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RECAPITALISATION AND NIGERIAN CAPITAL MARKET DEVELOPMENT

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T

developing countries, domestic capital markets have fallen short of expectations in spite of the ials for financing development. The recent Bank recapitalization has awaken us up about the et and the opportunity it offers for investors. The factors hindering the Nigerian capital market will help us to see why the capital market has not developed as expected.

per examines the background leading to the new increase in the capital base of the Nigerian Central Bank of Nigeria (CBN), the intended objectives for it and its benefit to the economy.

on a review of the historical perspective of the Nigeria Capital Development is under taken and nefits the present recapitalization has brought to the Nigerian capital market development is eover, the advantages a well developed capital market confer on the economy is revealed.

is seen that the depth of the capital market is a function of investment education and the at publicity creates for opportunities in the stock market.

ION

1999, the Basel committee issued a draft of the new capital accord for bank capital. This is to 988 accord. However, before full implementation was achieved, it brought out a second proposal 1, which extensively expanded the 1999 document. Following extensive and global comments, tative document was released on April 2003, (Imala 2004).

the released of the second consultative document on the new capital accord in January 2001, C committee on supervision set up a committee for the implementation of the new accord in accord committee hosted a well-attended workshop in August 2002 to sensitize the operators in ystem to the implementation of the new accord, (Imala 2004). It is based on this that the new f N25bn was reached for banks in Nigeria.

the NEEDS document also encourage an increased capital base for the financial institutions. Sobowale (2004) the NEEDS document promises to among other components of the strategic

ssue of low capitalisation, poor governance practices and of financial intermediaries that render rns to the regulatory authorities, and the consequent enormous costs of distress to the financial efore, the announcement of the increase of paid up capital from N2 billion to N 25 billion was art of the strategic thrust that was announced in NEEDS.

he actual announcement of the upward review of the capital base from N2billion to N25billion ake of the appointment of Charles Soludo as the new Governor of Central Bank of Nigeria. posits that the decision is to encourage mergers and acquisition with a view to strengthening ing the banking industry. It is envisaged that this will enhance efficiency, size, and roles of the banks. The protagonists of recapitalization claim it is a global phenomenon which be left out.

at one bank in South Africa has larger assets than all 89 banks in Nigeria combined. And that e an important ingredient for success in the globalizing world. According to Soludo, it is the Nigerian banking system to voluntarily embarked on consolidation in line with the global trend ed the need for legal and supervisory frameworks to facilitate same.

oregoing, it is clear that the consolidation is to achieve four basic things- viz: the removal of p of banks, to create room for mergers and acquisition and to enable banks have the capacity real sector of the economy. In addition, that our banks will be financially solid to compete

tudy

of this paper include:

e background leading to the recapitalisation

d objectives for it and its benefit to the economy w the historical perspective of the Nigerian capital market development

blems hindering the effective development of the Nigerian capital market

ight the great benefit the present recapitalisation has brought to the Nigerian capital market
ements

al the advantages a well developed capital market have on an economy.

e Study

y will cover a review of the factors leading to the present recapitalisation, its objectives and
so included is the historical perspective of the Nigerian capital market development, the benefits of
on and the advantages a well developed capital market have on a developing economy.

f the Problem

s witnessed continued efforts to widen deepen and improve trading condition in the capital market.
geria banks through operating were technically and financially weak to fund the real sector of the
nd to compete globally. Most investors do not have much information about the capital market.
market is not developing as expected hence it is not contributing to the economic development of

ogy

y research study the choice of the data collection method should have bearing and relevance to the
e study. This research topic being theoretically inclined, secondary data was mainly used.

f Recapitalization

benefit is anticipated for the banks and the economy generally when the new capital level of N25
hieved. Among which are:

nhance the liquidity of the banks thus boosting their ability to finance projects that require large
of capital which before now would have been pretty difficult except through consortia or
tion.

vent of a merger and acquisition only the very best manpower will have a place in the new banks
emerge.

