INTERNATIONALIZATION OF THE NIGERIAN STOCK EXCHANCE MARKET AND THE REGULATORY FRAME WORK

BY

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BEING A PROJECT SUBMITTED TO THE POSTGRADUATE SCHOOL, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A MASTERS DEGREE IN BUSINESS ADMINISTRATION (MBA), DEPARTMENT OF BUSINESS ADMINISTRATION
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DECLARATION

I hereby declare that this thesis has been written by me and it is a record of my own research work. It has not been submitted in any previous application for any higher degree.

All references and quotations are shown and the sources of data are adequately acknowledged.

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CERTIFICATION

The project titled Internationalization of the Nigerian Stock Exchange Market and the regulatory Framework by SAGIR SHEHU LAWAL has been read and approved as meeting the requirements of the Department of Business Administration, Ahmadu Bello University, Zaria for the award of Masters Degree in Business Administration.

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DEDICATION

This research piece is dedicated to my wife and children whose unrelenting support has been my serious encouragement. All those assisted me greatly most especially, Ahmed Waziri (Kaduna State Investment Company), Umar Saidu Yakawada, Bello Mohammed of Savannah Bank Plc, Katsina Branch and Alh. Bello Kaojo, Executive Director (Finance), NTI, Kaduna.

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ABSTRACT

Internationalization of Stock Exchange is an inevitable fact of the global securities. Therefore any nation wishing to be truly global player would be left with no alternative than to internationalize. Decree Nos. 16 and 17 of 1995 of the Nigerian Government gave power to the subject.

To internationalized, we need Foreign investment in our great country. The project identified some problem relating to the political economy of Nigeria particularly in the Finance Sector. The Nigerian Economy has been in prolonged state of recession since the era of 1980s. A series of the ad-hoc reform measures cultivated in the introduction of structural adjustment programme (SAP) in 1996 by the Federal Government. The Economy was suffered due to poor management of some past leaders through looting the government treasury. But debt, both domestic and external running in billions of Naira, IMF loan accumulated.

It was discovered that Nigeria was rated the worst nation in terms of transparency under the following areas:

- Fiscal and monetary transparency
- Banking Transparency
- Corruption accounting
- Custody and settlement

However, the above problem could be a propaganda from the western countries.

It was found out that the performance of the Nigeria Stock Exchange globally is progressive as Nigeria was rated the first nation (in the emergency market) in terms of market capitalization of other IFCG index stocks in 1995 42.2% and considering the inflows of foreign investment of about USS 256 billion naira as at 1996.

Finally, it was recommended that:

- Privatization and commercialization programme be implemented by the Government to encourage foreign inflow (investment).
- a The operators should apply the Decrees No. 16 and 17 strictly as per Government policy.

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CHAPTER ONE

1.1 INTRODUCTION

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Internationalization of stock market is an inevitable fact of the global securities market. Therefore any nation wishing to be a truly global player would be left with no alternative than to internationalize. Perhaps, some fifteen to twenty years ago, the talk of internationalization would have attracted very little interest as capital markets were basically domestic, with several barriers to entry.

Today, the situation is very much reversed as internationalization has become the norm than exception. Many markets have become "truly global" nature with elimination of entry and exist barriers, improved legal/regulatory and institutional framework, and efficient facilities. Similarly, cross-border listings, securities issuances activities global offerings of securities, harmonization of accounting and disclosure requirements among markets, have become important features of the international capital market. Indeed, the link among securities markets has become quite pronounced that happenings in one market

could input swiftly and significantly on other markets. This development has been driven principally by advancement in information technology improvement in infrastructural facilities, issuers quest for low cost capital, the collapse of communism, and wide-spread market oriented reforms.

Contributory also, are the evolution of international standards in accounting and disclosure requirements, growth of pension funds and International Fund Managers, as well as investors desire for high returns and diversified port folio.

Internationalization: A Definition

The word "internationalization" is now an important addition to securities market terms. "Internationalization" simply means a shift from a predominantly closed (restricted) market to one which is open (free) to foreign participation and allows residents to access other markets. Internationalization of securities market is in other words, the easing of restrictions on cross-border capital movement and securities - related intermediation activities.

Internalization usually takes the following forms:

(a) Permitting full access to foreign securities firms to establish presence in a country.

(b) Lifting of restrictions on local financial institutions to establish subsidiaries or have affiliates abroad.

(c) Admitting foreign securities into the domestic stock exchange and vice versa.

(d) Allowing foreign issues to be distributed in the domestic market.

(e) Permitting residents to buy or sell foreign securities and;

(f) Permitting foreign port folio investment in the domestic market.

Experience around the world has however shown that the mere easing of restrictions on foreign investment would not necessarily bring about the benefits of internationalization to a country. Political and infrastructural issues usually feature prominently. Thus, a combination of factors usually facilitates the internationalization of securities. It is worthy of note that Nigeria has taken positive steps in the area of economic, political and legislature reforms which should engage under the internationalization of the domestic market.

1.2 STATEMENT OF THE PROBLEM

Decree No. 16 and 17 of 1995 which gave powers to encourage, promote and coordinate investment in Nigerian Capital Market, however absence of real-time information which enable investors adjust their port folio of investment is a problem as per as internationalization is concern. Other issues which have strong implications for the internationalizations of securities markets include:

(i) Professionalism of domestic intermediaries.

(ii) The efficiency of the trading system.

(iii) Financial integrity of securities firms.

(iv) Capital adequacy standards.

(v) Internationally acceptable accounting and disclosure standards; and

(vi) Adequate and effective investors. Protection mechanism considering crises/other problem often expressed fears by many developing countries when contemplating initiating the internationalization process of the capital market or foreign investment port folio investment from the capital exporting countries is the loss of control of domestic companies or surrender of its ownership due

because of past exploitation.

(vii) Changes of government policies particularly military government when taken over, example in Nigeria.

(viii) Unstable monetary policies environment.

(ix) Macro economic instability/imbalance.

(x) Policy infidelity, for instance the key policies were not religiously adhered to. A practical example is the privatization and commercialization programme. Up till 1998 the government has not completed the programme and though Obasanjo government has even begun to show signs of improvement towards the entire concept of privatization and commercialization.

(xi) Fear by the Nigerians from foreign dominations to our firms/company due to low capital base of Nigerian companies when foreigners invest may have higher shares than indigenes.

(xii) Intervention of common wealth and United Nation most especially "Sanction".

(xiii) Poor rating in terms of transparency based on the following:

- Fiscal transparency
- Monetary
- Banking
- Corruption
- Accounting system transparency
- Custody and settlement transparency.

The poor rating was base on rating conducted by Emergency Market Investors (EMI) - Financial Standard Page 1 and 4 of 06/03/2000 refers. This affect our corporate image before foreign investors.

(xiv) Fraudulent activities in the Nigerian economy. Looting of treasury by top Government Officials, Corporate disintegration by some financial institution examples of banks.

1.3 OBJECTIVES OF THE PROJECT

♦ The main objective of the project is to find out the cause of the stated problem and find way out so that our economy would improve greatly through the introduction of internationalization and privatization

programme so that investors from foreign countries would invest without any implications to the citizen of the Nigeria.

- To recommend or suggest ways that would increase the performance of the Nigerian Stock Exchange Commission to enhance its operations.
- To give more picture on the true picture of our markets world wide.
- Government programme on privatization/commercialization are achieved.
- To ensure that Government agencies (regulatory bodies) control the economy.
- Job creation to the citizen of Nigeria are available and standard of living of an average Nigeria is improved.
- To ensure that Nigeria investor's investment increased both internally and externally.
- To improve our current account position (External asset) and ensure our debt is reducing.
- To create good trading relationship between Nigeria and other part of the world so that our corporate image in terms of transparency and, accountability. It is also

hope that less corruption would minimized to some extent.

1.4 SIGNIFICANCE OF THE STUDY

Nigeria has been blessed with abundant natural and human resources yet the economic growth is "slow" or at least not commensurate with the available resources. This research considers internationalization of the Nigerian stock exchange market as one of the measures to promote rapid as well as sustainable economic growth.

The study therefore becomes relevant in the sense that it provides useful information that influx of foreign capitals that are necessarily required for better growth.

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1.5 SCOPE OF THE STUDY

Business Executives and MBA/M.Sc. Under graduate students would find it very useful. Also industrialists and financial institutions operators would gain a lot in the project. Also government functionaries and SEC/NSE would use it immensely because of the content attached to it. Equally, foreign investors would use it in order to have an insight of

position of the Nigerian economy and financial market. This would motivate the Foreign Investors to come and invest in the country so that our country economy would improve. Financial research institutes could also apply the studies attached to the project.

1.6 LIMITATION & SCOPE OF THE STUDY

The project is limited to the financial sector of the economy and the contribution of Nigerian Stock Exchange when compared with the emerging market countries.

CHAPTER TWO

REVIEW OF RELATED LITRATURE

2.1 CONCEPT OF FINANCIAL MARKET

Financial assets exist in an economy because the savings of various individuals, corporations, and governments during a period of time differ from their investment in real assets. By real assets, we mean things such as houses, buildings, equipment, inventories, and durable goods. If savings equaled investment in real assets for all economic units in an economy over all periods of time, there would no external financial, no financial assets, and no money and capital markets. Each economic unit would be self-sufficient; current expenditures and investment in real assets would be paid for out of current income. A financial assets is created and it finances this excess by borrowing or issuing equity securities. Of course, and other economic unit must be willing to lend. This interaction of borrowers with lenders determines interest rats. In the economy as a whole, savings-surplus economic units (those whose savings exceed their investment in real assets) provide funds to savings deficit units (those whose investment in real assets exceeds their

savings). This exchange of funds is evidenced by pieces of paper representing a financial asset to the holder and a financial liability to the issuer.

The purpose of financial markets in an economy is to allocate savings efficiently to ultimate users. If those economic units that saved were the same as those that engaged in capital formation, an economy could prosper without financial markets.

In modern economies, however, the economic units most responsible for capital formation-nonfinancial corporations - use more than their total savings for investing in real assets. Households, on the other hand, have total savings in excess of total investment. The more diverse the patterns of desired savings and investment among economic units, the greater the need for efficient financial markets to channel savings to ultimate users. The ultimate investor in real assets and the ultimate saver should be brought together at the lease possible cost and inconvenience.

Efficient financials markets are absolutely essential to assure adequate capital formation and economic growth in an economy. These are financial intermediaries in an economy,

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the flow of savings from savers to users of funds can be direct. Financial intermediaries include institutions such as commercial banks, savings and loan associations, like insurance companies, and pension and profit-sharing funds. These intermediaries come between ultimate borrowers and lenders by transforming direct claims into the indirect ones. They purchase primary savings and loan association purchases is a mortgage; the indirect claim issued is hand, purchases corporate bonds, among other things, and issues life insurance policies.

Financial intermediaries transform funds in such a way as to make them more attractive. On one hand, the indirect security issued to ultimate lenders is more attractive than is a direct, or primary, security. In particular, these indirect claims are well suited to the small saver. On the other hand, the ultimate borrower is able to sell its primary securities to a financial intermediary on more attractive terms than it could if the securities were sold directly to ultimate lenders. Financial intermediaries provide a variety of services and economies that make the transformation of claims attractive.

1. **Transaction Costs**

Because financial intermediaries are continually in the business of purchasing primary securities and selling indirect securities, economies of scale not available to the borrower or to the individual saver are possible. As a result, transactions cost and cost associated with locating potential borrowers and savers are lowered.

2. **Information Production**

The financial intermediary is able to develop information on the ultimate borrower in a more efficient manner than the saver. Moreover, the intermediary may be able to reduce the moral hazard problem of unreliable information. Another possible advantage is that intermediaries can protect the confidentiality of the information.

3. **Divisibility and Flexibility**

A financial intermediary is able to pool the savings of many individuals savers to purchase primary securities of varying sizes. In particular, the intermediary is able to tap small pockets of savings for ultimate investment in real assets. The offering of indirect securities of varying denomination makes financial intermediaries more attractive

to the saver. Moreover, borrowers have more flexibility in dealing with a financial intermediary than with a large number of lenders and are able to obtain terms better suited to their needs.

4. **Diversification and Risk**

By purchasing a number of different primary securities, the financial intermediary is able to spread risk. If these securities are less than perfectly correlated with each other, the intermediary is able to reduce the risk associated with fluctuations of in value of principal. The benefits of reduced risk are passed on to the indirect security holders. As a result, the indirect security provides a higher degree of liquidity to the saver than does a like commitment to a single primary security. To the extent individuals are unable, because of size of other reasons, to achieve adequate diversification on their own, the financial intermediation process is beneficial.

5. **Maturity**

A financial intermediary is able to transform a primary security of a certain maturity into indirect securities of different maturities. As a result, the maturities on the

primary and the indirect securities may be more attractive to the ultimate borrower and lender than they would be if the loan were direct.

6. **Expertise and Convenience**

The financial intermediary is an expert in making purchases of primary securities and in so doing eliminates the inconvenience to the saver of making direct purchases. For example, not many individuals are familiar with the intricacies of making a mortgage loan; they have neither the time nor the inclination to learn. For the most part, they are happy to let savings and loan associations, commercial banks, savings banks and life insurance companies engage in this type of lending and to purchase the indirect securities of these intermediaries. The financial intermediary is also an expert in dealing with ultimate savers-an expertise lacking in most borrowers.

Financial intermediaries tailor the denomination and type of indirect securities they issue to the desires of savers. Their purpose, of course, is to make a profit by purchasing primary securities yielding more than the return they must pay on the indirect securities issued and on operations. In

so doing, they must channel funds from the ultimate lender to the ultimate borrower at a lower cost or with more convenience or both than is possible through a direct purchase of primary securities by the ultimate lender. Otherwise, they have no reason to exist.

With financial intermediaries, we have four main sectors in an economy: household, nonfinancial business firms, governments, and financial institution. These four sectors form a matrix of claims against one another. This matrix is illustrated in fig. 19-1, which shows hypothetical balance sheets for each sector. Financial assets of each sector include money as well as primary securities. Households, of course, are the ultimate owners of all business enterprises, whether they are nonfinancial corporations or private financial institutions. The figure 19-1 illustrates the distinct role of financial intermediaries. Their assets are predominantly financial assets; they hold a relatively small amount of real assets. On the right hand side of the balance sheet, financial liabilities are predominant. Financial institutions, then, are engaged in transforming direct claims into indirect claims that have a wider appeal. The relationships of financial to

real assets and of financial liabilities to net worth distinguish them from other economic units.

The more varied the vehicles by which savings can flow from ultimate savers to ultimate users of funds, the more efficient the financial markets to an economy usually are.

The more developed the financial markets, the greater the choices of saver in putting savings to work and the greater the financing opportunities available to the borrower. The utility of both is increased. With efficient financial markets, then, there can be sharp differences between the pattern of savings and the patter of investment for economic units in the economy. The results is a higher level of capital formation, growth, and want satisfaction. Individual economic units are not confined either to holding their savings in money balances or to investing them in real assets. Their alternatives are many; each contributes to the efficient channeling of funds from ultimate savers to users.

The allocation of funds in an economy occurs primarily on the basis of price, expressed in terms of expected return. Economic units in need of funds must outbid others for their use. Although the allocation process is affected by capital

rationing, government restrictions, and institutional constraints, expected returns are the primary mechanisms whereby supply and demand are brought into balance for a particular financial instrument across financial markets. If risk is held constant, economic unit willing to pay the highest expected return are the ones entitled to the use of funds. If rationality prevails, the economic units bidding the highest prices will have the most promising investment opportunities. As a result, savings will tend to be allocated to the most efficient uses.

It is important to recognize that the equilibration process by which savings are allocated in an economy occurs not only on basis of expected rerun but on the basis of risk as well. Different financial instruments have different degrees of risk.

In order for them to compete for funds, these instruments must provide different expected returns, or yields. If all financial instruments had exactly the same risk characteristics, they would provide the same expected return in market equilibrium. Expected return of different financial instruments are a function of a number of things:

1. Differences in default risk
2. Differences in maturity
3. Differences in the level of coupon rate
4. Differences in taxation of interest, dividend, and capital-gain returns.

Finally, the expected return on a financial instrument depends upon the real rate of interest in the economy and upon expected inflation. It generally is agreed that the nominal rate of interest that we observe on a fixed-income security embodies in it a premium for expected inflation. However, there is disagreement about the stability and consistency of this effect over time.

2.2 FINANCIAL INNOVATIONS AND THE CHANGING FINANCIAL ENVIRONMENT

The last 10 years have been characterized by tremendous financial innovation infact, the greatest number of innovations in our nation's history. The listing of developments in awesome; it includes such things as money-market accounts and money-market mutual funds, zero-coupon bonds, pass through mortgage securities, interest-rate futures markets, options markets, floating-rate loans,

multi-currency loans and hedges, point-of-sale terminal transactions, and many more.

These innovations encompass new or improved products as well as processes. Recognize that financial innovations do not just happen. There are reasons for their occurrence, both conceptual and environmental.

The principal force behind any financial innovation is the profit motive. In an economic sense, a new financial and / or complete. Recall from earlier in the chapter that the purpose of financial markets is to channel savings in our society to the most efficient uses. However, the intermediation process is not costless. Cost is represented by the spread between what the ultimate saver receives for funds and what the ultimate borrower pays, holding risk constant, as well as by the inconvenience to one or both parties. A financial innovation may make the market more efficient in the sense of reducing the spread, as defined earlier, or of lowering inconvenience costs. If this occurs, the overall cost of intermediation is reduced by definition.

Market completeness is different in concept, a complete market exists when every contingency in the world

corresponds to a distinct marketable security. Incomplete markets exist when the number the types of securities available do not span these contingencies. More practically speaking, with an incomplete market, these is an unfilled desire for a particular type of security on the part of an investor clientele. If the market is incomplete, it pays the firm or financial institution to exploit the opportunity by tailoring security offerings to the unsatisfied desires of investors. By so doing, a lower financing cost will be achieved. An example of satisfying an unfilled investor demand is the issuance of zero-coupon bonds beginning in the early 1980s.

As along as the market remains incomplete, a firm or financial institution should continue to tailor the securities it issues to the market.

In steady state, of course, we would not expect to be able to make the market more efficient and /or complete. Presumably all opportunities for profitable exploitation would be exhausted, and no further gains would be possible. As result, there would be no financial innovations. Indeed, an unchanging world would be marked by a lack of new financial products and / or processes. The environment simple must

change for there to be exploitable opportunities with respect to inefficiencies and/or incompleteness. There are a number of causes for change, and we consider them in turn. Underlying each is a shift in savings flows or composition and or a change in risk or utility with respect to risk.

❑ **Volatile Inflation Rates and Interest Rates**

Already we have discussed the volatile nature of inflation over the last dozen years, in conjunction with fluctuating behaviour of nominal and real rates of interest. New deposit and investment accounts as well as floating-rate and variable-rate loans are an outgrowth of changing inflation and interest rates. The increased risk associated with uncertain inflation and volatile interest rates may prompt financial innovations designed to reduce such risk. As ample time has been devoted to these topics, we move one.

❑ **Regulatory Changes**

A second, and very important, factor prompting financial innovation is regulatory change and circumvention of regulations.

Beginning in the 1970s a number of innovations occurred simply to get around existing regulations. In the late 1970s and accelerating rapidly in the 1980s, we have had a deregulation of the financial services industry. The boundaries that previously separated the functions of various financial institutions ere broken, and the competitive arena changed dramatically. As constraints were reduced, the distinction between commercial banks savings and loan associations, investment banks, insurance companies, mortgage bankers, large retailers and certain financial conglomerates, such as American Express, was blurred. Institutions invaded the previously inviolable turf of others. While the major deregulatory legislative changes already have occurred, the response to these changes is in full swing. Indeed, the equilibration process is undergoing constant perturbation and is far from settled.

❑ **Tax Changes**

Changes in the tax laws also may lead to financial innovation. Where once major changes occurred infrequently, they are much more frequent now, with major tax legislation being enacted almost every year. When changes impact the

after-tax returns on financial instruments, new financial products, and sometimes processes, emerge in response to the tax law change.

❑ **Technological Advances**

The computer age has brought with it a continual broadening of applications to the financial services industry and a lowering in costs per transaction. As with other industries, technology has had a profound influence.

Electronic funds transfer, automatic teller machines, point-of-sale terminals, personal computers permitting in-home financial transactions, and telecommunication and have changed dramatically the way financial products and processes are provided and the way they are priced. Structurally, costs have been lowered through automation, and technology has reduced the need for bricks and mortar on the part of financial institutions. Often the accuracy and speed of a transactions is improved, which increases customer satisfaction, whether that customer be a depositor, a corporate borrower, an investor, or a corporate issuer of stock. Technological advances have provided a fertile field for financial innovation.

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- **Economic Activity**

Finally, changes in the business cycle can prompt financial innovation. In a period of economic prosperity, there is greater incentive to offer new financial products and processes than there is in a recession. In the former period, financial institutions are eager to try new ideas in their ongoing guest for growth. Increases in residential construction in particular may open up opportunities for new financial products. In a steep recession, such as that occurring in 1981-1982, the emphasis tends to shift to risk reduction. During these times here is an increasing preference for liquidity. While certain types of financial innovations are possible with this focus, more will occur in a period of economic prosperity, all other things staying the same. In summary, changes in economic activity change preferences and the need for funds, which affect the incentive for financial innovation. Recognize that the level of economic activity also affects interest rates, which in turn, influence financial innovation.

2.3 TYPES OF FINANCIAL MARKET (CAPITAL MARKET)

Introduction

The significance of the capital market is that it is an important source of medium to long-term funds for the acquisition of fixed assets and the financing of long-term projects. In addition, the capital market provides a mechanism through which long term loans and investments can be liquidated. Specifically, therefore the capital market performs the following generalized functions:-

- An efficient allocation of scarce invisible resources
- The creation of a continuous market (and therefore liquidity) in quoted securities; and
- The aiding of new financing.

The capital market can be classified into the primary (i.e. new issues of securities) and secondary (trade in old issues of stocks) markets. In Nigeria, the primary market is regulated by the Securities and Exchange Commission (SEC), while the secondary market is regulated by the Nigerian Stock Exchange (NSE). The two institutions constitute the main regulatory bodies of the Nigerian Capital Market.

Until 1993, when the on-going deregulation of the Nigerian capital market commenced, SEC was responsible for pricing and allotment of new issues while the Quotations Committee of the NSE approved only issues which will be listed on the Exchange's Official List. The issuing Houses and stockbrokers package issues for governments and public companies; however, the CBN acts as Issuing House for Federal Government Stocks.

Initial issuance of securities on the Primary Market can take any of the following forms:-

(i) **Offer for Subscription**

These are direct issues to public by floating a number of shares or debenture stocks. The proceeds of issues go to the issuer, a company, or government to finance expansion and / or modernization.

(ii) **Offer for Sale**

A public offer of shares in a company by existing shareholder(s), the proceeds of which go to the sellers of such shares. Most of the public offers under the Federal Government Privatization Programme fall under this category. The amount realized from the partial or total sale of Federal

Government holdings which were offered for sale went to the Government via the Technical Committee on Privatization and Commercialization (TCPC), now Bureau for Public Enterprises (BPE).

(iii) **Rights Issue**

Offer to buy more shares generally made to existing shareholders and sometimes at concessionary prices. Many quoted companies now use this method to raise additional capital needed for their operations and so avoid the excruciating interest rates hitherto charged in the money market.

(iv) **Introduction**

Where a company seeking quotation already has met with the Listing Requirements, the exchange may permit its security to be introduced into and listed on the market. LASACO Plc. and First Aluminum PLC were listed by introduction because they already had satisfied the Listing Requirements of the exchange.

The Secondary Market

Operates after the issue has been completed and the security listed on the Stock Exchange. Secondary markets are vehicles for providing liquidity to investors. In Nigeria, secondary market transactions in quoted securities are carried out by licensed stockbrokers on the six Trading Floors of the Nigerian Stock Exchange located in Lagos, Kaduna, Port Harcourt, Kano, Onitsha and Ibadan. Buying and selling of shares are down by the brokers on behalf of their numerous clients. The transfer of shares ends with the delivery of certificates to the new buyers. Securities traded presently include the Federal Government Stocks, Debenture Stocks, Preference Shares, State and Local Government Bonds and Equities (ordinary shares of quoted companies).

2.4 CONCEPT OF NIGERIA ECONOMY

The economy of any nation is made up of all the productive units that produce goods and services. These units are many and varied but they all came about as a result of the needs and wants of the society. But the pattern of production, especially ownership, is governed by the economic

system in place. The economic system is the framework that enables the productive units to operate.

This brings to the fore the question of measuring the performance of the economic system.

The total flow of all goods and services within a country is known as the national income and there are three ways to measure it.

1. As the total goods and services produced in a given period.
2. As the total incomes earned in a given period.
3. As the total expenditure in a given period.

These methods give a more less same figure which is then used to determine the direction of the economy and charts its future course.

The Nigerian economy has experienced a lot of expansion and contraction over the years. Prior to the oil era, the major source of growth was the increasing output of agric. exports such as cotton, groundnut, palm produce, rubber and cocoa. During this agric. era, agricultural production

accounted for more than 40 percent of the Gross Domestic Product (GDP). From the 1980s however the growth in the economy came from the marketing of crude petroleum. Nigeria especially benefitted immensely from the 1973 oil embargo against the West by OPEVC members during which oil prices shot t the rooftops.

Thus, by 1979 the mining and quarrying sector accounted for about 37.5 percent of the GDP thereby pushing agric. to the background.

On the whole the Nigerian economy is characterized by a number of socio-economic problems. These problems include import dependence, week industrial base, dependence on a single economic sector - oil, regional inequalities, massive rural - urban migration, inefficient public utilities, unemployment and under - employment, and the complete absence of a vibrant middle class. An analysis of all these problems indicate that most of them are due to structural characteristics of the economy.

All the above problems notwithstanding, Nigeria' GDP and hence economy showed some sign of improvement lately. The GDP for 1996 grew by 3.25 percent as compared to a

mere 1.3 percent in 1994 and 2.2 percent in 1995. The growth in 1996 reflected improved production in the vital sectors of the economy.

Over the years the Federal Government has made efforts towards charting the course of economy development of country by the formulation of various development plans. The objective of these development plans include:

(a) Stable prices

(b) Even distribution of income

(c) Reduction in unemployment

(d) Indigenization of economic activity

(e) Balanced development

(f) Increase in the supply of high level manpower

(g) An increase in per capital income.

Components of GDP

To simplify the measurement of the National Income the productive units of the economy are usually divided into sectors. A sector consist of firms or industries producing similar or related products. These sectors therefore make up the components of the GDP.

Find below the performance of GDP components for Nigeria in 1960/61 and 1970/71.

TABLE 1 COMPARATIVE PERFORMANCE OF THE ECONOMY GDP COMPONENTS 1961 AND 1970/71.

