International Business Management
MEDWELL PUBLICATIONS SINCE 2000

The Role of Stock Exchange Market Liberalization in Economic Development and Capital Formation in Nigeria

[1]I.P. Onuoha, [2]C.O. Ogbaekirigwe, [3]R. Oko and [1]P.N. Edeogu
[1]*Department of Accountancy,*
[2]*Department of Business Administration,*
[3]*Department of Banking and Finance, Alex-Ekwueme Federal University Ndufu-Alike Ikwo, Nigeria*

Key words: Capital formation, economic development, economic growth, Nigerian stock exchange market, capital market, expansion

Corresponding Author:
I.P. Onuoha
Department of Accountancy, Alex-Ekwueme Federal University Ndufu-Alike Ikwo, Nigeria

Page No.: 78-87
Volume: 14, Issue 2, 2020
ISSN: 1993-5250
International Business Management

Abstract: This study examines the functions and the expected role of the Nigerian stock exchange market liberalization in economic development and capital formation in Nigeria. It adopted a survey method of analysis to show the relationship between the operations of the stock exchange market and the level of capital formation in economic development in Nigeria. The objective of the study is to find out if the stock exchange market liberalization plays a significant role in capital formation and overall economic development of the various sectors of the economy. It is observed that while the stock exchange market in developed economies are vibrant agents of development, the contributions of stock exchange market in developing countries are described as being a little above border line. Conclusions were reached among other things that though the stock exchange market liberalization plays a very important role in the economic development of a nation the extent to which an exchange market will be able to play this role depends on the state of the economy. The study thus recommends an expansion in the stock exchange market role in the capital formation process through the liberalization process and the implementation of investment policies of the government, especially, those relating to foreign investments should be made.

INTRODUCTION

The rapid economic development of any economy depends, among other things on the ready access to adequate financial resources[1]. The financial system of any economy plays an important role in stimulating economic growth and development of a nation. It channels funds to various economic agents that need them for economic uses. This function is of utmost importance to any economy that intends to be viable with respect to economic growth and development because it creates links between the surplus and the deficient units of an economy[2]. This explains why it becomes necessary to formulate policies for the sector and why it is therefore, not surprising that their operations are perhaps the most heavily regulated of all businesses. In varying degrees, these policies are aimed at achieving macro-economic objectives, stability, efficiency and soundness of the financial system. The desire to develop the financial market in an economy is intimately connected with the objective of accelerating industrial and agricultural development. Among this financial market is the stock exchange which deals with the mobilization of both medium and long term capital funds[3].

The stock exchange is an institution that sees to the efficient allocation of available capital funds to diverse uses in the economy. Through its extreme sensitive pricing mechanism it ensures, that so, much of the total available capital resources is allocated to each firm within each industry as that industry deserves to have, having regards to their relative contribution to the total societal wealth vis-a-vis other firms or industries[3]. The stock exchange capacity for this function raises a basic assumption that it approximates to an ideally competitive market where marginal commodity prices reflect their relative marginal preferences. The condition which guarantees the attainment of this is relatively incomplete in many markets including the stock market. The stock exchange is a mechanism which can measure and detect the symptoms of an impending economic boom or decline long before the predicted boom or decline occurs. The stock exchange is able to play the role because security prices are extremely sensitive to changes and trends which are reflections of total judgment of persons using stock exchange among whom, the professional investment economist or analyst exerts the greatest influence[3].

The Wikipedia free dictionary defines a stock exchange as a form of exchange which provides services for stock brokers and traders to trade on stocks, bonds and other securities. Stock exchange also provides facilities for issue and redemption of securities and other financial instruments and capital events including the payment of income and dividends. To the individual investor, a stock exchange is also a place to make or lose money quickly. It presents an ideal setting for a smart and daring speculator to make a fortune with relatively little effort in terms of contributing anything as substance to national output but also a remarkably easy means for the unwary to lose a fortune through false judgment. The stock exchange presents these features and more in its regular operations in the course of aiding the mobilization of capital for pursuing economic expansion and for creating goods and services for the well being of the general citizenry. These features could however, apply to some stock exchange and not necessarily all or to some to a greater extent than others. The extent to which these institutions fulfill or perform their roles however, depends on the particular circumstance of the exchange, its specific objectives, constitution, organization and resources as well as socio-economic cum-political environment in which it operates.

