Constraints to Capital Market Growth in African Economies: The Case of Nigeria

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Abstract

Capital market as an intermediating sector for economy should organically grow as the economy grows overtime. Using Nigeria as case study, the paper investigates the constraints to the growth of the market. It adopts a primary sourcing of data from regulators, operators and investors and identifies ten variables for investigation. Using regression technique it discovers that four variables were immediately significant at various levels. To achieve a better fit for the variables a remodelling resulted in six of the variable becoming highly significant. Variables of concern were basically poor organisation of the market, high transaction cost, lack of various securities, and instability in governmental policies. A surprising outcome shows that the rates of interest, inflation and exchange have had a positive effect on the market. Major recommendations of the study are on strengthening of the internal structures of stock exchange, introduction of over counter (OTC)) deals and improving of corporate governance environment. In addition, external constraints to the system can be solved by the government.

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1 Introduction

The stock market in Nigeria has been growing slowly and has fallen behind among its contemporaries in the international market. It is also clear that the market regularly had moved forth and back on some issues which have resulted in stunted growth over the years. This has invariably affected the Nigerian economy which is in search of long term funding for the purpose of capital formation through infrastructure, especially privately funded infrastructure. It had become very clear long ago that the banks in Nigeria had an

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average tenor of less than a year for loans while more liquid banks could do a little longer than twelve months. Thus, firms and the governments in Nigerian had relied on capital market for funding their projects and capital acquisitions needs sourcing funds through the Stock Exchange. The capital market regulator, the Securities and Exchange Commission, (SEC) has engaged every effort to foster the growth of the market, but the various policies implemented have yet to yield the desired outcomes. A number of firms have voluntarily sought to be delisted while some have been delisted by the Nigerian Stock Exchange (NSE) for non-rendition and submission of financial results over a period of five years. Some of these firms have their various reasons ranging from low prices for their shares/stocks, their inability to meet their desired objectives while being publicly quoted, or simply observed no benefit after a number of years. The commonest observed reason has been that the benefits attached to being listed on a stock exchange (such as having access to additional fund raising in the future by means of new issues of shares or other securities; and facilitating acquisition opportunities by use of the company's shares, etc.) are not there, thereby making it needless for these companies to continue to be listed market. This scenario has affected the turnover ratio adversely. For instance, the turnover ratio (in percentage terms) of some African countries, Tunisia for example, which began its stock exchange operations in 1989 were in 2006, 2009 and 2010 higher than Nigeria's. The turnover ratios for Tunisia between these periods were 14.3, 16.2 and 17.2 respectively; while Nigeria's (Stock Exchange was established since 1961) were 13.6, 11.0 and 12.5 respectively as well. These and others are the main reasons for the stunted growth the market has experienced in the last three decades.

Capital market intermediation is important for the economy because of its long-term usefulness. Any economy without a capital market has foreclosed the opportunities available to raise fund domestically from various sources other than the banking system. Generally, the capital market has the ability to make available long-term capital for capital formation and allocation to development uses efficiently [1]. Thus capital market is extremely crucial and important in the growth and eventual development of an economy. More importantly, the capital market assists in efficient mobilization of savings and allocation of such savings into profitable investments and which in turn increases and improves the capacity of the sectors of the economy and their productivity. [2] state that the level of financial intermediation is a good predictor for economic growth rate, capital accumulation and productivity. Also [3] concluded that there is a strong relationship between the structure of countries' financial system and economic growth.

The Securities and Exchange Commission (SEC) has been putting in efforts to foster the market's growth, but this has been frustrated by the various environments of the country. These ranges from regulatory to innovative and from sanctions for misconduct on the exchange to dividends collection problems. The Stock Exchange still remains at the infant stage after over fifty years of existence and activity. Every effort to improve the market through the introduction of innovative securities have yet to take off ground in spite of their being planned for over twenty years, for instance the derivative instruments, demutualisation and others, all having been frustrated one way or the other.

The objective of the paper is to investigate and discover the constraints to growth of the capital market in African economies with Nigeria as case study. The paper is structured alongside the following: Immediately after this introduction is the review of pertinent literature. This is followed methodology and discussion of results. The final section contains the recommendations and subsequently concludes the paper.

2 Literature Review

Capital market globally has three components: the primary capital market which is for new capital issues by firms and other institutions, including governments, the secondary market which is for the exchange of existing securities. The third is the derivative market, which is the trading in securities created by the exchange and whose value is derived from the underlying securities [4]. The fact that capital plays an important role in the productive process and economic performance of any nation cannot be disputed [5] and [6]. Capital, according to [7] and Finn [8] provides a stimulus for the effective and efficient mixture of other factors of production to ensure maintainable economic growth and development. Capital formation thus, can only be achieved through making conscious efforts at the mobilization of savings and accumulation of resources by both the public and private sectors of the economy [9]. This makes the position of the capital market to be more appreciated, because it is where medium to long-term resources are obtained from for productive utilization [10]. Prior to the introduction of the capital market, banks and other money market institutions provided funds to businesses which are not suitable for the funding of investments with long-term gestation such as industrial processes, infrastructure, power generation and telecommunication [9].

