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Money Market on the Nigerian Economic Development

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Abstract

The objective of this study is to examine the impact of money market on the Nigerian economic development; it has been prepared as a contribution to the quest for promotion of entrepreneurship as an engine growth. To access the multidimensional role and medium scale enterprises in bringing out rapid industrialisation. The study examine the contribution of money market to the growth of small and medium scale enterprises during the period of 1987-2007 with special emphasis on the performance appraisal of the stock market. The result from the empirical analysis carried out using the ordinary least squares estimation technique reveals that the Nigeria stock exchange has contributed to some extent in financing small and medium scale enterprises. However, the prospect of the market appears to be bright considering the current position of the government and players in the industry in the area of formulation and implementation of favourable policies. However, the market could assume the expected role of providing long-term financing for the development of small and medium scale enterprises in Nigeria if the institutional frameworks guiding the effectiveness of the operators are strengthened and the profound recommendation by the researcher are religiously implemented.

1. Introduction

The success or failure of any economic is hinged on the viability of the financial system which invariably and undoubtedly depend main on the structure of the capital market of such economy in which the Nigerian stock exchange (NSE) occupy the central position of the financial system. It plays a very vital role in the general performance of the economy.

Currently, majority of Africa economic including Nigeria suffer from financial regression and financial under-development. These maladies combines with economy dualism have continued to aggregated Nigerian development problems Faki 2006.

Since the performance of financial sector impinges on the state of the economy, Nigeria, as every other nation is consistently in search of a viable financial sector in the process of doing the quite a reforms and restructuring have been carried out in the financial sector such as the deregulation and liberalisation of financial sector. The revolution of the colonial era in 1946 when the colonial government issued the first Nigeria registered stock (FURS) in (1956-1961). The origin of the Nigeria stock exchange date back to the 1950's when there were discussions and academic crisis about the formulation of stock market in May 1958. Then, the ministry of commerce and industry appointed the bar stock committee to advice the government on ways and means of fostering a share capital market in Nigeria.

On the 15th September 1960, the Lagos stock exchange was incorporated as non profit making organisation. The Lagos stock exchange was allowed to disperse with word "LIMITED". Although it was a company listed by a guarantee.

The Lagos stock exchange act enacted in 1961 strengthened the Lagos exchange; it was change to Nigeria stock exchange (NSE) by the indigenization decree 1977 on second of December 1977 with branches initially in Lagos, Kaduna, and Port-Harcourt.

The stock exchange is the very hub of the capital market. It does for the economy what the money market does at the short end of the spectrum. Those who are desirous of long-term fund goes to the capital market for .(the excess liquidity of other (Nwankwo, 1987).

The capital market is divided into two categories Viz primary and secondary market has not been enough publicity which has lead to the show pace of growth in the early years in inception.

2. Money Market on the Nigerian Economic Development

A lot of works has been done regarding the concept of discourse (i.e. small and medium scale enterprise and capital market) but for the purpose of this research work, we shall have a review of some of the literature which will help our course in trying to know what is obtainable in their definitions, functions and objectives.

The need for industrialisation is of paramount important. Nigeria, like most other under-developed countries is a primary producer. This is functional in the sense that she is endowed with many of the natural resources which the foreigners in the past tapped to act as resources for their industrial development. This resource was later used for the production of primary product on which the country depended for export hence foreign exchange earnings. The past experience from the country over the years show that for a singled source of foreign exchange earning the country is not of advantage in view of the fluctuation in the world market and in the prices of primary products (Usifoh, 1992).

From the foregoing, (Lewis, 1965) observed that economic development does not curtain increased in absolute consumption alone, but essentially in the varieties of commodities available for consumers to choose from, apart from increasing varieties of goods and services, industries are also important in ensuring regular supply of products to domestic market. This regularity of industries on technological enterprises depends on technological growth of the industrial sector which is responsible for manpower development.

In reorganisation of the crucial role of small and medium scale enterprises in the over all industrial development of the country. The (NSE) introduced second-tier security market (SSM) of the Nigeria stock exchange was established to cater for the capital market requirement of small and medium scale enterprises. It essentially diluted listing requirement of this category of companies to encourage them to see quotation and thereby further broaden and deepen the market (Osazee, 2000).

