PRIVATE PLACEMENT OF SECURITIES: DEVELOPMENT IN NIGERIAN SECURITIES MARKET

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DECLARATION

I hereby declare that this project report has been written by me and that it is a record of my research work. All sources of information and other writers have been duly acknowledged in form of references and bibliography.

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CERTIFICATION

This project entitled "PRIVATE PLACEMENTS OF SECURITIES: DEVELOPMENTS IN THE NIGERIAN SECURITIES MARKET" meets the regulations governing the award of the Degree of Master of Business Administration of Ahmadu Bello University Zaria and is approved for its contribution to Knowledge and literary presentation,

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ABSTRACT

Many investors in Nigeria are not conversant with and do not avail themselves of the enormous opportunities inherent with private placements of securities. To a lot of these investors, the only way to invest in securities is by responding to a widely advertised offer for subscription- Public offers. However, the act of obtaining funds through the issue of security is a costly, complicated, time consuming and periodically uncertain process. Many of these difficulties can be oveu-eome if sufficient private sources are available and be utilized by the firm.

This project attempts to examine the extent to which Nigerian investors avail themselves of the opportunities inherent in private placements of securities and also evaluate the degree to which Nigeria capital market uses private placements in its efforts of transforming capital from saving or surplus units to deficit or investing units.

The chi-square test was used to test data collected through the use of questionnaires from selected sample of individual and institutional investors.

The study revealed that Nigerian investors are not responsive to private placements of securities. It was also found that the use of private placement of securities in the Nigerian securities market is grossly in adequate.

Based on the above findings of this study, it is recommended that the Nigerian securities market should encourage fund seekers to raise funds through private placement to avoid some of the cost associated with a public offering of securities. There is the need to enlighten the investing public on the benefits of private placement of securities, since some investors are not even aware of the existence of such investment opportunity. However, the Securities and Exchange Commission should also regulate private placement of securities in order to increase public confidence on such investment.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The securities market plays a crucial role as intermediary in the flow of capital in Nigeria. In the most general sense, the market fulfills three basic interrelated functions. Firstly, it provides a mechanism to collect and channel capital from the surplus or savings sector to the deficit or investing sector of the economy. Secondly, the market facilitates the trading of securities among buyers and sellers, and in so doing, influences the ability of industries and firms to expand and diversify. Finally, the market provides investors with a wide range of investment outlets with various degrees of liquidity as well as risk/return characteristics[1].

Securities (the various types of bonds and stock instruments) may be distributed in almost any way the issuer cares to subject to the rules and regulations provided by the Securities and Exchange Commission (SEC).

There are two markets (or two divisions of a single market) available to issuers; the public and private capital and equity markets. The issuer must consider such factors as probable term, costs, risks and distribution patterns of the offering before selecting the markets to be used, and procedure to be followed.

If the security issued is large (number of units and total amount of funds to be raised), publicized (widely advertised in one way or another) and extended to a substantial

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1 PORTER, "CASES IN COMPETITIVE STRATEGY", FIRST EDITION. THE FREE PRESS, 1980.

number of offerees (several hundreds or more) it is a public offering. On the other hand, if the offer is extended without publicity to a few potential investors, it is a private placement. The letter is the focus of this study.

The securities market is well known for assisting companies in the acquisition of long-term capital. This is a complex process which entails ensuring a deal that would raise the required capital at the lowest cost, and in a form most advantageous to the company. The deal, or issue, could take the form of debt or equity, either privately or publicly placed. Publicly placed securities are sold to investors through an Exchange, while privately placed securities are sold directly to one or a small group of investors.

If a company had previously "gone public", the price of the issue would be based on the current market price of the stock. Bond issue on the other hand; vary according to interest rate, maturity, protective covenants such as "call protection" and sinking funds. Hybrid securities could contain covenants of special provisions that increase their value to potential investors.

It is pertinent to mention that the vast majority of privately placed securities involve debt issues. This does not mean that private equity markets do not exist[2].

The main determinants of the form an issue takes are; the state of the constantly changing and subject to the influence of pervasive but subtle socio-political factors such as the state of economy, investors psychology, and anticipated inflation rates, government spending and so on.

Because of this, each issue is unique and a thorough knowledge of the state of the financial is critical to the success of an issue. In addition, the process has become

2 Van Horne J.C. Financial Management and Policy, 7th Edition. Prentice-Hall International Eds., 1986.

considerably more complex because of deregulation of the capital market in the last ten years.

The act of obtaining funds publicly through the issue of security is a costly, complicated, time consuming and periodically uncertain process. Many of these difficulties can be overcome if sufficient private sources are available and can be utilized by the firm.

1.2 Problem Statement

As a result of the fact that the Nigerian Securities Market is not properly developed, very few Nigerian investors are conversant with and avail themselves of the enormous opportunities inherent with private placement of securities.

To a lot of these investors, only way to investing securities is by responding to a widely advertised offer for subscription - public offers. They fail to take cognisance of the cost of this method of offering securities to the issuer. Consequently, companies, especially small and medium size ones seek for cheaper, quicker and more flexible ways of placing securities (bonds and stock) - this is private placement.

This trend has led to a situation where a small segment of the population controls a good number of investments in Nigeria. This group includes individual and institutional investors such as life insurance companies, mutual funds, pension funds, and foreign investing groups.

This problem is invariably not unconnected with the fact that a number of individual investors in Nigeria are either illiterate or lack necessary skills to cope with the vagaries of the securities market. Some of these investors do not even know the proper operations and functions of the securities market. Due to the level of awareness on the part of Nigerian investors, a lot of them are adverse to private placement of securities. Personal interviews and discussions have revealed that some individual investors in the country do not believe that the terms of contract of private placement may be as binding as that of public offers. In fact, they express fear of default on the part of bond issuers.

What this boils down to, is the fact that the investments sector will be left in the hand of few individuals representing the institutional investors; lopsided investment patterns and uneven distribution of wealth accruing there from.

1.3 Objective of the Study

The objectives of this research project among others include:

a) Highlighting the various benefits associated with private placement of securities.

b) Determining the extent to which Nigerian investors avail themselves of such opportunities;

c) Evaluating the degree to which Nigerian capital market uses private placements in its effort of transferring capital from saving or surplus units to deficit or investing units.

1.4 Significance of the Study

There is no doubt that this research project will go a long way in broadening the minds of those Nigerian investors who are averse to private placement of securities, and may even spur them to undertake the assured risks associated with private placement of securities.

The securities market will also find this research project useful. Frequent use of this method of issuing securities will in turn make Nigerian investors familiar with the method and remove any uncertainty or doubt in their minds as regards the legality of such contract.

1.5 Scope of the Study

This study examines the extent to which Nigerian investors are responsive to private placement of securities as well as the extent to which private placement is utilized in the Nigerian securities market.

1.6 Limitation of the Study

However, due to limited time and financial resources at the disposal of the researcher coupled with the difficulty of data collection from various firms and uncooperative attitude of many business managers, the amount of data available for analysis is reduced. There are firms who consider some relevant information as classified and perhaps capable of injuring the interest of their organisation should such facts fall into the hands of their rival firms and thus restricted the researcher's access to such useful data.

Furthermore, the study was conducted mostly in the Kano market environment (Kano Stock Exchange inclusive) with few data from companies and operators in Lagos Stock Exchange. Inefficient mail system also reduced the volume of data collection.

1.7 Definition of Terms

They key terms in the project are:

Private: This term refers to individuals or group of individuals and institutional investors who are approached and enter into negotiations with securities issuers for purposes of acquiring securities so offered.

Securities: This refers to a document that indicates ownership of indebtedness of a company (issuing company) to individuals or institutional investors.

Placement: This refers to the process of offering or disposing of (goods_ securities to prospective buyers.

Bonds: A long-term debt instrument. A document which contains an acknowledgement of indebtedness.

Capital Market: Market for long terms sources of capital.

Dividend: Share in the profits of a limited liability company paid to shareholders.

Equity: Net assets attributable to the ordinary shareholder of a company.

Issuing House: An institution that specializes in the business of making new issues of stocks or shares of public limited companies.

Money Market: The open markets for lending or borrowing money at call or short notice.

Offer for sale: An offer to the public of a new issue of share or debentures through an intermediary such as merchant bank.

Listed Securities: Securities quoted on a stock exchange and thus available for trading on that stock exchange.

Market Capitalization: The value of a firm as determined by the market price of its issued and outstanding common stock.

Underwriting: Assignment of a risk and deciding on the premium and terms to be applied to the risk.

Stock Exchange/Market: An organised market in which securities can be purchased and sold.

