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THE PUSH AND PULL FACTORS OF THE CAPITAL MARKET IN A DEVELOPING ECONOMY

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Abstract

That capital market has a role to play in any economy is unarguable. That the performance of any capital market is dependent on a number of economic factors and political stability is not in question. It should also be borne in mind that the promotion of a capital market is intimately tied up with the objective of accelerated economic growth and development. However, there is need to highlight the factors that influence what happen in the capital market which may be neglected especially in emerging economies. Therefore the study is set to unmask the supportive and unsupportive factors that determine the direction and magnitude of events in Nigerian capital market. The prospect of the Nigerian Capital Market in providing long term fund for domestic and foreign industries and for public projects has been established but we must all be ready to handle the challenges posed by internationalization and globalization which make the world a global village. Capital market main function is to mobilize and allocate the nation resources to the numerous users. The importance of this is evident in the way the capital market has assisted government at all levels to raise development bonds to finance long-term and low pay-back infrastructural development. It has also assisted companies to raise funds for expansion and modernization of their asset which leads to increase productivity at higher profit. Thus it is a truism to say that the economic growth and development of Nigeria can be tied around the capital market and if the recommendations of this work are diligently and effectively applied, the Nigerian Capital Market will achieve efficiency thereby serving as catalyst to the economic growth and development of Nigeria.

1.0 Introduction

In Nigerian Financial system, banks had been the major source of corporate finance. As the size of enterprises became larger and the investment gestation period longer, the capital funding requirements of industries could no longer be met by the banking system. As a result, the government had to establish and expand the functioning and capabilities of organized capital market to meet the funding needs of necessary capital investments in the economy. At the back of the mind of the policy-makers is that organized capital market is a place of last resort which borrowers do not turn to unless money is wanted in sums beyond the power of banks and business owners to provide. The promotion of a capital market is intimately tied up with the objective of accelerated economic growth and development. And there is a positive correlation between the growth in capital market activities and overall economic growth. Looking at the stock markets of the developed countries of USA, Canada, and Japan and other developing countries of Korea, Brazil, and Jordan, it can be concluded that rapid economic growth goes hand in hand with conscious effort to promote securities market development. When the Nigerian capital market is compared with other emerging and mature markets across the globe, there is enormous room for improvement, though there has been institutional growth in her Capital Market and market indicators have shown improved performance over the years. The level of professionalism has also improved. This notwithstanding, the contribution of the formal capital market to Gross Capital Formation in Nigeria is still very low. All the above statements agree with the views of Achuka (1994:115), Ahmed (1988:8), Nwude (2003:397). Before progressing, let us digress a bit into the genesis of a capital market in a developing economy, Nigeria.

The attempt at institutionalizing a capital market in Nigeria can be traced to the year 1959 when the Central Bank of Nigeria (CBN) floated the first Nigerian Development Loan of three trances on behalf of the Federal Government of Nigeria (FGN). Following the recommendation of Professor Barback review committee's report of 1959, set up by the government to look into the possibility of having capital market in Nigeria, a capital market first came into existence with the registration and incorporation of the Lagos Stock Exchange (LSE) on March 1, 1959 and September 15,1960 respectively. The exchange was incorporated under the companies ordinance as an association limited by Guarantee. It became operational on June 5, 1961, as a private, non-profit making organization limited by guarantee. It was given initial financial backing by CBN in the form of annual subvention. On December 2, 1977 following the recommendation of the government Financial System Review Committee (FSRC) of 1976 headed by Dr Pius Okigbo, the LSE was renamed and reconstituted into the Nigerian Stock Exchange (NSE) to reflect the expansion of its activities outside Lagos. Additional trading floors were also opened in Port Harcourt (30/4/79) and Kaduna (31/7/78). Presently it has 10 trading floors namely, Lagos (1961), Kaduna (1978), Port Harcourt (1980), Kano (1989), Onitsha (1990), Ibadan (1990), Abuja (1999) and Yola (2002) Benin (2005), Uyo(2007). Dealing members of NSE are stock broking firms licensed by NSE to buy and sell shares on behalf of the investing public.

