

**SECURITIES MARKETS AND SOCIAL CAPITAL INTEGRATION
IN AFRICA: RISK AND POLICY OPTIONS**

**DR. GODWIN CHUKWUDUM NWAOBI
ASSOCIATE PROFESSOR OF ECONOMICS
godwin_nwaobi@globalunification .com
<http://myprofile.cos.com/genwaobi>
234-8035925021**

**QUANTITATIVE ECONOMIC RESEARCH BUREAU
P.OBOX 7173 (450102)
ABA ABIA STATE
NIGERIA, WEST AFRICA.**

ABSTRACT.

The need to develop securities market has following the recent international financial crises increasingly attracted the attention of national and international policy makers. Never before have developed and developing countries shared such a strong interest in ensuring the stable growth of international capital flows. And yet, the key question for policymakers is how to channel these gains into investments that promote development, sustainable poverty reduction and social equity. Using the African scenario, this paper argued that although many of the institutions needed for strong income growth and asset accumulations are equally important in fostering social assets, the institutional underpinnings of sustainable development are somewhat broader. They rest on greater access to information and knowledge and the ability to form broader partnership. Without these additional institutional elements, society risks fragmentation that imperils both income growth and well-being. Nothing that market exchange plays a larger role in Africa, we also argued that the presence of transaction costs naturally leads market participants to enter in long term trading relationships (and these relationships form business net works that shape market outcomes) with minimum risks. However, when societies become more equitable in ways that lead to greater opportunities for all, the poor stand to benefit from a “double dividend”.

1.0 INTRODUCTION:

After the Second World War and the chastening experience of the 1930's, nations became intent on building a basic framework for economic relations among nations. The monetary elements of this framework were largely embodied in the Bretton Woods agreement which laid down basic principles and established the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank). In their current account transaction countries were to make their currencies convertible at fixed exchange rates. The fixed rates could be adjusted with international agreement to correct a "fundamental disequilibrium in international payments and controls could be imposed on capital movements. Countries were to be free within this framework to pursue diverse economic and social objectives and in particular to pursue policies to achieve full employment

Much later, there was a long period of sustained and unprecedented economic expansion. The period ended when the expansion had generated its own manageable consequence of inflation, exchange rate and excess demand. However, the external environment for developing countries has improved due to the global economic recovery and improvement in their net liability positions with structural measures to enhance stability. Also, the credit quality of developing countries has improved, reducing the cost of capital, but there is no room for complacency.

In contrast with accelerating growth in other developing regions, GDP growth in sub-Saharan Africa slowed to 2.4 percent in 2003 from 3.3 percent in 2002 (World Bank, 2004). However, these aggregate developments mask divergent trends. The volatility of domestic performance across Africa is reflected in international capital flows to the region, with the stock of debt fluctuating around \$210 Billion. Net flows of long term debt, either negative or slightly positive over the 1998-2001 period, increased by 0.4 percent of GDP in 2002 and 1.5 percent in 2003 portfolio equity contracted from a net inflow amounting to 2.8 percent of GDP in 1999, to a net outflow of 1.0 percent of GDP in 2002. And foreign direct investment inflows appear to have narrowed slightly from 2.3 percent of GDP in 2002 to 2.1 percent in 2003.

The observed Africa's slow growth is partly explicable in terms of particular variables that are globally important for the growth process, but are low in Africa. A lack of social capital is initially one of these variables social capital can be generated both by the

community and by government. Civic social capital is the economic benefit that accrue from social interaction (Collier and Gunning, 1999) the economic benefits can arise from the building of trust, which lower transaction costs, from the knowledge externalities of social networks, and from an enhanced capacity for collective action public social capital consists of the institutions of government that facilitate private activity such as the courts.

Unfortunately, the African governments have behaved in ways damaging to the long-term interest of the majority of their populations because they served narrow constituencies. They have been damaging partly through “sins of commission” such as agricultural taxation and partly through “sins of omission” such as failure to provide adequate infrastructure. On various measures Africa is relatively lacking in both types of social capital. Possible barriers to social interaction are ethno-linguistic fractionalization and inequality. Even though economists have traditionally been much engaged in the study of markets, political scientists in the study of the state, and anthropologists and sociologists in the study of interpersonal networks, in recent years each group has begun to peer into the others publications to see whether they can better understand the links connecting their particular objects of interest.

Thus, the relations between the market and social interactions appear to be two-sided. On the one Hand, modern economic theory emphasizes that even in advanced countries, the market needs supplementation (for efficiency) by non-market relations. This is true, within the firm, and also true in the markets in which personal relations are important (such as relations formed with higher levels of labor or suppliers). On the other hand, labor or supplier turnover in response to prices may destroy the willingness to offer trust or, more generally to invest in the future of the relation. This therefore leads to an important and long standing questions: Does the market (or the large efficient, bureaucratic state) destroy social links that have positive implications for efficiency?

In a place in which markets worked perfectly, investment decisions would have little to do with the income, wealth or social status of the decision maker. They would be determined by the returns on investment promises and by the market price of capital, adjusted for the extra risk it entails. If people had good investment opportunities, it really would not matter whether they had the money. They would always sell shares in their business and buy safer assets

with the money from the sale. However, for various reasons, markets are not perfect. If borrowers can willfully default on their loans, lenders prefer to make loans to borrowers who can provide collateral assets. Private returns for politically connected firms can be higher than for those without such connections, and so these firms may attract more capital, even though social returns may not be any greater (World bank, 2005). And yet, markets in developing countries are highly imperfect and those who do not have enough wealth or social status tend to under invest. The resources underused because of this under investment end up being used for some less productive purpose, reducing overall productivity.

Indeed, Africa might be expected to have high demand for the services of financial markets. As a high-risk environment, there is a need for risk bearing: portfolio diversification, consumption-smoothing and insurance. Here, much of the African capital stock is unusually long lasting, such as tree crops and mines, or lacks markets for used equipment. Hence, we would expect to find securitization in order to increase liquidity. Because of the large relative price changes resulting from policy reform and shocks, current profitable investment opportunities will only be weakly correlated with past profits, leaving scope for intermediation. Recently, private capital flows to developing countries have increased tremendously and at the same time, there has been a shift in private financing from bank to non-bank sources through increased amounts of portfolio (bonds and equities) and direct investment. This turnaround in capital flows raises some important issues:

1. What are the benefits to investors of these forms of investment?
2. Can portfolio flows contribute in a substantive way to the financing needs of African countries?
3. Are the terms well suited to long-term development and are the funds channeled to productive uses?
4. What can be done to counter the danger of excessive inflows destabilizing economies?
5. Are new kinds of financial instruments desirable and likely to be developed?

6. And whether portfolio flows to African countries will be large enough to adequately contribute to their financing needs in the coming decades as well as entrenching social equity.

The rest of this paper is organized as follows. Section two looks at the African Economy. Social capital and institutions in Africa is the theme of section three. Section four discusses the Securities markets in Africa. Micro finance and social security reforms are prescribed in Section five. Section six presents risk analyses while policy options are analyzed in section seven. Section eight concludes the paper.

2.0 THE AFRICA ECONOMY

Africa is the second largest of the earth's seven continents, covering about 30,330,000 sq km (11,699,000 sq mi), including its adjacent islands. The continent is characterized by plateau land, with a few distinct mountain ranges and a narrow coastal plain. It is commonly divided along the lines of the Sahara desert, the world's largest desert, which unit a huge swath through the northern half of the continent. Most of Africa's population lives in the region south of the Sahara, know as sub-Sahara Africa. Indeed, Africa has a proud and noble history. It is widely believed that human life began in Africa sometime between five million and eight million years ago. The continent was home to one of the world's first great civilizations, the Egyptian empire that was unified more than 5000 years ago.

Africa is very rich in mineral resources, possessing most of the known mineral types of the world, many of which are found in significant quantities, although the geographic distribution is uneven fossil fuels are abundant, including major deposits of coal, petroleum, and natural gas. Africa has some of the world's largest reserves of gold, diamonds, copper, buwxite, magenise, nickel, platinum, cobalt, radium, germanium, lithium, titanium, and phosphates. Other important mineral resources include iron ore, chromium, tin, zinc, lead, thorium, zirconium, vanadium, antimony, and beryllium. Also found in exportable quantities are clays, mica, sulfur, salt, natron, graphite, limestone and gypsum. Traditionally, the most majority of Africans have been farmers and herders who raised crops and livestock for subsistence manufacturing and crafts were carried on as part-time activities. A few states developed long-distance trade systems and in these places complex exchange

facilities as well as industrial specialization, communication networks, and elaborate governmental structures maintained the flow of commerce.

With European colonization came overseas demand for certain agricultural and mineral products and internal labor migration, new and safer transportation systems were constructed, European technology and crops were introduced; and a modern exchange economy evolved. Local industries and crafts were frequently undermined by cheaper or better European goods. Processing industries developed, as did ports and administrative centers. A variety of consumer industries sprang up to fill newly created local consumer needs. Therefore, a feature of the African economy is the side-by-side existence of both subsistence and modern exchange economies.

However, since the 1950s, most African nations have gained independence from their former colonial powers. Independence has brought many changes to these nations, including the introduction of multiparty democratic governments and greater efforts to educate their populations. With the world's highest population growth rate, Africa countries face challenges in its industrial and social development. Following rapid deterioration in the macro economic and sectoral performance of many countries in the region, a comprehensive adjustment program was initiated most countries started the adjustment process from a position of low declining real income; sluggish or deteriorating growth rates, mounting external debt and debt service, very low saving and investment to GDP ratios; feeling external competitiveness and growth in export volumes, mounting current account deficits without compensating foreign capital inflows; rapidly declining agricultural output per capital highly overvalued real exchange rates resulting from many years of inflationary policies, inward-oriented trade strategies and policies encouraging excessive capital inflows; widespread inefficiencies in resources use due to import restrictions (import quotas and tariffs); high commodity export taxes, administered interest rates and foreign exchange controls.

