The Nigerian Capital Market: The First Three Decades of Operation, 1961–90*

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Abstract: This paper examines the structure, evolution and performance of the Nigerian capital market. The number and branches of financial institutions increased significantly since its inception in 1960. So also did the listed companies on the Nigerian Stock Exchange market. Some of the factors responsible for the increase are the indigenization programmes, various economic reforms and government imposition on banks to invest a significant portion of their reserve capital in priority sectors. However, the increase is only in naira terms since a rapidly depreciating naira pushed share prices lower in dollar terms. The pattern of growth is, therefore, far from impressive when compared with other emerging markets. In recent years, a combination of new listings, manifested by privatization and commercialization of state owned firms, as well as higher prices increased total market capitalization. Investor optimism, regulatory and tax benefits have contributed. The naira-based performance is misleading, however, since the dollar-based performance shows a decline rather than an increase. One endemic problem seems to be market liquidity. Using liquidity as a measure of stock market development, therefore, it seems that the Nigerian stock market is illiquid and that it has contributed very little to the growth of the Nigerian economy.

Résumé: Le document examine la structure, l'évolution et le comportement du marché des capitaux au Nigeria. Depuis la mise en place de ce marché en 1960, les institutions financières et les succursales se sont multipliées; il en est de même pour les entreprises cotées à la Bourse nigériane. Parmi les facteurs sous-jacents à cette expansion figurent les programmes d'indigénisation, les réformes économiques et l'exigence faite aux banques par le gouvernement d'investir une importante fraction de leurs réserves dans les secteurs

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prioritaires de l'économie. Toutefois, l'expansion n'est réelle qu'en termes de nairas, les cours en dollars des actions évoluant à la baisse sous l'effet d'une rapide dépréciation de la monnaie locale. Le schéma d'expansion du marché nigérian n'est donc guère impressionnant par rapport à celui des autres marchés émergents. Ces dernières années, les nouvelles inscriptions à la cote — résultat des privatisations et d'une gestion commerciale des sociétés d'Etat — se sont conjuguées à une hausse des cours, augmentant la capitalisation totale du marché. Au nombre des autres facteurs figurent l'optimisme des investisseurs ainsi que les avantages réglementaires et fiscaux. Il convient néanmoins de souligner que les résultats exprimés en nairas sont trompeurs, les résultats en dollars dénotant un recul plutôt qu'une progression. L'une des difficultés endémiques du marché nigérian semble liée à sa liquidité. A en juger par la liquidité comme mesure de l'expansion des marchés boursiers, il apparaît que le marché boursier nigérian est illiquide et contribue très peu à la croissance de l'économie nigériane.

1. Introduction

In recent years, the role of financial markets in economic development has been the subject of increasing study by economists. Some studies in the early days took a demand-led approach to economic development as opposed to the supply-led approach. The issue of demand-led versus supply-led approaches to economic development is, however, unresolved to date. Patrick (1973) argued that a demand-led approach did not give the desired result as developments in the real economy may be too passive. Recently, Odedokun (1992) used Granger's causality framework to examine the existence of supply-led and/or demand-led relationships in 35 lesser developed countries (LDCs) over the period early 1960s to late 1980s. His findings suggest that supply-led development predominates in the latter stages of economic development in the cases of higher income LDCs such as Nigeria. It is widely suggested, therefore, that policy makers should move toward supply-led approaches to economic development as a way of actively creating financial institutions, instruments and services in advance of demand. In so doing, two objectives can be achieved: the transfer of resources from inefficient sectors to modern and high productivity areas; and the initiation and stimulation of entrepreneurial activities in such efficient sectors.

In line with the above argument, the driving force for the development of the Nigerian capital market was a government action as early as 1946. Since establishing a stock market was believed to enhance capital market development, a committee was set up by the government in May 1958 whose purpose was to consider the ways and means of promoting a stock market in Nigeria (Soyode, 1991). Upon the recommendations of the committee, the Lagos Stock Exchange (LSE) was established in 1960 to provide a market place in which long-term capital could be raised and in which stocks and shares could be traded. The LSE functioned until December 1977 at which time its name changed to the Nigerian Stock Exchange (NSE). Some critical questions for policy-makers emerge though. What is the effect of the NSE market on the Nigerian economic growth? How does the development of the NSE market affect the firms financing decision? Empirical evidence shows that stock markets positively affect economic growth. Then, given this positive relationship, what policies should the Nigerian authorities adopt to foster the development of the market?

1.1 Purpose and Disposition

The purpose of this paper is three fold: to examine the structure and evolution of the Nigerian Capital Market; to investigate the organization and micro-structure of the Nigerian Stock Exchange market; and to examine the performance of the capital market and its contribution to economic development. While the main concern here is to examine the above-mentioned in the first three decades of operation of the Nigerian Stock Exchange within the capital market, it will, however, give a brief analysis of recent developments and some policy recommendations.

The disposition of this paper is as follows. Section 2 discusses the structure of the Nigerian financial system and this is followed by an analysis of the evolution of the Nigerian capital market in Section 3. Section 4 discusses the role of the Nigerian capital market in the country's economic development. Analysis of the financial institutions and savings behaviour is given in section 5. The organization and micro-structure of the Nigerian Stock Exchange market is analysed in section 6, followed by a brief account of recent developments in the market in section 7. Finally, sections 8 and 9 give conclusions and policy recommendations, respectively.

2. Structure of the Nigerian Financial System

The Central Bank of Nigeria (CBN), which is the apex regulatory authority in the financial system has — through its monetary policies

— the responsibility of creating stable economic conditions in the country. The CBN has direct control and supervision over government regulatory agencies, as well as banking and non-banking financial institutions. Banking institutions are those who obtain their funds from deposits while non-banking institutions obtain theirs from other than deposits. Regulatory agencies include the Security Exchange Commission (SEC), and the Nigerian Deposit Insurance Corporation (NDIC).

SEC is at the apex of the capital market and its objectives are mainly the protection of investors and capital market development. In order to achieve these objectives, the commission has several powers. It regulates the market against malpractice of security trading and assures that information flows smoothly. It encourages economic development by providing incentives for domestic savers and by attracting foreign capital for domestic investments. It determines the time, amount and prices of new issue shares so that excess demand does not arise at any particular time. It registers the institutions and individuals involved with the market-making so that investors have the necessary assurance that the market is governed by proper standards of conduct. SEC has the function of de-listing a firm's securities for rule violations. It also has control over mergers/acquisitions and all other forms of business combinations. By organizing workshops, symposiums and international conferences, and also through co-operation with other regional and international organizations and markets, it actively searches for stimulating ideas on the basis of which it initiates policy changes that could enhance the growth of the Nigerian security market.

The NDIC is the insurer of all deposit-taking institutions in the financial system. It is empowered to examine the books and affairs of insured banks and all deposit-taking financial institutions. Its aims and objectives are: (1) to reduce bank failures; (2) to provide protection to bank depositors against loss in the event of bank failure; (3) to assist in building confidence of depositors if threatened by banks with financial difficulties; and (4) to assist in strengthening the overall safety and soundness of bank operations. In its capacity as insurer of banks, it has insured 65 commercial banks and 54 merchant banks as at 1991. Thus SEC and NDIC are the authorities who oversee the fair and smooth functioning of the financial markets.

