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Capital Market A Sine Qua- Non For Economic Development in Nigeria.

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ABSTRACT
The study examined the roles of capital market on the economic growth in Nigeria Between the period of 2005 and 2019. Precisely the study focused on evaluating weather liberal financial policies correlate positively with economic growth. The data for the study were collected from secondary sources that is from the central Bank of Nigeria (CBN) and Nigeria Security Exchange (NSE) bulletin. The data so collected were subjected to Spearman's correlation coefficient. A correlation co-efficient of 0.885 is obtained which shows a strong positive correlation between Market capitalization and economic growth as measured by gross domestic product (GDP). The conclusion is that Nigerian government should concentrate on the improvement of their capital Market development in financing their investment rather than to relying on external loans as presently experienced.

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I. Introduction

Capital market is the life wire or equivalent of the central nervous system of human on economic growth in any capitalist economic. This is because the institution provides the vital link between the surplus unit and the deficit unit of the economy. The role of capital market in mitigating sudden and devastating shortage of funding thereby stimulating economic growth cannot be over emphasized both in developed and developing countries of the world.

They promote investment by providing facilities for mobilizing saving and appropriate instrument with which such fund can be channeled into productive investments, without which neither economic growth nor development can take place smoothly and efficiently.

The stock market are variously defined by various authors but in nutshell; stock market can be define as a well-organized market for buying and selling of stocks and shares or securities.

The function which capital market plays in an economic development of a nation cannot be over-emphasized. Notable to the less developed nation of the world is the developmental role play by an organized stock market.

The function of the stock exchange can be summarized as follows: Bringing together available funds of a great number of investors spread throughout a nation and making the funds available to the industries.

The existence of a link between financial development and economics Growth has long been debated by economists. In the 10th century, economic theory held that the financial structure of an economy did not affect real economic variables, including economic growth. Recently, leading economists came to believe that unregulated capital markets perform better than regulated markets. Hence, the existence of competitive financial markets should in principle, enhance economic livelihood.

Indeed, early empirical work by Goldsmith (1969), Mckinnon (1973), and Shaw (1973) produced considerable evidence that liberal financial policies correlate positively with growth.

If the collapse of communism and specialism, particularly in the former Soviet Union and Eastern European countries, has apparently ended the economic debate between that roles of the state versus the market in driving economic development. The venture of privatization and free markets despite its serious drawbacks as shown by the 1930s Great Depression and the current serious global economic and financial crisis- has regained its vigor and its dominion over other alternative means of allocation of economic resources. According to Arave (2010).

As we all can see with rise of massive industrialization and production it has become eminent and essential for organizations to seek out more funding to aid their production, this occurs at a level for higher than what savers and banks can provide. Out of this necessity, the capital market was born; Usman Imam & Gross Ojohi (2020).

Capital market provides a medium in which both government 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 that is 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 instruct outs traded in this market include treasuring bills, certificates of deposits, commercial papers, federal funds, bills of exchange and short-term mortgage – backed securities and asset – backed securities.

Economic growth, driven by market forces, has become the main economic pursuit of modern states and of the aspiring emerging countries. It is regarded as one of the ultimate economic measure of countries' competitiveness and economic performance. Capital markets are valued as the sine qua non for economic development. The usefulness of capital markets is pretty much established. There is no advanced economy that has achieved a remarkable economic development without the establishment and the development of capital markets. Thus, a charging economy which aspires to emulate the achievement of advanced economics must establish and develop its capital markets.

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 f treasury bills while companies issue both stocks and bonds.

The whole purpose of capital market is that it enable government, banks and other large institution to sell short-term securities to fund their short-term cash flow needs/deficits.

In the institution of an emerging economy live Nigerian, Okere-Onyiuke (2004) states that the capital markets remains the cheapest and most flexible source of financing of 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.

Statement of the problem

In spite of great benefit available in dealing with capital market world widely, it fails to change emerging economy like Nigerian 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 improve 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 unperformed investment outlet for majority of Nigerians. Other problems include the requirement of stock exchange before quotation and the way the stock exchange has been developed over years and also the government about the activities of the capital market.

Objectives of the study

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

i. To understand the role-played by capital market in developing Nigeria's economy.
ii. To discover problem faced by the Nigeria capital market that inhabits economic growth.
iii. To examine the activities of the Nigeria capital market in economic development.

Scope of the study

This study will as much as possible assess the Nigerian capital market. The rationale for its establishment, its roles and activities in the economy. It extends to the institutional operators of Nigerian capital market and their functions. Also it will outline the relevant factors hindering the activities of Nigerian capital market and possible solution to the problems.

