BUSINESS FINANCING THROUGH THE NIGERIAN CAPITAL MARKETS A STUDY OF NIGERIA STOCK EXCHANGE

BY

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BEING PROJECT SUBMITTED TO THE POST GRADUATE SCHOOL OF AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

DEPARTMENT OF BUSINESS ADMINISTRATION,
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DECLARATION

I declared that the work in this project report entitle “Business Financing Through the Nigerian Capital Market, A study of Nigeria Stock Exchange” has been performed by me in the Department of Business Administration, Ahmadu Bello University, Zaria. The information derived from the literature has been duly acknowledged in the text and a list of references provided. No part of this project was previously presented for another degree or diploma at any university.

FARUK Mohammed Bamanga	……	…….
Name of Student	***Signature***	***Date***

CERTIFICATION

This is to certify that this project titled "Business financing through the Nigerian Capital Market, a study of Nigerian Stock Exchange" written by Faruk Mohammed Bamanga meets the regulations governing the award of the degree of Master of Business Administration (MBA) of Ahmadu Bello University, Zaria and it is therefore approved for its contribution to knowledge and literary presentation.

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ABSTRACT

The role of the capital market in business financing through the capital market can not be over emphasized. Finance is the livewire of every business organization because the success or otherwise of all business entities are very much depended on its capital and how the capital is raised. Business finance could be raised by either short term or long term financing instrument. Business finance could also be obtained internally or through external sources. Long term financing instrument such as equity, bonds and derivatives are the major instruments traded on the floor of exchange. The NSE performs a number of functions which include creating opportunities for long term borrowing, registration and or quotation of companies' shares for trading on the floor of the exchange, regulating the activities of operators on the floor of the exchange, promotion of increased participation by the public in the private sector of the economy and the provision of appropriate machinery to facilitate further offering of stocks, shares and other securities to the public among others.

The encouragement of the public to raise funds for business enterprises is a function worthy of mention. Surprisingly few companies have made use of the facilities provided by the NSE. Most Nigerian business men are either ignorant of these facilities as a source of long term financing or are avoiding the exchange because of the perceived long bureaucracies involved. This has been identified as one of the major bottleneck of business enterprises who are in dare need of more and cheaper sources of funding to grow competitively in Nigeria. To effectively

analyze the role of NSE, a discussion on its belief history and examination of its activities provided sufficient basis for a critical analyses of its role.

From this critical analysis of the NSE , it is discovered that its role in business financing is a function of its operational problems and the lukewarm attitude of Nigerian entrepreneurs towards its facilities.

It was suggested against this background for the NSE to further decentralize its operations, review its requirement of quotation, introduce more robust method of trading, clearing, delivery and settlement of transactions in line with global best practices, improve its legislation to reflect current realities, embark on more awareness campaign and check inimical activities of stock brokers among others.

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ABBREVIATIONS

ATS	-	-	-	Automated Trading System
CSCS	-	-	-	Central Securities Clearing System
IPO	-	-	-	Initial Public Offer
ISA	-	-	-	Investment and Security Act
NSE	-	-	-	Nigeria Stock Exchange
SEC	-	-	-	Securities and Exchange Commission
SME	-	-	-	Small and Medium Scale Enterprises
SRO	-	-	-	Self Regulatory Organization

CHAPTER ONE

1.1 INTRODUCTION AND BACKGROUND OF THE STUDY

Much has been written about the Nigerian stock exchange (NSE) regarding its operations, functions, potentials and most especially, its role in business financing. Surprisingly few companies have made use of the facilities provided by the stock exchange in financing their business operations.

Most Nigerian businessmen are either ignorant or reluctant to tap the enormous potentials offered by the stock exchange in providing the most needed investment capital. It is against this background that a comprehensive study that will critically analyze the role of the Nigerian stock exchange with particular reference to business financing, which forms the subject matter of this project. For convenience, this project has been divided into five chapters. Chapter one consists of introduction which deals with an overview of the subject matter, other parts of this chapter include the statement of the problem, objectives and significance of the study, its scope and limitation as well as definition of terms and the Research methodology used. Chapter two review the literature on business finance. Chapter three treated the history and the role of the Nigerian stock exchange while chapter four under takes the critical analysis of the Nigerian stock exchange. Finally chapter five deals with the summary of the findings, conclusion and suggestions.

1.2 STATEMENT OF THE PROBLEM

Most businesses are financed through the traditional methods of savings and or borrowing either from business associate or family members while some borrow from the commercial Bank at very high interest rates. This makes it difficult for business organizations to survive as a going concern. While the capital market provided investment capital at Zero interest rate in the shares and other instruments traded on the flour of Nigerian stock exchange.

This study is to analyze critically the role of the Nigerian stock exchange and the extent of it's involvement in raising capital for business organizations.

1.3 OBJECTIVES OF THE STUDY

The objective of the study is to undertake a critical analysis of the role and the extent of involvement of the Nigerian stock exchange in business financing. This will help to determine how businesses raise capital through the stock market, the instruments of financing involve and the regulatory requirement involve. The study will attempt to make useful recommendations on identified areas of challenges and opportunities in the capital market for the benefit of present and prospective investors in our economy.

1.4 SIGNIFICANT OF THE STUDY

Ever since government policy began shifting in the direction of limiting the role of the public sector in business activities, shifted to the market in creating available avenue through which business finances could be raised.

The primary reason that prompted this study is to inform both potential and existing investors of the enormous benefits of raising capital through the stock market. It will also be of great significant to present and future managers of business corporations in understanding how the capital market works and the benefits their in. The study will also avail the people concern the opportunity to know the extent of involvement of the Nigerian Stock Exchange in providing business finances and the challenges face by both the stock exchange and the investors in raising finances through the capital market.

The study will also offer recommendations on how to improve the operational efficiency of the stock exchange and raise awareness of the general public on the benefits and operations of the capital market.

1.5 SCOPE AND LIMITATIONS OF THE STUDY

The study is restricted to the activities of the capital market, (the Nigerian stock exchange) with emphasis to business financing in Nigeria. However, in analyzing the role of the stock exchange, the activities of stock broking firms, securities and exchange commission were also highlighted this is

necessary because a critical analysis of the stock exchange would not be complete it these associated institutions are not considered.

The major limitations of this study is the lack of adequate time on the part of the researcher who is combining his very tasking job of Banking (Currently setting up a new branch in Azare) with his studies. He is also limited by the distance between his present location and Zaria which is over 400km away. This makes it difficult to have constant interactions with his supervisor.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 INTRODUCTION TO BUSINESS FINANCE

A business (also called firm or enterprise) is legally recognized organizational entity designed to provide goods and / or services to consumers or corporate entities such as governments, charities or other businesses. Business are predominant in capitalist economies, most being privately owned and formed a earn profit in order to increase the wealth of their owners.

