Influencing Factors on Capital Market Development: The Nigeria Experience

BAKO, Isaac

Department of Accounting
Bingham University,
Karu, Nasarawa State.
E – Mail**:** aladebi1971@gmail.com, Phone No: +2348064739844

Abstract

This paper examines the factors affecting the development of the capital markets in Nigeria, the study also looked at the performance indicators which show a relatively poor performance of the Nigeria Stock Exchange despite different measure put in place by the government. The study covered a period of ten years ranging from 2007 to 2017. In the course of the study several literatures were reviewed and secondary source of data was relied upon. The secondary data were obtained from the fact book and periodic publications of the Nigerian Stock Exchange, as well as the Securities and Exchange Commission, Central Bank of Nigeria, while descriptive and regression approve was used in data analysis. The study establishes both the external (macroeconomic and social cultural factors) and market (legal, regulatory and institutional) factors which have constrained the development of the Stock Market. However, there are some variables which did not clearly show the above relationship, namely macroeconomic stability-inflation and private capital inflows. It can therefore be concluded that stock market development is determined by stock market liquidity, institutional quality, and income per capital, domestic savings and bank development. Using the regression analysis, the study established that 85% of stock market development is determined by: stock market liquidity, institutional quality, income per capital, macroeconomic stability-inflation, domestic savings and private capital flows and bank development. The study recommends NSE needs to be developed further to enhance domestic resource mobilization. Various policies and programs that affect stock market development such as regulation of institutional investor and privatization need to be addressed. The policy makers SEC should consider reducing impediments to stock market development by easing restriction on international capital flows. NSE should play an increasing educational role and they should also change the approach from heavy handed type to more productive.

Keyword: Capital Market, Nigeria Stock Exchange, Securities and Exchange Commission

1. INTRODUCTION

Emerging capital markets are financial markets that reside in the low or middle income economies or where the ratio of investable market capitalization to group to Gross National Product is low. The economies of many developing countries have been characterized by declining commodity prices, disequilibrium in the balance of payments, reduced foreign aid and declining economic growth. Thus inflow of foreign investment is crucial in their efforts to restore macroeconomic stability (Killick & Martin; 1990). New theoretical research work show that capital market development might boost economic growth and empirical evidence tends to provide some support to this question Levine and Zervos (1998), for instance, find that stock market development plays an important role in predicting future economic growth. A stock market is a financial institution where securities are bought and sold. As Pardy (1992) observes security markets have an important role to play in financial liberalization and deepening. The development of African stock exchanges is growing in importance because of the important role they play in facilitating higher savings rate of the working population, offering of variety of securities to as many people as possible, flow of foreign direct investment into long established or recently introduced companies distribution on capital in the most productive sectors of the economy redistribution of wealth in the economy and improved corporate governance through increased transparency. The stock market plays significant role in any economy, according to Stijn (1995) and Munga (1974) a stock market acts as a vehicle for raising capital for firms and it takes on a large role in developing countries, where privatization of state corporations is taking place. Most companies and governments of the developing countries have turned to the stock market as an Avenue raising capital to finance various projects. Secondly African stock exchange promotes high standards of accounting, resource management and transparency in the management of business. This is due to the fact that people who have money may not necessarily have the best business ideas and vice risk between the two groups (NSE 2000) organized capital market can serve as a medium for transferring part of the business ownership of foreign corporations to the citizens. Central to the efficient functioning of a capital market is the development of the stock market. The emerging capital markets of Southeast Asia move successfully used the stock market to mobilize savings and channeled such savings to appropriate investment (IFC emerging market Data base 1990). Nigeria's capital market has been described as narrow and shallow. The stock market and private bond market have been raising less than 1% of growth financing. The vision 2030 development plan aims to achieve an annual economic growth of 10% with an investment rate of 30% to be financed mainly from mobilization of domestic resources. There has been significant focus on capital market development with special emphasis on the institutional development of the stock market and the introduction of new instruments in the bonds market. Long term capital is teemed. NSE is used as an instrument of privatization and also as an avenue of liberalization of sectors previously dominated by the government.

Kibuthu (2005) in studying capital markets in emerging economies observed that prior to the late 1980's,international donors and governments in developing countries held the notion that entrepreneurial functions could be served better by the state through state ownership of the means of production, taxation, licensing and regulation. Poor performance of the public sector, misallocation of resources, market distortion and negative economic growth influence a re-evaluation of the state-led development strategy. In the past 15 years, liberalization and privatization have become dominant themes in development strategies particularly in Africa. Donors, governments and development practitioners have exhibited changing attitudes towards the role of the private sector in the development of African economies and acknowledged the need to facilitate private sector development. Promotion of economic growth led by the private sectors requires an enabling environment which the private sector can flourish. A key factor is the healthy growth of a nation's financial sector, which in turn improves the private sectors' access to services such as bank credit, equity capital, payments and risk management services (The World Bank 2002, paper 14).Odundo (2004), while examining the overview and evolution of investments in sub-Saharan Africa with special reference to Nigeria, observed that financial markets typically comprise of several institutions including banks, insurance, mortgage funds, finance companies and stock markets. It was also observed that, in developing countries, financial markets are dominated by commercial banks, which have not been reliable sources of long- term financing. The non-bank sources of medium and long term are generally underdeveloped. Heavy reliance on banks increases vulnerability of financial systems as exemplified by the Asian financial crisis in the 1990s'.This has led to the development of programs by World Bank, IMF and ADB for the development of the emerging capital markets in developing countries. In a study by Morland (1995) he observed that despite the positive and encouraging development in the restructuring of African financial systems, stock market development in Africa is grossly incomplete. With exception of South Africa the emerging stock market in Africa are by far the smallest of any region, both in terms of numbers of listed companies and market capitalization. Only four companies were trading in Swaziland in 1995, twelve in Botswana, fifty six in Kenya and one hundred eighty one in Nigeria compared to over seven thousand in the U.S. Moreover the listed companies consist mostly of foreign firms a reflection. of the weak, private system in these countries. The capital market now comprise of; the trading debt and equity over the Nigeria Stock Exchange (NSE);debt capital markets(bonds);development financial institutions (DFI's) and pension funds. The financial sector plays a crucial role in financial sector development and the realization of value. In particular, the market assists in price discovery, liquidity provision and proper allocation of risk between various participants on a more macro-economic level, the capital market is positively correlated to a country's economic growth. Notwithstanding the above, Kenya's capital market is faced with challenges.

