	0.00	0.00	0.00	16,862,500.00
% of the Total Cost	24.03	2.88	2.56	0.00	0.00	0.00	0.00	29.47
% of the Gross Proceeds	2.50	0.30	0.27	0.00	0.00	0.00	0.00	3.07
AMICABLE ASSURANCE PLC	350,000.00	75,000.00	209,700.00	0.00	0.00	184,996.00	0.00	819,696.00
% of the Total Cost	12.52	2.68	7.50	0.00	0.00	6.62	0.00	29.31
% of the Gross Proceeds	1.89	0.41	1.13	0.00	0.00	1.00	0.00	4.43
AFRICAN PAINTS NIG PLC	1,687,500.00	375,000.00	1,500,000.00	0.00	0.00	750,000.00	0.00	4,312,500.00
% of the Total Cost	11.66	2.59	10.37	0.00	0.00	5.18	0.00	29.81
% of the Gross Proceeds	2.25	0.50	2.00	0.00	0.00	1.00	0.00	5.75
LENNARDS NIGERIA PLC	1,222,734.38	244,546.88	150,000.00	0.00	0.00	345,636.00	0.00	1,962,917.26
% of the Total Cost	16.81	3.36	2.06	0.00	0.00	4.75	0.00	26.98
% of the Gross Proceeds	2.50	0.50	0.31	0.00	0.00	0.71	0.00	4.01
NIGERIA WIRE IND PLC	937,500.00	247,500.00	107,340.00	500,000.00	0.00	0.00	165,000.00	1,957,340.00
% of the Total Cost	31.88	8.42	3.65	17.00	0.00	0.00	5.61	66.57
% of the Gross Proceeds	5.58	1.50	0.65	3.03	0.00	0.00	1.00	11.86
DELTA GLASS PLC	2,295,000.00	2,280,000.00	300,380.00	0.00	0.00	0.00	0.00	4,875,380.00
% of the Total Cost	20.55	20.41	2.69	0.00	0.00	0.00	0.00	43.65
% of the Gross Proceeds	1.50	1.49	0.20	0.00	0.00	0.00	0.00	3.19
NORTHERN NIG FLOUR MILLS PLC	2,505,938.00	556,875.00	500,000.00	1,113,750.00	0.00	0.00	153,141.00	4,829,703.00
% of the Total Cost	25.53	5.67	5.09	11.35	0.00	0.00	1.56	49.21

% of the Gross Proceeds	225.00	0.50	0.45	1.00	0.00	0.00	0.14	4.34
TRADE BANK PLC	2,500,000.00	2,500,000.00	1,300,000.00	0.00	0.00	880,000.00	0.00	7,180,000.00
% of the Total Cost	19.30	19.30	10.03	0.00	0.00	6.79	0.00	55.42
% of the Gross Proceeds	3.10	3.10	1.61	0.00	0.00	1.09	0.00	8.89
PREMIER BREWERY PLC	1,000,000.00			300,000.00				1,300,000.00
% of the Total Cost	21.45			6.43				27.88
% of the Gross Proceeds	1.49			0.45				1.93
GOLDEN GUINEA BREWERY PLC	1,479,870.00	690,600.00	863,031.00			506,713.00		3,540,214.00
% of the Total Cost	14.84	6.93	8.65			5.08		35.50
% of the Gross Proceeds	1.50	0.70	0.87			0.51		3.59
EKO INTERNATIONAL BANK PLC	2,000,000.00		521,165.00			1,000,000.00		3,521,165.00
% of the Total Cost	28.84		7.51			14.42		50.77
% of the Gross Proceeds	2.00		0.52			1.00		3.52
EKO INT BANK PLC (DEBENTURE)	2,400,000.00		5,535.00		60,000.00	353,460.00	543,825.00	3,362,820.00
% of the Total cost	31.93		0.07		0.80	4.70	7.24	44.74
% of the Gross Proceeds	2.00		0.00		0.05	0.29	0.45	2.80
TRANS INT'L BANK PLC	1,050,000.00	600,000.00	145,755.00			600,000.00		2,395,755.00
% of the Total Cost	12.03	6.87	1.67			6.87		27.44
% of the Gross Proceeds	1.75	1.00	0.24			1.00		3.99
CFAO NIG PLC (DEBENTURE)	4,875,000.00	487,500.00	1,070,608.00			1,950,000.00	4,710,875.00	13,093,983.00
% of the Total Cost	18.12	1.81	3.98			7.25	17.51	48.67
% of the Gross Proceeds	1.50	0.15	0.33			0.60	1.45	4.03
CFAO NIG PLC (DEBENTURE)	3,000,000.00	1,500,000.00	25,000.00		250,000.00		9,750,000.00	14,525,000.00