Securities Exchange Commission: A Government agency responsible for regulating the issuance of trading in the securities market, and personnel including investment advisers, operating in the securities business.

Securities: These are documents evidencing creditorship interest or ownership interest in a particular corporation.

Quotation: A listing of a share price on a stock exchange with the implication that the share can be dealt in on that exchange.

Prospectus: A document issued for the purpose of describing a new security issued.

Secondary Market: A place where stock are traded after being issued in a primary market.

Primary Market: A firm's trading market held in a security by a trader who performs the activities of a specialist ready to execute orders in that stock.

Davidson Sidney, Stickney Chde P. and Well Roman L.
Accounting; The Language of Business: 5th Ed., Thomas Herton & Daughter Inc., 1982.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Securities as components of the financial system are sometimes called investment products. Every financial transaction creates a security, which is simultaneously a financial asset (to the holder) and a financial liability (to the issuer). A security is a claim against real resources either in the form of an inco0me stream or in the form of physical capital or assets. It should be noted that however, bizarre and exotic financial securities can be the entire financial system, and always will be derivative to the real economy.

Securities can be classified in a number of ways. They can be classified according to:

i) their issuers;

ii) their ownership and participation rights;

iii) the collateral pledged against them;

iv) their terms of maturity;

v) their degree of liquidity;

vi) whether they are derivative of another security and

vii) whether they involve composite securities, among others.

Securities can be classified according to who issues them because this helps to determine the degree of risk attached to them. A gilt-edge bond issued by the government virtually has no risk of default, whereas the corporate bond has some risks of default.

Securities can also be classified according to whether they are equity or debt. Equity-type security (such as common stock) involves right of both ownership and participation while debt type securities (such as corporate bonds) do not involve right of ownership or participation. Holders of such securities are merely creditors of the firm.

Securities are also classified according to the collateral that is pledged against them. The most secured form of debts is the least risky debentures. There are these securities secured against specific assets of the firm. The least secured and therefore the most risky form of debt is unsecured loan stock. Subordinated debentures rank below unsubordinated debentures in the event of default. Some securities have fixed maturity or redemption dates; some have maturity dates, while others have no maturity dates at all.

The degrees of liquidity and reversibility are measures of marketability to various securities. A perfectly liquid security can be converted into cash instantaneously and zero (0) cost. Liquidity is measured by the time and or cost of converting security into cash.

A derivative security is one that delivers another security at some future dates. This future delivery can be either obligatory/financial future) or contingent, (financial option contract. Futures and options are known as derivative instruments because; their values are derivative of the values of the underlying cash instrument.

Finally, a composite security is one that is a mixture of two (or more) other securities. A convertible bond is therefore a mixture of a bond and an option of equity. A swap contract (or a contract for differences) is a mixture of a fixed rate security and a floating-rate security, or a mixture of two current securities and a forward exchange rate contract. A synthetic long put option in a security can be construed from a short position in a cash instrument and a long position in a call option.

Method of Issuing Securities

The securities may be issued in any way the issuer wishes. Methods commonly used are:

a) Offer By Subscriptions

This method involves a company making direct offers to the public by publishing a prospectus. Here, the risk of failure rests on the company unless it succeeds in getting the issued securities "under-written".

b) Offer For Sale

The company in this case, sells the whole of its issued securities to an issuing house, which in turn invite the public to subscribe at a higher price. The risk of failure lies on the issuing house. The issuing company may wish to reduce its risk by getting the issued securities under-written.

c) Offer for Sale by Tender

This is basically done to check 'stooges' who apply for speculative purposes. Here the company will invite the public and sell to the highest bidder.

d) Right/Conversion Issue

This involves selling new securities to existing shareholders (i.e. shareholders in right issue and bond holders in conversion issue).

e) **Private Placement**

This involves selling securities to selected individuals and institutional investors. This is the main focus of this project and will be discussed in details in this chapter.

2.2 The Nigerian Financial System

The financial system in Nigeria may be said to perform two vital functions, which allows the growth and development in the country. First, the system provides a convenient and sufficient system of payment which has improved from payment in notes, coin and credit card and so on, to automatic funds transfer system as in advanced capitalist countries. Secondly, the system allows the movement of funds from surplus units and channeling same to productive investments, i.e. the deficit units[2].

The Nigerian financial market provides an avenue for the above functions to be performed. A market where financial investments of 1-12 months tenure are traded, is said to be a 'money market'. If however financial instruments of more than 12 months are traded, such a market is termed 'capital market'. These two markets comprise of the financial system.

Nigeria at independence in 1960 had no such markets. Like many newly independent countries, the Nigerian financial system at the time consisted mainly of foreign owned commercial banks, which were only providing short term commercial and trade facilities.

2 Johnson, I.E., Public Sector Accounting and Financial Control, 1st Edition, Financial Training, 1990.

2.2.1 Objective of the Nigerian Financial System

The Nigerian financial system has the noble objective of boosting the national economy. In line with this, the followings have been identified as amongst the most important objectives of the system.

i) Facilitation of effective management of the economy;

ii) Effective channeling of mobilized saving; and

iii) Disengagement of rural-urban migration, through positive revolutionizing of the rural sector.

2.3 The Securities Market

The level of economic development of any country would be measured by the sophistication of its securities industry. At early state of industrialization, a country will have little need for securities. Populace is contented with mere exchange of commodities among themselves and with their neighbours. There is therefore no need for issuing trading financial claims[3].

As the nation grows and its citizens becomes increasingly specialized in the production of goods and services as well as training not only within the locality, but also with other nations. There is therefore a cash inflow. This creates the need for the development of Securities market - since there is need for investments of the surplus earnings realized from the trading activities.

The terms "securities industry" and "security markets" are rather broad and vague in general usage. They are generally taken to mean the entire payments and financial

3 JOHNSON, I.E., PUBLIC SECTOR ACCOUNTING AND FINANCIAL CONTROL, 1ST ED., FINANCIAL TRAINING, 1992.

mechanism of the country, and therefore include much more than trading in common stock.

It is therefore important to mention the various components that make up the overall financial markets.

i) The Money Market

ii) The Stock Exchange, and

iii) The Capital Market.

COMPONENTS OF THE SECURITIES MARKET

MONEY MARKET (Instruments of less Than One Year Maturity)	CAPITAL MARKET (Instrument of More Than One Year Maturity)

PRIMARY MARKET (New Issues Market)	SECONDARY MKT. (Stock Exchange)

2.3.1 The Development of the Nigerian Stock Exchange

The Stock Exchange provides a market place in which the goods bought and sold are stock and shares. It also provides a mechanism to the raising of capital by means of the issue of new securities. Its origin in the Kingdom dates back to the 17th century when merchants devised a system of pooling their risks and rewards in such a way that their individual shares could be bought and sold through the market place. According to history, these merchants who were keen to open new sources of trade overseas, but conscious of high risk of which their ventures might be subject, joined together with others willing to invest to form joint stock companies which both the risk and rewards were pooled together. The capital was divided into shares and one investor could sell his shares in the venture to someone else if he wishes to convert his shares back into money.

The earliest recorded company thus financed on the "joint stock" principle was the Muscovy Company in about 1555. In order to facilitate the share transaction, the merchant or their agents (stock-brokers) were reported to be gathered in coffee house, in the old city area of London in which both buyers and sellers could deal in the stock "without being dependent upon finding an exact match of their own purchase or sale". The stock exchange still continuous to play this role although a number of sophisticated mechanism, have been developed for the smooth running of the capital market.

2.3.2 The Nigerian Stock Exchange - Origin and Growth

The stock exchange in Nigeria as an organ within the capital market is a recent creation when compared with the origin of the system in the 17th century. It came into existence in the 15th September 1960 as a company limited by guarantee, but did not commence business until 6th June 1961.

The period between 1961 and 1971 were spent by the functionaries of the Exchange, the issuing house, and the capital issues committee in establishing a capital market whose operation and rules of procedures were acceptable to the private sector general and particular the foreign controlled companies. The strategy was one of caution. The line of least resistance was to adopt almost in its entirely the then prevailing self regularly rules of the London Stock Exchange which had stood the test of time and had been accepted by most of the parent bodies of the Nigerian foreign subsidiaries. It was clear that the Stock Exchange was anxious to 'nurse' the organ so as to ensure its acceptability. In the whole, the market enjoyed the support of the Federal Ministry of Finance then headed by a Minister who himself, was one of the greatest advocate of private enterprises of its time.

