Dissertation By

NWACHUKWU,
ALLWELL CHIEMENA

ABIA STATE UNIVERSITY
UTURU - NIGERIA

An analysis of the contribution of the Nigerian stock exchange to the structure of Nigerian economy : 1961-1990

SEPTEMBER, 1992.

AN ANALYSIS OF THE CONTRIBUTION OF THE NIGERIAN STOCK EXCHANGE TO THE STRUCTURE OF NIGERIAN ECONOMY (1961 - 1990)

BY

NWACHUKWU, ALLWELL CHIEMENA
(83/0971)

A DISSERTATION IN THE SCHOOL OF ECONOMICS, BANKING AND FINANCE SUBMITTED TO THE COLLEGE OF BUSINESS ADMINISTRATION IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) IN BANKING AND FINANCE

ABIA STATE UNIVERSITY.
UTURU - NIGERIA.

SEPTEMBER, 1992.

WITH A GRANT FROM THE COUNCIL FOR THE DEVELOPMENT OF SOCIAL SCIENCE RESEARCH IN AFRICA (CODESRIA).

DEDICATION

TO

HE who "teacheth my hands to war, so that
a bow of steel is broken by mine
arms;"

AND

MAMA (Mrs Elen Nwachukwu) who has shown
tremendous understanding;

AND

PAPA (Pastor James Nwuzo Nwachukwu) who could
not wait to see.

CERTIFICATION

We certify that the work described in this dissertation was carried out by Mr Allwell C. Nwachukwu in the School of Economics, Banking and Finance under proper supervision.

H.O. Isu
Supervisor

Coordinator
School of Economics, Banking & Finance

January 1993.

Dean
College of Business Administration

ACKNOWLEDGEMENT

Indeed, this dissertation is a product of the combined efforts and concern of many people. I must thus express my gratitude to them all for their help.

I am indebted to Mr Hamilton O. Isu, my Supervisor and Coordinator. He has done more than just supervising. Mr Igwe Aja-Nwachukwu, Dr I.C. Okonkwo and Mr M.A. Ofoma, my lecturers have been very friendly and helpful. I give them my immense thanks.

Special thanks go to my committed enumerators who distributed and collected my questionnaires. Miss Margareth Njoku must be mentioned specially. David Imo, Uche Nweke, Anslem Anyanwu, Simon Iwuagwu, Mrs Evelyn Okorie and Miss Chinyere Amah have also been very helpful.

Mrs Elen Nwachukwu, my mother, has not only shown great love, patience and understanding, but has made sure finance did not stop me. Mrs Florence Njoku, my sister has been more than just a sister with her love and financial help. Mr Bright Uchegbulam and his wife, Goodness, my sister, have cared so much that I could not disappoint them! And then, Vincent Onuoha, my bossom friend and cousin, who made sure he lent a hand.

In her special place is Miss Blessing Etok, "My-Own-Sister", who helped in sorting and analysing the heap of answered questionnaires. You will remain blessed.

I have left until now, my brother, friend and typist, Mr Peter Uruakpa. He has always been there, ever ready and ever perfect, ever loving and ever welcoming. My thanks for you cannot be expressed.

And now, I must express my gratitude to the Council for the Development of Social Science Research in Africa (CODESRIA), Dakar, for selecting this work for a research grant of $2,500. I hope I have contributed to the development of our great continent.

Above all, to my Jehova-Nissi, I say, I owe you my all. You have not changed one bit!

ABSTRACT

The battering received by the Nigerian economy in the early 1980's because of the fall in global oil price brought the awareness of economic structure. Nigeria's economy was mono-structured on crude oil alone and there needed to be an adjustment.

Investment, especially private investment, needed to be geared up, considering the fact that when investment increases, there is a multiplier effect on the general economy. Aggregate investment is represented by real assets, which are visible to the eyes, and their legal representatives called financial assets. The latter have aided greatly in the accumulation of the former as they are sold to surplus fund units by deficit fund units, and have thus played an important role in accelerating the rate of economic growth.

The forum in which the financial assets are sold to enhance the expansion of the stock of real assets is the capital market of which the Stock Exchange is the "hub" and "the most vital factor."

This research on the thirty years of the NSE's existence shows that government and financial institutions dominate the Stock Exchange floor in real terms; very little is known by the public about it as an institution; it has done nothing consciously as an institution to sell itself to the public, vis-a-vis its basic founding objectives; and thus the saving and

investment habit of the public is generally poor; security holders are few and the few scarcely know the total benefits accruable from them; and the general framework for the sale and purchase of securities, though satisfactory itself, has been ineffective due to poor implementation.

Recommendations have therefore, been made towards a renewed effort by the NSE to enlighten the public on the economic relevance of the capital market, and the NSE in particular through government-backed campaigns and introduction of compulsory courses in academic institutions.

The stock/share holders also need enlightenment on the total utilisation of stock certificates.

Public liability companies should be encouraged to make dividends attractive.

The immediate take-off of decentralised branches of the NSE is strongly advocated. The same should be done with Registrars.

Registrars should be made to adhere to statutory time periods for verification of certificates and other functions.

Finally, it is recommended that the communication and information system of the country should be made to perform efficiently, as it is critical to economic development.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDICES

CHAPTER ONE

GENERAL INTRODUCTION

1.10 INTRODUCTION

When in 1986 the economy of Nigeria took another down-turn as a result of the drastic fall in crude oil price to US $14.85 per barrel, it became obvious that the fiscal measures of the period 1982 to 1985 were only cosmetic and were grossly ineffective in solving the Nigerian economic problem.

The fiscal measures were government's first reaction to the battered economy when the first slump in the world oil market occurred in mid 1981 with the result of declines in oil export and prices, and consequent declines in foreign exchange receipts and government revenue. The fiscal measures caused a temporary improvement in the economy in 1985, but all its gains were eroded by a further fall in oil prices in 1986.

It thus became apparent that the problem of the Nigerian economy were mainly because of the mono-product base of its structure. It became necessary that more drastic measures should be undertaken to solve this fundamental problem. These corrective measures were packaged in what the government called the Structural Adjustment Programme (SAP) with the broad aim of effectively restructuring the consumption and production patterns of the economy, eliminate price distortions, and reduce heavy dependence on the export of crude oil among other things. Specifically, the major objectives of the programme are to:

(a) restructure and diversify the productive base of the economy in order to reduce dependence on the oil sector and on imports;

(b) achieve fiscal and balance of payments viability over the period;

(c) lay the basis for a sustainable non-inflationary or minimal inflationary growth; and

(d) lessen the dominance of unproductive investments in the public sector, improve the sector's efficiency and intensify the growth potential of the private sector.

These objectives of SAP indicate government's intention to accelerate investment culture and virile local production. For investment to thrive, there is need for a system of efficient and adequate movement of capitals. This is where the capital market comes in. Capital markets exist to provide media for the mobilisation of long-term funds from surplus units and utilisation of same by deficit units. They aid the marshalling of funds for socio-economic development and thus serve as necessary impetus for capital formation. In detail, capital markets provide the following essential support to the economy:

(a) savings mobilisation to aid capital sourcing for industries and commerce;

(b) ready assurance of funds to productive sectors;

(c) allocation efficiency so as to permit optimal placing of funds amongst competing productive sectors;

(d) liquidity investments to facilitate reactive portfolio switches to changes in returns and/or prospects of economic units; and

(e) regulation of pertinent operations in the market so that it ensures confidence of the generality of citizens.

The capital market may be formal or informal. The formal market is represented by the Stock Exchange - a market for the sale and purchase of corporate and treasury securities. The Stock Exchange can be described as the very hub of the capital market; the pivot around which every activity of the capital market revolves. It is thus both central and crucial to the entire capital mobilisation process, and hence to investment, and ultimately to the structure of the economy.

1.20 STATEMENT OF PROBLEM

When the Nigerian Stock Exchange was established in 1960 (as the Lagos Stock Exchange), its aim was to mobilise funds from surplus units of the economy for the use of the deficit units which were young industrial investments that were springing up in the country, together with government finance units. That is indicative of the poise of its founders, then to provide facilities to the Nigerian public for an efficient movement of capital and investment money. It suggests that an investment base was being put in place at that time.

But serious questions must be raised about the three decades of the operation of the Nigerian Stock Exchange with the last six years being under economic structural adjustment programmes that have involved, among other things, privatisation of government companies through the machinery of the Stock Exchange. Broadly, how far has the Stock Exchange gone, before and after the SAP, in the achievement of its founding objectives? Specifically,

(i) To what degree has the Nigerian Stock Exchange contributed to the economy of Nigeria.

(ii) To what extent has the public participated in the transactions of the Exchange?

(iii) What is the Stock Exchange as an institution doing to get across to the public with its objectives of capital mobilisation, promotion of investment culture, protection of investors etc.

(iv) How much does the public know of the existence and activities of the Stock Exchange and its relevance to their economic well-being and that of the country?

(v) What machinery is laid down for the participation of the public in transactions of the Stock Exchange, and how easily tenable in terms of cost, education and procedures to the average man in the street?

1.30 RESEARCH OBJECTIVES

In the light of the above stated problems, the study is pursuing the following objectives:

(i) Determine the trend of the volume of capitalisation in the Stock Exchange over the years, and the proportional participation between government, institutions and individuals.

(ii) Determine the popularity of the NSE and its operations among the public, and how those that are aware got their information.

(iii) Determine the saving and investment habit of the public and try to link it with any influence of the Stock Exchange.

(iv) Determine the proportion of the public that hold securities and their level of satisfaction with the operation of the NSE and why so.

(v) Determine the acceptability or absence of it by the public of the current machinery adopted by the NSE in the mobilisation of funds process, so as to provide a basis for improvement.

1.40 RESEARCH HYPOTHESES

(i) The volume of transactions in the Stock Exchange increases with the broadening of the structural base of the economy.

(ii) Transactions in the Stock Exchange have been dominated by Government and finance institutions, thereby marginalising the role of the NSE in the mainstream of the economy.

(iii) Very little or nothing is known by the public about the Stock Exchange; those that have any knowledge at all regard it as elitist.

(iv) The Stock Exchange has no public awareness strategies. Academics and newsmedia are the prevalent sources of public awareness of the institution and its operations.

(v) The public save very little or nothing; those that save prefer investing in bank deposits or applying them to trade. Very few invest in stocks/shares and those that do, do so only in preparation for their retirement.

A testing of the above hypotheses will guide the study, and their results, among other factors to be found will help to fulfil the objectives of the study.

1.50 ASSUMPTIONS

The following assumptions have been made in the process of this research.

(i) The investment culture of the economy is sustained more by the capital market than by the money market, and hence, restructuring the economy is more a function of the capital market than the money market.

(ii) The transactions of the Nigerian Stock Exchange provide the only formal exchange of securities in the capital market, and are, hence, a good indication of the level of performance of the capital market.

(iii) The investment culture of the economy will reflect in the level of exchange of securities and hence in the volume of transactions in the Stock Exchange.

1.60 SIGNIFICANCE OF STUDY

The Nigerian economy must be protected from the disastrous effects of the vagaries of the oil sector - or any one sector at that. It must be sustained by an aggregation of the fortunes of all sectors, such that no one sector can dominate the GNP. Investment must therefore, form part of the economic culture of the Nigerian private sector. Serven and Selimano (1992), after noting the decline in investment, particularly private investment, in many developing countries during the 1980's, have feared that if the trend continues, it will slow potential growth in these economies.

There has to be an efficient mobilisation and allocation of saved funds into all viable sectors of the economy. A virile Stock Exchange ensures this. There is, therefore, perhaps no other time better than now in the history of the Nigerian economy, to project the contribution of the Nigerian Stock Exchange in the structuring of the Nigerian economy. Hence this study.

