CAPITAL MARKET DEVELOPMENT AND ECONOMIC GROWTH OF WEST AFRICAN COUNTRIES.

SULAIMAN, Luqman Adedamola[1], **ADEJAYAN, Adeola oluwakemi**[2] **and ILORI Olanrewaju Olurotimi**[3]

[1,2&3] : Department of Finance, Faculty of Management Sciences, Ekiti State University, Ado Ekiti, Ekiti State,Nigeria.

Corresponding Email Address: adeola.adejayan@eksu.edu.ng.

ABSTRACT

This study seeks to examine the effect of capital market development on economic growth in ECOWAS countries using annual data spanning from 1980 to 2019; sourced from World database. Using the Panel Auto regressive Distributed Lag model, the result shows that Gross capital Formation (GCF), and Foreign Direct Investment (FDI) contribute significantly to Anglophones economic growth while only Gross Capital Formation significantly affects growth of Francophone economies. This implies that for Anglophones, the combination of Foreign and Domestic investment contributes immensely to economic growth while the growth of Francophone economies is strongly determined by the level of domestic investment. Therefore, the study recommends that government should provide safe and conducive investment climate to attract foreign multinational companies and domestic investment for economic development.

Keywords: Foreign Direct Investment, Anglophone, Francophone, Domestic Investment

Introduction

Capital markets are the largest sources of financing in several economies including the United States, United Kingdom and South East Asia where the market capitalization to GDP ratio is well over 90% (African Development Bank, 2019). They provide investment opportunities for pension funds, among many other investors. However, the report by the World Bank (2019), notes that the six of the fastest growing economies in 2018 are in Africa and two countries out of these six are in West Africa namely; Ghana (8.3%) and Cote dvoire (7.2%) yet they lag behind in terms of development. This slow pace of development brings on high level of unemployment, wide spread poverty, low level of industrialization and poor standard of living (World Bank 2019). The West African countries had also been facing crises such as political crises, insecurity and corruption, lack of quality regulation and inadequate investment on infrastructural facilities to attract foreign capital flows (Azeez & Obalade, 2019). This foreign capital flows are highly important to West African economy to boost capital market which is immensely inadequate compared to other countries (Osei, 2005). These challenges encountered by West African countries have incapacitated the objective of financial sector reforms to mobilize and allocate credit to the private sector for investment and growth which will in turn tackle problem of underdevelopment and poverty.

Furthermore, despite various efforts made by the governments of West African countries to unite and integrate capital market for market access and wider market, the relic of colonialization that split the region into Anglophone and Francophone countries has been a great issue (Aboudou, 2010). This approach to integrate the English and French speaking countries has been abortive due to the problem of currency convertibility among West African countries and language challenges. Hence, the efforts to adopt common currency unit which may ultimately bring genuine integrated capital market have failed to work effectively (Aboudou, 2010). Besides, there is limited capital in West African countries where only five capital markets are serving fifteen (15) countries. Also, the market is mostly equity oriented while debt markets and corporate bonds listed are very small. This has made the market capitalization / GDP ratio to be small compared to the advanced and emerging markets (Emenike, 2021).

On empirical grounds, there have been numerous studies on the relationship between capital market development and economic growth both in developed and developing countries. Studies like Agu (2018); Kabeer, Amir, Najaf and Khakan (2016); Chigbu (2014); Atoyebi, Ishola, Kadiri, Adekunjo and Ogundeji (2013); Ismail and Akinola (2013); Brasoveanu, Dragota, Catarama and Semenescu (2015) and Mihovil, Drago and Ivan (2016). These authors revealed divergent results in their findings and concentrated on country-specific analysis of the nexus between capital market development and economic development.

On this premise, this study investigates the effect of Capital Market Development on Economic growth of Anglophone and Francophone countries of West African region with a view to make a comparative analysis.

Literature Review

There are several theoretical and empirical evidences that show the relationships that exist between capital market and economic performance of West African Countries.