The NSE is the hub, the prime operational institution in the Nigerian capital market. The Securities and Exchange

Commission (SEC), formally known as Capital Issues Commission (CIC) is the apex regulatory organ of the capital market with responsibility for ensuring orderliness, fair play and transparency in the market operations. The CBN as the apex institution in the nation's financial system, monitors activities and developments in the market. The Federal Ministry of Finance (FMF) supervises the activities of SEC. The NSE provides a mechanism for mobilizing private and public savings and makes such funds available for productive purposes. The exchange also provides a means for trading existing securities. It also encourages large-scale enterprises to gain access to public listing. The NSE operates the main exchange (1st tier market) for relatively large enterprises and the second tier market (SSM) established in April 1985 with less stringent listing requirement for small and medium scale enterprises.

At inception the LSE had eight (8) listed securities comprising five (5) government stocks and three (3) equities? In 1962, the capital issues committee was set up in the CBN to regulate public issues by the private sector. Market activities remained dull until the promulgation of the Nigerian Enterprises Promotion Decrees of 1972 and 1977 which gave impetus to both trading and growth in the shares of the major multinationals made available by these decrees. As a result, the number of listed securities grew to over one hundred and eighty (180) in 1980. Following the promulgation of the Nigerian Enterprises Promotion Decree 1972, the FGN realized the need for a statutory body to enhance the implementation of the programme. This gave birth to Capital Issues Commission (CIC) in March 1973 to succeed the capital Issues Committee. The CIC became defunct when the SEC was set up by SEC Decree no. 71 of 1979 but took off effectively on 1/1/80. The SEC Decree was later amended by SEC decree no. 29 of 1988, to give the commission wider regulatory powers.

In 1996, a comprehensive review of the capital market was carried out by a 7-man panel headed by Chief Dennis Odife. Based on the panel's recommendations, a new decree, the Investments and Securities Decree no. 45 of 1999 now Investments and Securities Act 1999, was promulgated on 26th May 1999. This decree repealed SEC decree no 29 of 1988 and enlarged the functions and regulatory powers of the commission.

As at December 2003, there were 266 securities listed on the exchange, made up of 17 government stocks, 53 industrial loans stocks, 196 Equity stock of companies all with a total market capitalization of N366.9billion. Most of the listed companies have foreign/multinational affiliations and represent a cross-section of the economy ranging from Agriculture through manufacturing to services. The market has in place a tested network of stockbrokerage firms, issuing houses, practicing corporate law firms and over 50 quality firm of auditors and reporting accountants with international links.

The stock exchange's 40year history was devoid of fraud, shocks, scandals or insider dealings. The exchange has been operating an Automated Trading System (ATS) since April 27, 1999, with dealers trading through a network of computers connected to a server.The exchange's ATS has facility for remote trading and surveillance. The exchange is in the process of connecting all branches to on-line-real-time, with plan for dealers to commence trading from their offices. SEC is connected for remote surveillance of trading from its offices in Lagos and Abuja. For every business days trading starts at 11.am and closes at about 1.30pm. Prices of new issues are determined by issuing houses/stockbrokers, while on the secondary market prices are made by stockbrokers only. The exchange maintains an All-share Index formulated on January 3, 1984 at 100 for ordinary shares only.

The Central Securities Clearing System (CSCS) Ltd was born or incorporated on 29 July 1992 with CAC, licensed by SEC on 7/4/97 but commenced operations on 14th April, 1997, as a subsidiary of NSE. It serves as a depository of securities for individual corporate bodies. It handles the clearing and settlement activities of the exchange within 3-working days (T+3), which before the advent of CSCS was clumsy and delayed for upward of over three months.

The market is guided by CAMD 1990; Nigerian Investment Promotion Decree 1995, Foreign Exchange (Miscellaneous Provisions) Decree 1995, Trustees Investment Decree 1990, and Investments and Securities Act 1999 among others, as amended to date. The facility provided by the NSE for trading in existing securities provides liquidity and removes the illiquidity that would have prevented individuals from investing their savings in securities.

Financial instruments traded in the capital market include equity, preferred stock, corporate bonds, government bonds, debt instruments and derivatives such as options, rights, futures etc. Securities can be floated on the primary market by any of the following methods namely, offer for subscription, offer for sale by existing shareholders, rights issue, bonus/scrip issue, and Global Depository Receipts (GDR). Global Depository Receipts (GDRs) are investment instruments denominated in dollars and issued through banks to offshore investors. Quoted companies use GDRs to raise foreign currency capital to meet their foreign exchange requirement. On the secondary market it is only by offer for sale by existing shareholders.

The Automated Trading System (ATS) was introduced on 27/4/99, managed by CSCS to reduced the transaction settlement time to T+3. The NSE has investors protection fund from which it compensates investors for share purchase deposits with a stock broking firm that goes into forced liquidation. Trade guarantee fund prevent failed trade in the event of a buying stockbroker not having sufficient funds to cover his purchases. The trade guarantee fund is managed independently by the settlement banks.

