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THE NIGERIAN FINANCIAL MARKETS: GROWTH, PERFORMANCE, APPRASAL AND PROSPECTS

BY

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Abstract

The purpose of the paper is to evaluate the growth and performance of the financial markets in Nigeria in relation to the achievement of basic objectives. The Central Bank has nurtured both money and capital markets, while various government policy measures were instrumental to their promotion. The main finding was that while the markets have provided facilities for the retention of funds in the economy, they still lack in depth and breadth. The money market has been very active in the mobilization of funds for the Federal Government while the on- going Structural Adjustment Programme, adopted in 1986, has engendered keen competition among the financial institutions for customers' deposits and bankable projects. However, individual investors' participation in the market has not been impressive and government's borrowing requirements have dictated the tune in the market. While valuation and Stock Exchange activities have shown increases, the capital market's major problem is insufficient securities, the establishment of the Second-tier Securities Market (SSM) notwithstanding. The paper notes that the auction system for the issue of treasury bills and certificates, introduced at the end of 1989, is expected to encourage non-bank participation in holding government securities as well as improve the effectiveness of monetary policy, while the proposed community banking is expected to encourage rural growth and bridge rural-urban gap. It also notes the necessity for unit trusts and venture capital companies to further develop the capital market and boost economic development of the country.

Introduction

The financial market is an institutional arrangement that facilitates the intermediation of funds in an economy. By financial intermediation is meant the mobilization of financial resources from surplus-spending units and the channelling of such funds to deficit-spending units, for productive investment and the generation of assets or securities in the process. Thus the financial system generates a wide range of financial instruments/assets which are a means of transferring purchasing power and are tailored to suit the time preferences of both lenders and borrowers. Such assets differ in terms of maturity, marketability or convertibility, and riskiness. Thus, the yield on any particular asset reflects these qualities. The shorter the maturity of an asset, the less risk it bears and hence the lower the yield. Conversely, the longer the maturity, the riskier the investment and hence the higher the yield. Financial intermediaries acquire loanable funds by issuing their obligations to original lenders who may be individuals, households and business firms, and in turn lend to ultimate borrowers for investment in economic activities (including production and distribution) by acquiring bonds, promissory notes and other financial assets.

In this apper, an attempt is made to examine the structure and roles of the money and capital markets in Nigeria, and the evolution of the markets including institutional developments in the markets. For the purpose of presentation the paper is subdivided into five Parts. In Part I the types, characteristics and functions of the financial market are discussed. Part II deals with the money market in Nigeria including reasons for its establishment, historical development, appraisal and recent trends to reflect government's deregulation policy and the treasury bill and treasury certificate auction. Part III treats the nation's capital market; its role, organs and the evolutionary process, growth and appraisal. The markets' prospects are discussed in Part IV while Part V contains the summary and conclusion.

PART I TYPES, CHARACTERISTICS AND FUNCTIONS OF THE FINANCIAL MARKET

The financial market is segmented into two-the money market which deals in short-term funds and the capital market for longer-term dealings in loanable funds. The basis of distinction between the money market and the capital market lies in the degree of liquidity of instruments bought and sold in each of these markets which can be further subdivided into the primary and secondary markets. While the primary market is concerned with raising new funds, the latter exists for the sale and purchase of existing securities that are already in people's hands, thus enabling savers who purchased bonds and shares when they had surplus funds to recover their money when they are in need of cash.

The money market primarily exists as a means of liquidity adjustment whereas the capital market provides a bridge by which the saving of surplus units may be transformed into long-term investments of deficit units. The rate of interest (yield) is the primary factor which motivates savers to part with their funds in the capital market while the safety and liquidity of the financial instrument is at least as important as its rate of return in the money market.

The financial market performs an economic function by facilitating the transfer of real economic resources from the lenders to the borrowers. By the inducement of interest income, the market facilitates the transference of purchasing power from the lender to the investor who wishes to exercise demand over real resources. As real resources flow from the lenders to the borrowers, the production of goods and services is enhanced and consequently the welfare of the people is improved. When the financial market is efficient, funds flow freely and rapidly among its various sources and uses. As long as financial instruments remain substitutable for each other, changes in supply and demand in the money market have a rapid-over effect into the capital market. Because of the close link between the different sectors of the financial market, interest rates move up and down together in the entire

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spectrum of the market as supply and demand conditions change (Nemedia, 1982, pp. 22-23).

Suffice it to say, therefore, that both the money and capital markets exist to cater for the fund requirements of both the public (government) and private sectors of the economy. Through the money market, for example, the government obtains some of its funds to bridge budgetary gaps and business enterprises realise cash for working capital purposes by issuing short-term debt instruments. The capital market makes it possible for the government to raise long-term capital to execute its development programmes and also facilitates the establishment, expansion and modernisation of businesses for increased output, employment and income. Put succinctly, the desire to promote an efficient financial market is intimately tied up with the objective of accelerated economic growth and development.