The operation of the Stock Exchange was novel of the commercial life of the nation. In the first few years of its operation, the preparation of all the offer documentation, took place in London with a team of issuing house officials and their Nigeria solicitors, the whole exercise was cloaked with an air of mystique. Accordingly to a critic, it was all shrouded in mystery. Very few outside the exchange knew what the exchange was all about, the business on the exchange was rather modest and to some extent experimental. The first few issues between 1961 and 1971 numbered 15 equities in all and included Nigerian Tobacco Company Limited, Nkalagu Cement Company Limited and Daily Times of Nigeria Limited.

The period between 1972 and 1974 witnessed the birth of economic nationalism and the change effect in the operational stance of the exchange in terms of its policy of wooing clients to seek quotation.

The promulgation of the Nigerian Enterprises Promotion Decree in 1972 brought about an increase in the volume of business on the Exchange. During the period - 1972 to 1976, the number rose to 34 listed equity securities. In early 1973, it was felt that the capital issues committee needed to be given statutory powers. The capital issues under a Decree in that year. This nine (9) member commission with the Deputy Governor of the Central Bank as its chairman became a control authority and assumed a more business-like and perhaps authoritative posture in its dealings with companies offering shares to the public in compliance with the requirements of the Nigerian Enterprises Promotion Decree.

The implementation of the Nigerian Enterprises Promotion Decree 1972 brought about a lot of public criticism. The Industrial Enterprises Panel was constituted under the chairmanship of Mr. O. Adeosun, following the recommendations of the Panel and the Government White Paper thereon; the Nigerian Enterprise Promotion Decree of 1977 was promulgated.

The Decree set a deadline of 31st December 1978 for all the affected companies to comply. This led to a flurry within the private sector and there was a devilish rush to meet the D-day. The Decree accordingly, led to a further increase in activities of the Lagos Stock Exchange. By reason of this exercise the number of equity securities rose to 92 as of December 1980. Although, in the course of the implementation of the Nigerian Enterprises Promotion Decree many foreign-owned companies were obliged to offer their shares through the Stock Exchange, there was complaints leveled against the pricing policy of SEC by many of these companies, and I must therefore conclude that the increase in the volume of activities was a result of the then prevailing circumstances.

The political posture and the rumor that circulated freely within the private sector about the prohibitive cost of seeking quotation in the Lagos Stock Exchange must account of the relatively low percentage (10% of foreign companies in Nigeria) in the number of foreign companies quoted in the market. Over the period of twenty years ninety-two equity securities have been quoted in the stock market with a total market capitalization of approximately N1.02 billion. It must be stressed that in terms of option, some of the large foreign companies preferred and perhaps still prefer to operate as private companies for a number of reasons.

a) Some of the management executives have not overcome the fear of accountability of large groups shareholders.

b) Stock Exchange requirement for disclosure of corporate information in the case of public companies dictate a higher degree of discipline such as may not always be exhibited in the management of private companies.

c) Mobilization of loan capital by foreign private companies in the state of over liquidity within the banking system is no problem. Additionally, expansion of production facilities is often financed partly by self-generated funds.

d) Seeking quotation in the Stock Exchange may necessitate the reduction in the shareholding of the foreign shareholder except where such foreign shareholders choose new capital other than from retained earnings.

e) Money was available locally for business expansion and development projects.

More so, it provided opportunity for small and investors alike to buy and sell government securities and the stock and shares of companies, at 'for and equitable' prices. In general it performs the role of spreading the ownership base and subsequent benefits to the large public thus preventing the developing of monopolies and concentration of the national wealth in the hands of few individuals.

Specifically, the Nigerian Stock Exchange perform the following functions:

a) Creating a continuous market of the immediate sale or purchases of securities at price determined by their values and supply and demand. This provides a means of maintaining continuous liquidity, situation since they are not obligated to hold them indefinitely.

b) it serves the industry and the economy by indirectly channeling funds through new issues to finance industry investments.

c) It provides an easily accessible means by which investors can buy and sell securities efficiently, at relatively inexpensive prices.

d) The confidence of the general public in financing the investment is boosted by the measures - rules and regulations - taken by the Exchange. Thus, perceptions of the future of the economy by the public as judged by the activities in the Stock Exchange serve as a leading indicator of economic activity in the aggregate economy.

e) The stock market also serve as an avenue for wider distribution of primary issues and make companies whose securities are traded on the Exchange become well known through the publicity given to quotations annual reports etc.

f) The lack of confidence in the Capital Issues Commission (now Security and Exchange Commission) with respect to the proper exercise of their powers regarding pricing of share offering private companies.

g) There are no particular fiscal incentives to encourage floatation of their shares in the market. In a further effort to re-arm the capital issues commissioning its policing role, the Committee on the Nigerian Financial System under the chairmanship of Dr. Pius Okigbo, recommended in December 1976, its abolition and the establishment of a body to be known as Securities and Exchange Commission. It also recommended the setting up of a new stock exchange in Kaduna and Port Harcourt. These recommendations were accepted by the then Federal Military Government, with the provision that there should be a single stock exchange to be known as the Nigerian Stock Exchange (NSE) with branches in Lagos, Kaduna and Port Harcourt.

Thus, the Kaduna and Port Harcourt branches were opened in 1978 and 1980 respectively as tracing floors for their respective areas. The branches have since increased from three to six by 1990; the Kano branch was opened in 1989 while the Onitsha and Ibadan branches opened for business in February and August 1990 respectively. The overall responsibility for quotations and enforcement of rulers and regulation continues to be retained by the National Council for Exchange.

Over the last three decades, the NSE has witnessed a slow but steady growth. Trading in securities was concentrated in the Lagos area. Starting with about nineteen securities and a capitalization of N45 million in 1961, the number increased to forty-nine in 1970, one hundred and fifty-three in 1980 and by 1985 it had reached one hundred and seventy-eight with a capitalization of over N5.48 billion.

As at January 1986, there were fifty-nine government securities, twenty-six individual loans and preference stock and ninety-five owned by Nigerians. A very peculiar feature of the quoted securities on the exchange is the fact that in Naira value, the government securities have continued to be in the range of eighty to ninety percentage of the total value.

However, in terms of the number of transactions on the NSE, industrial securities has been witnessing a steady increase while the number of transaction in government securities has plummeted from twenty-seven percent (27.5%) in 1961, to less than 0 per cent in 1990 (0.7%).

The government has been largely significant in the level of development attained by the Nigerian Capital Market. In 1986, out of a total of N492.7 million respectively, the value of transactions on the Exchange, N470.3 million being 95.55 was realized from government securities.

Today, the NSE has over 265 securities within a capitalization of over N299.9 billion. The value of new issues raised through the capital market witnessed an upsurge form N378.8 million in 1980 to N14.081 billion in 1998.

The Nigerian Stock Exchange has had to contend with a lot of problems characteristic of an institution that has to as much as possible, go by certain assumptions, and more so, in a complex environment such as Nigeria. These problems notwithstanding, the patrons of the Nigerian Stock Exchange would not want anything that will shatter their confidence done to the organization. These therefore become the main instrument (finance assets) that is traded in the Nigerian Capital Market (i.e. debt and equity).

2.3.3 The Stock Exchanges and the Capital Market

The Stock Exchange is indeed not just a financial institution, but also the very hub of the capital market, the pivot around which every activity of the capital market involves. It is not only vital to the successful operations of the market, but also central to the entire capital mobilization process. This could not be divorced from the opportunities it offers to the continuous trading of securities issued by the fund users without the facilities and the chance which is thus availed to investors to liquidate their investments or adjust their portfolio whenever the need arise, it is doubtful if there would be any incentive or motivation to invest in securities. Most savers would then probably simply hold into their funds in cash or bank deposits, which guarantee that they would be able to meet the fundamental purpose of saving.

The marketability of securities, which the Stock Exchange imparts therefore, has extremely important implications for the individual saver, the investor or fund user as well as the nation as a whole[4].

The emerging pattern of the institutional framework for the creation of wealth in the free enterprise economic which brought the institution of the Stock Exchange into being in the medieval Europe has throughout the succeeding centuries continued to support the institution and to justify its existence and ensuring its current placing today as the pivot of the capitalist economic system. Today the institution has sprouted in many countries spanning across the globe. In many of these countries, the Stock Exchange has served to facilitate the accommodation of savings and their efficient channelling into competing productive use without violating the basic principle of the enterprise, or private entrepreneurship.

The capital market exists to assist in the transfer of funds from the "excess" unit (savers) to the "deficit" units (investment decision makers). Various types of securities are used in the transfer of funds from saver to users.

2.3.4 The Functions of the Nigerian Stock Exchange

The Stock Exchange has its main function, the task of assisting in the mobilization and allocation of a nation's capital resources manage numerous competing alternative uses. It provides essential facilities for limited liability companies, governments and statutory corporate to raise money.

