# PROBLEMS FACING EMERGING STOCKMARKETS IN AFRICA :

## A CASE STUDY OF THE NIGERIAN STOCK MARKET

*BY*

**SAMSON E. AMEDU**

A THESIS SUBMITTED TO THE POST GRADUATE SCHOOL,
AHMADU BELLO UNIVERSITY, ZARIA

IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE
DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA)

DEPARTMENT OF BUSINESS ADMINISTRATION,
FACULTY OF ADMINISTRATION
AHMADU BELLO UNIVERSITY, ZARIA

AUGUST 1997

## CERTIFICATION

This project report entitled PROBLEMS FACING EMERGING STOCKMARKETS: A CASE OF THE NIGERIAN STOCKMARKET BY SAMSON AMEDU, meets the regulations governing the awards of the Degree of Masters of Business Administration (MBA) of Ahmadu Bello University, Zaria, and is approved for its contribution to knowledge and literary presentation.

MRS .M. AKANET
**SUPERVISOR** DATE: 4/6/99

A. M. ABU- ABDISSAMAD
**HEAD OF DEPARTMENT** DATE: 18/1/01

PROF. S. ABDULLAHI
**DEAN OF FACULTY OF ADMINISTRATION** DATE: _____

**DEAN, POST GRADUATE SCHOOL** DATE: 15/06/01

## DECLARATION

I hereby declare that this project work entitled Problem facing the emerging Stockmarkets in Africa : A case study of the Nigerian Stockmarket is completely my idea. It is original and a product of my Research finding.

All relevant information and data used have been clearly acknowledged by means of references/Bibliography. Furthermore, due to human fallibility and changing circumstances with passage of time, complete accuracy may not always be possible. I am therefore responsible for any error and inadequacy found herein.

# DEDICATION

This work is dedicated to my wife MRS FELICIA AMEDU and daughter DEBORAH UNEKWU-JESUS for their understanding, love and co-operation.

# ACKNOWLEDGMENT

I wish to express my thanks and gratitude to God for his inspiration and help in making the completion of this work possible.

I am particularly indebted to my supervisor Mrs. Mary Akanet who offered a lot of suggestions, guidelines and encouragement.

My thanks also goes to my beloved friends at the NSE, SEC and stockbroking houses who provided valuable assistance in form of materials, typing, editing and encouragements. *Friends like Joseph Zinabe, Kelvin Dikeocha, Alhaji Sani Stores,* Solomon Boro, Philip Salawu and Matthew Adeyemi will continually be remembered.

I owe special gratitude to my dad Elder James Amedu, Mr & Mrs. Dennis Mordi, Mr & Mrs. Moses Ohabuike and my beloved brethren for their encouragements and prayer.

# ABSTRACT

This research work focuses on problems facing emerging stockmarkets in Africa with the Nigerian Stockmarket as a case study.

The purpose of every meaningful research is to discover answers to questions, and solutions to problems through application of standard procedures. Therefore, in carrying out this work, it became necessary to gives an introduction. Specifically, the statement of problem, purpose of study, scope and limitation of the study, the methodology of research and terms used were defined and examined.

Since the stockmarket is generally considered a dark area, and more importantly, to expand the background of the study, a comprehensive review of literature was done. Therefore, the meaning of stockmarket, its role in a national economy, the stock exchanges in Africa and their performance were all examined and discussed. Furthermore, the historical perspective of the Nigerian Stockmarket was considered with particular reference to; its development, the roles of the market regulators and operators, how the market operates, recent changes in the market, international perspective of the market and its operational problems.

Finally, to provide solutions to the Research problem, instruments were designed, data gathered, analysed and interpreted. The Nigerian Stockmarket would have excelled were it not for the teething and fundamental problems discovered. Recommendations were made and if implemented, the Nigerian stock market will certainly excel and in time to come be given a seat among the world acclaimed advanced stockmarkets.

# TABLE OF CONTENTS


| | | PAGE |
|---|---|---|
| TITLE | | i |
| CERTIFICATION | | ii |
| DECLARATION | | iii |
| DEDICATION | | iv |
| ACKNOWLEDGEMENT | | v |
| ABSTRACT | | vi |
| TABLE OF CONTENTS | | vii |
| LIST OF TABLES, FIGURES AND CHARTS | | x |
| **CHAPTER 1 - INTRODUCTION** | | |
| 1.1 | INTRODUCTION | 1 |
| 1.2 | STATEMENT OF THE PROBLEM | 2 |
| 1.3 | OBJECTIVES OR PURPOSE OF THE STUDY | 3 |
| 1.4 | THE SCOPE OF THE STUDY | 3 |
| 1.5 | THE METHODOLOGY OF THE STUDY | 3 |
| 1.6 | LIMITATIONS OF THE STUDY | 3 |
| 1.7 | SIGNIFICANCE OF THE STUDY | 4 |
| 1.8 | DEFINITION OF TERMS | 4 |
| **CHAPTER 2 - LITERATURE REVIEW** | | |
| 2.1 | THE STOCKMARKET | 8 |
| 2.2 | THE STOCK EXCHANGE | 8 |
| 2.3 | THE CAPITAL MARKET AND THE STOCK MARKET | 9 |
| 2.4 | THE ROLE OF CAPITAL MARKET IN THE NATIONAL ECONOMY | 10 |
| 2.5 | CLASSIFICATION OF STOCKMARKETS | 11 |
| 2.6 | SECURITIES TRADED IN STOCKMARKETS | 16 |
| 2.7 | PERFORMANCE OF AFRICAN STOCKMARKETS | 17 |

PAGE

CHAPTER 3 - HISTORICAL DEVELOPMENT OF STOCKMARKETS IN EUROPE AND AFRICA

3.1 ORIGINS AND DEVELOPMENT OF STOCK EXCHANGES . . . . . 21
3.2 THE STOCK EXCHANGES IN AFRICA . . . . . 22
3.2.1 HIGHLIGHTS ON SOUTH AFRICAN STOCK EXCHANGE . . . . . 23
3.3 THE DEVELOPMENT OF THE NIGERIAN STOCKMARKET . . . . . 33
3.3.1 ESTABLISHMENT AND GROWTH OF THE N.S.E. . . . . 34
3.3.2 FUNCTIONS . . . . . 34
3.3.3 OWNERSHIP STRUCTURE AND MANAGEMENT . . . . . 35
3.4 THE APEX REGULATORY BODY . . . . . 36
3.4.1 ESTABLISHMENT AND GROWTH OF S.E.C. . . . . 36
3.4.2 FUNCTIONS . . . . . 37
3.5 PLAYERS IN THE MARKET AND THEIR ROLES . . . . . 38
3.6 SECURITIES TRADED IN THE NIGERIAN STOCKMARKET . . . . . 42
3.7 OPERATIONS OF THE STOCKMARKET . . . . . 42
3.7.1 PRIMARY MARKET . . . . . 42
3.7.2 SECONDARY MARKET . . . . . 43
3.8 RECENT CHANGES IN THE MARKET . . . . . 45
3.9 EVALUATION OF PERFORMANCE . . . . . 47
3.9.0 INTERNATIONAL PERSPECTIVE OF THE NIGERIAN STOCKMARKET . . . . 55
3.9.1 OPERATIONAL PROBLEMS OF THE STOCKMARKET . . . . . 57

CHAPTER 4 - THE METHODOLOGY OF THE STUDY

4.1 TYPE OF DATA . . . . . 60
4.2 DATA COLLECTION METHODS . . . . . 60
4.3 DATA COLLECTION . . . . . 61
4.4 DATA ANALYSIS . . . . . 62

PAGE

**CHAPTER 5** - DATA PRESENTATION AND ANALYSIS

5.1 DATA PRESENTATION AND ANALYSIS . . . . . 63

5.2 GENERAL DISCUSSION ON THE FINDINGS . . . . . 68

**CHAPTER 6** - SUMMARY, RECOMMENDATION AND CONCLUSION

6.1 SUMMARY . . . . . 77

6.2 RECOMMENDATION . . . . . 76

6.3 CONCLUSION . . . . . 79

**REFERENCES** . . . . . 80

**APPENDICES** . . . . . 82

# LIST OF TABLES AND CHARTS


1. Selected Advanced stockmarkets
2. Key features of the US, UK and Japanese Equity Markets
3. Liquidity of international equity markets
4. Selected Emerging Markets
5. Turnover on the JSE Equities market
6. Index performance of JSE
7. Ranking of top 15 international stock exchanges on market capitalisation
8. Ranking of top 15 international stock exchange by Number of listed companies
9. Position of JSE in the World league
10. African Stockmarket : Some indicators
11. World Stockmarket performance
12. Chart 1 - Players in the market
13. Chart 2 - Responsibilities of the Stockbroker to other parties
14. Chart 3 - Operation of primary market. Relationships between the Firm, Functionaries, Regulators and Investors
15. Table 12 - Comparative Trading activities 1961-1996
16. Table 13 - Monthly Trading Activities and NSE ALL-Share Index (1996)
17. Table 14 - New Issues - 1987-1996
18. Table 15 - Growth in the number of listed securities - 1980-1996

# CHAPTER ONE

## INTRODUCTION

Never before has the interest and attention of the Nigerian Investing Public, the Public at large, the government, international business community and World international financial bodies been drawn to the Nigerian Stockmarket as currently been witnessed.

Perhaps the collapse of the money market in the last quarter of 1993 and the wind of financial distress blowing against virtually all financial institutions in Nigeria are causing the Nigerian Investing Public to increasingly search for alternative viable investment outlets. Perhaps too, the sudden government interest in the market is due to sheer determination of selected few who out of fear want the government to protect the market against a repeat of what happened to the money market and possibly to assist in its development. However, it is the view of some analysts that there is a new thinking and realization in government quarters that the capital market may be the only viable vehicle to use to attract the much needed foreign investment or capital so as to bring about the much desired economic revival.

The revelation contained in International Finance Corporation's (I.F.C) publication on Global Stockmarket performance in 1994 and 1995 in which Nigeria was rated among the best performers in terms of Returns on investment played no small a role in directing the attentions of international business community and institutions toward Nigeria.
The effect of the several interests and their searchlight on the Nigerian Stockmarket have revealed several dark sports - restrictions, and problems.

Unlike every developing market, the stockmarkets in Africa, despite their good ratings and performance in World Stockmarket indexes, and their ambitions to leap and walk shoulder to shoulder with developed markets are bedevilled with fundamental problems. These problems are virtually same in all the existing stockmarket in Africa but in varying degrees. So long as these problems are not clearly identified, itemised and given the serious treatment they deserve these markets will in year to come remain emerging markets.

This research study for the purpose of convenience has been divided into six chapters. chapter one deals with the introduction. It gives an over-view of the subject matter. chapter two, reviews existing related literature. Historical perspective of the Nigerian stockmarket is considered in Chapter three, while chapters four and five examines and analyse the data collected and general discussion on the findings. Finally, chapter six close the study with a summary, recommendations and conclusion.

## 1.2 STATEMENT OF PROBLEM

What are the fundamental problems facing Emerging Stockmarkets in Africa with specific reference to Nigeria?

1. Inefficient infrastructural facilities
2. Inadequate capital market facilities
3. Inefficient operational facilities of market operators
4. Low-level of professionalism of market operators
5. Low-level of public awareness
6. Legal and regulatory framework
7. Capital inadequacies of market operators
8. Shallow and narrow market
9. Flow of market information
10. Long transaction period
11. Poor investment culture
12. Death of Capital Market institutions
13. Leadership problem
14. Illiquidity
15. Government role
16. Political instability

## 1.3 OBJECTIVE OR PURPOSE OF THE STUDY

The purpose of the study is to;

19. Identify the problems facing the emerging stockmarkets in Africa with reference to Nigeria.
2. To find solutions to the problems identified.

## 1.4 THE SCOPE OF THE STUDY

This study is actually confined to the emerging markets in Africa.

Securities market in general term comprises both the money market and capital market, where short-term, medium and long term securities are bought and sold. This study does not cover the market for short-term securities. It is limited to that segment of the financial market where shares, stocks, bonds and debentures are bought and sold.

## 1.5 THE METHODOLOGY OF THE STUDY

To acquire the information needed to solve the research problem, two types of data were used namely; primary and secondary data.

In collecting the primary data, the researcher used qualitative, survey and observation methods, while the secondary data were gathered from primary and secondary sources such as internal record of stockbroking firms, libraries, non-profit organisations like Nigerian Stock Exchange (NSE), Securities and Exchange Commission, periodicals, journals Factbooks etc.

The data was gathered by administering questionnaires interview and direct observation. Finally, the data collected was analysed using tables and percentage system.

## 1.6 LIMITATIONS OF THE STUDY

The main limitation of this study is the death of accurate detailed current information, literature available were either scanty, inaccurate, or outdated. These

short comings actually calls for a visit to some of the Exchanges but the study fellow was constrained by lack of financial resources and time.

## 1.7 SIGNIFICANCE OF THE STUDY

The fundamental reason for initiating this study is the desire to develop the Nigerian Stockmarket to an enviable standards. Interest in this field was certainly aroused at some periods by favourable trends in securities markets organised in countries such as U.S.A., U.K., Japan, Canada, Brazil, India, Taiwan, Hong-Kong and Singapore.

Secondly, it has been observed that previous research work on the capital market never focused on the actual problems besetting the market and specific ways to further develop the market. Research in this field is still very limited and at an Embryo stage, and consequently deserves more detailed investigations.

Thirdly, this research is not only aimed at informing the relevant authorities of what the fundamental problems are but it is expected to drop burdens on their hearts. This is a necessary ingredient to bringing about a positive change in the market.

Finally, it may also provide market operators, participants, and authorities such as government, Nigerian Stock Exchange, Securities Exchange Commission and Central Bank of Nigeria - the rationale for initiating programmes aimed at improving the market.

## 1.8 DEFINITION OF TERMS

The following terms are defined primarily, for the purpose of giving a common understanding of some of technical terms or jargons used in the stockmarket.

1. **Bond** - Are securities issued by governments. They are usually of fixed interest. They are legal documents representing a promise by the government to pay back the loan plus certain amount of interest over a definite period of time.

2. **Call Over** - A system used on the Nigerian Stock Exchange to effect trading on the floors of the Exchange.
3. **CSCS** - Central Securities Clearing System, is the Nigerian Clearing and Settlement Organisation.
4. **Company Registrar** - In common parlance is a keeper of records in respect of quoted stocks and shares.
5. **Debentures** - Long term fixed interest bearing securities issued by corporate bodies.
6. **Dealing Member** - Is generally referred to as a stockbroker. Is licensed by the Council of NSE to trade in stock/shares and bonds.
7 **Dealing**- Is a process of buying and selling securities on the NSE. A deal is said to have been struck when a bid matches on offer.
8. **Dividend Yield** - Dividend received on an investment expressed as a percentage of the amount invested.
9. **Equity** - Ordinary shares, which usually take all the risks and are entitled to the balance of profits after meeting prior charges.
10. **Equity Securities** - Any stock issue, common or preferred.
11. **Gilt-Edged Securities** - Government Securities traded on the NSE.
12. **Listed/Quoted Securities** - Any bonds or stocks that have been admitted for trading on a Stock Exchange and whose issues have complied in every way with the listing requirements of the Exchange.
13. **Members of the Stock Exchange** - The owner of the Stock Exchange.
14. **Market Capitalization** - The market value of a company's issued share capital/securities. i.e current market price by the number of shares outstanding.
15 **NSE** - Nigerian Stock Exchange.
16. **New Issues** - New Securities issued for the first time by companies or government to the general public. The proceeds may be used to finance development projects, equipment, plants and to secure working capital.

