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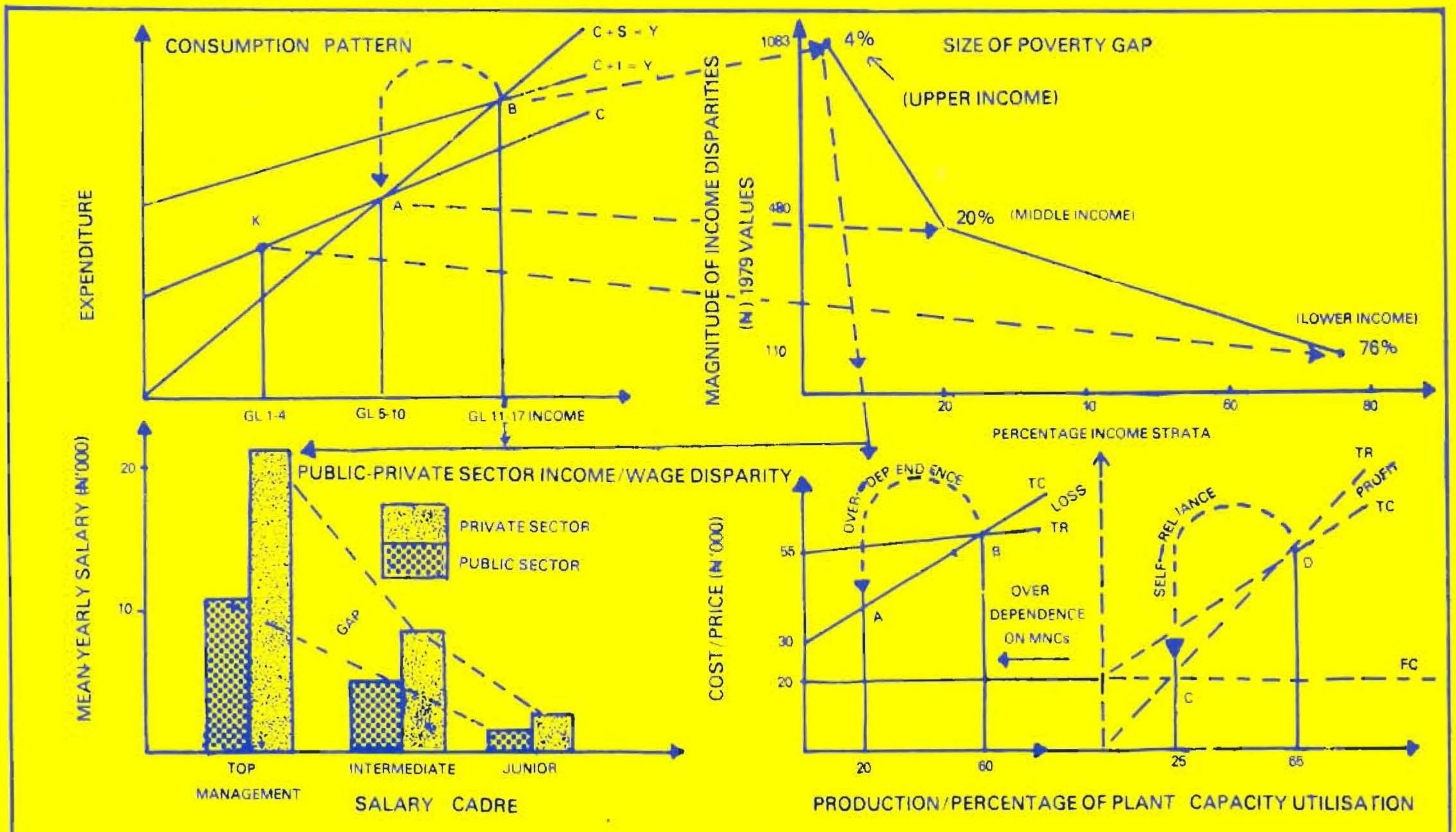
IS NIGERIA'S WAGE STRUCTURE RELATED TO 'ORGANIC' ECONOMIC DEVELOPMENT?



76% of the Nigerian population ... **PERPETUAL DISSAVERS** ... who earn "below poverty incomes" depend on "core" sectoral development for satisfying merit wants.

With oil boom of mid-1970s, **THE CORE SECTOR** was neglected and over-emphasised autonomous investment sector involving heavy to heavy capital expenditure through **OVER-DEPENDENCE** on MNCs and related financial institutions.

Concomitantly, the discrepancy between public sector and private sector wage payments in the Nigerian economy widened, which led to loss of productivity and resultant **WAGE-PUSH INFLATION** and frequent wage revisions.

(KEY TO BE FOUND INSIDE)

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KEY: IS NIGERIA'S WAGE STRUCTURE RELATED TO 'ORGANIC' ECONOMIC DEVELOPMENT?

A. CONSUMPTION PATTERN AND POVERTY GAP

Range along left of point K represents consumption pattern for 76% of the country's population, earning grade level 1-4 (lower income), for whom marginal propensity to consume is very high and marginal propensity to save is zero.

