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UPDATE ON FINANCIAL MARKET DEVELOPMENT ISSUES IN THE AFRICAN REGION

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Abstract: *At present, many financial systems world-wide have improved in soundness, depth and diversity - partly as a result of a series of financial sector and macroeconomic changes Arising from the dwindling foreign capital funds, the governments of some countries have sought to develop their financial markets to provide risk capital for their business sector. Nevertheless, in spite of all the gains derivable from financial market development, the intensity of financial sector reforms implemented in African countries have not generally translated to a reasonable increase in the size and depth of their financial systems. This paper seeks to ascertain the issues responsible for this situation.The study finds that the nature of players in the African financial markets is fragmented while the level of risk associated with the latter is high.Consequently, the investment capacity of institutional investors has remained limited and the financial markets have continued to be small, narrow and illiquid.We suggest that African countries should exercise dexterity in designing macroeconomic policies aimed at addressing the issues preventing them from reaping the full benefits of financial market development.*

Keywords: Financeial market development issues, Economic growth, African countries.

1.Introduction

International financial markets have grown very rapidly in the recent times (Yartey & Adjasi, 2007). It has undergone significant modifications and become increasingly integrated as a result of its 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 huger financial investments as well as the emergence and increasing role of new actors in the markets (Gosh, Hughes & Singh, 1992). Echekoba, Ezu and Egbunike (2013) assert that financial markets have improved consistently since 1997. The strength of the markets were enhanced both domestically and internationally by the buoyant capital flows across the national boundaries.

Financial systems play a strategic role of intermediation between lenders and borrowers (Tau,2015). Consequently, financial markets are important channels for investors as they provide saving mechanisms that enable borrowers to source the required finance. Financial market development has some indicators, namely banking system, stock market and bond market measures. It takes place when financial markets and intermediaries stream line information asymmetries, enforcement and transaction costs.

The theories on the nexus between financial market development and economic growth date back to the works of Schumpeter (2012), Gurley and Shaw (1960), Mckinnon (1973) and Shaw (1973) cited in Ngongang (2015). The smooth functioning of the banks stimulates technological changes. It does so through the identification and financing of entrepreneurs. Schumpeter argues that the necessary conditions for achieving this objective is for financial intermediaries to ensure that the main functions are met. King and Levine (1993) also emphasize the important role of the banking system and the financial market in the development of the economy. Some scholars percieve a correlation between GDP and the size of the financial system(see Beck & Levine, 2003; Corporale, 2004; Shan & Jianhong, 2006 cited in Ngongang.2015).

There is yet to be a consensus on the impact of financial market development on economic growth of African countries.The debate in that respect is presently inconclusive.The studies such as Mckinnon (1973), Alile (1984), Greenwood and Jovanovic (1993)and Levin (1991), Ezekwesili and Alajekwe (2012) and Popoola (2014) contend that financial development boosts economic growth through its impact on growth rate of savings, investment and growth. Stiglitz (1985) prefers banking sector development than stock market development.The reason for this is that they percieve banking sector development as being more capable of/and effective in promoting economic growth in terms of resources allocation than stock market development.

In spite of all the gains derivable from financial market development, the extensive financial sector reforms implemented in several countries in Africa have not brought about a commensurate increase in the size and depth of their financial systems.

The purpose of this paper, therefore, is to ascertain the issues responsible for this situation in African countries.

The rest of the paper is structured as follows. Section 2 provides a review of the related literature. Section 3 highlights the role of financial markets in econonic development. Section 4 presents the global financial market issues. Section 5 discusses the recent efforts and progress made to advance sustainable finance in emerging markets. Section 6 ex-rays the financial market development issues in Africa. Section 7 presents the recommended approaches towards enhancing sustainable financial market development, while Section 8 concludes the paper.

2.Review of the Related Literature

2.1 Conceptual Review

2.1.1 Financial market

Financial market is considered as a market in which people trade financial securities and derivatives at low transaction costs. 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. Some of the securities traded in financial markets include stocks and bonds as well as precious metals. Within the financial sector, the term is often used to refer the markets that are used to raise finance such as (i) the capital markets for long term finance and (ii) the money markets for short term finance.

Capital market 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 amog 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, derivatives contracts and commodity futures.