In appropriate policies which resulted in relative price distortions in most of the key sectors adversely affected economic incentives and production, these price distortions combined with the severe external shocks of the late 1970's and early 1980's (declining terms of trade, drying up of foreign capital inflows and rising world interest rate) considerably weakened many economies of Africa. One school of thought blames forces beyond the control of economic policy maker in the region for the observed poor performance. Adverse terms -of- trade shocks,

limited access to foreign credit, declining demand for African commodities and severe droughts are cited as contributing to the slow growth. What makes the economics of Africa particularly Vulnerable to exogenous shocks and natural disasters are the peculiar conditions prevailing in Africa (Elbadawi, et, al., 1992).

Consequently, many countries realized the urgent need for economic policy reforms to address short-term balance of payments crises and medium to long-term productivity improvements. The structural adjustment programs were designed to enable countries reform their policies another to boost the structure of incentives and raise the profitability of the various sectors without unduly high reductions in consumption per capital during the initial stages of the programs. Structural adjustment programs consists of policy reforms aimed both at stabilizing the macro-economy to bring aggregate demand more in line with available resources and at eliminating the gaps between prices and social marginal costs of the sectoral level. These programs generally emphasize outward-oriented trade strategies. It is expected that economic agents will rent favorably to such incentives and improved economic environment by investing in the tradable sector of the economy, thus linking adjustment and growth.

Nevertheless, the overall poor growth performance of the sub-Saharan Africa has marked the important progress by several countries, particularly since the mid-1980s, in lowering internal and external imbalances and necessary conditions for resuming sustainable growth. On average countries that have adopted and effectively implemented broad-based macro-economic and structural reforms have done better than others. In particular, real GDP growth increased in 2004 to an eight year high of percent and average inflation has fallen to historial lows. Real GDP per capital increased by 2.7 percent out put growth continues to be primarily strong in the oil-producing countries, but it has also been encouraging in many oil-importing countries. Nonetheless, growth remains below the level necessary for sub-Saharan countries to reach the millennium development goal of halving poverty by 2015 and is lower than in other emerging market and developing country regions.

Again, the policy reaction of most oil-importing countries to higher oil prices in 2004 was appropriate. But strong increases in the prices of metals, diamonds and food and as acceleration of import demand in advanced economies all helped mitigate the impact of higher oil prices on oil importing countries. Many countries alleviated pressures on the external current amount through their ongoing fiscal consolidation effort

and for those with flexible exchange rate regimes a normal depreciation of their currency. However, recent developments in Africa indicate that growth performance in Africa was very strong in 2004, and inflation has reached a historical low while output growth was particularly strong in the oil producing countries, the region faced a number of sizeable exogenous shocks with differing implications for individual countries.

3.0 SOCIAL CAPITAL IN AFRICA.

Social capital is defined by its function. The function as identified is the value of these aspects of social structure to actors as resources that they can use to achieve their interest by identifying this function of certain aspect of social structure; the concept of social capital constitutes both an aid in accounting for different outcomes at the level of individual actors and in an aid towards making the micro-to-macro transactions without elaborating the social structural details through which this occurs. If A does something for B and trust B to reciprocate in the future, this establishes an expectation in A and an obligation on the part of B. This obligation can be conceived as a credit slip held by A for performance by B. These credit slips constitute a large body of credit that A can call in if necessary. This form of social capital depends on two elements; trustworthiness of the social environment, which means that obligations will be repaid, and the actual extent of obligation held. Social structures differ in both these dimensions and actors within the same structure differ in the second.

An important form of social capital is the potential for information that inheres in social relations. Information is important in providing a basis for action. But acquisition of information is costly. At a minimum, it requires attention, which is always in scarce supply. One means by which information can be acquired is by use of social relations that are maintained for other purposes. When a norm exists and is effective, it constitutes a powerful, though sometimes fragile, form of social capital. A prescriptive norm within a collectivity that constituted an especially important form of social capital is the norm that one should forgo self-interest and act in the interests of the collectivity. A norm of this sort reinforced by social support, status, honor and other rewards is the social capital that builds young nations, strengthens families by leading family members to act selflessly in the family's interest, facilitates the development of nascent social movements through a small group of

dedicated, inward-looking, and mutually rewarding members, and in general leads persons to work for the public good.

All social relations and social structures facilitate some forms of social capital; actors establish relations purposefully and continue them when they continue to provide benefits.

A “Glue that holds societies together” is generally recognized as necessary to a functioning social order, long with a certain degree of common cultural identifications, a sense of “belonging” and shared behavioral norms. This internal coherence helps to define social capital without it, society at large would collapse, and there could be no talk of economic growth, environmental sustainability, or human well being more positively, social capital can be identified indirectly in countries where similar stocks of natural, produced, and human capital have turned in very different economic performances. However, the term is used differently depending on the field of study (Dasgupta and Serageldin, 1999). In the literature of political science, sociology and anthropology, social capital generally refers to a set of norms, networks, and organizations through which people gain access to power and resources that are instrumental in enabling decision-making and policy formulation. Economists add to this focus the micro economic level, they new social capital primarily in terms of its ability to improve market functioning. At the microeconomic level, they consider how institutions, legal frameworks and the government’s role in the organization of production affect macro economic performance.

Essentially, there are three views on social capital that progressively broaden the concept the first includes mostly informal and local horizontal associations, while the second adds hierarchical associations. The third interpretation adds formalized national structures such as government and the rule of law this three views have several common feature. All links the economic, social and political spheres. They share the belief that social relationships affect and are affected by economic outcomes. All focus on relationships among economic agents and the ways in which formal and informal organizations of the agents can improve the efficiency of economic activities. All also imply that desirable social relationships and institutions have positive externalities since individuals cannot appropriate these externalities agents tends to under interest in social capital, creating a role of for public support thus, social capital can be understand most simply as a category for various kinds of social assets that yield streams of benefits. These assets comprise the stock of social capital, while the benefits constitute the flow.

The first manifestation of social capital is an example of what is called institutional capital and the second is an example of Relational capital institutional capital is structures. Rules and procedures exist to guide individual's behavior, supervised by people acting out well – recognized roles. Relational capital is more amorphous and also more diffuse institutional and relational capital are unlikely to be found empirically in their pure form, mixed manifestation are more likely. Cooperative response in any given situation is most likely to flow from some combination of institutional and relational capital. Both institutional and relational capitals are required to sustain social capital and to make it broad-based. Thus, each form of social capital needs to be complemented by the other as shown in table 3.1.

TABLE 3.1 THIS FORMS OF SOCIAL CAPITAL.

	INSTITUTIONAL	RELATIONAL CAPITAL
Basic of collative	Transaction	Relations
Source of motivation	Roles	Relief's
	Rules and procedures	Values
	Sanctions	Ideology
Nature of motivation	Maximizing	Appropriate behavior
Examples	Markets, Legal framework	

The two extreme manifestations serve as analytical categories, which enable us to construct a typology of different forms of social capital likely to be found in practice. This allows us to look separately at the independent effect of networks (institutional capital) and norms (Relational capital). Classifying a given situation on the two axes suggested by these dimensions also point the investigator toward appropriate remedial measures (as shown in figure 3.1)

RELATIONAL CAPITAL

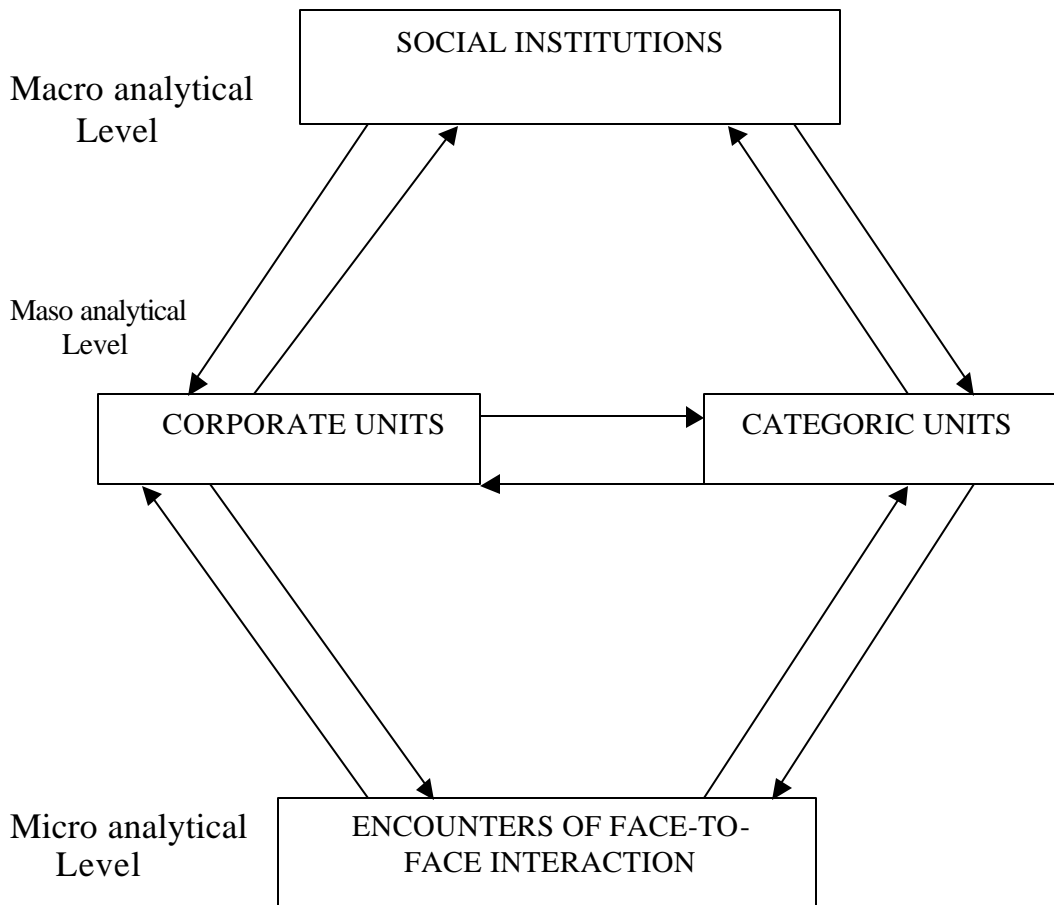
		STRONG	WEAK
	Strong	(1) High social capital	(2) “Strong organization”
	TASK:	Extend scope of activities	Legitimation, Intensification
Institutional Capital			
		(3) “Traditional associations	(4) Anomic, atomistic, or amoral”
	TASAK:	Introduce rules procedure and skills	Assist Development of structure and norms

3.1 A CLASSIFICATORY SCHEME

In Dasgupta and Seragelldin (1999), while situations that fall within cell (1) are the most helpful and those in cell (4) the least, both of these cells are seen mostly as representing ideals types.

