**IMPACT OF PRIVATIZATION IN NIGERIA CAPITAL MARKET**

**A CASE STUDY OF NIGERIA STOCK EXCHANGE**

**ABSTRACT**

The enthusiasm to improve rapid economic growth and development resulted in government involvement in economic activities, believed to be best operated by the private sector, though the creation and establishment of state owned enterprises. However the resulting waste, inefficiencies and unproductivity of the these enterprises warranted, stimulated and fueled the move in national consciousness towards the imperative of privatization (and commercialization). The Nigeria privatization programme embarked upon in various rounds and phases has been observed to have accrued numerous benefits to the economy and the capital market in particular. This observed benefits have move forward this research on the “Impact of Privatization on the Capital Market”. In order to achieve the objectives of the study and to validate the hypotheses formulated in the study, a systematic five-chapter approach had been adopted. Chapter one cover the background of the study, the objective, research questions, hypothesis, scope, limitation of the study. Chapter two, undertaken a review of relevant literature. Chapter three discusses the research methodology employed in analyzing the data collected. Chapter four deals with the presentation analysis of data. It equally tests the hypothesis proposed.

Chapter five covers the summary, findings recommendations and conclusion of the project work.

**CHAPTER ONE**

**INTRODUCTION**

**1.1 BACKGROUND TO THE STUDY**

All over the world the public service as a matter of experience has been know for it’s capacity to create wealth. Consequently, public enterprises have usually been perceived as drain pipes for government budget. Thus creating budgetary strains and avoidable burden on economy. It become a national policy, imperative therefore to disengage the public sector from those area where the private sector has the comparative advantage to perform, while letting the state concern. Security and the enabling environment for business to thrive though enhanced wealth creation.

It is important to observe that for many developing countries like Nigeria, it was perhaps unavoidable for the government in an earlier epoch to promote the initial investments in the early phase of national development of the private sector.

Unfortunately, the government got herself so involved in business that could best be tackled by the private sector that government could no longer perform it’s traditional functions.

Meanwhile, government involvement in national development and wealth creation resulted in the creation and establishment of about 600 federally owned public enterprises (Anya 2001) (over the year till date) which to day have taken generally assessed as inefficient, corrupt unproductive and wasteful. These factors along with that impairing on government efficiency in performance of it’s traditional functions provoked several movements in national consciousness as to the imperative of privatization and commercialization.

Privatization, which in a narrow perspective entails the sale of public assets or enterprises to the private sector, is seen as an instrument for productive and allocative efficiency and higher economic growth. It also has the objective of pubic deficit reduction and improvement of public finance, encouragement of competition and wide private sector participation in economic development, development of local capital markets, etc. it’s ultimate objective is to liberalize the economies through increasing private sector involvement and capacity utilization.

In March 1988, the then Head of State, Ibrahim Babangida, promulgated a decree establishing the Technical Committee on Privatization and Commercialization (TCPC). The Committee, formerly inaugurated in July 1988 was to undertake the task of reforming the public enterprises scheduled for privatization, this move was an integral and critical component of the Structural Adjustment Programme (SAP) which started in 1986. The Committee, later replaced by the Bureau for Public Enterprises has been at this task since then though a different phase. In order to ensure transparency, credibility and the widespread ownership of the shares of privatized enterprises, the popular trend mostly among developing countries has been to divest through the capital market.

Privatization and Commercialization has provided opportunities for individuals and organizations both within and outside Nigeria to buy and sell of securities. This significant development has posed challenges and provided opportunities for the growth of the securities market in Nigeria and for greater public participation in the market. At end of the first phase of the exercise, it was stated that “it had crated a large body of shareholders and deepened and broadened the Nigerian Capital Market to position of being the most developed in black Africa” (Anya 2001). It has stimulated investment and improved capital market awareness both at local and international fronts.

This research work undertakes a critical review and examination of the impart of privatization on the capital market, considering the degree of innovation and awareness engendered into the capital market by the privatization policy in relation to the Nigerian Stock Exchange.

**1.2 Statement Of The Problem**

The mission statement of the Nigerian Capital Market emphasizes its role and involvement in facilitating and stimulating socio-economic growth and development via the mobilization and formation of long-term funds for investment.

However, it has been observed that this role has not been efficiently and effectively played by the market. In fact, the market was less popularized locally and internationally before and during the first phase of the exercise. Until recently, it has not been a popular source of funds because of the instability in the economy and government’s overbearing presence in economic matters.

With this understanding and viewing from the perspective of the contribution of privatization, this research study will be considering;

i. To what extent has populace been more involved in the ownership of the corporate sector of the economy?

ii. What effects has privatization had on the market?

iii. What factors are militating against privatization and the capital market in Nigeria?

iv. How have the companies so far privatized fared after securing privatization approval from the governing bodies in the capital market?

v. What challenges has the exercise posed to the regulatory framework of the capital market?

vi. What benefits have Nigerians benefited from privatization programme of the government?

Given the roles that the capital market plays in the economy, there could not be any meaningful or significant development where there is reliance on only money or where the capital market is relegated to the background.

**1.3 The Objective Of The Study**

This study is specifically undertaken to achieve the following objectives:

1.To determine the post privatization effect on the activities of the capital market.

2. To determine the extent to which the privatization policy was propelled investments in the capital market.

3. To find out the post privatization performance of the privatized companies.

4. To determine the economic objectives of the privatization policy in Nigeria.

5. To point out the implications of the privatization programme on the capital market.

6. To find out the benefits of privatization and capital market operations in Nigeria.

7. To proffer suggested solutions to the problems in the privatization process and capital market operations in Nigeria.

**1.4 Significance Of The Study**

Going by the observation of the unpopularity of the capital market during the first phase of the exercise it will help to establish the level of awareness, ownership and investments that has arisen in the Nigeria Capital Market.

Besides the development, efficient operationally, listings etc of the capital market will be revealed, it will help in the ascertainment of the profitability of the governments privatization programme on general fronts and in precise terms on the capital market. Undertaking a pre-privatization review and a post-privatization analysis will further reveal the dividends, success and benefits of the privatization programme on the country as a whole and hence, engender continuous support for the programme.

Finally, it will add flesh to great works already done on the subject and will serve as a reference guide to prospective researchers who would like to continue this analysis in the future.

**1.5 Statement Of Research Hypothesis**

Hypothesis is a tentative answer to a research question, it is often stated in the form of a relationship between a dependent variable and the explanatory variables. For the purpose of this study, the hypotheses formulated are:

Null Hypothesis (Ho): That privatization exercise in Nigeria has not enhanced the growth and performance of the capital market in Nigeria.

