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THE MULTIPLE STOCK EXCHANGE IN NIGERIA: A CRITIC

BY EMEKA J.OKEREKE

ABSTRACT

Multiple Stock Exchange is a new capital market phenomenon in Nigeria. The paper critically view the stock exchange and proffered a private sector-driven capital market for which capital markets as known. However, where the new regime is adopted, the paper provided solution pack of capitalizing on the strengths of the regime while improving on the weakness especially in the area of the reorganization and reconstitution of Securities and Exchange Commission and promulgation of enabling laws, among others.

1.0 Introduction

Stock Exchange is a secondary market institution that facilitates the lubrication of long-term debt instruments. It is the centre of activities of the secondary market and sometimes used interchangeably. Thus, stock exchange market is the market for the sale and purchase of shares and stock already quoted in the stock exchange. It provides conducive environment for the interaction of surplus economic units (lenders) and the deficit economic units (borrowers). This implies that mobilization of long term funds are effectively and efficiently concluded for productive investment.

As the Nigerian capital market institution, it was, at it inception established to achieve the following objectives:-

- (i) Provision of local opportunities for borrowing and lending for long-term purposes.
- (ii) To enable government mobilize capital for the development of the country.
- (iii) To provide foreign businesses with the facility to offer their shares and the Nigerian public opportunity to invest and participate in the shares ownership of foreign businesses;
- (iv) To provide facilities for quotation of and ready marketability of shares and stock and opportunities and facilities to raise fresh capital in the market.
- (v) To provide a healthy and mutually-acceptable environment for participation and co-operation of indigenous and expatriate capital in the joint effort to develop the Nigerian economy, to the mutual benefit of both parties and to introduce a code of conduct, check abuse, and regulate the activities of the operators of the market (Obadan, 1998:25).

These are noble objectives that are geared at not only enhancing the growth and development of the financial system but also the entire economy at large. But the extent to which these objectives have been achieved has continued to pose questions on the governments. Thus, successive governments have not relented in finding ways and means of accomplishing the set objectives of the market. In realization of that, Government set up the Dennis Odife Panel on Capital Market Reforms. The implement of the report of the Odife panel lead to the multiple stock exchange in the Nigerian capital market.

This paper is, therefore, aimed at critically evaluating the adoption, operation and efficiency of the multiple stock exchange in Nigeria with a view to articulating appropriate forward-looking strategies for the development and growth of capital market in Nigeria. But

before then, let us briefly look at the pre-multiple stock exchange era. The evolution and development of the exchange will be mostly appreciated in this direction.

1.2 Pre-Multiple Stock Exchange Era

Stock exchange is a continuous auction market that facilitates exchange of shares, stocks and bonds between buyers and sellers. It provides forum for trading in securities as well as facilities for the sale and resale of shares of quoted companies.

Stock exchange evolved as a result of the gap that existed in raising long-term funds for government capital projects. Prior to the establishment of Nigerian Stock Exchange, Federal Government Development Stock were sold in Britain and only a very few proportion of such stock were bought and held in Nigeria. The case of local loan stock sold in Britain in 1946, drives home our point especially as these issues were held in Britain.

The need to have indigenous capital market led to the setting up of a Commission in 1958 headed by R.H. Barback, the then Director of Nigerian Institute of Social and Economic Research (NISER), to consider the ways and means of promoting a capital market in Nigeria. The market was to achieve the objectives highlighted in the introductory part of the paper. The outcome of the report of Barback Commission led to the enactment of the Lagos Stock Exchange Act of 1961 which established Lagos Stock Exchange (LSE). The stock exchange started in 5th June 1961 with two Federal Development Stocks and before the end of 1961, there were about 13 securities quoted in the stock exchange.

With the enactment of the LSE Act of 1961, and its establishment, successive governments have continued to encourage and stimulate the growth of capital market development in Nigeria. For instance, some laws have been enacted and decrees promulgated to ensure the investment of certain proportion of companies' funds in quoted government securities. Example, the National Provident Fund Decree No.93 of 1993, statutorily mandated the investment of the fund's money in government securities. These efforts have helped to increase the volume of transaction in the market. The indigenization decree gave boost to the development of capital market development in Nigeria.

