

**AN EVALUATION OF THE EFFECT OF THE NIGERIAN  
CAPITAL MARKET ON INDUSTRIAL DEVELOPMENT OF  
NIGERIA (1986-2017)**

**BY**

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## **DEDICATION**

This work is gratefully dedicated to God Almighty.

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## **ABSTRACT**

The study assesses the Effect of the Nigerian Capital market on Industrial development (1986-2017). The Industrial development by data manufacturing sector and the capital market variables considered includes: Market Capitalization (MCAP), Volume of Shares (VOS) and All Shares Index (ASI). Applying Ordinary Least Square (OLS), Unit root test and Johansen co-integration, the model was estimated using E-view software. The estimated model revealed that there is a significant relationship between the explanatory variables (All share Index, Market Capitalization, Volume of shares) and Industrial development. This implies that there is a long run relationship between the capital market and Industrial development. The result further showed that only market capitalization is positively significant while Volume of Shares and All Share index were positive but insignificant. This helps us to adduce that market capitalization exerts more influence on industrial development than any variable from the capital market. Therefore it was concluded that the capital market contributes in no small measure to the development of Nigeria, hence it would be worthy that the government should among other restore confidence, formulate policies that would attract both Local and Foreign direct investment.

**Key words:** Nigeria Capital Market, Industrial Development, All Share Index, Volume of Shares, Market Capitalization.

# CHAPTER I

## INTRODUCTION

### 1.1 Background Information

In the past 20 years or more, the knowledge of capital market both theoretical and empirical has appeared in popular articles and books. Economic growth or development could only be experienced in a country when sectors involved in economic activities with a view of creating value has access to short or long term capital. Long term capital is needed for acquisition of assets that will provide bundle of benefits for present needs and future requirements of the organization. Such assets as lands buildings, plants, machineries and other fixed assets are better acquired through long term funds while short term funds are easier to come by through profits plowback, bank loans, personal savings. (Olowe, 1997) but for a profit making organization to expand, long term capital is crucial.

Capital market is an integral part of the financial system that provides an efficient delivery mechanism for mobilization and allocation, management and distribution of long term funds (Alile and

Anao, 1990). It facilitates the flow of funds from the area of surplus to the area of needs, thereby distributing funds from those who desire to invest to those who need it for economic endeavours. Sule and Momoh (2009) noted that the Capital Market is the medium through which funds are mobilized and channeled efficiently from savers to users of funds. Apart from judicious mobilization of idle savings into productive use, the capital market creates an avenue for foreign investment and the influx of foreign capital for developing projects that increase the welfare of citizens.

Osaze (2000) sees the Capital Market as the driver of any economy to growth and development because it is essential for the long term capital formation. It is crucial in the mobilization of saving and channeling of such savings to profitable investments. The Nigerian Capital Market provides the necessary lubricant that keeps turning the wheel of the economy. It does not only provide the funds required for investment but also efficiently allocates these funds to payments of best returns for fund owners. This allocative funds is created in determining the overall growth of the economy. The functioning of capital markets

affects liquidity, acquisition of information about firms, risk diversification, savings mobilization and corporate control (**Anyanwu, 1998**).

It is an established fact that the Nigeria capital market is a platform where many industries source and raise funds through public offers and other methods. With this opportunities offered by the Nigeria capital market it is then clear that the effect of capital can be seen on the development of industries.

Thus, in an economy such as ours which is essentially characterized by mixed economy i.e. both private and public, the effect of industrial development cannot be overemphasized. Hence the effect of the Nigeria Capital Market as available avenue through which industries can participate in the Nigerian economy. The market has been considerably strengthened in the area of its legal, regulatory and institutional framework as well as market infrastructure. It has also removed the barriers to entry and exist. Hence **Ndanusa (2002)**, opined that these developments have increased foreign confidence and interest in Nigerian Capital Market. The Nigerian Capital Market like other capital markets in the world has the primary function of fund

mobilization and allocation in the economy, since it is the market for long term financing on relatively low or cheap cost. It has been argued by so many, that many industries have always been reluctant to finance their projects through the Nigerian capital market due to what they term "imperfections in the market.

It is the evaluation of the effect of the Nigerian Capital Market on Industrial Development of Nigeria that forms the "crux" of this research work. How effective and efficient the Nigerian Capital Market has been and the extent to which industries are willing to source and raise funds through the market as well as the obstacle they encounter in the process.

## **1.2 Problem Statement**

Mobilization of resources for industrial growth has long been the central focus of development (**Demiurge Kunt&Leune 1996**). To achieve development, Nwobia (2004) is of the view that there is need to focus on Industrialization which has one of its points - the provision of basic goods and services that will in turn improve the standard of living of the citizenry. Over time no meaningful industrialization hence development had been achieved by any economy without a vibrant

capital market. The capital market provides a mechanism through which long or short term loans and investment can be harnessed.

This study seeks to provide answers to the problem of the capital Market not being able to provide the needed support to industrial sector and in the long run ensure growth and development.

### **1.3 Objectives**

From the problems stipulated above, the central objective of the study is to evaluate the effect of Nigeria capital market on industrial development of Nigeria. Specifically, the study intends to accomplish the following.

1. To examine the relationship between the capital market and industrial development of Nigeria.
2. To determine the influence of the Total Market Capitalization on Industrial Development of Nigeria.
3. To ascertain the impact of all share index on industrial development of Nigeria.

4. To determine the influence of volume of shares traded in the capital market on industrial development of Nigeria.

### Research Questions

The stated objectives of this study therefore inform the following research questions.

1. What is the nature of relationship between the capital market and Nigeria industrial development?
2. To what extent has the total market capitalization influenced the level of industrial development of Nigeria?
3. To find out how has all share index impacted on Nigeria Industrial Development.
4. What is the influence of volume of shares traded in the Nigeria capital market on Nigerian Industrial Development?

### **1.4 Hypotheses**

The central research theme is on the evaluation of the effect of the Nigerian Capital Market on Industrial Development of Nigeria. Thus to give this research its desired focus four sets of hypothesis have been

formulated for the study.

Ho<sub>1</sub>: There is no significant relationship between the Nigerian capital market and industrial development of Nigeria.

Ho<sub>2</sub>: There is no significant relationship between the total market capitalization and industrial development of Nigeria.

Ho<sub>3</sub>: There is no significant relationship between all share index and industrial development.

Ho<sub>4</sub>: There is no significant relationship between the volume of share traded in the Nigerian capital market and industrial development.

### **1.5 Justification of Study**

This study was centered on accessing the effect of the Nigeria capital market on industrial development of Nigeria and the relationship between capital market and industrial development.

Therefore it will help find the relationship between the various element that have impact on the Nigeria capital market. Finally, it will

contribute to the enlightenment of the society on the use of the capital market for industrial and development projects and the enlargement of literature on the subject matter for those who might want to conduct similar research or present seminar papers in the future.

## **1.6 Scope of Study**

This study focuses on the evaluation of the effect of Nigerian capital market on industrial development of Nigeria with particular attention to the period within 1986 to 2017. It is hoped that the study will provide an appreciable source of information as to the nature and effect of the Nigeria capital market to industries within the period.

The study included the general study of how all industries can be funded through the capital market and not singling out a particular industrial sector hence the impossibility of treating the issues involved in the entire industrial development adequately. In all, research of this nature, especially in a developing economy like Nigeria is always faced with constraints. Thus study is therefore limited by other factors such as:

- a) Financial constraints.
- b) Paucity of research materials.
- c) Poor response from individuals and industries where questionnaires are distributed.
- d) Coupled with the usual official secrecy for which our society is noted for.

## **CHAPTER II**

### **LITERATURE REVIEW**

There has been increased activities worldwide on the floors of different Nation's Stock Market, industries both public and private corporations need capital for growth in the economy. Through adequate finances, the output generated by these industries contributes to Gross Domestic Product (GDP) hence the standard of living of the people.

Based on the performance of the capital market in accelerating economic development of a country, most governments tend to have keen interest in its performance. Therefore a sustained confidence in the market and a strong investor's protection are needed to ensure an efficient performance of the market. Economic growth is generally agreed to indicate the development in an economy, because it transforms a country from a "five percent saver to a fifteen percent saver". Thus it is agreed that for capital market to contribute to the economic development of Nigeria. Most of the capital markets that operate efficiently, ensures that confidence will be generated in the minds of the public and

investors will be willing to part with hard earned funds and invest them in securities with the hope that in future they will recoup their investment (Ewah, 2009). In every financial system capital market is the cornerstone that provides the funds needed for financing not only business and other economic institution, but also the programmes of the government as whole.

The importance of capital according to Jhingan (2004) is that Capital Market Supplies Industries with Capital resources and finance medium term and long term borrowing of the central states and local governments. On the other hand, Pat & James (2010) suggest that for capital market to contribute or impact on the development of Nigeria, it must operate efficiently.

Therefore, the focus of this chapter is to review the ideas and contributions of various authors on the concept of the capital market, its role, formation and operation with particular reference to the industrial development of Nigeria.

## 2.1 Theoretical Framework

There are a range of competing theories to the study of economic development in any economy. Each approach has its strength and weakness with different ideological and theoretical formulations. The theories include the classical theories of economic development and the endogenous growth model.

The classical theories have four approaches;

- a. The linear - stages model
- b. Patterns of structural changes
- c. The international dependency revolution: which includes the neoclassical dependency model, false paradigm model and the dualistic - development thesis.
- d. The traditional neoclassical growth model.

Based on the thoughts above W.W. ROSTOW argued that to achieve modernity all countries pass through the same stages of development, such stages are the traditional society, transitional stage, the take off, the drive to maturity and the high mass consumption. In the

take off stage, ROSTOW saw that industrialization increases with switching from the land (agriculture) to manufacturing. He further stated that development is concentrated in a few regions of the country and in one or two industries and new political and social institutions evolve to support the industrialization process.

However Harrod Domar (1930) suggests that a country's savings provide the funds which are borrowed for investment purposes. He demonstrated that higher rates of savings can be transferred into higher rates of investment to operate self-sustaining economic development. He further stated that the main hindrance to development is the lack of physical capital in most development countries. Although this development does not always work since the amount of investment is just one factor affecting development e.g. supply side approach (free up markets) and human resource development (education and framing). Arthur Lewis who identified two segments of undeveloped countries as the traditional over populated rural subsistence sector characterized by zero-marginal labour productivity and the highly productive modern urban industrial sector into which labour from

subsistence sector is gradually transferred. This theory was criticized because transferring surplus labour to the urban areas has no effect on agricultural productivity and marginal productivity of rural workers will be zero. The exogenous growth theory of Robert Solow and others depends on the quantity and quality of resources and technology. As in the Harrod Domar model, the higher savings rate will only determine the level of incomes but not the rate of economic growth and economic development.

Substantial academic literature supports the finance - led growth hypothesis based on an observation first made almost a century ago by Joseph Schumpeter that financial markets significantly boost real economic growth and development. Schumpeter asserted that finance had a positive impact on economic development as a result of its effects on productivity, growth and technological change. Fama (1965) agreed with the views above, using the efficient market hypothesis. According to his theory on efficient market hypothesis, financial markets are efficient on prices on traded assets that have already reflected all known information and therefore are unbiased because they present the collective beliefs of all investment about future prospects. Previous test

of the EMH have relied on long - range dependency of equity returns. It shows that past information has been found to be useful in improving predictive accuracy. Equity prices would tend to invalidate the EMH in most developing countries. Equity prices would tend to exhibit long memory or long range dependency, because of the narrowness of the markets rising from immature, regularity and institutional arrangements. In addition, it was noted that where the market is highly and unreasonably speculative, investors will be discouraged from parting with their funds for fear of incurring financial losses. In situations like this, investors will refuse to invest in financial assets. The implication is that companies cannot raise additional capital for expansion.

Other theories that concern industrial development include; Dependency Theory, Balanced Growth Theory, and Unbalanced Growth Theory.