PART II THE MONEY MARKET IN NIGERIA

The money market deals in short-term instruments that are readily convertible into cash, and whose maturity range between a few days and two years. Thus, the money market provides opportunity for those with funds surplus for their immediate needs to lend at short-term, thereby meeting the demand of borrowers who are in need of temporary finance and can offer an acceptable claim. In Nigeria, the debt instruments traded in this market include treasury bills, treasury certificates, commercial papers, bankers' acceptances, promissory notes, certificates of deposit, bankers' unit fund and money at call.

Participants in the market include the commercial banks-the most dominant of the financial institutions in the intermediation of short-term funds, merchant banks, insurance companies and other savings – type institutions such as savings banks, individuals, and others. The Central Bank supports the market as lender of last resort through the provision of rediscount facilities for Federal Government short-term debt instruments and other eligible assets.

The establishment of a money market in Nigeria was motivated by the need to:

(i) Nigerianise the credit base by preventing the outflow of funds to overseas markets as well as encourage the retention of funds in the country, and thereby meet the working capital requirements of businessmen and industrialists;

(ii) create opportunities for the mobilization of liquid funds to meet the temporary credit requirements of government;

(iii) enable the banks to economise on their cash holdings and adjust their liquidity positions as conveniently as possible.

(iv) provide the basis for operating and executing an effective monetary policy.

For a money market to be efficient, there have to be sufficient instruments in volume and range, institutions of various types as well as institutional and individual investors, and a realistic interest rate structure to enourage suppliers of credit to part with their savings to investors of funds (Onyido, March 1986, p. 53).

Growth of the Nigerian Money Market: Pre-SAP Era*

The establishment of the CBN in 1959 signalled the inauguration of the money market in Nigeria as the Bank issued, on behalf of the Federal Government, some short-term debt instruments and was also instrumental to the creation of the others.

In April 1960, the Central Bank, on behalf of the Federal Government, made the first issue of *Treasury Bills* to the tune of N18 million. The Treasury Bill Ordinance of 1959 which authorized the issue of treasury bills stipulated that the amount of bills outstanding at any one time shall not exceed 10 per cent of the estimated revenue of the Federal Government during the financial year. This permissible limited was adjusted upwards on a number of occasions to 150 per cent of estimated retained revenue of the Federal Government and the gross revenue of States in 1970, in order to meet largely the increasing government need for funds. At the end of June 1986, treasury bills outstanding amounted to N17 billion.

The *Call Money Fund Scheme* was introduced in 1962. Financial institutions in the country maintained minimum balances with the CBN for clearing purposes, the excess of which was lent to the Fund at 2% below the treasury bill rate for investment in treasury bills. The Fund, which was managed by the CBN, on behalf of participating institutions, served as a first line of defence against any liquidity pressure. However, the scheme was abolished in 1974 following government's improved financial position which led to the shortage of bills in which the resources of the Fund could be invested. Thus, what exists today is Call Money outside the Central Bank.

The *Produce Bills Finance Scheme,* also introduced in 1962, made commercial bills an important money market asset. Under the scheme, a consortium of financial houses discounted Marketing Board's export produce bills after they had been accepted by the Nigerian Produce Marketing Company. The Central Bank supported the scheme by providing rediscount facilities. But the scheme was abolished in 1968 because of the refusal by banks to discount cocoa and cotton bills in 1964 and 1967, respectively, due to sales uncertainties in those years.

Up till 1967, the only government short-term debt instrument was the treasury bill. The *treasury certificate* was thus introduced in 1968 in order to increase the range of available money market instruments as well as provide the Federal Government with funds to prosecute the civil war and finance post-war reconsructions. The initial issue of this instrument which is available in two tranches – one and two-year maturities, amounted to N20.0 million. At the end of June 1986, treasury certificates outstanding stood at N6.7 billion. It is pertinent to note that, by law, the level of certificates outstanding in any financial year is not expected to account for more than 60 per cent of estimated gross revenue of the Federal Government.

Following acute shortage of money market instruments during the "oil-boom" years (1973 – 80), the Central Bank introduced two new instruments in 1975, namely Certificate of Deposits and Bankers' Unit Fund in order to encourage further development of the market.

Certificate of deposits (CDs) is an inter-bank debt instrument designed to channel commercial banks' surplus funds

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* Adapted from an earlier paper "Promoting Money Market Development In Nigeria", Economic and Financial Review, March 1986.

into the merchant banks. The Negotiable Certificate of Deposit (NCD) is rediscountable at the Central Bank. The *Bankers' Unit Fund* (BUF), on the other hand, was designed to channel surplus funds of banks and other financial institutions into Federal Government Stocks. Those stocks maturing within three years are called Eligible Development Stocks and are included in the calculation of banks' liquidity ratio.

At the end of June 1986, total money market assets stood at N24.2 billion as against N18.0 million in 1960. The number of commercial banks in the country had risen from 12 to 28 while the number of branches also increased from 160 to 1,314 during the same period. The CBN provided facilities for the banks' eligible assets. During the first half of 1986 alone, Central Bank's assistance to the market by way of rediscounts amounted to N3.3 billion.