These efforts of government notwithstanding, the rate of capital formation in the entire economy continued to be low and a great proportion of the money in circulation remained outside the banking system. Consequently, in 1976, the Federal Military Government, concerned of the ugly trend, set up a Committee (Financial Review Committee) to review the structure and operations of the country's financial system. The recommendation of the committee, popularly called Okigbo's Committee, led to the establishment of a National Stock Exchange, which turned the Lagos Stock Exchange into Nigerian Stock Exchange in 1977 with initial branches in Lagos, Port Harcourt and Kaduna. Other branches include Onitsha, Kano and Ibadan.

The Stock Exchange is under the regulatory body of Securities and Exchange Commission (SEC), which has undergone a number of metamorphosis. The current SEC (Decree No. 29 of 1988) started as Capital Issues Committee in 1962 to Capital Issues Commission in 1973 to what it is today.

Transactions in the Stock Exchange is concluded mainly by dealers and brokers. Dealers are members of the Stock Exchange who trade on their own account and can sometimes act as broker to other brokers. They maintain inventory of securities and trade from there. Their income is earned from the 'spread' arising from the 'bid-ask' spread (i.e the

difference between buying and selling price). Brokers on the other hand are agents to a third party (investors) wishing to buy or sell stocks. Their income is earned from the commission they charge for their services. Brokers are very prominent in the Nigerian Stock Exchange than the dealers (jobbers). Essentially the dealers and brokers form the third category in the membership of the stock exchange. Other categories of membership include.

- (a) Foundation members comprising three companies namely Investment Company of Nigeria Ltd, John Holt Nigerian Ltd; and C.T. Bowring and Company (Nig) Ltd and four individuals namely Alhaji Shehu Bakar, Sir Odumegwu Ojukwu, Mr. Akintola Williams and Chief Theophilus Doherty.
- b) Ordinary members, comprising those admitted to membership after the establishment of the Exchange in 1961 by subscription to the shares. These are also called shareholders.

The stock exchange operates the call-over system where by an official of the exchange calls out the listed securities for the days trading. The dealing members mainly stock-brokers, indicate bid or offer prices as the securities are called up. A deal must have been concluded if the bid and offer price equilibrates. The instruments traded in the market include Federal Development Stocks, State Government Bond, Industrial Loan Stocks and Equities.

It must be pointed out at this juncture that the performance of the stock exchange market is measured by its allocative and operational efficiency. The allocative efficiency of the market ensures the flow of funds to the most viable sectors(s) given the risk class. Thus, funds are allocated to investments that offer the highest return vis-à-vis risk class. By operational efficiency the market should ensure competitive and conducive environment with necessary infrastructure that will facilitate the flow of funds to the most viable sectors of the economy. In order to ensure the allocative and operational efficiency of the stock exchange, the following functions are performed by it, among others.

- (i) It facilitates dealings in governments and other securities.
- (ii) It act as a central meeting place for members for the exchange of existing shares and stocks
- (iii) It provides machinery for mobilizing private and public savings and making these available for productive investment.
- (iv) It facilitate the purchase and sell of securities thereby reducing the risk of illiquidity.

The Nigerian Stock Exchange has not been able to achieve the desired efficiency because of a number of problems. Adoghor (1997:5) identified such problems as infrastructural inadequacies, ignorance, inadequate supply of securities, Stock exchange requirements illiquid market. Other problems include lack of competition among the trading floors, problem arising from market imperfection, lack of confidence among some investors (arising from false financial results submitted to NSE), lack of technical expertise to scrutinize the results of quoted companies, loss of money by investors, lack of adequate investors protection, lack of enabling law to persecute offending members of stock exchange, economic instability, political / social instability, etc.

These problems have culminated in the possible crashing of the Nigerian stock market. Before now, the market capitalization as at June 1997 was ₦374 billion while All share index introduced in 1983 was ₦100 in that year but rose ₦1712.7 in 1994 and as at June 1997, the index was ₦8487.64 (NSE, 1997). The stock market witnessed bullish market uptill

1996 and partly 1997, with share prices soaring to the roof tops. These performance showed a sharp down turn recently. For instance, Nestle foods fell from about ₦90 per share in early 1997 to ₦33.95 in January, 1998. In the banking sector, UBA Plc has declined from ₦16.3 to ₦6.25 and in the oil sector, Agip Nigeria Plc declined from about ₦30 early 1997 to ₦8.00 in January 1998. UAC Plc declined from ₦20 to ₦10.50 as at Feb. 1998 and there are plans to slash the price by 47.5% mid year (Aneato 1998:22).

