AN ASSESSMENT OF THE IMPACT OF PRIVATIZATION ON THE NIGERIAN CAPITAL MARKET

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DECLARATION

This thesis titled, "An Assessment of the impact of privatisation on the Nigeria Capital Market," is the product of my research. To the best of my knowledge, it has never been submitted elsewhere for the award of any degree. Materials used have properly been acknowledged.

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GUGONG, BENJAMIN KUMAI

JULY 2004

CERTIFICATION

This thesis titled, "An Assessment of the impact of privatisation on the Nigeria Capital Market," by GUGONG, Benjamin Kumai, meets the regulation governing the award of the degree of Master of Science in Accounting and Finance, Ahmadu Bello University Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This thesis is dedicated to my elder brother, Engineer Roy J. Gugong whose enormous contribution to my academic life cannot be quantified.

He said to me precisely on 24th July 1993:

"I will spend my last Kobo to train you academically by God's grace."

Engineer Roy, May the joy of the lord continue to strengthen you and perfect that which concerns you. In Jesus Name Amen.

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LIST OF ABBREVIATIONS

1. NSE – Nigerian Stock Exchange
2. SEC – Securities and Exchange Commission
3. TCPC – Technical Committee on Privatisation and Commercialisation
4. SALTA – Sales to Total assets
5. CESA – Common Equity to Sales
6. CETA – Common Equity to Total Asset
7. DIVSAL – Dividends to Sales
8. NIEFF – Net Income Efficiency
9. SALEFF – Sales Efficiency
10. CEQEFF – Common Equity Efficiency
11. ROS – Return on Sale
12. ROA - Return on Assets
13. ROE - Return on Equity
14. BOD – Board of Directors
15. CEO – Chief Executive Officers
16. NCP – National Council on Privatisation
17. ICPC – Independent Corrupt and Other Related Practices Commission
18. EFCC – Economic and Financial Crimes Commission

ABSTRACT

This study examined the impact of privatisation on the Nigerian Capital Market. The main research questions developed were to see whether the Capital Market played an important role in the process of privatisation, whether the privatisation programme brought about efficiency in the privatised parastatals and whether there were increases in the profits of companies quoted on the stock exchange as a result of privatisation.

The methods of data collection adopted were descriptive and the analytical tools used were arithmetic mean and percentages. The main findings of the research were that the volume of trade in the Nigerian Capital Market increased tremendously, mainly as a result of the privatisation exercise. There was a significant increase in the profit and output of the selected enterprises after privatisation and efficiency increased significantly.

The recommendations that were made were that measures should be taken by Bureau of Public Enterprise (BPE) and National Orientation Agency (NOA) to educate members of the public about the activities of the Capital Market and the need for deregulation of the Capital Market.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Public enterprises are government-owned enterprises established mainly to provide infrastructural facilities such as electricity, telecommunication services, water and other essential services. Despite the huge sums spent by various governments on these public enterprises, their performance has been far below average (UNDP, 1990). The problems of public enterprises are many:

- Ill-conceived investments;
- Political interference in decision-making;
- Costly and inefficient use of public resources;
- Growing budgetary burden;
- Over-extension of government managerial capacity; and
- Diversion of credit and other resources from the private sector.

These problems were well documented in a number of reports, notably the World Bank's Human Development Report 1983. This report became the launching pad of a global programme of public enterprises' reforms in Nigeria. We have thus become witnesses to a gradual evolution of a new economic order, which is characterised by structural adjustment programme (SAP). The primary objective of SAP is the rationalisation of national

economy for the purposes of ensuring efficiency and effectiveness in resource allocation and utilisation.

At independence in 1960, Nigerians found themselves in an odd situation where the foreigners among them held economic power and dominance, disproportionate to their number and contrary to the very essence of Independence. Obviously, the direction of the economy from the time of independence had to be changed. The urgency and expectation for rapid growth, early transformation of the economic structure, and improvement in society's welfare meant that the only individuals and institutions with huge resources at their disposal would be able to achieve this. It was therefore in this context that government for purely strategic reasons acted on behalf of the citizens who could not raise the required equity capital by establishing public enterprises.

When there was improvement in the nation's oil fortune, government involvement in the business became pervasive. In other words, the huge financial resources that came at the disposal of government enabled it to expand its activities which otherwise would have been executed by the private sector. But, despite the huge investment of money and time given by the government, public enterprises continuously recorded inefficient performance, became a drain of public resources. Government's good intentions for venturing into commercial activities notwithstanding, the public sector enterprises in Nigeria became solely dependent on government subsidies and the oil revenue continued to provide the resources needed to

meet the subsidies. As a consequence, there was no effort on the part of these public enterprises to look for opportunity at least to break-even.

However, with recession in the economy since 1981 and the decline in government revenue caused by fall in oil prices, the economy became characterised by declining industrial and agricultural output and heavy dependence on crude oil resulted in dwindling foreign exchange earnings. Other disturbing factors included price distortions, non-optimal imports of consumer goods, poor debt management, inflation, unemployment, and scarcity of essential commodities. In the face of all these, it became pertinent to review the previous economic and industrial policies, in addition, it was clear that it was not financially prudent to keep on subsidising companies without adequate returns, as this would indirectly mean slashing grants for good projects to prop up bad ones.

1.1.1 THE PRIVATISATION POLICY

The adoption of SAP by the government in August 1986 was a bold policy move aimed at changing the structure of the Nigerian economy. The objectives of SAP were to restructure the consumption and production pattern as well as to rationalise and restructure public expenditure, On this latter premise, came privatisation. Privatisation is the transfer of the ownership and control of certain production processes from the public to the private sector. It firmly presupposes that the private sector operates at a higher level of efficiency to produce goods and services at lower costs. The

major aim of privatisation thus is to create positive performance in profit terms through greater management efficiency by creating and adding more values in services rendered and for the fees and prices charged.

Understandably, the government would be able to realise more funds from the sale of its ownership in these enterprises and thus block the drain on government revenue from operating the enterprise inefficiently. It is hardly in doubt that many different institutions in the financial sector have a critical role to play in the implementation of privatisation in Nigeria. A general function performed by all of these institutions is to provide one form of financial intermediation or another between suppliers of funds and those who need them. In the case of privatisation, they will essentially perform the same role by bringing together the government that owns enterprises and private citizens and associations that want to buy such shares. Of relevance to this study is the particular role of the capital market in which the main players are the issuing houses and the stock-broking firms while the Nigeria Stock Exchange (NSE) provides the medium and the Securities and Exchange Commission (SEC) acts as the primary regulator. These roles will be highlighted and the impact, which the privatisation exercise itself has in turn on the capital market, will be fully evaluated in this study. Since the focus later is on the adequacy of the Nigerian capital market to cope with the demands of the privatisation exercise, it becomes necessary to examine the institution and mechanism involved in the capital market transactions.

There are, of course, benefits that have been and can be derived with proper implementation of privatisation. These will also be highlighted in the course of the study. The research posits that an efficient capital market should have a catalytic impact on the growth of market oriented economies. Thus, the importance of an active and efficient capital market in ameliorating the country's financial strain should be of great concern. It is the research contention that the- success of privatisation enhances not just the capital market, but the financial system as a whole.

1.2 STATEMENT OF THE PROBLEM

Available records have shown that government-owned enterprises are inefficient. Over the years, their performance level has been very low due to uncontrolled interference in their management and operations by the government. They are also subject of government bureaucracy and official red-tapism. El-Rufai (2000) stated that the case for privatisation is the clear evidence that public enterprises (PE) have contributed to our economic stagnation and poor image. According to him, public enterprises have:

- Created economic inefficiencies;
- Consistently incurred financial losses;
- Absorbed disproportionate share of credit;
- Contributed to fiscal deficits and imbalances;
- Facilitated and entrenched paratism and corruption; and
- Attracted rapacious military-civilian elites to politics.

Accordingly, the primary reason for privatisation is to achieve optimal use of available resources through increased use of managerial skills and efficiency and thus reduce government involvement. It was not easy to achieve this because of the gap in the financial system of Nigerian economy, which is the major factor in the implementation of the privatisation programme. A new orientation of the capital market within the framework of the financial institutions is needed to adequately take care of the privatisation exercise. Attention is also needed to check whether fully or partially privatised enterprises (rural or urban, small and large) will ensure an effective and efficient allocation of resources.

At this point, one would like to know whether privatisation has solved the problems of the government-owned parastatals and whether the involvement of Nigerian public enterprises has become impressive in the securities market. The following are then the central problems that have necessitated privatisation implementation and are the focus of this project:

(a) Overbearing inefficiency of government owned companies;

(b) The alarming magnitude to national debt which has defied the traditional method of debt management;

(c) Low public awareness of the activities of the capital market;

(d) Political sensitivities - problem of equitable distribution of the nation's wealth from geo-political considerations;

(e) Optimal utilisation of the proceeds from privatisation;

(f) Paucity of investible funds;

(g) The differences existing between the value determined by SEC and that as perceived by the privatised companies; and

(h) The regulatory role of SEC which has hindered some public enterprises from being quoted on the NSE.

1.3 OBJECTIVES OF THE STUDY

In the light of the problems highlighted above, the following are the objectives, which the research has set to achieve:

1. To examine the role of the capital market in the implementation of the privatisation programme.
2. To examine the profit performance of the privatised companies before and after privatisation.
3. To find out whether there is also an improvement in the efficiency of some of the privatised quoted companies in the stock exchange.

1.4 SCOPE OF THE STUDY

The study examined the impact of privatisation on the Nigerian capital market. The researcher collected data from 10 firms that have already been privatised. The study utilised data for the period 1983-1998.

1.5 RESEARCH QUESTIONS

The following questions have been developed for the purpose of this research:

1. Can privatisation bring efficiency in the privatised parastatals?
2. Does the capital market play an important role in the process of privatisation?
3. Does privatisation increase the value of firms?
4. Is there increase in the profits of companies quoted on the Nigerian stock exchange as a result of privatisation?
5. Are the listing requirements and the close monitoring activities by the Nigerian Stock Exchange (NSE) and Securities and Exchange Commission (SEC) be the reasons for the reluctance of Nigerian public enterprises' participation in the Nigerian capital market?

1.6 SIGNIFICANCE OF THE STUDY

This study is significant because it is expected to bring out suggestions towards salvaging Nigeria's ailing economy. Many citizens distrust the privatisation policy and its implementation. The significance of this study can be re-emphasised as it is expected to achieve among ether things the following:

1. Correct the erroneous impression of the investing public about the Nigerian capital market as being elitist, by making a comprehensive analysis of its structure and operations;
2. Examine the ways of improving activities in the capital market;

3. Reveal why privatisation requires the capital market and help to improve the implementation of the exercise vis-à-vis the role of the capital market in this regard;
4. Determine whether there has been a change in terms of efficiency regarding sales, common equity and net income;
5. Suggest ways to further reduce government dominance in the capital market;
6. Elicit information regarding the need for the deregulation of the capital market; and
7. To look into the need for privatisation.

1.7 DEFINITION OF KEY TERMS

Capital Market: Is a network of specialised financial intermediaries or functionaries, which have well defined function to perform in the floatation of issues, private or public.

Stock Exchange Market: Is a place where investors with surplus money come into contact with those who wish to borrow it.

Fraud: Is a-criminal deceptive action in order to make money or obtain properties illegally.

Share: Is the smallest unit of holding an investor can obtain in a firm.

Value of the firm: Is the total worth of a firm obtained by multiplying the share price by number of shares of the firm.

Transaction Cost: Is the cost such as "brokerage" associated with the sales of stock by shareholders.

Primary market: Is a market where new securities are issued.

Secondary Market: is a market where already existing securities are

Secondary Market: is a market where already existing securities are traded.

Stockbroker: Is a person who is licensed as a registered representative and thereby act as an intermediary between buyers and sellers of securities.

Efficiency: Means doing things well, and without wastage.

Effectiveness: Means doing things right to meet intended result.

Economy: Means carrying out the activities of an enterprise at a minimum cost.

Privatisation: Means the transfer of the ownership and control of certain production units and processes from the public to the private sector.

Fully Privatised: Means government divesting completely, its ownership and control of the enterprises and selling same to the private sector.

Partially Privatised: Means that government has reduced its equity and withdrawn its subsidies and subventions so that the government enterprises will be under commercial

pressure and depend more on the capital market for funds.

1.8 PLAN OF THE STUDY

The study is divided into five chapters. Chapter one, is the introductory aspect of this study, where the statement of problem is stated, research questions formulated and the objectives and significance of the study are also discussed.

Chapter two is the chapter in which the existing literature in the area covered by the study is reviewed with the aim of coming up with an objective reasoning.

Chapter three deals with the research methodology where the methods of data collection for his study are mentioned. Similarly, the methods of data presentation and analysis are also mentioned and the justification of using such methods.

