

**THE EFFECTS OF PENSION
REFORMS POLICY ON THE
PERFORMANCE OF NIGERIAN
CAPITAL MARKET
(2004-2008)**

**BY
NASARA, DANJUMA SHIUKA.
MBA/MT/07/0337**

JULY, 2010

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*BEING PROJECT SUBMITTED TO SCHOOL OF POSTGRADUATE
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JULY, 2010

CERTIFICATION

I, NASARA Danjuma Shiuka (MBA/MT/07/0337) hereby certify that this project thesis on the *Effects of Pension Reforms Policy on The Performance of Nigerian Capital Market* was written by me and relevant authors were duly acknowledged.

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APPROVAL PAGE

This project thesis by **NASARA, DANJUMA SHIUKA** has met the requirement for the award of Master in Business Administration (MBA) of the Federal University of Technology, Yola and therefore, is hereby approved for its contribution to knowledge.

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DEDICATION

This project is dedicated to my late Grand mother, *Hajiya Amina Sugobi*

Paiko. May Her Gentle Soul continue to enjoy eternal rest (Amen).

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I am grateful to Almighty Allah (SWT) for sparing our life up to this moment to see the end of the program. My profound gratitude goes to my able and dynamic supervisor, Mallam Ahmed Alkali for providing a thorough insight, constructive criticisms and valuable suggestions both within and outside the frame work of the program as a whole. I also wish to appreciate the efforts of my able parents, Alhaji & Mrs Nasara Shiuka Paiko and the entire family for their advise, prayers and supports at all times, Dr N M Maiturare, Mallam Nasir Abdullahi, Amb Zubairu Dada Paiko, Late Alh Bello B. Paiko, Mr Paul O. Okoli, Mr Adebayo P. Jacob and the family of Mr & Mrs Wilson Gundiri for guidance and encouragement. My sincere appreciation goes to all staff of First Bank of Nigeria Plc, MUBI and Yola Main, My course mates for their immense sacrifice, contributions and support during the program. Allah bless you all.

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ABSTRACT

Reform especially in Nigeria's economic sector had always been an integral aspect of Nigeria's political economy since independent in 1960. Periodically, the way and manner in which the business of the state is conducted as well as the benefits accruing to the citizens in the process have had to undergo reviews depending on the exigencies of the time. The research affects the effect of pension reform policy on the performance of the Nigerian capital market. The study uses survey method and data were collected through the use of questionnaire, internet, inter views and other statistical records maintained by the pension commission, stock Exchange and other relevant bodies. The data collected were analyzed using the likert rating with the mean-value to measure the study work of the research. The study found that the promulgation and implementation of the pension reforms have adequately impacted positively on the Nigerian capital market. The reform succeeded in boosting the level of investments in the capital market with the pension funds generated despite the global economic crises.

The research study recommends an effective monitoring/supervision and enforcement of the provision of the PRA 2004 in addition to effective implementation of the penalties provided by the act on non-complier regardless of their status or region.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Pension is a promise of an employer, which he grants to his employee after retirement. Pension has to be earned after which the employer agrees to make monthly payments throughout the life of his former employee. Gratuity, on the other hand, is a lump sum payment usually granted immediately upon the retirement of the employee.

The first pension legislation in this country was enacted in 1951, referred to as the **Pension Ordinance**. Although, the ordinance was promulgated in 1951, it had retrospective effect from 1st January, 1946. To alleviate the suffering of elderly people especially those who had contributed to the economic growth of the nation in the productive years. Governments, all over the world are designing programmes such as pension reform policy currently going on in Nigeria to improve the pension administration.

The system for providing financial security for the old are under increasing strain especially in the developing country like Nigeria. Most employees neither have any meaningful retirement benefit nor earn enough during their working life to cater for their retirement. The extended families and other traditional ways of supporting the old are already weakening under the pressure of urbanizations, industrialization, and increased mobility. Indeed, the “pay as you go defined benefit scheme” in the public sector is burdened

with a lot of problems and has increasingly become unsustainable. It is in view of this, that arbitrary increases in salaries and pension as well as poor administrative structures, hence, the need for pension reform is glaring and inevitable. The longer the reform is delayed, the more urgent and difficult it becomes.

The government cannot watch with dismay the sufferings of the retired public servants suffer seriously due to non-payment of their monthly pensions. It is very clear then that pension cannot longer remain as it is without some reform to improve the situation.

Therefore, this research is motivated toward assessing the strategies and policies adopted in pension administration in Nigerian public services and finally the effect of the pension reform on the Nigerian capital Market.

1.2 Statement of the Problem

In spite of the importance of pension, many civil servants suffer from irregular payment of monthly pension due to lack of comprehensive framework for the regulation and supervision of the pension funds. This led to the introduction of pension reform policy in 2004 to adequately address the situation of pension funds.

Nigerian economy by its nature is dominated by small and medium scale business and companies. Therefore, it is expected that the Nigeria Stock Exchange market as a component of Nigeria Capital Market should design its operations to meet the capital demand of these companies and economy

at large in order to accelerate the level of economic growth and development of the nation.

But how efficient and effective has the Nigeria Stock Exchange carried out with its activities and operations to meet the demands of the market is the question at hand. The research intends to investigate the following problems:

- The activities of the capital market before and after the pension reforms policy.
- The adequacy of the pension funds administrators in complying with the trading activities as contained in the reform policy despite the economic crisis which has adversely affected the capital market.
- Examine the issues associated with the implementation of the reforms on the capital market in line with the objectives of the market.

1.3 Objectives of the Study

The major aim of this study is to assess determine the effect of the pension reforms on the performance of Nigerian Capital market. Therefore, this work becomes pertinent for the realization of the following objectives:

- (1) Examining the activities of the capital market before the pension Reform Act, 2004
- (2) Determining the impacts of the reform policy on the financial discipline of the employee.
- (3) Assessing the effects of pension reforms policy on the economic growth and development of the nation.
- (4) Evaluating the strategies of the reform policy on the performance of the economy.

- (5) Identify problems associated with the implementation of the reforms and propose possible remedies.

1.4 Research Questions/Hypothesis

In order to achieve the objectives of this study and to solve the problem under the study, the following research questions are raised:

- (1) How were the activities of the capital market before the pension reforms policy?
- (2) To what extent has the pension reforms policy impacted on the financial discipline of the employee?
- (3) How has the pension reforms policy improved the economic growth and development of the nation?
- (4) What are the possible strategies adopted in the reforms policy towards enhancing the performance of the economy?
- (5) What are the likely problems associated with the implementation of the reform policy?

1.5 Significance of the Study

This research work will be of benefit to the following groups:

- (a) Pension fund administration:

This study would guide the Pension Fund Administration on the manner of operation between them and the Pension Fund Administrators with adequate information on the problems and prospects of Pension Administration in Nigeria.

(b) Employers of the Labour:

This study would provide adequate knowledge on what the employee needs to do or know about the pension scheme, it would also help the employee to be conversant with the problems and the benefit of pension scheme as it afflicts them.

(c) Custodians:

The custodian of pension fund would also gain insight on the proper management and disbursement of pension funds.

(d) Fellow Researchers:

Fellow researchers wishing to carry out further research into the field of pension administration.

1.6 Scope of the Study

The research intends to determine the performance of the capital market before and after the new pension reform policy between 2004 -2009 towards the activities of the employee, employer and the society. The work also covers the strategies, impacts and likely problems of the reform policy on the capital market.

1.7 Limitations of the Study

The study will be restricted to staff of Nigerian Stock Exchange, Yola, National Pension Commission Abuja, some Pension Funds Administrators

Representative offices in Yola, Financial Institutions like Fbn plc, UBA plc and Zenith Bank plc. Other constraints include inadequate materials on the topic, unwillingness of the relevant bodies to provide materials for the study.

CHAPTER TWO

LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

2.1 Introduction

In this chapter, emphasis is placed on the following areas, historical overview of pension policy in Nigeria, objectives of pension reform policy in Nigeria, an overview of the Nigerian capital market and objectives, capital market instrument, method of participatory in the capital market. Highlight on the recent development affecting pension administration, investment of pension administration funds and existing laws would also be discussed.

2.2 Conceptual Framework of the Pension Reforms Policy

The Act, 2004 specified that the reform policy is a contributory programme, and the total mandatory contribution is 15% of salaries in equal proportion of 7.5% by both the employee and the employer respectively. The Act also applies to employers of labour in the private sector and federal civil services, including the federal capital territory. It cover worker in any company, organization, incorporation and registered bodies, institution and agency which employs five (5) or more persons.