Theoretically, one of the earlier studies on the relationship between capital market and economic development is Harrod-Domar theory of Growth presented in the seminal paper of Harrod in 1939 and Domar in 1946. The proponents proposed that for any significant growth to be evident in any economy, there is need for the mobilization of national saving in order to generate sufficient investment to accelerate economic growth. Other theories include Solow-Swan growth theory (1956), Calderson –Rossell theory developed in 1991, Endogeneous growth theory and so no.

Considering Anglophone countries, empirical evidences in the works of Acquah and Salami (2014) on the effects of capital market development on economic growth in Ghana, shows that GDP growth is linearly related to capital market. The study employed multiple linear regression based on quarterly time series data spanning from 1991 to 2011. In Nigerian context, Taiwo, Adedayo and Evawere (2016) discovered that though Nigerian capital market has the potentials of inducing growth but has not contributed meaningfully to its economic growth. The contribution of Odo, Anoke, Onyeisi and Chukwu (2017) to the existing literature, unambiguously determined the short run and long run effect of capital market on Nigerian economy between 1986 and 2016. The result of the ARDL showed that, in the short run, market capitalization has a positive significant

relationship with economic growth while stock traded total value indicated a negative insignificant link with economic growth. The results further showed that, in the long-run, both market capitalization and stock traded total value had an insignificant negative link with economic growth. This result confirms the discovery of Taiwo, Adedayo and Evawere (2016) that capital market has not contributed significantly to Nigerian Economy.

Still on Nigerian economy, Agu (2018) also delved into the responsiveness of economic growth and capital market development in Nigeria. Specifically, the study determines the impact of market capitalization , value of shares and total number of issues on Real Gross Domestic Product in Nigeria. Using ordinary least square , the result of the study showed that market capitalization was found to have negative relationship with Real Gross Domestic Product (GDP) in Nigeria. The study also reveals that there is limited contribution of the capital market to the development of industrial sector. Contrary to the works of Taiwo, Adedayo and Evawere (2016) , Odo, Anoke, Onyeisi and Chukwu (2017) and Agu (2018), some authors also had a divergent view to the relationship that exist between capital market. For instance, Osakwe and Anawude (2017) and Nwamuo (2018) concluded that the effect market capitalization exert on Nigerian economic growth is positive from 1981 to 2016 while total listed equity and volume of transaction have a negative impact on the economic growth in Nigeria in the short run.

Sequel to the observation that the research on Nigerian economy is over flooded, Ismaila (2022) focused his study on Gambian economy by investigating the relationship among domestic credit availability to the private sector, financial development and Gambian Economic growth from 1967 to 2020. The result shows that financial development has a direct impact on the changing amount of domestic credit available for the private sector which also had a spillover effect on economic growth in the Gambia. For comparative purpose, Esso (2009) investigates the finance-growth relationship with focus on ECOWAS countries (Burkina Faso, Mali, Cape Verde, Cote d'Ivoire, Ghana, Liberia and Sierra Leone). The study reveals that financial development precedes economic growth in Ghana and Mali, growth leads finance in Burkina Faso, Cote d'Ivoire and Sierra Leone, and finance and growth cause each other in Cape Verde and Liberia.

With focus on francophone countries, Herve, Chanmlai and Shen (2011) investigated the role of macroeconomic variables on stock prices movement in Cote d'Ivoire. They utilize the stock price index *(SPI)* to represent Cote d'Ivoire stock market and some relevant macroeconomic variables such as industrial production index *(IPI)*, consumer price index *(CPI)*, domestic interest rate *(IR)*, real exchange rate *(EXR)* and real money supply *(M2)*. Their findings revealed there is cointegration between macroeconomic variables and Stock prices in Cote d'Ivoire indicating long-run relationship. Teixeira, Vieiara and Ferreira (2021) investigated the effects of government debt securities on the liquidity risk and profitability of deposit money banks in Cape from 2000 to 2017 . The results show that government debt securities has a positive impact on assets' profitability of banks, in the long run.

From the review of related studies it is observed that there are sufficient country- specific studies on the relationship between capital market development and economic growth in West Africa. Hence, the need to delve into combination of both Anglophone and Francophone for better comparative analysis and policy making is crucial.