**Dependency Theory:** This theory explains how the process of international trade had made domestic development point makes some less development countries ever more economically dependent on developed countries (DC's). This theory had new conditions in which to attempt to elevate the standard of living and improve social conditions. It

means that governments have less influence than international financial and trade systems. Another theory necessary which this study is based on is the **Balanced Growth Theory** which involves the simultaneous expansion of a large number of industries in all sectors and regions of an economy. This theory went further to argue that as large number of industries developed in a country, more markets are created for additional output. **Unbalanced Growth Theorists** went further to argue that sufficient resources cannot be mobilized by the government to promote widespread, and co-ordinated investment in all industries. Thus, they share the same analysis with balanced growth theorists that specify that free market investment is required just in strategic industries. This theory further contends that while complementary investment produce social as well as private benefits, government must improve the efficiency of resource allocation. They can do this by providing public goods or encouraging private investment in knowledge intensive industries, where human capital can be accumulated and subsequently increasing returns to scale generated. Unlike the new growth theory Robert Slow models explain technological changes as endogenous outcome of public and private investment in human capital and

knowledge intensive industries. Thus in contrast to the dependence model, the models of endogenous growth suggest an active role for public policy in promoting economic development through direct and indirect investment in human capital formation and the encouragement of foreign private investment in knowledge intensive industries such as telecommunications.

However, it is necessary to explain the nexus between capital market and industrial development. Mbat (2001) contends that assets with attractive yields, liquidity and risk characteristic affect positively industrial growth. This is very essential for government and other institutions in need of long term funds and for suppliers of long term funds. That is why Iwaiemi (1998) further argued on the importance of industrial sector in the socio economic development of Nigeria. He submitted that strong demand and increased supply would stimulate increased income. Thinking in the same line, CBN (2000) said that Nigeria as a country is blessed with a lot of natural resources varying from agriculture, oil & gas and solid mineral that exist in commercial quantities. Nigeria also has enormous electric power resources, a large human resource forming a very big market (capital market) and

substantial idle capacity in all industrial sectors. Ekundayo (2002) went further to say that a nation requires a lot of local and foreign investments to attain sustainable economic development. The capital market provides a means through which this is made possible. Thus according to Ndausa (2002) for a country to be developed, the market must be strengthened in the area of its legal, regularity and institutional framework as well as market infrastructure. He further narrated that the market should be internationalized as barriers to entry and exist must be removed.

Ariyo and Adelegan (2005) stated that the liberalization of Capital Market Contributes to the development of the Nigerian Capital Market. Ewah (2009) noted that capital market provides the opportunities for purchase and sale of existing securities among investors, thereby encouraging the populace to invest in securities thus fostering economic growth and development.

From the review of the development theories and the relationship establish, it becomes clear that in an economy such as ours which is essentially characterized by mixed economic activities - both private and public, the importance of industrial development cannot be over emphasized. This is because to achieve a sustainable development, the

market has to be strengthened in the area of its legal, regulatory and institutional framework as well as encourage savings among industries and provide avenues for industrial financing.

## **2.2 Review of Empirical Literature**

The link between capital market and industrial development has been empirically investigated by researchers in both Nigeria and other countries.

Moha Tadi and Agarod (2007) examined the capital market and economic growth in developing countries using a panel data approach from 21 emerging markets over 21 years (1977 - 1997). They found that turnover ratio is an important and statistically insignificant determinant of investment by firms and that these investment in turn are significant determinants of aggregate development. Foreign direct investment is also found to have a strong positive influence on aggregate development. The result of their study indicates that both turnover ratio and market capitalization are important determinants of economic growth and development.

Niewerburgh, Buelens & Cuyvers (2005) investigated the long term relationship between capital (stocks) market development and

economic development in Belgium and found that growth in stock market capitalization granger causes GDP growth in pre-1914, while GDP growth granger causes stock market development in the past second world war era.

Mishra et al (2010) examined the effect of capital market efficiency on economic growth of India using the time series data on market capitalization, total market turnover and stock price index over the period spanning from the first quarter of 1991 to the first quarter of 2010. The study reveals that there is a linkage between capital market efficiency and economic growth in India. This linkage is established through high rate of market capitalization and total market turnover. The large size of capital market as measured by greater market capitalization is positively correlated with the ability to mobilize capital and diversity risk on an economy wide basis. The increasing trend of market capitalization in India would certainly bring capital market efficiency and thereby contribute to the growth and development of the country.

Ewah, (2009) appraised the effects of the Nigeria capital market efficiency on economic growth using time series data from 1961 to 2004. They found that capital market in Nigeria has potential of growth

inducing, but it has not contributed meaningfully to the development of Nigeria because of low market capitalization, illiquidity, misappropriation of funds among others.

Ezeoha, Ebele and Ndiokereke (2009) investigated the nature of the relationship that exists between stock market development and the level of investment (domestic private investment and foreign private investment) flow in Nigeria. The study discovered that stock market development promotes domestic private investment flows, thus suggesting the enhancement of the economy's production capacity as well as promotion of the growth of national output. The result shows that stock development has not been able to encourage the flow of foreign private investment in Nigeria.

Kolapo and Adaramola (2012), examined the impact of the Nigeria capital market on its economic growth for the (period 1990-2010). They found the existence of a long run relationship between the capital market and economic growth in Nigeria. The causality test result suggest directional causality between GDP economic growth proxy and value of transaction on one hand and on the other hand unidirectional causality from market capitalization to GDP. They argued that all share index is

derived from the price of all or some market constituents usually expressed in percentages.

On this premise Popoola et al (2017) investigated the effect of stock market on the economy using the All Share Index as the major factor. Using the Argumented Dickey Fuller tool, the study further showed that All Share Index had a significant but negative relationship with economic growth. He therefore suggested reasons for the negative impact of stock market on the Nigeria economic growth and noted that efforts should be made to improve the stock market performance. Internal forward of English Literature and Social Science (IJELS) Vol. 2 2017. Their findings is a clear indication of the positive role the capital market in the Nigeria economic system. There results also supports Demirguc Kunt& Asli (1996) and Harris (1997) who found no strong evidence to support a positive relationship between stock market and economic growth, contrary to the vast amount of literature in this area Adam and Sanni (2005) examined the role of the stock market in Nigeria's economic growth using granger - casualty test and regression analysis. The study discovered a one - way causality between GDP growth and market capitalization and two way causality between GDP

growth and market turnover. They also observed a positive and significant relationship between GDP growth and turnover ratio. The study recommended that government should encourage the development of the capital market since it has a positive relationship with economic growth.

## **2.3 Conceptual Framework**

### **2.3.1 The Nigerian Capital Market and other Capital Markets.**

In trying to compare the Nigerian capital market with other capital markets, I have decided to narrow my comparison to other emerging Stock Markets for the following reasons:

- Since the Nigerian capital market is a developing one, it will be more revealing to compare it with other developing markets rather than with the more developed capital markets of Europe and United States of America.
- The Nigerian capital market's performance is relatively poor when compared to other emerging capital markets.

The comparative analysis of the performance is based on the following indices:

- b. Number of listed companies
- c. Market capitalization in (US \$)

- d. Trading values in (US \$)
  - Turnover ratio
  - Market Capitalization as a Percentage of GDP
  - Share of emerging Market Capitalization.

As it will be practically difficult to compare capital market based on the above indices to all emerging markets in the world, I have decided to take a sample of five other emerging markets which are representative of the fast growing markets of the world.

These markets or countries are:

- a. India
- b. Malaysia
- c. Jordan
- d. Indonesia
- e. South Africa

### **2.3.2 Comparative Analysis of the Markets**

According to Nigerian financial review, the data in the analysis was derived from the International Finance Corporation (IFC's) emerging stock market fact book 1996 number of listed companies: Appendix I shows that the number of listed companies (equities) on the Nigerian stock exchange as at 1995 year and was 181: this shows an

increase of 4 or 2.3% over that of 1994 (177 equities). This figure of 181 equities compares unfavourably with those of India, Malaysia, Indonesia and South Africa over the same period. For instance, at 1995 year end, India, Malaysia, Indonesia and South Africa had 5, 3, 9, 8, respectively, listed equities increased significantly from their 1994 levels to the 1995 figures. For example the Indian and Malaysian stock markets recorded an increase of 985 and 51 equities respectively in 1995 over the 1994 levels as compared to an increase of 4 equities in the Nigerian stock exchange over the same period. The performance of the Indonesian Stock Exchange with 238 equities is meteoric when compared to the Nigerian stock exchange in terms of the number of equities quoted. This performance of the Jakarta Stock Exchange is against the background that the Indonesia government restarted the Stock Exchange only in 1977. The earlier stock exchange in Indonesia was closed down following the independence of the country from the Dutch in the late 1940s. The Jakarta stock exchange performance in terms of volume and number of equities listed was poor between 1977 and 1987. The number of equities listed was an average of two per annum and the turnover negligible. Policy reforms by the Indonesian

authorities in December 1988 saw the abolition of the practice that prevented daily price movements of more than 4 percent and the market was partially opened to foreign investors (up to 50 percent of the shares of any listed company could be in foreign hands). As a direct consequence of the policy reforms by the Indonesian authorities in 1988, the Jakarta Stock Exchange began to witness dramatic growth and relevance to the international economic system. The demand from overseas investment funds soon exceeded the supply of shares. This farther resulted in renewed enthusiasm for listing such that between 1989 and 1996, the number of new companies coming forward for listing increased by an average of 31 companies per annum. The overall effect of these policy reforms and increased enthusiasm in stock quotations on the Indonesian economy were, among others:

- a) The cost of risk capital was drastically reduced, which stimulated industrial development.
- b) Several millions, of dollars capital investment were brought onto the country.
- c) Share ownership became popular within the country such that savings were diverted from bank deposits into investment in shareholdings.

Note should however be taken that the fact or the analysis thus rendered started in 1995. May I at this juncture, trace the Nigerian capital market performance since 1986.

According to Babalola and Adegbite, in CBN Economic and Financial Review, an evaluation of the performance of the Nigerian capital market from 1986 to 2017 can be done using some of the generally accepted criteria, and/or some capital market indices which includes:

- i. Number of listed companies
- ii. Number of listed securities
- iii. Size of the market capitalization
- iv. All-share price index, which are measures of the performance of the market.

The analysis of the major indicators of activity in the capital market showed that the market has experienced remarkable progress since 1986. Transactions in equities in the market based on its current level of development could be considered to be weakly formed as the level of information dissemination and processing to influence market behavior remained weak. However, with the computerization of trading

and increased transparency in the delivery of corporate information the market has become more efficient.

Transactions in the market recorded increases in number of listed securities, companies, market capitalization and price index during the period under review. The improved performance of all the four key indicators was traceable largely to the establishment of the second tier securities market (SSM) in 1985 and the deregulation of interest rates in 1987, coupled with the privatization of some government owned companies in 1991. Eighteen (18) Government Parastatals (16) federal and 2 state government-owned contributed to the increased tempo in the number of companies and new securities issued and listed in the market. Furthermore, the deregulation of interest rates make many private enterprises/investors to patronize equity market to source funds as bank lending became relatively more expensive. The number of companies listed on the exchange (equities) grew by 950 percent from 99 at the beginning of 1986 to 205 at end of December 2004. The number of total securities listed and traded also increased from 186 in 1986 to a peak 279 in 2004. Some of the major securities traded on the market during the

period were Government Development Stocks, corporate bonds/debentures and equities. As at end December 2004, securities listed and traded on the market were made up of 16 government bonds, 58 corporate bonds/debentures and 205 equities. The growth of listed companies coupled with greater awareness on the part of investors resulted in increase in the number of securities issued and traded in the market. This also contributed to the increase Market Capitalization, which grew from 8.3 billion or 7.6 percent of GDP in 1986 to n1.87 trillion or 8.7 percent of GDP at the end 2004. The number of listed companies on the Nigerian stock exchange is comparable with those of many emerging markets. Though capital listing was higher than in most Stock Markets in Africa, it fell below some other emerging markets of Asia and Latin America. For example, out of the 17 stock markets in Africa, Nigeria had the third largest number of equity listing of (183) in 1998, surpassed only by Egypt (650) and South Africa (642). Nigeria only had a higher number than Poland (143), Jordan (139), Argentina (136) and Venezuela (91). It however, recorded fewer listing when compared to India (584), Brazil (536); Malaysia (780); Indonesia (282) and Turkey (257).

Further insight into the performance of the market showed that share-price indices rose during the period under review. The observed upward trend of share prices in the stock market was an indication of relative prosperity in the economy. The all share price index grew by 22 percent in 1988, 38 percent in 1990, and 33.9 percent in 1995 but dropped in 1998 and 1999. Activities in the new issues market improved during the review period. The equity of some corporate entities into the Nigerian capital market after the deregulation of the market contributed to the upsurge witnessed in the market. Between 1988 and 1998, new issues grew remarkably from 14 million to 15,018.1 million in 1998, but fell to 12,038.5 million in 1999. On the aggregate, 355 new issues of 28,527.9 million shares valued at N56,994.0 million were offered for subscription between 1990 and 1999.