Components of GDP	1961-62	1970-72	Change	Component Percentage Charge 1971-70.
1. Agriculture and Forestry	61.6	44.7	16.9	29.9
1.1 Agriculture	48.6	34.1	14.5	5.4
1.2 Livestock	5.4	3.4	2.4	25.2
1.3 Forestry	5.4	3.1	2.3	2.1
1.4 Finishing	1.8	4.2	2.4	325.2
2. Mining and Quarrying	1.8	11.9	10.1	1082.8
2.1 Oil	.8	11.0	10.2	2430.4
2.2 Metalliferous Ores	.4	.2	.2	.12.2
2.3 Goal	.08	.005	.076	.900
2.4 Quarrying	.5	.6	.1	122.1
3. Manufacturing and Craft	5.2	7.6	2.3	157.4
3.1 Manufacturing	3.6	6.5	2.9	519.1
3.2 Crafts	1.6	1.0	-.6	3.5
4. Electricity & Water Supply	.6	.56	.07	122.2
4.1 Electricity	.4	.47	.07	104.4
4.2 Water Supply	0.4	.1	.06	300.0
5. Building and Construction	4.4	5.2	.8	110.5
6. Distribution	12.2	12.2	0.0	78.5
6.1 Marketing Boars	-3	.1	.4	43.2
6.2 Other Distribution	12.5	12.1	-.4	72.9

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7. Transport & Communication	5.4	3.3	-2.1	8.8
7.1 Transport	4.9	2.9	-2.0	6.5
7.11 Road Transport	3.1	1.7	-1.4	-.8
7.12 Railway	1.0	.4	-.6	-28.1
7.13 Harbours	.5	.6	.1	92.1
7.14 Water Transport	.1	.1	0.0	.16.6
(a) Inland	.075	.001	-.75	.77.8
(b) Overseas	.06	.01	-.05	64.3
7.15 Airport	.1	.1	0.0	158.3
7.2 Communications	.5	.3	-.2	33.3
7.21 Post and Telegraphs	.4	.3	-.1	22.7
7.22 Broadcasting	.08	.1	.02	80.0
8. General Government	3.3	7.8	4.5	326.6
9. Education	3.0	3.1	.1	89.6
9.1 Government	.46	1.4	.94	451.9
9.2 Missions Private	1.1	1.1	0.0	84.6
9.3 Universities	.1	.4	.3	571.4
9.4 Others	.03	.2	.17	1.16.7
10. Health	.6	.93	.33	178.0
10.1 Government	.5	.66	.16	156.4
10.2 Mission Private	.1	.27	.17	253.1
11. Others	2	2.8	.8	135.2
TOTAL	**100**	**100**		**78.8**

Source:

Since the late 1960s, agricultural production has shown a persistent decline as a percentage of the gross domestic product, GDP, from 62 Percent in 1960 to about 18 percent

in 1979. The decline in agricultural production has been attributed to the following factors:

(i) The emergence of crude petroleum as a major source of government revenue.

(ii) Greater emphasis on manufacturing and other modern sectors as a strategy for rapid economic growth; and

(iii) The drift to urban areas.

The official policy of import substitution also caused agricultural exports to collapse, as local demands for raw materials outstripped the supply whilst food imports escalated are to the drift of the rural population to the urban centers in search of 'oil money'.

Mining Sector

The expansion in the mining sector (especially the oil sub-sector) has causes a serious distortion within the economy. Consequent upon the 'monetization' of huge revenues, the Government embarked on rapid development of the infrastructure. However, the growth, development and expansion of the oil sub-sector has been exogenously determined, thereby making the economy vulnerable to

changes in the world economy. The experience of the past few years has brought out clearly the dangers of relying solely on a single source of revenue for economic growth.

In its efforts to diversity the economic base, the Government is now determined to revive agriculture. Other major projects like petrochemicals and the liquefied National Gas. LNG, are also being considered seriously in order to reduce the country's over reliance on oil.

It is estimated that Nigeria's gas reserves are in the region of 3,120 billion cubic meters. Gas experts have agreed that Nigeria has one of the largest reserves in the world. With regard to oil reserves the estimate of reserves is 2.400 million tones. This is equivalent to 17,500 million barrels of crude. If this is exploited at the rate of 1.3 mbd Nigeria's reserves would lat of 37 years.

Manufacturing Industry

Manufacturing and Industrial sectors have also been expanding over the years. The share of these sectors in GDP increased from about 5 percent in 1960 to about 10 percent in 1980. This rapid growth observed in the manufacturing

sector is due largely to the import substitution policy of the Government. The led to restrictions on various imports and consequently there has been a spurt of domestic investments in manufacturing beginning with consumer goods and inter mediate goods. Major areas of substantial investment include breweries, beverage, textiles, toiletries, bakery, sugar and confectionery and soft drink bottling. Investment in intermediate goods has been mainly on consumer durable such as vehicle assemblies, metal manufacturers, electronics and other household equipment.

Due to the heavy reliance on imported raw materials and spare parts, the Government has recently shifted the emphasis towards the iron and steel industries which should form the industrial base of the country. To this end, a major iron and steel project has been completed at Aladja while the gigantic Ajakuta iron steel works project is still yet to be completed. These two major projects are in addition to the Inland steel rolling mils located at Katsina, Jos and Oshogbo. Also in the agro allied industries, investment in tractors, fertilizers and other agricultural equipment are taking place in many parts of the country. For example many fertilizer

blending plants have been established and industries that produce agric. chemicals.

External Trade

Despite some restrictions on international trade, Nigeria is basically an open economy. There is to a great extent, a free flow of goods and services. Total imports as at 1981 were estimated at ₦12 billion. Breakdown of the imports by end-use shows that capital goods and raw materials constitute more than 55 percent of total imports, while consumer goods constitute the remainder. The growth in the import of capital goods and raw materials have been necessitated by the huge investment in the infrastructure and other basic industries since the beginning of the 1960s.

Total exports as at 1981 for example were estimated at ₦10.5 billion, with oil exports constituting nearly 98 percent of total exports. Agricultural exports were almost non-existent as output is consumed locally. The same situation still persist today.

In terms of direction of trade, more than 53 percent of Nigeria's total trade (imports and exports) is carried out with Western Europe. This is followed by America (33.99 percent), while trade with other African countries is only 2 percent of total trade.

Building and Construction Sector

Building covers residential houses and office developments, while construction refers to public highways, ports, airports, railways, dams and other related projects. This sector has recorded rapid growth rising from about 4.8% of GDP in 1960 to 11% in 1980.

There have been massive investment in this sector since independence. During the last two decades, the Federal Government has undertaken and extensive expansion of the networks of roads linking the North and South on the one hand and East and West on the other. Also international highways linking Nigeria and other parts of Africa have been constructed.

The growth in external trade in the 70's brought a lot of pressure on the Government as the port facilities became inadequate to handle the increased volume of trade. This made the Federal Government to expand port facilities, especially at Apapa and Tin Can Islands, Warri and Calabar.

Equally important is the growth on air travel, both domestic and international. The has also necessitated investments in both aircraft and airports. Virtually every major town in the country is now linked by airports. The growth in urban towns and the quest for education resulted in increased demand for residential buildings and schools blocks. Other areas of construction were heavy investments have taken place in the last decade are railways, communications, water supply electricity and building of dams.

Financial Sector

The financial sector which embraces banks, insurance and other funds mobilizing institutions constitutes the main engine of growth in the economy. This sector has grown considerably from 10 percent of gross domestic product 1960

to about 36 percent in 1979. The growth was made possible by three principal factors:

(i) The growth in urban centers and the concentration of population in these areas meant an increase in the demand for financial services.

(ii) The Government has relied increasingly on the financial institutions to provide finance to execute its large capital investments.

(iii) Corporate organizations are increasingly relying on banks and other financial institutions to fund their business activities.

The Nigerian financial sector especially the banking sub-sector has of late been rocked by a lot of crisis. Many banks had been known to be operating without adequate capital and has accumulated a mountain debt that can hardly be recovered. As a result of this, various decrees and agencies were established from 1988 to check the situation. First the Nigeria Deposit Insurance Corporation (NDIC) was set up so as to ensure close supervision of the operations of all the banks. This followed by the prudential guidelines which requires banks to shore up their capital bases. Then there

was the banks other financial institutions decreed (ROEID) bank decree which gave more powers to the CBN in its supervisory rate. All these measures however proved inadequate as banks continued to loan recklessly. The situation reached a state in which several banks were on the verge of going under the depositors were beginning to panic. This means that bank runs were in the offing. A bank runs has catastrophic effect on the entire economy and no responsible government would allow that to happen.

As a result of above the Abacha government had no choice but to enact the Failed Banks' decree with a view to recovering bank debts and other sundry amounts fraudulently removed from the bank coffers. Another aim was to sanitize the system. The operation of the decree is still going on the some success has been posted with regard to recoveries.

Structural Adjustment Programme

In the early 1980's Nigeria's economy was in deep crisis so much so that by October 1985 the Government had to declare a state of economy crisis. Factors that let to this

crisis are well known - but include the over reliance on oil (whose prices in the world market crashed to the lowest in 1980) and the reckless spending of the then ruling civilian government. The International Monetary Fund (IMF(was approached to provide succor bu the negotiations were deed locked.

The IMF laid down a number of conditionalities that the government was not willing to comply with. In fact, the issue was thrown to the public for debate and the consensus turned out that most people were against taking the loan.

As an alternative solution therefore the government designed a homegrown program which was thought to be capable of getting the country out of the woods. This was the Structural Adjustment Program (SAP) which was launched in January 1986. This program was meant to produce effective and more lasting solutions to the basic economic problems of the nation. The program was also meant to help revamp the economy - quickly. In short SAP has three objectives:

1. To restructure and diversify the productive base of the economy in order to reduce dependence on the oil sector and imports.

2. To achieve a fiscal and balance of payments viability over the medium term.

3. To lay the basis for a sustainable non-inflationary growth over the medium and long term.

Several measures were taken or initiated so as to achieve the above objectives. These include:

1. The introduction of the Second Tier Foreign Exchange Market (SFEM) so as to find a realistic value of the naira.

2. Promotion of greater use of local raw materials coupled with the rationalization of imports and excise tariffs.

3. Rescheduling of Nigeria's external debts.

4. Improvement of internal revenue generation and collection.

All the above led to a stringent package of austerity measures. For example prices of both domestic and foreign consumer goods shot to the rooftops. The resultant suffering and hardship on Nigeria was such that the stability of the nation was threatened. Strikes and riots became rampant. Government had to come out with SAP relief measures so as to reduce the suffering.

Review of the Economy

The Nigerian economy has been in a prolonged state of recession since the turn of the 1980's. A series of ad-hoc reform measures culminated in the introduction and adoption of the Structural Adjustment Programme in 1986 by the Federal Government as an economic recovery strategy. This was aimed at redressing the series of macro-economic imbalances and structural rigidities confronting the economy at the time. At the time SAP was introduced, the economy was in a bad shape characterized by widespread unemployment, serious balance of payments deficit, import licensing, inefficiency, rising inflation and sluggish output. The Structural Adjustment Programme was a beautiful blue print, designed to correct the distortions in the economy, promote efficiency and put the economy on a self-sustaining growth path. The implementation, however, fell far short of expectation. Even where minimal successes were recorded, concerted efforts were not made to consolidate such gains. On the whole, the economic deregulation programme helped to create a more favourable environment toward the dismantling of administrative controls and a greater

inclination towards market forces. A number of factors that militated against successful economic reform include:

(a) **Policy Infidelity**

Some of the key policies were not religiously adhered to. A practical example is the privatization and commercialization programme.

Up till now, the government has not completed the programme and has even begun to show signs of ambivalence toward the entire concept of privatization.

(b) **Unstable Monetary Policy Environment**

Monetary Policy Environment has been very unstable and that has adversely affected the performance of banks. The management of monetary policy has been quite worrisome, with shock doses administered from time to time. For example, the liquidity crisis in banks following the consistent issuance of stabilization securities up till1994 contributed to the poor financial condition of many banks.

(c) **Macro-Economic Instability/Imbalance**

Macro-economic instability has become a disturbing feature in the management of economy. The instability has been created by lack of harmony between monetary and fiscal

policies. While monetary policy has been contractionary, fiscal policy has been expansionary up to at least 1994. T able shows the rising trend of budget deficit which has put consistent pressure on money supply and price levels over the years. Financing fiscal deficits has been identified as the root cause of excess liquidity in the financial system and which has necessitated the issuance on banks of mandatory stabilization securities to mop up such excess liquidity.

Table 2: **FISCAL DEFICIT (1990-1994)**

YEAR	1990	1991	1992	1993	1994
Fiscal Deficit (Nm)	22,116.1	35,755.2	39,532.5	107,186.0	70,818.5
GDP (Nb)	90.36	90.36	94.42	99.66	100.98
Deficit/GDP ratio	8.5	11.0	10.2	15.4	7.9

Source: **Generated from CBN Annual Reports**

The table shows that a deficit/GDP ratio of 8.5 percent was recorded in 1990, 11.0 percent in 1991, 10.2 percent in 1992, 15.4 percent and 7.9 percent in 1993 and 1994 respectively.

The financing of these deficits was mainly through the banking system, especially the Central Bank. The immediate implication was sustained injection of huge amounts of money into the economy, which has resulted in the overshooting of the targeted growth of money supply.

Table 3: **MONEY SUPPLY 1990 - 1994**

YEAR	1990	1991	1992	1993	1994
M1 Narrow Money (Nm)	37,233.7	49,364.5	79,406.5	116,390.7	172,004.7
Percentage Change	44.9	32.6	52.8	54.4	47.8
Targeted Growth for M1 (Narrow Money)	13.0	14.6	24.3	20.0	21.4
N2 (Broad Money) Nm	64,902.7	86,152.5	128,517.7	192,358.6	267,759.8
Percentage Change	40.4	32.7	49.2	49.8	30.1
Targeted Growth for N2 (Broad Money %)			26.8	18.0	14.8

Source: **Generated from CBN Annual Report.**

Table 2 displays the tremendous growth in money supply following the financing of the huge fiscal deficits over the years. Other thorny issues include the poor management of the foreign exchange market, which at a point created a yawning gap between the official and the parallel market rates. The latest policy of 'guided deregulation' introduced in 1995 can be said to have achieved a measure of stability but realistic exchange rate for the naira is far from being achieved.

The poor capacity utilization and shut downs being experienced in the real sector, as a result of increasing difficulty in obtaining foreign exchange, also proved a stumbling block to the success of economic reform.

In the manufacturing sector for instance, the index of manufacturing production has been on the decline since 1991 from 178.1 in 1991 to 168.5, and 132.8 in 1992, 1993 and 1994 respectively.

A nation-wide survey conducted by the Central Bank of Nigeria covering 509 manufacturing establishments in 29 industrial groups with response rate of 61.3 percent put capacity utilization in the manufacturing sector at 30.4 percent in 1994. That is a drop from the 37.2 percent recorded in 1993. The performances in the mining and electricity sub-sectors exhibit similar epileptic trends. Even the government sector has not fared any better.

2.5 BANKING AND THE ECONOMY: THE NEXUS

It is difficult to over-emphasize the importance of banks in the modern economy or the need for a good working relationship between banks and other sectors of the economy. This is because of the crucial role of financial intermediation, which banks play. Adam Smith in the 18th century highlighted the importance of banks in economic growth when he said, 'I have heard it asserted that the trade of the city of Glasgow doubled in

about fifteen years after the first erection of the banks there; and that the trade of Scotland has more than quadrupled since the first erection of two public banks at Edinburgh... that banks have contributed a good deal to this increase cannot be doubted'.

Besides Adam Smith, Schumpeter in 1934 observed that the banking system was one of the key agents in the whole process of development. Generally, banks are known to not only facilitate but also speed up the process of economic development through making more funds available from resources mobilized as well as created by themselves.

The Nigerian banking industry has been playing supportive role, indeed a leading role in the development of the Nigerian economy. The banks have mobilized and disbursed tremendous volumes of funds to both government and private sector investors for the growth of the economy. Between 1990 and 1994, for example, the aggregate credit to the domestic economy rose from ₦57,674.9m to ₦350,622.7m, as shown in table 4.

Table 4: **BANKING SECTOR CREDIT TO THE ECONOMY**

YEAR	DEC. 1990	DEC.1991	DEC.1992	DEC.1993	DEC.1994
Total Credit to Domestic: Economy (net) (Nm)	57,674.9	83,823.7	141,735.7	271,350.9	350,622.7
Credit to Private Sector (Nm)	36,631.0	45,325.2	61,020.3	92,501.6	122,273.3
Proportion of total credit to the economy credit to	63. 51%	54.07%	43.05%	34.09%	34.87%
Government Sector (Nm)	21,043.9	38,496.5	80,715.4	178,849.3	228,349.4
Proportion to total credit to the economy	36.49%	45.93%	56.95%	65.91%	65.13%

Source: **Generated from CBN Annual Reports 1994, P. 17**

It is clear from the table that both the credits to the private and government sectors have shown increases in absolute terms. However, while the private sector share of total credit was decreasing that of the Government sector was increasing. Credit to the private sector rose from ₦36.631m in 1990 to ₦122,273.3m in 1994, in absolute term but its relative share of total credit to the economy decline from 63.51% in 1990 to 34.87% in 1994. Conversely, the credit to the Government sector rose from ₦21,043.9m in 1990 to ₦228,349.4m in 1994, resulting in a rise in its relative share of total credit to the economy from 36.49% in 1990 to 65.13% in 1994.

This is a disturbing trend, as government borrowing has continued to crowd out private sector investment. It becomes even more disturbing when viewed from the perspective that in

a deregulating process, one expects the private sector to play an increasingly significant role.

Table 5: **FINANCIAL SECTOR CONTRIBUTION TO GDP**

YEAR	1990	1991	1992	1993	1994
Contribution to the Financial Sector (in Nb)	7.88	8.20	8.52	8.85	9.11
Proportionate share of GDP (in %)	8.72	8.67	8.75	8.88	9.02
Position in Sector Ranking	4th	4th	5th	5th	5th

Source: **Generated from CBN Annual Reports**

As shown in table 5, over the period 1990 to 1994, the financial sector an average share of 8.8 percent of the GDP per year. Ranked by value of activity, the Financial sector came 4th in 1990 and 1991, coming after agriculture, crude petroleum, and wholesale and retail trade. From 1992 and 1993, the financial sector came 5th, having been overtaken by Producers of Government Services. It maintained this position 1994.

It is therefore clear that the financial sector plays a significant role in the growth of then economy, bot directly and indirectly. The figures show that despite the poor financial condition of the bank in the period under review, banks still performed creditably as agents of resource mobilization and promoters of economic development. They emerged as one of the

highest performing sectors of the economy, consistently out-performing the manufacturing section. This shows that if the banks were in a healthier state, they would have recorded an even better performance.

Thus, the distress syndrome ravaging the financial system has been a loss to the economy, in many ways than one and is itself the direct result of the distressed condition of the larger economy. It is a well known fact that the Nigerian economy has been in a state of coma, since the early '80s'. As result, many businesses have failed industrial capacity utilization has contracted to a fraction of what it used to be, high levels of unemployment have become a key feature of the economy, the naira has been massively devalued and prices have gone through the roof. It was only a matter of time, therefore, before this pervasive economic distress syndrome manifested in the banking industry in the form of financial distress of a bank.

The distress of financial institutions is nothing new, however, it happens in even very healthy economies, like those of the United States, Germany and Britain. What has been worrisome about the Nigerian case is the magnitude and the extent.

Many businesses, organizations and individuals have lost huge sum of money because of the technical insolvency of their banks. So, like the proverbial chicken and the egg, the banking industry and the economy are inextricably intertwined - which is why they government and all stake holders in the economy should do all in their powers to contribute positively to the turning around of the banking system, in the larger interest of the economy.

The State of Banking Practice

Perhaps, a good measure of the state of banking practice today is the poor financial condition of many banks. For the avoidance of doubt, banking practice has to do with the banker-customer relation. The draft code of Banking Practice development by the Institute in conjunction with the General Assembly of Bank Chief Executives has these to say about expected standards of banking practice:

Banks and bankers alike will obey the law.

Banks and bankers will follow the best professional practice in the global industry.

Banks will always place their depositors' interest before all others.

Banks will always meet their commitments such commitments will not be lightly given, and should never be broken. Banks will repay depositors at maturity on the agreed term. Banks will meet their trade engagements. They will meet delivery on their trading contracts at maturity at agreed rates. They will always lend on agreed terms.

Banks will deal only with respectable parties. They will take all reasonable steps to establish that all parties they deal with are bonafide. Individual bankers should not ask for, nor even accept, any form of gratification, either in cash or in kind, for performing their normal services. Banks should not pay brokerage to members of their staff.

The code is governed by the following principles:

(a) To set out the standards of good banking practice which banks will follow in their dealings with their customers;

(b) To provide guidelines for banks to make them act fairly and reasonably in all their dealings with customers and other banks;

(c) To cause banks to help customers to understand the operations of their accounts and to give them a good

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understanding of their banking services, including known risks relating to the operations; and

(d) To maintain confidence in the security and integrity of the banking system. Banks must recognize that their systems and technologies need to be reliable to protect their customers and themselves.

Another important aspect of banking practice is the need for banks to operate in accordance with the requirements of the prudential guidelines in order to preserve the integrity and stability of the banking system.

Thus, banking practice is defined by the professional relationship between the banker and his customers. This requires that bank services be rendered in a highly professional manner, with the highest degree of transparency and probity; and so doing, ensuring the security of customers' deposits and other instruments as well as safety of bank assets.

We are aware that one of the key reasons many banks are experiencing poor financial conditions today is the unprofessional way of number of them have been managed. Many management teams have been inept, asset quality has been poor and insider abuses have been rife.

As a professional banking institute, the Chartered Institute of Bankers of Nigeria has been very concerned about these developments. The Institute exists to determine and uphold the highest standards of professional practice. Section 1, sub-section 1(a) of the Chartered Institute of Bankers of Nigeria Decree 12 of 1990 charges the Institute with the general duty of determining what standards of knowledge and skills are need by persons seeking to become registered members of the banking profession. The decree indeed requires every bank employee to be a member of the Institute. Section 10 stipulates that a person shall be entitled to be registered as a banker if he passes the qualifying examination accepted by the Institution under the Decree and completes the practical training prescribed; or he holds a qualification granted outside Nigeria and for the time being accepted by the Institute and is by law entitled to practice for all purposes as a professional banker in the country in which the qualification was granted and, if the Council so requires, he satisfies the Council that the has had sufficient experience as a banker. Section 10, subsection (2) states that 'subject to Section II of the Decree and to rules made under section 8 of this Decree, a person shall also be entitled to be registered as a banker if he

satisfies the Council that immediately before the commencement of the decree he had not less than five years experience as a banker'.

The Institute has been pursing the implementation of the decree as it regards the mandatory membership of all bank employees as pragmatically as possible. Recent developments make it imperative that the Institute pursues more vigorously the membership registration programme so that every banker can be subject to its professional requirements.

Under powers granted to it in Section 13 of the decree, the Institute has established an Investigating Panel and a Disciplinary Tribunal to consider cases of professional misconduct preferred against members. The Institute is determined to enforce the highest standards of professional practice in banking and shall use every power within its reach to achieve this.

Against the background of recent developments in the banking industry, I wish to assure all and sundry that the Institute is doing all it can to come to terms with the enormous powers its enabling decree grants it. Plans have reached an advanced stage to amend the decree so as to block a few

loopholes and in order to enhance the overall effectiveness of the decree.

Adequate care will be taken by the Institute to protect its long term institutional interest as well as the global interests of the banking industry, especially as far as maintenance of the highest ethical standards of professional practice is concerned. This will be done without sentiments. The sanctity of the professional code of banking practice will be maintained at all cost.

The Institute is determined to maintain a level playing field for professional banking practice in Nigeria. Therefore, all members of the Institute, without exception and it all times, will be governed by the same set of rules and subject to the same set of sanctions as contained in the enabling decree and the code of conduct of the Institute and the Code of Banking Practice of the banking industry. Every banker who runs foul of these statutory and professional codes of conduct will without fail, be firmly subject to the appertaining sanctions.

The Institute must now greatly emphasize its role as a self-regulatory organization (SRO) in order to minimize the incidence of court cases, prosecutions and other forms of statutory

interventions by the government. Having said that, let me add for the avoidance of doubt that the Failed Banks Decree is by and large a good omen for the banking industry. It is my considered view that it will go a long way to sanitize and stabilize the banking industry.

It is public knowledge that a number of top bank executives have been sentenced by the Failed Bank Tribunal and quite a number are also being held, pending investigations and possible trial. It is a sad commentary on the state of our judicial process today that the burden of proof of innocence has been placed on the accused, rather than the burden of proof of guilt being placed on the prosecution. A situation where people are already considered guilty before there cases are even heard is to say the least worrisome. It is true that a few of our key members have been detained under the Failed Bank Decree. That certainly is bad enough for the image of the professional body of the banking industry. This development has been more distressing to the Institute than anyone can imagine. The gentlemen involved certainly represent some of the best exponents of banking professionalism this nation has ever produced.

It is my considered position as well as that of my professional colleagues that it is only fair to assume that they are innocent until they are proved otherwise. The same applies to other bankers being detained under the same decree. It is better to be patient and let the facts of the matter speak for themselves as they certainly would. It is only then that we can form an opinion that will be fair to all concerned. It is only then that the Institute can take a position or any necessary action on the basis of objective facts. To do otherwise would be unfair, anticipatory and miscarriage of justice.

Certainly, the institute and indeed the banking industry is passing through a stormy period. But after the storm, there would be calm. Beyond the cloud, there would be a silver living and bright new down of sprightly banking practice.

2.6 POLICY ENVIRONMENT IN THE NIGERIAN STOCK MARKET.

(a) A major hindrance in the past to foreign investment in the capital market was the Foreign Exchange Act of 1962. With the repeal of this Act and its replacement with the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree No. 17 of 1995, the doors to foreign

investment in the Nigerian capital market became wide open, with most of the bottlenecks clearly removed from the statute books. The Foreign Exchange Decree of 1995 established an Autonomous Foreign Exchange Market where transactions in foreign exchange can be conducted in any convertible foreign currency.

(b) The promulgation of the Nigerian Investment Promotion Decree and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree has accorded both foreigners and Nigerians the same rights, privileges and opportunities for investment in securities in the Nigerian capital market. According to the Securities and Exchange Commission (SEC)'s Guidelines on Foreign Investment in the Nigerian Capital Market, (SEC's Guidelines).

(c) Foreign institutional investors, e.g pension funds, unit trusts, investment trusts, institutional portfolio managers, nominee companies, assets management companies, or any other corporate body;

(d) Individual investors who are foreigners and Nigerians resident abroad, who are investing in foreign currency.

The Sec's Guidelines Also Provided the Following

(a) Any person, in accordance with Part III, Section 26 of the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree 17 of 1995 may now invest in all securities traded on the primary and secondary markets (both in the Nigerian Stock Exchange and the Over-the-Counter (OTC) market) or by private placement in Nigerian. Such securities and Exchange Commission in accordance with SEC Decree of 1988 and Part 17 of the Companies and Allied Matters Decree of 1990.

(b) Foreign capital market operators wishing to establish securities business are required to register with SEC before operating in the Nigerian capital market.

(c) Any person investing in securities in Nigeria with foreign capital is required to bring in such capital through an authorized dealer and should obtain a certificate of capital importation, as prescribed by law.

(d) The certificate of capital importation will entitle foreign investors to:-

(i) Open a foreign currency Domiciliary Account with any authorized dealer for investment purposes in accordance with Part II, Section 17 of the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree of 1995;

(ii) Open a special non-resident Naira account to which could be credited all receipts from the capital inflows, proceeds from sale of securities, dividends and interests;

(iii) Make investment in securities in Nigeria out of the balances in the Naira account;

(iv) Repatriate the capital, or any capital gains, dividends and other income received by way of interest, etc, through an authorized dealer at autonomous market rates, subject to deductions of appropriate withholding and capital gains taxes.

(c) Foreign portfolio investors can appoint market operators registered by SEC:

(i) To act as custodians of their securities;

(ii) For confirmation of transactions in securities

(iii) For settlement of purchases and sale; and

(iv) For information reporting.

(f) Recently, SEC issued some guidelines on cross-border securities transactions, which are intended to provide full disclosure of information in respect of a public offering of securities in the Nigerian Market by a foreign entity. The Guidelines are modeled after the International Organization of Securities Commissions (IOSCO)'s "Initial Listing by Foreign Issuers". By these Guidelines, SEC has finally opened the door for foreign companies to get quoted concurrently on the Nigerian Stock Exchange.

(g) The Nigerian Stock Exchange (NSE) also has restructured it self recently in order to attract foreign investors into the market, by embarking on innovations and removing observed obstacles to foreign participation.

These measures have been the NSE for instant,

(i) Embarking on the computerization of its operations;

(ii) Establishing the Central Securities Clearing System (CSCS);

(iii) Introducing the automated clearing, depository and settlement system (CDS) under the CSCS; and

(iv) Introducing the automated trading system (ATS).

The ATS is a computer-based trading system, which is being introduced to replace the current call-over system, which is a manual system. The ATS has the potential for increasing the efficiency of trading and market transparency, as well as enhancing price discover, as the system allows traders to view the entire market, especially during the pre-opening period.