In the above, I have briefly discussed the structure of the regulatory institutions. However, it is common knowledge that the availability of financial capital is a prerequisite for the development and transformation of any nation's economy. Finding and efficiently managing this scarce resource is best facilitated by the existence and appropriate functioning of financial institutions, also known as institutional investors. These institutional investors are of three kinds: banking institutions, specialized banking, and non-bank financial institutions. Banks mobilize financial resources from the surplus sectors of the economy and channel such funds to the deficit units of the economy through the extension of loans and credits. Specialized banks provide loans for projects with medium to long maturity periods. The specialized non-bank financial institutions are those institutions that fall into the category of non-deposit-taking financial institutions or their agents. They include insurance companies, national provident funds, stockbroking firms, issuing houses, registrars, building societies, venture capital companies and the NSE. The NSE is a market where trading activities for securities take place. Since the main interest here is to investigate the stock market, detailed examination of this important market will be done in section 6. Prior to that, however, I will discuss its evolution in the next section.

3. Evolution of the Nigerian Capital Market

In order to have a clear understanding of the NSE market's development and growth within the capital market, I have broadly divided the area into three discrete periods. I call these areas the infant market period, the indigenization period and the expansion period. The infant market period spans 1946–71. Trading at the exchange began in mid-1961, at which time eight stocks and equities were offered. There were also about seven UK firms quoted on the LSE, which had, at the same time dual quotations on the London Stock Exchange. By the end of this period, 34 securities were quoted. The Capital Issues Committee, which was to be involved in regulating prices of public companies, was also established during this period. In 1967 civil war broke out. Consequently, no significant development took place in the market during the war years or even during its immediate aftermath.

The indigenization period lasted from 1972–80. In 1972, the Nigerian Enterprises Promotion Decrees obliged some foreign companies to indigenize part of their holdings. This measure brought about the first major structural alteration of the ownership pattern of business in the country. Following the indigenization programme, a total of 21 new equities were listed on the exchange during this period. The LSE also changed its name to NSE and two branch offices were opened in other parts of the country. The second indigenization programme was introduced in 1977 and affected all enterprises operating in the country. A total of 57 new equities were then quoted on the NSE. The relatively modest increase of the stock market created the need for some regulatory authority to supervise and ensure an orderly development of the market. This period saw the abolition of the Capital Issues Committee and the establishment of SEC in 1979.

During the expansion period (1981–present), the stock market index was introduced (in early 1984). The unlisted securities market (also known as the Second-tier Securities Market), which was meant to attract relatively small and medium-sized firms into the market as well as more NSE branches, came about in this period. In 1988, the SEC was given the additional function of approving and regulating mergers and acquisitions as well as all forms of business combinations. The NSE was linked to the Reuters information system to enable it to spread vital information about its operations to global subscribers of the system. As can be seen in table 1, the number of market operators increased considerably: The number of banks, insurance companies, brokerage firms and registrars, for example, all increased from a low level until 1980 to a relatively high level at the end of 1990. The number of NSE branches grew from three in 1980 to six in August 1990. Another indicator of expansion was the market capitalization which grew tremendously in the second half of 1980s (see table 2). Another scheme that the government initiated towards the end of the 1980s is the Debt Conversion Programme. This scheme aims at reducing Nigeria's external debt by encouraging foreign capital flows to the country through the promotion of export oriented industries. A step towards accelerating the saving/investment process and capital market development was also made through the introduction of Unit-Trust legislation in 1990. What unit-trusts do is that they pool the money of individual investors to provide a sufficient spread of risk by investing in a range of shares and letting each investor have a share of the total fund, mainly via the stock market.

4. Capital Market and Economic Development in Nigeria

Looking at the overall pace of development in the emerging markets, one would expect to find Nigeria at a high level of development. However, the pattern of growth is far from impressive when compared with other emerging markets. The Nigerian securities market appears to be relatively insignificant as a means of providing domestic capital. This is especially true when one examines the stock market's contribution to the gross fixed capital formation as depicted in column 3 of table 2. As can be seen in columns 5–7, there was a steep rise in the stock market's contribution attributable to the industrial stocks

Table 1: Major Financial Institutions in Nigeria, 1980–90

Institutions	Year										
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Commercial banks	19	20	22	24	28	28	28	33	48	49	58
a) Local branches	708	868	993	1108	1191	1284	1394	1426	1678	1851	1921
b) Overseas branches	n/a	n/a	n/a	9	9	9	9	10	10	10	10
Merchant banks	6	6	8	10	11	12	12	16	26	34	49
Branches/offices	11	15	20	24	25	26	26	32	42	60	80
Insurance companies	65	84	85	85	88	88	88	92	98	105	n/a
Specialized financial institutions	5	5	5	5	5	5	5	4	4	5	n/a
Branches*	5	42	44	44	44	44	44	21	21	22	n/a
Stock Exchanges	1	1	1	1	1	1	1	1	1	1	1
Branches*	3	3	3	3	3	3	3	3	3	4	6
Stock-broking firms	10	12	13	14	17	20	21	33	43	63	n/a
Branches*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5	5	5	n/a
Registrar	9	10	13	13	14	15	15	15	18	18	n/a

Notes: The data up to 1979 is not adequate to be included here though the number of commercial banks was 11 in 1961 and grew to 17 and 20 in 1973 and 1979, respectively. Merchant banks grew from one in 1961 to two in 1973 and six in 1979.

* Number of branch offices is not included in the total number of institutions.

n/a Data not available.

Source: Security and Exchange Commission Annual and Quarterly Reports, various issues.

Table 2: New issues, market capitalization, gross fixed capital formation, gross domestic product and total value of equities, 1971–89

Year	New issues (Nb)	Mar.Cap. (Nb)	GFCF (Nb)	GDP (Nb)	Govt (Nm)	Indu. (Nm)	Total (Nm)	1 as % of 4	2 as % of 4	3 as % of 4	1 as % of 3	6 as % of 3	7 as % of 3	TOR
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1971	0.09	0.11	1.24	6.7	60	40	100	1.31	1.64	18.57	7.05	3.24	8.10	n/a
1975	0.45	0.31	5.02	21.6	450	1	451	2.09	1.46	23.28	9.01	0.02	8.98	n/a
1980	0.38	4.46	10.84	49.8	300	40	340	0.76	8.97	21.79	3.49	0.37	3.14	0.5
1981	0.45	4.98	12.22	47.1	300	34	334	0.97	10.57	25.92	3.73	0.28	2.73	0.3
1982	0.53	4.03	10.92	47.6	300	90	390	1.12	7.48	22.97	4.88	0.82	3.57	0.8
1983	0.45	5.77	8.14	52.8	468	96	564	0.85	9.11	15.40	5.51	1.18	6.93	0.6
1984	0.16	5.52	5.42	58.4	540	80	620	0.27	7.88	9.28	2.95	1.48	11.45	0.5
1985	0.82	6.67	5.57	66.2	390	76	466	1.23	8.47	8.42	14.66	1.36	8.36	0.5
1986	0.84	6.79	7.32	63.9	565	94	659	1.31	8.52	11.45	11.40	1.28	9.00	0.6
1987	0.45	8.30	10.66	90.7	480	98	578	0.50	7.50	11.76	4.23	0.92	5.42	0.7
1988	0.40	10.02	12.38	124.1	60	151	211	0.32	8.08	9.98	3.23	1.22	1.76	0.5
1989	1.63	12.85	15.79	171.4	30	1598*	1628*	0.95	7.49	9.21	10.32	10.12	10.31	0.4
1990	9.96	16.36	30.63	260.6	n/a	n/a	n/a	3.89	6.29	11.75	32.52	n/a	n/a	0.9

