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REVISITING THE STOCK MARKET DEVELOPMENTAL ISSUES: AN AFRICAN PERSPECTIVE

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Abstract: *The governments of several nations have opted to develop their stock markets to create risk capital for their business sector as foreign capital funds continue to dwindle. They make financial policies that which motivate corporate ventures to develop such culture that promotes economic growth. Despite the gains realizable from equity market development, the financial sector reforms implemented in some African countries are yet to translated a sgnificant boost in the size and depth of their stock markets as a result of some stock market challenges. The objective of this paper is to review the issues as they are currently. Further, the controversy on what is the actual impact of stock markets on growth in developing countries like those in Africa is yet to be settled. This study has sought to review the genesis and update of stock market development - particularly in Africa. It reveals that currently the world stock markets have wihnessed significant growth.However,the issues illiquidity and size faced by the majority of African stock markets have remained unresolved. The paper recommends a greater involvement of institutional investors in African stock exchanges as a means of fixing those nagging issues.*

Keywords: Stock market, Developmental issues, African countries.

1.Introduction

International stock markets have grown very rapidly in the recent times (Yartey & Adjasi,2007;Forti,Yen-Tsang & Peixoto,2011; Echekoba, Ezu & Egbunike,2013). They have undergone significant changes and become increasingly integrated as a result of their being progressively deregulated internally and externally in leading economies. The strength of the markets were enhanced both domestically and internationally by the buoyant capital flows across the national boundaries.

Stock market development, in relation to growth, has continued to attract significant attention in the finance literature (see Levine & Zervos, 1996, 1998; Atje & Jovanovic, 1993; Okwu & Obiakor, 2011; Yartey & Adjasi, 2007 and Obiakor, 2006).

Two schools of thought are prominent in literature regarding the relationship between stock market development and economic growth. While one considers stock market as as being positively correlated with economic growth, the other fails to see anything positive about the relationship between the two variables. There is also a controversy on what is the actual impact of stock markets on growth in developing countries such as those in Africa. 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 many African countries is not yet clear (Demirguc-Kunt & Levine, 1996; Yartey & Adjasi, 2007). The business enterprises in developing countries generally lack long-term capital.

They depend significantly on short-term financing, such as overdrafts, to fund long-term capital. This situation exposes them to risks. They need some platform for raising an appropriate mix of short – and long – term capital (Demirquc–kunt & Maskimovic, 1998).

Camargos and Barbosa (2006) cited in Forti, Yen-Tsang and Peixoto(2011) as wellas the World Bank (2010) argue that some benefits can accrue from the development of stock markets,namely economic development and allocation of resources for productive opportunities. Forti,Yen-Tsang and Peixoto(2011) contend that there is a strong correlation between economic development and stock market activity since stock markets permit individuals, firms and institutions to invest their savings in productive activities.For World Bank (1994), 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.

In Africa, although its stock markets have increased in number. With the exception of South African stock market, African stock markets have generally remained small in size and illiquid. Volatility has remained an issue of African stocks although they are often as volatile as those of some emerging markets. When compared to both emerging and developed market indexes, African stock indices under particular periods of investments have recorded positive(Chernor(2013).However.theAfrican stock markets account for an insgnificant percentage of the world market capitalization when compared tothose of developed markets like United States(US) and EuropeanUnion(EU). This has been the situation on ground even when investments in the African equity markets seem to yield good returns.

The 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 claim that stock market development boosts economic growth through its impact on growth rate of savings, investment and growth. This position adopted by Mckinnon (1973) is supported by Alile (1984), Greenwood and Jovanovic (1993), Levin (1991), Montiel (1995), Beesi and Wang (1997), Demirguc-Kunt and Levin (1996), Levine and Zervous (1996), Ezekwesili and Alajekwe (2012) and Popoola (2014). However, studies like Buffie (1984), Burkett (1987) and Irving (2004) have contrary results.Their results suggest that stock market development might not have any impact on economic growth.As it relates to developing countries, Singh (1994) opines that stock markets are not likely to perform efficiently there due to the huge costs involved and their poor financial structures. Irving (2004) claims that the link between stock exchanges and the overall socio-economic development is not only tenuous but also either non-existent or harmful. Based on this position, Irving warns African countries particularly against devoting their lean resources and efforts to promoting stock exchanges. He charges the African nations to instead focus their attention towards addressing endermic problems such as high poverty levels, inadequate social services and underdeveloped infrastructure, Bossone (2000), Tsuru (2000), Levine (1997) and Geltter (1988) cited in Adigwe, Nwanna and Ananwude (2015) conclude that the typical functions performed by stock markets can even have some adverse effects on economic