Transactions in the secondary market also showed remarkable growth. A total of 1,528.4 million shares values at \$437,488.8 million in 5,855.7 deals were traded between 1988 and 1998. Transactions on the Nigeria Stock Exchange (NSE) grew from 21.5 million shares valued at ₦249.5 million in 1988 to 22.4 million shares worth ₦553.2 million at the end of 1990. By 1995, the total volume of shares traded at the market had risen

to 396.91 million shares valued at ₦838.8 million. Between 1996 and 1997, the average volume of shares traded was 1,062.7 million, valued at ₦8,564.1 million. Between 1998 and 1999 securities traded averaged 3,025.7 million shares, valued at ₦13,826 million, while transaction in equities dominated the market during the period of analysis.

In another development, with regards to equity market, there was an upward movement in market value of 279.8 billion in 1996 to 276.1 billion at year-end 1997. Prices were further depressed in 1998 resulting again in a drop in equity market during this period was fueled in part by lower corporate earnings and better yield from competing money markets instruments. Some market observers also hold the view that the market was over-heated in the years preceding the bear market. A downward slide in prices was therefore seen as a correction of the anomaly. Market securities improved in 1999; and bolstered by 9 new listings. Market Capitalization rose, closing the 20th century at 294.6 million. Secondary trading of bonds and government stocks are virtually dormant and accounted for approximately 0.81 percent of total market capitalization and 0.01 percent trading value as at 1999 on the stock exchange. The inactivity in the interest-bearing sector has been largely

blamed on unattractive pricing and yield on investment.

The Nigerian Capital Market still represents a small proportion of the national economy. As a percentage of Gross Domestic Product (GDP) at current prices, the total market capitalization (that is, equity plus debt instruments) of the Nigerian Stock Exchange increased progressively between 1992 and 1996 from 5.7 percent but declined to 9.0 percent in 1997, although rising subsequently to 9.7 percent in 1998. The figure for 1999 indicated a drop to 8.7 percent owing to a decline in the growth rate Market Capitalization whereas GDP grew. A comparative analysis of equity market capitalization of the Nigerian Market with major emerging markets of Asia, Europe and Latin America depicts the Nigerian Market as relatively small. A comparison of the market with African markets on the other hand, showed Nigerian as the fourth largest after South Africa, Egypt, and Morocco between 1999 and 2007. It is however, important to mention that the value of a nation's currency does have positive impact on the standing of its capital market with others, when a common currency is used as reference. The position of the Nigerian Capital Market has thus continued to be affected by the depreciating value of the naira. If the currency appreciates in future, the

standing of Nigeria would most likely improve. A clear example of the effect of depreciation of the currency on the market indicators was the Asia region. In 1997 the world saw some Asia stock markets notably Thailand, Indonesia, South Korea and Malaysia shrink in dollar value, owing to the devastation of their national currencies, the crises which commenced in July 1999) hand by December 1997 dropped to US \$93.6 billion or by 66.9 percent. Thailand shrank from 62.3 billion to US \$23.5 billion or by 62.2 percent, while Indonesia lost 72.7 percent from a market size of US \$23.5 billion, losing 62.2 percent, Indonesia lost 72.7 percent from a Market Size of US \$106.7 billion to US 29.1 billion during the same period. South Korea which was one of the leading emerging markets by market capitalization and the 11th largest economy declined to a mere US \$41.9 billion as at the end of 1997. The Nigerian Stock Market suffered similar fate in the late 1980s when the Structural Adjustment Programme (SAP) was introduced and the naira witnessed a sharp depreciation. An assessment of the Nigerian market using figures by Standard and Poor emerging market fact book 2000, showed that in 1999 Nigerian recorded an equity market capitalization of US 2.94 billion in contrast to US \$227.96 billion by Brazil, US \$262.48 billion

by South Africa, US \$32.84 billion by Egypt, US \$29.58 billion by Poland and US \$145.45 billion for Malaysia. Nigeria was however, larger than markets such as Zimbabwe (US \$2.51 billion), Slovakia (US \$2.18 billion) Srilanka (US \$1.58 billion) Costa Rica (US \$2.30 billion) and many others.

## **2.4 Evolution of the Nigerian Capital Market**

Prior to 1960, the then colonial administration made several attempts to introduce Capital Market activities in Nigeria. For instance, in 1946, the colonial administration floated three hundred British Pounds of bonds, which were packaged and transacted in London. However, capital market activities in Nigeria commenced with the establishment of the Lagos stock exchange in 1960, which was backed by law in 1961. The Lagos Stock Exchange was established as a self regulating body to, among other functions provide facilities for dealing in listed securities overseeing the trading of those securities and ensuring fair pricing of securities. Its establishment was a product of the federal government's approval of the recommendations of a committee (Bar back Committee) set up at that time to consider ways and means of fostering a security market in the country. Notable among the recommendations of the

committee were:

- The creation of facilities for dealing in shares
- The establishment of rules regarding transfer of shares.
- Initiate measures to encourage savings and issuance of securities by governments and other organizations.

The Lagos Stock Exchange was renamed the Nigerian Stock Exchange (NSE) in 1977 and has nine (9) trading floors located in Lagos, Ibadan, Abuja, Kaduna, Kano, Yola, Port-Harcourt, Onitsha and Benin City.

The move towards the growth of the Nigerian Capital Market can be traced to the creating of a Capital Issues Committee in 1962. The committee was a unit in the Central Bank of Nigeria (CBN). It was an ad-hoc non-statutory committee and was merely a consultative and advisory body responsible for regulating the timing of public issues. This committee continued to be in existence until the creation of full-fledged commission backed by law to oversee the Nigerian Capital Market, the Capital Issues Commission (CIC). The statute that created the CIC was known as the Capital Issues Commission decree of 1973.

The powers of responsibilities of the CIC were expanded (though still limited in some ways) to enable it cope with the challenges of regulating an emerging capital market. Their responsibilities were to determine the price at which securities were to be sold, determine the amount of subsequent issues and to attend to other matters incidental or supplemental to the above two functions.

In 1979, following the recommendations of the Okgbo committee set up in 1976 to study the structure and operations of the financial market, the Securities and Exchange Commission decree was enacted to provide the statutory backing for the establishment of the Securities and Exchange Commission (SEC). The SEC decree of 1979 repacked the CIC decree of 1973, thus making SEC the sale/apex regulatory body for the Nigerian Capital Market. In 1988, the SEC act of 1978 was repealed by the Securities and Exchange Commission decree no. 29 of 1988 which charged the commission with the responsibility of protecting the interest of investors as well as promoting the growth and development of the Nigerian Capital Market.

With more challenges facing the Nigerian Capital Market, the need for further review became apparent. Thus, a panel on the reform of the

Nigerian Capital Market (Odife panel) was set up in 1996 by the Federal Government to extensively review the legal and policy frame work for the Nigerian Capital Market. The work of the panel, led to the promulgation of a new and comprehensive enabling law for the capital market.

The Investment and Securities decree referred to as the Investment and Securities Act no. 45 of 1999 (ISA), The ISA gives SEC wide powers to regulate and develop the Nigerian Capital Market. Among other things, it repealed the Lagos Stock Exchange act and sections of other legislations found inconsistent with the smooth operations of the capital market and subordinated other statutes to the Investment and Securities Decree Act No. 45 of 1999 in capital market issues.

## **2.5 The Concept of Capital Market, Industrialization, and Development**

Basically, all the related literature in this subject matter center on either the Capital Market, Industrialization or Development.

Kindler Berger explains development to mean improvement in the Nigeria welfare, especially for persons with lower incomes, the eradication of mass poverty, illiteracy, disease and early death, changes

in the composition of input and output that includes shifts in the underlying structure of production away from agriculture towards industrial activities, the organization of the economy in such a way that productive employment is generated among the working age population rather than the situation of a privileged minority and the correspondence groups on making decisions about the direction, economic and otherwise in which they should move to improve welfare. Within the concept of development, we refer to such notions as the improvement in the standard of living of the population, and the improvement in certain indicators - health, sanitation, nutrition and education, reduction in certain inequalities in income distribution especially between areas or between households and functional groups in the country. The above explains that industrialization plays a significant role in any development process. Industrialization acts as a catalyst that accelerates the pace of structured information and diversification of an economy to enable a country to fully utilize its factor endowments and depend less on foreign supply of finished goods or raw materials for its development and sustained application and the combination of an appropriate technology, infrastructure, marginal expertise and other important

resources which have attracted considerable interest in development in recent times.

However, capital accumulation, the direction of flow as well as the mechanization and the efficient utilization of capital resources are crucial to any meaningful economic development process. One of such mechanisms is the Capital Market intermediation. One might at this point ask the question "what is capital? According to Ekieneh (2000) capital is the portion of resources available to the current periods which rather than being consumed, are being diverted to the creation of intermediate goods which in turn would be used in the production of other capital goods.

Alternatively, capital refers to these stock of finished goods produced in the current period but are put for further consumption. The essence of capital formation is therefore the postponement of consumption to a future date.

## **2.6 Developments in the Nigeria Capital Market.**

The finance and insurance sector has experienced the highest growth amongst all other sectors in the Nigeria economy, especially since after the introduction of the Structural Adjustment Programme

(SAP). This had positive implications on the activities of the capital market in Nigeria.

The total number of securities transacted in the capital market (both first and second tier) was 334 in 1961. Out of this number Government Securities were 92 while industries were 242 (72.5% of the total). In 1965, the total number of transaction increased to 1018 (204.799 over the 1961 figure) out of this number, industrial securities dominated with a percentage share of 61.6%. The number of transactions however dropped in 1970 to 643 (47.8% of which were government securities). Again, the value of total transactions in the year was N16.6 million with government securities accounting for almost the total value (98.78 percentage). Industrial securities, though nine in number were valued at only N0.2 million.

From 1976 however, industrial securities share of both in number and value of transactions increased tremendously (from 97.0 and 2.03% for 1990 to 97.3 and 3.29% for 1985 and 98.85 and 11.11% respectively in 1987). The sudden growth both in the total number and value of transaction in the market and in the share of industrial securities during these periods can be attributed to the positive effects of the Nigeria

enterprises promotion degree of 1977 on the development of the private enterprise in Nigeria. The same positive trend continued at even a faster rate in the late 1980s. The share of government securities in the number and value of transactions fell from 1.44% and 92.6, in 1985 to 1.15 and 88.9% respectively in 1987, falling further to 0.39 and 65.13% in 1990, 0.10 and 10.4% in 1993 and 1995. This development is in line with the structural adjustment programme policy of allowing greater private sector participate in the economy.

Unlike the above picture, the trend in the total number and value of securities traded in the capital market over the same period was erratic with the decline in the number of securities between 1990 and 1993 compared to the value in 1985. Both the secondary and primary markets recorded massive growth in 1995 as a result of the relative calm in the industrial environment (Compared with the period between 1993 and 1994 and the repealing of the Nigeria Enterprise Promotion (NEP) decree and exchange regulations of 1962. Another development that added to the positive growth in 1995 was the promulgation of the Nigeria Investment Promotion Commission (NIPC) decree no. 16 and the Foreign Exchange Provision decree no. 17 of 1995. The stock

exchange began its operation on 6<sup>th</sup> June, with 8 securities listed on the market. Activities in that year 2001 shows that exchange had 282 securities made up of 19 government stocks/bonds, 49 industrial loans (debentures) and 214 equities. Six companies were listed on this segment of the stock market by 1988 and by 2002 over twenty-three companies had availed themselves of the opportunities offered by this market.

Over the years, the listing increased and as at November 30<sup>th</sup>, 1985 there were 20 securities on the exchange official list. This increased to 290 as at the end of April 2007. Although a small market by international standard, the Nigeria capital market is one of the leading markets in sub-Saharan Africa and has made some notable strides in recent years. With a history of over 50years when the first public issue was floated and 42yrs of a stock exchange, equity listings and market capitalization are still relatively small, standing at US \$7.0 billion at the end of march 2003. The value of equities traded a year end 2002 was US \$0.5 billion a much lower figure thanmarket capitalization. As a result of this, turnover ratio of 7.9% was recorded at the end of 2002.

