Capital Market and Industrial Sector Development in Nigeria: A Theoretical Analysis

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Abstract
Reforms had always been an integral part of Nigerian’s political economy depending on the exigencies of the local and international economic environment. In this regard the financial market in Nigeria has witnessed tremendous growth and transformation over the years. Some notable reforms in the sector included deregulation, liberalization, reform of regulatory frame work and globalization and the wave of consolidation programme in the sector. This paper examined whether the growth of the Nigerian capital market has impacted in any significant way to the growth and development of the industrial sector and hence the economic development of the country in general. To achieve this objective, the study examines a number of relationships between the capital market and the industrial sector, such as the proportion of the manufacturing sector in the total market capitalization, or the relationship between the GDP and market capitalization, manufacturing index, New issues, market access to credit, trading values etc to determine the types of influence exerted on the industrial sector by the capital market. The significance of this study is that it really help the policy makers to really know the relationship between capital market and industrial sector. The review of available literature indicates that the capital market is a common feature in any modern economy and is reported to promote the growth and development of the real sector in our case there are indication of positive links between the stock market and industrial sector development but the impact has been severely limited by adverse economic environment such as poor economic infrastructures, bureaucratic bottlenecks corruption and poor corporate governance, regulatory and supervisory frameworks. To improve the situation this paper suggest the following recommendations. Removal of impediments to capital market development such as Improvement of the financial systems infrastructures and the general economic infrastructures to reduce stress in the system. Sound economic policies to stabilize the economy and improve the savings and investment culture of the people. Further liberalization of access to the capital market by indigenous small scale enterprises.

Keywords: capital market, industrial sector, reforms, infrastructures, economic growth.

INTRODUCTION
It is obvious that industrialization is the backbone for economic advancement in any nation, be it capitalist, socialist or a mixed economy. This is so because it is through the establishment of industries, both small and large that a nation could produce most of the goods and services its people require. Economists from different schools of thought have been unanimous that one of the parameters used to measure levels of development of any nation is the extent to which the nation can provide its citizens with the basic goods and services required to maintain a good life in the society.

Developing countries such as ours are today in dare need to industrialize because they want to attain economic self-sufficiency. The only way to go about this is through the establishment of small, medium and large scale industries. Industries in developing countries can strive successfully among other things, if enough funds are available for the take-off and expansion.

Many experts share the view that industrialization is a prerequisite for the economic take-off or economic developments of any country. It is believed that it is only industrial development that can break vicious circle of poverty and underdevelopment. However, just like they say industrialization is a prerequisite for economic development, availability of capital stands as a sure guarantee for effective industrialization and that is where the capital market comes in. The capital market forms the major source of capital for industries in developing economies. It is pertinent to
note that substantial capital is required either to
develop or import technological or know-how which
are needed for industrial development. It is the capital
market that has the capacity to provide such huge
sums of long term, non debt capital through the
issuance of equity securities which enables new
industrial establishments survive the relative long
gestation periods in most capital investment projects.

As a result of the desire of the federal government to
ensure a rapid growth in the industrial sector, the
SEC decree No 71 of 1979 was promulgated which
established the SEC to regulate the activities of the
Nigerian capital market with the activities of SEC the
Nigerian capital market has grown considerably over
the years, market capitalization has grown from 1.6
billion in 1980 1.3 trillion in 2003, 5.1 trillion 2006
and currently 6.9 trillion.

The major concern of this seminar is to determine to
what extent the capital market has aided the
development of the industrial sector whether the
capital market has really promoted the development
of the industrial sector and the reasons for the low
response of the industrial sector to the incentives
provided by the capital market.

STATEMENT OF THE PROBLEM
The role of the capital market is to mobilize long-
term fund to be channeled towards industrial
development. Despite the relative dynamism and
vitality observed in the evolution of the Nigerian
capital market, empirical literature however suggests
that the efficiency at effectiveness of the market in
promoting industrial development may be greatly
limited as evidenced by the low level of the
contribution of the industrial sector to overall market
capitalization. The problem of this study is to
ascertain the correlation between capital market and
industrial development in Nigeria.