17. **Option** - Contract between the dealer and shareholder which gives the latter the right to buy or sell a given number of shares at a fixed price within a given time period. Options are either call, put or double.
18. **Over the Counter -** Unorganised market for trading in the securities of public companies not quoted. Any transaction done off the floor of the Stock Exchange whether by telephone, mail or otherwise is an Over-the-Counter Market.
19. **Primary Market** - also called New Issues Market. The market for new issues of Securities (as opposed to the secondary market on Securities already issued).
20. **Price Earning Ratio** - Ratio of price to earnings. ie the value of ordinary share in relation to earning for a period.
21. **Securities** - are financial assets that yield income. The bear either interests or dividends.
22. **Stocks/Shares**- Securities representing ownership in a business concern. They are of two types, ordinary and preference shares.
23. **Secondary Market** - The market for the sale and purchase of outstanding or issued securities. the Stock Exchange provides facilities for the secondary market.
24. **Securities Market** - It comprises of both capital and money market. It is a market where securities (short, medium and long term) are bought and sold. In this context, securities market is that segment of the financial market where shares, bonds, debentures are bought and sold.
25. **Second-Tier Securities Market** - A junior market for shares in companies which cannot fulfill all the normal requirements of the NSE for a first tier market.
26. **SEC** - Securities and Exchange Commission. Is the apex regulatory body of the Nigerian Capital Market.
27. **Settlement cycle** - In Nigeria, it is T + 5 ie Transaction plus five days.
28. **Stockmarket Index** - It is a measure of stockmarket trends and performance. The index may be used as a barometer for monitoring, upswings and down swings in the economy.

29. **Stockbroker** - An agent who buys and sells securities on behalf of investors in return for a commission.
30. **Rights Issue** - *The issue of new shares to existing shareholders in a fixed ratio to* those already held at a price which is generally below the market price of the old shares.
31. **The NSE All - Share Index** - Is the Nigerian stock market index.
32. **Trading System** - Is the system of effecting trading on trading floors e.g call over system, Auction and trading post system.
33. **Trading Floors** - Where stockbrokers gather to trade in stocks/shares on trading days.
34. **Turnover** - The volume of business in a security or the entire market.
35. **Volume** - In equity trading, volume is the total number of shares traded within a given period e.g in a day, week, month or year.
36. **Unit trusts/mutual funds** - They are financial intermediaries who pool savings from small investors and inturn invest them in a wide variety of securities of other companies.
37. **Investor** - A person or institution who uses his savings or borrowing to buy any securities.
38. **Money Market** - Is a market for short term securities. It is a market for raising short term funds. It may also be defined as the complex of institutions and mechanism through which short term funds are pooled and made available to business, government and individual.
39. **ADR**- American Depository Receipts are negotiable certificates in registered form, *issued in the US by an American Bank, Certifying that a specific number of shares* in a foreign stock have been deposited in a branch of the Bank in the Country of origin of the stock. This provides the buyer of the ADR the ability to purchase stock without having to take physical possession and undergo the difficulties that frequently present themselves when investing in foreign countries.
40. **JSE** - Johannesburg Stock Exchange.

# CHAPTER TWO

## LITERATURE REVIEW

### 2.1 THE STOCKMARKET

The stockmarket in strict sense is simply the market where stocks, and shares, bond, debentures and other long term securities are openly traded.

It is often referred to as a secondary market because it is a market for selling and buying of outstanding or issued securities. It is a conversion market in that investors can convert their securities into cash or buy more securities for investment or for speculative purposes. The Stock Exchange provides facilities for the secondary market. (NSE, Questions and Answer).

### 2.2 THE STOCK EXCHANGE

The market place for most shares in public companies is the Stock Exchange. (Leshi. G. Harons 1977). It is also designed as an organised market where buyers and sellers through Stockbrokers competitively bid and ask for listed securities. It provides facilities for Governments, Companies and Institutions to raise new or additional funds to finance their activities or business.

Encyclopaedia Americana refers to Stock Exchanges as organisations that enable Investors to buy or sell bonds or shares of stock. Together with the over-the- counter market. Stock Exchanges are sometimes called securities market.

A Stock Exchange has been defined comprehensively as an organised market where large and small Investors alike buy and sell through Stockbrokers, the stocks and shares of Companies and Government agencies. The Stock Exchange provides the essential facilities for Companies and the Government to raise money for business expansion and development projects through Investors who share in the fortunes of corporations for the ultimate economic benefit of all (Nigeria) (NSE Fact Book 1994).

Finally the most detailed definition of Stock Exchange is the one given by H.I. Alile, A.R. Arao (1986). A Stock Exchange is many things at the same time.

first, it is a place where securities (bonds, stocks and shares) of varying types are Openly traded, and where one can purchase or sell any of such securities relatively easily.

Although somewhat inexactly, (since a Stock Exchange is really strictly a market for "existing" rather than "new" securities) a Stock Exchange is also a place where enormous capital which is required to operate the huge industrial and commercial corporations of today can be raised in such large amounts and at such competitive terms (cost, length of negotiation, etc) that no other Institution in a capitalist system can possibly match.

The Stock Exchange is also an Institution which sees to efficient allocation of available capital funds to the diverse uses in the economy, and through its extremely sensitive pricing mechanism, ensures that so much of the total available capital resource is allocated to each firm within each industry as that firm and that industry deserves to have, having regard to their relative contribution to the societal well-being (or satisfaction) vis-avis other firms or industries.

The Stock Exchange can also be a mechanism (barometer some would say) which can measure and detect the symptoms of an impending economic boom or decline long before the predicted prosperity or decline actually occurs. To the individual Investor a Stock Exchange is also a place to make or lose money quickly.

## 3 THE CAPITAL MARKET AND THE STOCKMARKET

The Capital Market comprise the primary market and the secondary market. It is a market for raising medium and long-term funds for the purpose of financing development or capital projects. It is used by governments and corporate bodies to raise funds for projects such as roads, bridges, schools, hospitals, markets and to acquire plants, machinery and equipment.

The Capital Market may be defined as the complex of institutions and mechanisms through which intermediate term funds and long term funds are pooled and made available to business, government and individual and instruments

already outstanding are transferred. (Dougall/Gaummtz 1975, p.3).

Furthermore, capital market could be defined as a network of highly specialised financial institutions that work together with sole purpose of uniting the suppliers of funds and the users of the funds. Institutions such as issuing House, Merchant Banks, Commercial Banks, Stockbroking firms, Development Financial Companies, Unit trust, Venture Capital Companies, Securities and Exchange Commission (SEC), Central Bank and Stock Exchange are examples of such Institutions.

Whereas the Capital Market of today focus primarily on new Issues Market, the issues of new securities, the Stockmarket often referred to as the secondary market, is a market for the sale and purchase of outstanding or issued securities. It is a conversion market in that Investors can convert their securities into ready cash or buy more securities for investment purposes. As earlier stated, the Stock Exchange provides essential facilities for the secondary market.

## 2.4 THE ROLE OF CAPITAL MARKET IN THE NATIONAL ECONOMY

In any Capitalist economy, the Capital market exists to assist in the transfer of funds from the Excess units (the suppliers which include individuals, corporate bodies, states, local government, associations, co-operative societies, pension funds, educational institutions, trade unions etc) to the deficit units (the users such as corporate bodies, federal, state and local Governments).

It provides a means for raising long term finance to assist Governments and Companies to execute their capital projects, business expansion and modernization.

*Capital market provides a means for allocating efficiently, the nations real* and financial resources between various industries and Companies. It promotes capital formation. Its like an engine for capital formation. It provides sufficient liquidity for Investors or Group of Investors.

It helps to broaden the ownership base of asset and the creation of a healthy private sector, in addition to broadening the ownership base for the erstwhile family dominated firms.

The Capital market provides an alternative source of fund other than taxation for Government.

It is a measure of confidence in the economy and serves as an important barometer for the economy. Finally, through its pricing mechanism, it provides industrial management with some idea of the current cost of capital and this can be important in determining the level and rate of investments.

## 2.5 CLASSIFICATION OF STOCKMARKETS

The world Stockmarket is generally classified into two markets: namely;

1. Advance or matured markets
2. Emerging markets

### 2.5.1 Advance Stockmarkets

As earlier stated, the world Stockmarket is divided basically into two. This classification is based on criteria such as;

1. Liquidity
2. Market Capitalisation
3. Number of listed companies/depth of the market
4. trading volume
5. International Equity issue
6. Efficiency of trading methods
7. Clearing, settlement and transfer procedures.

Table 1 below shows a list of selected developed markets and their market capitalisation.

**TABLE 1**

**OVERVIEW OF SELECTED ADVANCED STOCKMARKETS**

Market Capitalisation (1993)
(Billion US$)

| | | | |
|---|---|---|---|
| 1. | **US** | - | 4,704.6 |
| 2. | Japan | - | 3,692.5 |
| 3. | UK | - | 1,183.3 |
| 4. | France | - | 446.5 |
| 5. | Germany | - | 474.8 |
| 6. | Canada | - | 304.9 |
| 7. | Switzerland | - | 278.2 |
| 8. | Netherlands | - | 207.2 |
| 9. | Italy | - | 190.2 |
| 10. | Spain | - | 157.2 |
| 11. | Sweden | - | 112.0 |
| 12. | Belgium | - | 81.6 |

The market Capitalisation are based on 30/9/94 data produced by MCSI, IFC and individual Stock Exchanges.

The following markets are worth the brief mention;

1. US
2. Japan
3. UK

These three markets are usually refereed to as core markets. a summary of the key features of the US, UK and Japanese equity market is shown on table 2 below

TABLE 2

SUMMARY OF THE KEY FEATURES OF THE US, UK AND JAPANESE EQUITY MARKET IN 1991 (*in term of US$*)

| | US | JAPAN | UK |
|---|---|---|---|
| Global Ranking | 1 | 2 | 3 |
| Growth in Market value (1987-1991 | 68% | 32.4% | 117% |
| Market Value as a % of GNP | 66.5 | 81.9% | 98.5% |
| Number of listed Securities | 4.094 - Nasdaq<br>1885 - NYSE | 1640 | 2,460 |
| P/E Ratio | 21.7 | 37.8 | 15.2 |
| Short term/long Bond yield | 4.31%/7.40% | 5.38%/5.51% | 11.0%/9.49% |

**Source**: of the Grade - World Equity Markets. 1992 S. Allen and S.O'Connoreds (Euro-money publications, London 1992)

Considering the above criteria, US, UK and Japan ranks the three core or most advanced markets in the world. As can be seen the differences are quite pronounced. Equity market value in the UK grew by 117% from 1987 to 1991, while it only grew by 32.4% in Japan over the same period. The US was some where between, at 68%. Nevertheless, Japan's P/E ratio was almost at 2.5% times higher than that of UK's and 74% higher than that of the US. The UK has the highest *market capitalisation as a per cent of GNP and the US has the lowest. Still the US* is the largest equity market in the world.

These differences are just the tip of the ice bery. the price markets differ in many other ways. The are organised differently, the trade and settle differently, their listing requirements are different, and they have different regulatory systems and tax treatment. Table 3 shows the liquidity of international equity markets.

TABLE 3

LIQUIDITY OF INTERNATIONAL EQUITY MARKET

| | Market Capitalisation 1993 year ending (billion US$) | Average Monthly Turnover 1993 (billion US$ | Rate of a Monthly turnover to Market Capitalisation 1993 % |
|---|---|---|---|
| **Selected Developed Markets** | | | |
| USA | 5223.77 | 292.27 | 5.59 |
| JAPAN | 2999.76 | 7.53 | 2.65 |
| GERMANY | 463.48 | 25.25 | 5.45 |
| UK | 1151.65 | 35.29 | 3.06 |
| FRANCE | 456.11 | 14.52 | 3.18 |
| CANADA | 326.52 | 11.85 | 3.63 |
| ITALY | 136.15 | 5.48 | 4.03 |
| ALL Dev.Mkts | 12,464.66 | 522.79 | 4.19 |
| Wrld | 14,100.76 | 611.86 | 4.34 |
| All Emerging Mkts | 1636.11 | 89.06 | 5.44 |
| Emerging Mkts X Taiwan | 1440.91 | 60.19 | 4.18 |
| **Selected Emerging Markets** | | | |
| ARGENTINA | 43.97 | 0.86 | 1.96 |
| BRAZIL | 99.43 | 4.78 | 4.81 |
| CHILE | 44.62 | 0.23 | 0.52 |
| COLUMBIA | 9.24 | 0.06 | 0.66 |
| MEXICO | 200.67 | 5.20 | 2.59 |
| VENEZUELA | 8.01 | 0.16 | 1.95 |
| CHINA | 40.57 | 3.62 | 8.91 |
| HONG KONG | 385.25 | 10.96 | 2.85 |
| INDIA | 97.98 | 1.82 | 1.86 |
| INDONESIA | 32.95 | 0.76 | 2.32 |
| KOREA | 139.42 | 17.64 | 12.65 |
| MALAYSIA | 220.33 | 12.81 | 5.81 |
| PHILIPPINES | 40.33 | 0.57 | 1.40 |
| SINGAPORE | 132.74 | 6.80 | 5.12 |
| TAIWAN | 195.20 | 28.87 | 14.79 |
| THAILAND | 130.51 | 7.24 | 5.55 |
| Total of above Emerging Mkts | 2108.48 | 111.54 | 5.29 |
| Total of above Emerging Mkts X Taiwan | 1913.28 | 82.66 | 4.32 |

***Source:*** International Finance Corporation

***Note:*** IFC Data includes Hong Kong and Singapore among Developed Markets

At first glance emerging equity markets appear more liquid on average than markets in the developed nations, but if judged relative to trading volume that were common a few years ago, before the boom in emerging market finance, they look much less liquid than the developed markets.

### 2.5.2 Emerging Stockmarkets

The emerging stockmarkets are much less liquid than the developed markets if judged in relation to trading volume. Most of the markets are shallow and thin, considering the number of listed securities and the dept of the market. Furthermore, the trading methods, clearing, settlements and transfers are much less efficient. The market capitalisation of most of the markets excluding Taiwan, Singapore, Malaysia, India, Hong-Kong, Korea, and Thailand in Asia, Mexico and Brazil in South America and South Africa in Africa is like a drop of water in a bucket compared to the advanced markets.

Table 4 below shows selected emerging markets in the world.