More broadly, social capitals are these forces that increase the potential for economic development in a society by creating and sustaining social relations and patterns of social organization. These forces operate at macro, meso, and micro levels of analysis. That is, social capital is formed as a population becomes organized to meet basic and fundamental needs for production, reproduction, regulation and coordination (macro institutional level), as corporate units organize human capital and as categoric units generate social distinctions influencing how members of a society are treated (the mesolevel); and as social encounters in the form of face-to-face interaction unfold within corporate and categoric units (the micro level). These levels of analysis represent ways of looking at the ebb and flow of social activity; and each level gives us a different picture of how social capital is formed. Because actual reality is not divided into levels, analysis at one level is inevitably embedded in the other two. Form a top-down perspective, the ways that a population meets fundamental needs for survival in as environment (the macro institutional level) constrain the types of corporate and categoric units that can be built as well as constraining the flow of face-to-face encounters. From a bottom-up vantage point, corporate and categoric units are sustained by face-to-face interactions, while macro institutional

forces are constructed from corporate and categoric units. Figure 3.2 summarizes this embeddedness of forces exposed at the macro-, meso-, and micro levels of analysis.



An ideal typical portrayal of society is the differentiation among five basic institutional spheres: kingship, religion, economy, polity and law. Institutional autonomy should exist for these institutions. However, development is facilitated by the autonomy of additional institution spheres such as education, medicine, and science. For economic development to be maximized, each institutional sphere must evidence a particular profile in the structure of its corporate and categoric units as well as in the cultural symbols used to facilitate transactions within and between institutional spheres.

Indeed, social institutions are built from corporate and categoric units, as well as from the face-to-face interactions that occur within the encounters made possible by the structure of corporate and categoric units, because institutions are emergent phenomena that once differentiated into distinctive spheres, limit the nature and operation of

their constituent components. And yet, this corporate and categoric structures reveal their own dynamics; and it is for this reason that these mesolevel units are often considered the best candidates for intervention by those seeking to encourage economic development. With respect to corporate units, there are two basic kinds: organizational units, which create a division of labor among individuals in order to pursue ends and goals and capital units which distribute people and organizational units in space. Examples of organizational units are firms, kin groupings (clowns, monieties), voluntary associations, governmental agencies, and other relatively enduring structures; whereas examples of spatial units include city, district, village, country and region. With respect to categoric units, these all involve distinguishing members of subpopulations in terms of some characteristic or set of characteristics and then using these to define the members of this subpopulation as distinctive, and on the basis of these definitions, treating them differently. Age (and its elaboration into age cohorts and categories) and sex (and its elaboration into gender distinctions) have been universal categories.

In the analysis of micro level social forces (the dynamics of interpersonal behavior) we distinguish between “focused” and “unfocused” interaction. Focused interaction occurs in “encounters” that evidence a number of important features: a single visual and cognitive focus of attention; a mutual and preferential openness to verbal communication; a heightened mutual relevance of acts; an eye-to-eye ecological huddle; maximized mutual perception and monitoring; an emerging “we” feeling of solidarity and corresponding flow of emotions; a ritual and ceremonial punctuation of openings, closing, entrances and exits from the ecological huddle, and a set of procedures, typically couched in rituals, for corrective compensation for deviant acts or breaches to the flow of interaction. In contrast, unfocused situations feature a mutual awareness of others presence in public places that do not involve a close ecological huddle, eye-to-eye contact, prolonged sequences of talk, a mutual openness to communication, or an emergent “we” feeling and attendant emotional arousal. When encounters occur two basic types of interpersonal social capital are produced: interpersonal emotional arousal and interpersonal knowledgeability.

Institutions are the formal and informal rules that structure human interaction. Institutions and the way they evolve shape economic development. They affect economic performance by determining the cost of transacting and producing. They are composed of formal rules, of informal constraints and of their enforcement characteristics; while formal rules can be changed overnight by the polity, informal constraint change very slowly. Both are ultimately shaped by the subjective perceptions people possess to explain the world around them which in

turn determine explicit choices of formal rules and evolving informal constraints. Here, institutions differ from organizations. The former are the rules of the game while the latter are group of individuals bound together by a common objective function.

Formal rules include political (and judicial) rules, economic rules, and contracts. Political rules define the hierarchy of the polity, its basic decision structure and the explicit characteristics of agenda control. Economic rules define property rights and contracts contain the provision specific to a particular agreement in exchange. Given the initial bargaining strength of the decision-making parties, the function of rule is to facilitate exchange, political or economic. On the other hand, informal constraints are extensions, elaborations and qualification of rules that solve innumerable exchange problems not completely covered by formal rules. Routines, customs, traditions, and culture are used to denote the persistence of informal constraints. They include conventions that evolve as solutions to coordination problems and that all parties are interested in having maintained (such as rules of the road), norms of behavior that are recognized standards of conduct (codes of conduct that define interpersonal relationships in the family, business, schools etc.) and self imposed codes of conduct (standard of honesty or integrity). Conventions are self-enforcing while norms of behavior are enforced by the second party (retaliation) or by third party (societal sanction or coercive authority), and their effectiveness will depend on the effectiveness of the enforcement. However, self imposed codes of conduct do not obviously entail wealth maximizing behavior, but rather entail the sacrifice of wealth or income for other values. Therefore, a prototype market economy has its superstructure (relations among economic aggregates and product and factor markets), infrastructure (formal institutions), and foundation (values, which determine economic agents behavioural norms and shape formal institutions). Similarly, economics, as a system of analytical tools, should have its corresponding superstructure (an integrated macroeconomic and general equilibrium microeconomic framework), infrastructure (an analytical framework for formal institutions), and foundation (a clearly specified set of underlying assumptions regarding economic agents values).

In Africa, households in rural areas, provide a wide variety of goods and services to themselves, such as food, shelter, fuel, child and elderly care, training, food preparation, and the manufacture of numerous crafts. Here, solidarity among relatives and kins represents the dominant form of social insurance. Thus gift exchange constitutes a very important allocation mechanism (Fafchamps, 1999). After gift exchange, market play a paramount role in Africa and this is because of the relative absence

of large hierarchies, and the weakness of those that are present. Although often criticized as overextended, Africa civil service is commonly under equipped and underpaid relative to the many functions it is supposed to assume. In addition, tax collection is notoriously problematic, with the implication that government expenses are financed from a narrow base, primarily export and import customs and duties.

The fact that most market transactions are very small and most market participants are either individuals very small firm has serious implications regarding the form that markets take. Small businesses and poor consumers seldom have valuable assets that could be seized to service a judgment. In this case, the threat of court action is not credible since recovery is either impossible or highly problematic. Thus, given that most market transactions are beyond the reach of the law, it is not surprising to discover that African traders and manufacturers opt for trading practices that minimize the potential for breach. Again, the quality of agricultural and manufacturing goods produced by small farmers and artisans is very uneven, given the unsophisticated nature of production and transformation processes. Because the Green revolution has largely by passed sub-Saharan Africa, for the most part farmers continue to use local varieties. An immediate consequence is that the quality and taste of domestically produced grain and tubers vary significantly across regions, thereby complicating the task of traders. The lack of transparency about product quality also complicates the screening of potential suppliers and makes it difficult to distinguish banafide producers from fake operations who sell banned products. Consequently, all these factors combine to make market exchange costly, cumbersome, time consuming and unpredictable.

Two types of institutional responses have arisen to minimize the large transactions. Costs inherent to the operation of a flea market economy. Firstly, is the emphasis on relationships and secondly is the sharing of information in communities and networks. In an environment characterized by high search and verification costs, market participants naturally find it in their interest to enter into long-term trading relationships. Market participants in terms of trust often express the importance of the relationships. Here, trust can be seen as the confidence that economic agents have that the person or firm they are dealing with has a business serious interest in perpetuating the trading relationships. In most cases, trust arises from the process of successful trading itself in the sense that businessmen and women declare trusting people they already know, i.e., people they have bought or sold to in the past. Trust building can be time- consuming. Yet, the process of trust building may be speeded up if economic agents already know each other in some way or another. This idea has led many family and kinship to play a key role on

the establishment of mutual trust and the emergency of markets. However, African businessmen and women keep family and business separate and firms do not buy and sell primarily from relatives and kin. When they do buy and sell from relatives, the end effect seems to be a blurring of the boundaries of the firm and a dilution of profits.

In Africa, the most common information sharing mechanism is the referral system. In this system, a prospective supplier or customer approaches an unknown economic agent with a recommendation from a joint acquaintance. This acquaintance can be a relative or another businessperson. If family relations matter for business, it is probably more through business referral than direct trade with relatives. This system of referral can be more or less active, depending on the extent to which existing businesses are linked to each other via common acquaintances.

In general, it is believed that agents who socialize more intensively and have more business contacts will be at an advantage relative to less well-connected agents will be more likely to trade with one another. The reason is that they can more easily find and screen each other. Consequently, members of better connected groups have a comparative advantage is often named network externalities or social capital. It tends to restrict market entry. This is because agents who receive information from their community that helps them screen each other become less willing to spend resources screening individuals from outside their community. As a result, economic agents prefer to deal with members of their own community. To the extent that membership to business communities is restricted and that members intermarry, social mobility is likely to be impaired. This reduces efficiency because entrepreneurs end up being selected from a small percentage of the population. If newcomers find it difficult to enter, one must then ask the question of how networks renew themselves over time.