Capital market according to [11] is a collection of institutions and procedures through which medium- and long-term funds are collectively pooled together and made available to firms and government and also where instrument already outstanding are transferred. A standard capital market would have sufficient market float to keep it going on regular basis.

Particular features, as identified by the International Finance Corporation (IFC), the Nigerian Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange, have characterized the Nigerian capital market. According to [1], the foremost of these features is the fact that the Nigerian capital market is "quite small in relation to other markets, whether mature or emerging". For instance, in terms of market capitalization for the year 2010, Nigeria had $318.01bn while Brazil and South Africa had $9,659.79 billion and $6,328.36 billion respectively. Also in terms of the number of listed companies in the market for the same year, Nigeria had 215 companies listed while Brazil and South Africa had 373 and 360 respectively. The second feature is the issue of market concentration, implying that the performance of major firms or sectors directly impact the growth of the market: the Nigerian capital market has few top companies forming a large portion of its capitalization. The third is the low level of awareness and understanding of the operations of the capital market by the investing public. The fourth is in the area where the fixed income securities in the capital market have remained relatively dormant and inactive for long periods of time. An empirical investigation for the inactivity in the fixed income or debt sector in the case of Nigeria is yet to be undertaken though it seems the problem is largely exaggerated.

Reforms to improve the market have been introduced at various times but these have met with little success. The failure to develop deep and efficient capital markets may have important consequences, as growing empirical evidence suggests that financial development is not just correlated with a healthy economy, but actually causes economic growth and has a positive impact on poverty alleviation and income distribution [12].

The Nigerian capital market has kept pace with the new technologies and ways of improving the operations of the market. An example of this is the establishment of the Central Securities Clearing System (CSCS) in 1992 which began to function in 1997. This

is an institution of the capital market that makes the clearing process of securities much easier and faster with the use of the latest infrastructure. [1] believes that African capital markets have not passed the emergent stage as a result of poor flow of investment funds into the continent in addition to the low investment culture of the people. [13] argues that investment in African capital markets is inhibited by several factors some of which relate to Nigeria. Finally, [14] summarizes the challenges of capital market development in emerging markets as stable macroeconomic stability, sound banking system sound institutional quality and an adequate regulatory and supervisory framework. The outlook of this paper considers the institutional quality and regulatory aspects of capital market development.

The first factor is the negative perception of the continent by the outside world as a continent of conflicts, wars, coups, instability, disease, poverty and misery. The second factor is the small size of African capital markets with less than 2000 listed companies with a total market capitalization which is only 0.22 per cent of global market. Not only are the markets small, they are also shallow and illiquid with turnover ratios averaging about 12 per cent. Thirdly, very little is known about African capital markets in the global financial system except for the South African market. Fourthly, operational infrastructure, in terms of clearing and settlement periods, is still below the IOSCO Group of 30. Automation in clearing and settlement has only been recently introduced in some of the markets. (Nigeria supposedly runs a *T+3* cycle.) Fifthly, the legal and regulatory environments in many of the markets are still very weak and lack transparency. International confidence in securities markets can only be built and sustained if, among other things, securities laws adequately protect investors and the disclosure and accounting standards are within internationally recognized standards. Sixthly, transactions costs on African stock exchanges are among the highest in the world. A variety of fees are charged which include flotation costs, stamp duties, brokerage fees, stock exchange fees, regulatory fees and compensation fund fees, to increase transaction costs in the markets. Lastly, the macro-economic environment of most African countries remains largely unstable. High inflation and exchange rates as well as unpredictable interest rate regimes have tended to expose capital investments to unmanageable risks, as real returns are usually heavily eroded by these factors.
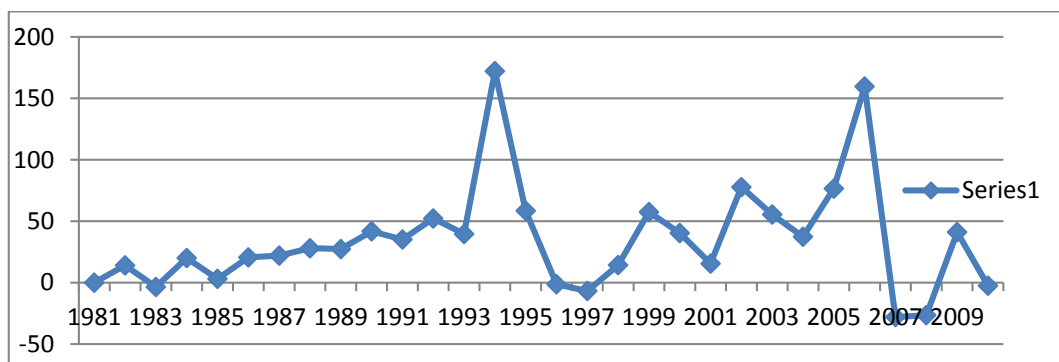