The financial sector is inordinately skewed towards banking institutions that are yet to provide long-term capital on adequate basis. Furthermore equity and debt market are struggling to gain momentum, partly due to the fact that only 56 companies are listed on NSE, with only a small proportion of shares attracting significant trading volumes. The experience of the recent Kengen and Safaricom LPO's which were well oversubscribed by Kenyan savers and institutions serves as a clear indication that there is appetite amongst Kenyan market participants for a more diversified financial asset risk (Mara 2009).The government of Kenya, in realizing the importance of the stock market, instituted various measures including the establishment of a regulatory body called Capital Market Authority (CMA) in the late 1980s.However,despite various measures instituted by the government at different times, performance indicators show a relative poor performance of the NSE compared to other emerging stock markets. These include: low turnover ratio,low market capitalization to GDP ratio and low value of stock traded to GDP ratio (IFC,2000).However, as foreign aid to Nigeria is declining, the stock market has become an important avenue for accessing and competing for foreign funds(G.O.K 1994). In the light of these developments, it is necessary to identify and analyze all the factors that limit the development of the capital market in emerging markets (Nigeria) and to suggest necessary policy recommendation. Thus this study sought to answer the question; what are the factors affecting the development of Capital market in Nigeria? The main objective of the study is to determine the factors that affect the development of emerging capital market -The case of Nigeria financial market. The findings of this study will be important to the following groups the policy makers with an opportunity of understanding the issues and constraints that affect the development of the capital market in Nigeria and in other emerging capital markets. It also helps the regulators to determine good regulatory framework which will facilitate the faster development of the capital market through policies and regulations which will create and enhance an enabling environment. The regulators include Securities and Exchange Commission,(SEC) Nigeria Stock Exchange (NSE) and the government. The investors will have the opportunity of knowing the constraints facing the market and its future prospects. The academicians will have information regarding the performance of our capital market and particularly constraints facing it. It will also provide insight and act as a base for future research concerning the capital market.

2. LITERATURE REVIEW

This presents the literature review of the study; the objective of the study is to investigate factors affecting the development of emerging capital markets. This explores the theoretical models of stock markets, empirical findings of other research studies on the same subject. The empirical studies reviews that Market Information and Efficiency, Legal and Regulatory Framework, Political Climate, Market Transparency, Operating Cost, Tax Policy, Level of Countries Economic Growth and Transaction Processing System.

2.1 Conceptual Framework

Ellefsen, (2004) noted that emerging capital markets show the following characteristics which distinguish them from developed Capital market. First, market size in emerging markets is far smaller than developed markets. The overall size of their economies and the size of their financial market in relation to their economies as a whole is relatively small compared to developed countries. Secondly the market is not open to all. Foreign investors are restricted. There is an ownership restriction. Thirdly, there is market inefficiency in emerging market. New information is not quickly reflected in the securities prices. Fourthly, the policy enrolments in many emerging markets are very unstable. Fifthly, market liquidity in emerging markets is illiquid. Investors in merging market are particularly concern about the case of capital movement owing to emerging markets spotty liquidity. Other characteristics include low market activities (few companies keep the market active) few market intermediaries lack of electronic trading, no qualified personnel of emerging capital markets. The term emerging capital market may be used to mean the same as “emerging stock market. However the term “capital” could involve various combinations of debt and equity securities. Barry and Lockwood (1995) observe on the definition provided by IFC that the World Bank’s guide line is that a developing country is one with low-to-middle income which in 1992 meant a per capita GNP (Gross National Product) of less than US $8,356(Washington OC; IFC August 1998).

There has been consideration interest in the development of capital market in many developing countries in the last twenty years or so and evidence of the role of financial markets in economic development is well documented. Goldsmith (1969) in a study of 36 countries drawn from both developed and developing countries, over a 100 year’s institution’ assets to GNP and output per person also lent his voice to the issue in question. Gold Smith presented data showing that (with some exceptions) periods of more rapid growth in the economy have been accompanied by an above average rate of financial development. Levine (1990) shows that stock markets accelerate growth by facilitating the ability to trade ownership of firms without disrupting the productive process occurring within firms and allowing investors to hold diversified portfolios. The stock exchange helps to mobilize domestic savings thereby bringing about the reallocation of financial resources from dormant to active agents. Long term investments are made liquid as the transfer of securities between shareholders is facilitated (Masinde and Kibua 2004). The capital markets facilitates the mobilization and allocation of medium and long term funds for productive investment by; providing a simple mechanism for the transfer of funds, facilitating companies access to a large number of local and foreign investors. Widening the array of financial instrument available to savers and investors; increasing diversity and competition in the financial systems and lastly providing market signals on current situations and future expectations (Wambui Kibuthu, 2005). Generally, the effective functioning of capital market requires the following; existence of an exchange clearing and settlement system, existence of a legal system to enforce contracts and the availability of information on financial soundness and future prospects of companies and governance of corporations in a manner that gives investors confidence

