

# CAPITAL MARKET OPERATION: THE IMPACT ON THE EMERGING ECONOMY

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## ABSTRACT

In recent times, most business organizations; Banking, Insurance, Pharmaceutical, Conglomerate, Oil and Gas experience difficulties in meeting up with challenges in the area of funds generation for executing of most development projects.

The government in ameliorating this problem, assisted by creating, through Act of Parliament/Decree the establishment of Security and Exchange Commission (SEC) where companies could be listed and eventually sourced for funds to enable them pursue such program as mentioned above apart from going through the banking sector that request for collateral securities as requirement for disbursement of such funds and the associated costs of capital therein.

This paper reports an empirical study of the effectiveness of the SEC

The tools analysis used is the Survey method and the primary data were collected directly through the use of questionnaire.

The findings of the research emphasizes maintenance of proper regulations on the operations of the Nigeria capital market and ensuring the interest of investing public is protected. Also the Public enlightenment program by the regulatory authorities evidence by the daily official trading and weekly summary of trading activities reveal that the authorities have adequately create awareness on the activities of the Capital Market.

The researcher recommend among others that strict adherence to the decree and rulers that establish (Nigeria Market and Securities and Exchange Commission) them and display of integrity and transparency among the operatives. And having introduced electronic based trading or automated trading system, efforts must be to ensure that there is proper maintenance of the system.

## OVERVIEW OF THE STUDY

The Securities and Exchange Commission (SEC) is the regulatory authority in the capital market. It came into existence through the Securities and Exchange Commission decree of 1998 and the Investment and Securities Act of 1999. The Investment and Securities Act No 45, which was enacted in May 1999, repealed the Securities and Exchange Commission (SEC) Decree of 1989 and Conferred on the commission wide range regulatory powers over institutions operating in the capital market.

The Decree legalized the establishment of stock exchange and capital trading points all over the country and stipulated operational guidelines for different institutions in the market. The Securities and Exchange Commission (SEC) is responsible for registering all eligible securities offered in the capital market as well as stock exchange, issuing houses and stockbrokers. It also maintains surveillance on the securities market to ensure strict compliance with the requirement of just and reputed dealings. In a deeper historic sense, the Securities and Exchange Commission as a regulatory agency came into existence in 1946 when the first public issue of securities founded by the Federal Government of Nigeria for infrastructure development was introduced. However, since there was neither a formal capital market nor a capital bank, the issue was floated informally. This was through the Nigeria Local Development Board: an agency of government charged with the responsibility of giving loans to the government and its agencies for the construction of infrastructure facilities and public utilities etc. In order to replace the Nigeria Local Development Board, the establishment of capital issue was necessary, although the capital issues was an adhoc-committee with no legal status. Its primary functions were to see to the orderly development of the capital market by regulating share prices and determining the timing of issues in order not to over stretch the absorption capacity of the infant capital market.

As capital market became increasingly more important in the early 1970's and with the realization of the important role a legal body would play in the successful implementation of the Nigeria Enterprises Promotion Decree (NEPD) of 1972, the Federal Government promulgated Capital Issue Commission (CIC) as a legal body, which superseded the Capital Issues Committee. The Capital Issue was among others vested with the following responsibilities

- To determine the price at which shares or debentures of a company are to be sold to the public either through offer for sale or direct issues.
- To determine the timing and amount of sales.
- To determine in case of quoted company: the price, amount and the time, offer of shares or debentures are to be sold.

The capital issues commission carried out legal responsibilities creditably until its name was changed to the Nigeria Securities and Exchange Commission in 1979, which was enacted as Decree No 29 of 1988. The Securities and Exchange Commission (SEC) was also a credit of the Okigbo's Committee on the Nigeria financial system review. The main objective of the Securities and Exchange Commission (SEC) is to promote orderly and efficient capital market.

Composition of the Board of The Securities and Exchange Commission (Sec) Under The Investments and Securities Act (ISA)

The Securities and Exchange Commission is directly responsible to the ministry of finance. It has a Board of directors consisting of eleven (11) members as follows: Three (3) members one each from the Federal Ministry of Finance, Trade and Industries.

- One (1) representative of the CBN as chairman
- One (1) representative of the Nigeria Stock Exchange
- One (1) representative of the Bureau of Public Enterprises
- One (1) representative of the Federal Ministry of Industries.
- Four (4) private members appointed by the Federal Government.