Region K-A represents consumption pattern for 20% of the population, earning grade level 5-10 (middle income): There are tendencies for reducing merit wants.

Region A-B depicts tendencies for satisfying social wants, where $Y > C$.

B. PUBLIC/PRIVATE SECTOR WAGE/SALARY DIFFERENTIAL

Mean Salary cadre	Public sector ₦	Private sector ₦
Top management	 11,000	 21,500
Intermediate	 5,000	 8,045
Junior staff	 1,580	 2,216

Analysis: "Public sector salary scales are lower than the private sector equivalent because Government's main source of revenue which is oil is experiencing a glut in the world market with consequent lowering of demand for Nigerian oil and much reduced revenues. The Government's capacity to finance higher wages is being whittled down ... The private sector is made up of a few multinationals and their subsidiaries, . according to Professor Swamy profit rates of as high as 200 per cent are made by these subsidiaries who repatriate a significant portion to their parent companies. The high profit situation predicates the high salaries paid to Top Management Cadre in these companies". (p.30).

(C) OVERDEPENDENCE ON MULTINATIONAL CORPORATIONS (MNCs)

Analysis: "The incidence of high investment cost incurred via transfer of sophisticated technology and manpower by the operating MNCs is shifted to the developing countries (host countries) in the name of economic development by setting up assembly plants/turn-key projects. The gestation period for such assembly plants, etc. is very short and production starts immediately (the readiness of assembly plant/turn-key project to start production is like purchasing powdered milk or tinned food ready to drink/eat). The MNCs will find it profitable to operate at less-than break—even capacity and show the host country (developing country) that they are operating at break-even capacity-to this extent, the MNCs may accumulate excess stock and when market conditions prevail to suit their convenience, the stocks are released and goods are overpriced". (p.74)

OVERALL RESULT: Inasmuch as it is true that 'organic' (rational) economic development involves development of consumption goods sector (C) followed by investment sector, the Nigerian economy, in the wake of oil boom of mid — 1970s, put all hands on deck to develop investment sector (I) involving heavy to heavy investment in sophisticated human and material capital and relegated C sector to background. This had resulted in planless economic development.

Easy oil money caused upward wage revisions in the public sector, and resulted in growing disparities between wage/salary payments in the public — private sector, which was more pronounced in the Top Management Cadre.

As a consequence of oil crisis which has severely affected the country's revenue and aggravated the balance of payments, the result of country's overdependence on imports of consumption goods and due to external loan default, the economy has been finding it difficult to manage the non-economic-oriented wage structure in the public and private sectors.

Understandably, the Federal Minister of Finance in his **Statement of the 1985 Budget** has stated... "The current Incomes Policy Guidelines will continue in 1985. Emphasis would continue to be placed on increased productivity in all sectors of the economy as this will undoubtedly improve the general supply situation with beneficial effects, especially on the prices of basic commodities and our general standard of living...This Administration is nevertheless determined to succeed in transforming the Nigerian economy for the benefit of all its people"

The Federal Military Government of Nigeria have taken salutary measures to place the Nigerian economy on 'organic' economic development track, placing emphasis on prudence in wage management.

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A Financial Appraisal of the Nigerian Capital Market*

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Introduction

Nigerian capital market includes both the new issue market and a secondary market for listed securities. Only few securities are listed in the stock exchange and it is further characterised by the dominance of government securities in transactions value. The Nigerian capital market is thus thin, lacking in depth, breadth and resiliency, important attributes of active and dynamic capital markets. It is often said that Nigerian capital market is relatively underdeveloped. What this means is that the Nigerian capital market has not yet come of age to fulfil most of its designed functions. An efficient and active capital market should be able to mobilise funds from the economy and channel them to proper venture creation. To what extent is the Nigerian capital market fulfilling this role and others?

Some of the functions of a capital market include the following:

(1) An efficient capital market should foster the mobilization of savings to purchase newly issued securities of governments or enterprises of finance developments.

(2) Secondly a capital market improves efficiency of capital allocation through a competitive pricing mechanism which can contribute to economic growth.

(3) Further a capital market enhances the opportunities for individuals in the economy to invest in a wide range of securities offering a wide range of risks and returns.

(4) Also with a well functioning capital market there is a wider range of opportunities for companies to obtain capital both from domestic and international investors. The development of Nigerian capital market as to achieve the above objectives would contribute to industrial development and enhance growth of the Nigerian economy.

Main Features of the Nigerian Capital Market

Capital market is a subset of a larger set, the financial markets, It deals with long-term investments and operations necessary to finance these investments. According to Mr. F.O. Okafor [1] two distinct segments of the market are identifiable in Nigeria:

(a) Long term securities market, which is a market in titles to productive assets and constitutes the main lever of the capital market. This comprise the new issue market and stock exchange.

(b) Market for negotiated longterm finance which is descriptive of dealings not covered by negotiable instruments. Such dealings cover direct negotiations between suppliers and users of long term funds.

The securities offered in the capital market may be classified into debt securities and equity securities (shares). The market may also be analysed in terms of its primary (new issues) and secondary (stock exchange) segments. The market for negotiated long-term finance is primarily an informal market that is

*The author is indebted to the two unnamed reviewers of the paper and to Professor M.R.K. Swamy for their very useful comments and advice.

