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A Review Study of Financial Market in Pre and Post Structural Adjustment Program (SAP) in Nigeria

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Abstract—*Capital formation and accumulation are at the center of any developmental effort, channeling the excess fund to real sector has been identified as the key to growth and development of any nation, achievement of such called for existence of strong financial market for raising both short and long term finance. In the light of the above, this paper reviews the behavior of Nigerian financial market before and after the introduction of structural adjustment programme in 1986. Literatures revealed that both capital and money market perform excellently after the programme mostly attributed to financial market liberalization policy that promoted investment in the real sector of the economy and remove the hurdles of access to financial instruments. Second–tier Securities Market (SSM) was established to cater for the requirement of small and medium enterprises privatization and commercialization policies went a long way in revamping the financial market. In the earlier period before the advent of SAP, the market witnessed constant government intervention highly regularized institution vis-à-vis effort to have a strong financial bodies to accelerate developmental effort of the country.*

Keywords*: SAP, liberalization, privatization, financial market, second-tier security market.*

1. INTRODUCTION

Nigerian capital market has grown beyond reasonable doubt right from independent to date, fact supported by low negative impact of global financial crisis on Nigeria's capital market. Edirin Jeroh (2013) using Error Correction Model (ECM) found that the recent global financial meltdown does not have a severe negative impact on Nigeria capital market. This was unconnected with the fact that Nigerian financial market has grown to full length, just for financial regulators such as central bank of Nigeria to ensure that reforms are made to reduce the over dependence on foreign borrowing by financial institutions in Nigeria as this will help to cushion the effect of global financial shock on domestic economy.

The origin of financial market date back to colonial period when British administration sought for fund to finance local administration. According to Edife (2000:6) cited in Esosa Bob (2007) the first step in this direction was to secure the necessary finance for the development of this infrastructure and long term capital project. In 1957, the government and Other Securities (Local Trustees Powers) Acts was enacted. This law specified the types of securities in which trust funds may be invested. It also clearly defined the powers and responsibilities of trustees. In addition, the colonial government set up the Professor Barback committee to examine the ways and means of fostering a share market in Nigeria. Part of the terms of reference of this committee included the possibility of establishing a capital market in Nigeria. The committee recommended, among others, the creation of facilities for dealing in shares, the establishment of rules regulating share transfer and measures for encouraging savings and issues of securities of government and other organizations.

By the end of the year 1957, the colonial administration had promulgated the General Loan and Stock Act and the Local Loan (Registered Stock and Securities) Act on the recommendations of the Barback Committee.

In 1958, the Central Bank of Nigerian was established through the Central Bank of Nigeria Act of 1958. The purpose of these various legislations was to establish the legal and infrastructural frame work for the take-off of a viable securities/capital market in Nigeria. As a follow up to these laws, the colonial administration issued the first N2 million Federation of Nigeria Development Loan Stock in May 1959. In the same year it also enacted the Statutory Corporations (Guarantee of Loans) Act. In April 1960, the Central Bank of Nigeria issued the first Nigerian Treasury Bills which were meant to provide an avenue for the investment of short-term liquid funds in Nigeria and assist in providing government with funds pending receipt of its own revenues.

On September 15, 1960, the Lagos Stock Exchange was incorporated as a private limited liability company, limited by guarantee under the provisions of the Lagos Stock Exchange

Act 1960. The Lagos Stock Exchange Act 1960 conferred monopoly powers on it members to deal in securities granted quotation on the Exchange. It also allowed the Central Bank to Deal directly in securities. On June 5, 1961, the Lagos Stock Exchange opened for business with 19 listed securities made up of 3 equities, 6 Federal Government Bonds and 10 industrial loans.