The International Finance Corporation (IFC) 1994 Global Index scored Nigerian capital market as giving 168% Return on Investment (ROI) in Dollars terms, but it dropped to 68% in the quarter of 1995 as a result of a 73 percent devaluation of the Naira in Feb. 1995. (NSI Fact Book, 1995). These down turn trends in the stock market necessitated the urgent need for the reform of the Nigerian capital market. Thus in the 1998 budget speech of the Head of state he stated as follows:

“... Government is determined to reform, modernize and internationalize the Nigerian capital market and make it more responsive to the demands and challenge of the next millennium. Consequently, as a result of extensive consultations with various interest groups on the report of the panel on the Review of the Nigerian Capital Market, the Abuja Stock Exchange will be floated in 1998” (Abacha, 1998:25).

This decision statement by the Head of State saw the birth of multiple stock exchange in Nigeria in 1998.

1.3 Multiple Stock Exchange Regime: A Critic

Multiple Stock Exchange Market came into spread in the wake of capital market reforms of the federal government which provided, inter alia; for the promulgation of an all embracing law to put into proper legal framework the required reform to the Nigerian capital market.

- the re-organization and reconstitution of the Securities and Exchange Commission to enable it effectively carry out its enlarged role in a reformed capital market;
- the provision of new capital market infrastructures to facilitate among other things, the adoption of a screen-based trading system in lieu of the existing call over system, the setting up of a Central Depository Corporation and Independent Clearing Corporations;
- The establishment of a Stock Exchange in Abuja and Capital Trade Points (CTP) in designated locations in the country.
- The provision of a framework for the establishments of options, futures and commodities exchange.

The development of a National Unit Trust Schemes which would, among other things, assist in fund mobilization and give the rural community the opportunity of participating in the equity market including privatization issues.

- The establishment of an Investment Services Tribunal to speedily try capital market disputes;
- Manpower training and development and the establishment of Capital Trade Association (CTAs).

Under the proposed re-organization of the Securities and Exchange Commission three new self regulatory bodies which will constitute second level regulators are expected to be established to take charge of the

- (a) Management and regulation of the Exchanges and Capital Trade Points (CTPs);
- (b) Regulation of corporate members of the Exchange and Capital Trade Points, including firm and individuals who may wish to carry out investment businesses;
- (c) Regulation of collective investment schemes such as Unit Trusts, Pension Funds, Esusu schemes, and saving collection schemes. (Ani, 1998:14).

The establishment of Abuja Stock Exchange (ASE) and the automatic reversion of Nigerian Stock Exchange to its former status of Lagos Stock Exchange ushered in the new regime of multiple stock exchange. Under the new regime, the former Nigerian Stock Exchange loses its self-regulatory status while Securities and Exchange Commission is to be reconstituted and reorganized.

Proponents of the multiple stock exchange argued that it will encourage competition in the market which will lead to the growth and development of the market. There is also a general consensus among proponents that the new regime will impact positively on the market, create health competition and enhance corporate and individual returns on investment. According to one of the leaders of first African Trade and Investment Consortium, (FATIC), Vitalis Nwaneri, the new exchange will have strong link with the proposed commodity and money markets at the backdrop of government's proposed Nigerian Commodity and Futures Exchange (NICOMEX), active grassroots participation in the ASE and NICOMEX to complement government's poverty alleviation and rural development programme; strong international connection through modern communication system (Anacto, 1998:3). Again it is in line with global economic liberalization which calls for increased competition. According to Orji (1998) the change to multiple stock exchange tallied with what obtained elsewhere in the world, like the New York Stock Exchange (not American Stock Exchange), Tokyo Stock Exchange (as opposed to Japanese Stock Exchange). The views of these proponents notwithstanding the multiple stock exchange has been criticized by experts. The criticisms is based mostly on the provisions of the entire capital market reforms. Accordingly, the new regime is a mere waste of national resources since the capital market lacked depth because of dearth of tradable securities. Thus, the stock exchange especially the ASE could suffer from inadequate activities.