OBJECTIVES OF THE STUDY
The general objectives of this study is to evaluate the
extent the capital market has contributed to industrial
development of the nation and how investors have
utilized the opportunity provided by the capital
market to boost industrial activities in the country.
Other specific objectives will include:
(i) To assess the level of industrial development
in Nigeria
(ii) To draw more attention to potential
industrialist on the availability of expansion and other
sorts of fund at the Nigeria capital market.
(iii) To look at some other impediment to
industrial developments and make an attempt at
finding lasting solution to them.
(iv) To determine the relationship between
the capital market and the industrial sector, i.e. the role of
the market in developing industrial capabilities
through public issue and quotations.
(v) To determine the types of funds raised in the
Nigerian capital market and the procedure for raising
them.
(vi) To determine the problems hampering
effective utilization of capital market funds by the
manufacturing sector.
(vii) To suggest possible solution to all the
problems identified in the research.

LITERATURE REVIEW
The financial system of any given society is the
framework within which capital formation takes
place. It is the framework within the savings of the
surplus sectors of the economy are made available to
the deficit sectors for productive investment. This
process is made possible by the intermediation of
financial institutions, which are basically the money
and capital market. The rapid industrialization and
modernization of an economy depends among other
things, chiefly on ready access to adequate financial
resources. The desire of the government to develop
capital market in Nigeria is therefore intrinsically
connected with the objective of accelerated industrial
and agricultural development of the economy.

In this work, therefore, the researcher will review
some relevant literatures on capital market and the
impact it has had over the years on industrial
development of Nigeria.

History of Industrial Development in Nigeria
In recent economic development studies,
industrialization has received prominent attention and
among development economists, it has been
variously described as “prime mover of the
economy”, and potent factor in the development
process”. Indeed, industrialization has come to be
seen as a key to rapid economic development in
developing countries such as Nigeria.

The term industrialization” like most terms in social
science has no universally acceptable standard of
definition. Thus it has been described variously by
experts in industrial developments. In the words of
Hughes (1973), industrialization is “the system of
production that has arisen from the steady
development study and use of scientific knowledge. It
is based on the division of labour and on
specialization and uses mechanical, chemical and
power aids in production”. To Ojo (1976)
industrialization simply means “having more
factories or industrial plants”. Abdukadir (1981) on
his own sees industrialization as “the process by
which anon-industrialized country becomes
industrialized one in which industrial output accounts
for at least 25 percent of gross domestic product
(GDP), about 60 percent total industrial output is
contributed by manufacturing and the proportion of
the population employed in the industrial sector is at
least 10 percent”. This definition appears to be more
expedient for a developing economy in the sense that it provides specific goals and the criteria to be pursued.

Britain, the Nigeria’s colonial master, developed the colonial economy in such a way that at independence, the major industries operating in the country were owned and controlled by foreigners, mostly British metropolitan capitalists. Enuenwosu et al (1980) have documented that Nigeria at independence “economic power was concentrated in large expatriate enterprises, the biggest of which was the United African Company (UAC), itself subsidiary of the giant, Unliever Company with head office in the United Kingdom. Expatriate dominancy was also evident in the field of banking.

Dada (2003) posits that by 1960, all the manufacturing enterprises were set up with private capital under private foreign initiatives. In a more detailed analysis, however, Kibly (1969) records that of the paid up capital of 321 (largest) limited companies surveyed in 1964, sixty eight percent was of foreign investment. Twenty two percent was owned by the Nigerian government and ten percent was owned by private industrials”. A document posted on the website of the Bureau for public enterprise (BPE) downloaded on the 17th of March 2006 stated that “A policy of import substitution dominated post independence Nigeria’s industrial development. This policy was pursued vigorously via the national development plan, which resulted in the commissioning of various industrial projects. As the economy benefited from the oil boom of the 1970s, the project become more ambitious and expensive.

In the same period, private sector investments in manufacturing grew as a result of various incentives, such as the pioneer status and approved users schemes put in place by the government. Between 1970 and 1977, Nigeria experienced a great industrial resolution. During the interval, the Nigerian Banking Industry witnessed three main development plans. The first is the indigenization of the banking systems. The second is the renewed boom in indigenous banking where banks were established not by individual but the state government. The third and final characteristic of the period is the financial system. The indigenous enterprises Promotion Decree of 1972 was the leading factor to this boom that was experienced then. The distinguished economist, Dr. Pius Okigbo whose committee was set up on April 5th 1976 which made its report available in 1977 and the government white paper on it contributed in making a new era in the Nigerian financial system.