One possibility is no renewal: membership to the network is constant; the business community is a closed group. Such an outcome is more likely when opportunities for gains from trade are stable overtime and the population of potential buyers and sellers does not change. There is also room for an intermediate solution which is for network members to coopt new members. The advantage of this solution for the group is that new entry is reduced and competition minimized, thereby increasing the returns to the group's social capital while ensuring that sufficient entry takes place for the group to reproduce itself. Although family, ethnicity, and religion play some role in the formation of business networks in Africa it is one in which business interaction itself. Individuals who do not socialize with their clients and suppliers and who do not maintain regular business relationships are at a disadvantage. Ethnic concentration

therefore seems to result from nothing else than historical accident and socialization patterns which are reinforced by the practice of business itself.

4.0 SECURITIES MARKET IN AFRICA

Securities are written or printed documents by which the claims of holders in specified property are secured they could be stocks, shares, bonds and debentures.

A stock exchange is an arrangement whereby large and small investors alike buy and sell through stockbrokers, securities (shares and bonds) of companies and government agencies. This arrangement could be through computer, Internet, telephone, fax, trading floor and so on. The stock exchange provides the essential facilities for companies and government to raise money for business expansion and development projects through investors who own shares in corporations. A firm or a person who buys and sells securities on behalf of investors for a commission is called "Brokerage" an issuing house is a firm that helps to prepare prospectuses and to sell shares offered to the public by companies and governments stocks and shares represent ownership interest in business while Bond and debentures are legal documents representing a promise by the company or by government to pay back a loan, plus a certain amount of interest over a definite period of time (NSE 2003)

Scrip or bonus share are new share made fully paid by the capitalization of reserve and allotted free of charge to ordinary shareholders in proportion to their existing holding. And when a company requires additional funds, it may obtain these either from the public at large or from its existing shareholders. In the case of right issues, such fund are obtained by an issue of share for cash to ordinary shareholders in proportion to their existing holding unless shareholders agree otherwise such shares are usually brought at less than the current market price.

An initial public offer (IPO) is an offer for subscription by a company for its own shares made to the general public for the first time. A reverse takeover occurs in an instance; where a company that is not listed buys over a quoted, usually dormant company and merges the operations of the two companies while retaining the listing status of the quoted company. A blue chip is a company that is well managed with consistent track records of return on investments. An automated trading system is a trading arrangement whereby transaction on the stock

exchange is achieved through a network of computers. The HORIZON is a tested securities trading solution, which has been deployed in developed and emerging stock markets. Developing a government securities markets is a complex undertaking that depends on the financial and market system development of each country. For many governments, this involves immense challenges, as the problems that inhibit securities market development run deep in the economy.

Bond markets link issuers having long term financing needs with investors willing to place funds in long-term interest bearing securities. A mature domestic bond market offers a wide range of opportunities for funding the government and the private sector, with the government bond market typically creating opportunities for other issuers. The market for government securities is defined as the market for tradable securities issued by the central government. The markets for bonds are tradable securities of longer maturity (usually one year or more). They typically carry coupons (interest payments) for specified periods of the maturity of the bond. The market for treasury bills (securities with a maturity of less than a year) and other special securities are equally different. Government bonds are the backbone of most fixed-income securities. They provide a bench mark yield curve and help establish the overall credit curve.

Bond markets are built on the same basic elements, a number of issuers with long-term financing needs, investors with a need to place savings or other liquid funds in interest – bearing securities, intermediaries that bring together investors and issuers, and as infrastructure that provides a conducive environment for securities transactions, ensures legal title to securities and settlement of transactions, and provides price discovery information. The regulatory regime provides the basic framework for bond markets and for capital markets. At the macroeconomic policy level, a government securities market provides an avenue for domestic funding of budget deficits other than that provided by the central bank and thereby can reduce the need for direct and potentially damaging monetary financing of government deficits and avoid a build-up of foreign currency – denominated debt. At the microeconomic level, development of a domestic securities market can increase overall financial stability and improve financial intermediation through greater competition and development of related financial infrastructure, products and services.

Both domestic and foreign investors will be reluctant to purchase government securities, when there are expectations of high inflation,

large devaluations or high risk of default. Governments need to improve market access and transparency by providing high-quality information about debt structure, funding needs, and debt management strategies to market participants and the public at large. A sound and prudent debt management operation is central to the government's credibility as an issuer. The principal components of sound debt management are based on the importance of having clear debt management objectives, proper coordination between debt management and monetary and fiscal policy, a prudent risk management framework, an effective institutional framework, and a strong operational capacity enabling efficient funding and sound risk management practices. However, the development of government benchmark securities is an essential element of a well-functioning government securities market. By concentrating new issues of government securities in a relatively limited number of popular, standard maturities, governments can assist the development of liquidity in those securities and thereby lower their issuance costs.

Indeed, the various types of securities used by governments in the domestic market have typically different characteristics in terms of maturity, coupon (interest rate) method of interest setting, and use of embedded options. Typical benchmark maturities in the domestic market are 10, 5 and 2-3 years. A number of countries have also issued fixed-interest, 30-years bonds. Treasury bills dominate the short end of the government securities market, with maturities normally less than one year. These bills are typically issued as zero – coupon instruments. Selling and distributing government securities to investors efficiently involves the choice of sales procedure (auctions, retail schemes, tap sales and syndication) and the possible use of primary dealers.

Auctions are the common method for the sale of government securities in most domestic markets, following the pattern of Treasury bill auctions and requiring a number of independent bidders. Syndicates can be a useful alternative to auctions in the nascent stages of market development, where too few participants can easily destroy the competitive outcome of an auction procedure. The use of the Internet opens new possibilities for the government to build a broader investors base. The most important policy objective in choosing securities issuance technique is usually to maximize potential competition in the primary market. Primary dealers are financial intermediaries selected by the government, typically to promote investment in government bonds and activity in the government securities market. In addition to commercial banks, an important investor segment in many countries is the contractual savings industry (insurance companies and pension funds). Funding of

government-backed pension or social security systems through specialized funds has also provided a large, stable demand for fixed-income securities in countries where such funds are active. Collective investment funds, such as mutual funds can play an important role in the development of the government securities market, especially the shorter-term segments of the market.

The fundamental form of transaction in the secondary market is a spot trade in which cash is exchanged for the immediate purchase or sale of a security. Short selling, swap transactions, futures, and options on interest rates are trading practices that will develop over time. The main function of intermediaries in this market is to place securities with investors and provide liquidity to secondary markets. The settlement system, including depository facilities, is a principal component of the infrastructure needed for government securities market development. The design and regulation of this system is a complex and technical matter with implications for the level of risk in the financial system, competition in the market, and ease of access. Yet, an important factor determining the potential efficiency of the bond market is whether bonds are issued as paper or take a form of paperless (dematerialized) securities registered in securities accounts. Derivatives and risk management instruments can be used to protect the value of an investment or transform income flows from assets (or liabilities) into alternative forms. Futures and forward contracts provide the ability to hedge risks, a strategy that involves choosing assets such that the prices of the assets systematically offsets each other. Efficient and well-regulated sub-national bond markets are essential for financing local infrastructure investments. When they work well, these markets can be powerful force for raising resources from savers, pricing sub-national credit and providing diversified financing products tailored to the needs of sub-national borrowers. Financing can be through financial intermediation of directly placed debt.

Private sector debt securities generally include short-term debt instruments, such as commercial paper, and longer-term debt securities, such as private sector bonds (with maturity of one year or more). These debt securities can be classified into floating rate and fixed-rate instruments, secured or unsecured, senior or subordinated to other liabilities of the issuer, and publicly offered or privately placed. Again, housing represents the largest class of real assets in most emerging markets and is a major socio economic priority as well as an engine of growth. Affordable housing finance (with long maturity loans at low spreads) requires a comprehensive housing policy and long-term

mortgage markets that are well integrated with the financial markets. A variety of securities can be issued by primary mortgage lenders, by special purpose vehicles often called “conduits” or by secondary mortgage companies purchasing mortgage loans with or without recourse from originators. For a housing finance industry in its infancy, a centralized liquidity facility issuing conventional bonds or enhancing mortgage securities appears fitting for many African countries.

Adding portfolio investments in African countries to a well diversified portfolio is expected to improve the overall risk return tradeoff indeed portfolio flows can take a number of forms; direct purchases by foreign investors in the domestic markets; investments through country institutions and direct foreign offerings. The form in which portfolio flows have taken place has varied considerably overtime and across countries. Portfolio equity flows are distinct from FDI flows in that they are motivated not by a long-term interest in controlling the destination firm but by financial returns. The main investors in emerging market equity are large mutual funds and privately held hedge funds portfolio equity investment takes place when investors purchases shares of a company through an international public offering (IPO) or buy American or global depository receipts (ADR’s or GDR’s). Net portfolio equity flows to developing countries comprising gross flows through IPO’s, ADR’s and GDR’s and net purchase of stocks in the secondary market rose sharply in 2003 to an estimated N14.3 billion from \$4.9billion in 2002 as shown in table 4.1

	1995	1996	1997	1998	1999	2000	2001	2002	2003
ALL DEVELOPING COUNTRIES	17.3	32.9	22.6	6.6	12.6	12.6	4.4	4.9	14.3
SUB-SAHARAN	3.0	2.5	5.6	8.7	9.0	4.1	-1.0	-0.4	0.5
SOUTH AFRICA	2.9	2.4	5.5	8.6	9.0	4.2	-1.0	-0.4	0.5
MIDDLE EAST AND NORTH AFRICA	0.0	0.2	0.6	0.1	0.7	0.2	-0.1	-0.2	0.0

SOURCE: WORLD BANK (2004)

Net portfolio equity flows to sub-Saharan Africa benefited from a marked economic recovery in South Africa.

In any given year, it is common to find many instances of merging market firms listing in larger and better-regulated stock exchanges, either by cross listing or delisting from smaller exchanges. A loaning access to a wider investor base and cheaper capital is one of the major incentives behind the practice. Another is low trading cost in exchanges that have efficient trading and clearing systems, because international stock exchanges have stringent requirements for reporting and for protection of minority shareholder rights, listing abroad gives firms a mark of quality and hence greater access to international equity funds. Whether a firm chooses to access the international market by issuing depositary rights, cross listing in more than one exchange or migrating to another exchange, the result is as increase in international portfolio equity flows to the country where the firm is domiciled.