The multiple stock exchange is a deviation from the trend in developed economies of the world even Africa where the "integration of existing exchange" is the order of the day. For instance, Francophone West Africa Stock exchanges have merged into the Cote d'Voire Stock Exchange; in Southern Africa, Exchange in Zimbabwe, Botswana and Namibia are working towards integrating with the Johannesburg Exchange in South Africa.

The new regime of Multiple Stock Exchange will increase overall cost of operating a standard and reputable stockbroking and issuing house. This is because for effective operation of any stockbroking firm under the new arrangement, it has to acquire up-to-date information technology to catch up with the diversity of the market placed and the existing and anticipated additional volume of business from privatization might not cover the high cost of transaction as many stockbrokers would be forced to become members of ASE, while retaining their membership with Lagos Stock Exchange, former NSI. This amount to double

expenses in terms of membership fees and floor charges as well as multiple office maintenance cost.

Generally speaking, the Multiple Stock Exchange system and particularly the ASE would not be profitable to both the exchanges and the operators since it is not likely that the new institutional arrangements would be effectively implemented and on time too. It is obvious that the acquisition and installation of the trading facilities would take considerable time to negotiate with their overseas vendors, as well as the training of personnel that would man them. The take-off of the new regime especially the ASE is in doubt because of the current automated clearing system and the planned commencement of Automated Trading System (ATS) this year. By implication ASE would have to adopt a screen-based trading system from inception. This may not be feasible because of the needed facilities, which cannot be acquired overnight.

The proponent's argument of increased volume of transactions may not after all be the case because the new exchange with the Capital Trade Points would not increase the volume of transactions or create new market since only NITEL'S privatization could be effected along with the establishment of ASE. Moreover the piece-meal arrangement of the privatization exercise create more fear in the volume of transactions in the exchange. This will naturally stifle operator's interest in co-operating and investing in the multiple stock exchange system since their profits are usually derived from the volume of trading and other capital market activities. Proponents argue that the Capital Trade Points which accompany the multiple stock exchange system will integrate the grassroots people. But they lose sight of the existence of commodities market which the market is targeted to meet. This makes the system unviable.

The multiple stock exchange and particularly ASE is essentially capitalist, elitist and fairly sophisticated and as such may not be compatible with the environment it is sited. Corporate bodies and firms may not be attracted to Abuja because of lack of operational facilities like seaports, business centers, etc. This makes Abuja unattractive for firms and this will automatically affect the number of firms to be enlisted in the new exchange.

Government's limits of involvement in the establishment of ASE raises another question to the survival of multiple stock exchange system. The private sector is skeptical about the role of government and their agencies in the new regime. Although government has stated that the ASE and CTPs are to be established and nurtured by the private sector. There is also a directive from the same quarters asking parastatals under the ministry of finance to go into action immediately towards the floating promotion of the ASE. It is now difficult to establish where the roles of those parastatals start and where the private sector takes over. This raises the question of ownership of new exchange. As a private sector institution, it should be owned and run by its dealing members.

Conclusion and Recommendations

Multiple Stock Exchange is a new phenomenon in the Nigerian capital market. It is in line with economic liberalization which calls for increased competition as well as increased geographical coverage. However, it has been criticised based on a number of issues like reduced volume of trading and market, increased operational costs, reduced profit for operators, etc. These criticisms are very serious in view of the nature and type of business in question. It is a private sector institution and should be allowed to be run as such. However, if

government insists on having its way, Security and Exchange Commission which is a facilitator to the multiple stock exchange system, should be reorganized and reconstituted before the promulgation of the comprehensive capital market law and the establishment of ASE. Again, the enabling laws and listing requirements of the ASE should be promulgated and made available to potential investors without further delay. And to ensure that the case of Unilever does not repeat itself again in the new dispensation, a law setting up a Tribunal should be enacted to try and deal adequately external auditors of companies and other market actors found to have breached the rules of the stock exchange. The confidence of the investing public should be restored and sustained and government should improve on the wealth redistribution. The dearth of information which is responsible for lack of depth of the capital market should be improved. Generally, the strength of the new regime should be capitalized upon, while improving on the weaknesses. These and others will ensure the success of the new regime.

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