TITLE PAGE

CAPITAL MARKET REFORM AND THE PERFORMANCE OF THE NIGERIAN STOCK EXCHANGE: AN IMPACT EVALUATION

BY

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CERTIFICATION PAGE

I certify that this research was carried out by Osegbo Patricia Kenechukwu with the registration number 2007416012F of the Department of Banking and Finance, Faculty of Management Sciences, Nnamdi Azikiwe University, Awka, for the award of Masters in Banking and Finance (Msc).

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DEDICATION

This work is dedicated to God Almighty.

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ABSTRACT

The stock market is a common feature of a modern market economy and it is reputed to perform necessary functions, which promote the growth and development of an economy. This study examined whether the capital market reforms so far carried out in Nigeria have impacted significantly on the performance of the Nigerian Capital Market. To achieve this objective, ordinary least square regression (OLS) was employed using the data of capital market activities from 1988 to 2007. The result indicated that there is a significant difference in the performance of the capital market before and after the reform. This was achieved using the performance indicators which included the market capitalization, volume of stocks traded, value of stocks and the share index. The result showed that the indicators used increased faster in the post reform period than the pre reform period. The result of the study which established positive impact suggest that; government and stakeholders should strengthen the regulation and transparency in all the deals in the market as this will boast and attract more private participation in the market with its overall growth of both the market and the economy. And also, the NSE should find means of cutting down cost of raising fund on the exchange so as to allow more companies the opportunity of accessing fund from the exchange.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Mobilization of resources for national development has long been the central focus of economic development. For sustainable growth and development, funds must be effectively mobilized and optimally allocated to enable business and the national economies to harness their resources both human and material for optimal output (Tokunbo, 2002).

The capital market is an economic institution which promotes efficiency in resource allocation and capital formation. It enables both corporate organizations and governments to raise long term funds for financing new projects, as well as for project expansion and modernization (Onosode, 1990).

According to Alabede (2004) the role played by the stock market in the economic growth and development of a nation is recognized the world over. Through that role long term funds are not only mobilized but channeled for productive investments.

The stock market provides the fulcrum for capital market activities and it is often cited as a barometer of business direction. According to Obadan (1998), an active stock market may be relied upon to indicate changes in general economic activities as mirrored by the stock market index.

The indispensable nature of the capital market in any economy arises from the two major functions it performs: - mobilizing and channeling of long term investible funds from the surplus sector to the deficit sector of the economy, Usman, (1998).

As a result of this role, governments place due emphasis on the regulation and control of the capital market in general and the stock market in particular. In recent times, there has been growing concern over the role of the stock market in economic growth; hence the market has been the focus of economists and policy makers.

According to Anyanwu (1993), the financial market is a complex mechanism made up of procedures, instruments and institutions through which deficit economic units and the surplus economic unit are brought together to transact business with one another. In his own contribution; Ibenta (2000), defined the financial market as a network of institutional arrangements through which financial resources accumulated by savers of funds are transferred to ultimate users who may be individuals or households, corporate bodies or governments for investment in economic activities, which include both the production and distribution of goods and services.

Ever since government policy began shifting in the direction of limiting the role of the public sector in business activity, the need for reform of the capital market became a critical requirement for creating a viable private sector. The need for promoting balanced financial intermediation in a system significantly short of long term funds has been a strong signal that the domestic capital market in Nigeria was overripe for a major change (Uzor, 2007).

The financial market has two major segments namely the money and capital markets. Ekoko (2007) describes the financial market as a "market where institutions exchange financial assets and liabilities through a process described as intermediation".

The securities market comprises of two segments – the primary market and the secondary market. The primary market deals with new issues such as initial public offers (IPO), right issues, private placement and offers for sale. The secondary market on the other hand enables trading in existing securities i.e. securities previously issued in the primary market.

Prior to 1998, activities in these two markets were manually executed. Manual allotment of shares was carried out by issuing houses in the primary market subject to clearance by SEC while in the secondary market; trades were characterized by auction/open outcry by stockbrokers on the floor of the Nigerian Stock Exchange.

From 1998, the Federal Government embarked on reforms in various sectors of the Nigerian economy including the Nigerian capital market.

The commencement of Automated Stock Market trading in 1999 marked a watershed in the development of the Nigerian capital market. In that year, the Nigerian Stock Exchange established a subsidiary company called the Central Security Clearing System (CSCS) to handle the clearing and settlement of transactions in the stock market. And subsequently in the same year the exchange commenced electronic transaction in securities.

The Automated Trading System (ATS) alongside the CSCS trading engine has now reduced transaction period to T+3 (i.e. transaction day plus three days) from an average period of three months before the introduction of these measures. This implies debiting a buyer's account within three days after the transaction, while the seller is enabled to collect his/her cheque within the same period (T+3).

The primary market has also come of age with the introduction of electronic transaction processes in an effort to improve service delivery to investors. Already, e-Dividend and e-Bonus payment systems are being implemented in the market.

In an effort to address the problems associated with manual allotment such as delays in issuance of certificates, e-Allotment is now being introduced by the Security and Exchange Commission.

As earlier stated these reforms were aimed at redressing delays associated with concluding security market transactions and aligning the market with contemporary global best practices where very significant information technology transformations in security transactions have already taken place. The effects/impacts of these reforms individually and collectively need to be investigated, hence the need for this research.

1.2 STATEMENT OF PROBLEM

The performance of the Nigerian Capital Market is currently (Sept. 2009) at a low ebb, due to the global economic meltdown. Despite committed efforts to power the Nigerian economy through various reforms – Nigerian Capital Market- to achieve accelerated grass roots economic development, the Market seems to be faced with various constraints which hinder its performance, rate of national economic growth and development.

The Nigerian Stock Exchange would have done better but for problems of high cost of raising funds, low awareness about the significance of investing in the stock market by Nigerians, stringent conditions for listing companies, fraud among stockbrokers, long period of clearing/ verification of certificates, over trading, insecurity of invested fund, etc.

To address these problems, regulators of the Nigerian economy have embarked on a series of reforms in a bid to solving the problems encountered in the Nigerian Capital Market. The impact of these reforms - electronic reforms- on the performance of the Nigerian Capital Market will be X- rayed.

1.3 OBJECTIVE OF THE STUDY

The broad objective of this study is to determine the impact of capital market reforms on the performance of the Nigerian Stock Exchange.

This study specifically designed:

1. To compare the pre and post reform performance of the stock market using the market capitalization.
2. To compare the pre and post reform performance of the stock market using the trading volume.
3. To compare the pre and post reform performance of the stock market using the value of stocks.
4. To compare the pre and post reform performance of the stock market using the share market index

Based on the findings, to make policy recommendations on how to improve the overall performance of the Nigerian Stock Exchange.

1.4 SIGNIFICANCE OF THE STUDY

It it’s hoped that this study will be of immense importance in many ways;

The Nigerian policy makers will benefit from the result of the study, as it will form part of the decision making process. Hence it will aid the government in developing new policies.

The operators will use the results of the study to identify their shortcomings and what is expected of them from the public and government. The study will serve as a parameter for operators as to know the need for the potentials of reforms to be exploited, so that more revenue can be generated for the socio-economic growth and development.

Finally, the study will serve as a yardstick/guide for further research on the same topic and other related topics.

1.5 RESEARCH QUESTIONS

The research will be tailored to provide answers to the following questions.

1. Of what effect is the reform on the market capitalization of the Nigerian Capital Market?
2. Of what effect is the reform on the trading volume of stocks in the Nigerian Capital Market?
3. Of what effect is the reform on the value of stocks in the Nigerian Capital Market?

4. Of what effect is the reform on the stock market index of the Nigerian Capital Market?

1.6 RESEARCH HYPOTHESIS

The following hypotheses are formulated in null form for this study;

1. There is no significant difference between the stock exchange market capitalization before and after the reforms.
2. There is no significant difference in the trading volume of stocks in the exchange before and after the reforms.
3. There is no significant difference in the value of stocks in the stock exchange market before and after the reforms.
4. There is no significant difference in stock market index before and after the reforms.

1.7 SCOPE OF THE STUDY AND METHODOLOGY

The research will be conducted using data generated from the Nigerian Stock Exchange.

The available data on the study are secondary data from Stock Exchange journals, CBN bulletins and the bullion. Some other sources include newspapers, magazines and other journals both locally and internationally.

Internet facilities will also be explored to extract relevant data required for the research.

1.8 DISPOSITION OF THE THESIS

This thesis is divided into five chapters. In the first chapter the background of the study is presented followed by a problem area discussion, research objectives, significance, research questions, the hypothesis, scope of the study and finally the disposition of the thesis.

In chapter two, theories and previous studies related to the topic will be reviewed. The methodology used in this thesis will be presented in chapter three. Chapter four contains an analysis of the data used in this study.

Finally, chapter five will present the conclusions of the study and recommendations for implementations.

CHAPTER TWO

LITERATURE REVIEW

This chapter reviews the past work done on the subject matter by other researchers and highlights the gap (if any) identified in their work. It will also review the past government reforms towards the effective performance of the stock exchange and the status of such reforms presently.

The chapter is divided into the following sub-headings

1. The structure and organization of the Nigerian Capital Market
2. Instruments traded on the Nigerian Stock Exchange
3. Nigerian Stock Market performance indices
4. Investments Regulation in the Nigerian Capital Market
5. Impact of economic meltdown on Nigerian Stock Market
6. Developments in Nigerian Stock Exchange

2.1 THE STRUCTURE AND ORGANIZATION OF THE NIGERIAN CAPITAL MARKET

According to Ndi Okereke-Onyiuke (2008), Nigeria has a formal and active capital market. Before 1961, almost all formal savings and deposits went through the banking system while the then colonial master invested major capital balances for the country on the London Stock Exchange. However, following the establishment of CBN in 1959, it was logical to have a Stock Exchange; hence the incorporation of the then Lagos Stock Exchange in 1960, which commenced operations in 1961.Thus, the foundation was laid for the operation of the Nigerian Capital Market. Earlier in 1959, the CBN had floated the first Nigerian Development Loan Stock, which was listed overseas. Subsequent issues in 1961 and thereafter were listed on the new local exchange.

The Nigerian Capital Market is the most vibrant in Africa after that of South Africa. (Mgboji 2009)

The Nigerian Stock Exchange which was founded in 1960. It is 2nd most active exchange in Africa after the Johannesburg Exchange with **217securities** listed as at 1990 on the daily official list of the Exchange. (Onosode 1990).