It is therefore glaring from all of the above that the Nigerian stock market has been substantially opened to foreign investments, with all the past stumbling blocks removed and new initiatives introduced to enhance foreign participation in the stock market. We will consider below the prospects of foreign capital inflow given all the incentives introduced at both the macro and micro (stock market) levels of the economy in order to attract foreign direct investment into the country.

Prospects For Foreign Capital Inflow

(a) There is no doubt that a credible window for foreign investment has been opened through the various policy measures, including the specific incentives targeted at the foreign investors, as outline in Section 2 and 3 above.

(b) Since 1995, the magnitude of foreign investment in the

equity market is an indication that foreign investors have begun to embrace the various innovations and incentives that have put in place. For instance, foreign portfolio investments through the Nigeria Stock Exchange were USD 9.5 million in the first half of 1998, showing an increase of USD 3.7 million over the USD 5.8 million invested in the corresponding period of 1997. The International Finance Corporation (IFC) in its recently released 1997 ranking, rated the Nigerian market as the second best in dividend yield, out of 39 stock markets assessed globally. Foreign investment transactions as at June 30, 1996 amounted to USD 4.8 million. The Chairman of the Nigerian Investment Promotion Commission (NIPC), Alhaji Lema Jibrilu informed the African Business Round Table summit recently in Abuja that since the inception of NIPC in 1995, 93 business permits have been granted to new companies covering the agro-allied sectors. He estimated the net foreign investment at ₦554 million while the local counterpart investment amounted to ₦23.3 million. The Commission has also granted pioneer status to 16 deserving companies,

which will enjoy a five-year tax holiday.

(c) The prospects for foreign capital inflow into the Nigerian stock market are very high. The Federal Government has created and sustained an enabling environment which has opened up the economy in general and the stock market in particular to foreign investment. For instance, the Federal Government in its 1998 budget announced a comprehensive package of measures aimed at reforming, modernizing and internationalizing the Nigerian capital market. Some of these measures include:

(i) The provision of new capital market infrastructure;

(ii) The establishment of a Stock Exchange in Abuja and Capital Trade Points (CIP's) in designated locations in the country;

(iii) Manpower training and development and the establishment of Capital Trade Associations;

(iv) The establishment of an Investment Services Tribunal to try speedily capital market disputes etc.

(d) With the internationalization of the Nigerian Stock Exchange and its greater use of information technology via the Central Securities Clearing System (SSCS) and the

Automated Trading System (ATS), confidence in the market by both local and foreign investors is rising:

2.7 Regulatory Framework For The Internationalization of The Nigeria Stock Market

The principal laws regulating foreign investments are:

(a) Nigeria Investment and Promotion Commission Decree No. 16 of 1995; and

(b) Foreign Exchange (Monitoring and Miscellaneous Provision) Decree No. 17 of 1995.

The repeal of the Nigerian Enterprises Promotion Decree of 1989 effectively abolished any restrictions in respect of the limits of foreign shareholding in Nigeria registered or domiciled enterprises. The only enterprises which are exempted from free and unrestrained foreign and local participation are those involved in:

(a) Production of arms, ammunition, etc;

(b) Production of and dealing in narcotic drugs and psycho tropic substances;

(c) Production of military and paramilitary wears and accouterment, including those of the police,

customs, immigration and prisons services.

(d) Such other items as the Federal Executive Council may from time to time determine.

2.8 The Provision of Nigeria Investment and Promotion Commission

The enactment of the Nigerian Investment and Promotion Commission Decree of 1995 and the subsequent establishment of the Nigerian Investment Promotion Commission (NIPC) was meant to eliminate the multiplicity of processes or procedures in company registration and/or establishment of a new business in Nigeria. The NIPC was therefore established to centralize, coordinate and accelerate all approval processes and ensure that all required approvals are given within 14 days. The NIPC is therefore a "one-sop" agency for all pre-investment approvals.

Some key provisions of the NIPC Decree with regard to foreign investment include the following:

(a) A non-Nigerian may invest and participate in the operation of any enterprise in Nigeria;

(b) A foreign enterprise may buy the shares of any Nigerian enterprises in any convertible foreign currency;

(c) A foreign investor in an approved enterprise is guaranteed unconditional transferability of funds through an authorized dealer, in freely convertible currency:-

(i) Dividends or profit (net of taxes) attributable to the investment;

(ii) Payments in respect of loan servicing where a foreign loan has been obtained; and

(iii) The remittance of proceeds (net of all taxes) and other obligations in the event of sale or liquidation of the enterprises or any interest attributable to the investment.

The NIPC Decree also provides that:-

(a) No enterprises shall be nationalized or expropriated by any Government of the Federation, and

(b) No person who owns, whether wholly or in part, the capital of any enterprise shall be compelled by law to surrender his interest in the capital to and other persons.

There will no acquisition of an enterprise by the Federal Government unless the acquisition is the national interest or for a public purpose under a law which makes provision for:-

(a) Payment of fair and adequate compensation;

(b) A right of access to the courts for the determination of the investor's interest and the amount of compensation to which he is entitled.

(c) Compensation shall be paid without undue delay, and authorization given for its repatriation in convertible currency where applicable.

Apart from the investment guarantee assurances of the NIPC Decree, countries are welcomed to execute and enter into bilateral Investment Promotion and Protection Agreements ("IPPA") with the Nigerian Government.

Within the past few years, the Government has progressively introduced a number of incentives designed to promote both domestic and foreign investment. These incentives encompass:-

(a) Fiscal measures;

(b) Protection of Local Industries through tariffs;

(c) Export promotion of Nigerian made products; and

(d) Foreign currency facilities for international trade.

Some of The Specific Incentives Include

(a) Pioneer status - a 100 percent tax-free period for 5 years.

(b) Export oriented Industries - a 10 percent income tax concession for 5 years. This concession applies to industries that export not less than 60 percent of their products.

(c) Research and Development - 120 percent tax deductible expenses provided the research and development is carried out in Nigeria and 140 percent for R & D on local raw materials.

(d) Abolition of excise duty - In order to boost local industries, stimulate trade and reduce cost, all excise duties were abolished with effect from 1st January, 1998. The 1999 Budget has however reintroduced excise duties on tobacco, cigarettes, spirits and their derivatives.

(e) A 25 percent Import Duty rebate.

(f) Doble Taxation Agreements:- Double Taxation Agreement are being negotiated and concluded with various countries, in order to eliminate double taxation on investment income.

(g) Investment and Re-investment Tax Allowance:- The Reinvestment Allowance is in form of a generous allowance of capital expenditure incurred by companies for the following reasons:-

(a) Expansion of production capacity;

(b) Modernization of production facilities; and

(c) Diversification into related products.

The scheme aims to encourage the re-investment of profit.

CHAPTER THREE

METHODOLOGY

3.1 Data Collection Procedure

The main source of data for this project is secondary source. Thus, seminar's contributions from stock market professionals, journals and magazines. News, theories from relevant text books of managerial finance investment analyses and portfolio management were all consulted. In addition, interview was also adopted for the same purpose.

3.2 Data Analyses Technique

This project is intended to provide useful information that will be of great assistance towards better internationalization of Nigerian Stock Exchange Market. Consequently, the research tends to observe, analyze, and describe situations as the methods of data analysis. There is no regions statistical analyses however, some data have been analyzed using simple percentage and presentation of tables.

3.3 Background of The Nigerian Stock Exchange

Introduction

In the late fifties, at a time when it was becoming certain that Nigeria was going to become an Independence Country, coupled with the growth in commercial activities at that time, some foreigners notably British, who were managing British interest here, were beginning to see the need for the establishment of an institution to be used as an avenue for funds mobilization and development of local capital formation in Nigeria.

Previously, all the funds needed by these foreign interests were obtained from local banks which were predominantly foreign, and very little attention was paid to the possibility of a local market to deal in long-term financing. This for a capital market culminated in the appointment by the Federal Minister for Industry in May 1958 of a committee to advice the Federal Government on ways and means of setting up a stock market in the country. Thus, with the establishment of the Central Bank of Nigeria and the incorporation of the Investment Company of Nigeria Limited in 1959, the stage was already set for a more streamline financial system for the country. In those years,

there were very few banks and the ones that existed performed commercial banking functions only. The Investment Company of Nigeria Limited's programmes were many but he principal reason for its existence was to provide long and medium term finance for the promotion and development of local industries. To have a stock market which will satisfy the aspiration of the proposes of a securities market in Nigeria, there ought to be satisfied, three basic requirements, namely:-

(i) There must be local participation in the equities of local industries.

(ii) There must be the need to protect public confidence.

(iii) There must be regulations to monitor the operations on the market in consonance with (ii) above.

Local Participation

Local participation would necessarily have to be in the form of foreign investors locating a few Nigerians to partake of a new project or companies making offers of shares to members of the public in general.

The reason for this, apart from dispelling the feeling that foreigners in this country have constituted themselves into a selfish interest group denying Nigerians the opportunity of the

fortunes of foreign investment; in the country, it would provide the wares for the market to function. However, the first offer of shares to the public in response to the above aspiration was not fulfilled until February, 1959 when the ordinary shares of the Nigerian Cement Company Limited were offered to the public. The offer of this company's shares was the first ever public offering in Nigeria. Two other offers were made on April 25, 1960. These were the ordinary and preference shares of John Holt (Liverpool) Investment Company Limited and the ordinary shares of Nigerian Tobacco Company Limited. With the Federal Development Bonds which were earlier offered, the three equities and two preference stocks, what remained for a securities market was the arrangement that would be made with London for some of the Nigerian securities listed there to be traded also in Nigeria.

Protection of Public Confidence

The question of protecting public confidence was something which gave the people who wanted a securities market some initial problems.

There was no institution in the country at that time with the knowledge of a securities market in the size desired nor did they have the resources even if the expertise existed. The securities market is a complicated mechanism requiring certain checks and balances. There must be in existence market freedom on which investors' confidence hinges. Even the Investment Company of Nigeria Limited (ICON) which had shown interest all along was seen as lacking in the desired experience needed for protecting public confidence because as a sole operator on the market it could easily lay itself open "to charges of mismanagement to a greater extent than if other firms existed to give alternative viewpoints and advice for stock brooking operations". The solution to this problem was found in the fact that the Stock Exchange must be independent while its members take charge of protecting public confidence.

Regulation

The prerequisite for public confidence is an effective body of regulations to guide members of the Stock Exchange in their relationship with members of the public.

By the middle of 1960, there were already sufficient Federal Government Development Loan Bonds and (three) equities

needed for initial trading. The stage was therefore, set for a securities market for the first time in Nigeria.

Incorporation

The Lagos Stock Exchange was incorporated as a Limited Liability Company under Section 21 of the Companies Ordinance of September 15, 1960. The provision under which it was incorporated pertains to the establishment of a non-profit making organization limited by guarantee and formed to promote commerce in Nigeria. Its authorized share capital on formation was ₦10,000 in five hundred shares of ₦20.00 each.

The following are some of the objectives of the Lagos Stock Exchange:-

"(1) To provide facilities to the public in Nigeria for the purchase and sale of funds, stocks and shares of any kind and the investment of money.

(1) To control the granting of quotation on the Lagos Stock Exchange in respect of funds, shares or stock of any Company, Government, Municipality, Local Authority or any other body corporate.

(2) To regulate the dealings of members with their clients and members with members.

(3) To standardize and from time to time review and if necessary or desirable, increase or decrease charges to be made by members for services rendered to their clients or modify the methods of assessing or calculating such shares.

(4) To correlate the stock brooking activities of members, facilitate the exchange of information for their mutual advantage for the benefit of their clients, and to offer facilities whereby the public can be informed of the prices of shares dealt in by members.

(5) To cooperate 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.

(6) To investigate any irregularities or alleged irregularities in the dealing of members with their clients, any differences or disputes between members and their clients, any complaints made against members by other members, or any parties, provided that such differences, disputes or complaints and to take necessary steps for the enforcement of its decisions and awards". The subscribers

to the Memorandum of Association of the Lagos Stock Exchange are:-

1. C.T. Bowring and Company (Nigeria) Limited
2. (Late) Senator Chief Theophilus Adebay Dherty
3. John Holt Nigeria Limited
4. The Investment Company of Nigeria Limited
5. (Late) Sir Odumegwu Ojukwu, K.T.O.B.E.
6. Mr. Akintola Williams
7. Alhaji Shehu Bukar.

The Stock Exchange Act, 1961

Concomitant tot he preparation to start trading, efforts were being made behind the scene for legal recognition and backing fro the Lagos Stock Exchange. On June 6, 1961, Her Majesty Queen Elizabeth II gave assent to a Bill which has earlier been passed in the Nigerian Parliament. This Act is called the Lagos Stock Exchange Act, 1961.

The provisions of the Act were to regulate the business of stock brooking in Nigeria. Henceforth nobody other than a member of the Exchange can undertake the business of stock brooking in Nigeria. This means in effect that a person cannot

offer to the public any shares currently quoted on the Lagos Stock Exchange without becoming liable to a ₦2,000.00 fine unless such a person is an accredited member of the Exchange. In the alternative, a person found guilty can be sent to jail for a term of not less than two years or both. This penalty of ₦2,000.00 obtains for individual persons only. A corporate person will liable to a more severe penalty: this is a fine of not less than ₦10,000.00.

For the purpose of monitoring the activities of the Exchange, the Act provides that the "Chairman of the Exchange shall, as soon as possible after the end each quarter (of each year) that is to say, March 31, June, 30 September 30 and December 31 forward to the Ministry of Finance through the Governor of the Central Bank of Nigeria a written report on the activities of the Exchange during the previous quarter".

On receipt of the report, the Governor will forward to the Minister of Finance a written report and comments on the information sent to him by the Exchange.

Commencement of Business

On June 5, 1961, the Lagos Stock Exchange actually commenced operation from a small office provided by the Central Bank of Nigeria. On that day, there were three dealing members, namely:-

1. C.T. Bowring & Company Nigeria Limited
2. Investment Company of Nigeria Limited (ICON)
3. Nigerian Stock Brokers Limited (as associate of John Holt).

Inlaks was the fourth stock brocking member to operate on the Lagos Stock Exchange but subsequently ceased to operate as a broker.

For the purpose of the day-to-day administration of the Exchange, Mr. T. F. Griffin, an employee of ICON was seconded to the Exchange while a Nigerian was attached to him to obtain the necessary expertise for eventual take-over. In order to perform well in his new function, Mr. Griffin was sent to the London Stock Exchange to familiarize himself with the operations of a Stock Exchange.

When dealing commenced on the Lagos Stock Exchange, there were altogether three Nigerian industrial securities, two Federal Government development bonds in four and three trances respectively and seven other securities which were subject to the U.K. stamp duty.

The Lagos Stock Exchange was managed by ICON from the outset because of the keen interest it has always shown in its development and when ICON subsequently became the Nigerian Industrial Development Bank Limited following a reorganization of its activities, it sounds natural that the management of the Exchange should pass to the new company, NIDB. Until the transfer, there has always been the arrangement between the Federal Ministry of Finance and the Central Bank of Nigeria to pay an annual subvention to enable the Lagos Stock Exchange defray all its expenses such as salaries and outgoings. This responsibility naturally would devolve on the NIDB from the moment of transfer of the management of the Exchange until the time it was sufficiently in a position to be revenue generating.

The Stock Exchange has always moved with its managers (ICON and then NIDB). It operated first from a single office at No. 6 Labinjo Street, Lagos until ti moved to Mandilas House

when NIDB moved to that House but as soon as the Exchange became mature enough to handle its own affairs, the expected parting of way was fulfilled. In 1972, the Lagos Stock Exchange moved to No. 114 Broad Street, Lagos until 1979 when it moved once again with its initial manager, but this time, the move was not for the provision of the necessary facilities but for improved facilities to handle the work being foisted on it by te country's economic circumstances. At the time of writing, the registered office of the Lagos (Nigerian) Stock Exchange is as 63/71 Broad Street, Lagos, but it will soon move to its permanent secretariat at No. 3, Custom Street, Lagos.

Table 6

The Lagos Stock Exchange
Official List

(Published by the Authority of Council of the
Lagos Stock Exchange)

No. 1

Nigerian Securities

Interest Due On:-	When Last Ex. Div.	Interest Due %	Name	Qn.	Business Done
20th May		2½	5% FNDS 1964	fl.00	
20th May		2½	5½ FNDS 1964	fl.00	
20th May		3	6%FNDS 1964	fl.00	
22nd March		2½	5%FNDS 2nd 1967	fl.00	
22nd Sept.		2½	5½ FNDS 2nd 1977	fl.00	
22nd Sept.		3	6% FNDS 2nd 1985	fl.00	

On June 5, 1961 when the Lagos Stock Exchange became operational, dealing was done in only one security as shown in the Daily Official List of that day reproduced below:

Table 17

Nigerian Industrial Securities
(Not Subject to Stamp Duties)

No. 2

When Last Ex. Div.	Date of Payment	Total for Year	Name of Securities	Unit	Qn.	Business
			John Holt Ordinary Stock	5/-	4/9-	5/-
			John Holt 7½% Pref.	10/-	10/-	32/-
			Nig. Cem. Co. Ord.	fl	27/6-	32/3-
			Nig. Tobacco Co. Ord.	fl.	25/-	27/3

The economic activities were low in line with the low level of saving in the country at that time. The average per day volume of trading on the market was about three deals with a value of about ₦18,000.00. This low level of trading was considered not in consonance with the aspiration of the promoters of the Exchange and the Federal Government was looked upon to for a way of redressing the position. As part of the Federal Government's efforts in fostering a solution, there were enacted two important legislations that were to give succour to activities on the Exchange in later years.

Table 8

Nigerian Industrial Securities
(Subject to U.K. Stamp Duties)

(b)

When Last Ex. Div.	Date of Payment	Rate	Total Year	Name of Securities	Unit Qn.	Business Done
8/5/61	8/6/81	6%	9%	Bank of West Africa Ord.	fl	24/9
6/3/61	6/4/61	5%	15%	John Holt (L.PL) Ord.	5/-	12/-
20/5/63	12/3/63	2½%	-	John Holt 5% ref.	fl	11/6- 13/-
20/2/61	21/3/61	10%	-	Amalg. Tin Mines of Nig.	5/-	12/3
24/4/64	6/6/61	55%	35%	Exland Nig. Ltd.	2/-	3/6
24/4/61	15/5/61	22½%	22½%	Bisich Tin. Co. (Nig.)	2/6-	5/1½
15/6/60	28/6/60	7½%	7½%	Gold Metal Base Mines of Nig. Limited	2/6	2/-
28/11/60	14/12/60	7½%	7½%	Limited Tin Areas of Nig. Ltd.	2/6	1/9

After the initial trading, dealings continued to be low due mainly to the fact that the level of awareness was low.

These are the Income Tax Management Act, 1961 and the Trustees Investment Act also of 1961. These Acts passed for purpose of removing disincentives to investments and for the purpose of encouraging the development of the new local capital market. The pensions and provident funds for which these legislations were passed provided the most liquidity on the

market (they still do incidentally) and the Government, in encouraging them to invest in government bonds, must be known to be abreast of the important contributions of these funds. While debating the motion on the National Provident Fund in 1961, the then Federal Minister for Finance said.

> "In effect, these monies constitute a trust fund to secure the benefits assured to each individual contributor. We have, therefore, taken great care in deciding upon the manner in which they should be invested. Clearly the money must be invested safety whilst yielding a satisfactory return. We have, therefore, decided that investment will be limited to those securities enjoying trustees status and for the present will be further limited to investment in Federal Government Securities".

Despite these encouragement, activities did not improve on the Lagos Stock Exchange, the exchange had, therefore, to wait till 1970 for the turning point.

In the meantime, some four more companies with local experience had been admitted to listing, yet dealing remained very low. Therefore; as part of its efforts for the promotion of local Capital formation and savings, as well as ensuring increased participation in the industrial and commercial activities in the country, it soon dawned on the Government that what was responsible for low activity was the paucity of shares

available for trading and that it was necessary that something be done. The belief that activities would grow with more shares on the market led to the passage of the Nigerian Enterprises Promotion Decree 1972. The indigenization exercise increased the number of listed securities to 23 companies, yet activities remained as low as ever.

The solution has not been found. In practical terms, what was initially considered as the panacea to the problem stunting the development of local capital market did very little to solve the problem, as a new cure must be found in the future.

During the period of the post-mortem, various reasons were found to be responsible for the early failures. Among these were, that dealings in few shares on the market would not increase activities, and the lack of awareness about the Stock Exchange itself led to the apprehension by members of the investing public that the management of the Exchange was meddling with share prices and consequently, holders of securities became lethargic in using the market.

With all these facts present, it was strongly believed that growth in activities would result if the number of securities increased and the public is made more aware of the functions of

the Exchange through the information disseminated to them. Educating the operators and investors was necessary to change the orientation of the people with regards to their knowledge of investment in shares and stocks. In order words, the more knowledge the people are about the advantage of the Stock Exchange, the greater the level of activities will be flowing from these juxtaposed situation, the Government in 1975 appointed a Panel known as the Industrial Enterprises Panel (Popularly called the Adeosun Panel) to take a look at the entire industrial set-up of the country and recommend solutions to our industrial problems. Particular emphasis must be placed on indigenous participation in foreign enterprises in this country. Concomitant to this, the Military Government appointed yet another panel known as the Financial System Review Committee headed by Dr. Pius N.C. Okigbo to take a critical look at out financial system with a specific emphasis on the capital market.

The purpose is to encourage prescription, by the Panels, of solutions to the problems which for long have stunted the development of our financial system. The reports of these two panels were to have a tremendous impact on our total economic and social development and they do indeed on the local capital market.

The Adeosun Report led to the second phase of indigenization requiring a regrouping of enterprises into three sections in place of two. In consequence more shares became listed on the Stock Exchange. The report of the second panel led to the establishment of Stock Exchange branches while the Lagos Stock Exchange itself was transformed into one which more reflects a nationalistic posture and renamed the Nigeria Stock Exchange.

What Does the Nigerian Stock Exchange Do?

In order to appreciate the working and organization of a Stock Exchange, it is necessary first of all to know what functions it performs. The fact that a Stock Exchange is a vehicle for funds mobilization seems to have universal application but there are some other things it does.

These other functions are:-

1. The provision of a central facility for the purchase and sale of securities such as stocks (shares)
2. The furnishing of continuous information to dealing members to enable them perform their functions well.
3. The listing requirements compel companies to release promptly and regularly or make disclosures of pertinent

information regarding thief financial position and other matters, relating to companies performances.

4. As an organized facility, the Stock Exchange regulates its own operating mechanisms to check against irregular and unfair forms of trading.

In addition to the above, there are ancillary functions of the Stock Exchange which for our purpose here, can be categorized into three namely:-

(a) The provision of an efficient market.

(b) The provision of a reliable market.

(c) The provision of an informed open market.

The provision of a reliable market ensures that buyers and sellers can count on the integrity and financial stability of their agents. A market will be an efficient market if it is informed regularly on the progress of the companies whose shares are dealt in therein. All these three ancillary attributes or are dealt in therein. All these three ancillary attributes or functions will be focus for our discussion in later chapters.

Notes and References

1. Laws on Nigerian Companies

2. The Lagos Stock Exchange Act, 1961.

3. The Official List of the Exchange on 5th June 1961. (By arrangement, some Nigeria Securities which were quoted on the London Stock Exchange were listed and traded under foreign Register).

4. Budget Speech 1961.

The Laws and Bye-Laws of the Nigerian Stock Exchange

Introduction

The Stock Exchange any where in the world is seen as a club and its constitution and bye-laws are also regarded as a contract between its members. The regulations is binding on members in their relationship to the Exchange and as between themselves as dealing members.

Being a voluntary association and a private grouping of intellectuals or more appropriately an elitist association, it may be regarded as a private association providing a private market place, but in concept it is a public market place representing a pivotal role in the whole capital market system. If this is then so, the need for regulations for its day-to-day operation becomes very clear. The necessity for regulation of the operations of the Stock Exchange is on the one hand and the need for public confidence and public accountability, on the other.

Various statues are available for guiding the conduct and operations of the Nigerian Stock Exchange. Among these are - The Lagos Stock Exchange Act, 1961, the securities and Exchange Commission Decree, 1979 which replaces the Capital Issues Commission Decree, 1973 and in a very little way, the Companies Act, 1968.

All these have prescriptions for protecting the investing public. In addition to these external regulations, there are the Rules and Regulations of the Lagos Stock Exchange 1961, and the Listing Requirement 1975. Each of these regulatory documents will be considered in detail in the ensuring paragraphs.

The Lagos Stock Exchange Act 1961

The Lagos State Exchange Act of 1961 was the first of such regulatory statutes and it came into use immediately the Lagos Stock Exchange started operations in 1961. The Act of 1961 does not in itself establish Definitive rules for dealing on the market: it only gave guidance on the following:-

1. Conduct of the Exchange's Business; and
2. Membership of the Exchange.

The Lagos Stock Exchange Act, 1961 has not been repealed by any subsequent Act of parliament, to bring into it all the regulatory suggestions made in the Adeosun Report on Industrial Enterprises Panel set up by Military Government n 1975. But it is plausible to say that considerable efforts have been made by the Council of the Stock Exchange to expand, in anticipation of any statutory measures that may be taken in regulating its business, its rules and regulations. All these and others will be considered in this chapter.

The Securities and Exchange Commission Act, 1979

Origin

The origin of the Nigerian Securities and Exchange Commission can be traced to the Securities and Exchange Act, 1934 and its subsidiary legislation in the United States of America. This Act came into existence in America following the great national disaster provoked by a handful of market manipulators.

The Securities and Exchange Commission Decree of Nigeria was promulgated in 1979 to replace the Capital Issues Commission of 1973 and it is an all embracing decree passed for

protection of investors. Quite apart from the fear of scandals on the Nigerian Stock Exchange and prevention of fraudulent practices on the investing public, there are other reasons why the Decree came into existence. With the promulgation of the Nigerian Enterprises Promotion Act in 1977 it was expected that the securities market would be very busy in later years and the delivery system would be stretched to the point that it might become inefficient. In order, therefore, to ensure the success of the new economic order it was felt that the power of the then Capital Issues Commission be widened to include some surveillance work over the securities market. Since its functions now include regulation and supervision, the change of name was, therefore, necessary to appropriately describe the duties of the Commission.

Composition of the Commission

The Commission is a body corporate with perpetual existence and having a common seal. It is made up of representatives of the Central Bank of Nigeria, Nigeria Stock Exchange, the Federal Ministry of Finance, Commerce and Industry, Nigeria Enterprises Promotion Board and five private individuals who by reasons of their involvement in Securities

and Exchange matters or business or personal attainment could contribute to the work of the Commission. There is an Executive Director of the Commission who is also a member.

The Chairman of the Commission is appointed by the Minister of Finance from among the members of the Commission, but usually it is the representative of the Central Bank of Nigeria. All members of the Commission other than individual members, hold office in perpetuity; the five individual members appointed shall hold office for five years and be eligible for reappointment.

The Work of the Commission

In the first paragraph of this chapter, it was mentioned that the Commission came into came into existence on the promulgation of the Nigerian Enterprises Promotion Decree of 1977 and it has as its primary function the determination of prices at which securities shall be offered to the primary market and suggesting the mode and timing of offers. Other functions of the Commission include registration of the Stock Exchange an dits branches, maintaining surveillance over securities market, registering investment advisers and counsellors, securities

dealers and register. The Commission also acts as a regulatory apex for the Nigerian Stock Exchange and its branches and it is at liberty to delegate powers to it.

The Control Over The Nigerian Stock Exchange By The Commission

The regulatory function of the Commission is necessary for the protection of the integrity of the security market against abuses arising from practices of insider trading and prevention of those practices which will subvert free and ordinary capital market operations.