ake room for efficient and effective clearing system as only few banks will be involved in the
g house under the direct supervision of the Central Bank of Nigeria. A statutory role which the CBN
ed to four big banks called settlement banks.

crease the amount in real terms borrow-able by an individual as no individual is entitled to borrow
valent more than 25% of the bank's capital.

of the consolidation process the CBN has decided to establish an Asset Management Company
to take care of non-performing credits.

w of the above, the AMC will help clean up the accounts of the banks and provide them with the
d liquidity to boost their operations, thus making them attractive for possible merger and/or
sition.

recently shown that our capital market is deep enough to accommodate large issue of shares as we
seen in the successful initial public offer of Zenith International Bank and Guarantee Trust Bank
jointly raised over N70billion.

s

ssue of clean lending otherwise called policy lending wherein loans are granted to highly placed
duals in the society because of other non-banking considerations and without collateral of any sort in
cases is one of the major sources of fund leakage in the Nigerian Banking System (Olashore, 1988).
ecapitalization does not address this issue instead it is going to make more money available for
who have no regard for the way depositors and shareholders fund are used.

an Deposit Insurance Company (2003) reported total bank fraud to be N1.29 billion in 2002 and
.3 million in 2001 while N12.91 billion was recorded as attempted fraud. Since the Nigerian banking
m has not been able to stop this menace, recapitalization would be meaningless.

ttitude of supervising authorities in monitoring bank operations in Nigeria leaves much to be desired.
ntial guidelines and other past banking regulatory policies were sound in conception and content but
mplementations were criminal in nature. The situation where CBN and NDIC inspectors were

financially induced to endorse documents indicating all is well only for the same banks to be declared distressed after a short time is unpardonable. With the same crop of people still in the employment of these institutions, recapitalization may not necessarily strengthen the banking system.

Presently banks engage in non-banking functions like selling of phone recharge cards and examination forms. With more money coming in from this recapitalization, they may be tempted to go into more trading, that is, buying and selling rather than finance economic activities that would revitalize the economy.

One of the evil effects of liberalized financial system is capital flight. Given the great disparity in foreign exchange, an investor from foreign exchange advantaged country with little amount invested in Nigeria, will own large shares and invariably have colossal sum of dividend earned and transferred to his home country. Also this outflow increases through time.

This is bound to encourage money laundry as dubious investors with money can float companies abroad and use them to transfer foreign currency to the country under the disguise of foreign direct/portfolio investment in our banks. Also it will increase inflow of foreign goods in the economy as the banks will have much money to engage in direct

HEORETICAL FRAMEWORK

e Nigerian Capital Market

The world "capital", used in this context, implies a long-term commitment on the part of the lender and a ng-term need for the funds on the part of the borrower. Thus, strictly speaking the capital encompasses any ansaction involving long-term debt or equity obligations. Luckett (1984). There are two segments of the pital market; the security market in which securities are used and the market for negotiated finance. The pital market for securities is further divided into two: the primary and secondary market. When new curities like shares, stock and bond are issued they are sold initially in the primary market. But when the lders of these securities want to resell them the securities are resold in the secondary market. Thus the mary market is a market for initial issue while the secondary market is a market for subsequent trading in curities. Anyanwokoro (1999).

e Nigerian Capital Market a Historical Perspective on Its Development

According to Dada (2003)The origin of the Capital Market started with the recommendation of Barback mmittee in 1959. The first attempt at establishing an organized capital market began on September 15, 60, with the incorporation of the Lagos Stock Exchange, through the joint effort of the Central Bank of geria (CBN), Investment Company of Nigeria (later NIDB) and the Nigerian Business Community. Later, the change was statutorily empowered in 1961 by the enactment of the Lagos Stock Exchange Act. The change commenced operation on July 5, 1961 with thirteen securities. During the teething stage, the change received considerable financial and other assistance from government through the institutions erred to above.

