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**The Nigerian Stock Exchange as the
Catalyst for the Development and
Sustenance of Nigeria's Capital
Market: The Journey so Far**



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TITLE PAGE

**THE NIGERIAN STOCK EXCHANGE AS THE CATALYST FOR
THE DEVELOPMENT AND SUSTENANCE OF NIGERIA'S
CAPITAL MARKET: THE JOURNEY SO FAR**

BY

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BSM/H/01/7884

**BEING A RESEARCH PROJECT SUBMITTED TO THE
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ADMINISTRATION AND MANAGEMENT**

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DECLARATION

This literary piece of work is original. It has never been presented nor submitted by any student for the same purpose and intent as the writer's



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DEDICATION

This literary work is dedicated first and foremost to the fountain of knowledge, **THE GREAT I AM**, my provider and sustainer (spiritual and physical) the Almighty God from whom all things flow.

I also dedicate this work to the ever Green and fond memory of my sibling and friend the late **AGADA, BLESSING-ELEOJO** who had gone "Home" to rest.

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I, express my gratitude to my beloved parents for being the vehicles by which I came into this world.

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May the Almighty God bless you real Good in Jesus Name, Amen.

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ABSTRACT

The Nigeria Stock Exchange is a catalyst which has impacted on the development of the capital market in Nigeria. Indeed the experience of the united states of America (U.S.A.) and other developed economies have shown that crises in financial markets (Banks and stock exchanges) do not only result in loss of money and confidence by the investing public but also deprives business entities and governments of the needed funds for developmental purposes. The socio-economic consequences of such crisis are grave. A very stable capital market is highly desirable, as it facilitates the efficient mobilization and allocation of funds for meaningful development by way of sales and purchases of securities. The maintenance of stability, the sustenance of confidence in the capital markets and the protection of the investing public have therefore become the most abundant reasons for statutory capital market regulation a role the Nigeria Stock Exchange is performing creditably. Undoubtedly, the Nigeria capital market has made some strides but has grown basically through Government initiative. It is expected to speed-up activities in the 21st century Nigeria capital market.

CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The greatest achievement of the central Bank of Nigeria (CBN) since its establishment on July 1st 1959 has been the development of the Nigerian financial system. The system consists primarily of the money market (for short-term lending and borrowing) and the capital market (for medium and long-term lending and borrowing).

The Nigeria Stock Exchange is the pivot around which the Nigeria capital market revolves. It is the machinery for the country's resources for economic development. Since its establishment in 1961 a major local investment outlet has been provided for Nigerian investors who have funds surplus to their immediate requirement can employ them profitably through the purchase and sale of securities (i.e stocks and shares).

As a self regulatory organization (SRO) the Nigeria Stock Exchange assist in no small measure in boosting investor confidence in the market. Quoted companies are made to comply with the listing and post-listing requirements of the Stock Exchange and in that way promotes transparency, accountability and good corporate

governance. The joint monitoring committee (JMC) also adjudicates in matters between members as well as investors.

Auditors have a crucial role to play in fostering and sustaining confidence in the market, as custodians of the figure relied upon by the investors. The failure of multinationals like Enron and world.com both of the U.S.A. for instance was traced to the connivance of their auditors in "cooking" their books and misleading investors.

Presently in Nigeria the Securities and Exchange Commission in a move to checkmate some of these excesses has a comprehensive register of other capital market operators like auditors and lawyers so as to have a measure of control over their activities and ensure that the game is played by the rules.

1.2 STATEMENT OF RESEARCH PROBLEM

This study is aimed at finding answers to the following questions.

- (a) Has the Stock Exchange played any role(s) in the development of Nigeria capital market thus far?
- (b) Has the Nigeria Stock Exchange developed to meet current challenges?

- (c) How is capital mobilized using the Stock Exchange

1.3 SIGNIFICANCE OF THE STUDY

The information obtained from this study will be used to assure and re-assure the provider of funds which comprise of firms and individual that their scarce funds has been put to proper use by the users of the fund (issuers of securities). This study will bring to the fore the role(s) the Nigerian stock exchange have played in the development and sustenance of the Nigeria capital market.