It is against those inconsistencies and inconclusiveness of findings on the impact of stock market development on the economies of developing countries that this empirical study is carried out. The debate on finance/growth relationship is still in progress and therefore offers a vacuum for future research. The main objective of this study, therefore, is to update the literature on this topic particularly as it relates to the Africanregion.The significance of this work is underscored by the fact that it aims atbridging the obvious gap in literature whichhas arisen partly due to the fewness of the studies that have been performed on African securities. The rest of the paper is structured as follows; section 2 provides a review of the related literature. Section 3 presents the origin, spread and state of stock markets in Africa.Section 4 discusses the trends and features of stock market development evolution in Africa**.**Section 5 highlights the issues militating against stock market development in Africa while section 6 concludes the paper.

2. Review of the Related Literture

2.1 Conceptual framework

2.1.Stock Market Variables

Some of the important stock market variables include market capitalization,all share index, total value traded ratio,volume of trade, turnover ratio, number companies of listed, government stock, liquidity, transaction costs and number of deals**.**They are regarded as stock market performance indicdators. Market capitalization is a common index used to measure the size of the stock market. It is the total value of listed shares. Market size and the ability to mobilize capital and diversify risk are assumed to be positively correlated. All Share index measures the value of a portfolio of holdings with specific market characteristics. The total value traded ratio measures the organized trading of equities as a ratio of the Gross Domestic Product(GDP).Turnover ratio is an index employed for market liquidity rating on the level of transaction cost. The turnover ratio is a method of measuring the market's total trading activities relative to the stock market size. The. number companies of listed indicates the total number of the securities listed on a stock exchange. Government stock is the same as the bond issued by a national government. It is generally issued with an undertaking to pay a periodic interest and pay back its face value at maturity. The liquidity of a stock market refers to the ease with which shares are traded in the market. It is the ability of investors to trade in securities with case. Low liquidity in a stock market implies that it will be hard to support the market with its own trading system, market analysis brokers and the like because the business volume would be too low. Transaction costs refer to the costs incurred in trading shares. The level of transaction costs in a stock market relative to others is one of the measuress of efficiency of that market.

2.1.2 Stock Market

Stock markets are financial markets for the buying and selling of long-term debtor securities that are equity-backed.

Stock market enhances economic growth through different essential roles that it plays. Its functions include channeling resources, promoting reforms to modernize the financial sectors and financial intermediation aimed at linking deficit with the surplus sectors of the economy. It is a tool for the mobilizing and allocating savings among competitive uses.It serves as a barometer for measuring economic performance.Stock markets as enhancing the operations of the domestic financial system in general and the capital market in particular(Kenny & Moss ,1998) . The determination of the overall growth of an economy depends on how efficiently the stock market carries out its function of capital allocation. 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.According to Emenuga and Inanga (1997), the key elements of the institutional characteristics of a stock exchange include regulations, information disclosure, rules, accounting standards, settlement process, transaction costs, institutional barriers and market structure.Those elements can be employed in understanding and assessing the level of development and institutional features of a stock market.

The stock market development is determined by a number of factors, namely real income level, saving rate, gross domestic investments, private capital flows, financial intermediary development and portfolio investment (Sing–Yu, 2016). Other factors include macroeconomic stability, institutional quality and shareholder protection (Yartey and Adjasi, 2007). Yartey and Adjasi contend that stock market development can be promoted in Africa trough 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.

2.2 Theoretical framework

2.2.1 Efficient Market Hypothesis (EMH)

The efficient market hypothesis, popularly known as the random work theory, was developed by Fama (1992). 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. The theory posits that at any time stock prices would fully reflect all available information about the worth of the firm.It assums that there is no opportunity for one to earn excess profits (more than the entire market) by using the 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. At each point in time, a stock market has one of the three alternative forms of efficiency,namely strong,semi-strong and weak forms of efficiency.

2.2.2 Alpha

This is a risk adjusted measure of the active return on an investment. It is the return in excess of the compensation for the risk borne. Alpha is commonly used to assess the active manager's performances. Its coefficient (αi) is a parameter in the Capital Asset Pricing Model (CAPM) and is the intercept of the security characteristic time. It can be demonstrated that in an efficient market the expected value of the alpha coefficient is zero.