The etymology of "business" relates to the state of being busy either as an individual or society as a whole, doing commercially viable and profitable work.

In the business world, business financing generally, can be classified into internal and external financing. Weston and Brigham (1978 p. 702) refer to internal financing as the funds made available for capital budgeting and working capital expansion through the normal operations of the firm. Internal financing is approximately equal to retained earnings plus depreciation. External financing, they maintain, refers to funds acquired through borrowing or by selling new ordinary shares. In other words, it means funds coming from external sources i.e outside, for the purpose of this study, attention shall be focused on the external sources of financing which for clarity sake is grouped into short, medium and long term financing. The discussion on the long term financing will be in detail while short term and medium term financing will be in brief. This is because long-term financing is the central activity of the Nigerian stock exchange (NSE).

2.2 TYPES OF FINANCING

There are three major types of financing: Short, Medium and Long term financing.

2.2.1 SHORT-TERM FINANCING

Short term financing is normally used for all money that has to pay back within a year. The period may be shorter than one year as well.

There is a variety of short term sources of finance available to the firm. Short term financing refers to any finance originally scheduled for repayment within a year (Schultz and Schultz; 1972, p. 117). Short term loans are of two types: unsecured loans (like trade credit and line of credit) and secured loans that are collateralized by liquid asset like accounts receivable, marketable securities, land and building, equipment and inventories.

The following aspects are considered when assessing credit worthiness: Character, Capacity, Circumstances, Guarantees and Insurance cover.

The different aspects of short term financing include:

a. Trade creditors: This involves acquiring assets / items from suppliers and paying at a later dater.

b. Factoring: Raising funds on security of the country's debt so that cash is received earlier than if the company waited for debtors to pay.

c. Invoice Discounting: This involves transferring of invoice to a finance house in exchange with immediate cash.

d. Bank overdraft: Short term funding from the banks to meet immediate needs such as working capital shortfall, seasonal trade fluctuations among others.

e. Counter Trade: Counter trade is a method of financing trade where goods rather than money are used to fund the transaction.

2.2.2 MEDIUM – TERM FINANCIING

Medium term which also known as intermediate term financing refers to any form of finance that matures between one and five years. This source of financing, though arbitrary as far as boundaries are concerned, is used finance more permanent funds equipment than those associated with short term sources. In actual fact, intermediate term credit is a heterogeneous.

Category of financing that is traditionally used for bridging the gap between the long term and short term sources of finance.

The main forms are leasing and term loans from both commercial banks and life insurance companies. Term loan are business loans having a maturity of more than a year, with negotiable repayment arrangement. Majority of these loans are advanced without security, because emphasis, is generally placed on the ability of the borrower to honor his obligations by mean of repayments as at when due. Life insurance companies, on the other hand provide substantial amount of credit usually with installment repayment provision.

With respect to equipment leasing, the principle behind it, is basically quite simple. The user (lease) agrees to pay a rental charge and adheres to other conditions of a lease contract, in return for the right to utilize the property of the owner (leaser) in his operations, for a specific period of time. Its various forms include sale and leaseback, operating leases, financial leases, direct leveraged leasing.

2.2.3 LONG TERM FINANCING

Long term financing is a form of financing that is provided for a period of more than one year. Long term financing services are provided to those businesses that face a shortage of capital. It is different from short term financing.

Long term financing shall be defined as any form of financing with maturities that extend beyond a period of one year. Most forms of financing in this section are normally for a period of more than one year while some are even twenty years and beyond. This section will cover a treatment of capital stock (i.e common, preferred and guaranteed stocks) bonds and warrants and convertible financing with option.

Long term financing products include the following: Debentures, interest rates Swaps, secured notes, forwards rate agreements (FRA'S), preference shares, mortgages, fixed deposits loan and so on.

2.3 INSTRUMENTS OF LONG TERM FINANCING

The following are the main instruments of long term financing

- Equity
- Bonds/debt
- Derivatives

The discussion on equity source financing will be in detail while bond/debt and derivatives sources of financing will be in brief. This is because equity financing is the central activity of the Nigerian stock exchange as well as the main focus of this project write up.

2.3.1 EQUITY

Equity financing describes an exchange of money for a share of business ownership. This form of financing allows you to obtain funds without incurring debt; in other words, without having to repay a specific amount of money at any particular time. The major disadvantage to equity financing is the dilution of your ownership interests and the possible loss of control that may accompany a sharing of ownership with additional investors.

TYPES OF EQUITY

There is a number of types equity, each with different characteristics.

a. Common stock or ordinary shares: Common stock, as it is known in the United States, or ordinary shares, according to British terminology, is the most important form of equity investment. An owner of common stock is part owner of the enterprise and is entitled to vote on certain important matters, including the selection of directors. Common stock holders benefit most from improvement in the firm's business prospects. But they have a claim on the firm's income and assets only after all creditors and all preferred stock holders receive payment. Some firms have more than one class of common stock, in which case the stock of one class may be entitled to greater voting rights, or to larger dividends, than stock of another class. This is often the case with family owned firms which sell stock to the public in a way that enables the family to maintain control through its ownership of stock with superior voting rights.

b. Preferred stock: Also called preference shares. Preferred stock is more akin to bonds than to common stock. Like bonds, preferred stock offers specified payments on specified dates. Preferred stock appeals to issuers because the divided remains constant for as long as the stock is outstanding, which may be in perpetuity. Some investors favor preferred stock over bonds because the periodic payments are formally considered dividends rather than interest payments, and

may therefore offer tax advantages. The issuer is obliged to pay dividends to preferred stock holders before paying dividends to common shareholders. If the preferred stock is cumulative, unpaid dividends may accrue until preferred stock holders heave received full payment. In the case of non cumulative preferred stock holders may be able to impose significant restrictions on the firm in the event of a missed dividend.

c. Convertible preferred stock: This may be converted into common stock under certain conditions, usually at a predetermined price or within a predetermined time period. Conversion is always at the owner's option and cannot be required by the issuer. Convertible preferred stock is similar to convertible bonds.

d. Warrants: Warrants offer the holder the opportunity to purchase a firm's common stock during a specified time period in future, at a predetermined price, known as the exercise price or strike price. The tangible value of a warrant is the market price of the stock less the strike price. If the tangible value when the warrants are exercisable is zero or less the warrants have no value, as the stock can be acquired more cheaply in the open market. A firm may sell warrants directly, but more often they are incorporated into other securities, such as preferred stock or bonds. Warrants are created and sold by the firm that issues the underlying stock. In a rights offering, warrants are allotted to existing stock holders in proportion to their current holdings. If all shareholders subscribe to the offering

the firm's total capital will increase, but each stock holder's proportionate ownership will not change. The stock holder is free not to subscribe to the offering or to pass the rights to others.