3.0 Model Specification

This study adapts the model of Osakwe and Anawude (2017) by incorporating more independent variables as proxies for capital market development. The model of Osakwe and Anawude (2017) states thus:

GDPGRt = f(MKTCRt, SVTRt)

Where: GDPGRt = Gross Domestic Product,

MKTCRt = Market Capitalization Ratio to Gross Domestic Product

SVTRt=Stock Value Traded Ratio to Gross Domestic Product.

Thus, the model for this study is re-specified as follows:

$$RGDP = f(MC, STR, TR, GCF, FDI, INF) \text{----------1}$$

Explicitly, the model can be re- stated as follows:

$$RGDP_{it} = \beta a_0 + \beta_1 MC_{it} + \beta_2 STR_{it} + \beta_3 TR_{it} + \beta_4 GCF_{it} + \beta_5 FDI_{it} + \beta_6 INF_{it} + U_t \text{------2}$$

For the sake of reducing heteroscedacity and to convert the research data from rates and absolute terms into the same numerical structure, the above equation is log- linearized as below:

$$lnRGDP_{it} = \beta_0 + \beta_1 lnMC_{it} + \beta_2 lnSTR + \beta_3 lnTR_{it} + \beta_4 lnGCF_{it} + \beta_5 lnFDI_{it} + \beta_6 InINF_{it} + U_{it} + \text{ví}$$

$$+ \varepsilon_t \text{----------3}$$

Where

RGDP= Real Gross Domestic Product; MC =Market Capitalization; STR = Stock Traded Ratio;

TR = Turnover Ratio; GCF= Gross Capital Formation; FDI= Foreign Direct Investment;

INF = Inflation Rate; *ln*= Natural Logarithm; í = entity or country; t = time or year;

= Error terms or stochastic terms and $\beta_0 - \beta_6$= coefficients or parameters.

It is expected that:

$\frac{\partial GDP}{\partial MC}>0, \frac{\partial GDP}{\partial STR}>0, \frac{\partial GDP}{\partial TR}>0, \frac{\partial GDP}{\partial GCF}>0, \frac{\partial GDP}{\partial FDI}>0, \frac{\partial GDP}{\partial INF}<0$

Estimation Techniques

The study used Panel ARDL model to explore the long-run relationship between capital market development and economic growth in ECOWAS countries and investigates the comparison of the relationship between the two variables in Anglophone and Francophone countries of West Africa. This study relies on secondary data which were sourced from World Bank Development Indicator, National bureau of statistics and Central Bank of various West African countries statistical bulletins. For the Purpose of Analysis, four countries were examined to represent ECOWAS countries namely; Nigeria, Ghana, Cote'divoire and Cape Verde. Precisely, two countries each from Anglophone (Nigeria and Ghana) and Francophone (Cote'divoire and Cape Verde) were selected on the premise that only these countries have Stock Exchange market. The period of study is between 1980 and 2021.

Results and Discussion of Findings

Table 1: Descriptive Analysis for Anglophone

Variables	Observation	Mean	Standard deviation	Minimum	Maximum
RGDP	200	1.932936	2.025728	-0.581357	6.167856
MC	200	1.003575	1.275347	0.0000	3.552091
STR	200	-0.307437	0.6112943	-2.677718	1.840288
TR	200	0.563610	0.8315447	-0.0266329	3.549195
GCF	200	2.818391	0.6972339	-1.228027	4.492966
FDI	200	0.7441733	1.469724	-4.160539	4.637999
INF	200	2.400729	0.7492784	-0.8980511	4.811163

Source; Author's computation (2021)

Presented in the Table 1 is a descriptive statistic of variables used which includes their mean, standard deviation, minimum and maximum values respectively. As reported in the Table 1, the result of the estimated mean recorded highest of 2.818391 for gross capital formation (GCF) while stock traded ratio (STR) has the lowest mean value of (-0.307437). Another relevant observation is the standard deviation that measures the variability of data, all the standard deviation values are positive. Variables like real gross domestic product (2.025728), foreign direct investment (1.469724) and market capitalization (1.275347) have a very high standard deviation which showed high variability while other variables such as turnover ratio (0.8315447), inflation

(0.7492784), gross capital formation (0.6972339), and stock traded ratio (0.6112943) have very low standard deviation with low variability.