The mechanism of the stock exchange came into existence to enable investments which were inherently illiquid to become liquid through reconversion into cash at the decision of the investors without inconveniencing the company[4]. The term capital market refers to the network of institutions and mechanisms which exits for the initial mobilization and subsequent transfer through exchange of medium and long term funds for the use of productive economic concerns, government and other users extended beyond a country's stock market[1]. The capital market is the market for longer term funds and securities whose tenure extends beyond one year. These include long term loans, mortgage bonds, preference stocks, ordinary shares, federal bonds and industrial loans[5]. The development of the Nigerian capital market dates back to 1946, when the first government securities were floated, the institutional facilities for the operation were however absent and did not commence until fifteen years later when the Lagos stock exchange (now the Nigerian stock exchange which was established in 1961). The objectives of the Nigerian stock exchange as defined in its memorandum of association are as follows: to provide facilities for trading in securities to provide the flow of long term capital into industry and commerce and to maintain fair prices for securities.

Following reforms that took place in the financial sector in Nigeria during the introduction of the Structural adjustment program in Nigeria in July, 1986 the stock exchange was among the sectors that were liberalized.

Stock market liberalization is the openness of the capital market to both internal and external investors to invest in the instruments that are traded in the stock markets. The Nigerian government has embarked on the liberalization of its financial system, since, 1986 with the expectation to boosting liquidity and efficiency in the financial sector. Before 1986, there was extensive government control of the financial system. Ceilings were imposed on banks interest rates. Credits were allocated to administrative decisions rather than market criteria and inflows of foreign capital were strictly controlled. By 1986, the government decided to liberalize the financial system in a gradual process in order to improve its efficiency and liquidity. Money market liberalization commenced in 1987 with the freeing of the interest rates and the liberalization of the capital market commenced as late as 1995.

Financial liberalization in the stock market is viewed from two different perspectives: internal and external liberalization. Chandrasekhar defined internal stock market liberalization as "the easing of conditions for the participation of both firms and individual investors in the stock market by diluting or doing away with listing conditions, providing freedom in pricing of new issues, permitting greater freedoms to intermediaries such as brokers and relaxing conditions with regards to borrowing against shares and investing borrowed funds in the market". Henry[6] on the other hand, viewed external stock market liberalization as "a decision by a country's government to allow foreigners to purchase shares in that country's stock market".

There are two schools of thought on stock market liberalization: the liberalists and the conservatives. The liberalist are the supporters of financial liberalization who believe that stock market liberalization in developing countries is equivalent to an Initial Public Offering (IPO) which boosts access to capital and allows for convergence of cost of capital between developed and developing countries while conservatives believe that there are several conditions not met by most developing countries which are necessary to ensure the success of full liberalization. In such economies, it may lead to destabilization and characterized by chronic phases of growth and capital flight.

Essentially, the role of stock exchange revolves round accelerating the process of capital formation through its mobilization from various institutions, companies, corporations and government which require the funds for financing their long-term capital needs. The main crux of this study therefore is to evaluate the role of the stock exchange market in economic development and capital formation in Nigeria.

Objective of the study: The broad objective of the study is to examine the role of stock exchange market liberalization in capital formation and the overall economic development of the various sectors in the Nigerian economy. Specifically, the study intends to:

- Evaluate the performances and growth of the stock exchange market liberalization in relation to the economic growth in Nigeria
- To examine the operations of the Nigeria stock market liberalization in relation to its performances in enhancing economic growth
- Investigate the role of the Nigerian stock exchange market liberalization in economic development and capital formation in Nigeria
- Make recommendations as to how the operations of the stock exchange market liberalization could be improved to boost economic growth and development in Nigeria

Research questions:

- Does the performances and growth of the stock exchange market liberalization have any significant relationship in economic development and capital formation in Nigeria?
- How are the operations of the Nigeria stock exchange market liberalization in relation to its performances in enhancing economic growth?
- Is the role of the stock exchange market liberalization significant in economic development and capital formation in Nigeria?
- How can the operations of the stock exchange market liberalization be improved so it can stimulate economic growth and development in Nigeria?

Research hypothesis: As a guide to the study, the following null hypothesis was formulated:

- H_{01}: The performances and growth of the stock exchange market liberalization have no significant relationship in economic development and capital formation in Nigeria
- H_{02}: The operations of the Nigeria stock exchange market liberalization have no significant relationship in relation to its performances in enhancing economic growth
- H_{03}: The role of the stock exchange market liberalization is not significant in economic development and capital formation in Nigeria
- H_{04}: The improved operations of the stock exchange market liberalization have no significant relationship in stimulating economic growth and development in Nigeria

Statement of the problem: Given the number of years since, the Nigerian Stock Exchange was established and the substantial financial resources available in the country, together with existing institutions, one can assert that the entire spectrum of the stock exchange market has not been sufficiently active, especially when compared with the capital unit of similar or less aged units in other developing countries.

