INVESTMENT OPTIONS IN THE NIGERIAN FINANCIAL MARKET

BY

PROFESSOR SEGUN AJIBOLA
B.Sc, M.Sc, Ph.D (Economics); FCIB, FICA, FCTI, F.IoD, FERP, FFAR, MNES, CRM, LLB, BL
Professor of Economics, Babcock University
&
Past President/Chairman of Council
The Chartered Institute of Bankers of Nigeria

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PROTOCOLS

A) INTRODUCTION

Let me appreciate the Leadership of the National Judicial Institute for organizing this Virtual National Workshop for Directors of Finance, Internal Auditors, Procurement Officers and other Financial Officers of the Judiciary with the Theme "Promoting Financial Discipline for Optimum Performance. I thank you most sincerely for giving me the opportunity to be one of the paper presenters at the Workshop

Given the challenges confronting the various facets of the national life of Nigeria at the moment, there could not have been a better time to examine a fundamental issue of financial discipline than now. More so, in a segment that remains the beckon of hope for the common man. Let me hasten to add that the Judiciary must epitomize discipline, integrity, forthrightness in all its dealings if any hope for ethical, moral and professional emancipation remains in the horizon.

Let us spend a little time on the beautifully crafted Theme. First, what is financial discipline? While Merriam-Webster defines discipline as a way of behaving that shows a willingness to obey rules and orders, financial discipline refers to how well a person is able to conform his spending and saving to the plans he has set to achieve his monetary goals. This definition fires the first salvo! If I may ask, how many of our distinguished participants here present today can boast of a well-articulated and profiled financial plan in our various locations? And when such plan is put in place, how effectively do we monitor the implementation? And when infractions are detected by our auditors and regulators, what happens next? Man is often guilty of the mentality that the problem is that of the other man!

Furthermore. optimum performance is a key terminology in economic literature. Optimal level is the best level or state something could achieve. Optimal performance is therefore a level of performance that needs no improvement. Economists usually delve on Pareto Optimality Condition which is a state in which no one person could be made better off without making someone else worse off. But the concept of optimum performance is more of utopian nature especially in a public sector institution. It becomes more challenging when viewed against the fact that the subject matter under consideration is financial in nature.

The second salvo fired by this Theme is how to apply the financial resources available to a Judicial Officer to attain a performance level that can be viewed as the best attainable. More so, in an environment that is clothed with the flavor of vested interests, disequilbrating forces and ethical opprobrium.

In summary, therefore, financial discipline reflects an efficient use of financial resources accompanied by a sense of accountability, fortrightness, and best of intentions. A financially disciplined officer epitomizes moderation, contentment, and does not fall prey of unholy lucre fueled by greed and avarice.

Generally, in this landscape today, financial indiscipline manifests in the sub-optimal use of public finances due to a myriad of micro reasons as follows:

- Distributive Injustice > It is often said that in Nigeria as in most developing economies, about 90% of the financial resources of the country are in the hands of less than 10% of the population. Greed for material possession is usually accompanied by financial recklessness;
- Accordingly, there is widespread absolute and relative poverty wherein about 60% of the populace live below the poverty line;
- This lopsided and sub-optimal use of the nation's wealth promotes inequality with the attendant social strife and discontentment;
- The country continues to carry the toga of underdevelopment with majority of the populace unable to provide for the basic necessities of life.

While the above appears very worrisome, the concern here is for our distinguished participants to do their bits on their respective seats to promote financial discipline and optimum performance. Our landscape is dotted by a deluge of complainants, whereas the land is begging for more of the doers of the word. Let us make the difference.

The past and current efforts of the three arms of Government in promoting financial discipline towards optimum performance cannot be wished away. As a tip of the iceberg, I commend the participants to the following bold legislative steps:

- The enactment of the Procurement Act, the Fiscal Responsibility Act, etc
- The implementation of the annual fiscal budget.
- The EFCC Act 2004 (as amended).
- The ICPC Act 2004 (as amended).

The officers identified as key participants above must therefore apply their skills, competencies, network to articulate financial management template that will enable them utilize the various opportunities and options available in the Nigerian financial market to maximize performance.

B) THE NIGERIAN FINANCIAL MARKET

The Nigerian financial market is made up of a dual segment:

i) Money Market

This is the market for trading in short term funds, usually defined as one-year tenor. Regulators in the Nigerian Money Market are the Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC); Operators are the Deposit Money Banks, microfinance banks, mortgage banks, finance companies, etc.

ii) The Capital Market

This is the market for dealings in long term funds. Regulators are the Securities and Exchange Commission (SEC), the Nigerian Stock Exchange (NSE); while operators are the stock dealers, issuing houses, fund managers, insurance, investment advisers, etc.

C) INVESTMENT OPTIONS IN THE MONEY MARKET

A vast array of money market instruments is on display in Nigeria with attractive features for many an investor to choose from. They include:

1) TREASURY BILLS

This is a Federal Government instrument managed on its behalf by the Central Bank of Nigeria. TBs is issued in denominations that allow investors to show interest in volumes that are appropriate for them. The sole aim is to control the volume of money in circulation at any point in time. TBs are traded through the popular Open Market Operations (OMO). When there is more than desirable quantity of money in circulation, the monetary authorities sell the bills and withdraw money from the system, and vice versa. The Government can also issue the notes to raise funds from the money market to finance budget deficits.

Treasury bills attract low returns being a relatively riskless form of short term investments.