That this is not the practice meanwhile does not detract from the purpose for its coming into existence and for the future, it has established for its own administration a set of rules that seek to regulate the activities of the institutions under its surveillance. To many operators and informed outsiders the new creation of the apex organization is another interference by Government in capital market operations which for several years ahead will remain impotent until the Stock Exchange itself is re-organized. To these people, the Commission is seen as a transport of a foreign apparatus into our own system at a time

when the need for it has not arisen. Their own view is that it is not undesirable to have some forms of Government interest in the affairs of the Exchange but any interest to be introduced cannot, they argue and should not be contemplated to replace the self-regulation of the Exchange itself. Against their argument, it is plausible to say that the Exchange found it difficult to employ its laissez-faire attitude in the growth of activities and in terms of the number of securities listed without some form of Government intervention. The Enterprise Promotion Decrees of 1972 and 1977 did the Exchange a lot of good, they argue. These arguments are very valid considering the kind of Government interest that one would wish on the Exchange. But considering the state of development of the Exchange in Nigeria, the lack of professionalism and the expertise that will be needed to implement the various regulatory prescriptions of the Securities and Exchange Commission, it is doubtful whether the timed was ripe for it.

Self-regulation as provided by the Exchange's rules and regulations is still as potent and effective and in the ensuring chapter these regulations will be dealt with in detail.

The Exchange's Rules and Regulations

The need for regulation, it was mentioned earlier, was necessary to gain public confidence. These regulations are covered in the Stock Exchange's Rules and Regulations. They are prescriptions which are intended to guide and regulate conduct of brokers on the floor and outside it. The Rules and Regulations as they exist now are not exhaustive as panacea to all market practices, but they still serve the self-regulation functions of the exchange.

Under the rule, a member is bound to another as if they have both entered into a covenant with one another to observes certain rules, Everything done by a member with another must be done subject to the Rules and Regulations and usages of the Exchange. As every member must sign the constitution indicating that he is bound by all the contents of the Rules and Regulations, it then becomes impossible for a member to claim ignorance or non-existence of a particular rule of which he is in breach.

Restrictions On Business

Advertisement

All dealing members are under very tight restrictions regarding advertisements of their services. Section 6 of the existing rules provides that any effort to intimate its services with the public by brooking firm can be made by advertisement but such advertisement must first be cleared with the Exchange.

The guideline provided by this section is that the advertisement must be of a very simple layout and of the size that does not give too much information about the services provided by a member.

The purpose of this is to prevent unhealthy competition which may happen if there were not restrictions.

Securities that can be Dealt in

According to Section 34 of the Rules and Regulations of the Exchange only securities quoted on Stock Exchange can be traded in on the floor. What this section is saying its, although it is possible to wish to dwell in the plurality of the meaning of the Stock Exchange, shares not listed on the exchange cannot be dealt in on the floor. The purpose of this rule is to prevent

abuse in quotation of shares prices as the Stock Exchange will not be up-to-date with regards to the financial situation of the companies not listed to be able to express opinion. However, the Council of the Nigerian Stock Exchange may waive requirements if an application is made under Section 45 of the Rules and Regulations of the Lagos Stock Exchange. There is no doubt that this rule if not relaxed, is likely to stunt the development of the Exchange especially on dealing by over-the-counter method.

Default of Members

The Rules and Regulations deal exhaustively with default by members. A member will be guilty of default if he fails to meet a debt obligation to a fellow members.

Therefore, as soon as a member finds himself unable to fulfil a debt obligation to another member, he should notify the Exchange immediately. This same action, must be taken by the other party whom the default affects.

It is an offence by any member to make our arrangement for a compromise in the way of partial settlement of account without the knowledge and consent of the Exchange.

Upon notification of a default, the Council of the Exchange shall meet and appoint a Committee to examine the books of the defaulter and if by their investigation a person is found to be guilty, Council will prescribe the method of discipline to impose on the defaulting members.

In rate cases of default which may be proved, the penalty may be suspension of the member or in extreme cases involving a criminal act by the member, the penalty is cessation of membership.

In view of the disciplinary arrangements that exist, Council further prescribes that no member shall institute legal proceedings to enforce a claim against another member arising out of any stock brooking transaction without its consent. So a member cannot sue another without the support of the Council of the Exchange.

Accounts and Document

As members of the Stock Exchange are limited liability companies, it is imperative that they must keep proper books of accounts in accordance with Section 140 of the Companies Decree 1968. Details of what is required of member firms by the Exchange are contained in Appendix 1 of Rules and Regulation,

but for ordinary day-to-day supervision of members, the Council prescribes that all members should keep clients' monies in separate accounts to the described "Clients Accounts". In addition to this, every member firm shall within seven days after its accounts have been verified by its auditors, remit to the Secretary a Certificate signed by the auditors in the manner prescribed by Council.

The model of communication is a simple statement resembling the usual auditors notice to shareholders, Quite apart from the usual audit or position report that should be made by the members, the Council can organize a surprise audit to be conducted by external auditors separate from the firm's auditors. This extreme case can only happen if it has been discovered that a firm is not acting with some responsibility. If the Council so directs, the auditor, in charge will be given terms or reference by the Council and will be required to report its finding to Council.

The Exchange's Articles of Association on Discipline

The first section of the Rules and Regulations of Exchange states that the "Regulations shall be binding upon members in

their relationship to the Exchange, as between themselves as Dealing Members and as regulating the business which they contract as Members of the Exchange with the general public". This regulations seems to be emphasizing the quintessence of the contractual propriety of members' actions in that intention. Therefore, a member will be presumed to have violated the Rules and Regulations if his taken oath to respect. As regards discipline the Articles can be said to be rather panoptic than the Rules and Regulations. Any member who is found guilty by a Committee of Council of failure to comply with the provisions of the Rules and Regulations or is guilty of a dishonourable conduct or conduct unworthy of a person transacting the business of stock brooking, shall be liable to be reprimanded, or fined, or suspended by a resolution of Council. In the case of a flagrant disobedience of regulations, such a member may be expelled from the membership of the Exchange. However, a disciplinary measure by Council calls for the exercise of the rule of natural justice. This is necessarily so because it will be wrong for any disciplinary body to punish anybody without first of all allowing him to defend himself.

Anything done otherwise will be repugnant to the rule of common law and the person will seek remedy, as in Neagle V. Feilden.

3.21 **Regulatory Role of the Companies Act 1968**

Perhaps the most consequential limitation on operations of the Stock Exchange by the Companies Act, 1968 is that provided under Section 393 of the Act. The Section prescribes as follows:-

> "No person other than a recognized stock exchange shall without approval of the Commissioner carry on or purport to carry on the business of dealing in shares or debentures or as the case may be under any unit trust scheme, however, constituted or established where the shares or debentures of rights or interests therein have not been granted a quotation by the Lagos Stock Exchange".

The essential import of this section of the Act is that a person must be a member of the Stock Exchange to be able to handle the work of a dealer in securities. In Corporate Affairs Commission V. M.C. Securities Australia Limited, the presiding Chief Judge Street succinctly put the meaning of this in his judgement as:-

> "I have stated above the conclusion that the rights offered by the defendant to members of the public are "interest" within the Companies Act. It is clear enough that the defendant has offered to make, with a view to, acquiring, disposing of, or subscribing for such interests. The defendant has thus brought itself within the statutory definition of dealing in securities".

The fact of this case is that the defendant operates a mortgage banking business whereby subscriptions were made through solicitation in the newspaper from members of the public.

The complainant sued the company for being in breach of a section of that country's Companies Act, and won. Other prescriptions by this Act are those on Prospectus and Certificate of Exemption. These two important matters will be dealt with in detail in Chapter 7.

Listing Requirements

Deriving from the regulatory provisions of the Companies Act, is a book published by the Stock Exchange called the "Listing Requirements" or, as it is popularly known, the "Green Book", it deals with disclosure requirements of the Exchange and its provisions are more stringent and exacting than those provided by the Act itself. It deals specifically with what a

company has to do to be admitted into listing on the Stock Exchange. It considers the disclosure requirements of the prospectus and what a company is expected to do after it has been listed. This letter is called "General Undertakings" and it deals with the relationship between the company and its shareholders on the one hand and between the company and the Stock Exchange on the other.

3.22 **Conclusion**

Gone are the days when it was possible to argue that a Stock Exchange being a private club owed no duty to the public to account for its operations and be guided by regulations external to it, in this chapter the various regulations both by Government and the self-regulation machinery were considered.

Government intervention was seen as desirable but it cannot replace the self-regulation role that the exchange still plays or has delegated to it. This delegative function was seen in the section dealing with the Securities and Exchange Commission but since the consideration of the Listing Requirements was deliberated deferred, it is not necessary to consider the dispensation given to companies which applied for

listing in the matter of capital raising this chapter. All these and others will be considered later.

3.23 ORGANIZATION OF THE NIGERIAN STOCK EXCHANGE

3.23 Introduction

The Stock Exchange was incorporated in Nigeria on 15th September, 1960 under the name of Lagos Stock Exchange to provide facilities in Nigeria for the purchase and sale of funds, stocks and shares of any kind and the investment of money generally. The Act giving effect to the establishment of the Stock Exchange was not promulgated until 1961, the Act is known as the Lagos Stock Exchange Act, 1961. The purpose of this chapter is to discuss the organization of the Nigerian Stock Exchange to enable readers have a full appreciation of its role and functions.

3.24 Constitutional Documents

Apart from the enabling Act, the Stock Exchange in Nigeria operates within certain constitutional guidelines as contained its:-

(i) Memorandum and Articles of Association

(ii) Rules and Regulations

(iii) Listing Requirements.

Each of these, guides on how a person can become a member but it is the Articles only that give any definitive guidelines on management and other matters relative to the Stock Exchange's organization.

3.25 **Membership**

Membership of the Nigerian Stock Exchange is open "to firms or institutions intending to seek dealing membership" and to those who are in a position to financial and investment advice but the Council of the Exchange may, in exceptional cases consider applications from individuals, who by virtue of their position of experience, are likely to contribute to the achievement of the objectives of the Exchange.

From the first part of the eligibility clause it will be seen that the Exchange contemplates only one king of membership i.e. "Firms or institutions intending to seek dealing member". These types of membership, which are ordinary and dealing membership will be considered in detail in the succeeding paragraphs. However, a note may be made here that no person

or institution shall be considered a dealing member unless he or she is a Nigeria.

3.26 How to Become a Member of the Exchange

Before going to the discussions of how to be a member of the Stock Exchange it will be apt first, to give the definition of each type of membership. These definitions are provided.

Ordinary Member

An ordinary member of the Nigerian Stock Exchange is a member who has in accordance within the articles of the Exchange taken up five shares of the issues share capital of the Exchange and has been admitted into the Regulation of Members. Such a person can describe himself as a member of the Stock Exchange.

Apart from the powers bestowed upon his by Section 393 or the Companies Decree 1968, he does not have any other benefits that accrue to him.

Dealing Member

A dealing member is a member of the Exchange, who, in addition to being an ordinary member, is allowed to trade in stocks, and shares on the market and is bound by the Rules and

Regulations of the Exchange as a dealing member. He deals in stocks and shares on the floor of the market and usually for a principal. His remuneration is his commission.

His other sources of income could be through advice to clients and/or taking part in a public issue of shares. Such a person is generally known as stockbroker.

Having described the types of membership of the Exchange, it is time to shift our focus tot he procedure of becoming a member.

Application for Membership

Section 4(4) of the Articles of Association of the Nigerian Stock Exchange states that:-

> "Every candidate for admission to membership of the Exchange shall make application, in writing to the Secretary in such a form as the Council may from time to time prescribe and such application shall be sponsored by the Branch Exchange to which the applicant wishes to affiliate, and supply, orally or in writing, as the Council may think fit, such further information as Council may deem desirable for a proper consideration of the application".

In practice, a new application for membership of the Exchange is usually made by the proposer of an applicant to the Secretary but not directly by the applicant himself.

This is because the member proposing an applicant is saying that the applicant is eligible to be a member, even though no particular qualification or previous experience is specified. From what has been said so far, it is doubtful if the Exchange will be disposed favourably to considering any application whose subscribers are bankrupt or previously expelled from its membership. Although the section of the Articles of Association dealing with application for membership requires submission of an applicant to oral or written interview, Council seldom invokes this requirement.

Applicants are only required to give minimum information such as the issued capital directors' interests, resume of directors and such other matters as would enable the membership application committee to ascertain eligibility of the applicant. The points usually considered include the financial integrity of the applicant or his professional suitability and experience in finance or kindred discipline. It is a requirement of the Articles also that a notice that the application will be considered on a particular date should be posted in the Exchange room. The reason for this is to enable objections to an application to be made to the Secretary, and if not objection is

received, an applicant may be said to have scaled the first hurdle.

According to the Articles, nobody can be admitted to membership of the Exchange except by a resolution of the Council passed by a majority of not less than two-thirds of those present and voting, and provided that each applicant receives not less than four favourable votes. This requirement derived from the old Articles of Association of the Lagos Stock Exchange which did not contemplate an enlarged Council and membership. Once an application is successful, the branch council will remit the resolution to the National Secretariat for ratification by the National Council. The National Council can or may reject an application but it is a right which it exercises cautiously. The reason for caution is that the Council has to give reason for the rejection of application to the Minister of Finance and in most cases, the reason cannot be more than that obtained personal contact and which cannot be proved without committing a civil crime.

On notification to the applicant that is application is successful, the applicant will be required to pay a sum of ₦100.00 being the payment for five shares of the Exchange.

Nothing in the Articles of Association of the Exchange precludes a simultaneous consideration of an application for both ordinary and dealing membership.

The same ritual is performed whatever the intention of the applicant. Therefore, if an applicant has applied for both types of membership and has been notified of its success, he will be required to pay, in addition to the payment for the five shares of ₦20.00 each for his membership, the following:-

(a) A deposit of ₦10,000.00 which can be in cash, a legal mortgage of land or any easily realizable security.

(b) An annual membership fee or ₦300.00

(c) An annual fee of ₦50.00 for each dealing clerk that is to be introduced.

3.26 **Is Council Competent to Reject an Application?**

An organized body has its own rules and regulations for accepting members. The Stock Exchange being an organized body is not different. As the Stock Exchange relies on public confidence for its existence, it will be ludicrous for it to have as its members a thief or a person of questionable character. But when it comes to the question of who can be allowed to be a

member of the Exchange, on the point of nationality, a case of public interest will appear to have emerged. The Article 3 of the Nigerian Stock Exchange expressly excludes any foreign participation in stock brooking work in Nigeria. This decision is in line with the indegenization policy of the country. However, it is correct to say that the discretionary power of Council to accept an individual may not be entirely unfettered; it should be exercised in line, with the Articles of Association of the Exchange and be seen to be honest.

Since it is an elitist and monopolistic organization, as it is for the moment, there is the duty on Council to bring the use of natural justice to bear in its decisions.

In Neagle versus Feilden and Others, Denning M. R. had the following to say:-

> "The Common Law of England has for centuries recognized that a man has a right to work at his, trade or profession without being unjustly excluded from it. He is not to be shut out from it at the whim of those having governance of it. If they make a rule which enables them to reject his application arbitrarily or capriciously, that rule is bad. It is against public policy. The courts will not give effect to it". Also see Cassel vs. Inglis in Appendix 1.

3.27 **Administration of the Nigerian Stock Exchange**

3.28 **The Council**

The supreme body of any organization is the body of shareholders at the annual general meeting. The shareholders themselves are required to be informed of the company's state of affairs annually by the Board which has stewardship of the company. The situation on the Stock Exchange states that:-

> "The government and management of the Exchange shall be vested in a Council who for the purpose of and to the extent to which the election of directors is necessary in law shall perform such functions".

Therefore, for the purpose of determination of internal administrative policies, the Council is at the top. There are four councils on the Nigerian Stock Exchange, the most powerful being the National Councils and the Branch councils are responsible mainly for keeping trading floors and accepting new members.

3.29 **Election of Council Members**

Article 6(1) (d) of the Nigerian Stock Exchange, as it is presently numbered, prescribes that:

> "Members of Council shall be chosen by election from the members of the Nigerian Stock Exchange whose names appear on the Register of Members at a date not less than thirty days before the date of any General Meeting at which an election of council members is to be held".

This prescription presumes that anybody to be admitted as a member of Council should not, as a rule be a person who has just joined the Exchange earlier than the prescribed date, because of nomination and acceptance requirements. Nomination of members to sit on the Council is usually in writing and it should state clearly the name of the member being proposed for election and signed by at least two other members as Proposer and Seconder.

This nomination is not just done by a member who has become suddenly interested in another member. The whole process of nomination is usually started by the Secretary to the Council who will, sometime before the Annual General Meeting, send out letter of nomination to all members whose names appear on the Register of Members requiring them to nominate their candidates from the names supplied on the nomination form. The names supplied are usually the names of members retiring who have given consent to serve on or be re-elected to

Council. After nomination, the "Director-General shall cause the names of all members proposed for election to the Council and the names of their proposers and seconders to be posted on the notice board of the Exchange and in all Branch Exchange room". Subsequently, voting for the candidates will be as "prescribed by the Council from time to time". All the foregoing presumes that at the Council meeting at which the election is taking place the quorum will be present.

If quorum is not present (and quorum for the General Meeting as provided for is six by the Articles of Association of the Exchange) the election will be null and void.

Once the votes are counted at the meeting of Council which is properly convened for the purpose of Council and at which quorum is present, the person who has the majority of votes case becomes member of Council and shall hold office till the next Annual General Meeting at which he shall retire. Members of the Exchange who are firms or corporate bodies and are elected to Council shall nominate individual persons who are Nigerian citizens as their accredited representative to represent them on Council and may, with the consent of Council make changes in the person representing them as their circumstances

dictate. All Council members are subject to annual retirement in the order in which they come in, but only one-third of their total number shall do so at any one time. Any member who so retires shall be eligible for re-election unless he decides that he does not wish to continue in office.

3.30 **President of Council**

The appointment of a Chairman or President of Council is provided for in the Articles of Association of the Exchange. This section of the Articles states that:

> "The Council shall, immediately after each Annual General Meeting elect by ballot one of their number being an individual Nigerian member of the Exchange as Chairman or President and any other member as Deputy Chairman or President who shall bear the titles of Chairman or President and Deputy Chairman or President respectively of the Exchange".

Since the change over to the Nigerian Stock Exchange and consequent upon the establishment of branch trading floors in three new locations in the country, there are three additional subordinate councils each with powers under the Articles to appoint its own Chairman and Deputy Chairman respectively.

3.31 **Functions and Powers of the National Council**

As will be expected, the National Council is the supreme policy maker of the Stock Exchange. Its role as the governing body is a kin to the role of directors in any organization. The powers that can be exercised by Council in addition to the granting of license and accepting new members include the following:-

(a) Enforcement of the Articles and Regulations

(b) Setting disputes and complains

(c) Making, altering or revoking regulations for effective operations of the Exchange.

(d) Appointment of Committees

The foregoing functions are aimed at ensuring that discipline is maintained for the purpose of protecting integrity and public support of the Exchange.

Therefore, any member or member-firm who has been found guilty of a failure to comply with any prescription of the Articles and Regulations or has committed any act unworthy of a member is liable to suspension, fine or expulsion. In the case of flagrant disregard of rules, Articles 4(xi)(a) prescribes that Council may recommend expulsion of any dealing member who

bas been found guilty of any dishonourable, disgraceful or unprofessional conduct. However, the Council's recommendation for expulsion will have to be confirmed by the majority of not less than two-thirds of those members of Council who are present at a subsequent special meeting and, at each such meeting voting shall be by ballot. The need to temper justice with mercy was mentioned in this chapter (Case decision on Neagle versus Feilden & Others) and it is essential that Council should be careful in the dispensation of Justice.

3.32 **Powers and Functions of Local Councils**

The Branch Councils are appendages of the National Council and have very reduced functions.

They are only responsible for the initial vetting of applications for membership of the Exchange and making recommendations to the National Council. They also make bye-laws for the effectiveness of the trading floors in their areas.

In theory, branch councils of the Nigerian Stock Exchange are nothing more than sectional or local group of little competence who are prepared for future power club - the National Council, but for the moment impotent because their

existence is only sinecure. That they are important and second rate cannot be controverted. There is nothing they do. They do not even make bye-laws because of the very scant appreciation of the purpose for which a Stock Exchange exists by some of the members.

3.34 **Director-General**

Article 17 of the Nigerian Stock Exchange, as it is presently identified, prescribes that " Council shall appoint an officer of the Exchange to be known as Director-General who as Chief Executive shall be answerable to Council for superintending the general working of the Exchange. He shall be in attendance and participate in all meetings of Council, but shall not have a vote".

The Director-General has overall responsibility for the Smooth day-to-day running of the Exchange at the National level. His responsibility is wider, as can be imagined, than the responsibilities of Branch Directors.

Further Notes on Membership

Further reading on Courts' decisions on Council's power to refuse membership. See Cassel vs. Inglis (1961) 2 chapter 211 decision of Chancery. U.K). The plaintiff who was a British

subject but a German by birth became a member of the London Stock Exchange in 1908 having been previously accepted as an Agent.

Since his admission, he had annually been re-admitted into membership in accordance with the Stock Exchange's rules until 1915 when certain members who belonged to the Anti-German Union presented a petition of the plaintiff and other members of German and Austrian origin. In all 16 members were so refused re-election that year. However, on reconsideration of their case, only five members were actually refused re-election, and Cassel was one. The plaintiff wrote to the Stock Exchange pointing out that he had not acted contrary to any of the Stock Exchange rules or acted disloyally to his adopted country.

He also requested to know the reason for the Committee's decision. A meeting was arranged but nothing of substance was discussed and the plaintiff sued, contesting the procedure adopted claiming that he was entitled to be heard.

Ashbury J. in dismissing the case, said among other things that:

> "The primary duty of the committee is to exercise their discretion as to whether they deem the applicant for re-election eligible, and a question of vital interest to the Stock Exchange is whether in a case where an objection has been lodged, they have the duty not only to arrive at their decision, but the right also solely to determine the method and procedure of doing so, as in my judgement, they clearly have in a case where no such objection has been made".

The decision seems to be emphasizing the sanctity of the Articles of corporate bodies.

> "The validity of the expulsion of a member of society for misconduct whereby he is deprived of poverty vested in him as a member, as, for instance, under Rule 16 of the Stock Exchange Rules, depends upon the observance by the body to whom the power of expulsion is confided or recognized rules of procedure in the absence of contractual provisions to the contrary and requires, except in exceptional cases, that an accused shall be informed of the character of the charge to be investigated and that he and his witnesses, if any, shall be heard in defense. Further, and this applies to both of the last mentioned categories of authority".

3.34 DEALING ON THE STOCK EXCHANGE

Dealing on the Nigerian Stock Exchange is by a call-over of the Board using the auction method. The dealing room occupies a huge hall in the Exchange's premises while the call-over board itself is covered with the names of companies that have obtained permission for quotation and are listed. There are three sections

on the board and each section is called a market. There are, for example the Government Stock Market, Industrial Loans, Preference Stock Market and Equity Market. The operators on the floor are called Stock brokers but as these are companies themselves they are represented on the floor by their dealing clerks. Also present on the floor at the dealing period is a floor supervisor and a call-over clerk. The floor supervisor is called chairman of call-over. The chairman ensures that dealings take place in keeping with the rules and regulations and that there fair play. The call-clerk calls the board.

3.35 **Time of Trading**

Trading period is Monday to Friday daily, excluding public holidays, at 2.30 pm. And continues until brokers have nothing more to sell to or buy from one another.

3.36 **Floor Procedure**

As soon as it is 2.30pm., the call-over chairman calls the call-over to order and the call-clerk begins to call the securities moving from one market to the other. Each call incites a bid or offer reactions of dealing clerks who normally do so by naming the price or prices at which they with to deal. A bid is an

intention to buy and it is represented on the call-over board by a "plus" notation. An offer intention is an interest to sell and it is equally represented by a 'minus sing'. There is a great amount of secrecy during this period as each clerk will try to protect his own position or take advantage of a situation. The system used is the two-way auction system but the quantity of what is being purchased or sold is not indicated on the board.

Also, only the highest bid price or the lowest offer price is recorded. When, as it frequently happens, the offer and the bid prices agree, a deal will be recorded as having been struck. As soon as a clerk indicates that he is buying what another clerk is offering or where there is cross deal when a clerk is both the buyer and the seller at the same time, the call-over clerk will record the price and the date of the deal on the call-over board.

After the deal bad been struck, the call-over chairman will ask how much is being offered and how much is being bought.

A buying broker is not obliged to take more than he has been requested to buy or can a selling clerk be required to see more or deliver all that he has. Regulation 42 of the Rules and Regulations requires that a dealing clerk must indicate that he is selling more than 200 or a Parcel.

When a deal has been recorded, the parties to it will exchange bargain slip with one another. This bargain slip, which is in triplicate, records the quantity sold or bought, the price of the deal and the security in which the transaction took place.

All deals are subject to the rules and regulations and usages of the Stock Exchange and unless a request to have a bargain annulled has been made, in which case the bargain slip becomes of no effect, the bargain slip is the imprimatur of legality for the deal done. The three copies of the bargain slip are routed in the following manner, one copy to the buyer or seller, one copy is retained by the buyer or seller and the last copy is left with the Stock Exchange.

3.37 **Volume of Delivery**

Regulation 42 of the Exchange states that "all efforts to buy or sell stocks or shares at a price named when quantity is mentioned will be binding to the amount 100 shares only". But if there is an intention to deal in quantity bigger than 200 units of any security, that intention must be made manifest by overtly announcing that a dealer wishes to deal in a parcel. However,

dealing in unites less than 100 is regarded as Odd Lot and is not usually marked on the board.

3.38 **Permitted Dealing**

Regulation 38 makes it an offence for any member firm to deal in securities other than the ones listed on the board. However, there is an abatement of this regulation in Regulation 46 which proved that if an application has been made to the Council of the Exchange and Council is convinced that no confidence will be lost by permitting a member firm to deal in a security not quoted on the National Stock Exchange, it may give approval for such a deal to take place. The securities that can give rise to this, may be securities quoted on other Exchange which have foreign exchange implication; and such a deal may not be encouraged.

3.39 **Pricing of Securities**

Since the setting up of the Capital Issues Commission 1973, and the Securities and Exchange Commission in 1977 to take over the work previously done by the Capital Issues Committee initial prices of securities listed on the board of the Exchange were determined by these bodies.

Subsequent prices are made by brokers during trading sessions. Prices of securities quoted on the Nigerian Stock Exchange are made by brokers in reaction to several factors,

chief among which is supply and demand and operational performances of companies. It is doubtful, however, that prices on the Nigerian Stock Exchange have anything to do with supply an demand since nobody knows at the time of offer or bid the number of shares available for trading. It is possible to react to large supply of shares of the same company on the market if the units produced for trading represent such a percentage that will make the market jittery.

Therefore, the only acceptable way or pricing on the Exchange is that which considers the economic performance of the company, future growth potentialities, and the case by which diversification exercise can be carried into effect. Even then, there are only good vehicles, they cannot themselves assure good pricing approach. For the purpose of clarity on the subject of pricing which people consider to be full of inconsistencies, it is necessary to discuss the matter as comprehensively as possible. In doing so, it is necessary to explore the rationality of the initial pricing mechanism and then move to the irrational situation on the market.

3.40 Initial Pricing

The securities and Exchange Commission's method of valuation employs the empirical formula together with their weaknesses for valuation of a company.

They use, for example, both the earnings basis and net asset basis for valuation shares. These bases, seek principally to put values of shares of companies in relation to their earnings capacities and assets growth potentials.

However, most attention, these days has been focused on the question of whether the valuation of the Commission reflects adequately the true value of ownership of a company. There are some who argue that if share prices are to be an effective medium of allocating resources, they should confirm to earnings potential and risks of companies, otherwise, funds will not be channeled to the most deserving and productive investments.

3.41 Ex-Rights and Ex-Scripts Prices

Certain adjustments are often made to prices of securities by brokers on the call-over board. These adjustments derive from the declaration of dividends, scripts and sometimes when rights offers are made.