The market has been quite active since then and traded at of 0.8 billion (US \$86 million) in January 2003, which represented about 18% of the total equity value in 2002). By the end of March 2003, ₦24 billion (US \$188.9 million) equities had been traded. It is important to point out that the depreciation of the local currency, the naira has continued to affect the size of the market in dollar terms. Between 1997 and December 2002, while market capitalization witnessed growth in local currency terms, this was not the case in dollar terms as a much slower growth was registered. For instance in the five years ending 2002, equity market capitalization recorded almost three-fold increase from ₦256.9 billion in 1998 to ₦748.7 billion in 2002 or a 191.5% increase while it rose by 52.6% or from US \$3.8 billion in 1998 to US \$5.8 billion in 2002. The point being made is that, if the local currency had been strong, the dollar size of the market would have been larger. In 2002, equity market capitalization grew by over ₦100 billion (US \$794billion) or 15% and has remained on the upward swing. In the month of January 2003 equity market capitalization rose by over 12.4% and by February 2003, it had gained ₦116 billion (US \$0.9 billion) over December 2002, more than the increase in the whole of that year. However, in March 2003, market

capitalization rose by ₱96.2 billion (US \$0.8 billion) over the December 2002 values.

The impressive movement in market capitalization has been principally, through new listings and prices increases arising from positive market sentiments. In 2004, the stock index rose by 10.7% albeit lower than the price increase of 35.2% in 2003 and 54.0% in 2000. Thus, the five years (2000 to 2005) average index growth of 33.3% was higher than the growth rate of inflation, which averaged 12.6% during the same period.

The impressive expansion of the capital market is also evident in the size (percentage) of market capitalization to Gross Domestic Product (GDP). A look at the over the past decade shows that market capitalization represented 14.0% of GDP in 2002 in contrast to 12.0% in 2005, 9.4% in 1999 and 5.6% in 1992. The rising trend indicates that market capitalization is growing faster (in percentage terms) than GDP. Thus as the merits of the capital market become better appreciated, more Initial Public Offerings (IPOS) would be induced. Furthermore, privatization and strong equity prices has the tendency of bolstering the percentage of Market Capitalization to GDP. Indeed the capital market

has in recent times become a major source of funds for corporate entities and is increasingly becoming attractive to state governments. This is particularly obvious in the number and value of new issues, as well as the variety of fund raisers in the market. Year 2002 was a record year for the capital market with total flotation of ₦61.3 billion in US \$ 0.483 billion, the highest annual record ever posted in the capital market. This single year record surpassed the cumulative figure for the preceding two years. It is also significant that the total value of flotation in 2006 represented 36.4% of flotation in the ten years ended 2002. It may be instructive to state that the commission actually received 46 new issues applications for ₦78 billion but only 33 applications was approved by year end. The 33 flotation's in 2004 compares favourably with 27 and 21 in 2001 and 2000 respectively. The listing in the market has increased to over 290 securities as at 2007.

### **2.6.1 Accessing the Nigeria Capital Market (NCM)**

When a company or government wants to use the capital market to raise long-term funds, it must consult an issuing house or stock broker. These specialists provide the company and government with financial advisory services. It is their duty to study the company's performance

over the years in order to determine its financial needs. More so, they do not only advise on the best option, but undertake total financial restructuring of the company before introducing the facility to the market.

The issuing houses and the stock brokers liaise with the other parties registrars, trustee, auditors reporting accountants and solicitors etc, to produce a marketing document known as the prospectus. This prospectus is the document the public relies on for making investment decisions. Necessary approvals from SEC and other bodies are obtained. If the financial option involves listing on the stock exchange, the brokers to the issue ensures that all necessary approvals are also obtained since only stock brokers can introduce issues to the exchange.

On the completion of the offer, the proceeds of the issues are handed over to the company for executing the proposed business programme on long-term investment and the securities is listed on the daily official list of the exchange.

## **2.7 The Segments of the Nigerian Capital Market.**

The Nigeria Capital Market (NCM) like the capital market in other nations is made up of two segments namely:

- a) The primary market
- b) The secondary market

### **a) The Primary Market**

The primary market is the market for new issues of securities. The mode of offer for the securities traded in this market includes the offer for subscription, rights issue, offer for sale and private placement. The fund raised by the company through this primary segment of the capital market consists of its equity capital. According to Olowe (1998), the primary market or the market for new issue of funds or securities provides a focal point for lenders and borrowers to meet. New funds are raised through this market. Thus the primary market consists of new issue transactions which consists of the issuance of securities to raise money for corporations through new securities directly from the public.

In his own view, Foley (1991) further stated that the primary market is rather less demanding in terms of issue requirements. According to Hurley (1981), a new issue must be done by a prospectus which describes the company, its officers, its assets, the number of shares or stocks authorized and outstanding, the rights of stockholders, the intended use of the proceeds, and the price per share of the new issue. The prospectus is required by the Securities and Exchange Commission. Before the issuance to the public.

There are three methods by which capital can be raised in the primary market namely:

- i. Direct sales
- ii. Financial institutions and
- iii. Investment banker

According to Peterson (1994), agrees with the above that there are three ways to raise capital in the primary markets. In the case of direct sales, the investor purchases stock for example, directly from the issuer. Many Ventures Capital firms invest in small growing businesses in this way. Also, many corporations sell securities directly to large investors such as pension funds. By doing so, the issuer can tailor the features of

the security (such as maturity) to suit the desires of the investors. This type of selling is referred to as Private Placement.

A second method is to raise capital in the primary market through financial institutions, which are firms that obtain money from investors in return for the institutions securities and then invest the money obtained. For example, a bank issues bank accounts in return for deposits and then loans that money to a firm. Besides banks, firms such as mutual funds and pension funds operate as financial institutions.

Odife (1985) distinguished the two main functions of the primary market as;

- a) New direct investment and
- b) New lending activity

He further stated that "new direct investment" is the process whereby investors pass on their resources to institutions, which will either invest these funds directly or will hand such funds over to other institutions that have outlined investment choices. Furthermore, the operations of the primary market, which is also known as new issues market is classified into three.

According to Ugwuanyi (2002), the operations are:

- The regulations: Securities and Exchange Commission (CBN)
- The functionaries: issuing houses, stock broking firms and commercial merchant banks.
- The investors, individuals and institutional investors. From the foregoing, one can easily conclude that securities are bought and sold in the primary market, which provide the issuer with new capital for economic and industrial development. The growth of the primary market depends on the secondary market. The mode of offer for the securities traded in the primary market as noted earlier includes offer for subscription, right issues, offer for sales and private placement.

### **Listing requirements**

According to Pandi (2003) listing refers to the admission of the security of a public limited company on a recognized stock exchange for trading. Listing of securities is undertaken with the primary objective of providing marketability, liquidity and transferability of securities of a company to the official list of the exchange. To be quoted or listed in the

exchange entitles the security of the company to be traded on the flow of the stock exchange.

Furthermore, Ugwuanyi, noted two types of listing in the stock market. These include:

A) First – tier security market:

B) Second – tier security market

**(a) First – Tier Security Market:** the requirements for the listing in the first-tier securities market are:

- i. Trading record of 5 years (financial statement)
- ii. Data of the latest audited accounts and records must not be more than nine months.
- iii. Not less than 25% or ₦150,000.00 of issued share capital must be made available to the public in annual quotation fee is based on the share capital of the company.
- iv. The amount that can be raised is limitless depending on the borrowing powers of the company.
- v. Companies are required to submit half yearly and annual statement of accounts and the number of shareholders must not be less than 500.

vi. Minimum issue capital of N500million

**(b) Second – Tier Securities Market**

i. Trading record of 3 years

ii. Latest audited report must not be more than nine months

iii. At least 10% or ₦50,000.00 of the equity capital must be made available to the public,

iv. A flat annual charge of ₦2,000.00

v. The amount that can be raised may not exceed ₦5million.

vi. Companies to submit half-yearly and annual statement of accounts.

vii. Number of shareholders must not be less than 100

viii. Minimum issue capital requirement of ₦0.6m.

**(b) Secondary Market:** This is the market for trading in existing securities. It consists of the stock exchange and over the counter market.

Money raised through this segment of the market goes to the investors (sellers of securities), while ownership of the securities goes to the new investors (buyers of securities). Activities in the secondary market have increased substantially over the years. This has been facilitated by the opening of trading flows in other parts of the country by the Nigerian Stock Exchange. According to Hurley (1981), the whole concept of the

secondary market is to provide a trading forum for the investor. This means that any investor who wishes to buy, sell or trade may do so quickly, The subsequent buying and selling of securities by owners of securities which is known as secondary market is further described by Hurley (1981) as "continuing market" which comprises of organized stock exchanges, brokers and security dealers. On the other hand, Foley (1991) posits that the secondary markets is an important adjunct to the effective operations of the primary market because it is the vehicle by which liquidity is supposedly assured to the bond holder. This is not to say that the primary market would not function but its clearly less attractive to potential investors if a given bond has little or no prospect of offering a measure of liquidity after the new issue is completed. Thus lenders and fund providers are induced to lend funds at lower rates than otherwise would have been the case, if this segment of the market does not exist.

Nzotta (2014), noted that the financial obligations traded in the secondary market are characterized by a very high degree of safety and are issued by borrowers of every high credit standing. Business is done in the market largely through telephone or telex and this makes it

possible for the lenders and borrowers to lend and borrow funds quickly at minimum transaction cost.

In summary, outstanding securities are traded in the secondary market, which is commonly known as stock market or stock exchange. In the secondary market, the investors can sell and buy securities which had already been listed through the primary market.

Odife (1985), observed that primary market institutions are those institutions that provide the means for directing funds, into new investment outlets.

### **2.7.1 The Primary and Secondary Market Compared**

Pandi (2003) summarized the relationship between the primary and secondary market as follows:

The primary market cannot function without the secondary market. The secondary market or the stock market provides liquidity for the issued securities. The issued securities are traded in the secondary market offering liquidity to the stock at a reduced price.

The stock exchange through their listing requirements, exercise control over the primary market. The company seeking for listing on the respective stock exchange has to comply with all the rules and

regulations specified by the stock exchange.

The primary market provides a direct link between prospective investors and the company. By providing liquidity and safety, the stock market encourages the public to subscribe to all new issues. The marketability and capital appreciation provided in the stock market are the major factors that attract the investing public towards the stocks in the markets.

Thus, it provides an indirect link between savers and the company. Even though they are complementary to reach other, their functions and the organizations are different from each other. The stability of the primary market depends on the secondary market and vice-versa. The primary market create financial claims or assets, while the function of the secondary market is to provide a mechanism whereby these financial claims are liquidated merely by the withdrawal of one of the parties.

## **2.8 Major Participants in the Nigeria Capital Market**

These are bodies that play major roles to see to the effective carrying out of duties at the Nigeria Stock Exchange.

The Securities and Exchange Commission (SEC).

According to Ugwuanyi (2002), the establishment of the security and exchange commission by the security and exchange commission

decree 71 of 1979 with effect from April 1978 was as a result of the report of the committee on the review of the Nigeria Financial System headed by Okigbo in 1976. The Okigbo report, recommended among others that a supervisory or "apex" regulatory institution for the capital market be established. This institution would register all securities proposed for offer in Nigeria whether by public or private offer. The Capital Issue Commission (CIC) of 1973 ensures the fairness of the prices of securities. Issued at the market.

Otiti (1998) observed that the Nigerian Securities and Exchange Commission was created to strengthen the operations of the Nigeria Stock Exchange. It also has the objective of providing the mechanism for regulating the capital market. It has jurisdiction over the prices at which shares and debentures of companies are to be sold to the public either through offer for sale or direct issue.

#### Functions of Securities and Exchange Commission (SEC).

The primary function of SEC is to see to the orderly development of the capital market by regulating shares prices and determining the timing of issues.

According to Ugwuanyi (2002), the functions of the Securities and Exchange Commission include:

**a) Regulation:** The instruments traded in securities market does not lend themselves to physical examination by the buyers unlike other consumer goods. Prospective investors therefore rely on information available to them for such information to be objective. It must be concise, adequate and timely and must not be misleading or ambiguous so as not to lend itself to wrong investment decisions, loss of money and erosion of confidence in the capital market among others.

**b) Registration:** SEC derives its registration function from section 6 (b) and (d) as well as section 9, 10, 12, 14 and 24 of the SEC decree of 1988. In the securities of decree afore mentioned the SEC is empowered to register "all securities proposed to be offered for subscription by the public" and stock exchange or their branches, registrars, investment advisers, all institutions and individuals operating in the capital market are not left out.