The first pension scheme in Nigeria was introduced in 1946 and governed by the law known as the Pension Ordinance which was enacted and

promulgated in 1951, and into operation on the 1st January 1946. The colonial pension which was primarily designed to the United Kingdom Officers was move from post to post in the West British Empire. The intention was to ensure that they maintained continuity of services whenever and wherever they were send to serve when the law became applicable to indigenious staff, it has limited application to the extent that it was granted at the pleasure of the governor general of Nigeria. Under the ordinance therefore, pension was not an automotive right of Nigerians. It could be withheld at the flimsiest excuse.

In February 1979, the federal government of Nigeria issued a circular directing each state government to establish, or set up its pension board. In September, 1987, the circular with reference GHO/GGS/9251, the federal government issued yet another directive to all states of the federation as a follow up to the 1979 directive earlier issued, that each state must set it pension where they have not yet done so within a maximum period of 3 month from the date of the circular.

Ogunshola (2004) maintained that Prior to the pension reform acts of 2004 and the setting up of the National Pension Commission, the situation was such that:

- a) There were significant outstanding pension liabilities.
- b) Most schemes in existence were underfunded.
- c) Majority of workers in private sectors were not covered by any retirement benefit arrangement.

Ahmad (2008) states that it was as a result of increasing pension burden on government with the problem of inability to pay pension as and when due

necessitated that the new pension reform Act 2004, which was enacted on 25th June, 2004 and came this was enacted into effect on 1st July, 2004 by the national assembly of the federal republic of Nigeria. The Act states:

1. That these shall be established for any employment in the federal republic of Nigeria, a contributory pension scheme (in his act referred to as “the scheme”) for payment of retirement of employers to whom the scheme applies under this act.
2. Subject to section 8 of this act, the scheme shall apply to all employers in the public service of federation, federal capital territory and private sector:
 - a.) who are in employment in public sector.
 - b.) who are in employment in an organization object of the scheme in which there are five (5) or more employees in private sector.

Uzoma (1993) defined Pension as the sum of money paid regularly to a person who no longer works because of age disablement to his/her spouse or dependent by the state or former employee or form to which both have contributed. It is a provision of life income to superannuated staff at the end of an economically productive life and has provision for benefit in the event of the death disable before retirement and a consideration for dependents. Kujure (2002) further defined pension as a series of payment made at regular intervals to someone who has come to the end of his working life. The intervals could be monthly, quarterly, half- yearly or yearly depending on the nature at hand and the most important factor is that the interval must be regular.

There are many argument for and against that, should the scheme be contributory or non contributory. Ahmed (2006) state that fundamentally, schemes was contributory in order to reduce the cost to the employer or to provide better benefit at no greater cost. Contributory scheme is in the nature of a joint venture (i.e. both the employer and his employees) and the employer will take more interest in the scheme and appreciate much more if it is presented to him in this way. Employees appreciate benefit much more when they themselves have had to contribute for them. But Employee believes that they alone are paying for their benefit and that should help those who help themselves and if they are willing to contribute for their pensions.

Bernard (2006) emphasized on a contributory pension scheme as a kind compulsory savings bank on which an employee can rely upon if he/she in is a real financial trouble. All the employee has to do is to leave and get his money back, but one of the objectives of having a pension scheme is to encourage employee to remain with a company throughout their working lives. The administration of non contributory scheme is much simpler for fewer records are needed to be kept if heavy labour turnover persist for several years after entering employment. The employer will not be giving so much away in a contributory fund for a large number of employees who will stay with him to pension age.

Ogunsola (2004) further defined Pension and Gratuity; pension means payment made by the state/employer to the older or to an employee after living service while Gratuity is gift money given to an employee for service rendered at the end of his period of service. According to him, it has already

been noted that in some scheme only the employer contributes and that in other scheme both the employer and employees contributed. The former type of scheme has been referred to as a “non contributory” and the later as contributory.

Okotomi (2008) however states that, It is necessary to consider where the relative merit lies and in what circumstances. The contributory scheme is probably still the most common in the world, but the reason seems generally to be traditional. Looking back to the beginning of the country when pension scheme although known were by no means common, the whole psychological set up in industry was very different. An employer did not consider he was concerned with his employee ultimate welfare. The employees either save enough themselves for retirement or worked on till they died more usually, it is the later, but rarely did they expect other treatment. In such circumstances, an employer felt he was generous if he simply provided a pound for pound subsidy to pension scheme, it appeared to him that it was more than it was really necessary for him to do. Hence, in those times nothing but a contributory scheme was contemplated and if any attempt had been made to argue the advantage of non contributory scheme, it would probably have been said some what that it was good for the employees to do something for themselves and that they appreciated it all the more if they did so.

It is gradually becoming appreciated that under the present conditions, it is from some point of view only a matter of from whether the contribution is paid entirely by the employer in the first place or whether some of it is paid first to the employees as salary and then contributed by him to the scheme.

Based on this analysis, David (2007) argued that there are conflicting merits and that no one answer is likely to be always correct. The non contributory scheme has certain advantage; it is simpler and it avoids the administration of deduction from salaries at regular intervals and of keeping precise records so that an employee, upon leaving may be repaid his proper contributions, it leave the employer more complete control of the scheme and wider discretions may reasonable be permitted to him without reference to the employees, than if the scheme is contributory. Kantudu (2008) further states that there is still a general feeling that the spirit of common venture is worthwhile, that something which is done jointly between employers and employee is worth much more appreciated by every one than something is done by the employer only. There is infact, a very deep noted conviction that the contributory scheme is necessarily better. A conviction that a scheme ought to be contributory is one that should not be ignored. The contribution, whether they are made formally by employer or the employees comes from the same sources, the gross revenue of the business itself.

Among the lower paid employees where a heavy turnover is anticipated, the idea of joint venture probably carries less weight. The majority of such employee do not expect to remain in the employment of the firm to receive a pension and do not always being to the problem and adequate appreciation of the intricacies of the management of such scheme for such employees there is less advantage making the scheme contributory. By the provision of circular Ref No. B63216/SD/X of 20th August, 1999. The federal government approved the restoration of the 35 years service rules as a condition for retirement with effect from 1st September, 1999. Accordingly,

every officer shall retire from the service on attaining the age of 60 or 35 years of pensionable service whichever ever comes earlier. Every officer shall be required to ensure that his entitlements are paid to him as he leaves the service. For all officers who were 60 years old or who have attained 35 years of Pensionable service before or by the 31st august, 1999 they were by virtue of the circular retired from service with effect from that date. All affected officers were required to ensure that they handed over to next senior in their department not later than 31st of august, 1999. The circular emphasized that “without prejudice to the circular ref no SGF.II/VOL LLL.T/26 of the 20th February 1997, an officer in which ever grade, shall with effect from the date he attains/attained the age of 60 years or 35 years of pensionable service, whichever is earlier where an officer, for whatever reason, stays in the services, beyond the date he is expected to retire, all emoluments benefits earned by him there after shall be deducted from his/her retirement benefit and he shall, in addition face other severe disciplinary actions except whose appropriate authorities have been giving approval for the over stay in service.” That circular superceded circular Ref NO 5GFII/VOL III/T/26 of 20th February, 1997.

However, the pension right of judges Decrees No 5 of 1985 places the retirement age of judges at 65 years. The retirement age of judge of the Appeal court and Supreme Court is 70 years. In case of academic staff of universities Decree 11 of 1993 gave 65 years as their retiring age.

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2.3 Objectives of Pension Reforms in Nigeria

Oluwatoyin (2009) states that the reform policy is aimed at creating pool of investible funds that will assist government achieve some of its medium/long term micro-economic goals, aim at reducing the rates of interest and inflation, encouraging investments especially in the ‘real’ sectors, and develop basic infrastructure. Some major objectives of the pension reform include:

1. Ensure that every person who worked in either the public services of the federation, Federal capital territory or private sector receives his retirement benefits as and when due.
2. Assist improvident individual by ensuring that they save in order to cater for their livelihood during old age.
3. Establish a uniform set of rules, regulations and standards for administration and payment of retirement benefit for public services of the federation, federal capital; territory and other private sector.
4. To establish a uniform pension system that empowers employees to have control over their Retirement Saving Accounts (RSA), promotes labour mobility and minimizes incentives for early retirement.
5. To ensure transparent and efficient management of pension funds, and
6. To promote wider coverage of pension scheme in Nigeria.

The principal objectives of the commission shall be to regulate, supervise and ensure the effective administration of pension matters in Nigeria.

2.4 Overview of the Nigerian Capital Market

According to Mohammed (2004) the financial market would be incomplete without capital market. The primary role of capital market is the provision of long term finance for development.