To eliminate incidence of missing dividend warrant due to changes in addresses, incomplete or incorrect addresses, poor or inefficient postal services, SEC introduced the e-dividend payment system on February 28, 2008, where net dividends are automatically credited directly into shareholders nominated accounts electronically within 24hours of payment by the companies. Confirmation letter of the dividend / interest payment and withholding tax certificate is then sent to the shareholders.

To enhance liquidity in the market and eliminate incidence of stolen/lost certificates, cost of printing bonus certificates, E-bonus which is a process whereby bonus shares of shareholders are electronically captured and credited direct to the shareholders account in the CSCS came into being.

Trade alert which helps investors to independently monitor and police their investment accounts at the CSCS via mobile telephone was launched in March 2005 and was made mandatory effective October 3, 2005. Presently the issue on front burner is the electronic capture of the allotment to all Public Offers (IPO) such that the accounts of investors will be directly credited at the CSCS and the list of all beneficiaries forwarded to CSCS. This will eliminate the long waiting period normally associated with the current system where long periods are taken to print and distribute certificates by the registrars. The arrangement for E-Trading, which is trading of securities via electronic means, is also on.

2.0 The benefits of capital Market in a developing economy

Gateway to equity fund: Nigerian Capital Market has opened the flood gate to relatively inexpensive fund to finance the expansion of indigenous enterprises. Some of the funds mobilized were used for refurbishing or re-modernizing the factory or for research and development of a new product. The quoted companies have unlimited access to source for large amounts of funds without much restriction. There is ease of obtaining fresh funds. The cost of funds sourced through the capital market is very low compared with other sources, such as bank loans. Dividends can only be declared when the company makes good fortunes.

Doorway for introduction: The Capital Market opens the door for indigenous enterprises to be introduced into the economy in general through entry into the securities market. This enables shares to be offered to the general public or even to international market for inflow of foreign investment. In response to complaints that the listing requirements for the main market were too stringent for most indigenous enterprises to meet, the Exchange introduced in 1985, the second tier Securities Market with less stringent but acceptable requirement. The public status of a company enhances greater public confidence and credibility among creditors, not being a one-man outfit.

Free entry and exit for investors: In private companies it is not easy, if not impossible, for an investor to withdraw his capital without upsetting the company capital structure. This is not so with the public quoted company. As long as an investor's broker can find someone to buy his client's shares, the process is as easy as ABC, as it does not involve the company paying out of the capital to the shareholder. The shares of a public quoted company are traded with ease and investors are free to go in an out without hindrances and restrictions.

Status symbol: The entering of an indigenous business into the capital market enhances its prestige and reputation especially its products and credit worthiness in the eye of the public as conferred upon it by the new status. Because the eyes of the public are on the company, it is expected that every piece of information given out will be true, fair and reliable. Nothing about the company is no more shrouded in secrecy as the new status constraint it to want to do well all the time. The Company makes itself bare to the whole world. It undresses in public. This enhances greater accountability and consequently better corporate performance.

Perpetual existence: Many indigenous enterprises collapse shortly after the original owner(s) whose children may not be interested in the business, die. The owner who may be the soul of the business was the Chief Manager, treasurer and many other things rolled together. This cannot be so in public companies, even where the original owner(s) retain a large portion of the shareholding, a proper board and management will not allow the business to go with the demise of the originator as the company itself being a corporate body, recognized in law, has a separate existence from the founder no matter the proportion of his holding. The Board, management and public are there to ensure its continuity and success. The Company exists forever beyond the life and times of the founding fathers but with good management.

Quality Personnel: It is easier for a quoted company to attract experienced and well-qualified personnel because of its size and resources. The Company and its price movements are published on the daily official list, the print and electronic media. There is perpetual advert or publicity, which enhances prestige and respect. Consequently there will be increased sales of the company's products or services. The possibility of Mergers and Acquisitions is more pronounced among quoted companies than unquoted ones.
Collateral Securities: Shares of quoted companies are ready and acceptable collaterals than shares of private companies. The shares have a wider market with ease of valuation and transfer. The companies are easily valued.

