

Role of Capital Market on Economic Development in Nigeria

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Abstract: *The study examined the role of capital market on economic development in Nigeria. However the specific objectives are to ascertain the role played by capital market in developing Nigeria's economy and to discover problem faced by the Nigerian capital market which inhibits economic growth. Majority of data collected from this work were sourced from world bank data group and NSE bulletin which were analyzed using correlation Analysis. The results from this work indicates that the capital market plays a major role in driving the nigerian economy growth and the Nigerian Public viewthe capital market as majoroutlet for savings and investment. In conclusion the capital market has a higher potential which is yet to be realized in Nigeria. Therefore, government should deregulate or liberalize capital market so that market forces should be allowed to determine the stock prices.*

Keywords: *Capital Market, Market Forces, Economic Development*

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I. Introduction

As we all can see with rise of massive industrialization and production it has become eminent and necessary for organizations to seek out more funding to aid their production, this occurs at a level far higher than what savers and banks can provide. Out of this necessity the capital market was born. The capital market thus provides a medium in which both governments and industry are able to raise long term capital for expanding and modernizing industry as well as providing financing for development projects. The financial market is categorized into two, both the capital market and money market which serve distinct and specialized purpose. The money market is an exchange market where both individuals and governments borrow high quality debt securities with a maturity period of one year. In essence it allows you borrow securities in the short term. Some of the instruments traded in this market include treasury bills, certificates of deposit, commercial paper, federal funds, bills of exchange, and short-term mortgage-backed securities and asset-backed securities.

The capital market on the other hand provides debt and equity backed securities for a longer term. In this market, Government issue only bonds mostly in form of treasury bills while companies issue both stocks and bonds. The whole purpose of the capital market is that it enables governments, banks, and other large institutions to sell short-term securities to fund their short-term cash flow needs/ deficits.

In the situation of an emerging economy like Nigeria, Okereke- Onyiuke (2004) states that the capital market remains the cheapest and most flexible source of financing for the government and companies and remains a critical element in sustainable development of a nation. At the turn of the 21st century the relationship between stock market performance and economic growth has been a subject of debate among major analyst based on their study of developed and emerging markets.

Singh (1999) argues that capital market has been unable to function efficiently in developing countries because of the huge cost in maintaining such markets as well as poor financial structure and corporate governance in such nations. In principle, capital markets are expected to accelerate economic growth by providing a huge boost to domestic savings and increasing the quantity and the quality of investment, provide individuals with additional financial instrument that may better meet their risk preferences and liquidity needs (Levine and Zervos, 1998). The capital market in a developing country like Nigeria despite the constant fluctuation is yet to realize its full potential therefore this research intends to investigate the effect the capital market has on the Nigerian economy, its problems and proposed solutions.

Statement of the Problem

Despite the widely- known benefit of capital market globally, It has been unable to convert an emerging economy like Nigeria into a developed country. As the capital market in Nigeria grows and moves, a lot of problems and reforms have been formulated. For example second tier securities market were established to remove obstacles which stopped several local indigenous companies seeking quotation to join the market and also to provide wider and cheaper long term funding for small and medium sized indigenous companies. In spite

of this reforms and solutions the Nigerian stock market remains very stagnant and an unperformed investment outlet for majority of Nigerians. This makes us to ask certain questions.

- i. Why has the Nigerian capital market with its huge population been unable to make Nigerian economy into a developed one 2) despite an establishment of a second tier securities market why are Nigerian companies reluctant to join the stock exchange?
- ii. Despite improvement in the activities of the capital market, Why is the Nigerian economy heavily dependent on the money market.

Objectives of the Study

This study is designed to examine the role of the Nigerian capital market on economic development. I have chosen this topic to create general awareness among different sector of the economy how the Nigerian capital market can be of help to them. Therefore this study aims to:

- i. To understand the role-played by capital market in developing Nigeria's economy.
- ii. To discover problem faced by the Nigerian capital market that inhibits economic growth.

Research Hypotheses

For this research we will conduct the null hypothesis against the alternative hypothesis, wherein the alternate hypothesis holds the negative decision to the null.

Ho1: There is no relationship between stock market capitalization and economic growth.

Ho2: Nigerian public do not view capital market as a good platform for savings and investment.