Long term finance in this regard includes debt capital in form of debentures, bonds, mortgages and long term loans among others. Financing can also take the form of equity financing (their meaning) through either common stock or the preferred stocks. However, a capital market can be divided into two:

- i. Primary capital market and
- ii. Secondary capital market

In the primary capital market, new securities are traded (new issues market) while in the latter only existing security are dealt with. A stock exchange is good example of a secondary market. THE Nigeria Stock Exchange (NSE) was established among other reasons to promote increased capital formation in Nigeria by providing issues and investors with a responsive floor and efficient stock market through competent and dedicated professionals using the latest technology thus assuring local and foreign investors access to Nigeria stock market with confidence both in the regulatory depository trading and settlement system.

This, being the case, there is a need for dynamic effective and efficient channel of advancing capital to prospective industrialist, business men and the appropriate sectors of the economy. This need is what Nigerian capital market vested with the duty of capital formation in local economy was established to meet. It carries out this duty by mobilizing funds from surplus

units and allocates it to those businesses and companies with the greatest prospective rate of return often after due allowance. However, capital market performance goes a long way to determine the extent of rapid growth and development of an economy.

2.4.1 Objectives of the Capital Market

Osemudiamen(2007) opined that the capital market was established in Nigeria to provide:-

1. To provide local opportunity for borrowing and lending for long term purpose.
2. To enable government mobilize long term capital for economic development of the country.
3. To provide foreign business with facilities to offer their shares to the Nigerian public and opportunity to invest in the shares.
4. To produce code of conduct, check abuses and regulate the activities of operation in the market.
5. To provide healthy environment for joint effort indigene and explicate investment.
6. To offers access to a variety of financial instruments that enables economic agents to pool, price and exchange risks.

2.5 Capital Market Instruments

The capital market instrument is mainly of two aspects. The long term capital instrument and short term capital instrument

2.5.1 The Long Capital Instruments

These are instrument/means through which fund can be raised on long term basis. These instrument are termed “long term” because of their long term period of maturity after which they became redeemable. Maturity period of some of them ranges between 2 and more years while some continue indefinitely such as shares, stock i.e. share stock, debenture, loan, stocks, mortgages, warrant or subscription right, leasing among others. According to OSAGE (2001), these instruments yield higher interest due to risk involved in evolving them especially when private companies instead of government are involved.

Share

These are instruments evidencing partial ownership of a business enterprise in which a number of people have contributed money as joint owners. They always entitle the holders to a proportionate right. There are basically two types of shares; ordinary and preference shares.

Ordinary shares otherwise known as equity are issued to the owners of the company. The holders of these shares contribute money to the capital field of an organization in turn of being members and part owners of the business. Being part owners means that they have to contribute to decisions and have voting right at the annual general meetings. All profits made by the organization go to increase the value of the shareholding and vice versa when losses made.

On the other hand, Preference Shares are the ones held by individual who has contributed money to the capital fund on a fixed rate of return as dividend. There are mainly three types of preference shares.

1. Participation reference shares
2. Cumulative preference shares
3. Non cumulative preference shares.

Participating preference shares are held by people who participate in the profit sharing with a fixed rate of return have been paid. Where a given year the organization makes no profit, the cumulative shareholders will wait till a better year before receiving dividend for that year. The non cumulative preference shareholders will go for their dividend that year. However, the voting right is restricted on preference shareholder and is paid normal value of their holding before any payment is made to ordinary shareholders. Preference shareholder is not regarded as the part owner of the company itself.

Debenture

These can be defined as a written acknowledgement of a debt incurred by the company seal and normally containing provision about the payment of interest and eventual repayment of capital. The holders enjoy a fixed rate interest irrespective of profit being earned. Hence, David (2008) said “a debenture holder has the guarantee of the purchasing power of the repaid capital” this is because the profit of the compound has no effect whatsoever, on the interest because they are fixed. The maximum maturity period of debenture is 21 years. However, debentures are recovered by a “trust deed”, which empowers the trustee to act on behalf of the debenture holder if the

condition of borrowing under which the debenture was issued is not fulfilled. For instance, trust deed might place restriction on the company's ability to borrow fund elsewhere until the debenture are paid back.

Loan Stock.

These are a long term debit term debit capital raised by company on which interest is paid at a fixed date for stated period of time, Quoted "coupon held" on the amount. For example, a company issues a loan stock of N200 million with a coupon yield 20% 200 million interest each year.

Mortgages

These are specific long term promissory types of secured loans backed up by collateral security in which companies' place their title deeds of a freehold on lease hold property and security with an insurance company and bank which receives cash on loan, usually payable over a specific period of time.

Warrant on Subscription Right

A warrant is a right given by a company to an investor allowing him to buy shares at future rate of a fixed predetermined price which is known as the exercise price. The warrant is usually issued as part of package with secured loan stock that is an investor who buys will also acquire a certain numbers of warrants as to make the issue of loan stock more attractive

Leasing

Finance lease are possible source of long term finance of a company that chooses to acquire some of its fixed assets under lease arrangement. Finance lease are lease agreement between the user of the leaser asset (lease) and a provider of finance (leaser). The provider of finance does not supply the lesser asset to the user rather the supplier sells the asset to the leaser who immediately in which the lesser never has physical possession of the asset even though he owns it.

Sale and Lease Back Management

A company which owns its premises can obtain finance by selling property to an insurance company or a merchant bank for immediate cash and renting it back.

2.5.2 The short/medium term capital instrument

As their names imply the short and medium term capital instrument are those instrument with which fund could be raised in both short and medium terms respectively. The maturity period of term instrument does not go beyond one year while that of medium term instrument range between one and two years, both short and medium term instrument are traded in the money market.

Kantudu (2008) emphasize that, the main commonly used short and medium terms instrument in the Nigeria Money market are the treasury bills, treasury certificates, call monies and the eligible development stock.

Treasury Bills

Treasury bills were issued for the first time under the treasury bills ordinance of 1951. They are means which the Federal Government uses to borrow money for short period of time usually 91 days with fixed discount. They account for more than 70% of the short term security market and therefore dominate money instrument in Nigeria.

Investments in treasury bills are many and varied. Apart from the Central bank of Nigeria that takes up the unsubscribe part; the highest takers are the banks, especially the commercial banks followed by others comprising the federal, State and Local Government.

Treasury Certificate

This is a medium term government security with the maturity period ranging between one and two years and serves as an intermediary between the short-term treasury bills and long-term government securities.

Treasury certificates were first issued by the Central bank of Nigeria in 1960 at a discount of 41/2% and 48% for a year and two years certificates respectively. Then later were usually higher than what the treasury bills (7-Bills) could yield, and this account for their initial success. Then longer maturity period also serves as a complement of 8\91 day's period of the treasury bills. The success of these certificates is backed by huge figures of 20 million, it is recorded as subscription in the first year and 286 million for four years later. Occurring these period (1960-1978), Onigbo said that monetary authorities noticed more and more on treasury lose a percent of all instrument combined for 11% as at December 1977 to 62% to 1978. Later they went down and today treasury bills are more pertinent in the money in Nigeria.

Call Monies

The instrument that operates in the call monies agree to an arrangement whereby the participant invest their surplus monies on over night with interest and may decide to withdraw without given notice, that is they can withdraw their investment on demand. Otherwise refer to as the Liquid Asset of Banks; it presents the lending of the bank to the market, other banks, bills broker and individuals are those that involves in this category. The word “call” indicates the very short nature of the loan. Lending bank can call back its money from the borrowing institution barely 24 hours after the contract has been concluded.

Eligible Development Stock

The Federal Government Development Stock where maturity rolls downs to years or less are classified under this heading and the Central Bank of Nigeria classified it under the Nigeria Money Market tables. Such stock becomes eligible for purpose of satisfying bank liquid ratios as they now become asset. Because such stock forms apart from banks liquid asset the assumption is that it may encourage the bank to invest more in their securities.

The volume and amount of eligible development stock have been falling since 1984 mainly because matured stocks had always been redeemed and more so, there have been other short term instrument with higher yield.

2.6 Method Of Participatory in the Capital Market

These are the basis governing the listing in the capital market. Naturally, Osemudiamen (2007) lamented that the Nigeria Stock Exchange constitutes the most important secondary market institution in the capital market. The secondary market is also in charge of two tiers, the first tiers and the second tier security market. Therefore for any company to be listed on any of the above tiers of the secondary markets, there are rules that must adhere to.