Funding government projects: The Capital Market provides government at all levels effective way of financing public projects. In Nigeria, experience has shown that internally generated revenue and statutory allocation are not sufficient to finance recurrent and capital expenditures. This perhaps explains the high incidence of abandoned projects in Nigeria. There are many advantages that accrue to state and local governments that patronize the capital as more resources are available for government capital expenditures. Secondly, there will be better accountability for the use of funds as financial reports must be produced regularly on projects funded by the capital market. Thirdly, raising funds from the capital market, releases government subventions for social projects. Finally, the tendency to spend money on "White elephant projects" will be curtailed as only economically viable projects could be financed from the capital market.

Marketability of the Shares: Public quotation on the Stock Exchange increases marketability of the shares.
Transfer of shares among shareholders becomes easier. The greater liquidity of equity investment usually leads to high value for shares and their being perceived as a less risky form of investment.

Wider Share Ownership: The requirements of the Nigerian Stock Exchange with regards to minimum number of shareholders, minimum percentage of the nominal value of the issued share capital to be made available to the public and removal of restrictive clauses on share transfer will guarantee a wider ownership.

Public Confidence: A company quoted on the exchange enjoys great confidence from both its investors and banks. Bank managers and other financial institutions find it easier to offer credit to a quoted company than an unquoted one.
Few demerits of capital Market in a developing economy exist and they are as follows.
Possible loss of control (or dilution of ownership): The original owners may lose control as fresh owners may emerge and assert their new found interest. This scenario occurred recently at Access Bank Nigeria Plc, where the former managing director was asked to resign as new interest group emerged. The threat of hostile takeover is real, with shares in the hand of the public.
Inability to safeguard company secrets (lack of privacy and secrecy): A quoted company has no hidden place, as its activities are made bare before the public. Competitors can cash in to tap corporate secrets. Disclosure requirements are onerous and expensive to produce.

Over regulation of company's activities: A quoted company is subject to the regulation of NSE, SEC, CAC etc. This can jeopardize flexibility of decision-making process as certain decisions must be cleared with the authorities. For example, there are restrictions on dividend policy and a stable policy is essential to maintain a good public image. There are difficult listing requirements which attract Floatation costs. A Stock Exchange quotation involves the advertising costs, printing costs, Issuing house, stockbrokers, lawyers, Accountants and other professional fees, capital duty, etc.

3.0 The Push Factors

Economic freedom where consumers are free to buy the goods they want, seek the product they want in the market of their choice leads to development of markets. The air of freedom, though with legal limits, is one of the most compelling reasons for investors who hold idle funds to channel them to such markets or ventures which they consider safest and more profitable. This stressed the need for reforms of the various legislations on the capital market to ensure that ownership control and trading in securities do not constitute a cog in the wheel of economic development. Recently there are a number of positive developments in the Nigerian capital market that give hope for better days ahead.

1. Granting of Margin Loan by banks: Up to the first quarter of 2008, many banks in Nigeria were granting huge amount of money as loan to stockbrokers, institutional and private investors to buy shares and accepting the shares purchased as

collateral for the loans granted. The loan is popularly referred to as margin loan. The margin loan placed so much money at the disposal of investors. This made demand for shares so high that most of the times demand exceeded the supply for majority of the stocks in the stock market. As a result, the prices of almost all the equity shares kept rising.

2. Reduction in Government Shareholding: The CBN directed that no state government should hold more than 10% equity interest in any bank. This caused major divestment by some parastatals from banks. A case in point is the divestment of Odua investment in Wema bank in 2007 on the floor of the exchange. A lot of civil servants from the catchment area of the old western region bought the shares legally through the trading floors of the exchange. As a result Wema bank was crowned the most active stock of the year 2007 based on turnover.

3. Increase in Foreign Investors' Appetite: As a result of high returns, liquidity and safety of investments in Nigeria, foreign investors' appetite remains strong as showcased by their level of investment to the tune of about N256 billion purchase of stock in the Nigerian capital market which represents 12.3% of the aggregate turnover in 2007.

4. Investors Protection Fund: This fund is similar to NDIC fund for banks. It is used to settle investors who incurred losses as a result of collapse of a stock broking firms.

5. Trade Guaranty Fund: This is used for settling trades in cases when a stock-broking firm has no sufficient funds in its trading accounts.

6. New Price for Listing by Introduction: From June 2008, any company seeking for listing on the floor of the exchange by way of introduction shall be listed at its private placement price per share. It shall also meet the listing requirements, rules, and regulations governing IPO.