**TABLE 4**

**SELECTED EMERGING MARKETS**

| Latin America | Asia |
|---|---|
| 1. Argentina | 1. Korea |
| 2. Brazil | 2. Philippines |
| 3. Chile | 3. Taiwan |
| 4. Colombia | 4. India |
| 5. Mexico | 5. Indonesia |
| 6. Venezuela | 6. Malaysia |
| 7. Bolivia | 7. Pakistan |
| 8. Peru | 8. Thailand |
| | 9. Hong Kong |
| **Middle East** | 10. Singapore |
| 1. Israel | 11. Bangladesh |
| 2. Jordan | |

**Table 4 Con'd**

| *Europe* | *Africa* |
|---|---|
| 1. Greece | 1. South Africa |
| 2. Portugal | 2. Nigeria |
| 3. Turkey | 3. Egypt |
| 4. Hungary | 4. Morocco |
| 5. Poland | 5. Tunisia |
| 6. Russia | 6. Ghana |
| 7. Kazakstan | 7. Cote D'Ivoire |
| | 8. Zambia |
| | 9. Kenya |

***Source:*** International Finance Corporation: Capital Market Myrill Lynch & Co.

Market capitalisation are based on 30/9/94 data provided by MCSI, IFE and individual Stock Exchanges

- Publication - Myrill Lynch and Co. Global Securities Research and Economics group.

## 2.6 SECURITIES TRADED IN STOCKMARKETS

Securities traded in every stockmarket depends on the country's level of market development. However, securities traded in world stockmarkets includes the following:

1. Equities - Ordinary shares (restricted and non restricted
2. Preferred Ordinary
3. Preference shares - (Convertible/Participating/Redeemable/Retractable/ Cumulative/Non/cumulative)
4. *Preferred shares - (with Voting Right/Non-Voting Rights*
5. Bonds
6. Industrial Loans stock
7. Development stocks

8. Debentures
9. Convertibles
10. Warrants
11. Unit Trusts
12. Derivatives

The above securities can be classified into basically two parts:

1. Equity
2. Debt

## 2.7 PERFORMANCE OF AFRICAN STOCKMARKETS

As earlier noted, of the 56 countries that makes up Africa only thirteen countries have Stock Exchanges. The thirteen include; Botswana, Cote D'ivoire, Egypt, Ghana, Kenya, Mauritius, Morocco, Namibia, Nigeria, South Africa, Swaziland, Tunisia and Zimbabwe. African Stockmarkets when compared with other Emerging Markets in either Asia or Latin America reveals that the markets in Africa put together are really very small.

At the end of 1994, there were about 1,830 listed companies in the African markets put together. The low listing is as a result of reluctance of companies especially the family and Government owned, to go public for fear of losing control and or for political and other strategic reasons. Financial discipline availability of subsidized credit in the money market, disclosure and reporting requirements are some of the other factors militating against public quotations. Indeed recent experiment have shown that in countries where Bank credit was cheap, company directors made the grave error of funding capital projects with short term money market funds. In Nigeria, for example, following upward movement in interest rates in the era of Structural Adjustment Programme (SAP), corporate finance directors have since discovered the financing mismatch and have embarked on a realignment programme which has been a spate of corporate refinancing through

stock market. The later development has substantially contributed to the growth of the capital market in Nigeria and has at once proved the negative influence of subsidised money market funds for the development of Africa's stockexchanges.

Market capitalisation is another indicator that reveals clearly the poor performance of African Stock Markets. As at the end of 1994, the market capitalisation of the 1,830 listed companies in African Stockmarkets was US$258,632. Though there is remarkable difference from the 1000 listed companies in 1991, but market capitalisation is still less than US$10 billion. Many other countries outside the continent individually out-performed African markets put together in this regard. for instance, during the same period, Brazil has a market capitalisation of over US$43 billion, Mexico over US$98 billion and Taiwan over US$1.23 billion.

The inference drawn from low market capitalisation of the African Stockmarkets is that listed companies are relatively small and the share prices are also low.

However, we must acknowledge the argument that the performance of African Stock Exchanges in relation to others outside the continent is to a large extent a function of the strength of their respective currencies compared with the US dollar in which capitalisation of African Stockmarkets is dominated. The strength of these currencies (or their relative weakness) is also in many cases symptomatic of deficiency in emerging exchange rate regimes in the continent which must be addressed for their obvious adverse implications for the performance of the respective economies, particularly their stock exchanges, in relation to others elsewhere.

Nonetheless, an analysis of market capitalisation as a ratio of GDP also reveals that African Markets are relatively small in comparism both their economies with the exception of perhaps Nigeria and South Africa, the ratio is less than 10 per cent in African Markets. The implication of this however, is that the growth potentials of these markets are high since there is a large number of quotable

companies which are not yet listed.

Trading volume as well as turnover ratios are relatively low because of the limited supply of securities in the markets and the unwillingness of the existing investors to part with their holdings. This unwillingness to sell, in some cases is caused by investors ignorance of how the stockmarket game should be played. There also exists a situation whereby poor infrastructural facility for the operation of stock exchanges have impacted adversely on their turnover. For example, none of these markets, save for the Johannesburg Stock Exchange, is near full automation These is also a dearth of professionals - such as inadequate and ineffcient registrars departments and poor delivery process, amongst other operational short-comings. In addition, institutional holdings constitute the bulk of the total equities on the markets. For example, the international promoters and investors hold about 43 per cent of the total equity market capitalisation of the Nigerian Stockmarket and the rarely trade in their shares. Table 10 shows some indications in respect of African Stockmarkets.

It is worth noting however, that a number of emerging markets particularly in Africa, witnessed considerable price index rise between the year ending 1994 and 1996. Indeed according to the International Finance Corporation (IFC), of the twenty best performing markets in the world in 1994 and 1995, nineteen were emerging markets with Kenya and Nigeria topping the list of all markets with an index increase of 179.0 and 168.8 per cent respectively (see table 11) Furthermore, in 1996, International Fiance Corporation (IFC) Emerging Market Database started producing Investable Index for the Nigerian Stockmarket in addition to the IFC global composite index for the market. Nigeria, Zimbabwe and South Africa are the three countries in Africa with IFC Investable Index. Index generally guides investors in making investment decision on any market.

From the foregoing analysis, it is obvious that most of the stock markets in Africa have not done well and could not have done well as catalysts for economic development. Nevertheless, African governments and market operators must

*demonstrate greater commitment to the proportion of stock markets in the continent through:*

1. Adoption of sound macro-economic policies, namely; realistic exchange rate, realistic interest rate and efficient deregulation of the economy.
2. Privatization and commercialization of government enterprises. Privatisation has proved to be the real driving force to the growth of many emerging stock exchanges as it quickly increases the size and liquidity of small markets. Twenty-three privatised enterprises have been listed on the NSE in the last three years.
3. Relaxation of existing rigid exchange control regulations to allow foreign portfolio investors to invest in their stock markets.
4. Strengthening existing stock markets through adequate tax incentives and improvement in infrastructural facilities.
5. Increased public awareness about the securities market. The could be done by both market operators and other regulatory authorities. Efforts should be made to sustain the public awareness of developments or the stock exchange through the publication of weekly summary of stock market trading, among others. In essence, educational programmes should be an integral part of the development and growth of a stockmarket.
6. Co-operation among capital markets in Africa.
7. Proper definition of the roles of the private sector and the stockmarket within the economy.

# CHAPTER THREE

## HISTORICAL DEVELOPMENT OF STOCKMARKETS IN EUROPE AND AFRICA

### 3.1 ORIGINS AND DEVELOPMENT OF STOCK EXCHANGES

Stock Exchanges evolved from centuries - old markets, of money lenders, currency traders and commodity dealers. It is believed that stock exchanges originates as far back as the 12th century in Europe.

1. **Paris Bourse** (Compagnie des Agents de Change de Paris) The earliest ancestor of the Paris Bourse, or Stock Exchange, dates back to 1138. It was formally established on the grand point by King Louis VII in 1141. France did not, however, have what could be called a stock exchange until 1724 when the Paris Stock Exchange was established.
2. **Amsterdam Stock Exchange** (Vereeniging Voor den Effect enhandel te Amsterdam) In the real sense of a Stock Exchange, the Amsterdam Stock Exchange is the oldest stock Exchange in the world. Trading in the shares of Dutch East India company began in 1602. However, the first building was erected in 1611. In 1785 the Amsterdam brokers formally organised themselves into the Association for promoting trading in securities. By 1855 over 70 securities, both foreign and domestic, were traded.
3. **London Stock Exchange** - The London Stock Exchange was organised in the 17th Century. During the 17th Century, London Brokers met and traded in the Coffee houses of Change Alley. In 1773 came the formal organisation of the London Stock Exchange. Rapid growth led the Exchange to move in 1802, from sweetings Alley to new and larger quarters in Bartholomew lane.
4. **New York Stock Exchange** - The New York Stock Exchange, located at 11 wall street in New York city was founded in 1792, when 24 Brokers adopted simple rules and agreed to meet at regular hours under the old button wood tree on wall street. The next year the brokers moved into

Tontine coffee house. By 1817 trading had increased so much that brokers wrote a formal constitution and shifted to a larger quarters. Prior to the establishment of New York Exchange, capital financing was handled in London, the Government then depended heavily on the British Capital Markets.

5. **Canadian Stock Exchanges** - Canada has two major Exchanges, at Toronto and Montreal. Toronto Stock Exchange Toronto, was opened in 1852 and incorporated in 1899, while the Montreal Stock Exchange, Montreal, was founded in 1854; This exchange consists of two divisions. The more established, or seasoned, issues are traded on the main Montreal Stock Exchange which was formerly the Montreal curb market. The exchanges was under the same administration.

6. **Tokyo Stock Exchange (Japan)** - The Tokyo Stock Exchange was established in 1878. Though eight others were established and located in Tokyo, Osaka, Nagoya, Kyoto, Hiroshima, Fukuoka, Niigata and Sapporo, the Tokyo and Osaka Stock Exchange are the most important. They were designed a new after world was II.

   Unencumbered by tradition, their trading methods are believed to be the most efficient in the world

## 3.2 THE STOCK EXCHANGES IN AFRICA

Of the countries that makes up Africa only thirteen countries have Stock Exchanges. The thirteen countries include the following;

1. Botswana
2. Cote D'ivoire
3. Egypt
4. Ghana
5. Kenya
6. Mauritius

7. Morocco
8. Namibia
9. Nigeria
10. South Africa
11. Swaziland
12. Tunisia
13. Zimbabwe

When compared with other emerging Stockmarkets in the world, African Markets (including Johannesburg Stock Exchange) are still small. Worth mentioning at this juncture is the Johannesburg Stock Exchange.

### 3.2.1 HIGHLIGHTS ON JOHANNESBURG STOCK EXCHANGE - SOUTH AFRICA

The Johannesburg Stock Exchange (JSE) is the oldest and most developed Stock Exchange in Africa. Stock Exchanges have infact operated in South Africa since 1881. The JSE was formed shortly after the discovery of the Wit water - Strand Gold field. It celebrated its centenary in 1987 and is the only Exchange for equities in South Africa.

The Johannesburg Stock Exchange (JSE) has been termed an 'emerging market' in a global market context. However, the South African Economy Comprises long-established first world as well as third world elements.

**LEGISLATIVE BACKGROUND**

The JSE is a Juristic person and is governed by statutory law in terms of the Stock Exchanges control Act of 1985 (SECA) but in common with the international trends, SECA requires self regulatory rules which are drawn up by the JSE Committee. It requires the Registrar of Stock Exchanges to approve the JSE rules. The financial services Board, of which the Registrar is the Chief Executive, was created by a special status and is responsible for implementing public policy as

determined by the Policy Board for Financial Services and Regulation relating to the securities and financial services sector.

**OPERATIONAL STATUS**

The JSE is a member of the Fédération Internationale des Bourses de Valeurs (FIBV) (Federation of International Stock Exchanges) and was granted designation status by the Japanese Securities Dealers Association effective 4 December 1994.

On March 1 1995, the JSE was included in the Morgan Stanley index for emerging markets and on 7 April 1995 was included in the IFC Emerging Markets *Global and investible indices.*

**OPERATIONS**

The JSE operates on equities market with many of its members also trading bonds and financial futures. An equity option market for trading standard options *contracts is being developed and is expected to be operational in mid - 1997.* Trading will be automated and clearing members will be introduced through a separate entity to assist with settlement and risk management. Traditional options are traded on the Over-the-counter (OTC) basis.

**MEMBERSHIP**

There are four categories of membership;

1. Corporate Limited Liability
2. Sole Traders
3. Partnerships, and
4. Corporate Unlimited Liabilities.

The member is the trading entity and not the individual. Foreigner may also become members. A member must appoint an officer who has passed the compliance officer examination. It will be that officers prime responsibility to ensure the member's compliance with the provision of SECA, the rules and the JSE Committee directives and decisions.

**THE SOUTH AFRICAN INSTITUTE OF STOCKBROKERS**

The Institute was founded in November 1995 to represent, train, qualify and discipline Stockbrokers independently from the JSE. Stockbrokers must pass the examination of the Institute. there are two categories of membership; Practising and non practising Stockbrokers.

**TRADING STRUCTURE**

Automated electronic trading commenced in March 1996 on the Johannesburg Equities Trading (JET) system, converting the first group of stocks from floor trading. The trading floor was used finally on 7 June 1996. The structure then changed to:

- continuous over-driven with central market principles
- dual trading capacity, complemented by members voluntarily, acting as market makers, and
- fully negotiable brokerage with clients.

Trades are reported to the Equities Clearing House (ECH) for clearing and settlement purposes. a weekly computerised clearing system is operated for settlement between members and an entire week's trading is recorded without actual net balance on each security owed to or by each member is determined between the members via the ECH. The year is divided into 52 weekly settlement or account periods commencing on a Tuesday and ending on a Friday.

Trading executed in one week is normally settled in the following week. If settlement is not completed, the uncompleted portion is carried forward into the new account.

Members net outstanding balances due for settlement within each account are prepared each Friday night and marked-to-market values are then settled with the ECH on the following Monday before deliveries. Planning for inclusion of non-members of JSE as participants in ECH has commenced. Comprehensive rules provide for the buying-in of shares in the event of failed deliveries.

The payment of stamp duty on script lending transactions upon registration into the name of the lender has been abolished provided the shares are rationed within six months of the initial loan.

The JSE is working with the banking industry towards the implementation of a Central Depository and those G30 standards (primarily rolling settlement and scrip lending to dominate failed deliveries) which are not urgently met.

## RISK MANAGEMENT

The capital adequacy of members is continually review and monitored. The requirements therefore are based upon the European Union Standards.

The exposure to risk arising from trading in options futures and bonds is measured and controlled in daily collaboration with those markets.

Each member is required to lodge a third party guarantee with the JSE as cover against outstanding obligations to the ECH in case of default. In turn the ECH guarantee performance between members in the event of the default of a member.

## SERVICES AND SURVEILLANCE

The JSE operates a wide range of automated services for the benefit of its listed companies, Investors and members. These services, together with the associated computer systems have been extensively upgraded over the past few

years. Of particular significance is the Back-Office Broker Deal Account (BDA) system which every member is obligated to use in respect of its trades, financial and stock transaction records.