Also, share price on the Exchange reflects a fair market appraisal of the securities quoted and this aids in the ascertainment of price ranges to be expected for few issues. The

4 THE FINANCE POST, MAY 10, MAY 23, 1992, P. 38.

prices of the individual securities are determined by demand and supply in which buyers and sellers from different geographical areas are brought together.

Changes in a firm evaluation result in changes in the supply and demand for its securities, ultimately lead into a new price for the securities.

2.3.4.1 Membership of the Exchange

The Nigerian Stock Exchange has shareholders of the organisation who may be individuals or institutions. The membership is usually categorized into two:

a) Ordinary member; and

b) Dealing members.

The Council members are drawn from these categories and single here the responsibility of policy making of the Exchange. It operates through a system of committee with responsibility of re-listing and de-listing of securities, discipline, admission and termination of members.

a) Ordinary member

An ordinary member is an institution or individual who has taken up five shares of N20.00 each of issue shares capital of the Exchanges having been admitted into registered member. To be considered as a member, an interested party needs to apply to the Exchange and most have its application seconded by two existing members - one of them need to be a member of the Exchanges Council.

In considering an application of membership, the financial integrity, professional suitability and experiences in finance and relate discipline are paramount.

b) Dealing membership

In addition to being an ordinary member, it must be licensed by the Exchange Council for the purpose of trading in stock, share and bonds in the stock market. Dealing members, like ordinary members could be individuals or institutions but who have to accept to be bound by the rules and regulations of the Exchange.

2.3.4.2 Management of the Exchange

The governance of the Exchange is the sole responsibility of its Council, which is also charged with the policy making task.

The Council is made up of individuals and financial institutions drawn from the larger membership and so also are the members of the branch council drawn. The branch council is responsible for the supervision and efficient market operation at the branch level. The official business of the Exchange is conducted through committees of the councils such as situations committee, which considers allocation of quotation and recommends to the Council for approval or rejection.

Members are elected at the Exchange at the annual general meeting at which about one-third of the council members retire these being members who have been longest on the council. The council meets at least once in each calendar month. Special meeting can be convened by the Director, chairman or by written notice signed by at least three members of the Council and manner prescribed by law.

It has four departments:

1) Administration and Secretarial Department

2) Second-Tier Securities Market Department

3) Research and Information Service Department

4) Quotation Department.

2.3.5 Types of Securities

Two types of securities are traded in the Nigerian Securities market as noted above.

1. Debt

The debt instruments are financial claims with an obligation by the issuer to pay a stated interest at stated intervals and to redeem the issuer at a further rate. The commonly available debt instruments in the Nigerian securities market include:

a) Federal Government Development Stock (FSDS)

b) Industrial Loan Preference Stock and Bonds

a) The Federal Government Development Stock (FDS)

The Federal Government of Nigeria usually issues federal government stocks annually. They are long-term loans with maturity ranging between 6-25 years. The FDS in the table in the table below as showing the subscription rates achieved between the 20th-24th Federal government development stock issued between 1981 and 1985.

Federal Government Development Stocks and Subscription Rates between 1981-1985

Year of Issue	FDS	Rate of Subscription
1981	20th	5.2%
1982	21st	27.5%
1983	22nd	12.4%
1984	23rd	17.6%
1985	24th	28.5%

SOURCE: CENTRAL BANK OF NIGERIA ANNUAL REPORT

It should be noted that Investment Act, 1962 and the Insurance Companies Act 1976 categorically made it mandatory for some savings surplus units (pension and provident funds, and insurance companies) to invest part of their funds in government stocks.

b) Industrial Loan, Preference Stock and Bonds

These are cooperative loan stocks that are used for financing long-term capital requirement. The stock may be specific as to redemption date; thus, the company has definite years to plan the repayment. Usually, there is a sinking fund made up of specific periodic amount set aside to meet the repayment at maturity.

Another feature is the tax shield effect of interest payment. Here, the interest that is paid on the loan stocks is charged against the operating profit and so the cost of obtaining the fund is effectively reduced by amount of tax saved, the cost of loan capital is further reduced where provision is made for inflation.

To date, the daily official list of the Stock Exchange contains the following corporate debt.

CORPORATE DEBT	NO. OF OUTSTANDING
Redeemable Debentures	10
Mortgage Debentures	8
Loan Stock	3
Unsecured Debentures	2
Preference Shares	5
Bonds	1
Convertible/Redeemable Loan Stock	1

2. Equity

This refers to the capital of the owners of a company (i.e. ordinary shares). The ownership of a share confers on the holder the right to receiving notice of meetings, attend and vote at such meetings. This ordinary shareholder are also entitled to any surplus of income in the company after the prior of debtors have been satisfied; equity claims are viewed as a source of permanent capital with no contractual payment by the firm.

To date there are 195 equities listed on the Nigerian Stock Exchange.

2.4 Regulatory Bodies of the Nigerian Securities Market

The following bodies generally regulate the Nigerian securities market:

a) The Federal Ministry of Finance

b) The Central Bank of Nigeria (CBN)

c) Securities and Exchange Commission (SEC)

d) The Nigerian Stock Exchange (NSE)

While the NSE supervises the operation and activities relating to exchange of existing securities, the SEC takes charge of the overall regulation of the entire securities market. The Federal Ministry of finance and Central of Nigeria, both provide for the regulation in terms of guidelines for the purpose of the project in focus in the Securities and Exchange Commission.

2.4.1 The Nigerian Securities and Exchange Commission

For any organisational set up, there must be a regulatory body (formal or informal) to monitor the affairs of the organisation. This is the role Securities and Exchange Commission (SEC) whose existence or evolution was simultaneous with the development of securities market in Nigeria.

The Securities and Exchange Commission (SEC) can be said to be the brain-child of the Committee in their view of the Nigerian financial system (the Okigbo Committee) in 1976, which recommended the establishment of the SEC, among other things, to 'register all securities' proposed stock for offer or sale to the Nigerian public or private offers if they are to be kept by person other than those to whom the offer were made.

In 1979, the Federal Government accepted the Committees recommendation and this led to the establishment of the Securities and Exchange Commission via the Securities and Exchange Commission decree No. 7 of 1979, with effect from April, 1978.

According to the Decree, the functions of Securities and Exchange Commission are:

a) Determining the amount and time at which securities of a company are to be sold to the public either through offer for sale or subscription.

b) Registration of all securities proposed to be offered for sale or for subscription by the public or to be offered privately with the intention that the securities shall be held ultimately other than by those whom the offers were originally made.

c) Maintaining surveillance over securities market to ensure orderly, fair and equitable dealings in securities.

d) Protecting the integrity of the securities market against any abuse arising from the practice of insiders trading.

e) Acting as regulatory apex organization of other Nigerian Stock Exchange and its branches to which would be at liberty to delegate powers.

f) Creating the necessary atmosphere for the orderly growth and development of the capital market.

g) Undertaking such other activities as are necessary or expedient for giving full efficient to protection of the Decree.

2.5 Debt Financing

The act of obtaining funds publicly through the issuance of securities is, as previously noted, a costly, complicated, time-consuming, and periodically uncertain process. Many of these difficulties can be overcome if sufficient sources of funds are available and can be utilized by the company[5].

As an alternative to going to the public capital market, a company seeking for funds may be, in some cases, merely groups of private investors. The institutional investors that participate in placements generally are:

1) Life Insurance Companies
2) Mutual Funds
3) Pension Funds, and
4) Foreign Investing Groups.

This type of loan is referred to as private placement because it does not involve the public capital market and it is not registered with regulatory bodies such as the Securities and Exchange Commission (SEC). Private placement has been a factor in long-term financing since the 1930s' and in recent years such transactions have increased in advanced economies to the point where they account for half of all corporate offerings and more than half of issues.

In Nigeria, like many developing countries, the data relating to the issue of securities were not available until 1979 when SEC was set up. Even then, most data were only concerned with public offerings and not much was known about private placement of securities. As time went on, this practice became necessary and Nigerian companies started seeking for funds through private offerings.

For life insurance companies, private placements constitute about three-fourth of their bond holding and about nine-tenth of their new bond purchases originate in this manner. It is of course, also possible to sell equity issues using private offering, but most

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5 Schultz, R.C., Schultz, R.E., Basic Financial Management: Text, Problem and Cases, Chapter 14, 2nd Ed., In Text Educational Publishers, 1971.

institutional investors face severe legal restrictions on such placements and are therefore largely precluded from undertaking them.