7. Trade Alert: Trade alert was launched in March 2005 and was made mandatory effective October 3, 2005. Trade Alert is a shareholders alert system that immediately notifies an investor via mobile phone that there is a transaction on the investor's account. It sends SMS message on the investors GSM phone, notifying him or her on the transaction before it is completed. With this notice the investor could stop the transaction with a simple call if such transaction was not authorized. This helps investors to independently monitor and police their investment accounts at the CSCS via mobile telephone. The Trade Alert initiative was premised on the understanding that with a market capitalization in excess of N2 trillion, such a huge investment, if left unprotected, would be open to various abuses, including unauthorized sales. The SEC and NSE as controllers of the Stock market had at the back of their minds that the provision of prompt and accurate flow of information about activities in the market is essential for investors' confidence. And for the market's efficient price formation mechanism, investors need real time market information delivered to them with a directness and immediacy that will support minute-to minute trading decisions. Trade Alert will prevent sharp practices, combat economic and financial crimes among the brokers who may have the tendency to short-change unsuspecting investors, entrench accountability and transparency. The Trade Alert addresses the risk of unauthorized transactions by informing investors through a text message on their GSM phone anytime there is a transaction on their accounts, making it possible for investors to confirm transactions on their accounts or abort them if they were carried out without their authorization. In fact the device stops unauthorized trades before they happen, communicates in/out bound transactions on
subscriber's account, reduces chances of unauthorised transactions, protect investors, offers
effective control of transaction, provides reports of stock market activities, notice of AGM's
and so on. It improves local and international rating of the Nigerian stock market.
More importantly, whereas the advanced stock markets have e-mail alerts that instantly notify investors of changes in markets, among other investor tools, none provides a tool that notifies investors of movements in their stock positions as they occur.

8. Fraud Prevention Mechanisms: Fraudulent activities are currently being addressed in Nigerian Stock market as Securities and Exchange Commission is awake to monitor and check the activities of all the operators in the Nigerian Capital Market. With effect from April 1, 2008 no registrar is allowed to administer the register of any public company to which it is a subsidiary, a holding company, a related company or which has substantial shareholding in the said registrar or in which the said registrar has substantial shareholding. With effect from April 28, 2008 any newly listed company must trade at least 10% of its stock on the day it is being listed and would be required to operate for a minimum of 12 months thereafter before it can be allowed to issue new shares to the public. Also a minimum of 100,000 units of shares of such company must be traded before a stock can record either price appreciation or depreciation. These measures were taken to restore the much needed sanity to the capital market that has been burdened with proven cases of unwholesome sharp practices by both the

stockbrokers and quoted companies to the detriment of the innocent investors.

9. Timely Issuance of share certificates: Apparently irked by the delay in the issuance of share certificates to new subscribers to the shares of companies who sought new funds in the capital market, the SEC reiterated its directive that issuing houses should submit allotment proposals to SEC not later than six(6) weeks after the close of an issue in compliance with SEC rules and regulations 68(1). After the SEC approval of the basis of allotment, the issuing house shall publish the allotment in at least two(2) national daily newspapers and dispatch share/ bond certificates to investors not later than fifteen(15) working days from the date of clearance of the allotment. Where applications are not accepted or are accepted for fewer securities than the number applied for, return monies must be dispatched within five(5) working days of allotment clearance. Severe sanction awaits non-compliance in these respects.

10. Timely Conclusion of Public Offers: In order to reduce the delay associated with the conclusion of public offers especially that of banks, the CBN has stopped the capital verification exercise until after the allotment process. It is decided that allotment should go on and if there is any case of suspected money laundry or terrorist financing only the suspected individual or transaction will be affected and it will be dealt with in that instance until it is cleared or apprehended. This is a welcome development as the long period of delay is thinning down.

11. Exemption of Rights Issue from the scrutiny of Regulatory Authorities: Rights issue is the prerogative of the existing shareholders of a company to either take or leave the shares been allotted. As a result of the fact that it is their right, rights issues are exempted from the clearance of SEC and CBN.

12. Electronic Transactions: E-IPO is the electronic capture of the allotment to all Initial Public Offers (IPO) such that the accounts of investors (beneficiaries) will be directly credited at the CSCS and the list of all beneficiaries forwarded to CSCS. This eliminates the long waiting period normally associated with the system where long periods are taken to print and distribute certificates by the registrars. Trading of securities via electronic means called E-Trading is being pursued vigorously.

