

Issues in Financial Markets' Development in Sub-Saharan Africa: Lessons From Developed Economies

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For some time now, development of financial markets in developing countries of the world has been saddled with a lot of controversies. Furthermore, observations from many studies showed contradictory views which have made debates on the subject matter inconclusive. In view of this, the general objective of this study is to examine financial and stock market developmental issues in developing African countries. It specifically intends to highlight strategies to strengthen financial and stock markets in African countries, among others. The study adopted table content analysis and descriptive statistics in its methodology. The study discovered that in spite of all the gains derivable from financial market development, the intensity of financial sector reforms implemented in some developing countries has not brought about a reasonable increase in the size and depth of their financial systems, among others. The implication of this is that capital market development in these developing countries would continue to suffer setbacks with their attendant consequences on economic growth. The study concluded that the presence of strong and virile financial and stock markets cannot be overlooked in any economy. It therefore recommended, amidst others, the promotion of institutional investors as well as development of appropriate business and investor friendly policies.

Keywords: finance, stock market, developmental issues, African countries

Introduction

International financial markets have grown very rapidly in the recent times (Yartey & Adjasi, 2007). Both of them have undergone significant modifications and become increasingly integrated as a result of their being progressively deregulated, internally and externally, in leading economies. The leading economies have also internationalized the financial markets. They have introduced financial products that create room for riskier and larger financial investments as well as the emergence and increasing role of new actors in the markets (Cosh, Hughes, & Singh, 1992). Echekeba, Ezu, and Egbunike (2013) indicate that financial markets have improved consistently since 1997. The strength of the markets was enhanced both domestically and internationally by buoyant capital flows across the national boundaries. Stock market development, in relation to growth, has continued to attract significant attention in the finance literature (Levine & Zervos, 1996; 1998; Atje & Jovanovic, 1993; Anyanwu, 1998; Okwu & Obiakor, 2011; Yartey & Adjasi, 2007; Obiakor, 2016, among others).

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Two schools of thought are prominent in literature regarding the relationship between stock market development and economic growth. While one school of thought embraces stock market-led growth, the other argues in the contrary.

While developed economies have explored their stock markets through resource mobilization in order to boost their economic growth and development, evidence on the impact of stock markets on growth in some African countries is not yet clear (Demirgüç-Kunt & Levine, 1996; Yartey & Adjasi, 2007). The business enterprises in developing countries generally lack long-term capital. The business sector in many of those economies relies significantly on short-term financing, like overdrafts, to fund long-term capital—a situation which exposes them to risks. Such companies need some medium for raising an appropriate mix of short- and long-term capital, since finance is the life-blood of business (Demirgüç-Kunt & Maksimovic, 1998; Adenuga, 2010).

Statement of the Problem

Studies on the impact of stock market development on economic growth of African countries have so far ended with inconclusive and conflicting results. A number of them observe that financial development boosts economic growth through its impact on growth rate of savings, investment, and growth. This position of study done by McKinnon (1973) is supported by Alilee (1984), Greenwood and Jovanovic (1993), Levin (1991), Montiel (1995), Beesi and Wang (1997), Demirgüç-Kunt and Levin (1996), Levine and Zervous (1996), Popoola (2014), among others. The World Bank (1994) confirms that stock market development does not merely follow economic development but makes available the means for predicting future rates of growth in capital productivity and per capita GDP. However, some studies emerge with contrary results. They find that stock market development might not have any effect on economic growth. Authors of such studies include Buffie (1984), Burkett (1987), and Irving (2004). Singh (1995) argues that stock markets are not likely to perform efficiently in developing countries because of the huge costs involved and poor financial structures. According to Irving (2004), the link between stock exchanges and the overall socio-economic development is not only tenuous but also non-existent or harmful. Specifically, Irving warns African countries against devoting their lean resources and efforts to promoting stock exchanges. He charges the nations to focus their attention towards addressing endemic problems such as high poverty levels, inadequate social services and underdeveloped infrastructure. On the other hand, the results of studies by Allen and Gale (1999), Boyd and Prescott (1986), and Stiglitz (1989) show preference for banking sector development. The studies find banking sector development as capable of playing some essential role in promoting economic growth and as being more effective than stock market development in terms of resource allocation. In addition, Levine (1997) and Geltinger (1988) cited in Adigwe, Nwanna, and Ananwude (2015) contend that the functions performed by stock markets (such as capital mobilization, assisting in resource allocation, monitoring managers and facilitating risk management) are even capable of having some adverse effects on economic growth. Furthermore, some studies in South Africa have different findings (Odhiambo, 2009; Ndako (2009). While Odhiambo (2009) asserts that stock market development Granger cause economic growth, Ndako (2009) holds a direct opposite opinion: economic growth Granger cause stock market development. Interestingly, both studies were carried out in the same country and with similar time series data. Also, another study finds that stock exchange has no effect on Cameroonian economic growth.