Number of issued securities as at December 31, 1998 is as follows

Equities		186
Industrial Bonds		59
Federal government Bonds		19
Total	=	264

SOURCE: Nigerian Stock Exchange.

Growth in Number of Issued Securities (1988 - 1998)

However, in recent years, a large percentage of private placements have continued as 'equity kicker' (e.g. stock options) which enables the lender to participate in any future equity appreciation of the borrowing corporation without actually making an equity investment.

The essence of the private placement is that the borrower and the financial institution directly negotiate the transition; some borrowers will utilize the services of others, including investment bankers in finding a market for and negotiate the terms of the financing. These intermediaries will receive a fee for their services but typically it will amount to a small fraction or the cost of underwriting (usually 3% of the loan). Other borrowers will contact and negotiate placements. Private placements offer both the borrower and the lending institutions many advantages.

Advantages to the Borrower

The borrower can usually anticipate the following benefits:

Firstly, the costs of financing process are minimal. If the negotiations are successful, there is no need for any type of underwriting services, and as in the public is not to be[6].

As mentioned earlier, the investment banker might receive a modes fee for helping to place the securities. The need for a trustee may also be eliminated in the private placement though typically both an indenture and trustee are used.

Secondly, the money may be obtained at once or a disbursement schedule may be set up by the institutional investor which will provide the desired funds as they are needed by the company when funds are held in abeyance for the borrower, a modes change (3% or 80%), may be made by the lender to compensate it in part for foregone earnings.

Thirdly, the terms of the loan can be tailored to the exact needs of the borrower. This would include repayment schedules or maturity dates, pre-payment provisions, flexibility in the use of funds and other financing, and the like.

Fourthly, in case of difficulties regarding repayment of the loan, the company and the institutional investor are better able to work out a satisfactory adjustment then would be the case if the debt were publicly held. Such adjustments may include suspension or amortization requirements for a period or complete deferment of all, payment for a stipulated period without the loan being declared in faults.

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6 Field on Private placed corporate bonds, Journal of Finance, p. 35 (March, 1980).

Advantages to the Lender

First, the terms, particularly the interest rate, will usually be higher than rates available for comparable public offerings. Since the borrower will be of a disadvantage in bargaining, there are considerable cost saving, for the borrower involved in the procedure, and there may be a higher risk to the lender.

Second, the lending institution may be able to maintain closer control over the loan and the borrower through various restrictive loan provisions and covenants, representation within the company (board of directors) etc, such control is usually deemed appropriate since the loan entails greater risk to the lender due to its lack of marketability i.e. the loan is not suitable or liquid since it has no public market.

Third, there are usually higher payment penalties or premiums involved in private placement, because the lender prefers to have good loans remain outstanding and the borrower usually lacks equal bargaining power. When the placement of the loan is with several institutions, pre-payments usually are prorated among them (unlike the at random partial calls made relative to publicly held securities). It should also be noted that unlike the private placement the borrower never has the opportunity to redeem the bonds at a discount, which might occur under favourable market conditions when a public offering was involved. Obviously, the advantage that the lending institution derives from private placement are disadvantage of a private placement to the lender would be the added risk factor of the loan on its non-marketability plus a possible reduction in the diversification of the lending institutions' loan portfolio.

2.6 Equity Financing

The issuing company also can sell preferred and common stock privately to investors. Stock issued in this manner will embody all the rights connected with comparable public offerings except one-marketability or transferability. When equity financing is carried out via a private placement, the securities distributed are not registered and may not be sold on the public market until they are fully registered. Since the registration process is costly an involved, it is usually not feasible for the investor to undergo the process himself. Suck stock is referred to as 'letter stock'. The term indicates the recipient signs an investment letter that stipulates that he intends to hold the stock indefinitely as an investment. The securities laws do not cite a minimum period of time of such ownership after which the owner can sell his shares. The generally acceptable standards is three years, but the owner might well be permitted to sell his interest earlier if he can show that he had a 'change of investment circumstance'. Obviously, the entire situation is quite nebulous and fraught with legal period for investor since to violate the securities law as provision invites Federal prosecution (which could result in fines and or imprisonment). As a result of the restricted transferability of unregistered stock, the investor acquiring it assumes considerable additional risk. In return for this added risk element, the stock generally is issued at a considerable discount from its current market value. These discounts initially do to dilute the market price of reissued share since the latter are insulated from the former due to the non-tradability of the letter stock (though per share earnings, book value and voting control will be affected immediately). However, in the long run (when the lettered stock can be marketed), there are very definitely will be a potential dilution factor for the market value of the stock.

This can be seen in the following examples.

Pans (Nigeria) Limited needs one million naira (N1, 000,000.00) of equity funds to meet a serious liquidity problem. The company has profit of N825, 000.00 on the following capital structure:

Ordinary Shares	N2, 750,000.00
Reserves (Surplus)	_4,250,000.00
	N7,000,000.00

Market price of stock is currently N45 per share. UMO mutual funds will buy 25,000 unregistered shares of N40 per share. What effect will these unregistered issues have on the ordinary shareholders interest?

Earnings per share $\frac{\text{N825, 0 00.00}}{275{,}000.00}$

= N3 before the offering

After the offering in the level of earnings is not increased, then the new earnings per share is:

$\frac{\text{N325,000.00}}{300{,}000.00}$ = N2.75 earning per shares

Theoretical market value based on earnings:

$\frac{\text{N45}}{3}$ = N15 per price earning before the offering.

15 X _2.75 = _41.25 theoretical market value after the offering based on earning per share.

Average value of shares issued:

25,000.00 x _40 = N1, 000,000.00

275,000 x _45 = N12, 375,000.00

N13, 375,000.00

N13, 375,000.00 = 44.58 average values share issued

N 300,000.00

Book value

N7, 000,000.00 = _22.45 book value per share before offerings

N275, 000.00

N8, 000,000.00 = _26.67 book value per share after the offering

N300, 000.00

Vote Control

N25, 000.00 = 8.33% of the shares are represented by the new issue.

N300, 000.00

Hence, the old stockholders would have lost that amount of control in the company.

In the foregoing examples the average value of shares would have declined by only N0.42 per shares (i.e. N45.00 - N44.48). However, unless the new capital could generate and maintain per share earnings of N3 there would be substantial market value dilution. Another factor would be the potentially greater trading activity in the stock after the lettered stock eventually is marketed. If there is market of the stock, the additional volume could depress it.

Companies that lack public markets for their shares often will issue lettered stock. The companies may lack public markets due to inadequate size or an unsuitable record of performance. Such stock may serve as consideration in the acquisition of other companies as well. In such use the non-marketability of additional shares may affect favourably the market standing of the registered shares if the interests acquired, produce good earning[7]. The principal institutional market for lettered stock has been the mutual fund industry. Some funds have had considerable difficult nature in periods of generally declining the funds have been guilty of questionable value practices in reporting these restricted investment in their statements. For instance, in the Pans (Nigeria) Limited (illustration above), it is unrealistic to list the lettered stock as being worth N45 per share (or whatever) when it could not be sold at that price. There apparently has been some investment made in lettered stock by pension funds and other financial institutions in addition to the mutual-fund industry. Individuals whose businesses have been purchased by larger concerns hold a great idea of lettered stock.

Essentially, the same advantages and disadvantages exist for lettered stocks as shares found in the private placement of bonds. However, the discounts (or cost) are substantially greater for restricted stocks since the turnover of equity interests typically is much higher than for debt commitments and consequently, the lack of liquidity in the former instance an investor in lettered stock has found that these shares often have another common name 'wall paper' with good reason.

Sources of funds for corporate securities:

The various sources are:

i) Life Insurance Companies

ii) Pension Funds

iii) Industrial Training Funds

iv) Commercial Banks

v) Merchant Banks

7 FINANCIAL GUARDIAN: AUGUST 23, 1993, P. 11.

vi) Investment Companies

vii) Government (Federal, State and Local)

viii) Foreign Investors

ix) Individuals and other sources.

The above summarizes the flow of funds into the capital market from various institutions and individual sources; the category 'individuals and other sources' includes miscellaneous financial institutions, revaluation of asset, holding, statistical discrepancy. The value of debts (issued by governments and industries) and equities between 1991 and 1992 and the percentage change are shown below[8].