% of the Total Cost	15.69	7.85	0.13	1.31		50.99	75.97
% of the Gross Proceeds	2.00	1.00	0.02	0.17		6.50	9.68
ABA TEXTILE MILLS PLC	2,489,947.00	497,989.00	153,043.00		1,991,958.00	1,991,958.00	7,124,895.00
% of the Total Cost	15.28	3.06	0.94		12.23	12.23	43.74
% of the Gross Proceeds	1.25	0.25	0.08		1.00	1.00	3.58
WTN PLC (DEBENTURE)	375,000.00		80,000.00	76,750.00	300,000.00	450,000.00	1,281,750.00
% of the Total Cost	18.78		4.01	3.84	15.03	22.54	64.21
% of the Total Gross Proceeds	1.25		0.27	0.25	1.00	1.50	4.27
WTN PLC (RIGHTS)	144,000.00	222,000.00	240,000.00		144,000.00		750,000.00
% of the Total Cost	6.32	9.74	10.53		16.32		32.92
% of the Gross Proceeds	1.00	1.54	1.67		1.00		5.21
COLODENCE NIG PLC	491,400.00						491,400.00
% of the Total Cost	23.69						23.69
% of the Gross Proceeds	2.00						2.00
STUDIO PRESS NIG PLC	560,000.00	336,000.00	149,354.00			448,000.00	1,493,354.00
% of the Total Cost	14.14	8.49	3.77			11.31	37.71
% of the Gross Proceeds	1.25	0.75	0.33			1.00	3.33
TOTAL	**45,113,889.00**	**12,263,011.00**	**8,783,411.00**	**1,913,750.00**	**386,750.00**	**9,006,763.00**	**18,212,798.00**	**95,680,372.00**
% of the Total Cost	**19.69**	**5.35**	**3.83**	**0.84**	**0.17**	**3.93**	**7.95**	**41.77**
% of the Gross Proceeds	**1.97**	**0.54**	**0.38**	**0.08**	**0.02**	**0.39**	**0.80**	**4.18**

TABLE 4.1 (iv)

FEES TO PROFESSIONAL

NAME OF COMPANY	SOLICITOR TO THE COMPANY	SOLICITOR TO THE ISSUE	TO THE TRUSTEEES	AUDITORS	REPORT ACCOUNTANT	ANY OTHER FEES	SUB-TOTAL
AFRIBANK NIG PLC		250,000.00		4,177,000.00	200,000.00		4,627,000.00
% of the Total Cost		0.44		7.30	0.35		8.09
% of the Gross Proceeds		0.05		0.76	0.04		0.84
AMICABLE ASSURANCE PLC		80,000.00		50,000.00	90,000.00		220,000.00
% of the Total Cost		2.86		1.79	3.22		7.87
% of the Gross Proceeds		0.43		0.27	0.49		1.19
AFRICAN PAINTS NIG PLC	85,000.00	11,000.00		294,145.00	500,000.00		890,145.00
% of the Total Cost	0.59	0.08		2.03	3.46		6.15
% of the Gross Proceeds	0.11	0.01		0.39	0.67		1.19
LENNARDS NIGERIA PLC	70,000.00	150,000.00		150,000.00	200,000.00		570,000.00
% of the Total Cost	0.96	2.06		2.06	2.75		7.83
% of the Gross Proceeds	0.14	0.31		0.31	0.41		1.17
NIGERIAN WIRE IND PLC		100,000.00			100,000.00		340,266.00
% of the Total Cost		3.40			3.40		6.80
% of the Gross Proceeds		0.61			0.61		1.21
DELTA GLASS PLC		137,500.00		122,766.00	80,000.00		340,266.00
% of the Total Cost		1.23		1.10	0.72		3.05
% of the Gross Proceeds		0.09		0.08	0.05		0.22
NORTHERN NIG FLOUR MILLS PLC				125,000.00	125,000.00		250,000.00
% of the Total Cost				1.27	1.27		2.55