1.70 SCOPE AND LIMITATIONS OF STUDY

It should be pointed out that this research, having taken an aggregate assessment approach, does not need to go into the intricacies of the dealings on the Stock Exchange floor, except for those aspects of its transactions that have direct bearing or influence on extent of public participation and macroeconomic structure.

The study has encountered limitations mainly from the sources of data. For instance, there is no other way of assessing how far the NSE has contributed to the GNP except through the analysis of available records, although the records were kept for other purposes. (It would be impossible to determine exactly what fraction of"manufacturing" under the National Accounts are represented on the floor of the Stock Exchange. Intelligent estimations have been inevitable.)

The use of questionnaires have proven very useful in reaching the public, but the Nigerian public is yet to be acquinted with the questionnaire as a strategy for getting public opinion.

This has influenced the representativeness of the respondent sample as only the well-educated or those in the finance industry have fully cooperated. Even at that, return of unanswered questionnaires is high. Out of 550 distributed, only 252 or 45.82% were answered.

The questionnaire as a method of data collection has its own demerits also. It is expensive, especially as the general public is the population. Inadequate funds have seriously limited the extent of distribution. Furthermore, using questionnaires entails losing some information that could only be got through interviews. Some responses on the answered questionnaires were equally contradictory and inferences had to be made.

REFERENCES

Adekanye, F. (ed.)(1983). Banks and the Nigerian Economy: NIB, Lagos.

Bullion, Vol. 9, No. 1; January/March, 1985.

CBN Economic and Financial Review, Vol. 23, No. 3; September, 1985.

CBN Economic and Financial Review, Vol. 28, No. 1; March, 1990.

CHAPTER TWO

LITERATURE REVIEW

It is apparent that the two phrases of emphasis in the topic of this dissertation are, "The Nigerian Stock Exchange", and "The Structure of Nigerian Economy". This literature review is thus intended to explain the concept of economic structure, highlight the basic nature of the structure of the Nigerian economy, bring out the conventional place of the Stock Exchange in the structure of any economy and then describe the development and operation of the Nigerian Stock Exchange.

2.10 THE CONCEPT OF ECONOMIC STRUCTURE

It must be admitted that prior to the last decade "economic structure" as a concept could hardly be found in the Economics literature of Nigeria. The expression "economic structure" came into much focus in the early 1980's as the International Monetary Fund (IMF) warned about the economic base of many developing nations. Oke (1990) has highlighted that since 1980, an increasing number of developing Countries have adopted IMF/World Bank-supported structural adjustment programmes. Currently, no less than 31 African Countries are restructuring their economies. It was therefore the Nigerian version of the Structural Adjustment programme (SAP) that made economic structure a topical expression.

However, a proper understanding of its meaning and connotation can only be achieved from the background of Macroeconomics. When during the 1930's, the idea of self-regulating economy became increasingly untenable, John Maynard Keynes came up with his book The General Theory of Employment, Interest and Money, published in 1936 which brought a revolution into economic thinking. His whole treatise is not, however, needed here. Of particular interest is his model of national income determination. He gave national income as: $Y = C + I + G + (x - m)$.

In the words of Barrows and Hitiris (1974, P. 17), "the conventional classification of national income and expenditure distinguishes between consumption expenditure, investment expenditure, expenditure by government and expenditure on imports". No doubt, Keynes's ideas are now termed "conventional".

Y in the model is the conventional abbreviation used for national income. This could denote aggregate demand, output or income. The distinction is not of relevance to this work. Also adopted is Lipsey's (1963, p. 468) identity of

$$Y \equiv GNP$$

adding that 'usually Y may be thought of as interchangeable with GNP (P. 471). Beardshaw (1984; p. 437) agrees, explaining that "it is upon the GNP that significant aggregates such as employment depend."

C denotes consumption, or consumers' expenditure. Beardshaw (ibid; p. 414) describes its relationship with national income as a "feedback mechanism" as they help in a converse determination of each other. Other determinants of consumption include the distribution of income, consumer's expectation, cost and availability of credit, and wealth and savings.

I is the abbreviation used for investment expenditure. Okafor (1983; p. 6) defines investment as "economic activities designed to increase, improve or maintain the productive quality of the existing stock of capital." A come-back will be made to investment in this literature review as it is the component of national income that is of particular interest to this work.

G in the model refers to Government spending. Perhaps the greatest contribution of Keynes to macro-economies is the impact of the government sector. Barrows and Hitiris (op.cit.; p. 44) have charged that "we must recognise the contribution of the government to aggregate expenditure" in the determination of national income. The spending by government are in the form of current spending on goods and services, investment spending and transfer payments. But since transfer payments are [illegible] payments for factor services, they are not included in the computation of national income (Beardshow, op.cit.; p. 453).

The expression (x - m) indicates "net exports", ie. the difference between export and import expenditures. Bronfen-brenner, et al (1983; p. 156) have stated that when we combine import and exports to arrive a a relationship between "net exports" and national income, the normal goods assumption suggests that net exports are a declining fraction of national income. However, it is important to note that demand for exports is determined by such factors as world trade, restriction on trade, and exchange rates; whereas the main determinant of demand for import is the level of Y (Beandshaw, op. cit.; p. 459)

From the foregoing, it can be seen that at any point in time, there is a tendency for a large proportion of the national income to be contributed by a particular component or two. Inasmuch as their interdependence (such as that between consumption and investment, and between investment and "net exports") cannot be ignored, the fact of the dominance of one sector or the other in a particular economy is definitely of significance. This is economic structure. Economic structure refers to the basic orientation of an economy. It connotes the sectoral framework that forms the bedrock upon which an economy rests.

Therefrom, it is easy to see that an economy depends very much, for its sustainance and growth, on the vagaries of the major determinant(s) of the particular sector(s) on which it hinges. For instance, it has been noted above that the foreign trade component of national income is determined by such factors as world trade pattern and exchange rate; such that any remarkable change in any of these would affect that component of national income in the first instance, and the national income itself to the degree of its dependence on that component.

This is the lesson taught by the Nigerian economy during the 1980's which sparked off a realisation on the economic administrators and practitioners towards economic restructuring.

2.20 THE STRUCTURE OF THE NIGERIAN ECONOMY

In dealing with this topic, writers have identified three principal periods of economic structuring through which Nigeria has passed, viz:

(a) Pre- 1972 Period

Up to 1972, the Nigerian economy was sustained on primary production for consumption and export. Baffa (1989) and Oke (1990) have noted that at this period, exportation of agricultural produce such as cocoa, palm produce, cotton and groundnuts accounted for 40 percent of the national Gross Domestic Product (GDP). Mining and exportation of coal, tin and other non-oil minerals also contributed largely to the GDP.

Industrial growth was minimal and was only to provide household essentials. In the main, agriculture was the major foreign exchange earner. Moreover, most business activities were controlled by the private sector - up to about 85%(Mokuolu, 1983). The provision of new funds was partly local and partly foreign.

(b) 1972 to 1980 Period

Between 1971 and 1974, the country witnessed a great boom from proceeds of crude oil, and this brought about tremendous changes in the structure of the Nigerian economy. There became a heavy dependence of the economy on crude petroleum export as the main source of foreign exchange earnings and government revenue. Baffa (op.cit) has noted that the share of agriculture in the GDP fell from about 40% in the 70's to about 20% in the 80's. Oke (op.cit) also agrees with him again to the fact that by 1980 the oil sector which accounted for 22% of the GDP provided about 80% (Mokuolu says it is 90%!) of government revenue and 96% of export earnings!

Furthermore, as the share of the agricultural sector in the GDP fell rapidly, Nigeria became heavily dependent on imported food. Manufacturing industries which depended largely on imported imputs with very low local value added were also proliferated during this period, and there was encouragement for import-oriented production and consumption patterns with little incentives for non-oil exports.

In sectoral participation, there was increased government intervention in the economy arising from sudden increase in government revenues. According to Baffa (op;cit.), between 1970 and 1980, Federal Government revenue rose from ₦675.6 million to ₦12.2 billion while the expenditure rose from ₦531.9 million to ₦9.7 billion. The propenderance of more business being controlled by foreign nationals in the pre- 1971 period and the proceeds from the sudden "oil boom" which ran into billion of dollas in 1972, led the government to promulgate the Nigerian Enterprises Promotion Act in 1972 with the aim of "indegenising" the businesses formerly manned by the expatriates and transfering economic control to Nigerian nationals. But, in the words of Makuolu (op. cit.), this was "greatly abused" and the companies were "transfered to only a few Nigerians, as a result of their connections.

Summarily, this was an era of dependence on oil as the bed - rock of the economy.

(c) Post 1980 Period

With the country's over-reliance on a single commodity its economy was shattered with the slump in the world oil market in mid-1981. The resultant declines in oil export and prices were reflected in declines in foreign exchange receipts and government revenue. For instance, crude oil prices which rose from US $20.94 per barrel in 1979 to US $40 in 1981, fell to US $29 in

1983; causing foreign exchange receipts, which correspondingly rose from US $15.7 billion in 1979 to US $24.9 billion in 1980, to fall to US $10.1 billion in 1983 (Oke, op.cit.) GDP declined by 5.5% in 1981, 3.4% in 1983, and 4.4% in 1983. There was a wide balance of trade gap of ₦3.8 billion in 1982 and ₦2.1 billion in 1983, and agriculture, manufacturing and aggregate industrial output decreased by 9.4%, 20.7% and 11.8% respectively in 1983 (Phillips, 1985).

This situation led the government, during the period 1982 to 1985 to introduce a number of measures bordering largely on import restrictions and reduction in capital and recurrent expenditures of the public sector, and drastic fiscal policies. These caused an improvement in the economy in 1985, but to show that these measures were only cosmetic, oil price fell again in 1986 to a mere US $14.85 per barrel! Consequently, foreign exchange receipt also fell to $5.2 billion the same year. It then became obvious that more drastic measures should be undertaken to solve the fundamental economic problems of the country caused mainly by its mono-product structure.

In his paper entitled "The Current State of the Nigerian Economy and Its Challenges to Policy Makers" A. Ahmed in 1985 as CBN Governor summarised the major problems confronting the economy as, inter alia:

1. Heavy dependence on the oil sector for foreign exchange earnings to finance foreign exchange expenditure as well as revenue from the sector to the government to meet its domestic expenditure requirements. Eg, the contribution of the oil sector to total foreign exchange earnings between 1980 and 1985 averaged about 87% while the proportion of revenue from the sector to total government revenue in the same period averaged about 71%. The heavy dependence on the oil sector for revenue implies that non-oil revenue has been relatively low.

2. Decline in oil sector receipts aggravated by volatility of the oil market which has been reflected in the persistent low levels of external reserves and unfavourable balance of payment positions. Decline in oil sector revenue has also contributed to substantial reduction in government revenue.

3. Slow growth of the agricultural sector and the consequent inadequate output of food items and other items needed as inputs in other industries

4. Slow growth of the industrial sector worsened by the heavy dependence of the sector on imported raw materials, machines and spare parts.

5. Inflation reflecting inadequate supply of agricultural and industrial commodities and distribution bottlenecks

6. Unemployment which has been high and rising in recent years.

From the above, it can be seen that the condition of the structure of the Nigerian economy in the 1972 - 85 era was such that C was low, I was low whereas G and (x - m) were too high, and hinged on one economic product that is extremely vulnerable to world situations.

It was against this background that in 1986 the Federal Military Government took a bold step in combining a variety of measures aimed at promoting economic efficiency, long term growth, restoration of balance of payment equilibrum and price stability. They called it Structural Adjustment Programme (SAP). Sepecifically, the major objectives of SAP are:

(a) restructuring and diversifying the productive base of the economy in order to reduce dependence on the oil sector and on imports;

(b) achieving fiscal and balance of payment viability

(c) laying the basis for a sustanable non-inflationary or minimal inflationary growth;

(d) and lessoning the dominance of improductive investments in the public sector; improving the sector's efficiency, and intensifying the growth potential of the private sector.