Alternative Hypothesis (Hi): That privatization exercise in Nigeria has enhanced the growth and performance of the capital market in Nigeria.

1.6 SCOPE OF THE STUDY

The scope of the research on the impact of privatization on the capital market in Nigeria will focuses on the contribution of privatization exercise to the growth of capital market activities using market capitalization as proxy or indicator of economic performance. The activities of the capital market to be captured will be restricted to the period between 1980 – 2005. This period of 25 years will serve as the horizon for the study.

1.7 RESEARCH METHODOLOGY

In this research, particular attention will be paid to the immerse utilization of data from secondary sources. Also, data will be obtained from the textbook, journals, conference papers, internet, government, publications, magazines, financial paper, Federal Offices of Statistics (FOS), Central Bank of Nigeria (CBN) Statistical Bulletin Vol. 16, December 2005. The data will be analyzed using the Ordinary Least Square (OLS) estimation method.

This will enable us test an hypothesis and give the necessary interpretations and then finally conclude based on our regression analysis. The OLS estimation method has some vary attractive statistical properties which have made it vary popular method of analysis.

1.8 DEFINITION OF TERMS

The following technical words are concisely expatiated thus:

i. Capital Market: A market in which medium and long-term funds are raised by industries, corporations bodies, government and local authorities.

ii. Privatization: The transfer of ownership and control of a business enterprises from government to the private sector.

iii. Divestment: A business strategy in which a part of the business is sold off.

iv. Investment: Commitment of funds to long-term assets or projects that will yield returns after a period of time.

v. Securities: These are marketable financial instrument such as equity and debt instruments with which business enterprises and other organizations raise capital from the public.

vi. Financial Market: The medium through which funds are mobilized and transferred efficiently from surplus to deficit sector(s) of the economy.

vii. Money Market: The market for raising short-term funds, majority dominated, controlled and influenced by the activities of the commercial banks.

viii.Shareholder: An owner of shares or equity capital in a limited liability company who is also a member of the company.

**CHAPTER TWO**

**LITERATURE REVIEW**

**2.1 Concept of Privatization**

Ranging from Zayyad’s (2007) description of privatization as ‘transfer of government-owned shareholding in designated enterprises to private shareholders, comprising individuals and corporate bodies’ or as involving a change of ownership of enterprises from the government to private owned; through Privatization and Commercialization Act of 1988 and the Bureau of Public Enterprises Act of 1993 as the relinquishment of part or all of the equity and other interest held by the federal Government or any of its agencies, in enterprises whether wholly or partly owned by the Federal government; to Jerome (2008), as a policy aimed at altering the mix in ownership and management of enterprises away from government to private sector, authors have defined privatization in various way.

Kaleijaye et al (2013) noted that privatization involves a socio-economic reorganization of activities where social services that were hitherto provided by government are now transferred to private investors. The common privatization strategies in Nigeria include offer of shares to the public, trade sale, sales of assets, new equity investment by the private sector, reorganization or breakup, employee or management buyout and management contracts and leases (Salako, 1996).

**2.2 PRIVATIZATION/COMMERCIALIZATION PROGRAMME IN NIGERIA.**

The role of public sector and public owned enterprises in Nigeria's development process in post 1970 era has been well documented. As at then it was considered fashionable for the government to take hold of the commanding heights of the economy, propelled by the economic inflow of oil revenues to the Federal Government in the 1970s. Nigeria was in the forefront of establishing public owned enterprises to engage in the production and supply of a broad spectrum of goods and services spanning iron and steel, petroleum and petro-chemical products, fertilizer, motor vehicle, electricity, paper, cement, agricultural production and processing transport, mining, trading and banking and finance. If these enterprises have functioned effectively over the years, the Nigerian economy would have joined the league of newly industrializing economies such as Korea, Taiwan, Hong Kong, Singapore, Malaysia, Thailand, Brazil, Indonesia and Mexico (Iwayeni, A. 2002 pi). However, in the post 1970 period, public investment in the over 1000 public owned enterprises in Nigeria conservatively estimated at N 800 billion had no significant impact on sustainable development. Adding other direct and indirect costs associated with the dismal operating performance of these enterprises and their poor-financial and economic return, the scale of the losses associated with public enterprises in Nigeria are staggering. Public enterprises driven by import substitution industrialization strategy constituted a major dung on the economic performance in the past three decades. Without much exaggeration, the high level of mismanagement, gross economic inefficiency evident in the poor returns on public investment, excessive politicization and high level of corruption in most public- owned enterprises have pauperized Nigerians. It has also served as a catalyst for economic retrogression and the associated sharp decline in living standards, persistent large scale unemployment and technological underdevelopment (Iwayeni, A., 2002.p2). President Olusegun Obasanjo, in his speech stated that State enterprises suffer from fundamental problems of defective capital structure, excessive bureaucratic control or intervention, inappropriate technology, gross incompetence and mismanagement, blatant corruption and crippling complacency which monopoly engenders. Inevitably, these shortcomings take a heavy toll on the national economy. It must be stated that the problem associated with State owned enterprises and monopolies are not peculiar to Nigeria. It is true, however, that many developing countries have overcome the problems through a well-designed and single-minded pursuit of Privatization and Commercialization programmes. The rationale is that these programmes permit governments to concentrate resources on their core functions and responsibilities, while enforcing the "rules of the game". This enable the markets can to efficiently, with provision of adequate security and basic infrastructure, as well as ensuring access to key services like education, health and environmental protection (Eke, E.2001.p 17). The objective is to assist in restructuring the public sector in a manner that will affect a new synergy between a leaner and more efficient government and a revitalized, efficient and serviceoriented private sector. Up till recently, there have been many years of exhaustive deliberations by stakeholders on how to put Nigerian economy on the path of sustainable growth and development. There are over 1000 State-owned enterprises in Nigeria, many of these enterprises gulped billions of Naira without yielding much positive result in terms of customers satisfaction. It has been estimated that the nation may have lost about 800 million US dollars due to unreliable power supply of NEPA and another 400 US dollars through inadequate and inefficient fuel distribution. Right now, a consensus has emerged on the imperative of Privatization and Commercialization of State-owned enterprises (Adeseri, A.2001. p 16). Government defines guided Privatization as "a carefully planned and systematically implemented programme of government withdrawal from the control of business enterprises which can be more effectively and efficiently run by private sector operators". Competitive Privatization will be encouraged in order to stimulate new investment and give the consumer an opportunity for a choice. The import of this policy is that sectors previously closed to private sector participation, such as petroleum refining, are being removed from the negative list for private sector investment. With respect to existing public sector investment, Government's desire is to ensure effective and efficient management of the public enterprises so that the nation can get maximum benefits from the resources so committed (WTO Press Release, 1998).