II. Literature Review

Capital Market

The debate about the relevance and importance of capital market in propelling economic growth has been a turbulent one. Bagehot (1983) stated that financial system and markets played a crucial role in igniting industrialization in England by mobilizing capital for major projects. The capital market in essence is a framework that facilitates the transfer of long term funds between lenders [investors] and borrowers [companies]. From this simple definition herewith we can see how the capital market can propel economic development because the funds are now moving and been utilized for the optimal objective. According to Sule and Momoh (2009), they held the opinion that capital market enhances economic progress through its main features that it provides opportunities for companies to borrow funds needed for long-term investment purposes. It also provides an easy platform for the marketing of shares and other securities in order to raise fresh funds for expansion of operations leading to increase in output.

Sule and Momoh (2009) further state that through the feature of capital formulation and allocation the capital market ensures an efficient and effective distribution of a nations scarce resources for the optimal benefit to the economy and it reduces the over reliance of the corporate sector on the money market for short term financing and also provides opportunities for government to finance projects aimed at providing essential amenities for socioeconomic development. Smith (2009) concludes that financial development accelerate economic growth and improve economic performance because it facilitates the migration of funds to the best user. In my own view then, capital market can be seen as a network of financial institutions, corporate bodies, government and individuals who together act to provide a mechanism for pooling financial resources for the purpose of long term investments that will ultimately lead to the growth and economic development.

To go further in-depth into activities of the capital market that is visible to the public. According to Oni (1998), The stock market for any country reflects the true picture of the economy. Thus, in a market economy, stock market valuation matters for investment. For instance, Fisher and Merton (1984) states that, if the aim of a manager is to maximize the wealth of existing shareholders, they should monitor and respond to market valuation even when this deviates from the true value of the firm. The role of the stock market isn't only to provide finance but in the long run it is able to give the market value of the firm. The stock market therefore transmits information about the firm prospects to potential investor and creditors. Empirically, King and Levine (1993) shows that the level of financial intermediation is a good predictor of long run rates of economic goods, capital accumulation and productivity improvements.

Brief History of Nigerian capital market

Nwankwo (1991) clarified that the history of the Nigeria Capital Market dates back to the late 1950s when the Federal Government formed the Barback Committee through its Ministry of Industries to advise on ways and means of setting up a stock market. Prior to independence, Nigeria's financial operators consisted mainly of foreign-owned commercial banks that issued short-term commercial loans to Nigerian-based overseas companies which their capital balances invested abroad in the London Stock Exchange. Based on the report of the Barback Committee the Lagos Stock Exchange was established. With the enactment of the Lagos Stock

Exchange Act 1961, it commenced business in June, 1961 and assumed the major activities of the stock market by providing facilities for the public to trade in shares and stocks, maintaining fair prices through stock-jobbing and restricting the business to its members. In 1960, Nigeria's central bank released the first Nigeria Treasury Bills that were intended to provide an opportunity to invest short-term liquid funds and assist in supplying government funds while waiting for a refund as its receipt revenue. Also the Lagos stock exchange was incorporated as a private limited company and members were given the monopoly power to deal in securities granted quotation on the exchange following the Lagos stock exchange Act of 1960. In 1961, the Lagos stock exchange opened for business with 19 listed securities made up of 3 equities, 6 federal government bonds and 10 industrial loans. In 1962, the capital issues committee was constituted to examine and recommend the establishment of an apex monitoring institution for the growing of the Nigerian capital market. In 1972 the Capital Issues Committee was also created to act as the Nigerian capital market's apex regulatory institution. Following the decree, it was allowed to determine the price and timing of new securities issues via subscription offering. While in 1977 the name Lagos Stock Exchange was changed to the Nigerian stock exchange by the 1977 indigenization decree as recommended by the 1975 panel of industrial enterprises to create the branch exchange. As a result of this, six trading floors of the Nigeria stock exchange were created in Port Harcourt, Onitsha, Kaduna, Yola, Kano and Ibadan. In 1978, the Securities and Exchange Commission statute was adopted to replace the capital issues commission and expand the scope of its activities as recommended by the review committee for the financial system. (Okigbo Committee, 1976).

Rationales for establishment of capital market in Nigeria.

Some rationales for establishment of the Nigerian Stock exchange includes

- i. It mobilizes savings from surplus economic units to channel them into units of deficit for industrial and economic development purposes. The capital market plays an important role in fostering the socio-economic development of a country by performing those functions.
- ii. Ensures, through its allocation process, an efficient and effective distribution of scarce financial resources in the form of increased productive activities, more employment opportunities, and general improvement of the wellbeing of the people.
- iii. It creates an avenue for the Nigerian population to participate in the corporate sector of the economy and share in its wealth.
- iv. It reduces the overreliance of the corporate sector on money market in order to raise funds for long-term projects.
- v. It helps provide seed money for startup development which can serve as a vehicle for industrial development.