There has been a considerable development in the African Capital Market since early 1990s.Prior to 1989; there were just five stock exchanges in the sub-Saharan and three in North Africa. Today there are nineteen stock exchanges ranging from startups like Uganda and Mozambique stock exchanges to the Nigeria and Johannesburg stock exchanges with the exception of South Africa, most African stock markets doubled their market Capitalization between 1992 and 2002.The rapid development of stock markets in Africa does not mean that even the most advanced African stock markets are mature. In most of these stock markets, trading occurs in only a few stocks which account for a considerable part of the total market capitalization. Beyond these actively traded shares, there are serious information and disclosure deficiencies for other stocks. Further supervision by regulatory authorities is often far adequate. Indicators of stock market development show that Africa markets are small with few listed companies and low market Capitalization. Demirguc-Kunt and Levine (1993) indicated traits of characteristics of stock market development as: market capitalization, the number of listed companies, new capital raised through offering, information disclosure, transparency rules, trading costs and market efficiency. Many of Africa Stock exchanges are small, underdeveloped, and illiquid. They tend to operate in isolation from other markets, have low trading volumes are sheltered from competition by national regulations and face barriers to capital mobility. Low liquidity means that it will be harder to support a local market with its own trading system, market analysis, brokers and the like because the business volumes would simply be too low. Institutional and Infrastructural indicators, like the existence of a strict market regulator, governing law and nature of trading systems have discouraged local entrepreneurs and indigenous enterprises that wish to raise funds from capital market. These barriers facilitate stock exchange to operate like closed membership organization (Asea, 2003). According to Sheehan and Zavala (2005), it is difficult to create an efficient regulating system, lack of trained manpower and experience to adequately police the modern regulatory schemes (Asea, 2003).

Pardy (1992) contends that there are two building blocks necessary for thriving a security market; First a macroeconomic and fiscal environment conducive to the supply of good quality securities and sufficient demand for them. Secondly, market infrastructure capable of supporting efficient operations of the securities market. The market infrastructure include; institutional infrastructure which provides the operational basis for the market, relates to intermediaries that provide trading investment, management and financial advisory services; Secondly, the regulator relates not only to the government body has the power and responsibility to supervise the market, but also include self regulatory organizations such as Stock exchange, Accounting Standards Boards and Accounting and Auditing Professional Association and Thirdly; the legal framework. Poor savings culture in Africa has constrained demand and supply of equity in the stock market due to the diverse reasons; poverty, war., unrest and diseases. Kofi (1998) found the following factors to have constrained the development of Ghana Stock Exchange; Lack of effective educational Campaign, manual clearing System, lack of Central Depository Control System, low level of public awareness, restriction of foreign investors, inappropriate regulatory factors and Macro economic and fiscal factors. In most emerging economies there is a large number of relatively small-family owned businesses, where there is little or no effective division of ownership and control. This type of business structure conduces to internal shareholding, the bequeathing of shares to family members and use of own funds and bank credit rather than capital market financing.

2.2 Empirical Studies

Lack of awareness is a major factor and information on the role, functions and operations of the stock exchange. For companies, the question is not so much lack of knowledge but a concern that the risks associated with additional disclosure are not adequately compensated by additional returns. Public disclosure of relevant information about securities is important for both pricing efficiency and market confidence. Chupe and Atkin (1992) contend that information asymmetries abound in financial markets. Disclosure requirements for Public companies must ensure that financial information is available to investors in way that facilitates intercompany comparisons. Pardy (1992) and Pagano (1993) reaffirmed the need of adequate disclosure of sufficient information by companies who desire to raise funds from the public. This disclosure will facilitate increased investors' confidence in the stock markets. Those companies issuing securities should be subjected to additional disclosure as imposed by the listing rules. In emerging markets, there are many barriers to the dissemination of information and information asymmetries are profoundly found in these markets. Trading on insider Information is common and tends to destabilize the stock market particularly where the financial system is controlled (Kumar and Feldman, 1995; Chuppe and Atkins, 1992).

Also a study by Cheung and Krinsky, (1994) confirmed under-pricing of securities by investment banks in an environment of information asymmetry. In addition, banks tend to indirectly discourage the stock exchange as a means of raising capital since they play the dual role of being investment advisors as well as lenders. For the stock exchange itself, there is both inadequate marketing of itself as well as lack of a sufficient number of products to attract the investing public. Legal and broader institutional environment plays an important role in the development of the financial markets. Laws and enforcement mechanisms that protect investors, clearly define property rights and support private contractual arrangements are crucial for adequate functioning of financial markets. Empirical evidence shows that regulations that protect creditors and minority investors are associated with deeper and more active financial markets, increased valuations, lower concentration of ownership and control, greater dividends payout. Beck (2000), an empirical study done in Brazil observed that legal environment is the first impediment to financial system development. Beck found a strong relationship between the financial development and legal environment. Levine (1999) also found a strong link between legal environment and financial development. In order to facilitate capital development in the emerging market, the legal environment should be favorable. The environment should prove laws and regulations which not prohibitive in nature. In Kenya, CMA has been mandated to regulate the capital market. Currently, there are multiplicity of regulators and regulations in Kenya governing the capital market. They include the Central Bank of Kenya, Capital Markets Authority, Retirement Benefits Authority and Commissioner of Insurance. All these bodies enact policies that affect the development of the stock Market. The Capital Markets Authority as the regulatory agency must alter its approach from the sometimes heavy-handed type of control to a more proactive, creative and supportive role in order to assist in the creation of a more vibrant and forward looking capital market environment. This it can do by seeing itself as a catalyst in development rather than as a traditional regulator of what is a very small market. The political climate prevailing at any given time in the country will affect the development of the stock market. Political instabilities like wars, coups, insecurity, uncertainty of general elections etc affect investment decisions (Levine and Zervos 1996).