**2.3 OBJECTIVES OF PRIVATIZATION / COMMERCIALIZATION PROGRAMMES IN NIGERIA**.

Objectives are performance index through which expectations are compared to actual result. In the light of this, one of the objectives of the Privatization programme was to promote efficiency in the affected enterprises in the overall interest of the national economy (Ani, A. A. 1998, P. 1). Privatization would help to inject commercial sense into these enterprises that have all along been bogged down by government control and whose employees usually think the enterprise exist for heir benefits rather than the customer's (Bamgbopa, N. A. 1985, P. 14). Public institutions comprises Parastatals such as educational and cultural institutions, research institutions, teaching hospitals and other service oriented parastatals such as banks, insurance companies, investment companies, hotels, cement companies, steel mills, motor assembly, plants, to mention but a few. These enterprises cover a wide range of services for economic development and require substantial funding from the government. The failure of government enterprises was thought by many radical economist to stem from excessive monopoly which resulted in the proliferation of a rambling bureaucratic decision making structure which hampered their ability to respond to change (Health, 1987, P. 118,Akpala 1990, lyanda & Oludeji 1989). In relation to this, a comprehensive objective of the Privatization Programme as expressed by Muktar Ahmed was to include: -

1. Injecting market discipline at the Board level since the Board is expected to reflect the shareholding interest of the private sector investors.
2. Close monitoring of the performance of management.
3. Greater accountability and evolution of better management practices. iv. Acting as catalyst for the revitalization of the capital market by making available in the capital market substantial volume of shares.
4. Fund raising revenue for the government.

vi. Encourage share ownership by members of the public leading to a more efficient mobilization of savings within the unit. Professor Anya 0. Anya, in his comments, further cited some objectives of the Privatization programme to include: -

• To improve on the operational efficiency and reliability of our public enterprises;

• To roll back the frontiers of State capitalism and emphasize private sector initiative as the engine of growth.

• To encourage share ownership by Nigerian citizens in productive investments hitherto owned wholly or partially by the Nigerian Government and, in the process to broaden and deepen the Nigerian market. The Decree establishing the Privatization Programme as enacted in 1988 had broader objectives, which are as follows: -

i. To restructure and rationalize the public sector in order to lessen the dominance of unproductive investment in that sector.

ii. To re-orientate the enterprise for Privatization towards a new horizon of performance investment in that sector.

**Privatization’s Impact on Stock and Bond Market Development**

It would be easy to assert that privatization programs have been largely responsible for the growth, documented above, of stock and bond markets outside the United States—but this would probably be incorrect, and would certainly be simplistic. Obviously, we should be careful in inferring causation regarding privatization’s impact on market growth, since a shift in ideology or some other exogenous political or economic change might have caused both the privatization and the overall boom. On the other hand, a careful examination of the historical evolution of non-U.S. stock markets since 1980 suggests that large SIPs have indeed played a key expansive role almost everywhere, especially because they are generally among the largest firms in national markets. This section first documents the size of privatization programs, then examines their impact on stock market capitalization and trading, and concludes with a description of the importance of SIPs as security offerings—and as catalysts for the growth of today’s global investment banking industry.

1. **Total Proceeds Raised by Privatization Programs**

It is clear that national governments have been among the biggest winners from privatization programs, since these have dramatically increased government revenues—which is clearly one reason the policy has spread so rapidly. According to Privatisation International [Gibbon (1998, 2000)], the cumulative value of proceeds raised by privatizing governments exceeded $1 trillion sometime during the second half of 1999. As an added benefit, this revenue has come to governments without having to raise taxes or cut other public services. Figure 2 shows the annual revenues received from privatizations (mostly from share issues) since 1988. Annual proceeds grew steadily before peaking at over $160 billion in 1997; since then, proceeds seem to have equilibrated at an annual rate of about $140 billion.

The importance of this stream of revenues varies by country. Great Britain has raised about $85 billion from divestitures since 1979, with most of this windfall concentrated during the 1981-92 period, while Japan tops the charts with total proceeds of almost $150 billion since 1987. On the other hand, continental European governments only began to enjoy significant proceeds from privatization sales during the early 1990s, though these sales have often been very large both in absolute size and as a fraction of GDP. As examples, France and Italy have both raised over $60 billion since 1993, while Spain and Germany have raised roughly $50 billion. The absolute size of Portugal’s divestment program has been smaller, but it has represented a much larger fraction of GDP. Expressed relative to the size of the economy, no region has witnessed as dramatic an impact from privatization as has eastern Europe. In Hungary, for example, privatization revenues since 1990 represent no less than 70 percent of GDP. More generally, the privatization programs of the last twenty years have significantly reduced the role of stateowned enterprises in the economic life of all countries, with most of this reduction in developing countries coming only during the 1990s. Megginson and Netter (2000) estimate that the SOE share of “global GDP” has declined from over ten percent in 1979 to less than six percent today. **B. Privatization’s Impact on Stock Market Capitalization and Trading Volumes**

While it is very difficult to establish a direct, cause and effect relationship between SIP programs and stock market development, indirect evidence suggests that the impact has been very significant. At the end of 1983, the total market capitalization of the handful of British, Chilean, and Singaporean firms that had been privatized by then was probably far less than $50 billion. By the middle of 1999, the 153 privatized firms listed in either the Business Week “Global 1000” ranking of the most valuable companies in developed-nation stock markets or in the Business Week “Top 200 Emerging Market Companies” ranking had a total market capitalization of $2.44 trillion. This was equal to approximately 10 percent of the combined market capitalization of the firms on the two lists, but was equal to over 21 percent of the non-U.S. total. This is because American firms accounted for 494 of the Global 1000 firms—and $11.3 trillion of the $19.7 trillion Global 1000 total capitalization.

