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developing countries, domestic capital markets have fallen short of expectations in spite of the
hopes for financing development. The recent Bank recapitalization has awakened us up about the
situation and the opportunity it offers for investors. The factors hindering the Nigerian capital market
will help us to see why the capital market has not developed as expected.

This background leading to the new increase in the capital base of the Nigerian Central Bank of Nigeria (CBN), the intended objectives for it and its benefit to the economy.

A review of the historical perspective of the Nigeria Capital Development is under taken and
benefits the present recapitalization has brought to the Nigerian capital market development.

It is seen that the depth of the capital market is a function of investment education and the
publicity creates for opportunities in the stock market.

1999, the Basel committee issued a draft of the new capital accord for bank capital. This is a
new accord. However, before full implementation was achieved, it brought out a second proposal
which expanded the 1999 document. Following extensive and global comments, the new
capital accord was released on April 2003, (Imala 2004).

The actual announcement of the upward review of the capital base from N2 billion to N25 billion
was the appointment of Charles Soludo as the new Governor of Central Bank of Nigeria.

The decision to encourage mergers and acquisition with a view to strengthening the
banking industry. It is envisaged that this will enhance efficiency, size, and roles of the banks. The protagonists of recapitalization claim it is a global phenomenon which
must be left out.

That one bank in South Africa has larger assets than all 89 banks in Nigeria combined. And that
noting the importance for success in the globalizing world. According to Soludo, it is the
Nigerian banking system to voluntarily embarked on consolidation in line with the global trend
and the need for legal and supervisory frameworks to facilitate same.

In conclusion, it is clear that the consolidation is to achieve four basic things viz: the removal of
shoosh banks, to create room for mergers and acquisition and to enable banks have the capacity
of the real sector of the economy. In addition, that our banks will be financially solid to compete

Study
of this paper include:
the background leading to the recapitalisation

objectives for it and its benefit to the economy

Bank
The historical perspective of the Nigerian capital market development

The historical perspective of the Nigerian capital market development, the problems hindering the effective development of the Nigerian capital market, the impact of the present recapitalisation on the Nigerian capital market and the benefits accruing from the present recapitalisation, its objectives and also included is the historical perspective of the Nigerian capital market development, the benefits of the present recapitalisation and the advantages a well developed capital market have on a developing economy.

The Problem

We have witnessed continued efforts to widen, deepen and improve trading conditions in the capital market. Nigeria banks through operating were technically and financially weak to fund the real sector of the economy and to compete globally. Most investors do not have much information about the capital market. The market is not developing as expected hence it is not contributing to the economic development of the country.

Recapitalisation

A major benefit is anticipated for the banks and the economy generally when the new capital level of N25 billion is achieved. Among which are:

- enhancement of liquidity of the banks thus boosting their ability to finance projects that require large amounts of capital which before now would have been pretty difficult except through consortia or syndication.
- enhancement of a merger and acquisition only the very best manpower will have a place in the new banks that emerge.
- make room for efficient and effective clearing system as only few banks will be involved in the clearing house under the direct supervision of the Central Bank of Nigeria. A statutory role which the CBN used to perform to four big banks called settlement banks.
- increase the amount in real terms borrowable by an individual as no individual is entitled to borrow more than 25% of the bank's capital.
- of the consolidation process the CBN has decided to establish an Asset Management Company to take care of non-performing credits.
- of the above, the AMC will help clean up the accounts of the banks and provide them with the required liquidity to boost their operations, thus making them attractive for possible merger and/or acquisition.

Recently shown that our capital market is deep enough to accommodate large issue of shares as we have seen in the successful initial public offer of Zenith International Bank and Guarantee Trust Bank jointly raised over N70 billion.

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financially induced to endorse documents indicating all is well only for the same banks to be declared distressed after a short time is unpardonable. With the same crop of people still in the employment of these institutions, recapitalization may not necessarily strengthen the banking system.

Presently banks engage in non-banking functions like selling of phone recharge cards and examine forms. With more money coming in from this recapitalization, they may be tempted to go into non-trading, that is, buying and selling rather than finance economic activities that would revitalize the economy.

One of the evil effects of liberalized financial system is capital flight. Given the great disparity in foreign exchange, an investor from foreign exchange advantaged country with little amount invested in Nigeria will own large shares and invariably have colossal sum of dividend earned and transferred to his home country. Also this outflow increases through time.