2.3.2 BONDS/DEBTS

A Bond is a security and a debt instrument that yields a fixed return over a period of time and can be traded in the market like any other security. A bond is essentially a loan that the issuing organization takes from the investor who becomes the creditor of the issuing organization in this case.

A firm could raise money for working capital or capital expenditures by selling bonds, bills, or notes to individual and / or institutional investors. In return for lending the money, the individuals or institutions become creditors and receive a promise that the principal and interest on the debt will be repaid.

A bond is a debt security, similar to an L.O.U. When you purchase a bond you are lending money to a government or a business corporation. In return for the loan, the issuer promises to pay you a specified rate of interest during the life of the bond and to repay the face value of the bond (the principal) when it "matures" or comes due.

a. Secured Bonds: These are bonds with a specified claim on real or personal property of the debtor. In the event of the default, the secured creditor has a prior claim on the specific property. Should this property be sufficient to cover the claims, the secured creditor can then share equally with the general creditors in the distribution of the remaining assets.

The secured bonds include mortgage bonds, equipment bonds and collateral trust bonds.

b. Unsecured Bonds (Debentures): these are type of steady growth in liens against specific assets of the firm. In event of liquidation, a debenture holder becomes general creditor of the firm without any priority of claims on the firm's assets. The major forms of unsecured bonds include convertible debentures which are aimed at facilitating their market acceptance. They are form of flexible and transitional financing because of high probability their eventual exchange for common stock. Another is the subordinated debentures which carry extra high interest rate. They rank below all other long term creditors as far as the issue of claims is concerned.

c. Income Bonds: They are also called adjustment or preference bonds. They earn interest only when earnings are available from which payments can be made. The unpaid interested generally accumulates and must be paid prior to any distribution of funds to stock holders. Due to the weak claim of the income bond

holder on the firm's assets the interest rate it attracts is generally high and when paid, it is tax deductible.

2.3.3 DERIVATIVES

Derivates are financial contracts, or financial instruments, whose values are derived from the value of something else (known as the underlying). The underlying on which a derivative is based can be asset e.g commodities, equities (stocks), residential mortgages, commercial real estate, loans, bonds, or index e.g. interest rates, exchange rates, stock market indices, consumer price index (CPI) or other items such as weather conditions or other derivatives. Credit derivatives are based on loans, bonds or other forms of credit.

The main types of derivatives are forwards which if traded on an exchange are known as futures; others include options and swaps.

Derivatives can be used to mitigate the risk of economic loss arising from changes in the value of the underlying. This activity is known as hedging. Alternatively, derivatives can be used by investors to increase the profit arising if the value of the underlying moves in the direction they expect. This activity is known as speculation.

The main use of derivatives is to reduce risk for one party.

Because the value of a derivative is contingent on the value of the underlying, the national value of derivatives is recorded *off* the balance sheet.

2.4 USES OF LONG TERM FINANCING

Long term financing is necessary for all kind of business entities irrespective of their sizes or status. Long term financing is used in different ways by different types of business entities.

The following are some of the requirements that could be met by long term financing:

- Increasing facilities and production lines
- Expansion and diversification of existing facilities
- Buying fixed assets for present and future expansion
- Buying machinery to expand or replace obsolete ones
- Construction project on big scale

Provide capital for funding the operations. This helps in adjusting cash flows.

2.5 THE FLOTATION PROCESS

Before issuing shares to the public, a firm must engage accountants to prepare several years of financial statements according to the Generally Accepted

Accounting Principles, or GAAP, of the country where it wishes to issue. The offering must be registered with the Securities and Exchange Commission (SEC) before it can be marketed to the public. SEC does not judge whether the shares represent a sound investment, but only whether the firm has complied with legal requirements for securities issuance. The firm incorporates the mandatory financial reports into document known as the listing particulars or prospectus, which is intended to provide prospective investors with detailed information about the firm's past performance and future prospects.

Shares could be issued to the public through initial public offer (IPO), private offering or secondary offering.

a. IPO: the initial public offering (IPO) is the process by which a firm sells its shares to the public. This may occur for a number of reasons. The firm may require additional capital to take advantage of new opportunities. Some of the firm's original investors may want it to buy them out so they can put their money to work elsewhere. The firm may also wish to use shares to compensate employees, and a public share listing makes this easier as the value of the shares is freely established in the market place the flotation need not involve all or even the majority of the firm's shares. The value of IPO's in the UK, although much smaller, has been less volatile.

Some of the biggest flotation's in recent years have involved the privatization of government owned enterprises or privately owned businesses, such as Dangote Sugar and Dangote Flour whose shares were recently sold in the capital market. Such large firms are often floated in as series of share issues rather than all at once, because of uncertainty about demand for the shares. Another source of large flotation is the spin off of parts of existing firms. In such a case, the parent firm bundles certain assets, debt obligations and businesses into the new entity, which initially has the same shareholders as the parent. Among the largest spin offs in recent years in Nigeria have been Dangote flour and Dangote sugar, formally part of Dangote group, lucent technologies, formerly part of AT & T, and Delphi, the component manufacturing unit of General Motors Corp. A third source of the large flotation has been decisions by the managers of established companies with privately traded shares to allow limited public ownership, as in the case of UPS, an American package delivery company.

b. Private Offering: rather than selling in shares to the public, a firm may raise equity through a private offering. Only sophisticated investors, such as money management firms and wealthy individuals, are normally allowed to purchase shares in a private offering, as disclosures about the risks involved are fewer than in a public offering. Shares purchased in a private offering are common equity and are therefore entitled to vote on corporate matters and to receive a dividend, but they usually cannot be resold in the public markets for a specified period of time.

c. Secondary Offering: a secondary offering occurs when a firm whose shares are already traded publicly sells additional shares to the public or when one or more investors holding a large proportion of a firm's shares offers those shares for sale to the public. Firms that already have publicly traded shar5es may float additional shares to increase their total capital. If this leaves existing shareholders owning smaller proportions of the form than they owned previously, it is said to dilute their holdings. If the secondary offering involves shares owned by investors, the proceeds of secondary offering go to the investors whose shares are sold, not to the issuer.