Chapter four is where the data collected are presented and analysed.

Chapter five is the concluding chapter, which consists of summary of the study, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

The Federal Government in July 1988 promulgated the Privatisation and Commercialisation Decree No 25 of 1988 as the legal framework for the implementation of privatisation and commercialisation programme. The programme was part of the grand plan to restructure the Nigerian economy. By May 29, 1999 the Decree became an Act of National Assembly No. 28.

Privatisation has been defined as the relinquishing of part of all of the equity interest in an enterprise by a government agency (Dongall, 1975). The programme-is aimed at relinquishing part or all of the equity and other interest held by the Federal Government or it's agencies. These could be achieved effectively through the capital market. The capital market as defined by Gaumintz and Dongall (1975) is a complex arrangement of institutions and mechanisms through which intermediate funds and long-term funds are pooled and made available to business, governments and individuals and instruments already outstanding are transferred. In this chapter, privatisation, the capital market, how it operates, and its various components shall be looked into.

2.2 PROGRAMME OF PRIVATISATION IN NIGERIA

Nigeria's programme of privatisation is an integral and critical component of the Structural Adjustment Programme (SAP). Indeed, it is our considered opinion that the two programmes are inseparable. SAP without privatisation

programme will be less beneficial and a programme of privatisation without SAP will be counter-productive.

Nigeria, like most developing countries, had since independence in 1960 and particularly in the seventies, (the oil boom era), developed a large public sector incorporating economic activities such as:

- Banking and insurance;
- Oil prospecting, exploration, refining and marketing;
- Cement, paper and steel mills;
- Hotels and tourism;
- Fertiliser plants; and
- Motor assembly plants, rail, sea and air transportation, sugar estates, etc.

Survey by the Bureau of Public Enterprises shows that there are 590 public enterprises at the end of 2000.

While the oil boom lasted, no one complained of the waste and inefficiencies of our public enterprises and a lot more enterprises of questionable commercial and financial viability continue to be established. It was only in the wake of the economic recession, which began in 1981 that attention began to be focused on the activities of the parastatals. Several study groups were established to examine their operations with a view to determining the basis for a new funding scheme, appropriate capital structure as well as incentive measures to enhance their productivity and general efficiency. The reports of the study groups revealed that such enterprises were infested with problems such as:

- Misuse of monopoly power;
- Defective capital structure resulting in the heavy dependence on the treasury for funding; and
- Mismanagement, corruption and nepotism.

As government could no longer continue to support the waste and inefficiency of these public enterprises, the programme of privatisation and commercialisation was developed to address the socio-economic and political problems with the following broad objectives:

(a) To improve the efficiency and reliability of the operations of public enterprises;

(b) To minimise their dependence on the national treasury for the funding of their operations; and

(c) To encourage share ownership by Nigerian citizens in productive investments hitherto owned wholly or partially by the Federal Government.

In an increasingly integrating world economy where competition is becoming the borderline between nations, any structural defects such as those obtained in a public sector driven economy, will definitely spoil doom for the nation. The only way out is to restructure the economy by releasing its competitive energies and supporting its national enterprises to compete favourably in the international market. A well-articulated and implemented privatisation programme therefore remains one of the few viable avenues for

carrying out such a radical change in the enterprises structure of any economy.

Privatisation can be understood as one essential aspect of price and market reforms. It entails both unshackling private sector development through removal of government restrictions on private economic activity and divestment of state holdings, particularly state enterprises into private hands. After all, privatisation is not an objective in itself; the ultimate objective is to create an efficient economy operating within a democratic political system. The superior performance of market oriented economies is to a large extent due to more extensive decentralisation of decision-making and clearer assignment of rights and responsibilities tp individuals. This immediately raises the question of property rights, that is, the rights to use, benefit from, and dispose of assets. Private ownership is the most far-reaching -and clearly defined property right, and includes exclusive assignment of all three rights.

In the context of privatisation and private sector development, the most important role of the government is establishing a legal framework to facilitate private sector activity and to ensure that the private sector is not discriminated against (e.g., through entry restriction, higher taxes, or limited access to finance). This involves not only eliminating the primacy of state ownership, but also removing any remaining subtle discrimination of private sector activity, and establishing a legal and regulatory framework for the private sector.

The privatisation programme was ushered in by the promulgation of Decree No. 25, the Privatisation and Commercialisation Decree of 1988, which later became the Privatisation and Commercialisation Act No. 28 of 1999. The decree defined privatisation as "the relinquishment of all or part of the equity and other interest held by the Federal Government or its agency in enterprises, whether wholly or partially owned by it." Ibie (1986) defined privatisation "as a denationalisation of nationalised business." Adding also that it is "a process by which the size of an inefficient and ineffective public sector is reduced by transferring Some of its functions to a relatively more efficient private sector." Efoagui (1988) also described privatisation as "the transfer of government, ownership, control and management of industries, agencies and services to the private sector." This definition was corroborated by Muktar (1988) when he stressed that privatisation is a process of transfer of ownership, interest and control in an enterprise from government to private sector".

Privatisation, from monetary economist idea is having less of government participation in direct unproductive activities. Elliot (1989) in his paper titled, "Privatisation: A Pragmatic Approach," pointed out that in the developed economies, privatisation essentially involves an attempt to re-invigorate a poorly-run state enterprise, while in the developing countries, it implies dispensing with a 'loser,' that is, a state enterprise that is sapping the national budget and credit resources.

According to former President Ibrahim Badamasi Babangida, whose administration bought the privatisation idea from the SEC (which first mooted it) as a veritable option to redressing the warped investment priorities of government. Government has decided to divest its holdings in agricultural production, hotels, food, beverage, breweries, banks, distillers, distribution, electrical and electronic appliance and all non-strategic industries. The SAP document itself also stated that privatisation is to overcome observed public ineffective management to government owned and/or controlled enterprises.

The philosophy behind the privatisation of government-owned enterprise thus hinges on government's desire to divest from the enterprises, the need to encourage massive private sector's participation in public corporations, and the need to guarantee efficient and profitable management of such enterprises.

Gbadebo (1990) pointed out that privatisation is a tight rope, which we must gradually work on to improve the firms' revenue generation, ability and performance. Okafor (1991) was of the opinion that it is high time government operators accept that they can no longer; dictate who heads these firms or formulates their policies. He also stated that the basic reasons for privatisation drive, is not so much because the country's economic ethos are actually weighted towards full scale capitalisation, though not bad in itself. The way to treat the inefficiency, waste and to prevent government

from tying down resources for too long in one area since there are more urgent ones to settle is what should be concentrated on.

For the privatisation programme to be successful according to Alile (1987), it requires the re-examination and re-classification of products and services currently provided by the government followed by the application of the most suitable method to transfer some or all of government's responsibility into the hands of the private sector. There is no single model, however, for privatisation. There are broad options available namely:

(a) Management contracts;

(b) Deregulation or withdrawal; and

(c) Divestiture or outright sale.

Management Contracts

There are three forms of management contracts, viz.

(i) Contracting out; in which functions hitherto performed by the public company are contracted out to a private firm.

(ii) Joint venture; whereby the government provides plant and equipment as its share while the private sector provides management and technical expertise.

(iii) Leasing of assets; in which assets belonging to the state are leased to the private sector enterprises.

Deregulation or withdrawal

Deregulation or withdrawal is the form, which allows the private sector to provide a given service hitherto monopolised by the government. This implies the relaxation or elimination of those rules and regulations that make it difficult for private sector companies to compete with their public sector counterparts. The success or failure of such will depend on the ability or otherwise of the new entrants to serve the public.

Divestment

Divestiture of ownership is the commonest form. It is the selling of government owned assets to private buyers, thus removing government investment entirely from such establishment. There are three forms of divestment:

(i) Negotiated sale;

(ii) Auction to the highest bidder; and

(iii) Public offering of share or sale to the company's workers. This is also referred to as load shedding. Alile (1986) opines that it is true privatisation since it involves transfer of ownership and control.

2.3 ESTABLISHMENT AND OPERATIONS OF PUBLIC ENTERPRISES IN NIGERIA

The period before the world economic depression of late 1920s and early 1930s was considered an anathema for the government to be involved in economic activities. Therefore, the role of the government in the view of

classical economists such as Adam Smith, David Richardo and Mills was limited to only creating a conducive economic, legal and institutional environments for the smooth operation of the private sector. That era was the glorious period of capitalism, free enterprises as well as the free interplay of market forces.

The Government of Britain which emerged after the Second World War was that of Labour Party, whose economic philosophy of mixed economy sharply contrasted with the economic philosophy of free enterprises pursed by the war time government of the Conservative Party. The labour government as at then argued that the only fastest way for re-building the war battered British economy was through active public sector intervention in the economy, especially in those activities which produced 'public goods.' They argued that, in that way, it would be possible to make such goods usually demanded by the larger public cheaper than would have been the case if the private sector produced them.

The involvement of successive Nigerian Government in private sector investments was influenced by the economic policies of the post-war British labour government, which to a large extent prepared many African countries, including Nigeria for political independence, in the 1950s and 1960s. Nigeria was left with the economic legacy of government participation in a wide range of economic activities, which produce 'public' goods and activities.

Another factor, which informed government participation in economic activities, was the lack of managerial expertise and capital by indigenous Nigerians at the time of independence. Most Nigerian businessmen were then engaged in distributive and retail trade. Because or the fear that foreign private capital would dominate and exploit the national economy, successive Nigerian governments sought to occupy the commanding heights of the national economy.

The discovery of oil in large commercial quantities in the; 1970s and its rapid growth provided the government with a large; pool of revenue for the expansion of government role in economic activities. By 1995, commutative federal government investments, in such diverse economic activities as large-scale trading, agriculture, manufacturing, construction, transportation, banking, insurance and steel had reached about $100 billion and the return on such investments was put at 0.5 percent and employed about 420,000 people (excluding NICON and CBN). This dismal return as well as other reasons prompted the government to go into the second phase of privatisation of these public enterprises. Now, it is clear that the intention of the government is to divest its holding from the public sector, the question is what objectives would the government achieve?

The programme is intended among other things to:

- Remove the constant political; and
- Budgetary pressure and constraints to which managers of public enterprises are subjected.

These could be solved by allowing the private sector provide services hitherto monopolised by the government. Another means through which the constraints could be alleviated is by the release of funds tied down to ineffectively and inefficiently managed business to more useful and essential areas. Similarly, it could be solved by giving the private sector better opportunity for investment and participation in the economy, thereby improving the level of domestic expertise and capability and also spreading the wealth of the nation to a larger proportion of the population.

Secondly, through the programme, the government can now earn more money by way of company taxes from the hitherto unprofitable ventures. Similarly, by providing a free private flew of investment foreign, capital can now be better attracted. When the service is contracted out through funding by the government, the cost of the service is reduced because the successful contractor must outbid other competitors. The winner is also put on his toes to ensure satisfactory performance since he is aware of the existence of other equally capable rivals or competitors and poor performance will surely attract the loss of the franchise or contract either immediately or at its expiration due to refusal to review. Also:

- The programme is also intended to promote wider share ownership across the country;
- To develop the Nigerian Capital Market;
- To have effective management of the business concerned and independent access to the capital market; and

- Finally, to re-orientate the enterprises to be privatised and commercialised towards a new horizon of performance, improvement, viability and overall efficiency.

To some extent, the programme has achieved its objective. For instance, it has developed the Nigerian Capital Market by providing shares to be traded, thereby utilising the surplus cash held by some members of the community in re-generating income. Similarly, the programme by creating wider ownership of shareholding created over 300,000 shareholders. The cash used by the government to finance these institutions can now be diverted to a more efficient and useful investment. The Government can now earn more money by way of taxes from the companies.

2.4 THE SCOPE OF PRIVATISATION IN NIGERIA

For the purpose of defining the scope of privatisation, the government had outlined five broad categories of enterprises in the SAP document as follows:

(a) Enterprises to be fully privatised

That is, those already functioning along commercial lines. The government is to divest completely the ownership and control of these enterprises and sell same to the private entities, individuals and corporate bodies alike, with the belief that new private sector entities will attain higher efficiency and profitability, (e.g., banks, breweries, hotels, flour mills, etc.)

(b) Enterprises to be partially privatised

Government intends to reduce its equity and withdraw subsidies and subventions so that these enterprises will be under commercial pressures and depend on the capital market for funds. These enterprises range from rolling mills, fertiliser companies to media houses.

(c) Enterprises to be fully commercialised

Government retains its equity but the enterprise expected to operate on business lines and seek for funds from the financial market. The unique feature of this group is that government will no longer provide operating subvention so that in order to raise revenue the enterprise will charge the consumers of their products and services, some economic tariffs. This group includes enterprises like, the Nigerian rational Petroleum Corporation, the Nigerian Telecommunications and so on.