III. Methodology

In this section, we will re-introduce our research objectives and hypothesis and display clear cut methods we employed in arriving to our final conclusion. Therefore our data analysis and final result will be presented in this section. As proposed in chapter 1, the research work contains 2 hypothesis. The first one will be answered using linear regression analysis done between market capitalization and GDP(2010-2019). The second hypothesis will be answered after offering some questionnaires and deriving some data from them which will then be analyzed using Chi- square . From the result of the analysis will we be able to present clear-cut solutions for research.

IV. Overview of Data Collection

As stated in our research methodology to answer our first hypothesis, data will be collected from world bank data group and NSE bulletin which shows both market capitalization and GDP which will then be regressed to show correlation. The data collected are shown in table below.

Relationship between Market Capitalization & GDP.			
X VARIABLE		Y VARIABLE	
Date	Market Capitalization (Billions of US\$)	GDP (Billions of US \$)	
31/12/10	9,918.21	36,335,988.62	
31/12/11	10,275.34	41,033,457.92	
31/12/12	14,800.94	4,537,604.98	
31/12/13	19,077.42	51,496,628.73	
31/12/14	16,875.10	56,849,893.76	
31/12/15	17,003.39	49,458,318.08	
31/12/16	16,185.73	40,464,952.75	
31/12/17	21,128.90	37,574,548.65	
31/12/18	21,904.04	39,726,961.61	

Our second hypothesis will be answered from our questionnaire to the Nigerian public which asks “Does the Nigerian public view capital market as a good platform for savings and investments?”. Our questionnaire pulled the following data.

Respondents	Yes	No	Total
Traders	15	10	25
Students	13	12	25
Housewives	10	15	25
Businessmen	20	5	25
TOTAL	58	42	100

From The above table, we can see that out of the sample of 100 persons . 58 people were in favor of capital market as a good platform for saving and investments. Since majority of the respondents in the sample answered yes to the question one can therefore say that Nigerian capital market is a good platform for savings and investments.

Analysis of Data.

The data analysis section shows us the manner in which our datas were analyzed to bring answers for our hypothesis. With statistical packages on excel Regressional analysis was used to answer our first hypothesis. This study will adopt basically the technique of linear regressions, the coefficient of determination of R² , the standard error test t, as well as the f-test to determine the extent to which the independent variable affects the dependent variable. Theregression estimate will be carried out and the result at 5 percent level of significance.

From Our Analysis we can draw some important information, which are:

R = 0.21

Slope = 739.72

Intercept = 27,623,796.79

From this figures we can draw out certain meaning.

Our R which represent correlation, we can see that there is a correlation of 0.21 between market capitalization and GDP this means that there is a very poor relationship between market capitalization and GDP in Nigeria between 2010 and 2018. From this we can conclude that a change in market capitalization only has a little effect on the Nigerian GDP Which means they do not go hand in hand. Slope interprets that for every unit increase in market capitalization, GDP increases by N739 MILLION and Intercept Tells us that if market capitalization was 0, Nigerian GDP would be 27 million.

Secondly from the questions gathered from our questionnaires we can form some certain conclusion. We can see that a little above average number of 58 people view the capital market as an avenue for savings and investments. Our Third hypothetical question which was directed to the expert group brought back a result of 115 people out of 150 who accept that the Nigerian capital market mobilizes adequate funds for economic development.

Test of Hypothesis

The data from answer or responses to the questions are presented and analyzed here. The result of our first hypothetical question can be answered from our linear regression results.

Hypothesis One

Ho : There is no relationship between stock market capitalization and economic growth

H₁ : There is a relationship between stock market capitalization and economic growth

From our data analysis section we can see that t Our R which represent correlation, we can see that there is a correlation of 0.21 between market capitalization and GDP this means that there is a very poor relationship betweenmarket capitalization and GDP in Nigeria between 2010 and 2018. The F-test conducted shows that f-observed (2.86) is greater than f-critical (2.306) at 5% level of significance. This shows that there is overall statistical significance in the linear relationship exist between the dependent variable and independent variable. Also T test for GDP show that T-observed (5.74) is greater than t-critical (2.86). at 5% level of significance with two tailed test, This means market capitalization is statistically significant in explaining GDP which means we reject the null hypothesis.