13. E-dividend system: To checkmate the unwholesome practice by some public quoted companies in the manner they utilize funds in their unclaimed dividend accounts, SEC introduced the e-dividend payment system on February 28, 2008. With this system, dividends are automatically credited directly into shareholders accounts electronically within 24hours of payment by the companies. Net dividends will be credited directly into the nominated bank accounts of shareholders on the dividend/ interest payment date. Confirmation letter of the dividend / interest payment and withholding tax certificate is then sent to the shareholders. This will automatically eliminate incidence of missing warrant due to changes in addresses, incomplete or incorrect addresses, poor or inefficient postal services. It will also help to resolve the problems associated with the assets of deceased investors as the dividend will continue to flow into the deceased account. This free service offers easier, quicker and more secured dividend payment as one needs not go to the bank to deposit dividend warrant. It also reduces problems of lost or delayed cheques as a result of postal delivery mishaps, as dividends are still received regardless of change of address. With this, Foreign investors will be more interested in our market because this is what most of them are used to in their countries. Investors will get time value for their money because the money is received as at when due. The registrars will need to print fewer documents to distribute dividends to shareholders and unclaimed dividend list is obviated. To make the e-dividend work, the registrars should capture the correct account numbers of the shareholders, send the money and the schedule as when due at same time to all the banks so that people will get their dividend at the same time. The regulatory authorities should be alert to ensure that the situation is thoroughly monitored.

14. E-BONUS: This is electronic issuance of bonus shares where no certificates are issued unless investors demand for them. E-bonus is a process whereby bonus shares of shareholders with the **CSCS** numbers are electronically captured and the new bonus shares declared are credited direct to the shareholders account in the **CSCS**. That is, shareholders stock accounts are automatically and electronically credited with their bonus shares in the **CSCS** system. Shareholders can easily take advantage of price movements immediately after a bonus declared is approved. This enhances liquidity in the market and eliminates incidence of stolen/lost certificates. The clumsiness of gathering bonus share certificates over the years for stock account reconciliation is minimized and Paper work is reduced for market operators. Cost of printing bonus certificates is greatly reduced and frauds associated with bonus share certificates like forged certificates are eliminated. With the emergence of e-bonus, shareholders without **CSCS** number should get in touch with their stockbrokers to open a **CSCS** account in order to benefit from the improved services in the capital market. To make the e-bonus work, the registrars should capture the correct CSCS account numbers of the shareholders, send the bonus schedule as when due at same time to the CSCS so that shareholders will get their bonus at the same time.

15. E-banking: Bank customers in Nigeria have insatiable appetite for efficient services and this has compelled the financial institutions to fast forward to a more radical transformation of their business systems and models by embracing e-banking for the delivery of a wide range of value added products and services. Banks in Nigeria are now in the forefront of harnessing technology to improve their products and services. In the past few years, banking activities in Nigeria have increasingly depended on the deployment of information and communications technology. The delivery channels include telephone, personal computers like Automatic Teller Machines (ATM). With the popularity of PCs, easy access to the internet and World Wide Web (www) internet is increasingly used by banks as a channel of delivering the products and services to the numerous customers. Virtually almost all banks in Nigeria have a web presence. This is the form of banking referred to as internet banking, and is generally a part of electronic banking.

4.0 The Pull Factors

A lot of problems were discovered to be responsible for impeded performance of the capital market and the reforms not fully achieving desired objective. They include buy and hold attitude of Nigerian investor, Inadequate financial intermediaries, low volume of trading, aversion for ownership dilution, high cost of raising funds in the market, inadequate technology, infrastructural deficiency, lack of financial information, existence of stringent and overlapping legislation, ignorance on the part of most Nigerian, poor perceptions of the integrity of the market, issue of unclaimed dividend and so on. Some of these are highlighted below:

1. Margin Loan Withdrawal: Through the CBN banks audit, a lot of misrepresentations and falsehood in the books of banks were discovered despite the fact that the banks had been posting huge profits. As a result, the Central Bank of Nigeria(CBN) advised all deposit money banks to stop advancing loans to stockbrokers and other investors in order to close down the openings for fraudulent activities in that direction. As soon as the banks started scaling down the level of loans for share purchase the level of activities in the capital market began to decline.

2. Global Economic Meltdown: As a result of high returns, liquidity and safety of investments in Nigeria, there was influx of foreign investors into the capital market. According to the Director-General of the NSE, Ndi Okereke-Onyiuke, available statistics shows purchase by foreign investors to be in excess of N256 billion in 2007 which represents 12.3% of the aggregate turnover, N150.135 billion in 2008 representing 6.3% of the aggregate turnover. In 2008, total sales by foreign investors were in excess of N556.93 billion, culminating in a net outflow of about N406.8 billion. This is pure pull-out of various foreign investors from the Nigerian capital market to avoid being caught up in the evolving global economic meltdown in a developing economy like Nigeria. This led to dumping(over-supply) of equity shares beyond what the domestic investors could buy and the prices started falling as the supply overwhelmed demand.