Figure 1: Annual Percentage Growth Rate of Market Capitalisation
Source: CBN Statistical Bulletin 2012 (Year on Year Percentage)

The NSE, as proxy for the institutions in the capital market, has grown over the years from the time it was constituted with 30 listed securities to the 219 listed securities.

Periods of growth as captured by the market capitalisation with the baseline of 1980 show that the market has had sharp swings with hills and valleys. The steady growth experienced from 1981 was interrupted by the sharp increase in the market capitalisation in 1993 due to increase in both listed securities and prices to be followed by a sharp decline in the values between 1995 and 1996. The second advent of rising from 1997 was chequered to 1999. There was a fall 1997 and a rise in 1999 followed by a fall in 2001 and 2005 and ghastly fall in 2007 and a trough in 2008 as a result of the global financial crisis. Cautious growth is in place after the global financial crises till the end of data period in 2011.

Therefore, Nigerian capital markets a frontier market, is a frontier market that is illiquid as few firms are regularly traded among the securities listed on the market. Capacity utilisation of most companies (as national aggregate) is less than 60%. Capital, as [1] believes that used to be the constraints may no longer be as African and even Nigerian firms grapple with institutional related problems.

3 Methodology

The source of data is primary and done through the distribution of questionnaires (sample size being 165). The population consists of the entire security market participants. The study was limited to Lagos as it has the largest concentration of operators in the capital market. Moreover, Lagos is the financial nerve-centre of Nigeria with a vibrant stock exchange that opens for trading daily. In determining the sample size, the stratified sampling method was adopted. This method was chosen because of the heterogeneous nature of the population which include the staff of the Securities and Exchange Commission, stockbrokers, Registrars, Nigerian Stock Exchange (NSE) as well as those of the Central Securities and Clearing System (CSCS). The Stock-broking firms represented the registered dealing members on the NSE.

The questionnaire is made up ten items on the constraints to growth of the capital market. The criteria for inclusion in the study include the sector of the capital market to which the operator belongs, the respondents' working experience, and the educational and professional qualifications or both. The data collected from the questionnaire were analysed using the one sample *t*-test, bivariate correlations and linear regression techniques. Table 1, below shows how the questionnaire was distributed and retrieved.

The following constraints as identified in [1] are tested in the questionnaire administered to the groups above. The constraints are listed after the market growth factor:

Market Growth: this is the rate of growth in the Nigerian capital market experienced over the years, derived as growth in the market capitalisation year on year.

Table 1: Questionnaire Distribution and Retrieval

Institutions	No. Served	% Served	No. Retrieved	% Retrieved
Registrars' offices	34	20.6	21	12.73
Stockbrokers	34	20.6	19	11.52
CSCS	21	12.7	6	3.636
SEC	28	17	9	5.455
NSE	14	8.5	2	1.212
Others (investors)	34	20.6	15	9.091
Total	**165**	**100**	**72**	**43.64**

Source: Author's Field Questionnaire Distribution

Non Performance of the Nigerian Securities and Exchange Commission (NPS): The NPS represents the non-performance of SEC as the major regulatory authority in the Nigerian capital market, its laxity in carrying out its duties of regulation enforcement in the capital market.

Low Savings (LS): The low savings generated from the economy and by the citizens in the country is also listed as a constraint to growth and development of the market.

Negative Perception about Nigeria (NPN): The negative perception about the events in Nigeria: the business environment, wrong business ethics and other social political issues surrounding the development of the country.

Instability of Political and Governmental Policies (IPGP): This is when the policies that are made produce conflicting outcomes. Policy somersaults are commonplace and make long term planning impossibility.

Small Size of the Market (SSM): This is where the small size of the market in terms of the limited transactions that goes on in the capital market discourages prospective investors from committing their funds into the market.

Weakness and Lack of Transparency (WLT): in the legal environments of the market has contributed to eroding the confidence that investors have in the Nigerian capital market. The lack of transparency in the market is displayed when among other scenarios, the authorities in the capital market withhold certain information about the market operations.

High Cost of Transaction (HCT): The cost of carrying out transactions in the Nigerian market is very high, ranging from the fees that a company needs to pay in order to raise funds from the capital market to the brokerage levies and charges. These costs that are many and high make the market unattractive to unlisted private firms.