However, a major constraint to the growth offering equity investment is the small size of stock markets in Africa. Market capitalization as a share of GDP in Africa is very low stock exchanges also tend to lag technologically behind developed markets technology plays a major role in the trading clearance, and settlement process; problems in those areas can discourage sophisticated investor. Institutions that supervise and support the operation of the stock exchange also tend to be weaker. Regulations such as limits on foreign ownership and restrictions on profit remittances gravely impede the inflow of portfolio equity to African countries. Consequently, the prospects for foreign directs investment in Africa remains limited, reflecting modest growth potential, underdeveloped infrastructure, political risks and low labor productivity. Table 4.2; empirically observe the situation in these countries.

TABLE 4.2 AFRICA: EMPIRICAL DATA COMPARISMS

S/NO	COUNTRY	GROSS CAPITAL FORMATION % OF GDP 2004	NET PRIVATE CAPITAL FLOWS \$M (2003)	FOREGIN DIRECT INVESTMENT \$M (2003)
1	ALGERIA	29	593	634
2	ANGOLA	12	1903	1415
3	BENIN	20	51	51
4	BURKINA FASO	19	11	11
5	BURUNDI	11	08	00

6	CAMEROON	18	154	215
7	CENTRAL AFRIC REPUBLIC	07	04	04
8	CHAD	25	837	837
9	CONGO, DEM, REPUBLIC	07	187	158
10	CONGO REPUBLIC	23	201	201
11	COTE D'IVOIRE	08	69	180
12	EGYPT, ARAB REP.	17	361	237
13	ERITREA	22	22	22
14	ETHIOPIA	20	54	60
15	GHANA	27	166	137
16	GUINEA	11	79	79
17	KENYA	12	195	82
18	MADAGASCAR	24	13	13
19	MALAWI	11	23	23
20	MALI	20	129	129
21	MAURITANIA	17	218	214
22	MOROCCO	24	2395	2279
23	MOZAMBIQUE	22	313	337
24	NAMIBIA	23	-	-
25	NIGER	16	23	31
26	NIGERIA	21	952	1, 200
27	RWANDA	21	05	05
28	SENEGAL	21	79	78
29	SIERA LEONE	20	03	03
30	SOUTH AFRICA	18	4148	820
31	SUDAN	20	1349	1349
32	TANZANIA	19	264	248
33	TOGO	18	20	20
34	TUNISIA	25	1326	541
35	UGANDA	22	202	194
36	ZAMBIA	25	91	100
37	ZIMBABWE	08	-5	20
	WORLD	21	-	572,774
	SUB-SAHARAN AFRICA	19	13208	10,099
	HIGH INCOME COUNTRIES	20	-	420,998
	SOURCE:	WOLDBANK		2006

5.0 MICROFINANCE AND SOCIAL SECURITY REFORMS

From the 1950s, government and international aid donors subsidized credit delivery to small developing countries. It was assumed that poor people found great difficulty in obtaining adequate volumes of credit and were charged high rates of interest by monopolistic money – lenders. Development finance institutions, such as Agricultural development banks, were responsible for the delivery of cheap credit to poor farmers. These institutions, attempted to supervise the uses to which loans were put, and repayment schedules were based on the expected income flow from the investment. However, during the 1970s and 1980s, a few people from a variety of backgrounds – agriculture, anthropology, banking, business, economics, government services, law, public policy, religion, social work, began, in scattered location, to learn the dynamics of local financial markets in developing countries and to consider whether and how financial institutions could operate viably in these markets. Here, work focused on what way the called rural finance, agricultural credit, non-farm credit, cooperative credit, rural savings, micro enterprise finance, and others.

The successful development of large-scale micro finance (savings and credit services for economically active low-income people in different occupations) was too complex for the tools of any one discipline. But gradually, a financial system approach developed that joined principles of commercial finance with the growing knowledge of the demand for financial services among poor people in developing countries. What resulted was a model for financing the economically active poor through profitable financial institutions (Robinson, 2001).

Thus, micro finance in the 1990s was marked by a major debate between two leading views on how to fill the absurd gap in micro finance: The financial systems approach and the poverty lending approach. Both approaches share the goal of making financial services available to poor people throughout the world. But the poverty lending approach focused on reducing poverty through credit and other services provided by institutions that are funded by donor and government subsidies and other concessional funds – A primary goal is to reach the poor, especially the poorest of the poor, with credit. Therefore, micro finance refers to small-scale financial services (primarily credit and savings) provided to people who farm or fish or herd; who operate small enterprises or micro enterprises where goods are produced, recycled,

repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban. Many such households have multiple sources of income. Overall, micro finance services can help low-income people reduce risk, improve management, raise productivity, obtain higher returns on investments, increase their incomes, and improve the quality of their lives and those of their dependents.

There are differences among countries and regions in the availability of micro finance services and in the level of ***** demand for these services. There are also differences in demand among small business, micro enterprises, farmers, laborers, low-income salaries employees, and others. Common to nearly all parts of the developing world, is a lack of commercial micro finance institutions. This is a shortcoming that unnecessarily limits the options and lowers the financial security of poor people throughout the world. Here, commercial micro finance institution refers both to institutions that provide micro finance to the public (such as banks) and those that serve only their members (such as credit unions). It refers to institutions that finance their loan portfolios from locally mobilized savings, those that access commercial debt and for-profit investment and those that use retained earnings to finance their lending. It also includes institutions that provide only micro finance, as well as those that offer micro finance as part of a wider set of financial services.

Managers of a micro finance intervention need to know how well it is performing in financial terms. The first essential is to produce financial statements as the right time. Information that is produced late cannot give an accurate picture of the organization's financial position. Again, the financial statements must be analyzed to produce information about the performance of the scheme, which can be used to improve that performance. The crucial question therefore, is whether the portfolio of loans and savings that the scheme is holding is being effectively managed. Thus, the repayment rate is the indicator most often used as a measure of the performance of a credit scheme. Despite its universality, the way in which the repayment rate is calculated and monitored is not entirely standardized, as it must relate to the design of a particular scheme. This implies that comparisons across schemes must be undertaken with an awareness of how repayment rates have been calculated. Other indicators, such as default and arrear rates, are also useful financial management information. These indicators monitor the

lending portfolio at different points. The arrears rate can capture loans that are past their scheduled time for repayment, i.e. are overdue, and need to be followed up. The default rate includes only those loans which require special action if they are to be recovered. An age analysis of loans outstanding is a standard technique of banking practice and involves classifying loans in terms of the length of time they are overdue.

Social security policies typically have been thought of as a form of redistribution. Certainly, this is important. Pervasive financial market failures in developing countries lead to widespread ***** risks and credit constraints. Unequal capacity to manage risks means unequal opportunities to engage in risky but high-return activities. Families may deal with crises in ways that narrow future opportunities, such as distress sales and forgoing health care, schooling, or food intake. By helping poor people manage risks, social security programs expand their opportunities and enhance overall efficiency. Even purely redistributive programs can have important opportunity-enhancing impacts. These schemes are pure transfers targeted to the elderly, geared strictly to avoiding destitution. They also improve the recipients' access to credit, thanks to the regularity of pension payments, and lead to higher investments in the household's physical capital and in the human capital of its children and elderly. The system can also help societies embark on reforms that would have insurmountable equity and political costs without them. Reforms desirable for their beneficial impacts on efficiency and the government's fiscal position may not be politically feasible unless policies are in place to compensate losers. Again, permanent social protection can help reduce the need for special compensatory programs for each and every reform. All of this therefore, confirms that there is a dynamic efficiency rationale for social protection (World Bank, 2006).

Social security generally encompasses two classes of interventions. The contributory schemes (social insurance) in which the primary focus is on managing risks through smoothing an individual's income overtime and in the face of difficulties. These programs often pool risks across large numbers of individuals and include old age and disability pensions and health and unemployment insurance. General tax funded transfer (social assistance) in which the focus is on redistribution from the better off to the poor. These include a variety of cash or in-kind programs targeted at the poor. There is no consensus on the appropriate balance of interventions, even in countries that have sufficient resources and capacity to implement any combination desired. Some observers argue for the universality of social insurance programs over the targeted nature of social assistance programs that are based on political economy

considerations. They argue that targeted programs are exclusionary, by definition, and divisive as a result. And yet, many developing countries face constraints on the choice of systems because of limited fiscal and administrative capacity. Many African countries lack the administrative sophistication and levels of urbanization and formal employment needed to administer a social insurance scheme, and high social security taxes have segmented the labor market and encouraged informality.

However, there is a large range of social assistance programs, each different in groups served, administrative requirements, complementary benefits, incentive effects and political factors as shown in table 5.1 (World Bank, 2006).

GROUP SERVED	SOCIAL INSURANCE	SAFETY NET	COMPLEMENTARY LABOUR MARKET REGULATION
Working poor (unemployed)	Unemployment Insurance	Transfers public works programs. General subsidies to food, utility or housing	Minimum wage laws Job security regulations Severance pay.
Non-Working Young	Universal child allowances. Maternity benefits	Means-tested child allowances Transfers linked to MCH programs school feeding conditional cash transfer.	Child labor laws
Non-Working Elderly	Contributory pensions	Transfer social pensions	Retirement age
Special Groups	Disability insurance for disabled	Transfers	Affirmative Action for minorities.

TABLE 5.1: SOCIAL SECURITY PROGRAMS

A judicious blending of these programs can usually result in a social protection system that covers the appropriate groups with feasible instruments. The mix of programs selected and their specific characteristics will depend on context, that is, the risks faced, the level of urbanization, the age structure, the size of the formal sector, the administrative capacity and the complimentary social policies and socio-cultural or political factors. Basically, the four key groups are the working poor (employed); the non-working young; the non-working elderly and the special vulnerable groups.