2.2.3 The Equity Premium Puzzle

Introduced by Edward Prescott and Rajnish Mehra, this model is based on the observation that in order to reconcile the much higher return on equity with government bonds,investors must have high risk aversion according to standard economic models.This puzzle has brought about a lot of research activities both in macroeconomics and finance.

This work is anchored on the theories highlighted above..

2.3 Empirical Review

Atje and Jovanoic (1993) carried out a cross – country study of stock market and economic growth over the period 1980 to 1988. They found a significant link between average economic growth and stock market capitalization for 40 economiesAlso, World bank (1995) cited in Popoola (2014) found that stock market development not only follows economic development but also provides the means for predicting future rates of growth in capital, productivity and per capita GDP. It concluded that increases in banking and stock market development lead to increases in real per capita growth. In a related study,Levin and Zervos (1996) sought to find the connection 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 Demirguc – Kuat 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. Further, in 2001,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.However, Irving (2004) equally conducted a study whose results show that the relationship between stock exchanges and socio-economic development did not exist otherwise it could be harmful.

The study of Azarmi, Lazar and Jeyapaul (2005) invetstigated 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 investigated.

Yartey and Adjasi (2007) reviewed the critical issues and challenges of stock market development in sub-Saharan Africa. The results of the study suggest that stock markets have contributed to the financing of the growth of large companies in some African countries. The study found in conclusive evidence on the effect of stock markets on economic growth in African nations but acknowledged that the value of stocks traded seems to be positively and significantly connected with growth. Dragola, Catarama and Semeneces (2008) cited in Ezeoha, Ogamba and Onyiuke (2009) also 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 reveals 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. Forti,Yen-Tsang, and Peixoto (2011) analyzed stock market development from a multilevel and multi-country perspective. They built a unique sample of 50 countries, ranging from those with emerging to developed economies. A set of 60 potential variables and 12 factors were employed while multiple regression was used for statistical analysis. The study also employed different constructs taken from financial literature, such as the Human Development Index, Managerial Skills of Entrepreneurs and Democracy of the Country. The results of the study show that more factors may influence the development of stock markets, such as the adaptability of firms and the openness of a country 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 – 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..

Alajekwu and Achugbu (2012) sought to ascertain 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.

After carrying out some financial studies,Eromosele (2013) found that the countries having some elatively liquid stock maket in1978 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.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. Chernor(2013) exdamined the state of African stock markets during and after the global economic crisis of 2008. The study focused on the market performance of fifteen African stock exchanges from 2007-2012.While discussing the size and liquidity of stock markets in the African region, it compared the performances of some indexes in the emerging and developed markets to that of African indexes. It extracted data from individual stock markets as well as notable institutions such as World Federation of Exchanges(WFE), African Stock Exchange Association (ASEA) available in ASEA Yearbooks,World Bank and other sources. It employed the market capitalization, number of listed companies, turnover ratio etc in assessing the size and liquidity of the various markets,.The study found that even though African stock markets have increased in number,they have generally remained small in size and illiquid with the exception of South African stock market . Nonetheless, they yielded remarkable returns. Volatility l remained an issue of African stocks although they were often as volatile as that of some emerging markets.The results of the study also showed that African stock markets accounted for a meager percentage of the world market capitalizationwhen compared to developed markets such as US and EU Area

3. Origin, spread and state of stock markets in Africa

3.1 Origin and spread of stock exchange in Africa

Raubenheimer (2019) traces the origin of exchanges to the 14th and 15th centuries when merchants traded com-modities in Venice. Soon after, voyagers sailing to the East Indies also engaged in a similar trade. Even though the infrastructure and institutions in those days did not resemble today's stock markets, they laid the groundwork for the present-day stock exchanges. They did so by bringing together buyers, sellers, and borrowers to trade among themselves while hedging against the risks of investment. In the developed world, major stock markets surfaced in the 19th and 20th centuries. The first among them to emerge were the London Stock Exchange and New York Stock Exchange. Presently, almost every country or territory in the world has its own stock exchange. All of the world's major economic powers have highly sophisticated stock markets that are active and considerably contributing to their national GrossDomestic Products (GDPs). Raubenheimer (2019) maintaqins that approximately 48,000 companies are currently listed on stock exchanges around the world, and that nearly USD95 trillion is trading across these exchange platforms.