However, by the late 1970s according to a BPE official release, serious structural defects in manufacturing sector started to emerge, and the diagnosis was that the sector was characterized by high geographical concentration and production costs, low value added, serious under utilization of capacity, a high import content in industrial output, and a low level of foreign investment in manufacturing. The situation worsened as the foreign earnings from oil started to decline ignominously in 1980s, by this time the government has invested heavily in a diversified portfolio of industrial project including salt, cement, iron steel and sugar. The poor returns from these projects, the low capacity utilization and various other compounding factors helped to plunge the economy into recession. It is against the background of this poor economy that the government embarked on the structural Adjustment Programme (SAP) in July 1986. SAP aimed at ameliorating the economic situation to increase local value added and capacity utilization in the industrial sector and to create sustainable industrial development.

Apart from the multinational operators, most of the other players (Nahmal, Regional and legal) have disappeared in the last two decades, due to unpredictable government policies, lack of basic raw materials, most of which are imported. Today the Nigerian industrial and manufacturing sector accounts for less than 10% of Nigeria GDP, with manufacturing capacity utilization remaining below 35% for the most part of the last decade.

Relationship between Industrialization, Economic Growth and Development

According, to the Federal Ministry of Finance in Nigeria, planning for economic development essentially means the attempt to effect by direct and indirect means the greater volume and the best possible allocation of resources for economic growth in order to reach the goal set by the people through their government. “the advantage increased happiness, that is increased products and other services required by them (Lewis 1986).

In contributing to this, Iyorha (1978) said that “the economic performance of most countries remained unimpressive in Africa. As in preceding years, the rate of real growth in output in the region was more than population growth, falling output, decline per capital income accompanied by worsening living conditions and deteriorating unemployment situation.

He further noted that the slow economic growth was due mainly to the sluggish growth in industrialization in the continent, weak export market, persistent low demand for primary commodities, inadequate flow of financial resources, the persistent heavy debt-service burden and unfavourable political climates. Development can be achieved by deepening the financial super structure of the economy. The development of any economy which must include among other things the presence of small, medium
and large enterprises are mostly dependents on the financial structure and scope of coverage in such an economy.

If the amount of goods and services produced by an economy increases from year to year, that is an economic growth. But if it does not increase yearly, it is not growing. It must be noted here therefore that at any stage of a country’s economic development industrialization is very important. It is almost an answer to the chronic economic problems of developing nations.

Problems of Industrialization

The structural problems of the financial market in Nigeria and their inadequacies in the industrialization process of the country are briefly examined from the following main points.

The saving-investment requirement of industrialization, that is, the problem of gross capital formation and its financial where adequate machinery exists, it is possible to mobilize internal resources within a country and also to attract large sums from abroad to finance industrialization. In Nigeria however, the financial market development has been relatively solved and it had not yet constituted effective industrial machinery. The major problem that crop up is that of making for capital formation, the large number of small individual units of savings which are scattered over the wide geographical areas of Nigeria. The redevelopment of the existing financial system is a more suitable form and the integration of the capital market in order to be able to mobilize efficiently the substantial foreign investment in the sector, would provide a firm basis for sustainable economic growth and development.

Main Thrust of Nigeria’s Trade and Industrialization Policy

Nigeria’s current industrial policy thrust is anchored on a guided deregulation and privatization of the economy and government’s dis-engagement from activities which are private-sector oriented, leaving Government to play the role of facilitator, concentrating on the provision of incentives policy and infrastructure that are necessary to enhance the private sector’s role as the engine of growth. The industrial policy is intended to:

(i) Generate productive employment and raise productivity;
(ii) Increase export of locally manufactured goods;
(iii) Create a wider geographical dispersal of industries;
(iv) Improve the technologically skills and capability available in the country;
(v) Increase the local content of industrial output by looking inward for the supply of basic and intermediate inputs;
(vi) Attract direct foreign investment;
(vii) Increase private sector participation.