THE NIGERIAN STOCK EXCHANGE

The Nigerian Stock Exchange is a private, non-profit making organization. It was incorporated under the companies' ordinance as an association limited by guarantee. It was incorporated via the inspiration and support of businessmen and the Federal Government through the CBN. The Lagos Stock Exchange was given initial financial backing by Central Bank of Nigeria (CBN) in the form of annual subvention. In 1977, following the recommendation of the Government Financial System Review Committee of 1976 the Lagos Stock Exchange was renamed and reconstituted into the Nigerian Stock Exchange. Additional trading floors were also opened in the same year in Port Harcourt and Kaduna.

The Nigerian Stock Exchange (NSE) is the center point of the Nigerian Capital Market, while the Securities and Exchange Commission (SEC) serves as the apex regulatory body. The NSE provides a mechanism for mobilizing private and public savings, and makes such funds available for productive purposes. The Exchange also provides a means for trading on existing securities. It also encourages large-scale enterprises to gain access to public listing. The NSE operates the main exchange for relatively large enterprises as well the Second tier

Securities Market (SSM) where listing requirement are less stringent for small and medium scale enterprises.

The membership includes financial institutions, Stockbrokers and individual Nigeria of high integrity who have contributed to the development of the stock market and the Nigerian economy.

The council members (Board of Directors) of the Stock Exchange are elected at each Annual General Meeting (AGM) by members of the Exchange. The tenure of the presidency is limited to one three-year term. The council is responsible for policy making but the Director-General and her team of Executives administer the day-to-day affairs of the Exchange. The council members, management and staff of the Nigerian Stock Exchange as well as the stockbrokers are subject to a stringent regime of code of conducts, which calls for a high degree of integrity, discipline, sacrifice and high sense of patriotism.

Dealing members of the Stock Exchange are the stock broking firms licensed by the Exchange to buy and sell shares on behalf of the investing public.

According to Dada (2003), the Nigerian Stock Exchange was primarily a forum for trading government bonds rather than equities but picked up in 1996. The Stock Exchange began with just 19 Securities listed for trading in 1961. However, the number increased from 282 in 2006 to 301 in 2008. Most of the listed companies have foreign/multinational affiliations and represent a cross-section of the economy, ranging from agriculture through manufacturing to services.

The Exchange is a Self-Regulatory Organization (SRO), making and enforcing rules for its members. Today, The Nigerian Stock Exchange has 11 functional trading floors in different parts of the country, namely: Lagos, Abuja, Kaduna, Port Harcourt, Kano, Onitsha, Ibadan, Yola, Benin, Uyo and Ilorin.

THE CAPITAL MARKET

The Capital Market is the long-term end of the financial market. It is made up of institutions, which facilitate the issuance and secondary trading of long-term financial instruments. Unlike the Money Market, which functions basically to provide short term funds, the Capital Market provides funds to industries and governments to meet their long-term capital requirements, such as financing for fixed investments - buildings, plants, bridges, etc.

There are two markets within the Nigerian Capital Market, which can be broadly classified into primary and secondary market. (Abiola, S. (2007))

Primary Market: This is a market where new securities are issued. The mode of offer for the securities traded in this market includes offer for subscription, right issues, offer for sales, private placement.

Secondary Market: This is the market for trading in existing securities. This consists of exchange and over the counter market where securities are bought and sold after their issuance in the primary market.

MAJOR PARTICIPANTS IN THE NIGERIAN CAPITAL MARKET

The major participants include the following; the Securities and Exchange Commission (SEC), which is responsible for the overall regulation of the entire market; the Nigerian Stock Exchange (NSE); a self-regulatory organization in NCM that supervises the operations of the formal quoted market, market Operators, this consists of the

Issuing Houses (Merchant Banks and Stock broking firms), Stockbrokers, Trustees, Registrars, etc; investors, Insurance Companies, Pension Fund, Unit Trusts (Institutional Investors) and Individuals. The Central Bank of Nigeria (CBN) and also the Federal Ministry of Finance

REGULATORY BODIES OF NIGERIAN CAPITAL MARKET

The regulatory bodies include the following; the Federal Ministry of Finance, the Central Bank of Nigeria (CBN), the Securities and Exchange Commission and the Nigerian Stock Exchange.

CONSTITUENCIES OF NIGERIAN CAPITAL MARKET

The constituencies in the Nigerian Capital Market are as follows; Fund Providers; Individuals, Unit Trusts, Pension Funds, Insurance Companies, etc. Users of funds; companies, governments, intermediaries, stock broking firms, issuing houses, registrars, audit firms. Regulators; Securities and Exchange Commission, The Nigerian Stock Exchange, Central Bank of Nigeria, Federal Ministry of Finance.

2.2 INSTRUMENTS TRADED ON THE NIGERIAN STOCK EXCHANGE

The stock market is growing but it is however characterized by complexities. The complexities arise from trends in globalization and increased variety of new instruments being traded. However the central objectives of the stock exchange worldwide remain the maintenance of the efficient market with attendant benefit of economic growth (Alile, 1997).

The stock market is a place where the buyers and sellers of financial instruments meet to exchange money worth instruments of various types. These instruments include:

- Equity options
- Derivatives of various forms,
- Index futures etc.

The instruments traded on the Nigerian stock exchange were described by Dada (2003) and Alabede (2005) as follows:

- Ordinary shares: the holders of ordinary shares are real owners of company, because they bear the greatest risk in the company and also benefit from its success. Ordinary shares represent the permanent capital of a company.
- Preference shares: the holders of preference shares are entitled to fixed percentage of dividends before ordinary shareholders are paid any dividend. A preference share's dividend can only be paid if there are sufficient distributable profits available.
- Federal government development stocks: The federal government issues these instruments, usually annually, and it is a long-term loan, with maturity varying between 6 and 25 years.
- Bonds: state and local governments go to raise funds on the floor of the Nigeria Stock Exchange using bonds.
- Debenture/loans stocks: these are instruments used to raise corporate funds for financing long-term capital needs. The holders of such instruments are entitled to a fixed rate of interest, which must be paid whether profit is earned or not by the company.

2.3 NIGERIAN STOCK MARKET PERFORMANCE INDICES

According to Tokunbo, S.O, (2002) the stock market size, liquidity, concentration and number of listed companies serve as the major indices of performance.

Stock Market Size

A common index often used, as a measure of stock market size is the market capitalization. Market capitalization equals the total value of all listed shares. In terms of economic significance, the assumption is that market size and the ability to mobilize capital and diversify risk are positively correlated. For the two decades covered by the study (1980 -1999) the average market capitalization was #78.33 billion with highest capitalization of #300billion in 1999 before the economic crisis and lowest capitalization of #4.46billion in 1980.

Adeyemi (1998) identified a number of factors that account for lack of interest by Nigerian companies in being listed in the exchange: (i) high cost of public quotation, (ii) reluctance to dilute ownership and control through public quotation, (iii) the interest rate structure in the past which favoured debt financing over equity financing, and (iv) stringent requirement for listing.

Liquidity

Liquidity refers to the ability of investors to buy and sell securities easily. It is an important indicator of stock market development because it signifies how the market helped in improving the allocation of capital and thus enhancing the prospects of long-term economic growth. This is possible through the ability of the investors to quickly and cheaply alter their portfolio thereby reducing the riskiness of their investment and facilitating investments in projects that are more profitable though with a long gestation period. Two main indices are often used in the liquidity performance and rating of the stock market namely total value traded ratio and turnover ratio.

Total value traded ratio measures the organized trading of equities as a share of the national output. For the period 1980-1999 it averaged 0.25 per annum with the highest of 12.14 in 1999 and lowest of 0.24 in 1991. It is expected that it will positively reflect liquidity on an economy-wide basis.

Turnover ratio is used as an index of comparison for market liquidity rating and level of transaction costs. This ratio equals the total value of shares traded on the stock market divided by market capitalization. It is also a measure of the value of securities transactions relative to the size of the securities market. The Nigerian Stock Exchange had an annual average turnover ratio of 0.04 between 1980 and 1999. This low index is an indication of relative illiquidity and stunting of the overall growth of the market.

Concentration

This factor measures the level of domination of the market by a few enterprises. The significance of concentration as a measure of performance of stock market is because of the adverse effect it may have on the liquidity of the market. The share of market capitalization accounted for by the 10 largest stocks often measures the degree of market concentration. In Nigeria, a few companies dominate the market as the market capitalization of the top ten equities listed on the Nigerian Stock Exchange accounted for about 40 percent of the total stock market capitalization in 1999.

According to Ndi Okereke-Onyiuke (2008), 20 companies emerged with the highest market capitalization which accounted for about 50 percent of the total market capitalization in 2008.

Number of listed Companies*:*

The average number of listed companies in the Nigerian stock market for 1980-1999 periods was 129 companies. At the end of 1999 the number of listed securities stood at 269 involving 196 companies. This indicates that 10 more companies were listed in 1999 as against 186 in 1998.

On the African scene, the Nigerian stock market performed relatively well. The stock market ranked 3rd in the number of listed companies with 196 after Egypt with 1032 companies and South Africa with 668 companies,(Standard and Poor's Emerging Stock Market Factbook, 2000). In effect, the Nigerian stock market provides greater option to investors in terms of choice of equities than most African market do.

Over the years, the Nigerian stock market witnessed growth of equity listings, especially in the 1990's. This was attributable to economic policies put in place by the government, notable among which was privatization of public enterprises. Also, the establishment of second-tier securities market (SSM) which allowed small/medium-sized enterprises to participate in the capital market. As at the end of 1999 16 firms were listed in SSM market. The market capitalization, which opened the year at #263.3 billion, closed the year at #300 billion. This growth was attributed to new listings and recovery of equity prices.

The market turnover in 1999 at the exchange closed at 3.95 billion shares worth #14.1 billion up by 88.1% and 3.7% respectively on the volume and value of shares traded in 1998. A significant portion of the turnover in 1999 was linked with the internationalization of the stock market, which recorded the first foreign listing on the Nigerian Stock Exchange. This represents a breakthrough in the Exchange controls of the stock market, at the same time enhancing opportunities for portfolio diversification by domestic investors. The market turnover in 2008 at the exchange closed at193.14 billion worth #2.4 trillion up by 40% and14% respectively on volume and value of shares traded in 2007.

The world stock market performance review in 2008 showed that in spite of the global meltdown, S&P, the international rating agency in its 2008 edition of the Global Stock Market Factbook, ranked The Nigerian Stock Exchange number 11 (Eleven) among 106 stock exchanges globally on return on investment in Dollar terms. Significantly, the ranking showed that none of the developed exchanges featured on the list of the World's Top 25 performing exchanges. (Ndi okereke-Onyiuke, 2008).

According to Chambers (2007), since early 2003, when world stock markets began to recover from the dot.com bubble and the fallout from the Enron scandal, the Nigerian Stock Exchange (NSE) has experienced unprecedented growth, with rising levels of liquidity. Improving global markets combined with currency stability, market reform and growing confidence in the Nigerian economy are fuelling demand for Nigerian stocks and bonds.