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an appendage to all known capital markets. In more developed countries they coalisce to an over-the counter market. According to David Gill[2] Nigeria may have one of the largest unregulated informal over-the counter markets of any country in the world which has both a security commission and a stock exchange. This is because between 1977 and 1978 over 1,000 companies out of the 1,120 companies which were required to comply with the indigenisation measures chose to sell their shares through private arrangement. As shown by David Gill one of the problems of informal markets is the absence of information regarding secondary market transactions or the total value of outstanding stocks.

The major debt securities in a typical capital market include corporate bonds, government bonds and mortgages. Individuals do not normally as a rule patronise debt instruments as these are left to institutional investors. In contrast, the equity market is dominated by individual shareholders.[3]

The first public issues in the Nigerian new issue market was the 3¼ per cent Nigerian Government Registered Stock 1956-61 valued at ₦600,000. Regular issues of Federal Government bonds started in 1959 with the floatation of three securities valued at ₦4 million. Apart from Government bonds a limited range of industrial securities are offered in the new issue market. These include industrial bonds, preference stock and equity stock. Between 1962 and 1977, a total of 141 governmemt and industrial securities was placed in the new issue market for a total consideration of ₦2,092.06 million. Government loan stock accounted for a greater percentage of total value of new issues followed by equity stock and preference securities in that order.[4]

The dominant position of government loan stock in the Nigerian stock exchange is due to government new issues of securities, but mainly due to legislative enactments supportive of the market for Government securities. For instance the Income Tax Management Act (1961) confers tax free status on pension and provident funds that maintain at least one-third of their investment in government securities, 50 percent for those approved after 1961. The Trustee Investment Act (1962) empowered trustees to invest in Government stocks and in industrial securities provided such securities are quoted on the stock exchange. Since only few industrial securities are quoted, this act had the effect of forcing all trust funds to find their way to Government stocks. The Insurance (miscellaneous provisions) Act (1964) required Insurance companies to invest at least two-fifths of all funds from risk premium in Nigeria in Nigerian securities one quarter of which must be held in Government stocks. As a result of these measures the demand for Government loans comes mainly from financial institutions and government agencies. Holdings of these assets are dominated by pensions and provident funds, other savings institutions and negligibly so by individuals.

Other aspect of the Nigerian capital market is the existence of a Securities and Exchange Commission which is a price fixing authority responsible for prices of new issues. The Securities and Exchange Commission was established in 1978. Also there are several development banks which are wholly federal government — Owned with funds for longterm finance of enterprises within specified sectors of the economy and development finance companies mostly owned by State governments. The Development Banks are: The Nigerian Industrial Development Bank, The Nigerian Bank for Commerce and Industry, The Nigerian Agricultural and Co-operative Bank and the Federal Mortgage Bank. Most state Governments in Nigeria own development finance companies notable amongst them are the New Nigerian Development Company (NNDC) in Kaduna and the Central Investment Company (C.I.C.) in Enugu. These banks provide long-term loan and equity capital for a range of industries and firms in the private sector of the economy. In operation they have shown strong preference for loan financing at prevailing capital market rates and lower rates by the Development Banks.

The Nigerian Stock Exchange

The secondary market for longterm securities or the Stock Exchange did not exist in Nigeria prior to 1961. The Nigerian Stock Exchange now comprises of three branches, Lagos Kaduna and Port Harcourt. It might be stated parenthetically that the existence of the secondary resale market for securities is a prerequisite for further development of the new issue market.

Secondary markets which make it possible to treat longterm financial assets as liquid in the sense that they can be sold quickly without significant loss of value are said to have "breadth" when orders to buy and sell come from many different groups. The market is said to have "depth" when there are both buy and sell orders below and above the current market price, and "resiliency" when new orders come into the market in great volumes when prices are fluctuating.[5]

The Nigerian Stock Exchange does not manifest the above optimising characteristics. The number of securities quoted are too few. This deficiency is compounded by the psychology of the Nigerian investor. As with real estate it is considered evidence of bad and difficult times for one to sell ones shares. Thus the Nigerian investors mainly buy to hold assets not for speculative and other purposes,[6] contributing to the paucity of transactions in the Exchange.

The number of stocks on the Nigerian Stock Exchange (1982) is 168[7] made up of the following: Government stock (58) Industrial loans and preference stocks (17), and equities (93).

Only three of the 168 are wholly Nigerian-owned companies. It is revealing that since the implementation of the Indigenisation Decree by the Nigerian Enterprises Promotion Board from 1977 to 1982, 1,856 enterprises had been completely indigenised and only 168 or 9% of the 1,856 companies are quoted on the Stock Exchange and only three of these quoted companies, viz. Daily Times of Nigeria, Golden Guinea and Mercantile Bank are fully Nigerian owned.[8] Thus the multinationals presently dominate the Nigerian Stock Exchange.