1.4 HYPOTHESIS

In view of the introductory remarks and observation which culminated in the significance of this study and the statement of the research problem, the research has hypothesized as follows:

NH: The Nigeria Stock Exchange has not played a vital role in the development and sustenance of the Nigeria capital market since its establishment.

AH: The Nigeria Stock Exchange has played a catalytic role in the development and sustenance of the Nigeria capital market.

1.5 SCOPE AND LIMITATION OF THE STUDY

This study is an expose cum review of the role(s) of the Nigeria Stock Exchange towards the development, sustenance of the capital market.

This study will cover a period of nine years (from 1994 to 2002). It is expected that the period will provide sufficient information to establish the catalytic role(s) the Nigeria Stock Exchange play in the development of the Nation's capital market.

However the study's limitations include.

- (a) **Porous data:** The researcher relied heavily on the secondary data published by the central bank of Nigeria (CBN) who themselves acknowledged their inadequacies.
- (b) The inability of the researcher to use more vigorous statistical methods may limit the extent to which data may be organized and interpreted.
- (c) Financial constraints curtailed the time the researcher spent surfing the internet.
- (d) The refusal to return all completed questionnaires by respondents.
- (e) Time was a major constraint which limited the extent to which the study was conducted.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 INTRODUCTION

The capital market is not really a market in the traditional sense. According to **Anyanwu et al** (1997) the capital market is a market for the mobilization and utilization of long-term funds for development. **Odife** (1988) said the capital market is a network of institutions that perform duties that are described as capital activities. The capital market embraces therefore both the new issues (primary) market and the secondary markets.

Ahmed (1993) on the other hand defined capital market as a network of facilities for mobilizing and dealing in long-term funds. **Nnadi** (1994) defined the capital market as a market that provides industrial and long term capital to business organizations. Participants in the capital market include discount houses, development banks, investment banks, building societies, stock broking firms, insurance and pension organization, listed companies, the government and the Securities and Exchange Commission (SEC).

The Nigeria Stock Exchange is a service provider in the capital market. The stock exchange provides an enabling platform for trading

activities (buying and selling of shares of listed companies) in addition to conducting random evaluation analysis and monitoring of all quoted companies in a bid to rationalize the prices being made on the trading floors of the exchange by the stock brokers.

Some times the exchange invites top executives of companies for discussion if there is persistent poor performance and gives necessary advice.

2.2 THE STOCK EXCHANGE DEFINED

According to Anyanwu et al (1997) the stock exchange is market where those who wish to buy or sell shares, stocks, government bonds and other approved securities can do so though only through members (stock brokers).

Encarta (2004) defines a Stock Exchange as a market for the sale and purchase of securities of corporations and municipalities, and in some cases certificates representing commodities of trade. The leading Stock Exchange in the world are the London Stock Exchange and the Tokyo stock exchange. A further important Exchange of a much less regulated sort is the National Association of Securities Dealers Automated Quotation System (NSADA). This is a

computerized market linking dealers throughout the united states of American and some parts of Europe.

The Stock Exchange is a highly organized, self regulating organization where dealings in marketable securities o all types take place.

Being a highly organized market a Stock Exchange admits only registered members and dealers. Its council transact its business in accordance with a prescribed set of rules and regulations. Structurally a Stock Exchange consists of three categories of members. The first class of members are those individuals and institutions that signed the memorandum of association, the ordinary members are those other than the foundation who on application are considered qualified to be admitted into the membership of the exchange. The dealing members are institutions and individuals or corporate bodies licensed by the council of the Exchange to deal in securities granted quotation on the exchanged. They are called stockbrokers.

2.3 THE EVOLUTION OF THE NIGERIAN STOCK EXCHANGE

The evolution of Nigerian capital market dates back to 1960 when the Lagos stock exchange was established, becoming

operational a year later. In 1977 it was renamed and reconstituted as the Nigerian stock exchange. The first class of members were those individuals and institutions who signed the memorandum of Association of the Lagos stock exchange (LSE) on Sept. 15 1960, upon its incorporation. They include.

1. Chief Theophilus Adebayo Doherty
2. Sir Odumegwu Ojukwu
3. Chief Akintola Williams
4. Alhaji Shehu Bakar
5. John Holt (Nig) Ltd.