Labor market risk can be reduced significantly by improving the functioning of labor markets and by pursuing sound macroeconomic policies. However, a range of instruments can help address the risk of inadequate incomes: unemployment insurance, need-based social assistance or public works. Even food, utility, and housing price subsidies are geared in part to solving the problems of inadequate labor incomes, although with notably poor targeting and sometimes-large distortion costs. Unemployment insurance, the instrument for mitigating the risk of job loss in the formal sector, will not work well in countries with large informal-sectors. Needs-based cash transfers, the classic social assistance instrument are common in high-income countries and such programs are potentially very efficient. However, public works programs that support the working or unemployed for low wages, these programs self-select the able-bodied poor, avoiding both the means – testing and work disincentives. In good programs, the work is in high-return activities that create assets and services. The self-targeting aspect is useful because informality is widespread in developing countries and incomes are hard to access. It is equally useful as part of a counter cyclical measure in fighting poverty during periods of crisis; workers leave the program when their regular source of livelihood picks up again after the crisis. Public works programs for infrastructure are especially welcome in low-income countries, post conflict settings and sometimes post-natural disaster settings. Unfortunately, the administrative capacity to select and run the programs is often significant.

Programs for the non-working young focused on interventions geared to overcoming the disadvantaged family circumstances of young children through a variety of services that improve their cognitive and social skills and prepare them for learning in school. The programs also focus on ways of augmenting the family's income to alleviate poverty among children and improve their chances in life. Programs aimed at children can be universal or means – tested, free standing or linked to the use of health and education services. In some part of Africa, there is a long and extensive history of school feeding

programs and material and child health programs that distribute food or food stamps. Many of these programs rely on existing service delivery mechanisms to make their administration feasible or cheaper. The conditioning of benefits on use of health and education services serves the dual objectives of avoiding severe deprivation and enhancing opportunities for human development.

Contributory pension programs have not solved the problem of old –age security. Coverage is low and elderly women who have not worked outside the home are particularly vulnerable. Options for assisting the elderly poor include the following: broadening pension systems to include more people, adding a redistribute element as part of an existing contributory pension scheme, or Covering them through a separate “social pension “ financed by general revenue. Social pensions provide transfers to the elderly without requiring prior contributions or withdrawing from the labor force. The can be universal or can be means-tested. Many of them complement contributory systems that cover higher – income group. When the transfers are means- tested, the programs are really a special case of needs- based Cash transfers limited to the elderly.

Finally, some groups are vulnerable regardless of age –the disabled, HIV infected, ethnic minorities, certain castes, internally displaced households, refugees, and orphans. One of the key issues in providing transfers for these groups is whether to set up specific programs or to include them in a more general program. Here one issue is targeting. Not all orphans widows or disabled are poor, so universal programs will include some non-poor, another issue relates to the special needs of the groups. Will income support alone be sufficient, and if not does it make sense to link the income support to other programs for the group. Special programs for groups viewed positively or as deserving, such as veterans or the disable, may have adequate political support, but if the group is excluded, as ethnic minorities or HIV positive are in many cases, such programs may not gather sufficient support. While standard transfers may protect these groups, a broader set of policies and help expand their opportunity and facilitate their integration into society. Some countries have used affirmative action. Others have used regulations and awareness campaigns that sanction harmful local practices to help prevent discrimination policy response include creating a framework to hear advocally groups and mainstreaming such concerns into government practice often building on formal or private arrangements.

The instantaneous flow of person benefits is modeled to include both an age dependent and an age independent component. Benefits are

financed through a flat rate tax on wage income, while the government is required to run a balances net transfer (benefits minus taxation) budget. Whereas the net wage rate is technologically determined by productivity in the informal sector depends on the perceived degree of future appropriateness of current social security contributions, as determined by law regulation, and (implicit or explicit, private or political) contracts.

6.0 RISK ANALYSIS

Any assets, enterprise, investment project or country is exposed to price risks, and investment planning always involves assumptions about price movements. Risk management analysis therefore quantifies the sensitivity of an investment to price changes and suggests appropriate hedging actions to alter that level of sensitivity. For African countries, risk management quantifies the sensitivity of performance to price changes and suggests appropriate hedging actions to alter the identification of an objective function (a measure of performance) identifying and measuring risk exposure in relation to the objective function (or measuring the sensitivity of performance to unexpected changes in prices) deciding on an unacceptable degree of risk exposure (or deciding on the degree of risk exposure to be hedged) choosing and executing hedging transitions. In other words, the first steps in risk are to decide on measure of a country's economic performance, identify and quantify in relation to that measure, decide how much of the risk should be hedged and finally hedging it (Claessens, 2001) for a firm an objective function may be not profit from operations. Net profit fluctuates over time due to various factors, including investment strategy, competition and international prices, including currency and interest rates and commodity prices. The risk manager then divides the possible fluctuation into those related to movements in financial prices and those unrelated. The first are financial risk and can be hedged with financial instruments while the second cannot and remain part of the company's commercial risk.

There are numerous risk management tools and techniques. Among them are forward and futures contracts, options, and swaps. A forward contract is an agreement to buy (or sell) an asset at a present price on a future date. At maturity, if the actual price (spot price) is higher than the contracted price, the forward buyer makes profit. If the price is lower, the buyer suffers a loss. The payoff to the seller is the opposite to

that of the buyer. Forward contracts are often used to hedge the risk of holding a certain asset (or liability) This so –called “forward cover” allows the owner to fix the revenue from the future sale of the asset at the time the contract is made, “looking-in” the price. Here, no cash transfer occurs upfront and forward contracts involve a credit risk. Transactions are made mostly through brokers by telephone and telex. A typical use is for looking – in a future price. Tailor- made contracts is available for specific hedging needs and contracts are available primarily for short – term maturities (up to one year)

In futures contract, an agreement to purchase or sell a given asset at a future date at a preset price. Transactions are made in formal exchanges through clearinghouse systems. Contract terms (amounts, grades, delivery dates and so on) are highly standardized. Profits and losses are salted daily, requiring daily cash flows. Margin (collateral) money is required at the beginning. A typical use is for looking – in a future price. Here, an initial cash transfer is required for margin money. Daily cash transfers are necessary. Credit risks is minimal and tailor-made contracts are not available primarily for short-term maturities (up to one year) Marks are more active than forward markets for some contracts and an original position can be closed or reversed easily and quickly.

The option (financial instrument used in hedging) contract is the right to purchase or sell a certain asset at a preset price on/ or before) a specific date. Transactions are move both through brokers by telephone and telex and in formal exchanges. A typical use is for setting or ceiling or floor for prices. Here, a buyer or an option contract can limit the maximum loss, but keep open the opportunity to take advantage of favorable price movements. A buyer has to pay a premium (cost of option) up-front. A buyer faces a seller’s credit risk. That is a buyer has the right and a seller has the obligation. Tailor –made contracts available for specific hedging needs and contracts are available. There is primarily for short-term maturities.

In swap contract there is an agreement to exchange specified cash flows at fixed intervals. A series of forward contracts lined up on a schedule. Transaction are made through brokers by telephone and telex. A typical use is for looking-in future prices for a long period. No cash transfer is needed at the beginning and credit risk is involved. Tailor-made contracts are available for medium-and long-term maturities (one to ten years). However, a commodity swap is a swap contract on a certain commodity an agreement to pay a pre-fixed amount of cash in exchange for a variable amount of cash at fixed intervals or vice versa. A variable

amount of cash is determined by the market for a set quantity of a commodity. A fixed amount is based on a fixed price for the same quantity of the commodity. International banks provide contracts and a typical use is for locking in a price of a commodity for medium and long term.

Here, no deliveries of physical commodities are involved. Transactions are purely financial, as the other swap contracts and the markets are not very active, except for energy and minerals.

A commodity-linked loan is a loan in which interest and /or repayment amount linked to the market price of a certain commodity. A loan can be viewed as a combination of a conventional fixed rate loan and a commodity swap contract; and these loans are provided by international banks. A loan can be regarded as effectively denominated in a commodity while a credit risk of the loan is lower than that of a conventional loan, if used by a commodity producer. A producer can then repay the loan even if the price of the commodity falls significantly. The commodity-linked bond (forward type) is a bond in which coupons and /or principal are linked to the market price of a certain commodity. The option type is a bond to which the right to buy or sell a certain commodity at a present price is attached these bonds are underwritten by international banks (forward type) characteristics are similar to commodity-linked loans. The option-type is often useful for commodity producers to reduce the cost of financing. The bonds have been issued primarily on gold and oil, and some are available for silver copper and nickel.

Although risk management can be attractive for African countries, only a few have actually used such techniques and instruments. This is because African countries face barriers that are sometimes formidable. Creditworthiness is a big hurdle and because some countries have low credit standings commercial banks and bond market investors have moved away from dealing with them. Forward, swap and option contracts involved considering creditworthiness. The longer the length of the contract and the greater the volatility of the underlying price, the higher the credit risks. As long as many African countries have low credit standing, their access to long dated risk management instruments will be limited. Short dated, exchange traded futures and options which are subject to margin requirements, can help overcome credit risk, but those margins may themselves be a problem. Premiums- the upfront costs or margins of some risk management instruments can be a deferent for countries that already have difficulties raising foreign funds. In purchases

of options, caps and floors, those cost can be a significant portion of the value of the underlying (hedged) asset domestic barriers can be a hindrance for state, as well as private enterprises, and quasi-public outfits legal, regulatory and institutional constraint can affect the private sectors ability to hedge abroad.

Because of market failures or policy induced distortions, often risks are either absorbed by the general budget or fall on small producers and consumers, that is, those least able to afford it because they do not have the expertise or access to international financial markets to hedge on or to allocate risk internally. The producer who is least able to engage in risk management in all most pure risk and the exporter (most able) has the least incentives to do so government intervention in some African countries, may greatly diminish the risk of the private sector and so reduce its incentives to manage risk. This may happen through explicit or implicit guarantee schemes, such as price stabilization, deposit insurance of banks, and guaranteed exchange rates coverage. And yet, in some countries, the government may provide insurance to financial institutions against major risks. Many such institutions have been failed out after large losses. The tax system may deter hedging; net profits may be less exposed than gross profits to external price risks. Again, know how is essential to effective risk management activities (that is, knowledge of instruments and an appropriate institutional framework) understanding in needed of the risk structure of the economy, identifying appropriate risk management instruments, and making or supervising transactions. Many African countries lack such expertise and more ever an institutional framework may be necessary for adequate reporting rewarding, monitoring and evaluating transactions and regulation to avoid (and protect against) speculation.