The services are categorised into:

- confirming and clearing trades;
- dissemination of prices and trading statistics;
- settlement of trades between members;
- back-office accounting and client support services;
- asset management
- production of client monthly financial and transaction statements and;
- maintaining ledgers for own account trading of members.

**FOREIGN INVESTORS**

All financial transactions are affected in commercial rand, which are freely transferable.

**FOREIGN HOLDINGS IN SOUTH AFRICAN SHARES**

US citizens hold many of their investments in American Depository Receipts (ADR) form whereby the underlying shares are held in custodianship by a US Bank through a nominee Account in a South African Bank. A directly substitutable ADR is issued for the South African Shares it represents. ADR holders qualify for exactly the same voting, dividends and accruals as to the underlying shares. The US ADR issuing Bank, however, collects all dividends and makes payment in US Dollars to holders, as well as maintaining an ADR register of all trading that occurs in such receipts. Due to their convenience and tradeability, ADR's are also held and traded by non-US citizens.

## *FUTURE DEVELOPMENT*

The possible introduction of an electronic share register for the dematerialisation of the share certificates in the future is under investigation. This will be proceed by the development of central depository in 1997 for the immobilisation of the share certificate.

## MARKET PROFILE

Table 5 -11, chart one and two shows trading and listing statistics which place JSE in a global market perspective.

### THE JOHANNESBURG STOCK EXCHANGE
### MARKET PROFILE
as at 30 September 1996

**TABLE 5**

1. Turnover on the JSE Equities Market

| CALENDAR YEAR | VALUE(R million) | | MEMBER OF DEALS | |
|---|---|---|---|---|
| | TOTAL (excl. Arbitrage) | ARBITRAGE | TOTAL (excl. Arbitrage) | ARBITRAGE |
| 1991 | 22231 | - | 557759 | - |
| 1992 | 21740 | 394 | 460208 | 2264 |
| 1993 | 34 127 | 9 959 | 639 690 | 35 567 |
| 1994 | 62 542 | 21 575 | 820.811 | 53 811 |
| 1995 | 63 247 | 21 700 | 762 091 | 59 128 |
| JAN - SEP 1996 | 82 472 | 30 025 | 1016 221 | 69 837 |

TABLE 6

2. Index Performance

| INDEX | VALUE 31/12/93 | VALUE 31/12/94 | VALUE 29/12/95 | VALUE 30/09/96 | % Change Dec 93 to Dec 94 | % Change Dec 94 to Dec 95 | % Change Dec 95 to Sep 96 |
|---|---|---|---|---|---|---|---|
| Overall | 4 893 | 5 867 | 6 228 | 6 878 | 19.9 | 6.2 | 10.4 |
| All Gold | 2 164 | 2 023 | 1 344 | 1 654 | (6.5) | (33.6) | 23.1 |
| Industrial | 5 573 | 6 984 | 7 987 | 8 131 | 25.3 | 14.4 | 1.8 |

## TABLE 7

10. Ranking of Top 15 International Stock Exchanges by Market Capitalisation as at 30 August 1996 (US$million)

| RANK | STOCK EXCHANGE | MARKET CAP |
|---|---|---|
| 1. | NEW YORK | 6,123,241.0 |
| 2. | TOKYO | 3,328,018.9 |
| 3. | CHICAGO | 1,589,679.6 |
| 4. | LONDON | 1,463,506.6 |
| 5. | NASDAQ | 1,319,259.0 |
| 6. | GERMANY | 615,494.6 |
| 7. | PARIS | 535,940.4 |
| 8. | SWITZERLAND | 423,267.7 |
| 9. | TORONTO | 421,447.3 |
| 10. | HONG KONG | 361,041.0 |
| 11. | AMSTERDAM | 335,121.9 |
| 12. | AUSTRALIA | 285,021.4 |
| 13. | KUALA LUMPUR | 276,210.9 |
| 14. | JOHANNESBURG | 247,321.4 |
| 15. | ITALY | 246,891.7 |

**TABLE 8**

6. Registered Companies listed on the JSE and overseas exchanges as at 30 Sep. 1996

| EXCHANGE | NUMBER OF COMPANIES |
|---|---|
| London Stock Exchange | 70 |
| Namibia Stock Exchange | 22 |
| Paris Stock Exchange | 18 |
| Brussels Stock Exchange | 14 |
| Nasdaq Stock Exchange (ADR's) | 14 |
| German Stock Exchange | 10 |
| Swiss Stock Exchange | 8 |
| Luxembourg Stock Exchange | 3 |
| Amsterdam Stock Exchange | 1 |

**TABLE 9**

7. Position in the world league at 30 August 1996.

Of the 42 Fédération Internationale des Bourses de Valuers (FIBV) member stock exchanges, the JSE ranks as follows according to the FIBV statistics as at 30 August 1996.

| | JSE VALUE (US$ million) AUG 1996 | RANK | JSE VALUE (US$million) YEAR 1995 | RANK |
|---|---|---|---|---|
| Market Capitalisation (*Domestic*) | 247,321 | 14 | 277,390 | 12 |
| Market Turnover | 17,486 | 29 | 17,425 | 30 |
| | JSE % | RAK | JSE % | RANK |
| Liquidity | 10.6 | 38 | 6.3 | 38 |

* The ranking of the JSE has been affected by the inclusion of the following Stock Exchanges into the FIBV statistics.
* Athens
* Philippines

TABLE 10

AFRICAN STOCK MARKET : SOME INDICATORS, 1994

| | No. of Listing | Mkt Capitalisation (US$million | Trading T/O Value US$million) | Ratio Per cent | % Change In Price index in (US$ million) |
|---|---|---|---|---|---|
| Botswana | 11 | 377 | 31.0 | 8.20 | 6.00 |
| Cote D'Ivoire | 30 | 4,280 | 12.0 | 3.70 | 19.70 |
| Egypt | 700 | 4,263 | 358.0 | 8.90 | 167.20 |
| Ghana | 17 | 1,873.0 75.0 | 3.70 | 68.80 | |
| Kenya | 56 | 3,081 | 62.0 | 2.60 | 179.00 |
| Mauritius | 35 | 1,514 | 85.0 | 7.00 | 56.50 |
| Morocco | 61 | 4,376 | 788.0 | 22.10 | 40.30 |
| Namibia | 14 | 9,574 | 18.0 | 0.30 | 2.70 |
| Nigeria | 177 | 2,711 | 18.0 | 0.80 | 168.80 |
| South-Africa | 640 | 225,718 | 15,954.0 | 8.50 | 28.50 |
| Swaziland | 4 | 338 | 2.0 | 0.60 | 25.70 |
| Tunisia | 21 | 2,561 | 296.0 | 17.00 | 114.40 |
| Zimbabwe | 64 | 1,828 | 176.0 | 11.50 | 22.50 |
| TOTAL | 1,830 | 258,632 | 17,875.0 | | |

* Calculated in local currency terms

*Source:* IFC Emerging Stock Markets Factbook 1995

TABLE 11

WORLD STOCK MARKET PERFORMANCE
TOP 25 MARKET INDEXES BY PERCENT CHANGE IN PRICES (US$ TERM), 1994

| RANK | MARKET | % CHANGE IN PRICE INDEX |
|---|---|---|
| 1. | Kenya | 179.0 |
| 2. | Nigeria* | 168.8 |
| 3. | Egypt, Arab Republic | 167.2 |
| 4. | Bangladesh | 116.6 |
| 5. | Tunisia | 114.4 |
| 6. | Ghana | 68.8 |
| 7. | Brazil* | 67.6 |
| 8. | Mauritius | 56.5 |
| 9. | Peru | 52.1 |
| 10. | Finland | 51.3 |
| 11. | Iran, Islamic Republic | 49.0 |
| 12. | Panama | 44.1 |
| 13. | Chile | 41.2 |
| 14. | Morocco | 40.3 |
| 15. | Ecuador | 38.3 |
| 16. | Oman | 29.1 |
| 17. | South-Africa | 28.5 |
| 18. | Cyprus | 27.6 |
| 19. | Colombia | 26.8 |
| 20. | Swaziland | 25.7 |
| 21. | Zimbabwe | 22.5 |
| 22. | Norway | 22.1 |
| 23. | Taiwan, China | 21.5 |
| 24. | Japan | 20.7 |
| 25. | Sweden | 17.3 |

***Notes:*** Asterisks indicate IFC index returns for markets covered by IFC indexes in 1994

***Source:*** IFC Emergence Stock Markets Factbook 1995.

## 2.3 THE DEVELOPMENT OF THE NIGERIAN STOCK MARKET

A more meaningful and formal attempt at developing an indigenous stockmarket was made in 1958, by the then Federal Minister of Commerce and Industry when he appointed a Committee headed by Professor R.H. Barback, Director of the Nigerian Institute of Social and Economic Research. The Committee was commissioned to look into the ways and means of fostering a share; market in Nigeria.

The Committee submitted and published her report in 1959 with the following recommendations:

1. The creation of facilities for dealing in shares
2. The establishment of Rules regulating transfers, and
3. Measures to encourage savings and issue of securities of Government and other organisations

In the same year, the Central Bank in pursuit of one of her lay down functions, ie, the development of a capital market floated the first Federal Development Loan Stock (1959) of 4.0 million on behalf of the Government for the purpose of financing some of her development projects.

In March 1960 apparently as a result of Prof. Barback's Committee recommendations, a business name "The Lagos Stock Exchange was registered and before the end of that year, it was incorporated. Furthermore, on 4th June, 1961, The Lagos Stock Exchange Act was passed into Law and thereafter started operation in Lagos.

As a result of Dr. Pius Okigbo Committee (1976) the Lagos Stock Exchange was on 2nd December, 1977 transformed into the Nigerian Stock Exchange. There after, branches of the Exchange were established in different parts of the country.

### 3.3.1 THE NIGERIAN STOCK EXCHANGE

The NSE is a non-profit organisation Limited by guarantee. It is a private institution with Government backing. It is owned by 310 shareholders (member) as at 31st December, 1996, made up of 162 Dealing members and 148 Ordinary members.

At its inception in 1961, the Exchange commenced trading with about 9 securities made up of 6 Federal Government development stocks (1959 and 1961) and 3 equities mostly in the mining industry.

### 3.3.2 FUNCTIONS OR OBJECTS

The *functions as contained in its Memorandum and Articles of Association are as follows:*

1. To provide facilities to the public in Nigeria for the purchase and sale of funds, stocks and shares of any kind and for the investment of money
2. To control the granting of a quotation on the Lagos Stock Exchange in respect of funds, stocks and shares, of any company, government, municipality, local authority or other body corporate
3. To regulate the dealings of member's interest and with their clients
4. To standardize and, from time to time, review and if necessary or desirable, increase or decrease the fees or other charges to be made by members for services rendered to their clients or modify the method or methods of assessing or calculating such fees or charges.
5. To facilitate the stockbroking activities of members and facilitate the exchange of information for their mutual advantage and for the benefit of their clients and to offer facilities whereby the public can be informed of prices of their shares dealt in by members
6. To co-operate with Associations of Stockbrokers and Stock Exchanges in other countries and to obtain and make available to members information and facilities likely to be of advantage to them or to their clients.

7. To investigate any irregularities or alleged irregularities in the dealings of members with their clients any differences or disputes between members, or any other parties provided that such differences, disputes or complaints shall relate to or touch on stockbroking business or activities of such members, and to deal with and decide upon such irregularities, differences, disputes or complaints and to take necessary steps for the enforcement of its *decisions and wards*
8. To promote, support, or propose legislative or other measures affecting the afore said objects.

The above objects or functions can be summarised into four functions:

1. Listing of Companies/Governments desiring their securities to be traded on the Exchange
2. Supervising listed firms compliance with post listing requirements
3. Reviewing and addressing the rights of Shareholders, responding to Investor and Stockbrokers complaints concerning earnings, dividend *distribution* etc
4. Running the trading floors of the Exchange and ensuring that tradings are conducted according to the Exchange procedures.

### 3.3.3 OWNERSHIP STRUCTURE AND MANAGEMENT

As earlier stated, the Exchange is owned by 310 members. the owners of the Exchange are called members. They are divided into two types:

1. *Ordinary members*
2. Dealing members.

**The Ordinary members** - are made up of financial institutions, or individuals who have in accordance with the Articles of Exchange taken up the stipulated number of shares of the issued capital of the Exchange and has been admitted into the

Register of members. No benefit accrue to such a member. As at 31st December 1996, they were 148 in number.

**Dealing members** - are generally referred to as Stockbrokers. In addition to been an ordinary member, they are licensed by the Council to trade in stocks/shares and bonds and accept to be bound by the Rules and Regulations of the Exchange. Dealing Members receive only remuneration in the form of brokerage Commission.

**GOVERNANCE OF THE EXCHANGE**

The Council of the Exchange (Board of Directors) is responsible for the governance and policy making of the Exchange. The President presides over the Council. The President and Council members are elected by ballot immediately after the Exchanges AGM by members of the Exchange.

The President's tenure is 3 years. Each of the branches elect its own governing officers in like manner and are called Branch Chairmen and Branch Council.

**MANAGEMENT OF THE EXCHANGE**

The day-to-day affairs of the Exchange are run by the Director-General and his team of executives ie (4 heads of departments and 2 Branch Directors)

## 3.4 APEX REGULATORY BODY - SECURITIES AND EXCHANGE COMMISSION

3.4.1 **Establishment and Growth of SEC** - SEC is the Apex regulatory body for the Nigerian Capital Market. It was established under the Securities and Exchange Commission Decree 1979, (re-enacted as Decree No. 29 of 1988).

The story of SEC and the Nigerian Capital Market cannot be told without the mention of Central Bank of Nigeria. The origin and early growth of the Nigeria Capital market could be traced to 1946 when the first Development stock was

issued with the establishment of the CBN, more government securities were issued to stimulate and accommodate Government long-term financial requirements. Initially, the Bank provided a secondary market in these development stocks. With the establishment of the Lagos Stock Exchange in 1961 which became the Nigerian Stock Exchange in 1971, a secondary market transaction were transferred to the Nigerian Stock Exchange.

*Securities and Exchange Commission as it is called today evolved from the* Capital Issues Committee, which was set up as a department in 1962 by the Central Bank to regulate capital issues in the Country. Encouraged by the performance of the Committee, the Government provided legal backing through the Capital Issues Commission (CIC) Decree No. 14 of 1973. The CIC was later superseded by the *SEC which was set up by the SEC Act of 1979 re-enacted by the SEC Decree of* 1988.

The major objective of SEC is to promote the development of an orderly capital market. In doing this, the SEC has the major role of providing adequate protection for the investing public.