**c) Surveillance:** The maintenance of market ethics (that is principles and rules of professional conduct) as well as transparency is very paramount to the substance of confidence in the capital market. Defining its powers

from section 6 (c), (e) and (h) of its enabling decree, the commission is constantly monitoring the market activities to forestall manipulative and other illegal practices.

Nwankwo (1980), opined that it is important to maintain surveillance over the securities market so as to forestall malpractices. SEC also takes steps to reprimand or otherwise punish, any person responsible for the creation or emergence of a false market in securities market as well as providing free and fair market, arresting unsystematic risk from the system as to ensure efficient risk management.

**d) Investigation:** section 28 of the SEC decree of 1998 empowers the commission to investigate all reports of violations and suspected violations of the securities law. Investigative action usually arise as a result of the surveillance activities of the commission and complaints made by investors or operators and aggrieved members of the public.

**e) Enforcement:** Action taken by the commission against offences depends on the severity of the offence and includes suspension, delisting, revocation of registration, disengagement of proceeds from illegal transactions, fines and reverting of action.

**f) Rule Making:** In order to keep the market in check, enhance growth and development, the commission formulates rules and regulations as well as review the existing ones in the market. It does this taking into consideration the experience and emerging development in the market and its peculiarities, the financial system as well as the macro economic environment.

**g) Mergers/Acquisition**

Section 8 of the SEC decree empowers the commission to approve disapprove and review every merger/acquisition or combination between companies. This is to ensure that the merger or combination will not create monopoly directly or indirectly.

**h) Authorization of Unit Trust Schemes:** According to Ifechukwu and Okenimkpe (2002), a unit trust is an efficient instrument for enabling rural dwellers and small savers to participate in the of industrial development of the country. The Companies and Allied Matters Decree (CAMD) 1990 as amended also vests on the commission the administration of sections 575-589 of the decree, which relates to the establishment and operations of unit trust schemes in Nigeria.

**i) Developmental Functions:** In the view of Ugwuanyi (2002) the developmental function of the commission emanates from the widely held view, that an efficient financial market can impact on the socio – economic development of a nation. In addition, a healthy equity, bond and money market constitute the primary indicator of an efficient financial markets. In pursuit of this the goal, the commission endeavours to improve and strengthen the quality of knowledge that would aid the development of a strong, efficient, virile and reliable capital market.

As part of the developmental function of the commission the capital market was inaugurated in 1990 as an advisory and consultative body to serve as a forum for deliberating on matters affecting the capital market and also find ways and means of improving on the operations of system.

### **2.8.1 Nigeria Stock Exchange**

Another important aspect of the Nigeria capital market is the Nigeria Stock Exchange (NSE). According to Nzotta (2014), a stock exchange is defined as an organized market where buyers and sellers of stocks and securities, through the stock brokers competitively "bid" and "offer" for listed securities. This market is accessible to all categories of

investors and has various participants like the case of the new issue market.

Nwankwo (1980) further stated that the stock exchange is a nonprofit making institution in the sense that any excess of income over expenditure or its accumulated reserves are not available for distribution as dividend to the company's share holders. Here the liability of member is limited to the stipulated amount of shares each has undertaken to contribute in the event of winding up. In the same way, Ugwuanyi (1998), observed that the stock exchange provide the facilities that enable both companies and government to raise long term and medium term funds for the establishment, expansion and development of project through investors.

He also pointed out that the stock exchange is an organized market for already existing securities (bond, stocks and shares) rather than for new issues. Callaghan (1994) said that the stock exchange is the market place for securities. These can be "equities" which are shares in companies or "gilt-edged securities which are referred to as loans issued by the governments. A stock exchange is an important financial institution in any capitalist society as it allows people to buy and sell

shares and participate in the ownership of various businesses a in relatively simple and convenient way,

### **Functions of Nigeria Stock Exchange**

According to Nwankwo (1980), the functions of stock exchange amongst others are:

- i. To provide a central meeting place for members to buy and sell existing stocks and shares and for granting quotations to new ones. According to Nwankwo, this is the primary function,
- ii. He further stated that it provides opportunities for raising of fresh capital. And this is the secondary function. Other functions of the stock exchange as pointed out by Nzotta (1999), are:
- iii. Stock exchange provides machinery for mobilizing private and public savings and making these available for productive investment through stocks and shares.
- iv. According to him, it facilitates the purchase and sale of securities, to help reduce the risk of illiquidity. Ideally, this should encourage more investment in stocks and shares since investors are sure that in case of need they could realize their

investment easily and with minimum of loss and many cases at a profit in the stock exchange.

- v. Through its rules, regulations and operational codes and practice to protect the public from shady dealings and practices in quoted securities with the objectives of ensuring fair dealings. In this way, the stock exchange arguments or supplements protection or regulations offered in the companies.
- vi. To act as a channel of implementing the indigenization decree by providing facilities to foreign business to offer the shares to the Nigerian public for subscription.
- vii. To the extent that it is a condition for specified existing or new companies to have a prescribed percentage of shares owned by Nigerians and to the extent that the firms prefer to do this through public issues, the Lagos Stock Exchange was expected to provide opportunities for continued operation and attraction of foreign capital for development of Nigeria.
- viii. In view of the developmental function of the stock exchange, Nwankwo (1980), further stated that the ninth function of the stock exchange is that: It facilitates dealings in government

securities. To the extent that this provides the government with funds to participate with foreign investors in establishing industrial projects. The exchange is expected, indirectly, to attract foreign investment into the Nigerian industrial/manufacturing sector.

### **2.8.2 The Central Bank**

The central bank according to Oxford Advanced Learners Dictionary (2000), is defined as a national bank that does business with the government and other banks and issues the country's coins and paper money.

The history of the Central Bank (CBN) in Nigeria is not old as that of commercial banking. According to Ugwuanyi (2002), the central bank officially opened its doors for business on May 1<sup>st</sup>, 1959; The central bank properly belongs to both the money market and capital market as the key operator without which the market cannot exist. As the "apex bank" of the nation, the development and regulation of the capital market is a primary responsibility of the bank. In view of this, Nzotta (2014) observed that the central bank has played important roles in promoting monetary stability and sound financial structure in Nigeria. He further stated that the bank has performed functions which are

advisory in nature and also promotional, regulatory, directional and financial. The CBN has greatly stimulated the growth and development of government securities worthy the years through its operations. As indicated before, the first issue of government securities was made in 1959, two years before the Nigerian stock exchange began operations in 1961. To facilitate dealings in these securities, the Central Bank of Nigeria provided buying and selling facilities.

Similarly, **Nwankwo (1980)** stated that with the exception of the first issue, which was undertaken before the bank had assumed its banking and issue functions, the CBN has since supported all the issues in a number of ways. first the CBN has underwritten all issues of federal government stocks. This means that in all but the first issue, the bank stood ready and took up all issues, which the public did not take up. Apart from acting as the issuer, underwritten and retailer of these stocks, the CBN provides facilities to assure the marketability of these securities. Accordingly and simultaneously with the first issue, the CBN introduced arrangements involving the maintenance of a central register for linking together potential buyers and sellers and suggesting a price of which the deal might reasonably take place.

Among the other functions of the Central Bank of Nigeria is the development of the money and capital markets. The capital market which consists of institutions and investment trust units provide long-term financing. The CBN helps in their development by selling treasury bills and other securities to foster industrial development, economic growth and output.

### **2.8.3 Merchant Banks**

Merchant banks play a minimal role in the money market. They performed mostly capital market functions. The Central Bank of Nigeria monetary and credit policies of 1991, defined a merchant bank as any person in Nigeria who is engaged in wholesale sell banking, medium and long-term financing, equipment leasing, debt factoring, investment of unit trusts and acceptance of bills. Merchant banks are an important component of the financial system of any country. They are conceived as financial intermediaries licensed for the purpose of filling a financing gap in the financial system. Its functions according to **Ugwuanyi (1998)**, includes providing services to the customers, the services here could be grouped into international and domestic services.

However, the rapid development of the nation's capital market, coupled with technological developments in communication have greatly widened the range of the services offered by merchant banks, especially the stock market and underwriting activities. They also play vital role in area of documentary of credits on behalf of their customers. Merchant banks also engage in corporate financing and the provision of the various financing needs of corporate firms ranging from new issues (both private and public industries), corporate debts restructuring, securities, mergers and acquisitions and asset management.

Further on the functions of the merchant bank as a major participant in the capital market, Nzotta (2014), opined that "deposit mobilization" among others describe the function of the merchant bank. The bank also ensures that business have working capital and other sources of finance. For their productive purposes.

#### **2.8.4 Stock-Brokers**

According to the **Hurley (1981)**, stock brokers are licensed to buy and sell securities for clients. They are well – versed in the concept and methodology of the securities markets because of a thorough professional training in the stock brokerage. They buy and sell listed and

unlisted common stock, preferred stocks, corporate bonds, government securities, mutual funds, and commodity futures. However, to be a stock broker, the company needs to be a dealing member of the stock exchange. According **Odife (1985)** to be a stock broker, however, the company needs to be a member of the stock exchange.

### **Other market operators including the following institutions:**

Issuing houses, trustees, registrars and investment advisers.

### **Issuing Houses**

Odife (1985), contends that an issuing house is essentially a company that arranges the issuance of the shares on behalf of another company. He further stated that by law a company can sell its own shares, but in practice this is hardly ever done. **Ifechukwu** and **Okenimkpe (2002)**, opined that this category of companies comprises the economic units, whether public or private, which are in positions of relative financial deficit and as such resort to the capital market to raise the funds they need for the productive process.

According to **Odife (1985)**, traditionally, one of the main functions of an issuing house is to underwrite the securities it issues for its client: - that is to say, to buy the securities itself and then sell them later.

The functions of the Nigerian stock exchange according to **Nwankwo (1980)** amongst others include:

1. To provide a central meeting place for members to buy and sell existing stocks and shares and for granting quotations to new ones.
2. To provide opportunities for raising new or fresh capital.
3. To provide machinery for mobilizing private and public savings and making these available for productive investment through stocks and shares.
4. By facilitating the purchase and sales of securities to help reduce the risk of ill liquidity. Ideally, this should encourage more investment in stocks and shares since investors are sure of need they could realize their investment profit in the stock exchange.
5. Through its rules, regulations, operational codes and practices to protect the public from shady dealings and practices in quoted securities with the objective of ensuring fair dealing. In this way, the stock exchange augments or supplements the protection offered in the companies act.

6. To act as a channel for implementing the indigenization decree by providing for facilities business to offer their shares to the Nigerian public for subscription.
7. To the extent that it is a condition for specified existing or new companies to have a prescribed percentage of shares owned by Nigerians and to the extent that firms prefer to do this through public issues, provides opportunities for continuous operation and attraction of foreign capital for Nigerian's development.
8. To facilitate dealings in government securities. To the extent that this provides the government with funds to participate with foreign investors in establishing industrial projects, the exchange was expected indirectly, to facilities investment in Nigerian manufacturing.

### **The Unit Trust Manager**

According to the Companies and Allied Matters Decree (CAMD) 1990, the Manger of a Unit Trust is defined as "the person who is vested with the power of management relating to the property for the time being subject to any trust created in pursuance of the scheme". The managers are actually responsible for making and carrying out investment

decisions, selling and buying back units. Unit trust, managers are usually reputable merchant banks, firms of stockbrokers or finance houses.

### **The Functions of Unit Trust Managers:**

**Nzotta (2014)**, mentioned the functions of the manager or unit trust funds as:

- To ensure that the term of the trust deed is implemented.
- To act as custodian of the capital and income of trust.
- To hold in its name the securities in which money subscribed by the public to the trust fund has been invested by the managers.
- To take responsibility for the register of sub-unit holders.
- To ensure that the advertising details are correct and not misleading.

### **INSURANCE FIRMS**

Another principal institution in the Nigerian capital market in relation to economic and industrial development is the insurance firms.

According to **Nzotta (2014)**, insurance is defined as a contractual agreement between two parties (the insurance and the insurer) whereby one party (the insurer) agrees to provide protection against the

occurrence of an event which would result in a financial loss, upon payment of a consideration (premium) by the insured over a given period of time. In the view of **Ugwuanyi (1998)**, insurance as a business can simply be defined as 'a social device of misfortune, the payments being made from the accumulated contributions of all parties participating in the scheme'.