The money markets provide short term debt financing and investment. They consist of financial institutions and other

dealers in short term money and credit. They are markets for borrowing and lending money for three years or less (Echekoba et al, 2013).

2.1.2 Financial market development

Alomari,Marashdeh and Bashayreh(2019) and Roubini and Bilodeau (2008) cited in Tau (2015) consider financial market development as the factors, policies, and the institutions that lead to the efficient intermediation and effective financial markets. For Huang (2006), financial market development can increase the efficiency in the allocation of financial resources.It improves the competence of the financial market to perform efficiently as an intermediary that stimulates economic growth and reduces poverty.The objective of financial market development is to boost the capability of the financial market to act efficiently as an intermediary. An efficient financial market is one that possesses proper depth and breadth.This implies having a wide range of financial instruments on the supply side in order to satisfy all classes of asset demand . On the demand side, there is expected to be sizeable investment demand from various types of investors, with different risk-return appetites. In addition,an efficient financial market would have to ensure a good diversity among issuers and investors which usually brings about a good mix of market views, leading to an active exchange of financial assets.

2.1.3 Economic Growth

Economic growth refers to 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 et al,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.

2.2 Theoretical framework

2.2.1 Portfolio Theory

The portfolio theory originated from Markowitz(1952). The theory posits that the traditional application of one-dimensional investment criteria such as the Net Present value (NPV) should be replaced by Expected Returns and Risk.The latter is defined as the standard deviation of the return distribution.This model was expanded in the following decades and used it in a famous book (Markowitz, 1991). The theory also maintains that investors should not look at securities individually and that it is unrealistic to assume that investors or investment advisors can predict the future return of individual stocks. With an empirical analysis of the co-variation of the returns of several securities,however, portfolio decisions can be made in which the incomplete correlation between the securities can be exploited for diversification. The theory also suggests that investors focus on the effect of combining securities. Realistically, investors have to make a trade-off between expected returns and risk. The investment universe that is available is represented by an efficient frontier with a slope and shape that mirrors the interplay in the financial market between all investors with a varying degree of risk-aversion. The model claims that if an individual investor wants a higher expected return, he has to accept a higher risk.

2.2.2. Capital Asset Pricing Model

The Capital Asset Pricing Model(CAPM) was published by William F. Sharpe in 1964 in an article (Sharpe, 1964).This theory is based on the Markowitz Model but supplements the latter with additional assumptions.Sharpe noticed one of the difficulties with the Markowitz Model which is that it requires the estimation of a variance-covariance matrix.This estimation exercise would become very complicated if the number of available securities in the investor's investment universe is high. To simplify the

cumbersome estimation procedure, Sharpe assumes that the returns of individual securities are only interrelated through their sensitivity to a common factor, typically the return of a broad market index.He further assumes that all investors are capable of lending and borrowing at the risk-free interest rate, that they all agree on the shape of the efficient frontier, and that there are no transaction costs. Based on those simplifying assumptions,Sharpe postulates that all investors would select a combination of the market portfolio and the risk-free asset or borrow at the risk-free interest. He also claims that all portfolios will lie on the Capital Market Line, and that the slope of this line would indicate the price of risk as determined by the market.

2.2.3. Capital Structure Theory

This theory owes its origin to Franco Modigliani and Merton H. Miller. In 1958,they published an article on the irrelevance of a firm's capital structure in an abstract economy without transaction costs and taxation (Modigliani & Miller, 1958). The claim by this theory is that the value of a firm defined as the sum of the market values of its equity and its debt is independent of the size and composition of the debt, given that financial markets are perfect and in equilibrium. Under these ideal conditions, the average cost of capital is equally independent of the leverage of the firm. The theory assumes that investors are able, without any cost, to compose their portfolios in such a manner that will permit them to realize the return/risk profile of their choice. When investors can do this themselves, they have no incentive to pay more for shares in companies where the managers try to adjust the capital structure according to what they think the shareholders desire.

2.2.4. Efficient Market Theory

The Efficient Market Theory (EMT) indicates that the prices of securities in financial markets reflect all information, which is available to the investors(Alexander, 1964; Fama, 1970).