Table 2: Correlation Analysis for Anglophone

Variables	RGDP	MC	INF	FDI	STR	TR	GCF
RGDP	1.000						
MC	0.8566	1.000					
INF	0.3050	0.4600	1,000				
FDI	-0.1752	-0.3540	-0.2414	1.000			
STR	-0.4616	-0.5125	-0.3788	0.1470	1.000		
TR	0.8347	0.7606	0.1913	-0.1655	-0.2195	1.000	
GCF	0.4543	0.3410	0.2116	0.1741	-0.3324	0.2356	1.000

Source; *Author's computation (2021)*

As reported in the Table 2, the result shows positive relationship between MC, INF, TR, GCF and RGDP while there is negative relationship between FDI, STR and RGDP. In the same vein, the result also affirms positive relationship between INF, TR, GCF and MC while there is negative relationship between FDI, STR and MC. More so, there is positive correlation between TR, GCF and INF while FDI, STR exert negative correlation with INF. It was revealed that STR and GCF have positive relationship with FDI. Overview of the reported correlation coefficient or statistics showed that there is no likelihood of presence of multi-co linearity amidst the explanatory variables as reflected by the weak magnitude of the inter-relationship between Pairs of variables used in the study.

Table 3: Panel Unit Root Test

Variables	LL Chin Statistics	P-values	Order of integration	Im-Peseran and Shin Statistics	P-values	Order of integration
RGDP	-9.28163	0.0000	I(1)	-11.5919	0.0000	I(1)
MC	-2.1786	0.0149	I(0)	-2.55846	0.0053	I(0)
GDPgr	-7.39481	0.0000	I(0)	-9.67765	0.0000	I(0)
INTR	-4.92132	0.0000	I(0)	-5.19397	0.0000	I(0)
INF	-4.09907	0.0000	I(0)	-5.11824	0.0000	I(0)
EXCR	-2.28030	0.0113	I(0)	-2.28626	0.0111	I(0)
FDI	-3.54570	0.0002	I(0)	-3.84487	0.0001	I(0)

STR	-2.63449	0.0042	I(0)	-3.35944	0.0004	I(0)
TR	-2.90816	0.0018	I(0)	-2.61999	0.0044	I(0)
GCF	-2.63466	0.0042	I(0)	-3.53729	0.0002	I(0)

Source: Authors' computation (2021)

Table 3 presented results of Levin-Lin-Chin (LLC) and Im-Peseran-Shin(IPS) panel unit root test conducted in the study, both at level and first difference for selected countries of West Africa. As reported in the Table 3 above, the result revealed that all the variables are stationary at level except real gross domestic product (RGDP) that was made stationary at first difference. This implies that the panel unit root for the models of the study are of integration of different orders of zero and one.

Table 4: Mean group Panel ARDL estimation result for both Francophone and Anglophone

LONG-RUN ESTIMATES

ANGLOPHONE			FRANCOPHONE		
Variables	Coefficient	P-Values	Variables	Coefficient	P-Value
MC	0.320447	0.334	MC	0.020745	0.317
STR	-0.3446962	0.302	STR	-0.0362643	0.317
TR	0.389977	0.259	TR	-0.0146805	0.317
GCF	0.114799	0.741	GCF	1.801571	0.586
FDI	0.3247079	0.049**	FDI	-3.0481479	0.223
INF	-0.0381563	0.868	INF	-0.4815035	0.334
SHORT RUN ESTIMATES					
C	0.3885844	0.166	C	-0.0173756	0.798
MC	0.0070897	0.629	MC	0.0015069	0.317
STR	-0.0026936	0.862	STR	-0.0013069	0.317
TR	0.0022235	0.897	TR	-0.0005748	0.317
GCF	0.0467602	0.010***	GCF	-0.461785	0.035**
FDI	-0.0078953	0.496	FDI	-0.0017757	0.660
INF	-0.0074809	0.825	INF	-0.0012222	0.568
ECT	-0.569291	0.001***	ECT	-0.0200053	0.043**

Source; Authors Computation (2021)

Table 4 reports that for Anglophones, MC, TR, GCF and FDI exert positive impact on RGDP in the long run while only STR and INF have negative effects. Most importantly, in all of the variables only FDI has a significant long run relationship with RGDP. However in Francophone only MC and GCF had positive effect on RGDP while all the variables have an insignificant long run relationship with RGDP.