In the case of a dividend, it is not uncommon for an investor to notice a drop in the price of shares in a company during the period when a dividend has been declared what the Stock Exchange does is that, 14 days before the closure of the register of a company the full amount of dividend notified to it will be deducted from the price of that security. Before the 14 days, dealers on the market are expected to have reflected the increase in operational performance in the price of the security such that when the dividend is eventually taken out no impression of a fall in price would be given. However, that this is not done and the impression is created that price fallen, is not the fault of the Exchange but that of dealers. When a company notified the Stock Exchange that it wishes to make a rights offer, the preliminary pricing of the security will be the duty of the Securities and Exchange Commission.

As soon as the offering price is given, the Stock Exchange is required to adjust the price on the board so that the existing holders do not suffer a loss from the dilution created by the new shares release.

In preventing this, the Stock Exchange will presume the possibility of some of the holders selling their rights and

accordingly, makes some adjustments in the price. The foregoing can be explained by using an example of ABC Company Limited whose Issued Shares Capital at a date before the rights offer was ₦2,500.000.00 and price on the market for a 50k ordinary share is ₦1.20. A rights offer, of new share for every one held is to be made at 80k per share. The issued share capital consequent upon offer will now be ₦5,000.000.00. In a situation of a rights offer, the shareholders have the option of subscribing to the issue of renouncing the offer in favour of other persons; i.e. he can sell his right to the offer. If a shareholder decides to sell it, he would only be able to do so at the offer price and he would have made a loss. It must be remembered that a rights issue is an offer not made generally to the public but one made only to the existing shareholders. For the example above, it is to be assumed that the security concerned is quoted on the Stock Exchange. Given all the above facts, what will happen is that on notification tot he Exchange that subscription list is open, the price of the offer will be adjusted to ₦1.000 as shown below by the Exchange using the formula:-

$$\frac{PV + PV1}{Sn} = Np$$

N_p is the new price on the board and it is obtained by finding the market value of holdings before the rights offer which is Pv plus the value of offer which is PV1 divided by the total units i.e. old holdings plus the new offer units which is Sn.

ASSUME: One share (old holding) is ₦1.20; one share of new holding is 80k. Value of two shares is ₦2.00 price of one share is ₦1.00.

The attempt to have the adjustment made derives from the fact that nobody should be allowed to suffer as a result of not having money to pay for his rights in an offer as rights. If therefore, our investors decides to sell his provisional allotment, his position will be as follows:-

Price of Offer is	₦0.80
Market Price	₦1.00
Gain	**₦0.20**

Since the market value of one share was ₦1.20 before the offer of rights and is now being sold at ₦1.00, the gain of 20k compensates for the drop from the original value to ₦1.00 and this 20k he can keep.

3.42 **Secondary Market Pricing**

Prices of securities on the secondary markets are made by stock brokers daily during trading sessions. The brokers' valuation of a company's security is usually emotional, make on the basis of rumours and whims of the people making it.

The result is that prices of securities fluctuate rather wildly. However, it is necessary to recognize that these sharp movements in prices of certain companies are not necessarily in conflict with rational judgement. For example, a broker's price, in addition to complying with client's instructions usually contains a reflection of dividend and scripts expectations consequent upon a report of good performance, the dividend yield result and the future expectations. This will be in order if id is remembered that the greater the expected growth of a company, the more likely will its price move upwards all the time.

The foregoing only describes the valuation of equity stock and not fixed-interest securities whose prices are based on the movements in interest rate.

3.43 **Delivery and Settlement**

Once a bargain has been struck on the Exchange the parties to it are required to exchange bargain slip to evidence the contract between them. The bargain slip is usually in triplicates, and it records the quantities the price of the deal, the name of the security dealt in and the date of the deal. Once it has been signed by the parties involved, a binding obligation to deliver the security and pay for it is in motion. It is relevant to note here that both delivery and settlement are subject to the rules of the Stock Exchange which bind members and clients for whom the deal was done. Therefore, it will be immaterial in law for a member or a client to claim ignorance of the rule of delivery.

3.44 **Delivery**

Delivery must be made in accordance with Section 48 of tee Rules and Regulations of the Exchange which provides that - "The seller of Stock or shares for cash shall make or tender delivery within a reasonable time but not later than 21 days after the day on which transaction has been made. Delivery shall in all cases be made or tendered at the office of the broker effecting the purchase, on a business day and at least one hour before

banker's closing hour on that day". Delivery of shares must be made on the date specified for deliveries.

Time is of the essence in delivery and failure to deliver in accordance with contract can be a good reason for other party to repudiated the contract of purchase. Parker J. in Reschwabacher Said:

> "With regard to contract for the sale of shares, I think that time is of essence of the contract both at law and in equity. Shares continually vary in price from day to day, and that is precisely why courts of equity have considered such contract to be one in which times is of the essence of the contract, and not line a contract for a sale and purchase of real estate, in which time is not of the essence of the contract".

3.45 **Settlement**

Settlement for the securities bought on the market must be made in accordance with the rules. Section 76 of the Rules and Regulations of the Stock Exchange prescribes that:-

> "Every year the Council shall fix the period of settlement of Account amongst Dealing Members which will be operated for the Calender Year".

What happens in practice is that a month is divided into two periods. One period which is called the accounting period is the period during which stock is taken of the money owed to and due from other brokers. The other half is called the settlement

period when money passes among others. In other wards, a month is allowed by the Exchange to enable brokers sort themselves out and pay one another. Payment for the moment is made under close supervision of Exchange as settlement must be made on the floor of the Exchange on settlement day.

Failure by a broker to receive payment for shares sold entitles him withhold delivery and by a notification to the Exchange in respect of a default, the defaulting member can be penalized under Section 77 of the Rules and Regulations.

There are certain activities preparatory to settlement. These start with notification to the buyer by the buying broker and to the seller by the selling broker.

The medium of notification is the Contract Not (Fig. 4.2). Under the rules, a bought and sold contract note must be made up by the Buyer and the Seller Brokers within 24 hours of a deal to the clients for whom a deal for purchase or sale has been made showing the number of shares bought or sold, the price and consideration whether for ex-benefit or not, the commission of brokers and stamp duties which put legality to the binding contract. The bought contract note enables the buyer to know how much he has to pay for the shares purchased on his behalf

while the sold contract note enables the seller know how much to expect. Once a buying client receives his note, he must remit to his broker the exact amount shown in the total column of the note otherwise delivery to him may not be made and he forfeits his right to ownership.

3.46 **Buying - in and Selling - our Rules**

The rules of buying-in and selling-out are intended to redress the position whereby a dealing member, having sold securities fails to deliver on due date or when having bought he fails to accept delivery or make payments in respect of the securities bought or sold. Sections 12 and 13 of the Rules and Regulations of the Exchange provides that:-

Buying - in

> "When stocks and shares are not delivered in accordance with terms of the purchase, the buyer shall have the right to cause the shares or stocks to be bought in and any loss occasioned thereby shall be borne by the sellers".

Selling - out

> "When stocks and shares have been duly tendered and not paid for in conformity with the terms of sale, the seller shall have the right to cause the buyer of the shares or stocks to be sold out and any loss occasioned thereby shall be paid for by the buyer".

The procedure in a buying-in or selling-in is thus, the aggrieved party to a contract to sell or buy on the market makes a report to the Director-General of the Exchange who will consider and determine merit of the case made and give instruction which will be copied to the defaulting party to enable him prepare for the sale or purchase. The buying-in or selling-out must be on the floor of the Exchange. It is, however, at the discretion of the Director-General of the Exchange, if owing to any difficulty on obtaining the shares to be bought-in or sold-out, or the price to be paid is inadequate to call an emergency meeting of Council to decide on the price differential. Any short-fall or surplus consequent upon the exercise of the selling-in or buying-out arrangement shall be settled by the parties on the next trading day following the day of the transaction.

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3.47 **Commission**

The payment made by a client on the cost of buying shares or stock consists of commission and stamp duty. Commission paid belongs to the broker and represents his reward for undertaking a purchase or sale for a client. This rate of commission charged is prescribed by Council, and no member

can charge more or less than the amount prescribed. There is a minimum amount chargeable where the prescribed rate on the consideration is less than the minimum. All commissions are based on the value of shares or stocks bought or sold. In the case of Federal Government stocks and state bonds, special rates apply. These rates depend on the maturities of the Government bonds.

3.48 CLIENTS/STOCK BROKERS RELATIONSHIP

Who is a Stockbroker?

A stockbroker is a person who is a member of the Stock Exchange and holds a certificate on which the Council of the Stock Exchange has given him permission to deal in stocks and shares on the floor of the Stock Exchange. From the above definition, two basic requisites are necessary for one to be called a stockbroker. First, he must be a member of the Stock Exchange. This is in conformity with Section 393 of the Nigerian Companies Act, 1968 which makes it an offence for any organization or person to engage in dealing in shares or debenture quoted on the Stock Exchange. Secondly, not all members of the Exchange can act as stockbrokers because the work of dealing in stocks and shares is seen as a professional

one which demands great expertise in investment and funds management. The licence is usually issued under the authority of the Council of the Stock Exchange after the Council has been assured of the integrity and professional competence of the person desirous to enable in the work of stock brooking. The definition should now remove any confusion that makes a stockbroker such a mythical personality.

A stockbroker serves members of the public in carrying into effect their investment plans. As it is not possible for every member of the public to go to the floor to buy or sell shares as their situations dictate, the work of doing what they wish to do is performed for them by the stockbroker. Another service which a stockbroker renders is advisory service. He gives this implications of his (the client) instruction, and since public confidence is the essential ingredient to his own survival, the reliance that can be placed on the advice given is very important.

In Re-Bonds and Security Limited 1971 the occupation of stockbroking was described as "that which demands high standards of integrity".

In carrying out his occupation, a stockbroker acts, not only for himself, but also for his client. His remuneration is his brokerage, or commission. Clients, some with great, others with little, business acumen and ability to protect themselves, seek and act on his advice and permit him to handle their money and their shares. Those clients are entitle to expect from a broker not only competence, but also integrity and absence of conflicting personal interests. His position is one of trust and responsibility. By the recognition and "pursuit of the high traditions of his occupation, a broker has aspired to a high status in the great and honourable profession".

All the aspects having bearing on his work are usually contained in the rules and regulations binding his conduct vis-a-vis his client. The relationship between a broker and his client can be the result of a change meeting or by introduction. It is also possible that a communication could have been made to establish a future relationship from newspaper or other media. Once his relationship takes off, if usually continues for a long time unless something happens which frustrates it.

3.49 **Giving Orders to Brokers**

Instructions to stock brokers are usually made orally, or in some cases, they may be in writing when the clients are corporation or institutional investors. Indeed individuals may also give instructions in writing. Their orders may be special and or specific with regards to how the broker is to perform. For example, a client may just stay to his broker that he is interested in a particular security. This is a specific instruction and no variation is allowed without the client's specific order. N some cases, the client may not sale be done as "best". In some cases, the client may not know what securities are going in which case he leaves the execution of the order to the discretion of the broker.

This is an open instruction in which the client relies on his broker's judgement. Another case can be that the client comes for advices; in which case, no decision by him is made until after the broker's advice. In the performance of his work, a broker has the implied duty under ethics to do as he has been instructed, unless there is an open position which obliges him to the position of best adviser. The broker could do otherwise, acting hon his discretion owning to certain difficulties whereby

the broker cannot obtain the security which he has been instructed to buy. However, it is of very fundamental importance that a broker does as he has been required and this will be determined by the usages, rules and regulations of the Stock Exchange.

3.50 **Giving Advice by Brokers**

Unless the client is himself adept in the work of stockbroking he will need the broker's advice. The broker can be relied on for his comments on a particular security with respect to the promises and price of securities on which advice was sought. When a broker gives this kind of advice, he can only be seen as merely offering or promoting his technical competence, and the client is not bound to accept his advice.

This fact was contained in R. H. Deacon & Co. Limited versus Barga where the issue of whether a broker has a duty to advice his client against an imprudent purchase was considered comprehensively. In the case, the defendant pleaded that the broker has failed to caution him in making the purchase of a large quantity of shares in ac company which was under serious financial stress. The trial judge in his charge to the jury stated

that, "the law required the broker to advice his client honestly and without negligence".In their submission, the jury discharged the defendant on the charge of failure to perform a contractual obligation to pay for all the expenses of the broker.

However, the Quarter Court of Appeal reversed the decision, holding that a stock broker's primary duty was to carry out the instruction of his client, and if the client authorized te broker without seeking the advice of the broker, to make an improvident purchase the broker was not bound to disclose facts that would reveal the improvidence of a transaction where there is no conflict of personal interest. The opinion of the court as given by Evan J. A. was as follows. "The duty of the disclosure arises when there is a conflict of interest between the principal and agent or where the principal has imposed a term in the agency agreement".

From the foregoing, it will be seen that the function of advice giving by a broker is on instruction and he may not give an opinion if he does not wish to do so. However, if a broker volunteers assistance to give advise whether this is solicited or not he would be deemed to have observed the duty of the care otherwise he may be liable to a charge of misrepresentation.

In the celebrated case of Hedley Bryne & Co. Limited versus Heller & Partner Limited the House of Lords held that "though there was a complete absence of a contractual relationship or even a fiduciary duty, a person could be liable for a loss resulting from misstatement made by him to another under circumstances where, as a reasonable man, he ought to take reasonable care to establish the reliability of his statement".

3.51 **When is a Broker the Principal?**

The relationship which exists between a client and a broker is that of a principal and agent. In other worlds, a man may make a contract through the instrumentality of another person appointed by him to act on his behalf. In such a relationship, we have the man himself being called the Principal and the man acting for him being Agent A broker is an agent who buys or sells stocks or shares for members of the public who have approached him to so act.

He is the servant of the principal, as we have seen when orders are given to him. Therefore, for the servant to turn master, there must be a clear-cut circumstance as Lord Cairns (Q.C.) Puts it in Parker vs. McKenna.

> "Now the rule of this court as I understand it, as to agents, is not a technical or arbitrary rule. It is a rule founded upon the highest trust and principles of morality. No man in this court, acting as agent, be allowed to put himself in a position in which his interest and his duty will be in conflict".

This opinion succinctly puts the general view of the experts on the position of a broker becoming a principal at the same time. But where a broker is acting for himself, that is, when he is buying into box or creating a provident fund for his own account, for as long as the rules and usages to not prohibit him otherwise, he will be unlikely to be held for misdemeanour. This practice is known as houses trading and for the moment has not been proscribed by the Nigerian Stock Exchange.

3.52 **Secret Profit**

Parties to a fiduciary obligation are not allowed to make a secret profit and if they do, then they are bound to account for it. A broker is in a fiduciary relationship with his client and is not allowed to charge more than he has paid for the shares or stock bought for his client. This point seems to emphasize further the reverence of Contract Note. In the case of strange versus Lowitz where a firm of stock brokers sued its client for money owed in respect of various transactions done by him, the

client who was ready to pay, pleaded that besides charging his commission, the broker has added some thing to the total charge.

The firm admitted the overcharge and the defendant was acquired.

The question is that a client who does not read the Daily Official List regularly for the particular purchase is not likely to know that the contract note contains an over-charge but once he discovers that an illegal addition has been made to his charge he is bound to protest.

3.53 **Accounts**

The requirement for members accounts are contained in the Appendix I of the Rules and Regulations of the Lagos Stock Exchange and includes among other things that:-

> "Members shall keep books and records for the purpose of recording their transactions in a form and manner which will enable an auditor to supply the information required by paragraph(b) below relating to the audit of members's book".

The paragraph(b) referred to above requires members to keep proper books of accounts such as will enable an auditor to see whether the keeping of records show a true and fair view of

the state of affairs of the member firm. Keeping proper books of accounts is very important to a stock broker as it is to any other businessman. But it is more important to a stock who by reason of his work, suddenly finds himself as a custodian of other people's money. Section 17 of the Rules and Regulations in force requires a stock broker to keep in separate account clearly marked Client's Account all monies he has received from his clients. In no case and under no circumstances is a broker allowed to mix or bank together in only one single account his own money and his client's money. A broker is also required to keep in safe depository all certificates which are not in his name for the time-being. This is to ensure that no temptation exists for any act of unlawful conversion.

3.54 **Stockbroking: A Business or a Profession?**

This question has eluded answer for a long time; even the setting up an examination body on most Stock Exchanges has not helped in solving the problem. But efforts in the past few years appear to be indicating the possibility of a definition that may clear the doubts.

In the concluding dictums of Rowlatt J. in the appeal filed by Christopher Baker & Sons versus C.I.P. the following came to light:-

> "Now is a stockbroker's business a profession within the meaning of this section? It seems to me that what a stockbroker does is to buy and sell a commodity on the market. It is true that he does not expect to have to pay for it himself or to be responsible ultimately to satisfy the contract himself as he is a buyer and seller in the market for an undisclosed principal to whom he looks to indemnify him from liability. It does not seem to me that it is a profession within the meaning of this section".

Even the provision of advice which is adjust to the main function performed by the stockbroker does not make him a professional. The fact of the case was that the appellant, a firm of stockbrokers has been found to be liable to tax on its excess profit. The appellant claimed that as a firm of stockbrokers professionals within the meaning of the United Kingdom Income Tax Laws. The court decided that they were in business and any advice that they gave to their clients were only ancillary to their other functions. Unfortunately, the decision of the court as shown above seems to be placing took much emphasis on the reverence of the law of that country where the breach was committed. Most professions pay tax and the clarity in definition which is hoped will emerge is still elusive.

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The point is simple, whether the people called stockbrokers are carrying on a profession the profits of which depend mainly on the personal qualifications of their owners or in which no capital expenditure is required. This does not appear to be so. Rowlatt J. while summarizing the above said that:-

> "It is quite clear from those cases and from language of the section itself that what is made liable to excess profits duty is every business and what is taken out of liability is a profession. All professions are business, but all business are not professions...".

Even if the summary from which the above is taken is a case dealing with taxation liability of a stockbroker, the fact remains that a stockbroker is in business to make money and so he is a businessman.

3.55 **When Can a Broker be Sued by Clients?**

In R.H. Deacon and Co. Ltd., versus Barga, we saw that a broker must be careful in giving advice to his clients. The law requires the broker to advise honestly but without negligence.

The advice often given by brokers is nothing but an exercise of superlative analytical skill by them and the client may or may not rely on it. However, a broker may be liable to a negligent mis-statement of material fact. Indeed, the questions

is not whether an asserted misrepresentation is made but whether if it is made, either expressly or by implication, it will be material. The question of materiality itself depends on whether the statement can induce a person to act in a particular way. This question was the theme in the case of George vs. Dominick Corporation of Canada. In the case, the plaintiff brought an action of negligent misrepresentation of fact against a broker and won.

The fact of the case is that in December, 1967 and January 1968 George had given instructions to the defendant to purchase on margin the shares of Data Processing Financial and General Corporation (DPF). The margin requirement was that there would be an initial deposit of 70% of the sale proceeds which both the defendant and plaintiff understood to mean that in return for the brokers agreement to "borrow" and deliver certificates for the shares sold, the client was obliged to pay into the account by the settlement date an amount equal to 70% of the proceeds of sale. Any increase in the market price of the shares which have been sold short would mean that the customer will have to pay an additional amount as "maintenance".

However, in November, 1967 the American Stock Exchange had increased margin requirement to 100% in respect of certain designated stocks which include DPF stock. Although the news of the new requirement was disseminated, the defendant did not learn of it utile January, 1968 and he took steps immediately to inform the plaintiff. In his request to the plaintiff, the defendant asked for more money or he would "if this request fails", buy from the market sufficient shares of DPF to cover the short positions. The plaintiff did not comply with that request and the defendant fulfilled the ultimatum and closed the account of the plaintiff. The plaintiff then sued for damages on three grounds:-

1. That the defendant had induced the plaintiffs to make the short sales by misrepresentation of material fact namely that the initial margin requirement was 70%.
2. The defendant's failure to inform the plaintiffs in due time of the specific margin requirement on trades in DPF, was negligence amounting to a breach of contracted duty.
3. Defendant was in breach of its customer's agreement when defendants covered their short position.

In his judgement Verchere J. found the defendant guilty of negligent misrepresentation on the third ground.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

Introduction

Before analysis the problem that may have implication for the implementing internationalization in the Nigerian Stock Market it is pertinent to review the Nigerian Economy with special preference to the Banking Sector who pay prominent role in the Market and the problem associated with the poor performance in the market as at 1998.

The chapter would also address solutions to the above and would highlight the contribution of Stock Exchange and find whether the contributions are enough to encourage Foreign Investors to invest in Nigeria.

4.1 Growth and Structural Changes

The process of financial sector reform gathered further momentum in 1988 with the revocation of the operating licenses of 26 distressed banks (13 - Commercial and 13 - Merchant) by the Central Bank of Nigeria (CBN). This reduced the number of distressed banks from 50 in 1997 to 22. With the liquidation of the 26 banks, the number of banks in operations fell from 115

at the end of 1997 6 to 89 in 1998. The number of Commercial banks fell from 64 to 51 while that of Merchant banks from 51 to 98. The Branch Network also decline from 2447 to 2220 during the period, comprising 2107 Commercial and 113 Merchant bank branches while the number of branches and representative offices of Nigerian banks abroad remain 5.

The restructuring of the banking system in terms of takeover, acquisition and recapitalization made further progress during the year. Notably, Nigerian-Arab Bank, formerly owned by the Federal Government and Arab Bank of Jordan, was required by the National Insurance Corporation of Nigeria (NICON) thereby necessitating a change of name to Assurance Bank Nigeria Limited. Also the controlling shares in Stanbic Merchant Bank were acquired by Standard Bank of South Africa. In a bid to recapitalize and thus meet minimum paid up capital requirement stipulated by the Central Bank of Nigeria, some banks sought funds from the capital market. The deadline for the recapitalization of all licensed commercial and merchant banks to minimum of ₦500 million was end December 1998. At the expiration of the deadline, 64 banks (41 and 23 Merchant) had complied fully.

In exercise of its expanded supervisory role over Community Banks and Primary Mortgage Institution, the Central Bank of Nigeria revealed the followings:-

The number of community banks remain 1015 as previous years (1997) when compared in 1998. However, the issuance of provisional finances to new banks remained suspended, pending the completion of the evaluation of the soundness of existing ones.

The number of Primary Mortgage Institutions however increased from 115 in 1997 to 194 in 1998 while the branch network of the peoples banks of Nigeria country wide increased by 15 to 293 during the year 1998. Thus the overall, banking density (i.e. average number of persons to a banking office) in Nigeria deteriorated further to 32,548 from 30,129 in 1997 attributable mainly to the liquidation of 26 distressed banks at the beginning of the year.

4.2 RESOLUTION OF DISTRESS IN THE FINANCIAL SECTOR

Sustained efforts were made to address the lingering problem of distressed in the financial sector. The Central Bank of Nigeria, in pursuit of the various resolution options, revoked the operating licenses of 26 distressed banks (13 - Commercial and 13 - Merchant) in January, 1998 bringing to number of such banks in liquidation to 31. Reflecting the position impact of the implementation of the various resolutions options, the number of distressed banks which rose to 50 at end - December, 1997 declined to 22 in December, 1998. Holding Actions on 2 of the distressed banks were tyred during the year while the remaining 20 banks were given deadlines for recapitalization, failing which they were to be liquidated.

Banking System Credit

Aggregate banking system credit to the domestic economy rose substantially by ₦184,550. 3 million or 55.7% to ₦515,719.3 million during the year in sharp contrast to the 2.8% decline observed in 1997 (Table 3.2 and Figures 3.4 and 3.5 refers). After a 4.8% increase in the first quarter of the year,

the rate rose rapidly to 22.8% by the end of the second quarter bu moderated to 10.8% by July. Thereafter, the increased allelerated and was 55.7% at the end of the year which was substantially higher than the programmed target of 24.5% for the fiscal year.

The growth in aggregate bank credit reflected in claims on both the Federal Government and the private section with the former accounting for 59.1% of the total increase. Accordingly mainly for the sharp increase in credit to the government was the substantial draw-down of its deposits with the Central Bank of Nigeria and the significant rise in the bank's ways and means advances. Increased credit to the private sector was utilized largely to put pressure on the Autonomous Foreign Exchange Market (AFEM).

APPRAISAL OF CAPITAL MARKET

4.3 Money Market Development Activities

Activities in the money market in 1998 were influenced mainly by the developments in the foreign exchange market, the state of liquidity in the banking system, and the liberalized pricing mechanism for treasury bills. Furthermore, in the bid to

widen the scope and depth of the treasury bill market, 30 stockbrokers were appointed during the year as special authorized dealers for the marketing of treasury bills to the non-bank public, particularly the small scale investors. This should further enhance the conduct of open market operations in addition to providing an alternative to savings with commercial/merchant banks which was becoming increasingly unattractive in terms of low returns and the stringent conditions for opening and maintaining savings deposit accounts. Another notable development in the market during the review year was the introduction of the Nigeria Inter-Bank Officer Rate (NIBOR) by the Money Market Association of Nigeria. Fashioned after the London Inter-Bank Offer Rate (LIBOR), the NIBOR was designed to serve as a benchmark rate for the pricing of money market instruments.

Those developments, notwithstanding, the value of money market assets, outstanding, rose only marginally by ₦408.9 million or 0.2 percent to ₦247,317.9 million, compared with the much larger increase of 99.7 percent recorded a year earlier. The increase during the year was reflected entirely in the level of Bankers' Acceptances (Abs). Nevertheless, treasury bills remain

the dominant money market instrument, accounting for 89.7 percent of the total value of money market assets outstanding compared with 89.8 percent in 1997 (Table 3.5).

Inter-Bank Funds Market

This steady growth of transactions in the inter-bank funds market, since 1995, slowed in 1998. Although some measure of confidence had been restore to the market following the liquidation of 26 distressed banks in January, the tight liquidity situation in the system contributed largely to the slow-down in market activities during the year. The aggregate value of transactions in the market decline by 19.4 percent to ₦230,277.8 million, averaging ₦19,189.8 million monthly in 1998, compared with ₦23,796.0 million in 1997. As in the past, the bulk (62.1 percent) of total transactions were in overnight with ₦21,501.6 million in 1997. The average rate on overnight funds maintained relative stability in the first half of the year, but fluctuated downward during the second half. Between January and June, the rate declined only marginally from 20.4 to 20.3 percent before it dropped to 16.2 percent by December. The falling during the second half of the year was influenced by the liquidity effect of the release of the outstanding stock of

stabilization securities to commercial banks. The average rate on 90 day placements trended upward from 18.0 percent in December 1997 to 32.5 percent in June before ti fell to 17.9 percent in December 1998. The rate on 30 day maturity also exhibited a similar trend, as the rise from 16.3 percent in December 1997 to 22.2 percent in June 1998 was followed by a fall in the second half of the year, thus closing at 18.0 percent by end-December.

Treasury Bills

New issues of treasury bills totaled ₦903,206.0 million in 1998 compared with ₦880,916.6 million a year earlier. All the issues were made to refinance the maturing bills, leaving the total outstanding unpurchased at the end - 1997 level of ₦221,801.5 million.

Attributable largely to the liberalized treasury bill rate, as well as the public enlightenment by the CBN to popularize investment in the security, the proportion of CBN initial take-up of new issues fell on an average of ₦48,272.9 million or 64.1 percent from ₦49,098.8 million or 66.9 percent in 1997 (Table 3.6). The Bank's holding of outstanding stock also fell from ₦141,676.6 million or 65.9percent of the total outstanding in

December 1997 to ₦121,933.5 million or 55.0 percent in December 1998. Correspondingly, holding by the commercial and merchant banks rose from ₦44,453.7 to ₦56,070.0 million or 25.3 percent at end-December 1998. Similarly, holdings by non-bank investors increased to ₦43,798.0 million or 19.7 percent of the total from ₦35,671.2 million or 61.1 percent in 1997 (Table 3.7). Gross re-discounts of treasury bills, including repurchase transactions (repose) stood at ₦740,600.9 million compared with ₦880,196 million in 1997.

Certificate of Deposit (CDs)

The recovery in the Market for negotiable certificates of Deposits (CDs) in 1997 was largely sustained in 1998. This development was attributable largely to the restoration of confidence in the banking system following the satisfactory progress made in the implementation of distress bank.