It is almost certainly the case that privatized firms have an even greater impact on the development of non-U.S. stock markets than these aggregate numbers suggest, because they are generally among the largest firms in these markets. Also using the Business Week 1999 Global 1000 and Top 200 data, Table 5 details the total market value and relative size of the world’s 30 most valuable privatized firms. Columns 1 and 2 detail the company names and domicile countries, while column 3 shows the firm’s ranking in the Global 1000 list (firms from the Emerging Market list are given the ranking they would have if included in the Global 1000 ranking). Column 4 gives the firm’s ranking within its home market, while column 5 lists the firm’s total market capitalization. The final column expresses the single firm’s market capitalization as a percentage of the entire national market’s year-end 1998 capitalization (as detailed in the “Capitalization” section of the London Stock Exchange’s website). Table 6 presents similar rankings of all 153 firms in the two Business Week lists, but details which of the ten most valuable companies in a nation’s stock market are privatized firms.

**C.Privatization’s Impact on International Investment Banking**

Very few people realize just how large SIP offerings frequently are, both in absolute size and relative to private sector stock offerings in various national markets. As Table 7 shows, the 25 largest-- and 35 of the 39 largest--share offerings in history have all been privatizations. No fewer than 30 SIPs have been larger than the biggest U.S. share offering, the $5.5 billion UPS initial offering in November 1999, and Jones, et al. (1999) document that 112 SIPs have raised at least $1 billion (a stock offering size rarely observed in the United States). Twenty-three SIPs have raised more than $7 billion--a feat no private-sector issuer has ever achieved. In total, governments have raised more than $700 billion through some 750 public share offerings since 1977. Outside of the entire U.S. corporate sector, this is an unprecedented volume of common equity issuance, and it has fundamentally changed the nature of global stock market trading and investment.

**2.2.2 The Impact of Privatization on Individual and Institutional Share Ownership**

One aspect of privatization programs which has to date attracted surprisingly little academic interest is its observed capacity to tremendously increase the total number of shareholders in a country. In many cases, a single privatizing share issue will yield over 1,000,000 shareholders—usually in countries with little tradition of share ownership by individual investors. In fact, governments explicitly design SIP offers to attract individual citizen/investors, and they favor certain groups (especially the employees of companies being privatized) with preferential share allocations and pricing. Many governments have also voiced a desire to promote an “equity culture,” meaning a greater willingness to support entrepreneurship through share ownership, as one of the chief rationales for adopting privatization programs. We therefore wish to examine the pattern of share ownership in privatized firms, and also study how this ownership structure evolves over time. Tables 10 and 11 present the results of this examination for developed and developing countries, respectively.

2.2 Evolution of Nigerian Capital Market

The evolution of the Nigerian capital market dated back to colonial administration when the then British master ruling in Nigeria at the time required funds to maintain the members of the most fundamental functions of government, which is administration. The shortfall of agricultural product and solid mineral revenue to meet financial obligations informed the colonial administration reforming of the system of revenue mobilization in order to expand its revenue base. Therefore, it was necessary to establish a financial system by setting up the basic infrastructure for its take-off pending the development of an organized private sector (Osaze, 2001). Professor Bambarck Committee was commissioned in 1958 to consider the ways and means of encouraging the development of capital market in Nigeria. The recommendations of the Committee gave birth to Lagos stock exchange in 1961 which later metamorphosed to Nigeria stock exchange in 1977 for creation of facilities for dealing in shares; the establishment of rules regulating share transfer and measures for encouraging saving (Adaramola and Ajayi, 2004) and issue of securities of the government and other organizations. The coming of Central bank of Nigeria in 1958 preceded capital market arrangement. This was followed by an ad-hoc committee of central bank in 1962 to oversee capital market operation known as capital issue committee which was transformed to Securities and Exchange Commission in 1978. The purpose of the above arrangement and various other legislations was to establish the legal and infrastructural framework for the takeoff of capital market activities especially to finance post- independence Nigeria.

The Nigerian Stock Exchange started with 19 listed securities made up of 3 industrial equities, 6 government securities and 10 industrial loans in 1961. The Nigerian Stock Exchange is the Centre point of the Nigerian Capital Market. The exchange has recorded significant growth over the year. Factors responsible for this include the enactment of Trustee Investment Act 1962; Insurance Act of 1979; Nigerian Enterprise promotion or Indigenization Act 1972- 1977; privatization and commercialization programme of governments; deregulation of financial market in the mid1980s and promulgation of Companies and Allied Matters Decree of 1990 (Adaramola and Ajayi, 2004).

Capital market is divided into primary market and the secondary market. The primary market is where governments and corporate bodies raise fresh funds by issuing shares and loan stocks. The secondary market provides investors the opportunity to deal in existing, old, or second hand securities. The secondary market can be organized or unorganized. It is organized where there is a physical location for trading in quoted securities. Unorganized market provides no physical trading location and transactions are conducted mainly on-line i.e. Over the Counter Market (OTC). Instruments traded in Nigerian Capital market may be government e.g. development stock/bonds; corporate e.g. ordinary shares, preference shares or debenture stock. The Nigerian Capital Market is composed of a lot of players, performing various functions. These players can be grouped into two major groups, namely the regulators and the intermediaries/operators or consultants. The regulators include statutory regulator (Securities and Exchange Commission (SEC)) and self regulatory organizations (SRO) such as Nigerian Stock Exchange. Operators are the intermediaries which include Issuing Houses, Dealers, Stock Brokers, Registrars, Trustees, Portfolio/fund managers and Audit firms.

**2.2 The Nigerian Capital Market**

The capital market, according to Professor Ndi Okereke Onyiuke (2010), is fabricated up of markets and institutions, which assist the issuance and secondary trading of long-term financial instruments. She argued that the capital market unlike the money market which functions basically to wage short-term funds provides funds to industries and government to meet their long-term capital requirements, such as funding of fixed investments-buildings, plants, machinery, bridges etc.

Emekekwue P.(1996,22), defined the capital market as that part of the financial market that provides facilities for transfer of medium and long term funds to the various economic units.

Adekanye F.(1986,25), defined the capital market as that of the financial market from which large companies and private enterprises attract long-term investment funds through a network of financial institutions and stockbrokers licensed to perform capital market functions.

The networks of financial institutions that participate in the capital market are namely:

1.Nigerian Stock Exchange.

2.Insurance companies

3.Nigerian Securities and Exchange Commission (SEC)

4.Discount Houses/ Stock broking firms

5.Merchant Banks.

6.Development Banks.

7.Pension funds.

8.Central Bank of Nigeria (CBN).

9.Investment firms.

10.Individuals.