Market efficiency can be tested in three different ways. A test for weak-form efficiency uses only past price data in order to predict future prices of the financial asset in question.In a test for semi-strong-form efficiency, the information set is expanded to include not only past price data but all publicly available information. For a test for strong-form efficiency,there are included not only publicly available information but also insider information which can be possessed by company managers, employees, bankers and auditors((Balling & Gnan,2013). This work is anchored on the theories highlighted above.

2.2.5 Interest Rate Structure Theory

According to Balling and Gnan (2013), the owners of bond portfolios are exposed to many risks such as interest rate risk, inflation risk, default or credit risk, currency risk and political risk. The bond issuers are equally exposed to most of these risks. However, the sign of the potential impact of risk events is usually the opposite. The interest rate structure at a given date is considered to be reflecting the overall evaluation by the market participants of all those risk factors. Balling and Gnan (2013) define the term structure of interest rates as the pattern of interest rates on bonds which possess different maturities at a given time. The term structure of interest rates has been subject to studies by outstanding economists for several years. In the 1930s and 1940s, economists such as John Maynard Keynes, John R. Hicks, Irwin Fisher, Frederick R. Macauley and Friedrich A. Lutz wanted to explain the structure of prices on fixed-income securities and the connection between monetary policy and real economic activity. Central banks operate traditionally mainly in the market for short term instruments, while real economic activity is assumed via the investment behavior of firms to be related to long term interest rates. Quite a number of theories have been propounded as an attempt to explain the dynamics of the term structure of interest rates. For instance, the Expectations Hypothesis Theory postulates that forward interest rates are determined by the

expectations of the market participants concerning the future development in short-term interest rates plus an appropriate risk premium. There has been widespread disagreement on how to model expectations has been widespread. Some authors have adopted the assumption of "Rational expectations (Muth, 1961). In the absence of rational expectations, the expectations hypothesis implies that term premia do not change with time. However, when rational expectations are adopted, the implication is that the term premia are increasing with maturity. According to Campbell and Shiller (1991), that the steeper the interest curve is, the higher is the expected excess return on bonds with long maturity. Some other theories about the interest rate structure than the expectations theory and the theories based on arbitrage-free models. The Liquidity Preference Theory originated from Keynes and Hicks argues that the maturity premium is determined by the maturity preferences of respectively investors and borrowers in the market.

Tobin (1958) combines Keynes's liquidity preference theory with Markowitz's portfolio theory. Investors are assumed to be having a preference for short term assets because of their high liquidity, but they are ready to buy long-term bonds if they are compensated by a higher interest rate. In the contrary, borrowers tend to prefer long-term debt and are ready to pay a higher interest rate in order to establish a more permanent debt structure. According to Tobin (1958), the interest rate structure observed in the market reflects the relative importance of the strength of these preferences among the two groups of investors. In the Preferred Habitat Hypothesis, Modigliani and Sutch (1967) integrated the theories by explaining how heterogeneous groups of borrowers and lenders preferred securities of different maturities. The Market segmentation effect theory of Van Horne (1990) recognizes that the presence of institutional restrictions on portfolio investments has an impact on the interest rate structure.

2.3 Empircal Review

Levin (1991) found that developed stock market reduces both liquidity stocks and productivity of businesses. According to Levin, this would increase the assess funds and increase the production capacity of the economy. The consequence would be a higher economic growth rate

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. 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. Emmanuel (2007) also examined the connection between financial development and economic growth,this time from the point of view of 22 countries of sub-Sahara African countries during the period 1960 – 2002. The author found a positive and significant link between the indicators of financial development and 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 instability 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. In addition, it found that the development in Nigeria's banking system rather had a destabilizing effect on the flows of private investments. Andrianaivo and Yartey(2010) investigated the

determinants of financial market development in Africa with emphasis on banking systems and stock markets. The results indicate that income level, creditor rights protection, financial repression and political risk are the main determinants of banking sector development in Africa.

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 factors that affect growth such as education levels, inflation rates and openness. Dragola, Catarama and Semeneces (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,ven though strongest connection is from economic growth. Ogwumike and Salisu (2017) examined the short, long-run and causal relationship between financial development and economic growth in Nigeria from 1975 to 2008, using the bound test approuch. The study found apositive 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.

