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National transparency and the performance of the financial market in Nigeria

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ABSTRACT

This study examined the effect of national transparency on the performance of financial market in Nigeria. Secondary data were obtained from a credible online source for a period spanning from 2009 to 2018. The data were analyzed using a simple regression model. The result obtained shows that that there is a positively high relationship between transparency and the financial market performance in Nigeria although transparency had a moderate effect on the performance of the financial market in Nigeria. It also showed that there was a significant effect of national transparency on the performance of the financial market in Nigeria. In conclusion, individuals are influenced also by the level to which they perceive transparency in Nigeria. It is recommended that the government strengthen their fight against corruption by strengthening anti-corruption agencies as well as review anti-corruption laws. In the same vein, the regulators of the financial market in Nigeria should ensure that best practices are found among firms actively engaged in the Nigerian financial market.

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INTRODUCTION

The wealth of a country is easily determined by the gross domestic product (GDP) as one of the metrics hence any country pursuing the development of its economy should ensure the growth of its GDP. In arriving at the value of GDP, input from the financial market is also included thus, the development of the financial market is also very critical. This is because the financial market serves as an intermediary also that links surplus units in the economy to deficit units of the economy. It also a hub that accommodates investments from across borders (foreign investment). Not only that, the investments captured in the financial market is also captured in the computation of the gross domestic product which is a symbol of economic growth as captured by many extant literatures. This therefore means that the importance of the financial market cannot be overemphasized. The financial market in Nigeria is broken down into two broad categories which are the money market and the capital market. The money market is where short funds and investment can be negotiated while the capital hand deals with medium to long term funds.

The capital market is very significant in the economic development of any country in that business firms, individuals and even the government can access funds from surplus units in the economy from such markets to embark on a medium to long term project (Ahmed and Bello, 2015). While the investors (surplus unit) on the other hand, will not lose out as they are rewarded with a premium over their funds for their patience. This premium is also captured in the derivation of the gross domestic product. From another view, these projects embarked upon by business firms, individuals and even the government will stimulate the economy by possibly providing employment opportunities and even infrastructure by the government to its citizenry. The importance of the capital market therefore cannot be overemphasized and should be monitored closely in order to stimulate the growth of the economy.

Various attempts by government in Nigeria have been put in place by the government to ensure that the financial market is well stimulated. Corporate governance framework and information communication technology

(ICT) infrastructures have been put in place need to be reviewed and strict monitoring to ensure compliance with regulations in the capital market.

Policies and laws have been set in place as indicated to stimulate the activities of the capital market. However, the level of market capitalization to GDP ratio over the last ten years in Nigeria is at an average low of 12.8%. Thus, the need to improve the performance of the financial market which will have a resultant effect in the value of market capitalization. Similarly, the performance of Nigeria based on the ratings of Transparency International group which is a non-governmental group have shown that there is still a high level of corrupt practice in Nigeria. This is evidenced in the average rating of Nigeria by the group at 26% out of a possible score of 100% where 0% indicates very corrupt and 100% indicates a very transparent system. Based on previous studies that have shown that there is a strong relationship between transparency and the activities of the financial market, this study is designed to seek out if the level of corruption in Nigeria is responsible for the low performance of the financial market in Nigeria.

The main objective of this study is to determine the effect of national transparency on the financial market in Nigeria.

REVIEW OF EXTANT LITERATURE

Lang and Maffett (2011) carried out a similar study to seek a way of improving international investment in equity market in the Unites States. They adopted a qualitative approach. From their study, they discovered that transparency had a strong impact on level of international investment in the equity capital.

Similarly, Noori and Khatibi (2013) carried out a study in Iran seeking to improve the level of investment in the financial market. They adopted a survey method using knowledgeable respondents in order to evaluate their responses. They discovered from the study that transparency and liquidity were needed to positively stimulate the activities of the Terhan Stock Exchange.

In Egypt, same study was replicated by Masry (2015) where the study sought to improve the level of investment in the financial market. The study also adopted a quantitative approach in gathering and interpreting data. The findings from this study were also consistent with previous similar studies which showed that transparency has impact on the level of activities in the financial market.

Ahmadi (2015) carried out a study in Iran also to seek a way of improving the capital market efficiency. A quantitative approach was also employed in this study to analyze data obtained. It was discovered from the study that transparency and corporate governance do have a strong impact on the efficiency of the capital market.