Unpredictable Inflation, Interest and Exchange Rates (UIIER): These rates are very unpredictable in Nigeria, even though to some extent it can be said that they are determined by the forces of demand and supply.

Lack of Various Securities (LVS): There are limited securities in the Nigerian capital market on which one can make viable transactions. Equities are perhaps the only long term securities regularly traded whereas other emerging markets have debts securities being also actively traded.

Poor Organization of the Market (POM): The way and manner the Nigerian capital market is organized in its operations is perceivably poor. There is the need for a re-organization of the market in such a way that there will be higher level of discipline in the market in relation to the operators' attitude and integrity in dealings on the market.

The linear regression model is as below:

$$MktGrwt = \beta_0 + \beta_1 NPS + \beta_2 LS + \beta_3 NPN + \beta_4 IPGP + \beta_5 SSM + \beta_6 WLT + \beta_7 HTC + \beta_8 UIIER + \beta_9 LVS + \beta_{10} POM + u_t \qquad (1)$$

where β_0: Intercept, β_1, β_2, β_3, β_4, β_5, β_6, β_7, β_8, β_9 and β_{10}: coefficients or parameters to be estimated and ε_t the error term in the observed value

MktGrwt: Percentage Market growth

NPS: Non Performance of the Securities and Exchange Commission.

LS: Low Savings in the country.

NPN: Negative Perception about Nigeria.

IPGP: Instability of Political and Governmental Policies.

SSM: Small Size of the Market.

WLT: Weakness and Lack of Transparency in the legal environment of the market.

HTC: High Cost of Transaction in the market.

UIIER: Unpredictable Inflation, Interest and Exchange Rates in Nigeria.

LVS: Lack of Various Securities in the market.

POM: Poor Organization of the Market.

This model is over-parameterised which resulted in four of significant variables being dropped. A correction of the model was achieved by elimination of four of the most insignificant variables thus a re-specification of the model is as follows:

$$MktGrwt = \beta_0 + \beta_1 IPGP + \beta_2 SSM + \beta_3 HTC + \beta_4 UIIER + \beta_5 LVS + \beta_6 POM + u_t \qquad (2)$$

Table 2 shows the data used in this study. This is as a result of the endogenous variable (market growth) that was added which had only 30 observations. Response that was given for each question was according to Likert scale: that is, strongly disagree, disagree, neither agree nor disagree (indifferent), agree and strongly agree, on a scale of one to five. For *NPS, HTC* and *LVS*, their mean values indicate that the respondents are neither here nor there. The mean value for *LS* shows that all the respondents agreed that low savings culture in the economy contributes as one of the causes for stunted growth of the market. From the mean scores of *NPN, IPGP* and *WLT*, it can be deduced that most respondents were neutral. The same goes for *UIIER* and *POM*. The standard deviations show how much variance there is between the mean values of the different variables. These variables are items listed on the questionnaire as the likely constraints in the growth of the Nigerian capital market to which the respondents from the capital market gave their responses.

Table 2 below shows the number of responses, the means, and standard deviations of each of the variables. The higher the standard deviation the more spread apart the data analysed for the variables. The same explanation goes for the remaining nine variables: *LS, NPN, IPGP, SSM, WLT, HTC, UIIER, LVS* and *POM* that have the standard deviations. The conclusion being that the outcome of the primary data collected and used for analysis were not well spread being the opinion of the respondents.

Table 2: Descriptive Statistics for the Primary Data Variables

Variables	N	Mean	Std. Deviation
MktGrwt	30	34.6787	44.60747
NPS	30	2.7333	1.20153
LS	30	4.0000	1.05045
NPN	30	3.8333	1.31525
IPGP	30	3.8333	1.23409
SSM	30	2.7000	1.20773
WLT	30	3.8333	1.01992
HTC	30	2.5000	1.16708
UIIER	30	3.5000	1.16708
LVS	30	2.9667	1.15917
POM	30	3.2667	1.20153

Source: Authors' SPSS Output

Table 2 above represents the one sample *t*-test result. The test value or specified constant for this analysis is zero and the confidence interval is 95%. The *n*- value of the data that is, the number of responses reduces to 30. The mean difference which is also the mean value shows how the values differ from the specified constant. For the first variable which is the non-performance of duties by SEC (*NPS*), its mean difference is 2.7333 indicates that they disagree with the question. In other words according to the result of the analysis, operators in the capital market disagree that SEC's non-performance of its duties as the capital market regulator has contributed to the delay experienced in the growth of the capital market. Low savings (*LS)* from the surplus sector of the economy which has contributed to less funds coming into the market has its mean difference as 4.0000 indicating that here is low savings in the economy to engender growth in the capital market. Low savings is one of the definitive variables with a fairly high significant mean among the constraints. Negative perception of Nigeria (*NPN*) which has inhibited investors from investing in Nigerian capital market has its mean difference as 3.8333 which indicates there the negative information about the country has had some impact depressing effect on the growth of the of the market and has therefore contributed to its stunted growth.