2.6.1 First tiers market (main).

This is the market for both new and existing issues of fully listed companies; it is the main stock market for major companies. According to NSE, 2007 bullion, the following rules are observed in the market:-

- a. Company must be registered as public limited liability company under the company and allied matters act 1990.
- b. The company must submit to the exchange a financial statement/business records for the past five years.
- c. The date of the last audited account must not be more than 9 months
- d. Amount of market that can be raised is unlimited depending on the borrowing power of the company.
- e. Annual quotation fee is based on market capitalization
- f. At least 25% normal value of share capital must be offered to the public.
- g. Number of share holders must not be less than 300 members.
- h. After listing company must submit quarterly, half yearly and annual accounts.

- i. Securities must be fully paid up at the time of allotment.
- j. Unallotted security must be sold on Nigerian Stock Exchange trading floor.
- k. Provision for issue of merger and acquisition, unit trust and mutual fund.

2.6.2 Second Tier Security Market

This is where and medium scale companies interested to be listed in the market have their shares traded on daily basis. The rules governing here include:-

1. Company must be registered under the provision of the companies and allied matters act 1990.
2. Company must submit to the exchange commission the financial/statement business record for the past three years.
3. Date of last audited account must not be more than 9 months.
4. Amount that can be raised must not exceed 5 million.
5. Annual quotation fees are the flat note of three thousand.
6. At least 10% nominal value of stock capital must be offered to the public.
7. Number of shareholders must not be less than 100.
8. After listing company must submit half yearly and annual account.
9. Securities must be fully paid up at the time of allotment
10. Unallotted securities must be sealed on stock exchange trading floor.
11. There is provision yet for issues of mergers and acquisition, unit trust and the usual trust fund.

2.7 Recent Development affecting Pension Administration in Nigeria

The Federal Government recently approved the introduction of a contributory Pensions scheme in the public service of Nigeria. Consequent to this positive development, a new law for the establishment of the new pension scheme which attracts contribution from both workers and bill was sent to the National Assembly which was enacted and comment on 25th June 2004. The Federal Government also approved the establishment of its National Commission to regulate, monitor and issue guidelines for the operation of all the pension boards, national social insurance trust fund and the private sector pension schemes. Similarly, the Federal Government approved the establishment of a Federal Pension board, both of which are long over due. Under this legislative, every civil servant would be made to contribute 15% of salaries in the proportion of 7.5% and 7.5% by the government. The scheme shall apply to all officers in the public service; including the executive, legislative and judiciary arms of government. For the military and Para-military workers, the rates are 5% and 15% respectively. Existing pensioners and workers that will be eligible for pension within the next three years of the date of the commencement of the law will be unaffected by the reform.

The contributory pension scheme has been introduced primarily for the benefit of the employee. Section II (I) provides:

Every employee shall maintain an account (in this act referred to as the retirement saving account) in his name with any pension fund administration of his choice. The employee is ordinarily expected to indicate the process for

the operation of the contribution pension scheme by opening a retirement saving account with a pension fund administration of his choice it is worthy of note that though the pension reform act 2004 came into force in June 2004, pension fund administrators (PFAs) were not license until towards the end of 2005, the provision which entitled an employee to choose his pension fund administrator have come under criticism. There are jurisdictions where the employee chooses the manager for which they do not bear the risk. In communiqué issued by the certified pension institute of Nigeria at the end of its annual conference in November, 2005, the institute noted that:

The Choice of PFA by the employees as provided by the pension Reform Act should be amended to allow employers and in house labour unions to choose PFAs for a smooth operation of the system as allowing every employee to choose a PFAs of his/her choice could be chaotic. The rationale for allowing an employee to make an independence and perhaps informed decision of his Pension Fund Administration (P.F.A) is the recognition of the right of every individual to the management of his own affairs including financial affairs.

Recently, employers are required to send a schedule of pension schemes to the National Pension Commission for employers whose present pension schemes were unfounded and the commencement of the Act (2004) shall give a written acknowledgement of debt to each employee to the extent of his indebtedness, and shall indicate the means by which it fund the shortfall.

Employees who presently manage their pension schemes in house are required to transfer the funds accumulated/accrued for each employer under such scheme to the Pension Fund Administrator chosen by the employee.

The employer however has the option of continuing to manage such pensions if it desires but must meet the requirements of the National pension commission to be registered as a close pension fund administrator. Every employer who chooses to be registered as a close pension fund administrator (close PFA) must transfer the pension fund assets to a Pension Fund Custodian (PFC). PFCs are the only companies authorized under the act to hold custody of pension fund assets.

Another development is that the act mandates the Nigeria Social Insurance Trust Fund (NSITF) to set up its own PFA. The accumulated contributions made by all employers and employees to the NSITF up to 2004 would be managed by NSITF's PFS for a transitional of 5 years.

2.8 Investment of Pension Fund and existing Laws

A close examination of the existing legislation guiding the investment of pension funds, both in the public and private sector of the economy, will reveal an urgent need for their review. As earlier observed, the pension Act No.102 of 1979 which was the existing law for the public service reform scheme had no provision that would allow pension funds to be established and invested. The other pieces of legislation that required amendment are the government and other securities (local trustees powers) Act of 1967 and the trustee investment of trust and other pension reforms in Nigeria, in locally issued securities. They prescribed the legal framework of investment portfolios for public and funds. Another inhibiting law is the income Tax Management Act of 1961, which makes it mandatory that at least 331/3 of

all funds, should be invested in securities of any government in Nigeria. It further prescribed that in case on an invested pension scheme; at least 50% of all monies derived thereof shall be invested in Nigeria. In view of the dynamic growth in the investment climate, some of the legislation listed above have become outdated and should be reviewed without further delay. This will create room for a more aggressive investment climate for pension funds. Each pension scheme will grow if the restriction on the investment of trust on pension funds is reduced.

2.8.1 Regulation of the Investment of Pension Fund

Key principle of ring fencing “pension assets”

Pension Fund Administrators (Functions):

Any pension fund administrator licensed under the pension reforms Act, 2004 shall carry out the following duties:

- i.) opens administers retirement savings account (RSA) for every employee in liaison with PENCOM with a personal identity number(PIN) attached and appoints a pension fund custodian.
- ii.) PFA invests and manages pension fund custodian assets in accordance with the Act.
- iii.) Maintain books of accounts on all transactions relating to pension funds managed by it.
- iv.) provide regular information on investment strategy, markets returns and other performance indicators to the commission and employees/beneficiaries of the retirement savings account.

Pension Fund Custodian

- i. PFC receives the total contribution and hold pension fund assets in safe custody on trust for the employees and beneficiaries of the retirement benefits.
- ii. PFC executes transaction and undertakes other related activities on behalf of PFA.
- iii. Guarantee of pension assets by shareholders of PFC.

Basically, the following clarification is relevant:

- a. Pension Fund Custodian (PFC) can only take instructions from the licensed pension fund administrator (PFA) on the investment and management of pension fund assets held in their custody on behalf of the contributors.
- b. The PFAs in discharging their contracted function to contributors, shall not contract out of the investment/management of pension fund assets to third parties.
- c. The PFCs in discharging their contractor functions to PFAs, will not contract out the custody of pension fund assets to third parties.
- d. PFAs shall maintain a single fund for the investment of pension fund assets, until multiple funds are approved by the commission. The commission, in collaboration with the PFAs, shall provide the necessary guideline on the operation of such multiple funds in the near future.
- e. Each PFA is required to establish an investment strategy committee, as well as, a risk management committee. In compliance with section 66 of the Pension Reform Act 2004.

- f. The investment strategy committee shall formulate internal investment strategies to enable compliance with the investment regulations issued by the commission, determine an optimal investment mix consistent with risk profile of the PFA, evaluate the periodic performance of their portfolios and carry out all other functions deemed necessary in meeting investment objectives.
- g. The risk management committee shall determine the acceptable risk profile of the investment portfolio, draw up risk assessment and measurement systems, monitor their portfolio against risk tolerance limits, as well as, all other function relating to risk management to be determined by the PFA Board and the commission, from time to time.
- h. Each of the committees in section F and G above shall have at least one Non-executive Director as a member.

2.8.2 Authorized Markets for Trading

All trading of securities carried out with pension fund assets, shall take place on the floor of a securities exchange, registered or recognized by the Securities and Exchange Commission (SEC) or a Money market Electronic Platform open to the public and approved by Central Bank of Nigeria (CBN) or money market association of Nigeria.

Exception to paragraph 2.8.2 of these regulations is applicable when;

- a. Acquiring bonds and securities (in form of bonds) issued and fully guaranteed by the Federal Republic of Nigeria or the CBN, directly from the issuer. The prospectus for offering such bonds shall specifically state that such securities shall be listed for trading on the floor of a registered securities exchange.

- b. Trading with participation units of open-end investment funds or specialist open-end investment funds on the memorandum list of the Nigeria Stock Exchange (NSE), from/to the investment fund or the managing company.