Analyzing the amount of information available in the emerging markets raises the notion of the accuracy of the information. The degrees to which markets are transparent and competitive affect investors' ability to gain information and develop performance expectations. Though all markets exhibit varying degrees of transparency, emerging markets are likely to be less transparent than developed market. Transparency in dealings will enhance the market confidence. In NSE most of the dealings are done through brokers who can enhance limited disclosure of some vital information which can lead to of market manipulation (Ossei, 1998). The operating-transaction costs should be within acceptable limits aimed at minimizing returns. These costs include: brokerage fees, cost of printing, legal & accounting expenses and fees for NSE. Market can be open or closed to foreign investors. Excessive barriers especially to foreign investors hamper the development of any stock exchange. Bruner et al (2003) studied 33 developing countries to ascertain the extent of market openness in those countries. However, they noted that only 18 out of 33 listed as emerging markets are 100% open to foreign investment and the remaining 15 markets are either closed to foreign investment or having varying restrictions on foreign ownership. The most common restriction include; special classes of shares for foreign owners; limits on foreign ownership; limits on ownership held by a single foreign shareholder; company imposed limits that differ from national law; and national limits on aggregate foreign ownership. Demirgug & Levine (1996) finds that he restriction placed on foreign investors on the above restrictions constrain the performance of the capital market. However the restrictions vary from one country to the other. If the fiscal policies are not favorable then the market will be drastically affected. Different rates influence how investors will invest their funds and in which security which has high net margins (Wagacha, 2004) Demirgug-Kunt and Huizinga (1992) study has implication for the design of tax policy related to foreign portfolio investment in developing countries. They indicate that the existence of foreign tax credits for dividends paid suggests that a country should tax capital gains lightly in comparison with repatriated dividends.

Lyon (1992) finds that differing tax treatment of equity and debt can create divergent costs in the used of retained earnings, new share issue and debt finance. The empirical evidence clearly shows that more developed countries have deeper and more efficient financial systems, including capital markets(Beck et al.2003).Monetary and fiscal policies, as well as economic stability are also positively related to capital market development. The reason is that the financial contracting becomes more difficult in high inflation environment. Income levels affect the performance of the markets. Countries with high income are more developed compared to low income countries (Beck, Levine and Laoyza, 1999, Cull 1998). Pardy, (1992) noted two variables which are necessary for the faster development of capital market: macroeconomic and fiscal environment and market infrastructure. The macroeconomic factors include; inflation, interest rate; foreign exchange rates; government expenditure. The size of the economy may affect capital market development. Security market may gain efficiency by expanding their volumes and number of participants through both supply and demand .Also, larger economies tend to have larger firms, which are likely to have minimum threshold necessary to achieve adequate liquidity. The transaction clearance and settlement systems, securities transfer, registration and custody will affect the development of the stock market. This challenge is being addressed in Nigeria by the introduction of the CDS system.

From the literature review, capital market development appears to be a function of macroeconomic and Institutional factors. These are Market Information and Efficiency, Legal and Regulatory Framework, Political Climate, Market Transparency, Operating Cost, Tax Policy, Level of Countries Economic Growth and Transaction Processing System. Levine and Zarvos (1998) find a strong relationship between strong market liquidity and capital market development .Pagano (1993) finds a strong relationship between regulatory and institutional factors and stock market development. Levine (1996) finds that countries with well developed stock markets also have better developed financial intermediaries. Yartey (2009) finds that macroeconomic factors such as income level, gross domestic investments, banking sector development, private capital flows, and stock market liquidity are important factors affecting the development of capital market in emerging market. Political factors, law and order are also factors which affect capital market development in emerging market

2.3 Theoretical Framework

2.3.1 The Efficient Market Hypothesis

Capital market development is an important component of financial sector development and supplements the role of the banking systems in economic development. Specifically, capital markets assist in price discovery, liquidity provision, reduction in transaction costs and risk transfer. They reduce information cost through generation and dissemination of information on firms leading to efficient markets in which prices incorporate all available information{Yartey and Adjasi (2007),Garcia and Lieu(1999)}.Overall, stock markets provide market liquidity that enables implementation of long term projects with long term payoffs thereby promoting a country's economic growth endeavor. Moreover, efficient markets not only avail resources to investors, they also facilitate inflow of foreign financial resources into the domestic economy. The fact that debt and equity markets are not thriving has seen the credit market play a significant role in financing investment while deposits form a significant proportion of the financial asset basket (Ngugi et al 2009).The efficient Market Hypothesis is the basic theory describing the behavior of a perfect market in which securities are typically in equilibrium, security prices fully reflect all public information available and react swiftly to new information; because stocks are fully and fairly priced, investors need not waste time looking for mispriced securities. There are three major versions of market Efficiency; weak, semi-strong and strong. Weak EMH states that prices on traded assets already reflect all past publicly available information. Semi-Strong EMH claims that both that prices reflect all publicly available information and that prices instantly reflect new public information. Strong EMH claims that prices instantly reflect every hidden information about the stock price (Burton, 1996).