The NSE has established branches in some of the major commercial cities of the country. At present there are six branches of the NSE. Each branch as a trading floor, the branch in Lagos was opened in 1961; Kaduna 1978; Port-Harcourt 1999 and Yola, April 2002. Lagos is the head office of the exchange. An office has just been opened in Abuja.

The exchange started operation in 1961 with 19 securities listed for trading. Today there are 262 securities listed on the exchange, made up of 11 Government stocks, 49 industrial loan (Debenture/preference stocks) and 194 equity/ordinary shares of

companies, all with a total market capitalization of approximately N287.0 billion as at August 31, 1999.

Most of the listed companies have foreign/multinational affiliations and represent a broad spectrum of the economy, ranging from Agriculture through manufacturing to service.

This market has in place a tested Network of stock brokerage firms, insuring Houses (Merchant Banks) practicing corporate law firms and over 50 firms of auditors and reporting accountants (most with international links). The stock exchange is staffed with creative financial engineers that can compete anywhere in the world. Therefore the market has in place a network of intermediating organization that can effectively and creditably meet the challenges and growing needs of investors in Nigeria.

The evolution of the stock exchange will be discussed specifically under the following headings.

- (a) **Integrity**: Is the watchword of the stock exchange. Market operators subscribe to the code "our word is our market bond". public trust in the Nigeria stock market has grown tremendously, with about three million individual investors and hundreds of

institutional investors (including foreigners who own about 47% of the quoted companies) using the facilities of the Exchange.

- (b) **Trading:** The call over trading system is now watched by stock brokers on the trading floors of the Stock Exchange through a network of computers. This is done every business day from 11:00 am till all bids and offers have been executed (about 1:30pm on the average).
- (c) **Pricing:** Prices of new issues are determined by issuing houses/stock brokers, only. The market/quoted prices, along with the All-share index are published daily in the stock exchange daily official list, the Nigeria Stock Exchange CAPNET (an internet facility), the Nigeria Stock Exchange website ([www. Nigeria Stock Exchange.com](http://www.NigeriaStockExchange.com)), Newspapers, news magazines, NTA and FRCN Net work news broadcasts and so on. You can also find the data on the stock market page of the Reuters electronic contributor system. The markets on-line code in the Reuters Network is NSXA-B. pricing and other direct controls gave way to indirect controls by the regulatory bodies (Securities and Exchange Commission and the Stock Exchange) following the deregulation of the market in

1993. Deregulation has improved the competitiveness of the market, in addition to making it more investor friendly.

- (d) ***The All-share Index:*** The exchange maintains an all-share index formulated on January 3, 1984. Only common stock (ordinary shares) are included in the computation of the index. The index is value-relative and is computed daily.
- (e) ***Clearing, delivery and settlement:*** Clearing, settlement and delivery of transaction on the Exchange are done electronically by the central securities clearing system limited (CSCS), a subsidiary of the stock exchange. The CSCS limited (clearing house) was incorporated in 1992 as part of the effort to make the Nigeria Stock Market more efficient and investor-friendly. Apart from clearing, settlement and delivery, the CSCS limited offers custodian services.
- (f) ***Stock market legislations:*** Transactions in the stock market are guided by the following legislations among others
- Investments and securities decree No. 45. 1999.
 - Companies and Allied matters Decree, 1990
 - Nigerian Investment promotion commission Decree, 1995
 - Foreign Exchange (miscellaneous provisions) Decree, 1995

- g. **Regulation:** Transactions on the exchange are regulated by the Nigeria Stock Exchange, as a self-regulatory organization (SRO), and the Securities and Exchange Commission (SEC), which administers the investments and securities Decree 1999.
- h. **Internationalization of the stock market:** Following the deregulation of the capital market in 1993 the federal government in 1995 internationalized the capital market, with the abrogation of laws that frustrated foreign participation in the Nigerian capital market. Consequent upon the abrogation of the Exchange Control Act 1962 and the Nigerian enterprise promotion decree 1989, foreigners now participate in the capital market both as operators and investors. Also, there are no limits any more to the percentage of foreign holding in any company registered in the country.

Ahead of this development the Exchange had since June 2, 1987 linked up with Reuters electronic contributor system for online global dissemination of stock market information, trading statistics, All-share Index, company investment ratios, and company news (financial statements and corporate actions). In November, 1996 the Exchange launched its internet system (CAPNET) as one of the infrastructural

support for meeting the challenges of internationalization and achieving an enhanced service delivery.