Statement of hypothesis

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

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

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

Significance of the study

This study "Role of capital market in economic development is designed for us to understand and appreciate the importance and functions of the capital market in shaping the Nigerian economic development landscape. The study is necessary because this suggestion and recommendation from the study is of great benefit to the government, individual's investors, businesses and the general public. It encourages researchers, investors' academics and professional on the need from more research work and for more studies on those issue and also it contributes to knowledge.

II. Literature Review

Conceptual Framework of the Capital Market

A conceptual framework is a theory of capital market to explain and predict the progression of capital markets overtime on the basis of the one or the other mathematical model. Capital market theory is a generic term for the analysis of securities.

In terms of tradeoff between the returns sought by investors and the inherent risks involved, they seek to price assets, most commonly shares.

Capital market theory is the capital asset pricing model. In studying the capital market theory we deal with issues like the role of the capital markets.

The capital market theory deals with the following issues:

- Importance of venture capital in the capital market
- Initial public offerings
- Role of capital market
- Major capital market worldwide
- Markets and financial innovations derivative instruments
- Role of federal reserve system
- Role of securities
- Capital market regulatory requirements
- Role of the government treasury

Concept of Capital Market

The capital market is a market for financial assets which have a long or indefinite maturity, its instruments become mature for the above one year. It is an institutional arrangement to period of time. It consists of financial institutions like IDB1, ICICI, UTI, LIC. These institutions play the role of lenders in the capital market. Business units and corporate are the borrowers in the capital market.

The term "capital market" refers to the instructional arrangements to help borrowings and leadings of long-term funds.

It consists of a series of channels through which the savings of the people are made available for industrial and commercial organizations and public authority's private savings of individuals as well as corporates are turned into investments in the capital market through new capital issues, for example IPO, mutual funds, and also new public loans floated by the government.

Capital market provides long term debt and equity finance for the government and the corporate sector. It can be classified into primary market and secondary market.

The primary market is a market for new shares. It deals with raising funds. Secondary market, the existing securities are traded. This institutions provide rupee loans foreign exchange loans consultancy services and underwriting it allows proceed from transaction to investor.

Some functions of capital market are:

1. **Mobilization of Savings:** capital market is an important source for mobilizing idle savings from the economy. It mobilize funds from people for further investments in the productive channels of an economy. In that sense it activate the ideal monetary resources and puts them in proper investments.
2. **Capital formation:** capital market helps in capital formation. Capital formation is net addition to the existing stock of in the economy. Through mobilization of ideal resources its generate savings; the mobilized savings are made available to various segments such as agriculture, industry. This helps in increasing capital formation.
3. **Provision of Investment Avenue:** Capital market raises resources for longer period of time. Thus it provides an investment avenue for people who wish to invest resources for a long period of time. It provides suitable interest rate returns also to investors. Instruments such as bonds, equities, units of mutual funds, insurance policies, definitely provides diverse investment avenue for the public. Speed up economic Growth and Development: capital market enhance production and productivity in the national economy. As it makes funds available for long period of time, the financial requirements of business houses are net by

the capital market. It helps in research and development. This helps in increasing production and productivity in economy by generation of employment and development of infrastructure.

4. **Proper Regulation of funds:** capital market not only helps in fund mobilization, but it also helps in proper allocation of these resources. It can have regulation over the resources of that it can direct funds in a qualitative manner.
5. **Service provision:** As an important financial set up capital market provides various types of services. It includes long term and medium term loans to industry, underwriting services consultancy help the manufacturing sector in a large spectrum.
6. **Continuous Availability of funds:** capital market is place where the investment avenue is continuously available for long-term investment. This is a liquid market as it makes fund available on continues basis. Both buyers and seller can easily buy and sell securities as they are continuously available. Basically capital market transactions are related to the stock exchange. Thus, marketability in the capital market becomes easy.

How Capital Markets Facilitate Economic Development

The capital market are a network of specialized financial instructions. Series of mechanisms, processes and infrastructure that in various ways facilitate the bringing together of suppliers and users of medium to long-term capital. Capital markets connect the monetary sector with the real sector, which is the sector of the economy concerned with the production of goods and services considering this role in the economy, the capital market play on important role in economic development as theory facilitate growth in the real sector by giving producers of goods and services and entities tasked with infrastructure development, access to long –term financing.

The fundamental channel through which capital market are connected to the economy, economic growth and development can be outlined as follows:

A. **Creating a bridge between supplies of capital and users:** The contact between agents with a monetary deficit and the ones with monetary surplus can take place directly through direct financing, but also through a financial intermediary in from of indirect financing, which is a situation whereby specific operators facilitate the connection between the real economy and the financial market in this case, the financial intermediaries could be banks, investment funds pension funds, insurance companies or other non-bank financial institutions.