(d) Enterprises to be partially commercialised

Here government will retain its equity and the enterprises are eligible for government support towards operating cost and future capital investment, but proper accounting methods are to be strictly maintained. The enterprises will be restructured to enable them generate part of their financial requirements and also raise capital in the open market, for example National Electric Power Authority (NEPA), Nigerian. Ports Authority (NPA) and so on.

(e) Enterprises that will be maintained as public institutions

Government will continue to provide full operating subvention but the institutions will be allowed to receive user charges appropriate for their products and/or services. Examples include educational and cultural institutions. The privatisation and commercialisation decree list 67 enterprises for full privatisation while 43 enterprises for partial privatisation.

2.5 STRUCTURAL AND OPERATIONAL CHARACTERISTICS OF THE NIGERIAN CAPITAL MARKET

The capital market is often regarded as an elitist affair and exclusively preserved for the top echelons of the capitalist enterprise system. To some people, it is another neo-colonial ploy to perpetuate;' the interest of the bourgeois and the upper class in the ownership and control of the enterprise system. This misconception is compounded by the fact that the capital market is not one of the known and easily identifiable markets on which commodities are traded. Rather, it is a market for intangible commodities of both short and long-term nature, better described as shares representing ownership, part or full, in a company and debenture stock. The actors too are not people but corporate institutions comprising the apex regulatory bodies (including the Nigerian Stock Exchange and the Nigerian Securities and Exchange Commission) and a lot of intermediation agents called operators.

Interaction between economic units makes it possible for the savings of an individual, economic unit to be less than, equal to or more than its

current level of investment. Economic units whose current savings exceed their contemplated investment expenditure (saving-surplus units) can as a result of the interaction, lend the surplus to those economic units (the savings deficit units) whose contemplated investment outlay cannot be financed by their available savings. Thus, according to Okafor (1983) "interaction enables the savings deficit unit to make up for the shortfall by issuing financial claims on themselves and creates the same opportunity for the surplus units to acquire income-yielding financial assets". Such interactions are consummated in the capital market. In a "welcome address during the Nigerian Stock Exchange Annual General Meeting", Aliko Mohammed (1986) defined the capital market as the network of specialised financial institutions that brings together users and suppliers of long-term capital for effective utilisation. The capital market interaction therefore, facilitates the mobilisation and exchange of long-term funds between the economic units. By so doing, financial assets are made available to individuals, firms and governments that may need funds to tie up some problems of economic pressures. This allocation role is very important to the rate of expansion of the economy because, if these surplus funds are not channelled to the most productive areas of the economy and indeed to the articulated needs of the country, their economic efficiency and growth will be married.

The government is not unaware of the lack of funds and the medium for efficiently exchanging the available funds, establish and formalise the

long-term securities market such as the new issues and the stock exchange. Thus, this forms the hallmark of the capital market and the cornerstone of the capital formation process in the Nigerian economy. It provides a meeting place for the providers and users of funds in the capital market, for the buying and selling of shares, stocks and by government, institutional and individual investors.

Ojo and Adewunmi (1982) in their work titled, "Banking and Finance in Nigeria" traced the history of the capital market and indicated that before the establishment of a capital market in Nigeria, there were some less formal market arrangement for the issue of securities for sale and for transfer. Government securities were floated in Nigeria as far back as 1964 but the basic institution for the operation of a capital market was not provided until the establishment of a Lagos Stock Exchange as a formal and specialist capital market institution. The Lagos Stock Exchange was transformed into the Nigerian Stock Exchange in 1978 with two additional branches in Kaduna and Port Harcourt.

The number of companies and securities listed on the stock exchange from 1961 showed the activities of the capital market since its inception. The volume of business, volume of transaction, and the participation as would be seen in subsequent chapters reveal the criteria in which the capital market will be evaluated upon.

Alile and Anao (1986) maintained that the history of the capital market dates back to 1953, when the Federal Government set up a committee to

advise on ways and means of fostering a share market in Nigeria. The committee's report published in 1959 recommended the creation of facilities for dealing in shares, the establishment of rules, regulations, transfer, and measures to encourage savings. This recommendation led to the establishment of the Lagos Stock Exchange in 1961.

In his book, "The Nigerian Financial System," Nwankwo (1980) summarised the reason for the establishment of the capital market as follows:

(i) Provide local opportunity for borrowing and lending;

(ii) Enable the authorities to mobilise long-term capital for economic development of the country;

(iii) Provide foreign business with the facility to offer their shares;

(iv) Provide facilities for quotation and ready marketability of shares and stock and opportunities to raise fresh capital in the market;

(v) Introduce a code of conduct, check abuses and regulate the activities of the operation of the capital market; and

(vi) Finally, through participation and ownership to provide a healthy and mutually acceptable environment for participation and operation of indigenous and expatriate capital to enhance the development of the Nigerian economy.

Adeosun (1979) speaking on the topic, "Stockbroking in Nigeria," asserted that one cannot easily describe the capital market since the environment and level of development in which it operates differs from country to country.

As such, what each country should do is to properly harness its savings for internally generated growth. The Nigerian government recognises its role in this regard and" has passed laws that established bodies to conduct operations in the market and also to regulate activities in the market and the said bodies. For instance, the Capital Market Decree of 1973 was passed to set up a committee to determine the pricing and timing of shares offering.

By 1989 however, the Securities and Exchange Commission Decree was promulgated to take over its function in addition to others which included interjecting a lot of discipline in the capital market while acting as a regulatory body to make sure the investing public is not defrauded. A capital market sometimes determines the future of the government in power and the level of share prices is known to influence public opinion as regards the ability of incumbent government to manage the economy. In the USA for instance, a change of government always affects marker prices. In the case of Nigeria, the change of government in 1979 to a democratic one and the attendant public hesitation toward the new government, coupled with anticipated labour wage increase (as noted by Mr. S. O. Asobia, one time President of the Council of the Nigerian Stock Exchange) affected the activities of the market in the later part of 1979.

The capital market must therefore be geared towards allocating the nation's funds in the productive areas of the economy, as is desired by the government in building virile and stable economy and all factors and actors in the market should aim at achieving this goal. The research shows that the

capital market's major role is the mobilisation of long-term fund and channelling it to productive and optimal uses. Also, the allocation machinery should have in-built mechanism in order to make our economy self-reliant. Since Nigeria is mainly a mono-product economy, oil being mainstay of the economy, there is need for the government to give full attention to the capital market by issuing development stocks to finance some of the projects on large-scale commercial farming, as well as establishment of agro-allied industries.

As a matter of fact, Nigeria's growing awareness with respect to the capital market is highly encouraging. This has been attributed to the growing concept of democracy and the wider implications arising therefore. A pointer is the public over-subscription of shares when the Nigerian Enterprises Promotion Act of 1972, took effect in 1973. Provision of Capital is a strategic factor in stimulating the growth of the economy via the capital market. This in turn depends on the ratio of savings to national income, both of which must increase in such a way as to make for higher growth with a given level of savings. And with the low per capita income in Nigeria, two factors determine the amount one is able to save from income:

- The government policy en fiscal matters with respect to taxation; and
- The inclination to expend a lot on self and the extended family.

Ibie and Ojo (1981) classified the capital market into two: the primary market and the secondary market. The primary market deals with the selling of new securities when the issuing firms first offered them. Since many of the

buyers of the new securities will eventually re-sell them, there is a market for such old securities and this is the secondary market.

Uzoaga (1981) asserted that not all dealings with the capital market are conducted through the organised exchange market, nor are negotiable instruments cover transactions in long-term funds. Thus, in both developed and developing economies, private negotiation, direct placement or over the counter markets exist and supplement the markets on organised exchanges and in some sectors, exceed them in importance. For instance, the Central Bank purchases and sells government stock whether quoted or not. Furthermore, a large number of enterprises raise their funds through private negotiation with suppliers of long-term capital.

Thus, a broad concept of the capital marker must necessarily recognise the existence of all segments of this market. Namely, the organised exchanges as well as the off broad markets because both provide facilities for mobilising long-term funds even though the quality of the facilities and the amounts that could be raised differ.

2.6 THE OPERATION AND COMPOSITION OF THE CAPITAL MARKETS

The market can be said to be composed of the following:

2.6.1 THE NIGERIAN STOCK EXCHANGE

The Nigerian Stock Exchange (NSE) started as the Lagos Stock Exchange (LSE), which was established by the Lagos Stock Exchange Act of 1961. The exchange is one of the most important institutions of the Nigerian capital

market and it is the very centre around which all other operators in the capital market revolve. The exchange provides a meeting place for members to buy and sell existing stocks and shares and also to grant quotations to new ones. It facilitates dealing in government securities and acts as a channel for implementing both the indigenization exercise and the privatisation exercise.

The functions of the Nigerian Stock Exchange include:

(a) To provide a central meeting point for members to buy and sell existing stocks and shares and for granting quotations to new ones;

(b) To provide opportunities for raising' new or fresh capital;

(c) To provide machinery for mobilising private and public savings and making these available for productive investment through stocks and shares;

(d) To help reduce the risks of non-liquidity by facilitating the purchase and sale of securities;

(e) To encourage the investment of savings and ^promote increasing participation by the public in the private sector of the economy;

(f) To protect the public from shady dealings and practices in quoted securities and ensure fair dealings by imposing appropriate rules and codes of operations and practices; and

(g) To facilitate dealings in government securities and attract foreign capital for the country's development.

According to Osaze (1991), the achievements of these objectives has been largely based on the activities of the members of the exchange. And the exchange's primary function is to support the capital raising process by providing the best quality, most efficient, most cost effective market place for the trading of financial instruments and promote confidence in and understanding of the process. The exchange also serves as broad communication arena for its constituencies and the dual role of overseeing the markets and their member firm participants and on the other hand self-regulating itself.

2.6.2 THE SECURITIES AND EXCHANGE COMMISSION

The Securities and Exchange Commission (SEC) is the apex regulatory body of the capital market. It was the Okigbo Committee of 1976 that recommended in its report the establishment of Securities and Exchange Commission, which would among other things:

- Register all securities proposed fur offer for sale to the Nigerian public or for persons other than to whom the offers were made;
- Register exchanges and securities dealers and their agents.

The Nigerian Securities and Exchange Commission came into existence in 1977. Its antecedents date hack to 1962. The first was the Capital Issues Committee (CIC) and the Capital Issues Commission both, which were ad-hoc in nature. The Commission became a legal body with Securities and

Exchange Commission Act of 1972. The SEC has other functions stipulated in section 6 of the Decree. These functions include:

(a) Determining the amount of, and times at which securities of a company are to be sold to the public either through offer for sale or subscription;

(b) Registering all securities proposed to be offered for sale to, 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 made;

(c) Maintaining surveillance over the security market to ensure orderly, fair and equitable dealing in securities;

(d) Registering stock exchange or branches, registering, investment advisers, security dealers and their agents and controlling and supervising their activities with a view to maintaining proper standards of professionalism in the securities business;

(e) Protecting the integrity of the securities market against any abuses arising from the practice of insiders trading;

(f) Acting as regulatory apex organisation for the Nigerian Stock Exchange and its branches to which it would be at liberty to delegate power;

(g) Creating the necessary atmosphere for the orderly growth and development of the capital market; and

(h) Undertaking such other activities as necessary or expedient for giving full effect to the provisions of this decree.

In addition, section 7 of the decree prohibits any "enterprise in which aliens participate whether constituted as a public or private limited or unlimited company or partnership" from issuing or selling securities without obtaining the prior approval of the Commission with respect to price, timing and amount of sale. The same restriction applies with respect to the subsequent issue or supplementary offer for sale by a company, which had already gone before the Commission for an earlier issue of offer.

The Securities and Exchange Commission (SEC) is charged with the responsibility of pricing the securities of companies whether private or public as well as limited and unlimited businesses where aliens are transferring interest to Nigerians. The SEC price fixing role is based on a detailed mechanics of price determination. It is an intelligent estimation of value with the aid of-some quantitative parameters and numerous ^quantitative factors. Therefore, it involves a wide range of details relating to the historical features of the company as well as some projections. The SEC usually call for some information covering the following matters:

(i) Audited accounts for 5 years immediately preceding the issue sale;

(ii) Brief history of the business including particulars of products dealing with;

(iii) Capital structure and changes in them over the years;

(iv) Particulars of top management;

(v) Major features of Memorandum and Articles of Association;

(vi) Pending litigation (if any);

(vii) Future developments; and

(viii) Major contracts entered into affecting the business in material terms.

The Securities and Exchange Commission employs two approaches in share pricing, the asset approach and the earnings approach. The results obtained from are compared, and a price is settled upon after taking into account a number of factors among which are:

- Present state of the business and future prospects;
- Likelihood of continuity of those factors that contributed to past success, (for example, management, supply arrangements, access to trade formula or technological development);
- Nature of the company's product;
- Its susceptibility to competition; and
- Change in government policy or general economic conditions.