Baffa (op. cit.) has suggested that it is useful to look at the policies of SAP by categorising them under two sets of measures, thus:

(i) those intended to create the right financial environment for economic growth, and

(ii) growth promoting policies designed to mobilise resources for development as well as ensure the most productive use of those resource.

Of course, the former is of more interest to this work. The objectives of SAP indicate governments intention to accelerate investment culture and virile local production so as to improve the C and I components of our National Income model and diversify the contributors to the x aspect of the (x - m) component.

2.30 FUNDAMENTALS OF INVESTMENT

Khoury (1983), has noted that there are two distinct definitions of investment, one given by economists and the other offered by financial analyst and theorists. He explains that economists define investment as "The replacement of and net addition of fixed capital stock by business and non profit institutions;" whereas financial analysts define it as "The commitment of funds with the expectation of a positive return commensurate with the level of risk assumed." The two definitions, although supported by other writers such as Beardshaur (op. cit;), do not, however, contrast with each other any more than Economic contrasts with Finance, or the Economy with the finance sector. The various forms of investment as shall be seen in Section 2:32 will dearly show their relationship in the aggregate economy. For now, it suffices to say that the effect of an increase or decrease in volume or rate of investment on the economy will be in the same direction no matter from which stand point it is defined.

2.31 Investment and The Economy

Investment is a flow variable whose counterpart stock variable is capital. Thus, by definition, net investment is an addition to the stock of capital. Other things being equal, an addition to the stock of capital means an increase in the productive capacity of the economy (Shapiro, 1974). This is the crux of the role investment plays in the economy. The principle that has been used over the years to explain the effect of the volume or rate of investment on any economy is the Multiplier Theory.

In the words of Lipsey (1979), a central prediction of national income theory is that a change in expenditure, whatever its source, will cause a change in national income that is greater than the initial change in expenditure. The Multiplier is thus defined as "the ratio of the change in national income to the change in expenditure that brought it about". This change in expenditure" might come from an increase in private investment, from new government spending, from a rise in exports, or from additional household consumption expenditure. However, the Nigerian experience illustrates the weakness of an economy that relies solely on the last three factors. Furthermore, Keynes has convincingly differentiated between what he called induced spending and autonomous spending. He regards consumption spending as induced (ie, largely dependent on income; increasing with it), whereas investment spending is largely autonomous (ie, independent of income, but a function of the expected rate of return on capital and the rate of interest). In other words, Keynes would be saying that to accelerate GNP growth, you would need to accelerate growth of investment spending.

To understand how a change in investment spending changes national income by a multiple of that change, we would need to remember Keyne's linear relationships between consumption (C) and income (Y), between total expenditure (E), consumption and investment (I), and also between total expenditure and income.

According to him, E = Y; ie, total expenditure equals total income at equilibrum or full employment.

Secondly, C = a + bY, where a is a constant showing that level of consumption that must be there even if income is zero; and b the slope of the line, or C/Y, which is the change in consumption per unit change in income.

Also, E = C + 1, ie, total expenditure has the consumption component and the investment component.

Graphically, the above relationships can be seen as represented by fig. 2.1 below:

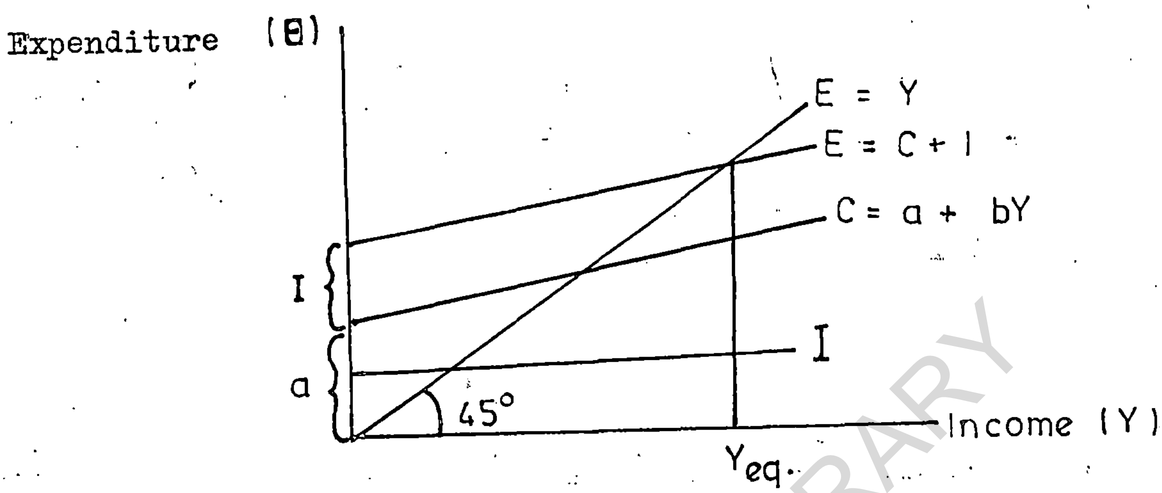

Fig. 2.1: Relationship between Income and Components of Expenditure.

Now, when investment spending changes (let's assume an increase) to I_2 (fig. 2.2), then the total spending function increases to $E = C + I_2$ with the new equilibrum point at N and income increases to I_2. The increase in income (Y) is measured by the change along the horizontal axis and can be seen (by scale or construction) to be greater than the increase in investment.

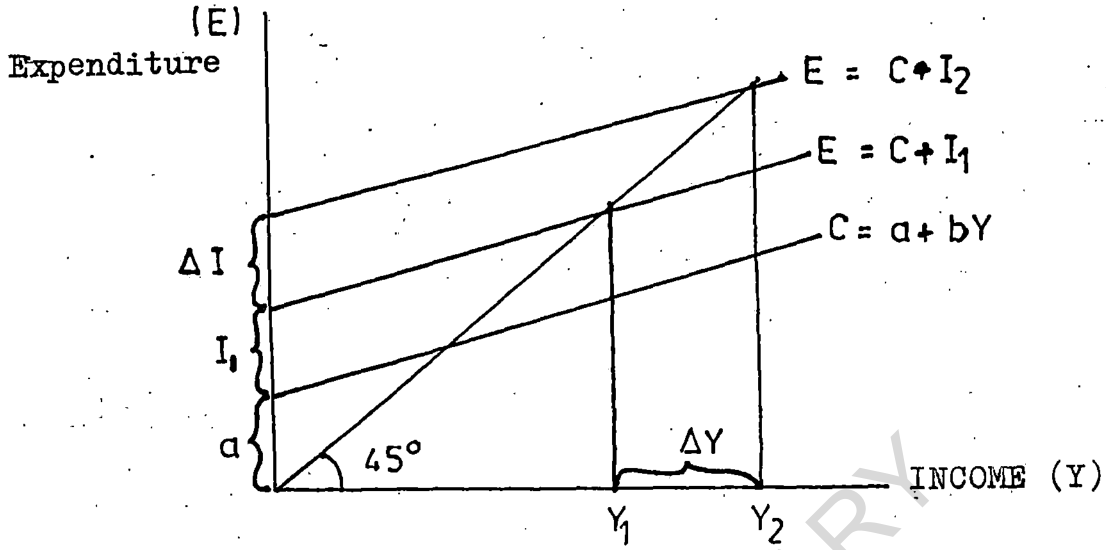

Fig. 2.2: An increase in investment spending increases Y by a multiple of change in investment.

Algebraically, we know that at any point,

$$Y = I + C$$

and that from our consumption function that

$$C = bY.$$

Therefore, by substitution,

$$Y = I + bY.$$

Solving for Y by isolating the Y terms on the left side and factorising, we have

$$Y = \frac{I}{I-b}$$

or $$Y = I \quad I/(I-b) \quad ,$$

such that I/(I-b) is the multiplier, b being the marginal propensity to consume. When investment changes and income begins to increase, there is a further induced change in consumer spending. Since consumption is a function of income, whenever there is a change in Y, consumption spending is affected by the amount bY,

2.3.2 Forms of Investment

Block (1983; p.5) provides what can be considered an adequately comprehensive clarification between the two definitions of investment offered by the economists and the financial analysts. He does this by setting out two basic forms of investment alternatives, viz: financial assets, and real assets. He states that "a financial asset represents a financial claim on an asset that is usually documented by some form of legal representation," and that " a real asset represents an actual tangible asset that may be seen, felt, held or collected." Table 2.1 below sets out clearly the various forms of investment alternative available to any investor.

Table 2.1: Overview of Investment Alternatives

Financial Assets

1. Equity claims - direct: Common stock
   Warrants
   Options

2. Equity claims - indirect: Investment Company Shares

3. Creditor claims: Savings accounts
   Money market funds
   Commercial paper
   Treasury bills
   Bonds (straight and convertible to common stock)

4. Preferred Stock (straight and convertible to common stock)

5. Commodity futures

B. Real Assets

1. Real estate - Office buildings, appointments, shopping centres, personal residences.
2. Precious metals - gold, silver
3. Precious gems - diamonds, rubies, sapphires
4. Collectibles: Art, Antiques, Stamps, coins, Rare books.
5. Others: Cattle, Oil, Common metals

Source: Block, S.B. (1983): Fundamentals of Investment Management and Strategy; Richard D. Irwin, Inc.; Illinois, P. 5.

Considering the definitions given above by Block of financial and real assets, it is easy to see that Section A of Table 2.1 outlines those "claims" or legal representatives" of the assets outlined in Section B. In simple terms, whereas real assets exist for the eyes to see, the financial assets are documents that really show who owns what and to what monetary value.

It then follows that an increase in the quantum of real assets must also reflect (or have been reflected by) an increase in the quantum of financial assets - and these together reflect aggregate investment. Furness (1972; pp. 10 - 11) has given a very interesting analysis of this relationship between financial and real assets. We must quote him fully to be able to appreciate his line of reasoning:

In an economy the only financial asset of which is money, and the finance of spending in excess of current receipts (deficit spending) is limited to one of three methods: The transactor can run down his stock of money; he can sell part of his accumulated tangible assets in exchange for some other transactor's stock of money; or he can delay payment, eg, trade credit. If the finance of spending in excess of current receipts were limited to these three methods, it is clear that deficit spending would be very restricted indeed. The ordinary transactor would not have much in the way of a money balance or of tangible assets that he could deplete. (Thus) most ordinary households would be denied the great convenience of being able to spend in anticipation of income on any scale. Those with enterprise, know-how, and ability, but without wealth would be largely precluded from establishing roundabout methods of production or of acquiring productive tangible assets. Accumulation of tangible assets would tend to remain in the hands of those who do the saving. And since the majority of savers are likely to be anxious to minimise risk and are likely to lack technical know-how, saving would tend to be invested in assets such as mansions or jewellery, which, though perhaps of cultural value to posterity, are of low value to economic growth. It is likely that the incentive to save would be weak where saving can accumulate only in either money balances which offer no yield or in tangible assets which are illiquid and possibly risky.
The deadlock was broken by the invention of interest-bearing debt instruments and of dividend-earning shares in ownership. The sale of such instruments provides a mechanism whereby deficit spenders can lap the spare money balances of the relatively wealthy and the current saving of the money.

His conclusion becomes the very crux of this literature review:

> Thus the introduction of non-money financial assets has encouraged a greater rate of wealth accumulation and at the same time helped to direct such accumulation into a far more productive form. Such financial assets have therefore played an important role in accelerating the rate of economic growth.

This fact of financial assets accelerating the rate of economicgrowth is surely the idea behind the privatisation exercise - transfer of ownership and c control of certain production processes from the public to the private sector through the sale of stocks and shares - began in 1989 by the Nigerian government. Alile (1987) had said that it would lead to amongst other things, higher standard of living and walfare, higher level of employment, and a continous re-investment of profits.