Notes: Nm = million naira, Nb = billion naira; Mar. Cap. = market capitalization; GFCF = gross fixed capital formation at current prices; GDP = gross domestic product; Total = Govt + Indu. Where Govt is the share of equities by the government sector and Indu. is the share of the industrial sector; * = Inclusive of proceeds from new issues arising from privatization; TOR = turn-over ratio; n/a = not applicable.
Source: Compiled from CBN, NSE, SEC Annual Reports and from Emerging Stock Markets Fact Book, various issues.

from 1980–83. A slight fall in 1981 was probably caused by the oil price shocks of that year; nonetheless, the contribution of the stock market to fixed capital formation was one of the lowest in this decade (see column 13). After significant increases in 1982 and 1983, there was a gradual fall in the following two years to significantly rise again in 1986 and 1987 (see column 6). Column 11 also depicts this phenomenon. It shows the ratio of new issues to the gross fixed capital formation. As we can see from the column, the ratio markedly increased in 1990 after a decline since 1987.

This rise, however, was apparently caused by two factors: the investor optimism towards economic activities in general, and the stock market in particular, as a result of the Structural Adjustment Programme introduced in June 1986; and the privatization and commercialization of state owned enterprises. There was a further fall in the stock market's contribution to fixed capital formation in 1988 (see column 13). For the first time, the contribution of government stocks was much less than that of the industrial stocks which may certainly have resulted from the introduction of privatization and commercialization programmes. Given that the bulk of the market's contribution during most of the period under consideration is from government stocks in which institutional investors were statutorily compelled to invest, the role of the market in capital mobilization remains unimpressive.

Looking at column 8, we observe the ratio of the new issues of stocks relative to the GDP. This ratio, which signifies the contribution to the economic activity in the country, is actually low by international standards which often stood at an average of 5 per cent (for various emerging markets only). It has oscillated between a bottom level of 0.32 per cent and a peak level of 3.89 per cent in the period 1975–90. The year 1990 saw a leap in both the absolute value of new issues as well as the relative contribution to the country's GDP which is attributable to the privatization programme.

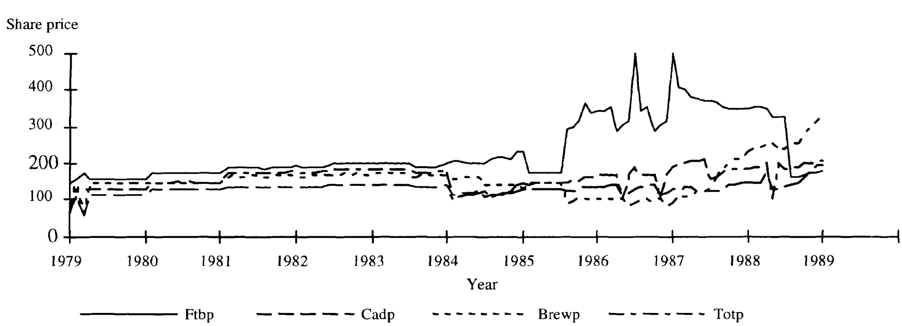
One can also look at the market capitalization to assess the growth of the market. Market capitalization is the value of the firm as determined by the market price of its issued and outstanding common stock. Looking at column 2 in table 2, we observe that between 1980 and 1987, the market capitalization grew 1.86 times and 3.67 times between 1980 and 1990. The growth from 1971–90 was about 148.73 times. Nonetheless, in absolute terms, the capital market has recorded some progress, especially when viewed in terms of the number of securities listed. But, one should be cautious in interpreting these figures as they are based on the domestic currency while the situation could be seen differently in terms of dollars.

Column 9 in table 2 shows the ratio of NSE market capitalization to the GDP, which is a popular measure of market liquidity. What we see is, therefore, a stable development without any significant change. We also see a continuous decline in the years 1987–90 as compared to the previous years. What this means is that the market is so shallow that there is virtually no trading in some securities implying that it suffers from lack of liquidity[1] because greater stock market liquidity implies faster growth. This phenomenon can be observed in figure 1 where four representative firms in the banking, breweries, oil and trading sectors are shown. The figure shows that prices of the equities of these firms remained almost constant until the introduction of the Structural Adjustment Programme in 1986. It could be argued, successfully I believe, that it is precisely because new issue prices are systematically undervalued that activities in the stock market, in terms of volume and eventually of value, are still relatively low. The stock market's resources allocation function are not fully market oriented. Hence the market has low contribution to gross capital formation.

5. Financial Institutions and Savings

Institutional business activities in the stock market both in terms of volume and value of shares traded, account for a major share of the turnover of the market. In table 3, the significant increase in institutional savings that occurred in the 1980s in Nigeria is highlighted. This has been achieved mainly as a result of financial

Figure 1: Monthly share prices of some representative firms in the Nigerian Stock Market (December 1979 to December 1989)



The labels for the firms are stock prices of First Bank of Nigeria (Ftbp), Cadbury Nigeria (Cadp), Nigerian Breweries (Brewp) and Total Nigeria Ltd. (Totp). The vertical axis shows share prices in kobo where 1 naira = 100 kobo.
Source: Data obtained from *IFC* Emerging Markets Data Base and the *NSE* Market daily price list, various issues; Nigerian Stock Exchange market annual reports, various issues.

deregulation. The roles of financial institutions and of banks in relation to the ownership of equity shares has, of course, been different for emerging markets as compared to those of other advanced countries. The small size of the equity market (in terms of listed companies), its illiquidity (in terms of market capitalization relative to the GNP), and the relative predominance of loan finance has led to a key role for banks in financing firms either as loan providers or as trustees of the relatively closely held equities of companies.

5.1 Capital Mobilization, by Institution

Table 3 also shows the cumulative institutional savings and breakdown thereof. In absolute terms, the total domestic savings had increased from a low level of N5.8 billion in 1980 to a high level of N23.2 billion in 1988 and a peak level of N27.6 billion in 1990. The figure in 1988 is four times that of 1980 and in 1990, nearly five. In other words, there was an increase of about 302.9 per cent and 377.3 per cent over the years, respectively. Needless to say, the total savings in 1989 was significantly lower than the 1988 level by about 12.1 per cent.

The role played by commercial banks in mobilizing investable capital in the period under consideration has been quite significant. This is observable in the table, which shows that savings and time deposits with commercial banks are the major part of total savings mobilized in each year. Savings in absolute terms continued increasing until 1988 but decreased somewhat in 1989. In relative terms, the savings at the commercial banks showed variation and accounted for between 79.1 per cent and 89.5 per cent of the total, which is very significant. Merchant banks have an increasing share of the total. As is evident from the table, they accounted for about 3.8 per cent of the total in 1980, increasing to 17.1 per cent in 1988. The increase in the savings at merchant banks was less in 1989 (12.4 per cent) compared with 1988 (17.1 per cent) although it ended up at 14.9 per cent in 1990, thus showing a significant increase of over 63 per cent on the 1989 figure.