2.6 THE NIGERIAN CAPITAL MARKET

Capital Market is a financial market that provides facilities for mobilizing and dealings in medium and long term funds. The players on the capital markets are the operators who act as immediacies between the providers and the users of the fund. They include Securities Exchanges, Brokers/Dealers, Issuing Houses, Registrars and Investment Advisors.

A stock exchange is market for the sale and purchase of corporate and treasury securities. Stated in another way, it is highly organized market where ownership of existing shares and other securities can be transferred from one person or institution to another. This transfer is affected through the buying and selling of shares.

The stock market can be categorized into two:

a. The primary market: the primary market deals with offering of new issues (Initial Public Offer or IPO's)

b. The Secondary Market: The secondary market deals with subsequent trading of the shares after the IPO is made. There is no involvement of the issuing company. When people talk about the stock market, they refer to the secondary market.

2.6.1 INVESTMENTS REGULATION IN THE NIGERIAN CAPITAL MARKET

Two types of regulations can be obtained in the capital market, statutory and non-statutory. Statutory regulations are usually administered by agencies set by law while the non-statutory regulations are formulated and administered by self-regulatory organization (SROs). The only self regulatory organization in Nigeria capital market is the Nigeria stock exchange (NSE). Non statutory regulations are not laws by themselves but they have the force of law derived from the primary statute. The SROs regulate the activities of their members to ensure high level of professionalism, ethical practices, and efficiency in their conduct of business activity statutorily, the Securities and Exchange Commission is the only regulatory body Empowered by law (ISA) No. 45 of 1999 (and the regulations made hereunder) the Commission's functions could be summarized thus: to protect the

investor's interest and thereby enhance their confidence in the capital market, and ensuring orderly an equitable dealings in securities business. Also SEC is to promote market development and growth, and may order the certificate of a capital market operator to be withdrawn and such market operator to be disallowed from carrying on any capital market function, if it is in the interest of the public to do so.

2.6.2 AIMS OF CAPITAL MARKET REGULATIONS

The aims of regulation are to protect investors from mismanagement of their funds, fraud, insider dealings and other form of market malpractices; and protect the financial system from systematic risk, that is, the possibility that the failure of one financial institution could lead to the failure of several others, and result in a loss of confidence in the entire system.

Good regulation of capital market operation leads to profitability, growth and expansion which will lead to more business financing and employment generation. Increased business financing will lead to more employment opportunities and improved standard of living. Make investments Easier: Good regulation in the capital market will make the process of investing in the market more organized and this will make it easier for investors to operate in the market. With more investors operating in the market, business will benefit from the increased financing and create boost for the economy.

2.6.3 SEC AND DEVELOPMENT OF THE CAPITAL MARKET

The Securities and Exchange Commission is the apex regulatory agency for the Nigerian capital market. The commission has evolved over time having started with the establishment of the Capital Issues Committee in 1962 by the government as an essential arm of the Central Bank of Nigeria. This was purely an ad-hoc, non-statutory committee, which later metamorphosed into SEC in 1978, following a comprehensive review of the Nigerian financial system, with the promulgation of SEC Decree No. 71 of 1979. Successive reviews of this earlier enactment led to the introduction of its current enabling law which is Investments and Securities Act (ISA) No 45 of 1999.

The commission is basically charged with the dual role of developing and regulating the market. Some of its specific functions as listed in section 8 of the ISA are to:

- Register and Regulate securities Exchanges, Capital Trade Points, Futures, Options and Derivatives Exchanges, Commodity Exchanges and any other recognized investment Exchanges.

- Register securities to be offered for subscription or sale to the public.

- ❖ Render assistance in all aspect including funding as may be deemed necessary to promoters and investors whishing to established securities exchanges and capital trade points.

- ❖ Facilitate the establishment of nation-wide system for secondary trading in the capital market.

In carrying out its developmental role in the market, the commission has taken various steps and introduced some measures. For instance, in order to create more awareness of the opportunities in the market and thereby enhance participation by the populace, SEC has engaged in public enlightenments campaigns through radio and television programmes, organizing seminars, workshops, conferences and various publications. It has also, over the years sponsored and promoted interactive sessions aimed at developing new capital market products. It has been sponsoring the introduction of capital market studies at both secondary and tertiary educational levels.

The mandate to protect investors in the market in order to minimize the risk of their becoming victims of any malpractice is a major objective of the commission.

Consequently, the commission has over the years left no stone unturned to ensure that such malpractices are prevented and or minimized. To achieve this objective, the commission adopts and proven tools such as;

a) **REGISTRATION:** Registration is the entry point to the Nigerian capital market as it ensures only proper and fit persons are admitted to operate in the market and that only securities for which all pertinent and material information have been provided that will enable rational investment decisions are allowed to be issued and offered to investors.

b) **SUVEILLANCE:** The ISA empowered SEC to maintain surveillance over the securities market to ensure orderliness, fairness and equitable dealing in securities. Hence the commission's staffs are always present to monitor activities on the floor of the stock exchanges as well as to monitor the activities of other operator in the market.

c) **INVESTIGATION:** The commission is also empowered by the ISA to embark on investigation of any capital market operator as well as any company with regards to securities issuance. Such investigations may be triggered off by petitions to the commission, media reports and so on.

d) **ENFORCEMENT:** The commission, after investigating and ascertaining the veracity of any case of malpractice by any market participant may apply sanctions against such offenders. For instance, registration certificate of erring market operator may be suspended or the commission may institute a legal action to enforce compliance.

e) **RULE MAKING:** Pursuant to the ISA, the commission makes rules for operating in the market; such rules are subject to revision as the need may be.

2.7 THE NIGERIAN STOCK EXCHANGE

The Nigerian Stock Exchange was established in 1960 as the Lagos Stock Exchange. In December 1977 it became the Nigerian Stock Exchange, with branches established in some of the major commercial cities of the country. At present, there are six branches of the Nigeria Stock Exchange. Each branch has a trading floor. The branch in lagos was opened in 1961; Kaduna, 1978: Port Harcourt, 1980; Kano, 1989; Onitsha, February 1990; and Ibadan August 1990; Abuja, October, 1999 and Yola, April 2002. Lagos is the Head Office of the Exchange.

The Exchange started operations in 1961 with 19 securities listed for trading. Today there are 262 securities listed on the exchange, made up of 11 government Stocks, 49 Industrial Loan (Debenture / Preference) Stocks and 194 Equity / Ordinary Shares of Companies, all with a total market capitalization of approximately N287.0 billion, as at August 31, 1999.

Most of the listed companies have foreign/multinational affiliations and represent a cross-section the economy, ranging from agriculture through manufacturing to services.