2.3 THE ROLES OF THE NIGERIAN CAPITAL MARKET

The Nigerian capital market is a market for sourcing of medium and long- term funds by both the government and private sectors of the economy. The strategic roles of the capital market in the allocation of scarce financial resources for rapid economic growth and development of any nation is well documented. For example, Oladejo R. (2003) enumerates the gains of the Nigerian capital market as follows:

I.Helps the economy to increase capital formation;

II.Provides funds to government and companies at more captivating terms;

III.It also provides the necessary elements to manage financial risks and

IV.Ensures continuity of the enterprise long after the founder.

In the book “The guide to investing in emerging securities market”, Dr. B. Persuade (1990), further enumerates the role of capital markets in economic development to include:

a)It provides additional channels for encouraging and mobilizing domestic savings for productive investments and substitute bank deposits, real estate investment and financing of consumption loans.

b)It fosters the growth of the domestic financial services sector and various firms of institutional savings such as life insurance and pensions.

c)It provides savers with superior endorsement than most debt instruments against inflation and currency depreciation and thus alleviates two of the major reasons encouraging the flight of domestic capital abroad as well as providing captivating automobile for repatriating flight capital.

d)It encourages privatization by increasing the marketability of new issues.

And this marketability facilitates the dispersal of ownership from traditional, industrial and financial interests.

e)It improves the gearing of the domestic corporate sector by facilitating equity financing, and this helps to reduce corporate dependence on borrowing, thus making the financial system more solvent.

f)It provides, through equity financing, a cushion for companies against the variability of cash flows and even doable losses.

g)Also, it is permanent financing which does not demand regular fixed returns like debt.

Writing further on the role of Capital market, Emekekwue P. (1996: 16) categorized these functions into three major headings namely:

1. The Pooling Function.
2. Facilitating Capital Formation.
3. Risk Reduction Function

2.3.1 The Pooling Function

The capital market through its agencies like banks, insurance companies etc pools the resources of the economic surplus units and channel them to economic deficit units who will then put such funds to productive use.

2.3.2 Facilitating Capital Formation

Emekekwue P.(1996,16) stated that in disbursing the resources that they have pooled together, the capital market through its agencies ensures that the funds are given to those economic units that will utilize the funds judiciously so as to increase their capital stock. To that effect, the economic units receiving the pooled resources have increased their capital stock hence financial institutions facilitate capital formation.

2.3.3 Risk Reduction Function

Through its resource pooling (savings) function acting as conduit pipe to channel those resources to savings deficit economic units, the financial institutions diversify ways for existing resources to meet with competing needs. This diversification process of resources reduces risk inherent in investment.

With all the above enumerated roles of the Nigerian capital market however, attainment of such goals is not feasible without the pivotal role of the Nigerian Stock Exchange. The Nigerian capital market without the Nigerian stock exchange is like an automobile without fuel to propel it. So, next pages will focus on the Stock exchange.

2.3 Theoretical Considerations

At micro level, privatization is expected to alter managerial incentives, change the behaviour of enterprises and finally raise efficiency (Boubakri and Cosset, 1998) but Mahmoud noted that

there is no theoretical reason why private firms should be more efficient than public enterprises. Commander and Killick (1988) however argued that ownership matters. The neoclassical economists opined that private ownership facilitates the implementation of efficiency-enhancing policies. This assertion culminated into product efficiency theory that decline in production costs is possible with proper management. In the same vein Property right theory hold that such rights tend to bring about allocative and productive efficiency in the use of resources and abolishing the public sector property rights positively impacts productive performance and innovation of firms (Vickers and Yarrow, 1988). A firm is a network of contract between the firm and various interest groups such as employee, customer, supplier and managements. In line with agency cost theory, managements are agents and the more motivated they are the more they adjust their interests to that of the organizations.

2.4 Empirical Review

Mahmoud (2003) noted that privatization in Nigeria is an integral parts of Structural Adjustment Programme the aim being to enhance the efficiency of resource allocation of government. The core objectives are reducing fiscal deficits, building a broader tax base, attracting more investment and growing the private sector. He concluded that privatization exercise in Nigeria has placed more emphasis on the transactional aspect at the expense of sector re-organization and wider social objective. Privatization in Nigeria is evidenced by the disappearance of government monopolies in many industries especially mining, education, health, agriculture, transportation and telecommunication and more recently the downstream sector. Kalejaiye et al (2013) stressed that the exercise has both positive and adverse effect and that labour unions’ involvement, increased socioeconomic stability and the establishment of more efficient regulatory agencies would deliver the desired outcome. While the aim of privatization is to promote economic growth, Adnan (2005) concludes that privatization alone will not be the magical solution to the elusive quest for growth. Ifionu and Ogbuagu (2013) using error correction model (ECM) discovered that privatization has not impacted positively on economic growth in Nigeria.

Pat and James (2010) using the ordinary least square found that the capital market does not have a significant impact on economic growth. Echekoba et al (2013) examined the impact of capital market on the growth of the Nigerian economy under a democratic rule. Using time series data, result of the multivariate regression analysis shows insignificant influence of capital market on the GDP growth rate. This is supported by the findings of Sunday, Atim and Jude (2009); Pat and James (2010); Josiah, Samson and Akpeti (2012) using regression method and Adeusi, Sulaiman, and Azeez (2013) using cointegration.

Kolapo and Adaramola (2012) examined the impact of the Nigerian capital market economic growth from the period of 1990-2010. Market Capitalization (MCAP), Total New Issues (TNI), Value of Transactions (VLT), and Total Listed Equities and Government Stocks (LEGS). Applying Johansen co-integration and Granger causality tests, results show that the Nigerian capital market (Market Capitalization (MCAP), Total New Issues (TNI), Value of Transactions (VLT), and Total Listed Equities and Government Stocks (LEGS)) and economic growth co- integrate. This implies that a long run relationship exists between capital market and economic growth in Nigeria and concluded that the capital market activities tend to impact positively on the economy.

This result is confirmed by Owolabi and Ajayi (2013). Mustapha and Yusuf (2013) examine the relationship between Nigerian Capital Market and economic growth using time series data from 1986 to 2012 using co-integration and error correction techniques. They found a long–run relationship between capital market indicators and Nigerian economy. Similarly, Udoka and Anyingang (2007) discovered a strong and positive relationship between GDP and privatization. It must be noted that the theoretical relationship between privatization and stock market development is implied.