The history about the expansion of African stocks is exciting; it marks a remarkable progress in stock markets across the African region. Yartey and Adjasi (2007) report that, of recent, stock market development has been central to the domestic financial liberalization programs of majority of African countries.

In Africa, the first stock market was established in 1861. Presently, the region is home to 36 stock exchanges serving 43 economies and representing 1,400 listed companies with a turnover of USD41.14 billion. According to Raubenheimer (2019), these African stock markets have grown steadily and exhibited their ability to create prosperity on the region

Kanetsi (2014) reports that the first sub-Saharan stock market was opened in South Africa in 1887. It was then followed by Zimbabwe in 1896. In the period before 1989, Africa could only boast of five stock markets in sub-Saharan region and three stock markets in the Northern region. New ones were opened in Rwanda in 2005 and Zambia in 2007. Ntim (2012) cited in Kanetsi(2014) indicate that the number of stock markets increased from five to eighteen between 1980 and 2002..By 2013, there were already 29 stock exchanges representing 38 countries' capital market(Kanetsi,2014). This reflects an image of willingness to develop and ultimately bridge the gap between Africa and the rest of the world. According to African Union (2008), to a large extent, the political motive behind the creation of stock exchanges in Africa was to mobilize national resources as part of privatization programs which concerns an important sector of public enterprisesin addition to attracting foreign investors. As the second most populous continent with a lot of natural resources, African stocks are regarded as having much future economic potentials in Africa's economy.

The fund-raising initiatives taken by multilateral entities, such as the African Development Bank (AfDB) and the Trade and Development Bank aimed at developing the stock markets in Africa have been successful. They have continued to borrow in domestic currencies from local capital markets-a demonstration of the growth and capacity of these exchanges. According to Raubenheimer, the proceeds of such fundraising activities are directed toward developmental projects in the respective countries. In 2014, for example, the AfDB successfully raised NGN12.95 billion (approximately USD80 million) through its maiden local currency issuance in the Nigerian capital market applied in funding local small and medium enterprises (SMEs) and some infrastructure projects requiring local currency financing.

3.2 The state of African stock markets

In spite of the encouraging success stories highlighted above, African exchanges are still characterized by challenges such as being illiquid, highly fragmented and operating under weak regulatory environments. This categorization is evidenced by dismal activities on the stock exchanges and shrinking foreign investor participation across the markets. In addition, Africa has an infrastructure deficit of approximately USD108 billion, which could be easily accessed through the local capital markets(Raubenheimer,2019).In an attempt to arrest this urgly situation, the African Securities Exchanges Association (ASEA) was established in 1993.ASEA was created to provide a concerted effort in lobbying for and promoting the position of African stock exchanges as the drivers of economic growth in Africa.

The membership of ASEA

Raubenheimer (2019) indicates that ASEA hosts 26 exchanges in Africa. It functions in conjunction with its member exchanges to unlock the potential of the African capital markets and the African economies they serve. It does so by championing common areas of interest among the exchanges, such as capacity building, market development, and advocacy ASEA provides its members with opportunities that can increase their effectiveness through exchange integration efforts as a means of deepening the markets and beefing up their liquidity attributes.It also provides capacity-building initiatives that equip members with the skills they require as well as close liaisons with market stakeholders to develop an investor-ready environment.

Some researchers have centered their works on testing the Efficient Market Hypothesis (EMH) on African stock markets (Mlambo & Biekpe, 2007; Nwosa & Oseni, 2011).Even though most of them assigned weak-form efficiency to African stock markets, ahother group of researchers believe that this situation has continued to change over time (Jefferis & Smith,2005). Ntim et al., (2011) reports that

while the weak-form market efficiency of the major stock markets of Latin America, Europe and Asia have been the center of prior studies

(Claessens et al., 1995; Fifield et al., 2005), the weak-form hypothesis has not received much

attention from researchers in Africa the state of African stock markets in totality brings forth questions about how the markets hold up in terms of the gaps in their functional and operational efficiencies.

Some studies on African stock exchanges have agued that informational inefficiency as well as the question arising from flow of liquidity could be some besetting issues for the African stock markets. According to Kanetsi (2014), these clearly explain the difference between stock markets in Africa and those in the developed countries. This disparity between the various renowned and developed stock markets and those of Africa signifies a challenge for the financial base of the continent.