NOTE: Registered securities exchanges consist of all securities exchange recognized by the Securities and Exchange Commission.

2.8.3 Quality of Shares, Bonds and other Securities

- i. Rating Requirement
 - a. All investment instrument in which pension fund assets shall be invested must have a minimum investment grade level rating of “BBB” by at least one (1) recognized risk rating company.
 - b. Any company with instrument of pension fund assets shall be invested must have a minimum corporate rating of “BBB” by at least one (1) recognized risk rating company.
 - c. Any bank in whose instruments, pension fund asset are going to be invested must have a minimum corporate rating of “A” by at least one (1) recognized risk rating company.
 - d. Any instrument proposed for listing on the floors of any recognized securities exchange through an initial public offer, shall have a minimum acceptable rating of “AAA” by at least one (1) recognized risk rating company.
 - e. All ratings shall be undertaken by rating companies registered by the Securities and Exchange Commission who shall provide the list of the recognized rating companies at regular intervals.

- ii. Pension Fund Assets can be invested in Nigeria Treasury Bills (NTBs) and certificates issued by the CBN, in meeting the liquidity needs of the PFAs.
- iii. Pension Fund Assets may be invested in debt securities redeemable preference shares and other debt instrument issued by corporate entities if:
 - a. They have clearly defined term/maturity features, periodic and terminal payout, as well as, in terms, terminal and contingent redemption features except for Zero coupon and convertible bonds.
 - b. They must have been lawfully issued.
 - c. They are listed/quoted on registered securities exchanges
 - d. They are new issued that satisfy the requirement in option 2.8.3(D)
- iv. Pension Fund assets can be invested in ordinary shares of public limited companies if:
 - a. The public limited company has made taxable profits and paid dividends/issued bonus shares for, at least, three (3) in the five (5) years preceding investment of the funds.
 - b. The issuing companies “these are listed/quoted on a registered securities exchange”.
 - c. The company is floating a new offer that’s satisfies the requirement in option 2.8.3(D)
- v. Pension fund can be invested in real estate, only through instruments such as Mortgage backed securities (MBS) and real estate investment

trusts (REITS). Such MBS above shall satisfy the following requirements:

- a. Meet the provisions of section 2.8.3 (i)
- b. The face values of the issue is not less than N1billion
- c. The market value of the mortgage securitizing the issue MBS, shall not be lower than the ration 1:5:1
- d. They must be quoted and listed on a registered securities exchange.
- e. Where such MBS is new issue, it shall meet the requirement of section 2.8.3(D)

Such REITs above shall satisfy the following requirements:

- a. The company managing the funds has minimum of 3 years continuous experience managing assets of third parties.
 - b. The face value of the issue is not less than N1billion
 - c. The prospectus shall specifically state that the securities shall be subject to memorandum listing on recognized securities exchange.
 - d. The fund has made taxable profits for at least, three (3 years) years immediately preceding the investment.
 - e. The fund has paid dividends or issued bonuses for, at least 3 years immediately preceding the investment.
 - f. Where such REITs is a new issue, it shall meet the requirement of section 2.8.3(D)
- vi. Pension fund asst can be invested in units sold by open-end funds or specialist open-end funds if:
- a. The company managing the fund has minimum of three (3) years continuous experience managing assets of their parties.

- b. Net asset value of the fund should not be less than N2billion
- c. A maximum of 65% of the fund should be invested in quoted equities on registered securities exchanges.
- d. The fund has made taxable profits for, at least, three (3) years immediately preceding the investment.

2.8.4 Conflict of Interest

- 1. PFA shall not invest pension fund assets in instrument that are subject to any type of prohibition or limitations on the sales or purchases of such instrument.
- 2. PFAs cannot trade margin accounts or takes position with pension fund assets.
- 3. A PFA Managing pension fund assets is not permitted to keep “short positions” (Short-selling) i.e. borrowing of securities.
- 4. PFAs shall not trade in financial instrument with pension fund assets at prices that are prejudicial to the pension fund assets. A prejudicial price is a price that is different from the market price allowable on the exchange on the day the transaction is effected, regardless whether the purchase or selling price is higher or lower than the market price.
- 5. PFAs are prohibited from investing any pension Fund Asset in the shares or any other securities issue by the following:
 - a. A Pension fund administration
 - b. A pension fund custodian

- c. A shareholder/director of the PFA or PFC holding pension fund assets on its behalf.
 - d. Securities/Asset not listed/traded at a registered security exchange.
6. PFAs shall not sell Pension Fund Assets to the following:
- a. itself
 - b. A shareholder, Director or affiliate of the PFA
 - c. Any employee of the PFA
 - d. The SPP use of any persons referred to in (a) to (c) of this paragraph or those related to said persons
 - e. Affiliates of any shareholder of the PFA
 - f. The PFC holding Pension Fund Assets to the order of the PFA
7. The PFA or any of its agents shall not:
- a. Purchase any pension fund assets under its management
 - b. Apply pension fund assets under its management by way of loans and credits, or as collateral any loan taken by any person.
 - c. Divulge or utilize confidential information regarding pension fund assets investment decisions, for any personal, corporate or related benefit.

2.8.5 Investment limits and Performance

- a. Pension Fund assets can be invested in bond and other securities issued by the Federal Government of Nigeria without any limitation
- b. No more than 2.0% of pension fund assets can be invested in bond and debt instrument issue by any state government.
- c. Pension fund assets can be invested in eligible bond and debt instrument issue any state government in Nigeria, as long as; the holding does not exceed 2.0% of any one issue.
- d. Pension fund assets can be invested in eligible bonds, REITs mortgage and assets backed securities and debt instrument issued by a corporate entity as along as, the holding does not exceed 2.5% any one issue.
- e. Pension fund assets managed by a PFA can be invested in certificates of Deposit and Bankers Acceptance of any one bank issued on its own behalf and traded on a money market electronics platform open to the public and approved by the CBN or Money Market Association of Nigeria, subject to the limit of 2% for a bank with risk rating of “A”, 3% for bank with risk rating of “AA” and 4% for a bank with risk rating of “AAA”.
- f. Pension fund assets managed by a PFA can be invested in the ordinary share of any one corporate entity subject to the limit for 1% for a company with risk rating of “BBB”, 1.5%

for a company with risk rating of “BBB” 1.5% for a company with risk rating of “AAA”

- g. No more than 2.0% of the issued ordinary share capital of any one corporate, entity may be purchased by a PFA.
- h. No more than 0.5% of the value of pension fund assets, managed by a PFA, shall be invested in close end, open end and Hybrid investment funds issued by any one corporate entity.
- i. No more than 0.5% of any issued close end fund can be purchased by PFA
- j. No more than 0.5% of the value of pension fund assets, manage by a PFA can be invested in any open end and hybrid investment fund.
- k. Limits imposed by these regulations may be temporarily violated in case of assets revaluation etc. However; the portfolio will be required to be rebalanced by disposal/acquisition of new assets within 12 weeks.
- l. The actual allowance of pension fund assets in the allowable instrument, must make due allowance for the liquidity required to meet maturing obligations of the funds under management.
- m. The commissioning collaboration with the PFA shall provide the necessary guidelines on the investment of pension fund assets outside the territory of the Federal Republic of Nigeria in the near future.
- n. The investment limits and performance benchmark shall be as follows:

2.8.6 Closed Pension Funds and Approved Existing Schemes

- a. Pursuant to section 39 (1) (F) of the Act all investment made in assets prior to the commencement of the Act which are contrary to section 73 to the Act, and these regulations, by entities whose existing scheme have been approved to continue to exist by the commission, may be maintained, this is however subject to any other regulations that may be made by the commission.
- b. From the commencement of the Act, all investment to be undertaken by pension fund administrator, are behalf of such scheme, shall be subject to these and all other regulations and rules to be issued by the commission.
- c. A closed pension fund and approved existing scheme can continue to invest in all asset classes in the same proportion as it use to do up to 28th February, 2006 provided it does not exceed the investment limit specified for that asset class in its investment policy.
- d. If a closed pension fund or approved existing scheme had invested up to the investment limit prescribed for that assets class in its investment policy, it can only make new investment in that asset class if it divests its recurrent investment or part there of for the purpose is reinvestment.

2.8.7 Investment No Longer Authorized

At any time an existing investment is no longer authorized, as a result of credit rating downgrades, resulting in a new rating that is not more than one grade below the stipulated minimum, the fund may retain such investment to maturity.

If at any time an existing investment is no longer authorized as a result of either a credit rating downgrade by more than one grade or for any other reason, than such investment must be disposed off within 90days.

If at any time a pension fund administrators (PFA) willfully violates any of the limits so prescribed in section 5.0 and 5.1.5 of the regulations, the PFA shall be made to correct the violation within five (5) working days of notices of such infraction. In addition, any resultant losses arising thereon shall be borne by the PFA.