Finally, Ahmed and Bello (2015) carried out a similar study in Nigeria to seek for a way to prevent the capital market from collapse as witnessed between 2008 and 2011 in Nigeria. A qualitative approach was employed. It was discovered that the apex regulator of the capital market in Nigeria lacked the operational independence. It was thus recommended that regulations that promote accountability be created and strengthened for those already existing and that the apex body be restructured to ensure that it functions properly.

From the above studies, the import transparency on the activities of the financial market is clearly shown though these studies show this from only the actors within the capital market.

Conceptual review

Transparency for the purpose of this study is captioned from the view point of transparency international which views transparency as the elimination of corruption or corrupt practices. From this perspective, transparency in this study indicates the international community perception of corruption level in a country.

Transparency and disclosure significance wells in the ability of guiding investors in making prediction that will produce balance and also ensure a level playing ground of same opportunities for investors in a way that promotes a favorable business environment with investment opportunities. Transparency reduces information asymmetry as it allows correct information that will enhance the making of the right investment decisions. On the other hand, the absence of transparency will translate to the release of a low level of information or incorrect information that will hinder some investors misguides them from taking the right investment decision.

Masry (2015) also stated that, the absence of the right information will cause an artificial increase in stock prices and promote speculation, thus this will initiate a type of fluctuation that might lead to a bubble burst in the market performance. Hence, we can state that transparency ultimately reduces the level of speculation and its negative effect in the financial market.

On the other hand, financial market and capital market are used interchangeably in this study which connotes a market where people trade financial securities and derivatives at a low transaction cost. Hence when the transactional activities in the financial market is further x-rayed, the activities of the financial market can be measured by the total market capitalization which is the total investment in securities in the market. In order to further analyze the performance of the financial market, the market capitalization value is compared to the GDP which is the total monetary sum of value created by the particular country.

Theoretical review and hypothesis development

This study is hinged on the theory of accountability. Frink and Klimoski (2004) explain accountability as including both formal and informal systems which consists of objective and subjective evaluations and rewards by internal and external audiences. They stated that the existence of a system is not what impact human behavior rather it's the response to the outcome of such evaluation.

Mansouri and Rowney (2014) provided a form of critique on the theory of accountability. They argue that whether systems are put in place to ensure that people are answerable for their behaviors the selfish nature of man still finds a way to bypass such processes. Hence accountability alone cannot reduce the incidence of abuse of office or power (Borrero et al., 1979).

Existing literatures on transparency have examined it from the realm of just the actors within the financial market. However, the public perceptions of a state to being transparent have not been fully considered. Hence this study seeks to examine the perception of Nigeria as a country on the performance of the financial market in Nigeria.

To achieve the objective of this study, the below hypothesis has been postulated:

H_0: There is no significant effect of transparency on the financial market in Nigeria.

METHODOLOGY

The ex-post facto research design was used in this study. Secondary data on the variables (transparency and market to GDP ratio) for 2009-2018 were obtained from the credible online sources (tradingeconomics.com). Linear regression was used in testing the hypothesis at 5% level of significance analysis of variance (ANOVA) was used to test the significance of the model. The linear regression model was used to determine the relationship and also the degree of association between the independent variable (transparency) and the dependent variable (market capitalization to GDP ratio). This is represented as:

$$Y = f(X)$$

$$MG = f(Trans)$$

Mathematically, this can be written as shown below:

$$LogMG = \beta_0 + Log\beta_{Trans} + e$$

Where,

LogMG, Log of market capitalization to GDP ratio (dependent variable) β_0, intercept where independent variableis zero; Logβ_{Trans}, log of transparency score (independent variable); e, error term.

Decision rule

If the computed co-efficient is lower than the significant level of 5%, we reject (H_0) and retain (H_1). But if the computed co-efficient of is greater thanthe significant level of 5%, we accept (H_0) and reject (H_1).

RESULTS

The extracted data is presented in a tabular form for ease in understanding the trend of the data over the ten years under review (Table 1). Table 1 shows the trend of market capitalization to GDP ratio and Nigeria's score from transparency international between 2009 and 2018. The natural logarithm of the market capitalization to GDP ratio and the score from transparency international is also presented.

Test of hypothesis

H_0: There is no significant effect of transparency on the financial market in Nigeria.

Table 2 shows that there is a high relationship between transparency and the market to GDP ratio which is shown as 73.3%; however, transparency has a moderate impact on market capitalization to GDP ratio which is shown as 47.9%.