% of the Gross Proceeds				0.11	0.11	0.22
TRADE BANK PLC	50,000.00	150,000.00		100,000.00	200,000.00	500,000.00
% of the Total Cost	0.39	1.16		0.77	1.54	3.86
% of the Gross Proceeds	0.06	0.19		0.12	0.25	0.62
PREMIER BREWERY PLC						
% of the Total Cost				150,000.00		150,000.00
% of the Gross Proceeds				3.22		3.22
GOLDEN GUINEA BREWERY PLC		16,760.00			105,000.00	272,600.00
% of the Total Cost		1.68			1.05	2.73
% of the Gross Proceeds		0.17			0.11	0.28
EKO INT BANK PLC		47,250.00		83,523.00		130,773.00
% of the Total Cost		0.68		1.20		1.89
% of the Gross Proceeds		0.05		0.08		0.13
EKO INT BANK (DEBENTURE)		57,750.00	290,000.00	100,227.00		447,977.00
% of the Total Cost		0.77	3.86	1.33		5.96
% of the Gross Proceeds		0.05	0.24	0.08		0.37
TRANS INT'L BANK PLC	100,000.00	130,000.00		1.15	1.49	5.27
% of the Total Cost	1.15	1.49		0.17	0.22	0.77
% of the Gross Proceeds	0.17	0.20				
CFAO NIG PLC (DEBENTURE)						
% of the Total Cost						
% of the Gross Proceeds						
CFAO NIG PLC (DEBENTURE)			260,000.00		371,000.00	631,000.00

TABLE 4.1 (v)

OTHER FEES

NAME OF COMPANY	ADVERT & PUB	PRINT & DISTN	MISCELLANEOUS	ANY OTHERS	SUB-TOTAL	GRAND TOTAL COST	TOTAL PROCEEDS (VALUE)	COST OF FUNDS PER COMPANY
AFRIBANK NIG PLC	7,900,699.00	5,479,788.00	589,500.00	731,753.00	14,701,740.00	57,227,990.00	550,000,000.00	
% of the Total Cost	13.81	9.58	1.03	1.28	25.69	100.00	0.00	
% of the Gross Proceeds	1.44	1.00	0.11	0.13	2.67	10.41	0.00	10.41
AMICABLE ASSURANCE PLC	400,000.00	434,000.00	250,000.00	100,000.00	1,184,000.00	2,796,435.00	18,499,600.00	
% of the Total Cost	14.30	15.52	8.94	3.58	42.34	100.00	0.00	
% of the Gross Proceeds	2.16	2.35	1.35	0.54	6.40	15.12	0.00	15.12
AFRICAN PAINTS NIG PLC	3,105,970.00	2,248,221.00	577,710.00	550,200.00	6,482,101.00	14,468,246.00	75,000,000.00	
% of the Total Cost	21.47	15.54	3.99	3.80	44.80	100.00	0.00	
% of the Gross Proceeds	4.14	3.00	0.77	0.73	8.64	19.29	0.00	19.29
LENNARDS NIGERIA PLC								
% of the Total Cost	1,350,000.00	1,300,000.00	149,650.89		2,799,651.00	7,275,575.97	48,909,375.00	
% of the Gross Proceeds	18.56	17.87	2.06		38.48	100.00	0.00	
NIGERIAN WIRE IND PLC	0.00	255,000.00			255,000.00	2,940,340.00	16,500,000.00	
% of the Total Cost		8.67			8.67	100.00	0.00	
% of the Gross Proceeds		1.55	0.00		1.55	17.82	0.00	17.82
DELTA GLASS PLC	515,822.00	414,000.00	267,332.00	241,639.00	1,438,793.00	11,170,439.00	153,000,000.00	
% of the Total Cost	4.62	3.71	2.39	2.16	12.88	100.00	0.00	
% of the Gross Proceeds	0.34	0.27	0.17	0.16	0.94	7.30	0.00	7.30
RTHERN NIG FLOUR MILLS PLC	700,000.00	497,578.00	0.00	0.00	1,197,578.00	9,814,003.00	111,375,000.00	
% of the Total Cost	7.13	5.07			12.20	100.00	0.00	