The Nigerian Enterprise Promotion Acts, which hitherto regulate the extent and limits of foreign participation in diverse sectors of the economy, were repealed in 1995. The principal laws regulating foreign investments now are the Nigerian Investment Promotion Commission Decree and the Foreign Exchange (monitoring and miscellaneous provisions) Decree both enacted in 1995. Given the need to stabilize the banking and finance sectors, and promote confidence in these vital institutions, the Failed Bank (recovery of Debts) and Financial Malpractices in Banks decree of 1994 were put in place. The Investment and Securities Decree was also promulgated to update and consolidate capital market laws and regulations into a single code.

Under the privatization and Commercialization law of 1988, the government successfully sold its holdings in industrial enterprise and financial institutions, and such divestments were made by way of “offers for sale” on the floors of the Exchange, that ultimate shareholdings in such enterprises could be widespread. However, government retained full control of the public utility services corporations.

The 1997 Budget proposed the repeal of all existing laws that inhibit competitions in certain sectors of the Nigerian economy. Consequently, with the promulgation of the Public Enterprise promotion and Commercialization Decree in 1998, private sector investors (including non-Nigerians) will now be free to participate in and compete with government owned public utility services corporations in the areas of telecommunications, electricity generation, exploration of petroleum, export refineries, coal and bitumen exploration, hotel and tourism. As a policy objective, the liberalization and deregulation of the exchange control regime is designed to facilitate and enhance trading activities. Items on the import prohibition list have been drastically reduced with government opting to utilize tariff structures to protect end-user products pricing of local industries and discourage frivolous imports. In 1998, the import prohibition list was reduced to 11 items namely, maize, sorghum, millet, wheat flour, vegetable oils (excluding linseed and castor oils used as industrial raw materials), bantes and bentonites, gypsum, mosquito repellent, coils, domestic articles and wares made of plastic materials (excluding babies feeding bottles) rethreaded used tyres, gaming machines. However, more items have since been added to the list, especially where the country has comparative advantage in their production, either in real or potential terms. The primary objective has been to encourage local production and industrialization, while also reducing the country’s import bills, thereby conserving scarce foreign exchange.
Conceptual Issues in Stimulation Development and Economic Growth through the Capital Market

Every economy seeks to promote an effective capital market with the primary objective of mobilizing long-term funds from surplus economy for the use of the deficit units for investment purposes. This facilities are efficient for the allocation of financial resources the use of the capital market reduces over-reliance on the money market, assists in promoting a solvent and competitive financial sector as well as fostering a healthy stock market culture.

Finance is the link between the capital market and industrial development. As already noted, the relevance of the capital market to industrial growth of any nation can be seen in the role which capital markets plays in the mobilization of funds and their eventual transfer to businesses, the government and individuals that need those funds for investment. Therefore, the need for an effective capital market stems from the realization that through it, savings can be mobilized and channeled for productive investment. Apart from that, the ability to mobilize funds easily and cheaply on the capital market has also been found to be an incentive for enterprises to expand their operations and diversify into large-scale enterprises.

Although, investments funds for industrial development can be obtained from non-capital market sources these other sources of funds are often constrained by inherent weakness. For example, one of such sources namely, “internal funding”, is usually insufficient, hence the need to borrow from the money or capital market to supplement internal resources. Since the money market operates at the short-end of the credit market, more reliance is placed on the capital market for business which require long-term funds. Thus, the importance of capital market lies in its ability to sustain projects with long gestation periods. Since industrial enterprises belong to this category of projects, long-term capital from the capital market is most relevant in sustaining industrial development (Ojo, 1998).

Historical Background of Capital Market in Nigeria

Pandey (2002) in defining capital market stated that capital market facilitates the buying and selling of securities such as shares and bonds”. He stated further that they perform two valuable functions which include liquidity and the pricing of securities. Dada (2003) see capital market as an institution that exists to provide long-term capital both to the government and corporate bodies for industrial, socio-economic and infrastructural development purpose. Adetutuji (1977) sees capital market as “a complex mechanism, procedure and location through which deficient economic units (the users of funds) and the surplus economics units (those with excess money-the supplier of funds) are brought together. In other words a financial market facilities the efficient mobilization and allocation of funds for productive purpose, in order to stimulate economic growth and development of nations. The amount of funds available for mobilization and allocation in the financial market depends on a host of factors including disposable income, consumption pattern, price level, financial intermediation, market confidence and integrity.

The financial market can be broadly divided into two segment based on the maturity of the instrument issued and traded. These include the money market and capital market.