(a) THE ASSET APPROACH

The aim of this approach is to determine the net asset or asset backing per share. This is often given by dividing the loans to individual farmers, co-operative societies or other bodies in appropriate cases provided that the bank is satisfied that the schemes for which the loans are requested are viable and there are adequate securities to cover such loans. Grant all such other things as may be deemed incidental or conducive to the capital

market. It was recently merged with People's Bank of Nigeria (PBN), Family Economic Advancement Programme (FEAP).

(b) THE CAPITALISED EARNING APPROACH

This approach of stock valuation rests on the concept that current value of assets depends on the income it can produce over the years. The shareholders seem to value his holding on the basis of the income it will produce rather than the value of the physical asset in the business. Therefore, it is assumed that it will depend on the earning power or potential earning power of the assets.

2.6.3 COMMERCIAL BANKS

The role of commercial banks in the capital market is very little. They participate indirectly in the capital market operation through their receipt of application moneys on new issues. The performance of this function predates the establishment of stock exchange in Nigeria. They have also helped in extending the opportunity to stock ownership to many remote corners of the country, which would have found it difficult to roach stockbrokers. The commercial banks have also assisted the capital market operation by assisting stockholders in the collection of their dividends. The system has helped considerably in diverting the traffic that has already congested the postal system. The system works simply through the filling number of shares outstanding into the net worth subject to any disallowable items such as an unjustifiable asset revaluation, fictitious assets in the

balance sheet, the significant concepts use hook value of asset, reproduction asset, and liquidation value. The book value is derived from the asset values shown on the company's own books present in its most recent balance sheet. The excess of asset over debt is the accounting net worth of business and hence the book value divided by the total number of shares yields the book value per share.

2.6.4 THE CENTRAL BANK OF NIGERIA

The Central Bank of Nigeria (CBN) is the apex of the financial system without which the capital market can scarcely exist. The major roles of CBN include among other things: promotion, operation and participatory roles. The promotional roles includes the responsibilities for establishing such other specialised institutions as the Nigerian Industrial Development Bank (NIDB), the Nigerian Agricultural, Co-operative and Rural Development Bank Limited (NACRDB). The bank plays a major role in the establishment of the Securities and Exchange Commission (SEC). The bank's participatory role consists mainly of its activities as the issuer and underwriter of all Federal Government stocks. Its underwriting roles oblige it to take up any portion of federal issues, which are not subscribed by the public. The bank's function includes the management of the federal government debt. The Central Bank has been particularly active in connection with the development and eventual shaping of the apex regulatory organ. The SEC has Deputy

Governor of the Central Bank as the Chairman. Also, the bank is the main body financing the operations of the Securities and Exchange Commission.

2.6.5 DEVELOPMENT FINANCE INSTITUTIONS

The Development Finance Institutions (DFI) are usually institutions promoted by the federal/state government and sometimes with the financial support of international organisations such as the agencies of the World Bank. Their basic interest is to serve as a catalyst to development through the provisions of various forms of venture capital and technical advice on the setting up of industries, agricultural or other forms of business enterprises. DFI in this country include the Nigeria Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI), the Nigerian Agricultural, Co-operative, and Rural Development Bank Limited (NACRDB) and state investment companies.

2.6.6 INSURANCE COMPANIES AND PENSION/PROVIDENT FUNDS

Insurance companies are also part of the Nigerian capital market in their ability to accumulate funds. The insurance companies and pension/provident funds have been compelled by government to invest a certain percentage of their premium into the Nigerian capital market. In aggregate terms, the insurance industry invested cumulatively a total of N539.7 million in the capital market by 1982 and approximately 60 per cent of this went into government securities and corporate stocks and shares.

The insurance companies and pension/provident fund contributed between N400 and N500 million and added to the non-legislated private provident funds operated by large companies for their employees.

2.7 THE ROLE OF THE NIGERIAN CAPITAL MARKET IN THE IMPLEMENTATION OF PRIVATISATION PROGRAMME

The capital market plays a very important role in the privatisation exercise to the extent that, without the mechanism of the market the privatisation exercise may not be possible. It is in view of this that the Decree No. 25 on privatisation and commercialisation categorically stated in section 6 (1) "all shares of enterprises to be privatised under this decree shall be offered for sale in the Nigerian capital market." In subsection 2 of the decree, it also stated that "all offers for sale of shares under sub-section 1 of this section shall be by public issues except where the Federal Government, on the advice of the Technical Committee on Privatisation and Commercialisation, decided that the shares of any affected enterprises should be sold by private placement." And section 4 of the decree states that "the Technical Committee should advice on the capital restructuring needs of enterprises to be privatised or commercialised under this decree in order to ensure good reception in the stock exchange market for those to be privatised as well as to facilitate good management and independent access to the capital market.

In section 4 (b), it also states that to carry out all activities required for the successful public issues of shares of the enterprises to be privatised including the appointment of issuing houses, stockbrokers, solicitors, accountants and other experts to the issues, and to approach, through the appointed issuing houses, the Securities and Exchange Commission for a fair price for each issue."

Subsection (d) "advised the federal government on the allotment pattern for sale of the shares of the enterprises concerned". Therefore, we can clearly see that the privatisation exercise is centred on the Nigerian capital market. Hence, it is appropriate here for us to examine how the programme affects the different actors in the Nigerian capital market.

2.7.1 THE NIGERIAN STOCK EXCHANGE AND PRIVATISATION

The Nigerian Stock Exchange being one of the most important components of the capital market plays a significant role in this respect. The usual roles of the Exchange are:

1. Quotation and listing of companies;
2. Approval of the arrangements and parties involved in the exercise;
3. Approval of the Memorandum and Articles of Association of the companies;
4. Approval of all vending documents and all publications;
5. Approval of Board arrangement and clearance of Board nominees; and

6. Monitoring of the performance of the company and all the activities of its principal officers as outlined in the allotting requirements and general undertaking signed with the Exchange.

The Stock Exchange comprises of two main markets. The new issues market called the primary market and market of existing securities called secondary market, Under the primary market operations, new shares and stocks are issued for sale to the general public (that is offer for subscription), or to existing shareholders (rights issue)'or the client of the issuing house or to stock-broker without being traded in the exchange (direct placement). In the case of secondary market only already quoted securities are transacted on the floor of the Stock Exchange.

In the case of those companies that may not qualify for listing in the first-tier securities market, they might be listed on the second-tier market. The normal channels for issue procedure when a company wants to be quoted on the exchange include the need for a resolution by the Board of the Directors of the company indicating the purpose of going public. The resolution will be sent to an Issuing House that will study the documents to see if the institution is qualified to be quoted or not on the exchange. If the institution is seen as qualified, it is then advised to select stockbrokers, registrar and solicitors to the issue and possibly an accountant if there is the need for an independent opinion on the accounts. 'The Issuing House then makes an application on a standard format for the securities being floated with the memorandum and article of association of the company.

The application is expected to carry the following information:

(a) The history and business of the company;

(b) Board of directors, management and staff;

(c) The capital structure since incorporated;

(d) The shareholding position;

(e) The proposed issue;

(f) The method of issue;

(g) Indebtedness of the company;

(h) Subsidiary and associated companies of the institution;

(i) Material contracts, litigation;

(j) Audited financial summary; and

(k) Financial projections.

The application also spells out the parties to the issue such as:

(i) Issuing Houses;

(ii) Brokers to the Issue;

(iii) Company Auditors;

(iv) Independent Reporting Accountants;

(v) Solicitors to the Issue; and

(vi) Registrar.

Approval of the Council is needed before listing can take place. Before the commencement of the primary market, the securities are passed to SEC to determine its prices.

2.7.2 THE SECURITIES AND EXCHANGE COMMISSION AND PRIVATISATION

The Securities and Exchange Commission is the apex regulatory financial institution in the Nigerian capital market. The privatisation programme has seriously influenced the Securities and Exchange Commission. According to Akhamiokho, "for a successful privatisation exercise, the seller expects highest possible net proceeds from the exercise with minimal risk. The buyer on the other hand, expects smooth transfer of ownership in the case of total divestment and when partial, the timely of ownership instrument." The SEC according to the provisions of SEC Act 1979, is charged, among other things, with the following:

(a) Price determination;

(b) Allotment of securities of public companies; and

(c) Development of the Nigerian capital markets.

It is in view of the Securities and Exchange Commission enviable position as the price determiner as well as the body charged with the allotment of securities of public companies that the BPE Decree No. 25 stated that "all sales of shares is to be done by the Securities and Exchange Commission with the aid of the Technical Committee." Section 7 subsection (1) says as regards the allotment "subject to any direction of the federal government." This decree shall be allotted in accordance with the provisions of subsection (2) of this section." Also, in accordance with the provision of section 7 (4) and 7 (5) of the privatisation decree No. 25 1988 which states that the allotment of shares under subsection (2) of this section shall give

priority to subscription by the workers and management as well as non-management of the particular enterprise to be privatised." Section 7(5) "not more than 10% of the shares on offer shall be reserved for the staff of the company." The decree also says that state government, through their agencies, who apply will also receive preferential consideration in accordance with the provisions for allotment as contained in 7(2) of the privatisation and commercialisation decree 1988 as follows: "not less than 10% and not more than 20% of the total shares on offers shall be allotted to associations and interest groups such as but not limited, to market women organisations, trade unions, universities, provided that the shares on offers shall be allotted to each state through its investment agency. The remainder of shares not distributed in accordance with subsection (2) of this section shall be sold to the public in such manner and at such amount as may be determined by the allotment committee of the Securities and Exchange Commission and approval by the Federal Government". The decree also explains what is to be done in the case of over subscription". According to section 7 (6) "in the case of over subscription, no individual shall be allowed to hold more than 1% equity in any one enterprise". The section 7 of the Decree is very clear as to the way in which shares in the privatised companies are to be allotted. We should not forget that the Securities and Exchange Commission (SEC) is only concerned with allotting shares in companies that are listed in the Nigerian Stock Exchange. That is the more reason why most of the companies that were not quoted have to be listed

prior to privatisation or immediately after privatisation. The only exception was companies in which there is foreign equity interest. The allotment of shares in the way the Decree No. 25 directed has to do with government's concern about the allotment of shares to a certain group or section of Nigeria at the detriment of another under privileged group or part of the country. The President was quoted as saying "care will be taken to avoid the divested holdings from being concentrated in the hands of few individuals or few areas of the country". The SEC is enjoined by its enabling act to ensure among other things the "beneficial ownership interest in affected enterprises is as widespread as the circumstance of each case would justly and deliberately efforts must be made to prevent the concentration of ownership in few hands". It has therefore, been the guiding policy of the Commission to comply with the egalitarian principles in allotment of securities, in pursuit of this egalitarian principles, allotment approved by the Commission always have a greater bias in favour of small applications. In order to ensure therefore, that ownership of privatised shares, SEC' has taken special cognisance of the President's concern that the divestment process should give special encouragement and preference to groups and institutions like the trade unions, universities, pension funds, voluntary associates, patriotic unions, youth organisations, women societies, local governments and state investment corporation. This will help to ensure not only equitable distribution of shares among individuals, but a widespread of ownership.

2.7.3 OTHER FUNCTIONARIES OF THE CAPITAL MARKET

1. Issuing House/Financial Adviser

The role of the Issuing House is very crucial in the privatisation process and will normally cover the following:

(a) Financial advice to the government on the best method to achieve the objectives of privatisation and the various implications inducing required approvals, legal and regulatory requirements, timing and valuation;

(b) Preparation of required documents such as the information memorandum prospectus, application to the SEC, Nigerian Stock Exchange and the Nigerian Enterprises Promotion Board;

(c) Representation of government and the company before the SEC, and the Stock Exchange;

(d) Sale of shares;

(e) Preparation of the basis of allotment;

(f) Advise on the structure and alternative sources of funding; and

(g) Post issue services by advising on requirements for compliance and Board appointments.

The success of any issue is primarily the responsibility of the Issuing House. The BPE will to a large extent, depend upon the market judgement of the Issuing House and its financial stocks in determining the requirements of investors and the regulatory authorities and the value of its existing investment. From the explanations above, we can see how relevant the

Issuing Houses are with the successful privatisation exercise. This is true since the decree on privatisation has empowered the Technical Committee in section 4(b) to "carry out all activities required for the successful public issues of shares of the enterprises to be privatised including the appointment of Issuing Houses, Stock Brokers, Solicitors, Trustees, Accountants and others."