### 3.4.2 FUNCTIONS

1. **Allotment** - SEC clears allotment of Securities in a public offering to *ensure wider spread of share ownership*
2. **Surveillance** - Monitors the activities of the Nigerian Stock Exchange trading floors in order to ensure orderly, fair and equitable dealings in securities and to forestall illegal deals by privileged insiders at the expense of innocent and often ignorant Investors.
3. **Registration** - Empowered to register:
   (a) all securities proposed to be offered for sale to or subscription by the public or offered privately;
   (b) stock exchange and its branches

(c) personal/institutions involved in securities dealing - Stockbrokers, Registrars, Securities Dealers and their agents, Issuing house, Fund managers etc.

(d) Securities to be traded or being traded (shares, debentures etc); this is to ensure high standard of professionalism and integration in the Securities market.

4. **Mergers and Acquisitions** - Empowered to approve and review mergers, acquisitions and all forms of business combination.

5. **Capital Market Development** - Creating the necessary atmosphere for orderly growth and development of the capital market through: Stimulating ideas, initiating policy changes and innovations for the growth of the securities market

## 3.5 PLAYERS IN THE MARKET AND THEIR ROLES

By Players in the market we mean, the institutions that operate on day-to-day basis in the stock market.

The players include:

1. Stockbroking firms
2. Nigerian Stock Exchange (NSE)
3. Securities and Exchange Commission (SEC)

The individual persons that actually play in the market i.e on the floor of the Exchange are representatives of the above institutions. Individuals do not deal or regulate on their own account and as such they are not called by their personal names but the houses or institutions they represent. The Officials that play therefore are called:

1. Stockbrokers
2. NSE Officials (Acting as Chairman and Clerks of the Call-over section.
3. SEC Official.

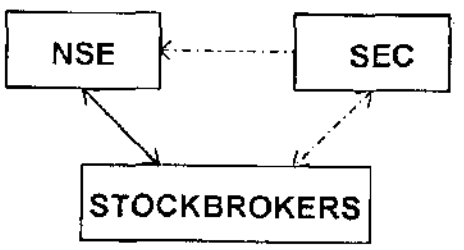



**Chart 1**

The thick Arrow from Stockbrokers to NSE in the above chart shows that in the course of trading in the market the Stockbrokers relate more with the NSE Officials (Chairman) than SEC Official. This is so because the NSE Official moderates the trading sessions and ensures that trading are conducted according to the Exchange procedure. The Exchange runs the trading floors. While the SEC representative observes or monitor silently, the activities on the NSE trading floors is to ensure orderly, fair and equitable dealings in securities and to forestall illegal deals.

However, before and after the market, there are strong interactions and relationships between the following:

1. Stockbrokers
2. NSE
3. SEC

4. Registrar
5. Central Securities Clearing System
6. Individual/institutional Investors.

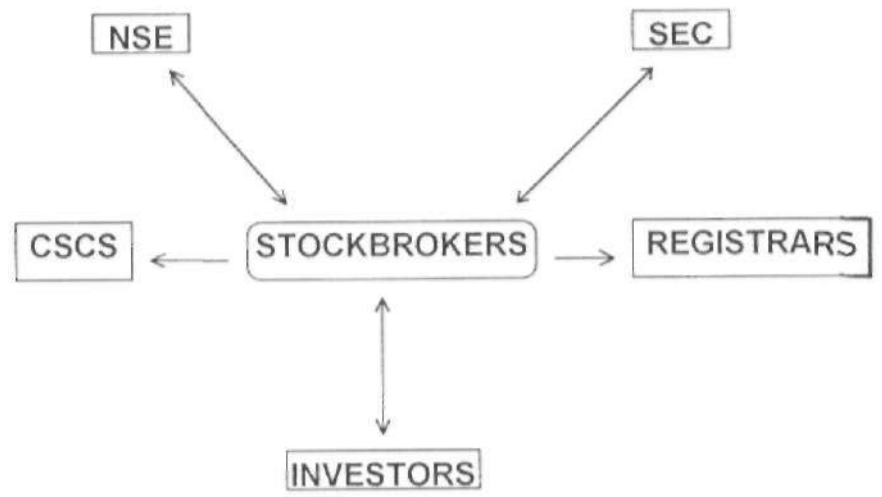



Chart 2

A cursory look at the above chart reveals that a Stockbroker has a number of responsibilities. One to the Investor, two, to the Registrar, three, to CSCS, four to NSE and fifth, to SEC. By virtue of this responsibilities, the interact virtually every day.

**FUNCTION OF THE PAYERS**

We shall only discuss the function of the Stockbroker here as we have dealt extensively with the functions of the other Payers in this Chapter.

A Stockbroker is an agent who buys and sells securities on behalf of Investors in return for commission. He must be a dealing member of the Stock Exchange.

The word Stockbroker encompasses:

1. A Jobber/Specialist
2. Financial Consultant
3. Account Executive
4. Registered Representative
5. Investment Adviser.

**FUNCTIONS**

1. Makes arrangement for listing or quotation of Company shares on the Stock Exchange so that trading can take place in such securities.
2. Agents in buying and selling securities.
3. Acts as investment advisers to his clients.
4. Portfolio management.
5. Funds management.
6. Underwriting of issues.
7. Marketing of financial services/products.

## 3.6 SECURITIES TRADED IN THE MARKET

In summary, the securities traded on in the Nigerian Stockmarket can be classified into two:

1. Equity
2. Debt

The above classification includes:

1. Ordinary shares - common stock (equity)
2. Federal Government development stocks
3. Bonds (state/municipal Bonds)
4. Industrial loans and preference stocks/debenture

## 3.7 OPERATIONS OF THE STOCK MARKET

The Stock Exchange Comprises basically two markets.

3.7.1 **The Primary Market** - Also called the new issues market. It is the market for new issues of securities. Government and Companies use this market to raise funds. To float a new issue, a firm must deal with firstly the functionaries, then the regulatory bodies and the Investors. Chart 3 below gives a good illustration.

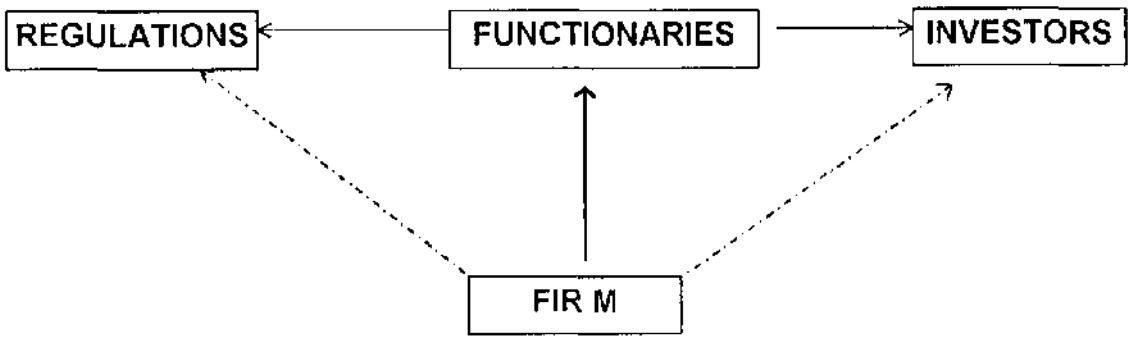



**Chart 3**

The boxes in the above chart, represent the following:

1. **Regulators** - Nigerian Stock Exchange and Securities and Exchange Commission.
2. **Functionaries** - Parties to an issue, Issuing houses, Stockbroking firms, Accountants, Solicitors, Registrars, Underwriters, Trustees and Receiving Banks.
3. **Investor** - Individual and institutional Investors such as insurance companies, pension fund, trust funds, etc.

In the above chart, the first port of call of a firm desiring to raise fresh funds or Public Limited Company (Plc) seeking listing must visit the functionaries particularly, a Stockbroker and Issuing house. The functionaries in addition to acting on his behalf will at the same time or the other see the Regulators with the top management of the firm. The Functionaries will relate to the Regulators and the Investors on behalf of the firm. The firm does not deal or relate directly with the Regulators or Investors. The relationship is indirect.

For the firm not previously quoted, a primary market operation implies going public via the Stock Exchange and if fresh funds are to be raised, securities have to be created and sold to the Public, and the proceeds go to the firm to enable the firm execute the purpose of the offer. Companies already quoted can also seek for additional funds from the market through the issuance of supplementary securities in the primary market.

The mechanics of a public issue including the stages of a primary market issue and method of offer will not be discussed here.

3.7.2 **Secondary Market** - The secondary market is the market for the sale and purchase of outstanding or issued securities. It is a conversion market in that Investors can convert their securities into cash or buy more securities for investment or speculative purposes. The Stock Exchange provides facilities for this market.

In this market, there are two tiers or levels namely;

1. Main listing, or first tier
2. Second tier securities market (SSM).

**TRADING PROCEDURES**

The call-over system is used to effect trading on the floor of the Nigerian Stock Exchange.

Once trading Commences, the securities are called by an officer of the Exchange, one after the other for the Stockbrokers to indicate interest either by bidding or offering the mentioned securities at any price the Stockbroker estimates the securities to be worth. Deals stuck between the dealing members are evidenced by the exchange of Bargain slips which serves as memorandum for transactions for interbroker delivery and settlement purposes.

**TRANSFER PROCEDURES**

(A) **Procedure for Selling**

An Investor wishing to sell his shares (holding) must:

- give an order to his Stockbroker to sell.
- complete and sign transfer form and Shareholder particulars form.
- submit the share certificate to the Broker and collect a script receipt.
- the Broker sends the transfer form attached to the certificate with a covering better to the Registrar for signature verification.
- on receipt of verification, the share certificate are sent to the depository of Central Securities Clearing system.
- on receipt of acknowledgement, the shares are traded on the floor of the Exchange.
- upon successful dealing, a Sales Contract Note is prepared and a cheque is raised in favour of the owner.

(B) **Procedure for Buying of Shares**

An Investor wishing to buy shares must give an order to his Stockbroker to buy:

- complete a purchase order form, Shareholder particulars form, and sign a transfer form.
- the Buyer will deposit the amount for the quantity of shares of the company he/she wants.
- the Stockbroker will buy from the market and allot to the client the security of his preference.
- prepare the Purchase Contract Note and advice the client.
- the Stockbroker will complete the transfer forms and lodge with the Central Securities Clearing System.
- the CSCS gives the Broker an acknowledgement of lodgement and the Shareholder's clearing House Number Except on express demand for certificate, the Client can now trade on his new shares five days after the purchase.

**TRANSFER COSTS**

The cost of buying and selling shares at the Stockmarket includes the following:

1. The Brokers Commission
2. Contract stamp
3. VAT
4. SEC Commission fee (for purchase only)
5. NSE Commission (yet to commence)

3.8 **RECENT CHANGES IN THE MARKET**

The Nigerian Stockmarket and its environment have witnessed radical changes in the past two years. The changes include the following:

1. Introduction of 5% price movement

2. Review of allocation system
3. Introduction of Central Securities Clearing System
4. Internationalisation of the Nigerian Stockmarket by the Federal government.
   - The abrogation of two Foreign Investment related laws;
   (a) Nigerian Enterprises Promotion Decree 1989
   (b) Exchange Control Act Decree 1962.

Prior to the introduction of the 5 per cent price movement, limit, the Exchange was operating the 10 points price movement limit rule. A security cannot gain or lose more than 10 points on a trading day. That system was changed to 5 per cent limit. Furthermore, the system of allocating or sharing shares/stocks above 5000 units among bidding Brokers was changed. A Stockbroker was free to bring any parcel and go back with it if he so wishes i.e he was free to cross his deals no matter the size of the parcel or deal in the portion he desires.

In the last quarter of 1995, the Federal Government took some bold initiatives to integrate its economy into the global economic system by abrogating two major foreign investment-related laws. These laws are the Exchange Control Act of 1962 and the Nigerian Enterprises promotion Decree of 1989 (NEPD) and its replacement by the Nigerian Investment Promotion Commission Decree 16 of 1995 which allows up to 100% foreign ownership of any Nigerian Company on one hand, and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree 17 of 1995 which provides easy movement of capital in/out of Nigeria especially for foreign portfolio Investors.

Specifically, the Exchange Control Act had hampered Portfolio Investment and made it imperative for foreign Investors to seek the permission of the Minister of Finance before investing or repatriating the proceeds of their investment from the country while the NEPD exclusively reserved enterprises with less than N20 million equity capital for Nigerians.

Finally, the dream of internationalising the NSE became a reality with the take-off of the Central Securities Clearing System (CSCS) in April, 1997. Since that time, settlement and delivery on the Nigerian Stockmarket has been reduced and brought at par with internationally accepted standard of T + 5. It is expected that the system with make the market more efficient, Investor friendly and internationally competitive.

## 3.9 EVALUATION OF PERFORMANCE

In evaluating the performance of the Nigerian Stockmarket, it will be important to restrict ourselves to the generally accepted standards of measuring performance in the stockmarket. Some of the criteria includes the following:

1. Market turnover
2. Market capitalisation
3. Index movement
4. Capital mobilisation
5. Development of investment culture
6. Depth of the market
7. Foreign capital flows.

In 1996, a total of 882 million shares worth N7.063 Billion was traded in contrast to 397 million shares value at N1.838 billion achieved in 1995 or the N234.5 million achieved in 1991 (5 years ago). In volume terms, this performance represents 122% increase and in value terms 284% growth over the 1995 figures.

The market capitalisation rose to N285.6 billion at the end of 1996 representing approximately 67% increase over N171.1 billion recorded in at the end of 1995 or the N26.6 billion recorded five years ago (1991). the increase is as a result of price movements and listing activities. Shares issued, new listed companies and further issues of equity by already listed companies in form of rights issues, bonus issues and offer for subscription add to market capitalisation. Share

prices of many listed companies recorded substantial gains within the past 2 years.

The NSE All-share Index also rose from 37% from 5.092.15 in 1995 to 6992.10 in 1996 or 784.0 recorded in 1991. Tables 12 and 13 illustrates comparative activities from 1961-1996, monthly trading activities for the year 1996 and NSE All-share Index (1996).

Capital mobilisation has been defined by H.I. Alile as the channelling of savings into new uses through the issues of securities which result in a net increase in the aggregate investment in equity or loan stock, thus net capital formation. New issues alone constitute capital formation. By this definition transactions in the secondary market of the Exchange would be excluded because they do not involve the issues of new securities nor the raising of fresh capital.

Table 14 shows new issues between 1987-1996. The figures on the table reveal that the new issues rose from N114.160 million in 1997 to N21,453.1 billion in 1996. This no doubt is a remarkable growth.

The first major attempt at getting Nigerians to develop an investment culture was during the indigenisation exercise of 1972 and 1979. This exercise which later crystallised into two Acts, The Nigerian Enterprises Promotion Acts of 1972 and 1979, together raised the number of listed equities from 14 in 1971 to over 90 by the end of 1980. The exercise created much awareness and led to over 700,000 Nigerian acquiring shares in the stockmarket. Though the impact was small compared to the total population of Nigeria, one can say that it served us a spring board.