The defects in the methods of pricing securities in Nigeria have generated a big controversy. At the secondary market, the stockbrokers determine the price, subject to the approval by the chairman of the call-over session. The chairman can refuse an increase and then proceed to fix the share price according to his discretion, arguing that the increase will constitute an unreasonable speculation. Agbodo[7] alleged that security prices in Nigeria are unduly depressed because of the orthodox methods (not market determined) used in determining security prices. According to him, this is as a result of:

Lack of commitment: The government had been accused of not showing enough commitment, towards the achievement of the objectives of the stock exchange market. For example, while the indigenization act enhances the objective of increasing public participation in the ownership of the equity of banks and insurance companies, it militates against the objectives of reducing government control of the economy. In addition, the market ought to have been internationalized by now.

However, it is pertinent to know that the government has noted the inconsistencies in the policy formulation, hence, the ongoing privatization and commercialization.

Delay in share delivery period registration: One of the advantages of share certificate is that it can be used as securities for obtaining loans from the bank. The delay in share delivery registration deprives investors of the opportunity of being able to use their share certificate for borrowing purposes if the need arises. This contributes to the unwillingness of investors in buying shares and stocks of listed companies, thus making the stock market inactive. In fact, the process takes between 90-180 days. In some cases, it would take one year. For example, the cumbersome process of manually referring application of share to the registrar for authentication, then to the stock exchange and then back again to the registrar before the transfer process is deemed incompetent and a discouraging process. However, the exchange is undergoing full computerization with the hope of effecting delivery of share certificate within 7 days.

Poor infrastructural facilities: Handling of company's transaction by the registrar is slow, worsened by the delays in our postal system. The necessary laws and regulations need overhauling, so as to instill more efficiency in securities haulage.

Quality of stock brokerage services: There is nothing to write home about on the quality of service being rendered by the stock exchange brokerage to their clients. For example, only a few brokers forecast on listed companies for their clients. How can the clients then decide whether to buy, sell or hold a particular stock or share?

Lack of speculation: A stock market can only be active if there is speculation. As mentioned above, the officials or those who decide the pricing of the securities on the floor of the exchange discourage speculation. The result is that the Nigerian investor is only for keeps and only waiting for dividend at the end of the year if any. The adverse effect is that the listed companies are not as efficient and profitable as they would have been if speculation was encouraged. Indeed the problems of the Nigerian Stock Exchange are interwoven. There cannot be speculation under the poor share delivery and regulation system and it is practically impossible to sell the shares or stock except the seller has a share certificate. Since, it takes over 30-365 days to obtain a share certificate, the question now is, how can they speculate in a situation like that?

The performance of the Nigerian stock exchange market was overcast in 2009 by the global financial and economic crisis which was precipitated in August, 2007 by the collapse of prime lending market rates in the United States of America. The crisis led to a crash of most other sectors and markets across Europe with subsequent effect on developing economies, especially oil export dependent countries like Nigeria. The spiral effect of the global economic crisis on the Nigerian Stock Exchange continued in 2009 with the exorbitant lending rate mounting pressure on the stock exchange as a result of massive borrowed funds in the market. The rush by stock investors to liquidate their investment to repay their loans in order to avoid the excessive lending rate caused the Nigerian market to crash.

Sere-Ejembi[8] noted that it is not the global financial crisis and the speculative subprime mortgage bubbles and burst alone that was responsible for the crash of the stock market, other contributing factors lent support. Some of these factors according to Sere-Ejembi[8] are margin lending by the Deposit Money Banks (DMBs) stock price appreciation that had no correlation with the fundamentals in quoting companies and local investors opting to invest in foreign capital markets so as to take advantage of the low stock prices.

Most recent literatures on the Nigeria stock exchange market have recognized tremendous performance which the market has recorded in recent times. However, the important role which the Nigeria stock exchange market plays in economic growth and capital formation have not fully been explored by researchers using a survey design thereby creating a research gap in this area. This study was undertaken basically to examine the contribution of the stock exchange market in the economic growth and capital formation of Nigeria. This study therefore, intends to analyze the performance of the stock exchange in terms of its trading activities and determine the extent of its contribution to economic development and capital formation process of the Nigerian economy.