B. **Promoting Saving and Investments:** The capital markets increase the proportion of long-term savings (pensions, life (overs) that is channeled to long-term investment. capital market enable the contractual savings industry (Pension and provident funds insurance companies, medical and schemes collective investment schemes etc to mobilize long-term savings from small individual household and channel them into long-term investments.

C. **Financial utility and infrastructure Development:** This provides equity capital debt capital and infrastructure development capital that have strong socio-economic benefits through development of essential utilities such as roads, water and sewer systems, housing, energy, telecommunications public transport. These project are ideal for financing through the capital market via long dated bonds and asset backed securities.

D. **Facilitating Efficient Allocation of Scarce Financial Resources:** The capital markets facilitate the efficient allocation of scarce financial resources by offering a large variety of financial instruments with different risk and return characteristics. This competitive pricing of securities and large range of financial instruments allow investors to better allocate their funds according to their respective risk and return appetites, thereby supporting economic growth.

E. **Financing Private Public Partnership:** capital market promote private public partnership thereby encouraging participation of private sector in productive investments. The need to shift economic development from public to private sector to enhance economic productivity has become inevitable as resources continue to diminish. It assist the public sector to close the resource gap, and complement its effort in financing essential socio-economic development, through raising longterm project –based capital

Brief History of Nigerian Capital Market

Nwankwo (1991) transparent that the history of the Nigeria capital market dates back to the late 1950s when the federal government formed the bark back 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 loans to Nigeria –based overseas companies which their capital balance invested abroad in the London stock exchange.

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 refined as its receipt revenue. Also Lagos stock exchange was incorporated as a private limited company and members were given the monopoly power to deals 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 security 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.

Rationales for Establishment of Capital Market in Nigeria

Some rationales for the establishment of the Nigerian stock exchange includes

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

Need For Efficient Capital Market

Market efficiency refers to the degree to which market prices reflect all available, relevant information. If markets are efficient, then all information is already incorporated into prices, and so there is no way to "beat" the market because there are no undervalued or overvalued securities available.

Some needs for efficient capital market are:

A. **Efficient Capital Market Theory:** An efficient capital market is one in which a trader cannot improve his overall chances of speculative gain by the companies whose securities are in the market and evaluating that information intelligently in determining which stock to buy and sell in a notions, the efficiency of the market results from the competitive efforts of securities analysis and investor who strive to earn supervisor returns by identifying mispriced securities that are either over valued on undervalued.

B. The market for corporate control: efficient capital market theory implies that if a publicly traded company is poorly on less than optimally managed, the price of it securities will reflect this fact accurately and promptly, that a capital market is efficient however, does not imply that there is a similarly efficient mechanism whereby control shifts from less capable managers to others who can manage corporate. The market for corporate control, so called by Henry manure, in his ground breaking work on the subject must perform work on the subject must perform that function in our economic system.

Characteristics of target companies: A key assumption about the market for corporate control is that outsiders are attracted to firms that are poorly managed. Empirical evidences supports this assumption. Empirical evidence

III. RESEARCH DESIGN

The research design adopted in this study is the expo-facto research design. This design was employed because data collected for the study were not subjected to any direct manipulation by the researcher, for the independent variable that it the economic growth, had their influence on dependent variable that is capital market prior to the commencement of the study.

Data Source

In order to meet the objectives of the study, data were collected from secondary source mainly from Nigerian security exchange (NSE) bulletin that shows both market Capitalization and GDP between the periods of 2011 to 2019.

Data Analysis Method

The data so collected from the secondary source that is from the Central Bank of Nigeria (CBN), World Bank group data and NSE bulletin were subjected to spearman's correlation coefficient, using special packages for social science (SPSS).

The model as predicted by Spearman (1904).

$$r = \frac{n\Sigma xy\ - (\Sigma x)\ (\Sigma y)}{\sqrt{n\Sigma x2\ (\Sigma x)2\ \ (n\Sigma y2) - \ (\Sigma y)2}}$$

Where,

r = Regression Coefficient

It is noteworthy of whoever that the value of r variables from +1 to -1 that is

$-1 \leq x \leq +1$

Where x represent the values of capital in the market and y represent the economic growth which is measure by Gross Domestic Product (GDP), and n represent the numbers of pears data used. The correlation coefficient, r must always fall between -1and + 1, that is $-1 \leq x \leq 1$.