The market has in place a tested network of Stock brokerage firms, issuing houses (Merchant Bank), practicing corporate law firms and over 50 quality firms of auditors and reporting accountants (most with international links). The Stock Exchange and most of the nation's stock broking firm and issuing houses are staffed with creative financial engineers that can compete anywhere in the World. Therefore, the market has in place a network of intermediating organizations that can effectively and creditably meet the challenges and growing needs of investors in Nigerian. Like any other institution, the NSE was formed as a result of some reason. Prominent among these are the following:

i. To provide local opportunities for borrowing and lending for long term purpose.

ii. To provide opportunity for foreign business to offer their shares, and the Nigerian public an opportunities to invest and participate in the shares and ownership of these businesses.

iii. To provide facilitates for the quotation and ready marketability of shares and stocks and opportunities to raise fresh capital in the market.

iv. To offer companies both existing and new, the opportunity to raise fresh capital in the market.

v. To introduce a case of conduct check abuses and regulates the activities of the operation in the market.

vi. To provide a healthy and mutually acceptable environment for participation and cooperation of indigenous and expertise capital in a joint effort to develop the Nigerian economy to the mutual benefits of both parties.

2.7.1 FUNCTION FO THE NSE

The NSE established to perform some basic functions. These are:

i. The provision of appropriate machinery to facilitate further offering of stocks, shares and other securities to the general public.

ii. The promotion of increased participation by the public in the private sector of the economy.

iii. Provide opportunities for raising new and fresh capital.

In addition to the above functions, the NSE in practice performs the following functions:

i. The provision as a market for the buying and selling of existing stocks and shares as well as granting quotations to new ones.

ii. The provision of opportunity for raising new capital;

iii. The provision of the machinery for mobilizing private and public savings and make them available for productive investment through stocks and shares.

iv. The provision of the facility for converting non liquid assets like shares, stocks and securities into liquid cash conveniently.

v. The protection of the public against fraud. This can be seen in its rules, regulations, and operational codes and practices designed to protect the public from shady dealings and practices in quoted securities.

vi. To facilitate dealings in government bonds and securities by providing funds to the government to finance development plans.

vii. The provision of information and guidance to prospective investors about the names of profitable companies to invest in. the publication of dealings on the exchange and the share information service are part of the means of providing guidance.

2.7.2 TRADING OF THE FLOOR OF THE NSE

The call over trading system was in April replaced with Automated Trading System (ATS), with bids and offers now matched by stock brokers on the Trading Floors of the Stock Exchange through a network of computers. This is done every business day from 11:00am till all bids and offers have been executed (about 1:30 pm on the average).

2.7.3 DEALINGS ON THE NSE

Dealings on the NSE are made through brokers and the jobbers, approved by members of the NSE. A jobber is a person who buys and sells on behalf of himself as the principal. A broker on the other hand, is an agent who buys and sells on behalf of a principal. He charges a commission based on the rates approved by the NSE. Dealers on the NSE are usually called authorized clerks. They are mostly representatives of stock broking firms.

2.7.4 PRICING OF STOCKS:

Prices of new issues are determined by issuing houses/ stockbrokers; while on the secondary market prices are made by stockbrokers only. The market/ quote prices, along with the All – Share Index, are published daily in the Stock Exchange Daily Official List, the Nigerian Stock Exchange CAPNET (an intranet facility), the Nigerian Stock Exchange website (www.nigerianstockexchange.com), newspapers and on the stock market page of the Reuters Electronic Contributor System. The NSE on-line code in the Reuters Networks is NSXA-B. Pricing and other direct controls gave way to direct controls by the regulatory bodies (Securities and Exchange Commission and the Stock Exchange following the deregulation of the market in 1993.

Deregulation has improved the competitiveness of the market, in addition to making it more investor-friendly.

2.7.5 STOCK MARKET LEGISLATIONS:

Transactions in the stock market are guided by the following legislations, among others:

i. Investments & Securities Decree No. 45, 1999

ii. Companies and Allied Matters Decree 1990

iii. Nigerian Investment Promotion Commission Decree, 1995.

Foreign Exchange (Miscellaneous Provisions) Decree, 1

2.7.6 CLEARING, DELIVERY AND SETTLEMENT ON THE EXCHANGE:

Clearing, settlement and Delivery of transactions on the Exchange are done electronically by the Central Securities Clearing Limited (CSCS), a subsidiary of the Stock Exchange. The CSCS Limited ("the Clearing House") was incorporated in 1992 as aprt of the effort to make the Nigerian stock market more efficient and investor- friendly. Apart from clearing, settlement and delivery, the CSCS Limited offers custodian services to clients for safekeeping of sensitive documents and information.

2.7.7 THE ALL-SHARE INDEX:

The Exchange maintains an All-Share Index formulated in January 1984 only Common stocks (ordinary shares) are included in the computation of the index. The index is value relative and is computed daily.

2.7.8 INTEGRITY:

Integrity is the watchword of the Stock Exchange. Market operators subscribe to the code “Our word is our bond. Thus, public trust in the Nigerian stock market has grown tremendously, with about three million individual investors and hundreds of institutional investors (including foreigners who own about 47% of the quoted companies) using the facilities of the Exchange.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter outline the research methods employed, the population covered by the study, sampling procedures, instrument used in gathering data and the procedure for data analysis and presentation.

There are two major sources of data namely; primary and secondary data. Primary data have not previously existed but it is gathered for this specific study through direct interviews with the operators in the capital market such as stock brokers, registrars, regulators, bankers and so on. Secondary data on the other hand have been gathered for other purposes and is already in existence. This will include documentary evidences form the stock exchange and other relevant agencies.

3.2 RESEARCH METHOD

There are several methods that could be used to carry out research including experimental method, survey method and case study methods. However for the purpose of this research work, the researcher employed combination of historical and survey method. This is because the methods were considered to be more appropriate in data collection for the chosen topic of study.

The researcher mostly consulted secondary sources of data.

The secondary sources of data consulted include relevant website on the internet such as the Nigeria stock exchange, securities and exchange commission, the annual report of the Nigeria Stock Exchange, Zenith Economic Quarterly, a publications of Zenith bank Plc and other relevant documents.

3.3 THE POPULATION OF THE STUDY

Population of the study is the totality of the observation under consideration of the sources therefore the population for the research work is the Nigeria Stock Exchange, Securities and Exchange Commission and all other relevant bodies and agencies responsible in raising finances for business enterprises.

3.4 THE SAMPLING METHODS

A sample is the part (or subpart) of population of the study. In this research work, the Nigeria Stock Exchange was taken as the major sample of the research work while the activities of the Securities and Exchange Commission as well as Brokers and Registers were also taken into account. This I believe will give a fair representation of the research population.