Table 1 *Volume and Value of Transactions on Nigerian Stock Exchange*

Year	Vol. Govt. secu-rities	%	Vol. Indus-trials	%	Total Vol.	Value of Govt. secu-rities (₦mil.)	%	Value of Indus-trials (₦ mil.)	%	Total Value (₦ mil.)
1961	92	27.5	242	72.5	334	1.421	93.4	0.100	6.6	1.521
1966	501	45.7	595	54.3	1,096	15.226	92.9	1.169	7.1	16.395
1971	204	21.4	748	78.6	952	16.342	90.3	1.754	9.7	18.096
1976	321	31.6	696	68.4	1,017	111.282	99.5	0.560	0.5	111.842
1980	211	3.0	6.843	97.0	7,054	503.5	98.3	8.55	1.7	512.1
1981	117	1.14	1,101	98.9	10,218	326.02	98.2	6.10	1.8	332.1
1982	184	2.00	9,830	98.0	10,014	207.0	96.3	8.0	3.7	215.0
1983	292	2.45	11,633	97.55	11,925	384.7	96.7	13.0	3.3	397.7

Sources: 1. G.O. Nwankwo, **Nigerian Financial System** (London, McMillan Press, 1980)
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In terms of volume of transactions, dealings in government stocks are fewer than dealings in industrial stocks as shown in table 1 above. From 1961 to 1983 the volume of transactions in government stock ranged from 27.5 per cent to 2.45 per cent of total transactions while transactions in industrial stock was corresspondingly 72.5 per cent and 97.55 per cent for the same period. But in terms of value of transactions, government securities maintain a dominant position. The value of transactions in government securities ranged from 93.4 per cent in 1961 to 96.7 per cent in 1983 while the corresponding figures for industrial securities for the same period fell from 6.6 per cent to 3.3 per cent.[9]

Forecast of Transactions in the Nigerian Stock Exchange

By least squares technique, which according to the Gaus-Markov theorem is the best linear unbiased estimator, straight line trend equations were estimated for the following*:

(a) Volume of industrial securities (b) volume of total securities (c) value of government securities and (d) value of total securities traded. The estimates were for the years 1974/75 to 1982/83. With the equation the estimate of the magnitudes of volume and value of transactions for both industrial and government securities were made for the year 1990. This will serve to indicate the size of the Nigerian Stock Exchange in terms of transactions aggregates for the year 1990 if the trend manifested in the intervening years 1974/75

*The straight line trend is $Y = a + bX$ where Y is the computed value of the time series in the year numbered X. The constant 'a' is the value of Y when $X = o$. In the method of least squares the trend line is fitted by finding values of 'a' and 'b' that minimise the sum of the squared deviations from the trend line. To do this two conditions must be satisfied:

$\Sigma Y = Na + b\Sigma X, \Sigma XY = a\Sigma X + b\Sigma X^2$

In solving the above we change X to small letter $x = X - \bar{X}$. Thus the time variable is measured as deviations from its mean.

$\Sigma x = o$ and Σx drop out of the equation so that

$\Sigma Y = Na, \Sigma xY = b\Sigma x^2$. Solving for 'a' and 'b'

$a = \frac{\Sigma Y}{N}$ and $b = \frac{\Sigma xY}{\Sigma x^2}$.

See William A. Spurr et al. 19,20

to 1982/83 persists. If the trend does not persist but shows a cumulative upward growth, then the projections for 1990 could be a considerable underestimate.

Analysis of Equation

The equations estimated were as follows:

(a) Volume of industrial securities traded.
$Y = 5360.7 + 1568.6x$
where Y is the forecast volume and x is the number of years from 1979 which is the midpoint between 1975 and 1983.
For 1990, $Y = 22,615.7$ which rounds up to 22,616. This is about a hundred per cent increase from the attained magnitude in 1983.

(b) Volume of total securities traded.
$Y = 5363.2 + 1569.5x$ where Y and x are the same as for (a) above.
Thus for 1990, $Y = 23,627.5$ which rounds up to 23,628. Since the volume of industrial securities and total securities estimated for 1990 are respectively 22,616 and 23,628 the volume of government securities traded is projected to be the difference which is 1,012 or about two hundred per cent increase from the attained magnitude in 1983.

(c) Value of Government Securities traded.
$Y = 208.29 + 38x$ where Y is forecast value of Government securities and x is the number of years from 1978 which is the mid-point between 1974 and 1982 the relevant trend period. Thus for 1990 $Y = 664.29$. Since the value magnitudes are in million naira which represents ₦664.29 million.

(d) Value of securities traded.
$Y = 212.03 + 39x$ where Y and x are in the same as for (c) above. For 1990 $Y = 680.03$. This represents a total transactions value of ₦680.03 million. Since the value of total securities and the value of government securities traded as estimated are respectively ₦680.03 million and ₦664.29 million the value of industrial securities estimated is the difference which is ₦15.74 million.

The distribution of Government and industrial securities traded on the Nigerian Stock Exchange for the year 1990 if present trends persist is as listed in table II below:

These 1990 forecast figures when compared with the figures for 1983 show that the volume of Government securities traded would rise from 2.45% to 4.3% in 1990, while the volume of industrials would correspondingly fall. The value of Government securities traded would also rise from 96.7% in 1983 to 97.7% of the total value of transactions in 1990. Thus the dominance of government securities would persist unless developments in the Nigerian stock exchange diverge from the present trend. There is evidence that the trend would diverge in favour of industrial securities in the future. This would be discussed later in the section on Recent Developments in the Nigerian Stock Exchange.