The internet system facilitates communication among local and international participants in the market, as subscribers to the system include stock brokers, quoted companies, issuing houses, etc who now use the facility to receive and send e-mail globally and locally.

2.4 OPERATIONS OF THE NIGERIA STOCK EXCHANGE

The stock exchange has six trading branches as stated earlier, on each floor of the exchange there is a director and a secretary. The National secretariat has a director-general and consists of four principal departments; administration cum secretarial department, second-tier securities market department, research and information system department and quotations department.

- a. *Administration cum secretarial department*: This department provides secretarial services to the National council of the exchange and also handles personnel management, financial and accounting duties.
- b. *Second-Tier securities market department*: This department handles all aspects of promotion, quotation and dealings in the securities of

companies which are quoted on the second-tier market of the Exchange.

- c. **Research and information system department:** This department oversees the production and publication of the Stock Exchange daily official list and the stock market price index. The department is the liaison centre between the Exchange and the press, the public and other entities.
- d. **Quotation Department:** The analysis and scrutiny of application from companies seeking listing on the Exchange is handed by this department. This department also ensures that listed companies comply with requirement of the Exchange and adhere to acceptable accounting standards and conventions in the preparation of their annual accounts and reports.

2.5 THE STOCK EXCHANGE AND THE NIGERIA ECONOMY

The importance of the stock to the Nigerian Economy is, it facilitates savings and investments. It does this by making it possible for investors to dispose of securities quickly if they wish to do so, and secondly in channeling savings into productive investments.

As a highly organized market a stock exchange admits only registered members and dealers. Also, business is transacted in accordance with a prescribed set of rules laid down by the council. Any investor who wishes to buy or sell securities must not do so directly, rather he has to have an agent or 'a go-between' called the broker. In addition to brokers there are also other dealers known as jobbers each of whom performs functions distinct from the other, thus providing sources of gainful employments for Nigerians.

The Stock Exchange facilitates the job of governance through easing the marketability of securities thus helping not only to alleviate corporate and government cash-flow problems but also to reduce the risk of illiquidity in the economy. Not only this. The presence of the Stock Exchange enables the government to execute some crucial policy decisions. Were it not for existence of the Nigeria Stock Exchange no Nigerian Government would have thought of the indigenization exercises of the 1970s and even the on-going massive but fraudulent privatization and commercialization and economic reforms programmes in the country. Even the scheme of securitization of our foreign debts (i.e debt equity swap) which has helped to save Nigeria from the debt trap could have remained a perpetual economic

dream were it not for the existence and active operations of the Nigerian Stock Exchange.

As stated earlier the stock exchange provides one of the greatest incentives to save something either for the rainy day, for posterity or for growth of corporate incomes.

2.6 THE NIGERIA STOCK EXCHANGE: A CRITIQUE

Though individual firms and countries have continue to reap the benefits of stock exchange the Nigeria stock exchange inclusive many people have criticized their relevance and operations. Below are some of the criticisms.

- a. **The difficulty of the listing requirements.** People have argued that the Nigeria Stock Exchange (NSE) is not a place where small and medium scale entrepreneurs can raise funds for their businesses because the conditions for listing are stringent and the small and medium-scale entrepreneur lack the financial capacity to meet the conditions according to Onuigbo (1992) the condition for listing include.
 - (i) Sale of at least 25% or $\frac{1}{4}$ of the shares of the company
 - (ii) A paid-up capital of at least N1,000,000.00

- (iii) Provision of historical records of at least five years operations with a minimum dividend of five percent.
- b. The easy access to bank funding which enables local entrepreneurs and foreign business men operating in the country to fund themselves without diluting the control of their operations or companies which they cherish and guard jealously is also a criticism of the Nigerian stock exchange.
- c. A third reason is the high cost of compliance with the listing regulations. Compliance involves complex negotiations with lawyers and accountants, preparing a detailed prospectus, printing and advertising expenses. These processes consume a large proportion of the proceeds of the issue. Both the Securities and Exchange Commission and the council of the Nigeria Stock Exchange are concerned over the high cost of raising money by an issue on the Stock Exchange Floor compared to loans from banks. This phenomenon however, appears to be world-wide.
- d. *Fear of losing corporate control:* Admission of more and part owners necessarily bring about changes in the administration and composition of board of directors. The new changes may not be to the interest and wishes of the founders of the corporation.

