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Towards Developing a Vibrant Bonds Market in Nigeria - A Review**

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I. Highlights of the Paper

A bond is defined as a contract that promises to pay fixed schedules of interest in the future in exchange for cash now. Long-term economic growth requires investments in a number of lines such as plant and machinery, the building of an engineering infrastructure and development of skills for doing things. Although such investments require long-term finance, the bulk of finance available in Nigeria is short-term, hence a call for the development of the country's capital market.

The two objectives of this paper are to understand the major reasons for the poor performance of the bonds market and to put forward proposals that will enhance its performance in the next decade. Among the several studies that have considered the economic case for issuing bonds is the conventional macroeconomic argument which believes that bond finance is less expansionary than money finance and that the expansion is sometimes undesirable. There is also macroeconomic argument which suggests that bonds are issued for different reasons. It is argued that corporate borrowers use debt market to obtain working capital and new equipment.

Apart from bonds owners that are more willing to bear the additional cost in terms of interest payable on the loan stock, governments use debt markets to acquire funds to finance various public expenditures including infrastructure. It is argued that corporate bond markets with their long-term institutional investors help unleash major forces of savings that can be channeled into important investments in local economic development. Most bonds issued in

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Nigeria are project-tied bonds. It is usually expected that the project would have been evaluated and considered viable in the sense that it will be able to service the loans raised to execute it. With the recent rise in interest rates, the cost of raising funds in the capital market is becoming competitive.

Firth (1976) listed some of the costs of debenture holding to include underwriting fees, stock exchange fees and printing expenses. He stated that such costs are more expensive than those relating to short-term finance, although short-term finance will probably have to be raised more often. The bonds market in Nigeria can be classified into several types including government and corporate securities. Government securities consist of Federal Government Development Stock, Treasury Certificates (TCs), Treasury Bonds and the development bonds issued by state and local governments while corporate securities are mainly in form of debenture of loan stocks.

In another classified scheme that uses time dimension where instruments are categorized into medium and long-term bonds, the bond market is described as an organized market for standardized marketable loans with medium to long-term maturities. Since 1977, a number of state governments including former Bendel, Kaduna, Ogun, Delta and Lagos have issued revenue bonds to raise money from the capital market.

In 1989, Treasury Bills (Bonds) (TBs) were introduced to minimize debt service payments that would follow the policy of interest rate deregulation adopted under the Structural Adjustment Programme (SAP). When the auction system for the floatation of TBs and TCs was being introduced, the Federal Government wanted part of the outstanding short-term securities converted to fixed interest bonds. The corporate bond which constitutes the other segment of the bonds market is issued by the private sector operators who promise to pay a specified percentage of par values (interest) on designated dates usually twice a year and to repay the principal value of the bond at maturity. To avoid running counter to legal issues, companies try as much as possible to meet their obligations as and when due.

There are several reasons why bonds market declined in Nigeria and these

include general decline in the economy, low yield of the instruments, the rising level of inflation, and high default rates. Among factors that should be taken into consideration in reforming the nation's bonds market are macroeconomic factors, demand and supply factors as well as various institutions operating in the market. Such institutions include the Central Bank of Nigeria, the Federal Government of Nigeria, rating agencies, issuing houses, and stock brokerage firms.

It is recommended in the paper that reforms should take place in the legal framework; there should be institutional changes; improvement in the macroeconomic environment; and better professional ethics. Apart from advocating for a need to promulgate a law that would regulate the public agency bond issue in order to set an upper limit for debt limits, there is a need for all companies listed on the stock exchange to seek a rating which should be continuously monitored.

Other recommendations include: Government issued fixed income securities of at least 5 years duration should be exempted from taxation; improvement in the macroeconomic environment; rein the rate of savings by increasing productivity; inducement of people to bring cash outside the banks to the banking system and; adequate capitalization of brokerage and dealing firms.

II. Comments

This paper has taken a look at a very important aspect of Nigeria's financial market going by the fact that bonds constitute a major instrument used to finance projects which require long-term capital. The topic of the paper is quite relevant especially at this period when the composition of the nation's financial market is such that the Deposit Money Banks (DMBs) that dominate the market cannot provide long-term capital for companies that engage in long-term projects.

However, the paper did not introduce the topic well enough in that the problems associated with developing bonds market in Nigeria were not given adequate treatment. Also, the paper did not explain how and to what extent the

use of bonds contributed to the growth of the economy over the years. This could be done by picking as examples some companies that have raised bonds to finance their activities. The usefulness or otherwise of such funding could be seen by comparing the performance of such companies before and after the bonds are issued. In addition, the paper would have been made more robust if it had taken a look at bonds market in some other countries, developing and developed. By so doing, the bonds market in Nigeria would have been well evaluated vis-à-vis what obtains in those countries.

Another weak point of the paper is that too little attention was paid to the review of literature. The portion devoted to the literature in the paper was too small for any meaningful review to take place. In addition to this, reviewing of more papers earlier done on the bonds market would have made the paper more robust. Finally, there were some referenced papers that could not be found quoted in the body of the paper.