Our subsequent hypothesis question are tested using the chi-square

The Formula goes below

$$X^2 = (fo-fe)^2 / fe$$

Where f_o = Observed frequencies
 f_e = Expected frequencies

To compute the expected frequency hence
 $E_{ij} = T_i\text{-row} * T_j\text{-column} / N$ Table grand total
 Where E_{ij} = Expected Frequency
 $T_i\text{-row}$ = Total Row frequency
 $T_j\text{-column}$ = Total column frequency

Then reject null hypothesis if χ^2 is greater than degree of freedom
 Degree of Freedom : $Df = (Row-1)(Column-1)$

Hypothesis Two

H_o : Nigerian Public do not view capital market as a good avenue for investment

H_2 : Nigerian Public view capital market as a good avenue for investment.

Respondents	Yes	No	Total
Traders	15	10	25
Students	13	12	25
Housewives	10	15	25
Businessmen	20	5	25
Total	58	42	100

Contingency Table

Fo	Fe	Fo - Fe	(Fo - Fe) ²	(Fo - Fe) ² /Fe
15	14.5	0.5	0.25	0.02
13	14.5	- 1.5	2.25	0.16
10	14.5	- 4.5	20.25	1.40
20	14.5	5.5	30.25	2.09
12	14.5	- 2.5	6.25	0.43
10	10.5	- 0.5	0.25	0.02

e

V. Discussion of Findings

From our two hypothesis combined. We can see that the capital market plays a role in the Nigerian economy. However it is not the major driver of the economy as the answer to the first hypothesis question suggests. That is the correlation of 0.2 which is weak. Secondly the Nigerian public is well aware of the capital market however only a little over 50% of those who answered our questionnaire view it as a major source for savings and investment. Therefore this leaves a very large gap of unutilized potentials of the capital market in the country. Finally, most experts very well agree that the capital market in Nigeria is able to mobilize enough funds from citizens for economic development. However from our first question we can see that there is a gap of investment potential in the capital market who do not invest funds in the market.

VI. Conclusion

From the results of our findings, we can see that the capital market though important is still underutilized in the Nigerian economy. The data analysis and the results from these chapter points out this important information. Thereby telling the researcher that there is a gap that needs to be filled to utilize the capital market.

VII. Summary of Major Findings

From our data analysis results, we can draw a very sound conclusion that despite capital market holding a very optimistic and critical role in development of Nigerian economy there is a lot of gap to be filled. Our first hypothesis shows a correlation between Market capitalization and GDP to be low, although statistically significant, it means there's a major major gap to be filled by the Nigerian capital market in driving the Nigerian economy.

Our second and third hypothesis shows that majority of people answered yes for the (2) questions posed " Does the Nigerian Public view the capital market as a good platform for savings and investment" and secondly does the Nigerian capital market mobilize adequate funds from citizens for economic development. This means that there is a visible awareness of the potential of the capital market both among experts and citizens but more money needs to be channeled into the Nigerian capital market to aids its growth and in turn propel the Nigerian GDP.

VIII. Conclusion

From our research results we can conclude that The Nigerian capital market plays an effective role in the economic development of Nigeria. However gaps can still be found in areas of market liquidity and turnover due to low amount of investors and investments. Also there is a buy hold syndrome prevalent in the nigerian society which causes stagnation in the market. In conclusion the capital market has a huge potential which is yet to be realized in Nigeria, Therefore with implementation of some solutions the market growth could be enormous.

IX. Recommendation

Bearing in mind, the important difficulties facing the Nigerian capital market, especially in areas of capital accumulation and enlightenment of the masses. Some of the recommendations I would offer based on this research work are as follows:Mass education of Nigerians about the Nigerian capital market, it's purposes and its functions is required. The Government should introduce a policy that will make it necessary for graduates to learn about the stock market at their final year in school and also collaborate with SEC and NSE to engage in mass enlightenment of the mass in public life. The government should deregulate or liberalize capital market so that market forces should be allowed to determine the stock prices.The SEC and CBN should collaborate to internationalize the capital market in Nigeria and to create a suitable investment avenue so that foreigners will readily invest in the market.It has also been noted that Nigerians in general have a Buy hold syndrome therefore I suggest that the Nigerian stock exchange (NSE) should sponsor a research on the "Buy and Hold" securities attitudes of many Nigerians, to find out all the causes and howthey can be tackled,. Also organize seminar in this direction for all shareholders educating them on how to transact the business of securities. Finally the Nigerian Govt has to increase it's surveillance on the Nigerian stock market because a lot of malpractices has been recorded in the past which has led to reluctance of investors to invest in the market. Therefore the corporate governance and ethics should be revised.

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