National Provident Fund is the third biggest institutional saver. Unlike the merchant banks, savings at this institution successively decreased from a high 5.9 per cent in 1980 to a low 2.8 per cent in 1988. There was a slight decrease in 1990, relative to the total, when the savings rate stood at only 2.6 per cent. However, the slight increase of 11.2 per cent over the 1988 level is not to be undermined. It should be noted that this institution accounted for the second largest accumulation of savings in 1980 and 1981, during which time

Table 3: Total annual institutional savings (million naira) distributed by sources, 1970–90

Institutionalized						Year								
Savings	1970	1975	1978	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Savings & Time Deposits	336.7	1572.4	2601.7	5163.0	6024.0	6838.0	8083.0	9391.0	10551.0	11488.0	15089.0	18397.0	16977.0	23188.0
with Commercial Banks	(81.8)	(86.6)	(86.4)	(89.5)	(87.6)	(84.9)	(85.6)	(85.5)	(84.1)	(82.3)	(80.8)	(79.1)	(84.0)	(84.2)
National Provident Fund	67.4	159.9	269.9	338.0	454.0	443.0	473.0	505.0	544.0	580.0	614.0	651.0	699.0	724.0
	(16.4)	(8.8)	(9.0)	(5.9)	(6.6)	(5.5)	(5.0)	(4.6)	(4.3)	(4.2)	(3.3)	(2.8)	(3.1)	(2.5)
Federal Savings Banks	4.9	8.1	8.1	7.3	7.1	4.8	5.0	8.0	8.1	17.0	20.2	22.4	37.5	n/a
	(1.2)	(0.5)	(0.3)	(0.1)	(0.1)	(0.06)	(0.05)	(0.07)	(0.06)	(0.1)	(0.1)	(0.1)	(0.2)	
Federal Mortgage Banks	2.6	11.3	19.2	40.7	61.4	75.4	89.9	114.0	118.2	125.6	133.7	195.5	229.1	287.4
	(0.6)	(0.6)	(0.6)	(0.7)	(0.9)	(0.9)	(0.9)	(1.0)	(0.9)	(0.9)	(0.7)	(0.8)	(1.1)	(0.1)
Time Deposits with	n/a	63.4	110.7	219.7	328.0	691.0	793.7	970.6	1318.2	1739.7	2822.8	3982.8	2505.2	4091.8
Merchant Banks		(3.5)	(3.7)	(3.8)	(4.8)	(8.6)	(8.4)	(8.8)	(10.5)	(12.5)	(15.1)	(17.1)	(12.4)	(14.9)
Stamps*	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	411.8	1815.2	3009.7	5769.0	6875.0	8052.0	9445.0	10989.0	12540.0	13950.0	18680.0	23249.0	22696.0	27567.0
	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)

* = Includes premium bonds, savings certificate and savings stamps. Figures are rounded to the nearest whole number.
Numbers in parentheses are percentages. n/a = not available.
Source: Central Bank of Nigeria Annual Reports, various issues and Securities Market Journal, vol. 6.

merchant bank savings ranked third. Furthermore, we can observe that the savings at these three institutions account for about 99 per cent of the total savings yearly. This is to say that the savings going to other institutions is rather negligible.

5.2 Allocation of Credit to the Economy

There are two sources of credit provided to both the private and public sectors in the economy. One source is the CBN, the other, commercial and merchant banks. As can be seen from table 4, the total credit successively increased from a sum of about N10.8 billion in 1980 to a peak of N57.3 billion in 1988. In relative terms, the increase from 1980 to 1988 was about 431.8 per cent. The decline of total credit allocation to the economy in 1989 was about 14.1 per cent over the preceding year. This decline was, however, reversed the following year and stood at N61.3 billion. The increase in relative terms through the ten years is about 568.7 per cent while that against the previous year is 24.5 per cent.

The credit provided by the CBN was only 15.9 per cent of the total in 1980. This was in fact the lowest percentage during the period under consideration, while that provided by the commercial and merchant banks stood at 84.1 per cent of the total. In the remaining years until 1989, the credit provided by the CBN was between 31.4 per cent and 44.8 per cent. Correspondingly, the banks' share for the same time

Table 4: Annual sources of credit and its allocation to the economy, 1980–89

Year	Total (Nb)	Credit by Central Bank		Credit by Financial Banks*		Credit to private sectors as a percentage of total	Credit to Government as a percentage of total
		(Nm)	%	(Nm)	%		
1980	10.78	1.71	15.9	9.07	84.1	66.7	33.3
1981	16.26	5.49	33.8	10.77	66.2	59.4	40.6
1982	21.90	8.48	38.7	13.42	61.3	51.9	48.1
1983	28.18	11.59	41.1	16.59	58.9	43.8	56.2
1984	31.14	10.71	34.4	20.43	65.6	41.6	58.4
1985	32.68	10.27	31.4	22.42	68.6	41.9	58.1
1986	36.82	16.51	44.8	20.31	55.2	47.2	52.8
1987	41.39	16.21	39.2	25.18	60.8	46.2	53.8
1988	57.33	24.19	42.2	33.14	57.8	50.2	49.8
1989	49.26	16.69	33.9	32.57	66.1	62.8	37.2

* Figures include mortgage bank credits to both the public and private sectors; Nb = billion naira; Nm = million naira.
Source: Compiled from CBN Annual Report and Statement of Accounts, various issues.

period was in the range of 55.2 per cent and 68.6 per cent. It is evident, therefore, that the commercial and merchant banks play a major role in providing financial resources to the Nigerian economy but their dominance has decreased in later years.

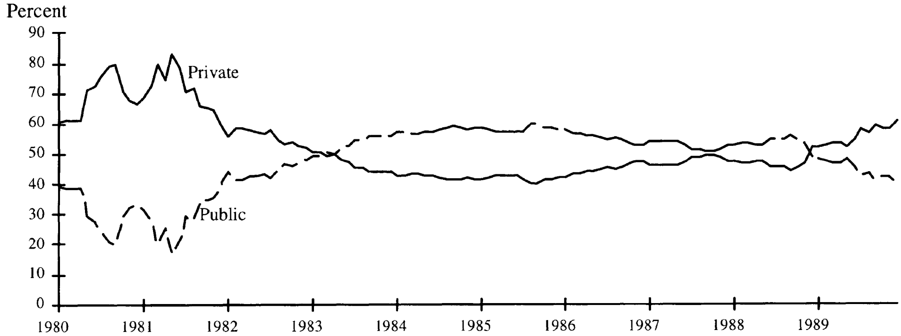
One would also like to know how the total credit is disbursed. To see this, let us look at the two last columns in table 4, which represent the percentage credit allocation to the private and public sectors. Figure 2 also clearly depicts this development. It shows the percentage credit allocation for the period under consideration. Both table 4 and figure 2 show that about two thirds of the total credit was provided to the private sector in 1980. Even this share in the following two years was slightly above that of the public sector. The situation, however, was reversed in 1983 when about 56.2 per cent of the total credit was provided to the public sector. This development continued until 1987. What this indicates is that the commercial and merchant banks had been extending credit to the public sector at the expense of the private sector. Alternatively, one can say that the public sector was much larger than the private sector during these years. It was only in 1988 that credit was provided to both sectors almost equally. The credit to the private sector was again higher in 1989 amounting to about 62.8 per cent.