2.9 Summary

An attempt has been made to highlight the historical overview of the pension reform policy and the overview of the Nigerian Capital Market, instruments of the capital market, method of participating (i.e. basic rules governing the listing of the capital market), recent development affecting pension administration and investment and existing law. The plight of pensioners in Nigeria is indeed disheartening.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The collection, analysis and presentation of data are critical to any research study. Therefore, this chapter is aimed at providing analysis of the procedures, methods and techniques for the research work and also provides possible justification for the techniques used as well as methods in making the research work more reliable, objective, valid and acceptable for possible analysis.

3.2 Research Design

In evaluating the effects of pension reforms policy on the performance of Nigerian Capital Market, the researcher employs basically survey research method. The researcher decided to use this research design because it deals with the present events that are oriented towards the determination of the status of a given phenomena. It also provides clear understanding of the research study that relates to current issues and relied upon in terms of future references.

3.3 Population of the Study

The target population is 1200 consisting of staff of Nigerian Stock Exchange (NSE), National Pension Commission, Pension Fund Administrators,

selected financial institutions and the general public. Also, the basic attributes of the population were considered e. g place of work, year of experience, rank, age etc.

3.4 Sample of the Study

Due to the population size, time frame and resources availability, the researcher issue questionnaire on 300 respondents representing 25% of the total population.

3.5 Sampling Techniques

In evaluating this research, stratified random sampling method was adopted with groups divided into place of work, year of experience, rank, age among others in order to allow every member an equal chance of being included in the sample size and reduce unbiased aspect.

3.6 Sources of Data Collection

The study used both primary and secondary sources of data. Questionnaires were administered with adequate supervision to ensure confidentiality as well as clear doubts arising from the respondents. Personal views of some selected members of the public were heard.

Also, data were collected through journals, books and magazines among others.

3.7 Instruments of Data Collection

For the purpose of this study, the researcher used both primary and secondary sources of data collection to gather and analyze information. This could be elaborated thus:

3.7.1 Primary Sources:

Questionnaires were administered on 300 respondents from National Pension Commission, Pension Funds Administrators Representatives, Nigerian Stock Exchange, Financial Institutions and the general public with a view to determining the effects of pension reforms on the performance of capital markets in Nigeria.

Personal interviews were also conducted on staff of PENCOR, NSE and some state representatives of PFA.

3.7.2 Secondary Sources:

This included journals of PENCOR, magazines, Bulletins, NSE facts, Pension Reform Act, 2004 and newspapers.

3.8 Validation of The Instruments

As a survey study, the questionnaire was considered appropriate for the study which will be tested using likert rating with the mean values to measure the study work of the research.

3.9 Methods of Data Analysis

To Enhance Easy Analysis, questionnaires were used with the mean values as a measure of central tendency to analyze the views and opinions of the respondents. Recommendations and conclusions were based on the overall findings.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

In this chapter, the regulation on investment of pension fund assets, pension fund investment in Nigerian capital market and major findings of the study were made. Capital market as a financial market that provides facilities for mobilizing and dealings in medium and long term funds was considered with operators acting as intermediaries between the providers of funds and the fund users. Data collected have been organized in such a way that they can easily provide answers to research questions.

4.2 Data Presentation

Data gathered from section A of the questionnaire on the general information of the respondents is presented as thus;

Table 4.1 Respondents by Position in the organization.

POSITION	NO. OF RESPONDENTS	PERCENTAGE (%)
Top Management	14	5
Senior staff	91	30
Junior staff	154	51
Others	41	14
Total	300	100

Source: Questionnaire administered in March, 2010

Table 4.1 represents respondents of questionnaire by positions in their respective organizations. The data shows that more were junior staff having 51% as compare to other categories of staff.

Table 4.2 Respondents by Qualification

QUALIFICATION	NO. OF RESPONDENTS	PERCENTAGE (%)
WAEC/SSCE	30	10
NCE/Diploma	126	42
BSc/HND	79	26
MSc/MBA/P.hd	26	9
Others	39	13
Total	300	100

Source: Questionnaire administered in March, 2010

Table 4.2 reveals respondents of questionnaire by qualifications in their respective organizations. The data shows that larger percentage goes to NCE/OND holders of qualification with about 42% of the total population.

Table 4.3: Respondents by Working Experience

WORKING EXPERIENCE	NO. OF RESPONDENTS	PERCENTAGE (%)
Less than 10 years	96	32
Between 10 – 20 years	144	48
Between 20 – 35 years	53	18
Above 35 years	7	2
Total	300	100

Source: Questionnaire administered in March, 2010

Table 4.3 reveals respondents of questionnaire by working experience in their respective organizations. The table shows that most of the respondents were between 10-20 years of active service thereby given them a clear understanding of the system.

4.3 Data Analysis

In an attempt to analyze the data and to answer the research question put forward, the questionnaire was structured as follows;

- Strongly agree = 5**
Agree = 4
Undecided = 3
Disagree = 2
Strongly Disagree = 1

Table 4.4 Respondents on the effect of Pension Reform Policy on Nigerian Capital Market.

S/N	Statements	5	4	3	2	1	Total	Mean
1.	Capital market monitors the activities of person matters before the reform policy.	39	156	62	22	21	300	3.57
2.	Stock exchange constitutes the most important institution in the capital market.	12	239	23	18	8	300	4.56
3.	Before the reform, financial market was incomplete without the capital market.	30	189	64	10	7	300	3.75
4.	Capital market mobilizes surplus funds and	171	83	44	02	-	300	4.42

	allocates funds to the deficit business units.							
5.	The available pension scheme were under funded and workers in private sectors were neglected.	221	45	24	8	2	300	4.58
6.	Before the policy, there was no uniform pension retirement benefit acts in Nigeria.	203	56	37	3	1	300	4.52
7.	The New Policy provides a compulsory contributory pension scheme of 7.5% each by both employers and employees respectively.	59	196	41	2	2	300	4.03
8.	The commission is ensuring an efficient and effective administration of pension matters in Nigeria.	75	126	66	23	10	300	3.78
9.	The contribution has now adequate cover issues of pension funds in Nigeria.	34	173	70	18	5	300	3.71
10.	The policy is aimed at creating pool of investible funds that will assist government achieving long term goals and encourage investment.	73	138	66	19	4	300	3.86
11.	The reform mandates all employers (private and public) to transferred accumulated funds to PFA.	213	54	23	9	1	300	4.56
12.	The reform has encouraged investment in real sectors of the economy especially the capital market.	54	127	88	29	2	300	3.67
13.	The reform has promoted the establishment	76	201	20	2	1	300	4.16

	of small and medium scale business and companies.								
14.	Pension funds have provided long term savings to finance real sectors economy and sustain growth of the economy.	58	193	39	7	3	300	3.99	
15.	All trading of investable securities on pension fund assets take place on the floor of stock exchange.	128	103	66	3	-	300	4.19	
16.	Stock exchange has provided long term finance for capital debts.	69	116	91	19	5	300	3.75	
17.	Stock exchange has assisted PFA to broaden their share ownership and create wealth.	72	199	22	6	1	300	4.12	
18.	There is clear guideline/provision on the pension act to the understanding of an average citizen.	20	27	16	177	60	300	2.23	

Source: Questionnaire administered in March, 2010

Table 4.4 reveals that greater percentage of respondents agree on items on the effects of pension reforms policy on the performance of the Nigerian capital markets except for item 18 which was disagreed implying that an enlightenment campaign on the policy is essential.

Table 4.5 how were the activities of the capital market before the pension reforms policy.

S/N	Statements	5	4	3	2	1	Total	Mean	Dec.
1.	Capital market monitors the activities of	39	156	62	22	21	300	3.57	Agree

	person matters before the reform policy.								
2.	Stock exchange constitutes the most important institution in the capital market.	12	239	23	18	8	300	4.56	Agree
3.	Before the reform, financial market was incomplete without the capital market.	30	189	64	10	7	300	3.75	Agree

Source: Questionnaire administered in March, 2010

Table 4.5 shows that all respondents agree on items on the capital market before the pension reforms Act.

Table 4.6 To what extent has the pension reforms policy impacted on the financial discipline of employees.