The Era of Structural Adjustment Programme

The Structural Adjustment Programme (SAP) launched in September 1986 by the Federal Government was aimed at effectively altering and re-structuring the consumption and production patterns of the economy from high import dependency and over- reliance on the export of crude oil as well as eliminating price distortions that emanated from over-valued naira exchange rate. SAP is expected to encourage non-oil exports and domestic production. An aspect of this is the deregulation of the nation's financial system, including interest rates. It is under this environment that the money market has operated since September 1986. The result has been an increase in tempo of activities in the market. Compared with the period up to June 1986, the nation's money market has been operating in an atmosphere of relative freedom under an improved institutional environment.

The number of operators in the market has increased significantly. Compared with 28 at the end of June 1986, there were at least 48 commercial banks operating in the country as at the and of June 1989, with not less than 1,714 branches in various locations. The number and branches of merchant banks increased to 33 and 54, respectively, while money market assets rose by N21.6 billion or 89.3 per cent to N45.8 billion during the same period.

The policy of de-regulation means that the price of funds in the market would continue to be determined by the interaction of the market forces of supply and demand while the Minimum Rediscount Rate would continue to be fixed by the CBN to indicate the desired direction of interest rate changes.

Reflecting the impact of the various restrictive monetary and credit measures aimed at mopping up the excess liquidity of the banking system, activities in the inter-bank market increased significantly. Certificates of deposit, as a proportion of total money market assets, for example, rose from 1.1 per cent in 1986 to 4.0 per cent in June 1989. In absolute terms, the volume of outstanding certificates of deposit (CDs) also increased from N261.9 million to N2.7 billion during the same period. Consequently, inter-bank rate shot up while the lending rates rose to unprecedented high levels. Although deposit rates rose, the gap between the deposit and prime lending rates was found to be too wide (above 10 percentage points). To rectify this anomaly without discouraging competition and flexibility within the context of deregulation, and at the same time stimulate savings and investments, the banks reached an accord to observe certain margins in their deposit and lending rates, effective November 1989.

The secondary market also became a bee-hive of activities as financial institutions discounted large portions of their eligible assets in order to ward off the pressure on their liquidity. Central Bank rediscounts of treasury bills and treasury certificates alone, in 1989, amounted to N30.2 billion compared with N9.2 billion in 1986. The CBN rediscount window was also expanded in 1989 to include promissory notes issued by State Governments to banks, and NDIC* – guaranteed accomodation bills which were designed to provide assistance to financial institutions with serious liquidity problems. Rediscounts of these instruments and negotiable certificates of deposit, by the CBN totalled N2.9 billion during the year.

Auctioning of Treasury Bills and Treasury Certificates

A major institutional development in the money market in 1989 was the *introduction of the auction-based system for the issue of Federal Government* treasury bills and certificates. Under the system, the issue rate on these government short-term debt instruments are based on competitive bids submitted by authorized dealers, namely commercial and merchant banks. The new system is expected to enhance investor interest and participation in the holding of these securities, enlarge the scope and depth of the secondary market for the instruments, improve the efficiency of public debt managment and raise the efectiveness of monetary policies (CBN, 1989, p. 49).
23, 1989, treasury bill issue rate rose sharply to 17.5 per cent from the existing 12.25 per cent while treasury certificate issue rates rose from 12.75 and 13.25 per cent to 17.5 and 18.5 per cent for the one and two-year tranches, respectively. These rates have, however, fluctuated to reflect market trends. In order to bring its rate into line with market realities, the Central Bank adjusted the Minimum Rediscount Rate (MRR) to 18.5 per cent.

Arising from the conversion of a portion of treasury bills outstanding into treasury bonds, however, total treasury bill outstanding declined from N35.5 billion in October, 1989 to N15.5 billion at the end of February 1990.

Appraisal of the market

There is no doubt that the nation's money market has recorded rapid expansion in its 30 years of existence. For example, the number of commercial banks in the country has risen from 12 in 1960 to 48 in 1989 and their branches from 160 to 1856 due partly to the Rural Banking Programme introduced in 1977. The number of merchant banks has also increased from 1 in 1970 to 34 with 56 branches. Money market assets outstanding increased significantly from N18.0 million in 1960 to N33.0 billion in 1989.

Having noted this, it is pertinent to evaluate the development of the market in terms of the achievement of the objectives for which it was set up.

First, the domestic money market has in no small measure succeeded in providing facilities for the retention of funds in the Nigerian economy. By generating short-term financial assets, the market has created investment outlets for financial institutions in the country to hold their idle cash balances that would probably have been transferred abroad. That the cash ratio of the banking system maintained a reasonably low level

* Nigerian Deposit Insurance Corporation. This institution, established by Decree 22 of 1988, insures all deposit-taking institutions and offers assistance to banks faced with financial difficulties.

over the years, except during the oil boom era when it rose rather sharply, is attributable to the fact that there exist avenues for the banks to invest their short-term surplus funds.