Value Of Debts Issued by Governments and Industries between 1991 and 1992 And Percentage Changes

VOLUME OF STOCK			**PERCENTAGE CHANGE**
('000)	**1991**	**1992**	
Government	98.635.8	93,347	-5.4
Industries	10,507.5	6,320.0	-35.1
Equities	67,649.9	161,588.5	138.9
TOTAL	176.793.2	261,255.5	93.7

SOURCE: Nigerian Stock Exchange

8 THE NIGERIAN STOCK EXCHANGE; ANNUAL REPORT 1992.

Generally therefore, with the deregulation on the Nigerian capital market, a healthier securities market operation is bound to prevail.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This project has, as its objective, the determination of the extent to which Nigerian investors (individuals and institutions) avails themselves of the opportunities associated with private placement of securities or stated differently, it seeks to enlighten the investors on the benefits of private placement of securities. The research used to achieve this objective is what I tried to explain in this chapter.

According to Wentz 1979, there is no research design as such; the major guide for appropriate research method and procedure is the objective. Kinnear and Taylor in 1979 emphasized that research design provides a broad framework to determine the type of information to be collected, the source of data and collection procedures.

Rosal (1990) has, according to the nature of the objective or types of research, identified three types of research: casual, descriptive and explanatory.

Casual Research: Seeks to establish cause and effect relationship between variables.

Description Research: Here, a general area of interest is chosen without thought to any theoretical questions or concepts, therefore questions beg a descriptive answer and tends to be of how many? What proportion and so forth.

Explanatory Research: The aim is to explore the study with a view of analysing its characteristics.

The research project may be classified as an explanatory study. Schenel and Hofrer (1979) have considered an explanatory study as one where the focus is an exploring the study area and describing its characteristics. Given the fact that there has been no serious research on private placement of securities in Nigeria, an explanatory study of this kind might be the most appropriate. The work is explanatory in that, it attempts to explore those areas of the Nigerian Securities Market that have hitherto been partially or even never studied.

3.2 Data collection

The collection of data for the conduct of this work, was based on three most conventional methods; i.e. the questionnaire, the interview methods and the collection method through published sources.

The interview method: is by far one of the most appropriate methods despite its errors and bias. This method has a major advantage over other methods. In view of the high level of flexibility, it provides the interviewer to make his points movement from one interviewer to another involves a lot of cost, which limits the application of the method.

The questionnaire method is generally accepted as the cheapest method, and it is relatively cheaper to accomplish. Moser (1971) noted that questionnaires can be sent through mail, while interview cannot. This method eliminates interview bias and interaction bias they are associate within interview method[1].

Another advantage of the questionnaire method is the provision of information with widely spread samples from across the population. A final point from the questionnaire method is that the problem of non-contracts in the strict sense of the respondents not being

1 MOSER, C.A. AND KALTON, G.: SURVEY METHODS IN SOCIAL INVESTIGATION; 2ND EDITION, HEINEMANN, LONDON, 1971.

at home or office when the interviewer calls are avoided.

It is however, important to note that, the questionnaire method has also its shortcomings. Simple and straight forward letter with or without the help of printed instructions and definition must accompany the questionnaire is also another shortcoming of the method, since there is no opportunity to probe beyond a given answer.

3.2.1 Data Collection Procedure

In this research project, an attempt was made to collect data using questionnaires. The questionnaire was designed to elicit information, which ultimately portrays the responsiveness of Nigeria investors to private placement of securities; the benefits of private placements and the inhibiting factors to the growth and development of private placement of securities in Nigeria. To enhance responses the questions were made short simple and straight to the point. Some of the questionnaires were mailed out to other parts of the country.

Interviews were held with a number of investors as well as with officer and managers of institutional investors, the Securities and Exchange Commission and the Stock Exchanges. Review of financial dailies and periodicals were also conducted to identify current issue and data relating to the subject matter.

Also reviewed, were publications of financial institutions, notably the publications of Central Bank of Nigeria, the Nigerian Stock Exchange and the Securities and Exchange Commission.

Articles in the journals of professional bodies were also reviewed. They include the journals of the Institute of Chartered Accountants of Nigeria (ICAN), and Chartered Institute of Insurance of Nigeria (CIIA).

3.3 Sample Selection

Since the respondents include individual and institutional investors (such as *insurance companies, Pension and Mutual Funds, Industrial Training Fund, National* Provident Fund etc) officers of the Securities and Exchange Commission and the Nigerian Stock Exchange; then one can rightly say that the population is very large.

Given this situation, the samples were selected such that the entire population is adequately represented. Of the 200 questionnaires distributed, over half went to individual investors because of the size compared to the other respondents while one-forth of the questionnaire went to the officers of the institutional investors. The Nigerian Stock Exchange officials had twice as much as the officers of the Securities and Exchange Commission (SEC). In essence, the sample selection was rather random to minimize bias and avoid responses from a particular unit of the population.

3.4 Hypotheses

As earlier stated, this research is intended to determine the degree of responsiveness of Nigerian investors to private placement of securities and the relevant hypothesis is as given hereunder.

H_O: Nigerian investors are not responsive to private placement of securities.

The study also examines the extent to which Nigerian securities market utilizes private placement of securities in view of the benefits, which the method offers to both the issuers and the prospective investors. The relevant hypothesis in respect of this is:

H_O: Nigerian securities market does not utilize private placement of securities.

H_o is defined as null hypothesis while H_I is defined as an alternative hypothesis. The hypothesis will be tested in chapter four on the basis of responses received from interviews and questionnaires mailed out.

3.5 Method of Data Analysis and Statistical Approach to be used in proving the Hypothesis

To facilitate the analysis of data and data presentation, different tables were used and these were followed by explanations. In order to prove the hypotheses quantitatively, a statistical approach was used; it is called "percentage method" and this was followed by a quantitative method (chi-square). In proving the hypotheses, formula used for chi-square method is as given below.

$$X_2 = \frac{\Sigma[(O - E)_2}{E}$$

Where:

O	=	The observed (actual frequency in each case)
E	=	Expected (theoretical frequency)
Σ	=	Summation of
X_2	=	the chi-square value.

A chi-square distribution table was used (the table contains degrees of freedom). This helped the researcher to know the chi-square value. Level of significance was required in this type of test and as such the researcher decided to use 1% (0.01) significance level to test the hypotheses. This meant a 99% assurance that the sample collected was a true representation of the population or that the data collected was correct by 99% assurance.

The calculations made under chi-square method are as follow: Degrees of freedom: this was calculated by multiplying the number of rows - 1 by the number of columns - 1 (i.e. row - 1) (Column - 1). This gave the degrees of freedom in the table minus one (-1) as constant.

There are three sets of table involved in the use of chi-square method. An initial table was formed for each of the hypothesis. In this initial table the questions relating to or that helped in proving the hypothesis in the questionnaire were also be taken down or presented in the table. The total figure for positive responses for each question was presented in the table under the heading "Yes" followed by the total figure for the negative responses for each question presented in the table under the heading "no". Then a column where the totals of the first two rows (Yes or No) responses for each question were presented under the heading "TOTAL".

A sample of the initial table is presented below:

Response	-	-	Total
Yes	-	-	-
No	-	-	-
Total	-	-	100

The totals for the question must be shown that when added together, would be equal to 100%.

After the initial table, the second table will be formed, this is where the observed and the expected frequencies will be presented.

In this table, the figure under the "Yes and No" rows and expected frequencies will be calculated for each. The total for each row will be calculated and presented in the table.

Sample Table used for the analysis of the responses of the respondents

RESPONSE	INDIVIDUAL INVESTORS	INSTITUTIONAL INVESTORS	SECURITY MARKET OPERATION	TOTAL
Adequate	-	-	-	-
Inadequate	-	-	-	-
Total	-	-	-	-

Calculating the expected frequencies is to divide the total of each row of the observed frequencies by the grand total and multiply by the total of each individual frequency in the total column, which was presented in the initial table.

For example, if the sum total of the observed frequencies is 100 (i.e. 40 and 60) and the total of each frequency in the total row presented in the initial table are 58 and 42, then the expected frequencies = 40/100 x 58 and 60/100 = 23.2, and 34.8 respectively.

The above explanation is applicable to both the "Yes and No" expected frequencies.

In order to test the validity of the collected data, the second table was followed by a "contingency" table for each hypothesis, contingency table were used where the subject of investigation was in association with or where there was correspondence between two or more attributes.

In the contingency table, the observed frequencies for both "Yes and No" were represented alternatively under the same column headed by "O" the same things for the expected frequencies of both "Yes and No" but in this case, the heading was represented by "E". It is in this contingency table that the contingency value was derived. The contingency value in the table was compared with chi-square table derived from the fund 5% significance level chosen by the researcher under the row of the calculated degrees of freedom (degree of freedom = (r - 1)(c - 1) which represented the chi-square value.

3.6 Criteria for Decision

At 1% significance level and at the calculated degrees freedom, the null hypothesis (H_O was rejected where the chi-square value was greater than the contingency table value).