The second boost was during the Federal Government privatisation and commercialisation exercise of between 1986-1993 where about 86 firms were privatised. The three tiers of Government strongly encouraged workers, their investment companies and Nigerians as a whole to buy the Government shares in the various companies that were been sold off. The crash of the money market in 1993 also contribute enormously to directing the attention and interest of Nigerian investing public to the stockmarket. Though there are no official figures of the

number of persons using the stockmarket at present, estimates from Regulatory bodies and Shareholders Associations put it at over 2 million individual/institutional Investors. Given the next 5 years, taking into consideration the efforts of the NSE, SEC and market operators at enlightening the public, many more will develop an investment culture.

The dept of any stockmarket is primarily dependent on the number of listed securities and the volume of each stock which is made available for regular trading. Table 15 gives some indication of the depth of the Nigerian stockmarket.

**TABLE 12**

**COMPARATIVE TRADING ACTIVITIES**

**1961-1996**

| Period | Government Stocks | Industrial & Equity | Total |
|---|---|---|---|
| 1961/62 | 4,123,270 | 246,730 | 4,370.000 |
| 1962/63 | 7,876,290 | 616,192 | 8,492,482 |
| 1963/64 | 11,467,380 | 1,039,036 | 12,506,216 |
| 1964/65 | 13,692,680 | 2,450,924 | 16,143,604 |
| 1965/66 | 15,724,800 | 1,121,630 | 16,846,430 |
| 1966/67 | 11,704,060 | 675,616 | 12,379,676 |
| 1967/68 | 12,607,120 | 279,856 | 12,886,978 |
| 1968/69 | 17,330,820 | 102,294 | 17,433,114 |
| 1969/70 | 15,634,480 | 221,800 | 15,856,280 |
| 1970/71 | 30,544,260 | 3,080,100 | 33,624,360 |
| 1971/72 | 26,738,800 | 1,303,242 | 28,042,042 |
| 1972/73 | 26,125,520 | 671,534 | 26,797,054 |
| 1973/74 | 99,348,520 | 1,261,995 | 100,610,515 |
| 1974/75 | 63,664,830 | 549,322 | 64,214,152 |
| 1975/76 | 80,634,830 | 788,853 | 81,423,683 |

***Table 12 Cont'd***

| | | | |
|---|---|---|---|
| 1976/77 | 153,849,760 | 2,271,990 | 156,121,750 |
| 1977/78 | 226,961,915 | 3,045,040 | 230.066,955 |
| 1978/79 | 143,500,740 | 1,987,401 | 145,488,14 |
| 1979/80 | 512,034,222 | 10,816,784 | 522,851,00 |
| 1981 | 326,178,957 | 6,119,169 | 332,298,128 |
| 1982 | 208,215,689 | 8,188,927 | 216,404,616 |
| 1983 | 384,870,312 | 13,000,755 | 397,871,067 |
| 1984 | 234,115,541 | 15,702,860 | 249,818,401 |
| 1985 | 287,840,413 | 23,264,741 | 311,105,154 |
| 1986 | 475,846,312 | 11,986,021 | 487,832,333 |
| 1987 | 282,251,808 | 4,045,706 | 286,297,514 |
| 1988 | 215,829,622 | 34,485,043 | 250,314,665 |
| 1989 | 582,430,369 | 71,129,746 | 653,560,115 |
| 1990 | 172,801,696 | 133,540,209 | 306,341,905 |
| 1991 | 92,675,151 | 141,864,629 | 234,539,780 |
| 1992 | 85,020,960 | 406,547,508 | 491,568,468 |
| 1993 | 84,258,733 | 577,796,580 | 662,055,313 |
| 1994 | 15,020,218 | 970,679,081 | 985,881,236 |
| 1995 | | 1,838,838,622 | 1,838,838,622 |
| 1996 | 90,033,365 | 6,972,754,416 | 7,062,787,781 |

Table 13

MONTHLY TRADING ACTIVITIES VALUES (1996)

| MONTH | GOVERNMENT STOCKS (₦) | INDUSTRIAL LOANS (₦) | EQUITIES (Including SSM) (₦) | TOTAL (₦) |
|---|---|---|---|---|
| JANUARY | - | - | 178,983,710.76 | 178,983,701.76 |
| FEBRUARY | - | 1,715,000.00 | 226,608,993.53 | 228,323,993.53 |
| MARCH | - | - | 293,016,876.05 | 293,016,876.05 |
| ARPIL | - | 1,320,534.00 | 338,408,171.52 | 339,728,705.52 |
| MAY | - | 6,344,000.00 | 744,460,898.17 | 750,804,898.17 |
| JUNE | - | 40,000.00 | 420,227,540.36 | 420,267,540.36 |
| JULY | 64,587.60 | 1,437,040.00 | 286,812,714.66 | 288,314,342.26 |
| AUGUST | 62,505,228.30 | 35,712,111.78 | 271,765,876.16 | 369,983,216.24 |
| SEPTEMBER | 24,007,508.70 | - | 353,091,460.63 | 377,098,969.33 |
| OCTOBER | - | - | 2,481,430,479.46 | 2,481,430,479.46 |
| NOVEMBER | - | 3,620,000.00 | 767,513,005.77 | 771,133,005.77 |
| DECEMBER | 3,456.040.00 | - | 560,246,003.08 | 563,702,043.08 |
| **TOTAL** | **90,033,364.60** | **50,188,685.78** | **6,922,565,730.15** | **7,062,787,780.53** |

SUMMARY OF TRADING RESULTS JANUARY-DECMEBR (1996)

| MONTH | VOLUME | VALUE (₦) |
|---|---|---|
| JANUARY | 38,110,168 | 178,983,710,76 |
| FEBRUARY | 31,594,385 | 228,323,993.53 |
| MARCH | 30,282,337 | 293,016,876.05 |
| ARPIL | 51,790,593 | 339,728,705.52 |
| MAY | 82,732,691 | 750,804,898.17 |
| JUNE | 54,693,143 | 420,267,540.36 |
| JULY | 29,661,878 | 288,314,342.26 |
| AUGUST | 133,348,236 | 369,983,216.24 |
| SEPTEMBER | 55,967,979 | 377,098,969.33 |
| OCTOBER | 216,059,228 | 2,481,430,479.46 |
| NOVEMBER | 96,213,286 | 771,133,005.77 |
| DECEMBER | 62,020,862 | 563,702,043.08 |
| **TOTAL** | **882,492,786** | **7,062,787,781.00** |

*Table 13 Cont'd*

NSE ALL-SHARE INDEX (1996)

| MONTH | HIGH | LOW | AVERAGE |
|---|---|---|---|
| JANUARY | 5135.1 | 5093.6 | 5114.4 |
| FEBRUARY | 5178.9 | 5136.8 | 5157.9 |
| MARCH | 5266.8 | 5180.5 | 5223.4 |
| ARPIL | 5412.4 | 5269.8 | 5341.1 |
| MAY | 5695.0 | 5416.3 | 5555.6 |
| JUNE | 5798.7 | 5720.9 | 5759.8 |
| JULY | 5919.4 | 5798.7 | 5859.1 |
| AUGUST | 6141.0 | 5924.6 | 6032.8 |
| SEPTEMBER | 6501.9 | 6147.0 | 6324.4 |
| OCTOBER | 6634.8 | 6505.3 | 6570.1 |
| NOVEMBER | 6775.8 | 6635.2 | 6705.4 |
| DECEMBER | 6992.1 | 6789.6 | 6890.9 |

## Table 14

NEW ISSUES - 1987 TO 1996

| | OFFER BY EQUITY ₦,000 | DEBENTURE STOCK ₦,000 | OFFER FOR SALE ₦,000 | OFFER BY RIGHTS ₦,000 | LISTING BY INTRO ₦,000 | MEMO QUOTATION ₦,000 | MERGERS & ACQUISITION ₦,000 | TOTAL ₦,000 | % |
|---|---|---|---|---|---|---|---|---|---|
| 1987 | 2,365 | 57,500 | 795 | 13,500 | 0 | 0 | 0 | 114,160 | 0.3 |
| 1988 | 159,540 | 45,626 | 0 | 15,750 | 0 | 0 | 0 | 220,916 | 0.5 |
| 1989 | 251,704 | 305,000 | 237,486 | 253,723 | 0 | 0 | 0 | 1,047,913 | 2.4 |
| 1990 | 164,913 | 680,000 | 342,376 | 155,109 | 0 | 0 | 0 | 1,342,598 | 3.1 |
| 1991 | 375,405 | 636,500 | 34,926 | 242,960 | 12,000 | 41,000 | 3,200 | 1,345,993 | 3.1 |
| 1992 | 1,307,762 | 703,500 | 1,235,979 | 565,673 | 255,000 | 52,500 | 0 | 4,120,414 | 9.5 |
| 1993 | 1,266,659 | 1,005,000 | 22,026 | 1,591,710 | 0 | 0 | 104,227 | 3,989,622 | 9.2 |
| 1994 | 562,318 | 780,000 | 833,617 | 401,297 | 42,984 | 50,000 | 2,040 | 2,672,256 | 6.1 |
| 1995 | 1,233,225 | 15,000 | | 2,872,778 | 60,108 | 0 | 2,902,500 | 7,083,611 | 16.3 |
| 1996 | 5,127,082 | 0 | 399,473 | 1,621,884 | 4,000,000 | 0 | 10,304,740 | 21,453,179 | 49.5 |
| | **10,450,973** | **4,268,126** | **3,106,878** | **7,734,384** | **4,370,092** | **143,500** | **13,316,707** | **43,390,662** | **100** |

## Table 15

## Growth in the Number of Listed Securities (1980-996)

| 14 (1) Year | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Govt. Stocks | 54 | 56 | 57 | 61 | 56 | 57 | 58 | 54 | 51 | 47 | 43 | 40 | 36 | 32 | 29 | 28 | 24 |
| Insdutrial & Bonds | 12 | 14 | 18 | 25 | 27 | 28 | 29 | 31 | 35 | 40 | 43 | 57 | 62 | 66 | 70 | 67 | 69 |
| Equities including SSM (1986) | 91 | 93 | 93 | 92 | 92 | 96 | 99 | 100 | 102 | 111 | 131 | 142 | 153 | 174 | 177 | 181 | 183 |
| Total | 157 | 163 | 169 | 178 | 175 | 181 | 186 | 185 | 188 | 198 | 217 | 239 | 251 | 272 | 276 | 276 | 276 |

A look at the table shows that in 1996, a total of 276 securities made up of 24 Government stocks, 69 individual loans and preference stocks and bonds, and 183 equities including 5.5m were listed on the Nigerian Stock Exchange compared to a total of 157 in 1980 and 239 in 1991 about five years ago. Evidently, the growth of equity listings on the NSE in the 1990s was primarily influenced by the privatisation exercise of the Federal Government which brought 28 new companies to the Exchange. The Liberalisations of the money market in 1986 and the upward movement of interest rates and increased public awareness about the market contributed to the observed improvement in listing activities. However, though the growth in the number of listed securities looks encouraging, it is poor compared to other emerging markets in Africa like Egypt (700) and South Africa (640).

Finally, regarding foreign capital inflow, since the promulgation of the Nigerian Investment Promotion Commission Decree No. 16 of 1995 and the Foreign Exchange Decree No. 17 of 1995, a total of US$1.137 million in new foreign portfolio investment in the Nigerian Economy was made through the NSE. However, in 1996, a total of US$32.99 million in new foreign portfolio investment has been made in some of the quoted companies. If the positive response of the foreign investors to changes in Nigerian legal environment continues and is sustained, it is expected that the trend in investment will continue and may spill over to Foreign Direct Investment which will be most beneficial to Nigeria.

## 3.9 INTERNATIONAL PERSPECTIVE OF THE NIGERIAN STOCK MARKET

The NSE on June 2, 1987 introduced the REUTER ELECTRONIC CONTRIBUTOR SYSTEM. This system beams Stock Market operations to the World via Reuters International Information Network. This interface via the Stock Exchange in-house computer system makes available to the International Finance Communities, the transactions of the Nigerian Stock Market on-line daily on their Reuters Subscribers Monitor. The ECS service means automatic access by foreign Investors to relevant information on companies quoted on the NSE vis-avis quoted

price of shares, dividend payments, price-earning ratio, earnings per share, company views, financial statements and analysis as well as the Stock Exchange Index.

Since the internationalisation of the Nigerian Stockmarket in 1995, there has been an increasing interest in the Nigerian market. The interest is being shown by the world business community, international financial institutions and even Nigerian Living abroad. Consequently, foreign portfolio investors commenced investing in the Nigerian Stockmarket. As at 1996, a total of US$32.99 million in new foreign portfolio investment has been made in some quoted companies on the NSE. Most of the Investors came from USA, Europe, South Africa and foreigner working in Nigeria. This is a measure of confidence in the market and it is estimated that this trend will continue as more light is shed on Nigeria's investment code.

Furthermore, in 1996, International Finance Corporation (IFC) Emerging Market Database stated producing investable index for the Nigerian Stockmarket in addition to the IFC Global Composite Index for the market. Nigeria, Zimbabwe and South Africa are the only countries in Africa with IFC Investable Index.

The Nigerian Stockmarket is presently receiving a healthy attention from the international finance and business community. In fact the NSE reported in their 1996 Fact Book, that several enquiries are being received. One of such was received from a high calibre international organisation which stated that;

"The investment opportunities and attractive attributes of commitments in your country are obvious. Our deliberate, focussed exploration of any of such investment by non-residents is now. Kindly provide us with the names of Stockbrokers in Nigeria. Any existing correspondent relationship with foreign Stockbrokers"

### 3.9.1 OPERATIONAL PROBLEMS OF THE STOCKMARKET

This chapter will not be complete without identifying and discussing operational problems of the stockmarket. As a matter of fact every stockmarket has its own operational problems. The problems include the following:

1. Market facilities and procedures
2. Logistics
3. Operational Facilities
4. Level of professionalism of operators
5. The Relationship between the Regulatory bodies
6. Capital inadequacy.

It was widely observed prior to the internationalisation of the Nigerian stockmarket that the inadequacy and inefficiency in the operations of the market was largely due to lack of state-of-the-art market facilities. But it is sad to note that now that the NSE has introduce or established the much desired CSCS, a new clearing, settlement and depository facility to enhance adequacy and efficiency in the market, it is been welcomed on the lips by some market operators and participants particularly Investors and consequently, affecting the share price behaviour, and the gains and popularity of the market. Perhaps there is a need to sit down and look more deeply into the issues at stake to identify the cause of the apathy. Is it that the system is not good or the procedures involved is too cumbersome and long or that NSE is exerting too much pressure on the market operators? Is it actually the decision not to print shares certificates again that is the problem? Or hastiness in the implementation of the new system by NSE? Or Is the complaint or apparent displeasure due to ignorance of the benefits of the system? Except this problem is quickly solved, the Nigerian Stockmarket may not bubble in the months and years to come.

Logistics is another important problem. There are problems of communication between NSE head office in Lagos and the rest of branches. It has

been rightly admitted that timely availability of information to the stake holders of the Exchange can add value to the different decisions they make in their respective capacities as quoted companies, Stockbrokers, issuing houses, investors and capital market operators, but where these timely information such as company Reports-in-brief, current official lists etc are not available at the branches of NSE as at when due renders the Nigerian Stockmarket inadequate and inefficient.