3. The role of financial markets in Econonic Development

Economic theory claims 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 obtain the finance they need. Financial market development has some indicators, namely banking system, stock market and bond market measures. Financial market development takes place when financial markets and intermediaries streamline information asymmetries, enforcement and transaction costs.

4.Global financial market issues

While reviewing the challenges facing the global financial marketsin 2000, Cline (2000), identified the following as most significant:-

(i)Financial integration and regulation Financial integration and its qantitative controls pose a challenge on portfolio capital outflows. Cline(2000) argues that several issues are raised by excessive quantitative control measures usually imposed on the financial markets such as the Basel Committee's proposals on capital adequacy requirements.

(ii)Lack of investor confidence in the emerging markets. Emerging markets have remained in a nervous, even moribund, state as a result of lack of investor confidence in them. The continued state of severe risk aversion and great distrust of emerging markets is explained by Cline(2000) as arising from the timing of the spread of the emerging-market crisis, political developments in several countries which have also tempered the rebuilding of confidence, international official policies.Another causative factor is the macroeconomic environment for global financial markets which contains economic imbalances among the industrial countries.

At this moment,in addition to those issues observed in Cline(2000) , the following issues issues confront the global financial markets:- (i)Greening the economy. This involves improving the quality of the environment and tackling climate change.This is a major policy, economic and financial challenge.The major issues that have emerged in this context relate to finding the ways and means of financing climate change mitigation and adaptation as well as closing the financing gap to fund the needed low-carbon investments. Apart from such capital mobilization issue, there is a more general challenge of

whether and how the financial system can permit capital reallocation which is consistent with the "green" transition for the long run, as the risks, opportunities and incentives that are involved.

(ii)The low-income countries face the challenges of competing priorities and a lack of resources.They have a greater need for country-level capacity building for both the public and private sectors (UNCTAD,2007).

(iii)There are recurrent episodes of financial volatility which are driven by financial firms' attempts to extract consistent double-digit returns out of a real global economic system that manages to grow only at rates in the lower single-digit area..From time to time, a reality check, usually triggered by central banks through escalating interest rates, leads to recurrent crises driven by the need to make the value of financial assets agree with that of the underlying real assets(UNCTAD,2007)

(iv) Impact of COVID-19. The current corona virus outbreak has also become a very serious threat to the global financial markets. It has compelled major international institutions and banks to cut their forecasts for the global economy, Stock prices and bond yields have continued to plunge as a result of the pandemic.

5.Recent efforts and progress made to advance sustainable finance in emerging markets

A unique and voluntary community of financial sector regulatory agencies and banking associations called Sustainable Banking Network(SBN) was created in 2012 from emerging markets that have subscribed to advancing sustainable finance in line with international best practices(International Finance Corporation(IFC),2019),. The SBN is a significant force for sustainable finance, as it has 38 member countries that represent $43 trillion—or 85 percent—of emerging market banking assets.With only 10 - member countries at its inception, of which only Bangladesh and China had officially launched national sustainable finance policies,SBN had admitted 38 member-countries by October,2019 which included 22 countries that have such policies in place(IFC,2019).These members are committed to moving their financial sectors toward sustainability.Their goals include achieving improved environmental, social and governance (ESG) risk management and increased capital flows towards the activities having positive climate impact. The SBN community provides a platform for knowledge sharing as well as capacity building that helps members design and implement national sustainable finance initiatives.SBN has recorded significant achievements so far such as the creation of a progress measurement framework and the inaugural publication of a Global Progress Report (www.ifc.org/sbnreport) in 2018 which provided the details of member progress.The former was supported by individual country progress reports. SBN has provided the second Global Progress Report that further updates the progress of its members from June 2017 to June 2019, and includes 42case studies from member countries. It is supported by 30 individual country progress reports. According to IFC(2019), SBN members have identified three crucial components to implementing a sustainable finance framework.The components for implementing them were enlisted as follows:- (i) Strategic Alignment to attracting international investment.(ii) Climate & Green Finance and iii) ESG Integration