By thus, insurance is seen as a business whereby a group of participants in a scheme, contribute a specified amount of money within a given period, from which a member who suffers an insured loss will be compensated.

**Hurley (1981)**, observed that our lives are fraught with risks because we cannot foresee what uncertainties lie ahead. Most of our daily risks are insignificant, but contain certain events, accident, sickness; theft and death create serious economic loss when they occur, thus the need to seek protection.

**Otiti (1998)**, from another perspective contends that in developing countries, insurance companies in addition to other functions provide means of accumulating savings. Such accumulated savings provide insurance companies with a pool of funds for investment that could aid

development. They therefore operate as a tool for capital formation when bring together and turn into capital outlets which would otherwise have remained unused. Infact, insurance companies contribute more to a developing economy through capital accumulation, than reparation of losses through compensatory measures.

In this sense, **Nzotta (2014)** identified the roles of insurance companies in industrial development relative to the capital market as:

- a. Mobilization of funds (from their accumulated savings)
- b. Risk taking and risk bearing.
- c. Provision of loan - able funds through investment of reserves.

**(a) Mobilization of funds**

Insurance companies mobilize funds from the pubic in the form of premiums. These premiums constitute the consideration for the issuance coverage promised by the insurer. It is the prime means by which the insured's expectation of indemnity or compensation in the event of a loss is met. The insurance companies pool these funds together and employ them for the settlement of claims and for investment purposes. These premiums are usually obtained from life and non life insurance businesses. The funds from the life assurance business are fairly more

stable than those from the non-life business and thus influence the pattern of surplus funds from the two classes of insurance.

**(b) Risk bearing:**

Risk represents the chance of loss or possibility of a financial loss occurring as a result of the occurrence of an event. Some of these events are insurable (e.g. Car accident) while some are not insurable (earthquake). The insurance risks are called perils. The primary function of insurance is to ensure that the financial losses of individuals or businesses are fairly and equitably distributed over the insured community. The insured community in return pay premiums, which are pooled together, and from here the financial losses of a few are met. As a result, insurance companies assist the insured to cushion the effects of these losses and thereby remain in business or continue normal operations.

**(c) Provision of Loan-able Funds through Investment of Reserves**

The funds pooled together by the insurance companies, are usually far in excess of that required to settle the various claims by policy holders at each material time. These excess funds represent reserves which the insurance companies invest in various securities. This assists

the society to have a steady flow of investment funds which can promote and develop local industries and the enhancement of the level of industrial development.

### **Unit trusts**

Investments trust companies as limited liability companies are up to portfolio companies that build up portfolio of assets for the purpose of income and capital growth. According to **Forley (1991)**, unit trusts or open-end funds as they are termed in the United States have become a variety of capital markets. The Companies and Allied Matters decree 1990 which empowered the introduction of unit trust scheme provided an important legal frame work for the establishment of unit trust in Nigeria. The first unit trust scheme was launched by the Abacus Unit Trust scheme in December 1990. According to **CBN Report**, investor's holding to the trust are redeemable by sale to the unit trust and the original issues were fixed at 10years. According to **Nzotta (2014)**, unit trusts represent a method of investment in which funds subscribed by various small investors are pooled together in a fund and invested in various securities, subject to the legal provision of trust deed. Thus, the unit trust is an associates of investors established under a trust deed and

approval by the Securities and Exchange Commission. **Ugwuanyi (1998)**, contends that three parties are involved in the unit trust operation namely:

1. The unit holder
2. The trustee
3. The manager

### **1. The Unit Holder**

According to Ugwuanyi, a unit holder is any investor or beneficiary who has acquired units of the unit trust scheme under the trust deed and is entitled to a pro-rata share of dividends, interest or other incomes of the securities comprised in the unit. The unit holders are owners of the funds and could be likened to the shareholders in a limited liability company. They provide through their joint contribution the fund with which the unit trust operates. A unit trust as mentioned above is open - ended when there is no fixed number of unit holders so that the fund can be expanded by issuing more units at the same value as the existing unit at that point in time or it may contract, through unit holders selling back their units to the fund at the prevailing prices. This then means that a unit holder owns a share of the assets of the unit trust

at any point in time that is proportionate to the number of units he is holding.

## **2. The Trustee**

The trustee of a unit trust is a group of persons or firm that act as the caretaker of the assets of the trust on behalf of the unit holders who are the real owners of the unit asset. However, legally the trustee firm are the owners of the assets of the trust as can be seen from the definition of unit trusts. – Trustee according to the **CAMD (1990)** is a person in whom the property, for the time being subject to any trust created in pursuance of the scheme, is or may be vested on in accordance with the terms of the trust. From this, the assets of the unit are legally owned by the trustee since all properties and assets are registered in the name of the trustee. The trustee must be of good repute since they are to be trusted by the unit holders to hold their assets for them and see to their equitable management. Hence, in Nigeria, the trustees are in most cases a consortium of banks, major finance houses and insurance firms. The trustee must be totally independent of the managers as they (the trustees) oversee the activities of the trust manager.

## 2.9 Financial Securities in the Capital Market

According to **Paterson (1994)**, a security represents ownership in an assets or debt obligation. In a more detailed way, **Securities and Exchange Commission (SEC) Decree (1988)** as amended defined security as any note, stock, treasury stock or certificate, government bond, or participation in any profit sharing agreement or any oil, gas or other mineral royalty or lease, any subscription transferable share, investment contract, certificate of deposit for a security or right or interest (described whether as unit or otherwise) under any unit trust scheme or in general, any instrument commonly known as "security" but shall not include currency or any note, draft bill or exchange or bankers acceptance which has a maturity at the time of issuing of not exceeding nine months exclusive of days of grace or any renewal thereof, the maturity of which is likewise limited.

Financial securities according to **Nzotta (2014)**, represents the promissory notes of various bodies and are supposed to be impacted liquidity by the market. Most securities or instruments that are floated at the Nigeria securities market include ordinary shares, preference shares, debentures or bond.

### **(a) Common Stocks**

These are ownership claims in a company. They could also be said to be perpetual securities with no maturity date, no maturity values but with variable incomes. They are thus called variable income securities. Common stock or equity represents the interest of shareholder in a company measured by a sum of money invested and whose returns are associated with a measure of risk. A shareholder is entitled to residual returns after the prior claims of other classes of securities have been satisfied. Common stock holders are the ultimate bearers of the risks of ownership. Thus, they have two classes of rights available to them. First, the attractive rights are the rights accorded to common stock holders which attract them to the issue. The protective rights seek to protect the shareholders who have parted with their funds and may not actively participate in managing the affairs of the company.

### **(b) Preference Shares**

These are also called hybrid securities, since they exhibit features of variable income securities (equities) and fixed income securities (bonds). Preference shareholders are entitled to a fixed rate of interest and very often, participate in the residual profit of the entity

(participating preference shares). Preference shares could be cumulative or non – cumulative, convertible or non – convertible, participating or non – participating, redeemable or non – redeemable. They could also be retractable preference shares.

Cumulative preference shares dividends not paid in a particular year, for example due to poor trading results, could be carried forward to such a time that the company will be in a position to pay. On the other hand, if the shares are non – cumulative and the company files to declare dividends in a given year, the shareholders automatically forfeit the dividend. Convertible preference shares are converted into ordinary shares at a predetermined date. Non – convertible preference shares cannot be so converted. Participating preference shares entitle the holder to share in the residual dividends after the ordinary shareholders have been settled. The reverse is the case with non - participating preference shares. In the case of redeemable preference shares issuers have the right to redeem (recall) the issue before maturity after giving due notice to the holder and usually at a premium. The non redeemable preferences shares cannot be so redeemed. Finally, the retractable preference shares give the holder the privilege to tender the shares to the issuing company for redemption at a specified price during a specific period of time.

### **(c ) Debt Securities**

These are securities with fixed incomes and definite maturities. They include debentures or corporate bonds, government bonds or development stocks. It is note worthy that those who buy debt securities are usually satisfied with fixed interest payments and do not care to participate in the higher risks attendant to share issues and thus the accompanying higher level of returns. The government is the major player in the bond market as the development stocks show a large presence of the market except the period of temporary suspensions of new issues.

#### **(1)Debentures**

A debenture is usually issued under seal by a corporate body in acknowledgement of a debt undertaking to repay the stated sum on or before a certain date and to pay interest at a fixed or floating rate usually at a well defined interval.

Debentures are usually classified into the flowing categories:

- i. Secured debentures
- ii. Unsecured debentures

- iii. Convertible debentures
- iv. Secured Debentures
- v. Secured debentures

Generally, secured debentures are issued with either fixed or floating charge upon the assets of a company. Conceptually, debentures issued on the security of specified assets such as land and buildings, are known as mortgage debentures. Here, fixed – charge debentures are secured by real properties. On the other hand, floating debentures are issued with a floating charge upon the assets of a company. The debenture is secured against all the assets of a company other than those assets which have been specifically charged under a mortgage debenture. Usually, the security of a floating charge debenture is less than that of mortgage debentures.

**(ii) Unsecured Debentures**

Unsecured debentures, also known as "simple" or "naked" debentures are issued by companies without the backing of a specific asset or floating charge. The only security the debenture holder has is a note, which acknowledges the indebtedness of the creditor.

### **(iii) Convertible debentures**

In this case, for the conversion of the security into issue usually contains provision for the conversion of the security into equity. On conversion, the value of the debentures form part of the equity capital of the company. Thus, this arrangement alters the debt equity ratio of the company.

#### **(a) Development Stocks**

These are also called development bonds or revenue bonds. The federal government of Nigeria, the state and local governments issues/floats debt securities for various purposes. The federal government issues, development stocks for purposes of funding specific development projects. The state and local government can also access the market for various purposes, but with the approval of the federal government. These bonds are called state bonds and municipal bonds respectively. The Central Bank of Nigeria issues development bonds on behalf of the federal government and also acts as the issuing house/registrar and underwrites to the issues. The bond issues are usually targeted at institutional investors. The central bank underwriters and releases this gradually to the capital market through the secondary

market facilities. Development bonds are also called gilt – edge securities because of the certainty of interest payment usually in development bonds, there is little risks and low yields.

## **2.10 Functions and Objectives of the Nigerian Capital Market**

The ability to mobilize domestic and foreign savings for channeling into productive investment is one of the most important functions of the capital market. Through this function, the Market (NCM) builds "abridge" between savings and investment, making it possible for the society to source funds from the surplus units. The market is a vital avenue in capital formation, hence fostering industrial development and output.

Furthermore, the capital market promotes risk sharing which is important in the development of venture capital and other high risk business. Other functions of the Nigerian capital market include:

1. Provide an additional channel for engaging and mobilizing domestic savings for productive investment.
2. Provides depositors with better protection against inflation and currency depreciation.

3. Foster the growth of the domestic financial services sector and the various forms of institutional savings such as insurance and pension funds.
4. Improves the gearings of the domestic corporate sector and help reduce dependence on borrowing.
5. Improves the efficiency of capital by providing market measures of returns on capital and a market mechanism for management changes as compared with the administrative or political mechanism of public sector corporations.
6. To facilitate the transfer of enterprises from the public sector to the private sector.
7. To encourage privatization of the economy by increasing the marketability of new issues.
8. Provides access to finance for new and smaller companies and encourage institutional development in facilitating the setting up of Nigeria's domestic bonds market, foreign funds and venture capital funds.

The summary of the above functions is that the Nigerian capital market helps to stimulate industrial as well as economic growth and development of the Nigerian economy, leading to improved output. The capital market ensures strict compliance to the code of corporate governance for corporate firms, best practices ensuring investors' confidence as well as making the capital market attractive to international investors, and the pooling of investible funds needed to grow the economy.

## **2.11 The Nigeria Capital Market (NCM) and Industrial Development**

Industries need capital and actively seek it from many sources. The capital market performs a very valuable economic role by providing access to capital for industries and access to investment for investors. The market is a vital avenue in capital formation, hence fastening industrial development and output.

The capital market provides governments at all levels with effective mechanism for financing public projects and meeting public sector recurrent and capital expenditures. This ensures timely completion of many industrial projects by the governments. However,

We have these instances of viable projects that was developed through raising funds from the Nigeria capital market (NCM).