This is bound to encourage money laundering as dubious investors with money can float companies abroad and use them to transfer foreign currency to the country under the disguise of foreign direct/portfolio investment in our banks. Also it will increase inflow of foreign goods in the economy as the banks will have much money to engage in direct

THEORETICAL FRAMEWORK

The Nigerian Capital Market

The term "capital", used in this context, implies a long-term commitment on the part of the lender and a long-term need for the funds on the part of the borrower. Thus, strictly speaking the capital encompasses any transaction involving long-term debt or equity obligations. Luckett (1984). There are two segments of the capital market; the security market in which securities are used and the market for negotiated finance. The capital market for securities is further divided into two: the primary and secondary market. When new securities like shares, stock and bond are issued, they are sold initially in the primary market. But when the owners of these securities want to resell them, the securities are resold in the secondary market. Thus the primary market is a market for the initial issue while the secondary market is a market for subsequent trading activities. Anyanwokoro (1999).

The Nigerian Capital Market: a Historical Perspective on Its Development

According to Dada (2003) The origin of the capital market started with the recommendation of Barubi committee in 1958. The first attempt at establishing an organized capital market began on September 15, 1960, with the incorporation of the Lagos Stock Exchange through the joint effort of the Central Bank of Nigeria (CBN), Investment Company of Nigeria (later NIDB) and the Nigerian Business Community. Later, the change was statutory empowered in 1961 by the enactment of the Lagos Stock Exchange Act. The change commenced operation on July 5, 1961 with fourteen securities. During the initial stage, the change received considerable financial and other assistance from government through the institution referred to above.

Some major events occurred in 1962 which had salutary effects on the development of the infant market. These included the recall of Nigerian investments from London by Nigerian Produce Marketing Company (PMN), the promulgation of the Exchange Control Act 1962, and the establishment of the Capital Issues committee (CIC) under the auspices of the Central Bank of Nigeria. Though, without any legal backing, the committee operated as an ad hoc consultative body to ensure the orderly development of the market by regulating the prices and timing of public issues of securities so as not to overtax the absorptive capacity of the emerging capital market.

Despite these efforts, activities in the market were generally assessed to be low in the twelve year between 1967 and 1971, as the market was little known by the populace. Government remained a dominant player especially in the new issues market by regularly floating development loan, stocks as a way of stimulating the market. As at the end of 1971, government had floated nine securities compared to 13 equities and 8 industrial loan stocks. Similarly, the market was characterized by few operators (10), no querulous company and poor infrastructural facilities.

However, government action in enacting the first Nigerian Enterprises, Promotion Act (NEPA) in 1972, which obliged specified alien enterprises to indigenize part of their ownership, made a remarkably positive impact on the development of the market. Within three years of this enactment, twenty new companies were listed on the exchange, compared to thirteen in twelve years (1960-1971). Again, following the report of its panel set up in 1975 to review the 1972 indigenization exercise, the second Act was enacted in 1977, enabling the "failures" of the first exercise. The rejuvenated 1977 Act brought more companies into the market and consequently, more listings were recorded on the Exchange in years subsequent to it.
opening the market. At the height of its compliance in 1979, 39 new companies were listed in that year alone.

The indigenization programme and government’s deliberate floating of stocks, four other events impacted positively on the development of the capital market as we have it today.

The Capital Issues Commission Act 1973, which formally established the Capital Issues Commission and introduced statutory regulation into the market. The functions were not in any way the jurisdiction of the defunct committee. For example, it continued the functions of determination of and time at which public issues of corporate securities were made.

The Okigbo Committee was set up to undertake a comprehensive review of the Nigerian capital market. The committee made a number of recommendations, which were wholly or partially accepted. Amongst these were the creation of the Securities Commission (SEC) to replace the Capital Issues Commission. Consequently, the Exchange Commission Act was enacted in 1979, the Act made SEC the apex regulatory body of the Capital Market in Nigeria. In addition to taking over the functions of the Capital Issues Commission, it was empowered to register securities, operate stock exchanges, and maintain the market to prevent abuse and practices that may be detrimental to the orderly and efficient Capital Market in Nigeria. In 1988, its functions were enlarged to include approval and registration of mergers, acquisitions, and other forms of business combinations.

The Okigbo Committee accepted the need for the Stock Exchange to spread out. However, it rejected the use of the Regional Exchange to achieve this objective. Rather, government established the Lagos exchange with trading floors in Lagos, Kano, Ibadan, and Port-Harcourt. In mid-1980's, three more exchanges, Kano, Ibadan and Onitsha were added with an office in Yola. In 2004 a new exchange, the Abuja stock exchange was established in Benin City. In addition, a new exchange, the Abuja stock exchange was established in Benin City.

The Bursa also recommended a new secondary pricing system for Government stocks to make maturity and yield of the instrument. Hitherto, it was priced at par, making them quite unattractive.