Significance of the study: This study explored the role of stock exchange in economic development and capital formation in Nigeria. Though the scope of this study was limited to stock exchange market instruments it was hoped that the in-depth explanation of the market will provide a broad view of the operations of the market.

The knowledge provided by this study will contribute significantly to theoretical justification and provide improved body of literature on the subject matter by investigating the role which the stock exchange market plays on the economic growth and capital formation in Nigeria.

The outcome of this study to a very large extent is expected to be of immense benefit to investors, capital market operators, policy makers, government, researchers and other individuals as well as institutions that may be interested in the growth and performance of the Nigerian stock exchange market for investment purposes.

This study will also provide policy recommendations to policy makers on the ways to improve the operations and the activities of the market. The study will also be of utmost benefit in comparing the findings of earlier studies with the actual performance in the stock exchange market. However, if the policy measures as may be recommended by the study is adopted and implemented by the government and capital market operators they will to a very large extent improve the operations of the stock exchange market, thus, accelerating growth in the overall economy.

Literature review

Conceptual framework: The stock exchange market can be defined as the market where medium and long term finances can be sourced. The capital market is the market for dealing in long term loanable funds.

In principle, the exchange market is expected to accelerate economic growth by providing a boost to domestic savings and increasing the quantity and quality of investment. The market is expected to encourage savings by providing individuals with additional financial instruments that may better meet their risk preference and liquidity needs.

The stock exchange market also provides an avenue for giving companies to raise capital at lower cost. In addition, companies in countries with developed stock market are less dependent on bank financing which can reduce the risk of credit crunch. The stock exchange market therefore is able to positively influence economic growth through encouraging savings among individual and provide the avenue for firm financing[9].

The stock exchange market offers a variety of financial instruments that enable economic agents to pool price and exchange. Though asset with attractive yield liquidity and risk characteristics, it encourages savings in financial form. This is very essential for government and other institutions in need off long term funds. Companies can finance their operations by raising funds through issuing equity (ownership) or debenture/bond borrowed as securities. Equity has perpetual life while debenture/bond are structured to mature in periods of years varying from the medium to long term of usually between 5 and 25 years.

Based on the performance of the stock exchange market in accelerating economic growth and enhancing capital formation, government of most nations tends to have keen interest in its performance. The main concern is for sustained confidence in the market and for strong investor's protection arrangement. Economic growth and capital formation is generally an indication of development in an economy because it transforms an economy to a very large extent. Thus, it is argued that for the stock exchange market to operate efficiently, confidence to a very large extent will be generated in the sub-conscious of the public and investors must be wiling to part with their hard earned funds and invest them in securities with the hope that it will yield in the future[10].

Many studies in Spain, Italy, Belgium, Netherlands, France, Australia and the United Kingdom amongst others as found in the studies of Jones[11] and Tswamuno *et al*.[12] have shown that there are many benefits for governments that liberalized their stock markets. Such benefits include: reduction in cost of equity capital through integration of segmented markets and integration is said to be adhered to when global assets of identical risks command the same expected return regardless of where they are traded; capital gains appreciation, increase in investment, higher economic growth and increase in stock market liquidity and efficiency.

According to, Ghosh[13] financial liberalization refers to measures directed at diluting or dismantling regulatory controls over the institutional structure, instructions and activities of agents in different segments of the financial sector. These measures can relate to internal or external regulations. According to, Chandrasekhar internal financial liberalization typically includes some or all the following measures in varying degrees: the reduction or removal of controls on the interest rates or rates of return charged by financial agents, the withdrawal of the state from the activities of financial intermediation with the conversion of the development banks to conventional banks and the privatization of the publicly owned banks on the ground that their presence is not conducive enough for the dominance of market signals in the allocation of capital. The easing of conditions for the individual investors in the stock market by diluting or doing away with its listing conditions by providing freedom in pricing new issues by permitting greater freedoms to intermediaries such as brokers and by relaxing conditions with regard to borrowing against shares and investing borrowed funds in the market.