Deficiencies in the Nigerian Stock Exchange

Some of the deficiencies in the operation of the Nigerian Stock Exchange that militate against expansion in debt and breadth of operation include the following: (a) The rigorous listing requirements, (b) the high positive transactions cost, (c) the constrain-

Table II
Comparisons of Actual and Projected Figures 1983 and 1990

Year	Vol. of Govt. Securities	%	Vol. of. Industrials	%	Total Vol.	Value of Govt. Securities (₦ mil.)	%	Value of Industrials (₦ mil)	%	Total Value (₦ mil.)
1990	1,012	4.3	22,616	95.7	23,628	664.29	97.7	15.74	2.3	680.03
1983	292	2.45	11,633	97.55	11,925	384.7	96.7	13.0	3.3	397.7

ing regulatory environment of the Securities and Exchange Commission, (d) the securities laws, (e) the presence of unregulated informal markets, (f) paucity of market functionaries and (g) the low interest rate structure.

(a) The listing requirements

The listing requirements are as summarised below: 10

i) The company must be incorporated under the Companies Decree and the Memorandum and Articles must be acceptable to the council of the Stock Exchange.

ii) Not less than 25% of the issued share capital, the said proportion having a minimum vlaue of ₦250,000 must be made available to the public.

iii) Preliminary application with a view of ascertaining the suitability of a security for listing must be submitted with the (1) financial information in tabular form showing for each of the preceding five years turnover, profit before and after taxation, dividends, capitalisation issues, trade debtors and creditors, external indebtedness, retained profits, reserves and net tangible assets, (2) estimated profits and appropriations; (3) two copies of audited accounts for each of the preceding five years.

These requirements have been criticised for work ing against the quotation of indigenous Nigerian companies for the following reasons. The capital requirements of ₦1 million paid-up capital are considered too high for indigenous Nigerian companies and the requirements for financial disclosure (iii above) are not normally acceptable to businessmen who prefei secrecy for purposes of widescale tax evasion. As stated by the Director-General of the stock exchange "many foreign promoted companies whose financial performances are not as good as many unquoted Nigerian promoted companies have passed the stock exchange listing requirements and are listed in the exchange 11". Thus these Nigerian companies are not inhibited by virtue of capital scarcity or operational inefficiency but for other undisclosed reasons connected with disclosure or unwillingness for physical expansion or the oft stated fear of ownership dilution since entrepreneur would want to keep business within the family with the hope of leaving a tangible legacy at death.

(b) The high positive transactions costs

Further the positive transactions cost connected with new issues can militate against willingness to get quoted in the stock exchange. Depending on the type of issue, there is the requirement that details of the company's history and prospects have to be advertised in the press. Preparation and publication of company's annual accounts and holding of annual general meetings become necessary and compulsory. Fees to financial intermediaries, level requirements about share dealings and share issues are additional cost items. Other associated costs are the following fees to: the issuing houses, auditors, trustees, solicitors, commitment fee, professional fee, transfer fee, stamp duty and underwriters fee. The underwriter's fee is paid to the issuing houses or merchant banks for absorbing the whole issue.

Thus the financial costs of going public and being quoted in the stock exchange IS VERY HIGH and the process tedious and complicated. The Chairman of United Africa Company (U.A.C.) estimated that it cost the company ₦6.5 on the average per account each year, and when aggregated for all the shareholders this would be a high figure beyond the fiscal capacity of smaller firms. Additionally, the minimum commission to dealers is ₦5 per transaction, and varies from $\frac{1}{32}$ to $\frac{3}{8}$ per cent of total consideration or market capitalisation whichever is higher for industrial securities. The high positive transactions cost of being quoted would serve to limit access to stock exchange by most indigenous companies.

(c) The constraining regulatory environment of the S.E.C.

Pricing of new issues is another problem area. Under efficient capital market conditions free market forces are relied upon to determine rational prices for both new and existing securities. In the Nigerian situation the position is different with the government intervening through its agency to fix the prices for all public issues of securities. The price fixing authority is the Securities and Exchange Commission (S.E.C.) which was established in 1978 as a successor to two pre-existing agencies, the Capital Issues Committee and the Capital Issues Commission established in 1972. In practice the methods used by the commission in determining the appraised offer prices have led to underpricing of these assets. Thus the efficient allocative power of the price-mechanism is superceded by a regulatory agency that operates in the direction of reducing the volume and value of offered securities.

The price setting process in the secondary market can also militate against optimal level of transactions. The fact that a broker has identified a prospective buyer on a sell order at an offered price does not mean that once the transaction is reported to the Stock Exchange, stock certificates can then change hands. The transaction must be at price approved by the Stock Exchange and in some cases may not coincide with the offered price between buyer and seller. These practices are likely to reduce the volume of transactions in the Stock Exchange and lead to an inactive capital market. The "resilience" of the market is thus reduced.