That is there is no particular theory linking privatization to capital market development but it is established in literature that increased activities in the capital market owing to privatization exercise would have a significant positive impact on capital market. Review of the existing studies revealed that privatization has not impacted significantly on economic growth. Studies on capital market and economic growth however depict mixed results and this may be traceable to differences in method of analysis. Ordinary least square regression and co- integration results seem to show insignificant and significant impacts respectively with few exceptions.

2.5 Conceptual Framework

The capital market is a good barometer for measuring the pulse of a country’s economy. The trend in the number of listed companies, listed securities occasioned by privatization brought about increased public participation and activities in the Nigerian stock exchange and led to improvement in market capitalization.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**Introduction**

This chapter brings forth the way by which the research study was conducted. It is therefore organized in the following manner: Section 3.2 outline the research design, section 3.3 looks at the targeted population, section 3.4 considers the sample of the study, section 3.5 focuses on data collection, section 3.6 discusses the analysis of data and section 3.7 shows the model specification.

**Research design**

This study employs an ex-post facto approach as researcher cannot manipulate the independent variables either because they have been manipulated or cannot be manipulated. In order to realize the objective of the study, the relevant variables include market capitalization, gross capital formation, value of transaction and number of listed securities. The first being the dependent variables while others are explanatory.

**Population of the study**

The study covers the total observation periods from the commencement of deregulation and privatization in Nigeria. In order words, the data used for analysis are entirely secondary covering the period between 1980 to 2005. They are obtained from the central bank statistical bulletin and Nigerian Stock Exchange Fact book.

**Data Collection**

For the purpose of this research project, secondary data was obtained from CBN bulletin and the NSE publications. These multiple sources according to Yin (1994) and Stake (1995) allow the convergence of lines of inquiry and the triangulation of evidence. The study was focused on a particular context and described and analyzed one particular phenomenon richly and comprehensively. The secondary data collected were the financial statements from 1980 to 2005 of the listed companies. These data was used to establish the relationship between corporate tax and investment decisions in the listed companies.

**Estimation Technique**

Since most time series data are non-stationary, Augmented Dickey Fuller (ADF) unit root test and johansen co-integration test shall be employed in determining the stationarity of the variables and the existence of long run relationship respectively. ADF helps to avoid spurious regression results. We shall also apply Error Correction Model (ECM) for the determination of short run dynamics and direction of errors between dependent and explanatory variables. Reliability of the predictors will be determined using standard error test

**Model Specification**

**Ordinary Least Square**

MCAP = F (GCE, VOT, NOLS)..........(I)

Presenting the model 1 in equation form:

MCAP = β0 + β1 GCF + β2VOT+ β3 NOLS + U........(2)

Where:

MCAP = Market Capitalization

GCF = Gross Capital Formation

VOT = Value of Trade

NOLS = Number of Listed Securities

U = stochastic error term

Bo-b2 = coefficients of independent variables

From equation (2), the model can be specified in a time series form as:

MCAP = β0+β1 GCFt +β2VOTt+β3 NOLSt+U.........(3)

Where: t = time series

**Augmented Dickey-Fuller Test**

ADF unit root test developed by Dickey and Fuller (1979) is used to determine the time series characteristics and order of integration of the variables. The model is specified thus:

ΔYt = δ0 + λYt-1 + βi ΔYt-1 + t1 (for intercept)......(4)

ΔYt = δ0 + λYt-1 + δ1t + βi ΔYt-1 + t2 (for trend).....(5)

**Johansen Co-integration Test**

It is necessary to determine whether the variables in equation (3) co-integrate. The two test statistics proposed by Johansen are:

LR trace (r) = -TIn (1-λ) the trace statistics and LR max (r, r+1) = -T In (1-λr+1) = LR trace (r+1) the maximum eigen value statistic

Error Correction Mechanism

The error Correction Mechanism is employed to investigate the short-run dynamics in the relationship between market capitalization, gross capital formation, value of transaction and number of listed securities.

From equation (3), the error correction model (ECM) can be specified as: ΔMCAP=β0+β1GCFt-1+β0+β2VOTt-1+β0+β3NOLSt-1+β0+ECMt-1+β0+Ʃt…………….(6)

Where:

ECMt-1 = Error correction term

t-1 shows the variables were lagged by one period Ʃt = white noise residual in any case, a positive relationship is expected from between market capitalization and various explanatory variables. This can be summarized thus;

B1>0, B2>0 and B3>0

**CHAPTER FOUR**

**ANALYSES AND RESULTS**

**4.1 Introduction:**

This chapter presents the regression results as well as their interpretation. The study has attempted to examine empirically the Impact Of Privatization In Nigeria Capital Market. In the previous chapter, we specified the econometric model that captured the effect of the independent variables on the dependent variable. Here, this work aims at presenting and interpreting the result.

**4.1 DATA DEFINITIONS**

In analyzing the results obtained as regards to the validity of the variables used in terms of their statistical significance, decision making will be made based on the following criteria:

**1. Signs and magnitude of the parameter:** The signs (+ or -) are the economic a priori condition set by economic theory and usually refers to sign and size of parameters of economic relationships. Thus they should conform to the a priori expectations sated in table 1 above. Parameters in the model are expected to have signs and sizes that conform to economic theory, if they do they are accepted, otherwise they are rejected. Unless there is an explanation to believe that in this instance the principles of economic theory do not hold.

**2. Coefficient of Determination (R2):** This shows the percentage of the total variation of the dependent variable that can be explained by the independent variable(s). It shows the extent to which the independent variable(s) influences the dependent variable. It is a measure of the goodness of fit of the model; the closer the R2 is to zero the worse the fit.

**3. Adjusted Coefficient of Determination**: Also the adjusted R2 is needed because it gives a better measure of the goodness of fit having been adjusted for loss of degree of freedom as more explanatory values are added. It lies between zero and one and the closer it is to one the better he goodness of fit.

**4. The t-test:** It is used to determine the statistical significance of the parameters in the model. which will be tested at 1%, 5% and 10% levels of significance. The rule of thumb states that t≥2 is statistically significant. Any value below this is insignificant.

**5. F-statistic:** It is meant to test the overall significance of the entire model as regards the dependent variable. It checks the joint variance of the explanatory variables. The level of significance to be used is 5%. Hence, if the probability is ≤ 0.05, the explanatory variables’ parameter estimates will be jointly statistically significant. Any value greater than 5% makes them jointly statistically insignificant.