In the Short run, only MC, TR and GCF reveal a positive relationship with RGDP while only GCF proves statistically significant at 1% significant level in explaining the effect of capital market on economic growth in Anglophone countries. In Francophone, all variables exert negative effect on RGDP except MC while only Gross Capital Formation also proves significant at 5% significant

level in explaining the effect of capital market on economic growth in short run. The error correction technique (ECT-1) reflects that about 57% and 2% of the short run inconsistencies is corrected and incorporated into the long-run with significant probability value of 0.001 and 0.043 in Anglophone and Francophones countries respectively.

Discussion of Findings

The results of the mean group ARDL estimation for Anglophone countries reveal that in the longrun , market capitalization, turnover ratio, gross capital formation and FDI have positive relationship with economic growth while only FDI exerts significant effect. The implication is that MC which is a strong indicator of capital market development has little contribution to the growth of West African economic performance. The direction of the effect of market capitalization on economic growth is in tandem with the works of Nwamuo (2018). This also indicates that the place of Foreign Direct investment cannot be undermined in the place of development of any economy. It also implies that the rate of foreign investment would lead to rapid growth in Anglophone countries through the capital market. The result also shows that inflation rate and Stock trade ratio impede the growth of Anglophone countries though insignificant in both long run and short run. This is in consonance with the works of Odo, Anoke, Onyeisi and Chukwu (2017). The result of the short run estimate reveals that only gross capital formation has significant impact on the growth of Anglophone countries. This also implies that domestic investment would result to economic growth in Anglophone countries if adequately encouraged.

In francophone countries, only market capitalization and gross capital formation exerts positive impact on economic growth in the long run while all the variables remain insignificant. Its interesting to also note that in the short run, Gross capital formation had significant impact on economic growth of francophone countries. This is similar to the result of Anglophone countries. This, therefore, implies that the level of domestic investment in both Anglophone and francophone countries would determine the level of their economic development.

For the purpose of comparison, it is evident that Market capitalization, Stock trade ratio and inflation rate exert similar magnitude of effect on economic growth in West African countries. However, the insignificant negative effect of STR and inflation may be attributed to the fact that the rate of inflation in West African economies is galloping which is highly inimical to growth. It is also noteworthy that the significant effect of Gross Capital formation is positive and negative in Anglophone and Francophone respectively in short run. The most surprising result is that in Anglophone countries, FDI exerts significant positive relationship with growth in the long run while FDI in Francophone countries exerts insignificant negative impact on RGDP in the long run. The reason behind these results in francophone is that the investment climate of West Africa is highly poor and unfriendly to attract both local and foreign investors.

Notably, the result of the Anglophone countries is better, more reliable and valid than Francophone because some of the indicators of capital market and that of macroeconomic variables are more

positive and significant in Anglophone countries than Francophone economies. Also most of the results for Anglophone countries are in tandem with the Aprior expectations of this study. This is an indicator that the impact of capital market development is more significant and efficient in Anglophone countries than francophone economies.

5.0 Conclusions and Recommendations

The study investigates the impact of Capital Market development on Economic growth of Anglophone countries (Nigeria and Ghana) and Francophone Countries (Cote'divoire and Cape Verde) from 1980-2021. It was borne out from the result that only FDI and Gross Capital Formation significantly exert effect on the growth of ECOWAS countries. Comparatively, in all of the capital market indices employed, only the impact of FDI is significant in the longrun in Anglophone countries while they all prove insignificant in Francophone countries. However, in the short run, only Gross Capital Formation proved significant in both Anglophone and Francophone countries. Based on the findings of this study, it was concluded that capital market has limited contribution to the economic growth of West African economies. Also, capital market in Anglophone countries are performing better than that of Francophone countries as a result of enabling environment provided for both foreign and domestic investmnt. Therefore, the study recommends that government should provide a safe and conducive investment climate to attract foreign multinational companies for economic growth and development most especially in the francophone countries.

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