

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 BACKGROUND OF THE STUDY**

A buoyant and dynamic economy is the one built upon a sound financial system. Such financial system should be stimulated and maintained by the effective activities of an efficient capital market, which is the head of the "Stock Exchange".

The stock exchange therefore is the market where companies, raise capital on a short term and long term basis. This role of mobilization and allocation of funds to every sector of the economy which made it (Stock Exchange), the toast of investors has given it a pride of place in every economy. There is no doubt, that the success or failure of every sector in the economy rests to every large extent on its stock exchange market. This is because for any sector in the economy to grow an efficient means of capital formation must not be ignored considering the importance of capital in any organization setting.

Since the establishment of the Nigerian stock exchange (NSE) some forty two years back (42) elements of stagnation, dormancy and unproductiveness in the economy is being experienced despite the tremendous development in the exchange systems. This situation has taken a worrisome dimension in which many questions are being raised on the relevance of the Nigerian stock exchange in facilitating investments in the Nigerian economy.

#### **1.2 STATEMENT OF THE PROBLEM**

It is widely reported that the Nigerian Stock Exchange (NSE) has not contributed adequately as desired to the development of the economy especially with regard to investment in Nigeria this is due to certain reasons:

1. Low public awareness of finance possibilities of the Nigerian stock exchange market.
2. Inadequate trading floor to meet the demand of the public.
3. Poor infrastructure such as telecommunication, electricity etc to facilitate its activities
4. High cost of transaction.
5. Lack of venture capital and weak savings mechanism.

It is along these that efforts will be made in this study to bring to notice the validity of these

and other allegations leveled against the Nigerian Stock Exchange over the years.

### **1.3 OBJECTIVE OF THE STUDY**

The study is being undertaken with various specific objectives in mind, some of which includes:

- i. To examine the activities and the performance of the Nigerian Stock Exchange (NSE) in facilitating investment in Nigerian.
- ii. To identify the contributions of the stock exchange in the development process of the Nigerian economic activities.
- iii. To assess the major problems facing the stock exchange and as against its performance.
- iv. To recommend measures to be taken to tackle the problems of the stock exchange based on the findings.
- v. To bring to notice the anticipated impact of the stock exchanges i.e. the central securities clearing system (CSC).

The findings from the study is hoped to assist policy makers to take appropriate action or decision towards improving the activities of the stock exchange as well as in curbing the problem facing the exchange.

### **1.5 RESEARCH QUESTIONS**

This study will examine the activities and performance of the Nigerian stock exchange with the aim of finding out the extent to which it has contributed to the development of the Nigerian economy especially in facilitating investment opportunities. The following questions are therefore raised to guide the study.

- i. To what extent has the stock exchange provides necessary liquidity mechanism for investors through a formal market for debt and equity securities?
- ii. To what extent has the stock exchange contributed to capital formation as well as gross domestic product (GDP) in the Nigeria economy?
- iii. How true is the allegation that the Nigerian stock exchanges activities are not made public to many individual investors as well as to companies in Nigerian?
- iv. To what extent has the policy of expanding the geographical coverage of the stock exchange activities been successful?

### **1.3 Research Hypothesis**

**H<sub>0</sub>**: The market capitalization of the Nigerian Stock Exchange does not contribute to the growth of the financial system and the development of the Nigerian Economy.

**H<sub>1</sub>**: The market capitalization of the Nigerian Stock Exchange contributes to the growth of the financial system and the development of the Nigerian Economy.

## **1.6 SIGNIFICANCE OF THE STUDY**

It is a widely held view among economists and financial scholars that the economic growth and development of any economy depends on the level of capital formation of that economy. Nigeria's low level of economic advancement has largely been attributed to the inability of the Nigerian Stock Exchange to mobilize and allocate the much needed investable capital efficiently.

Therefore, any research efforts in these directions will contribute immensely in addressing the country's economic problems. The findings of this research could be of tremendous benefit to policy maker particularly in the current effort to sensitize the capital market support it and make it viable as well as international standard.

The economy and the investing public could also benefit significantly from the result of the investigation, large number of Nigerians even though having large sum of investible funds, are either completely ignorant or are not well informed about the operation of the stock exchange. This unfortunate state of affairs is responsible for the large size of money outside the financial system and consequently, the low level of investment in the economy, on the other hand many Nigerians who are ready to operating their own enterprises they do not know where and how to obtain additional funds to increase their operations.

The research work is also intent to help reverse the trend by providing necessary information about the activities of the Stock Exchange to the public especially the investing public.

## **1.7 SCOPE OF THE STUDY**

Basically, this study will cover the activities and performance of the Nigeria stock exchange (NSE) ideal with such aspect as the historical background or evolution of the stock exchange, capital formation as well as the role of the Nigerian Stock Exchange others areas will include legal framework, members and governance operations, listings requirement and instrument listed on the stock exchange.

## **1.8 HISTORICAL BACKGROUND OF THE NIGERIA STOCK EXCHANGE IN THE**

## **ECONOMIC DEVELOPMENT OF NIGERIA.**

There was no organized financial market or institution in Nigeria prior to the establishment of the central bank of Nigeria (CBN) by the Act of parliament in 1958. Consequently, surplus funds of the financial system were invested abroad there by starving the economy of the much – needed capital for general development. But immediately the central bank of Nigeria came into existence, the banks started pioneering the development of Nigerian financial market comprising the money market for short-term funds.