Some major events occurred in 1962 which had salutary effects on the development of the infant market. ese included the recall of Nigerian investments from London by Nigerian Produce Marketing Company PMN), the promulgation of the Exchange Control Act 1962, and the establishment of the Capital Issues mmittee (CIC) under the auspices of the Central Bank of Nigeria. Though without any legal backing, the C operated like an ad hoc consultative body to ensure the orderly development of the market by regulating are prices and timing of public issues of securities so as not to overtax the absorptive capacity of the dding capital market.

Despite these efforts, activities in the market were generally assessed to be low in the twelve years tween 1967 and 1971, as the market was little known by the populace. Government remained a dominant player especially in the new issues market by regularly floating development loan stocks as a way of mulating the market. As at the end of 1971, government had floated 39 securities compared to 13 equities d 8 industrial loan stocks. Similarly, the market was characterized by few operators (10), no quoted genous company and poor infrastructural facilities.

However, government action in enacting the first Nigerian Enterprises Promotion Act (NEPA) in 1972, ch obliged specified alien enterprises to indigenize part of their ownership, made a remarkably positive act on the development of the market. Within three years of this enactment, twenty new companies were ed on the exchange, compared to thirteen in twelve years (1960-1971). Again, following the report of the nel set up in 1975 to review the 1972 indigenization exercise, the second Act was enacted in 1977, ensibly to correct the "failures" of the first exercise. The rejuvenated 1977 Act brought more companies into market and consequently, more listings were recorded on the Exchange in years subsequent to its eepening the market. At the height of its compliance in 1979, 39 new companies were ge in that year alone.

ndigenization programme and government's deliberate floating of stocks, four other s impacted positively on the development of the capital market as we have it today.

e Capital Issues Commission Act 1973, which formally established the Capital Issues C) and introduced statutory regulation into the market. The functions were not in any way of the defunct committee. For example, it continued the functions of determination of and time at which public issues of corporate securities were made.

the Okigbo Committee was set up to undertake a comprehensive review of the Nigerian With respect to the capital market, the committee made a number of recommendations, ere wholly or partially accepted. Amongst these were: establishment of the Securities Commission (SEC), to replace the Capital Issues Commission. Consequently, the change Commission Act was enacted in 1979. the Act made SEC the apex regulatory Capital Market in Nigeria. In addition to taking over the functions of the Capital Issues was empowered to register securities, operators, stock exchanges and maintain the market to prevent abuse and practices that may be detrimental to the orderly e Capital Market in Nigeria. In 1988, its functions were enlarged to include approval and ers and acquisitions and other forms of business combinations.

ent accepted the need for the Stock Exchange to spread out, it however rejected the use Regional Exchange to achieve this objective. Rather, government established the change with trading floors in Lagos, Kaduna, and Port-Harcourt. In mid-1980's, three floors, Kano, Ibadan and Onitsha were added with an office in Yola. In 2004 a new d in Benin city. In addition, a new exchange the Abuja stock exchange was established

also recommended a new secondary pricing system for Government stocks to make aturity and yield of the instrument. Hitherto, it was priced at par, making them quite estors.

ustment Programme (SAP) was launched in 1986 to redress serious macro economic programme included the rationalization of the public sector through divestment of gs and debt conversion programme. Consequently, government commenced interests in some public companies, some of which were effected through Offer for these shares to the investing public further increased the number of tradable securities thus improved market depth.