Second, in its capacity as lender of last resort, the CBN does inject cash into the system through rediscounting of bills at the initiative of the market. The financial institutions had, on various occasions, converted with eligible assets into cash to tide over hard times. Perhaps instances could be cited to explain the signficance of rediscounts. Reflecting the mop up operation by the Central Bank in 1986, prior to the inception of the Second-tier Foreign Exchange Market (SFEM), the amount of treasury bills held by commercial banks fell from N7.8 to N3.1 billion between June and December (CBN, 1986, p.59). Also, as has been noted earlier, commercial and merchant banks in the country adjusted their liquidity positions in 1989 by rediscounting a total of N30.2 billion worth of treasury bills and treasury certificates as against N12.9 billion in 1988. In that same year, the Central Bank rediscount window was widened and rediscounts of other eligible assets amounted to N2.9 billion. Furthermore, Bankers' Unit Fund (BUF) was completely liquidated. These rediscount activities followed the transfer of public sector deposits from the banks to the Central Bank as directed by government.

Third, the market has been very active in the mobilization of short-term funds for government through its debt instruments, namely treasury bills and treasury certificates. These instruments together, account for the bulk of total money market assets outstanding (see Table 1). Put differently, the market receives patronage from the government by virtue of the dominance of government debt instruments. But this raises the issue of stability in the government securities market. Stability is achieved by the Central Bank as the principal operator, as it underwrites unsubscribed government issues as required by law.

A major positive development in the money market since the deregulation of interest rates is increased institutional savings unlike during the oil-boom/excess liquidity era when banks rejected interest-bearing deposits as excess weights for which they had no profitable investment outlets. The banking system is witnessing keen competition among financial institutions for customers' deposits as evidenced by the advertisements in both the print and electronic media, and the introduction of new financial products/instruments into the market. This development is expected to improve services offered by the institutions as well as efficiency in their operations.

The money market is, however, beset with some problems. As has been noted, the market is dominated by government securities while the private sector is relatively relegated to the bacground as evidenced by the low amount of private sector instruments in the market (see Table 1). Furthermore, individual investors' holding of government debt instruments has been very low while investments in them are mainly by the banking system (see Table 2). This has inflationary implications for the economy. It was, however, observed that the auctioning of treasury bills, which commenced in November 1989, caused Central Bank subscriptions to the instrument to shrink in the last two months of that year compared with the high subscription rate prior to the auction (CBN 1989, p. 60) (See Table 3). If sustained, the trend is expected to do the economy a lot of good.

Government borrowing requirements have often dictated the tune in the market. Government's dependence on the petroleum sector has caused instability in its finance. In other words, unfavourable developments in the crude petroleum market have always put pressure on government finances, thus compelling government to have recourse to the money market for funds, and vice versa. Thus, shortages of money market instruments in the 1970s reflected government's buoyant financial position during the oil boom while the down–turn in government finances in the 1980s became the reviving factor for the market as new debt instruments were issued.

Also, the role of the money market in enhancing the effectiveness of monetary management in Nigeria has been negligible. The market is still narrow and shallow. Available instruments are considered inadequate, what with the conversion of a portion of maturing treasury bills into treasury bonds. The economy still remains relatively under-banked, the upsurge in the number and branches of commercial banks notwithstanding, while the urban and rural markets are yet to be integrated. Prior to the deregulation of the financial system in 1986, interest rates were administered and insulated from the forces of supply and demand in the credit market, and thereby kept relatively low compared to those of the developed countries. Thus, open market operations (OMO) – a very potent and indirect tool of monetary management in the developed countries of the world – has not been of relevance in the circumstance of Nigeria.

PART III THE NIGERIAN CAPITAL MARKET

As noted earlier, the capital market is the market for dealings (i.e. lending and borrowing) in longer-term lonable funds. The market is the source from which industry obtains its capital for establishment, expansion and modernization and from which the government borrows on long-term basis for developmental purposes. Loan instruments (or securities) traded in the market include equities or ordinary shares, industrial loan and preference shares, Federal Government Development stocks, state government bonds, company bonds and debentures, and mortgages. Participants include the commercial, merchant and development or specialised banks, finance and insurance companies, Provident and Pension Funds, other financial intermediaries like the Federal Saving Bank, and individuals. The non-bank financial institutions are dominant in this market just as commercial banks dominate the money market. As with the money market, the CBN is a major participant in the market as it is statutorily required to absorb unsubscribed portions of government debt issues into its portfolio.

Organs of the Market

The Nigerian Stock Exchange

The secondary market is generally called the Stock Exchange and it is the prime operational institution in the capital market. Established in 1961 by the Lagos Stock Exchange Act, the Lagos Stock Exchange was reconstituted into the Nigerian Stock Exchange in 1977, and today has six trading floors in Lagos, Kaduna, Port-Harcourt, Kano, Onitsha and Ibadan.

In terms of organisation, the Nigerian Stock Exchange comprises the following:-

(i) Council members responsible for the day-to-day management of the Exchange, and

(ii) Dealing members who are the stockbrokers licensed by the Council to deal in government and industrial securities quoted on the Exchange and whose conduct are guided by the Exchange's rules and regulations.