6. Organization and Micro-Structure of the Market

6.1 Organization

Since the indigenization decrees of 1972 and 1977, the market for stocks and shares in Nigeria has grown. Unlike big international

Figure 2: Private and Government credits as a percentage of the total credit allocation, 1980–89



markets such as the US and Japan, however, Nigeria has at present only one stock exchange with six branches (see table 1). This means that this institution has absolute monopoly power in the market and that its importance in stock trading can only increase. This can be evident by looking at table 5, which shows the cumulative growth of securities listed over the years since inception. From a total of eight securities in 1961, the number has leapt to a total of 269 in 1989 and 295 in 1990, the latter constituting of 101 Government securities (37 per cent) 194 ordinary shares, preference shares and debentures (63 per cent). Although not shown in the table, the number of listed companies on the NSE increased from three in 1961 to 93 in 1983. By 1989 the number had risen to 111 and 131 in 1990. Considering the size of the country in terms of resources and the length of time that the market has been in operation, however, the number of both firms and securities listed do not seem to be encouraging.

Table 5: Cumulative growth of securities listed on the NSE market, 1961–90*

Year	Government	Industrial	Equities	Total
1961	5	0	3	8
1963	12	4	5	21
1965	18	5	5	28
1967	25	6	6	37
1969	32	6	7	45
1970	36	8	8	52
1972	42	11	19	72
1973	48	11	23	82
1974	51	11	33	95
1975	54	12	33	99
1976	59	12	34	105
1977	62	16	34	112
1978	66	19	42	127
1979	71	20	81	172
1980	75	22	91	188
1981	79	22	93	194
1982	83	29	93	205
1983	87	32	93	212
1984	87	32	94	213
1985	91	33	96	220
1986	95	46	99	240
1987	97	47	100	244
1988	99	52	102	253
1989	100	56	111	267
1990	101	63	131	295

* Figures for the industrial equities, 1985–90 include securities listed in the SSM but they are few in number, only 16 over the years.
Source: Facts and Figures on the Nigerian Capital Market, Volume 1, SEC, 1992.

The total market value of securities traded on the NSE declined from N512 million in 1980 to N137.6 million in 1988 and rose again to N521.6 million in 1990. If we look at the figures since the start, we see in table 7 that the total value of transactions on the NSE rose from N1.49 million in 1961 to N521.6 million in 1990. Thus, the relative growth rate during the period was only modest.

One major factor that impeded the expected rapid growth of the Nigerian capital market was the level of interest rates on government securities. These, for a long time, remained rigidly fixed between 5 and 6 per cent and, consequently, made the yield on gilt-edged securities low and unattractive to private investors. This resulted in under-subscription and compelled the CBN to take up a large proportion of such securities as, of course, a buyer of last resort. With the deregulation of interest rates and the resultant increase in coupon rates, these securities are now being over-subscribed. However, in view of the limited amount of credit available with banks, the deregulation of interest rates might have negative impact on the development of the capital market in general and the stock market in particular.

6.2 The Micro-Structure

The Nigerian Stock Exchange, which is a private company owned by other financial institutions and a few individuals, is an auction market. Its responsibilities include listing and the enforcement of listing requirements and trading procedures. Equities, which account for about 90 per cent of the total new issues, are traded in the form of ordinary shares. Currently, there are two types of stocks traded at the NSE. These are the listed stocks and the unlisted stocks. Both are registered with the NSE and traded. The listed stocks are those that have met the listing requirements of the apex regulatory body of the capital market, namely the SEC. The unlisted stocks are those that are also registered with the NSE but at a different level because they did not meet what are known to be the stringent conditions of listing requirements of the SEC. What follows is a description of the types of markets.

6.2.1 The Primary Market

This market, also known as the ‘new issue’ market, is concerned with the offering of new issues of securities in the exchange. New issue shares are savings mobilized for investment purposes by various firms and government bodies. It is a mechanism for the sale of newly issued company shares to investors, ranging from large institutions to small shareholders. It provides a channel for the transfer of savings from surplus sectors to the deficit sectors of the economy. There are primarily two types of securities that are issued, namely debt and equity. The former are financial claims with an obligation by the issuer to pay interest at predetermined intervals and to redeem the issue at a future date. Two such instruments handled by the NSE are Federal Government Development Stocks (FDS) and Industrial Loans, Preference Stocks and Bonds. The main difference between the above debt instruments is that FDS are issued by the Federal Government while Industrial Loans and Preference Stocks are issued by bodies other than the Federal Government. Moreover, the FDS are issued annually and are long-term loans in nature.

6.2.2 New Issues

The most central reason for firms to go to the primary market is to be able to raise funds either for reinvestment, or to raise capital for day-to-day needs or even to build up liquid assets. As is common elsewhere, the dominant source of Nigerian New Issues are the industrial firms followed by the merchant banks and some commercial houses. This enhances securitization: the more firms look to the capital market for raising funds, the less dependent they become on the banks.

Since the initial decade of the NSE's existence, government bonds dominated both trading and new issues. However, they were hardly bought by individuals, who owned less than one per cent of their total. This is to say that about 99 per cent of the new issues were secured by institutional investors only. Increasingly, the CBN became a buyer of last resort while the National Provident Fund, insurance companies, local governments and banks also became major holders, though largely because of various legal requirements. Although figures are not shown for the period prior to 1980 in table 6, between 1960 and 1970, 15 companies made a total of 20 issues. Some individual Nigerian subscribers, although very few in number, were active buyers of shares, purchasing on the average about two-thirds of the issue. Several issues had over 2000 subscribers. The debentures were mainly purchased by institutional investors.

The growth of new shares continued throughout the 1970s although trading activity remained limited in comparison with other emerging markets. The indigenization decrees of 1972 and 1977 gave the impetus to the market both on the NSE and through private placements. A number of banks and firms went public through

Table 6: New Issues (in millions of naira) in the NSE market, 1980–90

Year	Nominal value: Government stocks	Nominal value: Corporate bonds	Nominal value: Equity	Nominal value: Total	Real value*: Government stocks	Real value*: Corporate bonds	Real value*: Equity	Real value*: Total
1980	300.0	69.0	3.3	372.3	300.0	69.0	3.3	372.3
	(80.6)	(18.5)	(0.9)	(100.0)	(80.6)	(19.5)	(0.9)	(100.0)
1981	300.0	32.0	4.2	336.2	248.0	26.5	3.5	278.0
	(89.2)	(9.5)	(1.3)	(100.0)	(89.2)	(9.5)	(1.3)	(100.0)
1982	300.0	140.0	14.3	454.3	230.4	107.5	11.0	348.9
	(66.0)	(30.8)	(3.2)	(100.0)	(66.0)	(30.8)	(3.2)	(100.0)
1983	300.0	158.0	21.3	479.4	187.2	98.6	13.4	299.2
	(62.6)	(32.9)	(4.5)	(100.0)	(62.6)	(32.9)	(4.5)	(100.0)
1984	n/a	25.0	n/a	25.0	n/a	11.2	n/a	11.2
		(100.0)		(100.0)		(100.0)		(100.0)
1985	600.0	71.6	3.8	675.4	253.8	30.3	1.6	285.7
	(88.8)	(10.6)	(0.6)	(100.0)	(88.8)	(10.6)	(0.6)	(100.0)
1986	615.0	8.7	22.3	646.0	247.2	3.5	9.0	259.7
	(95.2)	(1.3)	(3.5)	(100.0)	(95.2)	(1.3)	(3.5)	(100.0)
1987	240.0	30.0	15.8	285.8	87.6	11.0	5.8	104.4
	(84.0)	(10.5)	(5.5)	(100.0)	(83.9)	(10.5)	(5.6)	(100.0)
1988	60.0	45.6	175.3	280.9	15.8	12.0	46.3	74.1
	(21.4)	(16.2)	(62.4)	(100.0)	(21.3)	(16.2)	(62.5)	(100.0)
1989	30.0	580.7	1016.9	1627.6	5.6	108.6	190.2	304.4
	(1.8)	(35.7)	(62.5)	(100.0)	(1.8)	(35.7)	(62.5)	(100.0)
1990	n/a	981.5	8982.9	9964.4	n/a	142.3	1302.5	1444.8
		(9.8)	(90.2)	(100.0)		(9.8)	(90.2)	(100.0)