The foregoing makes imperative a forum wherein government, firms and households who lack adequate money balances to expand their stock of real assets, can sell financial assets (ie, claim) to other governments, firms or households to enhance such an expansion. The capital Market provides this forum.

2.3.3 The Capital Market and The Economy

The capital market has been defined as "a market for the issuance and trading in long-term securities and claims such as bonds debentures and equity stocks." (Fadina, 1983). The place the capital market holds in an economy is properly appreciated through the understanding that it exists to provide medium for the mobilisation of long-term funds from surplus units of the economy and utilization of same by deficit units. The basic function of the capital markets is to provide arrangements so that households, businesses and governments that want to invest more than they save can bid for the funds of other spending units who have surplus funds. Moreover, the securities and Exchange Commission (SEC) of Nigeria in a publication entitled "The Role of the Capital Market in the Structural Adjustment Programme (SAP)" has outlined the following functions which a capital market should essentially perform in an economy:

(a) saving mobilisation to aid capital sourcing for industries and commerce;

(b) ready assurance of loanable funds to governments and its agencies to support social services;

(c) allocation efficiency so as to permit optimal placing of funds amongst competing governments;

(d) liquidity of investments to facilitate reactive portfolio switches to changes in returns and/or prospects of economic units;

(e) regulation of pertinent operations in the market so that it enthuses unwanning confidence of the generality of citizens.

According to Sanusi (1983) the capital market may be formal as represented by the Stock Exchange, or informal as represented by the money market, and private placements of and dealings in long-term securities in the capital market. That brings out the prime position of the Stock Exchange in the capital market and also in the economic spectrum of any nation. If the capital market has any impacts on the economy and its structure, then its formalised, organised arm - The Stock Exchange- becomes a pivot around which such impacts revolve. In fact Fadina (op. cit.) has noted (with disagreement, though) that "it is often assumed that the capital market is limited to the Stock Exchange". Ajayi (1984) has also remarked that the Stock Exchange is "the most vital factor in a capital market." Alile and Anao (1986, p. 16) say it is "the very hub of the capital market." Against this background therefore, for one to do any meaningful analysis of the role of investment and the capital market in an economy or its structure, the Stock Exchange must assume a principal focal point.

2.40 THE NIGERIAN STOCK EXCHANGE

The Stock Exchange is a place where Securities (bonds, stocks and shares) of varying types are traded openly, and where one can purchase or sell any of such securities relatively easily. Described as one of the oldest institutions in the Nigerian capital market (Odife, 1984, p.49), the Nigerian Stock Exchange has proven to be a key institution in the Nigerian economic arena.

A proper approach in the study of the development of the Nigerian Stock Exchange would be to look at its history, its regulation, its markets and types of securities traded, and then its contribution to the economy.

2.4.1 Brief History

What is today known as the Nigerian Stock Exchange began operation on June 5, 1961 as the Lagos Stock Exchange established under the Lagos Stock Exchange Act, 1961. The background to its establishment dates back to the late 1950's when there was an upsurge of private industrial investments in the country coupled with the need for government to finance growing budget deficits as from 1958; the deteriorating balance of payment deficits as from late 1950's; increasing pressure from nationalists; and the need to mobilise finance to embark upon development programmes (Alile and Anao, op.cit). These led the government in 1958 into appointing a committee under Professor R.H. Barback to consider the ways and means of promoting a stock market in Nigeria.

It was the report of the Barback Committee that led to the founding of the Lagos Stock Exchange, incorporated on September 15, 1960 with four individuals and three corporate bodies subscribing originally to its Memorandum and Articles of Incorporation as members. Though established as a limited liability company, it was allowed to dispense with the use of the word "limited" after its name, because it was formed to enhance a sector of Nigeria's economic development and not a profit-making organisation (Ajayi, 1984). Among its principal objects as specified in its Articles of Association are the following two which are most relevant to this work:

(i) To provide facilities to the PUBLIC in Nigeria for the purchase and sale of funds; stocks and shares, of any kind and for the INVESTMENT OF MONEY (emphasis mine);

(ii) To control the granting of a quotation on the Lagos Stock Exchange in respect of funds, stocks and shares of any company, Government, Municipality, Local Authority or Other body corporate.

The Lagos Stock Exchange began operation with only 9 securities and during the early years its trading was extremely poor because of low rate of capital formation and lack of awareness of its transactions. For instance only four new issues of industrial securities were made between 1962 and 1970, whereas Federal Government Stocks came out regularly every year acconnting for between 90 and 98% of the annual turnover. (Alile and Anao, op.cit) This was amidst a parallel occurrence of a large amount of currency outside the banking system, This led to an expression of dissatisfaction among the financial elites which again prompted the government to set up another Commission in April 1976 headed by Dr. Pius Okigbo to study the structure and operations if the nation's financial system and make recommendations for improvement. The Okigbo Commission recommended a decentralisation of the stock Exchange to cover the whole Country. On that recommendation the then Federal Government on 2nd December 1977 transformed the Lagos Stock Exchange into the Nigerian Stock Exchange with branches at Lagos, Kaduna and Port Harcourt. Now there are a total of five branches including the most recent (1991) at Ibadan and Onitsha. By the end of 1990, there were 217 securities comprising 131 equities, 43 Government Stocks and 43 industrial loan and preference stocks (CBN, 1990).

2.4.2 Regulation

On the inception of the Stock Exchange, there was the need for some sort of control to ensure an orderly development of the stock market and a coordinated issue of securities to enhance a proper timing and flow of funds into the sectors of the economy considered to be in the broad interest of the country. The Capital Issues Committee was formed in 1962 to exercise this control. But since it was not back by any law (Nwankwo(Ibid) describes its establishment as ad hoc), it was only consultative to the Central Bank and the Council of the

Stock Exchange upon which is vested the government and management of the Exchange.

It was succeeded in 1973 by the Capital Issues Commission, the offspring of the Capital Issues Decree, 1973, which "had powers, among other things of determining the price at which shares and stocks are offered for sale to the public and of approving such acquistion, sale or transfer" (Alile and Anao, op. cit.).

Yet in 1979, sequel to the work of the Okigbo Committee, the Federal Government replaced the Capital Issue Commission with the Securities and Exchange Commission via the Securities and Exchange Commission Decree (No. 71) of 1979 with effect from April 1978. This decree gave the function of the new commission as follows:

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

(b) Registering all securities proposed to be offered for sale too, or for subscription by the public or to be offered privately with the intention that the securities shall be held ultimately other than by those to whom the offers were made;

(c) Maintaining Surveillance over the securities market to ensure orderly, fair and equitable dealings in securities;

dealings in securities;

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

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

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

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

(h) Undertaking such other activities as are necessary or expedient for giving full effect to the provision of this decree" (SEC Decree, 1979, s. 6).

Thus the Securities and Exchange Commission has since become the body that controls the operations of Nigeria Stock Exchange. In 1990, it valued a total 242 securities involving 1,503.4 million shares at ₦10,265.6m (CBN, 1990).

2.4.3 The Markets

The various activities that go on in the Stock Exchange in the process of mobilisation and distribution of capital can be broadly grouped into three markets- The Market for New Issues (Primary Market), The Market for Existing Securities (Secondary Market); and the Second-tier Securities Market (SSM).

(a) The New Issues Market

The New Issues Market is the forum wherein securities that had not been issued in the Stock Exchange are offered. It might be those of a firm not previously quoted which now seeks to go public, or those of a quoted company seeking expansion of funds through the issuance of supplementary securities.

When a firm or government decides to issue its securities through the Stock Exchange, it conveys such a resolution to a selected Issuing House who is a member of the Stock Exchange. This Issuing House then prepares an application on its behalf to the Council of the Exchange. The application must be in the standard format stating the securities for which the application as being made and how they are proposed to be issued. (See Appendix I for the usual contents of an application). Issues can be as an "Offer for Subscription", which is a direct issue to the public by floating new shares; an "Offer for Sale which is a public offer of shares in a company by existing shareholders; an "Introduction' which is a listing on the market of company shares already held in public hands; a "Placing" which is a sale of ... securities to the clients of the issuing houses or stockbrokers handling the issue rather than the general public; or a "Rights Issues' which involves offers to buy more shares to existing shareholders.

Applicationsare considered by the Quotation Committee of the Exchange and ratified by the Council before a company can be listed. But the Securities and Exchange Commission determines the offer price of the security before the securities are made available to the public. In 1990, the Stock Exchange recorded 44 new securities issued on its floor comprising a volume of 575.5 million valued at ₦1,129.5m (CBN, 1990).

(b) The Secondary Market

The Secondary Market of the Stock Exchange is where existing securities change hands and thus provides the mechanism that gives liquidity to the securities listed on the Stock Exchange.

The market operates a "call-over" system whereby securities are called out by an officer of the Exchange, and one after the other, stockbrokers (who must be approved members of the Exchange) indicate their interests in them. Prices are determined in an auction manner depending on the forces of supply and demand. The dealing members usually make prices as "bid" (ie, price to buy) or "offer" (price to sell) depending on the instruction of their clients. The purchase of securities signifies an investment holding in a corporate establishment and is represented by a stock or share certificate which indicates on the face of it the investor's proportionate share in the business according to the number and value of its shares he has purchased. In 1990, a total of 301.462 million securities valued at ₦272.8m changed hands in 38,992 deals (CBN, 1990).

(c) The Second-Tier Securities Market (SSM)

On the 27th of December 1984, the Securities and Exchange Commission gave its approval to the Nigerian Stock Exchange for the establishment of a Second-tier Securities Market. This came in aid of many companies particularly indigenous ones who could not meet up with the stringent listing requirements and the attendant costs of going public through the Stock Exchange, as well as the possible dilution of ownership and control of their business. The SSM came to alleviate some of these problems by a relaxation of the listing requirements; provide a wider and cheaper source of funding for small and medium indigenous enterprises and thereby enhancing savings mobilisation and resource allocation in the economy; and give these businesses some form of apprenticeship in the Stock Exchange trade before proper listing.

Table 2.2 below shows the major difference between listed securities and those of the SSM. By the end of 1990, the SSM had recorded a total listing of 15 equity stocks (CBN, 1990).

Table 2.2: MAJOR DIFFERENCES BETWEEN LISTED SECURITIES AND SECOND-TIER SECURITIES MARKET

Factor	Listed Securities	SSM
1. Entry Requirements		
(a) Trading Record	5 years	3 years
(b) Shares In Public Hands	Not less than 25% or ₦125,000	Not less than 10% or ₦50,000
(c) Number of Shareholders	Not less than 500	Not less than 100
2. Annual quotation Fee	Based on Share Capital of Company	Flat annual rate of ₦2,000.00
3. Amount to be raised	Limitless	Not more than ₦5m
4. Trustee Status of shares	Qualifies	Yet to qualify
5. Required public disclosure	Full Information	Condensed Information
6. Status of Security	Listed	Unlisted.

Source: Securities and Exchange Commission

2.4.4 Types of Securities

There are primarily two types of securities traded in the Stock Exchange, namely debt and equity.

(a) Debt

Debt securities are financial claims on which the issuer promises to pay interest at stated intervals and to redeem at a future date. There are two types of this kind of security available on the floor of the Nigerian Stock Exchange:

(i) The Federal Government Development Stocks (FDS), usually issued annually with maturity ranging between 4 and 25 years. They are floated by Government to assist monetary policy or for financing defined projects. By the end of 1990, the level of Development stocks outstanding at the Stock Exchange was ₦4,401.0 million (CBN, 1990).

(ii) Industrial Loans which take the form of preference shares and debenture stocks, being corporate loan claims used for financing long-term capital requirements by large firms.

(b) Equity

Equity capital refers to the capital of the owners of the firm usually represented by ordinary shares (in case of a quoted and listed company). Equity claims are viewed, usually as a source of permanent capital with no contractual payments by the firm. However, the shareholder expects a specific after tax return from his investment - called dividend. Apart from the dividend, a share certificate also acts as an acceptable collateral to its holder for short-term loans from financial institutions.