The Nigerian Stock Exchange was established to perform the following functions:-

1. To privide the machinery for mobilizing private and public savings and making them available for productive investment through stocks and shares.
2. To provide a meeting place for dealing members to buy and sell existing stocks and shares, as well as provide opportunities for raising new capital.
3. To facilitate the purchase and sale of securities.
4. To facilitate dealings in government securities and thus provide government with funds for development purposes.
5. To protect the public from shady deals and practices in quoted securities through its rules, regulations and operating codes, with the objective of ensuring fair dealing (Nwankwo, 1980)

The Securities and Exchange Commission (SEC)

Formerly called the Capital Issues Commsssion the SEC was established by the SEC Act of 27th September, 1979, which was re- enacted by the SEC Decree of 1988. The SEC as an apex regulatory organ of the capital market has the objectives of promoting an orderly and efficient capital market in Nigeria by providing a conducive climate for savings and investment necessary for economic development; ensuring fair and appropriate prices for stocks and shares; and ensuring adequate protection of the investing public.

Generally, SEC's functions include the determination of the price and time at which companies' securities are to be sold; approving the amount of such securities; registering all securities proposed to be offered for sale; registering all securities dealers, investment advisers, registrars and market places in the industry such as Stock Exchange branches with a view to maintaining proper standards of conduct and professionalism in the securities business; and maintanining overall surveillance of the market.

Growth of the Nigerian Capital Market

A total of 2,184 securities worth N4.8 billion were valued by SEC between 1977 and 1989. Analysis of enterprises/agencies assessed showed that they were in six categories, namely offer for subscription, offer for sale, rights issues, preference shares, loan stock/debenture and State Government bonds (see Table 4). The tempo of its valuation activity increased substantially in 1989 due partly to the rise in interest rates in the money market which compelled investors to switch to the capital market for funds, and partly to the privatisation of some government-owned companies.

The number of securities quoted on the Nigerian Stock Exchange (NSE) rose from 9 in 1961 to 14 on the eve of indigenisation (1971). By 1980, not less than 92 equities were quoted. The number increased from 42 in 1978 (when SEC was established) to 111 by 1989 (see Table 5). So far, five State Governments have raised funds, totalling N158 million, through the market to finance various projects. The State Governments were Bendel, Ogun, Lagos, Oyo and Kaduna. At the end of 1989, market capitalisation was N12.5 billion.

Activities on the Nigerian Stock Exchange have also shown significant increases. From 334 in 1961, the number of transactions increased to 33,444 by 1989, with industrial securities accounting for 99.5 per cent of total. The remaining 0.5 per cent was accounted for by government securities. Total value also rose from N1.5 to N553.2 million during the period. Government securities dominated the market – accounting for N490.5 million or 88.7 per cent of the total value of securities traded in 1989 (see Table 6).

The growth of the market has been encouraged by various governmental measures. For example, there are statutory provisions making it mandatory for some savings-surplus units to invest part of their funds in government securities. Thus, the Trustee Investment Act of 1962 requires the National Provident and Pension Funds to invest a minimum proportion of their funds in government stocks, while the Insurance (Miscellaneous Provisions) Act of 1964 requires insurace compahies to invest a portion of their premium in these securities. Also, the Nigerian Enterprises Promotion Decrees of 1972 and 1977 required foreign companies to relinquish a sizeable portion of their shares to members of the Nigerian public. Thus, the number of equities which was just 14 in 1971 had by the end of 1980 risen to 92.

Recent developments in the financial system, specifically the deregulation and liquidity squeeze which resulted from the various tight policy measures, have contributed to increase in activities in the capital market. In particular, rights issues featured prominently in the market due to its attractiveness following the scarcity of funds and the concomitant high interest rates in the money market. In 1989 alone, rights issues numbered 40.

The on-going privatization programme has begun to privide a boost for the market as more shares become available for trading. Under this programme, the shares of the Federal Government and one State Government in 18 companies were offered for sale to the general public as at the end of 1989. The excercise increased the number of companies listed on the stock exchange by 2 and added N300 million to the market capitalisation of the exchange during the period.

The Second-Tier Securities Market (SSM)

The capital market in Nigeria has apparently not succeeded in generating suficient securities from companies and institutions – a situation that has tended to give rise to a shortage of securities, particularly equities. The reasons for this are the inability of small and medium-sized enterprises to meet the Stock Exchange's listing requirements which are considered rather stringent, as well as the enormous cost of going public.

The Second-Tier Securities Market (SSM) was thus launched on April 30, 1985 primarily to serve the interest of small and medium-sized enterprises in rasing long-term funds for expansion and modernisation. As at the end of 1989, ten companies had availed themselves of the opportunities offered by this market. The basis of distinction between the First-tier market and the Second-Tier is the relexation of conditions for enlistment. The relaxed entry requirements are as follows:-

1. Companies should have 3-year trading record instead of 5 years for the First-Tier.
2. At least 10% or N50,000 of equity capital must be made available to the public, as agaisnt 25% or N125,000 required in the First- Tier.

3. Companies must have not less than 100 share holders instead of 500.
4. Companies must submit audited half-year and annual statements. The quarterly statement required in the First-Tier is waived.
5. A flat annual quotation fee of N2,000. In the First-Tier, fees are based on the share capital of companies.

However, while the amount that could be raised in the SSM is limited to N5 million, it is not so for companies in the First-Tier Market where the amount to be reaised is limitless and in fact depends on their borrowing capacity. For both the First-Tier and the SSM, enterprises must be registered as public limited companies.