2.3.2 The behavioral Theory

The efficient Market theory concept was later challenged by academicians although there is sufficient evidence of the relevance of the theory. Academicians and other practitioners recognize that emotions and other subjective factors play a role in investment decisions which has resulted in a significant research which is referred to as behavioral finance (Gitman, 2006).Behavioral finance hold the view that, in practice, markets are far from perfect and investors are not rational but are motivated by greed, fear and other emotions. According to the behavioral lists, many investors let their emotions overrule rational analysis. They say even the most rational investor cannot totally eliminate emotion. Emotion is an important aspect of human condition can influence decision making (Gitman, 2006).The emotional state of investors was no doubt the most important factors causing historical market dip in the NSE during the post election violence in 2008.

2.3.3 The Agency Theory

Agency theory has provided a useful tool for detailed analysis of the determinants of the complex contractual arrangement called the modern corporation. A survey of the application of this theory to the conflicts of interest between corporate managers, stockholders, and creditors find that the analysis of these conflicts and their resolutions increases the understanding of the survival of many contractual practices that therefore have been taken for granted or viewed with great suspicion. It also illustrates the often close relation between financial and organizational practices (Smith and Jensen, 2000). Under the theoretical model, the value of Institutions to shareholders results from their regulation of transactions and agency costs. Governance indicators are a reflection of the ability of institutions to effectively support the minimization of these costs, ultimately born by shareholders. These indicators compose measure of the stability of governments, the proper regulation of markets, and the degree of corruption. These factors shape the ability of institutions to govern the financial markets. Better governance environments can increase returns to shareholders by reducing both transaction costs and agency costs (Hooper et al, 2005).

2.3.4 The Capital Asset Pricing Model

This was a theory developed separately by William Shape (1964) and John Linter (1965) and used to identify the adequate cost of capital in project valuation (Brounen et al. 2004). Ball (2001 defines it as 'a method of estimating expected returns which passive investors would otherwise have earned in the absence of information being tested .The CAPM equation looks like this: E(R)=Rf + b(Rm-Rf)(I).Stock's expected return (E(R) is equal to a riskless rate (Rf) plus risk premium compound by b and the amount of a stock of average risk (Rm) is expected to earn above riskless rate (Rf).CAPM was developed to explain the behavior of security prices and provide a mechanism whereby investors could assess the impact of the proposed security investment on portfolio overall risk and return, CAPM provides a useful conceptual framework for evaluating and linking risk and return. An awareness of this trade-off and an attempt to consider risk as well as returns in financial decision making should help managers achieve their goals (Gitman, 2006). Over the past few decades the world stock market has surged and emerging markets have accounted for large amount of this boom. The speed and extent of stock market development in developing countries have been unprecedented and have led to fundamental shift both in financial structures of less developed countries and in the capital flows from developed nations.

A key indicator of stock market development, the capitalization ratio (market capitalization as proportion to GDP) rose at an unprecedented rate in leading developing economies during 1980s and the 1990s climbing from to 10 the over 84 percent in countries such as Chile in the course of two decades. New theoretical research works show that market development might boost economic growth and empirical evidence tends to provide some support to this assertion. Levine and Zervos (1998) for instance, find that stock market development plays an important role in predicting future economic growth. Capital markets are an essential part of the financial sectors of modern economies, providing alternative savings posts tools and nonbank sources for financing for enterprises, the markets promote economic growth through improved efficiency in savings mobilization (Schmidt –Hebbal et al, 1996).

3. METHODOLOGY

This discussed the methodology used in gathering data, analyzing it and reporting the results.A descriptive research design was used at finding out the factors affecting the development of an emerging Capital market. A descriptive research design is a technique for answering who, why and how questions Yin (1994) defines a case study as empirical enquiry that investigates a contemporary phenomenon within its real life context, when the boundaries between phenomenon and the context are not clearly evident, and in which the multiple source of evidence are used. The descriptive research design aimed at identifying factors that affect the development of capital market in emerging economies. The population comprised of the listed companies in NSE for the period 2007-2017. The listed companies highlighted the role and benefits accrued in being listed and challenges encountered. The central Bank of Nigeria provided the economic growth data from the period 2007-2017 through their monthly and annual economic review publications. The focus of the study was on the emerging market development. NSE provided more information considering the empirical evidence as stated above. Empirical evidence shows that there is a perfect correlation between well developed stock market and economic growth (Corporale et al, 2004).

The study used secondary data in ascertaining the factors which highlighted both the macroeconomic and institutional factors on the development of the capital market. The central bank of Kenya provided details of GDP for the period 2007-2017. Both NSE and Central bank provided details of both macroeconomic and institutional factors which include; stock market liquidity, macroeconomic stability; savings and investments; income levels; private capital flows; law and order and political risk. The period covered will be 2007-2017.

3.1 Measurement of Variables

Stock Market Liquidity (SML): The study measured stock market liquidity using value traded as percentage of GDP. This data was provided by NSE.

Macroeconomic Stability (MS): According to Garcia and Liu (1999), inflation can be used as a measure of macroeconomic stability through data from Central Bank of Nigeria (CBN).