In 1987, the Nigeria enterprises promote decree 34 (issue of non-voting equity shares) was promulgated permitting public companies quoted in the Nigeria stock- exchange to issue through the exchange, non-voting paid up share for the subscription of persons whether citizen of Nigeria or not and whether or not resided in Nigeria .

In 1988, the function of the securities and exchange commission were further expanded by decree 29 of 1988 to include the review and approval of all mergers, acquisition and combination between among companies, and 1988 also, the privatisation and commercialisation decree 25 was promulgated. This decree provide for the privatisation of some enterprises in the federal government of Nigeria had equity interest and the commercialisation of some federal government. Wholly owned enterprises. The exercise that ensures from this decree brought more companies to the Nigerian's stock exchange whose shares were thus listed.

Similarity in 1988 debt conversion was officially adopted by the central bank of Nigeria and a guideline on the debt conversion programme published.

In 1989, the central bank and clearing system (CSCS) which is an online automated securities trading system was introduced by the Nigeria stock exchange (NSE) to facilitate electronic settlement of deals between stocks brokers and customers through the in house clearing system (IHCS) and the exchange central computer vis-a-vis communication network.

On the 1st 7 March 2000, the Nigeria stock exchange also launched and commenced operation on its trade guarantee fund (TGF) scheme aimed at arresting a risk of failure that may arise from the inability of a stock brokers to cover his or her purchase. On may 2nd 2001, a second stock exchange, the Abuja stock exchange (ASE) opened is floor for business having been incorporated June 17th 1998 as a public limited company August 9th 2001. The Abuja stock exchange was scrapped and converted to a commodities exchange due to its perceived non-viability by the federal government of Nigeria, in addition, that exchange commenced T + 3 settlement cycled in 2001, while e-business platform interest published at improving the efficiency of the Nigeria capital market and encouraging greater foreign capital inflows to the economy (CBN Briefs 2004-2006).

The Nigeria stock exchange market remarkable progress in the internationalisation of the market in 1999 with the cross-border listening of "M-net/supe-asport" on the stock exchange.

In its further effect at internationalisation of the capital market, the stock exchange has signed memoranda of understanding (MOU) with Ghana stock exchange and the Nairobi stock exchange to facilitate cross border listing of securities. All these, no doubt were innovations that have placed the Nigeria stock exchange in a better position to attract foreign investors into the Nigeria stock exchange (Onyiuke, 2005).

3. Meaning of Capital Market

The capital market is one of those interestingly from work evolved by the western civilisation to combined ideal with resources even though they belong to different people, so as that those who have ideals but no money but one too busy to think out ideals on how to get their money to work.

According to (Nwonkwo, 1991) the capital market offers access to a variety of financial instrument that enables economic agent to pool price and exchange risk.

Through assets with attractive yield, liquidity and list characteristics market is thus important to both government and institutions in need of funds who because of the nature of their inabilities undertake to maintain part of their assets in a relative liquid form.

Tawiah (1989:330) defines a capital market as the market for long-term loans and investments. It suppliers trade (i.e. commerce) industry and the government with medium term, long term and permanent loans as required by each. The financial institutions, according to Tawiah serves as intermediaries between suppliers of long-term capital investment trusts savings banks finance houses merchants banks and building societies.

The capital market is also the section of the financial system which represents medium to long term funds for investment needs for business and government. Raising of funds in the capital market makes possible amongst others, the construction of factories, office building, high ways, bridges and acquisition of machines. This opportunities that the capital market offers is a major factor facilitating capital mobilisation and allocation of such capital fund among several competing activities.

The awareness of this credible alternative source of supporting long term investment financing must have given rise to the decision at the Abuja summit of O.A.U. Heads of state in 1991 that each country in Africa should set up a stock exchange as a way of promoting a balanced financial system and also as a relevant of the purposed African Economic Community (AEC).

Nigeria, like many countries, has a formal capital market symbolised by the existence of stock exchange and an active new issues market. Also, led in most capital markets, Nigeria has a securities and exchange commission to represent government interest in regulation and development of the market as well as protecting their interest of the investing public.

The Nigeria stocks exchange (NSE) and the Securities and Exchange Commission are very important institutions of the capital market where the former is the form or market place where the securities are traded and the later serves as the apex regulating body. In summary the above, i.e. Nigeria stock exchange and security and exchange commission are our major concern in Nigerian context.