Notes: Real values are based on 1980 prices. Figures in parentheses are percentage values of the total new issued stocks.
Source: Central Bank of Nigeria Annual Report and Statement of Accounts (various issues).

underwriting which were subsequently listed on the Exchange. Prices and timing of the new issues were controlled by the then CIC as well as by the current Security and Exchange Commission's (SEC) set up for this purpose. Issue prices were made low so that demand for shares from all income groups could be stimulated. This has, however, generated some controversy because, in the face of high dividend yields and low bank deposit rates, investors who were lucky enough to obtain shares continued to hold on to them rather than trade them in the market.

Table 6 shows that the value of new issues in nominal terms increased from N372.3m in 1980 to N479.4 million in 1983 with only a small decline in 1981. This shows an increase of 28.8 per cent over the years. The decline in new issues was felt in 1984 and was perhaps attributable to the stand-still of activities in this market during that year. The stand-still was a result of the fact that the Board of the Securities and Exchange Commission was dissolved in 1983 and that it could not exercise its price-determining function with respect to new issues. New issues significantly increased in 1985 and 1990 to N675.4 million and N9964.4 million, respectively. In relative terms, this increase over the 1980 figure is equivalent to 81.4 per cent and 2576 per cent, respectively. The increase in 1989 over the 1980 period was 337.2 per cent which is not impressive, as such, considering the span of time. In any case, the increases in new issues in 1989 and 1990 can be considered remarkable as there were few or no government stocks in these years. But the significant increase in these two particular years is partly due to the privatization programme being undertaken within the context of the Structural Adjustment Programme and partly due to the sharp increase in domestic bank lending interest rates which went up as much as 40–45 per cent.

Table 6 also shows a shift of interest from government stocks to corporate bonds and equities (ordinary and preference shares). Government stocks had a constant increase in the early 1980s but showed a sharp increase in the mid 1980s. This development was reversed for most of the second half of the 1980s and there were no new issues at all in 1990. In relative terms, government stocks increased from 80.6 per cent in 1980 to a peak of 95.2 per cent in 1986, then decreased to 1.8 per cent and zero per cent in 1989 and 1990, respectively. Stocks in equities successively increased from a low level of 0.9 per cent in 1980 to 62.5 per cent and 90.1 per cent in 1989 and 1990, respectively.

6.2.3 The Secondary Market

The secondary market for trading in existing equities has a crucial role in the reallocation of existing assets between various investors. It also plays a key role in the determination of the cost of capital and the time horizons of corporate investors. As can be seen from the trading activities in table 7, the number of total dealings in 1961 was only 334. This figure increased to 7054 in 1980. By the end of 1981, the number increased to 10218 or about 44.8 per cent higher against the previous year, only to show a slight decrease in the year to follow. About 97 per cent out of the total number of dealings was made in industrial stocks. The same figure compared on the basis of transaction value shows, however, that government stocks amounted to 98.3 per cent of the total value. This suggests that a comparison on the basis of number of dealings does not give a fair picture of the real situation. Figure 3 also shows this development.

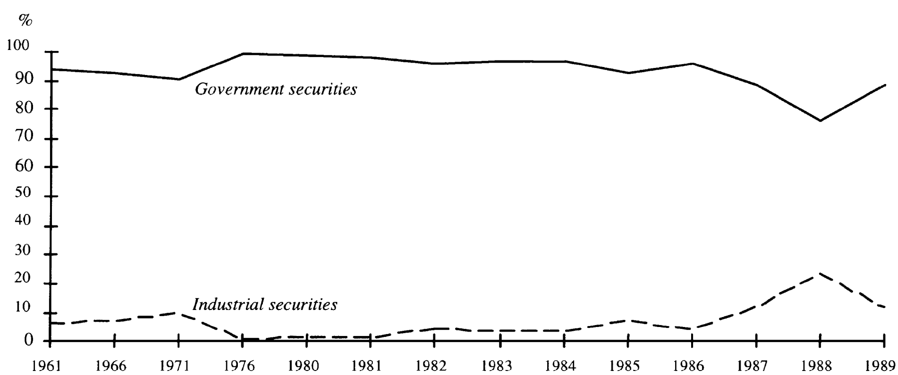
All in all, we see that the value of transactions in government stocks was relatively significant throughout the years although a slight decrease is observed following the introduction of the Structural

Table 7: Annual total number of trades and values of transaction at the NSE market, 1961–90

Year	Government securities				Industrial securities				Total	
	No.	%	Nm	%	No.	%	Nm	%	No.	Nm
1961	92	27.5	1.4	94.0	242	72.5	0.09	6.00	334	1.49
1966	501	45.7	15.2	92.7	595	54.3	1.20	7.3	1096	16.40
1971	204	21.4	16.3	90.1	748	78.6	1.80	9.90	952	18.10
1976	321	31.6	111.3	99.5	696	68.4	0.56	0.50	1017	111.8
1980	211	3.0	503.4	98.3	6843	97.0	8.60	1.70	7054	512.0
1981	117	1.1	324.0	98.2	10101	98.9	6.10	1.80	10218	332.1
1982	185	2.0	206.5	96.1	9218	98.0	8.30	3.90	9406	214.8
1983	291	2.4	384.7	96.7	11625	97.6	13.00	3.30	11916	397.7
1984	195	1.1	402.7	96.3	17170	98.9	15.40	3.7	17365	418.2
1985	320	1.4	269.0	92.7	23060	98.6	23.60	7.30	23380	319.6
1986	271	0.7	470.3	95.5	26404	99.3	23.70	4.50	26583	492.7
1987	230	1.2	307.7	88.4	19353	98.8	40.10	11.60	19583	348.0
1988	88	0.5	104.9	76.3	17928	99.5	32.70	23.70	18016	137.6
1989	150	0.7	462.0	88.5	22346	99.3	59.60	11.50	22496	521.6
1990	92	0.3	156.4	58.9	36675	99.7	109.1	41.10	36767	521.6

No. = the number of trades; Nm = total value of shares traded in millions of naira.
Source: NSE and SEC annual reports, various issues.

Figure 3: Trading volume by value as a percentage at the NSE, 1961–89



Adjustment Programme. The amount of trading in government stocks decreased successively from 1985–88. On the other hand, the relative value of industrial stocks increased from a low level of 1.7 per cent in 1979 to 23.7 per cent in 1988 and back to 11.5 per cent and 40.1 per cent in 1989 and 1990, respectively. In general, the total transaction values in industrial stocks has modestly increased in the second half of the last decade. The increase is because of the privatization and commercialization programmes that started actively in that period and trading as such in government stocks has been significantly low. The low trading is evident from the reduced number of dealings in the year, and is, therefore, why a high rate percentage has been recorded for the industrial stocks both in terms of dealings and transaction value in 1988.