In Africa, the financial sector played a significant role in different areas of economic growth and development, particularly in stock markets. The analysis of Yarty and Adjasi[9] shows that stock markets have contributed to the financing of the growth of large corporations in some African countries. In Ghana, the stock market financed about 12% of the total asset growth of listed companies between 1995-2002[9]. In South Africa, liabilities accounted for 61% total financing and retained earnings and external equity financed 21% important and 18%, respectively, of total asset growth between 1996-2000. In Zimbabwe, external finance contributed 75.4% of total funds and internal finance provided the remaining 24.6% between 1989-1999. Equity financing has the most important source of long term finance at 7.8%. Long term bank loans and bonds were each a very minor component of total external financing[14].

Globally, Glen and Singh found out that liabilities accounted for 49% of total equity financing over the period 1996-2000, of the remaining 51% internal equity representing 22% of the total equity. Glen and Singh also found substantial differences in the pattern across advanced and developing countries and across individual countries. They found out that the use of liabilities to finance growth was much lower in emerging market groups with that lower level offset by higher levels of both internal and external equity financing. Before 1986, the number of securities (Equity and bond) issues in the market was 23 because there were inadequate numbers of listed firms in the market.

The number of issues in the market has continued to fluctuate between 1986-2005. In 1994, 28 issues were made and there was a sharp rise in number to 40 in 1996 as the inflow of foreign investment increased and two new unit Trust schemes were launched. Since 1996, the number of issues have fallen significantly and only stood at 17 in 1998. It was notable that the most recent issues represent capital increase by firms already quoted on the exchange and there is relatively high activity in terms of Initial Public Offering (IPO's). However, as a result of the recent consolidation exercise in the banking sector, there has been a tremendous increase in the number of the new issues in the capital market, especially by the banks that issued IPO's to meet the recapitalization requirement. Although, the number of the new issues has been very minimal the values of the new issues have been enhanced over the years[15].

Aderibigbe[16] in his view stated that the market for debt instrument has been dull and inactive compared to the market for equity. According to him, new debenture issues have been very insignificant in both number and value and are seldom used as sources of corporate finance. But recently, new issues have been improved upon through foreign listing and through mergers and acquisition[16]. In recent years, phenomenal have been embarked upon in the Nigerian stock market. These were attempts to be at the same level with the New York stock exchange, London stock exchange and the Johannesburg stock exchange. Notably, in line with the Structural Adjustment Program (SAP) policies, the Nigerian capital market was deregulated on January 27th, 1993. In 1994, the exchange introduced a dress code for both the authorized and unauthorized clerks. Also in the same year, the Nigerian Stock Exchange gift shop was opened. According to the Nigerian Stock Exchange, the capital market plays the following roles in economic development:

- Providing a means for raising finance to assist companies to expand and modernize
- Providing a means for allocating the nation's real and financial resources between various industries and companies
- Providing liquidity for investment funds from the standpoint of the individual and the economy
- Serving as measure of confidence in the economy and as an important economic barometer
- Through its pricing mechanism, providing industrial management with some idea of current cost of capital, an important issue in determining the level and rate of investment
- Acting as a reliable medium for broadening the ownership base from erstwhile family dominated firms

Theoretical framework: The theoretical explanation on the role stock exchange market and economic growth and capital formation is explained using the Efficient Market Hypothesis (EMH) developed by Fama in 1965. According to EMH, financial markets are efficient on traded assets that have already reflected all known information and are unbiased because they represent the collective beliefs of all investors about future prospects. Previous tests of EMH have relied on long range dependence of equity returns. It shows that past information has been found useful in improving predictive accuracy. This assertion tends to invalidate the Efficient Market Hypothesis (EMH) in most developing countries. They noted that where the market is highly and unreasonably speculative, investors will be discouraged from parting with their hard earned funds for fear of incurring high financial losses.

In a situation like the one mentioned above, it has the detrimental effect on the economic growth of any country; which will in effect make investors to be afraid of investing in financial asset. The implication being that it will be difficult for companies to raise additional fund for expansion. Therefore, it will be considerably correct to assert that efficiency of the stock exchange market is a necessary condition for economic growth and development in Nigeria. Ewah *et al*.[10] submits that stock exchange market provides the opportunities for the purchase and sale of existing securities among investors, thereby encouraging the teeming populace to invest in securities, so as to foster economic growth. Ekundayo in his own analysis argues that for a nation to attain economic growth and development, it requires a lot of local and foreign investments so as to achieve this.

Empirical reviews: Adam and Sanni[17] examined the role of stock exchange market in Nigeria's economic growth using Granger Causality Test and Regression Analysis. The study discovered one way causality between GDP growth and market turnover. They also observed a positive and significant relationship between GDP and turnover ratios. The study advised that government should encourage the development of the capital market, since it has appositive relationship with economic growth.