3.1 Instruments Traded in the Capital Market

In any capital market there are several instruments that are traded between long term fund raisers and investors acting through their stock brokers and issuing houses.

According to (Osaze, 2000), classified the instruments traded in the capital market into the categories of three major classes.

- Fixed income securities
- Variable income securities and
- Other types of securities

3.1.1 Fixed Income Securities: Fixed income securities are those investment instruments that earn the investors a fixed and almost certain return throughout the period the security are held by the investor. The fixed income securities posses the following characteristic as follows:

- They offer a fixed and almost sort income to investor irrespective of the fortunes of the company that issued them.
- Interest and fixed development must be paid as and when they are due otherwise default might ensure which can led to a fore closure on the assets of the company. In addition, fixed dividends, if not paid, might become cumulative and accrued unit fully paid.
- The higher the risk associated with fixed income securities, the higher would be the fixed income it attracts.

Also, the fixed income securities comprises federal government, state and local government, state and local government bonds industrial loans and debenture of all types as well as preference shares.

3.1.2 Variable Income Securities: Unlike fixed income securities, they are also variable income securities on which income obtained by the investor depends on the fortunes of the company that issued them.

Thus, if the company makes a large profit income is expected to rise, and if profits are low income will also be low. This kind is mainly dominated by industrial common stocks and shares on which dividends are declared and paid.

Essentially, variable income securities possess the characteristics of living fluctuating and unpredictable nominal rates of return. These depend on trading volume in the capital market, nature of the securities, economic circumstances and dividend policies of the issuing company.

Investors with these types of securities have voting rights, rights to transfer their shareholding as well as right to participate in the long term decision that may change the basic character of the company like changes in the capital structure, shareholding structure and increase in share capital.

The variable income securities also include

- Common stock and right

  Common stock: These are the ownership securities in a company. Holders of common stock are the residual owner of the company after all priority claims have been settled. It is also a perpetual security that has no fixed maturity date or tenor.

  The major disadvantage of common stock is that shareholders only have claims on the assets and earnings of the company after fixed income securities have been satisfied.

- Right issues: Is the sale of new shares to existing shareholders at a preferential price below the actual prevailing market value of the stock.

  Each existing shareholders is this allotted a number of shares in proportion to get number that he already owns on appropriate basis. Each share holder who decides to exercise has right by taking up the number of shares allocated to him at that preferential price must give up some of these rights in exchange for the lower priced share. How many right he gives up would depends on the numbers of new shares he gets in relation to his existing shareholding.

3.1.3 Derivatives: Derivatives are financial contracts such as future and option contracts whose values bear a systematic relationship with the underlying assets prices. In other words, the value of derivation depends on the value of one or more underlying assets or indices of asst value. It also speculative instrument whose value is based on the value of another commodity or instrument "Derivatives developed principally as hedging instrument against the risk associated with exposures to interest and exchange rates changes as well as commodity and stock price movements" (Ekimeh, 1997:95).

The four main types of derivatives are follows:

- The forward contract: This is a contract between a dealer and an investor to deliver or buy a financial instrument, security, delivery date, and location in their future for a fee. The deal being a contract becomes binding on both parties. Thus a forward contract is a private agreement by both parties. Forward contracts are usually non-standardised and information.
- The forward option: This is the right but the obligation to buy or deliver a given amount of securities, instruments or commodities at a given pace on or before a specific date in the future. If the price becomes unfavourable, the buyer allows the option to lapse and only losses the option cost.
- The futures contract: This is similar to the forward contract except that a future contract is trade on an organised future exchange and is subject to a daily settlement procedure. In addition, futures contracts are subject to settlement procedures where "investors who incur losses pay them daily to investors profit" (Chance, 1989:4)
- Swaps: This is an agreement between two parties to exchange specified cash flows at fixed intervals. Those cash flows are usually interest rate or currency flows. In interest rate swaps (exchange) their interest rate obligation over predetermined period. Similarly, a currencies, e.g. Yen to Dollar and vise versa swap are therefore, seen as techniques for effective corporate liability management. (Ekineh, 1997:104). Also, Ekineh, 1999, maintains that the securities that the securities that are traded in the stock market are not tangible or physical goods like the ones in the ordinary and commodity markets for food stuffs, clothing, electronics, automobiles, etc. They cannot be inspected or assessed the way electronics, tubers, apples, grapes etc. are assessed.