Table 3 shows that the computed value is 0.016 which is lower than the p-value set for this study at 0.05. This therefore means that we are to reject the null hypothesis which states that there is no significant effect of transparency on the market capitalization to GDP ratio in Nigeria. And accept the alternate hypothesis which states that there is a significant effect of transparency on the market capitalization to GDP ratio in Nigeria.

Table 4 shows the numbers used to represent the model which was used to test hypothesis. From the information in the model, transparency is represented by a negative integer.

DISCUSSION AND POLICY IMPLICATION OF FINDINGS

Based on the result of the data analysis carried out in this study, it shows that the perception of the level of corruption in Nigeria moderately influences the level of investment in the financial market in Nigeria (Bourke, 2006). Also, as shown from the analysis, there is a

Table 1. Market to GDP ratio and Transparency International corruption index score of Nigeria from 2009 to 2018.

Year	Market capitalization to GDP	Transparency Score	LMG	LTrans
2009	11	25	1.04	1.4
2010	14	24	1.16	1.38
2011	20	24	1.31	1.38
2012	13	27	1.1	1.43
2013	17	25	1.22	1.4
2014	13	27	1.11	1.43
2015	10	26	1.02	1.41
2016	9	28	0.96	1.45
2017	12	27	1.08	1.43
2018	9	27	0.96	1.43

Source: tradingeconomics.com

Table 2. Model summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.733[a]	0.537	0.479	0.07967

[a]**Predictors:** (Constant), LTrans.

Table 3. ANOVA[a].

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	0.059	1	0.059	9.289	0.016[b]
	Residual	0.051	8	0.006		
	Total	0.110	9			

[a]**Dependent variable:** LMG; [b]**Predictors:** (Constant), LTrans.

Table 4. Coefficients[a].

Model		Unstandardized coefficients		Standardized coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.902	1.577		3.742	0.006
	LTrans	-3.399	1.115	-0.733	-3.048	0.016

[a]**Dependent variable:** LMC.

positive relationship between the level of corruption and the contribution of the financial market to the growth of the economy in Nigeria. This is consistent with studies where transparency had an effect on the financial market (Noori and Khatibi, 2013; Ahmadi, 2015; Ajina et. al., 2015; Istrate, 2015; Lang and Maffet, 2011; Scalia and Vacca, 1999).

It therefore means that the public perception of the high level of corruption in Nigeria based on the scores of transparency international, will also influence investment decision by both current and potential investors in the Nigerian economy, and as such, the Nigerian government needs to ensure the confidence of the public is maintained in order to attract investments into the country (Okpala, 2012; Osaze, 2011).

Summarily, it is important to note that this study will be of benefit to the Nigerian economy and the investing public. To the Nigerian economy, because the result from this study proffers solution on how to increase the growth of the economy viz-a-viz the contribution of the financial market to the GDP of Nigeria. This study will also provide remedy in providing a soft ground for existing and potential investors in securing their investments and boosting confidence.

RECOMMENDATION AND CONCLUSION

In order to boost the financial market performance to the growth of the Nigerian economy in Nigeria, this study has shown that government policies should be tailored at improving the transparency of the business economy and institutions within the country. In order to achieve this based on the result in this study, the following recommendations are given:

i. The Federal government of Nigeria should continue in the fight against corruption in Nigeria;
ii. The Federal government of Nigeria should ensure that they strengthen anti-corruption institutions and laws;
iii. In the financial market the institutions should be strengthened to boost stakeholders' confidence in the system.

In conclusion, this study shows that transparency does have a high relationship with the performance of the financial market in Nigeria. Also, transparency is positively related with the market capitalization to GDP ratio moderately in Nigeria. Furthermore, transparency has a significant effect on the contribution of the financial market to the GDP of Nigeria.

LIMITATION OF THIS STUDY AND AREA OF FUTURE STUDY

In carrying out this study, getting a representation for measuring transparency stood as a constraint. However, the score index by Transparency Group International (TGI) was used which limited the observation range of the study to 10 years as TGI was formed in the 21st century and has data for Nigeria ranging from 2009 to 2018 thus data availability also constrained this study.

As a suggestion for future study, more metrics should be looked into as a suitable representation for transparency and more observation period (number of years) can be looked into. Finally, field survey approach can also be employed in future studies to generate data from experts on the field in the conduct of such studies.

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