IMPACT ASSESSMENT OF THE ROLE OF NIGERIAN STOCK EXCHANGE ON THE ECONOMIC DEVELOPMENT OF NIGERIA

Okoh Lucky
Department of Business Administration, Delta State Polytechnic, Ozoro, Nigeria.
E-mail: luckyokoh4christ@yahoo.com

Ekane O. Raphael
Department of Banking and Finance, Delta State Polytechnic, Ozoro, Nigeria.

ABSTRACT

The stock exchange is a specialized market for the buying and selling of securities. These securities include stocks and shares which represent ownership interests in business, debentures and government bonds. The study assessed the impact that the Nigerian Stock Exchange has created on the development of the Nigerian economy. To achieve the objectives, this study reviewed Stock Exchange, its functions, activities, roles, and legislation. The advantages and disadvantages of listing on the stock market were also x-rayed. Also highlighted were the trading, clearing and settlement process of the Nigerian Stock Exchange and the short comings. The study concluded that for the Nigerian Stock Exchange to contribute significantly in the development of the Nigerian economy through mobilization and utilization of funds for expansion of business enterprises in the country, it should intensify efforts in creating public awareness as regards its services to the economy, effective investor education, fostering and stimulating speculation in the market and reforms that would compel investors to take due diligence when funds are to be raised by government to eliminate the buying and selling culture that exists in the market should be carried out.

INTRODUCTION

The stock exchange is a specialized market place for buying and selling of securities. By securities we mean shares, stocks, debentures and bonds. The stock exchange is an organized market where those intending to buy or sell stocks and shares meet to transact business. The stock exchange as a market is a place where businesses can raise capital to become bigger in terms of capital formation. It must however be noted that the stock exchange deals with the securities of existing establishments only. The Nigerian Stock Exchange (NSE) was incorporated on September 15, 1960 as a company limited by guarantee and started operations in Lagos in 1961 as Lagos Stock Exchange. The stock exchange later changed its name to Nigerian Stock Exchange in December 1977 with a branch office in Kaduna and Port Harcourt in 1978 and 1980 respectively. At present, Nigerian Stock Exchange has operating branches in many centres in the federation. Other branches opened in Nigeria are Kano in 1980, Onitsha in February 1990, Ibadan in August 1990, Abuja in October 1990, Yola in April 2002, Benin - 2002, Uyo and Ilorin in 2002 while Abeokuta was opened in November, 2008. Each branch has a trading floor where activities of buying and selling of securities are carried out. The Lagos branch remained the headquarters. The government established Abuja Stock Exchange as an independent stock exchange following the implementation of Odife report on the Nigerian Capital Market. It was restructured to serve as a commodity exchange in its initial purpose to compete with Nigerian stock exchange. The Nigerian stock exchange started operation with only 9 securities (3 equities and 6 government stocks); it has now over 312 securities made up of government stocks, bonds, individual loan (debentures) preference stocks and equity/ordinary shares or companies all with a total market capitalization of over N12.62 trillion before dropping to a little over N7 trillion following a prolonged market meltdown (Idowu, 2008). Market capitalization is the aggregate market prices of a company's shares; it is the value of a firm as determined by the market price of its issued and outstanding common stocks.

The Nigerian Stock Exchange provides the essential facilities for companies and government to raise money for business expansion and development projects through investors who own shares in corporations for the ultimate benefit of the economy. The Nigerian Stock Exchange was also established to increase the rate of capital formation in the economy, to bring currency in circulation in banking sector and to enhance the effectiveness of the country's monetary policy and to expand the market (NSE, 2006). The Nigerian Stock Exchange is governed by a team of shareholders elected at an Annual General meeting. These shareholders constitute the governing council (Board) of the Nigerian Stock Exchange. The council is headed by a president (chairman) while the national secretariat is led by a Director General (DG) (Chief executive officer) who is responsible for the day-to-day administration of the exchange. The duties of the council include:

a. Policy making;
b. Enforcing discipline among members;
c. Making rules and regulations for dealing members;
d. Giving approvals to quotations and listing of securities;
e. Protecting the interest of the investing public; and
f. Investigating and settling disputes and complaints against and among members.

Membership of the Nigerian Stock Exchange

There are two types of membership - ordinary and dealing. The ordinary member is the registered member of the exchange. The dealing member is a person or an institution that in addition to being an ordinary member is licensed by the council to trade in stocks, shares and bonds on the exchange. The dealing members are typically the stockbrokers and the issuing houses. Shares and stock can only be bought and sold on the Nigerian Stock Exchange through dealing members. The Nigerian Stock Exchange dealing members have two roles (dual capacity).

(a) As market makers or dealers they can be likened to be a trader in the street market; and
(b) As stockbrokers - they act as agents of the public who wish to buy or sell through the stock exchange. In their role as dealers, they earn income.