Awareness (or rather lack of it) is another important barrier. This includes not only lack of familiarity with the market instruments and their strategic use, but also misunderstanding of hedging and a likening of it to speculation. Risk management is a current cost and future windfalls or large losses. Whether risk management had avoided losses or gains depends on the (ex-post) trend in prices, which cannot be anticipated. Policy maker are often unaware that risk management may entail “cost” which can make even successful hedging programs seem to be failures fundamental barriers (or basis risk) is really that element of risk while cannot be hedged become international markets for risk management are incomplete. Maturities in futures and options are generally limited to one or two years. Using these instruments may reduce near term exposure but hedging for longer periods will be far from perfect long dated over the

winter or bond market instruments are often unavailable for the risking question. Basis risk does not imply that risk management is meaningless. However, it does require an analysis of the cause, nature and magnitude of the mis-match. Again, the critical preconditions needed for effective risk management may not be in place in African countries. In the real world, technical factors such as transport, storage, time differences, data processing and especially, communications bottlenecks can be barriers

As a feasible strategy for risk management, the first step is taking an inventory of exposures and analyze risk; looking at the domestic regulatory and legal framework covering the use of instruments, setting up or changing the institutional framework to allow the private sector access to risk management instruments (subject to supervision) making relevant parties aware of their exposures; introducing officials, policy maker and the private sector to the available risk management instruments and dispelling misconceptions; and also education/training. In the identification and analysis of risk, the most important step is to quantify the exposures of the different parties, for which data on exposure and price movement will have to be collected. The legal and institutional framework aims to find impediments to the use of risk management focus, but the analysis should not be limited to features affecting external transactions only. The absence or presence of legally binding domestic fixed price contracts will also need to be investigated. Then, recommendation can be made to set up (or change) the institutional framework. A suitable accounting framework for hedging will also be needed. At this point, the enterprise, using outside consultants should prepare a policy paper. This should present an overview of the external risks faced by the enterprise of the institutional structure governing the impact of external risks, of the resulting exposures of the different entities, and the necessary steps to remove these barriers or change the institutional framework.

The questions that the policy paper will need to address include the following: what is the exposure of the enterprise to various external price fluctuations; who bears the risk from external price fluctuation, what risk management tools are currently used; which entities should undertake risk management; what are the potential benefits from risk management; is there local legislation or regulations which impedes or does not facilitate hedging and other risk management; what is the level of understanding of price exposure and the benefits and means of hedging in the private sector; what are the implications of price uncertainty for the general budget; what objective would the government like to achieve by the different sectors using risk management instruments; is there any

conflict between the government; if the private sector were to adopt risk management instruments, what would be the implication for the government to what extent should regulatory requirements be emended to accommodate the implementation of a risk management program; and what are the technical assistance and training needs in the private sector to enable both of them to manage their price risk and what is a preliminary costing of the services to be provided. Furthermore, the paper should indicate what the objectives of risk management are where; if necessary a unit can be established for risk management. It could lead to task forces to alter legal accounting and institutional frameworks organize technical training and education seminars provide technical assistance, and to launch a pilot risk management program.

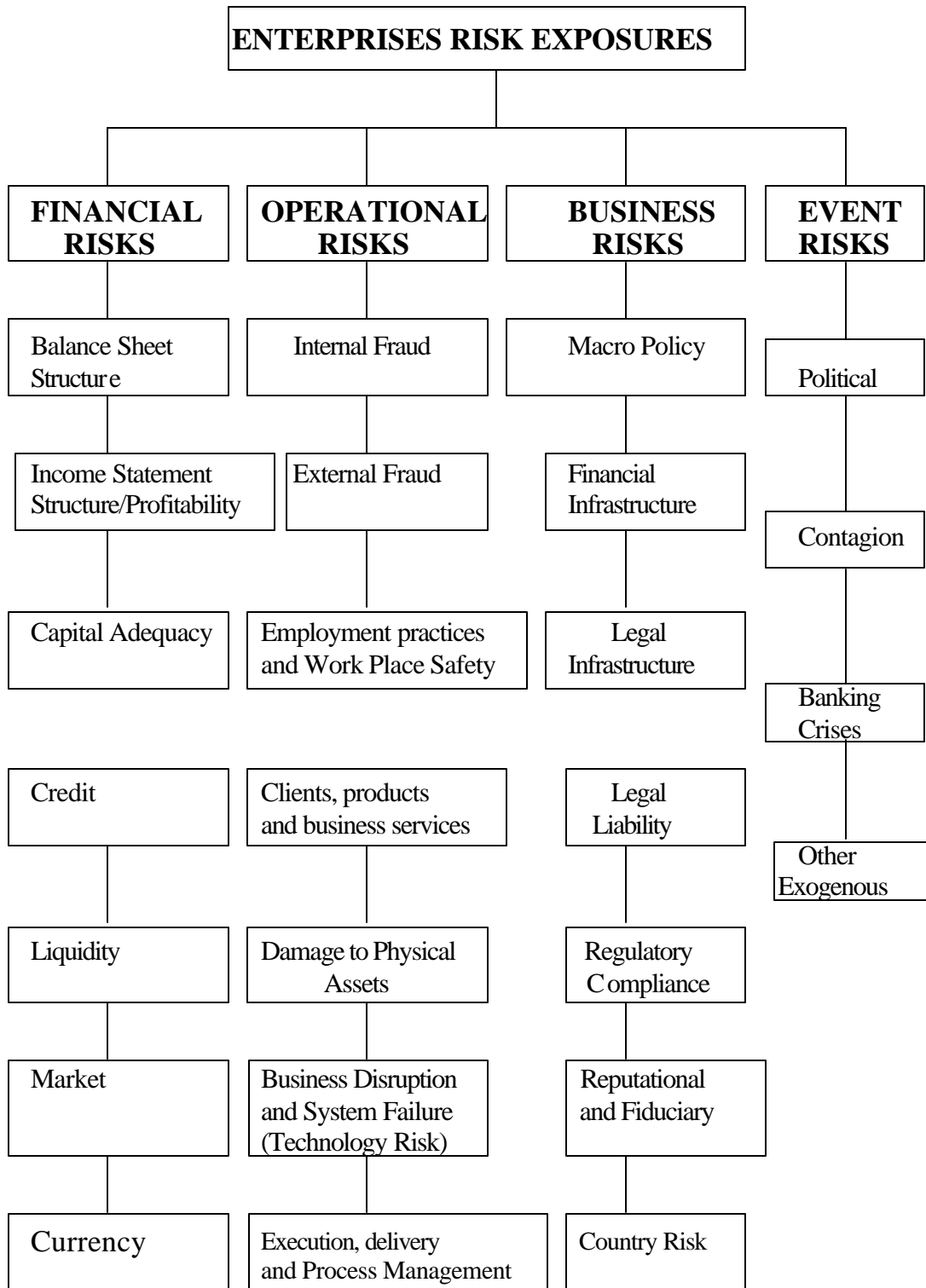
A general awareness strategy may involve a seminar to alert policy makers to the risks from external exposures and to introduce them to financial instruments. The action program then needs to be presented to the government official or the board directors of state enterprises. Again, through courses for the private and public sector, the necessary skills can be acquired. Academic and business consultants should teach the courses. That may be followed by internship to acquire practical experience in hedging and in regulation and supervision. Units involved in risk management may want to perform “mock” trading and risk management exercises such trades will allow specific skills to be acquired and presentations can then be made to boards of directors or other policy makers on the outcomes. Finally, many institutional and policy decision within organizations will be necessary. The appropriate hedging strategies need to be determined and policy and guidelines need to be established monitoring and evaluation need to be developed. Internal accounting will need to link financial consequences of the hedging and other transactions.

In all cases, it is important that risk management be within authorized guidelines, properly supervised, and integrated with other risk management and external borrowing, and the government budget since risk management is new to many African countries. New accounting standards may be needed or old ones changed at the national level. Then, a small pilot risk management program could be undertaken and this would be limited in scope. Full risk management can be implemented as the end step. Table 6.1 summarizes the responsibilities of the key players involve in enterprise government and risk management (Gruning and Bratanovic, 2003). Figure 6.1 illustrates an enterprise risk spectrum.

TABLE 6.1 KEY PLAYERS AND THEIR RESPONSIBILITIES IN ENTERPRISE GOVERNANCE AND RISK MANAGEMENT.

KEY PLAYERS		IMPORTANT	
		POLICY LEVEL	OPERATIONAL LEVEL
SYSTEMIC			
LEGAL AND REGULATORY AUTHORITIES	RESPONSIBILITY FOR RISK MANAGEMENT Optimize	Critical	
ENTERPRISE SUPERVISORS	Monitor	Indirect monitoring	Indirect
INSTITUTIONAL			
SHAREHOLDERS	Appoint Key Players	Indirect	Indirect
BOARD OF DIRECTORS	Set Policy	Critical	Indirect
EXECUTIVE MANAGEMENT	Implement Policy	Critical (Implementation)	Critical
AUDIT COMMITTEE/INTERNAL AUDIT	Test compliance with board policies and provide assurance regarding cooperate government control systems and risk management processed.	Indirect (Compliance)	Critical
EXTERNAL AUDITOR	Evaluate and express opinion	Indirect (Evaluation)	
CONSUMER			
OUTSIDE HOLDER/PUBLIC	STOCK Direct Responsibility		Indirect.

6.1 AN ENTERPRISE RISK SPECTRUM



In general, market risks fall into four categories: financial, operational, business and event risks. Financial risks in turn comprise two types of risks (including liquidity, credit and solvency risks) can result in loss for an enterprise, if they are not properly managed. Speculative risks, based on financial arbitrage, can result in a profit if the arbitrage is correct, or a loss if it is incorrect. The main categories of speculative risk are interest rate, currency, and market price or position risks. Financial risks are also subject to complex interdependencies that may significantly increase an enterprise overall risk profile. Operational risks are related to a bank's overall organization and functioning of internal systems, including computer-related and other technologies); compliance with enterprise policies and procedures; and measures against mismanagement and fraud. Business risks are associated with an enterprise business environment, including macroeconomic and policy concerns, legal and regulatory factors, and the overall financial sector infrastructure and payment system. Event risks include all types of exogenous risks, which, if they were to materialize, could jeopardize enterprise operations or undermine its financial condition and capital adequacy.