This market, in terms of the number of enterprises listed on it, has not grown appreciably since its estalbishment in 1985 for such reasons as fear of losing control of family business, fear of disclosing the financial position as required by law, public demand for greater accountability, and ignorance of the businessman about capital market operations, among others.

Problems of the Nigerian Capital Market

The experience of our capital market will not be complete without recounting its challenges and problems and which are historical, institutional and structural.

Pershaps, the most important single challenge that faces all those interested in the emergence of an active capital market is the problem of imparting depth and breadth to the market. By breadth is meant the number and range of securities which are available for trading and by depth is meant the volume and value of such securities. The market has not succeeded in generating sufficient securities from companies and institutions. At 111 at the end of 1989, for example, the number of equities is considered grossly inadequate. The resultant shortage has led to the "buy" and "hold" attitude of most Nigerian investors. This situation has not encouraged active buying and selling in the market. The SSM was established to address this issue, among others. That is, to increase the volume of securities in the market.

Second, as with the money market, the nation's capital market is dominated by government securities in value terms as depicted in Table 6. Government securities, for example, accounted for 88.7 per cent of total value of transactions in 1989.

Third, the market is characterized by infrastructural inadequacies. There are delays in effecting transactions between issuing houses, broker-dealers, registrars, investors and their banks due largely to the inadequacy of postal and telegrapic services. The drag in the delivery service discourages many investors who sometimes view with distrust their registrars and brokers when share certificates are undelivered or proceeds of shares sold not received promptly. Infrastructural limitations insulate many investors especially those in the rural areas from broker-dealer, thereby restricting trading in securities.

Other problems of this market have to do with ignorance on the part of most members of the Nigerian public as to the meaning of shares and stocks as well as benefits derivable from market operations, and, as noted earlier, reluctance of the Nigerian businessman to go public for fear of losing control of family business.

PART IV PROSPECTS FOR THE FINANCIAL MARKETS

From the foregoing, certain problems common to both the money and capital markets could be identified. They include lack of breadth and depth, dominance of government securities in both markets, ignorance on the part of the public and inadequancy of infrastructural facilities.

The money market should not only be seen as an arrangement merely for mobilizing funds for government; rather it should be made to efficiently intermediate funds by expanding institutional facilities as well as assume additional roles which would broaden its scope and thereby enable the monetary authorities to effectively discharge their traditional functions of monetary management.

It is a fact that there has been a rapid expansion in banking facilities in the country in terms of the number and branches of banks, but the economy still remains under-banked. Nigeria needs more banks and branches, and more non-bank finanical intermediaries for mobilizing rural savings in order that closer integration is forged with the urban central market. In this regard, the community banking proposed by the Federal Government in the 1990 Budget Speech is a welcome development as its operation will, undoubtedly, contribute in forging the desired integration of the financial sector in no small measure.

Furthermore, the auction-based system for the issuance of treasury bills and treasury certificates, introduced in November 1989 would increase non-bank public participation in the market and reduce Central Bank holding, if things augur well, and thus reverse past trends. So far, statistics available for 1989 indicate that CBN's subscriptions to treasury bills shrank considerably, averaging N2.4 billion or 31.0 per cent in the last two months of that year as against N10.2 billion or 88.3 per cent monthly in the period prior to the commencement of the auction (see Table 3). For this trend to be sustained, however, it is important that the issue rates in the auction market should reflect market realities.

For the capital market, the establishment of a unit trust institution should add a new dimension to the scheme of things. The advantage is that fund managers use their expertise to invest on behalf of the uninformed savers. In addition, the establishment of Venture Capital Companies (VCC) would not only widen the market; it will also boost economic development. At the moment, the country lacks unit or investment trusts. Meanwhile, the small investor cannot sufficiently diversify on his own or expertly select the highest-yielding stocks for given levels of risks. If there were adequate intermediation in the system, and given financial instruments to choose from, it is doubtful whether investors in the capital market would still adopt a buy-and-hold portfolio policy.

Furthermore, it is of importance that members of the Nigeria public be educated and informed on the issue of stocks and shares and the need to save in banks. Complementary to intensified public enlightenment efforts in improving the investment habit of the people is the role that improved telecommunication system can play in facilitating faster dissemination of material information and promotion of greater integration between market operators and investors in different parts of the country.

PART V SUMMARY AND CONCLUSION

The Central Bank of Nigeria has nurtured the growth of both the money and capital markets. Indeed, the Bank helped to introduce various money market assets such as treasury bills, treasury certificates, Bankers' Unit Fund (BUF) and eligible development stocks which cater for financial needs of government. The Bank's support to the market has also facilitated the creation of other private sector assets such as Certificates of Deposits (CDs).

The economic strength of any nation is measured by the value of its accumulated wealth and by the rate at which it grows through savings and investment. Thus, it is the capital market that finances gross investment, and the rate at which such investment is financed and accumulated is dependent on the capital market's resiliency. The contribution of the nation's financial markets in mobilizing public and private savings for productive investments can hardly be over-emphasized.