% of the Gross Proceeds	0.63	0.45			1.08	8.81	0.00	8.81
TRADE BANK PLC	2,500,000.00	600,000.00						
% of the Total Cost	19.30	4.63	0.00	0.00	3,100,000.00	12,956,000.00	80,720,100.00	
% of the Gross Proceeds	3.10	0.74			23.93	100.00	0.00	
					3.84	16.05	0.00	16.05
PREMIER BREWERY PLC	900,000.00	0.00			900,000.00	4,662,900.00	67,200,000.00	
% of the Total Cost	19.30				19.30	100.00	0.00	
% of the Gross Proceeds	1.34				1.34	6.94	0.00	6.94
GOLDEN GUINEA BREWERY PLC	2,235,831.00	1,314,995.00	0.00	0.00	3,550,826.00	9,972,380.00	98,658,000.00	
% of the Total Cost	22.42	13.19			35.61	100.00	0.00	
% of the Gross Proceeds	2.27	1.33			3.60	10.11	0.00	10.11
EKO INT BANK PLC	820,981.00	434,173.00	144,000.00	0.00	1,399,153.00	6,935,637.00	100,000,000.00	
% of the Total Cost	11.84	6.26	2.08		20.17	100.00	0.00	
% of the Gross Proceeds	0.82	0.43	0.14		1.40	6.94	0.00	6.94
EKO INT BANK PLC (DEBENTURE)	1,003,421.00	530,656.00	176,000.00	0.00	1,710,076.00	7,516,328.00	120,000,000.00	
% of the Total Cost	13.35	7.06	2.34		22.75	100.00	0.00	
% of the Gross Proceeds	0.84	0.44	0.15		1.43	6.26	0.00	6.26
TRANS INT'L BANK PLC	1,345,432.00	1,178,109.00	492,500.00	1,053,204.00	4,069,245.00	8,731,000.00	60,000,000.00	
% of the Total Cost	15.41	13.49	5.64	12.06	46.61	100.00	0.00	
% of the Gross Proceeds	2.24	1.96	0.82	1.76	6.78	14.55	0.00	14.55
CFAO NIG PLC (DEBENTURE)	548,418.00	1,666,665.00	150,000.00	503,669.00	2,868,752.00	26,904,735.00	325,000,000.00	
% of the Total Cost	2.04	6.19	0.56	1.87	10.66	100.00	0.00	
% of the Gross Proceeds	0.17	0.51	0.05	0.15	0.88	8.28	0.00	8.28
CFAO NIG PLC (DEBENTURE)	247,268.00	307,000.00	0.00	0.00	554,258.00	19,120,268.00	150,000,000.00	