It is against these inconsistencies and inconclusiveness of findings on the impact of financial and stock market development on the economies of developing countries that this study is carried out with the intention

of updating the literature on the subject matter as the debate on finance/growth relationship rages on and therefore offers a vacuum for future research.

Objectives of the Study

The main objective of this study is to examine financial and stock market developmental issues as they relate to developing nations in Africa. Specifically, the study intends to highlight:

- 1) the trends and features of stock market development in Africa;
- 2) the financial and stock market developmental issues in Africa;
- 3) the characteristics of financial environment in Africa;
- 4) how financial and stock markets in African countries can be made more functional.

Review of Related Literature

Conceptual Review

Financial markets. Financial markets comprise money and capital markets (Okafor, 1983). All over the world, financial markets are significantly affected by hedge funds, the use of which has paved way for trading activities involving large number of dealers.

Money markets. Money markets consist of financial institutions and other dealers in short-term money and credit (Adekanye, 1986). It is a market for borrowing and lending money for three years or less (Echekoba, Ezu, & Egbunike, 2013).

Capital market. This is a market where governments and companies raise long-term finance to trade securities on the bond and stock market (Okafor, 1983). It consists of the primary market for the distribution of new issues among investors and the secondary markets where existing securities are traded. Capital market is a wider concept which includes the stock market for buying and selling financial products. While the stock market permits investors and banking institutions to buy and sell financial instruments, a capital market may trade in other financial securities such as bonds, derivative contracts and commodity futures.

Stock markets. Stock markets are financial markets for the buying and selling of long-term debt or equity-backed securities (Shinqil, 2010). It is a tool for the mobilization and allocation of savings among competitive uses and acts as a barometer for economic performance. Stock market is that segment of the financial system which facilitates the channeling of long-term funds from surplus to deficit economic units and stimulates capital formation as well as socio-economic development.

Kenny and Moss (1998) consider stock markets as enhancing the operations of the domestic financial system in general and the capital market in particular. The determination of the overall growth of an economy depends on how efficiently the stock market carries out its function of capital allocation (Popoola, 2014). However, Kenny and Todd (1998) argue that stock markets are not a necessity for economic growth. They use Germany as an example of an economy that utilized banks almost to the complete exclusion of stock markets, and had significant economic growth.

Economic growth. Economic growth is defined as an increase in the capacity of an economy to produce goods and services when comparing one period of time with another. It is a positive change in the output or production of a nation. It can be calculated as a percentage increase in the gross domestic product of a given country (Adigwe, Nwanna, & Ananwude, 2015). Economic growth of a country has a direct relationship with economic state of affairs which comprises a number of variables such as index of industrial production,

inflation rate, money supply, exchange rate, private investment, foreign direct investment and many others regarded as the back bones of an economy.

Theoretical Review

Mckinnon-Shaw (1973) hypothesis. A hypothesis states that financial liberalization and stock market development would enhance economic growth through their effects on the growth rate of savings, investment and consequently, economic growth (Adigwe et al., 2015). When financial markets are repressed (that is when there are low and administered investment rates, domestic credit controls, high reserve equipment and concessional credit practices), savings are discouraged, the efficient allocation of resources is retarded, the segmentation of financial markets is increased, investment is constrained and economic growth rate is lowered. In summary, the claim in this hypothesis is that a low or negative real rate of interest discourages savings and hence, reduces the availability of loanable funds, constrains investment and lowers the rate of economic growth. This study is anchored on this hypothesis.