Strength in Numbers

By the end of November 2006, the NSE All Share index was up close to 33 per cent. In September, market capitalization hit a historic high, at 41.25 trillion naira (US $32bn).

Barring a meltdown on world markets at the beginning of 2007, the ASI will have shown positive performance for the seventh consecutive year, producing an average compounded annual return of 29 per cent. However, critics of Nigeria's capital markets argue that they remain severely undercapitalized and illiquid compared with Africa's economic powerhouses Egypt and South Africa. Despite growth in recent years, market capitalization including equity and bond listings at the end of November stood at N3.9 trillion ($29.4bn). According to figures in the African Stock Exchange Association Yearbook 2005 (ASEA), this represents 32 per cent of GDP, well under Egypt (more than 75 per cent) and South Africa (234 per cent). An international fund manager, speaking on condition of anonymity, complained that the prevalent high transaction fees for equity deals kill liquidity and that deals are fixed before they go to the exchange. Farooq Oreaqba, Head of Strategy and Derivatives Development at the NSE disagrees vehemently. "Such views are symptomatic of an outdated perception of Nigeria's business climate and we invite all those who feel that way to come and see the changes we are implementing for them. We have significantly reduced fees on bonds this year, which has had a spectacular effect on the secondary bond market turnover; equities are next"

Triplet of Changes

Deeper capital markets reduce transaction costs and improve transparency. Several new developments in 2007 are expected to contribute towards these.

The first is the implementation of a new Contributory Pension Scheme, which came into being following the Pension Reform Act 2004. According to figures released in October, funds held under the scheme amount to $4.6bn. Total monthly contributions moving forward are estimated to be $61m. The inflow is expected to have a significant positive effect on liquidity, and so far it is adding impetus to market activity as witnessed by the flurry of successful rights issues and public share offers in 2006, including Zenith Bank Plc, Intercontinental Bank Plc and Transcorp Plc (see feature, page 90). This is expected to continue over the coming years, in keeping with the government's directive on minimum capital requirement for industries across several sectors of the economy.

The second development is the planned appointment of secondary equity market makers. "We recognize the importance of market makers in any stock market," says the NSE's ebullient CEO Ndi Okereke-Onyiuke. She is working with the Nigerian Securities and Exchange Commission (SEC) to set a higher minimum capital base for stock brokers, currently at N70m ($570,000) as at 2006. "This is far too low to protect investors," she protests. Stock-lending rules to cover short positions and risk management are currently under review as well. The SEC expects to appoint market makers under the new rules by the end of the first quarter in 2007.

Last but not least is the administration's bid to reorganize the management of its public debt. At the end of 2005, the government issued N140bn ($1.1bn) to restructure part of its outstanding 19-day treasury bills into longer tenured bonds. In 2006, it issued a further

N155bn ($1.3bn) bond in five tranches with three to- seven-year tenures. The policy, run by the Debt Management Office (DMO), aims to lengthen the term of its debt in order to reduce money market volatility and short-term interest rate movements.

The issuance of longer-dated bonds is also expected to provide a benchmark for the embryonic corporate bond sector and lead to an efficient and liquid local bond market. To this end, in June (2006) the government awarded 15 financial institutions with licenses to serve as primary dealers market makers (PDMMs)

The move has brought badly needed liquidity on the secondary bond market. According to the NSE, the value of Federal Government of Nigeria (FGN) Bonds traded between June and September was in the region of N132bn ($1bn). Prior to that, it was virtually zero. The money is flowing from foreign investment funds seeking high yield bonds in emerging markets. In time, local pension funds administrators (PFAs) are expected to participate as well, bringing further liquidity to the bond markets.

International Horizons

In February 2006, following the implementation of the $30bn debt forgiveness deal with the Paris Club that reduced Nigeria's total external debt to $5bn, Nigeria was rated BB- (stable outlooks) by global rating agencies Fitch, and Standard and Poors. In 2006 as part of its continued debt- restructuring program, Nigeria is expected to issue a new dual-tranche dollar denominated Eurobond of up to $1.5bn to redeem its London Club commercial debt. With a credit rating now comparable to Brazil's and Turkey's, external debt of less that five per cent of GDP and Nigeria's removal from the money laundering Financial Action Task Force list of Non Cooperative Countries, fund managers will find it increasingly difficult to ignore Nigeria in 2007.

"Domestic investors dominated Nigeria's Stock Exchange in 2005, but more recently foreign investors are showing the biggest appetite for Nigerian risk and its associated returns," says Yemi Kale, head of research at IBTC/Chartered Asset Management.

While new issues and improving liquidity bode well for Nigeria's capital markets and their ability to attract domestic and foreign investment funds, challenges abound. Not least the issue of pension funds' limited choices for investment. Strict investment guidelines prevent them from holding assets abroad, preventing regional risk diversification. Currently PFAs can invest solely in Nigerian money markets, bonds and equities.

Restrictions on foreign assets not only increase the pension fund system's exposure to a regional shock, they also raise the spectra of an asset bubble emerging on the NSE. At present, this seems unlikely as companies move quickly to snap up domestic pension funds and international investors' liquidity through public offerings and rights issues. In 2006, Zenith Bank International Plc raised N53.63bn ($440m) through a public offer described as highly successful. In November, Intercontinental Bank was in the process of adding #50bn ($407m) to its share capital.

In December, Dangote Sugar Refinery (DSR) raised N54bn ($440m) through the largest IPO ever in corporate Nigeria. DSR is the first major indigenous real sector company to come to the capital market, and could set the example for other local industrialists to list on the NSE.

2.4 REGULATION OF THE NIGERIAN CAPITAL MARKET

Capital Market is a financial market that provides facilities for mobilizing and dealings in medium and long term funds. The players on the capital market are the operators who act as intermediaries between the providers of the funds and the fund users. They include, Securities Exchanges, Brokers/Dealers, Issuing Houses, Registrars and Investment Advisors. In pursuance of making funds available for economic development and growth; the Securities and Exchange Commission was established in 1979 by the Securities and Exchange Commission Decree (this decree was reenacted in 1988 as Securities and Exchange Commission Decree no. 29 of 1988, for the purpose of protecting the investors as well developing the capital market. A detailed review of the Nigerian Capital Market was carried out in 1996. This led to the enactment of the "Investment Securities Act (ISA) No.45 of 1999 (and the regulations made there under). This Act replaced the Securities and Exchange Commission Decree No.29 of 1988. It aimed at providing a more efficient and viable capital market positioned to meet the country's economic and Developmental needs.

The Securities and Exchange Commission (SEC)

a) The Investment and Securities Act of 1999 established the Securities and Exchange Commission (called the "Commission or "SEC") as a body corporate with perpetual succession and a common seal. The Commission can sue and be sued in its corporate name, and may acquire, hold or dispose any property, movable or immovable for the purpose of Carrying out any of its functions under the Act.

b) Composition of the Commission

For purposes of carrying out its responsibilities under the Act, the Commission consists of:

i) A Chairman;

ii) One person not below the rank of Director to represent the Central Bank of Nigeria;

iii) One person not below the rank of Director to represent the Ministry of

Finance;

iv) Two full time Commissioners who must be persons with ability, experience and specialized knowledge in capital market matters

v) The Director-General of the Commission; and

vi) Five other Commissioners who must be persons with proven ability and expertise in corporate matters generally.

The Chairman and the Commissioners are appointed by the Head of State, Commander in Chief of the Armed Forces on the recommendation of the Minister. Apart from the Director-General and the two full – time Commissioner, the other members of the Commission are part-time members.

DUTIES AND FUNCTIONS OF SEC

The Commission is charged with the following duties and functions under the Act:

a) Regulating investments and securities in Nigeria as defined in the Act;

b) Registration and regulation of Securities Exchange, Capital Trade Points, Futures, Options and Derivative Exchanges and any other recognized Investment Exchange;

c) Registration of securities to be offered for subscription or sale to the public;

d) Rendering assistance to all aspects including funding as may be deemed necessary to promoters and investors wishing to establish Securities Exchange and Capital Trade Points;

e) Preparing adequate guidelines and organising training programmes and disseminating information necessary for the establishment of Securities Exchange and Capital Trade Points;

f) Registering and regulating corporate and individual capital market operators as defined in section 30 of the Decree

g) Register and regulate the workings of Venture Capital Funds and collective investment scheme including mutual funds;

h) Facilitate the establishment of a nationwide system for securities trading in the Nigerian Capital Market in order to protect investors and maintain fair and orderly markets;

i) Facilitate the linking of all markets in securities through modern communication and data processing facilities in order to foster efficiency, enhance competition, and increase the information available to brokers, dealers and investors.

j) Act in the public interest having regard to the protection of investors and the maintenance of fair and orderly market and to this end, to establish a nationwide trust scheme to compensate investors whose losses are not covered under the investors' protection funds administered by Securities Exchanges and Capital trade Points.

k) Keep and maintain separate registers for foreign direct investments foreign portfolio investments;

l) Register and regulate central depository companies and clearing all settlement companies, custodians of Securities, credit rating agencies and such other agencies and intermediaries;

m) Protect the integrity of the securities market against abuse arising from the practice of insider trading;

n) Act as a regulatory apex organization for the Nigeria capital market including the promotion and registration of self-regulatory organizations and capital market trade associations to which it may delegate its powers;

o) Review, approve and regulate mergers, acquisitions and all forms of business combinations;

p) Promote investors' education and the training of all categories of intermediaries in the securities industry;

q) Call for information from and undertake, inspect, conduct inquires and audits of the Securities Exchanges, Unit Trusts, Mutual Funds, Capital Trade Points, Futures, Options and Derivatives Exchanges as well as other intermediaries and self-regulatory organizations in the securities industries;

r) Call for or furnish to any agency such information as may be considered necessary by it for the efficient discharge of its function;

s) Levy fees or any other charges on any person for carrying out investment and securities business in Nigeria;

t) Conduct research into all or any aspect of the securities industry;

u) Prevent fraudulent and unfair trade practices relating to the securities industry;

v) Advice the Minister on all matters relating to the securities industry

w) Disqualifying unfit individual from being employed anywhere in the securities industry

x) Liaise effectively with the regulators and supervisors of other financial institutions locally and overseas;

y) Perform such other functions and exercise such other powers not inconsistent with the Decree as are necessary or expedient for giving full effect to the provisions of the Decree.

The Commission's functions could be summarized thus: to protect the investor's interest and thereby enhance their confidence in the capital market, and ensuring orderly and equitable dealings in securities business.

Also SEC is to promote capital market development and growth, and may order the certificate of a capital market operator to be withdrawn and such market operator to be disallowed from carrying on any capital market functions, if it is in the interest of the public to do so.