One can also look at the turn-over-ratio (TOR) as an indicator for the growth of the market. The TOR is value traded as a percentage of year-end-market capitalization. Looking at this ratio in column 14 of table 2, we observe that it has been very insignificant, oscillating between 0.3 per cent and 0.9 per cent between 1980 and 1990. This ratio was much higher for other emerging markets throughout the 1980s. Only in 1990, the TOR of Mexico, Venezuela and Indonesia stood at 44 per cent, 43 per cent and 75.8 per cent, respectively.[2] On the basis of this ratio, it is clear that the performance of Nigeria's stock market is less impressive.

Perhaps the reason for the low TOR may be that the management of securities prices in the secondary market is carried out by the NSE in a way that does not seem to encourage speculation in the market. The relatively low prices of securities in the market, while enabling ownership of securities to spread to the masses, has also tended to sap the market of the dynamism required for growth because investors do not find it profitable to trade even without considering the transaction costs. Rather, they buy and hold them to benefit from the relatively higher dividend yields.

For the purpose of comparison, table 8 and figure 4 reports the growth rate in the stock market capitalization of some 14 emerging markets in dollar terms. The table shows that most markets performed well. Only Argentina, Columbia and Nigeria had negative performance in 1990 as compared to 1980. It was seen in table 2 that Nigeria's performance in terms of domestic currency is quite significant. However, as we see from table 8, Nigeria seems to have performed worse in dollar terms with a negative growth rate of 56 per cent followed by Argentina and Columbia. It could be said that higher inflation, decreasing oil prices and, most of all, the peso problem[3] could be the reasons for the negative performance. Portugal and Korea, on the other hand, performed well with growth rates of 4712 per cent and 2788 per cent, respectively.

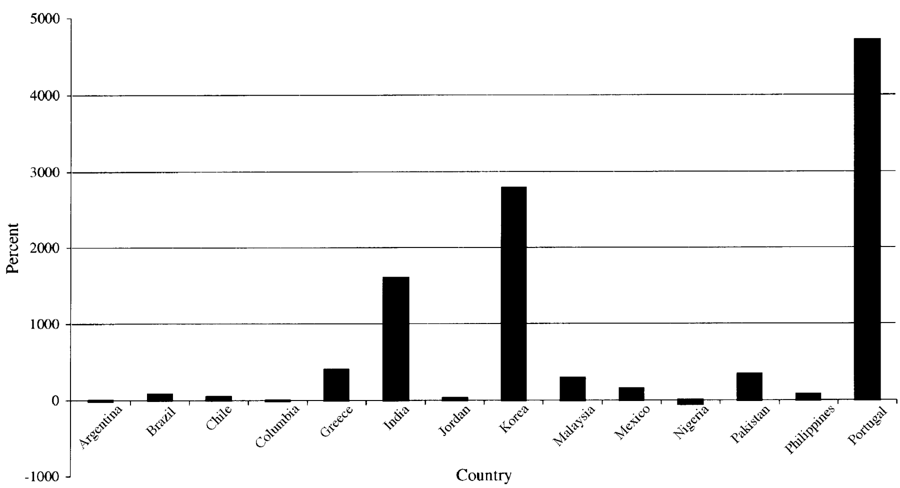
6.2.4 The Unlisted Securities Market

At the NSE, only big firms which fulfilled the listing requirements could trade in both the primary and secondary markets while the smaller firms were without access to a wider source of funds. Small and medium-sized firms did not have access because their shares were

Table 8: Percentage growth in market capitalization of some emerging markets in dollar terms, 1980–90

Country	Growth %
Argentina	−15.90
Brazil	77.44
Chile	45.20
Columbia	−11.78
Greece	404.90
India	1602.70
Jordan	24.67
Korea	2788.00
Malaysia	292.20
Mexico	151.85
Nigeria	−56.14
Pakistan	343.23
Philippines	70.41
Portugal	4712.00

Figure 4: Percentage growth in market capitalization of some emerging markets in dollar terms, 1980–90



not listed due to the listing requirements. This also retarded the growth of the market because the stringent listing requirements were, as such, disincentive to firms, to the public at large and to the contributions that could have been derived from the capital market to the overall economy. There was, therefore, sufficient reason to look into ways by which small firms could also benefit from the market. A second reason for the concern was the high cost of borrowing money from the banks and the even higher costs involved with respect to public issues and, hence, of quotations on the official list. A third reason is that the banks, in spite of their high borrowing rates, could not comply with the required amounts of credit due to the failure of the CBN to implement its credit allocation policies for so many consecutive years. Therefore, one of the main purposes of launching this market was to give smaller Nigerian firms access to a wider source of funds.

Significant developments began in 1985 when the Unlisted Securities Market (USM) was launched. The term Unlisted Securities Market, also known as the Second-Tier Securities market, does not mean that the market is separate from the NSE market. Nor does it mean that the securities are unlisted in any real sense. The term is used solely to differentiate securities in this tier of the stock market from those on the traditional list covered by the listing requirements. As a matter of fact, the securities traded in this market have to be listed before they can be traded at the NSE trading floors. Trading also takes place on the same floor where the first-tier securities are traded and is done simultaneously by the same brokers.

Furthermore, firms involved with USM report their operations and disclose information in the same fashion as firms on the main list. Even quarterly forecasts and results have to be reported to the NSE without failure. Perhaps the only major difference is that firms operating under the USM may not be subject to the indigenization exercise and, therefore, may allot shares as they deem fit. This tier is, therefore, an alternative framework which enables firms to participate, who might otherwise not qualify for the full list of the stock exchange but who still need to raise money through the stock market or wish to establish a trading framework that gives access to the stock market. Consequently, some firms went to this market in search of finding resources although their number is not that significant. In any case, their contribution to the economic development is not to be undermined.

7. Recent Developments

As already mentioned in the introduction, the purpose of this paper has been to highlight the development of the Nigerian capital market in the 30 years since its inception. Let me, however, discuss recent developments in the Nigerian capital market without going into details.

In the 1990s, the Nigerian government continued on the path of economic reform that it started in the second half of the 1980s.

Financial liberalization, privatization and commercialization of state enterprises were the main tenets of the reform. Another development as mentioned above is the introduction of a Unit Trust scheme in 1990 that has the purpose of mobilizing funds from small investors in many sectors of the economy and invest the funds thus mobilized in quoted equities and government securities. To this end, a number of unit trust companies have been established and that their number is slowly increasing.