- e. Little or no knowledge of the capital market. The existence, importance and contributions of the Stock Exchange are known only to a few sophisticated city dwellers. The management of the Nigeria Stock Exchange has not made concerted effort to carry out an intensive public enlightenment campaign exercises to the majority of the citizenry that live at the grass roots.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 INTRODUCTION

Strategies used in carrying out the research problem are discussed in this chapter. The research methodology chosen for this project may differ from those used by other researches never the less, the methodology chosen for this work is based on the opinion and the type of data available to the researcher, specific reference would be made on how the hypothesis is being tested;

This chapter has been divided into four section.

- (a) The study technique
- (b) Sampling technique
- (c) Data collection
- (d) Analytical technique

3.2 THE STUDY AREA

The Federal Republic of Nigeria is the most densely black populated nation on earth. Nigeria has international frontiers with the Cameroon to the East, Benin Republic to the West, Niger and TChad Republics to the North and the Atlantic ocean to the south.

Nigeria has several bilateral and multilateral agreements with several countries and international non-government organizations on trade and industry. The country is does business with the Bretton woods institutions and the world trade organization. She is the sixth major crude oil exporter in the world (Anyanwu J.C. et al (1997). Nigeria is a economic power in the ECOWAS sub-region. The country is currently the chair of the African Union and the chair in office of the common wealth of Nations. The country is currently pursuing an economic reform agenda.

Since the advent of the fourth republic Foreign Direct Investments by multinational enterprises have multiplied.

3.3 SOURCES OF DATA

This research work relied 100% on secondary published data from very reliable sources. These sources include amongst others statistical bulletin of the federal office of statistic and the website of the Nigerian stock exchange (www.Nigerianstockexchange.org) and text books written by leading scholars of Nigeria's economy and returned questionnaires.

3.4 ANALYTICAL TECHNIQUES

The researcher also adopted statistical techniques such as linear regression analysis, correlation test (r) and correlation coefficient of determination (r^2) in analyzing the relationship between the Nigerian stock exchange (which is taken to be x) and the Nigerian capital market (which is taken to be y).

a. The regression model is given by;

y = Capital market

x = The Nigerian stock exchange

B_0 = Intercept land (considered to be the value figures of the capital market that is independent of the Stock Exchange.

B_1 = Slope parameter, which is taken to be the rate of change in the capital market as a result of change on the Nigeria Stock Exchange.

U_t = Random variable.

b. **CORRECTION TEST (r)**

The researcher used the pearson product movement correction (r) to establish the strength of the relationship between the Stock Exchange and the capital market

Note: The researcher has decided to use the figures of the total sales or transaction (market capitalization) and the figures of the transactions of the Nigeria Stock Exchange (NSE) as it's Y. and X respectively.

$$r = \frac{\sum x_1 y_1}{\sqrt{\sum x_1^2} \sqrt{\sum y_1^2}}$$

Where $\sum x_1^2$ = Sum square of mean deviation from market capitalization.

$\sum y_1^2$ = Sum square of mean deviation from transaction on the floor of the Nigerian Stock Exchange

$\sum x_1 y_1$ = Sample sum of co-variance of market capitalization and transaction on the floor of the Nigerian Stock Exchange.

Where

$r > 0$ = Indicates a positive relationship between the stock Exchange and the capital market.

$r < 0$ = Indicates a negative relationship between the Stock Exchange and the capital market.

- c. Correlation coefficient of determination (r^2). This test is conducted to test the explanatory powers of the influence of the Stock Exchange on the development of the capital market.

$$= r^2 = \frac{SSy - SS\Sigma}{SSy}$$

$$SS\Sigma = SSy - B_1 SSXY$$

$$B_1 = \frac{SSxy}{SSy}$$

CHAPTER FOUR

4.0 DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

This chapter contains the analysis of data, from which I would arrive at the conclusion of my research.