2) COMMERCIAL PAPER

Commercial Paper is issued by multinationals, large corporates and industry leaders to raise short term funds to meet their urgent liquidity requirements. It is often adjudged to be a relatively safe form of investment because of the goodwill and strong cash flow of the issuing company. It is often for tenor of 30, 90, i80 days and is redeemable upon maturity. Where the issuer does not have the clout or reputation to borrow from the market, CP being an unsecured loan, the investor may insist that the banker to the issuer adds its guarantee to the Paper, hence it becomes a Guaranteed Commercial Paper (GCP).

Because of the perceived relatively higher risk, returns on Commercial Paper are usually higher than that of Treasury Bills and Banker's Acceptance.

3) BANKER'S ACCEPTANCE

Banks usually take it upon themselves to lend to strong corporates to manage their balance sheet. Unlike a Commercial Paper, the primary obligor in the case of a BA is the bank. The investor need not bother about the ultimate beneficiary of the fund (the borrower from the bank) as the responsibility for repaying the investor is that of the bank. It is therefore the reputation of the bank that is the deciding factor.

4) CERTIFICATE OF DEPOSITS

An investor may opt for an outright tenured deposit placement with a bank for a duration ranging from 30 days to 365 days. He is issued a certificate of deposit which spells out the terms and conditions of the placement, including the rate of interest, duration and other general conditions. The risk is that of the bank as the investor looks up to the bank for redemption of the deposit upon maturity. The pricing (interest rate) on the deposit is expected to reflect this.

5) CALL DEPOSITS

When the funds available to an investor is for just few days, there is a window that could be made use of – place the money on call. Call deposits can last for just few days, but the beauty of it is that the fund generates something in the form of return as opposed to leaving it idle in the bank's coffer. Speaking from a position of knowledge, most public officers make us of this window at the expense of the defined purpose for the fund. Such funds as staff salaries and allowances, Pay As You Earn (PAYE), pension funds, NHIS fund, etc have been hurriedly placed on secret Call Accounts while the ultimate beneficiaries suffer delays in receiving what is due to them.

6) MONEY MARKET FUND

There are occasions when an investor may decide to place funds with professional fund managers who in turn reinvest such funds in safe instruments in the money market. By so doing, the investor enjoys the benefits of professional management of his funds coupled with attractive returns. The decision making process already has professional touch and he is insulated from the hassles of choosing safe, secured and high yield instruments.

D) INVESTMENT OPPORTUNITIES IN THE NIGERIAN CAPITAL MARKET

The capital market is patronized by those who on the one hand have stable, long term funds to invest and those who are seeking long term funds for business expansion, start up or acquisition of capital assets. Long term fund attracts higher returns as compensation for risks and uncertainties in the market and time value of money.

The following options are often available in the Nigerian capital market

1) STOCKS AND SHARES

Public Limited Companies can approach the capital market either to borrow or raise new equities. They are permitted to raise new shares in the market via Initial Placement Offer (IPO) arranged for the company by an issuing house. In other cases, it could be by way of rights issue restricted to existing shareholders. An investor buys shares with the aim of receipt of dividends usually on annual basis as the return on such investment.

Furthermore, an investor can approach the secondary market through a stockbroker to buy existing stocks. The floor of the Stock Exchange is populated by shares and stocks of different qualities and categories, waiting for patronage. Return on the investment in such shares is by way of dividend, payable usually annually.

2) BONDS

Bonds of varying types are often issued on behalf of Federal and State Governments. Bonds are usually for long duration, spanning five to ten years with the yield (return) determined and paid half yearly. Oftentimes, the coupon rate is determined upfront. Investment in government bonds is considered risk free unless the country is at war.

3) MUTUAL FUNDS

Some portfolio managers float funds in the form of unit trusts, etc which investors can patronize and are often redeemable and tradable in the secondary market.

4) EUROBONDS AND OTHER FOREIGN-CURRENCY DENOMINATED BONDS

The Nigeria capital market can give approval for local funds managers to access overseas bond market and allow their clients to invest in such instruments. This is more common for investors who earn revenue in foreign currencies either as proceeds of trade or contract sum.

In all the above, some factors are very critical in taking investment decisions.

- First is the safety of the funds being invested. It is trite that an investor must not gamble with the principal in anticipation of an attractive return on that investment. Hence, the nature of the product, the parties involved, the duration, environmental factors all go a long way to affect the safety of the sum being invested and must be appropriately weighted.
- Second, investment rests on the risk-return hypothesis. The higher the risk, the higher must be the return. Investors must as much as necessary engage the services of professionals to evaluate the risks inherent in the various investment options and determine expected returns based on the assessed risk of each option.
- Investors must operate within the realm of legality. There are investment products and options that are promoted by 'Wonders Banks', fraudulent individuals, who offer mouth-watering but unexplainable returns with the sole aim of fleecing those who fall prey of their antics. Examples include MMM, etc.
- Investors must shy away from funding mismatch. It is improper to stake short term funds such as working capital in long term investment options such as shares and stocks and bonds.

E) JUDICIAL INSTITUTIONS AND INVESTMENT IN THE NIGERIAN FINANCIAL MARKET

One message that is very paramount to participants at this Programme is to the effect that the nature of funds available dictates the investment options they can embrace in their quest to optimize performance. We are making the fundamental assumption that the Judiciary remains a beckon of hope and citadel of discipline all round. This assumption covers even the service departments and officers of such departments in the judicial institutions under reference.

One can safely visualize the nature of funds available to these institutions. Funds to meet overhead expenses, pay salaries, incomes from some statutory functions, etc. In some cases, capital votes for projects and trust monies. These to all intent and purpose are very delicate and transient funds that cannot be gambled with or locked up for unduly long period.

The most appropriate investment options must therefore be ones with minimal risks, if any, such as government treasury bills, banks short term and call deposits, etc. Exception to this may just be capital votes that remain in the hands of the officers for a long while. Even at that, care must be taken not to compromise safety of such funds.