SEC and Development of the Capital Market

a) Price Determination Role

SEC retains substantial part of its price fixing role though some of this role has been transferred under the SEC guidelines to the capital market operators. However it still retains the role of fixing price of securities of newly established private companies with alien participation.

b) Market Development Role

The ISA contains various provisions aimed at accelerating the development of the Nigeria capital market, they include:

i) Encouraging Market Linkages

The commission is expected to establish market linkages within the various segments and divisions of the capital the commission is expected to establish market linkages within the various segments and divisions of the capital market. The Commission is expected to adopt automated approach linking the various segments of the markets as well as the operators. The intendment of the Act under such system is to allow the Commission to put in place self regulated and uniform standards of operation and practice within the capital market.

ii) Creation of New Exchanges

New exchanges such as commodities and metal exchange provide the investors with additional investment opportunities outside the traditional securities market while the capital market operators could also benefit by way of improving business opportunities. Commodities exchanges would amongst others providing hedging opportunities and strengthen planning.

iii) Introduction of Capital Trade Points

The Investment and Securities Decree make provisions for the establishment of trade points and these are to be promoted by SEC as it is hoped that in the long run, it will facilitate capital mobilization for the development of industries in their (Capital Trade Points) areas of domicile.

iv) Regulation of Collective Investment Schemes

SEC is empowered to register collective investment schemes falling within the category of community savings schemes which includes "Esusu" schemes and such other similar schemes operating within Nigeria.

v) Protection of Investors Scheme

By Part IV of the ISA, Securities Exchange and Capital Trade Points are required to maintain compensation funds. Points are required to maintain compensation funds. This is designed to protect investors from unhealthy activities or collapse of dealing members. The compensation fund is sole use of the public's interest having regard to the protection of investors and the maintenance of fair and orderly markets.

vi) Building capacity in the market

The ISA enjoins the Commission to promote investors education and the training of all categories of intermediaries in the securities industry.

vii) Margin Transactions

For the purpose of preventing the excessive use of credit for the purchase of securities by dealers or member companies, the Commission may make regulation to provide for margin requirements, for the amount of credit which may from time to time be existing on all or specified securities or transactions and for matters connected therewith.

Other Statutory Functions of SEC

a) Regulation of the Operators on the Nigerian Capital Market

SEC in line with its regulatory role regulates the activities of its operators on the Nigerian Capital Market to guide against abuse. These regulations are broadly divided into two: general and specific regulations.

General regulations

i) Compromise with Creditors

Under ISA, any registered capital market operator who wishes to compromise with his creditor must notify the Commission within three months before such action.

ii) Maintenance of Adequate Records of Affairs and Transactions

All registered SRO's and market operators must maintain correct and adequate records of their transactions. Failure to comply with above attracts a fine of one thousand naira (N1000) daily for every such contravention.

iii) Examination by Self Regulatory Organization

Every market operator must give all necessary facilities to aid authorized SRO officers to examine the activities of such operator. Reports of such examination must be sent to the Commission within 30 days from the date of the inspection.

iv) Reports to be filed with SEC

Registered operators on the Nigerian Capital Market must every calendar year, cause its account to be audited. Report of such audits must be sent to the Commission within three months after the end of the accounting year.

v) Registration of Capital Market Operators

An unregistered market operator who before the coming into force of the Act, operates as such, may continue to operate in the securities industries for a maximum period of 3 months or where such unregistered has filed an application for registration with the commission, he will continue to operate in the market until when his application has been disposed of.

Specific Regulation

Registration of Securities Exchange and Capital Trade Points .Securities Exchange Trade Point that seeks to operate in the Nigerian Capital Market must be registered with the Commission in accordance wit the provision of the Act. The Commission may with the approval of the minister revoke such certificate if:

a) The body corporate ceases to operate as Securities Exchanges or Capital Trade Points;

b) The body corporate is being wound up

Registration Requirements for Securities Exchange

The promoters of SEC must file an application on SEC Form 5. Such application will be accompanied by:

i) Copy of the certificate of incorporation certified by Corporate Affairs Commission (CAC);

ii) 2 copies of the Memorandum and Articles of Association certified by CAC;

iii) The latest copy of Auditor Accounts or Statement of Affairs signed by its auditor;

iv) 2 copies of existing or proposed by-laws or rules, code of conduct, code of dealing, etc. which are referred to as "Rule of Exchange";

v) 2 copies of the listing requirements of the Exchange;

vi) Sworn undertaking to promptly furnish the Commission with copies of any amendments to the rules of the Exchange and the listing requirements;

vii) Information relating to market facilities including;

a) Trading floors/facilities

b) Quotation board

c) Information board/ ticket tape

viii) Detailed information about the trading system to be adopted

ix) Information as to its organization including structure and profile of members of its council/board as well as rules and procedures.

x) Instruction and inspection manual of members activities;

Xi) detailed information about the promoters and principal officers of the Exchange;

xii) Sworn undertaking to comply with and to enforce compliance by its members with the provisions of the Acts and Rules and Regulations made there under;

xiii) Such undertaking to keep such records and render such returns as may be specified by the Commission from time to time;

xiv) An application for registration of at least three (3) principal officers of the exchange on Form SEC 2;

xv) Minimum paid up capital requirement of N500million;

xvi) Any other document required by the commission from time to time for the protection of investors.

REGULATORY TOOLS OF SEC

In order to effectively carry out its duties of monitoring and regulating the Nigerian Capital Market, SEC uses various tools to ensure that the integrity and confidence of the market is maintained and that the investors are protected. These tools include amongst others:

Registration, Surveillance, Investigation, Enforcement, Rule Making, Timing of Issues, Review of Accounts, Approval of Mergers, Acquisition and Business Combination, Authorization of Unit Trust Schemes and Approval of State and Local Government Bonds.

2.5 IMPACT OF ECONOMIC MELTDOWN ON NIGERIAN STOCK MARKET:

For the past few years, the Nigerian Stock Exchange (N.S.E) has been a hive of activity, receiving tremendous patronage from both corporate and individual investors. But on 24 July 2008 its market capitalization sank to N10.03 trillion compared with the high of N12.64 trillion on 5 March, slightly rallying by 5 August to N10.64 trillion. Has the N.S.E caught the global credit chill?

The Nigerian Stock Exchange was established in 1960 as the Lagos Stock Exchange and in December 1977 it became the Nigerian Stock Exchange, now with branches in the main commercial cities. Operations started up in 1961 with 19 securities listed for trading. Today it has 262 securities across a broad section of the economy, ranging from agriculture through manufacturing to services. Many companies have foreign affiliations.

Before the recent crash, investor confidence was lifted by economic reforms that began in 2003, earning Nigeria a BB minus credit rating, which led to a US$18bn debt write-off and created pension funds which now have several billions invested in Nigerian securities. For a while, though, the exchange had been racing against time to create new instruments to absorb a 'wall of money' and avoid a bubble. It launched a secondary market in treasury bonds in the middle of 2006 and volumes traded in the second half of that year surpassed the value of equities traded during the whole year.

A reform of the banking sector, which raised capitalization levels and forced a wave of mergers, also fuelled the boom. Most Nigerian bank stocks doubled in value, despite billions of dollars of new shares being issued, with some stocks more than quadrupling in value in less than a year. Companies that floated offers were overwhelmed by demand. The capital market became the fastest place to make money. Many rushed for bank loans to leverage their equity trading. Men and women from all walks of life began to throw in their savings to benefit from the huge margins that were coming from the market. For months, it appeared that the Nigerian capital market was on another planet: immune to the global financial meltdown triggered by the sub-prime mortgage credit crisis in the United States.

SUDDEN SLUMP

The depression came so suddenly that the market regulators appeared unprepared to find an appropriate explanation for what was happening.

Various reasons are still being advanced for the NSE's dive, including market correction, the effect of purported Central Bank of Nigeria's ban on margin loans by banks, the preponderance of private placement in the market and even the now suspended directive for stockbrokers to recapitalize to a minimum of N1bn. The impact of the global financial crisis is just mentioned in passing.

According to Ekoko (2007) what was happening in the market was a revaluation of the prices of stocks. "The last six months, particularly the last three months, have witnessed a drastic revaluation of stock prices", he said. While some of the stocks were actually over-valued and needed price adjustment to fall in line with their fundamentals, some had been unduly punished by the fear and pessimism which have entered the market.

He said what has happened is a lesson for all to learn that financial markets are fragile and thrives on confidence: “When you create uncertainties, it erodes confidence and it affects investors’ ability to judge where the market is going and everything else takes a cue from there.” He added: “It is an investors’ market now; speculators will be out for a while. It is an educational process for investors to realize that the bonanza of the last five years will need a long gestation period before it will return, but return it will surely.”

According to Mgboji (2009) the market slump is attributed to too much hot money and liquidity-induced speculations, and discordant policies and pronouncements by regulators: “Fear coupled with shaken confidence induced desperate profit taking and prolonged market correction made investors more discerning.”

According to chambers (2007) “Though stock markets across the globe often witness recession, the current situation at the NSE stems from unethical practices by dishonest operators. As an economist, I knew that the prices we had in January and February 2008 were not realistic. The situation at the exchange is abnormal, but the market is gradually correcting those factors that led to the malady, and the situation will improve soonest." It seems that confidence in the exchange of oil producer, Nigeria, will prevail.

ON THE CURRENT GLOBAL FINANCIAL CRISIS

The global financial crisis, brewing for a while, really started to show its effects in the middle of 2007 and all through 2008 and has continued unabated. The Crisis started in the U.S (due to certain laxities in the US financial and regulatory system), spread to Europe, and has become global. Even countries not affected by the financial crisis are now affected by 'second-round effects' as the crisis now becomes more fundamentally "economic".

Around the world, stock markets have fallen, large financial institutions have collapsed or been bought out, and governments in even the wealthiest nations have had to come up with sizeable rescue packages to bail out their financial systems. On the one hand many people are concerned that those responsible for the financial problems are the ones being bailed out, while on the other hand, a global financial meltdown will affect the livelihood of almost everyone in an increasingly inter-connected world.

According to the World Bank, the depth of the recession is difficult to gauge. Should credit markets remain frozen and asset prices continue to fall, then the decline in output over the next year could be extreme.

However, the extraordinary measures now being taken by fiscal and monetary authorities are expected to eventually restore confidence so that banks will no longer hoard cash, and businesses can obtain the credit essential for normal operations.

A collapse of the US sub-prime mortgage market and the reversal of the housing boom in other industrialized economies have had a ripple effect around the world. Furthermore, other weaknesses in the global financial system have surfaced. Some financial products and instruments have become so complex and twisted, that as things start to unravel, trust in the whole system started to fail. The extent of the problems has been so severe that some of the world's largest financial institutions have collapsed, AIG, the US insurance giant being an example.