Table 2.3 below show the proportional relationships between the numbers of the various types of securities traded on the floor of the Nigerian Stock Exchange since its inception in 1961.

Table. 2.3 NO. OF QUOTED SECURITIES ON THE NIGERIAN STOCK EXCHANGE 1961 - 1990.

Years	(Industrial) Equities	Industrial Loans	Government Securities	Total
1961	3	-	6	9
1965	6	5	17	29
1971	14	6	32	52
1973	25	8	38	71
1978	42	11	49	102
1980	90	13	50	153
1981	93	14	56	163
1982	93	18	57	168
1983	93	26	58	177
1984	93	26	56	175
1985	95	26	59	180
1987	N.A.	N.A.	N.A.	N.A.
1989	N.A.	N.A.	N.A.	N.A.
1990	131	43	43	217

Source: Alile & Anao (1986 and CBN.

2.4.5 The Stock Exchange and The Economy

Having seen the place of the capital market in any economy, and knowing that the Stock Exchange is the capital market formalised and institutionalised, it might seem obvious what the Stock Exchange has to do with the economy. There is need, however, to highlight the particular functions of the Stock Exchange especially as is relevant in this era of structural adjustment.

Among the NSE Articles of Association are the following three which are most relevant to this work:

(i) To provide facilities to the public in Nigeria for the purchase and sale of funds; stocks and shares of any kind and for the investment of money;

(ii) To control the granting of a quotation on the Lagos (now Nigerian) Stock Exchange in respect of funds, stocks and shares of any company, Government, Municipality, Local Authority or other body corporate;

(iii) To correlate the stockbroking activities of Members and facilitate the exchange of information for their mutual advantages and for the benefit of their clients and to offer facilities whereby the public can be informed of prices of shares dealt in by members.

Nwankwo (1980) has also noted that on its establishment, the NSE was expected to perform the following functions:

1. Provide appropriate machinery to facilitate further offerings of stocks and shares to the general public;
2. Promote increasing participation by the public in the private sector of the economy;
3. Encourage the investment of savings so soon as it is clear that stocks and shares are readily available.

Furthermore, Alile and Anao (1986) have proffered a set of criteria by which the NSE can be evaluated. The following are particularly of interest to this work:

(i) Capital Mobilisation
(ii) Allocation of Funds
(iii) Development of Investment Culture
(iv) Accessibility to Savers and Users of Fund
(v) Investor Protection

(i) Capital Mobilisation

The primary reason for the existence of the Stock Exchange is for it to serve as a medium for the mobilisation of funds. Its rules and procedures should be geared towards the facilitation of the capital mobilisation process. On its floors, savings are channelled into new uses through the issue of securities which result in a net increase in the aggregate investment in equity and loan stock, and hence net capital formation in the economy. The volume of capital generated in an economy dictates how well the economy can thrive through the economic processes of production and consumption. Thus, if the NSE has performed well, then capitalisation on its floors should be accelerating.

(ii) Allocation of Funds

The prices which the Stock Exchange registers for various securities should reflect the market's collective judgement of the relative worth of each security vis-a-vis other available securities. Each such security would be able to command a price which ensures that just enough of the society's capital flows into that company or that industry as is justified by the firm or industry's relative contribution to societal weatth.

It can be seen that this allocative role is critical in the determination of the growth and efficiency of the economy. If capital resources are not provided to those industries where demand is growing and which are productivity-inclined, then the rate of expansion of the economy will inevitably suffer.

(iii) Development of Investment Culture

Participation in stock market operations offers tremendous opportunity to make money for an individual for minimal risk undertaken. From the standpoint of the economy, the level of such participation has direct impact. When it is high, the entire stock market system thrives; it serves as a continuing channel for increasing the pool of investible funds, for boosting the volume of trading on the market, for stock prices to tend towards their optimal points, and for ensuring equitable fund allocations. The extent to which the investment culture has caught on could therefore give some indication of the extent to which society has become mobilised for the presecution of development. It obviously gives indication of the extent to which the public is part of the economy.

(iv) <u>Accessibility to Savers and Users of Funds</u>

It is one thing to provide a forum for capital mobilisation, but another to make it accessible to the deficit and surplus units of funds in the economy. For a country like Nigeria, with its size and complexity coupled by barriers to communication, the NSE has a challenging task in this regard. It has the task of effectively mobilising and channelling savings to the most deserving sectors, while at the same time promote national integration and unity in a way that will cover the length and breadth of the country. Such a uniform spread in operation is paramount in the economic development and self-sustaining structuring desired for the country.

(v) Investor Protection

For the economy to thrive on industrial production, then there should be a level of confidence on the part of investors that their funds are profitably applied by the company managers who borrow them. This is investor protection. The Stock Exchange is expected to adopt a mechanism for ensuring equity and fair play between investors and the company they have invested in.

The above highlighted expectations warrant a careful analysis on the over three decades of the operation of the Nigerian Stock Exchange. This need is even heightened by the fact that the last six years have been the era of structural adjustment of the economy with emphasis on the privatisation of government companies through the machinery of the Nigerian Stock Exchange. Hence this study.

REFERENCES

BOOKS

Adekanye, F. (ed.) (1983). Banks and the Nigerian Economy; NIB, Lagos.

Ajayi, O. (1984). Financial and Legal Implications of the Nigerian Capital Market; Evans, Lagos.

Alile, H.I. and Anao, R.A. (1986). The Nigerian Stock Market in Operation. NSE, Lagos.

Beardshaw, J.S. (1984). Economics - A Student's Guide. Pitman, London.

Block, S.B. (1983). Fundamentals of Investment Management and Strategy. Richard D. Irwin, Inc; Illinois.

Bronfenbrenner, M. et.al (1983). Macroeconomics. Honghton Mifflin, Boston.

Burrows, P. and Hitiris, T. (1974). Macroeconomic Theory - A Mathematical Introduction. John Wiley & Sons, Chichester.

Cuthbertson, K. (1979). Macroeconomic Policy. Macmillan, London.

Furness, E.I. (1972). An Introduction to Financial Economics. Heinneman, London.

Hirt, G.A. and Block, S.B. (1983). Fundamentals of Investment Management and Strategy. Richard D. Irwin Inc., Illinois.

Khoury, S.J. (1983). Investment Management. Macmillan Publishing Co., New York.

Lipsey, R.G. (1979). An Introduction to Positive Economics. Weidenfeld & Nicolson, London.

Nwankwo, G.O. (1980). The Nigerian Financial System. Macmillan, Lagos.

Odife, D.O. (1984). Understanding the Nigerian Stock Market. Vantage Press, New York.

Okafor, F.O. (1983). Investment Decisions: Evaluation of Projects and Securities. Cassell Ltd. London, SWIP 2PN.

Olaloku, F.A. et.al (eds.)(1979). Structure of the Nigerian Economy. Macmillan, Lagos.

Shapiro, E. (1974). Macroeconomic Analysis: Harcourt Brace Jovanovich Inc., New York.

Thirlwall, A.P. (1974). Inflation, Savings and Growth in Developing Economies. Macmillan, London.

Woolf, E. et.al (eds.) (1987). Financial Management. Century Hutchinson Ltd., London.

JOURNALS

Bullion, Vol. 9, No. 1; January/March, 1985.

Bullion. Vol. 11, No. 2, April/June, 1987.

Bullion, Vol. 13, No. 1; January/March, 1989.

CBN Economic and Financial Review, Vol. 23, No. 3. September, 1985.

CBN Economic and Financial Review, Vol. 25, No. 4; December, 1987.

CBN Economic and Financial Review, Vol. 28, No. 1; March, 1990.

Securities & Exchange Commission Decree, 1979. Federal Ministry of Justice, Lagos.

CHAPTER THREE

RESEARCH METHODOLOGY

The research has one broad aim, and that is to determine the extent to which the Nigerian Stock Exchange (NSE) as the "hub" of the Nigerian capital market has contributed to the structure of the Nigerian economy. In view of the analysis done in the latter part of chapter two, this aim fangs out into two tasks facing this work. One is to determine the level of the participation of the private sector in the transactions of the NSE. Secondly, the extent to which the NSE as an institution has influenced the public towards participation in stock transactions should also be determined.

The methodology adopted is, therefore, largely investigative. In this chapter, a brief but comprehensive description of the activities undertaken to arrive at the findings shall be made, together with a highlight of the methods of organising, evaluation and interpretation of the data.

3.10 SOURCES OF DATA AND METHODS OF DATA COLLECTION

Sources of data for the study are both secondary and primary. For secondary data, the records and publications of the Central Bank of Nigeria (CBN), the Nigerian Stock Exchange (NSE) and the Securities and Exchange Commission (SEC) are examined.

The CBN Annual Reports together with those of the NSE and SEC supply the composition, volume and trend of the transactions of the NSE since inception. They will show the proportional participation in the activities of the NSE between government, institutions and individuals in terms of both number of securities and value in naira.

Primary data will also play a very significant role, especially in the determination of the NSE's influence on the economic awareness and habits of the income-earning public. The research has made use of both a well-designed and structured questionnaire as well as interviews. The questionnaire is aimed at the public and covers questions on academic qualification and present occupation of respondents; their knowledge of the existence, activities and operations of the NSE; the degree, time and source of such knowledge; their income level, savings and investment habit; and economic aspirations. For those who hold stock/shares as part of their investment portfolio, their opinion and recommendations about the NSE's operations are also required. It is expected that, among other things, the proportion of the income-earning public that know the relevance of the NSE's operations can be obtained. A certain degree of correlation between the number of these that know and their profession is also expected to be determined, as well as the income level of those that hold stock.

Appendix II is a sample of the questionnaire administered.

Interviews are conducted among stockbrokers as the middlemen between the Stock Exchange and the public. They are aided by an interviewing schedule. Information required include volume of business and competition, and volume and professional representation of public patronage and what types of securities are in highest demand. The general machinery of the purchase and sale of stocks, and the efficacy of same are also sought. Interviews are considered better for stockbrokers since information required of them are of a probing nature and involves some aspects of an expression of opinion and experience. Moreover, there are only a few stockbrokers in the sample area.

3.20 POPULATION AND SAMPLE

For the required primary data, three towns have been chosen to be the population for the study. These are Aba, Okigwe and Owerri. Aba is a densely populated commercial/industrial city. Apart from its composition of a good demographic mix of all professions, age groups, education and social groups, its location and economic base also affords it a broad ethnic/tribal balance. Okigwe is an academic/administrative town. It has experienced considerable growth in the past half decade.

Owerri is a heavily populated State Capital that boasts of a lot of academic institutions, financial and commercial firms and a rapidly growing modern urban environment comprised of all levels of income earners. These three towns will complement one another in the representation of the general Nigerian public.

Sampling has been both purposive, stratified and random. Enumerators were used for each of the three towns and care has been taken to represent as much as possible all income earning groups. A total of 550 questionnaires were administered.

3.30 METHOD OF ANALYSIS

The nature of the research does not call for complex statistical analysis. Thus, simple statistical tools have been employed. Percentages, means and modes have been largely used, since intention is to determine response towards central tendency. For clear illustration, pie and bar charts have been used to give a pictoral presentation of data.

Despite the simplicity of the statistical tools, analysis are qualitative and relevant to the issues raised in the statement of problem, objectives and hypotheses.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF FINDINGS

This chapter presents the findings made in the course of the research as they relate to each of the objectives stated in Chapter One. For clarity of purpose and coherence of sequence, analysis will be made section by section such that conclusions on each objective can easily be made with respect to the corresponding hypotheses. This chapter has therefore, been subdivided into five sections according to the stated objectives.

4.10 TREND OF NSE TRANSACTIONS

From the records and publications of the Stock Exchange and the CBN, the volume of transactions on the Stock Exchange floor has invariably been on the increase since inception.