The securities and exchange commission (SEC) which is the apex regulatory body in the capital market, has its origin in the “adhoc” capital issues committee which was established in 1962 in the CBN to regulate public issues of securities in an effort to ensure that the capacity of the infant market was not over burdened as this night impact negatively on its development. Improvements in markets activities and the indigenization exercise of the early 1970s were the main factors which motivated the establishment of a statutory agency for capital market in Nigeria. The Capital Issues Commission (CIC) was established in 1973 to supercede the capital issues committee. The Capital issues Commission as it were had no jurisdiction over private companies, but all public companies, quoted and unquoted fell under its preview.

The capital issue commission remained operational until the Securities and Exchange Commission (SEC) was established by the SEC Act of 1979which was re-enacted as Decree No 29 of 1988. The decree empowered SEC with the twin responsibilities of regulating and developing the Nigerian capital market with the ultimate objective of protecting the investing public and accelerating socio-economic development.

METHODS OF RAISING EQUITIES

There are a number of issues that entrepreneurial companies need to consider when thinking about raising equity capital. The first question that needs to be addressed is “what do I need the capital for?”

It might be to enable you to grow your business (either organically or by acquisition). Alternatively it might be to provide you with a partial exit from the business or to allow you to reduce your company’s debts.

In preparing your business for equity raising, the raising of additional equity is a significant event in the development of your business. When raising equity capital first impressions count, so it is...
important to get things rights, first time. As you approach the equity raising process you should focus on two key objectives:

(i) maximizing your chances of successfully raising equity
(ii) optimizing the value at which new equity buys into your business.

To achieve the above, it is important that you have prepared your business for the equity raising process. We call this process of preparation “grooming”.

Grooming your business enables you to identify and mitigate potential risk areas and present your business in the best light to potential providers of equity. From the outset, objective is a key issue. You should approach your business as if you were an outside investor. Using an independent advisor can be advantageous, as they bring a degree of objectivity to your review of the business and are often able to identify areas of risk that may not seem obvious to you. It is important to remember that what may not seem like risk to you, might appear to be a very real risk to an outsider investor. So, grooming involves a whole range of risk identification and mitigation actions that apply to all aspects of the business.

What Do Equity Investors Look For?
It is a commonly held misconception that equity investors focus solely on high growth and high tech companies. While these sectors certainly receive more than fair share of attention during the late 1990’s, in today’s environment the reality is that equity investors are willing to invest in a far wider range of sectors than many people think.

Equity investors will look for a committed management team possessing all the skills necessary to grow the business to its next level of development and will be reassured if these skills are spread amongst a team of individuals rather than is one key person. Management’s commitment is typically evidenced by a shareholding or other performance related incentive management teams and proven caliber with a successful track record will have a clear advantage with investors.

Equity investors will examine the critical success factors of the business and sell to identify where the company has sustainable competitive advantage over other companies in that sector. Although equity investors will consider many sectors of the economy for investment, some sectors will be more favoured than others. Clearly sectors that can demonstrate a growing market. Accordingly it is important to consider your company’s competitive position within its sector and how attractive this would be to potential investors.

Typically you will need to provide equity investors with some form of written documents outlining your proposals for their equity investment. This documents is normally prepared in the form of business plan and should provide a clear explanation of the background to your business, what your company does its critical success factors and what the equity capital is required for. The more detailed and better researched the Business Plan is, the more favourable the impression you will make on potential equity investors.

Equity investors are typically looking for a combination of dividends yield and capital growth from their investments, where growth prospects are good, dividends may not be a priority. It is important they can see a clear strategy for growing the value of your business. In addition most equity investors are also concerned with how they will exist their investment in your business. The anticipated timeframe to exist will vary according to the particular circumstances of the company and the nature of the investor. However, it is not unusual for equity investors to exist their investment after three to five years. Your business plan needs a thoroughly explore potential exist routes for equity investors.

The Importance of Capital Market in Promoting Industrialization in Nigeria

The capital market is the most essential ingredients in the economic integration arrangements. The financial market (capital and money market) arrangement involved – financing regional development, particularly of integration of industries and coordination of regional industrial programme and secondly, involves the provision payment facilities and regional clearing houses to meet the requirements of intra-trade transactions. This promotes industrialization within the integration areas.