3.5 INSTRUMENTS OF DATA GATHERING

In this research work, the following instruments were used in gathering data for the study:

a. Personal observations

b. Personal interviews

c. Documentary sources

Firstly, personal interviews was held with some staff of Zenith Securities Limited, and some stock brokers working also with Zenith securities (a subsidiary of Zenith Bank Plc) and some business entrepreneurs and some Bankers.

Secondly, documentary evidences were another instrument used in gathering some of the data used in this research work. They include mostly relevant website on the internet, annual reports, journals, text books and other relevant materials.

Thirdly, the research made use of his personal observations and assumptions on the research topic base on his personal findings and interactions with some key players in the capital market.

3.6 METHODS USED IN ANALYZING DATA COLLECTED

For a research work to be significantly useful, its data must be presented and analyzed in the light and condition under which it was done. For the purpose of this study, data was presented and analyzed by descriptions, tabulations and percentages.

CHATPER FOUR

4.0 DATA PRESENTATION AND ANALYSIS

4.1 CRITICAL ANALYSIS OF THE ROLE OF THE NSE

So far the basic information necessary for a critical analysis of the role of the NSE have been discussed in the previous chapters.

This chapter therefore, critically analyses the role of the NSE as the title indicates. The analysis centers on the activities and functions performed by the stock exchange Vis-à-vis Business finance.

The Nigerian Stock Exchange (NSE), one of the biggest equities market place in Africa, is home to about 260 companies. The exchange, made up of 10 government Stocks, 55 Industrial Loan (Debenture/Preference) Stocks and 195 Equity/Ordinary Shares of Companies, all with a total market capitalization of approximately N875.2 billion, as at March 10, 2007. most of the listed companies have foreign/multinational affiliations and represent a cross-section the economy, ranging from agriculture through manufacturing to services.

From a market capitalization of just $2.94 billion in 1999, the Nigerian capital market as at June, 2007 had listed stock value of about $63 billion and third in Africa only to South Africa and Egypt exchanges respectively (Zenith Economic Quarterly Vol. 2 no. 11 July, 2007).

Table 4.1 *NSE Market Capitalization (2000-2007)*

Year	2000	2001	2002	2003	2004	2005	2006	2007
Value $ (billions)	4	5	6	10	15	22	40	62

Source: Zenith Economic Quarterly Vol. 2 No. 11 July, 2007 (P: 73)

The Nigerian capital market is now rated as one of the fastest growing and most profitable in the world with an estimated return of over 350% (Zenith Economic Quarterly Vol. 2 no. 11 July 2007). The market has in place a tested network of Stock brokerage firms, Issuing Houses (Merchant Banks), practicing corporate law firms and over 50 quality firms of auditors and reporting accountants (most with international links). The Stock Exchange and most of the nation's stock broking firms and issuing houses are staffed with creative financial engineers that can compete anywhere in the world. Therefore, the market has in place a network of intermediating organizations that can effectively and creditably meet the challenges and growing needs of investors in Nigeria. The growing preference for capital market as a fund raising funds, particularly, on the awareness of the capital as an alternative source of raising funds, particularly, on the awareness of the benefits derivable from equities, which do not carry any repayment obligation. The capital market through the Nigeria stock exchange has provi8ded an avenue for local borrowing or lending of funds for lo9ng and medium term investment,

thereby increasing the capacity of industries in the production of goods and services. As a result of the stability of the stock exchange the country is witnessing a huge influx of foreign direct investment in the economy.

The Nigeria stock exchange has contributed immensely towards mobilizing cheap funds for business on a long-term basis to finance their operations. This has greatly improved the business fortune of so many enterprises.

In 2006, for instance N129.4 billion was raised through the initial Public Offering (IPO), N85.7 billion through supplementary issues, N47.7 billion through right issues and N168.5 billion through the bonds issue, including the Federal Government bonds. (Zenith Economic quarterly, Vol. 3 No. 3 July, 2008).

Listing by Introduction accounted for N407.84 billion. Share placing and preference shares issued accounted for N24.62 billion and N23 billion respectively. The exchange also approved eight applications by Unit Trust for issuance of securities valued at N8 billion.

Table 4.2 *Listed Equities by NSE in 2006*

S/N	COMPANY	EQUITY MARKET SECTOR
1.	NFI Insurance Co. Plc	Insurance
2.	Union Homes Savings & Loans Plc	Mortgage Company
3.	First Inland Bank Plc	Banking
4.	Spring Bank Plc	Banking
5.	Ecobank Nigeria Plc	Banking
6.	Transnational Corporation of Nigeria Plc	Conglomerate
7.	Nigeria Aviation Handling Co. Plc	Aviation
8.	Sovereign Trust Insurance Plc	Insurance
9.	Associated Bus Company Plc	Road transportation
10.	Ecobank Transnational Incorporated	The Foreign Listings

Source: *Zenith economic quarterly Vol. 2 No. 11 July, 2008*

The NSE has engendered high investor's confidence in the market which has contributed significantly to savings mobilization. The stock exchange played a major role in attracting foreign investors into the economy which resulted in huge foreign investment into the economy. The upgrading of the trading floor and the introduction of the electronic trading system enable stock brokers to trade from the

comfort of their offices while the trade alert system allows investors from across the globe to receive immediate notice on my transaction on the stock accounts. This has greatly increased investors confidence, and has attracted a lot of foreign investors to the economy thereby improving the business finances of a number of enterprises.

The NSE has provided avenues for marketability and quotation of stocks and opportunities to raise fresh capital, thereby creating liquidity to both investors and corporate organizations. The process of entering the market has become easier and many companies are attracted to the market to raise funds easily to finance their businesses. The Nigeria exchange has made raising fund cheap for companies and this will result to lower cost of production and cheaper prices of goods and services which will lead to increased demand thereby stimulating economic growth. The capital of a company builds up after publicly quoting its shares in the primary market enables all those that invested in it to become part of owners of the company. The Nigeria stock exchange plays a major role during the recent recapitalization exercise of the banking sector (from 2 billion to 25 billion). All the banks operating in the country are now listed and their shares are traded on the stock exchange on a daily basis.

