THEORETICAL ANALYSIS OF THE ROLE OF CAPITAL MARKET IN THE INDUSTRIAL DEVELOPMENT OF NIGERIA

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ABSTRACT

This paper title “the role of capital market in the industrial development of Nigeria” is a theoretical discussion to ascertain whether the capital market enhances industrial development in Nigeria. Industrialization is the backbone for economic advancement in any nation, be it capitalist, socialist or a mixed economy. The capital market performs critical capital allocation functions which promote economic growth and stimulate orderly industrial development. Nigeria as a developing country is in dire need to industrialize. The only way to go about industrialization is by establishing the small, medium and large scale industries which is the role of the capital market. Industries in developing countries such as Nigeria can strive successfully by providing enough funds for the take-off and expansion. The paper discussed the overview of the Role Capital Market in Industrial Development in Nigeria; the capital market in Nigeria is aimed at promoting industrialization in Nigeria. The major objectives of industrial development are however in line with these arrangements of the capital market. These include increase in the size of the market and resources available and the attainment of efficiencies in production and distribution particularly, the resultant in economic growth which should lead industrialization. Finally, the paper recommends that government should introduce some tax incentives to motivate and encourage investors among other recommendations.

Keywords: Role, Capital Market, Economic Growth and Industrial Development

Introduction

The capital market is a common feature of every modern economy and is reputed, amongst other things, to perform critical capital allocation functions which promote economic growth and stimulate orderly industrial development. In many advanced countries where capital markets correlate directly with the economy, the capital market is viewed as the primary gauge for the economy’s performance. More so, capital markets with adequate depth play an essential role in economic development since they are the principal platform through which low cost funds to finance medium to long term projects on infrastructure and other important projects that transform economies are mobilized. Such markets are characterized by high investor confidence, market integrity, efficient processes, adequate product offerings, sound regulatory framework, strong and transparent disclosure and accountability regime and good corporate governance. Markets with these attributes are classified as world class capital markets (Securities and Exchange Commission, 2012).

Nigeria has the capacity to evolve into such a market. It is our strong conviction that a world class capital market is a necessity if indeed we aspire to better leverage our national wealth in terms of natural and human resources. In essence, the capital market can foster diversification of the country’s economic base which is largely oil dependent and assist economic agents to pool, price and exchange risk thereby encouraging savings and investments and ultimately creating wealth. This conviction informed our vision “to build a world class capital market” as catalyst for the realization of the country’s full potential even as our leaders strive to address our socio-economic challenges (Securities and Exchange Commission, 2012).

The apex regulator of the capital market therefore, this singular vision, the vision to evolve a world class
capital market, a market that is complemented by necessary structures to attract world class institutions, one that is an efficient enabler of socioeconomic development; which fosters meritocracy, good corporate governance, innovation and entrepreneurship and harnesses the entrepreneurial zeal of many hard working Nigerians to work towards industrialization of the country. It is in lieu with the above; Joshua (2014) asserts that the capital market of every economy is setup for the attainment of specific objectives which includes economic growth and stability. Hence, industrial development can take place if the capital market achieves the above stated objectives.

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 (Okoye, Nwisienyi and Eze, 2013).

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 which the capital market had a major role to play. 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 also where the capital market comes in.

According to Okoye, Nwisienyi and Eze (2013) the capital market forms the major source of capital for industries in developing economies like Nigeria. They opined that it is pertinent to note that substantial capital is required either to develop or import technological know-how which is 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 Securities and Exchange Commission decree No 71 of 1979 was promulgated which established the Securities and Exchange Commission 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. T

Given the above background, the major concern of this paper is to determine to what extent the capital market has aided the development of the industrial in Nigeria. In other words the paper intends to find out whether the capital market has really promoted the development of the industrial. Similarly, the paper also intends to find reasons for the low response of the industrial sector to the incentives provided by the capital market. Based on this paper intends to ascertain whether the capital market enhance the industrial development in Nigeria. Other objectives of this paper is to critically examine whether capital market enhance and promote investment in Nigerian economy as well as to verify whether the capital market help to increase value of transactions.