2.7.4 REGISTRAR OF COMPANIES

The role of the Director General of the Corporate Affairs Commission is to see that all the companies meant to be privatised are registered under the Companies and Allied Matters Act 1990 (CAMA) before their shares are offered for sale. Decree No. 25 section 6(1) states that "the Technical Committee shall not later than 12 months after the commencement of the Decree incorporate into limited liability companies under the CAMA as regard to the companies state of affairs since the members of the public depend on it to make their investments decisions."

2.7.5 BROKERS

Brokers play a very significant role in the Stock Exchange because it is only through the brokers that the company can be represented in the Exchange if quoted.

2.7.6 RECEIVING BANKS AND STOCK BROKERS

These institutions play important role in the marketing; of shares of these public enterprises. Application forms are normally available at the various branches of the banks and stock broking firms at the opening of an issue.

2.7.7 REPORTING ACCOUNTANTS/AUDITORS

These are also very important functionaries in the privatisation exercise. It is the responsibility of the Auditors to provide financial information on the company, there is the need for accurate information on all the enterprise if it is privatised under this Decree.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

Every research work must lend itself to some 'methodology of data collection, aggregation and analysis. This chapter is devoted to examining the methodology of data collection, presentation arid analysis for the research work. Thus, the chapter is divided into five sections including this very section. Other sections include the research method, method of data collection, sampling plan and size and data analysis techniques.

3.2 RESEARCH METHODS

The selection of a method of research in terms of data gathering, presentation and analysis is usually determined by the nature of the problem at hand. Idisi and Oshionebo (1998) stated that methods of research can generally be classified into descriptive research, historical research and experimental research. A researcher may adopt one or a combination of any of these methods. For the purpose of this research, descriptive research, methodology is used.

3.3 METHODS OF DATA COLLECTION USED FOR THIS STUDY

In this research, data collection was solicited from annual reports from privatised firms for the five years before the first phase cf the privatisation

programme (1983-1987) and five years after the implementation of the first phase of the programme (1994-1998).

This was supplemented with data from the Nigerian Stock Exchange. This approach assisted in collecting data from companies that fail to respond positively to our request. The study also used data from the BPE. The reports were required for the purpose of obtaining information with regard to the companies before and after privatisation exercise and the percentage of government holdings, which were divested.

Analysis in this work was limited to those companies that were fully or partially sold to private investors through public share offering because companies that were privatised using this method generated post-issue financial and accounting data that are directly comparable to pre-divestment data. More so, the public enterprises that were privatised through this method in Nigeria constitute about 64 percent of the total public enterprises that were privatised during the first phase of the programme. The number of enterprises' privatised through the different methods of privatisation adopted by the BPE is presented in table 3.3a below.

Table 3.3a Method of privatisation and number of public enterprises privatised during the first phase of the privatisation programme

S/N	Method	No. of enterprises
1.	Public offer of share method	36
2.	Deferred public offer method	4
3.	Sale of assets by public tenders method	8
4.	Private placement method	7
5.	Management buy out (MBO) method	1
	Total	56

Source: TCPC Final Report Vol. (main report) p. 23.

For the purpose of selecting the firms for the study, public enterprises were grouped into five sub-groups representing five sectors (based on the Nigerian Stock Exchange classification). The sectors are banking, building materials, food beverages and tobacco, insurance and petroleum. From each of the groups (sectors) the research selected two companies using random sampling technique. In all, a total of 10 privatised companies were selected as sample for this study. A breakdown of the companies is presented in table 3.3b below.

Table 3.3.b Breakdown of companies selected in the sample and their sectors

S/N	Sector	Companies selected
1.	Banking	1. First Bank of Nigeria Plc (FBN) 2. Union Bank of Nigeria Plc (UBN)
2.	Building	1. Ashaka Cement Company Plc (ASH) 2. Benue Cement Company Plc (BCC)
3.	Food beverages and tobacco	1. Flour Mills (Nigeria) Plc (FM) 2. Okomu Oil Palm Company Plc (OOPC)
4.	Insurance	1. Royal Exchange Assurance Nig. Plc (REAN) 2. Niger Insurance Company Plc (NINC)
5.	Petroleum	1. African Petroleum Plc (AP) 2. Unipetrol Nigeria Plc (UNIP)

Source: Field Research Data

A complete list of the enterprises, privatised through public offer for sale is presented in Appendix 1.

3.4 SAMPLING PLAN AND SAMPLE SIZE FOR THE STUDY

The population for the research is the total of 88 public enterprises. The researcher intends to reduce the size of the population for easy manageability. The sample is out of the companies that were privatised under public offer for sale and which are 47 out of the total 88. Ten (10) enterprises were selected from 47 on the basis of NSE classification. This represented about 21.3 percent of the total population of public enterprises privatised using public share offer method of privatisation.

3.5 DATA ANALYSIS TECHNIQUES

The data collected was analysed using percentages, arithmetic mean and approximations are made where necessary. The period between 1983 to 1998 was considered for the Nigerian capital market, since it was within this period that privatisation came into practice.

3.6 JUSTIFICATION OF METHOD AND TECHNIQUE USED IN THIS STUDY

This research relied heavily on the annual reports of the privatised companies for the purpose of analysis. This is because the variables tested in the research required the computation of accounting ratios that are only obtainable from annual reports. Although, similar sources of data exist, such as company prospectus, data obtainable from these are usually incomplete they are therefore considered unsuitable for the purpose of this research. We also relied on the TCPC reports since it contains information with

regards to the companies' privatised, government holdings in the companies before divestment, the percentage divested and government holdings after the divestment.

3.7 SUMMARY OF THE CHAPTER

In this chapter, we explained the various ways through which we collected and analysed the data to arrive at a conclusion as to whether the capital market played an important role in the implementation of the privatisation programme and to what extent whether there was an improvement in the operational performance of the enterprises privatised during the first phase of the privatisation programme in Nigeria.

As already stated, we collected data in the form of reports from three sources: the privatised firms selected, the Nigerian Stock Exchange and Bureau for Public Enterprises.

The next chapter presents the results of the analysis for the sample firms used in this study.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

This chapter is concerned with the presentation and analysis of data collected through annual reports. The presentation and analysis of data have been designed in order to answer the following research questions:

(a) Whether privatisation brought efficiency in the privatised parastatals?

(b) Whether the capital market played an important role in the process of privatisation?

(c) Whether privatisation brought about increase in the share value of the firm's privatised?

(d) Whether there was an increase in the profits of companies quoted in the Nigerian Stock Exchange as a result of privatisation?

(e) Whether the stringent listing requirements and close monitoring by the Nigerian Stock Exchange and SEC be the reasons for their reluctance in participating in the stock exchange.

4.2 CHANGES IN GOVERNMENT SHAREHOLDING IN THE PRIVATISED ENTERPRISES

Empirical evidence lends support to the proposition that privatised enterprises witnessed significant improvement in their performances. Where the government sold it's voting control (also referred to as control privatisation). One of the fundamental implications of the Boycko *et al* (1996) analysis is that the closer the shareholders' tastes are to those of politicians,

the less likely restructuring is to occur when these shareholders have control rights. It is relatively easier for politicians to convince them not to restructure through the use of subsidies. Similar logic also suggest that from the point of view of restructuring, control by outside or private shareholders who are unlikely to care about employment is superior to control by managers who care about it more. This logic suggests that selling voting control to outside investors is most conducive to efficiency, improvement and we thus examine whether the efficiency improvement documented in this research is attributable to the selling of voting control by government. Table 4.2a below presents the percentage of government holding in the privatised firms before divestment and the percentage retained after privatisation.

Table 4.2a Changes in the government shareholding in the privatised firms after divestment

S/N	Name of company	% of government holding before privatisation	% of government holding divested	% of government holding after privatisation
1.	FM	24	24	0
2.	AP	60	20	40
3.	REAN	47	47	0
4.	ASH	72	30	42
5.	FBN	44.8	44.8	0
6.	BCC	53.9	23.9	30
7.	OOPC	46.8	46.8	0
8.	NINC	100	100	0
9.	UBN	51.7	51.7	0
10.	UNIP	100	60	40

Source: TCPC Final Report Vol. Pp. 37 - 46

4.3 FINANCIAL AND OPERATIONAL PERFORMANCE OF PRIVATISED PUBLIC ENTERPRISES

In this section, the researcher shall discuss results-of selected public enterprises. This will cover discussions on efficiency, profitability changes, changes on capital investment spending, output and dividend payouts. Below is the table showing the variability and proxies that were used in the analysis and their formulas.

Table 4.3a showing the empirical proxies employed in the study

S/N	VARIABLE	PROXITIES
1	Profitability	Return on sales (ROS) = Net income/sales Return on assets (ROA) = Net income/total assets Return on equity (ROE) = Net income/total equity
2	Operating efficiency	Sales efficiency (SALEFF) = Operating cost/sales Net income efficiency (NIEFF) = Operating cost/net income Common equity efficiency (CEQEFF) = Operating cost/ common equity
3	Capital investment	Capital expenditure to sales (CESA) = Capital expenditure/sales Capital expenditure to total assets (CETA) = Capital expenditure/total assets
4	Output	Sales to total assets (SALTA) = Sales/ total assets
5	Dividend payments	Dividend to sales (DIVSAL) = dividends /sales

Source: Field Research Data

The researcher first computed empirical proxies for every company for a ten-year period; five years before and five years after the first phase of the privatisation programme. Then calculated the mean of each variable for each firm over the pre- and post-privatisation periods. The period of the privatisation (1988 - 1993) was omitted from the analysis and considered as zero. This was done because of the peculiar approach adopted by TCPC in

the implementation of the programme in Nigeria. The implementation was gradual and involved the preparation of the enterprises to be privatised in terms of identifying their capital restructuring needs to ensure good reception in the stock exchange and the appointment of issuing houses, stock brokers, solicitors, trustees, accountants, and other experts to the issues under consideration. The preparation covered a period of five years, (i.e., 1983 to 1993). The research considers this period as transition period.

The above variables (see table 4.3a) with the proxies were chosen because the researcher's intention to see whether their value were increasing in output (SALTA) operating efficiency, net operating efficiency (NIEFF), Common equity efficiency (CEQEFF) and sales efficiency (SALEFF) and dividend payment (DIVSAL), profitability - returns on sales (ROS), return on assets (ROA), and return on equity (ROE) and also capital investment - capital expenditure to sales (CESA) and capital expenditure to total assets (CETA) which were the main reasons for the government opting out for the privatisation programme.

4.3.1 CHANGES IN OUTPUT

The researcher compared the changes in output by computing the sales (turnover) to fixed asset ratio. Evidence has shown that the level of efficiency terms of utilisation of fixed assets to generate sales, which earns income at a given profit improves after divestment. Table 4.3b below shows

the result of changes in the mean value of sales to total assets for the sampled privatised enterprises.

Table 4.3b Result of changes in the mean value of SALTA for the selected privatised enterprises

S/N	Name of company	Mean before (A)	Mean after (B)	Mean after less mean before (B) - (A) = (D)
1.	AP	1.8227	1.7975	(0.0252)
2.	Unipetrol	1.1760	1.5365	0.3605
3.	FBN	0.0880	0.1479	0.0599
4.	UBN	0.0938	0.1283	0.0345
5.	ASH	0.5379	1.1017	0.5638
6.	BCC	0.4470	0.6639	0.2169
7.	REAN	0.2418	0.1708	(0.0710)
8.	NINC	0.1523	0.2356	0.0833
9.	FM	2.0812	1.8832	(0.1980)
10.	OOPC	0.1598	0.9024	0.7426
	Total	6.8005	8.5678	1.7673

Source: Nigeria Stock Exchange and Annual Reports of Selected Firms

The above table shows an increase (1.7673/6.8005 x 100) = 25%. There is a significant increase in the post privatisation output of the privatised firms.

Keys: A stands for mean value before privatisation (1983 - 1987)

B stands for mean value after privatisation (1994 - 1998)

D stands for difference between mean value after privatisation and mean value before privatisation

4.3.2 CHANGES IN CAPITAL EXPENDITURE

The research computed investment intensity using two ratios: capital expenditure divided by sales (CESA) and capital expenditure divided by total

assets (CETA). The research examines whether there was an increase in capital spending as a function of sales and total asset. Table 4.3c and 4.3d below present our results for changes in CESA and CETA for the selected sample of all privatised enterprises.

Table 4.3c Result of changes in mean value of CESA for the selected privatised enterprises.

S/N	Name of company	Mean before (A)	Mean after (B)	Mean after less mean before (B) - (A) = (D)
1.	AP	0.0251	0.0248	(0.0003)
2.	Unipetrol	0.0803	0.0371	(0.0432)
3.	FBN	0.0880	0.0295	(0.0595)
4.	UBN	0.0283	0.0704	0.0421
5.	ASH	0.0194	0.0623	0.0429
6.	BCC	0.0478	0.1674	0.1196
7.	REAN	0.0283	0.0704	0.0421
8.	NINC	0.6030	0.3657	(0.2373)
9.	FM	0.0822	0.0367	(0.0455)
10.	OOPC	0.2778	0.6499	0.3721
	Total	1.3063	1.5974	0.2911

Source: Nigeria Stock Exchange and Annual Reports of Selected Firms

Table 4.3d Result of significant changes in mean value of CETA for the selected privatised enterprises.