The introduction of the state-of-the-act operation has become inevitable in today's business environment. This is more so in the international securities market. The operating facilities of most Stockbrokers, Registrars, and other market operators are inefficient. The market operators would therefore have to modernise their systems to meet current and anticipated challenges.

The current level of professionalism among operators in the market undoubtedly leaves much to be desired. There is no gainsaying that both domestic and foreign perception of a market is in part influenced by the level of professionalism displayed by market operators including Stockbrokers. The level of professionalism is usually reflected in the pricing of securities, the quality of advisory services and management of clients' portfolio. The issue of pricing of securities on the secondary market. Training is essential to sharpen the skills and professionalism of market operators.

A saying goes that "when two elephants fight, it is the grass that suffer". Where the Regulatory bodies (NSE and SEC) every now and then have to quarrel over every little issue or adopt a confrontational attitude to ironing out differences on common interest affects the stockmarket. Where market operators have to be hammered in the course of such quarrels is not desirable. This is a problem in the Nigerian Stockmarket. Efforts must be made to narrow whether structural or perceived differences as the two bodies are complementary.

Most market operators are not adequately capitalised and as such are not better positioned to effectively operate in the dynamic Nigerian Stockmarket. Well, it is becoming clearer that market operators particularly stockbroking firm and

issuing houses desirous of meaningful participation in the Nigerian Stockmarket may have to increase their capital base in line with the demands of internationalisation and anticipated domestic requirements.

# CHAPTER FOUR

## THE METHODOLOGY OF THE STUDY

This chapter focus basically on how the research was carried out.

### 4.1 TYPE OF DATA

There are basically two types of data. Primary and secondary data. In carrying out this work, the study employed these two types of data.

Primary data as noted in the introduction, are original data gathered by the researcher for the project at hand. The data are being gathered for the first time. While secondary data are data already existing inprinted form that have been previously collected for the purpose different from the one presently in question. These types of data were gathered from primary and secondary sources.

However, in the collection of the needed information. The study began with a thorough review and use of secondary data. On the realisation that the secondary data was inadequate to solve the problem at hand, primary data was then collected.

Sources used include; Government Agencies (SEC), Non-profit organisation (NSE) published sources, libraries, periodicals, journals, annual and quarterly report from SEC, NSE, CBN and Myrll Lynch's weekly International portfolio Manager's view.

### 4.2 DATA COLLECTION METHODS

The purpose of every research is to discover answers to questions through the application of scientific procedures. However, there are many approaches or methods used in acquiring the information needed to solve the problem. Taking into consideration the nature of Research study at hand, the following approaches were considered;

1. Quantitative or explanatory research
2. Survey Research

The first source to be consulted was the information system of the Researcher's organisation. The answers were not readily available. In view of this, a thorough review and use of secondary data was made. This led to an exploratory research.

Exploratory or qualitative research is usually diagnostic in nature mostly intended to generate ideas and hypothesis. It was conducted in an unstructured manner using interview with a small sample of people. The sample was selected to represent different categories of people from a given target.

Finally, survey research method was employed. Questions were designed to elicit answers necessary to solve the problem defined earlier in the study.

## 4.3 DATA COLLECTION

The following sub-methods of exploratory and survey methods were used to gather the primary data.

1. Expert opinion
2. Individual indepth interview (personal interview)
3. Focussed group interview
4. Questionnaire

The choice of the first three methods became necessary because they are noted in research to be effective methods in generating ideas through people by engaging the individual, or a small sample of people in a discussion or interview that is centred on a given topic or area. The advantages of these methods are that it provokes more spontaneity and frank views, it allows the respondents to fully express themselves, it is effective with busy executives or experts in technical or specialised fields and thought leaders. Furthermore, it is believed by proponents that being in a group encourages other participants/respondents to speak out thereby making good and meaningful comments.

The interviews were conducted in an unstructured manner. Appendix 1 and 2 shows a list of unstructured questions used to obtain the requires answers. Appendix 1 was specifically designed for market operators while Appendix 2 was designed for market Regulators. (Regulators or the Nigerian stockmarket).

Appendix 3 shows a sample of Questionnaire used to elicit response from respondents (Investors). The design of the Questionnaire is structured - (Dichotomous and multiple choice questions) - undisguise.

## 4.4 DATA ANALYSIS

In analysing the data gathered through questionnaire method the Researcher used tables and percentage system was used.

# CHAPTER FIVE

## 5.1 DATA PRESENTATION AND ANALYSIS

The views and opinions of experts (Market Operators/Regulators) contacted in the course of caring out the individual indepths and focus group interview are recorded in this chapter. Furthermore, part of the data gathered through the questionnaires administered are classified, analysed and interpreted to reflect the respondents view as stated below.

### SECTION ONE AND TWO: MARKET OPERATORS/REGULATORS

The crux of the interview conducted among the operators and regulators (and discussions) centred on the Research Question. 'The problems facing the Nigerian Stockmarket'. Collated and itemised below are the frank views of the participants or interviewees.

1. Infrastructural facilities are inefficient - such as communication facilities, *postal system and electric power supply.*
2. Capital market facilities are inadequate and ineffective.
3. Most market operators lack the state-of-the art operational facilities.
4. Low-level of professionalism among market operators.
5. Poor investment culture in the country.
6. Ignorance and low-level of public awareness.
7. Outdated investment related Acts/Laws.
8. Unfavourable Regulatory frame work.
9. Capital inadequacy on the part of stockbroking firms.
10. Shallow and narrow market
11. The process of share transaction and stock delivery is too long.
12. Dearth of capital market institutions.
13. Illiquidity.
14. Free flow of market information.

15. Leadership problem.
16. Lack of encouragement or incentive from Government for companies listed on the NSE.
17. Delays and foot dragging by the Federal Government in pursuing privatisation of government enterprises.
18. Political instability.

**SECTION THREE - INVESTORS**

Forty Questionnaires were administered and all were properly completed and returned by the respondents.

On the question of, if they owned shares in any company, the 40 ticked yes, meaning 100% were Shareholders.

When asked for how long they have been buying shares, the table below gives the percentage breakdown.

Table 1

| Variable (year) | No. Of Responses | Percentage (%) |
|---|---|---|
| 0 - 1 | 6 | 15 |
| 2 - 3 | 10 | 25 |
| 4 - 5 | 12 | 30 |
| 6 - above | 12 | 30 |
| | **40** | **100** |

Fifteen percent of the respondents were in the range of 0-1 years while, 25% of them had been buying shares for the past 2 to 3 year and 30% each were between 4 to 5 years and over 6 years ago. Of the 15% that fell within 0-1 year, it was discovered that 4 or 10% of them were just buying for the first time. The 10% were not buying shares because of ignorance.

On the question of if they had funds now will they buy shares, 100% of the respondents said yes.

As regards what their experience was like since they began buying shares, Table 2 gives a breakdown of their responses.

**Table 2**

| S/No. | Variable | No. Of Responses | Percentage (%) |
|---|---|---|---|
| 1. | Interesting | 6 | 10 |
| 2. | Quite interesting | 24 | 60 |
| 3. | Very interesting | 6 | 15 |
| 4. | Not quite interesting | 4 | 10 |
| 5. | Its bad | 2 | 5 |
| | | **40** | **100** |

Ten Percent said it was interesting, while 60% admitted that it was quite interesting. Another 5% complained that their experience was bad, while 10% said it was not very interesting, while 15% indicated that it was very interesting.

On why majority of Nigerians are not investing through the capital market given the immense advantages, the respondents responded in the following way.

**Table 3**

| S/No. | Variable | No. Of Responses | Percentage (%) |
|---|---|---|---|
| 1. | Ignorance | 30 | 75 |
| 2. | Lack of funds | 2 | 5 |
| 3. | Poor investment culture | - | 0 |
| 4. | Economic hardship | 2 | 5 |
| 5. | All of the above | 6 | 15 |
| | | **40** | **100** |

Table 5

| S/No. | Variable | No. Of Responses | Percentage (%) |
|---|---|---|---|
| 1. | Modify the new system to shorten the transaction period/compel Registrars to deliver certificates within 60 days. | 10 | 25 |
| 2. | Increase public awareness | 10 | 25 |
| 3. | Regulatory authorities to strictly monitor market Operators | 2 | 5 |
| 4. | *Government/Companies to give soft loans* to workers to buy shares | 6 | 15 |
| 5. | All of the above | 12 | 30 |
| | | **40** | **100** |

As can be seen in the above table, 25% wants a modification of the new system introduced to shorten the transaction period and Registrars should be compelled to deliver share certificates within 60 days after the purchase of the shares.

Another 25% suggested that public awareness be increased, while 5% wanted the Regulatory authorities to strictly monitor market Operators. 15% are of the view that Government and Companies should assist Nigerian workers with soft loans to buy shares as their meagre monthly income is hardly able to keep them to the end of the month. The remaining 30% suggest Nos. 1-4.

The age bracket of respondents are given in table 6.

Table 6

| S/No. | Variable | No. Of Responses | Percentage (%) |
|---|---|---|---|
| 1. | 18 - 28 | 2 | 5 |
| 2. | 29 - 39 | 12 | 30 |
| 3. | 40 - 50 | 16 | 40 |
| 4. | 51 - 60 | 6 | 15 |
| 5. | 62 - above | 4 | 10 |
| | | **100** | **100** |

A cursory look at the table reveals something interesting. 65% of shareholders in the country falls into age bracket of 40 years and above. However, with increase in public awareness and improvement in living standard of Nigerian, there is every likelihood that the 30% of 29-39 years will increase as research have shown that Investors in that age bracket loves adventure and risk taking and also have less financial and family responsibilities compared to the ages of 40 and above.

## 5.2 GENERAL DISCUSSION ON FINDINGS

The data presented and analysed in chapter 5.1 was not only revealing but deserves further discussion. The study found among others the following problems.

### INEFFICIENT INFRASTRUCTURAL FACILITIES

The adequacy and efficiency of social and economic infrastructure such as electricity, communication facilities, roads, water and transport are crucial to domestic and foreign direct investment. It was observed that the communication facilities such as Telephone lines were inadequate and always congested thereby hindering smooth transaction of business. The postal system is not very reliable. Dividend warrants, share certificates and annual reports sent by post from Lagos for instance takes over two to three months to get to their destinations thereby

affecting the turnout of shareholders at most crucial general meeting of companies in Nigeria. The average turnout of shareholders to AGMs of most companies in Nigeria is eighty persons whereas the average number of Shareholders in the Top *20 companies by turnover, market capitalisation and number of shareholders are* over 20,000 person.

Power supply also is very erratic. It is a common phenomenon that hardly does a day pass without NEPA cutting power supply.

**INADEQUATE AND INEFFICIENT CAPITAL MARKET FACILITIES**

Though tremendous efforts have been made by the Nigerian Stock Exchange to improve on capital market facilities like the introduction and installation of a new trading facilities such as the clearing, settlement and depository system, internet system, the electronic contributor system etc, it was observed that these facilities are concentrated in the headquarters only. The branches of the NSE are left in the dark. In fact the branches present a ghost picture of the headquarters. A foreigner or keen watcher of trading activities on the floor may be seriously disappointed if he visits the other floors outside Lagos. Communication with the headquarters through telephones and fax machines are sometimes difficult. Other facilities that are inadequate include the trading floor in Lagos, sits or sitting arrangement etc.

**OPERATIONAL FACILITIES OF MARKET OPERATORS**

The introduction of the state-of-the-art Operation has become inevitable in today's business environment. This is more so in the international Securities market. For the Nigerian Stockmarket, the study found that the operating facilities of most market operators particulaly Registrars and Stockbrokers are outdated and inefficient and will most likely not meet current and future challenges. A situation where many Registrars still type out and sign share certificates manually is responsible for the long time if takes Registrar to deliver share certificates to Shareholders.

## PROFESSIONALISM AMONG MARKET OPERATORS

Foreign and domestic perception of market is partly influenced by the level of professionalism demonstrated by market operators particularly Stockbrokers. It was observed that the current level of professionalism in the market leaves much to be desired. This factors, the Researcher gathered is often evident in the pricing of securities in the secondary market. Most stockbroking firms are not research oriented and most Stockbrokers before the establishment of the Chartered Institute of Stockbrokers had no professional training centre, to go and enhance their skill and update knowledge.

## LOW-LEVEL OF PUBLIC AWARENESS ABOUT SECURITIES MARKET

The general level of public awareness about securities is low in the country. Though the regulatory bodies and a few market operators have been making frantic efforts over the years. Their contribution and strength is limited. Much impart would have been made if they were supported by other market operators, and Government Public Enlightenment Agencies. An average Nigerian, even the well enlightened few do not know what securities market or investment in shares or through the capital market means or entails. The securities market is still a grey area to millions of Nigeria. This accounts for why we have about 2 million Shareholders out of the a population of 88 million Nigerians.

## POOR INVESTMENT CULTURE

The general low-level of public awareness of securities market is also partly responsible for the poor investment culture in the country. The study found that the general attitude of most people in Nigeria tends more to production and consumption. A nation or an economy that tends more towards consumption than savings and investment is usually poor and dependent. This problem greatly affects the Nigerian stockmarket.

## OBNOXIOUS INVESTMENT RELATED LAWS

One fundamental issue which was addressed by many emerging economies in quest for foreign direct investment and the development of their markets was the establishment of appropriate legal and regulatory framework to achieve the most effective system of investor protection. Though the Nigerian Government had in 1995 abrogated the two foreign investment related laws considered obnoxious to the development of the Nigerian Stockmarket and the economy in general, it was discovered that there are yet other Acts that need urgent review. They include the Trustees investment Acts of 1958 and 1962. It is believed that the Acts in its present form restricts the scope of permissible investment by Trustees.

## CAPITAL ADEQUACY

It was also observed that most stockbroking firms were not adequately capitalised to operate in the increasingly competitive environment. The current capitalisation of most stockbroking firms would restrict their access into the global market.

## SHALLOW AND NARROW MARKET

Another problem discovered was that the market was thin and shallow. Though the Nigerian Market by certain measures was regarded the most developed and attractive in the African continent, it is widely reported that the securities listed and available for trading are very few. The 186 equity listing does not compare favourably with Egypt's 700 and South Africa's 641. The issue becomes ridiculous when you read of the fact that a U.K. funds Manager with $10 billion pounds sterling in his portfolio can comfortably buy up the whole stocks in the market with just about $2.5 billion pounds sterling if permitted. Furthermore, the types of instruments available are the traditional gilt edged securities and equity.

**LONG PROCESS OF SHARE TRANSACTION AND STOCK DELIVERY**

Though a new system had been introduced to take care of the observed lapses and problems inherent in the former system, and to specifically shorten transaction period, there are several and growing complaints from Investors and market Operators, that the new system has done little or nothing to shorten the procedure and time involved to dispose off shares. The story the study picked-up was pathetic. Market Operators particularly Stockbrokers outside Lagos complained that it costs them more now to operate under the new system. Furthermore, it was observed that there is a general apathy, cynism and displeasure among Investors over the decision of the NSE not to back transaction with physical share certificates.