S/N	Statements	5	4	3	2	1	Total	Mean	Dec.
1.	Capital market mobilizes surplus funds and allocates funds to the deficit business units.	171	83	44	02	-	300	4.42	Agree
2.	The available pension schemes were under funded and workers in private sectors were neglected.	221	45	24	8	2	300	4.58	Agree
3.	Before the policy, there was no uniform pension retirement benefit acts in Nigeria.	203	56	37	3	1	300	4.52	Agree
4.	The New Policy provides a compulsory contributory pension scheme of 7.5% each by both employers and employees	59	196	41	2	2	300	4.03	Agree

respectively.									
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Source: Questionnaire administered in March, 2010

Table 4.6 reveals that respondents agreed that the pension reforms policy has significantly impacted on the financial discipline of the employee through the Retirement Saving Benefit.

Table 4.7 What are the strategies adopted in the New Pension Reforms towards enhancing the performance of the economy.

S/N	Statements	5	4	3	2	1	Total	Mean	Dec.
1.	The commission is ensuring an efficient and effective administration of pension matters in Nigeria.	75	126	66	23	10	300	3.78	Agree
2.	The contribution has now adequate cover issues of pension funds in Nigeria.	34	173	70	18	5	300	3.71	Agree
3.	The policy is aimed at creating pool of investible funds that will assist government achieving long term goals and encourage investment.	73	138	66	19	4	300	3.86	Agree

Source: Questionnaire administered in March, 2010

Table 4.7 reveals that the strategies adopted are effective and efficient towards enhancing the reforms policy on the performance of the capital market and the economy as a whole.

Table 4.8 To what extent has the pension reforms policy impacted on socio-economic growth and development of the nation.

S/N	Statements	5	4	3	2	1	Total	Mean	Dec.
1.	The reform mandates all employers (private and public) to transferred accumulated funds to PFA.	213	54	23	9	1	300	4.56	Agree
2.	The reform has encouraged investment in real sectors of the economy especially the capital market.	54	127	88	29	2	300	3.67	Agree
3.	The reform has promoted the establishment of small and medium scale business and companies.	76	201	20	2	1	300	4.16	Agree
4.	Pension funds have provided long term savings to finance real sectors economy and sustain growth of the economy.	58	193	39	7	3	300	3.99	Agree
5.	All trading of investable securities on pension fund assets take place on the floor of stock exchange.	128	103	66	3	-	300	4.19	Agree

Source: Questionnaire administered in March, 2010

Table 4.8 has shown that the respondents were convinced that pension reforms policy has actually impacted on the socio-economic growth and development of the nation.

Table 4.9 What are the likely problems associated with the implementation of the reform policy.

S/N	Statements	5	4	3	2	1	Total	Mean	Dec.
1.	Stock exchange has provided long term finance for capital debts.	69	116	91	19	5	300	3.75	Agree
2.	Stock exchange has assisted PFA to broaden their share ownership and create wealth.	72	199	22	6	1	300	4.12	Agree
3.	There is clear guideline/provision on the pension act to the understanding of an average citizen.	20	27	16	177	60	300	2.23	Agree
4.									Agree

Source: Questionnaire administered in March, 2010

Table 4.9 provides that all respondents agree that Nigerian stock Exchange has provided long term finance for the economic development of the nation but proper enlightenment/sensitization program needs to be done in order to enhance public awareness.

4.4 Research Findings

The research findings based on data presented and analyzed as well as interviews conducted shows that;

- Pension fund schemes enhance financial disciplines and offers conveniences for savings regularly, provides a cost effective way for individuals to made use of professional

investment management, which enhances the likelihood for getting satisfactory results.

- It also played an important roles in generating long term capital that is well-suited for financing investment, creating domestic institutional investors (PFA's) and increasing market integrity and transparency.
- Pension fund reforms provided long term savings available to finance real sector and sustain the growth of the economy, thereby creating more employment opportunities for Nigerians, so far, about 4500 Nigerian have been directly employed in the industry.
- Certain strategies were adopted in order to enhance an effective and efficient economic performance of the nation. Thus, through the enactment of pension reform act, 2004, Nigerian capital market receives an unexpected boost with the contributing pension scheme in section 72 of the act stating that “all contributions under this act shall be invested by the pension fund administrators with the objectives of study and maintain of fair reforms on amount invested”. Section 73 goes a step further to state that pension fund assets are to be invested in all areas of the Nigerian capital market. Section 74 prohibits the investment of any part of the pension fund assets outside Nigeria without the approval of the President, Federal Republic of Nigeria upon the recommendation of the CBN.
- The researcher opined that proper and enhance enlightenment campaign should be oraganize periodically to sensitize the

employees, employers as well as the general public on the benefits of the reforms policy and proper utilization of their retirement saving benefits.

4.5 Discussion of the Findings

The pension Act 2004 ensures that Nigerian workers both in the public and private sectors are adequately taken care of upon retirement. By the end of December, 2009, over N850 billion was generated by the new national pension scheme. This amount comprises funds from the existing pension funds schemes and the sum of N80 billion which came to the National Pension Commission (PENCOM), over 50% of the contributed funds have been transferred to Pension Funds Administrators (PFAS), while the balance is being expected to be moved generally. The framework of the pension scheme stipulates that the PFAs are allowed to invest 25% of their accumulated pension funds in the equity market. From the second quarter of 2009 year, significant inflow of investible funds has been coming from the pension funds into the capital market. By the end of October, about N1000 Billion of the accumulated pension funds has been injected into the capital market through investment in some of the blue chip stocks and government bonds.

The National Pension Commission (PENCOM), the agency managing the new pension scheme which begins in 2004 declared that N184.3 billion was invested in the embattled capital market as long term fund. According to the commission, the net investment represented 19 percent of the total contributions of Nigerian workers which at the end of August 2008 stood at

N970 Billion. The amount invested in the capital market represents 24 percent with N776 Billion being total investment during the period. The N970 Billion total contributions under the scheme consists of 20 percent liquid cash and 80 percent investments in fixed securitized instruments across the country is as at end of August 2008, according to PENCOM Chairman, the commission declared that the fund was made up of N300 Billion Retirement Saving Account (RSA), contributed by no fewer than three and a half Nigerians while the balance is inherited from pension assets, known as legacy fund of the sector.

The promotion of private pension funds leads to expansion and developing of the equities and bond markets. These developments in turn raise economic growth through the following channels.

- a. By increasing aggregate savings and investments
- b. By increasing the productivity of these investment

The size the pension fund market is estimated at N300 billion (\$25 Billion) with a projected growth rate of about 15% per annum.

The pension fund reform improves macroeconomics stability by eliminating the political and demographic pressure that threatens the financial stability of the standard pay as you earn system and industry fiscal reform during the transition. In addition, increases in funding associated with pension reform may help to increase savings, fueling economic growth and productivity. More recently the impact of financial development on economic growth, productivity and savings, have a separate beneficial effects on welfare through its positive impact on the capital market development. The existence of a positive effect of capital market development on growth has its main

theoretical support in endogenous growth models where more liquid and efficient stock markets increase the incentives for long-term investment as it increases economic growth.

However, pension industry has positively contributed to the growth of the capital market in the following areas;

- Promoting bonds and equity markets thereby developing financial markets.
- Raising the productive level of capital formation thereby impacting on GDP growth of the economy.
- Increasing market capitalization and all shares index which is an indication of economic growth and development.
- Re-enforcement of improved regulation and supervision of the market and its efficiency.
- Creation of domestic institutional investors with long term focus on moderate stock market, thereby improving market stability.

The major study that revealed the business opportunities and challenge appears to be most relevant for this reform include the following;

a) Strong government Commitment

The government has shown strong commitment in the implementation of the reform. This demonstrated by the fact that the government as an employer commences the implementation of the scheme immediately the Act was

enacted. Since the commencement of the scheme the government has consistently and faithfully met its obligations.

b) Stakeholder ownership and support.

Despite the protracted legislative process occasioned by the concerns raised by stakeholders in respect of the various aspects of the reform, the reform is being implemented voluntarily without serious resistances. This is as a result of the fact that the design of the reform has benefited from inputs of various stakeholder through an extensive consultative process.

c) Linking pension reform with other government reform.

Other reforms must be implemented and linked with the pension reform to facilitate an integrated approach to reforms. A number of reforms being implemented have complemented and supported the pension reform. The budget and financial management reform have facilities prompt collections of pension contribution. The efforts to computerize the personal payroll and records would facilitate efficient collection of contributions in the public sector and eliminate the problems of personal data and records. The dept management initiative especially the development of the bond market has started to provide long tenured instruments for the investment of pension funds. Monetary and fiscal policies have engendered stable and predictable macro-economic environment which is essential for sustainable investment of pension Assets.

d) Reform Design and Structure

Although best practices from various jurisdictions were taken into account in the design of the reform the structure of the scheme was kept since and local environmental factors were considered.

e) Employment Opportunities

The reform process has positively created citizens job opportunities for Nigerian thereby improving the standard of hiring of the people as well as enhancing the economic growth and development of the nation.