Kanetsi (2014) claims that facts and figures gathered in early 2013 show that by region, North and Latin America bourses had the largest share of 43.2 percent of the total global stock market capitalization.Asia-Pacific followed with 30.6 percent. Europe, Africa and the Middle East had a total of 26.14 percent (WFE, 2013). Even though,according to Massa and Billmeier (2009) many African markets offered dramatic returns to investors over time, African stock markets could hardly boast of a very significant share of the world market capitalization(Kanetsi,2014).

Since 1995, there has been at least one African stock exchange on the world top ten best performing stock markets. This is seen as a reflection of the efforts on the advancement of stock exchanges in the African region; may as well be a motivation for both local and foreign investors to consider investing in African stocks.

The emergence of African stock markets has raised concerns about the integration of African stocks as a financial hub with the power of attracting international investors to Africa. Senbet and Otchere (2008) report that researchers consider using regionalization as a means of consolidating African stocks as the right opportunity to promote the financial globalization of the African nation. Many African stock markets consider regionalization as a viable option. With the Bourse Régionale des Valeurs Mobilières SA (BRVM) being a leading example, the West, East and Southern African exchanges are making frantic efforts to emulate this gesture.

4.Stock market development evolution in 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 African. However, by the year 2007, there were already twenty five stock exchanges in existence, namely the Botswana Stock Exchange, the Ghana Stock Exchange, the Cairo and Alexandria Stock Exchange (Cameroon), The BRVM – Bourse Regionale das Valeurs Mobilieres: The West African Regional Bourse Cote d'Ivoire, comprising of eight French speaking West African countries, Nairobi Stock Exchange (Kenya), Nigeria Stock Exchange, Gambia Stock Exchange, The Stock Exchange Mauritius, Casablanca Stock Exchange (Morocco), Maputa Stock Exchange, Mauritius Stock Exchange, (Nozambique), Tohannesbunrg Securities Stock Exchange, (South Africa), Khatoun 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 $244672 million between 1992 and 2002 (Yartey & Adjasi, 2007). Excluding South Africa and Zimababwe 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 et al, 2015).

In spite of the rapid development of stock markets in Africa, the stock markets 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 regulartory authorities, illiquidity, and smallness in size of tbe 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 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 trade 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 combined 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). The global financial crisis hit some of the key drivers of stock market development in Africa. There was a 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 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, Adegboye, Osayi, Okorie and Iyang (2015), Africa could be called a frontier market by investors

www.PwC.com (2019) carried out Africa capital markets watch regarding 2019 and emerged with a report **.**The Equity Capital markets(ECM) transactions included in the report comprise capital raising activities, whether initial public offerings (IPOs) or further offers (FOs), by African companies on exchanges worldwide as well as those made by non-African companies on African exchanges.The Debt Capital Market(DCM) transactions analysed by the PwC included non-local currency debt funding raised by African companies and public institutions, whether they were high-yield or investment grade.According to the study,the overall ECM activity in the African equity market in 2019 declined in value and volume by 44% and 29% respectively when compared to 2018.This drop was mainly related to activity in Africa, where the total ECM activity declined by 69% in terms of value and 46% in terms of volume compared to 2018, and where the Johannesburg Stock Exchange (JSE)which is Africa's largest bourse, saw no capital raised through IPOs during the year(www.PwC.com,2019).www.PwC.com,2019).reports thatAfrican governments continued to turn to domestic capital markets in 2019 so as to gain alternative sources of funding and as an avenue to deepen the liquidity of and increase investor participation in local markets. Development of sustainable finance initiatives was also embarked upon by Nigeria and Kenya.

5. Stock market development issues in Africa

Some authors continue to wonder whether stock markets can perform efficiency in Africa given the myriad of issues and challenges which militate against their development. They categorize the issues as follows:

(i).**Issue of stock market integration**

Despite people's view that the stock markets in Africa should be regionalized as a way of addressing the issue of illiquidity which they encounter. the markets still face the constraints of disparities in the level of economic development. The are also characterized by the absence of uniform regulatory and accounting standards and lack of currency convertability. .

(ii) The 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.

(iii) Challenge hampering 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.

5. The current state of the African capital market

According to Africanews.com (2020), generally African equity capital market (ECM) activity in 2019 declined sharply both in volume and value from 2018, with 2019 posting the lowest proceeds raised in ten years. The general slowdown in equity markets was largely driven by a series of macroeconomic factors including an ECM deceleration in global markets, caution in the period leading up to key local elections, which took place in both Nigeria and South Africa in 2019, and more specifically in South Africa, growing political gridlock and economic stagnation.