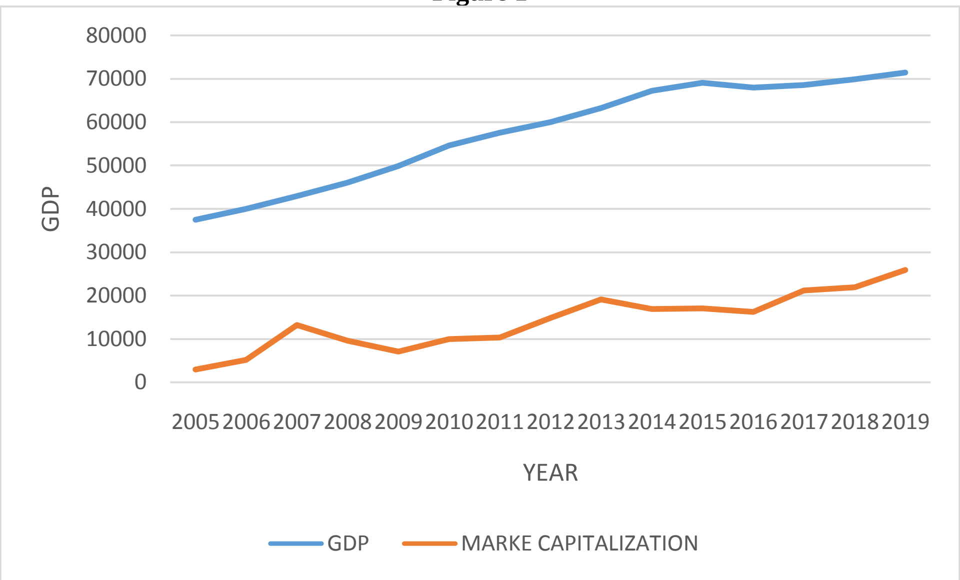
(1) Where r = + 1 which means that the variables are perfectly positively correlated.

(2) Where r = -1 which means that the variables are perfectly negatively correlated

(3) Where r = 0 which means that the variable are uncorrelated.

Year	GDP	ABCD
2005	37474.95	2900.06
2006	39995.50	5120.90
2007	42922.41	13181.69
2008	46012.52	9562.97
2009	49856.10	7030.84
2010	54612.26	9918.21
2011	57511.04	10275.34
2012	59929.89	14800.94
2013	63218.72	19077.42
2014	67152.79	16875.10
2015	69023.93	17003.39
2016	67931.24	16185.73
2017	68490.98	21128.90
2018	69810.02	21904.04
2019	71387.83	25890.22

Figure 1



The super imposed graphs of Gross Domestic Product (GDP) and that of Market Capitalization against year is as plotted in the figure (1) from the graph, it is observed that both shows a positive slope for the period under consideration but the rate of increase in the GDP is higher than that of market capitalization growth. This simply implies that there are other variables other than market capitalization that lead to gross domestic product growth which are extraneous to this paper.

Table 1

Correlations

		GDP	ABCD
GDP	Pearson Correlation	1	.885**
	Sig. (2-tailed)		.000
	N	15	15
ABCD	Pearson Correlation	.885**	1
	Sig. (2-tailed)	.000	
	N	15	15

**. Correlation is significant at the 0.01 level (2-tailed).

The result of the correlation presented in Table 1 shows that r = 0.885, p value =0.000 <0.05 level of significance. Therefore, the null hypothesis is hereby rejected.

INTERPRETATION

A correlation co-efficient of 0.885 as computed in table (1)shows that there is a strong positive relationship between Market capitalization and economic growth as measure by GDP. This simply implies that as there is an increase in the market capitalization nearly give rise to an equal increase in Gross Domestic Product. In similar manner, the computation of co-efficient of determination R^2 shows that market capitalization accounts for (88.5%) of GDP in Nigeria for the period under consideration while other factors that is extraneous to this study accounted for 11.5% of the Gross Domestic Growth for the period under consideration. These other factors are statistically referred to as unexplained variable and as the name suggests, it is not attributable to market capitalization.

IV. Conclusion

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 investment. 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 to the market growth could be measure or enormous.

V. Recommendations

In view of the findings on the role of capital market in economic development, the researchers thought it necessary to make some recommendations as a means of solutions to the problems encountered by the Nigerian capital market. Base on this, the following recommendations were made.

(a) 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.

(b) Government should deregulate or liberalize capital market so that market forces should be allowed to determine the stock prices.

(c) 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

(d) Government should increase it surveillance on the Nigerian stock market because a lot of malpractice has been recorded in the past which has led to reluctance of investors to invest in the market.

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