In 1977, the name of the Lagos Stock Exchange was changed to the Nigerian Stock Exchange by the Indigenization Decree of 1977 followed the recommendations of the Industrial Enterprises Panel (Adeosun Panel) of 1975 that branch exchanges should be established. As a result, six new trading floors of the Nigerian Stock Exchange were created in Kaduna (1978), Port Harcourt (1980), Kano (1989), Onitsha (1990) and Yola (2002). On April 1, 1978, the Securities and Exchange Decree was promulgated to replace the Capital Issues Commission and expand the scope of its activities following the recommendations of the Financial System Review Committee (Okigbo Committee) of 1976. The Committee also recommended the establishment of multiple exchanges and the approval of share allotments by the Securities and Exchange Commission. In 1978, the first state government revenue bond was floated by the defunct Bendel State of Nigeria. The N20 million 7% first Bendel State Loan was floated to finance the state's housing development program. On April 5, 1985, the Second-tier Securities Market (SSM) of the Nigerian Stock Exchange was established to cater for the requirements of small and medium scale enterprise.

In 1988, the functions of the Securities and Exchange Commission were further expanded by Decree 29 of 1988 to include the review and approval of all mergers, acquisition and combinations between or among companies. In 1988 also, the Privatization and Commercialization Decree 25 was promulgated. This Decree provided for the privatization of some enterprises in which the Federal Government of Nigeria has equity interest and the commercialization of some Federal Government wholly-owned enterprises. The exercise that ensued from this Decree brought more companies to the Nigerian Stock Exchange whose shares were thus listed.

2. LITERATURE REVIEW

God's time and Jonathan (2014) examine the impact of financial liberalization on private investment using ordinary least square method of regression analysis, they found that interest rate used as proxy for financial liberalization is statistically significant and impact positively on private investment. Also the chow test results shows that there was structural break between financial liberalization and private investment in Nigeria within the period under review. Yusuf (2012) opines that financial markets play a pivot role in economic development, attributing the differences in economic growth across countries to the quantity and quality of services provided by financial institutions. This view contrasts with Robinson (1952) who argued that financial markets are essentially handmaidens to domestic industry and respond passively to other factors that produce cross-country differences in growth.

In Nigeria, the capital market has over the years been performing its traditional role. However, the efficiency and effectiveness in this regard have greatly being limited by various factors notable among which is the structure of the economy; which is dominated by oil production. Yet the oil producing companies are not fully listed on the stock exchange. Also the capital market has been identified as an institution that contributes to the socio-economic growth and development of emerging and economies. This is made possible through some of the vital role played such as channeling resources promoting reforms to modernize the financial intermediation capacity to link deficit to the surplus sector of the economy and a veritable tool in the mobilization and allocation of savings among competitive uses which are critical to the growth and efficiency of the economy (Alile, 1984). It helps to channel capital or long-term resources to firms with relatively high and increasing productivity thus embracing economic expansion and growth (Alile, 1997) For more than two decades after independence, the Nigerian financial system was repressed, as evidenced by ceilings on interest rates and credit expansion, selective credit policies, high reserve requirements, and restriction on entry into the banking industry. This situation inhibited the functioning of the financial system and especially, constrained its ability to mobilize savings and facilitate productive investment (Sylvanus I. & Abayomi A., 2001).

Kellick and Martin (1990), cited in Omole and Falokun (1999) noted that most countries both developed and developing have taken steps to liberalize their interest rates as part of the reform of the entire financial system. Such liberalization represents policy response, encompassing a package of measures to remove all undesirable state imposed constraints on the free working of the financial markets. The measures include the removal of interest rate, ceilings and loosing of credit controls.

2.1 ASSESSMENT OF NIGERIAN FINANCIAL MARKET BEFORE THE INTRODUCTION OF STRUCTURAL ADJUSTMENT PROGRAM (SAP)

Nigerian financial market was inherited from British colonial masters, but the objective differs, British main objective was to have market to raise fund for colonial administration. After independent the focus is on how to developed domestic economy, many regulatory bodies were established. Oil boom of 1970's place the country among high income countries, with low savings because of low incentive i.e low interest rate in the money market. Nigerian economy been oil dependent then, experience down turn in 1981, austerity measures were introduced with very low effect.