Table 4.3 ***Performance of the Nigerian Stock Market, 1997 – 200***

Year	All-share Index	Growth (%)	Market Cap (bn)	Growth (%)
1997	6,440.51	-7.9%	282.00	
1998	5,672.76	-11.9%	263.3	-6.7%
1999	5,266.43	-7.2%	300	13.9%
2000	8,111.01	54%	472.9	57.7%
2001	10,963.11	35%	662.6	40.1%
2002	12,137.72	10.71%	763.9	15.3%
2003	14,565.45	20.0%	919.7	22.80%
2004	23,844.45	63.70%	1,925.9	109.4%
2005	24,085.76	1.01%	2,523.49	31%
2006	33,189.30	37.80%	4,227.13	67.5%
2007	57,990.22	74.73%	10,180.29	140.83%
2008				

Source: Zenith Economic Quarterly Vol. 3 July 2008 (P:35).

Through the performance of its functions, the NSE has been able to contribute significantly in raising business finances for so many enterprises in this country. This can be seen in the ever increasing volumes of transactions on the floor of the

Nigerian stock exchange and the increased awareness of the general public about the capital market.

The private and the public sector have all resorted to the capital market to raise funds finance their activities because of the fact that it is the cheapest form of funding especially for long term purposes. Individual and corporate investors are also taking advantage of the excellent returns on the capital investment in the form dividend, capital gains and or bonuses.

The capital market has become the preferred investment option for many because, more often than not, it is reliable channel of investment and a sustainable store of wealth.

The NSE planed introduction of new products such as Mortgage backed securities, assets backed securities, exchange traded funds and derivatives such as futures and options will further deepen the market.

The exchange is also making head way on the arrangement for the introduction of Real Estate Investment Trust (REITS) with the incorporation of rules for the new market segment in the listings Requirement of the Exchange. In the same vein, the Exchange incorporated into its listings Requirement rules for the operation of a Third-Tier market for Small and Medium indigenous companies.

The exchange in collaboration with the small and medium enterprises development agency (SMEDAN) been organizing SMEs opportunities fair,

workshops and seminars to promote the growth of such enterprises by creating the awareness on financing and other advantages available on the stock market for all stake holders involves in the management and day to day running of SMEs.

The insistence of the National Pension Commission that certain percentage of the pension fund be invested on capital market will further boast the finances of so many enterprises.

The Exchange in efforts towards boasting investor education organizes a yearly essay competition for secondary school and tertiary institution so as to create awareness among the general public, most especially youth on the activities of the stock market. Also in June 2007, the NSE and major market operators participated in an international investment road show that took the participant to Atlanta and New Jersey both in United State of America. All this is to create the necessary awareness to the international community on the activities of the stock market in Nigeria.

The above commendations not withstanding, the NSE has a lot of challenges and constraints which in some instances makes it more difficult or at times impossible for investors to access funds through the capital market.

The establishment of the NSE was intended to provide the machinery that will attract Nigerian companies for quotation. The effect here has been minimal. Not up to 200 companies are listed in NSE. The reason for is not far fetched. Little

efforts are made to attract indigenous businesses. This can be seen in the lack of proper dissemination of information on the procedures, requirement and benefit of quotation. Rather the operator of the capital market keeps on blaming the indigenous entrepreneurs for not showing interest on mobilizing funding on the capital market. Other reason why indigenous businessmen are shying away from quotation on capital market includes the fear of losing control or ownership and the high mentality for family businesses. This issue could be addressed through more and regular seminars and other enlightenment programs to sensitize young entrepreneurs on how to build up their business fortune. This will go along way in improving not only the fortune of the enterprise but the economy as whole.

Furthermore, the promotion of increased participation by the public in the private sector of the economy is one of the functions performed to boost business finance. The NSE, instead of rationalizing the allocation of shares to diffuse ownership of shares from a few individuals, allowed these individuals to control substantial number of shares in companies. This has resulted in a situation of uneven distribution of wealth.

The provision of the facility for converting non – liquid assets like shares, stocks and other securities in to liquid cash conveniently by the NSE greatly enhances business finance. Substantial volumes of shares change hands at the stock market (see tables 4.2 and 4.5 in Appendix A). these shares are sold at minimum loss and in most cases at profit. However, the concentration of the bulk of shares in a few

hands means a very small proportion of these shares will be released for trading. This, no doubt results in a thin market shares.

Moreover, the NSE need to establish more branches across the country to properly meet the investment needs of Nigeria with a population 140 million, a considerable land size and vast resources. Despite it contribution to business financing, it can do better if more branches are open across the country.

Another criticism of its role in business financing pertains to its listing fee which too high. This, to an extent affects its efforts in attracting local businessmen to get their companies listed on the stock market (especially the small and medium ones). So far it has succeeded in attracting large scale businesses like UAC, Lever Brothers, Banks, Insurance companies, oil companies, the big conglomerate and the likes, just to name a few. The listings fees runs into million of naira depending on the amount and value of shares to be listed. Every application for additional listing shall, for the purpose of computing listing fees payable is treated as a completely new application. Besides the high listing fees, the requirement of the NSE are so rigid and tough that a lot of indigenous companies cannot make quotation. Though the exchange has established an unlisted securities market called the second tier market for companies in this circle but more effort need to be towards making it possible for companies to get listed easier on the stock market.

Furthermore, the delivery system of the NSE is not efficient as far as the handling of securities transactions by the registrars and stock brokers is concerned. Though part of the problem is outside the jurisdiction of the NSE yet it can be blamed for some of the inadequacies that occur within the system. Brokers not executing their client instruction and long delays in issuing share certificate and delays experience in verification of certificates by brokers and registrars all constitute serious bottle neck to investors on the capital market.

Moreover, the activities of the stock brokers with respect to insider dealing and poor handling of stock broking firms' function to do affect the performance of the NSE. The stock brokers delegate their functions to their most junior clerks who cannot square up effectively to the challenges demanded of the stock broking function. If urgent action is not taken about this, it will have the effect of reducing the volume of trading in the secondary market which is, at present no optimal.

The pricing technique on the secondary market also undermines the role of the NSE a source of domestic financing. The "bid" and "offer" prices are determined by the brokers instead of the jobbers. These brokers even fix prices when the do not have order to buy, a sharp departure from the ideal. The role of the NSE in providing a market for the buying and selling of second hand shares as well as granting quotations to new ones is being put at stake. This is because it stifles the growth of the market. Capital appreciation will be low in periods of falling prices. Thus increasing the desire for cash dividends by investors instead of share bonuses

from their companies, added to the above is the role of the NSE with respect to the stiff requirements for dealing on the exchange. The intention is to ensure that only authorized dealers are allowed to operate. However, these requirements are too stiff that they not only place barrier to entry (which also double the cost of entry) but also increase the cost of sale of any security especially if the price is ridiculously low and this encourage purchases at the expense of sales.