The findings of the SBN based on Sustainable Banking Network Measurement Framework show that progress has been made as follows:- (i) the United Nations Sustainable Development Goals and the Paris Agreement are devising strategies for national sustainable finance initiatives,just as public-private partnerships and inter-agency collaboration are ensuring compatibility with national priorities. (ii)The development of regulatory or voluntary guidelines which set an expectation for how financial institutions should manage ESG risks is being widely adopted;this has helped to level the playing field among banks.(iii)More countries have developed definitions and guidelines for green financial assets, especially for green bonds.(iv) There is

still significant potential to green the emerging market banking industry.(v)Significant efforts to understand and assess financial market risks and opportunities related to climate change have not yet been made in most SBN member countries.(vi) While private sector financial institutions have not yet shown comprehensive attitudinal change toward sustainable finance, progress is being recorded and leaders are exhibiting high levels of interest in that direction.

6. Ffinancial market development issues in Africa

Marwa(2015) highlights some of the major financial market development issues in African countries as follows:-

(i)Given the fragmented nature of players in the African financial markets and the level of risk associated with Africa, the investment capacity of institutional investors remains limited amidst stringent capital allocation decision process just as financial markets have continue to be small, narrow and illiquid.

(ii)In spite of the fact that the financial systems of most African countries have undergone substantial changes,most of the countries traditionally still depend on the banking system

(iii)Average bank credit to the private sector is about 25 per cent of GDP: However, in other Asian and Latin America emerging economies, the level is above 50 per cent and more than 100 per cent in developed economies.

(iv)African banks have limited role in the economy as they mainly finance trades and related activities.They do not have much intermediation into financing of manufacturing, infrastructure, agricultural, extractive and energy projects.

(v)Banking services penetration is as low as 10% in some countries, and access in most countries is limited to the urban centers.

(vi) Stock markets are still relatively small. Most of them are capitalized below $50 billion. In some markets,fhtere are fewer than 10 listings.

(vii) Africa's stock markets are still illiquid; Turnover ratios are very thin. In many of them,it is less than 1 per cent.

(viii)African stock markets also suffers from infrastructural bottlenecks - trading, clearing, and settlement systems are so slow, and some exchanges still operate manual systems.

(ix)Even though there has been a significant increase in private equities (PE), the level is still low. Investments in private equity are currently estimated at less than 1 percent of the African region's GDP.

(x) In most African countries, the size of the bonds market is less than 10 per cent of country's GDP. Factors such as: economic size, openness of the countries' capital account, size and concentration of the banking sector, bureaucratic practices, interest rates spread, exchange rates volatility, fiscal balance challenges, corruption, quality of accounting standards,and size of domestic credit –are all impacts the development of local bonds market in Africa. Despite the low level of bonds market development, existing bonds market is also skewed towards Government bonds.

(xi)The issuance of local currency debts by private corporation is erratic and small in volume. Only three countries have bonds issued by municipals and local government bonds (Cameroon, Senegal and South Africa).

(xii)Historically, most of sub-Saharan Africa has been heavily dependent on FDIs, external grants and concessional loans for funding capital spending and government deficits As part of the solution,some countries have been making efforts to improve their ability to access international capital markets or developingtheir domestic debt markets. However, even in such situations, local currency debt in most markets is mainly short-term with maturities usually less than a year.

(xiii)According to UN National Data, domestic savings in most African countries is less than 30 per cent of GDP, which is largely less than investment rate (about 50 per cent of

GDP)

(xiv)Intermediation in many countries in Africa is still low; banking sector penetration is low, and the capital market usage is still insignificant

(xv)There is a lack of innovative financial instruments, notably those geared towards SMEs, which constitute a majority of the businesses on the continent. They remain too often confined to the informal sector due to inadequate financial services markets in Africa

(xvi) PE landscape in Africa continues to be dominated by domestic and regional firms. However, large global PE firms are also looking at the market to capitalize on the growing investment opportunities available

Given the limitations highlighted above,some authors continue to doubt whether stock markets can perform efficiency in Africa given the myriad of issues and challenges which militate against their development.

7. Recommended approaches towards enhancing sustainable financial market development

Effective financial market regulation is capable of helping to sustain finance and initiating innovative financial engineering.At the same time,it prevents excessive risk-taking which may negatively affect not only the financial market agents but a much wider constituency negatively(UNCTAD,2007).While the short-term response to financial crisis could have proven appropriate sometimes in the past, long-term policy responses for both developed and developing countries require receiving wider and deeper attention as a better option.