The development of the Nigerian money market for short term funds started in 1960 with the issue of the first Central Bank of Nigeria Treasury Bills. Subsequently, other short-term debt instruments such as Treasury certificates, commercial Bills, certificate of Deposits e.t.c were introduced by Central Bank to increase the volume and depth of the money market.

The first attempt of developing the Nigeria capital market can be traced to the year 1959, when the Central Bank of Nigeria floated the First Nigerian Development loan stock on behalf of the Federal Government of Nigeria. The capital market was divided into two (2) categories. The primary market which deals in new issues and the secondary market which deals in old securities, all in the stock exchange. In Nigeria, capital market is regarded as the stock exchange because of the integral part it plays in the stock exchange market. It is involved in many financial activities around which all other operators in the capital market revolve on the other hand, the capital market comprises of various participants and they are broadly divided into four (4) categories, namely.

1. The provider of funds for investors who could be individuals, unit, trust and other corporate bodies.
2. Users of funds, which comprises of companies and the government.
3. Intermediaries, facilities which includes stock broking firm, issuing houses and registrar
4. Regulators these includes Securities and Exchange Commission (SEC), the Nigeria Stock Exchange (NSE).

As can be seen above the provider of funds essentially comprises of individual and companies, while the users of the funds issuer of securities are expected to be government and corporate bodies. In other words, individual may not be able to raise money from capital market as they can do in money market.

However, the stock exchange is one of the key institutions in the capital market which is a network of individual institutions and instruments involve in efficient channel of funds from the surplus economic unit to deficit economy unit. It plays a central and indispensable role in the market because the opportunity offers for subsequent trading in the existing securities has made it a decisive factor in the success otherwise the efficiency. Thus, the availability of a secondary market engenders formation and social economic development.

Hence, the Nigeria Stock Exchange (NSE), which constitutes the hallmark of the Nigerian capital market, plays an important part in the economic life of the nation. Through its functions, the stock exchange enables government and industry to raise long term capital and finance developmental project and expansion and modernization of individual and or commercial concern.

It is sad to note that despite the various functions it performance in our economy, its performance as well as its contributions to the development of the economy is not adequate when compared with the investment made in the Nigerian stock exchange.

## 1.8 DEFINITION OF TERMS

The relevant terms which are used in this research work that may be new to the reader are defined or explained below.

**a. Security:** These are written document or prints financial documents by which the claims of a holder in specific properties are secured; they could be share, bonds and debentures traded on the stock exchange.

**b. Stock and shares:** They are instrument representing partial ownership interest in a business enterprise. The enterprise entitle the holder to a proportional right over the profit known as dividend.

**c. Bond and debenture:** they are kinds of securities. They are legal documents representing a promise by the company or by government (in case of bond) to pay back a loan, plus a certain of interest over a specific period of time.

**d. Investment:** The spending of money for purposes other than consumption in order to earn income from it or to realize a capital gain at a later date. It includes the purchase of stock exchange securities, government stock, life insurance and policies.

**e. Stock exchange:** A stock exchange is an organized market where large and small

investors alike buy and sell stock through stockbrokers, the stock and share of companies and government agencies.

**f. Stockbroker:** A firm or a person who buy and sell securities on behalf of investors for a commission called brokerage. The commission exchange regulated by the stock exchange.

**g. Jobbers:** These are dealers engaged in whole-selling of securities on a stock exchange market but do not deal with public, they only deal with the brokers and other jobbers.

**h. Listing/quotation:** Listing is an omission in to official list of exchange. To be listed is synonymous with the word "to be quoted" and this entitled the securities to be quoted on the exchange.

**i. Registrar:** A registrar is a common place it is where records in respect to quoted stocks and shares are kept.

**j. Unit trust:** This is an instrument whereby people pool their subscription together under a trust deed. The scheme involves on one hand, a managing and on the other hand a trustee, which is usually a company, very often a bank or insurance company.

**k. Cum-Dividend:** This is sometimes written as "co" and it means that shares are transferred with dividends.

**l. Ex-dividendor "XD":** It is a financial expression for without dividend. A declared in that period for its new owner(s).

**m. Market capitalization:** The value of a firm as determined by the market place of its issued and outstanding common stock.

**n. Central securities clearing system (CSCS):** This is a computerized subsidiary company of the Nigeria Stock Exchange (NSE) put in place to expedite the settlement delivery and custodian traded in the stock exchange. The CSCS was commissioned and commence full operation on 8<sup>th</sup> and 14<sup>th</sup> April 1997 respectively.

**o. Secondary market:** The market in which stock is traded after being issued in a primary market.

**p. Primary market:** This is the market for initial offer of securities as when a company makes its initial contact with the public in search of public fund, initial corporate capital or additional by already existing or quoted company.

**q. Second tier securities market:** This is the market where small and medium scale

companies have their shares listed on a daily basis.

r. **Commonstock:** Equity securities having last claim or residual assets and earning of a corporation.

## **AN EVALUATION OF THE PERFORMANCE OF NIGERIAN STOCK EXCHANGE IN THE ECONOMIC DEVELOPMENT OF NIGERIA ( A CASE STUDY OF NIGERIAN STOCK EXCHANGE)**

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