3. Diversification: A situation where many investors pulled funds from the capital market into the alternative investment areas like the real estate impact adversely on the capital market.

4. Inadequate financial intermediaries: The level of financial intermediation is still low. Issuing houses and broking firms are hardly found outside Nigerian major cities. The Nigeria Capital Market lacks sufficient unit trusts or investment trusts that tap savings from households and groups by selling their own stocks and shares to individuals and utilize the savings by acquiring corporate and sometimes government stocks. Due to this deficiency, hoarding of money for reason(s) other than for transaction motive become endemic in the society.

5. Buy and hold attitude of investors: Many Nigerian investors have this attitude of holding their stock of wealth, and very rarely trade in such securities for capital gains. The ability of the market to influence stockholders to trade stock that are declining in value for those that are gaining is a major factor that needs to be addressed in order to make the market virile and vibrant.

6. Low trading volume: There is relatively low volume of trade in the market, which is partly as a result of the reluctance to sell shares and partly due to other reasons such as the low levels of income of the average Nigerian. These factors have contributed immensely to the level of the trading activities of the secondary market and in response to new issues. Another related problem has to do with ignorance on the part of most Nigerians as to the meaning of shares as well as benefits derivable from stock market operations as regards capital gains in particular. The reluctance of the Nigerian business men to seek public quotation for their companies for fear of losing control of family business or fear of under-pricing of the shares by a government agency is another serious factor leading to the low volume of trade. And this causes narrowness of the

market.

7. Attitude of investors: The demand attitude of some investors in the market and the high level of regulation of prices as well as the unorthodox perception of stock valuation by some investors have contributed to slowing and sometimes confusing price movement of major stocks in the market. The fact that a large number of shareholders fail to claim their dividends and share certificate even after massive media advertisement betrays the low priority, which investors have on stock market transactions.

8. Cost of raising funds in the market: The relatively high cost of raising funds in the market has made it difficult for small and medium firms to enlist on the market. Some of these costs include 0.7% of the amount being raised as application fee to the exchange, registration fee of 1.5% of the amount being raised, prospectus filing fee to SEC. Others are issuing house fee of 2.5% of proceeds subject to negotiation, brokerage fee of 0.5% of the proceeds subject to negotiation, 1% banks and stockbrokers' fee and 1% of amount to be raised for other support service activities).

9. Inadequate technology: There is no doubt that some improvements have been made in recent years to acquire the technological based needed to modernize the market in terms of computerization, for example, the introduction of the Central Securities Clearing System (CSCS) and the Automated Trading System (ATS). These notwithstanding, a lot still needs to be done to promote screen based trading in shares and stocks in which investors can deal in stocks from different locations in the country without physical presence at the stock exchange. Besides, improved application of technology is still needed to enhance depository transfer and clearing system in the market as well as meeting up with challenges of globalization and internationalization.

10. Infrastructural deficiencies: The market is also characterized by infrastructure inadequacies. There are delays in effective transaction between issuing houses, stockbroker, registrars' investors and their banks due to inadequacy of postal, telephone and telegraphic services. The delays in the delivery services discourages many investors who sometimes view with distrust their registrar and stockbrokers when share certificates, dividend warrants and script issues are not delivered. Effective application of technology to the transactions in the capital market requires adequate infrastructural facilities in form of reliable electricity supply and functional telecommunications networks, but these facilities have been found to be grossly inadequate at present.

11. Lack of financial information: Another problem inherent in the stock exchange is lack of enough financial information on the substance of the financial market produced by either the stockbroker or stock exchange itself. Non-release of company's annual reports and accounts plus non-circulation of notice of meetings to Shareholders by the registrars before the annual general meeting (AGM) is really keeping the shareholders in the dark as to what happen in their investments. Some companies deliberately ignore sending the annual report and notice of AGM to deny shareholders attendance to meetings where critical issues about their investments will be discussed.

12. Existence of stringent and overlapping legislation: Some laws governing the operation of the capital market and Stock Exchange market are considered to be stringent and overlapping. The overlapping of these laws hinder the activities of key institutions such as Securities and Exchange Commission (SEC), issuing Houses, and Central Bank of Nigeria (CBN) from being cohesive. It is also a stumbling block towards achieving the desired goal of economic growth and development of the nation.