It is important to note that raw data conveys no meaning and has no usefulness, until it has been critically presented, examined and analyzed so as to generate the required information sought. The result of the findings on the research topic: The Nigeria Stock Exchange as the catalyst for the development and sustenance of Nigeria's capital market. The journey so far presented in this chapter.

4.2 DATA PRESENTATION

Below is the data of the Stock Exchange and the capital market capitalization figures as total contribution to the Nigerian capital market from 1994 to year 2002 as released by the federal office of statistics, Makurdi, Benue State.

Table 4.2.1 shows transactions on the Nigeria Stock Exchange floor and market capitalization figures of the capital market.

Year	Transactions on NSE (N Billions) (x)	Market capitalization N Billion
1994	0.2503	10.02
1995	0.6103	12.85
1996	0.2254	16.36
1997	0.2421	23.13
1998	0.4917	31.27
1999	0.8044	47.44
2000	0.9854	66.37
2001	0.1838	180.31
2002	0.6979	285.82

4.3 DATA ANALYSIS

Information presented in table 4.2.1 will be used to conduct some statistical/mathematical analysis in this section. The aim is to determine if the Nigeria Stock Exchange has any relationship with the growth and sustenance of the capital market in doing this, correlation analysis would be carried out.

A co-efficient of determinant would also be carried out.

Correlation analysis

Correction analysis in conducted to determine the strength of the relationship that exist between the macro-economic variables; the

transaction figures of the Nigeria stock exchange and market capitalization which are x and y variables respectively.

The test has helped me to determine the level of significance between the relationship. This attest to whether the relationship is “weak” or “strong”. The pearson product movement correlation coefficient is used.

$$\text{Correlation coefficient (r)} = \frac{\sum x_i y_i}{\sqrt{\sum x_i^2 \sum y_i^2}}$$

Where

$\sum x_i^2$ = summation of square deviation of X(SSx)

$\sum y_i^2$ = sum of square deviation of y (SSy)

X_i = Mean of deviation of x

Y_i = Mean deviation of y

r = Correlation coefficient

Table 4.2.2 Estimate the regression parameter (B_0, b_1)

	x-x	y-y	(x-x) ²	(y-y) ²			
S/No	X	Y	(X-X)	Yi (Y-Y)	Xi	Yi ²	Xi Yi
1.	0.2503	10.02	-0.2489	-64.82	0.062	2401.6	16.134
2.	0.6103	12.85	0.1113	-61.99	0.012	3842.8	6.800
3.	0.2254	16.36	-0.2736	-58.48	0.075	3419.9	16.00
4.	0.2421	23.13	-0.2569	-57.71	0.066	2673.9	13.284
5.	0.4917	31.27	-0.0073	-43.57	0.0001	1898.4	0.318
6.	0.8044	47.44	-0.3054	-27.40	0.093	750.8	8.368
7.	0.9859	66.37	0.4869	-8.47	0.237	71.7	4.124
8.	0.1838	180.31	-0.3151	105.47	0.099	11123.9	33.23
9.	0.6979	285.82	0.1990	210.98	0.040	44512.6	41.985
Total	$\sum x$	$\sum y$	$\sum (X-X) = 0$	$\sum Yi = 0$	$\sum Xi^2$	$\sum Yi^2$	$\sum Xi Yi$
X	4.49194	Y673.57			0.6841	72495.6	140.247

$$\bar{X} = \frac{\sum x}{n}$$

$$= \frac{4.49194}{9} = 0.499104$$

$$\bar{X} = 0.499$$

$$\bar{Y} = \frac{\sum Y}{n}$$

$$= \frac{673.57}{9} = 74.841$$

$$\bar{Y} = 74.84$$

$$\begin{aligned}
 Y &= B + B_1x \\
 B_1 &= \frac{S_{sxy}}{S_{sx}} \\
 &= \frac{140.247}{0.6841} = 205.01
 \end{aligned}$$

$$\begin{aligned}
 B_0 &= Y - B_1x \\
 B_0 &= 74.84 - 205.01(0.499) \\
 B_0 &= 74.84 - 102.30 \\
 &= -27.46 + 201.01 \\
 Y &= -27.46 + 205.01x
 \end{aligned}$$

Interpretation

Since the value of $b_1 = 205.01$ which is positive, it then means that there is a strong relationship between between NSE and the growth and sustenance of the capital market thus far.