The correlation of the variables in this study is shown in Table 3 using Spearman's *rho* correlation technique in order to determine how the level of association of the variables in impacting the growth of the Nigerian capital market. For instance, *UIIER* shows that there is a significant positive association in with the small size of the market on one hand (*r. 0.539)* and low values for securities with (*r. 0.500*) on the other. The perception of the respondents about these variables indicate that the policies made the government has had spiralling effects on the three especially the rates (inflation, interest and exchange rates), which eventually affected the growth of the financial market. Also, *SSM* was significant with *HTC, UIIER*, and *LVS* at 10% level of significance can be explained as high transaction costs and charges in the market, unpredictable inflation, interest and exchange rates, and the lack of variety of securities in the Nigerian market all have a relationship with the size of the market. *HTC* is significant with *UIIER* and *LVS* at 10% level of significance respectively, which is an indication that a relationship exists between the three variables. The correlation between *HTC* and *UIIER* is such that as these rates fluctuates and in most cases goes up, the cost of getting funds will also go up. UIIER is

also significant with *IPGP, SSM, HTC, LVS, POM* and *MktGrwt* at 10%. This suggests the need proactively manage the three rates. Each of the significant relationship however needs cautionary interpretation especially when correlation techniques are adopted in analyses especially since none has *r.* above *0.600.* That various governmental policies (*IPGP)* is negative with market growth (*r.-0.204*), though insignificant is instructive.

Table 3: Spearman's *rho* Correlation Results

	IPGP	SSM	HTC	UIIER	LVS	POM	MktGrwt

IPGP Correlation coefficient
  Sig. (1-tailed)
  N
	1.000
	-
	30						

SSM Correlation coefficient
  Sig. (1-tailed)
  N
	0.023
	0.453
	30
		1.000
		-
		30					

HTC Correlation coefficient
  Sig. (1-tailed)
  N
	-0.133
	0.242
	30
		0.539*
		0.001
		30
			1.000
			-
			30				

UIIER Correlation coefficient
  Sig. (1-tailed)
  N
	0.311*
	0.047
	30
		0.578*
		0.000
		30
			0.361*
			0.025
			30
				1.000
				-
				30			

LVS Correlation coefficient
  Sig. (1-tailed)
  N
	0.187
	0.161
	30
		0.491*
		0.003
		30
			0.432*
			0.008
			30
				0.500*
				0.002
				30
					1.000
					-
					30		

POM Correlation coefficient
  Sig. (1-tailed)
  N
	-0.142
	0.227
	30
		0.084
		0.329
		30
			0.065
			0.367
			30
				0.338*
				0.034
				30
					0.152
					0.211
					30
						1.000
						-
						30	

MktGrwt Correlation coefficient
  Sig. (1-tailed)
  N
	-0.204
	0.140
	30
		0.015
		0.469
		30
			0.109
			0.283
			30
				0.318*
				0.043
				30
					0.331*
					0.037
					30
						0.011
						0.478
						30
							1.000
							-
							30

Source: Author's SPSS Output

Other results *LVS* show that it is significant with *SSM, HTC, UIIER* and *MktGrwt* at 10% for the first three and 5% for *MktGrwt.* The relationship between *LVS* and *MktGrwt* reveals how important the growth of the market needs variety of securities to be able to thrive. From the result, it can be seen that *POM* is significant with only *UIIER* at 5%. *MktGrwt* which is the dependent variable is shown to be significant with *UIIER* and *LVS* at 5% level of significance. This implies that the lack of variety of securities in the capital market and the unpredictable inflation, interest and exchange rates are related in their impact on the market growth over the past years.

The instability of the political and governmental policies (*IPGP*), breeds lack of confidence in the investors and as a result deterrent to especially the foreign investors from putting in their resources into the Nigerian market. Its mean difference at 3.64286 shows that the respondents believe it is likely a constraint to growth. This is because

despite the instability that Nigeria has been experiencing in its political sector for some years back, Nigeria has been receiving investments from foreign investors regardless of the events that have been happening in the country. The size of the market (*SSM*), as a factor that contributes to discouraging (both foreign and domestic) about investing in the market has its mean difference as 2.62857 which signifies that the operators are slightly certain about the size of the market having anything to do with the reduced growth of the Nigerian market.