The problem was so large that even banks with large capital reserves ran out of cash, so they had to turn to governments for bail out. New capital was injected into banks and other key institutions. That still wasn't enough and confidence was not restored. Shrinking banks absorbed available liquidity out of the economy as they tried to build their capital and are nervous about renewing lending. Consequently, businesses and individuals that rely on credit find it harder to obtain financing.

The US Federal Reserve, the European Central Bank, the Bank of England, central banks of Canada, Sweden, Switzerland and other countries in the world took several steps such as cuts in interest rates and injecting hundreds of billions of dollars in the form of bail-out to key sectors and institutions in the economy in an effort to ease the credit crunch. The causes and consequences of meltdown of the Nigerian Capital Market

The value of the Nigeria stock market has been sliding downwards because of the current state of its dominant members' affairs. The banks and other financial institutions constitute about 60% of the capitalization of the Nigeria Stock market. The fluctuation in the value of shares of these financial institutions affects the value of the stock market.

The credit crunch or the inability of the banks in the advanced country to lend affect our banks to the extent of the level of fund they usually borrow from them. If the Nigerian banks cannot source further credit from the foreign banks because of those banks own liquidity crisis, they should device other means to obtain fund. Our banks have the domestic alternative such as to moving the available fund round.

The Nigerian banks usually get credit or short-term loan from foreign banks. They come home, sell the foreign currency at the auction market or lend it to traders in consumables at an exorbitant interest rate and make good profit. With this, they declare huge profit everyday. The value of their shares goes up accordingly. The credit line has now dried up with the related profit hence the low value of their shares. The value of the shares of the rest 40% members of the Stock Exchange who are non financial institutions and do not trade in this manner remains steady.

It is time our financial institutions learn to have a home-based capital market that will not be vulnerable to any adverse fluctuation in foreign financial markets. That is do not let your operation depend heavily on foreign borrowing.

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2.6 DEVELOPMENTS IN NIGERIAN STOCK EXCHANGE

Globalization and the need for nations to comply with international best practices have necessitated the transformation of business procedures, including financial services delivery. The development of modern technology in the conduct of businesses has brought about greater efficiency and transparency and enhanced confidence in the financial sector. It is for these reasons that securities markets have embraced the increasing utilization of electronic technology.

Some of the developments in Nigerian Stock Exchange are identified in Store (2004) and Alabede (2005) and SEC (2005) as discussed below:

CENTRAL SECURITIES CLEARING SYSTEM (CSCS)

CSCS operates an automated clearing and settlement system for transactions on the Nigerian Stock Exchange and the Over-the-Counter (OTC) market for Federal Government Bonds, including operating a central depository. The totality of its operations defines the clearing and settlement system, which is a major consideration in any investment decision in modern stock markets.

The Clearing and Settlement System has clear implications for the risk profile of stock markets. For instance, it is an acknowledged fact in the market place that the longer it takes to conclude a transaction, the higher the risk associated with the deal. It was in recognition of this that the World Federation of Exchanges (WFE) stated in its membership criteria that the clearing and settlement facilities provided by the Exchange, its subsidiaries or others must provide for efficient, safe and prompt settlement of transactions within the internationally accepted standards, or be better. The Nigerian Stock

Exchange has achieved this condition through the operation of the CSCS.

Before CSCS, Clearing and Settlement was a manual process, which was cumbersome and very laborious. Even though the transaction cycle was T+14, not a few trades took longer time to be concluded. For an emerging market that, among other things, contended with narrow investor based and thirsted for foreign investment, this was not good for investor confidence because rather than attract investors, it discouraged participation in the market.

The CSCS procedure emphasizes immobilization of certificates, which is recognized by SEC. this implies that there are currently legal provisions to the effect that certificates will not be the only evidence of share ownership in company. Thus, SEC has recognized CSCS statement of stock holdings as evidence of Stock holdings in the CSCS system.

The process of dematerialization involves the following: share certificates are presented by investors through their stockbrokers.

These investors claims (i.e. certificates and transfer forms) are verified/authenticated by the Registrars through the stock broking firms. The Registrars send the verified certificates and the signed transfer forms to the depository of the CSCS within 48 hours. The dematerialized certificates are re-cycled to the relevant registrars within 48 hours also. CSCS, as sub-registrar, regular sends data information of the changes that have taken place through buying and selling of shares to the registrars who then update their registrars with the stock movement details. Dividends are paid to share holders whose names appear on the register a day before closure date.

The CSCS has through its operation in the Nigerian environment proved that market infrastructure can make the difference between successful and unsuccessful capital markets.

Successful markets are those that provide enhanced opportunity for price discovery, offer liquidity, and are deep enough to meet the financing needs of corporate and government at competitive rates. These conditions are in various ways dependent on the clearing and settlement system deployed in the market which the Economic

Development Institute of the World Bank said could make or break the viability of markets through its impact on public confidence in the home country and among foreign investors. ”Some emerging markets have great difficulty in reaching the level of activity necessary for them to be financing self-sustaining because inefficiencies in settlement system discourage active trading”, the Economic Development Institute further affirmed. It is not any wonder, then, that the CSCS has been pivotal to the growth of the Nigerian Stock Market in the years following its establishment; it provides a service without which the operations of the market would be inhibited and growth constrained.

Following the success of the CSCS, in 2004, the SEC and the Nigerian Stock Exchange approved the introduction of electronic bonus (e-bonus) shares in the Nigerian Capital Market. E-bonus refers to the electronic form of bonus shares. It means that when a quoted company declares scrip or bonus issues, rather than issue physical bonus share certificates to investors, they are converted to electronic form and credited to the investor’s stock account in the CSCS depository under the investor's stock broking firm account with CSCS and a credit advice sent to the investor.

Also, SEC and The Exchange have announced that from next Year, the market will fully adopt e-IPO, which refers to the allotment of shares to the CSCS accounts of subscribers to new issues (primary market share offering), without the use of share certificates as currently obtains.

Furthermore, e-dividend is to become the norm in our market. E-dividend is the payment of dividend direct into the bank accounts of the shareholders without the use of dividend warrants. For this to be operative, shareholders are expected to operate bank accounts, and provision has been made in public offer subscription forms for shareholder's bank account information.

AUTOMATION OF TRADING SYSTEM

In Nigeria, the Capital market which started on a rather low key as far as technology is concerned joined the league of jurisdictions pursuing aggressive technological transformation in the mid 1990's. By 1999, the effort resulted in the automation of trading activities in the Stock

Market from a hither to manual system to the Automated Trading System (ATS). Since then, the Nigerian Securities Market has been placed on the information technology map.

The trading rules and market infrastructure have direct impact in the pricing of assets in the markets. Where the Call Over System is used in trading, movement of share prices are largely restricted and subjectively fixed, even if unintentionally, unlike in the ATS, which the Nigerian Stock Exchange adopted in 1999.By simple definition, the ATS is trading in listed securities through a network of computers connected to a server.

The ATS is at once a progression on the computerization of process at the Exchange and a response to changes in the environment of the market, including Deregulation and Internationalization. Internationalization demanded a benchmarking of our market processes and practices with international standards if Nigeria must achieve her objective of attracting foreign investment as a supplement to domestic savings.

ATS has enabled our market to leverage on the known advantages of automation to improve the pricing efficiency of the market and speed of order execution, while its tightly-coupled interface with the CSCS limited has Facilitated the implementation of a shorter (T+3) transaction cycle in the market, in addition to obviating the risk of failed trade that may arise when a seller is unable to deliver security for which payment has been made. For cash settlement, failure by a buyer to effect payment for purchases on due date is comprehensively addressed in favour of the seller through the operation of a Trade Guarantee Fund. The Trade

Guarantee fund is a pool of fund to which Dealing Members of The Exchange (stock broking firms) have made equal contributions for the purpose of setting trades where a member is unable to discharge its obligation to the seller.

TECHNOLOGICAL INNOVATION IN THE SECURITIES MARKET

The SEC in its efforts to continually modernize the mode of operations in the Nigerian Capital Market (NCM) encourages the introduction of e-processes. These include e-bonus, e-surveillance, on line trading, remote trading and recently e dividend and e allotment system. This paper discusses the development as well as the key technological transformations that are related to the operation of the Nigerian Stock Exchange, market intermediaries and the apex regulator, the SEC. some of the challenges confronting the market as a result of the introduction of these processes are examined

The increasing level of technological development poses new challenges to the apex regulator, the SEC. to cope with these challenges, the SEC has invested heavily in information technology leading to the establishment of a dynamic website (www.sec.gov.ng). In addition, the SEC established what is referred to as the e-SEC, for effective regulation of market activities.

The e-SEC has two components, the front office and back office. The back office has the objective of ensuring orderly and efficient services delivery while the front office has been deigned to achieve effective regulation through three programmes. The first programme is connecting the commission with the Trading engine of the NSE, to enable direct monitoring of the activities of the exchange on-line. This has already been achieved even though there are some challenges in its operation, effort are being made to rectify them. The second is the installation of Securities Market Analysis Research and Trading System {SMARTS} module at both the head office and some zonal offices for effective monitoring of all data generated in the trading engines of the NSE. This is to ensure transparency in the market by detecting price manipulations on the exchange. The SMARTS is also aimed at analyzing trading activities, thereby providing the commission with leverage in ensuring a well regulated Securities market in Nigeria. The SMARTS has been linked server of the NSE and is expected to commerce operation soon. (SEC 2005)

The third programme under the front office project is the Registration Management System, which is aimed at creating an atmosphere where market operators can register/renew registration with the commission on-line. The system will also ensure on-line registration of Securities offered for subscription and all remittable activities and schemes.
This third programme, which has been named e-forms is scheduled to be launched before the end of 2008 and is expected to be operational by early 2009.

The commission has also introduced the Electronic Document Management System (e-Dims) for fast on-line access and retrieval of document images. The purpose of e-Dims is to scan all documents that are received in the commission and save them electronically for easy reference and retrieval.

Furthermore, the SEC recently set up a market-wide committee to recommend a standard IT infrastructure for Capital Market Registrars. This is to enable them support the introduction of the electronic IPO that will be introduced in Nigerian market in 2009 as well as make them more efficient.

ON-LINE TRADING

To enable stockbrokers trade in securities in different location within the country, The Nigerian Stock Exchange has continued to expand its sphere of operations by opening trading floors in various cities. These trading floors are linked to the exchange, thereby providing the opportunity for stockbrokers to trade from different parts of the country. Some of the trading floors of The Nigerian Stock Exchange are located in Abuja, Kano, Yola, Port Harcourt, Kaduna, Uyo, Ibadan, Onitsha and Ilorin. The exchange is working towards establishing other trading floors.