P was launched, the Second-tier Securities Market (SSM) was introduced to attract to the market which hitherto could not meet the more stringent listing conditions of the

able securities increased as a result of implementing SAP, with much wider impact on e capital market. In the post-SAP era, the market became a truly capitalist instrument ting capital funds in the process of wealth creation rather than as a vehicle for wealth SAP activities tended to portray. Policies and strategies tended to be more market r example, the pricing function hitherto performed by SEC was transferred to market ses for new issues and stockbrokers for existing issues.) In addition, the deregulation e and interest rates, which were the pillars of SAP, encouraged many companies to e of long-term funds which only the capital market could provide. Thus in the late 80s, ts issues in the market which further increased the market depth.

and Assessment Criteria

efforts to widen, deepen and improve trading conditions in the Nigerian Stock Market. rust Scheme was launched in 1990 as a way to bring small investors indirectly to es of the Market. The period equally recorded a significant increase in the number of brokers). The Stock Exchange launched the Central Securities Clearing System er in a more efficient securities settlement system. As a result of this innovation, improve from T + 15 or more, in some cases in the past, to T + 5. The NSE also rading System (ATS) in 1988.

Table 1: NSE's Growth Trends 1961-2005

Parameter	*1961*	*1971*	*1981*	*1991*	*1999*	*2005 As at Nov 7*
No. of quoted companies	3	13	93	142	195	-
No. of listed securities	13	60	163	239	269	-
Total Mkt. capitalization (Billion N)	Na	Na	5.0	23.1	263.3	2.57 Trillion
Vol. of Securities traded (M)	334	952	Na	47.2	216	602.3
Value of Securities Traded (MMN)	2.3	18.1	332.1	265	136.3	7.73
Value of new shares (MMN)	Na	87	455	1870	3,954	-
NSE all Shares Index	Na	Na	Na	783	5266	25831.47
No of Stock broking Firms	Na	Na	12	110	226	-

Source NSE, SEC, FOS as cited by Dada (2003)

Table 1 compared the performance of the Nigerian capital between 1961 and 2005.

Based on the Table 1 above it can be seen that though the indices has shown an increase up there was a greater increase in all the indices by the year 2005 more than have happen before du increase volume of shares offered for sale by the different banks that went to the capital market to ra to meet the new recapitalisation amount

Reorganization of the Capital Market

In 1998 government decides to repeal all laws inhibiting competition. As a result, a Legal Commit set up to identify such laws. Twelve of such laws were identified for amendment and/or abrogation, in laws governing the Capital Market. It was in the spirit of liberalizing the economy that machinery wa motion to reform, modernize and internationalized the Nigerian Capital Market and make it more respor the demands and challenges of the new millennium. Arising from these measures, the Abuja Stock Exc was floated in 1998. The Central bank of Nigeria (CBN), National Insurance Corporation of Nigeria (N Nigerian Deposit Insurance Corporation (NDIC), and other interested private sector organizations advised by Government to take steps to implement the decision. Before that time, a panel with Dennis as Chairman, was set up to review the Nigerian Capital Market. Although neither the report of the pan the Government White Paper has been released, some aspects of the report that have become knowledge are set below.

- proposal to set up a new Stock Exchange and rename the current Stock Exchange
- issues of Administration and Government of the Stock Exchange in particular and the capital mar general; and
- the urgent need to achieve rapid growth in virtually every dimension of the Capital Market (numb securities, volumes and value issued and traded etc).

FACTORS THAT HINDERED THE DEVELOPMENT OF THE NIGERIAN CAPITAL MARKET

The development of the Nigerian capital market has not been too successful because of the follow There have not been a consistent macroeconomic policy framework involving fiscal monetary exchange r and capital account policies.

Also transparency and information infrastructure such as proper auditing, accounting and cred information are generally low.

Furthermore, banking soundness with focus on prudential regulations and supervision are low.

In addition, there were restrictions in portfolio holding and interest rates though the restriction has no been removed.

EFFECT OF RECAPITALIZATION ON THE NIGERIAN CAPITAL MARKET DEVELOPMENT

Underdeveloped or poorly functioning capital markets typically are illiquid and expensive. It defers investors, investments is adversely affected if raising local capital is difficult and costly. Illiquidity and high transaction costs also hinder the capital raising efforts of corporations.