The major objectives of industrial development are however in line with these arrangements of the capital market. These are:

(i) Increase in the size of the market and resources available
(ii)The attainments of efficacies in production and distribution particularly, the resultant economics of scale which should lead to higher global rate of economic growth in the area of integration. It is therefore pertinent to note here that there is a great positive correlation between industrial development and the capital market.

As far as the financing of industrial development is concerned, all species of the financial system are important, the aspect of industrial development could be financed by bank overdrafts to private firms or purchase of governments securities; while other aspect requires either to develop or import technological know how, which enhances industrial development. The capital market therefore, facilitates
the efficient mobilization and allocation of funds for production purposes in order to stimulate economic growth and development of nation through industrialization.

Nwankwo, (1985) noted that one of the major reasons for the establishment of the Nigerian capital market is to Nigerian is the credit base and provide the necessary machinery needed for short-term and long-term financing arrangement. They provide local investments outlets for the retention of funds in Nigeria and for the investments of funds repatriated from aboard. These become important as the level of investment distinguishes a developed from a developing nation.

To encourage industrial development the interplay of the capital market and the money market becomes very necessary. They provide credit facilities and divert voluntary savings into productive channel.

In addition, they offer technical advice to industrialists by way of feasibility studies, which ensures that investments are much in the right direction. They do not only provide capital and technical advice on economic development they also invest in projects and enterprises.

The capital market played a major role in the recent recapitalization effort by commercial banks in Nigeria by a way of being median through which most of the banks raised substantial sums to augment their capital base over N240 billion was raised through the capital market, (NSE Factbook 2005). Presently, banks have announced that they will be willing to sponsor any meaningful industrial effort by individuals or group of investors.

The recently formed local initiative called transnational corporation, is a handy reference. Part of the arrangement is the plan to fund the company through the capital market.

MTN GSM Network in a bid to expand, is planning to go to the capital market to be able to achieve that fit. In the same hand, Dangote group of company is about to be quoted at the London stock exchange before the global economic crisis. Government also raise fund through the sale of Bonds at the Capital market for the purpose of financing industries. As earlier stated some states government raised fund through he sale of state bonds. These funds can be used for industrialization.

In all, it could be noted that the financial market with special reference to capital market has contributed and is still contributing in no small measure to achieve industrialization in Nigeria. Although the capital and money markets are helping significantly to finance the industrial sectors, there are some drawbacks, which are more peculiar to developing countries.

From table 1, shows that market capitalization with a relative small share of GDP has shown a steady growth from 1992 to 1996 with slight droop from 10.11% to 9.93% in 1997, which further fall to 8.94% in 1999. the market capitalization rose from 9.60% in your 2000 to 13.34% in 2002. it shows that the market capitalization will soon have a very significant role in Nigerian GDP formation. We noticed that from 2005, 2006 up to 2007 there was a steady increase in the market capitalization, these may be because of the consolidation programme of the federal government. But surprisingly in 2008 the market lost over N5.7 trillion over N5.7 trillion to close at N6.9 trillion. This is as a result of the Global financial crisis that hit all aspects of the financial system.

Comparative analysis of the capital mobilization and the depth of the market reflects a system that constantly adapting to positive changes. The comparative results in the table analyzed earlier shows that the on-going reforms in the sector are adequate to reduce the lingering problems and enhance the future development of the market provided that the implementation of those reforms are properly focused and well structured.

Table 1: Market capitalization as a % of GDP (N Billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Capital</th>
<th>GDP Current Price</th>
<th>At Market Price</th>
<th>Market Capital as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>32.5</td>
<td>549.81</td>
<td>5.91</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>46.9</td>
<td>697.09</td>
<td>6.72</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>65.5</td>
<td>914.9</td>
<td>7.15</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>171.1</td>
<td>1977.74</td>
<td>8.65</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>283.6</td>
<td>2823.65</td>
<td>10.11</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>292.66</td>
<td>2939.65</td>
<td>9.93</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>262.3</td>
<td>2881.31</td>
<td>9.13</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>299.9</td>
<td>3352.65</td>
<td>8.94</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>478.6</td>
<td>4980.94</td>
<td>9.60</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>662.6</td>
<td>5639.86</td>
<td>11.74</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>763.9</td>
<td>5728.2</td>
<td>13.34</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>1000.359</td>
<td>6299.4</td>
<td>77.90</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>2112.500</td>
<td>2112.500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>2900.062</td>
<td>2900.062</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>5,100,000</td>
<td>5,100,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Table 1 shows the Nigerians stock exchange market capitalization to Nigeria GDP formation. This table shows that capitalization, with a relative small share of GDP, has shown a steady growth from 1992 to 1996, with a slight drop from 10.11% to 9.93% in 1997, which further fell to 8.94% in 1999. recent figures of the market capitalization which rose from 9.6% in year 2000 to 13.34% in year 2002, shows that the market capitalization will soon to have a very significant role to play in Nigerian GDP formation.
Table 2: Economic Indicators in the Nigerian Capital Market