(d) **The securities laws**

The securities laws in Nigeria that have led the capital market to look as an instrument for raising only government loans have earlier been mentioned in this paper. These laws are the Income Tax Management Act (1961) the Trustee Investment Act (1962), the Insurance (Miscellaneous Provisions) Act 1964 and the Insurance Act (1976)[12]. These laws have directed institutional savings to Government stocks since they were the only ones quoted in the stock exchange until most recently. For instance between 1961 and 1980 out of total public issues of securities in the Nigerian Stock Exchange valued at ₦2,925 million, Government Stock accounted for ₦2,695 million or 92 per cent of the total and industrial securities were valued at ₦230 million or 8 per cent. In advanced market economies, the stock exchange is dominated by industrial bond listings, on the contrary in Nigeria Government stock dominated[13]. Thus the Stock Exchange in Nigeria looks like an outfit for Government to raise loan finance, not an instrument for mobilizing industrial finance; and the securities laws as discussed played an important part in this orientation.

(e) **The presence of unregulated informal markets**

The absence of a fringe market or a parallel market for unregistered securities leaves a lot of securities without avenue for secondary trading in stock. As earlier stated over 1,000 companies out of 1,120 which complied with the indigenisation measures between 1977 and 1978 chose to sell their shares through private arrangements. The presence of a parallel market or second tier securities market for unlisted securities could serve as a training period for companies preceding full listing. The introduction of the Second-tier Securities Market (S.S.M.) into the Nigerian system planned for April 1985 would help resolve this problem.

(f) **Paucity of market functionaries**

This is another problem area in the Nigerian Stock Exchange. The fewer the functionaries the less active the capital market is likely to be. The fewer the members the more likely are they to manipulate prices and other factors against the interest of the investing public. The larger the number of functionaries, the more dynamic and competitive the market is likely to be and the less likely the possibility of price manipulations through collusion of dealing members. The Nigerian Stock Exchange with twelve dealing members (1983) epitomises this market imperfection with a less active market.

(g) **Low interest rate structure**

It is also argued that Nigeria's interest rate structure does not sufficiently reflect the true opportunity cost of capital. For instance the yields on government instruments are too low necessitating their absorption by the Central Bank rather than the public who would have done so if the rates were high enough to reflect the true opportunity cost of capital (see table III below).

Further if one takes account of an average rate of inflation of 12% then the real rate of interest to most institutions is really negative*. This is because the real rate of interest is the nominal interest rate minus the inflation rate. Since the inflation rate is higher than the highest permissible interest rate in the economy, the applicable real rates are indeed negative. The highest permissible interest rate is 13% (1985 C.B.N. Guidelines), while the 1985 budget pledge to reduce inflation rate from current level of 35% to 30%. Fixed interest bearing securities are unattractive for many private non-institutionalised investors who are not restricted as to the composition of their investment portfolio by applicable laws and thus show a preference for the higher yielding equity investments as against the fixed interest type. Government stock with relatively low yields dominated the Nigerian capital market in transactions value. The inactivity in the bonds market is a reflection of the unattractiveness of the yields rather than the low volume of transactions.

*$M_i = R_i + p$ where M_i is money interest rate, R_i is real interest rate and $\dot{p}$ is rate of price changes (inflation). Therefore $R_i = M_i - p$

Table III

Initial Allotment of Federal Government Development Stock and Holding by Central Bank of Nigeria, Commercial Banks and Others: 1978-1983

Development Stocks	Total Issued (₦1,000)	Central Bank of Nigeria (%)	Commercial Banks (%)	Others* (%)
1978 17th Development stock	400,000	92.6	—	7.4
1979 18th Development stock	600,000	98.8	—	1.2
1980 19th Development stock	300,000	90.6	1.4	8.0
1981 20th Development stock	300,000	94.8	—	5.2
1982 21st Development stock	300,000	72.5	4.2	23.3
1983 22nd Development stock.	300,000	87.6	5.7	6.7

Note: *Others include savings institutions, insurance companies, individual, statutory corporations and companies
Source: Central Bank of Nigeria, **Annual Report** (various issues)

Recent Developments in the Nigerian Stock Exchange

Among the recent developments in the Nigerian Stock Exchange that augur well for the future of the Nigerian capital market are the following: (a) the creation of the Second-tier Securities Market (S.S.M.), (b) the increased demand for quoted securities as evidenced by the most recent Savannah Bank issue of ordinary shares, (c) increased trading on both government and industrial stocks in the Nigerian Stock Exchange (d) the development of an inhouse market index by the Nigerian Stock Exchange and (e) the planned privatisation of State and Federal Government companies by issue of their shares in the exchange.

(a) **The second tier market** is a lower securities market. Its conditions are less stringent and it is aimed at indigenous Nigerian companies who cannot fulfil the more stringent conditions for full listing on the Stock Exchange. Among the highlights is the reduction of capital requirement for listing on the S.S.M. and the relaxation of the requirements for disclosure.