The Director-General who is a member of the board, is responsible for the day-to-day administration of the commission. He is in this task, assisted by two commissioners, a Commissioner for Operations and Commissioner for Finance and Administration.

#### The Enlargement Roles and Functions of the Sec Under the Investments and Securities Decree 1999 (ISD):

The function of the commission can be summarized thus:

- To monitor trading in the securities, commodities and future markets to ensure fairness, efficiency and transparency in dealing;
- To register securities exchange, futures options and commodities exchanges, as well as capital trade points for adequacy of their rules and facilities and the property of key employees in order to ensure orderliness, fairness and efficiency in trading of listed instruments;
- To register and regulate all operators (intermediaries) in the market to ascertain their fitness and property to carry out investment and securities business;
- To register and regulate clearing and settlement companies, central depository companies and custodians of securities to ensure adequacy of facilities and provision of necessary safeguards;
- To register collective investment schemes, venture capital funds, foreign institutional investors and rating agencies.
- To promote the efficiency of the market by facilitating the introduction of information technology and data processing facilities and the linking of markets with these facilities;
- To register issues of securities to ensure comprehensive information disclosure about the issuer and the issue it intends to offer to the public.
- To uphold the integrity of the capital market by preventing activities which are capable of undermining the market;
- To inspect books and records of intermediaries to determine their financial and operational property as well as their compliance with the rules and regulations of the market;
- To investigate complaints and suspected breaches of securities laws;
- To enforce the securities laws in order to maintain order and promote confidence in the integrity of the securities market;

- To make rules, from time to time, in response to developments or anticipated developments in the capital market or the larger economy;
- To conduct research into all aspects of the capital market, establish findings, which would aid policy formulation, deepen the market; educate participants and other interested in the Nigeria capital market.
- To embark on investor education and training of operators and regulators,
- To review, approve and regulate mergers, acquisitions and all forms of business combinations in order to prevent monopolies and acts which may constrain competition;
- To provide advisory services to the Ministry of Finance on all matters pertaining to the capital market.

The Investment and Securities Decree 1999 (ISD) retained some of the provisions of the Securities and Exchange Commission (SEC) Decree 1998 including the power of the commission to register public issues of securities, stock exchanges and market operators.

Also transferred from the Securities and Exchange Commission (SEC) decree was the regulation of mergers, acquisition and other forms of business combinations as well as the responsibility of the commission to protect the market against abuses which may arise from insider dealing. Part 17 of the Companies and Allied Matter's decree (CAMD) was substantially transferred to the ISD in an effort to bring all laws regulating the capital market under one statute.

In order to achieve a success and to ensure efficiency of its operations, the Securities and Exchange Commission (SEC) formulated various rules and regulations to guide the operational activities of the participants.

#### LITERATURE REVIEW

The Nigeria capital market is a market for long-term funds generally; the stock market is a market for stocks and share both for existing and for new issues.

Olowe (1997) asserted that capital market is the market for long-term fund. The capital market has both securities based segment (Stock market i.e. the stock exchange) and non-securities base segment (market for long-term loans)

Pandey (1996) highlighted that capital market is the market for long-term capital where securities are traded.

Ibrahim (2002) suggested that the capital market is the market for long-term financial instruments or funds.

According to Oba Ekiran (2002) "In Nigeria, the capital market is the least known of the financial market, yet its performance is the best measure of the heart beat of the economy".

Kola (2002), explained that capital market provides facilities through which medium and long-term funds (usually more than one year in maturity) are raised. Such funds are made available to issues including corporate bodies and governments.

The capital market is generally expected to operate "freely" and to be self regulatory without any interference, so that buyers and sellers obtain a "fair" price for their deals. The adherence of the free and self-regulatory system, claim as its main advantage; flexibility of operation of stock market administration in meeting exception is a figment of the economists' imagination, the concept of a "free capital market" is a fiction in the mind of the financial analyst. Nowhere in the world is the capital market free.

Olowe (2003) explained that there is nowhere in the world where there is free capital market. The reasons for these are not far-fetched;

First, a free market implies free price movements essentially responsive to a wide range of external forces. This situation is often very volatile and subject to significant fluctuations. This may lead to serious abuses where those better informed of likely market influences can take advantage of the price fluctuations at the expense of those less well informed.