The variable on lack of transparency in the legal (*WLT*) environment of the market which has eroded the confidence that investors have in the market directly deals with the Security Exchange Commission. Its mean difference is 3.51429 which suggests that most of the respondents were in-between being undecided on the subject matter and agreeing on it as a cause of the lag experienced in the capital market growth. High Transaction Cost (*HTC*) in the making of deals in the capital market which has made the market unattractive to potential investors. It has the mean difference of 2.58571 which implies that most of the operators that the higher undecided that cost of transaction could contribute to the setback experienced in the Nigerian capital market. The variable on unpredictable interest rates and high inflation and exchange rates (*UIIER*) which has eroded the real returns on capital investments, has a mean difference of 3.42857. This mean shows that most respondents were unresolved about the issue, in the sense that they weren't sure if the fact that interest rates cannot be predicted if and when it will go up or come down.

The variable lack of variety of securities *(LVS)* has a mean difference of 3.08571, in other words it deviated from the specified constant by 3.1. The lack of variety of securities is synonymous to the lack of depth in the capital market. When a capital market lacks depth in terms of having few securities, that is, trading in one or two classifications of securities, it tends to make the investors who are more interested in other kinds securities like derivatives keep away from the market and as such inhibit the expansion of the market and its ability to grow wide and deep. The variable, poor organization of the market (*POM*) which has made it impossible for the investing public to be aware of the operational character and investment opportunities available in the market has a mean difference of 3.05714. Using the *t*-statistic to explain, it shows that the variables discussed above are highly significant. There is a general acceptance by the respondents that the market had grown though the level of growth could not be agreed on. Sixty three per cent agreed that the real growth of the Nigerian capital market was in the period between 1993 and 1997 and not 2003 – 2007. This can be correlated with Figure 1.

4 Regression Results

The dependent variable used here was the *MktGrwt*, while the ten variables above are the independent variables. Interestingly, five of the coefficients are positive while five are negative. From this test the significant variables are marked, four out of the ten variables were significant, namely *IPGP, HTC, LVS* and *POM*. The main finding from the first test was to know the highly significant variables that impact on the growth of the market. Generally the regression estimate was over-parameterised since ten independent variables are estimated. Four variables are negatively significant. *POM* showed the highest level of negative significance and impacting most negatively the relationship with the market growth reflecting from its *t*-value -1.922 followed by *HTC* both beyond 10%. This

implies that the market is poorly organized and its impact on the growth of the market is incontrovertibly negative. The implication of this is that the Nigerian capital market being poorly organized and makes it difficult for investors and potential investors (both foreign and domestic) to completely trust and have confidence in the operational procedures of the market. This might be responsible for some operators to exploit the system and out-smarting the regulators by taking advantage of small and amateur investors who might not be aware of how the market operates.

Table 4: Regression Result for Primary Data

Variables	Coefficients	Std. Error	*t*-value	*Sig*
C	44.111	56.546	0.78	0.445
NPS	4.637	6.357	0.729	0.475
LS	6.351	7.774	0.817	0.424
NPN	-4.9	9.026	-0.543	0.594
IPGP	-18.04	9.664	-1.867	0.077*
SSM	-15.035	9.486	-1.585	0.129
WLT	3.039	9.583	0.317	0.755
HTC	-13.145	7.507	-1.751	0.096*
UIIER	18.634	11.74	1.587	0.129
LVS	-27.022	8.059	-3.353	0.003***
POM	-13.21	6.872	-1.922	0.07*

Source: Authors' primary data output

The next most significant variable is *IPGP* (Instability of Political and Governmental Policies). This implies that the Nigerian capital market growth instability in government policies have negative impact on the growth of the market. A measure of stability in policies and assurance is needed to ensure that the investors participate more actively than they do at the moment. The Nigerian government and its political policies had been favourable to the market. Not only that the policies were unfavourable, but they were also unstable and this instability according to this result has caused market to stagnate at development. This could be one of the reasons why investors do not have confidence in putting in their resources into the market, because they might not be sure of what new policy the government may come up with anytime, which could be favourable or unfavourable to the investments.

High Transaction Cost (*HTC*) is significant at about 10% and negatively related to market growth. High cost of exchanging securities in the market has made most investors reluctant and unwilling to make huge deals as they might have done if the cost of making those deals were not so high. This in effect reduces the volume and value of transactions that take place in the capital market which in turn reduces the growth rate of the capital market. From this result, it can be deduced that the growth of the Nigerian capital market was affected by the low transactions that were made in the market which resulted from the high cost of transaction in the market.