As stated by the Director-General of the Nigerian Stock Exchange more than 100 indigenous companies have shown spontaneous interest for listing in the S.S.M. A similar S.S.M. exists in the London Stock Exchange. This was inaugurated in 1980 with 10 companies and currently has 300 companies trading under its umbrella. About 40 companies have graduated into full listing since the inception of the London S.S.M. Since indigenous companies are not now quoted, this would help increase indigenous participation and reduce dominance of multinationals.

(b) **Increased demand for quoted securities** especially industrial stocks was evidenced by the Savannah Bank issue of 7.5 million ordinary shares of 50k each at 90k. The tremendous ordinary shares issue shows the increasing role of the Nigerian Stock Exchange for mobilising venture capital into investment. The Stock Exchange is seen as playing a more active role in the future than hitherto in this direction. By intervening in the capital market the Nigerian Stock Exchange has widened the scope of its activities.

(c) **Increased trading activities** have been recorded in the Stock Exchange. If the market is keen to buy it is said to be bullish, if it is keen to sell it is said to be bearish. Those who buy hoping that prices will rise are known as bulls, and those who sell expecting prices to fall are known as bears on bearish speculators.

In the Nigerian Stock Exchange there is evidence of both bullish and bearish speculation. The bullish speculation exists with respect to industrial equities. Demand for industrial securities tend to outstrip the supply. Recently one million shares of Cross River Brewery was easily mopped up by the market. Government Stocks are experiencing bearish speculation as the present down-turn in the economy has encouraged holders to offload some in the market. Thus the Nigerian Stock Exchange is tending towards a more active market.

(d) As recently announced by the Director-General of the Nigerian Stock Exchange, the Nigerian Stock Exchange has developed its own IN-HOUSE MARKET INDEX. A Stock market index is an important tool for investment decision making. It is a measure of the average price levels on the stock exchange. Each index refers to a selected list of securities on a particular exchange. The Dow Jones Industrial Average is the price index of 30 industrial securities listed on the New York Stock Exchange. The Financial Times Industrial Index is constructed from 30 ordinary industrial share securities on the London Stock Exchange.

Changes in stock market indices indicate the intensity and direction of market activity. Further they provide standards for assessing the preformance of individual securities. The trend in the stock index could be used to find out whether price changes in individual securities are peculiar or attributable to the general market trend. Also the stock market index could be used in conjunction with Gross National Product, consumer price index to facilitate macro-economic planning and forecasting.[14] The Nigerian Stock Exchange is thus moving in the direction of a more active market by the introduction of the index to facilitate better investment decision making.

(e) **The planned privatisation of some State and Federal Government companies** will also lead to a more active capital market. Some State and Federal Government companies are in the coming years going to be privatised by issue of their shares in the stock exchange. Both the volume and value of stock trade would have to move up in consequence. Also the dominance of multnationals in Nigeria's capital market would likely become a thing of the past. Today, as earlier stated, the multinationals dominate stock lists as only three wholly-owned Nigerian companies are listed. Indigenous participation in the stock market would be enhanced considerably with the developments currently going on in the Nigerian capital market.

Recommendations for the Developments of the Nigerian Capital Market

Some of the recommendations for the further development of Nigerian capital market would include the following:

(a) Relaxation of the statutory listing requirements. On this score the draconian listing requirements of the Nigerian Stock Exchange could be made more realistic and simplified in order to accommodate a larger volume in numbers of quoted securities. The capital requirements could be reduced and the procedure on disclosure less circuitous and clear and come within the financial capabilities of most firms.

(b) The cost of transactions involved in floatation of shares should be reduced in order to exchange small companies seeking a listing in the exchange. The high positive transactions cost of new issues in order to get quoted inhibit access to stock exchange for a large spectrum of smaller firms. Small companies are those with their paid-up capital requirements for full listing.

(c) The need to promote fringe markets or parallel markets for unlisted securities. Since Nigeria is acclaimed to have one of the largest unregulated informal over—the—counter markets,[15] a market for unlisted securities would serve to facilitate secondary trading on stocks and provide vital apprenticeship period for the companies prior to full listing. Akamiokhor refers to this second tier market as unlisted securities market (u.s.m.) and a similar fringe market is known to exist in the London Stock Exchange.[16] The Nigerian second tier securities market (S.S.M.) billed to come up in April 1985 will fulfil this need for a parallel market for unlisted securities in Nigeria.

(d) The Nigerian Securities and Exchange Commission and the Stock Exchange to find ways of deregulating the trading process so that prices quoted for listed securities can be more indicative of the market forces and investor assessment of the performance of listed companies. The argument for orderliness on the market can still be upheld even under a freer market if we limit regulation only to the administration of the procedure for buying and selling whilst leaving price determination to market forces. The earlier practice of under pricing shares worked to reduce volume of secondary trading and new issues. A more perfect market orientation would lead to a higher volume of transactions both in the new issue and secondary securities markets.

(e) Tax relief on issuing and quotation expenses for turning public. The high cost of turning public include fees to financial intermediaries, issuing house, trustees, auditors, solicitors to issue, solicitors to trutees, etc. was earlier listed. Tax relief would make government bear portion of high positive transactions cost.