Income Levels (IL): This study used GDP per capita in Naira to measure the income level per capita income. This explained the critical factors influencing the growth of the stock market. This data was obtained from National Bureau of Statistics (NBSN).

Private Capital Flows (PC): This study measured foreign investment as percentage of GDP and net Capital flow as a percentage of GDP. Data on this variable was obtained from NSE.

3.2 Data Analysis

Since secondary data was used, descriptive statistics analysis was used: measures of central tendency, measures of variability, and measures of frequency among others such as frequencies, mean scores, regression analysis and the standard deviations. On the other hand qualitative data was analyzed using factor analysis. Factor analysis was preferred because it allows for both quantitative and qualitative operations. The quantitative data was coded and thereafter analyzed using SPSS package (Eviews- Version 3.1). The study used regression analysis to determine the relationship between the variables of the study. Studies by Yartey (2008) and Lazaridis and Trofornidis (2006) have used regression analysis while researching on relationship among variables. The variables: income levels, banking sector development, savings and investment, and stock market liquidity all use GDP as the measurement variable upon which the stated variable is measured. However the independent variables will be market capitalization, trading volumes and change in stock prices. Market capitalization was calculated using annual share price and shares issued. The study was also analyzed using multivariate regression model and SPSS which aided the analysis. The following is regression model was used in determining the impact of each stated variable in the Stock Market Development.

V= a (IL) + b(BSD) + c(SI) + d(SML) + e(MS) +f(PC) + g(IQ)

Where:
V Stock Market Development
BSD Banking Sector Development
SML Stock Market Liquidity
PC private Capital flows
IL Income Levels
SI Savings and Investments
MS Macro Economic Stability
IQ Institutional Quality

However, the coefficients a, b, c, d, e, f and g represents the constants variables to the respective independent variables and shows the existing relationship between each of the independent variables and the dependable variable.

4. RESULT AND DISCUSSION

This section essentially discuses the data analysis, findings, interpretations and presentation. The objective of this study was to study factors affecting the development of capital markets in Nigeria-The case of Nigeria Stock Exchange. The section starts with data analyzed using descriptive statistics, then regression analysis. The dependable variable of interest is stock market development .We measure stock market development using market capitalization as a proportion of GDP. This measure equals the value of listed shares divided by GDP. The assumption behind this measure is that the overall market size is positively correlated with the ability to mobilize capital and diversify risk on an economy wide basis. The primary role of stock market is to provide a market where financial instruments can be traded in a regulated environment without constraints. Stock Market Development expanded from 2005- 2008, contracted in 2009 then expanded in 2010. Market capitalization ratioThis measure equals the value of listed Shares divided by GDP. The assumption behind this measure is that overall market size is positively correlated with the ability to mobilize capital and diversify risk on economy wide basis. The total value traded ratio measures the organized trading. Flow of foreign direct investment to and from the country is used as a control variable since we believe that foreign direct investment is an important determinant of economic growth. Real income has been found to be highly correlated with the size of the stock market. The study utilized the log of GDP per capita in Naira. to measure the income level. According to demand driven hypothesis, the expansion of an economy will create new demand for financial services, such increase in demand will exert pressure to establish larger and more sophisticated financial institutions to satisfy the new demand for their services.

It is also observed that liquidity is crucial for growth. In principle a well-developed stock market should increase savings and efficiently allocate capital to productive investments which leads to an increase in the rate of economic growth. In this study, it is evident through the regression analysis that stock market development is strongly correlated with the growth rates of real GDP per capita. More importantly, both stock market liquidity and banking development predict the future growth rate of the economy when they both enter the growth regression. This study was to identify factors that affect the development of capital markets in emerging markets-The case of Nigeria Stock Exchange. However, descriptive and regression approach was used in data analysis and secondary data collection method was used. This research provides a simple correlation between stock market variables and investment in order to evaluate the impact on stock market development. A secondary data was collected for all listed companies in NSE from 2007-2017 suggest that stock market development is determined by the level of: stock market liquidity and Institutional quality as shown be the regression analysis. The results also suggest that the value of shares traded ratio is not an effective measure of stock market liquidity. This may be especially so in the contest of Nigeria where stock market is highly volatile causing the turnover ratio to be misleading indicators of liquidity. However, much work remains to be done to better understand the relationship between market development and economic growth. In view of the above results, we can say that stock market development is positively correlated to economic growth through the following factors: banking sector development, stock market liquidity, per capita income, Foreign Direct Investments, Income levels, Macroeconomic Stability, Institutional Quality and Savings and Investments.

Hence this study suggests that the government should play a more positive role in order to foster stock markets. Even though, having recognized the importance of financial market for economic growth, many developing countries have increased their efforts towards improving the financial systems of their countries to stimulate economic growth, they have mainly focused on banking system reforms-removing interest rates controls, reducing government involvement in credit allocation, minimizing of taxation of financial intermediaries, managing bank insolvency, now they need to focus on stock markets. Policy matters should encourage stock market development. They should remove impediments to stock market such as tax, legal and regulatory barriers. The findings of this study indicate that stock market development does indeed influence economic growth. The findings of the study are : the size of the stock as indicated by market capitalization ratio positively affect economic growth significantly, while the liquidity of the stock market as captured by total value of shares traded and turnover ratio and volatility significantly affect stock market development negatively. The study recommends that NSE needs to be developed further to enhance domestic resource mobilization. The findings also indicate that market development is determined by stock market liquidity and institutional quality, showing high relationship between them. Stock market development is determined by stock market liquidity and institutional quality. This is because Pearson correlation coefficient between stock Market Development and stock market liquidity and institutional quality indicated high relationship among them. However, over the study period income per capita, macroeconomic stability (inflation), domestic savings and private capital flows, bank development seem not influence stock market development.