Secondly, a free market implies free share availability, free access to information for investors, free participation in share owning by a large section of the population and free transferability of shares between one holder and another. Even in the highly developed countries, these conditions are very scarcely if ever met and are conspicuous by their absence in development countries.

Having discovered that the capital market cannot operate "freely" the Nigerian stock exchange was also not expected to work without defects; not even in the most developed stock exchange like the New York Stock Exchange

Thus, the 1979 restructuring of the Security Exchange Commission (SEC) was a favourable step by the government in recognition of the defects in the capital market but also in the protection and regulations of investments and investors activities in the capital market.

It was conceived and concluded that the effectiveness and efficiency of the Nigeria capital market depend on the existence of a government agency with a high degree of independence and statutory empowerment. Hence, the promulgation of the enabling Decree No 71 of the Securities and Exchange Commission as a regulatory and supervisory institution in the capital market.

## METHOD

A field survey was conducted with the use of questionnaire, where respondents were asked to assess the operational efficiency of SEC.

A convenient sample of 25 knowledgeable people on the stock exchange operations was employed for this study. Two hypotheses were tested to establish the relationship between dependent and independent variables. The student 't' distribution was used in testing these hypotheses. Where the alternative hypothesis was more than two weights were assigned to each of the alternatives. The alternative that has a positive response (Yes) was assigned 4; negative response (No) is assigned 3 and neutral responses (undecided) was assigned 1

The t test was employed in testing hypotheses.

The formula for t - test is

$$T = \frac{\bar{X} - \mu}{S/\sqrt{n}}$$

- Where
- $\bar{X}$  = Sample mean
  - $\mu$  = Population mean
  - S = Sample standard deviation
  - N = Sample size

Testing Hypothesis 1

From table 1

Ho: SEC has not played a great role in standardizing the operations of the Nigeria Capital market.

H1: SEC has played a great role in standardizing the operations of the Nigeria Capital market.

**Table 1: Respondents Assessment of SEC**

Response	Weight	Frequency	Percentage %
Yes	4	21	84
Undecided	1	1	4
No	3	3	12
Total	-	25	100

Source: Responses from field survey

**Table 2: Analysis of responses by summary statistic**

Number of Response	Weight (X)	Means (X)	(X - X) <sup>2</sup>
1	4	3.76	0.0576
2	4	3.76	0.0576
3	4	3.76	0.0576
4	4	3.76	0.0576
5	4	3.76	0.0576
6	4	3.76	0.0576
7	4	3.76	0.0576
8	4	3.76	0.0576

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9	4	3.76	0.0576
10	4	3.76	0.0576
11	4	3.76	0.0576
12	4	3.76	0.0576
13	4	3.76	0.0576
14	4	3.76	0.0576
15	4	3.76	0.0576
16	4	3.76	0.0576
17	4	3.76	0.0576
18	4	3.76	0.0576
19	4	3.76	0.0576
20	4	3.76	0.0576
21	4	3.76	0.0576
22	4	3.76	0.0576
23	4	3.76	0.0576
24	4	3.76	0.0576
25	4	3.76	0.0576

Source: Responses from field survey

$$\sum X = 94, n=25$$

$$\bar{X} = \frac{\sum X}{n} = \frac{94}{25} = 3.76$$

$$S = \sqrt{\frac{\sum (X - \bar{X})^2}{n-1}}$$

$$S = \sqrt{10.56}$$

$$S = \sum 0.44$$

$$S = 0.663$$

$\sum$  = Population means is calculated by finding the mean of weights

Appertained to alternative and null hypothesis

$$\sum = \frac{4 + 1 + 3}{3} = \frac{8}{3}$$

$$\sum = 2.6667$$

$$t = \frac{X - \sum}{S / \sqrt{n}}$$

$$= \frac{3.76 - 2.667}{0.6633}$$

$$= \frac{1.0933}{\sqrt{25}}$$

$$= 0.1327$$

$$t = 8.2414$$

Degree of freedom = n-1=25-1=24

Level of significance is 5%

The table value or critical value of  $t_{24}^{0.05} = 1.711$

Decision Rule:

Reject  $H_0$ , if the value of "t" calculated is greater than the table value

Accept  $H_1$ , if the value of "t" is greater than the critical values, then

$H_0$  is rejected  $H_1$  accepted. That is,  $8.2414 > 1.711$ .