The www.PwC.com (2019) publication which analyses equity and debt capital market transactions on an annual basis publisned a report that lists all new primary market equity initial public offerings (IPOs) and further offers (FOs) by listed companies, in which capital was raised on Africa's principal stock markets and market segments. The report which also includes IPO and FO activity on international exchanges or non-African companies on African exchanges is highlighted as follows.

African equity markets

The African equity markets (ECM) 2019 value was the lowest seen over the past decade, while the volume of deals was only lower in 2012. The total ECM activity in 2019 declined in value and volume by 44% and 29% respectively, compared to 2018. The decline was mainly related to ECM activity in South Africa which dropped by 69% in terms of value and 46% in terms of volume compared to 2018, and where Africa's largest bourse saw no capital raised through IPOs in 2019.

Between 2010 and 2019, there were 927 African ECM transactions, raising a total of $88 billion. The highest volume of transactions was recorded in 2015 and 2017, with 125 deals each, while 2012 recorded the lowest volume of transactions with 65 deals.

African Initial Public Offer (IPO) market

Over the past ten years, there have been 215 IPOs by African companies on both African and international exchanges, raising $16.9 bn. 2019 saw the lowest volume in IPO activity over the past ten years, recording a decline of 47% compared to 2018 activity.

No capital was raised via IPOs on the JSE in 2019. However, South Africa still dominated during the decade under review, with seven of the top ten IPOs between

2010-2019, and accounted for the two largest IPOs by value – the $1.2 billion Steinhoff Africa IPO in 2017 and the $819 million Vivo Energy dual listing on the Johannesburg Stock Exchange (JSE) and London Stock Exchange (LSE) in 2018.

Apart from the decreased levels of activity in 2019, there were some other notable events in specific markets. IPO activity resumed in Nigeria after four years, with Airtel Africa Plc's dual listing on the Nigerian Stock Exchange (NSE) and the LSE, raising $687 million. Mozambique also recorded its first IPO in six years with the listing of Hidroeléctrica de Cahora Bassa on the Bolsa de Valores de Moçambique.

Between 2010 and 2019, total IPO proceeds of $15.9 billion were raised on exchanges in Africa in 202 IPOs. Sub-Saharan African exchanges accounted for 133 IPOs (or 66%) and $12.3 billion (or 77%) of the value raised. The remainder was raised on the North African exchanges. Out of the amount raised on the sub-Saharan African exchanges, the JSE accounted for 71% or $8.7 billion, while the NSE accounted for 13% or $1.5 billion. In terms of IPO volume, the JSE and the Botswana Stock Exchange recorded 64 IPOs and 10 IPOs, respectively, while the Ghana Stock Exchange, Bourse Régionale des Valeures Mobilières (BRVM) and the Dar es Salaam Stock Exchange each had 9 IPOs. The Egyptian Exchange accounted for the largest proportion of the IPO proceeds raised on North African exchanges, at 60% or $2.2 billion raised from 23 IPOs.

African Futures and Options market

In 2019, Futures and Options(FO) activity reduced significantly in terms of transaction volume and value, by 25% and 44%, respectively, over the prior year. Low levels of activity in South Africa caused the decline, with the volume of FOs on the JSE decreasing by 42% from 38 deals recorded in 2018 to 22 deals in 2019, and the value decreasing by 58% from $3.8 billion in 2018 to $1.6 billion in 2019.

Over the past ten years, a total of 712 FO deals were recorded on African exchanges and by African companies on international exchanges with a total of $71.1 billion raised.

2019 witbessed the lowest FO proceeds raised on African exchanges in the past ten years with $3.5 billion from 59 FOs. Over the past decade, a significant proportion of FO activity took place in South Africa, with the JSE accounting for 58% and 79% of total FO volume and value, respectively. Egypt accounted for the next-largest amount of FO volume and value at 10% and 6%, respectively, followed by Nigeria with 4% of both FO volume and value.Table 1 shows how the total returns of some of the major African stock markets over the previou decade compares unfavorably with those of America's S & P 500.