Correlation coefficient

$$\begin{aligned}
 r &= \frac{\sum x_i y_i}{\sqrt{\sum x_i^2 \sum y_i^2}} \\
 &= \frac{140.247}{\sqrt{0.684 \times 72495.6}} = \frac{140.247}{0.8271 \times 269.250} \\
 &= \frac{140.247}{222.697} = 0.6297 \\
 &= 0.63
 \end{aligned}$$

Correlation coefficient $r = 0.63$

Correlation coefficient of determination (r^2)

A correlation coefficient test is carried out in this subsection to determine the explanatory powers of the parameter estimate of the linear regression. Calculating coefficient of determination (r^2)

$$R^2 = \frac{S_{yy} - S_{sc}}{S_{yy}}$$

$$S_{sc} = S_{yy} - B_1 S_{sxy}$$

$$B_1 = \frac{S_{sxy}}{S_{sx}} = \frac{240.249}{0.6841}$$

$$= 205.0$$

$$S_{sc} = 72495.6 - 205.0095 \times 140.247$$
$$= 72495.6 - 28751.967$$

$$= 43743.903$$

$$R^2 = \frac{72495.6 - 43743.903}{72495.6}$$

$$= 0.3965$$

$$= 0.4$$

$$r^2 = 0.40$$

Student "t" test

This is used to demonstrate that a significant relationship exists between the NSE and the capital market.

$$“t” = \frac{B - B_1 SSX}{S}$$

$$S = \frac{SS\Sigma}{n-z}$$

$$SS\Sigma = SSy = b. SSxy$$

$$B = \frac{205.01}{SSxy = 140.247}$$

Hence $SS\Sigma = 724956 - 205.01 (140.247)$

$$SS\Sigma = 72495.6 - 28752.0$$

$$= 43743.6$$

$$S = \frac{43743.6}{7}$$

$$= \frac{6249.08}{7}$$

$$= \frac{892.72}{7}$$

127.53

Interpretation

Looking at the above figures where (+c) is greater than (+x) it means that the Nigeria Stock Exchange has contributed significantly to the growth and sustenance of the Nigerian capital market from 1994 to the year 2002. I therefore reject the null hypothesis and accept the alternative hypothesis stated in chapter one of this project.

4.4 RESULT AND ANALYSIS

The information derived from the above calculations show that transactions on the floor of the Nigeria Stock Exchange has a very positive and significant effect on the capital market during the period covered in this research work.

The period covered has presented sufficient evidence that there is linearity between the NSE and the capital market sub-sector of the economy.

The correlation analysis which was used to determine the strength of the relationship between the NSE and the capital market proved that the relationship obtained was 0.63 which is 63% which indicates a strong relationship.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter is divided into three main sections a summary of the research is presented in section one, conclusion drawn from the study in section two while some recommendations are presented in section three.

5.2 SUMMARY

The primary objective of this study was to analyze the contributory role of the Nigeria stock exchange to the development of the Nigeria capital market from 1994 to the year 2002. the review of related literature high-lighted the actual contributing role of the stock exchange to the capital market development during the period under study.

The regression of the stock exchange figures and capital produced a result of $Y=27.46+205.01x$. The coefficient of variation indicates that a relationship exists between the Nigeria Stock Exchange and the capital market which showed a strong relationship and hence very significant.

The correlation test also showed a strong relationship of 63% in line with regression function. The coefficient of determination produced 40%.

The result of the analysis has satisfied a prior expectation and appeared intuitively appealing too. This implies that the changes in the figures of the capital market from 1994 to 2002 can be attributed to the transactions the floor of the Nigeria stock exchange. This means that the capital market is chiefly determined by the activities of the Nigeria Stock Exchange.

5.3 CONCLUSION

From the studies carried out during this research exercise one can conclude that the Nigeria Stock Exchange has sped up the development and sustenance of the Nigeria capital market.

Before 1961, almost all formal savings and deposit went through the banking system while major capital of the country were invested on the London stock exchange. However following the establishment of the central bank of Nigeria in 1959, it was logical to have a stock exchange and the Lagos stock exchange was incorporated in 1960. Since then long term loans and finance have

been raised by corporate bodies and some states and local government council.