Ezeoha *et al*.[18] investigated the nature of the relationship that exists between stock market development and the level of investment flows in Nigeria. The study discovered that stock market development promotes domestic private investment flows, thus suggesting the enhancement of the economy's production capacity as well as the promotion of the growth of national output. However, the results show that stock development has not been able to encourage the flow of foreign private investment in Nigeria.

Mishira *et al*.[19] examined the impact of capital market efficiency on economic growth of India using the time series data on market turnover and stock price index over the period spanning from the first quarter of 1991 to the first quarter of 2010. Their study reveals that there is a linkage between capital market efficiency and economic growth in India. This linkage is established through high rate of market capitalization and total market turnover. The large size of the market capitalization is positively correlated with the ability to mobilize capital and diversify risk on an economy wide basis. The increasing trend of market capitalization in India would certainly lead to capital market efficiency and thereby contribute to the economic growth of the country.

Arestis *et al*.[20] utilized time series data from five developed countries to examine the relationship between stock market and economic growth while controlling other effects of banking system and stock market volatility. Their result supports the view that, although, banks and stock market may promote economic growth, the effect of bank is more. They suggested that the contribution of the stock market to economic growth may have been exaggerated by studies that uses cross country regression.

Ewah *et al*.[10] in their own analysis, appraised the impact of the Nigerian capital market efficiency on the economic growth of the nation using time series data from 1961-2004. They found out that the capital market in Nigeria has the potential of inducing growth but it has not contributed meaningfully to the economic growth of Nigeria because of low market capitalization, illiquidity, misappropriation of funds amongst others. Obaniro[21] investigated the role of the Nigerian stock market in the light of economic growth. He reported a significant positive effect of the stock market on the economic growth of Nigeria. He suggested that the government should create more enabling environment, so as to increase the efficiency of the stock market and to attain higher economic growth.

MATERIALS AND METHODS

The study is a survey of the Nigerian Stock Exchange in Port-Harcourt, comprising ordinary and dealing members of the exchange. Primary data were obtained through questionnaires and in some cases, oral interviews. While secondary data were obtained from authoritative journals, textbooks and internet. The respondents were fifty members of the Nigerian Stock Exchange sampled in Port-Harcourt. They were categorized into ordinary and dealing members who are the shareholders of the stock exchange. To this extent, a dealing member is generally referred to as a stockbroker. The ordinary member is one who has acquired at least five shares of the issued share capital of the exchange and has been admitted to the register of members in accordance with the article. Two hundred questionnaires were distributed but one hundred and thirty were returned producing a response rate of 65%.

Presentation of data: Figures in parenthesis are the expected frequencies while those that are not in parentheses are the observed frequencies. The expected frequencies are calculated as follows: E_i = corresponding colum total x corresponding row total for responses relating to "significant" expected frequencies are (Table 1):

$$E_i = \frac{80\times 100}{130} = 62$$

$$E_i = \frac{50\times 100}{130} = 38$$

For responses relating to "Not significant", expected frequencies are:

$$E_i = \frac{50\times 30}{130} = 18$$

Table 2, the Chi-square statistic is calculated as follows:

$$X^2 = \frac{(\sum O_i\text{-}\epsilon_i)^2}{\epsilon_i}$$

Where:

O_i = Observed frequencies and

ϵ_i = Expected frequencies

Table 1: Stock exchange market

Variables	Ordinary members	Dealing members	Total
Significant	70	30	100
Not significant	10	20	30
Total	80	50	130

Survey data, February, 2018

Table 2: Computation of expected frequencies

Variables	Ordinary members	Dealing members	Total
Significant	70 (62)	30 (38)	100
Not Significant	10 (18)	20 (12)	30
Total	80	50	130

Survey data February, 2018

$$= \frac{(70\text{-}62)^2}{62} + \frac{(30\text{-}38)^2}{38} + \frac{(10\text{-}5)^2}{18} + \frac{(20\text{-}12)^2}{12}$$
$$= 1.032+1.684+3.556+5.333$$
$$= 11.605$$

The number of degrees of freedom

(df) = (R-1) (C-1) where:
n = Number of rows and
c = Number of columns
at = (2-1) (2-1) = 1

At 5% significant level with 1° of freedom, the critical value chi-square which is 11.605, exceeds the critical value. The null hypothesis is hereby rejected. Therefore, the role of stock exchange is significant in economic development and capital formation.