4. Small and Medium Enterprises (SME)

Available literatures on the subject matter of small and medium enterprises show a common consensus on the criteria used for identifying small and medium enterprises.

They include the number of persons employed, the value of investment, annual turnover, or a combination of these. While there is a consensus regarding the available criteria, there is however no hard and fast rule for classifying SMEs, what, therefore, constitutes a micro, small and medium enterprise varies across space and time for instance, what may be regarded as a micro or small and medium enterprise in an industrialized country may be regarded as a medium or large scale firm in a developing country.

Similarly, within the same country, classification of small and medium enterprises varies with time and among agencies. Such variation over time is attributable to such factors as movement in the general price level and technological advancement.

Small and medium enterprise as a concept duties universal definition both among academic and practitioners. It has both been relative and dynamic, varying from country to country, even overtime, and among industries. It depends to a large extent, on a country's level of development.

Identifiable criteria often adopted on an arbitrary mix in definitions include number of employees, relative size, initial capital outlay, sales value, financial strength, independent owner and type of industry (Oshogbemi, 1982).

5. The Role of Nigerian Capital Market in Financing Small and Medium Scale Enterprises

Small and medium enterprises are regarded as an organised part of a viable structure for the attainment of meaningful economic development in developing country like Nigeria. Some financial expert argued that small and medium scale enterprise are significantly more cost effective in bringing about development than large enterprises because of the perceived linkage and multiplier effect which small and medium scale enterprise have on the performance of the economy and economic growth in general. In trying to explain the role of capital market, Okereke Onyuike opines that the capital market is not a single entity rather it is so network of specialized financial institutions that she postulated that, the capital market in any country forms the corner stone of saving mobilisation process.

However, every ideals capital market should serve the following aims:

- Ensure liquidity of investment in order to financial relative portfolio switches to changes in returns and prospect of economic unit
- A channel for savings mobilisation to aid capital sourcing for industries and commerce/
- To improved efficiency of capital allocating through competitive pricing of funds among competing government and industrial units.
- A ready assurance of loadable funds to government its agencies to enable them support social services.
- Regulate the pertinent operations in the market in order to serve as a measure of confidence in the generality of the citizens.
- To act as a vehicle for broading the ownership base of enterprises and also important indicator of economic activities.

Imperatively, an economy that seek to grow must make conscious to increase both available invest able funds and financial institutions, in addition, the fund must be channelled to the most productive investment through an efficient allocation mechanism. This allocation function can often be critical in determining the over all growth of economy.

According to (Nwankwu, 1980), the Nigerian capital market was signed to;

- To provide local opportunity for borrowing and lending for long term purpose.
- To provide foreign exchange business with the facility of offering shares and the Nigeria public an opportunity to invest and participate in the shares and ownership of foreign business.
- Enable the authorities to mobilise long term capital for economy development of the country.
- Provide for question and ready marketability of shares and stocks as well as opportunities to raise fresh capital in the market.

Finally, through participation and ownership to provide a healthy and mutual acceptable environment for participation and corporation of indigenous and expert rates capital in the joint effect to develop the Nigerian economy to the mutual advantage of both parties. Basically the Nigerian capital market was established in order to accelerate the pace of capital formation and economic development of the country.

The main function of the capital market is to assist the mobilisation and allocation of a nation's capital resources. This allocation role can be critical in determining the growth and efficiency of a nations economy. If capital resources are not provided to those industries where demand growing and which are production and productivity. Inclined when the rate of expansion of the economy will inevitably suffer.

An efficient capital market ought to allocate the greater proportion of saving to those companies with the highest prospective rate of return making due allowance for risk.

6. Problems and Constraint Facing the In Effectiveness of Small and Medium Scale Enterprises

The small and medium scale enterprise in Nigeria economic development is enormous and the capital role in the financing of their activities cannot be over emphasised but that as it may be the small and medium scale enterprise are confronted with problems and constraint which have hindered their source of fund and ability to produces in economic of scale increase productivity.