The Second-tier Securities Market (SSM) was introduced to attract the market which hitherto could not meet the more stringent listing conditions of the Exchange. The market was flood with more listed companies. The securities increased as a result of implementing SAP, with much wider impact on the capital market. In the post-SAP era, the market became a truly capitalist instrument channeling capital funds in the process of wealth creation rather than as a vehicle for wealth creation. Policies and strategies tended to be more market driven; for example, the pricing function hitherto performed by SEC was transferred to market forces for new issues and stockbrokers for existing issues.) In addition, the deregulation of interest rates, which were the pillars of SAP, encouraged many companies to raise long-term funds which only the capital market could provide. Thus in the late 80s, there was a boom in new issues in the market which further increased the market depth.

Assessment Criteria

Efforts to widen, deepen and improve trading conditions in the Nigerian Stock Market. The Capital Issues Trust Scheme was launched in 1990 as a way to bring small investors indirectly to the Market. The period equally recorded a significant increase in the number of stockbrokers. The Stock Exchange launched the Central Securities Clearing System (CSCS) in a new more efficient securities settlement system. As a result of this innovation, transfers could be completed within 15 or more, in some cases in the past, to T + 5. The NSE also introduced Trading System (ATS) in 1988.
Table 1: NSE's Growth Trends 1961-2005

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<tbody>
<tr>
<td>No. of quoted companies</td>
<td>3</td>
<td>13</td>
<td>93</td>
<td>142</td>
<td>195</td>
<td></td>
</tr>
<tr>
<td>No. of listed securities</td>
<td>13</td>
<td>60</td>
<td>163</td>
<td>239</td>
<td>269</td>
<td></td>
</tr>
<tr>
<td>Total Mkt. capitalization (Billion N)</td>
<td>Na</td>
<td>Na</td>
<td>5.0</td>
<td>23.1</td>
<td>263.3</td>
<td>2.57 Trillion</td>
</tr>
<tr>
<td>Vol. of Securities Traded (M)</td>
<td>334</td>
<td>952</td>
<td>Na</td>
<td>47.2</td>
<td>216</td>
<td>602.3</td>
</tr>
<tr>
<td>Value of Securities Traded (MMN)</td>
<td>2.3</td>
<td>18.1</td>
<td>332.1</td>
<td>265</td>
<td>136.3</td>
<td>7.73</td>
</tr>
<tr>
<td>Value of new shares (MMN)</td>
<td>Na</td>
<td>Na</td>
<td>Na</td>
<td>783</td>
<td>5266</td>
<td>25831.47</td>
</tr>
<tr>
<td>NSE all Shares Index</td>
<td>Na</td>
<td>Na</td>
<td>Na</td>
<td>12</td>
<td>110</td>
<td>226</td>
</tr>
<tr>
<td>No of Stock broking Firms</td>
<td>Na</td>
<td>Na</td>
<td>Na</td>
<td>783</td>
<td>5266</td>
<td>25831.47</td>
</tr>
</tbody>
</table>

Table 1 compared the performance of the Nigerian capital between 1961 and 2005.

Based on the Table 1 above it can be seen that though the indices has shown an increase there was a greater increase in all the indices by the year 2005 more than have happen before it to meet the new recapitalisation amount.

Reorganization of the Capital Market

In 1998 government decides to repeal all laws inhibiting competition. As a result, a Legal Committee set up to identify such laws. Twelve of such laws were identified for amendment and/or abrogation. It was in the spirit of liberalizing the economy that the machinery was put in motion to reform, modernize and internationalized the Nigerian Capital Market and make it more responsive to the demands and challenges of the new millennium. Arising from these measures, the Abuja Stock Exchange (ASE) was floated in 1998. The Central Bank of Nigeria (CBN), National Insurance Corporation of Nigeria (NICN), Nigerian Deposit Insurance Corporation (NDIC), and other interested private sector organizations were advised by Government to take steps to implement the decisions. Before that time, a panel with Dora Akunyili as Chairman, was set up to review the Nigerian Capital Market. Although neither the report of the panel nor the knowledge are set below:

- Proposal to set up a new Stock Exchange and rename the current Stock Exchange
- Issues of Administration and Government of the Stock Exchange in particular and the capital market in general; and
- The urgent need to achieve rapid growth in virtually every dimension of the Capital Market (number of securities, volumes and value issued and traded etc).