Efficiency Market Hypothesis (EMH). The efficient market hypothesis, popularly known as the random walk theory, was developed by Fama (1965). It is one of the theoretical exploits of capital market economic growth nexus. It is a framework for investigating the efficiency of the capital market. The EMH predicts that market prices incorporate all available information at any point in time. It posits that stock prices at any time fully reflect all available information about the worth of the firm and that there is no opportunity for one to earn excess profits (more than the entire market) by using this information that has very significant implications for both investors and financial managers. Efficiency in the market is tested by whether the stock prices incorporate all available information at the time. One of the major limitations of this theory is its inability to recognize human influence on the stock-related information.

Contextual Review

Stock market development evolution in sub-Saharan Africa: trends and features. According to Yartey and Adjasi (2007), the African capital markets have developed tremendously since the early 1990s. Before 1989, only five stock markets existed in sub-Saharan Africa. However, by the year 2007, there were already 25 stock exchanges in existence, namely the Botswana Stock Exchange, the Ghana Stock Exchange, the Cairo and Alexandria Stock Exchange (Cameroon), The BRVM—Bourse Regionale des Valeurs Mobilières: The West African Regional Bourse (Cote d'Ivoire and comprising of 8 French speaking West African countries, Nairobi Stock Exchange (Kenya), Nigeria Stock Exchange, Gambia Stock Exchange, The Stock Exchange Mauritius, Casablanca Stock Exchange (Morocco), Maputo Stock Exchange, Mauritius Stock Exchange (Mozambique), Johannesburg Securities Stock Exchange (South Africa), Khartoum Stock Exchange (Sudan), Swaziland Stock Exchange, Tanzania Stock Exchange, Tunis Stock Exchange, Lusaka Stock Exchange (Zambia), and Zimbabwe Stock Exchange Except for South Africa, the majority of the African Stock Markets doubled their market capitalization between 1992 and 2002. The total market capitalization for African stock markets increased from US \$113,423 million to US \$244,672 million between 1992 and 2002 (Yartey & Adjasi, 2007). Excluding South Africa and Zimbabwe that had total listed companies of 792,207,403 and 79 respectively, the capitalization of all exchanges in the sub-Saharan Africa was less than \$13 billion by the end of 2000 (Aderibigbe, Adegboye, Osayi, Okorie, & Iyang, 2015).

In spite of the rapid development of stock markets in Africa, they have a number of issues to contend with. For instance, the stock markets have the challenges of immaturity; trading occurs in only a few stocks that

account for a reasonable part of the total market capitalization. Serious informational and disclosure deficiencies exist for the stock not actively traded. There are inadequate regulatory authorities, illiquidity, and smallness in size of the stock markets and others. Yartey and Adjasi (2007) assert that the Swaziland Stock Market had liquidity as measured by the turnover ratio of as low as 0.02% in comparison with about 29% in Mexico.

In spite of the problems of small size and low liquidity, these stock markets were considered to have performed very well in terms of return on investment. For instance, Yartey and Adjasi (2007) posit that the Ghana Stock Exchange was the world's best performing market at the end of 2004 with an annual return of 144% in US dollar term compared with 30% return by Morgan Stanley Capital International Global Index (Databank Group, 2004), within Africa itself, five other exchanges—Uganda, Kenya, Egypt, Mauritius, and Nigeria—were among the best performers in 2004.

The indicators of stock market development number of listed companies, market capitalization as a percentage of GDP, value of Grade as a percentage of GDP and turnover, show that apart from being small in size, African stock markets had few listed companies and long market capitalization. As at 2007, the average number of listed companies on sub-Saharan African markets excluding South Africa, was 39 compared with 113 when Egypt and South Africa are included. Market capitalization as a percentage of GDP was as low as 1.4 in Uganda. The Johannesburg Securities Exchange had approximately 90% of the contained market capitalization of the whole of Africa. With South Africa and Zimbabwe excluded, the average market capitalization for the African continent was about 27% of GDP in contrast with other emerging markets like Malaysia that had a market capitalization ratio of about 161% (Yartey & Adjasi, 2007).