Table 4.1 below shows the volume of transactions recorded over the years from 1961 to 1990, while fig. 4.1 shows the trend line of the transactions.

Table 4.1: Trend of transactions on the Nigerian Stock Exchange, 1961 - 1990.

Year	No. of Transactions	Volume of Capitalisation (₦' million)
1961	334	1.49
1963	711	10.34
1965	1,018	15.9
1967	788	12.4
1969	553	16.38
1971	952	18.1
1973	817	92.43
1975	694	63.7
1977	1,651	180.0
1979	3,223	254.4
1981	10,199	304.8
1983	11,925	397.7
1984	17,444	256.7
1985	23,546	318.5
1986	27,718	495.6
1987	20,648	380.5
1988	21,562	253.3
1989	33,444	553.2
1990	38,792	272.8

Source: Alile and Anao (1986) and CBN

From Table 4.1 and Fig. 4.1, it can be seen clearly that a sharp increase was recorded in the number of transactions that took place on the floor of the Stock Exchange after 1988 when the privatisation exercise began. In fact it can be argued that the downward trend that started in 1987 could have continued but for the exercise.

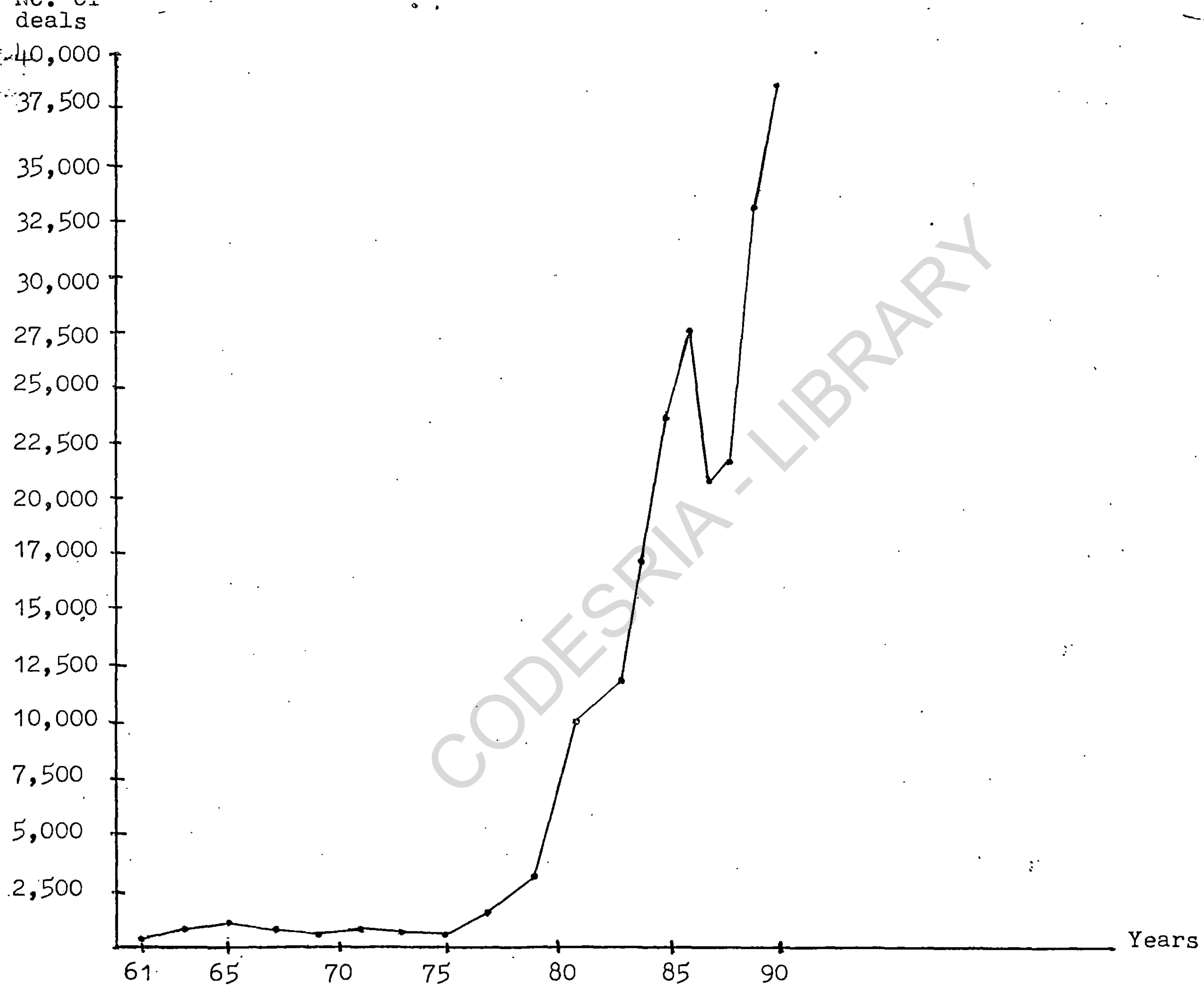

Fig. 4: Trend of transactions on the Nigerian Stock Exchange 1961 - 1990

4.20 PROPORTIONAL PARTICIPATION OF ECONOMIC ENTITIES IN THE TRANSACTIONS OF THE NSE

This objective has two aspects. One asks the question of whose securities dominate the NSE floor by number and value, and the other asks the question of who buys more of the available securities.

4.21 TYPES OF SECURITIES SOLD ON THE NSE FLOOR

Securities sold on the Stock Exchange can be broadly grouped into "Government" and "Industrials". Although Table 2.3 shows that industrial securities are usually more in number, Table 4.2 below shows clearly that government securities have dominated the market in terms of value and capitalisation. (It should be recalled from Section 2.3.4 that these are only debt securities.) The trend since the late 1980's must, however, be noted as in tune with the economic restructuring.

Table 4.2: Proportional value of Government and Industrial Securities to Total Securities sold on the Stock Exchange, 1961 - 1990 (₦'million).

Year	Government Securities	% of total	Industrials	% of total	Total
1961	1.4	94.0	0.09	6.0	1.49
1965	14.4	90.6	1.50	9.4	15.90
1970	16.4	98.6	0.24	1.4	16.64
1975	62.8	98.6	0.90	1.4	63.70
1980	380.9	97.9	7.90	2.1	388.8
1981	298.7	98.0	6.1	2.0	304.8
1982	207.0	96.3	8.0	3.7	215.0
1983	384.7	96.7	13.0	3.3	397.7
1984	241.0	93.9	15.7	6.1	256.7
1985	295.3	92.7	23.2	7.3	318.5
1986	475.6	96.0	20.0	0.4	495.6
1987	388.2	88.9	42.3	11.1	380.5
1988	219.3	86.6	34.0	13.4	253.3
1989	490.5	88.7	62.7	11.3	553.2
1990	153.9	56.4	118.9	43.6	272.8
Average	238.673	90.99	23.635	9.01	262.308

Source: Alile and Anao (1986), CBN and Research.

4.22 DOMINANT PURCHASERS OF GOVERNMENT SECURITIES

Since Table 4.2 above shows that government securities dominate the value of transactions on the Stock Exchange floor, a pertinent question would be who the dominant purchasers of these securities are. Taking the Federal Development Stocks (FDS) issued annually and open for both individuals and institutions to purchase, Table 4.3 shows the proportion held by the mentioned holders for three years.

The average and percentage columns as calculated by the researcher brings out the place of each group. It is clear that corporate institutions dominate leaving individuals with only 0.44%. Financial institutions hold 98.37% with the CBN accounting for 33.55% in that.

Table 4.3: Holdings of Federal Government Development Stocks (FDS) (₦'million)

Holders	Dec.1985	Dec.'87	Dec.'89	Average	%
CBN	1,613.4	1,550.3	1,484.9	1,549.53	33.55
Commercial Banks	395.7	537.2	39.5	324.13	7.02
Merchant Banks	33.0	5.1	6.0	14.70	0.32
Individuals	8.0	44.6	8.0	20.20	0.44
Insurance Companies	152.5	194.7	228.1	191.77	4.15
Saving-Type Institutions	1,833.2	2,225.2	2,390.3	2,149.57	46.54
State and Local Governments	2.2	5.7	8.0	5.30	0.1
Statutory Boards and Corporations	7.0	18.3	38.8	21.37	0.46
Other Corporations and Companies	109.5	135.2	192.3	145.67	3.15
Agric. Credit Guarantee Scheme	119.7	143.0	167.6	143.43	3.10
Special Fund with CBN	42.5	8.6	36.0	29.03	0.63
CBN Sales/Purchases Not Yet Classified	2.3	41.1	18.5	20.63	0.45
Bureaux de Change	-	-	11.0	3.67	0.08
Total	4,319.0	4,909.0	4,629.0	4,619.0	100.00

Source: CBN.

4.30 POPULARITY OF THE NSE AMONG THE PUBLIC

This section begins the sections of the research findings aided by primary data, viz: the mail questionnaire to the literate income-earning public, and interview conducted among managers of three stockbroking firms.

In determining the popularity of the Stock Exchange among the public, two basic issues are pursued. One is whether they know anything at all about the Stock Exchange, and another is how much they know. Table 4.4 below gives, at a glance, the findings.

Table 4.4: Level of Public Awareness of the Stock Exchange

Level of Awareness	No. of Respondents	Percentage
(a) Nothing at all	47	18.65
(b) Just its existence	49	19.44
(c) A little about its operations	116	46.03
(d) Quite a lot	39	15.48
(e) Silent	1	0.40
Total	252	100.00

Responses (a) and (b) above can be regarded as the same since knowing just about the existence of the institution does not constitute any relevant knowledge. Further analysis shows that 48 (50%) of these two groups are graduates of institutions of higher learning. All interviewed stockbrokers confirm that public awareness is low.

4.40 SOURCES OF PUBLIC AWARENESS OF THE NSE

Respondents (b) to (d) in Table 4.4 above all claim to know something about the NSE. This section determines their various source of such information.

First of all, it is discovered that 88 (34.92%) got their knowledge during the SAP era (Post 1986), with 9 not indicating, and the rest 155 (61.51%) knew before 1987. This is somewhat surprising, especially with the stockbrokers indicating higher volume of business and competition since 1988. However, Table 4.5 below might offer some explanation as to why this seeming irony.

Respondents were allowed to indicate more than one source of information. Thus, frequency of occurence under this section might total more than number of respondents. Table 4.5 shows the various number of respondents that got their knowledge of the NSE through the shown information sources. The pie chart in Fig. 4.2 gives the pictoral representation. Newsmedia and academics rank highest and second highest respectively in informing the public about the activities of the NSE. Far behind are NSE publicity and then friends and relations. The stockbrokers confirm this, saying that ethics forbid them to advertise adding that public awareness should be referred to SEC, the body that governs the operations of the NSE.