(f) Discriminatory Income Tax in favour of public quoted companies at the expense of privately owned and unquoted companies. In Korea and Brazil the discriminatory income tax was one of the measures used in the reform of their capital markets between the late 1960s and the early 1970s.

(g) Certain aspects of the laws dealing on securities like the Income Tax Management Act (1961), the Trustee Investment Act (1962), the Insurance (Miscellaneous Provisions) Act 1964 and the Insurance Act (1976) need to be reviewed in order to ensure a more active capital market. The restrictive provisions in these laws only serve to channel funds to a few listed securities to the disadvantage of the larger capital market.

(h) Another recommendation for a more active capital market is the need to grant stock broking licence to more operators. The argument is that the only way to make the services of the houses available to all Nigerians in all parts of the country is to geographically distribute them so that their dispersal ensures effective coverage.[17] The larger the number of functionaries as earlier analysed the more dynamic and competitive the market is likely to be and the less the possibility of price manipulations by collusion of dealing members. The Nigerian Stock Exchange presently has twelve dealing members (1983). This should be increased. Instead of forcing the existing functionaries to open offices in outlandish locations, it is contended that new dealers be licensed in a spatial distribution to ensure proper geographic coverage and lend the services of the houses to a greater majority of Nigerians.

(i) Further, there is an urgent need to revise upwards the rate of interest so as to encourage savings and investments. Low rates of interest in the face of mounting inflation tend to discourage savings and at the same time promote excess demand or diversion of funds into non-productive expenditures. The low demand for government financial instruments by non-institutionalised investors is attributable to very low or negative real rates of interest obtainable. The Federal Government in two stages has raised interest rates in Nigeria in 1984 and 1985 and this is in the right direction.

(j) Efforts should be made to establish some investment trust institutions like Unit Trust Companies and Investment Trust Companies which would add a new dimension to Nigerian capital market. The advantage is that the fund managers of the unit and investment trusts use their expertise to invest on behalf of the uninformed savers. The management for such a trust is fairly easy to organise and develop from the available crop of financial analysts and portfolio managers. The high returns in these institutions would attract Nigerian investors. According to Philips the establishment of an investment trust is likely to pave the much desired breakthrough needed in the Nigerian capital market.[18]

The underdevelopment of the Nigerian capital market is reflected by the dominance of government stocks vis-a-vis industrial stocks in transactions value. Further the capital market lacks "breadth", "depth" and "resiliency". Recent developments in the Nigerian Stock Exchange show a reversal of these tendencies with the stock exchange becoming more active and developing tools and mechanisms to facilitate increased trading in securities. Additional measures for further development of the Nigerian capital market were highlighted and if embarked upon with strong support from Government would make possible a more active capital market in Nigeria. The dominance of Government stock, multinationals and the underdevelopment of the capital market would increasingly become the phenomena of the past.

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Control and Decontrol of U.S. Domestic Oil (Petroleum) Prices — Capital Market Reactions

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Introduction

During the 1970s and into the 1980s, the Western oil consuming nations experienced an economic shock from oil market uncertainty and oil price increases. The oil price shocks which occurred in 1973-74 and 1978-79 created an environment under which consuming nations realized the necessity of developing national energy sources. Due to political obstacles and the public skepticism, the U.S. was unable to formulate an energy policy until the late 1970s. One of the most controversial energy policy issues debated in the 1970s and early 1980s was the imposition of price controls (and later decontrol) on domestic oil. Critics of the price controls maintained that the controls hindered the efforts of the oil companies to generate energy new supplies by decreasing profitability. Supporters of price controls, however, argued that consumers required protection from the monopolistic pricing ability of the oil companies. From a policy perspective, one issue which should be addressed is the effect of the oil price controls and decontrol on the ability of oil companies to raise capital since the ability to raise capital is a prerequisite to locating, extracting, and processing the oil.

The purpose of this paper is to determine the capital market impact on market-related risk resulting from government actions which imposed or extended oil price controls and subsequent decontrol. Government actions found to increase the risk perception of investors hinder the ability of oil companies to raise capital due to the higher return required by investors. On the other hand, government actions which decrease the risk perception of investors may be beneficial to a company's ability to raise capital due to a lower required return by investors. Section II presents a brief overview of the emergence of OPEC as an effective organization having a dominant impact on oil prices and the response of the U.S. to oil market and price uncertainty. Section III discusses the model and methodology used to identify the impact on oil firms of oil price regulation/deregulation chronologically during the sample time periods. Section IV presents the empirical results and emphasizes the relationship between government actions and subsequent changes in the market's perception of risk. The conclusions and implications of the study are presented in the final section.

The Emergence of OPEC and the U.S. Response

OPEC: A Brief Overview: OPEC was created on September 9, 1960, during a meeting among five major oil producing countries (Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela) to discuss recent price cuts in Middle East and Venezuelan oil. While OPEC's short-term goals were to obtain an increase in oil prices which would satisfy the revenue needs of its members, the long-term objectives were to gain legitimate sovereignty over the price of their natural resource (in some cases, their only natural resource) and to contribute to the post-oil transition period. OPEC was a relatively obscure organization and did

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