Functions of the Nigerian Stock Exchange

The Nigerian stock exchange is a financial institution which provides facilities for the sale and purchase of stocks/bonds/shares in the capital market. The capital market is a market for the mobilization and utilization of long-term funds for development. Other specific functions of the Nigerian stock exchange include (Fadeyi, 2007)

i. Providing a central meeting place for members to buy and sell existing stocks and shares and for granting quotations to new ones.
ii. To provide opportunities for raising new or fresh capital.
iii. To provide machinery for mobilizing private and public savings and making these available for productive investments through stocks and shares. This facilitates borrowings by both government and companies.
iv. Provision of useful information to potential and existing investors through advertising the current price of securities.
v. Protect the public against fraud by prescribing some stringent conditions which an organization wishing to be listed on a typical stock exchange should follow before it can be listed on the stock exchange.
vi. To provide opportunities for the attraction of foreign capital for the nation's development.
vii. Promotion of increased participation by the public and private sectors of the economy - where shareholders can trade in shares of listed companies.
viii. To help in the effective allocation of resources in the economy by assisting government implementing its monetary policy.
ix. To enable new investors to invest their capital and old investors to realize their money from their investment or reinvest the money in other viable new ones.
x. Position dealing in the sense that there are jobbers trading on specific types of shares (NSE, 2006).

The activities of the Nigerian stock exchange are carried out through the primary and secondary markets.

Primary market or first-tier securities market: This is a market where new securities (shares, stock, bond, etc), are either bought or sold. It is a market for securities that are being traded for the first time. A primary market is a market that deals with new shares and initial issuance of securities at the stock exchange market to the public by the parent companies. Thus before any securities are quoted on the stock market such securities must first go through the issuing house that will evaluate the records of the company. The evaluation will include the records and accounts of the new companies for the exchange to ascertain that such companies meet up with the requirements set down by the Nigerian stock exchange. The primary market ensures that lenders and borrowers of funds negotiate the transfer and exchange of new issues in the market.

Secondary market or second-tier securities market: This is a market where securities are converted into cash. That is, old or existing securities are sold in this market. The secondary market is a market or an arrangement whereby already issued securities, shares, bonds or debentures and other long-term securities are purchased and sold by large and small investors through the help of individual stockbrokers. The secondary market provides the mechanism for the mobilization or liquidity of the securities listed at the exchange. This enables investors to invest their securities holdings into cash or buy more securities for investment purposes or for speculative reasons.

A major difference between primary market and secondary market is that the money raised at the secondary market does not go into the purse of the companies rather the money goes into the coffers of the individual shareholders who wish to dispose of their entire shareholding or part thereof. It is only at the secondary market that shares bought at the primary markets can be sold. For this purpose, an investor cannot enter the secondary market except through a broker. Money raised through primary market activities goes into the coffers of the issuing companies.

The Role of Nigerian Stock Exchange

The Nigerian stock exchange plays vital role in the economic development of the nation.

i. It is important because it is a market for the sale of second-handed quoted securities that have been given approval to be sold.

ii. It also helps industries to raise capital for expansion.

iii. Mobilization and utilization of funds which could have been used for other purposes or kept in idle deposits with banks are mobilized and redirected to promote business activities. This is achieved when people withdraw their savings and invest such in shares. The utilization of such funds has benefited several economic sectors of the nation such as, agriculture, commerce, industries, etc, resulting in stronger economic growth and productivity levels.

iv. It provides the opportunity for small investors to own shares of the same companies as large investors and enjoy similar rates of returns.

v. It provides companies with the facility to raise capital for expansion through selling of shares to the investing public. Governments at all levels may decide to borrow money to finance infrastructural projects like housing estates, water treatment works, etc by selling bonds to the public thereby loaning money to the government(s).

vi. It provides information on the issuance of prospectus which contains necessary subscriptions requirements to the general public, such as opening and closing dates, allotment and issue of certificates to subscribers, and refund of excess subscription of money to subscribers.

vii. It provides barometer of the economy which shows signs of stability, growth, depression or financial crisis and economic recession (NSE, 2006).

Legislation on Stock Exchange Market

Transactions on the stock market are guided by some legislation:

i. Investments and securities decree no. 45 - 1999.

ii. Companies and Allied matter decree 1990.

iii. Nigerian Investment promotions commission decree 1995.

iv. Foreign Exchange (miscellaneous provision) Decree 1995.

The transactions on the exchange are regulated by the exchange itself as a self-regulatory organization while the Securities and Exchange Commission (SEC) administers the Investment and Securities Decree 1999. Following the deregulation of the capital market in 1993, the federal government internationalized the capital market. In 1995 by abrogating the laws that constrained foreigners in participating in the capital market (NSE, 2006). The Exchange Control Act of 1962 and the Nigerian Enterprise Promotion Decree 1989 now allowed foreigners to participate in the Nigerian capital market as operators. This new law opened up the capital market for foreign investors to invest thereby making the market more competitive.

Benefits of Listing on the Stock Exchange

Companies that are listed on the stock exchange derive many benefits which are as follows:

Continuity: Quoted companies are assured of continuity even when the founders are no more.

Additional Capital: This is to provide avenue for raising additional capital.

Publicity: Gives increased publicity for the company.

Marketability of Shares: The listing increases marketability of shares as company shares are traded and valued. Company shares could be used as collateral for bank loans.

Share Price: Provides improvement in share price due to efficient organizational structure.