% of the Total Cost	1.29	1.61			2.90	100.00	0.00	
% of the Gross Proceeds	0.16	0.20			0.37	12.75	0.00	12.75
ACADEMY PRESS PLC								
% of the Total Cost								
% of the Gross Proceeds								
ABA TEXTILE MILLS PLC	855,874.00	1,964,288.00	294,040.00		3,114,202.00	16,290,992.00	199,195,780.00	
% of the Total Cost	5.25	12.06	1.80		19.12	100.00	0.00	
% of the Gross Proceeds	0.43	0.99	0.15	0.00	1.56	8.18	0.00	8.18
WTN PLC (DEBENTURE)	189,183.00				189,183.00	1,996,313.00	30,000,000.00	
% of the Total Cost	9.48				9.48	100.00	0.00	
% of the Gross Proceeds	0.63				0.63	6.65	0.00	6.65
WTN PLC (RIGHTS)	508,814.00	378,367.00	35,000.00		922,181.00	2,278,181.00	14,400,000.00	
% of the Total Cost	22.33	16.61	1.54		40.48	100.00	0.00	
% of the Gross Proceeds	3.53	2.63	0.24	0.00	6.40	15.52	0.00	15.52
COLODENCE NIG PLC	252,603.00	170,750.00	457,296.00	0.00	880,649.00	2,074,349.00	24,570,000.00	
% of the Total Cost	12.18	8.23	22.05		42.45	100.00	0.00	
% of the Gross Proceeds	1.03	0.69	1.86		3.58	8.44	0.00	8.44
STUDIO PRESS NIG PLC	493,006.00	214,979.00	0.00	67,268.00	775,252.00	3,959,926.00	44,800,000.00	
% of the Total Cost	12.45	5.43		1.70	19.58	100.00	0.00	
% of the Gross Proceeds	1.10	0.48		0.15	1.73	8.84	0.00	8.84
TOTAL	**25,873,322.00**	**19,388,568.00**	**3,583,029.00**	**3,247,733.00**	**52,092,652.00**	**229,092,039.00**	**2,287,827,855.00**	
% of the Total Cost	**11.29**	**8.46**	**1.56**	**1.42**	**22.74**	**100.00**	**0.00**	
f the Gross Proceeds	**1.13**	**0.85**	**0.16**	**0.14**	**2.28**	**10.01**	**100.00**	**10.01**

Table 4.1 (vi)

FEES TO REGULATORY AGENCIES AND OPERATORS

(20 COMPANIES EXAMINED)

(A) FEES TO REGULATORY AUTHORIES	AMOUNT	% OF REGULATOR FEES	% OF TOTAL COST	OF GROSS PROCEEDS
(i) Registration Fees (SEC)	36,268,616.00	56.40	15.83	1.59
(ii) Listing Fees (NSE)	28,033,987.50	43.60	12.24	1.23
Total Regulatory Fees	**64,302,603.50**	**100.00**	**28.07**	**2.81**

(B) FEES TO INTERMEDIARIES	AMOUNT	% OF REGULATOR FEES	% OF TOTAL COST	% OF GROS PROCEEDS
(I) Issuing House Fees	45,113,889.00	46.98	19.69	1.97
(ii) Stockbrokers fees/Commission	124,280,111.00	12.94	5.42	0.54
(iii) Registrars	8,783,411.00	9.15	3.83	0.38
(iv) Financial Advisers	1,913,750.00	1.99	0.84	0.08
(v) Underwriting Fees	17,950,327.00	18.69	7.84	0.78
(vi) Trustees	386,750.00	0.40	0.17	0.02
(vii) Receiving Banks/Agents	9,454,763.00	9.85	4.13	0.41
Total Fees to Intermediaries	**96,030,901.00**	**100.00**	**41.92**	**4.20**

(C) FEES TO PROFESSIONALS	AMOUNT	% OF REGULATOR FEES	% OF TOTAL COST	OF GROSS PROCEEDS
(I) Solicitors to Companies	392,500.00	3.40	0.17	0.02
(ii) Solicitors to Issues	1,551,100.00	13.43	0.68	0.07
(iii) Trustees	775,000.00	6.71	0.34	0.03
(iv) Auditors	6,319,711.00	54.72	2.76	0.28
(v) Reporting Accountants	2,511,000.00	21.74	1.10	0.11
Total Fees to Professionals	**11,549,311.00**	**100.00**	**5.04**	**0.50**

(D) OTHER FEES	AMOUNT	% OF REGULATOR FEES	% OF TOTAL COST	% OF GROS PROCEEDS
(i) Advert & Publicity	26,605,075.00	46.50	11.61	1.16
(ii) Printing & Distribution	20,441,772.00	35.73	8.92	0.89
(iii) Stamp Duties	4,744,100.00	8.29	2.07	0.21
(iv) Filing Fees to CAC	722,999.50	1.26	0.32	0.03
(v) Miscellaneous (See* below)	4,695,277.00	8.21	2.05	0.21
Total Other Fees	57,209,223.50	100.00	24.97	2.50
(E) TOTAL COST (A+B+C+D)	**229,092,039.00**			
(F) GROSS PROCEEDS	**2,287,827,900.00**			
(G) TOTAL COST as % of Gross Proceeds	**0.10**			