S/N	Name of company	Mean before (A)	Mean after (B)	Mean after less mean before (B) - (A) = (D)
1.	AP	0.0445	0.0833	0.0388
2.	Unipetrol	0.0903	0.0566	(0.0337)
3.	FBN	0.0050	0.0316	0.0086
4.	UBN	0.0052	0.0194	0.0142
5.	ASH	0.0097	0.0725	0.0628
6.	BCC	0.0223	0.1091	0.0868
7.	REAN	0.0067	0.0118	0.0051
8.	NINC	0.0792	0.0959	0.0167
9.	FM	0.1632	0.0697	(0.0935)
10.	OOPC	0.0612	0.8157	0.7545
	Total	0.4873	1.3476	0.8603

Source: Nigeria Stock Exchange and Annual Reports of Selected Firms

There is a significant increase in CETA of privatised enterprises after the divestment. Tables 4.3c and 4.3d show a mixed result with regards to the capital spending in relation to sales and total assets. CESA increased by an average of 28.5% (from 130.63 to 159.74) while CETA increased by an average of 180.25 (from 48.73 to 136.56%).

4.3.3 CHANGES IN DIVIDEND PAYOUTS

The research examined whether the dividend payment measured as a cash dividend by sales (DIVSAL) increase following privatisation. Table 4.3e presents the results for changes in DIVSAL for the selected privatised enterprises.

Table 4.3e Result of changes in mean value of DIVSAL for the selected privatised enterprises.

S/N	Name of company	Mean before (A)	Mean after (B)	Mean after less mean before (B) - (A) = (D)
1.	AP	0.0268	0.0235	(0.0033)
2.	Unipetrol	0.0038	0.0202	0.0164
3.	FBN	0.0335	0.0464	0.0129
4.	UBN	0.0197	0.0341	0.0144
5.	ASH	0.0935	0.0335	(0.0600)
6.	BCC	0.0	0.0236	0.0236
7.	REAN	0.0149	0.1315	0.1166
8.	NINC	0.0140	0.0557	0.0417
9.	FM	0.0168	0.0122	(0.0046)
10.	OOPC	0	0.0502	0.0502
	Total	0.2230	0.4309	0.2079s

Source: Nigeria Stock Exchange and Annual Reports of Selected Firms

There is a significant increase in DIVSAL of the selected firms after privatisation Table 4.3e shows that DIVSAL has increased by an average of 93.2% from 22.3 to 43.09%.

4.3.4 EFFICIENCY CHANGES

Available literature supports the proposition that privatisation improves the operating efficiency of privatised enterprises. In order to confirm or disconfirm this proposition, the operating efficiency of the privatised enterprises in our sample improves significantly after divestment. The research employed three variables in this respect. These are the net income efficiency (NIEFF), sales efficiency (SALEFF) and common equity efficiency (CEQEFF). The research computed the efficiency ratios using a total operating cost as the efficiency measure in the numerator of the three ratios. These ratios provide explanation as to whether there was divestment in relation to net income, sales and common equity. According to Nellis (1994), private sector operators are more prudent in the use of organisational funds than their public sector counterparts. The research thus expects positive changes to occur in the operating efficiency of the sample firms after divestment.

Tables 4.3f to 4.3g show the result for changes in mean value of NIEFF, SALEFF and CEQEFF for the full sample; of all privatised enterprises.

Table 4.3f Result of changes in mean value of NIEFF for the selected privatised enterprises.

S/N	Name of company	Mean before (A)	Mean after (B)	Mean after less mean before (B) - (A) = (D)
1.	AP	73.6	17.45	(56.15)
2.	Unipetrol	365.82	32.92	(332.9)
3.	FBN	4.35	4.31	(0.04)
4.	UBN	6.84	5.36	(1.48)
5.	ASH	4.84	5.37	0.53
6.	BCC	2.54	3.72	1.18
7.	REAN	10.62	3.83	(6.79)
8.	NINC	15.44	4.67	(10.77)
9.	FM	23.4	20.84	(2.56)
10.	OOPC	1.16	5.24	4.08
	Total	508.61	103.71	(404.9)

Source: Nigeria Stock Exchange and Annual Reports of Selected Firms

There is a significant improvement of NIEFF results of the privatised enterprises after divestment.

Table 4.3g Result of changes in mean value of SALEFF for the selected privatised enterprises.

S/N	Name of company	Mean before (A)	Mean after (B)	Mean after less mean before (B) - (A) = (D)
1.	AP	0.9098	0.9304	0.0206
2.	Unipetrol	1.0548	0.9358	(0.1190)
3.	FBN	0.5384	0.4437	(0.0947)
4.	UBN	0.5004	0.6252	0.1248
5.	ASH	0.8041	0.7813	(0.0228)
6.	BCC	0.4050	0.2353	(0.1697)
7.	REAN	0.8442	0.6976	(0.1466)
8.	NINC	0.7780	0.4230	(0.3550)
9.	FM	0.9203	0.9292	0.0089
10.	OOPC	1.1864	0.7561	(0.4303)
	Total	7.9414	6.7576	(1.1838)

Source: Nigeria Stock Exchange and Annual Reports of Selected Firms

There is a significant increase in SALEFF as a result of privatised enterprises after divestment.

Table 4.3h Result of changes in mean value of CEQEFF for the selected privatised enterprises.

S/N	Name of company	Mean before (A)	Mean after (B)	Mean after less mean before (B) - (A) = (D)
1.	AP	9.15	4.16	(4.99)
2.	Unipetrol	9.84	4.72	(5.12)
3.	FBN	0.9934	0.8413	(0.1521)
4.	UBN	2.44	0.9697	(1.4703)
5.	ASH	1.1699	1.5700	0.4001
6.	BCC	0.5490	0.9426	0.3936
7.	REAN	0.2919	0.4924	0.2005
8.	NINC	0.1252	0.1416	0.0164
9.	FM	6.31	3.10	(3.21)
10.	OOPC	8.52	3.17	(5.35)
	Total	39.3894	20.1076	(19.2818)

Source: Nigeria Stock Exchange and Annual Reports of Selected Firms

There is an improvement in CEQEFF as a result of privatised enterprises after divestment. Tables 4.3f to 4.3h show significant improvement in net income efficiency and common equity efficiency. The mean decreases are 79.6% (from 508.61 to 103.71%) for NIEFF, 14.9% (from 794.14 to 675.76%) for SALEFF and 48.95% (from 3939.94 to 2010.76%) for CEQEFF. This indicates that fewer costs are incurred in generating income and sales for the firms less common stockholders equity are used for operating purposes. These results therefore lend support to the proposition that privatisation improves operating efficiency of privatised firms.

4.3.5 PROFITABILITY CHANGES

The research measured profitability using three ratios: return on sales (ROS), return on assets (ROE) and return on equity (ROE). The research computes profitability ratios using net income as the profit measured in the numerator of the three ratios. Tables 4.3i to 4.3j present useful observations, the mean for the five-year period prior and post privatisation, the mean change in each ratio value prior versus post privatisation.

Table 4.3i Result of changes in mean value of ROS for the selected privatised enterprises.

S/N	Name of company	Mean before (A)	Mean after (B)	Mean after less mean before (B) - (A) = (D)
1.	AP	0.0534	0.0419	(0.0115)
2.	Unipetrol	0.0157	0.0486	0.0329
3.	FBN	0.1086	0.1296	0.0210
4.	UBN	0.0951	0.0985	0.0034
5.	ASH	0.1701	0.1552	(0.0149)
6.	BCC	0.1027	0.0802	(0.0225)
7.	REAN	0.0801	0.2520	0.1719
8.	NINC	0.0157	0.0928	0.0771
9.	FM	0.0426	0.0487	0.0061
10.	OOPC	(0.0603)	0.1739	0.1136
	Total	0.6237	1.1214	0.3771

Source: Nigeria Stock Exchange and Annual Reports of Selected Firms

Table 4.3i shows an increase in ROS of the privatised enterprises after divestment.

Table 4.3j Result of changes in mean value of ROA for the selected privatised enterprises.

S/N	Name of company	Mean before (A)	Mean after (B)	Mean after less mean before (B) - (A) = (D)
1.	AP	0.0965	0.0866	(0.0099)
2.	Unipetrol	0.0189	0.0773	0.0584
3.	FBN	0.0097	0.0192	0.0095
4.	UBN	0.0089	0.0128	0.0039
5.	ASH	0.0901	0.1744	0.0843
6.	BCC	0.0441	0.0198	(0.0243)
7.	REAN	0.0193	0.0388	0.0195
8.	NINC	0.0080	0.0198	0.0118
9.	FM	0.0880	0.0891	0.0011
10.	OOPC	0.0068	0.1433	0.1365
	Total	0.3903	0.6811	0.2908

Source: Nigeria Stock Exchange and Annual Reports of Selected Firms

Table 4.3j shows that there is a significant increase in ROA of the privatised firms after divestment.

Table 4.3k Result of changes in mean value of ROE for the selected privatised enterprises.

S/N	Name of company	Mean before (A)	Mean after (B)	Mean after less mean before (B) - (A) = (D)
1.	AP	0.2687	0.4696	0.2009
2.	Unipetrol	0.0189	0.4636	0.4447
3.	FBN	0.2053	0.2392	0.0339
4.	UBN	0.1818	0.3658	0.1840
5.	ASH	0.2462	0.3260	0.0798
6.	BCC	(0.2388)	(0.0073)	0.2315
7.	REAN	0.0389	0.0999	0.0610
8.	NINC	0.0014	0.0209	0.0195
9.	FM	0.1399	0.3314	0.1915
10.	OOPC	(4.5072)	0.5147	5.0219
	Total	(3.6449)	2.8238	6.4687

Source: Nigeria Stock Exchange and Annual Reports of Selected Firms

Table 4.3k shows that there is a high significant increase in ROE of the privatised firms after divestment. Tables 4.3i to 4.3k indicate that profitability has increased significantly after privatisation according to ROA, ROE and ROS for the ten-selected privatised enterprises. The mean increases are 60.5% (from 62.37 to 112.44%) for ROS, 74.5% (from 39.03 to 68.11%) for ROA and 177.4% (from 363.69 to 283.39%) for ROE.

The trend of share value movement of the selected privatised enterprises significantly increased as a re-suit of privatisation. Period A is the five years before privatisation programme. During this period, only a few of the selected privatised enterprises were listed in the stock exchange market. It was only African Petroleum (AP) that was listed in 1985, First Bank of Nigeria Plc was listed 1984 and Union Bank of Nigeria was listed before the period taken into consideration and likewise Flour Mills.

Period B is considered to be the period which privatisation started and ended. Within this period, all the selected privatised enterprises were listed in the stock exchange for instance Unipetrol was listed in 1992, Ashaka Cement Company 1990, Niger Insurance Company 1990 and Okumo Oil Palm Company 1991.

Period C is the five year period after privatisation which confirms that all the firms were listed before they were privatised. Taking a five-year average of the market prices of the selected privatised enterprises before and after privatisation, the following observations were made. African Petroleum had an average market share price of N1.41 before privatisation and an average of N25.73 after privatisation representing 1724.8% increase while Unipetrol was not listed before 1987. It however, has an average market share price of N30.6 after privatisation.

First Bank of Nigeria Plc had an average market share price of N2.4 before privatisation and an average of N8.5 after privatisation representing 254,3% increase. Union Bank of Nigeria Plc had an average market share

price of N2.75 before privatisation and an average of N7.48 after privatisation representing 172% increase. Ashaka Cement Company did not have an average market share price since it was not listed but had an average market share price of N9.35 after privatisation while Benue Cement Company too was not listed in period A while the average market share value price of N3.4.

Royal Exchange Assurance Company was not listed before period A but had an average increase of N3.33. Niger Insurance too was not listed in period A but had an average of N2.47. Flour mills had; an average market share value price of N0.75 before privatisation and an average market share price value of N9.8 representing 1206% increase in the share market value after privatisation. Okomu Oil Palm was not listed during period A while it had an average market share value price of N7.1 after privatisation. The overall results show that there were significant average increases in the post privatisation period over the pre-privatisation period.

4.5 NIGERIAN CAPITAL MARKET ANALYSIS AFTER PRIVATISATION OF SELECTED PUBLIC ENTERPRISES IN NIGERIA

Floatation of shares of the privatised enterprises have greatly stimulated the rapid growth of the Nigerian capital market such floatation have helped to deepened and broadened the capital market. To examine the role of the capital market in the implementation of the privatisation programme, attention should be focused on the number of securities listed as well as the

volume and value of transactions and the number of listed companies before and after privatisation.