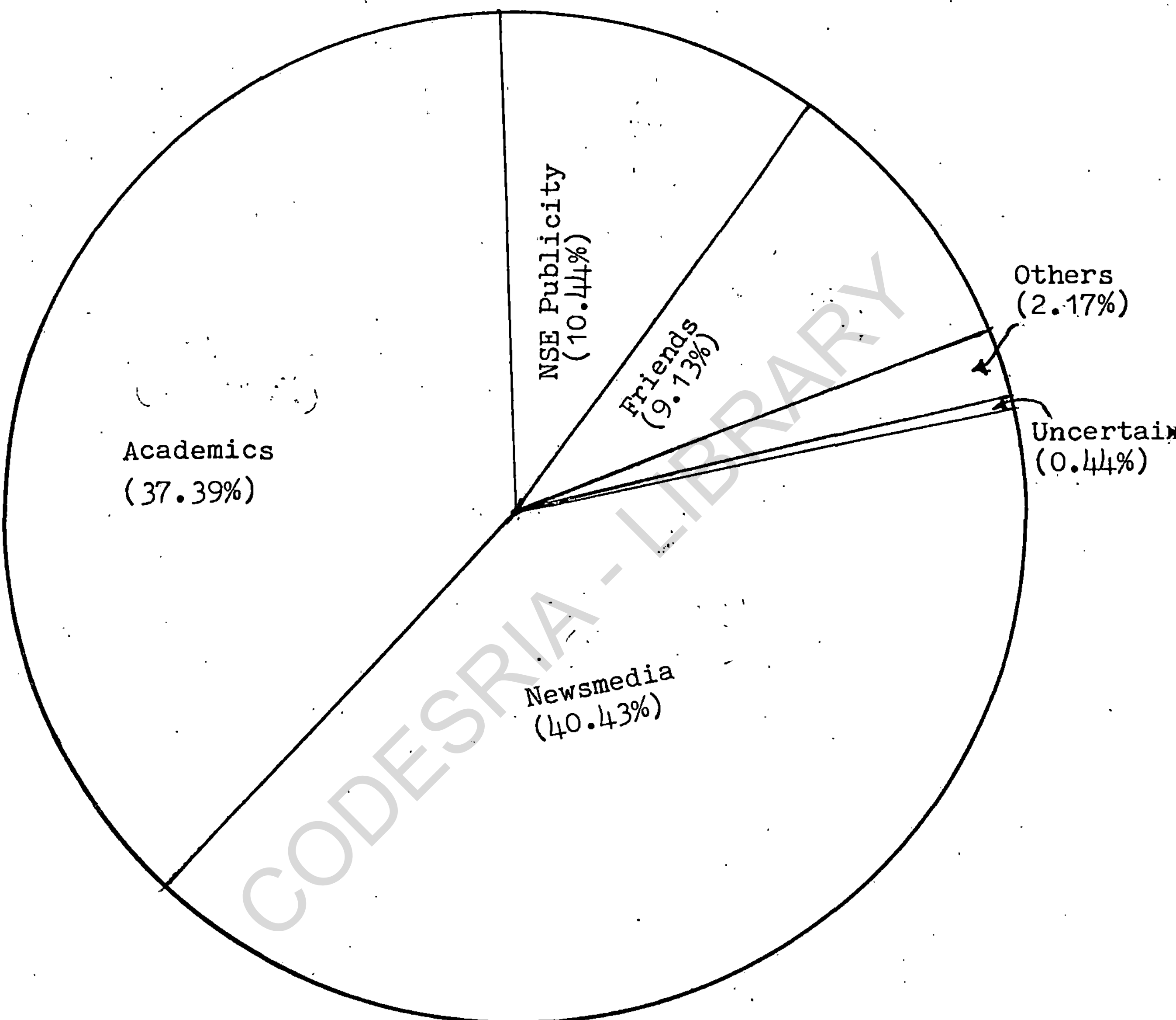

Fig. 4.2: Sources of Public Awareness of the Nigerian Stock Exchange.

Table 4.5: Sources of Public Awareness of the Nigerian Stock Exchange.

Response	No. of Respondents	Percentage
(a) Friends	21	9.13
(b) Academics	86	37.39
(c) Newsmedia	93	40.43
(d) NSE Publicity	24	10.44
(e) Others	5	2.17
(f) Uncertain	1	0.44
	230	100.00

4.40 SAVING AND INVESTMENT HABIT OF THE PUBLIC

Here, the objective pursued is determining what proportion of the income-earning public that save out of their income, and how they invest such savings or any other windfall that may come to them. The questionnaire also had questions which produced answers that could explain the discovered traits.

4.41 SAVING HABIT OF THE PUBLIC

The question "Do you make any savings?" was asked and with 2 abstentions, 99 (39.29%) answered "No", and the remaining 151 (59.92%) answered "Yes".

In trying to find out their reasons for not making any savings, 1 respondent uses his surplus income for religious purposes, 2 do not consider it necessary whereas 96 (96.97%) answered that their needs consume all their income.

4.42 INVESTMENT OPTIONS AMONG THE PUBLIC

Fig 4.3 below gives the responses of respondents on how they invest their savings. It shows that 64.13% deposit their surplus funds in the banks; 24.46% invest in stocks and shares while trading and real estate attract 7.61% and 1.09% respectively. 1.63% do not invest their savings at all. The questionnaire did not make the option exclusive.

The above shows the high risk aversion of the public. They corroborated this in stating their reason for their investment option, which many stated as "providing for the rainy day."

A total of 105 respondents do not invest in stocks/ shares. Their reasons are as shown by Table 4.6 below. Again, the reasons are not exclusive.

Table 4.6: Reasons of the Public for not holding Stocks/ shares.

	Reason	No. of Respondents	Percentage
(a)	Unaware of such opportunities	13	11.50
(b)	Not for my class of people	4	3.54
(c)	Process is rigorous	9	7.97
(d)	Incomes from them are too small	24	21.24
(e)	Never given it a thought'	44	38.94
(f)	Other reasons	6	5.31
(g)	Silent	13	11.50
	Total	113	100.00

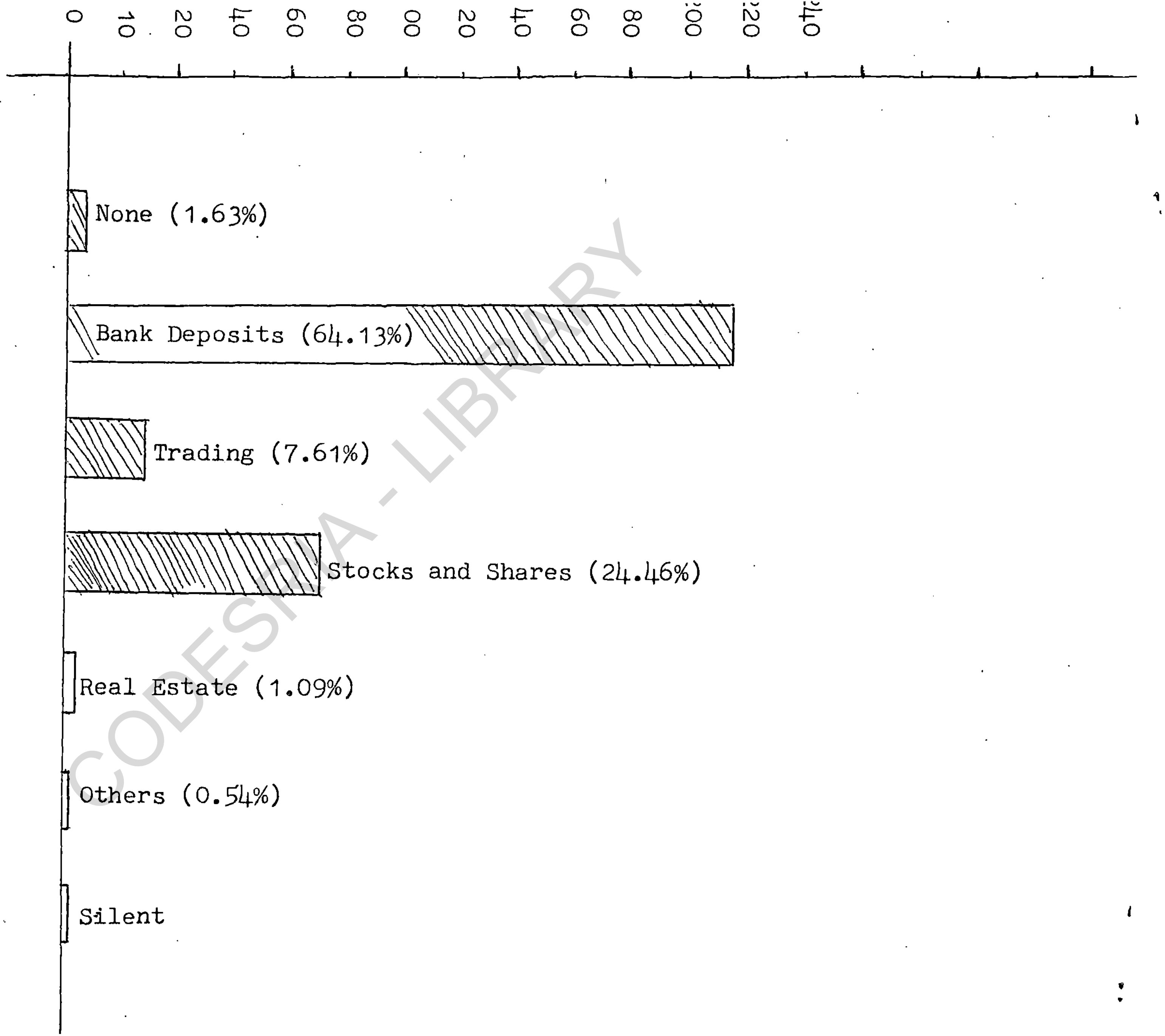

Fig. 4.3: Investment Options Among the saving public

Four of the "other reasons" in (f) is that their savings are too low to purchase stocks/shares.

From the responses, it is clear that a good number of people are yet to become aware of the process of stock holding and its over-all economic benefits. Yet 84 (80%) admit that they would purchase stocks/shares if they knew it would enable them be "part-owner of a big company" and/or acquire soft loans (as collateral security) at times of cash squeeze.

4.43: NATURE OF STOCK/SHARE-HOLDING AMONG THE PUBLIC

Here, the intention is to find out how the stockholders obtained their stocks; what kind of stock mainly held, and if they ever resold their stock or used it for other purposes apart from for reason of dividends. How they obtained their stock/shares and what kind, will suggest whether it was in the primary or secondary market, and thus whether the NSE came into play at all.

To the question "how did you obtain" your stock, 44 (97%) answered "subscription", 3 (6.6%) answered "sale (i.e. purchase of old securities through stockbrokers), and 1 was silent. The three above answered "subscription" in addition, so they are also among the 44.

Also 44 (97%) hold equity shares, 1 was silent. 42 (93.33%) had never resold their securities, nor had they used them as security for loans.

1 had never resold his, but had used it as security for loan, and 2 (4.44%) had resold theirs sometime, but had never used them as security for loans. On why they had never resold their securities or used them for loans, 3 were silent, 29 (64.44%) answered "don't want to", 2 (4.44%) claimed that it was not accepted, 8 (17.78%) said they were not aware it could be used, while 3 (6.67%) said they did not yet have the need.

The foregoing is an indication that the primary market is the more thriving market of the general stock market. It puts a big question mark on the actual impact of the NSE on the general economy since dealings on its floor are on secondary securities. Furthermore, no respondent holds Government stock or industrial loan stock.

Another clear indication from the above data is that the stock-holding public do not use their certificates for capital gains or for other economic purposes apart from securing for retirement age and in expectation of dividends. This is confirmed by the stockbrokers interviewed. A majority of their clients are from the age of [redacted] those about to retire, and/or workers in companies without pension arrangements.

4.44 PROCESS OF STOCK PURCHASE/SALE

33 (73.33%) respondents accepted that they did not find it difficult to purchase their securities.

9 (20%) did not find the process satisfactory. 3 were silent. Since their securities were purchased in the primary market, it can be understood that all they needed do was deposit their money with their stockbroker or the issuing house (usually banks) and then wait for their certificate. They may not consider that arrangement very difficult. But their complaints are mainly on the delay experienced in receiving their certificate. Some claim that years go by without any communication between them and the issuing house.

The stockbrokers explain that the delay is usually caused by the Registrars. The registrars prepare share/ stock certificates, and maintains share/stock registers for companies, updating them when sales or transfers take place. On the sale/purchase of old securities, they are the ones that verify signatures of owners, pay them off and authorise the sale to another investor. The stock-brokers explain that it takes the registrars months to be able to confirm a signature (which normally should not exceed two weeks) and after sale, it takes more months to issue certificates. One major reason is that the registrars are concentrated in Lagos. Another reason is that their income in the process of stock transfer is not affected by the rate of their performance. Other problems identified by stockbrokers include ineffective communication system and the concentration of pricing powers on the Securities and Exchange Commission (SEC) only. They claim that it slows down the general rate of business and general economic productivity.