Prior to the global financial meltdown, Africa had developed and expanded the stock market sector. In spite of their smallness in size and low liquidity, many African markets provided dramatic returns to investors over time. According to Massa (2009), in 2004 six African countries (Ghana, Uganda, Kenya, Egypt, Mauritius, and Nigeria) were among the world's 10 best—performing stock markets. In 2005, Egypt, Uganda, and Zambia were in the top five. Malawi performed best in the whole world. However, the global financial crisis hit some of the key drivers of stock market development in Africa. Marcias and Massa (2009) report that there were tighter credit conditions and gloomy growth prospects worldwide, increased risk aversion which reduced foreign investors' urge for investment in African markets as a result of the financial meltdown. Foreign direct investment (FDI) slowed down in 2008. Portfolio equity flows dropped alongside the sharp fall in equity prices.

In mid 2010, the market capitalization of the entire Africa was only about \$569 billion, while the net investment flows to sub-Saharan African countries was about \$500 million (Salami, 2013). Owing to this trend, Salami (2013) calls Africa a second generation emerging market. According to Salami (2013) cited in Aderibigbe et al. (2015), Africa could be called a frontier market by investors. "Frontier market" is a term used for a subset of emerging markets that have small financial sectors and/or have low annual turnover or liquidity but demonstrates a relative openness to and accessibility for foreign investors. Generally, those financial sectors are in the early stages of financial development (Salami, 2013)

The role of financial markets in economic development. An economic theory provides that there is a strong positive link between financial development and economic growth. According to Tau (2015), financial systems play a strategic role of intermediation between lenders and borrowers. Consequently, financial markets are important channels for investors as they provide saving mechanisms that enable borrowers to find the required finance. Financial development has some indicators, namely banking system, stock market and bond

market measures. Financial development takes place when financial markets and intermediaries stream line information asymmetries, enforcement and transaction costs.

There are four direct opinions regarding the financial system which have been keenly debated, namely, the bank-based financial structure, market based financial structure, the financial services-based financial structure, and the law and finance-based structure (Mahonye & Ojah cited in Tau, 2015). The proponents of bank-based financial structure argue that banks are capable of mobilizing capital, identifying and selecting projects that are with positive cash flow, monitoring the use of funds and managing risk. Based on the nature of the services banks render, they maintain long-run relationship with firms and do not disclose information about them prematurely to the public market (Levine, 1997). Consequently, some studies maintain that banks can influence the firms to repay their loans. This financial structure has been criticized for failing to recognize non-banking financial institutions which play no less significant role. The supporters of market-based financial structure claim that it is a model that provides for risk-sharing as investors hold diversified portfolios. This implies that the information about firms is reflected in share prices. The law and finance theory of financial structure is propounded by those that buy the idea that the legal infrastructure has greater influence on the institutions and standards governing legal rights and enforcement of contracts (Demirgüç-Kunt & Maksimovic, 1998). The advocates of the financial services structure claim that banks and stock markets complement each other in promoting economic growth. Generally, it is accepted that efficient financial intermediaries play a significant role in the growth of an economy (King & Levine, 1993; Levine & Zervos, 1998; Levin, Loyasa, & Beck, 2000). Nevertheless, according to Tau (2015), literature indicates that efficient capital allocation can be achieved through either bank- or market-based systems. Which of the two is superior is still a subject for debate.

Determinants of stock market development. The stock market developments are determined by a number of factors, namely real income level, saving rate, gross domestic investments, private capital flows, financial intermediary development and portfolio investment (Ho & Iyke, 2016). Other factors include macroeconomic stability, institutional quality, and shareholder protection (Yartey & Adjasi, 2007). Yartey and Adjasi (2007) contend that stock market development can be promoted in Africa through the autonomous of the trading system and by changing the legal status structure and governance of the stock exchange from a non-profit, protected interest to a profit- oriented venture.

Foundations of the relationship between financial development and economic growth. The theories on the nexus between financial development and economic growth date back to the works of Schumpeter (2011), Gurley and Shaw (1960), McKinnon (1973) and Shaw (1973) as cited in Ngongang (2015). According to Ngongang (2015), Schumpeter (2011) asserts that the smooth functioning of the banks stimulates technological changes. It does this through the identification and financing of entrepreneurs. Schumpeter (2011) argues that the necessary condition for achieving this objective is for financial intermediaries to ensure that the five main functions listed by Levine (1997; 2003) are met. Gurley and Shaw (1960) stress the importance of financial innovations in financial development and explain that new financial assets present fewer risks. King and Levine (1993) and Levine (1993) also emphasize the important role of the banking system and the financial market in the development of the economy. For these authors, there is a correlation between GDP and size of the financial system (Ngongang, 2015).