1. To finance its housing project, the former Benue State government raised ₦20 million through the capital market.
2. Former Oyo State Government raised ₦30 million for the development of its public markets.
3. The Ogun State Government went to the capital market to finance its water project through a ₦30 million. Bond issue.
4. Lagos State Government between 1990 and 1992 used the facilities of the capital market twice and raised ₦190 million, (for the development of Lekki peninsula, ₦90 million and for completion of surulere market in Lagos Island ₦100 million.
5. In the year 2000 the Edo State Government raised ₦500 million from the capital market to develop its housing project in Benin.
6. In 2004 Ekiti State Government raised ₦1.5 billion to complete, reactivate and build certain specified infrastructural projects.
7. The ₦25 billion re-capitalization for banks in Nigeria, motivated banks like Standard Trust Bank plc, Zenith Bank plc and Guaranty

Trust Bank plc to make initial public offers (IPOS), which posted 184 percent, 254 percent and 100 percent over subscription respectively. The funds generated were channeled towards various projects. Zenith Bank International Plc for instance undertook to finance its bank strategy business development and expansion of its network and to upgrade its information technology among other purposes.

## **2.12 Problems of the Nigeria Capital Market**

There are a number of problems generally that affect the breadth and depth of the market. Some of these problems are:

### **1. Low Demand for Securities**

The general low personal income within the economy, lack of proper knowledge about the security market, the benefits accruing thereof and the availability of more attractive alternative investment particularly money market instruments have all hindered the demand for securities and capital market development in developing countries like Nigeria.

### **2. High Level of Ignorance**

Nzotta (2014), contends that associated with aversion of dilution of ownership is the factor of high level of ignorance of the Nigeria investor.

In spite of the various attempts to enlighten the average investor, there is an all Pervading ignorance of investors in stock market activities. This sustains the buy and hold attitude of the investors and their inability to use the services of investment advisor in their investment decisions. There is limited speculation at the market and thus limiting the vibrancy of the market. Here, the potential market capitalization is less than the real capitalization.

Since the level of the development of the stock market is associated with the velocity of change in the ownership of securities and liquidity, the buy and hold attitude constrains stock market development.

### **3. Limited Level of Professionalism**

In spite of the attempts by the market operators and the stock market association to elevate the level of professionalism, available evidence show that most of the operators manifest very limited and low level of professionalism. They also manifest a low level of sophistication, imagination, dynamism and lack of competitiveness in various aspects of stock trading.

#### **4. Paucity of Financial Instrument**

The number and volume of securities at the stock market is still low although this has shown remarkable increase over the last 10yrs. The number of investment options available to investors is limited. This has sustained the buy and hold attitude of investors and further compounded the sluggish pattern of stock price movements at the market.

#### **5. Regulatory Framework Work**

A critical appraisal of the capital market shows that legal and regulating framework is still constrained by various out dated control mechanisms which limits the efficiency of the market. These controls show negative trends in other developed countries, where stock price movements respond to the market mechanism and where the stock capture prices captured various variables such as price, wars, and economic changes in the pricing pattern of stock. The pattern of stock price determination is still very outdated and does not reflect the real value of an investors stock in the investing company.

## **6. Lack of Timely and Easy Access to Information**

Timely and easily accessible information on the market operations are very essential for the efficient working of the stock market. This is not the case with the Nigerian capital market. Information on the companies quoted on the exchange are often late incoming and this contrains the decision making process. Most times, the information may not even be available. Decision making is thus cumbersome.

## **7. Infrastructural Problems**

The consequences of this limitation include delays to finalize transactions and delays in the delays in the decisions making process..

## **8. Poor Investment Climate**

The investment climate in Nigeria is generally very poor. This increases the risks of holding domestic financial assets in the capital market and sustains capital flight. The causal factors here are the high level of political instability in the country, the lack of consistency in policy thrusts, various social unrest and unstable macro-economic factors.

As a result, direct foreign portfolio investments have not been impressive. Various investors shy away from the Nigerian stock market as a result of the restrictive factors in the capital market. It is generally accepted that most developing markets have diverse problems militating against smooth operations and efficiency in their march towards the realization of stipulated objectives.

### **2.13 The Future of the Capital Market in Nigeria.**

The capital market in Nigeria has grown consistently over the years inspite of the imitations that have affected its operations. Having appraised the hic-ups militating against its progress in Nigeria, there is no gain saying the fact that the eradication of some of the limitations will lead to an expansion in the activities of the Nigeria capital market. Apart from the overall growth in incomes following the continued expansion of the Nigeria economy, one development points unmistakably to the growth of the market. This is the indigenous enterprise promotion decree 1977. Based on the recommendations of the industrial enterprises panel, the decree of which is a revision of the 1972 version, is designed to correct the shortcomings and abuses highlighted in the implementation of the 1972 decree and to make improvements in

the implementation and promotion of market activities to achieve meaningful indigenous participation in the private sector of the Nigeria economy. In this regard, Nzotta (2014), pointed out that the stock market collapse of 1929 in the United States of America and its aftermath brought into focus the necessity for capital market regulations especially taking cognizance of the peculiarities of the instruments traded in the market. Be that as it may, the Nigeria capital market has been undergoing various reforms and these reforms have generated some interest especially in view of the limited level of efficiency of the market in the intermediation prices and in resource mobilization generally. Following the collapse of 1929 United States stock market, as reported above, and the resultant financial crises which ensued afterwards, the operators of the Nigeria capital market saw the need in having regulations to forestall any future collapse, which may affect negatively the Nigerian economy. **Nzotta (2014)**, records that this informs the need for regulations. A measure of regulation is inevitable to enhance the efficiency of the market operators, engender confidence in the instruments traded in the market and ultimately avoid a stock market crash. There is however a compelling need to deregulate certain aspects

of the operations and policy framework in the market to enable it cope with 'the changes in the economy and the increasing demands for capital resources, especially with the complimentary reforms of the public sector, the money and foreign exchange markets. The deregulations and internalization of the stock market would expose it to participation by foreign investors.

## **CHAPTER III**

### **METHODOLOGY**

The linkage between Nigeria capital market and industrial development of Nigeria has occupied a central position in the development literature especially in the last decades. Different methodological approaches have been employed by different authors. However, this study adopts the methodology used by Popoola et al (2017) with some modifications to test for the relationship between the capital market variables and industrial development

#### **3.1 Data and Data Sources**

Secondary data was collected on each of the above stated variable, covering the period 1986 to 2017. The choice of this period is to make room for a broad coverage of the capital market indicators, as well as the investigation of the relationship between the capital market and industrial development in Nigeria. The annual data series were collected mainly from the CBN statistical Bulletin of 2017, CBN Annual Reports, NSE and SEC market Bulletins

## **3.2 Research Design**

The research design used in the study was descriptive and analytical in nature. To test the implied and expressed model and assess the relative significance of the variables under study, the E-views statistical package for econometric techniques was used. The ordinary least square regression models was used to establish the relationship between capital market and industrial development in Nigeria. While the OLS was employed in estimating the model and the Augmented Dickey – fuller (ADF) unit root test was used to examine the properties of the time series variables incorporated in this study. Testing for co-integration identified the number of co-integration relationships that exists among the variables. This paper used the methodology developed by the Johansen Co-integration test. This identified the number of stationary long-run relationships that exists among the set of integrated variables. It offers two tests, the Eigen value and likelihood test, with a view to identifying the number of co-integrating relationships if any.

## **3.3 The Model and Variables**

As a measure of performance economic the industrial development of the country over the period indicated were factored in the model while

the capital market performance was measured using the market capitalization (MCAP), Volume of shares traded (VOS) and All share index (ASI) these was done using the model specified. The author used the Augmented Dickey Fuller & Ordinary least square to test the relationship between the capital market and economic growth

### **3.4 Techniques of Data Analysis**

In order to ensure that the variables used in this study are not spurious, the stationarity of variables were initially tested using the Philip Perron (PP) test. This was followed with a co-integration test after the stationarity of variables has been established. The estimation technique used, drawn from developments in the co-integration theory, is the Vector Error Correction (VECM). The estimation was done with the aid of E-views 7.0. The SPSS 25 statistical tool was used to find the relationships that suit between the dependent variable and various independent variables.

#### **3.4.1 Multiple Regression**

This measures the relationship between three or more variables. It also examines the nature of relationship between a given dependent variable in a regression function. The regression equation to reflect this

research will be one that describes the relationship between the dependent variable  $y$  and a set  $k$  independent variables,

$X_1, X_2, \dots, X_k$  can be expressed as:

$$Y = b_0 + b_1 X_1 + b_2 X_2 + \dots + b_k X_k + e \dots$$

Where  $y$  = index of industrial production

$B_0$  = the intercept parameter

$B_1 - b_3$  = the slope parameter and  $e$  – normally distributed error term, while the capital market and industrial development would be assigned the following variables:

$X_1$  = Market Capitalization (MCAP)

$X_2$  = Volume of Shares Traded(VOS)

$X_3$  = All Share Index (ASI)

### 3.4.2 Coefficient of Determination ( $R^2$ )

The correlation between  $x$  and  $y$  is a measure of the proportion of the total variation in  $y$  explained by the regression equation. We can use the coefficient of determination  $R^2$  calculated from the regression to test the significance of the explanatory variable. It gives the portion of the total variation in the independent variables. ( $Y$ ) that is explained by the independent variables.

### 3.4.3 The F -Test and Test Statistics Decision Rule

The F-test reveals the relationship between the dependent variable and the independent variables as a whole. This will lead us to accept or reject the earlier hypothesis. Here,  $H_0$  is accepted at  $\alpha$  significant level of  $f^x < f_{1-x}(k, n-k)$ . Otherwise  $H_0$  is rejected in favour of  $H_a$ . What this means in plain language is that  $f^x$  value calculated should be less than the tabulated value at the  $\alpha$  significant level and  $k$  and  $n - k - 1$  degree of freedom for the null hypotheses  $H_0$  to be accepted if not, the null hypothesis will be rejected meaning there is significant linear relationship between capital market and industrial development of Nigeria. While the T - statistics is to find out whether there is a significant relationship or not between the dependent variable  $Y$  and individual independent variable  $x$ . The Null hypotheses  $H_0$  is accepted when  $t - \text{calculated} < t - \text{tabulated}$  otherwise  $H_0$  will be rejected.

## CHAPTER IV

### RESULTS AND DISCUSSION

The Research data presented below was collected principally from various issues of central Bank Bulletin, statistical bulletin and Newspaper publication. Those secondary data were employed in this study to enable us bring meaningful information capable of explaining the key objectives of the study.

**Table 4.1 DATA OF CAPITAL MARKET AND INDUSTRIAL PRODUCTION (1986 – 2017)**

<b>YEAR</b>	<b>IIP</b>	<b>MCAP</b>	<b>VOS</b>	<b>ASI</b>
1986	103.5	0.5	0.49	0.15
1987	122.1	0.6	0.38	0.30
1988	108.8	3.0	0.85	0.45
1989	125.0	3.0	0.61	0.48
1990	130.6	5.0	0.23	0.56
1991	138.8	16.0	0.24	0.78
1992	136.2	22.3	0.50	1.11
1993	129.2	32.5	0.80	1.55
1994	129.2	65.5	0.99	2.21
1995	128.8	65.5	1.84	5.09
1996	132.5	171.7	6.98	6.99
1997	140.6	235.6	10.33	6.44
1998	133.9	387.3	13.57	5.67
1999	129.1	390.0	14.07	5.27
2000	138.9	399.9	28.15	8.11

2001	144.1	472.9	57.68	10.96
2002	145.2	662.6	59.41	12.14
2003	147.0	763.9	12.04	20.12
2004	151.2	1320.0	22.58	16.84
2005	158.8	1870.0	26.29	24.09
2006	151.5	2900.0	47.03	33.19
2007	158.9	5120.0	2100.0.0	57.99
2008	157.2	13300.0	2400	31.45
2009	156.3	9535.8	6885	20.83
2010	157.9	7030.8	797.6	24.77
2011	160.2	9918.0	622.6	20.73
2012	162.0	10280.0	104.2	28.078
2013	138	14800.9	267.3	41.328
2014	185.0	19077.4	108.5	34652.2
2014	185.0	16875.1	108.5	34652.2
2015	187.3	17003.4	92.9	28642.2
2016	184.3	1685.7	95.8	26874.6
2017	179.3	22917.9	100.3	38243

**SOURCE: CBN STATISTICAL BULLETIN**

#### **4.1.2 KEY VARIABLES OF THE STUDY**

Index of industrial production (the independent variable) measures the real production output of manufacturing, mining and utilities. Production index are computed mainly as fisher index with weight based on annual estimate of value added. It is a composite indicator that measures the growth rate of industry groups classified. This data was taken from mining to represent this variable, this period under reviewed.