Expansion and Modernization: The proceeds realized from sales of securities will be used for expansion of the business.

Diversified Opportunities: It will enable companies to create markets for their shares which will ensure business growth.

Quality Personnel: Companies quoted on the stock exchange attract high calibre of workers to their organizations.

Enhanced Status and Credit Facilities: A company's status is enhanced when it is listed on the exchange. The new status leads to confidence in the company by suppliers who provide credit or even shippers (Okereke - Onyiuke, 2007).

Disadvantages of Listing on the Stock Exchange

i. High costs of obtaining quotation: Cost of prospectus, fees payable to bankers and brokers;

ii. Costs of maintaining quotation: Management time and efforts, stringent reporting requirement; and

iii. Highly demanding and rigorous rules.

Trading, Clearing and Setttlement Processes of the Nigerian Stock Exchange

i. The investors initiate the buy or sell order, going through his stockbroker.

ii. He deposits his money with his stockbroker when he is buying, or deposits his certificate for verification when he is selling. When his certificate has been dematerialized (immobilized), he gives instruction to his stockbroker to sell from his shareholding account in the Central Securities Clearing System (CSCS).

iii. He completes the necessary documentation including transfer form.

iv. In respect of partial sale, he gives instruction to his stockbroker to sell from the stocks.

v. The stockbroker receives instructions from his client and fills the certificate of deposit form and sends them with the share certificate, if any, for verification to the registrar.

vi. A stock broker verifies clients' signatures with the registrar.

vii. Completes a contract note and gives it to his client as evidence on the contract.

viii. The registrar authenticates investors' claims (certificates and transfer form) as presented through the stockbroker.

ix. Sends verified certificates and signed transfer form and CD to the CSCS within 48 hours.

x. CSCS certifies that the shares are in its system and that stockbrokers can trade in the shares.

xi. Transaction takes place on the exchange and transmitted to the CSCS on real time basis via the ATS.

xii. Transactions obtained from the Exchange are processed.

xiii. Stock brokers communicate their daily financial commitment to each other to the settlement banks (where each stockbroker maintains a trading account) via diskettes supported by hard copies.

It should be noted that all the above transactions are expected to be completed within 4 working days.

Shortcomings and Problems of the Nigerian Stock Exchange Markeet

i. *The defects in the methods of pricing securities:* The pricing of securities in Nigeria has generated a big controversy. At the secondary market, the stock brokers determine the price.

ii. Price regulation and frequent intervention in operations by the Nigerian stock exchange prevent the pricing mechanism of the market as dictated by supply and demand to operate.

iii. The listing requirements and costs of the Nigerian Stock Exchange are considered too stringent to comply with by all but a few large companies.

iv. *Shortage of securities for trading:* There is also the problem of low volume of securities for trading compared with high demand for them.

v. Delay in share delivery period and registration one of the advantages of a share certificate is that it can be used as a security for obtaining loan from the bank. The delay in share delivery and registration deprives investors of being able to use their share certificates for borrowing purpose if the need arises. This contributes to the unwillingness of investors towards buying shares and stocks of listed companies thus making the stock inactive.

vi. *Quality of stock broking services:* There is nothing to write home about on the quality of services being rendered by the stock broking firms to their clients. For example, only a few, if any provide the brokers forecasts on listed companies for their clients.

vii. *Lack of commitment:* The government have been accused of not showing enough commitment towards the achievement of the objectives of the stock exchange market.

CONCLUSION AND RECOMMENDATIONS

The study examined the role of Nigerian Stock Exchange in the development of Nigerian economy. The study noted the concept of the stock exchange market, functions, activities of the Nigerian stock exchange, role of the Nigerian stock exchange in the economic development of the nation, legislation on stock markets, advantages and disadvantages of listing in the stock market and the shortcomings of the Nigerian stock exchange were x-rayed. The Nigerian stock exchange contributes significantly to the development of the Nigerian economy through mobilization and utilization of funds for expansion of business enterprises in the country. The study, however, recommend the following strategies for the efficient operations of the Nigerian stock exchange.

i. The stock exchange can intensify its effort to create public awareness as regards its services to the economy.

ii. Investor education may be carried out through incorporating information on investment and capital market in schools, colleges and universities to enhance participation in stock market.

iii. There should be adequate flow of information and up-to-date data for decision making by potential investors.

iv. There should be reforms that would compel investors to take due diligence when funds are to be raised by government to eliminate the buy and sell culture that exists in the market.

v. Lastly, there should be need to foster and stimulate speculation in the market.

REFERENCES

Fadeyi, L. A. (2007). *Practice and Management of Investment in Nigeria.* Lagos: Billy Publishers.

Idowu, Y. (2008). Stock World: *Daily Sun Newspaper,* Monday, November 10.

Nigerian Stock Exchange (NSE) (2006). *Questions and Answers.* Lagos: Academy Press Plc.

Okereke-Onyiuke, N. (2007). Capital Market Funding for Nigerian University Education System: Challenges and Benefits. 2007 Public Lecture at Princess Alexandra Unity Hall and Theatre Auditorium (PAA) University of Nigeria, Nsukka.