5. CONCLUSION AND RECOMMENDATIONS

In analyzing the collected data, the results revealed that there is a relationship between stock market development and market liquidity, institutional quality, income per capita, domestic savings and bank development. However, there are some variables which didn't clearly show the above relationship, namely macroeconomic stability-inflation and private capital inflows. It can therefore be concluded that stock market development is determined by stock market liquidity, institutional quality, income per capita, domestic savings and bank development. In the empirical analysis the study found four interesting results: Firstly, income levels, domestic investments, banking sector development, private capital flows and stock market liquidity are important determinants of stock market development in emerging markets, Secondly, the relationship between banking sector development and stock market development in emerging countries to be non-monotonic. This finding suggests at early stages of its development, the banking sector is a compliment to the stock market in financing investment. However, as the both develop, banks and stock market begin to compete with each other as vehicles for financing investments, Thirdly, institutional factors such as political, risk, law and order democratic accountability and bureaucratic quality are important determinants of stock market development in the emerging markets.This result suggests that the resolution of political risk can encourage investors' confidence and propel the growth of the stock market. Lastly, the main factors affect the development of capital markets in emerging market countries can also help us understand the determinants of stock market development in Kenya.

The study recommends NSE needs to be developed further to enhance domestic resource mobilization. Various policies and programs that affect stock market development such as regulation of institutional investor and privatization need to be addressed. The policy makers should consider reducing impediments to stock market development by easing restrictions on international capital flows. NSE should play an increasingly educational role and CMA should also change its approach from heavy handed type to more productive, they should see themselves as catalyst in the stock market development. However, the findings in this study have important policy implications for emerging countries. Firstly, economic growth plays an important role in stock market development .It is important to initiate policies to foster growth and development as countries liberalize their financial systems. Second, the development of a well-developed banking sector is important for stock market development in emerging markets. Developing the banking sector can promote stock market development as demonstrated by the experiences of many Asian countries. Support services from the banking system contribute significantly to the development of the stock markets. However, when stock markets are sufficiently developed they tend to compete with banking sector as shown by the study. Third, domestic investment is an important determinant of stock market development in emerging stock market. To promote stock market development, emerging markets countries can encourage investments by appropriate policies. Fourthly, stock market liquidity has a positive effect on stock market development. Improving stock market liquidity in emerging markets can be another approach of promoting stock market development. Finally, good quality institutions are important determinants of stock market development. Well establish institutions reduce political risk an important factor in investment decisions. The development of good quality institutions such as law and order, efficient bureaucracy and democratic accountability is therefore critical for stock market development. A number of research recommendations spring from the findings of the study, ranging from awareness of the role of stock market plays in an economy to sound macroeconomic policies. These include: a continuous education program for all parties involved in the investment environment, Provide Tax Incentives including provision of tax differential in favor of listed companies, establish Good Macroeconomic Policies, ensure the provision of a sound Banking system which will enhance rapid development of the financial market and encourage cross-listings (International) and international integration with other stock markets.

References

Asea, P. (2003): *"Promoting Regional Financial Market Integration".* Presentation at the African capital markets Development program in Johannesburg, South Africa, October 2003.

Barry, C and Lockwood, L: *New directions in research on Emerging Capital Markets, Financial Markets, Institutions and Instruments.* Vol.4,Vol.5, (Oxford: Blackwell Publishers,1995), P15.

Beck.Thorsten (2000) *"Impediments to the Development and Efficiency of Financial intermediation in Brazil",* World Bank Working Paper, Washington D.C

Brealy R. and Myers, S (1991): "*Principles of Corporate Finance."*

Bruner R., Conry W.,W.Li,O'Halloran and M. Palacios(2003): *"Investing in Emerging Markets''* (Charlott Ville Virginia: The Research Foundation of AIMR 2003.

Blommestein, Hans J. and Michael Spencer (1993) *"The Role of financial Institutions in the Transition to a Market Economy",* IMF Working Paper 93/75 International Monetary Fund, Washington

Bekaert Geert, and Camphell Harvey (1994) *"Time-Varying World Market Integration"* NBER Working Paper 4843 National Bureau of Economics Research Cambridge Mass

Calamati. A. (1983) *"Securities Markets and underdevelopment: The stock Exchange in Ivory Coast, Morocco and Tunisia. Millian: Giuffra*

Cheung C.S and I Krinsky (1994) *"Information Asymmetry and the Under- pricing of initial Public Offerings: Further Empirical Evidence''* Journal of Business Finance and Accounting, Vol.21 (5, July).