There had been a steady growth from 1986 till date indicating that this

section of the economy contributes to the development of the economy of Nigeria.

One of the dependent variables, the Nigeria capital market (MCAP), refers to the total value of all companies share of stock. It is calculated by multiplying the price of stock by its total number of outstanding shares. For example a company with 20m shares selling at ₦50 a share would have a market capitalization accounted for 9.2% of its GDP in Dec. 2018, compared with a percentage of 12% in the previous year. Nigeria market capitalization % to nominal GDP is updated yearly by available from Dec. 1985 to Dec 2017. The data reached an all- time high of 29.7% in December 2007 and a record low as of 3.0 in December 1985.

Secondly, the volume of shares traded measures the organized trading of firm equity and therefore should positively reflect liquidity on economy- wide basis. It is the number of shares traded during a given time period. If a stock is traded on low volume then there is no much interest in the stock. While the all share index (ASI) showcases the traces of performance of the stock markets, a series of number which shows the changing average value of the share prices of all companies

on a stock exchange and which issued as a measure of how well a market is performing.

In order to conduct this research and ascertain whether there is a relationship between the various variables, their data will be subjected to data analysis using the models as specified here.

## 4.2 ANALYSIS OF RESEARCH DATA

**Table 4.2.1**

VARIABLES	TEST STATISTIC VALUE	CRITICAL VALUE			DECISION
		1%	5%	10%	
IIP	-8.344604	-3.670170	-2.963972	-2.621007	Stationary at first difference
ASI	-5.670257	-3.670170	-2.963972	-2.621007	✓
VOS	-8.008471	-3.670170	-2.963972	-2.621007	✓
MCAP	-5.160038	-3.670170	-2.963972	-2.621007	✓

### Analysis of Test of Stationarity

#### 1. Index of Industrial Production

**Ho:** There is no Stationarity in Index of Industrial Production. ADF test

statistics (calculated) = - 8.344604

ADF Critical Value (5%) = -2.963972

## **Decision:**

The absolute value of ADF (cal) – 8.34404 is greater than the ADF critical value of - 2.963972 at 5%. Therefore the null hypothesis is rejected and the alternative hypothesis accepted to conclude that Index of Industrial production is stationary in the model.

## **2. Market Capitalization**

**Ho:** There is no Stationarity in Market Capitalization

ADF test statistics (calculated) = - 5.160038

ADF Critical Value (5%) = - 2.963972

## **Decision:**

The absolute value of ADF (cal), -5.160038 is greater than the ADF with critical value of -2.963972 at 5%, therefore the null hypothesis is rejected and alternative hypothesis is accepted and to conclude that market capitalization is stationary in the model.

## **3. Volume of Shares**

**Ho:** There is no stationarity in volume of shares

ADF test statistics (calculated) = - 8.008471

ADF critical value (5%) = -2.963972.

### **Decision**

The ADF calculated (-8.008471) is greater than ADF critical value of (-2.963972) at 5%, therefore the null hypothesis is rejected while alternative hypothesis is accepted, stating that volume of shares is rejected while alternative hypothesis is accepted, stating that volume of shares is stationary in the model

The ADF calculated -. Is greater than ADF critical value of -.6 at 5%, therefore the null hypothesis is rejected while the alternative hypothesis is accepted proving that all shares index is stationary in the model.

### **4. All Share Index**

Ho: There is no stationarity in the all share Index

ADE test statistics (cal) = - 5.670257

ADF Critical Value ( 5%) = - 2.963972

**Decision:**

The ADF calculated (-5.670752 ) is greater than the ADF critical value of (-2.963972) at 5% therefore the null hypothesis is rejected while the alternative hypothesis is accepted proving that All Share Index is stationary in the model.

**5. Co-integration Test Result/Analysis**

**Table 4.2.2 Johansen Co-integration Test for Series IIP, MCAP, VOS and ASI**

<b>Eigen Value</b>	<b>Likelihood Ratio</b>	<b>Critical Values</b>	<b>Hypothesized No. of CE(s)</b>
		<b>5%</b>	
0.897	46.600	47.21	None
0.325	13.601	29.68	At most 1
0.160	4.193	15.41	At most 2
0.001	0.019	3.76	At most 3

**Hypothesis:**

**H<sub>0</sub>:** There are no Co-integration variables

**H<sub>1</sub>:** There is one or more Co-integration variables

## Decision:

$H_0$  is rejected if the likelihood is less than the critical value of 5%

otherwise  $H_1$  will be accepted. The first row of table shows that the likelihood test (46.600) is less than the critical value (5%) of 47.21. This suggests the acceptance of the null hypothesis of no co-integrating relationship among the variable employed for use in this study. The Eigen value also of 0.747 is less than the critical value of 47.21 at 5%. This supports the idea earlier stated hence the rejection of the alternative hypothesis. This result confirms that there is no long-run relationship between the explained variable and any of the explanatory variables.

## 6. Regression Result and Analysis

**Table 4.2.3: Summary of Regression Result**

VARIABLES	COEFFICIENT	STD ERROR	T-VALUES	PROB
Constant	130.6617	3.444324	37.53535	0.0000
MCAP	0.001608	0.000608	2.643342	0.0133**
VOS	0.000262	0.001889	1.138957	0.8905NS
ASI	0.368844	0.295631	1.247651	0.2225NS

R - Squared	=	0.642
Adjusted R – square	=	0.607
Std Error of regression	=	12.997
Dubin Watson	=	1.369
F-Statistics	=	16.750
Prob (F Statistics)	=	0.000

From the table (4.2.3), the regression result can be expressed in a model thus:

$$IIP_t = B_0 + MCAP_t + VOS_t + ASI_t + U_t$$

$$IIP_t = 130.6617 + 0.00108 MCAP_t + 0.0003 VOS_t + 0.3688 ASI_t$$

$$T - Stat = (37.94) (2.64)^{**} (0.14)^{NS} (1.25)^{NS}$$

$$T - tab = 10\% (1.72), 5\% (2.07), 1\% (2.82)$$

Note: \* = Significant at 10% level

\*\* = Significant at 1%, and 5%

\*\*\* = Significant at 1 %, 5% and 10% level

NS = Not significant

## Analysis

The regression shows that two variables (VOS and ASI) are not significant at all levels, whereas the (MCAP) is significant at two levels of significance (1% & 5%), although the three variable (MCAP, VOS and ASI) are positively signed. This strongly supports the apriori expectation that market capitalization contributes positively to the industrial development. The model should be relied upon to explain the relationship between industrial development and other variables.

We can also deduce that  $R^2$  which is the coefficient of determination measures a good fit of 0.64, meaning 64% of systematic variations of industrial production. It can be explained by the independent variable and it drop to 60% after adjusting for degree of freedom.

The Dubin Watson (DW) value of 1.369 is below the bench mark of 2.0, we can conclude that there is a serial correlation in the model specifications hence, the Linear assumption is not violated.

### 4.3 TEST OF HYPOTHESIS

#### Hypothesis 1

Ho: There is no significant relationship between the Nigeria Capital Market and Industrial Development of Nigeria

The F - statistics of 16.750 is significant at 1% and 5% levels considering the tabulated F - statistics is the overall or joint significant test of the parameters in the model. The calculated f - statistics (i.e.  $16.75 > 4.82$  and  $3.05$ ), therefore it is significant at both levels. This connotes that the Ho should be rejected and hi accepted meaning that there is a significant relationship between Nigeria Capital Market and Industrial Development of Nigeria, for the period under investigation 1986 - 2017. The resulting estimated model from this result is presented thus:

$$IIP_t = 130.6617 + 0.0011 MCAP_t + 0.0003VOS_t + 0.3688 ASI_t$$

#### Hypothesis 2

Ho: There is no significant relationship between the total market capitalization and industrial development of Nigeria.

The T – test is used to measure the level of relationship between this variable and the independent variables. The T – statistics calculated value of 2.64 is less than the T – statistic tabulated of 2.82 at 1% levels. This means that the Ho is accepted and hi rejected, meaning that there is no significant relationship between the variable (market capitalization) and industrial development.

### **Hypothesis 3**

**Ho:** There is no significant relationship between the volume of shares traded and industrial development of Nigeria.

The t – statistics calculated value of 1.14 is less than the t-statistic tabulated values of 2.82 and 2.07 at 1% and 5% levels. This means that the Ho should be accepted and H1 rejected stating that there is no significant relationship between volume of shares traded and industrial development of Nigeria.

### **Hypothesis 4**

**Ho:** There is no significant relationship between the All Share Index and Industrial development.

The table shows that the T - statistics calculated (1.25) is less than T - statistics tabulated values of 2.82 and 2.07 at 1% and 5% levels. These pass the test of significance and connotes that  $H_0$  should be accepted and  $H_1$  rejected. This shows that there is no significant relationship between All Share Index and Industrial development of Nigeria.

#### **4.4 INTERPRETATION OF RESULTS**

This study was carried out to find out the effects of Nigeria Capital Market on Industrial Development of Nigeria. Secondary data were employed and analyzed using ordinary least squares (OLS) and co-integration test from E-view software. The results are:

1. That there is significant relationship between capital market and industrial development of Nigeria within the study period, 1986-2017.
2. That All Share Index exerts positive and insignificant relationship with industrial development of Nigeria.
3. That market capitalization exerts positive and significant relationship with the industrial development of Nigeria

4. That the volume of shares has positive and insignificant relationship with industrial development of Nigeria.
5. That although that market capitalization is negative and insignificant, the rate and value of trade of these few listed securities have contributed to industrial development of Nigeria.

#### **4.5 DISCUSSION OF RESULTS**

The investigation aims to establish the relationship and effect of index of industrial development and the capital market index. In general, the regression analysis was able to establish a strong explanation of the variation of industrial production by the independent variables. Also the hypothesis I established that there is a relationship between the index of industrial development and the Nigeria capital market. This did not work against assumption or several researches conducted before now which showed there is a relationship between the dependent and independent variables of this research.

The research also established the relationship between the independent variable and the dependent variable. The market capitalization (MCAP) showed no relationship at 1% but a relationship at 5%. The MCAP will contribute to the industrial development a high confidence level.

## CHAPTER V

### CONCLUSION AND RECOMMENDATIONS

#### 5.1 Conclusion

This study was carried out to find out the effects of Nigeria capital market on Industrial development of Nigeria. Secondary data were deployed and analysed using ordinary least square (OLS) and integrated test from E-view software. Also a test was conducted individually on the variables under Augmented Dickey Fuller test from the same software. The result as gathered and discussed are as follows:

1. The study found a significant contribution of market and proves that the Nigeria capital market is contributing to the industrial development, which means that Nigeria is in line with other developing & developed nations where the capital market plays a major role in the gross domestic product(GDP)..
2. The All Share Index exerts a positive contribution but has insignificant relationship with industrial development. As part of the capital market, the improvement in this variable will have a positive effect on the economy of Nigeria.

3. The volume of shares traded and the All Share Index have positive but insignificant relationship with industrial development. Hence in order to boost and restore investors confidence and attract more foreign investors, the Nigeria capital market must work in the positive direction to contribute to the growth and development of the Nigeria economy in general.
4. Worthy of Note is that the industrial development can be influenced by the capital market, hence the finding within the period under review that the latter has a significant relationship with the former variable. This is in line with earlier researches concluded in this subject matter.

## **5.2 Recommendations**

The following recommendations are made in the study

1. Improvement should be made to enhance capital market efficiency through the upgrade of the market information technology system. This will enhance automated trading settlement practices, electronic fund transfer and clearance.

2. Efforts should be made towards improving the confidence in the market by the regulatory bodies through ensuring transparency and fair trading transactions. On the other hand, it will reduce share malpractices, the buy and hold syndrome and encourage real investors.
3. The volume of shares traded and the listing of companies in the capital market are low as compared to some countries in Africa (Egypt and South Africa) and developed economies. The listing requirement should be practical and encouraging so as to boost the volume of shares.
4. The high cost of raising funds scares away entrepreneurs. This and insider dealings had been the bane of the Nigeria Capital Market. Efforts should be made to reduce the costs incurred in raising funds from the capital market.
5. All impediments to capital market development should be removed while investment instruments such as derivatives, convertibles futures swap and options should be made available so as to expand the trading options in the market.

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