Before the advent of the Structural Adjustment Program (SAP) in Nigeria in 1986, the financial sector was dominated by static and relatively low interest rates, mandatory sectoral allocation of bank credit and quantitative ceilings on bank credit to the private sector, all of which engendered inefficiencies and distortions. The Pre-SAP period was seen as an era of financial repression characterized by the policies of directed credit and interest rate ceiling, believed to have caused imperfections in the operations of the financial market (Akingunola et al., 2013). Prior to this period, the financial system, as earlier stated, operated under financial regulation and interest rates were highly repressed. The resulting low or negative interest rates discourage saving mobilization and channeling of the mobilized savings through the financial system. Proponents of liberalization argue that it keeps interest rate relatively high and competitive, encourages savings mobilization, motivates private investment and engenders economic growth while repression has a negative impact on the quantity and quality of investment and hence economic growth (Obamuyi and Olorunfemi, 2011). Consequently, the government of Nigeria embarked upon financial liberalization as part of its Structural Adjustment Program (SAP) in 1987 with the belief that reduction of all sorts of regulation on the financial sector would engender economic growth. Specifically, the Nigerian financial sector liberalization or reforms began with the deregulation of interest rates in August 1987 (Ikhide and Alawode, 2001).

2.2 ASSESSMENT OF NIGERIAN FINANCIAL MARKET AFTER STRUCTURAL ADJUSTMENT PROGRAM (SAP)

In 1986, Nigeria embraced the International Monetary Fund (IMF)-World Bank Structural Adjustment Program (SAP) which influenced the economic policies formulated and implemented by her and led to various reforms in the financial market since then. Financial sector reform was a component of the Structural Adjustment Program (SAP) which kicked off in 1986. The introduction of the program was on the heels of the rejection of IMF loan packaged with conditionality, a decision that rejected the consensus of a national debate. Some of the reforms created for the money market indirectly affected the capital market activities simultaneously. These include deregulation of interest rates, exchange rate, entry/exit into the banking business, establishment of the Nigeria Deposit Insurance Corporation (NDIC) strengthening the regulatory and supervisory institutions, upward review of capital adequacy, sectorial credit guidelines, capital market deregulation and the introduction of direct monetary policies instruments (Nnanna, Englama, and Odoko, 2004).