*Miscellaneous fees refers to:

Vat	770,609.00
Contingencies	677,710.00
Completion of Board Meeti	250,000.00
AGM Expenses	241,639.00
Others	2,755,319.00
	4,695,277.00

Note:- Listing fees include application and processing fees

COST OF RAISING FUNDS IN THE NIGERIAN CAPITAL MARKET

DEPARTMENT OF BUSINESS ADMINISTRATION
AHMADU BELLO UNIVERSITY
ZARIA.

The General Manager,
Aba Textile Mills Plc,
Industrial Layout,
P.M.B. 7125,
Aba,
Abia State.

Dear Sir/Madam,

INTRODUCTION

I am a final year MBA student from Ahmadu Bello University, Zaria. One of the academic requirements is the submission of a thesis. My thesis is on the subject of determining the cost of raising funds in the Nigerian Capital Market, its implication on small and medium scale enterprises, and the overall effect on the development of the Nigerian Capital Market.

According to the Report and Accounts of the Securities and Exchange Commission for the year ended 31st December 1994 and 1995 respectively, your company sourced funds in the capital market in 1994 or 1995 or both.

I will sincerely appreciate, if you could answer the questions in the attached questionnaire to enable me carry out my project work. All information supplied will be used only for academic purposes and will be treated as confidential.

Many thanks for your kind attention.

Yours faithfully,

Hon. A.M. Sani

QUESTIONNAIRE

INSTRUCTION

1. Write the name of your company on the space provided

2. Where the question require "Yes" or "No" type of answer, you are only required to cancel whichever that is not applicable.

3. Where a written answer is required, you are to utilise the space provided and necessary additional sheets of paper may be used.

4 For other types of question available in the questionnaire, just thick the answer the is appropriate.

A. Name of Company.....

Mode of Offer:

(a) Offer for Subscription (to the General Public)

(b) Rights Issue

(c) Offer for Sale

(d) Preference Shares

(e) Loan stock

(f) Any other (please specify)

B. Size of the Issue.....

Issuing Price .....

Coupon Rate (if loan stock) .....

C. What are the fee paid to the following:

(a) Regulatory Authorities:

SECURITIES AND EXCHANGE COMMISSION:

Registration Fees .....
Others.....
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(b) NIGERIAN STOCK EXCHANGE:

Registration Fees .....

Application Fees .....

Processing Fees.....

Others - Specify.....

(c) INTERMEDIARIES:

Issuing House fees .....

Stockbrokers Fees/Commission.....

Registrars .....

Financial Advisers.....

Underwriting Fees.....

Trustees.....

Receiving Banks/Agents.....

Others - Specify.....

(c) PROFESSIONALS: .....

Solicitors to Companies .....

Solicitors to Issue .....

Trustees.....

Auditors.....

Reporting Accountants .....

(d) OTHER MISCELLANEOUS FEES:

Advert and Publicity.....

Printing and Distribution .....

Stamp Duties .....

Filing Fees (CAC).....

VAT.....

Contingencies .....

Completion of Board Meetings .....

AGM Expenses.....

Others - Specify.....
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Total cost .....

Cost as percentage (%) of Gross proceeds .....
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D. How Many issues were made and in what year?.....
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E. In respect of the issues made, when did you lodge your application with SEC and with NSE.....

F. When your did you obtain approval from SEC and NSE to proceed with the issue?

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G. What special difficulties were encountered in the process of raising funds from the capital market? .....

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H. What factors do you think militate against development of the Nigerian capital market?

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I. It has been widely speculated that the cost of raising funds in the Nigerian Capital Market is high. Do you agree that this is the reason why companies prefer sourcing funds from the Money market? Yes/No.

If No State other reasons.....

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