Capital Market Developments

The major indicators of activity in the capital m a r k e t exhibited mixed developments in 1998. While transactions in the secondary market recorded increased activities in both the volume and value of shares traded, the primary market

performance in the secondary market was traceable largely to the successful elimination of institutional and regulatory constraints to operational efficiency, including foreign investment flows. Thus, foreign investment inflow rose sharply from US$9.4 million in 1997 to US$50.5 million in 1998. The UBA PLC Global Depository Receipt (GRD) programme in which the bank's shares were offered for sale to foreign investors contributed to the growth. The CBN's all-sector share price index decline further for the second consecutive year. Market capitalization which stood at ₦292,200.00 million in 1997. Among the ₦263,300.00 million at end-December 1998. Among the factors responsible for the observed poor market price.

Secondary Market

Activities in the secondary market recorded significant growth during the year under review. A total of 2,096.8 million shares worth ₦13,571.31 million were traded in 84,935 deals, reflecting increases of 68.731.4 and 8.8 percent in volume, value and number of transactions, respectively. As in the previous years, transactions in equities dominated the market with a total of 2,080.6 million shares valued at ₦12,555.3 million,

representing 99.2 percent of the total number and 99.9 percent of total value of shares traded during the year, compared with 93.3 and 99.0 percent, respectively, in 1997. Transactions in industrial loan stocks and preference shares fell sharply from the 1997 levels. The volume and value of loan stocks fell from 7.2 million and ₦35.3 million, respectively, in 1997 to 0.2 million and ₦0.2 million in 1998. The observed poor performance of the loan stocks was due to the unattractive low yields on this category of securities. Transactions in guilt-edged securities also continued to decline in volume, value and number. From 75.5 million in 1997, the volume of transactions in government stocks fell to 16.2 million 1998. The value also fell from ₦72.6 to ₦15.6 million during the period (Table 3.14).

Equity Prices

The CBN's all-sector equity price index continued its decline in 1998. The price index which stood at 4,472.1 in 1997 declined further by 12.3 percent of 5,672.8 (1984 - 100) in 1998, while the average annual rate of increase during the last five years was 38.3 percent. Unlike in the previous year, when the financial sector recorded the highest gains, the services sector

led by real estate and publishing sub-sector recorded an impressive performance during the year 1998 to sector index grew by 55.5% compared with 6.4 recorded in 1997. However indices of manufacturer and commercial sectors fell.

For the second consecutive year, attributable largely to continued week consumer demand and structural bottle neck that constrained industrial activities. Refer to table (3.15).

4.4 APPRAISAL OF COMPANIES 1998

The number of operating finance companies that reported on their activities declined further in 1998 to 37 from 50 in 1997. The on-going restructuring and reposition in this sub-sector resulted enclosures if some unenviable finance companies during the year. Inspite of the dwelling number of reporting companies, activities of those that reported reflected improved performance in 1998, showed an increased of ₦3,575.3 million of 77.1% during the year against to decline the 48.1% in 1997 to cash and cash items of the companies increased sharply by ₦1,476.2 million or 128.4 compared with the increased of ₦50.3 million or 4.6% in 1997. Total loans and advances outstanding also increased to ₦4,471.60 million from 2,231.3 million in

previous year. On the facilities side, capital and reserve rose from ₦1,034.0 million in 1997 to ₦1,951.1 million in 1998. Borrowing, which constituted a major source of funds to finance companies grew to ₦5,172.2 million compared with ₦2,978.6 million a year earlier. Other facilities of the companies also rose to ₦93.1 million in 1998 from ₦587.6 million in 1997 see table 3.30.

4.5 FEDERAL, STATE & LOCAL GOVERNMENT FINANCES

Provisional figures on the finances of the 36 States Governments and the Federal Capital Territory (FCT) showed that their fiscal operations resulted in an overall surplus of ₦3,501.0 million compared with ₦4,648.1 million in 1997 (Table 4.5). Fourteen states incurred overall deficits that ranged from ₦18.8 million for Cross River States to ₦825.8 million for Edo State while the remaining twenty-three states achieved overall surpluses ranging from ₦12.8 million for Kogi State to ₦956.7 million for Lagos State million (Table 4.10). The current revenue of all the State Governments and the FCT totaled ₦141,953.2 million, representing an increase of ₦45,000.6 million or 46.4 percent during the year compared with an increase of ₦7,434.3

million or 8.3 percent in the preceding year. All the revenue items except stabilization funds receipts contributed to the increase in the review year. Receipts from Federation and VAT pool accounts increased by 28.8 and 15.1 percent, respectively. Grants and others increased substantially by 625.7 percent owing largely to special allocations of ₦27,750.0 million from the Federal Government for designated projects in the states during the year.

Local Government's Finance

Provisional data on the fiscal operations of 677 out of the 774 Local Government Councils in the country showed an overall surplus of ₦2,227.0 million in 1998, compared with a surplus of ₦1,243.4 million recorded in 1997. Fewer local councils recorded overall deficits which were partly financed by loans totaling ₦39.9 million. As a result of increased allocation from the Federation Account and upward review of Value Added Tax (VAT0 sharing formula from 35:40:25 to 25:45:30, in favour of Federal, State and Local Governments, respectively, the total revenue of the reporting local government councils increased buy ₦13,784.9 million or 44.2 percent increase achieved in 199. Except for grants and miscellaneous revenue sources, which

declined by 32.1 percent below the preceding year's level, all other components contributed to the observed increase. Statutory allocations from the Federal Account (net of deductions) increased by 49.8 percent to ₦30,620.9 million and constituted 68.1 percent of total revenue, compared by 35.3 percent to ₦10,170.8 million, accounting for 22.6 percent of total revenue, compared with 24.1 percent in 1997. Allocations from the Federal Accounts and VAT Pool Account jointly accounted for 90.7 and 98.7 percent of total revenue in 1998 and 1997, respectively. In contrast, internally generated revenue for these councils, at ₦3,331.6 million, accounted for only 7.4 percent, compared with 8 percent in 1997.

At ₦42,741.2 million, the total expenditure of these Councils significantly increased by ₦12,80.1.3 million of 42.8 percent over the level in the preceding year, compared with a similar increase of 23.4 percent in fiscal 1997. The recurrent expenditure at ₦29,192.2 million, showed an increase of 33.6 percent over the level in 1997 and constituted 68.3 percent of total expenditure compared with 73.0 percent in 1997. Capital expenditure rose by 67.6 percent to ₦13,549.0 million, accounting for 31.7 percent of the total expenditure, compared

with 27.0 percent a year earlier (Table 4.12-4. 17).

Public Debt

Public debt outstanding as at the end of the year increased in absolute terms by ₦215,547.2 million or 22.7 percent to ₦1,170,507 million, representing 41.3 percent of GDP compared with 33.9 percent in 1997 (Figure 4.3). The increase was accounted for by both domestic and external debts. While the domestic debit outstanding increased by ₦178,461.8 million or 49.7 percent, external debut outstanding increased by ₦37,085.4 million or 6.2 percent to ₦537,490.9 million and ₦63,017,0 million, respectively.

Domestic Debt of the Federal Government

The domestic debt outstanding as at the end of the year increased by ₦178,461.8 million or 49.7percent to ₦537,490.9 million compared with ₦359,029.1 million in 1997. The increase was attributable to direct loan of ₦133,389.3 million from the banking system and the securitization of ₦45,232.5 million debit balance as treasury bonds during the year. Thus, the domestic debt outstanding as a proportion of GDP rose from 11.5 percent in 1997 to 18.9 percent. With the securitization of ₦45,232.5 million into treasury bonds, the stock os treasury bonds

increased from ₦134,387.6 million to ₦179,620.1 million, reflecting an increase of 33.7 percent. The stock of treasury bills remained at ₦221.801.5 million recorded at the end of 1997 as no new issues were made during the year. Following the redemption of development stock valued ₦160 million during the year, development stock outstanding dropped by 5.6 percent to ₦2,680.0 million compared with ₦2,840.0 million in the previous year (Table 4.18).

The ownership structure of government securities continued to be dominated by the banking system which held ₦489,246.2 million or 90.1 percent of the total during the year, showing an increase of ₦183,566.6 million or 60.1 percent. Of the banking system's holding, the Central Bank held ₦435,131.7 million, commercial banks. ₦49,540.1 million and merchant banks ₦4,574.4 million representing 88.9, 10.1 and o.9 percent respectively. The non-bank public's holding dropped by 9.6 percent from ₦53,349.5 million in 1999 to ₦48,244.7 million and constituted 8.9 percent as against 15.5 percent in 1997. Debt instruments of 10 years maturity and above increased from ₦118,254.7 million in 1997 to ₦162,750.1 million following the issue of treasury bonds to finance debit balance of ₦45,232.5

million during the year, but its share dropped from 32.9 percent in 1997 to 30.3 percent. Short-term debt instruments of not more than two year maturity rose by 60.2 percent to ₦355,430.8 million while its share increased from 61.8 percent in 1997 to 66.1 percent in 1998 (Table 4.19).

External Debt

(a) Debt Stock

External debit outstanding at the end of the year amounted to US$28,773.5 million (₦633,017,0 million) compared with US$27,087.8 million (₦595,931.6 million) in 1997, showing an increase of US$1,685.7 million (37,085.4 million) or 6.2 percent. The increase was as a result of the US$334.6 million (₦7,361.2 million) drawing down on multilateral post-cut-off loans, interest arrears debts. A breakdown of the total external debt showed that US$20,829.9 million (₦458,257.8 million) or 72.4 percent was owed to Paris club group of creditors, US$4,237.0 million (93,214.0 million) or 14.7 percent to the multilateral institutions, US$2M043.0 million (₦44,946.0 million) or 7.1 percent to the London Club in respect of

debt service obligations of US$3,610.2 million which fell due during the year (Table 4.21).

(c) Debt Conversion Programme

The downward trend observed in the activities of the Debt Conversion Programme (DCP) from 1997 continued during the year. This was attributable largely to the instability in the prices of Nigerian debt instruments and the political uncertainty in the country. The number of applications received dropped from 39 in 1997 to 29 in 1998 but he value increased from US367.3 million in 1997 to US2,337.3 million during the review year. However, total debts redeemed declined from US$101.9 million in 1997 to US$38.4 million during the year. Overall, external debts valued US$83.8 million were redeemed under the auction system while debts valued US$4.6 million were canceled through the out-of-auction arrangements, bringing the value of debts redeemed in 1998 to US$88.4 million as against US$101.9 million in 1997. The cumulative value of debts redeemed under the programme between 1994 and 1998 amounted to US$428.0 million (Box 4.2). Other benefits arising from the conversion during the period included the appropriation of US$19.6 million discounts, the receipt of transactions commission amounting to

US$0.9 million and ₦74.3 million, as well as direct foreign capital inflow of US$14.0 million which brought the aggregate inflow between 1994 and 1998 to US$116.3 million. Total disbursements of the naira proceeds of debt conversion to beneficiaries in 1994 to 1998 to ₦25,999.6 million. A sectoral break down of disbursements to beneficiaries during the year showed that ₦2,622.0 million or 51.6 percent was as gifts and grants to non-profit making organizations, manufacturing received ₦1,007.0 million or 19.8 percent, the services sector, ₦822.2 million or 16.2 percent, hotel and tourism ₦321.9 million or 6.3 percent, building and construction ₦189.7 million or 3.7 percent and mining and exploration ₦122.0 million or 2.4 percent (Table 4.25).

4.6 OVERVIEW OF FRAUDS IN NIGERIA

Fraud and forgeries in the banking sector are outlined below with heavy inputs from 1989 - 1990 Annual Reports of the Nigerian Deposit Insurance corporation (NDIC). Reported cases of frauds and forgeries in commercial banks (see table1) increased from ₦2.4 million in 1989 to ₦85.9 million in 1990 for the first quarter. Comparing quarters for 1990, cases reported

for the first quarter involved ₦85.9 million out of which actual/expected loss was ₦6.8 million. The amount involved increased to ₦571.2 million with the sum of ₦3.0 million representing actual/expected loss in the second quarter. Which the amount involved fell in the third and fourth quarters to ₦81.4 million and ₦50.4 million respectively. The actual/expected loss increased to ₦8.0 million and ₦4.6 million respectively. Overall total was ₦788.8 million with ₦22.4 million as actual/expected loss.

This was an increase from the respective figure of ₦98.2 million and ₦15.3 million in 1989 by 703 and 45 percent respectively.

Unlike in the commercial banks, amounts involved were low in merchant banks both 1989 and 1990. In 1990, the amount involved however increased from ₦0.2 million the first quarter to ₦3.9 million in the fourth quarter. The actual loss was insignificant overall, the total amount involved from 6.7 million in 1989 to ₦15.4 in 1990 by 128 percent (see table 2).

Table 3 indicates that commercial banks are more open to frauds and forgeries than merchant banks. Out of the ten top banks that accounted for most for the amount involved,

commercial banks were nine in 1989 and eight in 1990.

Having given some indicative statistics, this paper will now outlined the nature of frauds in the banking system.

(a) **Current Account Frauds**

- Forgery of signatures by either insider our outsider or both
- Improper authentication by initiating officers
- Fraudulent confirmation of cheques
- Re-presentation of already paid cheques through insider assistance
- Suppression of cheques
- Fraudulent printing of cheque books
- Forged cheques paid across the counter
- Improper keeping of cheque books and thus allowing for foul use
- Fraudulent operation of frozen accounts
- Crediting of accounts with fictitious tellers, and
- Spurious cheques paid by customer.

(b) **Savings Account Frauds**

- Withdrawal from customers account through forged vouchers

- Fraudulent withdrawal from dormant accounts
- Falsification of passbooks
- Stolen passbook withdrawal by staff
- Partial posting of deposits with a view to defraud
- Inflating interest credit to ledgers & withdrawing difference fraudulently.

(c) **Loans and Advances Frauds**

- Manipulation of loans account such as reducing of the balance to avoid instalmental payments
- Unauthorized lending
- Forged documents for non-existing collateral
- Inflating the value of collateral such as buildings
- Deliberately not calling loans in when due
- Creasing bad debts by falsification of result of credit analysis.

(d) **Foreign Operations Frauds**

- Forging of foreign undomiciled drafts with spurious accompanying documents
- Fraudulent processing of BTA applications with forged documents, and stealing of travellers cheques
- Other illegal foreign exchange dealings.

(e) **Cash Frauds**

- Concealing of cash and related vouchers usually by cashiers
- Falsification of petty cash vouchers
- Outright cash theft
- Aiding and Abetting of robbery by bank staff
- colluding with money daubers.

(f) **Others**

- Using bank's letterheads with forged signatories to authorize payment for suppliers
- Warehousing i.e. passing through inter-bank funds illegally
- Use of computer operators passwords
- Fraudulent transfer or share certificates

Important factors favoured of Frauds.

(a) Remuneration/job security: Poor remuneration especially in a profitable institution as well as lack of job security encourage employees to perpetrate frauds. Indeed NDIC reported that among others, the relatively attractive remuneration package in merchant banks compare to those in commercial banks had bearing on the low level of

fraudulent practices in those banks (see table 2). Indeed only two merchant banks were among the top ten banks leading in frauds in 1990. It may also partly explain why most of those caught and dismissed/terminated /retired were mostly middle and lower level category.

Table 4: Returns of Commercial Banks on Frauds & Forgeries 1990

Quarters	No. of Banks Making Returns	No of Banks with Fraud Cases	Amount involved ₦000	Actual/ Expected loss ₦000	Proportion of actual/ expected loss to amount involved (%)
1st (1990)	40	26	85,871	6,767	7.9
(1989)	11	7	2,427	1,900	78.3
2nd (1990)	31	20	571,165	3,001	0.5
(1989)	28	16	7,991	1,700	21.3
3rd (1990)	40	25	81,409	8,040	9.9
(1989)	35	21	54,657	4,253	7.8
4th (1990)	37	20	50,657	4,641	9.2
(1989)	33	18	33,149	7,488	22.6
Total (1990)	148	91	788,798	22,449	2.9
(1989)	107	62	98,224	15,341	15.6

Source:- NDIC, 1990

Table 10 **Returns of Merchant Banks on Frauds & Forgeries 1990**

Quarters	No. of Banks Making Returns	No of Banks with Fraud Cases	Amount involved ₦000	Actual/ Expected loss ₦000	Proportion of actual/ expected loss to amount involved (%)
1st (1990)	28	2	228,454	6,029	2.6
(1989)	4	-	-	-	-
2nd (1990)	26	3	3,272,129	240	*
(1989)	4	1	10,000	-	0.0
3rd (1990)	25	4	8,006,409	27,123	0.3
(1989)	16	2	6,229,000	-	0.0
4th (1990)	16	1	3,898,784	-	0.0
(1989)	17	3	505,132	100	-
Total (1990)	95	10	15.398,784	33,392	0.2
(1989)	107	6	6,744,132	100	*

Source: NDIC, 1990

• Negligible

Table 3: **First Ten Banks with the Highest Frauds Cases 1990**

Groups	1990 Amount Involved ₦	1990 % Share	1989 Amount Involved ₦	1989 % Share
Total for the First Ten Banks	782.691	97.3	98.813	84.1
Grand Total For all Banks	804.197	100	104,968	100

Source: NDIC, 1990

• 9 of the first 10 banks with the highest fraud and forgery cases were commercial banks in 1989.

(b) Control Sysrem: The prevalence of frauds are indicative of weak internal controls and regulation. This may partly the higher incidence of 11.8% in 1989 and 13.7% in 1990 associated with the less supervised group of Supervisors/Managers. Failure of controls were further indicated in the absolute growth in amount involved in frauds in and forgeries (the growth between 1989 and 1990 was 7 times). This may also explain the contribution of uncategorized staff (which probably are top management staff).

(c) Clear policy and ethical guidelines: Clear guidelines are very important as fuzzy situations lead to deviations that are often frauds. Situation ethics based on individual assessment should not be allowed especially in cash points and decision points for large sums.

(d) Access to Cash: From table 4, those with least access to cash among the ranks had the lowest percentage contribution to total frauds and forgeries: temporary staff contributed only 1.6 in 1989 and 0.5% in 1990, and typists, technicians and stenographers contributed 2.6% and 1.9% in the respective years. Those with the most

access cash also contributed most to amount involved in fraud cases: Clerks and cashiers were top with highest percentages of 38.3% in 1989 and 49.6% in 1990, followed by security personnel, messengers, drivers, cleaners and stewards with 18.2% and 16/3% respectively.

Table 11 **Ranks of Staff involved in Fraud and Forgeries**

Ranks	1990		1989	
	No.	%	No	%
Supervisors & Managers	57	13.7	37	11.8
Officers, Accountants and Executive Assistants	45	10.8	19	6.1
Clerks and Cashiers	207	49.6	120	38.3
Typists, Technicians and Stenographers	8	1.9	8	2.6
Messengers, Drivers, Cleaners, Stewards, & Security Guards	68	16.3	57	18.2
Temporary Staff	2	0.5	5	1.6
Uncategorized Staff*	30	7.2	67	21.4
Total	**417**	**100.00**	**313**	**100**

Source: NDIC 1990

* Staff whose ranks wee not disclosed.

(e) Level of Training: This factor is important as low level of training may have contributed to high incidence exhibited by the junior cadres of messengers/cleaners/guards and clerks/cashiers. Indeed, banks where graduates of higher

institutions are cashiers may experience less incidence.

(f) Demonstration Effect: Fraudulent leadership tends to generate fraudulent subordinates because of demonstration effects and lack of moral standing to correct unprofessional conduct. This include immediate/subordinate relationship to the impact of behaviour of important people in society.

4.7 IMPACT OF FRAUDS ON THE NIGERIAN ECONOMY

Why doe NDIC as a regulatory institute require returns on cases of frauds and forgeries, terminated, dismissed and retired staff (no ground of frauds) from banks? The reasons given are to assess the adequacy of each bank's supervision and internal control system; to ascertain the general nature of frauds and forgeries; to determine the number of and category of banks staff that perpetrate frauds with a view to protecting insured banks from employing such fraudulent staff; to estimate loss of investment funds to the shareholders and the banking industry as a whole; and to promote safe and sound banking practices, thereby depositors funds. These impacts on the Nigerian Economy are very important especially when we add these to the

419 frauds and armed robberies. The impacts of these frauds on the various groups are discussed next.

(a) Impact on Employees: Loss of employment/jobs directly due to dismissal/termination and indirectly retrenchment as a result of declined profitability and growth.

- Laziness on the part of those who depends on frauds to maintain their life style.
- Tight controls put in place to prevent further fraud may lead to stifling of initiative and individual development.

(b) Impact on Investors:

- ☐ Loss of profit/reduced return on investment due to frauds.
- ☐ Reduction of alternative investment options due to high incidence of frauds will lead to investment in less profitable investment outlets.

(c) Impact on Customers:

For credit customers, they will now be faced with

- ☐ Possible loss of funds, and
- ☐ Discouraged deposits flowing into less preferred outlets.

(d) Impact on Individual Bank

- ☐ Loss of profit
- ☐ Loss of growth
- ☐ Loss of Image
- ☐ Distress and Insolvency

(e) Impact on Banking Sector

- ☐ Loss of Confidence: Frauds and forgeries are of concern to monetary and supervisory authorities as they undermine the safety, soundness and stability of the banking industry
- ☐ General Sectoral Distress
- ☐ Loss of investors and depositors to alternative sectors especially capital market and fixed assets market.
- ☐ Loss of growth.

4.8 EMERGING MARKET INVESTORS ASSESSMENT ON NIGERIAN FINANCIAL SECTOR-IN TERMS OF TRANSPARENCY RATING

Nigeria and Russia scored the lowest mark on the chart of transparency ranking among major emerging markets, conducted by Emerging Market Investor (EMI), a journal of the risk publications, London, late last year.

This is a setback for the country just emerging from an image problem occasioned by long years of military rule and corruption.

In the exercise countries are ranked in six area, earning a maximum of 10 points in each category, which are combined to give a total maximum of 60 points. The areas of which the ranking was based include fiscal/monetary transparency, banking transparency, corruption transparency, accounting system transparency, custody and settlement transparency.

EMI's methodologies for monetary/fiscal transparency include disclosure of central bank functions and foreign exchange reserve, special data dissemination standard (SDDS) compiled with, according to information on the International Monetary Fund (IMF) website. The other yardsticks are information on fiscal disclosure from the country's public information notice (PIN) also posted on IMF website, and the comments of analysts and investors on the correctness of data disclosed by each country.

With eight points out of maximum 60, Nigeria occupied the bottom of the 25-nation transparency league. Other countries with low scores include Vietnam, China and Venezuela. EMI

ascribed the poor score of these countries to low level of confidence in these economics by international investors occasioned by a "Traumatized" domestic market.See appendix A.

4.9 CONTRIBUTION OF THE NIGERIAN STOCK EXCHANGE TO CAPITAL FORMATION

Stock market exists primarily to serve as a vehicle for the mobilization of long-term funds. The extent to which the Exchange has aided this process therefore constitutes the first and probably the most important criterion for evaluating its performance over time. For purposes of this measurement, we will restrict the definition of capital mobilization to the channeling of savings into new uses through the issuance of securities which result in a net increase in capital formation.

Going by this definition. The Nigerian Stock Exchange has been contributing to capital formation in Nigeria. Since 1961 when the Exchange opened its shop to the public, the Federal Government of Nigeria has raised long-term funds through it to the tune of about **₦10 billion** for on-lending to the regional and later the State Governments for development projects. The central Bank of Nigeria has always acted as the issuing house,

underwriter and buyer of last resort in this regard. The stocks outstanding on the Federal Development Stocks categories are worth ₦3.0 billion as at 23/3/98. The Federal Government also plans to float additional bonds as enunciated in the 1996 Budget.

In the last decade, the Federal Government encouraged the State and Local Governments as well as Government Corporations to use the capital market to close their resource gaps. Consequently five State Governments have raised loans capital on the market. In 1993 we listed the first municipal bond, the Lagos Island Local Government **₦100 billion** Floating Rate Revenue Bond 1996/2000.

With the introduction of the Structural Adjustment Programme (SAP) in 1986 and the subsequent adoption of realistic policy instruments such as the Foreign Exchange Market (FEM), the deregulation of interest rate structure and dividend policy, the Nigerian Stock Market has become a more viable option for capital formation. Increasing number of companies now use the market facilities for strengthening their capital structure, for modernization and expansion of operations. In the process, there has been a flurry of rights issues, offers for

subscription for equity and debenture stocks. The total amount of the capital raised by companies on the market in the last five years - i.e 1991. 1995 is about **N23 billion** which represents over 80% of the entire capital raised over the years 1986 - 1995. There are indications that this trend will continue throughout the 1990s, moreso with the on-going deregulation and internationalization of the Nigerian Capital Market which are expected to make the market much more vibrant and competitive. Already, following the abrogation of the restrictive Exchange Control Act 1962 and the Nigerian Enterprises Promotion Decree 1989 and their replacement last year with the Foreign Exchange (Monitoring and Miscellaneous Provisions) decree 1995 and the Nigerian Investment Promotion Commission Decree 1995, we are beginning to notice an increasingly active foreign present in our market process. In fact, between July and December 1995, a total of $1.13 million in additional foreign investment was recorded on the Nigerian Stock Exchange (See Exhibit 1). There is no doubt that a higher level of foreign investment would have been achieved but for other developments in our operating environment which adversely influenced international investment decision on our market.

Portfolio investment which comes through The Stock Exchange is a necessary but not sufficient foreign capital inflow for economic development. What the country need is a combination of both direct foreign investment and portfolio investment. Hence although the Exchange has a great responsibility, it can not, and should not, be left alone to attract all the necessary investment inflows required by the country for economic development and growth. Therefore, to achieve both types of investment, the Government and private sector should mount road shows to market Nigeria abroad.

While the NSE can be said to have achieved to some extent its mission in contributing to capital formation in Nigeria, it is trying very hard to realize its over-riding long-term goal which is growth in terms of market capitalization and trading volume. In this regard, even though government support in the form of indigenization acts and more recently the implementation of a privatization and commercialization programme have contributed to the growth in number of securities in the market. The NSE on its own also introduced in 1985 a Second Tier Securities Market (SSM) to attract small and medium size business which form the bulk of indigenous companies to the

Nigerian Stock Market. By making available its facilities to such companies to raise funds for expansion and modernization, the level of job creation by these companies has been rising. So far 28 SSM companies have been listed, out of which eight have moved to the Bid Board.

Furthermore, in anticipation of the increase role it is expected to play a economic transformation of the country, it has been working towards full internationalization to its operations. Since 1987, the names, prices, coupon rates and other relevant information of all securities quoted on the Nigerian Stock Market are being beamed word-wide daily via The Exchange Computer Link-up with Reuters International Communications Network. The Reuter's Code the Nigerian Stock Exchange is NSXA. The prestige and free publicity for these companies cannot be overestimated. This technological advancement in financial information flow has boosted foreign interest regarding possible investment in Nigeria.

A look at the share-holding structure of the Nigerian Stock Market shows that foreign holding represents about 45 percent of the equity market capitalization of about ₦180 billion. However, to fully internationalize, the stock exchange needs the

involvement of more foreign portfolio investors. Indeed, until last year, the biggest constraint towards this realization was the provisions of the Exchange Control Act of 1962 which did not permit free flow of capital in and outside Nigeria. Happily, this decree and the Nigerian Enterprises promotion Decree 1989 were abrogated in 1995. Replacement legislation have been promulgated and we have a good reason to look forward to a surge in foreign portfolio investment in the near future. In expressing this optimism, however, the fact should not be lost on us that changes in the legislative environment alone are not sufficient to attract foreign investment to Nigeria.

4.10 IMPLEMENTATION OF PRIVATIZATION/ COMMERCIALIZATION PROGRAMME

During the first phase of privatization, a total of 36 public enterprises were privatized through public offers of their shares and listing on the Nigerian Stock Exchange (NSE) resulting in significant increase in the market capitalization which rose from ₦8 billion in 1988 to over ₦300 billion by the end of 1997. The Capital Market also benefitted from the variety of investment outlets available on the exchange.