Table 1:US Dollar-Adjusted Total Return as of May 31, 2020

Stock Market	1M	1Y	3Y	5Y	10Y	YTD
Botswana Stock Exchange	1.7%	-12.8%	-31.6%	-41.6%	-38.7%	-12.1%
BRVM	0.2%	-17.4%	-50.8%	-49.1%	-18.5%	-16.1%
Casablanca Stock Exchange	6.0%	-11.1%	N/A	N/A	N/A	-20.9%
Dar es Salaam Stock Exchange	1.5%	-4.8%	-19.6%	-40.0%	-8.7%	-12.7%
Egyptian Exchange	-4.0%	-21.8%	-12.6%	-44.1%	N/A	-26.0%
Ghana Stock Exchange	-6.6%	-25.9%	-24.3%	-41.7%	N/A	-14.5%

Jo-burg Stock Exchange	**10.4%**	**-36.5%**	**-43.6%**	**-48.4%**	**-38.0%**	**-31.6%**
Lusaka Stock Exchange	**-1.2%**	**-47.3%**	**-56.9%**	**-73.0%**	**-61.0%**	**-27.5%**
Malawi Stock Exchange	**-1.7%**	**4.0%**	**91.7%**	**11.2%**	**N/A**	**0.4%**
Nairobi Securities Exchange	**-1.5%**	**-13.4%**	**-10.6%**	**-22.6%**	**14.3%**	**-21.8%**
Namibian Stock Exchange	**3.2%**	**-28.8%**	**-29.3%**	**-13.6%**	**46.8%**	**-30.3%**
Nigerian Stock Exchange	**10.5%**	**-24.3%**	**-28.7%**	**-62.2%**	**-62.4%**	**-12.0%**
Rwanda Stock Exchange	**0.5%**	**-7.2%**	**-13.6%**	**-59.9%**	**N/A**	**-0.6%**
Stock Exchange of Mauritius	**1.4%**	**-32.9%**	**-32.6%**	**-27.6%**	**-16.0%**	**-33.1%**
Uganda Securities Exchange	**0.9%**	**-18.8%**	**-21.9%**	**-41.4%**	**-20.0%**	**-26.3%**
Zimbabwe Stock Exchange	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
S&P500	**7.5%**	**10.6%**	**26.2%**	**44.5%**	**179.4%**	**-5.8%**

Source: Hoover(2020)

African inbound, outbound, domestic and cross-border activity, 2010-2019

African equity capital market (ECM) activity in 2019, similar to prior years, was led by domestic deals, comprising 71% of both ECM volume and value. Outbound ECM witnessed a marginal increase in the value of transactions between 2018 and 2019, with 11 transactions raising $225.4 million in 2018 as againsts 11 transactions valued at $244.9 million in 2019.

The Johannesburg Stock Exzhange (JSE) led inbound activity in 2019, with ECM funding raised largely by global companies with primary South African operations or historical market ties.

African debt markets

Egypt was the largest sovereign issuer of non-local currency debt in 2019, raising a total of $8.2 billion. South Africa was the second-largest sovereign issuer, raising $5.0 billion in September in its largest ever Eurobond issuance, as the country seeks liquidity to address budget deficits and broader systemic issues stifling economic growth.

African issuers have raised $245.9 billion of non-local currency debt from 759 issues over the past ten years, with almost 50% of that value raised in the past three years. South African corporate issuers accounted for 52% of non-local currency corporate debt issued between 2010 and 2019, including energy utility, Eskom, which accounted for the largest cumulative non-local currency debt value raised by a single issuer over the past decade at $5.5 billion, largely intended to fund the company's capital expansion programs, such as the construction of its coal-powered Medupi and Kusile power stations.

6. Conclusion

The governments of several nations have opted to develop their stock markets to create risk capital for their business sector as foreign capital funds continue to dwindle. They make financial policies that which motivate corporate ventures to develop such culture that promotes economic growth. Despite the gains realizable from equity market development, the financial sector reforms implemented in some African countries are yet to translated a sgnificant boost in the size and depth of their stock markets as a result of some stock market challenges. The objective of this paper is to review the issues as they are currently. Further, the controversy on what is the actual impact of stock markets on growth in developing countries like those in

Africa is yet to be settled. This study had sought to determine the issues that militate against stock market development – particularly in Africa. It reveals that currently the world stock markets have wihnessed significant growth.However,the issues of illiquidity and size among others faced by the majority of African stock markets have remained unresolved. The paper recommends a greater involvement of institutional investors in African stock exchanges as a means of fixing those significant bottlenecks .

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