**6. The Durbin-Watson Statistic:** The D.W. test is used to test for the presence of positive or negative autocorrelation in a model. The simple correlation matrix of the variables would be used as a guide in determining what combinations of the explanatory variables are responsible for multi-colinearity. It is a simple guide used to specify the right combination of the explanatory variables.

**7. Standard Error:** The standard error of estimates (SEE) will be used to measure the standard error of the stochastic term. If the standard error of the estimates is small relative to the mean value of the dependent variable, the model equation is preferred and vice versa.

**4.2 Descriptive Analysis**

Table 4.1: Descriptive Result

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | MCAP | VOT | GCF | NOLS |
| Mean | 4.411199 | 3.395349 | 4.696417 | 2.403818 |
| Median | 4.161239 | 2.694377 | 4.838201 | 2.422425 |
| Maximum | 5.883037 | 5.836577 | 5.674102 | 2.491362 |
| Minimum | 2.790144 | 2.121888 | 3.265784 | 2.267172 |
| Std. Dev. | 0.950228 | 1.205199 | 0.744839 | 0.063008 |
| Skewness | 0.064970 | 0.820732 | -0.171296 | -1.138069 |
| Probability | 0.366578 | 0.169441 | 0.356754 | 0.058535 |
| Observations | 25 | 25 | 25 | 25 |

Table 4.1 shows the descriptive statistics of the data series employed in the study. Market capitalization (MCAP) has a mean of 4.411199 and varies from a minimum of 2.790144 to a maximum of 5.883037 and a standard deviation of 0.950228 with a probability value of 0.366578. Also Value of transaction (VOT) has a mean of 3.395349 and varies from the minimum of 2.121888 to a maximum of 5.836577 with a standard deviation of 1.2121888 and standard deviation of 2.121888. Gross Capital Formation (GCF) has a mean of 4.696417 and varies from the minimum of 3.265784 to a maximum of 5.674102 with a standard deviation of 0.744839 and probability value of 0.356754. Furthermore, Number of listed securities (NOLS) has a mean of 2.403818 and varies from minimum of 2.267172 to a maximum of 2.491362 with a standard deviation of 0.063008 and probability of 0.058535. Consequently, MCAP and VOT are positively skewed while GCF and NOLS have negative skewness.

Table 4.2: Regression Result (E-View)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Std. Error | t-statistic | Prob. |
| C | -14.22101 | 5.195913 | -2.736961 | 0.0120 |
| VOT | 0.003288 | 0.162362 | 0.020250 | 0.9840 |
| GCF | 0.595804 | 0.276587 | 2.154125 | 0.0424 |
| NOLS | 6.582403 | 2.325763 | 2.830212 | 0.0097 |

*R-squared 0.636796; Adjusted R-squared 0.587268; F-statistic 12.85732; Prob (F-statistic) 0.000046; Durbin-Watson stat (DW) 1.131094*

From the table 4.2, it can be seen that constant (C) has a significant negative relationship with MCAP. That is putting Value of transaction (VOT), Gross capital formation (GCF) and Number of listed securities (NOLS) aside, a unit rise in other factors other than VOT, GCF and NOLS will bring about 14.22101 fall in MCAP. Conversely VOT, GCF and NOLS all have positive relationship with Market capitalization (MCAP) in the short-run. In other words, if all other variables are held constant, a unit increase in (VOT), (GCF) and (NOLS) will bring about 0.003288, 0.595804 and 6.582403 units in MCAP respectively. It must be noted however that all the variables expect VOT are statistically significant in determining MCAP considering the less than 5% probability values. All the explanatory variables explain 58.73% of changes in and the model is statistically fit considering the Probability (F-statistic) of 0.000046. The possible presence of autocorrelation as disclosed by DW statistic (1.131094) leads us to trend analysis and unit root test.

4.2.1 Trend Analysis

The trend of the series can be found in the appendices. Fig. 1.2 and Fig. 1.4 show an upward trend in Gross capital formation and number of listed securities during the period under consideration (i.e. 1986-2011). However, Fig. 1.1 and Fig. 1.3 depict that there exists no true trend in the behavior of Market capitalization and value of transaction in the period under consideration, hence they posses nil trend.

Unit Root Test

Table 4.3: ADF Unit Root Test Results (E-view)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Variables** | **Adf Test Statistics** | **Critical Value** | **Order of Integration** | **Remarks** |
| *lnMCAP* | -4.260155 | -3.612199 | I(I)\*\* | Stationary |
| *lnVOT* | -8.645696 | -3.612199 | I(I)\*\* | Stationary |
| *lnGCF* | -7.241605 | -3.612199 | I(I)\*\* | stationary |
| *lnNOLS* | -3.898958 | -3.612199 | I(I)\*\* | Stationary |

***Note:*** *\*(\*\*)- Significant at 5%(10%) percent level*

Table 4.3 shows the time series properties of the variables using the ADF Unit Root Test Statistics. The table reveals that MCAP, VOT GCF and NOLS are stationary at first difference 5% level of significant.

**4.2.2 Johansen Cointegration Test**

It has been shown from the unit root test above that most of the time series are non-stationary series that only become stationary after first differencing. Confirmation of the presence of non- stationary series suggests bogus relationship in the short-run because of the stochastic possessed by these non-stationary series. However, they cannot generate an equilibrium relationship in the short-run; they can only do so in the long-run if they co-integrate. Therefore, Johansen Co-integration test is carried out to test for the presence of co-integrating equation of the multivariate series in the long-run. In the Johansen Co-integration test, the Trace Statistics and Max-Eigen Statistics are compared with 5% and 1% critical values in order to determine the number of co-integrating vectors in the model.