The Nigerian Stock Exchange linked all its branches to its server via the wireless connection network known as the VSAT System. This new system has enabled stockbrokers to trade on the trading floors of various branches of the Nigerian Stock Exchange simultaneously. This has improved the ranking of the Nigerian Securities Market among other markets in the world, as well as ensured greater efficiency and transparency in market transactions. It has also enabled investors, especially marginal investors in different parts of the country, to have easy access to stockbrokers as the brokers can operate in locations of their choice apart from Lagos.

REMOTE TRADING

While the Nigerian Capital Market has made good progress in introducing technological innovations in securities transactions, there are still desired improvements which should be made. Remote trading, which is a common phenomenon in most advanced markets is one of such. It is a system that enables brokers to trade from the comfort of their offices by connecting their computers to the main trading machine of the stock exchange. In 2006 the Nigerian Stock Exchange commenced the upgrading of its trading floor to accommodate Remote Trading consequent upon which stockbrokers in Lagos are presently able to trade remotely from their office. There are plans to extend this to other cities.

The Nigerian Stock Exchange is hoping to achieve full remote access to its Trading Engine such that brokers from any part of the globe can trade on the Nigerian Stock Exchange trading floor from their offices. A V-SAT equipment to facilitate this objective has been installed in Lagos and final arrangement is being made for the transition to full remote trading as soon as possible.

THE ELECTRONIC BONUS SHARE (E-BONUS)

The SEC and the Nigerian Stock Exchange facilitated the introduction of electronic bonus (e-bonus) shares in 2004 respectively. It is mandatory for quoted companies to issue bonuses to beneficiaries electronically within one month of the shareholders approval of such bonuses.

E-bonus refers to the electronic form of bonus shares which implies that when a quoted company declares script or bonus issues, instead of sending physical bonus share certificate to the investor, the bonus is credited to the investor's stock account in the CSCS depository and a credit advice sent to the investor.

To qualify for e-bonus, investors or shareholders must have a stock account with a stock broking firm who is a member of the Nigeria Stock Exchange and also complete a CSCS shareholders particulars form to join the CSCS depository through the stock broking firm. However, shareholders can elect to receive bonus via direct CSCS credit (e-bonus) or physical bonus share certificates. It is expected that when e-bonus is fully implemented, the problems associated with physical issuance of bonus share certificates such as shareholders changing their address without informing Registrars, postal delays and loss of certificates in transit etc will be eliminated.

The introduction of e-bonus is expected to avail shareholders with the opportunity to take advantage of price movements immediately after approval of bonus share. This will in turn enhance liquidity in the market in addition to many other gains. It is important to note that some companies have commenced the payment of bonus electronically. The companies include GTbank, First bank of Nigeria plc, Union bank plc, UBA plc, Benue cement company plc, Oceanic bank plc, Zenith bank plc etc.

E-DIVIDEND

In order to minimize cases of unclaimed dividends as well as enhance the ability of shareholders to immediately access and utilize their dividend proceeds, the SEC introduced the e-dividend payment system on the 28th February 2008. It is a convenient, secure, on-line means of paying dividends directly to shareholders account instead of printing and mailing dividend warrants. With this development, it is expected that dividends will be automatically credited directly into shareholders account within 24 hours of payment of dividend by companies, following which Registrars would send confirmation letters of the dividend payment to the respective shareholders. This system of dividend payment has given hope to stakeholders that the gamut of problems encountered in dividend payment in the past will be tackled.

In introducing the e-dividend payment system, the SEC collaborated with stakeholders such as the NSE, CSCS, CBN, CAC, Nigerian Inter-bank Settlement System (NIBSS), Stockbrokers, Registrars, Tax authorities, Banks, Issuers and Shareholders Associations. These stakeholders have different roles to play towards the successful implementation of the e-dividend payment system. The NIBSS for instance is operating the automated electronic funds transfer that is crucial to the success of the e-dividend payment system.

The e-dividend payment system is beneficial to investors in particular and the market in general. Some of the benefits are reflected in the ease and speed with which dividend payment transactions are now executed. Other benefits include reduction in incidence of unclaimed dividend; increased transparency in the administration of dividend payment and elimination of costs associated with the printing and posting of dividend warrants. (Ogunyemi, 2008)

E-ALLOTMENT

The e-allotment system was introduced in the Nigerian Capital Market very recently. Some of the reasons for introducing the e-allotment system are similar to those of the e-dividend payment system. They include submission of wrong name and/or address on the subscription form, postal services delay in forwarding certificates etc. the system which is the electronic (automatic) capture of allotted shares into investors' accounts in the CSCS was formally introduced in the Nigerian Capital Market on the 1st July 2008 to replace the long practice of issuance of share certificates manually. It involves the electronic transfer of allotment schedule in respect of an IPO as prepared by the Registrars of a quoted company to the CSCS, who make these shares available to allotees by crediting their stock account in the CSCS within 48 hours of receipt from the registrars.

In ensuring the smooth implementation of the e-Allotment system, both stockbrokers and investors have enormous obligations perform. For instance, investors must create and know their CSCS Clearing House Number (CHN) which can be obtained through any authorized stock broking firm. Also, they must disclose their CSCS CHN to new stock broking firms they engaged to avoid multiple CHN. While, the stockbrokers have to ensure that clients make available to them their CSCS CHN, the CSCS must also ensure that clients' names are forwarded to it in the order of Surname, First name and other names.

The benefits derivable from introducing the e-Allotment system are quite important in the quest of the Nigerian Stock Market to complete favorable with its peers across the globe. It is expected that the e-Allotment system will lead to the attainment of greater transparency and efficiency in conducting securities market business in Nigeria, thereby shoring up investors confidence and attracting more local and foreign investors to the market amongst many other benefits.

E-IPO

The SEC in collaboration with the CSCS and Registrars is working towards the introduction of electronic Initial Public Offers, by ensuring that all IPOs are electronically captured on investors' accounts at the CSCS. It is expected that when it commences, after the closure of an offer and successful allotment, the list of all beneficiaries would be forwarded to the CSCS for retention in the depository. The full operation of e-IPO will eliminate the long period of time used by Registrars to print and distribute certificates. This will provide the investors the opportunity to conduct transactions on their investment within a very short period. The process, which is expected to enhance market efficiency as well as unlock more investment opportunities for the market will be introduced in the Nigerian market in 2009. (Alabede and Dada, 2009)

EMERGING CHALLENGES OF ELECTRONIC TECHNOLOGY

Technological innovations are critical to the development of a stable and efficient capital market, but as the impact of these technological innovations are being felt in the Nigerian Securities Market, they pose new challenges which require the apex regulatory body, The SEC to put in more efforts to its regulatory activities so as to effectively regulate the market. The challenges include the non acceptance of payment of dividends on savings account by some banks, which would impede the smooth implementation of the e-dividend payment system. The SEC could liaise with the CBN and NIBSS to address this problem.

The electronic payment of dividend, bonus shares, allotment of shares etc entails the direct and automatic crediting of investors account, which may be effected without the knowledge of the shareholders. It is necessary that effective enlightenment be carried out while at the same time, evolving a system whereby investors will be notified any time their accounts are credited.

The opening of CSCS account, (which is crucial to the success of e-Allotment system) is posing a serious threat to its successful implementation. It is alleged that some stock broking firms charge fees before opening CSCS account for investors while others refuse to open the CSCS account to marginal investors. Also, some brokerage firms demand deposits of a minimum amount for share purchase through them before they agree to open CSCS account for investors. The amount is sometimes beyond what some shareholders can afford. The SEC should urgently address this situation to ensure the smooth implementation of the e-Allotment system.

Another challenge that requires urgent consideration is the issue of how the e-Allotment system will address the problem of return money when there is over subscription. The need to evolve an electronic means of returning oversubscription money should be evolved in collaboration with the NIBSS.

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

This chapter presents details of the methodology adopted in the research. In specific terms, it examines the strategy used for collecting data, the method adopted in analyzing the data collected, and method for developing hypotheses to be tested.

3.1 RESEARCH PURPOSE

The purpose of the research is mainly to understand the impact of capital market reforms on the performance of the Nigerian capital market. The reform to be considered was the electronic reform which was initiated in 1998 and implemented in 1999. The following indicators were set out to be used in testing the performance; market capitalization, the volume of stock traded, the value of stocks and the share market index. To achieve the objective of this study, data for the study will cover twenty years from 1988 to 2007.

3.2 RESEARCH DESIGN

Since the purpose of the research was to gain better insight about the capital market reforms and its contribution toward the performance of the capital market, both descriptive and inferential data were found to be appropriate for this study. Descriptive data go so far as only allowing us to describe events observed, inferential data helps in establishing a cause-effect relationship based on descriptive data. Based on these conditions, the research questions raised in chapter one were used to generate more data.

3.3 DATA COLLECTION

Data are very important in every research. Without qualitative and correct data, some difficulty will be experienced in achieving the aim of the research. Thus, care was taken in selecting the source of data that were used in this research.

In conducting this research work, the available data on the study are secondary data. The data used for analysis in this study were extracted from the NSE Fact book of various years, CBN annual report and statement of account for various years and the NSE annual report and account for various years. The data extracted from these publications related to the NSE market capitalization, trading volume, value of stock traded and share market index all on yearly basis. These data were supplemented with data from newspapers, journals, conference papers and textbooks. Internet facilities were explored to extract relevant data required for the research.

3.4 METHOD OF DATA PRESENTATION AND ANALYSIS

The data collected were presented in tables and analyzed. For the researcher to ensure meaningful interpretation of data collected, descriptive statistics were used which included the mean and standard deviation.

The data extracted were for twenty years from 1988 to 2007. The data were for pre and post reform periods. The pre reform periods utilized data from 1988 to 1997 while the post reform periods were based on data from 1998 to 2007.

The data for the pre reform period were presented and analyzed as well as data for the post reform period.

In testing the hypothesis formulated, the researcher made use of ordinary least square simple regression and ANOVA using 5% level of significance for each of the hypothesis. In the regression test the dependent variables are the market capitalization, the volume of stock, value of stocks traded and the share index. The independent variables are the ten years period for both the pre and post reform periods. The years are referred to as time in the analysis which was constant.

The model adopted for the study was based on the standard specifications by Koutsoyiannis (1978) which is defined as follows

Y = bo + bixi + Ei

bo = intercept

bi = regression coefficient

ei = error term

y = dependent variable (market capitalization, share index, volume of stocks traded and value of stocks)

x = independent variable (years)

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter contains the presentation, analysis and interpretation of all the data collected for the study. The analysis was based on the data generated.