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>MKC</th>
<th>NIS</th>
<th>TRV</th>
<th>TUR</th>
<th>ICU</th>
<th>CAPF</th>
<th>MANI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>49632.3</td>
<td>1620.3</td>
<td>3788</td>
<td>8.2</td>
<td>0.5</td>
<td>70.1</td>
<td>10874.3</td>
<td>102.4</td>
</tr>
<tr>
<td>1981</td>
<td>50456.1</td>
<td>1916.9</td>
<td>4552</td>
<td>8.6</td>
<td>0.5</td>
<td>73.3</td>
<td>12215</td>
<td>117.4</td>
</tr>
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**KEY**
- GDP = Gross Domestic Product
- MKC = Market Capitalization
- NIS = New Issue in the Capital Market
- TRV = Turnover Ratio
- TUR = Traded Value
- ICU = Industry Capacity Utilization
- CAPF = Gross Capital Formation
- MANI = Manufacturing Index

Table 3: Contribution of Newly Created Capital to GDP and Gross Fixed Capital (N Billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Newly created capital</th>
<th>GDP @ current market price</th>
<th>Newly created capital @ % GDP</th>
<th>Gross Fixed Capital</th>
<th>New capital as % GFC</th>
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Table 3 shows the contribution of newly created capital to both GDP and gross fixed capital formation. Although contribution of newly created capital to GDP has been very low and has continued to grow until 1993 when its growth was halted by political instability which affected the investing public and the entire basic environment. The improved economic environment ensured an increase between 1995 and 1996. It fell again in 1997 due to deteriorated economic environment which depressed investors commitment. Though rose again in 1998, it dropped again in 1999 and 2000 and rose up again significantly in year 2002 and 2003. There was a significant increase in the percentage of newly
created capital on gross fixed capital formation in 1998 due to the rise in newly created capital. Since then the percentage of newly capital on gross fixed capital formation has fluctuated between 6.7% and 9.48%.

**Capital Market Reforms and Prospects of Enhancing Industrial Capabilities**

The Nigerian capital market has been under continuous reforms with varying intensities since the turn of the 1960’s when the formal capital market started to emerge. These reforms have been targeted at making the market a more effective medium for raising long-term funds. This section would focus on the on-going reforms and the prospects that the reforms would enhance industrial capabilities of the nation.

**Factors Which Influence the On-Going Reforms**

To appreciate the need for the on-going reform it would be useful to identify the forces behind them these forces or influences are many but six major ones are mentioned here.

First, the deregulation economic activities since the mid-1980 has made the eventual deregulation of the capital market necessary. This has contributed to subsequent calls for injecting competition into the market. Second, the Okigbo Panel (1976) on the financial sector made a number of unimplemented recommendations which those who advocate reforms in the market still consider relevant such as establishment of more stock exchanges. Third, the experience of capital market operators and regulators have exposed a number of problems in terms of deficiencies in the technological base and legal framework, hence the operators have embarked on self-reforms.

More recently, the Odife panel on the Capital Market joined the league of reformers for the Capital market. The panel’s major recommendations include the establishment of another stock exchange to stimulate competition and efficiency, the codification of the numerous laws guiding the capital market and the modernization of the activities of the market. Another important influence on the on-going reforms in the market comprise informed capital watchers whose contributions, through seminars and workshops, have given some push to the on-going reforms. Finally, the view of the Government have served as a ‘checking-point’ which determines which reforms should be given priority attention. From the foregoing review of he influences on the capital market, it is easy to observe that despite differences in opinion on the methods of implementation, it is generally agreed, that some major reforms in the market should be taken seriously (OJO, 1998).