The second phase of privatization would increase the capitalization of NSE to a level comparable to the developed capital markets of the world and well ahead of most emerging markets in the world. The Capital market as a source of financial resources for the private sector will be better able to cope the demand of an expanding economy. At the personal level, personal share ownership will expand significantly, thus giving more people a say in the corporate governance of the listed companies.

4.1 FOREIGN INVESTMENT - INFLOW INTO THE NIGERIAN STOCK EXCHANGE MARKET

Between July, 1995 and July, 1996 a total of US$6.0 million foreign portfolio investment was in Nigerian through to Nigerian Stock Exchange.

AUTOMATION

The Nigerian Stock is presently automation its clearing, settlement and custodian services. Thus witness a consistently vision level of capitalization which increased by 51.2% between December 1995 and 1996 from 171.1 billion to ₦256.8 billion - refer to Exhibit.2 for more details.

OTHER ATTRIBUTES IN THE STOCK MARKET

Some of the increasing attribute is attribute to new issues, the bulk has come from positive pricing of equities via market forces. We have also has an appreciable rise in our all-share index for which in the third quarter of 1995 to Nigerian Stock Exchange was rated by the Internal Finance Corporation (FC) as the number on in the world in terms of market capitalization of other IFCG index, see appendix A2. The turn over in the market has also improved but unfortunately has not kept pace with the direction of our market.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

The Nigerian Economy has been in a prolonged state of recession since the era of the 1980s. A series of ad-hoc reform measures cultivated in the introduction of SAP (Structural Adjustment Program) in 1986 by the Federal Government as an economic recovery strategy. This was aimed at redressing the series of Macro-economic imbalances and structural rigidities confronting the economic at the time. At the time SAP was introduced the Economy was in a bad shape characterized by wide spread unemployment serious balance of payment deficit import licensing, insufficiency, rising inflation etc. The Nigerian Economic also suffered due to bad management by some past leaders through the looting of government treasury. Bad debt both domestic (for local running into billions of naira) and external debt (IMF, World Bank etc).

The concept of privatization and commercialization program is a welcome scheme that would improve our economy and could encourage foreign investors to the Nation. Our

conduct of affairs business should be improve to promote our corporate image as was the case when Nigeria was rated the worst Nation by Emerging Market Investors Association, though there could be western propaganda considering the inflow of foreign investment most especially by the repeal of Exchange Control Act 1962 and the Nigerian Enterprises promotion Decree 1989 is an attempt to create an investment friendly environment.

The Nigerian Stock Exchange is really trying to promote the Economy, one can witness the current implementation of Government Companies through privatization and commercialization. Thus internationalization is a welcome idea that would promote an efficient allocation of scarce invisible resources, create a continuous market (and therefore liquidity) in quoted securities and would aid new financing, it also would promote corporate image of a nation.

It is therefore essential by the regulatory authorities of the Capital Market NSE/SCE to ensure compliance on all the policies attached to the 1995 decree 16 and 17 of the internationalization of the stock market.

5.2 CONCLUSION

The trend in international finance is for investors to seek more rewarding emerging markets. Various new instruments have reduced the risk in investing in developing countries funds and regional funds for example, help to minimize the risk and increase liquidity. Nigeria has been slow, however, in implementing the policies which must be in a place in order to participate in the new cross-border investment climate. The question is not what need to be done but will to do it.

The participating of international investors can not be taken for granted. The need for equity investment is clear if the momentum - (i.e. growth, capital flows, higher growth) - is to be sustained. Access to the huge savings pool of the main industrialized countries that control this capital. How do they link" what do they require? And what will prompt them to invest Nigerian Capital Market must pull down to barriers to capital flows and investments in order to benefit from the pool of international investment funds.

In an ever competitive world, foreign investment funds flows to the market with the highest rate of return after adjusting for risks. Markets with depth, a high degree transparency, accessibility and information driven amongst other positive qualities will always endear themselves to investors, local and foreign. The Nigerian Stock Exchange and indeed the government can modernize their stock markets.

5.3 RECOMMENDATIONS

Key elements essential for attracting Foreign Capital are:

First, Governments are the keys to the success of this process. Their willingness to adopt and effectively implement pro-growth policies are essential, growth depends upon free, open markets that encourage private sector initiatives. Foreign capital needs to feel welcome, unlike the attitude of having development developing countries in the 1960s and 1970s which foreign capital as a lever of imperialism and economic exploitation.

Secondly, the development of international distribution of shares. This is often carried out via the privatization of state monopolies which usually generates competition and raises efficiency. It can thus provide a fast way of developing a liquid stock market, encompassing of a wide range of companies and financial products.

Third, Macro-Economic policy should promote a stable, growth oriented economic environment. Forth, Credible analysis, research and information flow that are timely, accurate and permit investors to make the crucial decision to allocate assets to country/market. This is a combination of good fundamental research and information based on internationally accepted/standard and macro-economic indicators.

FRAUDS IN BANKS/LOOTING GOVERNMENT TREASURY

- Government through the regulatory bodies on the financial institution to ensure that failed Bank Decree to cover all areas of economy and all institution that have failed as well as individuals as all levels whether in private sector or in government.

- National ethics should be internationalized and reward for good behaviour be encouraged.
- Government should implement policies that boast employment and income profit.

INTERNATIONALIZATION OF STOCK EXCHANGE

- Decree 16 and 17 should be strictly followed by the operators and the regulatory authorities.
- Privatization and commercialization should be finally implemented for the attainment of social economy. Government should ensure this.

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TABLE ~~3.15~~

VALUE INDICES OF ALL COMMON STOCKS LISTED ON THE NIGERIAN STOCK EXCHANGE

(1984 = 100)

Sectors/Sub-sectors	1994 (1)	1995 (2)	1996 (3)	1997 (4)	1998 (5)	Percentage Change over the Preceding Year: 1994 (6)	1995 (7)	1996 (8)	1997 (9)	1998 (10)	Annual Average Percentage Change: 1994-1997 (11)	1994-1998 (12)
AGRICULTURE	116.7	399.6	766.9	1,032.2	985.3	16.7	242.4	91.9	34.6	-4.5	96.4	76.2
FINANCIAL	3,342.7	6,927.6	7,869.6	13,397.8	15,379.0	82.8	127.7	13.6	70.2	14.8	73.6	61.8
Banking	3,300.2	7,857.2	8,619.9	14,523.9	16,890.3	100.7	138.1	9.7	68.5	16.3	79.2	66.7
Mortgage Funds	1,650.0	893.9	893.6	32,665.6	33,887.0	0.0	-50.3	-0.0	3555.5	3.7	876.3	701.8
Insurance	1,834.9	1,286.8	2,277.4	2,470.5	2,599.1	18.7	-29.9	77.0	8.5	5.2	18.6	15.9
MANUFACTURING	1,764.6	3,505.0	5,063.4	4,141.4	3,591.6	47.5	98.6	44.5	-18.2	-13.3	43.1	31.8
Breweries	2,293.5	5,107.6	5,862.8	2,365.9	3,640.5	37.8	122.7	-24.0	-39.1	53.9	24.5	30.4
Building Materials	1,937.8	4,738.1	13,247.4	10,367.2	8,972.8	25.5	144.5	179.6	-21.7	-13.5	82.0	62.9
Chemical and Paints	1,859.7	4,308.6	4,353.8	2,876.2	2,533.3	66.3	131.7	1.2	-34.0	-11.9	41.3	30.6
Food, Beverages and Tobacco	2,540.4	4,427.0	8,011.1	8,777.5	6,108.5	55.8	67.7	81.0	9.6	-30.4	53.8	36.9
Industrial/Domestic Products	1,854.9	3,391.8	2,458.5	2,520.6	2,383.0	21.0	81.9	-27.5	2.5	-5.4	19.5	14.5
Packaging	1,806.3	7,392.7	5,562.4	5,173.4	4,685.7	44.9	309.3	-24.8	-7.0	-9.4	80.6	62.6
Healthcare	1,834.0	2,864.0	4,745.5	2,259.8	1,795.3	33.6	56.8	65.7	-52.4	-20.6	26.4	17.0
Textiles	1,541.3	1,753.1	2,989.0	1,696.2	1,426.9	6.2	13.7	70.5	-43.3	-15.9	11.8	6.3
COMMERCIALS	1,828.1	4,843.2	9,016.9	6,571.4	4,741.7	25.0	164.9	86.2	-27.1	-27.8	62.3	44.2
Automobile and Tyres	2,550.0	10,213.0	5,937.8	7,507.3	5,562.6	64.7	300.5	-41.9	26.4	-25.2	87.5	64.7
Conglomerates	2,264.1	4,906.1	7,384.9	4,274.7	2,577.0	35.5	116.7	50.5	-42.1	-39.7	40.2	24.2
Commercial Services	1,448.2	1,267.6	1,375.1	1,588.6	1,862.5	9.3	-12.5	8.5	15.5	17.2	5.2	7.6
Computer and Office Equipment	1,612.7	4,676.7	8,448.3	5,973.1	4,756.4	8.5	190.0	80.6	-29.3	-20.4	62.5	45.9
Footwear	1,374.0	1,585.8	1,536.0	4,042.3	3,727.4	5.8	15.4	-5.0	168.4	-7.8	46.1	35.4
Machinery (Marketing)	1,920.1	267.0	446.0	1,772.0	1,593.8	-10.8	-76.2	67.0	297.3	-10.1	69.4	53.5
Petroleum (Marketing)	1,756.1	5,931.3	16,087.0	13,625.8	11,090.8	34.2	237.8	171.2	-15.3	-18.6	107.0	81.9
SERVICES	2,149.7	3,789.6	5,755.0	6,124.0	9,515.2	40.0	76.3	51.9	6.4	55.4	63.6	65.0
Construction	1,705.6	1,233.2	2,874.9	2,828.4	2,461.5	10.4	-27.8	133.1	-2.3	-12.3	28.4	20.2
Real Estate	0.0	0.0	0.0	0.0	107.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Engineering Technology	1,685.5	625.5	208.2	2,033.1	1,855.0	0.2	-62.9	-66.7	876.5	-8.8	186.8	147.7
Airlines	100.0	621.4	360.0	315.0	102.4	—	521.4	-42.1	-12.5	-67.1	155.6	101.4
Publishing	1,076.7	4,049.3	7,642.8	7,214.3	8,844.0	51.5	276.1	88.7	-5.6	22.6	102.7	86.7
ALL-SECTORS	2,205.4	5,092.2	6,992.1	6,472.1	5,672.8	42.9	130.9	37.3	-7.4	-12.3	50.9	39.3

Note: The indices are based on the movement of prices of 93 of the 186 Companies listed on the Exchange.

Source: Compiled from Nigerian Stock Exchange returns.

TABLE ~~13~~ 13

TRANSACTIONS ON THE NIGERIAN STOCK EXCHANGE

						Percentage Change over Preceding Year					Average Percentage Change	
Volume of Stocks ('000)	*1994* (1)	*1995* (2)	*1996* (3)	*1997* (4)	*1998*[1] (5)	*1994* (6)	*1995* (7)	*1996* (8)	*1997* (9)	*1998* (10)	*1994-1997* (11)	*1994-1998* (12)
Government	16,300.7	0.0	93,753.0	75,529.0	16,214.0	- 82.9	- 100.0	0.0	- 19.4	- 78.5	- 56.6	- 56.2
Industrial	177,077.0	50,778.7	55,289.0	7,214.0	0.2	80.2	- 71.3	8.9	- 87.0	- 100.0	- 17.3	- 33.8
Equities	339,684.3	346,085.8	733,490.8	1,160,039.0	2,080,556.0	29.2	4.6	111.9	58.2	79.4	51.0	56.7
Total	524,262.0	396,864.5	882,492.8	1,242,782.0	2,096,770.2	16.6	- 24.3	122.4	40.8	68.7	38.9	44.8
Number of Deals												
Government	16	0	11	6	1	- 59.0	- 100.0	—	- 45.5	- 83.3	- 51.1	- 57.6
Industrial	48	15	15	5	3	71.4	- 68.8	0.0	- 66.7	- 40.0	- 16.0	- 20.8
Equities	42,910	49,549	69,699	78,078	84,951	4.2	17.9	- 0.1	57.8	8.8	19.9	17.7
Total	42,974	49,564	69,515	78,089	84,955	4.2	17.8	- 0.1	57.7	8.8	19.9	17.7
Values of Stocks (N 'million)												
Government	15.2	0.0	12.0	72.6	15.6	- 62.1	- 100.0	—	505.0	- 78.5	80.7	48.9
Industrial	177.1	50.8	50.8	35.3	0.2	- 32.8	- 71.3	- 1.2	- 30.5	- 99.4	- 34.0	- 47.1
Equities	793.6	1,788.0	6,916.8	10,222.6	13,555.3	74.0	125.3	286.8	47.8	32.6	133.5	113.3
Total	985.9	1,838.8	6,979.6	10,330.5	13,571.1	22.6	86.5	279.5	48.0	31.4	109.1	93.6

[1]Provisional.

Source: The Nigerian Stock Exchange.

TABLE ~~14~~ 14

SUMMARY OF LOCAL GOVERNMENTS' FINANCES

(N million)

						Percentage Change over Preceding Year			
	1994 (1)	*1995* (2)	*1996*[1] (3)	*1997*[2] (4)	1998[2] (5)	1995 (6)	1996 (7)	1997 (8)	1998 (9)
Current Revenue	19,223.1	24,412.7	23,942.1	31,183.3	44,968.2	27.0	- 1.9	30.2	44.2
(i) Federation Account	17,321.3	17,875.5	16,569.7	20,443.3	30,620.9	3.2	- 7.3	23.4	49.8
(ii) State Allocation	466.4	625.4	691.1	578.9	750.4	34.1	10.5	- 16.2	29.6
(iii) Value-Added Tax	0.0	3,558.1	4,581.7	7,515.0	10,170.8	—	28.8	64.0	35.3
(iv) Internal Revenue	1,205.9	2,110.8	2,027.1	2,506.9	3,331.6	75.0	- 4.0	23.7	32.9
(v) Grants & Others	229.5	242.9	72.5	139.2	94.5	5.8	- 70.2	92.0	- 32.1
Recurrent Expenditure	14,884.2	16,317.2	17,292.5	21,856.5	29,192.2	9.6	6.0	26.4	33.6
Current Surplus (+) / Deficit (-)	4,338.9	8,095.5	6,649.6	9,326.8	15,776.0	86.6	- 17.9	40.3	69.1
Capital Expenditure	4,082.9	6,126.1	6,969.2	8,083.4	13,549.0	50.0	13.8	16.0	67.6
Total Expenditure	18,967.1	22,443.3	24,261.7	29,939.9	42,741.2	18.3	8.1	23.4	42.8
Overall Surplus (+) / Deficit (-)	256.0	1,969.4	- 319.6	1,243.4	2,227.0	669.3	- 116.2	- 489.0	79.1
Financing									
(a) Loans	71.5	50.5	24.0	79.4	39.9	- 29.4	- 52.5	230.8	- 49.7
(b) Other Funds[3]	- 327.5	- 2,019.9	295.6	- 1,322.8	- 2,266.9	516.8	- 114.6	- 547.5	71.4

[1]Revised.

[2]Provisional.

[3]Positive (+) sign connotes decrease while negative (-) sign connotes increase in Other Funds.

Sources: Central Bank of Nigeria Annual Survey of Local Government Councils and Federation Accounts Reports.

TABLE 4.25 15

SECTORAL DISTRIBUTION OF DISBURSEMENT OF DEBT CONVERSION PROCEEDS

(₦ million)

Sectors	1994 (1)	1995 (2)	1996 (3)	1997 (4)	1998 (5)	Total 1994-1998 (6)
Agriculture	1.6	145.1	1,531.3	51.5	—	1,729.5
Manufacturing	0.6	2,085.2	3,557.4	2,260.9	1,007.0	8,911.1
Mining & Exploration	—	—	—	168.1	122.0	290.1
Building & Construction	4.6	58.6	566.7	459.2	189.7	1,278.8
Hotel & Tourism	—	0.0	—	—	321.9	321.9
Gifts & Grants	196.6	784.5	1,952.5	3,510.4	2,622.0	9,066.0
Financial	—	—	1,312.6	—	—	1,312.6
Services	75.7	490.1	1,312.6	389.0	822.2	3,089.6
Others	—	—	—	—	—	—
Total	279.1	3,563.5	10,233.1	6,839.1	5,084.8	25,999.6
Debt for Debt	32.5	330.1	590.0	505.7	—	—
Direct Foreign Capital Inflow [US $ million]	0.3	17.8	52.7	31.5	14.0	116.3

TABLE 4.26 16

SUMMARY OF DEBT CONVERSION UP TO DECEMBER, 1998

	At Auctions			Outside Auctions			Total		
	1997 (1)	1998 (2)	1994-1998 (3)	1997 (4)	1998 (5)	1994-1998 (6)	1997 (7)	1998 (8)	1994-1998 (9)
1. Amount Redeemed									
a. US$ million	76.4	82.8	337.4	25.5	4.6	90.6	101.9	88.4	428.0
b. ₦ million	6,204.3	6,988.9	28,134.1	2,073.9	252.5	5,840.8	8,278.0	7,241.4	33,974.9
2. Discount Offered									
a. US$ million	14.0	18.7	132.2	4.7	0.8	155.1	18.8	19.6	287.3
b. ₦ million	1,140.8	1,553.3	11,022.0	384.9	70.0	1,862.0	1,525.7	1,623.4	12,884.0
c. Average Discount %	18.4	21.8	—	17.7	18.5	—	—	—	—
3. Proceeds									
a. US$ million	62.4	65.1	274.8	20.8	3.7	56.1	83.2	68.8	330.9
b. ₦ million	5,063.4	5,435.6	22,083.8	1,688.9	182.5	4,046.0	6,752.3	5,618.0	26,129.8
4. Commission Paid									
a. US$ million	0.7	0.9	1.4	0.2	0.0	0.7	0.9	0.9	2.2'
b. ₦ million	61.8	68.3	154.1	25.3	5.9	33.5	87.1	74.3	187.5

'Agency fees payments to Chase Manhattan Bank of New York not deducted.

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TABLE 4.17

SUMMARY OF LOCAL GOVERNMENTS' FINANCES IN 1998

(₦ million)

	Revenue							Expenditure			Surplus/Deficit		Financing	
States	Statutory Allocations Federal (1)	Allocations State (2)	VAT (3)	Total (4)	Internal (5)	Grant & Others (6)	Total (7)	Recurrent (8)	Capital (9)	Total (10)	Current (11)	Overall (12)	Loans (13)	Other Funds (14)
[illegible]ba	566.0	3.2	254.6	823.8	62.5	0.0	886.3	674.8	188.1	862.9	211.5	23.4	0.0	- 23.4
Adamawa	1,186.9	17.5	244.8	1,449.2	110.1	0.0	1,559.3	865.4	677.5	1,542.9	693.9	16.4	0.0	- 16.4
[illegible]albom	995.5	0.0	327.0	1,322.5	60.9	89.1	1,472.5	1,026.0	420.2	1,446.2	446.5	26.3	0.0	- 26.3
[illegible]mbra	715.7	2.1	204.6	922.4	63.6	0.0	986.0	855.8	229.7	1,085.5	130.2	- 99.5	0.0	99.5
[illegible]uchi	1,109.5	3.4	261.1	1,374.3	57.7	0.0	1,432.0	1,078.3	305.4	1,383.7	353.7	48.3	5.0	- 53.3
[illegible]ayelsa	416.8	7.2	158.3	582.3	17.6	0.0	599.9	394.9	118.2	513.1	205.0	86.8	0.0	- 86.8
[illegible]ue	963.1	6.1	285.5	1,254.7	213.2	0.0	1,467.9	894.3	556.9	1,451.2	573.6	16.7	0.0	- 16.7
[illegible]mi	1,056.9	1.5	181.4	1,239.8	160.9	0.0	1,400.7	1,042.1	312.2	1,354.3	358.6	46.4	0.0	- 46.4
[illegible]s River	853.1	0.0	223.8	1,076.9	61.5	0.0	1,138.4	822.8	261.6	1,084.4	315.6	54.0	0.0	- 54.0
[illegible]elta	636.7	135.6	247.6	1,019.9	54.2	0.0	1,068.1	578.9	437.4	1,016.3	489.2	51.8	3.6	- 55.4
[illegible]bonyi	480.1	3.7	162.8	646.6	22.2	0.0	668.8	366.5	298.8	665.3	302.3	3.5	0.0	- 3.5
[illegible]	799.4	2.1	204.8	1,006.3	60.9	3.7	1,070.9	609.2	224.8	834.0	461.7	236.9	0.0	- 236.9
[illegible]i	557.1	0.0	181.6	738.7	37.1	0.0	775.8	575.5	199.1	774.6	200.3	1.2	0.5	- 1.7
[illegible]ugu	472.4	0.2	223.8	696.4	39.2	0.0	735.6	510.2	142.1	652.3	225.4	83.3	0.0	- 83.3
[illegible]umbe	762.5	22.9	139.9	925.3	31.0	0.0	956.3	682.4	222.2	904.6	273.9	51.7	0.0	- 51.7
[illegible]	662.2	13.8	304.1	1,000.1	101.6	0.0	1,101.7	934.3	228.4	1,162.7	167.4	- 61.0	0.0	61.0
[illegible]a	1,172.4	0.3	308.1	1,480.8	39.8	0.0	1,520.6	1,008.8	370.6	1,379.4	511.8	141.2	0.0	- 141.2
[illegible]ung	1,051.2	28.8	482.1	1,562.1	67.2	0.0	1,629.3	910.8	568.5	1,479.3	718.5	150.0	0.0	- 150.0
[illegible]ano	2,031.2	5.0	623.2	2,659.4	154.9	0.0	2,814.3	2,091.4	754.6	2,846.0	722.9	- 31.7	0.0	31.7
[illegible]awa	1,564.7	15.4	408.6	1,988.7	74.2	0.0	2,062.9	1,411.0	573.7	1,984.7	651.9	78.2	1.8	- 80.0
[illegible]	670.9	3.1	237.4	911.4	42.1	0.0	953.5	542.7	342.9	885.6	410.8	67.9	0.0	- 67.9
[illegible]	225.6	0.2	97.4	323.2	16.1	0.0	339.3	231.5	58.3	289.8	107.8	49.5	0.0	- 49.5
[illegible]ara	562.6	2.9	151.0	716.5	27.6	0.0	744.1	461.4	201.6	663.0	282.7	81.1	11.5	- 92.6
[illegible]pos	893.4	361.9	1,453.0	2,708.3	752.9	0.0	3,461.2	2,409.9	957.5	3,367.4	1,051.3	93.8	12.0	- 105.8
[illegible]arawa	525.6	17.2	150.4	693.2	35.5	0.0	728.7	363.1	170.3	533.4	365.6	195.3	0.0	- 195.3
[illegible]	1,145.6	0.0	208.3	1,353.9	77.4	1.7	1,433.0	1,071.8	243.0	1,314.8	361.2	118.2	5.5	- 123.7
[illegible]	750.9	2.3	287.6	1,040.8	157.4	0.0	1,198.2	518.7	494.5	1,013.2	679.5	185.0	0.0	- 185.0
[illegible]ndo	300.3	4.3	106.6	411.2	21.3	0.0	432.5	270.2	81.7	351.9	162.3	80.6	0.0	- 80.6
[illegible]un	939.1	0.6	293.8	1,233.5	35.0	0.0	1,268.5	659.2	551.2	1,210.4	609.3	58.1	0.0	- 58.1
[illegible]	829.0	0.0	231.8	1,060.8	55.0	0.0	1,115.8	593.6	485.0	1,078.6	522.2	37.2	0.0	- 37.2
[illegible]ua	968.5	25.7	227.5	1,241.7	95.0	0.0	1,336.7	807.1	440.3	1,247.4	529.6	89.3	0.0	- 89.3
[illegible]ers	884.8	42.5	413.5	1,340.8	124.0	0.0	1,464.8	975.0	475.1	1,432.1	489.8	32.7	0.0	- 32.7
[illegible]-Ado	1,077.0	1.4	276.5	1,354.9	45.9	0.0	1,400.8	684.1	570.4	1,254.5	716.7	146.3	0.0	- 146.3
[illegible]a	887.1	2.5	177.1	1,071.7	64.0	0.0	1,135.7	744.7	424.9	1,169.6	391.0	- 33.9	0.0	33.9
[illegible]	879.3	1.4	182.0	1,062.8	107.3	0.0	1,170.1	659.1	483.1	1,142.2	511.0	27.9	0.0	- 27.9
[illegible]ra	721.4	1.4	135.5	858.3	26.7	0.0	885.0	485.9	339.2	825.1	399.1	59.9	0.0	- 59.9
[illegible]i	272.0	9.2	113.7	394.9	158.1	0.0	553.0	360.8	158.0	538.8	172.2	14.2	0.0	- 14.2
[illegible]AL	30,620.9	791.3	10,170.8	41,542.1	3,331.6	98.5	44,968.2	29,192.2	13,549.0	42,741.2	15,276.0	2,222.8	39.8	- 2,262.6

[illegible]sional

Source: Central Bank of Nigeria Nation-wide Survey of Local Government Councils and Federation Accounts Reports

(N million)

States	Revenue							Expenditure			Surplus/Deficit		Financing	
	Statutory Federal (1)	Allocations State (2)	VAT (3)	Total (4)	Internal (5)	Grant & Others (6)	Total (7)	Recurrent (8)	Capital (9)	Total (10)	Current (11)	Overall (12)	Loans (13)	Other Funds (14)
Abia	389.8	1.4	192.0	583.2	59.8	0.1	643.1	464.8	116.7	581.5	178.3	61.6	0.0	- 61.6
Adamawa	742.0	2.1	107.4	851.5	72.7	0.0	924.2	564.7	299.6	864.3	359.5	59.9	0.0	- 59.9
Akwa Ibom	685.1	0.0	246.2	931.3	77.1	92.3	1,100.7	823.9	217.2	1,041.1	276.8	59.6	4.3	- 63.9
Anambra	404.7	20.5	225.7	650.9	94.0	0.0	744.9	479.6	98.4	578.0	265.3	166.9	15.1	- 182.0
Bauchi	856.8	0.1	201.2	1,058.1	56.0	5.3	1,119.4	989.9	262.0	1,251.9	129.5	- 132.5	0.0	132.5
Bayelsa	302.7	0.9	123.5	427.1	12.6	4.7	444.4	373.5	108.0	481.5	70.9	- 37.1	5.2	31.9
Benue	666.5	6.1	217.6	890.2	213.2	0.0	1,103.4	744.4	188.3	932.7	359.0	170.7	0.0	- 170.7
Borno	1,041.1	0.6	238.2	1,279.9	80.9	1.2	1,362.0	864.3	216.9	1,081.2	497.7	280.8	0.0	- 280.8
Cross-River	638.7	2.2	166.3	807.2	33.6	0.0	840.8	450.2	144.5	594.7	390.6	246.1	0.0	- 246.1
Delta	606.3	129.3	298.3	1,033.9	64.8	0.0	1,098.7	486.6	262.8	749.4	612.1	349.3	0.0	- 349.3
Ebonyi	344.3	3.7	122.8	470.8	22.2	0.0	493.0	328.2	98.8	427.0	164.8	66.0	0.0	- 66.0
Edo	565.8	2.6	163.3	731.7	49.7	2.1	783.5	518.1	213.7	731.8	265.4	51.7	2.8	- 54.5
Ekiti	399.1	0.7	138.6	538.4	22.6	6.5	567.5	404.3	149.1	553.4	163.2	14.1	0.5	- 14.6
Enugu	209.8	0.2	173.2	383.2	33.8	5.4	422.4	310.2	112.1	422.3	112.2	0.1	0.6	- 0.7
Gombe	450.6	2.1	125.6	578.3	51.2	0.0	629.5	477.6	164.2	641.8	151.9	- 12.3	0.8	11.5
Imo	407.3	0.6	231.9	639.8	82.2	0.8	722.8	578.8	110.1	688.9	144.0	33.9	0.0	- 33.9
Jigawa	405.6	0.1	100.9	506.6	19.6	0.0	526.2	526.3	98.5	624.8	(0.1)	- 98.6	0.0	98.6
Kaduna	792.5	11.8	184.8	989.1	64.7	1.7	1,055.5	833.6	424.8	1,258.4	221.9	- 202.9	0.0	202.9
Kano	1,250.0	18.9	396.4	1,665.3	85.0	0.0	1,750.3	1,555.9	454.1	2,010.0	194.4	- 259.7	0.0	259.7
Katsina	1,181.8	103.4	313.4	1,598.6	67.7	0.0	1,666.3	1,180.4	534.5	1,714.9	485.9	- 48.6	1.8	46.8
Kebbi	370.4	0.5	64.1	435.0	43.6	0.0	478.6	308.1	92.0	400.1	170.5	78.5	0.0	- 78.5
Kogi	341.4	1.4	147.1	489.9	36.1	2.5	528.5	512.6	79.5	592.1	15.9	- 63.6	16.7	46.9
Kwara	409.3	2.5	118.1	529.9	39.9	0.0	569.8	436.2	221.8	658.0	133.6	- 88.2	4.6	83.6
Lagos	524.9	297.4	1,175.6	1,907.9	477.7	0.0	2,385.6	1,766.6	716.1	2,482.7	619.0	- 97.1	0.0	97.1
Nassarawa	396.8	0.0	113.0	509.8	21.5	0.0	531.3	434.7	102.7	537.4	96.6	- 6.1	0.0	6.1
Niger	969.9	0.0	192.1	1,162.0	57.9	7.9	1,227.8	961.1	233.2	1,194.3	266.7	33.5	27.0	- 60.5
Ogun	311.1	0.2	120.4	431.7	47.5	0.0	479.2	296.6	178.7	475.3	182.6	3.9	0.0	- 3.9
Ondo	409.5	0.0	175.1	584.6	26.7	7.3	618.6	466.6	87.9	554.5	152.0	64.1	0.0	- 64.1
Osun	620.4	0.0	239.3	859.7	28.0	1.3	889.0	446.2	309.3	755.5	442.8	133.5	0.0	- 133.5
Oyo	704.3	0.0	362.5	1,066.8	62.9	0.0	1,129.7	667.5	266.0	933.5	462.2	196.2	0.0	- 196.2
Plateau	482.9	0.0	170.4	653.3	45.5	0.0	698.8	607.5	100.3	707.8	91.3	- 9.0	0.0	9.0
Rivers	200.2	0.0	95.8	296.0	61.2	0.0	357.2	215.0	108.5	323.5	142.2	33.7	0.0	- 33.7
Sokoto	810.4	1.1	208.5	1,020.0	38.9	0.0	1,058.9	554.5	445.9	1,000.4	504.4	58.5	0.0	- 58.5
Taraba	347.1	1.6	76.2	424.9	30.7	0.0	455.6	296.5	154.7	451.2	159.1	4.4	0.0	- 4.4
Yobe	409.8	47.2	82.2	539.2	43.9	0.0	583.1	297.8	277.7	575.5	285.3	7.6	0.0	- 7.6
Zamfara	565.5	0.5	110.5	676.5	23.4	0.1	683.0	411.6	296.9	708.5	271.4	- 25.5	0.0	25.5
FCT	245.9	9.2	96.8	351.9	158.1	0.0	510.0	222.1	137.9	360.0	287.9	150.0	0.0	- 150.0
TOTAL	20,443.3	578.9	7,515.0	28,537.2	2,596.9	139.2	31,183.3	21,856.5	8,083.4	29,939.9	9,326.8	1,243.4	79.5	- 1,322.8

Provisional

Sources: Central Bank of Nigeria Nation-wide Survey of Local Government Councils and Federation Accounts Reports.