HYPOTHESIS 1

H0 There is no significant difference between the stock exchange market capitalization before and after the reforms.

H1 There is significant difference between the stock exchange market capitalization before and after the reforms.

Table 4.1

MARKET CAPITALIZATION BEFORE AND AFTER THE REFORM

Year before the reform	Market capitalization before the reform(# billion)	Year after the reform	Market capitalization after the reform (# billion)
1988	9.70	1998	263.30
1989	12.00	1999	300.00
1990	15.90	2000	478.6
1991	22.60	2001	662.6
1992	32.50	2002	7639
1993	46.90	2003	1,356.0
1994	65.50	2004	2,112.0
1995	171.10	2005	2,900.0
1996	285.60	2006	5,120.0
1997	292.00	2007	13,295.0

Source: Nigerian Stock Exchange Annual Report and Accounts, various years and Central Bank of Nigeria Statistical bulletin 1998.

The data presented in Table 4.1 above shows the market capitalization for pre and post reform period which were analyzed in the tables below.

MARKET CAPITALIZATION BEFORE THE REFORM

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.8E+010	1	8.755E+010	26.800	.001[a]
	Residual	2.6E+010	8	3266693439		
	Total	1.1E+011	9			

a. Predictors: (Constant), time

b. Dependent Variable: market capitalization before

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-83786.7	39044.295		-2.146	.064		
	time	32575.758	6292.558	.878	5.177	.001	1.000	1.000

a. Dependent Variable: market capitalization before

MARKET CAPITALIZATION AFTER THE REFORM

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.6E+013	1	8.560E+013	11.563	.009[a]
	Residual	5.9E+013	8	7.403E+012		
	Total	1.4E+014	9			

a. Predictors: (Constant), time

b. Dependent Variable: market capilization after

Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-2877213	1858673		-1.548	.160		
	time	1018628	299552.3	.769	3.401	.009	1.000	1.000

a. Dependent Variable: market capilization after

INTERPRETATION 1

Y = F (x)

Y = a+ bx

Key

Y = market capitalization

x = year

a = intercept

b = coefficient

The pre reform period (1988 – 1997)

Y = -83786.7 + 32575.758x

The slope 32575.758 measures the rate of increase in market capitalization for every unit increase in time.

The post reform period (1998 – 2007)

Y = -2877213 + 1018628x

During post reform period, market capitalization increases by 1018628 for every unit increase in time.

Comparatively, the market capitalization increases faster in the post reform period than the pre reform period.

Both slopes were significant at 5% level of significance. H0 is rejected; hence there is significant difference between the stock exchange market capitalization before and after the reforms.

HYPOTHESIS 2

H0 There is no significant difference between the trading volume of stocks in the stock exchange market before and after the reforms.

H1 There is significant difference between the trading volume of stocks in the stock exchange market before and after the reforms.

Table 4.2

TRADED VOLUME BEFORE AND AFTER REFORM

Year before the reform	Traded volume before the reform (million)	Year after the reform	Traded volume After the reform (million)
1988	260	1998	2,100
1989	675	1999	3,900
1990	305	2000	5,000
1991	172	2001	5,900
1992	262	2002	6,600
1993	473	2003	13,300
1994	624	2004	19,210
1995	297	2005	26,700
1996	882	2006	36,700
1997	1,300	2007	138,100

Source: Nigerian Stock Exchange Annual Report and Accounts, various years.

The data presented in Table 4.2 above shows the traded volume for pre and post reform period which were analyzed in the tables below

TRADE VOLUME BEFORE THE REFORM

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	476216.0	1	476216.048	6.288	.037[a]
	Residual	605850.0	8	75731.244		
	Total	1082066	9			

a. Predictors: (Constant), time

b. Dependent Variable: Trade volume before

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	107.133	187.993		.570	.584		
	time	75.976	30.298	.663	2.508	.037	1.000	1.000

a. Dependent Variable: Trade volume before

THE TRADE VOLUME AFTER THE REFORM

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.1E+009	1	8062181309	9.133	.017[a]
	Residual	7.1E+009	8	882732747.6		
	Total	1.5E+010	9			

a. Predictors: (Constant), time

b. Dependent Variable: trade volume after

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-27879.3	20296.353		-1.374	.207		
	time	9885.515	3271.053	.730	3.022	.017	1.000	1.000

a. Dependent Variable: trade volume after

INTERPRETATION 2

$Y = a + bx$

KEY

Y = trading volume

a =intercept

b = coefficient

x = year

The pre reform period (1988 – 1997)

Y = 107.133 + 75.976x

The slope 75.976 measures the rate of increase in trade volume for every unit increase in time.

The post reform period (1998 – 2007)

Y = -27879.3 + 9885.515x

During post reform period the trade volume increases by 9885.515 for every unit increase in time.

Comparatively, the trade volume increases faster in the post reform period than the pre reform period. Both slopes were significant at 5% level of significance. Conclusively H0 is rejected; hence there is significant difference between the trading volume of stocks before and after the reforms.

HYPOTHESIS 3

H0 There is no significant difference between the value of stock traded on the stock exchange before and after the reforms.

H1 There is significant difference between the value of stock traded on the stock exchange before and after the reforms.

Table 4.3

VALUE OF STOCK TRADED BEFORE AND AFTER REFORM

Year before the reform	Traded value before the reform(#billion)	Year After the reform	Traded value After the reform (#billion)
1988	0.25	1998	13.57
1989	0.65	1999	14.08
1990	0.31	2000	28.2
1991	0.23	2001	57.6
1992	0.49	2002	60.3
1993	0.66	2003	120.7
1994	0.99	2004	2225.82
1995	1.84	2005	262.94
1996	7.06	2006	470.25
1997	11.07	2007	2,100.00

Source: Nigerian Stock Exchange Annual Report and Accounts, various years and Central Bank of Nigeria Statistical bulletin 1998.

The data presented in Table 4.3 above shows the Value of stock traded for pre and post reform period which were analyzed in the tables below.

VALUE OF STOCK TRADED BEFORE THE REFORM

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	70.335	1	70.335	10.765	.011[a]
	Residual	52.269	8	6.534		
	Total	122.604	9			

a. Predictors: (Constant), time

b. Dependent Variable: Value before

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	-2.723	1.746		-1.560	.157		
	time	.923	.281	.757	3.281	.011	1.000	1.000

a. Dependent Variable: Value before

VALUE OF STOCK TRADED AFTER THE REFORM

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.8E+012	1	1.790E+012	7.288	.027[a]
	Residual	2.0E+012	8	2.456E+011		
	Total	3.8E+012	9			

a. Predictors: (Constant), time

b. Dependent Variable: value after

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	-492145	338538.6		-1.454	.184		
	time	147297.1	54560.428	.690	2.700	.027	1.000	1.000

a. Dependent Variable: value after

INTERPRETATION 3

Y = a + bx

KEY

Y = value of stock traded

a =intercept

b = coefficient

x = year

The pre reform period (1988 – 1997)

Y = -2.723 + .923x

The slope .923 measures the rate of increase in the value of stocks for every unit increase in time.

The post reform period (1998 - 2007)

Y = -492.45 + 147297.1x

During post reform period, the value of stock increases by 147297.1 for every unit increase in time.

Comparatively, the value of stocks increases faster in the post reform period than the pre reform period. Both slopes were significant at 5% level of significance. H0 is rejected; hence there is significant difference between the value of stocks before and after the reforms.

HYPOTHESIS 4

Ho There is no significant difference between the stock market index before and after the reforms.

H1 There is significant difference between the stock market index before and after the reforms.

Table 4.4

SHARE INDEX BEFORE AND AFTER REFORM

Year before the reform	Share index before the reform	Year After the reform	Share index After the reform
1988	233.6	1998	5,672.76
1989	325.3	1999	5,266.43
1990	513.8	2000	8,111.01
1991	784.0	2001	10,963.11
1992	1107.6	2002	12,137.72
1993	1,543.8	2003	20,128.94
1994	2,205.0	2004	23,844.45
1995	5,092.15	2005	24,085.76
1996	6,992.10	2006	33,189.30
1997	6,440.51	2007	57,990.20

Source: Nigerian Stock Exchange Annual Report and Accounts, various years.

The data presented in Table 4.4 above shows the Share index for pre and post reform period which were analyzed in the tables below.

STOCK MARKET INDEX BEFORE THE REFORM

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	51307294	1	51307293.87	37.975	.000[a]
	Residual	10808528	8	1351066.021		
	Total	62115822	9			

a. Predictors: (Constant), time

b. Dependent Variable: Share index bfore

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	-1813.572	794.039		-2.284	.052		
	time	788.611	127.971	.909	6.162	.000	1.000	1.000

a. Dependent Variable: Share index bfore

STOCK MARKET INDEX AFTER THE REFORM

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.9E+009	1	1904767060	33.793	.000[a]
	Residual	4.5E+008	8	56364925.97		
	Total	2.4E+009	9			

a. Predictors: (Constant), time

b. Dependent Variable: share index after

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	-6288.567	5128.707		-1.226	.255		
	time	4805.006	826.566	.899	5.813	.000	1.000	1.000

a. Dependent Variable: share index after

INTERPRETATION 4

Y = a + bx

KEY

Y = share index

a =intercept

b = coefficient

x = year

The pre reform period (1988 – 1997)

$Y = -1813.572 + 788.611x$

The slope 788.611 measure the rate of increase in share index for every unit increase in time.

The second ten years 1998 – 2007

$Y = -6288.567 + 4805.006x$

During the post reform period, share index increases by 4805.006 for every unit increase in time.

Comparatively, the share index increases faster in the post reform than the pre reform period. Both slopes were significant at 5% level of significance. H0 is rejected; hence there is significant difference between the stock market index before and after the reforms.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

In the course of this research the following findings were made:

- That comparatively, the market capitalization increases faster in the post reform period than the pre reform period. The market capitalization increases in the post reform period from #263.30billion in 1998 to #13,295.0billion in 2007 and from #9.70billion in 1988 to #292.00billion in 1997 during the pre reform period. The slope indicated that the market capitalization increase in the post reform period by 1018628 as against 32575.758 in the pre reform period.
- That comparatively, the trade volume increases faster in the post reform period than the pre reform period. The trade volume increases in the post reform period from 2,100million in 1998 to 138,100million in 2007 and from 260million in 1988 to 1,300million in1997 in the pre reform period. The slope also increases from 75.976 during the pre reform period to 9885.515 in the post reform period.