RESULTS AND DISCUSSION

Analysis and interpretation of results: Table 1 provides data which discloses the responses from the members of the Nigerian stock exchange sampled on the "role of stock exchange market in economic development and capital formation". One hundred members agreed that the role of stock exchange is significant in economic development and capital formation. Interestingly, the result of the data from the survey shows that 77% supports the view that the role of stock exchange is significant in economic development and capital formation while 23% disagreed with the view.

The result was further subjected to a statistical test using the chi-square (χ^2) test statistics Table 2. A significant level of 5% was chosen as the probability at which it will be too low to accept the null hypothesis. The computed chi-square is 11.605 while the critical value of chi-square at 5% significant level and one (1) degree of freedom (df) is 3.841. The computation shows that the calculated value of chi-square is greater than the critical value. Consequently, the null hypothesis that the role of stock exchange is not significant in economic development and capital formation and that the performances and growth of the stock exchange is not significant in economic development and capital formation in Nigeria was rejected.

Summary: From the result of data analysis and test of statistics performed, the stock exchange market liberalization plays a very important role in economic development and capital formation of a nation. The extent to which an exchange market will be able to play this role will be a function of the state of the economy. The Nigerian stock exchange apart from operating in a developing economy is also at present operating under a rather deflating economic condition. These factors have contributed in reducing the ability of the exchange in making optimum contribution to national development. It is hoped that with time, the full potentials of a series of dynamism expected to be introduced into the exchange's activities would be tapped.

In light of the observations and discussions on the Nigerian stock exchange market liberalization, the following conclusions were drawn:

- That the stock exchange market is a vehicle for obtaining balanced economic independence, efficient allocation of scarce resources and spreading the climate of industrial development
- The Nigerian stock exchange market is resourceful in financial engineering and has experienced financial personnel who can provide financial advisory services to companies, individuals and the government with a view to restoring credibility and confidence in governance and accountability
- The Nigerian stock exchange market has cleared a way for equity financing which has given solution to economic revitalization
- The Nigerian stock market provides a market for buying and selling of long-term financial resources
- The stock exchange market has made possible the assistance of investors to transfer their shares to others who need it

CONCLUSION

The study reveals that the stock exchange market liberalization plays a significant role in economic development and the capital formation in Nigeria. The adoption of financial liberalization reforms have been a very laudable initiative given the extent of financial repression that was prevalent prior to these reforms and the stifling effects of repression on both the financial sector itself and on the economy as a whole. Since, the introduction of the structural adjustment program in 1986, the Nigerian financial sector with particular regards to the

Nigerian stock exchange market has been experiencing tremendous growth. This in turn positively influenced the rate of Nigeria's economic growth I general. Investigations into the role of stock exchange market liberalization in economic development and capital formation in Nigeria show that there is a significant relationship between the financial market liberalization and the overall economic growth and capital formation of the Nigerian economy. This to a very large extent shows that the financial markets are achieving relative stability which is a veritable indicator of economic development. This could be buttressed by the fact that the stock exchange market is one of the mainstreams in every economy, since, it has the power to stimulate and impact economic growth, therefore, the organized private sectors, individuals and the government should invest in it. The government is therefore advised to put up more measures to stem up investors confidence and activities in the market and more foreign investors should be encouraged to participate in the stock market so it can culminate to improvement in the declining market capitalization which can contribute significantly to the economic growth and capital formation in Nigeria.

RECOMMENDATIONS

For the Nigerian stock exchange market to be a strong force in Nigeria economic growth and development and following the conclusions reached and for the purpose of drawing a well balanced insight into the Nigerian Stock Exchange, the following recommendations are thus, made.

To improve economic development and capital formation, the Nigeria stock exchange needs a good regulatory environment that will enable them to expand their scope of business but strictly within the financial service industry. With a good regulation, supervision and corporate governance, unnecessary cost and expenses will be cut down and the profit will increase. There is therefore an urgent need to restore confidence in the stock exchange market by its regulatory authorities, so as to ensure transparency and fair dealing in the market.

The Nigerian stock exchange market should put in place good corporate governance that will allow for transparency and minimize fraud in the market. The shareholders should have the responsibility to choose their directors which will in turn choose members of management that will run the affairs of the stock exchange markets.

An expansion in the stock exchange market role in the capital formation process through the liberalization process and the implementation of investment policies of the government, especially, those relating to foreign investments should be made. The stock exchange market should serve as a means of allocation of the nations real and financial resources and be made available to various companies and individuals.