The regulation and supervision of the financial system should be strengthened as they contribute significantly in determining both the stability of the market and the extent of service it provides. Another justification for strengthening these regulations and supervision is to protect investors from the potentially opportunistic behavior of insiders.

More efforts need to be made to attract capital flows and encourage foreign participation. Generally,African countries are still found wanting in this diection. Other financial instruments appropriate for the local market should be developed by financial intermediaries. Financial inclusion should be promoted by encouraging financial institutions to extend credit even to the rural poor. The involvement of institutional investors in the capital markets of developing countries should be pursued with vigour as such investors are usually at the forefront of promoting efficient market practices.In addition,there should be increased openness in financial services as that can play a major role in stabilizing the domestic banking system.

For African countries in particular, the following measures are recommended:-

(i)The African economies should endeavor to stabilize their macroeconomic environment in order to balance inflationary pressures and interest rate offered on domestic savings.

(ii)The governments should develop appropriate business and investor - friendly policies to stimulate their economies.

(iii) More than 70% of existing business ventures are located in the informal sector in Africa(see Afful and 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.

(iv)Good institutional structures could help stimulate the level of financial markets development in Africa. However, to attain this feat, African governments need to strengthen institutions through effective enforcement of laws to foster compliance in a specifically
definite manner.They can do this by fashioning out costs for non-compliance.

(v)Financial market regulators in African countries should maintain state of the art

technology like automated trading and settlement system, electronic fund clearance and continued demuteralization of physical transfer of shares.

(vi)They should maintain transparency and fairness in transaction dealings in their stock exchanges and safety of the investments to ensure that investors have confidence in their markets.They should be modernized, expanded and developed as only deep, broad and functioning financial markets could stimulate investment opportunities.

(vii) African financial markets need to integrate into wise reform, seek to mitigate political challenges and attract public sector investment with support from international financial institutions and donors.

(viii) A diversified investor - base is essential for the development of a functioning capital market in Africa. This would enable the African governments to extend the maturity structure of their debit portfolio and reduce the costs of outstanding debt with a fixed income.

(ix) According to Marwa(2015). deep, transparent, and accessible financial markets are required for supporting economic growth, rising consumer demand, productive innovation as well as political stability. Robust financial markets allow countries to move beyond short term volatile capital flows by attracting longer-term investments that strengthen a country's economic stability. To be able to sustainably achieve the level of deep, diversified and liquid markets, a good mix of both banks, capital markets and private equity finances in Africa is critical.

(ix)There is the need for major reforms in diversifying the supply of financial products and services in the financial markets. The regionalization of financial markets through harmonization of legal and regulatory framework as well as systems and market infrastructure is also critical.To achieve significant milestones in such reforms, there is the need for intense cooperation among African governments and Africa's development partners. Innovative solutions among key players along side sound macro economic policy management are also needed. African governments need to properly address issues such as good governance,accountability,responsibility and transparency.They should also fix the issues of enhanced democratization of business, trade and investment, encouraging entrepreneurial spirit among its people by setting up proper social infrastructure investments They should develop, grow and encourage accessing local and international financial markets for funding of projects and enterprises in stead of relying excessively on aid and assistance.

8. Conclusion

At the moment, many financial systems world-wide have improved in soundness, depth and diversity - partly as a result of a series of financial sector and macroeconomic changes Arising from the dwindling foreign capital funds, the governments of some countries have sought to develop their financial markets to provide risk capital for their business sector. Nevertheless, in spite of all the gains derivable from financial market development, the intensity of financial sector reforms implemented in African countries have not generally translated to a reasonable increase in the size and depth of their financial systems. This paper sought to ascertain the issues responsible for this situation.The study found that the nature of players in the African financial markets is fragmented while the level of risk associated with the latter is high.As a result, the investment capacity of institutional investors has remained limited and the financial markets have continued to be small, narrow and illiquid.We suggest that African countries should exercise dexterity in designing macroeconomic policies aimed at addressing the issues preventing them from reaping the full benefits of financial market development.

In addition,it will be necessary for international official policies to nurture the recovery of these markets instead of pushing them into an even more depressed condition.

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