Financial market developmental issues in Africa

a. Issue of stock market integration

Some suggest that the stock markets in Africa should be regionalized as a way of addressing the issue of illiquidity which they encounter. As of now, however, the markets still face the constraints of disparities in the level of economic development, absence of uniform regulatory and accounting standards, lack of currency convertability and others. There is the need for the harmonization of legislations such as bankruptcy and accounting laws, just as it is advisable to liberalize trade regimes as a precondition for successful regional approaches.

b. Issue of demutualization

The absence of demutualization of stock markets creates room for governance and profitability challenges. Yartey and Adjasi (2007) consider demutualization as a step to be taken after the African stock markets have consolidated the gains on technological and regulatory reforms.

c. Challenges of institutional development

There are challenges which hamper institutional development of African stock markets, namely, underdeveloped financial sector, small and illiquid stock markets with infrastructural bottlenecks as well as weak regulatory institutions. Others include over-dominance of the financial markets by commercial banks, inefficiency, undue intervention by government in credit alleviation to preferred economic sectors, immaturity, low market capitalization, non-implementation of robust electronically trading system and non-adoption of central deposition systems, among others.

d. Inefficient financial environment

The financial environment in Africa is characterized by low savings, absence of intermediation, fragmented markets and informal financial system, lack of financial innovation and ill-designed safety nets. Under this kind of environment, it is difficult for African countries to meet their financial goals (Afful & Asiedu, 2014; Neube, 2007; Yartey & Adjasi, 2007).

e. Institutional and infrastructural indicators in African stock markets

The indicators of stock markets in African countries include existence of market regulators and a governing law, nature of clearing and settlement, the settlement cycle, existence of an international custodian foreign investor participation, exchange control, future of trading systems and existence of central depository. Yartey and Adjasi (2007) assert that the main institutional and infrastructural bottleneck on African stock markets is the use of slow manual systems. Although some of the stock markets are gradually adopting the electronic trading system, a substantial number of them still use manual clearing and settlement. In addition, many of the markets lack central depository system; some of them restrict foreign participation (Yartey & Adjasi, 2007).

Stock market and economic growth. According to finance theory, the stock market is expected to enhance economic growth by providing a boost to domestic savings and increasing the quantity and quality of investment (Singh, 1997). It is supposed to ensure that past investments are most efficiently used through the takeover mechanism. Efficient stock market is equally expected to minimize the information costs through the generation and dissemination of firm specific information which efficient stock prices disclose. Further, stock market liquidity ought to minimize the downside risk and costs of investing in projects which do not pay off for a long time. Nevertheless, the critics of the stock market argue that stock market prices do not really reflect the underlying fundamentals accurately when speculative bubbles are presenting the market. They claim that stock market liquidity may influence corporate performance negatively because very liquid stock market tends to encourage investor myopia. They point out that the actual operation of the pricing and takeover mechanism in

efficient stock markets lead to short-term and lower rates of long term and investments. Yartey and Adjasi (2007) observe that the criticisms of stock marketing are further magnified in the case of developing countries, most especially the sub-Saharan African economies. They arise from the fact that the developing economies have relatively weaker regulatory institutions and higher macroeconomic volatility. The critics opine that the higher degree of price volatility on stock markets in developing countries reduces the efficiency of the pricing signals in developing investment resources. This explains why many of those critics have questioned the importance and relevance of stock market in promoting economic growth in African nations.