The remaining variables are generally insignificant. Of the insignificant variables there are two variables that close being significant and these are: (*SSM* and *UIIER*). The *t*-values for these two variables are -1.585 and 1.587 which are quite close to 1.7 (the decision criterion for significance for *t*-test). This shows that the impact of the small size

of the Nigerian capital market and unpredictable inflation, interest and exchange rates, were close to having an attributive effect on why the Nigerian capital market has not grown larger than it is now. Table 5 shows the summary statistics of the first model with low *adjusted R sq.* The R^2 is considerable though the *F* change is low at 2.87.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.775	.601	.392	34.79639	.601	2.866	10	19	.023

Predictors: (Constant), POM, NPN, SSM, LS, NPS, LVS, HTC, IPGP, WLT, UIIER

From this model summary table, it can be seen that the *R-squared* which measures the goodness of fit of the model shows as 0.601. This indicates that the model is a fairly good fit. The *R*-squared is also a snap-shot measure for the presence of multicollinearity in a regression analysed result. From the value of the *R*-squared in this result, it can be said that there is no multicollinearity between the independent variables. The Adjusted R^2 which improves on the R^2 shows a fairly low result of 0.392. The *f*-statistic of 2.866 shows a low significance of 0.023 which indicates that the joint significance of the independent variables is not so high, but the variables jointly explains the happenings in the growth of the Nigerian capital market.

After the first analysis of the primary data using the linear regression analysis the model was re estimated because of it is over parameterised. As a result of this, four of the most insignificant variables (the highly insignificant ones) were removed from the model and the following independent variables were retained *IPGP SSM HTC LVS UIIER* and *POM* and re-estimated with *MktGrwt* still as the dependent variable. The result of the new model is presented below:

5 Results and further Discussions

The result of the re-specified model reveals that all the variables are significant beyond 5% significant levels. The previous model *IPGP, HTC, LVS* and *POM* were significant at different levels. The remaining six variables indicate both negative and positive results. This implies that while some variables have the tendency to constrain the growth of the capital market, others have been positive to its growth. Of interest are the positive variables: namely two strands of results the positive and the negatives implication of this result is that all of these variables which represent the problems in the Nigerian capital market, that have impact on the Nigerian capital market and as such contribute to the delayed the growth of the market. *LVS* is the most significant variable in this result just as it was in the former analysis result but indicates a negative sign. *UIIER* indicates a positive sign. The understanding of the respondents in these two cases call for further investigation as the medley of rates cannot be seen as full enablers of capital market growth. *LVS* coefficient emphasizes the need for more securities/financial instruments in the Nigerian capital market. Securities such as swaps, options, futures that would increase of the listings are not known in the Nigerian market. This variable also showed a positive relationship with market growth just as it did in the earlier analysis. The next most

significant variable here is the *IPGP* which was also significant in the earlier analysis. It also showed a negative relationship with the market just as it did in the former analysis. This result implies that instability of the political and governmental policies has adverse effect on the Nigerian capital market. In other words, if there should be any other unstable policy by the government, it will lead to an adverse reduction in the potential of the market to grow.

Table 6: New Regression Result for Primary Data

Variables	Coefficients	Std. Error	*t*-value	Sig.
C	78.059	32.219	2.423	0.024**
IPGP	-20.402	5.95	-3.429	0.002***
SSM	-15.683	7.564	-2.073	0.05*
HTC	-14.322	6.678	-2.144	0.043**
LVS	-27.484	6.974	-3.941	0.001***
UIIER	20.447	8.409	2.432	0.023**
POM	-12.283	5.882	-2.088	0.048**

Source: Author's SPSS Output

The variable that becomes significant is *UIIER* which was not significant in the first estimation and it has a positive relationship with the market growth. This result shows that these rates have impact on the Nigerian market growth in the sense that the upward and downward movement of these rates (inflation, interest and exchange rates) in the times that were not expected contributed to constraints in the growth of the Nigerian capital market. From its *t*-value of 2.432 (0.023), this variable shows a high significance at 5% level. *HTC* is significant from the result, impacting negatively on the market growth. This result implies that as the transaction costs or charges increase, is a market constraints for the capital market. This is evidenced by the negative relationship between the capital market growth and high cost of transaction. From the result above *POM* showed its significance to be at 5% significance level. This implies that just as a way of emphasis, it impacted on the growth of the capital market negatively. This is seen from its *t*-value being -2.088|. In other words, the poor organization of the market contributed to the setback in growth that the Nigerian capital market experienced which implies that there is need for a restructuring of the Nigerian market in such a way that there will be higher level of discipline and order in the market.

Table 7: New Model Summary

Model	R	R-Square	Adjusted R-Square	F- Change	Sig. F-change
1	0.740	0.547	0.429	4.629	0.003

Source: Author's SPSS Output

SSM result depicts a negative relationship with market growth. This variable initially was not significant in the first regression estimation of primary data. Its significance here implies that the size of the Nigerian capital market being small is an added factor that constraining its growth. This is because as the investors (especially the foreign investors)

viewed the Nigerian market as being small which connotes that few securities are traded in the market, it can be discouraging to investors and deterring them from investing their resources into the market which further reduces the chances of growth since the market has little liquidity.