Table 4.5a Nigeria Stock Exchange Transaction (1985 - 1995)

	Government securities				Industrial securities				Total			
Year	No.	%	Value	%	No.	%	Value	%	No.	%	Value	%
1985	340	1.44	295.3	92.69	23.33	98.6	213.3	7.31	23.57	97.7	518.6	-19.9
1987	238	1.15	340	88.91	20.40	98.9	42.4	11.11	20.64	12.4	382.4	-19.9
1989	174	0.52	570	88.95	33.24	99.5	63	11.05	33.45	62.1	570	20
1990	102	0.39	155	65.13	25.83	99.6	83.9	34.87	25.93	22.5	238	49.1
1991	45	0.10	92.6	39.5	44.24	99.9	141.8	60.5	44.28	70.8	234.4	58.2
1992	71	0.14	85	17.29	48.36	99.7	406.6	82.71	49.03	10.7	491.6	-1.5
1993	39	0.10	84.2	10.47	40.36	99.9	719.7	89.53	40.40	-12.6	803.6	109.7
1994	16	0.04	15.2	1.45	42.06	99.9	970.7	98.56	43.07	4.1	985.9	63.5
1995	0	0	0	0	49.56	100	1838	100	49.56	17.8	1838	22.6

Note that industrial securities include equities and SSM.

Source: CBN Economic and Financial Review Various years, CBN Statistical Bulletin Vol. 5, No. 1, June 1994, p.38 and 1995, p.41

The finance and insurance sector is one that has experienced about the highest growth in the Nigerian economy, especially since after the introduction of SAP. This has had positive and far-reaching implications on the activities of the capital market in Nigeria. Developments in the market in the 1970s however witnessed a steady growth in the number of value of industrial securities traded (vis-à-vis government securities).

In 1974 for example, the number of industrial securities was 2,807 as compared to 256 for government securities. Although, these still had a relatively small value of N1.3 million compared to N49.4 million for the latter.

From 1976 however, the share of industrial securities m both number and value of transactions increased tremendously (from 97% and 2.03% for 1990 and 97.31% and 32.29% for 1985. Also, the total number of transaction in the capital market increased steadily growing by 916.4% in 1980 and 97.7% in 1995 (see table 4.5a).

The sudden growth both in the total number and value of transactions in the market and in the share of industrial securities during these periods can be attributed to the positive effect of privatisation. The positive trend continued at a faster rate in the late 1980s and first half of the 1990s. The share of government securities in the number and value of securities fell from 1.44% and 92.69% in 1985 to 1.15% and 88.91% in 1987 respectively. These fall further to 0.39% and 65.13% in 1990 and down again to 0.1% and 10.47% in 1993 and in both cases down to 0% in 1995. Thus, development is in line with SAP policy of allowing greater private sector participation in the economy.

Table 4.5b New Issues of Securities on the Nigeria Stock Exchange (1990-1995)

	1990		1991		1992		1993		1994		1995		Average % Δ
	₦m	%	₦m	%	₦m	%	₦m	%	₦m	%	₦m	%	
Vol.	575.5		870.8	51.3	1125	29.1	1745	55.2	1037	-40.6	1146	10.5	21.04
Value	1129		1024	-9.3	1661	62.2	2734	64.6	2162	-20.9	4424	104.7	40.26
No. of issue	44		40		40		53		28		21		

₦m stands for naira in millions

Source: CBN Annual Report and Statement of Account 1994, p. 36 and 1995, p. 42.

Activities in the new issues in terms of value increased from N575.5 million in 1990 to a N870.8 million in 1991, N1,744.9 million in 1993 but fell to N1,037.3 in 1994. In 1995, however, it increased by 10.5% to N1,146.3 million. The average percentage between 1990 and 1995 was 21.04. In terms of value, there was a fall of 9.3% from 1990 to N1,024 million in 1991. However, in 1992, the figure increased by 62.2% in N1,660.8 million and to N2,734.4 million in 1993. There was however a fall of 20.9% in 1994. This was reversed by a growth of over 100% from N2,161.6 million in 1994 to N4,424.2 million in 1995. The average percentage change between 1990 and 1995 was 40.2. In terms of number of issues, only noticeable increase was in 1993 (from 40 in 1992 to 53 in 1993). Thereafter, there was a decline to 28 in 1994 and a further decline to 21 in 1995.

It is also important to look at the number of firms listed on the exchange between 1961 and 1998. Table 4.5c shows the number of listed firms from 1961 to 1998. The number rather started with a humble beginning of 3 in 1961 to a total of 17 in 1971 just before the Nigerian Enterprises Promotion Act of 1977. In 1985, there were a total of 95 firms quoted representing an increase of about 30.67% or 31 times the original number. Since 1995, there has been a steady increase in the number of quoted companies. There are about 174 firms listed and because of the ongoing privatisation and prohibitive cost of funds in the money market, many are in the pipeline and more are expected.

Table 4.5c Number of companies listed on the Nigerian Stock Exchange

Year	No. of listed companies
1961.	3
1962.	7
1963.	8
1964.	9
1965.	11
1966.	12
1967.	12
1968.	12
1969.	13
1970.	15
1971.	17
1972.	25
1973.	28
1974.	28
1975.	38
1976.	39
1977.	38
1978.	38
1979.	NA
1980.	91
1981.	92
1982.	93
1983.	93
1984.	93
1985.	93
1986.	98
1987.	97
1988.	102
1989.	117
1990.	119
1991.	140
1992.	174
1993.	204
1994.	NA
1995.	NA
1996.	NA
1997.	NA
1998.	NA

NA = Not available

Sources: Nigerian Stock Exchange and Securities Exchange Commission

From table 4.5c, it can be seen that between 1961 and 1993, there has been about forty-six fold growth. Though, the market is still growing, this is not altogether bad for our emerging stock exchange market given its rudimentary structural nature and level of development. This growth could also be seen in terms of capitalisation when it was worth about N4.37 million in 1961, N229.7 million in 1978 and 1992 it was over N16 billion. In naira terms, this growth is quite phenomenal. As at 31st December 1989, the CBN reported that the primary market witnessed an upsurge in both volume and value of new issues during the year. This development it is said was influenced by the sharp rise in interest rate as well as the issue to the public offer of shares of privatised enterprises. In the same year, the shares of the federal government and state governments were offered for sale to the general public. Thus, according to the report, the privatisation exercise increased tremendously the number of companies listed on the capital market.

It is also imperative to look at the growth in the number of listed securities between 1983 to 1998. To this extent, see table 4.5d on the next page.

Table 4.5d Growth in the number of listed securities (1983-1998)

	Period A					Period B						Period C				
Year	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Government stocks	61	56	57	58	54	51	47	43	40	36	32	29	28	24	22	19
Industrial & Bond	25	27	28	29	31	35	40	43	57	62	66	70	67	69	60	59
Equities including SSM	92	93	96	99	100	102	111	131	142	153	174	177	181	183	182	186
Total	178	176	181	186	185	188	198	217	239	251	272	276	276	276	264	264

Source: The Nigerian Stock Exchange Fact Book (various editions)

From Table 4.5d, period A is a five-year period before privatisation, which had an average of 181 securities. During period B, that is, the period which privatisation started, it had an average of 273 securities and in the period C, that is, after privatisation, there was an average of 271 securities. Thus, there was an increase of about 90 securities representing about 49.7% in the growth in the securities of the period after privatisation over the period before privatisation.

The financial markets on the other hand are simply the various facilities provided by the financial system for the creation, custodianship and distribution of financial assets and liabilities. The market has two segments: the money and capital market. The money market, that is a market for short-term liquid instrument and of course the capital market is for long-term instrument. The position the capital market occupies in the financial system can vividly be seen in appendix 1. The dotted lines show the path of control from the CBN. Most of the intermediaries operate both in money and capital market. The various segments of the capital market are shown in the lower part of the diagram (see appendix 2 and 3 at the end of this dissertation).

4.6 IMPLICATIONS OF USING ALTERNATIVE METHODS OF PUBLIC ENTERPRISES REFORM IN NIGERIA OTHER THAN PRIVATISATION

The advocates of privatisation programme strongly belief that divestment is the only path to improving the financial and operating performance of public enterprises. While, the antagonists of the programme believed that the performance of public enterprises could be improved through other reform measures without government necessarily divesting its shareholding in the enterprises.

In an attempt to discover whether or not other reform measures can improve the performance of public enterprises without divestment, we selected two enterprises. The two enterprises selected are the Nigerian Telecommunications (NITEL) and the National Insurance Corporation of Nigeria (NICON). These enterprises were commercialised and performance contracts signed, evaluating/monitoring strategies were implemented and also witnessed a significant change in the composition of their Board of Directors (BOD) and Chief Executive Officers (CEO). The research computed financial and operational performance of the enterprises using the same variables for the same years as those of the privatised enterprises. This is to provide a basis for comparing the results with those obtained under privatisation. The results are presented in tables 4.6a to 4.6i.

4.6.1 EFFECT OF REFORMS ON OUTPUT

Tables 4.6a Results of changes in the mean value of SALTA after reform

S/N	Name of company	SALTA (A)	SALTA (B)	(B) - (A)
1	NICON	0.0754	1.6621	1.5867
2	NITEL	0.1493	0.5434	0.3941
	Total	0.2247	2.1055	1.9808

Source: Annual Reports of the Selected Enterprises

There is no significant increase in the SALTA of the enterprises after the introduction of the reforms.

4.6.2 EFFECT OF REFORMS ON CAPITAL EXPENDITURE

The research computed investment intensity using the same variables as those employed under privatisation, viz.: CESA and CETA. Tables 4.6b and 4.6c show the results of changes in variables after the introduction of the reform programme in the enterprises.

Table 4.6b Results of changes in the mean value of CESA after reform

S/N	Name of company	CESA (A)	CESA (B)	(B) - (A)
1	NICON	0.2429	0.0995	(0.1434)
2	NITEL	0.2974	0.3393	0.0419
	Total	0.0575	0.03422	0.2847

Source: Annual Reports of the Selected Enterprises

There is no significant change in the CESA result of the enterprises after reform.

Table 4.6c Results of changes in the mean value of CETA after reform

S/N	Name of company	CETA (A)	CETA (B)	(B) - (A)
1	NICON	0.0118	0.1640	0.1522
2	NITEL	0.0457	0.1782	0.1325
	Total	0.0575	0.03422	0.2847

Source: Annual Reports of the Selected Enterprises

There is no significant increase in CETA result of the enterprises after the introduction of the reform programme.

4.6.3 EFFECT OF REFORM ON DIVIDEND PAYOUTS

The research examined whether there is an increase in dividend payments of the enterprises after reform measures were introduced using DIVSAL as a variable. Table 4.6d shows result of changes in DIVSAL after the introduction of reform programme in the enterprises.

Table 4.6d Results of Changes in the mean value of DIVSAL after reform

S/N	Name of company	DIVSAL (A)	DIVSAL (B)	(B) - (A)
1	NICON	0.0360	0.0029	0.0011
2	NITEL	0	0	0
	Total	0.0360	0.0029	0.0011

Source: Annual Reports of the Selected Enterprises

There is no significant increase in the DIVSAL result of the enterprises after the introduction of the reform programme.

4.6.4 EFFECT OF REFORM ON OPERATING EFFICIENCY

In order to measure the effect of the reform on the operating efficiency of the enterprises, the research employed the same three variables used under privatisation. These are SALEFF, NIEFF, and CEQEFF. The results of the examinations are presented in tables 4.6e to 4.6g.

Table 4.6e Results of Changes in the mean value of SALEFF after reform

S/N	Name of company	SALEFF (A)	SALEFF (B)	(B) - (A)
1	NICON	0.2426	0.3095	0.0679
2	NITEL	1.9657	0.6917	(1.2740)
	Total	2.2073	1.0012	(1.2061)

Source: Annual Reports of the Selected Enterprises

There is no significant decrease in the SALEFF result of the enterprises after the introduction of the reform programme.

Table 4.6f Results of Changes in the mean value of NIEFF after reform

S/N	Name of company	NIEFF (A)	NIEFF (B)	(B) - (A)
1	NICON	0.0217	0.8748	0.8531
2	NITEL	0.6581	1.3677	0.7096
	Total	0.6798	2.2425	1.5627

Source: Annual Reports of the Selected Enterprises

There is no significant improvement in the NIEFF result of the enterprises after the introduction of the reform programme.

Table 4.6g Results of Changes in the mean value CEQEFF after reform

S/N	Name of company	CEQEFF (A)	CEQEFF (B)	(B) - (A)
1	NICON	0.0217	0.8748	0.8531
2	NITEL	0.6581	1.3677	0.7096
	Total	0.6798	2.2425	1.5627

Source: Annual Reports of the Selected Enterprises

There is no significant increase in the CEQEFF result of the enterprises after the introduction of the reform programme.