Chuppe T. and Atkin, M (1992) *"Regulation of Securities Markets:"* Some recent trends and their Implications for emerging Markets, Policy Research Working Papers (Economics)The World Bank, WPS 829
Cull R (1998): *"The Effect of Deposit Insurance on financial Depth: a cross country analysis".* The World Bank, Washington D.C.
Dailami M and M Atkin (1990) *"Stock Markets in Developing countries :Key issues and Research Agenda''.* Pre-working Paper Series WPS 515, The World Bank Washington D.C
Demirgue-Kunt & H Huizinga (1992): "*Barrier to Portfolio Investments in Emerging Stock Markets".* Policy Research Working Paper WPS 984, World Bank, Washington D.C.
Demirgue-Kunt & R Levine (1993): *"Stock Market Development and Financial Intermediary Growth: A research Agenda."* Policy Research Working Papers (Finance and private sector Development) The World Bank -WPS 1159.
Demirgue-Kunt & R Levine (1996): *"Stock Market Development and Financial Intermediaries: Stylized Facts".* The World Bank Economic Review 10 (2)
Engberg H.L (1975). *"Indigenization of Business Sector through the Organized Capital market:"* The Lagos Stock Exchange. Journal of Management Studies, University of Ghana
Gitman Lawrence J.2006 Principles of Managerial Finance
Goldsmith R.W. (1969): *Financial Structure and development. New Haven CT:* Yale University Press.
Hooper V. Sim A.B . and Uppal A. 2005. Government and stock market Performance International Finance Corporation (1994) *Emerging Stock Markets Facts-Book,* Washington D.C
International Finance Corporation (IFC) 2000, *Emerging Stock Markets Fact-Book*, Washington ,D.C
Kofi A .O (1998). *"Analysis of factors affecting The Development of an Emerging Capital Market:"* The Case of Ghana Stock Exchange
Kumar M.S and R.A. Feldman (1995): *"Emerging Equity Markets: Growth, Benefits, and Policy Concerns''.* The World Bank Research Observer.
Kimura J. and Amoro, Y (1999): *Impediments to the growth of Nairobi Stock Exchange,* IPPAR Discussion Paper Series
Laffont ; J Jacques and Jean Tirole (1988): *"Repeated of Incentives contracts, Investment and bidding Parity with an Application of Take Overs''*. RAND Journal of Economics Vol .19 (Winter): pp 516-537
Levine, R.(1990): *Stock Market Growth, and Policy, Research, and external Affairs,* Working Papers Macroeconomic Adjustment and Growth-The World Bank-WPS, 484
Levine R and S. Zervos (1996): *"Stock Market Development and Long Run Growth".* World Bank Economic Review Journal 10(2) May: 323-339
Levine, R. and S.Zervos (1998), *Stock Markets, Banks, and Economic Growth.* American Economic Review, June 1998, 88(3), pp.537-58
Lyon, H. (1992): *"Taxation, Information Asymmetries, and a Firm's Financial Choices''.* World Bank Papers EPS 936,Washington D.C.
Masinde and Kibua (2004): *To list or not to list? IPAR Discussion paper series.*
Morland, M (1995): *Where have all the Emerging Markets Gone?* Financial times, July 22/23 ,1995
NSE (2000), *Market Fact File Report*
Okoreke –Onyiuke (2003): *Statement by the Chairperson of the African Stock Exchanges Association* and Director of the Nigerian Stock Exchange to Investment Managers, Financial Experts and Head of African stock Exchanges in New Yorks' World Street District on April 16,2003.Global Policy Forum.
Osei, K (1998): "*Analysis of factors affecting the Development of an emerging capital Market:"* The case of the Ghana Stock Market AERC Research Paper 76 African Economic Research Consortium, Nairobi
Pagano M. (1993), *"Financial Markets and Growth, An Overview,''* European Economic Review, No.37
Pardy (1992) *"Institutions Reform in Emerging Securities Markets.".* Policy Research Working Papers, WPS 907,The World Bank Washington D.C.pp 181-201

Porter, M (1993): *Closed end Emerging country Funds Review, in K.H.Park and W.Van Agtmael,* The world's Emerging Stock Markets, (Chicago: ProbusPublishers,1993), p 459

Rose Ngugi, Daniel Amanga and Isaya Mana (2009): "*Capital Market, Financial Deepening and Economic growth in Kenya"* (Review Paper)

Seyyed Ali Paytakhti Oskooe (2010): *"Emerging Stock Market Performance and Economic Growth."* American Journal of Applied Science 7(2): 265-269, 2010

Scharfstein, David (1988): *''The Disciplinary of Takeovers: Review of economic studies,"* Vol. 55 (April): pp 185-199

Schmidt-Hebbal, K Serven and Solimano (1996): *Saving Investment: Paradigms Puzzles, Policies,* The World Bank Research Observer 1, No.1

Sheehan, M and Zavala (2005): *African Securities Exchanges: Challenges and Rewards-* The handbook of World Stock, Derivative and Common Market.

Singh (1997) Stock markets, Financial Liberalization and economic Development, Economic journal 107, pp.771-82.

Smith, Clifford W. and Jensen, Michael C. (2002) *Stockholder Manager, and Creditor Interests:* Applications Agency Theory

Stijn C. (1995) *"The Emergence of Equity Investment in Developing Countries: Overview.''* The World Bank Economic Review Journal, Vol.9 (1) May: pp 1-17.

Torre A.E. and S. Schmukler (2004): *"Coping with risks through mismatches: Domestic and International Financial Contracts for Emerging Economies''.* International Finance 7(3): 349-90

Yartey Charles Amo.*2008''Determinants of stock markets Development in Sub-Saharan Africa.''* Critical issues and challenges''.IMF Working Paper No.08/32

Yartey and Adjasi (2007): *"Macroeconomic and Institutional Determinants of Stock Market Development in Africa''. Management and Economic Development in Sub-Saharan Africa:* Theoretical and Applied Perspective (London: Adonis and Abbey Publishers)