5.0 Conclusions and recommendations

Notwithstanding the problems above, there are still some prospects in the Nigerian Capital market. The role played by the Nigerian Capital market in the privatization exercise which was the cardinal plank of the structural adjustment programmes between 1988 – 1995 and 1998 – to date will definitely readily facilitate a good base for the recent and proposed privatization of some government parastatals such as the Power Holding Company of Nigeria (PHCN) and Nigerian Telecommunications Limited (NITEL) among others. The participation of companies which are Multinational Corporation, the affiliates and subsidiaries will continue to facilitate technological advancement and manpower development, thereby making the Nigerian Economy to be more relevant in the world that is fast becoming a global village as a result of technological and scientific advancement.

The 2nd tier securities market, established to attract small and medium size companies will accelerate the development and increase the number of small and medium scale ventures. When this happens, particularly in the manufacturing sector, the Nigerian economy might experience the miracle that the Asian economy experience in the 70s, 80s and 90s.

Therefore, for the Nigerian Capital market to achieve the purpose of the various reforms in these days of globalization and internationalization of the capital markets, some recommendations are given in the following areas.

Buy and hold attitude: To solve the problem of buy and hold attitude, it is advised here that market be made to have several high quality securities and efficient clearing and settlement system. This would encourage speculative activities thereby solving the problem of buy and hold. This is in line with the views of Ekineh (2000:4).

Public enlightenment: Stockbrokers and other operators in Nigerian Capital Market should join hands with SEC in public Enlightenment as there is still very low public awareness on the capital market in Nigeria. The effort of SEC though commendable is not enough even as Ekineh(2004) consents that only approximately 2% of Nigerians own share.

Remote trading: Though it has become possible for some dealing members of the Exchange to commence trading from their office, there is still need to enable more stock broking firms have remote access to the trading machine. This will make it possible for more houses to trade daily on the exchange thereby boosting the liquidity of the capital market and the opportunity it offers for price discovery.

Bond/ derivative market: The bond market has not received as much attention as the equity market. Though the market has been automated, there is needed other structural changes aimed at boosting activity in the bond sector. Such may include the issue of more primary dealership for this market. Also, the derivative market should be developed.

Government: **G**overnment should expedite action on the removal of all legal and fiscal policy constraints to capital market growth, especially those relating to tax relief to companies and individuals, multiple taxes that companies pay.

Branches: More branches of the exchange should be established. This will take the exchange closer to the investors and issuers of securities in areas where none exist now. It is strongly suggested here that a branch be established in Enugu, Enugu State to take care of Ebonyi, Imo, Abia, and their environs.

Unclaimed dividend: The SEC and NSE should make it mandatory for shareholders to include their bank account when they are buying shares, so that dividend warrants are paid into the accounts instead of the practice where dividend warrants are posted. This would stop further accumulation of unclaimed dividend which as at September 30, 2005 stood at N7.2b (Nwosu 2005) Furthermore, registrars should go around the country once a year to identify some share holders (Obi: 2006)

Effective and reliable rating system: It is a widely accepted fact the growth of any capital market largely depends on the quantity and timeliness of information within the system. To engender investor confidence and effective participation in the capital market, an effective and reliable system of rating quoted stock must be put in place. This collaborate the view of Orji (2005) that securing globally recognised ratings from internationally recognised agencies is of paramount importance. This will not only increase turnover but also make for wholesale deepening of the market.

Confidence and transparency: The world over, confidence and transparency are the major bedrock on which any thriving business venture exist and the capital market is no exception. Without confidence or trust the concept of capital market cannot be sustained, nor would it be in a position to play its proper role in the process of capital formation. In order to buttress investors' confidence, there should be more respect for rule of law coupled with predictable judicial enforcement. It is also important to gain confidence of portfolio investors in equity issue of Nigerian companies. The mechanisms that can be used to achieve this include requiring firms to use Generally Accepted Accounting Methods and Standards to enhance the transparency of their financial and operational situation. Applying such improved Accounting and Informational standard to Government companies and parastatals which are being privatized can also be favourable in getting both local and foreign investors to agree to take equity stake in those holding thereby leading to further development of the Nigerian Capital Market.

Cost of transactions: There is great need to reduce transaction cost in the Nigerian Capital Market. This will encourage more investors thereby attracting more capital inflow.

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