Table 4.4: Trace Statistics Result

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Hypothesized No. Of CE(s) | Eigenvalue | Trace Statistic | **5%** Critical Value | Prob.\*\* |
| None\* | 0.684882 | 69.96166 | 63.87610 | 0.0058 |
| At most 1\* | 0.480171 | 63.24626 | 42.91525 | 0.0242 |
| At most 2 | 0.393186 | 17.54414 | 25.87211 | 0.3754 |
| At most 3 | 0.206636 | 5.555359 | 12.51798 | 0.5187 |

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level

\* denotes rejection of the hypothesis at the 0.05 level,

\*\*MacKinnon-Haug-Michelis (1999) p-values

Table 5: Max-Eigen Value Statistics Result

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Hypothesized No. Of CE(s) | Eigenvalue | Max-Eigen Statistic | **5%** Critical Value | Prob.\*\* |
| None\* | 0.984882 | 27.71540 | 32.11832 | 0.0071 |
| At most 1\* | 0.480171 | 15.70212 | 25.82321 | 0.0413 |
| At most 2 | 0.393186 | 11.98878 | 19.38704 | 0.4162 |
| At most 3 | 0.206636 | 5.555359 | 12.51798 | 0.5187 |

Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level

\* denotes rejection of the hypothesis at the 0.05 level,

\*\*MacKinnon-Haug-Michelis (1999) p-values

Table 6: Normalized Co-integrating Coefficients

|  |  |  |
| --- | --- | --- |
| 1 Cointegrating Equation(s): | Log likelihood | 29.42118 |
| MCAP1.0000 | VOT | GCF | NOLS |
| -2.747307 | -4.329627 | -43.89331 |
| Coefficient/2 | -1.373654 | -2.164814 | -21.94667 |
| Standard Error | (0.05059) | (1.59347) | (10.1885) |

Table 4.4 and table 4.5 show the unrestricted co-integration rank test in which the former table shows the Trace Statistics test while the latter shows the Max-Eigen Statistics test. Trace test and Max-Eigen value test each indicates 2 co-integrating equations at 5% level of significance. Moreover, Table 4.6 shows the long-run co-integration equation among the variables in the model. From the table, it can be seen that Value of transaction (VOT), Gross capital formation (GCF) and Number of listed securities (NOLS) all have significant but negative impact on the explained variable (i.e. Market capitalization - MCAP) in the long-run. This result does not conform to the economic a priori expectation of positive relationship. A unit increase in the VOT and GCF and NOLS brings about a decrease of about 27.47, 4.32 and 43.90 units in the Market capitalization (MCAP) respectively in the long run, keeping all other factors constant.

**Error Correction Mechanism (ECM)**

Table 4.7: Over-parameterized Error Correction Model Result

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | -0.141095 | 0.974105 | -0.144846 | 0.8869 |
| MCAP(-1) | 0.039142 | 0.216713 | 0.180616 | 0.8593 |
| D(VOT,2) | -0.059958 | 0.140140 | -0.427846 | 0.6753 |
| D(VOT(-1),2) | -0.179280 | 0.161123 | -1.112686 | 0.2846 |
| D(GCF,2) | 0.682435 | 0.354923 | 1.922768 | 0.0751 |
| D(GCF(-1),2) | 0.169544 | 0.352503 | 0.480971 | 0.6380 |
| D(NOLS,2) | -3.607579 | 6.722954 | -0.536606 | 0.6000 |
| D(NOLS(-1),2) | 0.832772 | 6.253102 | 0.133177 | 0.8959 |
| ECM(-1) | -1.110870 | 0.427976 | -2.595634 | 0.0212 |

*R-squared 0.598124; Adjusted R-squared 0.368480; F-statistic 2.604572;*

*Durbin-Watson stat 2.520473; Prob(F-statistic) 0.056170*

The over-parameterized error correction mechanism (ECM) was carried out in order to identify the main dynamic of the model and ensure that the model have not been constrained by a too short lag length. The over-parameterized ECM presented in Table 4.7 shows that there truly exists long-run equilibrium relationship among the variables. This is evidenced by the coefficient of one period lag of ECM which is statistically significant and correctly signed (ECM -1.110870) with a probability value of 0.0212. The lagged GCF, and ECM are statistically significant at 0.05% and 0.1% level of significance, hence the result shows that about 11.10% of the short-run inconsistencies are being corrected and incorporated into the long-run equilibrium relationship annually. In the over-parameterized ECM result, the specific effect of each of the explanatory variables on the dependent variable is shown in the coefficient column of the ECM result as presented in table 4.7. In this table, VOT, VOT lagged by one period and NOLS have negative effect on the dependent variable while GCF, GCF lagged by one period and NOLS lagged by one period have positive relationship. The coefficient of multiple determinations (R2) is 0.598124. This implies that 59.81% of the systematic variations in the dependent variable can be explained by the explanatory variables. Adjusted R2 is 36.84% implies the existence of room for more variables capable of explaining changes in market capitalization. Moreover, the probability value of the F-Statistic shows the overall goodness of fit of the model.

**CHAPTER FIVE**

**CONCLUSIONS AND RECOMMENDATION**

**5.1 Conclusion**

This study is aimed at examining Impact of Privatization on Nigeria Capital Market using time series data spanning from 1986 through 2011. The study employed the Johansen Co-integration technique to ascertain the long run effect of some activity variables (Value of transaction, gross capital formation and number of listed securities) on stock market development proxied by Market Capitalization. The co-integration result reveals that there is a dynamic long-run association between the variables. The over-parameterized error correction model result shows that the variables have short run association which can actually be felt in the long run. However, the result further shows that the short-run inconsistencies have been corrected; giving the correctly signed and statistically significant ECM coefficient of about 11.10%.

From the co-integration equation, it is evident that; GCF has a significant influence on the level of development in Nigerian capital market. In essence, the long run significant but negative impact of number of listing and value of transaction on market capitalization imply that privatization adversely affects stock market development. This negates our a priori expectation and supports the findings of Adna (2005) although Adna (2005) focused on economic growth. However the adverse effect of value of transactions and number of listing as it is shown in the cointegration equation throws up a question of the efficiency of the market. Even though privatization has been found to be a crucial determining factor for the development of capital market in Nigeria, desirable effect is far from reality in the face of inefficiency that characterizes the nation’s capital market through the activities of market operators. This inefficiency makes it possible for operators to increase their potential gain at the expense of the investors who are not informed.

5.2 **Recommendation**

The aim of the study is to examine the impact of privatization on the Nigeria Capital Market growth. A study of this nature have significant implications for policymakers, hence the following policy recommendations are made based on the empirical findings: Since the significance of the number of listed securities and volume of transaction suggests that privatization is a determining factor for the development of the capital market in Nigeria, the legal framework and operating environment of capital market should be reviewed and strengthened to further regulate and facilitate the activities in the capital market. Specifically, Securities and Exchange Commission should be more involved in the determination of the allotment of securities during privatization in order to ensure wider spread. There is also an urgent need for the creation of awareness and continuous sensitization of Nigerian investing public of the benefits attendant to share/stock ownership in order to increase participation. In a developing country like ours, where financial development especially in the formal sector appears to be passive to real development, economic managers must not relent in their efforts to promote the nation to the league of developed economies. Lastly, further empirical investigations are required in this area in order to area to bridge the existing gap in literature.

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