The alternative hypothesis is therefore accepted.

**Testing of Hypothesis II**

From table 4.13

$H_0$ : SEC does not create the necessary environment for the orderly growth and development of the capital market

$H_1$ : SEC does create the necessary environment for the orderly growth and development of the Nigerian capital market

**Table 3: Respondents Assessment of SEC**

Response	Weight	Frequency	Percentage %
Yes	4	19	76
Undecided	1	4	16
No	3	2	8
Total		25	100

$\sum X = 86, n = 25$

Source: Responses from Field Survey

**Table 4: Analysis of responses by summary statistics**

Responses ( $\sum X$ )	Mean ( $X$ )	$\sum (X - X)^2$
1-19	$4X = 4 \times 19 = 3.44$	$19(4-3.44)^2$
20-21	$3X = 3 \times 2 = 3.44$	$2(3-3.44)^2$
22-25	$1X = 1 \times 4 = 3.44$	$4(1-3.44)^2$

$\bar{X} = \frac{86}{25} = 3.44$

$S^2 = \frac{\sum (X - \bar{X})^2}{n-1}$

$= \frac{30.16}{24}$

$= \sum 1.2567$

$S = 1.1210$

$= \frac{4 + 1 + 3}{3}$

$= 2.6667$

$= 2.6667$

$t = \frac{\bar{X} - \mu}{S/\sqrt{n}}$

$$S/\sum n$$

$$= 3.44 - 2.6667$$

$$1.1210$$

$$\sum 25$$

$$= 0.7773$$

$$1.1210$$

$$5$$

$$= 0.7733$$

$$0.2242$$

$$"t" = 3.4492$$

Degree of freedom =  $n-1=25-1=25$

Level of significance is 5%

The table value or critical values of  $t^{0.05}_{24} = 1.711$

#### **Decision Rule**

Reject  $H_0$ , if the calculated values of "t" is greater than the critical value

Accepted,  $H_1$  if the calculated values "t" is greater than the critical values

#### **Final Decision**

Since the value of "t" calculated is 3.4492, which is greater than the critical value of 1.711. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted.

#### **Conclusion**

From the hypothesis tested, it could be conclude that the Securities and Exchange Commission (SEC) has played a great role in standardizing the operations of the Nigeria Capital Market. More so, the creation of the necessary environment for orderly development of the capital market is in top gear.

## **SUMMARY OF FINDING AND RECOMMENDATION**

### **Summary of Findings**

- Securities and Exchange Commission maintains proper regulations on the operations of the Nigeria capital market and ensures the interests of investing public are protected.
- SEC has been maintaining surveillance over securities market to ensure orderly, fair and equitable dealing in securities market against any abuses arising from the practice of insiders trading. This is evidence from the suspension placed on the trading of shares of some companies by the Nigeria stock exchange. This was later lifted after reassurance and compliance with the stock exchange regulations.
- Public enlightenment programme by the regulatory authorities evident by the publication of the daily official trading and weekly summary of trading activities, tells that these authorities have adequately cerate of the activities s of the capital market.

### **Recommendations**

- A strict adherence to the provision of the decree and rules that establish ( Nigeria Capital Market and the SEC) them and display of integrity and transparency among the operatives.
- The provision of new capital market infrastructures, derivative market and future market to facilitate among other things, the adoption of a screen-based trading system in lieu of the existing system; infrastructure facilities and regulations should be provided to ensure, delivery and custodian service. Therefore, the CSCS should only be made the national depository.

## CONCLUSION

Due to its assigned roles and prime position, which SEC occupies in the Nigerian capital market, one of the ways of assessing its impact on the Nigeria capital market since it started operations fully in 1980 is to consider the growth of quoted companies especially banks. Commercial banks grew from 19 in 1980 to about in 2004.

On this note, the effect of Securities and Exchange Commission (SEC) has been mostly felt. Some of such policies are privatization and commercialization programmes, which have considerably increased the number of equity listings on the Nigeria stock exchange while the second of such policy measure, is the debt conversion programme aimed at reducing the stock of Nigeria external debt and simulating new investment.

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