Empirical Review

Atje and Jovanoic (1993) carried out a cross-country study of stock market and economic growth over the period from 1980 to 1988. They found a significant link between average economic growth and stock market capitalization for 40 economies. Levin and Zervos (1996) investigated the conception between stock market development and long-run economic growth using pooled cross-country time series regression on 41 countries from 1976 to 1993. The study followed the methodology of Demirgüç-Kunt and Levine (1996) by putting together some measures such as stock market size, liquidity and integration with world markets and the index of stock market development. Irving (2004) conducted a study where results showed that the relationship between stock exchanges and socio-economic development did not exist otherwise it could be harmful. Huang (2006) found that while financial systems in developed countries were dominated by stock markets those in emerging markets were less developed and inefficient. In the same direction, he observed that corporate governance standards in emerging nations were low. He showed evidence of a link between financial openness and financial development. After some prodigious studies, Eromosele (2013) found out that countries having relatively liquid stock market in 1976 grew much faster over the next 18 years than countries with illiquid markets even after adjusting for differences in other factor that affect growth such as education levels, inflation rates and openness. The studies also showed that in promoting economic growth a liquid stock market complemented a strong banking system, implying that banks and stock markets provided different bundles of financial services to an economy. Soltani, Ochi, and Saidi (2014) used the generalized moments (GMMs) on a sample of 11 countries of the region of MENA 4 to examine the effect of financial development on economic growth during the period 1995-2011. They found that financial development was harmful to economic growth in that region. Emmanuel (2007) examined the connection between financial development and economic growth from the point of view of 22 countries of sub-Saharan African countries during the period 1960-2002. The author considered that the positive and significant link between the indicators of financial development (i.e. the ratio of money supply M2 to GDP and the ratio of credit to the private sector (GDP) and the growth of GDP per capita is ambivalent. In addition the causal relationship varies between bidirectional and unidirectional moving from financial development to economic growth. Alajekwu and Achugbu (2012) investigated the role of stock market development on economic growth of Nigeria using a 15 year time series data from 1994 to 2008. The method of analysis used was ordinary least serious techniques. The results of the study show that market capitalization and value traded ratios have a very weak negative correlation with economic growth while turnover rate has a very strong positive ratio. The implication of the result according to authors is that liquidity has the propensity to spur economic growth in Nigeria which stock market capitalization has a strong positive correlation with stock turnover ratio. Mohtadi and Agarwal (2001) examined the relationship between stock market development and economic growth. The study covered 21 emerging markets and a period of over

21 years and found that relationship exists between the two both directly and indirectly by boosting private investment behavior. The study of Azarmi, Lazar, and Jeyapaul (2005) examined the link between stock market development and economic growth for 10 year period (1981-2001) around the Indian market liberalization event in order to establish whether the Indian stock market is a casino or not. The authors found that stock market development was not associated with economic growth during that period and that the relevance of stock market development to economic growth is a function of the economic policies prevalent in the economy of study. Hasan, Wachtel, and Zhou (2007) used panel data from the Chinese provinces to study the role of legal institutions, financial deepening and political pluralism on growth rates. They found that the development of financial markets, legal environment awareness of property right and political pluralism are associated with strong economic growth. Yartey and Adjasi (2007) examined critical issues and challenges of stock market development in sub-Saharan Africa. The study found that stock markets have contributed to the financing of the growth of large companies in some African countries. It found in conclusive evidence on the effect of stock markets on economic growth in African nations but acknowledged that the value of stock traded seems to be positively and significantly connected with growth. Dragola, Catarama, and Semenece (2008) cited in Alajekwu and Achugbu (2012) investigated the relationship between capital market development and economic growth in Romania, using regression technique and VAR models. The study found that capital market development is positively correlated with economic growth with a feedback effect. However, the authors observed that strongest connection is from economic growth—suggesting that financial market development follows economic growth. Ezeoha, Ogamba, and Onyiuke (2009) examined the nature of relationship that existed between capital market development and economic growth in a country with a high degree of macroeconomic unavailability and whether the stock market plays a uniform role in attracting both domestic and foreign investments under such economic situation. The study shows that the development of the stock market in Nigeria over the years spurred growth in domestic private investment flows but was unable to do so in the case of foreign private investment. In addition, it found that the development in Nigeria's banking system rather had a destabilizing effect on the flows of private investments. Tachiwou (2010) examined the impact of stock market development on growth, using the regional stock exchange of the West African sub-region; it found that stock market development positively affects economic growth in West African monetary union both in the short and long run. Ogwumike and Salisu (2010) examined the short and long-run and the causal relationship between financial development and Economic growth in Nigeria from 1975 to 2008, using the bound test approach. The study found a positive long-run relationship between financial development and economic growth in Nigeria. Financial intermediation, credit to private sector stock market and financial reforms were found to be exerting significant positive effect on economic growth. The study's analysis of the short-run dynamics discloses that about 40% of the resulting disequilibrium is captured each period which indicated minimal shifts from the equilibrium. The study also carried out some VAR Granger causality test whose results lend support to the supply—leading hypothesis. Soltani, Ochi, and Saidi (2014) employed the generalized moments (GMMs) on a sample of 11 countries of the MENA region to investigate the effect of financial development on economic growth. Financial development was found to be harmful to economic growth in that region. Eromosele (2013) found from financial studies that the countries having some relatively liquid stock market in 1978 grew much faster over the succeeding 18 years than those countries with illiquid stock markets, even after adjusting for the differences in other factors (such as education levels, inflation rates and openness) that affect growth. Eromosele also found that in promoting economic growth, a liquid stock