**A Review and an Apraisal of the On-Going Reforms**

There at least four major reforms going on in the capital market, with a view to making it an effective instrument for mobilizing financial resources for productive investment. These are the fostering of competition and efficiency in the market; the modernization of market activities; the review and codification of all capital market laws into one documents; and the strengthening of the internal structures and operations of capital market institutions and schemes. Each of these reforms has been included by a combination factors. For example, those who favour fostering competition in the capital market include the apostles of deregulation of the economic system, the Okigbo panel on financial system of 1976 which sought for more stock exchanges and some capital market watchers who have sold their ideas through seminar and workshops. In the case of modernization, there has been recommended highly is the review and codification of the relevant laws. While the are differences of option in terms of the details of the review of the laws, nobody has opposed their codification into a single documents. Finally, the lead regulator and most capital market operators have embarked on self-reforms, thus implying that internal structure and operations requires some improvement. There is however the need to reconcile these self-reform measures and those reforms imposed from outside. This is possible only if the accepted goals of the capital market are kept in view (Ojo, 1998).

**Prospects of the Reforms for the Future Development of Nigeria's Industrial Capability and Economic Growth**

The four major planks of the current reforms have the potentials to create a highly modernized and effective market which would increasingly raise the long-term funds for industrial and other development project. The potentials include:

(i) Stimulating competition among the operators, thereby enhancing efficiency in the use of resources.

(ii) Equipping the operators with internal strength, especially in terms of appropriate technology needed not only to compete with other operators but also compete with other emerging markets of the world.

(iii) Creating incentives for increased patronage of the market through enhance competition and improved technology, especially when the screen based system can be accessed from different locations in the country.

(iv) Removing ambiguities in the law and creating an effective mechanism to enforce the laws;

(v) Strengthening the ability of the lead regulator to ensure a smoother, more orderly and effective capital market; and
(vi) Making the capital market an effective medium to attract foreign investment.

In the final analysis, the extent to which these potential are realized would depend on the determination and vigor with which the reforms are implemented (Ojo, 1998).

CONCLUSION

This study had been critical in its evaluation of the performance of capital market and the industrial development in the country. The work revealed the historical background of the capital market, its contribution to the Gross Domestic Product of the economy through promotion of industrial activities. This has ensured a rapid increase in per-capital income, more even-income distribution, increased employment and skilled manpower and indigenization of economic activities.

Lucidly put, the capital market has contributed positively to the economic development in Nigerian through the promotion of the industrialization process. The socio-economic development which can be achieved through taxes, equipment, provision of products and services etc are obtained basically through industries.

A cursory look at this work will reveal the effort made by the capital market and its operations in Nigeria to promote the growth of industries within Nigeria.

Specifically, in the following areas:

1. That capital market has impacted on industrial development in Nigeria.
2. That the capital market has effectively positioned itself as a conduct or mechanism for economic growth and development enhancement in Nigeria.
3. That its intermediary role had been well toed despite some fundamental hitches which are being taken care of through series of reforms taking place in Nigerian financial system.
4. That indeed, industrialization is the pendulant, the pivot upon which every nation’s economic growth and development hinges on.

Finally, based on the foregoing, recommendations will be advanced below on measures applicable if the performance of the capital market in providing fund for industrialization purpose is to improve.

RECOMMENDATIONS

The following recommendations are hereby made with a view to enhancing the performance of our capital market especially as it concerns the effort towards the industrialization of our country Nigeria.

(i) Removal of impediments to capital market development such as …

(ii) Improvement of the financial systems infrastructures and the general economic infrastructures to reduce stress in the system.

(iii) Sound economic policies to stabilize the economy and improve the savings and investment culture of the people.

(iv) Further liberalization of access to the capital market by indigenous small scale enterprises.

(v) Mobilization of long-term funds for venture capital, entrepreneurship development and real sector investment.

(vi) The Nigerian capital market has to be packaged in line with the current globalization trend. The internationalization of the Nigerian capital market will allow a flow of foreign investment into the economy and that way enhancing the industrialization process.

(vii) Listing requirement at the stock exchange must be made in such a way that medium scale companies to opportuned to get listed. Much as the standard remain uncompromised, it has to be made to give room for wider participation.

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