However, there is still room for improvement. It has been observed that in money and capital market operations government securities maintain dominance over private sector securities. Also, the markets are lacking in depth and breadth. These trends need to be reversed for our financial system to contribute to the nation's sustainable economic growth. Infrastructural facilities need to be improved upon, while education of the public is necessary for better performance of our financial markets.

With the current deregulation, the introduction of the auction- based system in the issuance of treasury bill and certificates, and further expansion of financial facilities, it is expected that the money market would achieve the desired integration with the passage of time, and thus enable the monetary authorities to discharge their traditional function of monetary management more efficiently. While pricing in the money market has been deregulated, the capital market is still regulated. Price regulation in the capital market is borne out of the need to protect the investing public, maintain confidence in the market and ensure its healthy growth. The Securities and Exchange Commission (SEC) has, indeed, contributed to the growth of the nation's capital market mainly through its valuation activity. The establishment of unit/investment trust and venture capital companies would also go a considerable length in promoting the market as well as providing a boost to economic development of the country.

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TABLE I

MONEY MARKET ASSETS OUTSTANDING

Year	N' MILLION					PER CENT OF TOTAL		
	Treasury Bills (1)	Treasury Certificates (2)	Commercial Papers (3)	CD, BUF and EDS [1] (4)	Total Outstanding (5)	Government Instruments [2] (6)	CD, BUF and EDS (7)	Commercial Paper (8)
1960	18.0	—	2.3	—	20.3	88.7	—	11.3
1961	34.0	—	2.2	—	36.2	93.9	—	6.1
1962	48.0	—	6.2	—	54.2	88.6	—	11.4
1963	60.0	—	14.8	—	74.8	80.2	—	19.8
1964	68.0	—	30.1	—	98.1	69.3	—	30.7
1965	80.0	—	42.0	—	122.0	65.6	—	34.4
1966	128.0	—	60.1	—	188.1	68.0	—	32.0
1967	168.0	—	36.4	—	204.4	82.2	—	17.8
1968	240.0	20.0	5.1	—	265.1	98.1	—	1.9
1969	340.0	142.0	4.5	—	486.5	99.1	—	0.9
1970	556.0	236.0	6.0	—	798.0	99.2	—	0.8
1971	616.0	250.0	11.2	—	883.2	98.7	—	1.3
1972	616.0	286.0	9.3	—	911.3	99.0	-	1.0
1973	616.0	286.0	7.9	—	909.9	99.1	-	0.9
1974	616.0	286.0	15.4	—	917.4	98.3	-	1.7
1975	616.0	286.0	32.4	49.8	984.2	91.6	5.1	3.3
1976	616.0	652.0	27.0	175.4	1,470.4	86.2	11.9	1.8
1977	619.0	900.0	26.3	437.3	2,054.6	77.4	21.3	1.3
1978	816.0	1,700.0	45.6	248.2	2,809.8	89.5	8.8	1.6
1979	2,119.0	2,210.0	24.3	247.1	4,600.4	94.1	5.4	0.5
1980	2,119.0	2,727.6	48.1	180.9	5,075.6	95.4	3.6	0.9
1981	5,619.0	2,307.6	73.0	286.8	8,286.4	95.7	3.4	0.9
1982	9,619.0	1,668.6	110.4	461.0	11,859.0	95.2	3.9	0.9
1983	13,476.0	4,894.4	153.3	527.4	19,051.1	96.4	2.8	0.8
1984	15,476.0	6,413.1	156.7	366.6	22,412.4	97.7	1.6	0.7
1985	16,976.0	6,654.1	139.0	258.2	24,017.3	98.3	1.1	0.6
1986	16,976.0	6,654.7	259.0	477.3	24,367.0	97.0	1.9	1.1
1987	25,226.0	6,654.1	496.4	1,365.2	33,751.7	94.5	4.0	1.5
1988	35,476.0	6,794.6	668.9	1.905.6	44,845.1	94.3	4.2	1.5
1989	24,126,0	6,944.6	737.2	1,321.4	33,129.2	93.8	4.0	2.2

[1] CD = Certificate of Deposit; BUF = Bankers' Unit Fund. EDS = Eligible Development Stocks.
Source: Central Bank of Nigeria [2] Treasury bills and Certificates.

TABLE 2

HOLDINGS OF TREASURY BILLS AND TREASURY CERTIFICATES OUTSTANDING
(Per Cent)