market complimented a strong banking system. The implication is that banks and stock markets provide different bundles of financial services to an economy.

Methodology

This study employed table content analysis and descriptive statistics in its methodology. The materials used for the review study were extracted from relevant journal publications and working papers. The scope of the study was limited to developing countries particularly the sub-Saharan African nations.

Observations

The researchers observed that there is the need for developing countries, especially those in the sub-Saharan Africa, to address a number of nagging issues and challenges confronting their financial markets if they are to reap the targetted benefits. The major issues and challenges include stock market integration, demutualization (to overcome the governance and profitability problems) and impediments to institutional development (such as smallness, illiquidity, infrastructural bottlenecks, weak regulatory institutions and others).

Summary, Conclusion, and Recommendations

Available literature has demonstrated that financial and stock markets have been very important sources of finance for funding the growth of companies all over the world. Nevertheless, African financial and stock markets are not developed at the same pace as a result of a host of issues and challenges which they can overcome only with time, if they take the right steps.

Literature has revealed that for some years now the world stock markets have accounted for a significant grown and that emerging markets have accounted for a reasonable amount of the boom. Countries, especially in developed economies, have benefited from financial and stock market development through increased aggregate investment, increased productivity of investments and in other ways. Some authors have identified income level, banking sector development, domestic savings and investment as well as stock market liquidity as important determinants of stock market development.

Based on the observations, the study recommends as follows:

- (1) The involvement of institutional investors in the stock exchanges of developing countries should be pursued with vigour as such investors are usually at the forefront of promoting efficient market practices.
- (2) The regulation and supervision of the financial system should be strengthened as they contribute significantly to indetermining both the stability of the market and the extent of service it provives. Another justification for strengthening these regulation and supervision is to protect investors from the potentially opportunistic behavior of insiders.
- (3) More efforts need to be made to attract capital flows and encourage foreign participation. Private capital flows (which include foreign direct investment, remittances and portfolio investment) are essential for stock market development. Generally, developing countries are still found wanting in in this direction.
- (4) Public awareness on the functioning of the stock market should be intesified as doing so would promote stock and financial market development in developing countries.
- (5) Other financial instruments appropriate for the local market should be developed by financial intermediaries. Financial inclusion should be promoted by encouraging financial institution to extend credit even to the rural poor.

(6) Developing economies should endeavor to stabilize their macroeconomic environment in order to balance inflationary pressures and interest rate offered on domestic saving.

(7) The governments in developing countries should develop appropriate business and investor-friendly policies to stimulate their economies.

(8) More than 70% of existing business ventures are located in the informal sector in Africa (Afful & Asiedu, 2014). Consequently, efforts should be intensified to integrate such enterprises to the formal sector and then to the stock exchange where they can access funds from domestic and international investors.

(9) Stock market regulators in developing countries should maintain state of the art technology, like automated trading and settlement system, electronic fund clearance, continued dematerialization of physical transfer of shares. They should also maintain transparency and fairness in transaction, dealings in the stock exchange and safety of the investments in order to ensure that investors have confidence in the markets.

(10) The stock exchange markets in developing countries should be modernized, expanded, and developed as deeper, broader, and better functioning stock markets could stimulate investment opportunities.

(11) Finally, African stock markets should integrate into wise reform to mitigate political challenges and seek for public sector investment with support from international financial institutions and donors.

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