An Overview of the Role OF Capital Market in Industrial Development

The capital market helps to channel capital or long-term resources to firms with relatively high and increasing productivity thus enhancing economic growth and industrial development. Scholars have argued that a nation requires a lot of local and foreign investments to attain sustainable economic growth and industrial development. The capital market provides a means through which this is made possible. However, the paucity of long-term capital has posed the greatest predicament to economic growth and industrial development in most African countries including Nigeria.

Some sees the capital market as the driver of any economy growth and industrial development because it is essential for the long-term growth capital formation. It is crucial in the mobilization of savings
and channelling of such savings to profitable self-liquidating investment or industrialization.

The Nigerian capital market provides the necessary lubricant that keeps turning the wheel of the economy to towards industrialization. It not only provides the funds required for investment but also efficiently allocates these funds to projects of best returns to fund owners. This allocative function is critical in determining the overall growth of the economy. The functioning of the capital market affects liquidity, acquisition of information about firms, risk diversification, savings mobilization and corporate control. Therefore, by altering the quality of these services, the functioning of stock markets can alter the rate of economic growth. Authorities posit that the cheap source of funds from the capital market remain a critical element in the sustainable development of the economy. She enumerated the advantages of capital market financing to include no short repayment period as funds are held for medium and long term period or in perpetuity, funds to state and local government without pressures and ample time to repay loans.

The capital market is a highly specialized and organized financial market and indeed essential agent of economic growth because of its ability to facilitate and mobilize saving and investment. To a great extent, the positive relationship between capital accumulation real industrial developments has long affirmed by scholars. Success in capital accumulation and mobilization for industrial development varies among nations, but it is largely dependent on domestic savings and inflows of foreign capital. Therefore, to arrest the menace of the current economic downturn, effort must be geared towards effective resources mobilization. It is in realization of this that consideration is given to measure for the development of capital market as an institution for the mobilization of finance from the surplus sectors to the deficit sectors.

Today, the overview of the state of the market, analyze developments which defined the market within the last decade and informed the underlining strategies for our reform agenda and one such agenda is indoctrination of Nigeria. Recognizing that the world has become a global village, attention will be drawn to some of the external factors which influenced industrial developments in the Nigerian. The Nigeria capital market highlight the measures to be employed by Securities and Exchange Commission to mitigate the downside risk while optimizing positive prospects of these factors also outline the impact of Nigerian reforms on the market to date. Securities and Exchange Commission, (2012) states that Nigerian economy requires such intervention from Securities and Exchange Commission to further accelerate industrial development in Nigeria.

Role of Capital Market in Industrial Development in Nigeria

Capital market plays an extremely important role in promoting and sustaining the growth of an economy. It is an important and efficient conduit to channel and mobilize funds to enterprises, and provide an effective source of investment in the economy. It plays a critical role in mobilizing savings for investment in productive assets, with a view to enhancing a country's long-term growth prospects, and thus acts as a major catalyst in transforming the economy into a more efficient, innovative and competitive marketplace within the global arena (Ministry of Cooperate Affairs, 2014).

In addition to resource allocation, capital markets also provide a medium for risk management by allowing the diversification of risk in the economy. A well-functioning capital market tends to improve information quality as it plays a major role in encouraging the adoption of stronger corporate governance principles, thus supporting a trading environment, which is founded on integrity (Ministry of Cooperate Affairs, 2014). Capital market has played a crucial role in supporting periods of technological progress and economic development throughout history. Among other things, liquid markets make it possible to obtain financing for capital-intensive projects with long gestation periods. This certainly held true during the industrial revolution in the 18th century and continues to apply even as we move towards the so-called "New Economy". The existence of deep and broad capital market is absolutely crucial and critical in spurring the growth our country (Ministry of Cooperate Affairs, 2014).