4.6 SUMMARY

This chapter draft with the presentation and analyzed of the data collection. The Investment of pension fund asset in the Nigerian capital market, effect of the pension reform policy on the Nigerian Capital Market were discussed in these chapter. Based on the discussion above, the major findings of the study revealed the business opportunities and challenge appears to be more relevant for this reform.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

The reform initiative cumulated into enactment of the pension reform Act 2004. The Act seeks to establish for the public and private sector a scheme that is contributory, fully funded, based on individual accounts that are privately managed by hold pension fund custodians as well as strictly regulated and supervised. The reform policy as an integral of the nation's political economy since independence seeks to carry out to look at the effects of pension reforms policy on the performance of Nigerian capital market. It is against this background that the study considers that ability of the capital market to take advantage of the mandatory contributory pension scheme of 15% in proportion of 7.5% each both employee and employer with exception to military workers contributing 2.5% and 12.5% by employee and employer respectively.

The objective is to determine the effects and impacts of the reform on the performance of the employees, employers, capital markets and the society as a whole towards an efficient and effective economic growth and development of the nation. The research work also reveals that Federal Government of Nigeria in 1979 approved the restoration of 35 years of active service rules as a condition for retirement or 60 years of age whichever comes earlier, with exception of judges and lecturers with 65 years of age and 70 years for appeal court and Supreme Court judges respectively.

A total of 300 respondents were used in gathering primary data which was stratified – randomly selected. A structured form of questionnaire was administered touching on major issues affecting the research work alongside use of bulletins, facts, journals and newspapers in order to get a better in-depth knowledge of the research work. The principal findings from data collected and analyzed using mean-values as a measure of central tendency include among others:

- Creation of employment opportunities and domestic institutional investors with long term focus on moderate stock market thereby improving the market stability.
- Promoting the productive level of capital formation impacting on the GDP growth of the economy.
- Improving the financial discipline and saving cultures of the employees and the employers as well as the market thereby meeting the expectations of the workers after service.
- Mobilizing surplus resources from the capital market and allocating to the deficit areas of needs and interests through long terms savings.

Consequently, there are a number of provisions contained in the pension reform act with the singular objective of protecting, the pension funds asset. These include;

- a. The functions of the PFA and PFC are so clearly delineated. At one time will be PFA have custody of contributions of the employers which are paid directly to the PFC.
- b. The investment and assets will be registered and held in the name of the pension fund, and behalf of contributors, and not in the name of PFA or PFC.

- c. Pension assets held by the PFC shall not be used to meet the claim of any of the custodian's creditor in the event of liquidation of the custodian. Further more, the PFA shall not sell, grant loan or use the pension assets as collateral.
- d. A PFC or its parent company is expected to issue a guarantee to the fund sum and value of the pension fund and assets held by it or its PFC subsidiary.
- e. Government contribution shall be a charge on the consolidated revenue fund of the federation.
- f. Every PFA shall employ a compliance officer who will be responsible for ensuring compliance with the provisions of the law recording pension matter as well as the internal rules and regulations of the particular PFA. They will be required to liaise with the commission and the Board of Directors of the PFA with regards to the activities of the PFA.

5.2 CONCLUSION

The pension reforms has created a platform for the realization of all other reform programmes of the federal government long term pension funds which are being generated to facilitate the infrastructural development, leading to reduced interest rate and promote the growth of the real sector, leading to overall growth of GDP. The PFA's as institution investors would facilitate increase market integrating, transparency and corporate government and overall growth of the capital market. Workers are guarantee peaceful retirement and reduced poverty in retirement. A secured future of workers will ensure job satisfaction and increased productivity. The pension reform

has been generally applauded as one of the salutary reforms of the Obasanjo administration. The commission is committed and resolute in its determination to implement the reform to the best of its ability in the overall interest of the nation. Mountable as the challenge it might be, the commission strongly believes that they are not insurmountable. Therefore, the challenge before all other stakeholders is to demonstrate similar commitment and determination towards a successful implementation of the scheme. The commission expects this forum to be an avenue for cross fertilization of ideas on how to ensure successful implementation of the various reforms initiative. The commission, as usual, is receptive in such ideas and suggests that they may be put forward.

5.3 RECOMMENDATION

Based on the findings and conclusion of this research, the following recommendations are preferred.

- a) The banks, private financial institutions and the capital markets should utilize the contributory scheme as a challenge for business opportunity by sorting for customer for investment purpose.
- b) The contributors should be given adequate and clear information on their retirement benefits to make them be more aware of their retirement entitlements.
- c) The legal provisions of pension Act should be in clear terms for easy understanding by the contributor and should adequately block all the loopholes for fraud and embezzlement of pension fund by providing severe penalties.

- d) The guidelines issued by the pension reform Act 2004 in regards to compliance which will enable the Reform Act 2004 to operate.
- e) There should be a pre-funding of retirement benefit by both the employer and the employees associated with the pay – as – you – system.
- f) The investment and assets will be registered and held in the name of the pension fund, on behalf of contributors, and not in the name of PFA or PEC.
- g) The PFA is or should report its investment and other activities to the commission or daily basis.
- h) The pension assets held by the PFC shall not be used to meet the claim of any of the custodian's creditor in the event of liquidation of the custodian. Furthermore, the PFA shall not sell, grant loan or use the pension assets as collateral.

Finally, it is believed that if all the laid down rules and regulations for the investments of the pension fund administration (PFAs) assets are followed; they are going to be successful in their operations.

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**SCHOOL OF MANAGEMENT AND INFORMATION
TECHNOLOGY
FEDERAL UNIVERSITY OF TECHNOLOGY, YOLA**

**EFFECTS OF PENSION REFORMS POLICY ON THE
PERFORMANCE OF NIGERIAN CAPITAL MARKET**

Dear sir/madam,

I am a postgraduate student of federal university of technology, Yola, undertaking my project research work for Masters in Business Administration (MBA) on the above topic. Therefore, your assistance is required in supplying information on the issues raised to enable me generate empirical data. Your responses will be treated with utmost confidentiality and used primarily for academic purposes only.

Thank you.

Yours sincerely,

NASARA, DANJUMA SHIUKA

SECTION A (GENERAL INFORMATION)
SECTION A

Tick the option that best describes your interest and tick as appropriate.

1. What is your position in the organization?
 - a) Manager/Top management staff []
 - b) Senior staff []
 - c) Junior staff []
 - d) Others []

2. What qualification do you hold?
 - a) WAEC/SSCE []
 - b) NCE/Diploma []
 - c) HND/BSc []
 - d) MSc/MBA/Phd []
 - e) Others []

3. How long have you been working in the organization
 - a) Less than 10 years []
 - b) Between 10 – 0 years []
 - c) Between 20 – 35 years []
 - d) Above 35 years []

SECTION B
EFFECTS OF PENSION REFORMS POLICY ON THE
PERFORMANCE OF NIGERIAN CAPITAL MARKET

✓ **In the box below, mark as appropriate.**

OPTION: Strongly Agree (SA) Agree (A) Undecided (U)
 Disagree (D) Strongly Disagree (SD)

S/N.	STATEMENT	SA	A	U	D	SD
1.	Capital market monitors the activities of pension matters before the reform policy.					
2.	Stock exchange constitutes the most important institution in the capital market.					
3.	Before the reform, financial market was incomplete without the capital market.					
4.	Capital market mobilizes surplus funds and allocates funds to the deficit business units.					
5.	The available pension schemes were under funded and workers in private sectors were neglected.					
6.	Before the policy, there was no uniform pension retirement benefit act in Nigeria.					
7.	The New Policy provides a compulsory contributory pension scheme of 7.5% each by both employers and employees respectively.					
8.	The commission is ensuring an efficient and effective administration of pension matters in Nigeria.					

9.	The contribution has now adequate cover issues of pension funds in Nigeria.					
10.	The policy is aimed at creating pool of investible funds that will assist government achieving long term goals and encourage investment.					
11.	The reform mandates all employers (private and public) to transferred accumulated funds to PFA.					
12.	The reform has encouraged investment in real sectors of the economy especially the capital market.					
13.	The reform has promoted the establishment of small and medium scale business and companies.					
14.	Pension funds have provided long term savings to finance real sectors economy and sustain growth of the economy.					
15.	All trading of investable securities on pension fund assets take place on the floor of stock exchange.					
16.	Stock exchange has provided long term finance for capital debts.					
17.	Stock exchange has assisted PFA to broaden their share ownership and create wealth.					
18.	There is clear guideline/provision on the pension act to the understanding of an average citizen.					

19. Comment further on the activities of Nigerian stock exchange

20. Comment further on the Pension Reform Act_____