The introduction of the structural adjustment program (SAP) in 1986 led to the introduction of realistic policy instruments. Increasing number of companies now use the capital market facilities to strengthen their capital structure for expansion of operations. In the process there has been a flurry of Right issues, offers for subscription for equity and debenture stocks.

The Nigeria Stock Exchange has contributed to the development and sustenance of the capital market in many ways.

- (a) Provision of a platform for the trading of marketable securities.
- (b) Boost investors confidence in the capital market
- (c) Helps to expand permanently the ownership of companies.

Problems and prospects of the Nigeria Stock Exchange.

There is no doubt that the Nigeria stock exchange since its incorporation in 1961 has recorded tremendous and laudable achievements on of which has been the transition from manual to automated trading system (ATS).

The development of the second tier market is most welcomed. However listing requirements has discouraged several small and medium scale businesses from seeking quotation.

Another shortcoming of the Nigeria stock exchange in her drive to develop and sustain the capital market is that of inadequate offices and the problem of education of the teeming populace on the activities of the Nigeria. Based on the above short-coming of the NSE I, make the following recommendation herewith.

5.4 RECOMMENDATIONS

1. The level of professionalism in the Nigeria stock exchange should be extended beyond the current arm chair approach. Security analysts and investment advisers should be able to compare current market with the economic value of the

securities in order to make a reasonable "buy" or "sell" decision.

2. Operators at the NSE should be able to make reasonable projects on share dividends and engage in fundamental analysis, which is basically an economic approach to valuation.
3. For the purpose of fair trading and prevention of market manipulation there should be a proper market surveillance to keep constant watch over trading activities as well as scrutinizing the contents of financial reports and statements of listed companies to check cosmetic packaging of financial reports and statements.
4. There should be a form of authentication which will seek to identify a transfer with the deal that has taken place on the floor before it can be registered.
5. States and local government councils should be encouraged to approach the capital market to raise long-term finance for developmental purposes.
6. More branches of the Stock Exchange should be established in at least the six geo-political zones of the country.

7. The listing requirements should be relaxed to encourage small and medium scale industries to seek listing.

APPENDIX

Department of Business,
Administration and Management,
Benue State Polytechnic,
P.M.B 01,
Ugbokolo

October,2005.

Dear Respondents,

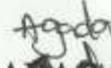
LETTER OF INTRODUCTION

I am a student of the Benue State Polytechnic, Ugbokolo, I am conducting a research on the Nigeria Stock Exchange as the catalyst for the development and sustenance of Nigeria's capital market in partial fulfillment of the requirements for the award of HND Certificate in Business administration and management.

This research is purely an academic exercise as such your answer shall be treated with utmost confidentiality.

Thank you.

Yours faithfully,


A. A. A. A. A., FAMOUS-ADEJOH
BSU/H/01/7884
Student

QUESTIONNAIRE

Introduction: Tick [] as appropriate please.

1. Age 20 – 30 [] 30 – 40 [] 40 and above []
2. Sex: male [] Female []
3. Occupation: Manager [] Director []
4. Have you heard of the Nigeria stock exchange Yes [] No []
5. How is the performance of the Nigeria stock exchange in the Nigeria capital market?
 - (a) Excellent []
 - (b) Good []
 - (c) Satisfactory []
 - (d) Fair []
 - (e) Poor []
6. State in one sentence the role – played by the stock exchange in developing the capital market.

7. Does the stock exchange boost both local and foreign participation in the Nigeria capital market by strengthening investors confidence in the integrity of the Nigeria capital market?

- (a) Activity []
- (b) Average []
- (c) Below []
- (d) Not all []

8. Has the Nigeria stock exchange made good impact on the Nigeria economy by improving capital investment and led to a general improvement in the nation's profit margin over time?

- (a) Very good []
- (b) Fair []
- (c) Poor []

9. How would you rate the performance of the Nigeria Stock Exchange in the economy?

- (a) Adequate []
- (b) Inadequate []
- (c) Very inadequate []

10. Do you perceive any room for improvement in the relationship between the Nigeria Stock Exchange and the capital market generally?

(a) Yes []

(b) No []

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The Nigeria Stock Exchange Web Site www.NigeriaStockExchange.com

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