REFERENCES

Alile, H.I. and Anao, R.A. (1986). The Nigerian Stock Market in operation. NSE, Lagos.

CBN Annual Reports and Statement of Accounts, 1980 - 1990.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.10 CONCLUSIONS

The following conclusions are obvious from the foregone findings about the activities of the Nigerian Stock Exchange as an institution of the capital market and about its relevance in the structuring of the Nigerian economy towards investment culture among the public.

(i) The Nigerian Stock Exchange has proved very relevant in the structural adjustment programmme. The trend of transactions recorded by it shows that for the structural base of the economy to be effectively broadened, then the NSE should be properly managed to achieve its fundamental objectives.

(ii) From the types of securities that yet dominate the floor of the NSE and the dominant purchasers, it is clear that the public are yet to be adequately represented. The government, rather than the industries dominate the value of securities sold, whereas institutions, rather than individuals dominate the purchase of valuable securities.

(iii) Very little indeed is known by the public about the activities of the NSE and its relevance to their economic well-being. A good number of savers are unaware of stock-holding investment opportunities, and yet 38.94% of savers have never given it a thought.

(iv) Newsmedia and academics constitute 77.82% of the sources of public knowledge about the NSE. Only 10.44% of the respondents attribute their knowledge to publicity by the NSE, yet it is not certain how indeed. The Stock Exchange as an institution is not doing enough, if anything to enlighten the public on its acitivities according to the original specified objectives of the institution.

(v) The saving and investment habit of the public is generally poor. Apart from the fact that general income level is low vis-a-vis cost of living and basic necessities, the investment drive is equally very low. A lot of people are risk averse and prefer bank deposit to any other kind of investment. Returns are thus on the barest minimum and the level of economic turnover thus remains generally low.

(vi) Those that hold securities do not speculate at all. There is a general buy-and-hold attitude as most of the stockholders purchase them for just the dividends that come from them. This makes the secondary stock market very redondant- and the stock exchange floor is at the core of this.

(vii) The general framework for the sale and purchase of securities is satisfactory, especially for the primary market. The implementation of the various stages by the affected bodies is what lacks merit due to non-challance and unnecessary delays. It is discovered that delays in transaction discourage sale of securities in the secondary market.

5.20 RECOMMENDATIONS

Two main areas of defect can be identified from this research in the stock market system of the country controlled by the Nigerian Stock Exchange. The first is that the NSE has failed in its three decades of existence to play its expected role of enlightening the public on the need and benefits of investing in stocks both to the general economy and the individual investor. The second is that the process of stock sale and purchase has not been critically examined so as to ensure efficiency. It is on the basis of these that the following recommendations are being made.

The NSE should embark on a serious nation-wide enlightenment campaign to create awareness as to the need to make savings, and invest them in a way that will sustain the economy and the individual investor over a long period of time. The capital market should be made as popular as the money market if the economy is to be structurally balanced. Government - backed symposia and seminars at the grass-roots to this effect are recommended.

Moreover, since academics plays a good part in creating awareness, compulsory general courses that give the rudiments of investment in an economy should be introduced in all post-secondary institutions.

Apart from popularising the capital market, stock/share holders should be enlightened on other uses of the investment. Speculation and capital gains in s stocks should be emphasised as very viable business. Stockholders should be encouraged in this aspect through, perhaps, removing tax on capital gains so made for a large minimum.

Public liability companies should be encouraged to set up management who recognise the rights of share-holders and treat them well. In the mean time, dividends are still a major inducement to stock investment in the country. The companies should thus declare heavier dividends so as to attract more investors into the stock market.

The recent establishment of more stock exchange floors is highly commended. Their immediate take-off should be ensured. The registering houses should also be decentralised. Satelite registrars are highly recommended so as to cut down on the time wasted on communication between them and the issuing houses.

Furthermore, the communication and information system in the country must be seen to be a vital factor in the general economic development. Any anount of effort put in to make it maximally effective is worth the while.

Registrars should also be made to adhere to statutory stipulations in their processing of investor's papers. Such arrangements that attach incomes to number of allotments or verifications completed, or that entitle investors to claims over over-delayed processes, may prove helpful.

The above recommendations, no doubt, will, if implemented, enhance the place of the capital market in the economy, and parti ularly enable the Nigerian Stock Exchange achieve its originally stated objectives and make it relevant to the over-all goal of broadening the base of the structure of the Nigerian economy.

BIBLIOGRAPHY

BOOKS

Adekanye, F. (ed.) (1983). Banks and the Nigerian Economy; NIB, Lagos.

Ajayi, O. (1984). Financial and Legal implications of the Nigerian Capital Market; Evans, Lagos.

Alile, H.I. and Anao, R.A. (1986). The Nigerian Stock Market in operation. NSE, Lagos.

Beardshaw, J.S. (1984). Economics - A Student's Guide. Pitman, London.

Block, S.B. (1983). Fundamentals of Investment Management and Strategy. Richard D. Irwin Inc; Illinois.

Bronfenbrenner, M. ét.al (1983). Macroeconomics: Honghton Mifflin, Boston.

Burrows, P. and Hitiris, T. (1974). Macroeconomic Theory - A Mathematical Introduction. John Wiley & Sons, Chichester.

Cuthbertson, K. (1979). Macroeconomic Policy. Macmillan, London.

Furness, E.I. (1972). An Introduction to Financial Economics. Heinneman, London.

Hirt, G.A. and Block, S.B. (1983). Fundamentals of Investment Management and Strategy. Richard D. Irwin Inc., Illinois.

Khoury, S.J. (1983). Investment Management. Macmillan Publishing Co., New York.

Lipsey, R.G. (1979). An Introduction to Positive Economics. Weidenfeld & Nicolson, London.

Nwankwo, G.O. (1980). The Nigerian Financial System. Macmillan, Lagos.

Odife, D.O. (1984). Understanding the Nigerian Stock Market. Vantage Press, New York.

Okafor, F.O. (1983). Investment Decisions: Evaluation of Projects and Securities. Cassell Ltd. London, SWIP 2PN.

Olaloku, F.A. et.al (eds.) (1979). Structure of the Nigerian Economy. Macmillan, Lagos.

Shapiro, E. (1974). Macroeconomic Analysis: Harcourt Brace Jovanovich Inc., New York.

Thirlwall, A.P. (1974). Inflation, Savings and Growth in Developing Economies. Macmillan, London.

Woolf, E. et.al (eds.) (1987). Financial Management. Century Hutchinson Ltd., London.

JOURNALS

Bullion, Vol. 9, No. 1; January/March, 1985.

Bullion, Vol. 11, No. 2; April/June, 1987.

Bullion, Vol. 13, No. 1; January/March, 1989.

CBN Annual Reports and Statement of Accounts, 1980-1990

CBN Economic and Financial Review, Vol. 23, No. 3: September, 1985.

CBN Economic and Financial Review, Vol. 25, No. 4; December, 1987.

CBN Economic and Financial Review, Vol. 28, No. 1; March, 1990.

Securities and Exchange Commission Decree, 1979. Federal Ministry of Justice, Lagos.

APPENDIX I

THE CONTENTS OF AN APPLICATION FOR ISSUE OF SECURITIES AT THE NIGERIAN STOCK EXCHANGE

- History and business of the company
- Board of Directors, Management and Staff
- The Capital Structure since incorporation
- The shareholding position
- The proposed issue;
- The purpose of the issue
- The method of issue
- Indebtedness of the company
- Subsidiary and Associated companies of the institution
- Material contracts, litigation
- Financial summary (signed audited copies)
- Financial projections
- Parties to the issue:
    - Issuing House
    - Brokers to the issue
    - Company auditors
    - Independent Reporting Accountant
    - Solicitors to the issue
    - Trustees
    - Solicitors to the trustees
    - Registrars

Source: Alile and Anao (1986; p. 57)

APPENDIX II

SCHOOL OF ECONOMICS, BANKING AND FINANCE
ABIA STATE UNIVERSITY, UTURU

MBA (BANKING & FINANCE) DISSERTATION RESEARCH

Dear Sir/Madam,

This questionnaire is designed in aid of the research topic "An Analysis of the Contribution of the Nigerian Stock Exchange to the Structure of the Nigerian Economy." Its major aim is to determine how popular the activities of the Nigerian Stock Exchange (NSE) are among the public.

You are please requested to answer the questions to the best of your ability. As you can see, anonymity is ensured.

Thanks for your cooperation.

Allwell Nwachukwu
(RESEARCHER)

Please tick (✓) against your choice of answer or fill in your answer as concisely as possible. You can tick more than one answer when necessary.

1. Highest academic qualification..........................
2. Profession/Occupation..................................
3. Do you know anything about the Nigerian Stock Exchange (NSE)? Yes [ ] No [ ] (If 'No' go to 7).
4. If yes, how much do you know?
   (a) Just its existence [ ]
   (b) A little about its operations [ ] (c) Quite a lot [ ]
5. When did you gain the knowledge?
   (a) Before 1987 [ ] (b) After 1986 [ ]
6. How did you gain your knowledge?
   (a) Friends [ ] (b) Academics [ ]
   (c) Newsmedia [ ] (d) NSE Publicity [ ]
   (e) Others..................(please specify)
7. Total annual income
   (a) Below ₦15,000 [ ] (b) ₦15,000 - 29,999 [ ]
   (c) ₦30,000 - 50,000 [ ] (d) Above ₦50,000 [ ]
8. Do you make any savings? Yes [ ] No [ ]
9. If 'No', why not?
   (a) My needs consume all my income [ ]
   (b) I don't consider it necessary [ ]
   (c) Other reason(s)....................................

10. If 'Yes', how do you invest your savings?
(a) None at all /___/ (b) Bank deposit /___/
(c) Trading /___/ (d) Stocks and Shares /___/
(e) Real estate /___/

(f) Other .... (please specify)

11. What influenced your investment decision?..............
.... (If (d) in 10, go to 16)

12. If you do not hold stocks/shares, why not?
(a) I'm unaware of such opportunities /___/
(b) It's not for my class of people /___/
(c) The process is rigorous /___/
(d) Incomes from them are too small /___/
(e) Never given it a thought! /___/
(f) Other reason(s)....................................

13. Would you wish to be part owner of a big company?
Yes /___/ No /___/

14. Do you sometimes miss darely-needed soft loans for lack of collateral security? Yes /___/ No /___/

15. Would you decide to own stocks/shares if you know they would enable you achieve 13 and 14 above?
Yes /___/ No /___/ (Go to 25)

16. If you hold stocks/shares how did you obtain them?
(a) Subscription (purchase of newly floated shares/ stocks /___/
(b) Sale (purchase of old securities through stockbrokers) /___/ (c) Private dealing /___/

(d) Other.................... (specify)

17. What kind of stock do you hold? (a
(a) Govt. Loan stock /___/
(b) Industrial Loan Stock (e.g. Debentures, Bonds, Preference stocks) /___/
(c) Equity (ordinary shares) /___/

18. Have you ever resold your stock/shares for cash?
Yes /___/ No /___/

19. Have you ever used your stock certificate as a collateral for soft loans? Yes /___/ No /___/

20. If No, why not?
(a) I'm not aware it could be used /__/
(b) It was not accepted /__/
(c) I don't want to /__/

21. Did you find the process of stock purchase/sale satisfactory? - Purchase Yes /__/ No /__/
- Sale Yes /__/ No /__/

22. Which stage did you find most difficult?

- Purchase ....

- Sale ....

23. Do you intend to continue holding stock?
Yes /__/ No /__/

24. Why (whether 'yes' or No')? ....

25. What general recommendations do you have for the NSE as an institution?.........................

....

Thank you very much.