The recapitalization has clearly shown that the hitherto held view that the Nigerian capital market was not deep has been debunked by the success of the banks that went to the capital market to raise funds. For

ernational Bank and Guarantee Trust Bank succeeded in raising over N70 billion aggregate
going to the capital market.

ank securities to be available for purchase there by increasing the varieties of securities
pital market.

ceeded in mobilizing funds that were virtually idle or from the informal sector to the capital
st investment.

publicity that is going on about the Bank recapitalization have made most people aware
ave and invest in the ownership of shares.

lowered the rate of capital outflow as avenues for investing the funds in the capital market
alization abound.

reased remittance of foreign currencies from abroad. These remittance are being used to
anks.

reased number of participant in the capital market. With special reference to banks there
ed on the Nigerian stock exchange by December 2003. But as October 31 2005, 36 banks
e exchange while some others are awaiting approval to consummate their mergers.

a wider distribution of equities (especially the banking equity) by discouraging the
uities in a few but powerful hands.

L DEVELOPED CAPITAL MARKET IN AN ECONOMY

mportant benefits of having a well developed capital market in an economy.

omic policy level, the capital market will provide avenue for domestic funding of budgets
central bank and thereby, reduce the need for direct and potentially damaging monetary
ent, especially its deficits.

lps to avoid a build up of foreign currency- denominated debt. It can also strengthen the
ementation of monetary targets or inflation objectives and can enable the use of market
ry policy instruments.

d market-oriented funding of government budget and deficits will reduce debt service
m to long-term through deep and liquid market for securities.

croeconomic levels, a well developed capital market can increase overall financial
financial intermediation through greater competition and development services.

tal market can help the financial/system from being a primarily bank-oriented to
s the capital market can complement bank financing.

th a well developed capital market commercial banks are forced to develop new
ediate credit more competitively.

tal market entails the creation of an extensive information legal and institutional
benefits for the entire financial system.

of having a well developed capital market in an economy include:

ources are allocated into their most efficient and profitable use. That is it help to
e of capital by helping to increase the amount of domestic savings flowing into
ent.

stors from fraud and deceit and hence instill the confidence needed for orderly growth
the economy.

nd appropriate prices for securities through its price determination role

s and investments necessary for economic growth and development.

transfer of securities by removing bottlenecks which may breed inefficiencies and
of adequate liquidity without which funds will much less freely find their way into
ital for economic and industrial development.

CONCLUSION

A developed capital market is an important facilitator of economic growth and development. Wit recent recapitalization savings have been mobilized more than ever before and channeled into the ba With these funds in the banking sector it is expect that they will have positive effect on the economy. Wit removal of impediment to the capital market development it will be able to perform its function espe mobilization of fund for productive investment.

The continued success on the development of the Nigerian capital market rest on both the operators at all have make sure they obey all rule and regulations guiding their activities and the government should make sure that there is a consistent macroeconomic policy framework especially in relation to t monetary, exchange rate and capital account policies.

Based on the success of the banks in raising money from the capital market which was greatly help their publicity and aggressive marketing it is seen that the depth of the capital market is a functi investment education and the awareness that publicity creates for opportunities in the stock market.

RECOMMENDATION

The following points are our recommendations.

First there is need to have over-the-counter Market (OTC) which will help to protect investors by pro a formal, orderly and transparent system for trading in the securities of unquoted public companies an facilitate compliance with the law which requires that securities of public companies can only be trad SEC-registered brokers/dealers.

Secondly, there is the need to plug the gap in the secondary market system involving the absenc forum for formalized trading in the securities of unquoted public companies by having a form for it.

Thirdly, the Abuja stock and commodity exchange should be supported and encouraged to fu properly.

Fourthly, the government should release the report and while paper on the Dennis Odife capital r reform.

Fifth, the government should ensure there is a consistent macroeconomic policy framework inv fiscal, monetary, exchange rate and capital account policies.

Sixthly, operators of the banking system should be made by the regulatory authorities in the market to adhere to prudential regulations and supervision.

Finally, the regulators should be well strengthened to enable them monitor the capital market and sure the operators obey all rules and regulations.

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