- That comparatively, the value of stocks increases faster in the post reform period than the pre reform period. The value of stocks increases during the post reform period from #13.57billion to #2,100.00billion while during the pre reform period it increases from #0.25billion to #11.07billion. The slope increases from .923 during the pre reform period to 147297.1 during the post reform period.
- That comparatively, the share index increases faster in the post reform period than in the pre reform period. The share index increases in the post reform period from 5,672.76 in1998 to 57,990.20 in 2007 than the pre reform period which increases from 233.6 in 1988 to 6,440.51 in 1997. There is also an increase in the slope by 788.611 during pre reform period and by 4805.006 during the post reform period.

5.2 CONCLUSION

Based on the analysis made and the resultant findings, the conclusions arrived at are as follows:

- The market capitalization increased in the post reform period. The null hypothesis was rejected while the alternate hypothesis was accepted.
- The trade volume increased faster in the post reform period. Hence the null hypothesis was rejected while the alternate was accepted.
- The value of stocks increased faster during the post reform period. The null hypothesis was rejected; hence the alternate hypothesis was accepted.
- The share index increased faster in the post reform period. The invalidity of the null hypothesis number four is confirmed.

As long as reform in the Nigerian economy is taken to be a continuous exercise, so will the NSE continue to expand through reaping from such reforms in terms of increased volume of stocks traded, market capitalization, value of stocks etc. Conclusively, based on the findings there is a significant difference in the performance of the Nigerian Capital Market before and after the reforms.

5.3 RECOMMENDATIONS

Since all the performance indices used in the evaluation of the pre and post reform periods are positive, that is, shows that the reform has impacted significantly on the Nigerian Capital Market; the following strategies are recommended as a way of sustaining the growth:

- Nigerian government (under the global economic meltdown) should put in place a good bailout package to assist the ailing banks, stockbrokers etc, as this will not allow the fund withdrawal by the foreign investors to negatively affect the capital market.
- The NSE should find means of cutting down cost of raising fund on the exchange so as to allow more companies the opportunity of accessing funds from the exchange.
- Companies should be encouraged to engage in buy back options as a way of stabilizing their share price thereby stemming the negative effects of the global economic crises. In addition continue to enhance confidence on the side of both the stakeholders and investing public.
- Government and the stakeholders should strengthen the regulation and control of the activities of the operators to ensure continuity, transparency in all the deals in the market as this

will boast and attract more private participation in the market with its overall growth of both the market and the economy.

- Given the present political dispensation, all the tiers of government should be encouraged to fund their realistic developmental programmes through the stock market. This will serve as a leeway to freeing the resources that may be used in other sphere of the economy.

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Appendix 1

MARKET CAPITALIZATION BEFORE THE REFORM

Descriptive Statistics

	Mean	Std. Deviation	N
market capitalization before	95380.00	112388.65898	10
time	5.5000	3.02765	10

Correlations

		market capitalization before	time
Pearson Correlation	market capitalization before	1.000	.878
	time	.878	1.000
Sig. (1-tailed)	market capitalization before	.	.000
	time	.000	.
N	market capitalization before	10	10
	time	10	10

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	time[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: market capitalization before

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.878[a]	.770	.741	57154.99488	.619

a. Predictors: (Constant), time

b. Dependent Variable: market capitalization before

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions	
				(Constant)	time
1	1	1.886	1.000	.06	.06
	2	.114	4.075	.94	.94

a. Dependent Variable: market capitalization before

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-51210.9	241970.9	95380.00	98628.00396	10
Residual	-78743.6	76204.85	.00000	53886.24594	10
Std. Predicted Value	-1.486	1.486	.000	1.000	10
Std. Residual	-1.378	1.333	.000	.943	10

a. Dependent Variable: market capitalization before

Appendix 2

MARKET CAPITALIZATION AFTER REFORM

Descriptive Statistics

	Mean	Std. Deviation	N
market capilization after	2725240	4011442.720	10
time	5.5000	3.02765	10

Correlations

		market capilization after	time
Pearson Correlation	market capilization after	1.000	.769
	time	.769	1.000
Sig. (1-tailed)	market capilization after	.	.005
	time	.005	.
N	market capilization after	10	10
	time	10	10

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	time[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: market capilization after

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.769[a]	.591	.540	2720818.51	.948

a. Predictors: (Constant), time

b. Dependent Variable: market capilization after

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions (Constant)	Variance Proportions time
1	1	1.886	1.000	.06	.06
	2	.114	4.075	.94	.94

a. Dependent Variable: market capilization after

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-1858586	7309066	2725240	3084049.058	10
Residual	-2371810	5985935	.00000	2565212.292	10
Std. Predicted Value	-1.486	1.486	.000	1.000	10
Std. Residual	-.872	2.200	.000	.943	10

a. Dependent Variable: market capilization after

Appendix 3

VOLUME OF STOCKS TRADED BEFORE REFORM

Descriptive Statistics

	Mean	Std. Deviation	N
Trade volume before	525.0000	346.74134	10
time	5.5000	3.02765	10

Correlations

		Trade volume before	time
Pearson Correlation	Trade volume before	1.000	.663
	time	.663	1.000
Sig. (1-tailed)	Trade volume before	.	.018
	time	.018	.
N	Trade volume before	10	10
	time	10	10

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	time[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: Trade volume before

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.663[a]	.440	.370	275.19310	1.159

a. Predictors: (Constant), time

b. Dependent Variable: Trade volume before

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions	
				(Constant)	time
1	1	1.886	1.000	.06	.06
	2	.114	4.075	.94	.94

a. Dependent Variable: Trade volume before

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	183.1091	866.8909	525.0000	230.02803	10
Residual	-317.939	433.10910	.00000	259.45455	10
Std. Predicted Value	-1.486	1.486	.000	1.000	10
Std. Residual	-1.155	1.574	.000	.943	10

a. Dependent Variable: Trade volume before

Appendix 4

VOLUME OF STOCKS TRADED AFTER REFORM

Descriptive Statistics

	Mean	Std. Deviation	N
trade volume after	26491.00	40993.28304	10
time	5.5000	3.02765	10

Correlations

		trade volume after	time
Pearson Correlation	trade volume after	1.000	.730
	time	.730	1.000
Sig. (1-tailed)	trade volume after	.	.008
	time	.008	.
N	trade volume after	10	10
	time	10	10

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	time[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: trade volume after

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.730[a]	.533	.475	29710.81870	1.247

a. Predictors: (Constant), time

b. Dependent Variable: trade volume after

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions (Constant)	Variance Proportions time
1	1	1.886	1.000	.06	.06
	2	.114	4.075	.94	.94

a. Dependent Variable: trade volume after

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-17993.8	70975.82	26491.00	29929.88345	10
Residual	-24504.8	67124.18	.00000	28011.62850	10
Std. Predicted Value	-1.486	1.486	.000	1.000	10
Std. Residual	-.825	2.259	.000	.943	10

a. Dependent Variable: trade volume after

Appendix 5

VALUE OF STOCKS BEFORE REFORM

Descriptive Statistics

	Mean	Std. Deviation	N
Value before	2.3550	3.69088	10
time	5.5000	3.02765	10

Correlations

		Value before	time
Pearson Correlation	Value before	1.000	.757
	time	.757	1.000
Sig. (1-tailed)	Value before	.	.006
	time	.006	.
N	Value before	10	10
	time	10	10

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	time[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: Value before

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.757[a]	.574	.520	2.55609	.617

a. Predictors: (Constant), time

b. Dependent Variable: Value before

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions	
				(Constant)	time
1	1	1.886	1.000	.06	.06
	2	.114	4.075	.94	.94

a. Dependent Variable: Value before

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-1.8000	6.5100	2.3550	2.79553	10
Residual	-2.82333	4.56000	.00000	2.40990	10
Std. Predicted Value	-1.486	1.486	.000	1.000	10
Std. Residual	-1.105	1.784	.000	.943	10

a. Dependent Variable: Value before

Appendix 6

VALUE OF STOCKS AFTER REFORM

Descriptive Statistics

	Mean	Std. Deviation	N
value after	317988.4	645898.99540	10
time	5.5000	3.02765	10

Correlations

		value after	time
Pearson Correlation	value after	1.000	.690
	time	.690	1.000
Sig. (1-tailed)	value after	.	.014
	time	.014	.
N	value after	10	10
	time	10	10

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	time[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: value after

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.690[a]	.477	.411	495569.697	1.172

a. Predictors: (Constant), time

b. Dependent Variable: value after

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions (Constant)	Variance Proportions time
1	1	1.886	1.000	.06	.06
	2	.114	4.075	.94	.94

a. Dependent Variable: value after

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-344848	980825.1	317988.4	445964.00155	10
Residual	-423291	1119175	.00000	467227.59076	10
Std. Predicted Value	-1.486	1.486	.000	1.000	10
Std. Residual	-.854	2.258	.000	.943	10

a. Dependent Variable: value after

Appendix 7

SHARE INDEX BEFORE REFORM

Descriptive Statistics

	Mean	Std. Deviation	N
Share index bfore	2523.7860	2627.11972	10
time	5.5000	3.02765	10

Correlations

		Share index bfore	time
Pearson Correlation	Share index bfore	1.000	.909
	time	.909	1.000
Sig. (1-tailed)	Share index bfore	.	.000
	time	.000	.
N	Share index bfore	10	10
	time	10	10

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	time[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: Share index bfore

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.909[a]	.826	.804	1162.35366	.824

a. Predictors: (Constant), time

b. Dependent Variable: Share index bfore

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions (Constant)	Variance Proportions time
1	1	1.886	1.000	.06	.06
	2	.114	4.075	.94	.94

a. Dependent Variable: Share index bfore

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-1024.96	6072.5337	2523.7860	2387.63700	10
Residual	-1501.70	1708.177	.00000	1095.87754	10
Std. Predicted Value	-1.486	1.486	.000	1.000	10
Std. Residual	-1.292	1.470	.000	.943	10

a. Dependent Variable: Share index bfore

Appendix 8

SHARE INDEX AFTER REFORM

Descriptive Statistics

	Mean	Std. Deviation	N
share index after	20138.97	16178.47152	10
time	5.5000	3.02765	10

Correlations

		share index after	time
Pearson Correlation	share index after	1.000	.899
	time	.899	1.000
Sig. (1-tailed)	share index after	.	.000
	time	.000	.
N	share index after	10	10
	time	10	10

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	time[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: share index after

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.899[a]	.809	.785	7507.65782	1.105

a. Predictors: (Constant), time

b. Dependent Variable: share index after

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions (Constant)	time
1	1	1.886	1.000	.06	.06
	2	.114	4.075	.94	.94

a. Dependent Variable: share index after

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-1483.56	41761.50	20138.97	14547.87903	10
Residual	-8065.72	16228.70	.00000	7078.28768	10
Std. Predicted Value	-1.486	1.486	.000	1.000	10
Std. Residual	-1.074	2.162	.000	.943	10

a. Dependent Variable: share index after