Year	Central Bank	Call Money Fund	Commercial Banks	Merchant Banks	Governments	Others
1960	15.2	—	20.5	—	—	64.3
1961	39.2	—	17.5	—	—	43.3
1962	19.5	14.2	14.0	—	—	52.3
1963	52.3	11.6	3.9	—	5.4	26.8
1964	19.4	14.3	15.8	—	19.1	31.4
1965	31.2	8.1	16.1	—	12.6	32.0
1966	45.3	5.3	17.5	—	10.2	21.7
1967	56.4	3.5	17.0	--	9.5	13.6
1968	3.3	3.4	75.3	0.2	3.2	14.6
1969	4.9	2.5	69.4	0.5	2.4	20.3
1970	12.8	3.6	63.2	0.5	4.7	15.2
1971	17.2	2.8	33.3	0.3	33.6	12.8
1972	4.1	3.8	41.7	0.5	38.0	11.9
1973	11.7	4.5	42.4	0.8	27.1	13.5
1974	2.2	—	83.7	0.4	3.7	10.0
1975	0.5	—	87.5	0.2	3.1	8.7
1976	0.7	—	83.2	1.1	1.2	13.8
1977	15.1	—	69.4	2.0	1.5	12.0
1978	47.9	—	37.8	0.6	1.4	12.3
1979	24.8	—	49.5	1.4	1.8	22.5
1980	32.8	—	50.2	1.2	0.8	15.0
1981	55.8	—	21.9	0.9	0.2	21.2
1982	56.4	—	25.0	1.5	0.0	17.1
1983	52.1	—	28.0	2.1	0.1	17.7
1984	41.9	—	39.9	4.1	0.0	14.1
1985	41.9	—	43.4	4.8	0.1	9.8
1986	53.8	—	18.7	0.3	0.0	27.2
1987	55.3	—	23.8	0.9	0.0	20.0
1988	62.1	—	17.3	0.4	0.0	20.2
1989	50.4	—	11.7	0.3	0.0	37.6

Source: Central Bank of Nigeria.

TABLE 3

TREASURY BILLS: ISSUES AND SUBSCRIPTIONS
(₦ MILLION)

1989

Month	Issues	SUBSCRIBERS Central Bank	Commercial Banks	Merchant Banks	Non-Bank Public
January	8,950.0	6,757.7	2,096.1	35.2	61.0
February	5,200.0	3,521.1	1,627.5	16.9	34.5
March	21,326.0	19,410.6	1,737.1	55.8	122.5
April	8,950.0	6,607.7	2,231.1	27.6	83.6
May	5,200.0	3,695.2	1,393.3	80.1	31.4
June	21,326.0	20,016.6	1,229.5	49.6	30.3
July	8,950.0	8,201.6	502.0	9.0	237.4
August	6,500.0	5,870.1	484.5	-	145.4
September	20,026.0	19,404.1	405.4	8.0	208.5
October	8,950.0	8,370.1	468.4	-	111.5
November	5,200.0	3,573.1	734.1	39.1	853.7
December	9,976.0	1,141.7	1,415.2	128.1	7,291.0

Source: Central Bank of Nigeria.

TABLE 4

SECURITIES AND EXCHANGE COMMISSION: VALUED ENTERPRISES, 1977—1989

Type of Issues	Number of Enterprises	Value of Securities Assessed (N' million)
Offer for Subscription	926	1,540.1
Rights Issue	92	593.0
Offer for Sale	1,060	795.3
Preference Shares	35	311.2
Debenture Stocks	66	1,326.2
State Government Bonds	5	190.0
TOTAL	2,184	4,755.8

Source: Compiled from data from Securities and Exchange Commission.

TABLE 5

GROWTH OF SECURITIES ON THE NIGERIAN STOCK EXCHANGE

Year	Equities	Indistrial Loan Stocks	Government Securities	Total
1965	5	5	17	27
1970	9	10	30	49
1978	42	11	49	102
1980	92	12	54	158
1983	92	25	61	178
1985*	96	28	57	181
1989*	111	40	47	198

* Includes equities on the Second-tier Securities Market (SSM).
Source: Nigerian Stock Exchange.

TABLE 6

TRANSACTIONS ON THE NIGERIAN STOCK EXCHANGE

	Number			Value ₦' Million		
Year	Government	Industrials	Total	Government	Industrials	Total
1961	92	242	334	1.4	0.1	1.5
1965	391	629	1,018	15.2	0.6	15.8
1966	501	595	1,096	15.2	1.2	16.4
1967	336	427	763	12.1	0.3	12.4
1968	286	360	646	12.3	0.2	12.5
1969	307	246	553	16.2	0.2	16.4
1970	303	331	634	16.4	0.2	16.6
1971	204	748	952	32.6	3.5	36.1
1972	256	640	898	52.3	2.0	54.3
1973	282	537	819	91.9	0.5	92.4
1974	256	2,807	3,063	48.4	1.3	49.7
1975	193	501	694	63.7	0.6	64.3
1976	321	696	1,017	111.3	0.6	111.9
1977	337	1,314	1,651	178.8	1.2	100.0
1978	252	2,234	2,486	187.3	2.4	189.7
1979	124	3,099	3,223	249.7	4.7	254.4
1980	220	6,918	7,138	380.9	7.9	388.8
1981	118	10,081	10,199	298.7	6.1	304.8
1982	184	9,830	10,014	207.0	8.0	215.0
1983	292	11,633	11,925	384.7	13.0	397.7
1984	194	17,250	17,444	241.0	15.7	256.7
1985	314	23,232	23,546	295.3	23.2	318.5
1986	270	27,448	27,718	475.6	20.0	495.6
1987	238	20,410	20,648	338.2	42.3	380.5
1988	96	21,466	21,562	217.1	32.4	249.5
1989	171	33,273	33,444	490.5	62.7	553.2

Source: Nigerian Stock Exchange.