The analysis of the major indicators of activity in the capital market showed that the market has experienced remarkable progress since 1986. Transactions in equities in the market based on its current level of development could be considered to be weakly formed as the level of information dissemination and processing to influence market behavior remained weak. However, with the computerization of trading and increased transparency in delivery of corporate information, the market has become more efficient. Transactions in the market recorded increases in the number of listed securities, companies, market capitalization and price index during the period under review. The improved performance of all four key indicators was traceable largely to the establishment of the second-tier securities market (SSM) in 1985 and the deregulation of interest rates in 1987, coupled with the privatization of some government owned companies in 1991**.** Eighteen (18**)** government parastatals **(**16 Federal and 2 state government-owned), contributed to the increased tempo in the number of companies and new securities issued and listed in the market. Furthermore, the deregulation of interest rates made many private enterprises/ investors to patronize equity market to source funds as bank lending became relatively more expensive. The number of companies listed on the exchange (equities) grew by 95.0 per cent from 100 at the beginning of 1988 to 195 at end-December, 1999. The number of total securities listed and traded also increased from 244 in 1987 to a peak of 276 in 1996 before declining to 268 in 1999. Some of the major securities traded on the market during the period were government development stocks, corporate bond, debentures and equities. As at end-December 1999**,** securities listed and traded on the market were made up of 15 government bonds, 58 corporate bonds/debentures and 195 equities. The growth of listed companies coupled with greater awareness on the part of investors resulted in increase in the number of securities issued and traded in the market. This also contributed to the increase in market capitalization, which grew from 8.3 billion or 7.6 percent of GDP in 1987 to 294.1 billion or 8.7 percent of GDP at the end of 1999. The number of listed companies on the Nigerian Stock Exchange is comparable with those of many emerging markets. Though capital listing was higher than in most stock markets in Africa, it fell below some other emerging markets of Asia and Latin America. For example, out of the 17 stock markets in Africa, Nigeria had the third largest number of equity listings of 183 in 1998**,** surpassed only by Egypt **(**650) and South Africa **(**642). Nigeria also had a higher number than Poland (143), Jordan (1 39), Argentina (136) and Venezuela (91). It**,** however, recorded fewer listings compared to India (5843), Brazil (536); Malaysia (780); Indonesia (282) and Turkey (257). Further insight into the performance of the market showed that share-price indices rose during the period under review. The observed upward trend of share prices in the stock market was an indication of relative prosperity in the economy. The all-share price index grew by 22 per cent in 1988, 38 per cent in 1990, and 33.9 per cent in 1995 but dropped in 1998 and 1999. Activities in the new issues market improved during the review period. The entry of some corporate entities into the Nigerian capital market after the deregulation of the market contributed to the upsurge witnessed in the market. Between 1988 and 1998, new issues grew remarkably from 400 million to 15,018.1 million in 1998, but fell to 12,038.5 million in 1999. On the aggregate, 355 new issues of 28,527.9 million shares valued at 56994.0 million were offered for subscription between 1990 and 1999. Transactions in the secondary market also showed remarkable growth. A total of 1,528.4 million shares valued at 37,488.8 million in 5,855.7 deals were traded between 1988 and 1998. Transactions in the Nigerian Stock Exchange (NSE) grew from 21.5 million shares valued at 249.5 million in 1988 to 33.4 million shares worth 553.2 million at the end of 1990. By 1995, the total volume of shares traded on the market had risen to 396.91 million shares valued at 838.8 million. Between 1996 and 1997, the average volume of shares traded was 1,062.7 million, valued at 8,564.1 million. Between 1998 and 1999 securities traded averaged 3,025.7 million shares, valued at 13,826.6 million, while transactions in equities dominated the market during the period of analysis (Babalola and Adegbite)

3. CONCLUSIONS

It was observed that prior to introduction of SAP in the economy, the activities in the market is very low due largely to the availability of cheap alternative source of capital at low interest rate and general structure of Nigerian economy. Before 1986, the interest rates were low and access to cheap funds in the money market was easy compare to capital market, also the level of activity depends on government policy such as government borrowing through development stocks and other policies.

After 1986 when SAP was officially launched in the economy, the market highly responded to the interest rate liberalization and privatization policy. Modern facilities were introduced to the market while older ones became more active. More companies became quoted and listed in Nigerian stock exchange, relatively cheap source of financing like money market became less effective because of raise in interest rate brought by liberalization policy, capital market became major source of financing their companies.

Central bank of Nigeria put many macroeconomics policies in place to strengthening the market and overall development of the economy. For instance, the pricing of new stocks has been transferred to the issuing houses, while a new stock exchange, the Abuja stock exchange is in place, 12 trading points were established in Abuja and other part of the country, a central securities clearing system (CSCS) has been introduced to reduce the time it takes to transact and deliver shares to investors while an Automated Trading System (ATS) has been introduced to enhance efficiency and remarkable market recapitalization of 2004/2005 was geared towards development of financial market. Also the promulgation of an all-embracing investment services decree in 1999 to amend modify and codify the provisions of the principal laws and regulations within the capital within the capital market as well as the re-establishment of Security and Exchange Commission (SEC) as the apex regulatory agency in the market to further strengthening the market. In addition to this liberalization and internationalization policy go a long way in repositioning the market.

4. RECOMMENDATIONS

- Effort should be made to enlightening companies to raise capital through financial market to increase the number of company quoted and listed in stock exchange market. Monetary policy should be design in such a way that savings are encouraged for investment.
- Policy harmonization between Security and Exchange Commission (SEC) and Nigerian Stock Exchange (NSE).
- Vigorous policies are needed to internationalize the market through listing of foreign currency denomination securities on the stock exchange in Nigeria.
- Government should provide enabling environment for industrialization, this will go a long way in reducing dependency on import and hence increase the number of companies available in the market.

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