4.6.5 EFFECT OF REFORM ON PROFITABILITY

Tables 4.6h and 4.6j show the result of the effect of the reform programme on the probability of the enterprises. The tables show the mean values for five year period, prior and after the introduction of the programme.

Table 4.6h Results of Changes in the mean value ROA after reform

S/N	Name of company	ROA (A)	ROA (B)	(B) - (A)
1	NICON	0.0205	0.2958	0.2753
2	NITEL	(1.1318)	0.2513	1.3831
	Total	(1.1113)	0.5471	1.6584

Source: Annual Reports of the Selected Enterprises

There is no significant increase in the ROA result of the enterprises after the introduction of the reform programme.

Table 4.6i Results of Changes in the mean value ROE after reform

S/N	Name of company	ROE (A)	ROE (B)	(B) - (A)
1	NICON	0.0205	0.2958	0.2753
2	NITEL	(1.1318)	0.2513	1.3831
	Total	(1.1113)	0.5471	1.6584

Source: Annual Reports of the Selected Enterprises

There is no significant increase in the ROE result of the enterprises after the introduction of the reform programme.

Table 4.6J Results of Changes in the mean value of ROS after reform

S/N	Name of company	ROS (A)	ROS (B)	(B) - (A)
1	NICON	0.2219	0.0776	(0.1443)
2	NITEL	(3.1659)	0.1316	3.2975
	Total	(2.9440)	0.2092	3.1532

Source: Annual Reports of the Selected Enterprises

There is no significant increase in the ROS result of the enterprises after the introduction of the reform programme.

4.6.6 DISCUSSIONS/IMPLICATIONS OF RESULTS

It is very clear from tables 4.6a to 4.6i that reforms programme other than privatisation have failed to improve the financial and operating performances of the enterprises; except for changes in capital expenditure which revealed mixed results. In order to discover whether the lack of improvement is associated with retention of the chief executive officers, the research examined whether there was a significant change in the composition of the board of directors and chief executive officers after the introduction of the reform programme. The results are presented in table 4.6k.

Table 4.6k Changes in the size and composition of Board of Directors and Chief Executive Offices after reform

		Board composition before privatisation		Board composition after privatisation		Directors continuing on new board	
S/N	Name of company	Year	No. of directors	Year	No. of directors	Year	No. of directors
1	NICON	1987	5	1994	5	0	100
2	NITEL	1987	5	1994	5	0	100

Source: Annual Reports and Accounts of the Enterprises

Table 4.6k shows that the two enterprises witnessed 100 percent change in the composition of board of directors including their chief executive immediately the reform was introduced. Despite these significant changes in board of directors and chief executive officers, the enterprises did not experience significant improvement in their operational performance. The results compared with firms' privatised clearly indicate that reform other than privatisation does not guarantee improvement.

4.7 FINDINGS OF THE STUDY

In this section, the researcher attempts to summarise the findings as arrived at in this study. Attention will be focused towards ensuring that the findings are linked to the research questions listed in chapter one. Additional findings are also listed. In the course of this study, privatisation has been presented as a bold government policy for promoting efficiency

in those enterprises that have all along been bogged down by bureaucratic bottleneck, in the overall interest of the nation's economy. Research findings show that:

(i) The sample of enterprises that introduced reforms other than privatisation, reveal that in those enterprises, financial and operational performance did not improve subsequent to the introduction of the reform programme (see tables 4.6a to 4.6i). This indicates that reform programme other than privatisation does not guarantee performance improvement that is to say whether or not they are accompanied by changes in the board composition and chief executives.

(ii) The volume of trade in the Nigerian capital market has increased tremendously, mainly as a result of the privatisation exercise from the data collected; it could be seen that the volume of trade as at 1988 was 256,099,129. This is by far less than the volume of trade as at 1993 after the programme has taken shape with about 472,901,366 shares traded (Sources: Stock Exchange Report on shares at trade). This shows about 85% increase.

(iii) There was significant increase in the profits of the selected privatised enterprises. The proxies (ROS, ROE and ROA) show increase of 60.5%, 177.4% and 74.5% respectively (see tables 4.3i to 4.3k) which answers research question 4.

(iv) Efficiency increased significantly with mean decreased of 79.6% for NIEFF 14.9% for SALEFF and 48.95% for CEQEFF (see tables 4.3f to 4.3h). This indicates less cost incurred in generating income and sales for the firms, (less of common equity used for operational purpose). These results therefore lead support to the preposition that privatisation improves operating efficiency of privatised firms which answers research question 1.

(v) There was significant increase on dividend payout by an average of 93.2% (from 22.3 to 43.09 percent) see table 4.3e.

(vi) The analysis shows that output increased considerably. SALTA increased by 25% after privatisation (see table 4.3b).

(vii) Analysis shows that the capital spending increased with 28.55 for CESA and 180.2% for CETA (see table 4.3d).

(viii) The market share value of the privatised enterprises increased significantly as a result of privatisation (see table 4.4a which answers research question 3).

Additional findings are stated below:

(a) Related to this issue, the research also observed that fair spread of ownership of shares of firms' privatised that is, no one part of the country received a lot more than the other part.

(b) Up to this time (August 2003), the government has not actually come out with viable investment option for the proceeds that are arising

from the exercise, which could lead to sub - optimal utilisation of the proceeds from privatisation.

(c) Close regulation by the Securities and Exchange Commission, particularly the aspect that has attracted criticism from members of the investing public with respect to its responsibility for fixing prices of new issues instead of allowing the forces of the market to determine the prices, (i.e., demand and Supply) of Securities in the Stock Exchange Market.

(d) Stringent listing requirements continue to be among the major problems militating against the participation of Nigerian firms in the capital market. One of such listing requirements is the length of period of 5 years of existence of a company required for it to get listed on the stock exchange.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

The study compared the pre and post privatisation performances of the ten selected enterprises from five sectors of the Nigerian economy that were either fully or partially privatised through public offering. The study used objective criteria to measure the financial and operating performances of the privatised enterprises and also percentages and tabulations of data obtained form the Nigerian Stock Exchange and the Securities and Exchange Commission.

The study examined how the sale of shares under the privatisation programme affected the volume and value of transactions in the Nigeria capital market. Particularly, the study was directed towards bringing out the impact of privatisation on the following issues; namely, the number of securities listed at the stock exchange, profitability and efficiency of privatised companies.

The study observed that the impact of privatisation was significantly and positively felt on the above issues, (i.e., the number of securities listed, profitability and efficiency). The study also revealed that public enterprises that passed through reform programmes other than privatisation did not fare better than the period before such reform.

The study has revealed that the capital market, which is the main source of long-term financing for investment development has remained sluggish in terms of growth, efficiency, activity and fund mobilisation. Its' operational character remain cumbersome and awareness of its functions limited. As a result, users of the market remain few, securities are still in short supply and participation in the market is restricted to very few large companies and the federal government.

The capital market is the heartbeat of the nation's economy. In developed countries such as Britain, Japan, USA and Germany, economic analysts pay a lot of attention on the movement of the FTSE, NIKKEI, DOW JONES, and DAX indices respectively to determine the state of health of the economy. Similarly, in Nigeria between 1990 and 1996, when the economy was in bad shape, the stock market index was at its lowest ebb. It was the period that the country witnesses the first stock market crash when prices of shares went from 93 points to as low as 27 points as stated in the stock market fact book 1998.

The capital market everywhere in the world is highly sensitive to the information flow in the economy. Its major function is to lubricate the economy by providing wherewithal for its growth and development. It serves as an indicator of the economy's liquidity and general performance. This study therefore looks at the performance of the capital market in terms of its depth and breath, continuity and liquidity and above all, how it

lubricates the economy. The study examines the problems hindering the performance of the market and possible suggestions for improvement of the market's performance will be made.

5.2 CONCLUSION

The Nigerian capital market has been a major beneficiary of the on-going privatisation. The market has experienced dramatic growth in its size, operation, depth and sophistication. By increasing enterprises efficiency, improving competition and extending market discipline, the programme of privatisation and commercialisation are playing a crucial role in the creation of "enterprises culture" of the capital market for financing their operations.

Privatisation was therefore designed to restructure and rationalise the public sector and to re-orientate the enterprises for privatisation and commercialisation towards a new horizon of performance improvement, viability, and overall efficiency. The introduction of competition that will bring efficiency, lower cost and better services by privatisation has raised the living standard of Nigerians. The researcher is of the opinion that while we have seen is popular capitalism. The privatisation programme is a bold policy. The government relinquishing it's equity, all the problems of government bureaucracy such as delays in decision making, recruiting wrong hands, patronage system, inadequate motivational factors, worker indifference and mismanagement in general, changing the board

composition and chief executives. The profitability, operating efficiency, output and dividend payout did not show significant improvement, the result for capital investment revealed mixed results. Thus, as a result, the researcher concludes that reform programmes other than privatisation like contracting commercialisation, joint venture and concession do not necessarily guarantee performance improvement.

5.3 LIMITATIONS OF THE STUDY

Although, the study entails a comprehensive and thorough analysis of the impact of privatisation on the Nigerian Capital Market, however, it suffers from the following limitations:

(i) In Nigeria, the federal government in July 1988 promulgated the legal framework for the implementation of the privatisation and commercialisation decree No 25 of 1988, Therefore, most of the enterprises were privatised between 1988 and 1991. Time given to the enterprises privatised for instance was five years after the programme, so as to enable them have direction and clear administration. This time frame was not adequate for the firms and as such served as a constraint to this study.

(ii) Undoubtedly, a research of this nature requires enormous funds and time. These were not fully at the disposal of the researcher. It is the researcher's hope that subsequent studies in this regard shall try to

look further at the impact to be created on those enterprises currently undergoing privatisation and problems being faced by the capital market (i.e. 1999 to date) in furtherance of the privatisation programme.

(iii) Some of the enterprises refused given the researcher some information needed and as such serve as a constraint too.

5.4 RECOMMENDATIONS

As the problems of the impact of privatisation on capital market have been identified, the following recommendations are based on the findings of the study. These recommendations are not, however, exhaustive and it is hoped to go a long way towards enhancing the beneficial implementation of the privatisation exercise by the capital market.

Measure should be taken by Government and NSE to raise the level of investible resources that will be made available for share purchase. Government should encourage banks to provide loanable funds to members of the investing public to purchase shares in privatised companies to increase the volume of transaction.

The state of the economy in Nigeria will affect the level of profit of the privatised companies. If economy takes shape in the right companies will succeed. Tax advantage should be given to these privatised companies as incentives and this will bring about increase in their profits.

The government should reduce corporate tax rate, depreciation allowance, allowance for bad debts since these are calculated to favour the companies concerned as regards profit, maximisation.

The share capital of companies if on the high side, shows that the companies have a lot of activities. High share capital means high capitalisation. Therefore, banks should be encouraged to undertake equity participation especially in privatised companies. This apart from increasing the capitalisation of the companies will enable the banks to be in a position to undertake corporate surgery of restructuring of these companies.

Deliberate steps aimed at increasing the number and functional quality of stockbrokers who are accredited dealers on stock exchange should be undertaken. This would ensure adequate coverage of trading activities on the floor of the exchange.

The number of firms listed and quoted can still be increased or maintained if there is a continuous trading facility in the Nigerian Stock Exchange.

A new level of public awareness should be introduced by the BPE to educate members of the public on the activities of the capital market. This will help to erase the erroneous impression being held by some members of the public on the activities of the stock exchange that it is elitist and government dominated.

In states where there is poor response to the privatisation exercise, which may mainly be due to lack of investible funds, local government councils should be allowed to create special funds to purchase and warehouse the shares on behalf of its indigene. This will not negate the spirit of privatisation if steps are taken to resell the shares at a near future date.

Deregulation of the Capital Market is an urgent need. It is observed that the money market has long been deregulated. This step will eliminate the so-called stringent requirements of the Securities and Exchange Commission, which has all along been grossly criticised by members of the investing public.

The issue of technical partners as a clause in the Privatisation Act should be considered. Government should make sure of the high status of such technical partners in their home country. The standard aimed should be sufficiently high. Otherwise, the Nigerian economy will not derive any benefit from such technical partners.

To improve the delivery system in the capital market, which has hitherto remained obsolete, the researcher recommends the installation of a reliable telecommunication network and data storage facilities from where required information can be obtained when needed.

Government should introduce strict measures, which would reduce the state of financial mismanagement by civil servants. The Monetization

Policy, Independent Corrupt Practices and related Offences Commission and Economic and Financial Crimes Commission being introduced would go a long way towards reducing financial mismanagement and fraud.

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