Evidently, all these programmes have continued to serve as catalysts for boosting the development of the Nigerian capital market. For instance, the number of quoted firms increased from 131 in 1990 to 182 in 1997. This figure includes those that are listed in the USM. The number of listed securities on the NSE has also slightly increased although a series of mergers and acquisitions took place in the process. Stockbroking firms also increased from 63 in 1989 to 150 in 1997 implying a rise of 138 per cent. If we look at the Nigerian Stock Exchange All-Shares index, we note that it has increased from N513.8 million in 1990 to 6440.5 in 1997. This is equivalent to a sharp rise of 1132 per cent. In other words, the general index grew more than 12 times over the period 1990–97. In terms of market capitalization, it has recorded a significant increase, from N16.36 billion in 1990 to N218 billion in 1997, amounting to over 1232 per cent increase over the years. Trading value at the exchange increased from N88 million in 1990 to over N10.8 billion in 1997. It could be said that trading value has grown over 120 times in the seven-year period since 1990. Again, all these figures are in terms of domestic currency so that they may not give the desired optimism if seen in terms of dollar. The turn-over ratio consistently remained under one per cent up to 1996 but increased to a record high of 3.9 per cent in 1997. But it is high by Nigerian standards only. The TOR for other emerging markets in 1997, to which Nigeria is compared was in the range of 10.5 per cent for Chile and 103.7 per cent for Pakistan. Although this ratio is somewhat higher than ever before, it is obvious that the Nigerian Stock Market has a chronic liquidity problem.

8. Conclusion

For the three decades over which the Nigerian capital market has functioned formally as a mechanism for mobilizing and channelling surplus investible funds, its level of development has not been impressive. The most important reason for the slow growth seems to have stemmed from the liquidity problem. Market liquidity can be defined as the opportunity to easily buy and sell equity in the market and can be closely associated with future economic growth. Therefore, using liquidity as a measure of stock market development, I find that the NSE market is illiquid, hence, has very little contribution to the growth of the Nigerian economy.

Apart from the indigenization programme, several measures have been taken to encourage competition in the financial markets. One measure has been to encourage the growth of commercial and merchant banks and non-bank financial institutions has been spurred. While this measure effectively increased the number of banks in the country, the services they rendered to the business community was not impressive mainly for two reasons: banks did not have the necessary resources that would match the demand for bank credits; and even if they could match the demand, interest rates were so high that borrowing became unthinkable for small and medium-sized firms.

Another measure, related to the above, was that banks were required to invest up to one-third of their capital reserves in agricultural and manufacturing companies. This requirement certainly has significant implications on the growth of the capital market in general and the stock exchange market in particular. However, it may have created a bias in favour of priority sectors often with government interests. As a matter of fact, the public sector was so big that most credit went to just this sector for many years. It was towards the end of the 1980s that things reversed in favour of the private sector. Obviously, the very effect of this policy cannot be expected to boost capital market growth. The introduction of the debt conversion scheme and the Unlisted Securities Market had little effect on the growth. Additional measures to boost the market included also economic reforms through interest rate, exchange rate and credit policies. All these reforms have contributed to a switch of interest from holding government equities to trading in industrial and preference shares. However, implementation of the economic reforms aimed at altering conditions in the financial system has not been forceful enough to meet the needs of the economy in the three decades up to 1990.

A relatively marked boost has taken place in the Nigerian capital market during the period 1991–97 though. The reason for the boost of the market in recent years could be thought of resulting from a combination of many things. One reason is the favourable corporate earnings that attracted investors. The second reason, related to the first, is the low level of corporate profit and dividend taxes. A third reason is the government's policy of relaxing owner restrictions in major corporations. The fourth reason is government policies that focused on market economy through stable exchange rate and low interest rates.

These reasons coupled with investor optimism has helped the Nigerian capital market to leap slightly forward in the right direction although, given its potential capital and human resources, it has yet to do more consistently to find its right place among the leading economies of the world.

9. Policy Recommendations

In the years that SEC has existed, it has from time to time introduced changes and improvements with the aim of boosting the Nigerian capital market. The level of development and its contribution to economic growth is not, however, impressive when compared to other emerging markets. Most of all, foreign investors have played a very limited role in the slow-moving privatization of Nigerian state-owned enterprises. If it continues at the current pace, the development of the stock market is unlikely to spur corporate growth in Nigeria.

As Nigeria moves deeper into the 1990s and beyond, it faces a myriad of financial problems, such as: how can the supply of securities in the market be increased?; how can returns to shareholders and liquidity of shares in the market be increased?; how can firms be made to go public? Since most of Nigeria's firms are still small and medium-sized enterprises, they have to be encouraged to use the second-tier securities market to raise capital for their operation and expansion. However, firms are often discouraged from going public if SEC intervenes to hold down the issue price in the primary market. Seen in this light, the relatively low prices of securities may also not be conducive to a rapid increase in the supply of securities in future. The relatively low level of prices in the secondary market resulting from some way of control may also have to be relaxed if it is to attract more active participants in the market. Specifically, it may be useful to consider the following points:

- Policies need to focus at fostering development of both the equity market and banking sector. While both are equally important for economic growth, stronger emphasis should go to the equity market. This is because as the NSE market continues to develop, the debt-equity ratio declines, with firms relying more on equity and less on debt.
- An area for improvement could be that of removing impediments to market development. Such impediments include legal, regulatory and tax barriers. Improving the legal and regulatory environment may mostly be concerned with the enforcement of adopting

accepted standards of accounting and the disclosure of information. As to the tax barriers, I believe that it may help domestic firms to go public if they are given tax incentives in the initial periods for doing so.

- Another issue is the infrastructure which has to be improved for efficient trading activities. More so, economic policies of stabilizing the exchange rate and putting inflation and interest rates under control may help attract foreign investors.
- Increased integration with world capital markets would improve the operation of the domestic market by being instrumental in eliminating distortions in the prices of domestic securities. Therefore, one venue for boosting the size of the NSE market is lowering barriers to international investment.
- Another area for improvement is liberalizing international capital flows. It offers expanded opportunities for long-run economic growth through greater market liquidity because a liquid market may make it easier for firms to raise capital for investment. By making long-run investments more attractive, liquid stock markets may boost investment in longer-run and more profitable activities, enhancing the prospects for long-run economic growth.
- Monetary authorities must refrain themselves from inappropriately intervening in the market because inappropriate and, certainly, intervention would only result in upsetting the market rather than stimulating it.
- Finally, one should note that investment is a long-run process. Hence, policy makers ought to make long-run investments more attractive. One way to do this, perhaps more importantly, is to create a stable and favourable investment climate where risks could be minimized. The type of risk I refer to here is political. Obviously, no investor would want their investment to vanish in case of political instability and unrest. It is, therefore, necessary for the authorities to see that their policies are credible and that investors, be they domestic or foreign, are confident enough to take an active role in the market.

Notes

1. Access to a liquid market might affect firms' behaviour in three ways. First, entrepreneurs would have many opportunities for diversifying risk. Therefore, they would choose more capital-intensive investment strategies that would bring long-run growth. Secondly, firms with access to a well-functioning Nigerian stock

market can avoid the problem of balancing between debt and equity. They can issue equity, thus mitigating debt-associated incentives. Thirdly, a liquid stock market makes available all information about firms. With the necessary information in hand, investors are likely to invest more wisely. Taken together, the three ways imply that firms with access to a well-functioning stock market are likely to be bigger and to grow more rapidly. But, the opposite is true in the case of illiquid markets such as the NSE.

2. The comparison with these countries is due to the similarity in their economic structure; all are oil-exporting countries. In Africa, Zimbabwe performed better with a TOR of 5.3 per cent in 1988 and 2.9 per cent in 1990.

3. The peso problem arises from the fact that there could be unobservable events such as devaluation (depreciation) and revaluation (appreciation) which may occur in the future and yet may never actually occur. It may also arise as a result of government policy changes and oil price shocks.

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