Note that the rejection of the null hypothesis (H_O) meant the acceptance of the alternate (working) hypothesis.

FORMAT USED IN CALCULATING EXPECTED FREQUENCIES

O	E	O-E	$(O-3)_2$	$(E-O)_2$
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-

Contingency value = %

The results of these tests form the basis on which the conclusion of this research is drawn.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter is concerned with the presentation and analysis of the data that have been collected through the various means; with questionnaires receiving prominent attention.

The rate of return of the questionnaires was about 60%, considering the limited time and the difficulties involved in gathering data in this country. It is hoped that the sample is acceptable for analysis. The personal interview responses were however very good in view of the fact that more than 80% of those interviewed talked freely in the issue.

4.2 Data Analysis

Question by question approach is hereby adopted to ensure detailed analysis of each relevant question. Questions that are directly related to the hypotheses and objectives of this research project.

4.2.1 The Use of Private Placement

How adequate is the use of private placement in Nigeria securities market?

The objective of this question is to determine whether the Nigerian securities market system provides facilities for each registration of "lettered stock" and encourage fund seekers to secure private placements rather than going through the rigors of public offering. The responses of the respondents are shown in the table below.

Table 4.1: Numbers and Percentages of responses to the adequacy of the use of Private Placements

RESPONSE	NO. OF RESPONDENTS	% OF TOTAL
Adequate	36	30
Inadequate	84	70
Total	120	100

SOURCE: The Questionnaire

Table 4.1 shows that 30% of the respondents are of the view that there is adequate use of private placements in the Nigerian securities market, while 70% of the respondents view the use of private placement in Nigerian securities market as inadequate.

From this table, one can rightly infer that the use of private placements in Nigerian securities market is grossly adequately.

4.2.2 Responsiveness of Nigerian Investors to Private Placement of Securities

Would you respond to a Private Placement of Securities?

This question is not only central to the objectives of the research project but also from the basis of the first hypothesis. It is intended to determine the level of responsiveness of Nigerian investors to private placement of securities. Though, it may be argued that the degree of responsiveness of any particular investor will be a function of a number of factors, which may include prices, terms and conditions of offer and the opportunities that exist in the industry concerned.

Table 4.2 Numbers and Percentages of Responsiveness of Nigerian Investors to Private Placement of securities in Nigeria

RESPONSE	NO. OF RESPONDENTS	% OF TOTAL
No	12	10
Yes	108	90
Total	120	100

SOURCE: Questionnaire

The above table shows that 90%of the respondents will subscribe for privately placed securities while only 10% of the respondents will not. The general idea contained in the table is that Nigerian investors are receptive to privately placed securities if given the opportunity. The next question is how much of these offers are made to the investors.

4.2.3 Private Offering of Securities

Have you ever been offered securities privately?

This question was intended to find out the level at which private placements is being used in the Nigerian securities market. If adequate offers are not made to investors, there is no way one can find out whether investors are responsive or not.

Table 4.3 Numbers and Percentages of Responses to Private Offering of Securities

RESPONSE	NO. OF RESPONDENTS	% OF TOTAL
Yes	28	23
No	92	77
Total	120	100

SOURCE: The Questionnaire

The above table shows that only 23% of the respondents have been offered securities privately. This implies that private placements of securities have never been properly utilized in the Nigerian securities market.

4.2.4Experience with private placement of securities in the Nigerian market

If you have ever subscribed for privately placed securities, do you find it an exciting experience?

The question was intended to determine whether those whoever subscribed for privately placed securities felt strongly or not about their investment. Their feelings will dictate their future behavior concerning private placements.

Table 4.4 Numbers and percentages Showing Experience of Respondents to Private Placements of Securities

RESPONSE	NO. OF RESPONDENTS	% OF TOTAL
Yes	22	79
No	6	21
Total	28	100

SOURCE: The Questionnaire

The above table shows that 79% of those who ever subscribed for privately placed securities felt strongly about it; while 21% of such investors did not. On the whole, private placement of securities is an exciting experience at least for those who tested it.

4.2.5 Views of Investors with Regards to Private Placement of Securities in Nigerian Market

As an investor, do you view private placement of securities as a unique opportunity?

The aim of this question, like the proceeding question is to determine whether the investors feel opportune or not when offered securities privately. Investment opportunities are critical to business decisions.

Table 4.5 Numbers and Percentages Showing Views of Investors with regards the uniqueness of Private Placement of Securities

RESPONSE	NO. OF RESPONDENTS	% OF TOTAL
Yes	99	83
No	21	17
Total	120	100

SOURCE: The Questionnaire

The above table shows that 83% of the respondents view private of securities as a unique opportunity, while 17% of the respondents do not view private placement of securities as a unique opportunity. The response contained in the table 4.7 proves that private placement of securities is a unique investment opportunity.

4.2.6 Private Placement of Securities in Nigeria

Should Nigerian securities market encourage the use of private placement of securities?

The object of this question is to determine the degree of utilization of private placement of securities in the Nigerian securities market. It is related to one of the objectives and hypotheses of the research project. Aside from that, the responsiveness of the investors will depend on the effort of the securities towards popularizing the use of private placement.

Table 4.6 Numbers and Percentages of Respondents views regarding the need to encourage the use of Private Placement of Securities in Nigeria

RESPONSE	NO. OF RESPONDENTS	% OF TOTAL
Yes	120	100
No	0	0
Total	120	100

SOURCE: The Questionnaire

Table 4.8 shows that 100% of the respondents shows the need of the Nigerian securities market to encourage the use of private placement of securities. This proves that the securities market does not create the habit in the minds of both investors and fund seekers.

4.3 Test of Hypothesis

The two hypotheses will be tested under these sub-headings. They are:

1. HO: Nigerian investors are not responsive to private placement of securities
2. HI: Nigerian investors are responsive to private placement of security
3. HO: Nigerian securities market do not utilize private placement of securities
4. HI: Nigerian securities market utilizes private placement of security.

Table 4.7 Numbers and Classification of Respondents

INDIVIDUAL INVESTORS	INSTITUTIONAL INVESTORS	SECURITY	TOTAL
67	41	12	120

SOURCE: Questionnaire

Chi-square test is used for all the tests. The steps are found in chapter 3

Table 4.8 Results of Test of First Hypothesis Showing Observed Frequencies

RESPONSE	INDIVIDUAL	INSTITUTIONAL	SECURITY	TOTAL
	15	18	7	40
	52	23	5	50
Total	62	41	12	120

SOURCE: Questionnaire

The expected frequencies are obtained by the ratio of 40:80 multiply by the sub-total each class of respondents (i.e. 40/120 x 67; 80/120 x 67; 40/120 x 4; 80/120 x 41; 40/120 x 12; 80/12 x 12).

Table 4.9 Expected Frequencies from the Different Categories of Respondents

RESPONSE	INDIVIDUAL	INSTITUTIONAL	SECURITY	TOTAL
Adequate	22	14	6	40
Inadequate	45	27	8	80
Total	67	41	14	120

SOURCE: Questionnaire

The significance level = 1% and the degrees of freedom.

= 2. [i.e. (rows - 1) (column - 1)]

= 2. [i.e. (rows - 1) (column - 1)]

= (2-1) (3-1)

= (1) (2)

= 2. Degrees of freedom

Chi-Square, - x 2 + $\frac{(O - E)_2}{E}$

Where O = Observed frequencies

E = Expected frequencies

O	E	(O-E)	$(O-E)_2$	$\frac{(O-E)_2}{E}$
15	22	-7	49	2.23
52	45	+7	49	1.09
18	14	+5	16	1.10
23	27	-5	16	0.59
7	4	+3	9	2.25
5	8	-4	9	1.125
				8.385

From X (Chi-square) distribution table, the value of the cut-off point of x 2 for 2 degrees of freedom with 1% significance level is 9.210. Since the calculated value (8.385) is less than the table value (9.210), the null hypothesis HO, will be rejected. And it implies that Nigerian investors are not responsive to private placements of securities. This further buttress the idea contained in Table 4.2, which emphasized that the response of Nigerian investors to private placements of securities is inadequate.

Table 4.10 Result of Test of Second Hypothesis Showing Observed Frequencies

RESPONSE	INDIVIDUAL	INSTITUTIONAL	SECURITY	TOTAL
Adequate	14	12	10	36
Inadequate	53	29	2	84
Total	67	41	12	120

SOURCE: Questionnaire

The expected frequencies are obtained using the same method as in the first test. This is, the ratio of 36 to 84 multiply by the sub-total of each class of respondents. The results are shown below.