Enough funds should be made available so as to make the Nigerian stock exchange market grow, because without adequate financing, these funds may not be at the reach of shareholders and other Nigerians. There is need for improvement in the declining market capitalization by ensuring that foreign investors participate in the market. Also a state of the art technology like automated trading and settlement practices, electronic fund clearance should be introduced to replace manual transfer of shares.

Finally, there is need for the availability of more investment instruments such as derivatives, convertibles, future and swap options in the market, so as to boost the value of transactions in the Nigerian stock exchange market. Expansion of the number of volumes of securities traded on the stock market is necessary and the promotion of active market in these securities is very important.

REFERENCES

01. Allie, H.I. and R.A. Anao, 2009. The Nigerian Stock Exchange in Operation. Lagos Academy Press, Lagos, Nigeria,.
02. Osabuohein, S.C. and M. Duruji, 2005. The impact of recent Regulatory financial mechanisms on informal financial system in Nigeria. Proceedings of the Iternational a Paper Presented at the National Conference on Informal Financial Sector and Sustainable Development in Nigeria, June 2005, Ekiti State University, Ado Ekiti, Nigeria, pp: 8-10.
03. Sule, K.O. and C.O. Momoh, 2009. The impact of stock market earnings on Nigeria per capita income. Afr. J. Accounting Econ. Finance Banking Res., 5: 77-88.
04. Olowe, R.A., 1997. Financial Management: Concepts, Analysis and Capital Investments. Brierly Jones Nigeria Ltd., Lagos, Nigeria, ISBN-13: 978-9783434400, pp: 515.
05. Osaze, B.E., 2000. The Nigerian Capital Market in the African and Global Financial System. Bofic Consulting Group, Benin City.
06. Henry, P.B., 2000. Stock market liberalization, economic reform and emerging market equity prices. J. Finance, 55: 529-564.
07. Agbodo, O.O., 1997. Deepening the Nigerian capital market. World News Media, London, USA.
08. Sere-Ejembi, A.A., 2008. Nigerian stock market reflection of the global financial crisis: An evaluation. Cent. Bank Niger Bullion, 32: 4-11.
09. Yartey, C.A. and C. Adjasi, 2007. Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges. International Monetary Fund, Washington, D.C., USA., Pages: 33.

10. Ewah, S.O., A.E. Esang and J.U. Bassey, 2009. Appraisal of capital market efficiency on economic growth in Nigeria. Intl. J. Bus. Manage., 4: 219-225.
11. Jones, C., 2003. A century of stock market liquidity and trading costs. A Working Paper, Columbia University, New York, USA.
12. Tswamuno, D.T., S. Pardee and P.V. Wunnava, 2007. Financial liberalization and economic growth: Lessons from the South African experience. Intl. J. Appl. Econ., 4: 75-89.
13. Ghosh, J., 2005. The economic and social effects of financial liberalization. Working Papers No. 4, United Nations, Department of Economics and Social Affairs, New York, USA. https://ideas.repec.org/p/une/wpaper/4.html
14. Mutenheri, E. and C.J. Green, 2003. Financial reform and financing decisions of listed firms in Zimbabwe. J. Afr. Bus., 4: 155-170.
15. NSE., 2004. Annual reports. The Nigerian Stock Exchange, Lagos, Nigeria. http://www.nse.com.ng/aboutus-site/Pages/Annual-Reports.aspx
16. Aderibigbe, J.O., 2004. An overview of the Nigerian financial system. Cent. Bank Niger. Bullion, 28: 69-78.
17. Adam, J.A. and I. Sanni, 2005. Stock market development and Nigeria's economic growth. J. Econ. Allied Fields, 2: 116-132.
18. Ezeoha, A., O. Ebele and O. Ndi Okereke, 2009. Stock market development and private investment growth in Nigeria. J. Sustainable Dev. Afr., 11: 20-35.
19. Mishra, P.K., U.S. Mishra, B.R. Mishra and P. Mishra, 2010. Capital market efficiency and economic growth: The case of India. Eur. J. Econ. Finance Administrative Sci., 27: 130-138.
20. Arestis, P., P. Demetriades and K. Luinted, 2001. Financial development and economic growth: The role of stock markets. J. Money Credit Bank, 33: 16-41.
21. Obamiro, J.K., 2005. Nigerian economy: Growth and the role of stock market. J. Econ. Financial Stud., 2: 21-34.