Table 7 shows the model summary of the second model. The multiple R, R^2 and *adj R^2* all show that the new model is of a good-fit from their respective values. Although the multiple R and the R^2 values reduced in this new model, the adjusted R^2 square which buttresses the R^2 square was low in the first analysis came up in this new analysis from 0.392 to 0.429. This improvement implies that the model is a better fit than it was prior to the removal of the four insignificant variables. This result also explains that there is absence of multicolinearity in the model. The *f*-statistic (*f*-change) which was 2.866 improved to be 4.629 which implied that the joint impact of these variables in this restructured model is of high significance which is shown in the significance of the *f*-change (0.003). This explains that these variables highly contribute as constraints to the growth of the Nigerian capital market.

The level of financial literacy is low such that potential investors commit their resources to investments either because they do not want to hold large amount of money in their hands or because they hear that investing in either real estate properties or capital market securities is the moving business. Others may not even know the implications of their investment. There is a need for the general public to be financially educated on the benefits of savings/investment. There is high level of inconsistency in the policies that the government keeps bringing out for implementation in the financial markets generally, and this has brought about a major setback in the market especially the capital market. The lack of transparency in the market activities by both the regulators and the operators has made it difficult for the market to progress and also has contributed to eroding the confidence that investors have in the market. The high cost of transaction in the market has made both the existing and potential investors to be selective on the volume of transaction they make in the market which in effect has reduced the productivity of the market over the years. This was also evidenced from the regression result when the variable *HTC* was shown to be significant, as one of the factors responsible for delayed growth.

Insufficient variety of securities traded on the exchange has made the market to be limited in delivering its full potential. This confirms the validity of the regression result because the result revealed that it was the most significant of all. The non-listing of the big firms and multinational companies on the exchange is depriving the market of the boost these firms will bring to it. The poor enforcement of the rules by the market regulators has created an environment for shady deals by the operators in the market. Some of these problems listed above agree with the variables that are found to be significant in the regression result above. Examples are the high transaction cost in the market; the lack of variety in the securities traded on the floor of the Nigerian Stock Exchange; and the inconsistency in the governmental policies especially those relating to the financial market.

6 Recommendations and Conclusions

The findings above call for some recommendations that would remove the constraints to growth in the Nigerian capital market and especially the stock market. While some of the

problems can have solutions to them endogenously derived and implemented, others cannot be so easily proposed.

Clearly within the ambit of the capital market to handle is the high cost of transactions. This is with the uncertainty that prevails the subscription of by costs of transactions include charges, fees and commissions at the various levels of deals. One way of reducing the transaction cost is the introduction and strengthening of over the counter (OTC) deals, fixing of a maximum level of charges and elimination of the some duplicated commissions or charges.

The second challenge is the problem is poor organisation of the market. Though *T+3* is in place, the effective number of days is about seven. A reorganisation of the market can have tremendous impact on its effectiveness and the *T+x* days. This can be achieved by making all transaction real time and online. Challenges within the market have been on governance problems which can be the causative factors for two problems: insufficient stock in the market and the small size of the market. The two issues tie with the weak legal environment of the regulators. The taciturnity displayed by the regulator in tackling challenges headlong and being proactive on growing the market must be tackled together. The whole problems can be handled by strict enforcement of rules. This would encourage high net worth investors to invest in the market without anxiety. This would impact positively on the growth of market. This is one the reasons why the planned demutualisation of the market has not taken place.

The market is due for an overhaul and the introduction of such instruments such as derivatives, options and the like. The basic reason why this seems difficult now is the governance problems in the market. The introduction of the various instruments will deepen the market and increase its turnover ratio. There is so much administrative uncertainty.

The other problems are external to the market which means that solutions cannot be derived or enforced from within. Inconsistent policies of governments have successively affected every sector of the economy. The solution to this can be found in the country having an ideology that promotes industry. The free market being practised in Nigeria is crude one and attempts to push in different directions lead to instability of governmental policies that eventually affect the financial market. Policy somersaults would be reduced if the long-term interest of the country is the major consideration.

The constraints to growth or causes of the stunted growth then reduce to two: external and internal. The internal problems can be handled by entrenchment of good governance and institutional ethics. This would take a determined effort to enforce rules and ensure good practices. This is in addition the reduction in the cost of transactions. The externally induced problems can be solved overtime by the continuous implementation internal solutions and stability in the political administration of the country.

The paper has investigated the issues of delayed growth of the capital market of Nigeria using primary data as a result of the multiple problems. Of the variables adopted for this investigation, the two most significant are lack of securities in the market and high cost of transaction. Other problems are externally induced. Solutions to these problems revolve around the strengthening of governance structures within the market.

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