FACTORs THAT HINDERED THE DEVELOPMENT OF THE NIGERIAN CAPITAL MARKET

The development of the Nigerian capital market has not been too successful because of the following factors:

- There have not been consistent macroeconomic policy framework involving fiscal monetary exchange and capital account policies.
- Also transparency and information infrastructure such as proper auditing, accounting and cost information are generally low.
- Furthermore, banking soundness with focus on prudential regulations and supervision are low.
- In addition, there were restrictions in portfolio holding and interest rates though the restriction has been removed.

EFFECT OF RECAPITALIZATION ON THE NIGERIAN CAPITAL MARKET DEVELOPMENT

Undeveloped or poorly functioning capital markets typically are illiquid and expensive. If deep investors, investments is adversely affected if raising local capital is difficult and costly, illiquidity and high transaction costs also hinder the capital raising efforts of corporations.

The recapitalization has clearly shown that the hitherto held view that the Nigerian capital market was too deep has been debunked by the success of the banks that went to the capital market to raise funds for
The International Bank and Guarantee Trust Bank succeeded in raising over N70 billion aggregate from the capital market.

Bank securities to be available for purchase there by increasing the varieties of securities in the market.

Proceeded in mobilizing funds that were virtually idle or from the informal sector to the capital market.

Publicity that is going on about the Bank recapitalization have made most people aware of and invest in the ownership of shares.

Lowered the rate of capital outflow as avenues for investing the funds in the capital market were created abroad.

Increased remittance of foreign currencies from abroad. These remittance are being used to finance the increased number of participants in the capital market. With special reference to banks, there was a two-fold effect. The banks that invested in the stock exchange will have remittance while some others are awaiting approval to consummate their mergers.

A wider distribution of equities (especially the banking equity) by discouraging the concentration in a few but powerful hands.

DEVELOPED CAPITAL MARKET IN AN ECONOMY

Important benefits of having a well-developed capital market in an economy include:

1. At the macroeconomic level, the capital market will provide avenues for domestic funding of budgets. It will also help to reduce the need for direct and potentially damaging monetary intervention, especially its deficits.

2. To avoid a build-up of foreign currency-denominated debt. It can also strengthen the implementation of monetary targets or inflation objectives and can enable the use of market-oriented funding of government budget and deficits will reduce debt service to long-term through deep and liquid market for securities.

3. At the microeconomic levels, a well-developed capital market can increase overall financial intermediation through greater competition and development services. The market can help the financial system from being a primarily bank-oriented to one that can complement bank financing.

4. A well-developed capital market commercial banks are forced to develop new ways of earning credit more competently.

5. The market entails the creation of an extensive information legal and institutional benefits for the entire financial system.

6. Having a well-developed capital market in an economy include:

- Sources are allocated into their most efficient and profitable use. That is it help to use capital by helping to increase the amount of domestic savings flowing into the economy.

- Appropriate prices for securities through its price determination role.

- Serves as an instrument of economic growth and development.

- Transfer of securities by removing bottlenecks which may breed inefficiencies and lack of adequate liquidity without which funds will much less freely find their way into the real sector for economic and industrial development.
CONCLUSION

A developed capital market is an important facilitator of economic growth and development. With recent recapitalization savings have been mobilized more than ever before and channeled into the banks. With these funds in the banking sector it is expected that they will have a positive effect on the economy. The removal of impediments in the capital market development will enable it to perform its function of mobilization of funds for productive investment.

The continued success of the development of the Nigerian capital market rests on both the operators and the government. The operators need to make sure they obey all rules and regulations guiding their activities and the government should also make sure that there is a consistent macroeconomic policy framework especially in relation to monetary, exchange rate and capital account policies.

Based on the success of the banks in raising money from the capital market which was greatly helped by their publicity and aggressive marketing it is seen that the depth of the capital market is a function of investment education and the awareness that publicity creates for opportunities in the stock market.

RECOMMENDATION

The following points are our recommendations.

First, there is a need to have an over-the-counter Market (OTC) which will help to protect investors by providing a formal, orderly and transparent system for trading in the securities of unquoted public companies and facilitate compliance with the law which requires that securities of public companies can only be traded by SEC-registered brokers/dealers.

Secondly, there is a need to plug the gap in the secondary market system involving the absence of a forum for formalized trading in the securities of unquoted public companies by having a forum for it.

Thirdly, the Abuja stock and commodity exchange should be supported and encouraged to function properly.

Fourthly, the government should release the report and white paper on the Dennis Odita capital market reform.

Fifth, the government should ensure there is a consistent macroeconomic policy framework for fiscal, monetary, exchange rate and capital account policies.

Sixthly, operators of the banking system should be made by the regulatory authorities in the market to adhere to prudential regulations and supervision.

Finally, the regulators should be well strengthened to enable them monitor the capital and sure the operators obey all rules and regulations.

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