Finally, the protection of the public against fraud by the NSE and SEC go a long way in enhancing business finances. It ensures that transactions on the trading floor are not crippled by fraudulent, exploitative, and manipulative practices. Also, it ensures strict adherence to the professional code of ethic by the operators.

In keeping to the investor protection and maintenance of discipline in the market, the dealing license of Morgan Trust and Assets Management Ltd was revoked in 2006 for unauthorized disposal of clients' shares and related offences and two other stock broking firms were also suspended for breaching the rules of the market in 2006.

On the general notes and considering the much it has achieved in the last couple of years, the challenge for the Nigeria stock exchange now is how to sustain the current tempo and keep the enthusiasm of the local and foreign investors high.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

In the review of literature, business finance was classified into two groups. The first it internal and the second is external. External financing was divided into short, medium and long term financing. The chapter discusses long term finance in detail since it the central activity of NSE while the short and medium term of funding where briefly discussed so as enhance the understanding of the major topic of the research work. Under the long term financing, the instrument involve i.e. Equity, Bonds and Derivatives were discussed. The floatation process and the uses of long term finances were also discussed in details.

In chapter three, the history and the role of the NSE with respect to its formation, operations and functions were discussed, the mode of trading and pricing of stocks on capital market were also highlighted. The method of clearing, delivery and settlement of transactions on the floor of NSE was also discussed. Major or investment legislations and regulations on the Capital Market were also discussed for better understanding of the capital market in relation to Business Finance. A critical analysis of the role of the NSE in business finance was undertaken in the preceding chapter.

5.2 CONCLUSION

From the foregoing analysis it is evident that the NSE performs well over years in raising finances for a number of enterprises in Nigeria, in addition to the basic functions it was originally established for. Furthermore, it can be established that the extent of Business finance undertaken by the NSE is a function of the operation problems confronting the NSE. These problems cut across all aspects of the capital market. These problems include lack of awareness and the lukewarm attitude on the part of prospective entrepreneurs, high fees and other related charges on the capital market, insider dealing by some stock brokers, and unnecessary bureaucracy from NSE itself and other related agencies such as Registrars, the Securities and Exchange Commission (SEC) etc. these and other related problems hinder the NSE efforts towards raising the much needed funding for Business in this country.

The NSE has nevertheless performed creditably well in some aspects it could have done better, if not for some of the problems highlighted earlier.

5.3 RECOMMENDATIONS

To improve its performance the following suggestions are offered:-

i. First the NSE should endeavor to establish more branches in various parts of the country so as to bring its services nearer to the people and also create the necessary awareness among the populace on the benefits derivable from

the capital market. This will go along way in bridging the existing knowledge gab. In other words, it should embark on self decentralization as decentralization offers one basic advantage. It ensures greater access to the capital market by the populace who hitherto, has been going to Lagos, Abuja, Kaduna or Port Harcourt. This will ensure a growing market for securities which will serve as a source of domestic finance for indigenous entrepreneurs. The NSE can partner with financial institutions especially the commercial banks that have branches all over the country in this regard.

ii. Second, the NSE should review it listing fees and other related charges as well as the requirement for quotation. Though this has just been carried out lately, it should be done on a regular basis. The price determination technique should not result in low prices so that it does not discourage public subscription for shares of companies. A way out is to allow brokers and the issuing houses to determine the price. The mechanism should be put in place to ensure a regulated market prices that are determine through the inter play of the market forces of demand and supply driven by the firm's overall performance in the industry or the economy as a whole. The choices of method should be based on a cost benefit analysis.

iii. Furthermore, machinery for educating the investors should be established. The effort of the NSE in organizing seminars and conferences is appreciated, but more should be done. It can set up a training program for

the purpose of educating willing investor on various ways of stimulating activity in the market especially, in the marketable securities in order to enhance their value. Consequently, speculative trading and better dealing on the market should be encouraged. The NSE should partner with federal and state ministries of education towards the introduction capital market subjects and courses n both secondary and tertiary institutions of higher leaning in the country.

iv. Also the delivery system of share certificates and dividend needs to be overhaul. The planned introduction of E-dividend through which investors dividend are credited to their bank accounts directly will not only eliminate the issue of unclaimed divided but it will also ensure investors get their dividend as at when due. The issue of stale dividend warrant will be a thing of the past. The planned facing out of paper certificate will ensure efficiency in the market and will eliminate the current problems face by investors such as mission share certificate, undue delays in getting their certificate verified by registrars and so on. The system will ensure that all allotted shares are lodge into investor's stock broken account electronically. The NSE should review the commission accruing to the brokers for a transaction. So as to encourage them to improve the quality of services they render to their customers.

v. With respect to the inimical activities of insider dealing it is being suggested that an efficient control system should be set in motion to prevent it from reaching dangerous proportions. This control measure can be the form of introducing transaction alerts system on all customers account so as to keep them alert on what is going on their account. The introduction of stiff penalties will also go a long way in minimizing the impact of this problem.

vi. Furthermore, SEC should be limited to legislation to avoid undue interference in the operation of the NSE. It should not get itself involved in the pricing function; market forces should determine the resources allocation.

vii. It is suggested further that the barriers to entry with respect to dealings on the exchange be removed so that more dealers can be admitted to encourage competition. On as serious note, members should embark on an aggressive competition. On a serious note, members should embark on an aggressive marketing of the service of the NSE. This is by encouraging and persuading their companies to use these services. They can even serve as an information network whereby they communicate their feeling about quotation to the NSE.

viii. There is need to reorganize and professionalize most of the registrar departments. At present, it is difficult for investors to sell their shares; verification of signatures takes long time. The quality of staff of most registrars must be improve just as the quality of operations of issuing houses and stock-brokers has improved in line with volume of transactions handled.

ix. Finally effort should be made to encourage the internationalizing of the NSE. If encourage it will permit the movement of investment capital and generate a chain of multiplier effect on the economy. Moreover, many investors, particularly, the multinationals will begin to tap the market for capital. Their initial success will wipe out the lethargy among Nigerian indigenous investors, thereby leading to rush for listings.

In conclusion, the increasing quest for economic development demands that the NSE should be well organized and developed to cope with future challenges. Efforts should therefore be made to strengthen the Nigerian economy by establishing an atmosphere where the NSE can functions in a manner similar to the capital markets of the advanced countries. This however, should be with the national objectives, goals and interest of providing a strong financial base for the nations industries in mind. The capital market occupies very important position in all economies, Nigerian economy not an exception. Its roles in economic

development cannot be over emphasized as it is a veritable source of funds for businesses.

Countries with very active capital markets tends to have the highest level of economic development, while those with low developed or no capital markets lag behind even where good economic opportunities for growth and development exist.

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