**DEARTH OF CAPITAL MARKET INSTITUTIONS**

Lack of certain capital market institutions such as Rating agencies and over-the-counter market was identified as one of the problems inhibiting the rapid growth of the Nigerian Stockmarket. The establishment of such institutions is believed to have a catalytic effect on the growth of the stockmarket.

**FREE FLOW OF MARKET INFORMATION**

Adequate, accurate and timely flow of information is necessary to the transparency of securities market and indeed the economy. Though it was found that NSE disclosure standards are comparable with mature markets, efficient communication which is important in enhancing the efficiency and transparency of the securities market was identified as hindering the free flow of market information particularly between the regulatory body's headquarter and their branches. A few companies have also been noted for not complying with the post listing requirements and other disclosure standards.

**THE PRACTISE OF LEADERSHIP IN PEPERTUITY**

What a few identified as a problem facing the Nigerian Stockmarket is the African Syndrome of a 'life president'. A president once in power must rule for life. Protagonist of this view believes that the position of Director-General of the two Apex Regulatory bodies should be for a fixed term or period to give room for fresh ideas or new thinking.

**LACK OF INCENTIVE OR ENCOURAGEMENT FOR COMPANIES LISTED ON THE NSE**

The apparent lack of encouragement from NSE and the Government was identified by others as responsible for the little growth recorded in companies listed on the NSE. Listings fees and other unclassified fees charged by NSE was observed by some company directors as been on the high side, while Government rather then giving some incentives to listed companies such as discriminatory or reduced taxes, to encourage more companies to seek listing, listed companies have been turned into milking cows by the three tiers of Government. New forms of taxes are introduced yearly eg education tax, VAT, company tax, Income tax, development levy etc.

**GOVT. DELAY IN THE PURSUIT OF PRIVATISATION OF GOVT. ENTERPRISES**

Privatisation has proved to be the real driving force in the growth of many emerging and developed stock markets and economy as it quickly increases the size and liquidity of small markets. The continued delay by the Federal Government to privatise and commercialise her enterprises was identified as a problem hindering the growth of the Nigerian stockmarket. It is widely argued that if the government Privatise some of her enterprises like NITEL, NEPA, NNPC and NPA, besides the fact that they will become more efficient, the initiative alone will pump or double the market capitalisation of the NSE and increase the size and liquidity of the market.

## POLITICAL INSTABILITY

Political instability is one of the most crucial factors or problem facing the Nigerian stockmarket. Political stability ensures economic and securities market development. Political instability exposes investment to high risk, encourages capital flight and inhibits economic and capital market growth. For example, between 1990 and 1994, information available to the SEC shows that foreign Shareholders commenced on-shore or off-shore divestment of part or all of their holdings in over 100 Nigerian companies. Though other several sweeping socio-political and economic reforms have been carried out, setting the stage for the great economic leap, the problem of political instability has been identified by domestic and foreign Investors as the cog in the wheel of progress.

# CHAPTER SIX

## SUMMARY, RECOMMENDATION AND CONCLUSION

### 6.1 SUMMARY

In the literature review, an examination of the meaning of stockmarket and the stock exchange was made, the difference between capital market and the stockmarket and the role of the capital market in the National economy was briefly discussed.

The present day world stock market classification of advanced and emerging stock markets was examined along with securities traded in the stock markets. This was followed by a critical evaluarion of the performance of the African Stockmarkets.

In chapter three, a detailed discussion on the Historical development of stockmarkets in Europe in Africa was done, examining specifically, the Johannesburg Stock Exchange, the development of a stock market in Nigeria, the Apex regulatory body, Players in the Market and their functions, securities traded in the Nigerian stock market and operations of the stockmarket. Other issues discussed were recent changes in the market, evaluation of the performance of the market, internationals perspective of the Nigerian stockmarket and operational problems of the market.

The purpose of every research is to discover answers and solutions to questions and problems. Hence a number of techniques were employed, the relevant data were gathered, presented and analysed. This was followed by a general discussion on the findings. The Nigerian stock market could have done better were it not for the teething problems discovered and highlighted in the previous chapter. However, the following are recommendations for solving the problems.

## 6.2 RECOMMENDATION

**Capital Market Facilities** : The success and growth of the Nigerian stockmarket must be viewed as a joint responsibility of all market participants. The NSE should therefore be given necessary support by all (market participants, operators and investors) in its drive to establish efficient market facilities such as the clearing, settlement and depository facilities, automated trading system, internet system etc. However, the NSE must not be too rigid and forceful in its drive to establish this and any other new system.

As a matter of fact, the operations of CSCS Ltd needs to be fine-tuned in light of the several cogent observations being made by market operators, and investors (The Nigerian Shareholders) since the system is meant for the benefit of all.

Furthermore, urgent steps should be taken by the NSE to widen the Lagos trading floor and adequate sits or sitting arrangements or fixtures be made.

**Operational Facilities of Market operators** - The operating facilities of the market operators particularly Stockbrokers and Registrars must be modernised to meet current and anticipated challenges and this will no doubt make Nigerian Stock market attractive to Global Investors.

**Training and Development of Manpower** - It is imperative that the calibre of staff of the market Regulators (NSE and SEC) and stockbroking firms be improved to meet the current and future challenges. Regular training of staff should therefore be given top priority.

**Capital Adequacy** - Stockbroking firms as a matter of fact should beginning to increase their capital base in line with the new demands in the domestic market. Furthermore, with the internationalisation of the Nigerian Stockmarket, Stockbroking firms desirous of meaningful participation in the global market must be adequately

capitalised to be better positioned to effectively operate in an increasingly competitive market.

**Enhancement of the Level of Professionalism of Market Operators** - Periodic courses or training should be organised by Chartered Institute of Stockbrokers for Stockbrokers to sharpen their skills and knowledge. Furthermore, the Institute should affiliate herself with other reputable institutes of Stockbrokers in the world so as to draw from their experience and knowledge with a view to importing and sharing their new ideas skill and knowledge in stock broking with her members.

**Flow of Information** - More efforts should be made by NSE and SEC to ensure that listed companies comply with post-listing requirements and other disclosure standards else foreign investors will not patronise our market thus depriving the nation of the benefits of internationalisation.

**Regulatory Bodies to improve on their existing Relationship** - The Regulatory bodies (SEC and NSE) should always sit together, reason together, and work together. Areas of differences should never be discussed or resolved on the pages of newspaper or discussed with pressmen. They must see one another and their roles as complimentary. Finally, they must avoid any talk on supremacy and superiority.

**Fixed-Term for the Leaders of the Regulatory Bodies** - the Council of the NSE and the Fed Ministry of Finance should consider individually fixing Terms for the position of the Director-General for each of the two Regulatory bodies. However, if a particular Director-General's performance is very satisfactory, it should be extended by another term. Five year term is desirable. This will give room for fresh ideas, new thinking and encourage growth and development.

**Regulatory Bodies should Introduce New Instruments but must avoid Outright Dubbling of them** - Tradable instruments to be introduced into the market should be adapted to fit our peculiar environment and should be introduced gradually, and the investing public must be carried along bearing in mind the level of our development and comprehension. Principal among the instruments to be considered are derivatives. (Options and Futures.)

**Improve on Regulation and Surveillance** - Though the current efforts of the regulatory bodies in respect to monitoring and surveillance of the market is commendable, they should not rest on their oars particularly with the internationalisation of the market.

**Establish Other Capital Market Institutions** - The establishment of certain capital market institutions would have a catalytic effect on the growth of the capital market. Chief among them are over-the-counter market and Rating Agencies. NSE, SEC and market Operators should jointly encourage or establish the above which are absent in Nigeria. The introduction of Rating Agencies will particularly stimulate the growth of corporate debt sector, while the over-the-counter market will attract more companies to the capital market.

**Increased Public Awareness** - Market operators, Regulators and Government should team up to promote public awareness about securities market promotional activities such as enlightenment of the public on financial instruments, benefits of the capital market and promotion of investment culture should be actively pursued by all the parties.

**Government should do the following** ;

a) strengthen the existing stockmarket through adequate tax incentives such as reduction of taxes on investment income, and introduce discreminatory

company or income tax for companies listed on the NSE or seeking foreign listing.

b) commence privatisation and commercialisation of Government enterprises such as NEPA, NITEL, NPA etc by way of global offering but with restriction.

c) encourage seasoned companies to seek foreign listing or privatised Government enterprises in the filed of solid minerals.

d) float a country fund.

e) give priority to infrastructural development such as Telecommunication, Postal systems, Roads etc.

f) Government should encourage workers to participate in the capital market by granting them soft loans to invest in stocks.

g) government should review the Trustee Act of 1962.

government should enact Edicts/Acts encouraging or authorising state, and local governments to access the capital market to raise funds for their long term projects rather than waiting all the time for subventions or depending on Revenue allocation and internally generated revenues only.

## 6.3 CONCLUSION

In conclusion, the problems facing the Nigerian Stock market is not peculiar to Nigeria only or even the other African Stock markets alone. Other emerging economies and stock markets particularly in Latin America, South and East Asia had same if not even worse. The 1980 was a decade of widespread dramatic stock market reforms in many emerging economies a trend which continued into the 1990. Such stock market reforms have led to remarkable recovery and growth in countries like Taiwan, Malaysia, Singapore, Thailand and Hong Kong in South and East Asia, and Brazil and Mexico in Latin America.

If the recommendation made in this study are carefully implemented, there is no doubt as to the heights to which the Nigerian Stock market and economy will soar to.

## REFERENCES/BIBLIOGRAPHY


1. Securities Market and Underdevelopment - A. Calamanti 1983
2. Shareholders Rights - L.G. Harris F.C.A. -1977
3. The Capital Market : Its Nature and Significance - Kenneth Midgley and Ronald Burns - 1977
4 The Role of Capital Market in the Privatisation of Companies in Nigeria - An Appraisal - MBA Thesis by Usman Bello 1991
5 Industrial Financing in Nigeria: A critical Analyses of the Role of Capital market - MBA Thesis by Idowu Kehinde- 1986
6 The Nigerian stock market in operation - H. Alile, A.R. Anao - 1986
7. The Nig. Stock Exchange 1996 Annual Report and Accounts
8. Capital markets and institutions : Prentice Hall Inc. Eaglewood, Cliffs, New Jersey - Boughall, H.S. & Cguninitz, J.E
9. Bullion (CBN publication) - Vol 16No. 4 Oct/Dec 1992 - Capital Market Development and Corporate Financing
10. SEC - Annual Report and Accounts - 1994
11. Encyclopaedia Americana International Edition - copy right - 1988
12. Encyclopaedia International
13. Wednesday's global report - A weekly International portfolio mgrs view - 9 November 1994 - Myrill Lynch.
14. The Mechanics of Investment on the Johannesburg Stock Exchange for Foreign Investors
15. World securities industry Directory - Published by Financial Magazines Ltd - a subsidiary of publishing Holding Inc. London June 1987
16. SEC Quarterly - March 1995 Vol. 12 No.1
17. The Role of Stockbrokers in Economic Development - George A. Akamiokhor SEC-DG: A Paper presented at the 1st stockbrokers Annual Conference in Abeokuta Nov. 1996

18. Stockbroking in Nigeria into the next millennium - A paper presented by Mr. Bolaji Balogun at the 1st Stockbrokers Annual Conference in Abeokuta Nov 1996
19. Introduction to Research Methodology - E.C Osuala 1982
20. Market Research Notes - Unpublished work - Mrs Mary Akanet 1988
21. Research Methodology and Seminar in Business - Lecture Handout - Jere 1997
22. A hand Book on Lisbon Stock Exchange - Portugal.
23. Securities Market Journal Vol 2 1985 Published by SEC
24. You and the securities market - NSE Publication.

# APPENDICES

## APPENDIX ONE

### LIST OF INTERVIEW QUESTIONS FOR MARKET OPERATORS

A. **Explanatory Information**

-HIGHLIGHTS ON THE PURPOSE OF THE INTERVIEW

B. **QUESTIONS**

1. How long has your House/Firm being operating in the Nigerian Stockmarket
2. When did you join the house/firm?
3. How long have you been engaged in stockbroking business in Nigeria?
4. As an emerging stockmarket, what is your assessment of the Nigerian Stockmarket?
5. Have the Clients you have been dealing with over the months/years ever complained about any aspect of the operations of the market?
6. What do their major complaints centre on?
7. Every growing stockmarket has its own problems. What do you consider are the problems facing the Nigerian Stockmarket?
8. What do you suggest can be done to improve the market?
9. What is your status in this organisation?

Thank you.

## APPENDIX TWO

### LIST OF INTERVIEW QUESTIONS FOR MARKET REGULATIONS

A. **EXPLANATORY INFORMATION**

B. **QUESTIONS**

1. How long have you been involved in regulating the market?
2. As a market Regulator, what is your assessment of the Nigerian Stockmarket?
3. Every growing market has its own problems. What do you observe are the problems facing the Nigerian Stockmarket?
4. What do you suggest can be done to improve the Nigerian Stockmarket?
5. What is your status in this organisation?

## APPENDIX THREE

QUESTIONNAIRE ON THE PROBLEMS FACING EMERGING STOCKMARKETS IN AFRICA - A CASE STUDY OF THE NIGERIAN STOCKMARKET.

Below are some questions designed to help the Researcher carry out a research on the above subject. It is a pre-requisite for the award of MBA.

You are therefore requested to provide appropriate answers to the questions by ticking the correct one. The information to be provided by you will be treated as strickly confidential.

1. Do you have shares in any company? YES NO
2. If yes, for how long have you being buying Shares/Stocks?
   (a) 0 - 1yrs
   (b) 2 - 3
   (c) 4 - 5
   (d) 6 - Above
3. If no why?
   (a) Lack of funds
   (b) Ignorance
   (c) Responsibilities
   (d) Not interested
4. If you have the funds now will you still buy shares/stocks?
   YES
   NO
5. What is your experience like since you began buying shates?
   (a) Interesting
   (b) Quite interesting
   (c) Very interesting
   (d) Not quite interesting
   (e) Bad

6. Why are majority of Nigerians not investing through the capital market given the immense advantages?
   (a) Ignorance
   (b) Lack of funds
   (c) Poor investment culture
   **(d)** Economic hardship
   **(e)** All of the above
7. What problems did you encounter in the process of investing in shares/stocks?
   (a) Delay in delivery of shares certificate
   (b) The process of disposing shares is too long
   (c) The process of transmission is too long
   (d) Non-delivery of Dividend warrant/bonuses by Registrars
   (e) Sharp practices by the market operators (Stockbrokers)
8. What do you suggest can be done to improve the market
   (a) Modify the new system to shorten the transaction
   (b) Increase public awareness
   (c) Regulatory authorities to strictly monitor the market Operators
   (d) Government/Companies to give soft loans to workers to buy shares
   (e) All the above
9. What is your age bracket?
   (a) 18 - 28
   (b) 29 - 39
   (c) 40 - 50
   (d) 51 - 61
   (e) 62 - above

Thank you.