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TABLE ~~4.15~~ 19

SUMMARY OF LOCAL GOVERNMENTS' FINANCES IN 1996

(₦ million)

	Revenue							*Expenditure*			*Surplus/Deficit*		*Financing*	
	Statutory Federal (1)	*Allocations State* (2)	*VAT* (3)	*Total* (4)	*Internal* (5)	*Grants & Others* (6)	*Total* (7)	*Recurrent* (8)	*Capital* (9)	*Total* (10)	*Current* (11)	*Overall* (12)	*Loans* (13)	*Other Funds* (14)
.....	333.5	0.9	61.7	396.1	61.3	0.5	457.9	365.6	111.3	476.9	92.3	- 19.0	0.0	19.0
...awa.....	351.1	1.3	65.6	418.0	18.7	0.0	436.7	198.7	100.1	298.8	238.0	137.9	0.0	- 137.9
...Ibom.....	625.5	0.0	202.8	828.3	48.8	9.5	886.6	576.9	143.3	720.2	309.7	166.4	0.0	- 166.4
...a.....	271.7	8.5	180.4	460.6	96.0	25.7	582.3	436.2	498.8	935.0	146.1	- 352.7	0.0	352.7
.....	724.6	0.0	200.0	924.6	44.4	0.2	969.2	678.2	221.4	899.6	291.0	69.6	6.5	- 76.1
.....	254.3	0.0	31.6	285.9	7.7	0.2	293.8	251.5	8.8	260.3	42.3	33.5	0.0	- 33.5
.....	802.8	0.0	27.6	830.4	103.7	0.0	934.1	541.1	116.2	657.3	393	276.8	0.0	- 276.8
.....	704.1	10.6	195.3	910.0	136.7	0.0	1,046.7	727.2	483.5	1,210.7	319.5	- 164.0	0.0	164.0
-River.....	531.3	2.2	47.2	580.7	36.0	0.0	616.7	525.8	66.9	592.7	90.9	24.0	0.0	- 24.0
.....	451.5	113.9	235.9	801.3	58.9	0.3	860.5	464.7	161.0	625.7	395.8	234.8	0.0	- 234.8
yi.....	86.1	7.5	33.5	127.1	36.1	1.5	164.7	273.4	155.7	429.1	- 108.7	- 264.4	0.0	264.4
.....	342.7	6.1	124.5	473.3	48.1	1.1	522.5	368.6	178.5	547.1	153.9	- 24.6	0.0	24.6
.....	261.9	0.7	34.3	296.9	15.1	0.0	312.0	280.5	19.6	300.1	31.5	11.9	0.0	- 11.9
u.....	373.4	17.2	185.0	575.6	49.7	1.1	626.4	364.4	213.9	578.3	262.0	48.1	0.0	- 48.1
be.....	281.4	0.0	53.5	334.9	14.5	2.9	352.3	273.9	65.9	339.8	78.4	12.5	0.0	- 12.5
.....	350.9	0.0	191.5	542.4	76.8	3.2	622.4	433.4	560.1	993.5	189.0	- 371.1	0.3	370.8
a.....	486.1	0.0	86.2	572.3	28.9	0.0	601.2	956.6	512.7	1,469.3	- 355.4	- 868.1	0.0	868.1
na.....	548.7	5.6	179.1	733.4	51.6	0.0	785.0	658.7	124.8	783.5	126.3	1.5	0.0	- 1.5
.....	1,215.3	14.3	278.8	1,508.4	82.2	0.0	1,590.6	1,130.5	238.9	1,369.4	460.1	221.2	0.0	- 221.2
na.....	892.7	4.7	162.6	1,060.0	43.1	0.0	1,103.1	668.2	466.5	1,134.7	434.9	- 31.6	6.6	25.0
.....	255.2	7.1	57.5	319.8	13.2	0.0	333.0	241.0	95.3	336.3	92.0	- 3.3	0.0	3.3
.....	235.6	0.7	43.7	280.0	11.7	0.0	291.7	14.9	14.9	29.8	276.8	261.9	9.7	- 271.6
ra.....	287.6	0.3	96.4	384.3	15.0	0.0	399.3	266.1	77.3	343.4	133.2	55.9	0.9	- 56.8
is.....	537.8	477.0	663.1	1,677.9	527.7	0.0	2,205.6	2,091.7	586.6	2,678.3	113.9	- 472.7	0.0	472.7
arawa.....	271.2	0.0	19.2	290.4	11.3	0.0	301.7	240.1	45.5	285.6	61.6	16.1	0.0	- 16.1
.....	634.5	0.0	93.9	728.4	41.8	0.0	770.2	601.1	81.1	682.2	169.1	88.0	0.0	- 88.0
n.....	259.0	1.1	76.5	336.6	43.4	0.0	380.0	226.9	127.7	354.6	153.1	25.4	0.0	- 25.4
o.....	246.1	0.0	29.2	275.3	16.1	5.8	297.2	233.4	45.3	278.7	63.8	18.5	0.0	- 18.5
.....	418.8	0.3	121.6	540.7	19.9	0.7	561.3	340.7	209.3	550.0	220.6	11.3	0.0	- 11.3
.....	505.5	0.0	32.3	537.8	57.7	0.0	595.5	382.0	132.5	514.5	213.5	81.0	0.0	- 81.0
...ua.....	475.2	1.1	104.0	580.3	39.9	0.0	620.2	429.2	60.2	489.4	191.0	130.8	0.0	- 130.8
...s.....	655.6	0.0	305.0	960.6	25.7	0.4	986.7	729.9	123.2	853.1	256.8	133.6	0.0	- 133.6
...do.....	766.5	2.0	118.4	886.9	35.6	0.0	922.5	507.9	343.3	851.2	414.6	71.3	0.0	- 71.3
...ba.....	232.2	5.3	10.4	247.9	23.3	0.0	271.2	210.5	124.9	335.4	60.7	- 64.2	0.0	64.2
e.....	269.1	0.6	114.1	383.8	21.6	0.0	405.4	171.4	145.0	316.4	234.0	89.0	0.0	- 89.0
ifara.....	500.6	2.1	67.1	569.8	16.3	0.0	586.1	268.9	239.0	507.9	317.2	78.2	0.0	- 78.2
.....	129.6	0.0	52.2	181.8	48.6	19.4	249.8	162.7	70.2	232.9	87.1	16.9	0.0	- 16.9
TAL.....	16,569.7	691.1	4,581.7	21,842.5	2,027.1	72.5	23,942.1	17,292.5	6,969.2	24,261.7	6,649.6	- 319.6	24.0	295.6

...rce: Central Bank of Nigeria Nation-wide Survey of Local Government Councils and Federation Accounts Reports.

TABLE ~~4.14~~ 2.0

SUMMARY OF LOCAL GOVERNMENTS' FINANCES IN 1995

(₦ million)

	Revenue							Expenditure			Surplus/Deficit		Financing	
State	Statutory Federal (1)	Allocations State (2)	VAT (3)	Total (4)	Internal (5)	Grants & Others (6)	Total (7)	Recurrent (8)	Capital (9)	Total (10)	Current (11)	Overall (12)	Loans (13)	Other Funds (14)
Abia	486.4	0.0	131.8	618.2	58.6	2.2	679.0	478.2	214.7	692.9	200.8	- 13.9	0.0	13.9
Adamawa	491.5	2.8	103.0	597.3	33.1	21.0	651.4	386.8	146.8	533.6	264.6	117.8	0.0	- 117.8
Akwa Ibom	806.2	10.7	143.3	960.2	36.4	0.0	996.6	705.5	284.6	990.1	291.1	6.5	0.0	- 6.5
Anambra	273.7	0.0	109.8	383.5	65.5	5.3	454.3	321.0	31.2	352.2	133.3	102.1	0.0	- 102.1
Bauchi	624.0	0.0	151.6	775.6	49.4	0.0	825.0	646.6	164.7	811.3	178.4	13.7	0.0	- 13.7
Benue	499.7	9.6	103.7	613.0	80.5	16.5	710.0	670.8	273.5	944.3	39.2	- 234.3	0.0	234.3
Borno	881.3	10.1	120.1	1,011.5	81.5	0.0	1,093.0	627.8	345.2	973.0	465.2	120	0.0	- 120
Cross-River	534.7	2.6	79.7	617.0	28.3	3.0	648.3	441.6	108.4	550.0	206.7	98.3	0.9	- 99.2
Delta	532.3	93.5	76.0	701.8	44.0	4.5	750.3	489.7	166.7	656.4	260.6	93.9	0.0	- 93.9
Edo	611.7	13.1	123.2	748.0	36.9	1.8	786.7	430.6	209.9	640.5	356.1	146.2	1.0	- 147.2
Enugu	491.3	7.1	127.5	625.9	61.3	3.0	690.2	505.6	277.3	782.9	184.6	- 92.7	0.0	92.7
Imo	478.2	0.0	127.5	605.7	38.9	34.1	738.7	558.0	114.9	672.9	180.7	65.8	0.0	- 65.8
Jigawa	340.8	0.3	36.3	377.4	40.9	0.0	418.3	254.1	122.1	376.2	164.2	42.1	19.1	- 61.2
Kaduna	599.6	2.0	102.0	703.6	65.4	0.0	769.0	586.8	111.1	697.9	182.2	71.1	0.0	- 71.1
Kano	1,323.1	0.4	238.1	1,561.6	79.5	18.3	1,659.4	1,183.7	389.1	1,572.8	475.7	86.6	11.2	- 97.8
Katsina	899.5	3.1	130.7	1,033.3	136.9	0.0	1,170.2	633.9	367.3	1,001.2	536.3	169.0	0.0	- 169.0
Kebbi	236.0	0.3	30.7	267.0	10.9	0.0	277.9	176.3	69.4	245.7	101.6	32.2	0.0	- 32.2
Kogi	352.8	0.7	60.9	414.4	14.7	1.8	430.9	341.8	21.7	363.5	89.1	67.4	9.7	- 77.1
Kwara	305.5	13.3	8.6	327.2	19.6	0.4	347.2	254.5	68.6	323.1	92.7	24.1	0.0	- 24.1
Lagos	789.8	249.8	385.7	1,425.3	544.3	5.6	1,975.2	1,463.7	455.5	1,919.2	511.5	56.0	4.0	- 60.0
Niger	483.5	2.0	99.5	585.0	30.6	8.6	624.2	442.1	98.3	540.4	182.1	83.8	2.9	- 86.7
Ogun	340.7	0.8	25.2	366.7	90.6	3.4	460.7	266.6	160.4	427.0	194.1	33.7	0.0	- 33.7
Ondo	610.1	0.0	8.1	618.2	47.7	2.0	667.9	552.7	90.0	642.7	115.2	25.2	0.0	- 25.2
Osun	650.8	26.7	143.3	820.8	20.0	1.2	842.0	370.6	277.8	648.4	471.4	193.6	0.0	- 193.6
Oyo	551.4	0.0	193.1	744.5	54.6	0.0	799.1	366.0	164.2	530.2	433.1	268.9	0.0	- 268.9
Plateau	775.6	0.0	138.3	913.9	49.4	0.0	963.3	646.6	164.7	811.3	316.7	152.0	0.0	- 152.0
Rivers	637.4	0.0	181.4	818.8	153.5	0.2	972.5	962.1	121.4	1,083.5	10.4	- 111.0	0.0	111.0
Sokoto	1,405.2	1.8	214.9	1,621.9	43.8	3.4	1,669.1	748.3	487.6	1,235.9	920.8	433.2	1.7	- 434.9
Taraba	290.8	2.7	72.4	365.9	18.7	0.0	384.6	293.8	103.6	397.4	90.8	- 12.8	0.0	12.8
Yoba	571.9	2.7	82.4	657.0	46.8	0.0	703.8	344.0	267.1	611.1	359.8	92.7	0.0	- 92.7
FCT	0.0	169.5	9.3	178.8	28.5	46.6	253.9	167.4	248.3	415.7	86.5	- 161.8	0.0	161.8
TOTAL	17,875.5	625.4	3,558.1	22,059.0	2,110.8	242.9	24,412.7	16,317.2	6,126.1	22,443.3	8,095.5	1,969.4	50.5	- 2,019.9

Source: Central Bank of Nigeria, Nation Wide Survey of Local Government Councils and Federation Accounts Reports

TABLE ~~4.15~~ 21

SUMMARY OF LOCAL GOVERNMENTS' FINANCES IN 1994

(N million)

	Revenue							Expenditure			Surplus/Deficit		Financing	
	Statutory Federal[a] (1)	Allocations State (2)	VAT (3)	Total (4)	Internal (5)	Grant & Others (6)	Total (7)	Recurrent (8)	Capital (9)	Total (10)	Current (11)	Overall (12)	Loans (13)	Other Funds (14)
	541.5	0.0	0.0	541.5	46.1	0.5	588.1	406.2	125.8	532.0	181.9	56.1	0.0	- 56.1
	371.7	0.5	0.0	372.2	18.2	0.0	390.4	358.6	60.6	419.2	31.8	- 28.8	0.0	28.8
	779.2	0.0	0.0	779.2	33.4	0.0	812.6	579.7	232.3	812.0	232.9	0.6	5.5	- 6.1
	472.1	1.9	0.0	474.0	45.5	16.7	536.2	483.0	35.6	518.6	53.2	17.6	0.0	- 17.6
	656.9	1.1	0.0	658.0	22.0	0.0	680.0	552.5	101.1	653.6	127.5	26.4	0.0	- 26.4
	561.1	1.2	0.0	562.3	60.5	25.5	648.3	566.3	69.9	636.2	82.0	12.1	21.3	- 33.4
	664.4	1.1	0.0	665.5	43.8	0.0	709.3	730.1	169.3	899.4	- 20.8	- 190.1	0.0	190.1
	421.1	0.2	0.0	421.3	15.9	4.0	441.2	334.9	83.3	418.2	106.3	23.0	17.1	- 40.1
	549.0	26.9	0.0	575.9	34.9	0.0	610.8	291.1	299.3	590.4	319.7	20.4	0.1	- 20.5
	330.8	6.6	0.0	337.4	14.9	0.0	352.3	263.3	95.6	358.9	89.0	- 6.6	0.0	6.6
	593.1	1.4	0.0	594.5	27.3	1.7	623.5	544.1	95.5	639.6	79.4	- 16.1	0.0	16.1
	640.7	0.7	0.0	641.4	30.9	34.2	706.5	603.6	92.3	695.9	102.9	10.6	0.0	- 10.6
	653.8	2.8	0.0	656.6	22.0	2.6	681.2	555.1	119.7	674.8	126.1	6.4	2.9	- 9.3
	609.8	0.0	0.0	609.8	35.8	0.8	646.4	469.0	62.3	531.3	177.4	115.1	0.0	- 115.1
	1,112.5	0.0	0.0	1,112.5	80.6	8.3	1,201.4	877.0	290.1	1,167.1	324.4	34.3	13.4	- 47.7
	348.0	13.8	0.0	361.8	21.8	1.0	384.6	472.8	102.4	575.2	- 88.2	- 190.6	0.0	190.6
	488.9	5.7	0.0	494.6	7.8	1.0	503.4	294.2	145.2	439.4	209.2	64.0	0.0	- 64.0
	554.8	0.0	0.0	554.8	13.3	0.0	568.1	472.8	44.2	517.0	95.3	51.1	0.0	- 51.1
	416.6	2.4	0.0	419.0	15.8	9.3	444.1	373.3	51.2	424.5	70.8	19.6	0.0	- 19.6
	497.1	245.6	0.0	742.7	320.4	85.6	1,148.7	933.8	248.9	1,182.7	214.9	- 34.0	0.0	34.0
	388.2	0.4	0.0	388.6	26.0	5.7	420.3	312.5	71.6	384.1	107.8	36.2	5.1	- 41.3
	333.9	11.3	0.0	345.2	38.7	3.5	387.4	240.3	102.1	342.4	147.1	45.0	0.0	- 45.0
	761.2	0.0	0.0	761.2	24.7	0.0	785.9	654.9	154.5	809.4	131.0	- 23.5	0.0	23.5
	784.4	7.9	0.0	792.3	16.7	0.0	809.0	608.7	193.4	802.1	200.3	6.9	0.0	- 6.9
	792.4	0.0	0.0	792.4	33.3	0.0	825.7	528.7	287.5	816.2	297.0	9.5	0.0	- 9.5
	656.9	1.1	0.0	658.0	22.0	0.0	680.0	552.5	101.1	653.6	127.5	26.4	0.0	- 26.4
	745.7	10.6	0.0	756.3	39.8	7.9	804.0	638.7	128.1	766.8	165.3	37.2	0.0	- 37.2
	752.3	2.6	0.0	754.9	19.7	0.0	774.6	459.6	202.3	661.9	315.0	112.7	6.1	- 118.8
	315.5	2.0	0.0	317.5	32.8	0.0	350.3	278.4	74.7	353.1	71.9	- 2.8	0.0	2.8
	527.7	0.3	0.0	528.0	25.2	0.0	553.2	328.3	191.6	519.9	224.9	33.3	0.0	- 33.3
	0.0	116.8	1.5	118.3	16.1	21.2	155.6	120.2	51.4	171.6	35.4	- 16.0	—	16.0
	17,321.3	464.9	1.5	17,787.7	1,205.9	229.5	19,223.1	14,884.2	4,082.9	18,967.1	4,338.9	256.0	71.5	- 327.5

[a] VAT allocation to Local Government Councils in late 1994.

Central Bank of Nigeria, Nation-Wide Survey of Local Government Councils and Federation Accounts Reports.

TRANSPARENCY RANKING OF MAJOR EMERGING MARKETS

Rank	Country	FT	MT	BT	CT	AST	C&ST	Total
1	Hong Kong	9	7	7	8	8	8	47
2	Israel	8	8	7	7	7	9	46
2	Singapore	5	8	9	9	6	9	46
4	Czech Rep	9	9	6	5	8	7	44
5	South Africa	7	9	8	5	7	7	43
6	Argentina	8	9	8	3	6	5	39
6	Poland	8	9	6	5	6	5	39
8	Chile	4	8	9	7	5	5	38
9	Peru	9	8	5	5	7	4	38
10	Hungary	8	9	5	6	5	5	37
11	Turkey	7	7	4	3	6	7	34
12	Thailand	9	7	2	3	6	6	33
13	S Korea	5	8	3	4	4	8	32
14	Philippines	7	8	4	3	4	4	30
15	Mexico	7	7	2	3	4	6	29
16	Brazil	3	5	6	4	5	5	28
17	India	5	6	4	3	3	4	25
17	Malaysia	4	6	3	5	5	2	25
19	Egypt	1	1	4	3	8	4	21
20	Indonesia	4	6	1	2	4	1	18
20	Venezuela	2	2	4	2	4	4	18
22	China	1	1	1	4	5	4	16
23	Vietnam	1	1	1	3	2	1	9
24	Nigeria	1	1	1	2	2	1	8
24	Russia	1	1	1	2	2	1	8

FT = Fiscal Transparency, MT = Monetary Transparency, BT = Banking Transparency, CT = Corruption Transparency, AST = Accounting System Transparency, C&ST = Custody and Settlement Transparency

APPENDIX A1

Indexe

10 most active stocks' share of total value traded
56.2
52.4
56.3
50.7
54.1
72.7
70.7
15.8
17.5
34.0
19.9
33.5
36.0
17.1
69.7
54.0
27.7
6.3
29.9
69.6
51.3
43.1
31.1
55.6
26.2
33.5
73.0

IFCG Index
Share of Market Capitalization, 19
(percent)

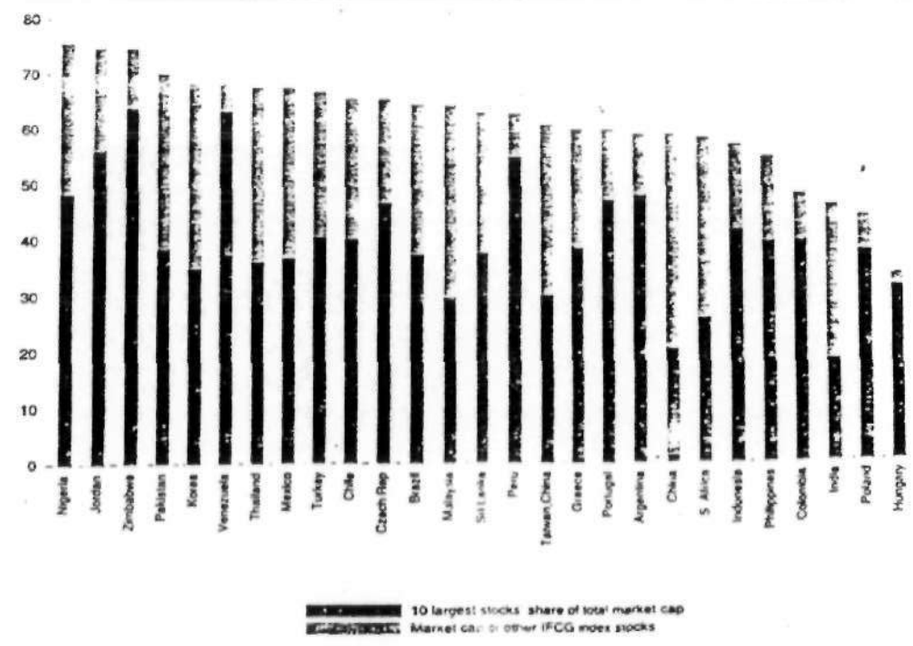


TABLE 3.30 22

SUMMARY OF ASSETS AND LIABILITIES OF FINANCE COMPANIES [END-PERIOD December]

(N million)

						Absolute Change over the Preceding December				Percentage Change over the Preceding December			
	1994 (1)	1995 (2)	1996 (3)	1997 (4)	1998 (5)	1995 (6)	1996 (7)	1997 (8)	1998 (9)	1995 (10)	1996 (11)	1997 (12)	1998 (13)
Assets													
1 Cash and cash items	1,937.1	1,659.3	1,099.3	1,149.6	2,625.8	- 277.8	- 560.0	50.3	1,476.2	- 14.3	- 33.7	4.6	128.4
2 Investments	1,333.8	1,232.6	1,519.7	583.4	643.3	- 101.2	287.1	- 936.3	59.9	- 7.6	23.3	- 61.6	10.3
3 Due from other Finance Companies	1,718.2	1,974.9	572.6	37.2	55.0	256.7	- 1,402.3	- 535.4	17.8	14.9	- 71.0	- 93.5	47.8
4 Loans and Advances	3,453.9	3,846.5	2,447.8	2,231.3	3,471.6	392.6	- 1,398.7	- 216.5	1,240.3	11.4	- 36.4	- 8.8	55.6
5 Fixed assets	1,581.1	1,312.6	1,029.1	208.3	1,016.4	- 268.5	- 283.5	- 820.8	808.1	- 17.0	- 21.6	- 79.8	388.0
6 Other Assets	1,636.8	1,240.0	2,271.6	428.5	401.5	- 396.8	1,031.6	- 1,843.1	- 27.0	- 24.2	83.2	- 81.1	- 6.3
Total Assets	11,660.9	11,265.9	8,940.1	4,638.3	8,213.6	- 395.0	- 2,325.8	- 4,301.8	3,575.3	- 3.4	- 20.6	- 48.1	77.1
Liabilities													
1 Capital and Reserves	2,111.6	1,178.8	2,137.0	1,034.0	1,951.1	- 932.8	958.2	- 1,103.0	917.1	- 44.2	81.3	- 51.6	88.7
2 Share Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3 Due to other Finance Companies	1,434.7	1,239.0	351.4	38.1	159.2	- 195.7	- 887.6	- 313.3	121.1	- 13.6	- 71.6	- 89.2	317.8
4 Borrowings	5,449.8	6,819.0	4,846.4	2,978.6	5,172.2	1,369.2	- 1,972.6	- 1,867.8	2,193.6	25.1	- 28.9	- 38.5	73.6
5 Other Liabilities	2,664.8	2,029.1	1,605.3	587.6	931.1	- 635.7	- 423.8	- 1,017.7	343.5	- 23.9	- 20.9	- 63.4	58.5
Total Liabilities	11,660.9	11,265.9	8,940.1	4,638.3	8,213.6	- 395.0	- 2,325.8	- 4,301.8	3,575.3	- 3.4	- 20.6	- 48.1	77.1

Provisional and the figures are based on 37 Finance Companies that reported in 1998 as against about 50 that submitted their returns in 1997.