The Nigeria stock exchange (NSE) as identified finance as a major constraint facing small and medium scale enterprise when trying to retain their market shares or raise long term capital for their survival and growth. The small and medium scale enterprise encounter difficulties both with cost of funds access to debt and equity capital and this funding difficulties generality reflected weakness inherent in the size of small and medium scale enterprises lacked proper information about the divorce source of funding while balance between debt and equity capital was often inappropriate.

The small and medium scale enterprise (SME) is bedrock of industrial growth in any economy like Nigeria and those made the government in 1971 to introduce any small scale industries credit scheme (SSICS) and these was followed up with the establishment of the Nigeria bank for commerce and industry (NBC) IN 1993 as well as the central bank of Nigeria (CBN) credit guide lines for small scale enterprises under the banks monetary policy guidelines and their rural banking schemes.

The poor performance of small and medium scale enterprise scheme in Nigeria has been attributed to inadequate infrastructural facilities and lack of access to bank credit. A major impediment to operations of small and medium scale enterprise was high cost of operations besides debt of banks loans. Small and medium scale enterprise could not access credit from bank

7 Summary of Findings

This work was sort out to investigate empirically the effect of capital market in financing small and medium scale enterprise as an organise part of a viable in structure for the attainment of meaningful economic development.

The small and medium scale enterprise bring about more cost effective way of economic development that other large enterprises because of the perceived and medium scale enterprise have on the performance of the economic growth in general.

On our earlier definitions, the capital market is pictured as the aspect of the financial market which is concerned with the mobilisation and channelling of long and medium term funds for long term investments. Hence, the extent to which the capital market has served this purposed of contributing to Nigeria economy via growth in small and medium scale enterprises. (SME's) constitute the most important criterion of evaluating the role of the capital market in financing small and medium scale enterprises in Nigeria.

8. Conclusion

The principal objective of this research work remains the role of capital market in financing small and medium scale enterprises (SMEs) in Nigeria. In carrying out this study, Gross Domestic Product (GDP) was repressed on four explanatory variables market capitalisation (MKTCAP), Total volume of transaction (TVOT), New securities issues (NSI) and all share index (ASI).

Conclusively, this study has only made a modest contribution to the growing literature on capital market role in financing small and medium scale enterprises in Nigeria and its contribution to economic growth in developing economics. It will challenge interested researchers to undertake similar studies on the subject to fill the probable gabs in the study.

9. Recommendations

In view of the factors highlighted above, the capital market techniques for shaping the fortune of Nigeria business and economic climate in this millennium should be geared towards getting more enterprises and companies to raise cost effective funds through the capital market. Equally, in line with these findings and being mindful of the peculiar factors militating against the growth of small and medium scale enterprises in Nigeria, the researcher has favoured the implementation of the following recommendation.

- Small and medium scale enterprises need to be encouraged through various tax incentives and listing requirement to come to market i.e. indigenous companies should be encourage by way of various incentives including waivers/reduction in some of the listing requirements.
- Government should make more funds available to institution and bodies responsible for advancing loans to small and medium scale enterprises e.g. (NERFUND).
- In recognition of the fact that high cost of raising fund on the market is one of the factors militating against the growth of the Nigeria capital market and subsequently its ability to finance SMEs.
- However, the cost of borrowing should be reviewed in order to encourage more enterprises to come into the market so as to expand and deepen the market.
- Increasing the confidence in the capital market so to revoke fear from the individual investors can enhance new issues. There should be a forum whereby the commission and the companies on the second-tier securities market can meet on a regular basis to discuss other problems.
- There is need to pursue economic and financial policy reforms that encourage investment in the capital market. In this respect, monetary policies should be designed in such a way that savings are encouraged for investment. Government should also strive to maintain political and economic stability so as to avert the adverse effect of instability and economic distortions in the operations of SMEs in Nigeria.
- There is need for government to eliminate the incidence of multiplicity of regulatory agencies and taxes which had resulted in high cost of business transaction and this hampered on the growth of SMEs. Tax incentive should be introduced to encourage indigenous companies to get quoted.

The Nigeria stock exchange should at regular interval organise seminars and symposium to educate and enlighten investors and potential entrepreneurs on the role of the capital market in the development of SMEs.

Although, these recommendations are exhaustive, if there are judiciously pursued would bring about a more active and vibrate SMEs such sector that is powered by a viable and vibrant stock market which will subsequently enhance economic growth and developments.

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