Table 4.11 Expected Frequencies from Different Categories of Respondents

RESPONSE	INDIVIDUAL	INSTITUTIONAL	SECURITY	TOTAL
Adequate	22	14	6	40
Inadequate	45	27	8	80
Total	67	41	14	120

SOURCE: Questionnaire

The significance level is also 1%. The degree of freedom was obtained, by the formula [(rows-1)(column -1)].

(2-1 (3-1) = (1)(2) = degrees of freedom

Chi-square - $X_2 = (O-E)_2$ is also used in calculation below.

O	O	(O-E)	$(O-E)_2$	$\frac{(O-E)_2}{E}$
15	22	-7	49	2.23
52	45	+7	49	1.09
18	14	+5	16	1.10
23	27	-5	16	0.59
7	4	+3	9	2.25
5	8	-4	9	1.125
2	8	-6	36	4.5
				7.175

From the X_2 distribution table, tje va;ie pf tje cut-off point of X for 12 degrees of freedom with significance level of 1% is 9.210. Since the calculated value (7.175) is less than the table value of 9.210, we therefore accept the null hypothesis and reject the alternative hypothesis, implying that the Nigerian securities market do not utilize private placement of securities in the Nigerian securities market is grossly inadequate. It also confirms with Table 4.5's notion that private placement of securities has never been properly utilized in the Nigerian securities market.

From the questionnaires received, the following reasons (which cut across most respondents) were given as inhibiting factors to the growth and development of private placement of securities in Nigeria.

a) Lack of awareness on the part of the investors. A lot of Nigeria investors are not aware and are not made aware of private placement securities.

b) Closely related to the above is lack of information, poor communication network.

c) Illiteracy. Many Nigerian investors are illiterates.

d) The economic situation of the country is a threat to the growth and development of private placement of securities in Nigeria.

e) Fraudulent attitudes of some stockbrokers also impede the growth and development of private placements.

f) Undeveloped investment culture of our people.

g) Credibility on the part of the issuer of such securities.

h) Lack of committed government policy on private placement of securities.

i) The securities market does not encourage the use of private placement of securities.

These and lots of other reasons account for slow growth and development of private placement of securities in Nigeria.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The study first considered the scope of the Nigerian financial system with special emphasis on the securities market and the theoretical framework within which it operates.

It then analysed the data collected and that bridged results are presented below.

The study revealed that, the use of private placement of securities in Nigeria securities market is inadequate; also proved inadequate are responses of Nigerian investor of private placement of securities.

The study also revealed that Nigerian investors would ordinarily subscribe for privately placed securities if given the opportunity, but it has been discovered that, majority of these investors have never been offered securities privately.

Majority of those whoever subscribed for privately placed securities had positive reaction towards their investment, and they also found private placements an exciting experience.

Large proportion of Nigerian investors find private placement of securities as a unique investment opportunity; and would prefer to invest in medium scale business as opposed to small and large scale business.

The need of the Nigeria securities market to encourage the use of private placement of securities was well stressed. All the respondents emphasized that the use of private placements in the Nigerian securities market was grossly inadequate.

5.2 Conclusion

The research finding has established that the Nigerian securities market need to stretch and strengthen the use of private placement of security, this is based on the fact that the Nigerian securities market make little use of this method of offering securities; the research finding reveals. In the same vein, it was established that Nigerian investors are not responsive to private placement of securities. This, as we discovered from the research, resulted from the fact that many investors, had never been offered securities privately. This may not be unconnected with the inability of the securities market to make appropriate arrangements for offering and registering "lettered stock".

It was glaring from the research finding, that those who had the opportunity of subscribing for privately placed securities found it exciting and impressive. To them, it is a good investment. But for those who had never experienced it or subscribed for privately placed securities, it is almost an impossible investment.

Since most respondents agreed that private placement of securities is a unique investment opportunity, then there is no doubt that enormous investors and as well as for investment bankers involved in private placement of securities.

As most respondents prefer to invest in medium scale business, it therefore implies that there will be a good number of fund seekers who may probably have private placements as the best option; in raising the required funds. This was earlier mentioned in the introductory part, where it was emphasized that most privately placed security had been by small and medium sized companies, either because of the market price of their securities or the need to avoid the cost and stringent conditions associated with public offerings. Companies also use private placements in pressing situations. That is, where funds are equipped, instantaneously. Generally, therefore, Nigerian investors would ordinarily subscribe or respond to private placement of securities if the Nigerian securities market set necessary machinery in motion, towards widespread offerings and registering of "lettered stock". This is because; no one will subscribe for securities that will not be registered.

5.3 Recommendation

Based on the research findings, the following recommendations are made; to improve the growth and development of private placement of securities in Nigeria.

The Nigerian Securities and Exchange Commission should develop facilities for easy recording of all securities issued privately. It has discovered in the course of this research project that privately placed securities are not recorded. This will help us to monitor the rate of growth and development of private placement of securities. In much the same way there is need to develop machinery for easy registration of lettered stock, which are issued by companies. The lack of public market due to their size of unsuitable record of performance.

There is need for the Nigerian securities market to educate all classes of investors, operators of the securities market and the general public on the benefits of private placement. As investors are not aware of the method offering securities it therefore becomes imperative to organise seminars, workshops and so forth, in private placement of securities. Apart from creating awareness, it may further strengthen the public confidence and win more participants.

The Nigerian securities market should encourage fund seekers to raise funds through private placement if the total amount required is not so substantial and the time is too short to undergo the processes required for public offerings. Since people learn by doing, encouraging investors will make them become conversant with private placements.

The securities market should ensure that such issues cut across the entire populace to avoid one section of the country dominating the other in the control of national economy, given the role of the securities market in the development of the national economy.

There is also need for enlightenment campaign in the function and operations of the securities market. This will create and or increase awareness on the part of the populace and thereby increasing the number of participants. The Nigerian Securities and Exchange Commission should further regulate private placement of securities in order to increase public confidence on such investment. Most of the required regulations should be directed towards improving the credibility of the issuers of privately placed securities. Equally important, is the need to ensure free flow of information. This is one of the banes of our security flow of information. The investors are not aware of the various investment opportunities existing in the market. The security market should establish a strong communication network, such that all required information could be obtained within a short time by all investors. The Nigerian securities market should ensure that licensed brokers, jobbers, investment bankers etc., adhere strictly to the rules, regulations and the code of conduct spelt out by the Securities and Exchange Commission (SEC). This will go a long to minimise the incidence of fraud and the current wave of "419" in the securities market.

The Nigerian securities market should create a conducive atmosphere whereby fund seekers and lenders meet regularly and negotiate in the price and terms of issues of privately placed securities. This will quicken the growth of private placement of securities.

The Nigerian securities market needs to discourage the undeveloped investment culture, whereby people buy and hold on to securities. This reduces the level of activities and the amount of security traded on in the securities market.

There is the need for the Nigerian securities market in conjunction with the government to float a company to insure all investment in private placement of securities. This will help attract investors, as they will see in their investments as more or less gilt-edged.

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APPENDIX

Department of Business Administration,
Institute of Administration,
Ahmadu Bello University
Zaria.
September, 1999.

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Dear Sir,

QUESTIONNAIRE ON "PRIVATE PLACEMENT OF SECURITIES: DEVELOPMENT IN NIGERIAN SECURITES MANAGEMENT"

I am a post graduate student of Ahmadu Bello University Zaria, and currently reading for my Masters in Business Administration (MBA) for the 1997 / 99 session.

This questionnaire is being sent to you in connection with my research being undertaken in fulfilment of the course. Any information given will be used strictly for the purpose of the research please.

Thank you for your anticipated co-operation.

Yours faithfully,

BELLO M BASHIR.

1. What kind of investor are you

a) Individual investor ☐

b) Institutional investor ☐

c) Other ☐ please specify ....

2. What is the size of you investments?

a) Below N1m ☐

b) Between N1m and N 5m ☐

c) Above N5m ☐

3. If you are an institutional investors what is the size of company..

4. Have you been ever offered securities privately?

YES ☐

NO ☐

5. Would you respond to a private placement of securities

YES ☐

NO ☐

6. If you have ever subscribed for privately placed securities did you find it recruiting expenses

YES ☐

NO ☐

7. As An investor, do you view private placement of securities a unique opportunity

YES ☐

NO ☐

8. How adequate is the use of private placement of securities in the Nigerian market

Adequate ☐

Inadequate ☐

9. Should Nigeria Securities market encourage the use of private placement of securities

YES ☐

NO ☐

10. What in your own views are the problems that hinder the use of private placement of securities in the Nigeria market

11. Comment General on the private placement of securities in Nigeria