Taking into account apart from the role in the market economy, the capital market occupies an important place, through their specific mechanisms, succeeding to give its contribution to the economic development of the society. In consequence, the public authorities must notice the importance of the capital market in the national economy and, on the other hand, to make the efforts for insuring the necessary framework for
the normal functioning of its specific mechanisms. The valences of the capital could be even more interesting in the case of emerging markets - like the Romanian capital market - being well-known its contribution in reorienting financial resources to efficient activities, contributing to the economic reform, but also being interesting in the privatization process (Stoica, 2002).

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:

1. Increase in the size of the market and resources available;

2. 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 (Okoye, Nwisiyenyi and Eze, (2013).

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 government’s securities; while other aspect requires either developing or importing 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 ensure 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, (Nigerian Stock Exchange, 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 the 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. Securities and Exchange Commission, (2014) posit that the market capitalization with a relative small share of GDP has shown a steady growth from 1992 to 1996 with slight drop 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 (SEC, 2014).

Based on the above, 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 6.9 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.

According to Securities and Exchange Commission, (2014) the capital market provides the following roles to economy:

1. Provides an important alternative source of long-term finance for long-term productive investments. This helps in diffusing stresses on the banking system by matching long-term investments with long-term capital;

2. Provides equity capital and infrastructure development capital that has strong socio-economic benefits for instance roads, water and sewer systems, housing, energy, telecommunications, public transport, etc. - ideal for financing through capital markets via long dated bonds and asset backed securities;

3. Provides avenues for investment opportunities that encourage a thrift culture critical in increasing domestic savings and investment ratios that are essential for rapid industrialization. The Savings and investment ratios are too low, below 10% of GDP;

4. Encourages broader ownership of productive assets by small savers to enable them benefit from Kenya’s economic growth and wealth distribution. Equitable distribution of wealth is a key indicator of poverty reduction;

5. Promotes public-private sector partnerships to encourage participation of private sector in productive investments. Pursuit of economic efficiency shifting driving force of economic development from public to private sector to enhance economic productivity has become inevitable as resources continue to diminish;

6. Assists the Government to close resource gap, and complement its effort in financing essential socio-economic development, through raising long-term project based capital;

7. Improves the efficiency of capital allocation through competitive pricing mechanism for better utilization of scarce resources for increased economic growth; and

8. Provides a gateway to Kenya for global and foreign portfolio investors, which is critical in supplementing the low domestic saving ratio (SEC, 2014).

Recommendations

The capital market has a positive and significant impact on the country’s economic growth. In Nigeria there is limited contribution of the market to the development of the industrial sector as a result of the absence of lack of some subsector development stimulant. If these recommendations are efficiently implemented, the effectiveness of the Nigeria capital market will be enhanced. On the basis and strength of this evidence, the work recommends the followings:

1. That government should introduce some tax incentives to motivate and encourage investors;

2. Government should make list on the exchange mandatory for companies that have attained a given level of capitalization.

3. Government also raise fund through the sale of Bonds at the Capital market for the purpose of financing industries.

4. They provide local investments outlets for the retention of funds in Nigeria and for the investments of funds repatriated from aboard.

Conclusion

Capital market plays an extremely important role in promoting and sustaining the growth of an economy. It is an important and efficient conduit to channel and mobilize funds to enterprises, and provide an effective source of investment in the economy. It plays a critical role in mobilizing savings for investment in productive assets, with a view to
enhancing a country's long-term growth prospects, and thus acts as a major catalyst in transforming the economy into a more efficient, innovative and competitive marketplace within the global arena. In addition to resource allocation, capital markets also provide a medium for risk management by allowing the diversification of risk in the economy. A well-functioning capital market tends to improve information quality as it plays a major role in encouraging the adoption of stronger corporate governance principles, thus supporting a trading environment, which is founded on integrity.

Capital market has played a crucial role in supporting periods of technological progress and economic development throughout history. Among other things, liquid markets make it possible to obtain financing for capital-intensive projects with long gestation periods. This certainly held true during the industrial revolution in the 18th century and continues to apply even as we move towards the so-called "New Economy"

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