Wherever located, the information technology support, security and business continuity should provide the system mechanism and infrastructure to support treasury activities. The primary success indicator of the IT function is the ability of the treasury to participate competitively in the financial markets without suffering financial losses due to systems-related problems. The IT specialist in a treasury has to provide trading floor and accounting systems capable of real-time capture of all market data, from all providers, that are needed to value any defined instrument type. Market data should be retrievable for re-pricing, reporting, historical analysis, and other purposes and the treasury systems should support trade maintenance applications, including automated rate resetting, money market rollovers and other repetitive tasks.

Perhaps, the greatest disservice that authorities have done to investors, particularly in jurisdictions where explicit deposit insurance does not exist, is to create the illusion that regulators can guarantee the safety of the public's deposits. When all is said and done, investors must understand that no amount of management or regulatory protection can take away their own responsibility for decisions regarding their investments. Investors and depositors retain responsibility for applying sound principles in the diversification of risk and in the assessment of a financial institution. In that situation where consumers cannot protect themselves, a limited deposit insurance scheme for banks and simplified contractual disclosure for insurance companies and other portfolio managers may be considered. The only way in which the public can be protected is if it understands who is taking the risk: individuals as

investors acting through agents (investment managers and brokers), or the financial intermediaries pooling their funds and acting as principals (banks). When this distinction is clearly established, and the public more clearly understands the risks that investment entails, the principal role of financial intermediaries will be to ensure that consumers are protected. Indeed, investors can be assisted in their roles as risk managers if the concept of “public” is broadened to include the financial media and analysts, such as stockbrokers, other advisors, and rating agencies. In addition, the market’s ability to provide a basis for informed decisions must be improved through full disclosure of financial statements of enterprises, as well as by informed and competent analysis in the media. Investors’ interest can be safeguarded in more than one way, but disclosure of what is actually happening is essential.

7.0 POLICY OPTIONS AND CONCLUSION

Globalization is increasing the links between the world’s economies, particularly through capital markets and trade flows. Because global shock are rare and their effects temporary, they are often of less concern. However, national economics are constantly buffeted by economics shocks. Faster cross – border transmission of these shocks can cause national economics to move in step, or commove on a permanent basis. This increase co-movement could reduce their ability to steer their own economy out of trouble. Looking into this complex issue makes a distinction between financial market synchronization and synchronization of the ‘real’ economy such as the output of goods and services as measured gross domestic product. Although the increase in financial market co movement is relatively clear and consistent evidence of increased co-movement of the real economy is controversial. Measuring co-movement is not easy and there are various ways to look at the numbers. Figure 7.1 illustrates this complex relationship including a variety of both direct and indirect effects between financial integration, real integration and specialization. The figure documents the possibility that financial integration may have off setting effects on real comovement, thus accounting for the absence of a market response of real variables to financial integration.

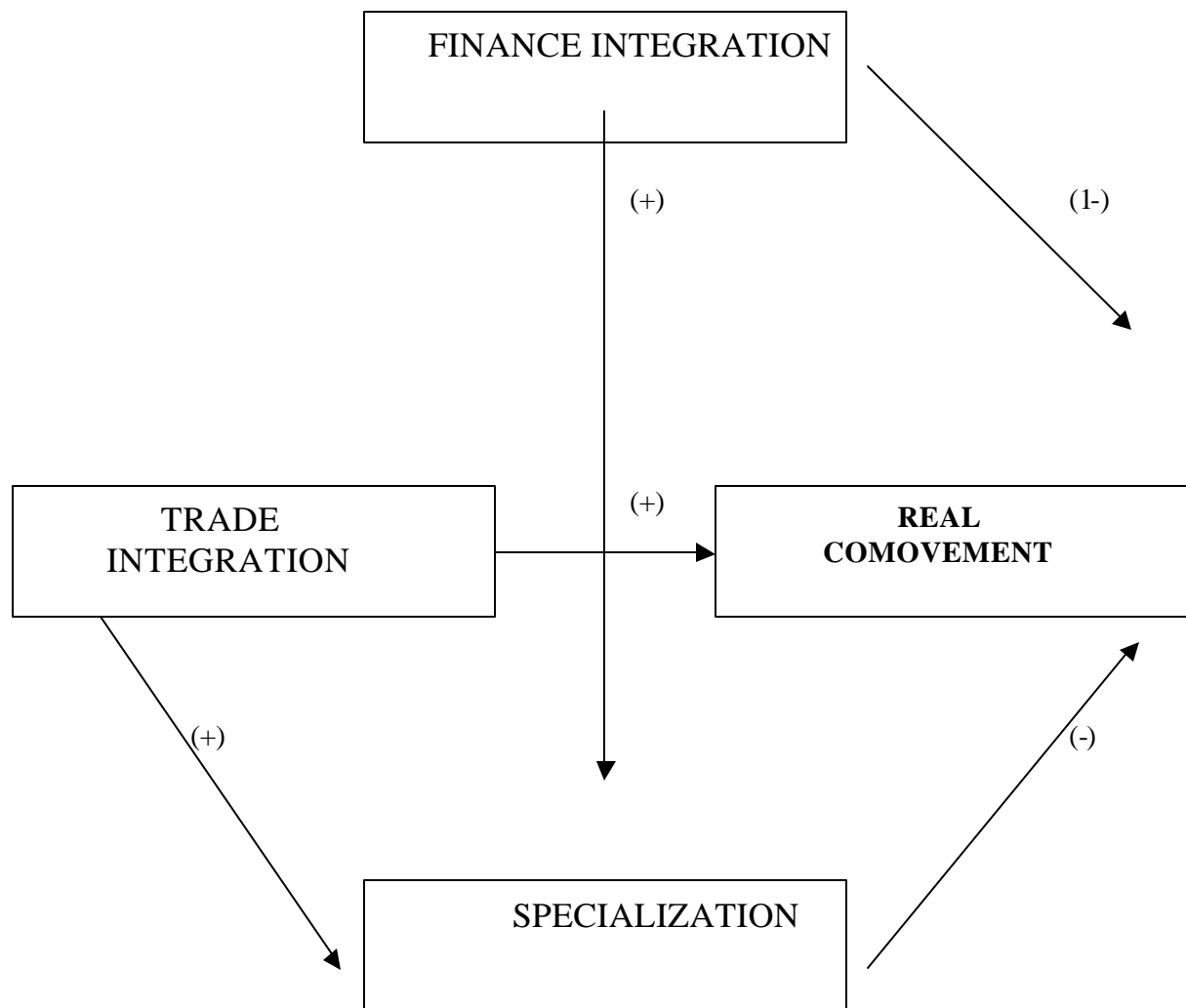


FIGURE 7.1 LINKAGE DIRECTIONS.

The two leading explanations for increased real co movement are trade integration and trends in specialization. Economies of countries tend to come with important trading partners, as recessions and expansions are exported across borders. Financial integration, however, makes it possible for countries to diversity consumption patterns without having to diversity production and thus allows them to become more economically specialized, which, reduces real co movement. But, if investors heard, capital will flow in similar patterns across countries, increasing real co movement. Like financial integration, trade openness allows economies to specialize in industries in which they have a comparative advantage. Thus, both financial and trade integration an indirectly lower real co

movement by influencing the extent of specialization, even if the direct effects of financial and trade integration are positive. Which of these effects dominates is an empirical question, but the presence of these offsetting phenomena can account for the apparent lack of a clear trend in real co movement, even as financial integration has undeniably increased. They also imply that both trade and financial policies have potentially ambiguous effects on the globalization of business cycles. A vital relationship depicted in the above figure, is the economy and financial market can move in tandem when there are global economic shocks or significant events that affect all countries in the world, such as a new technology. These global shocks include shock market bubbles, which arise when investor's expectations are out of line with fundamental economic realities.

Basically, there are four fundamental areas of financial sector reforms that usually need particular attention in support of government securities development. Transparency and information infrastructure; banking soundness; portfolio restrictions and interest rate liberalization; and entry and exit policies, proper auditing, accounting and creditor information are important elements of the basic financial market infrastructure. Without proper disclosure, domestic and foreign investors will be reluctant to deal with domestic financial institutions and the general ability of investors to provide market discipline will be limited. It is essential that a sound financial system is subjected to prudential regulations (including capital adequacy, lending standards proper asset classification, income recognition and reserving policies) that create or approach international standards and provide for competent supervision and adequate enforcement capacity. A safety net that provides (temporary) assistance (usually with collateral) to financial institution that are solvent but face temporary liquidity problems will prevent the emergence of a systemic financial problem. An unsound financial environment will complicate development of a securities market because important related markets are unlikely to function properly in an unsound and unstable financial environment. This environment will also impair investor confidence and hamper secondary market activities and development of new such as mutual funds administered by monetary institutions.

An area of reform with important implications for the development of local securities markets is the liberalization of the balance sheet of the financial houses. Here, liberalization includes removal of forced investments or credit ceilings, other lending / investment portfolio restrictions, and interest rate controls for liabilities and assets. To lessen the prospect of a credit boom that could lead to excessive leverage of

non-financial corporations, such liberalization should be accompanied by reforms to improve loan foreclosure, corporate bankruptcy and reorganization processes, and prudential regulations.

Also there is need to review the structure of reserve requirements and taxation to determine whether such policies impede the growth of important markets essential for the development of the securities markets, including money and repurchase agreement markets. Another reform in emerging markets is policies regarding entry and exists of financial service providers. Entry, subject to fit and proper tests and the need to maintain franchise value, should be encouraged. Since local firms often play a predominant role in government securities markets in emerging economics, new entrants an stimulate competition and knowledge transfer, especially in the case of foreign-affiliated instructions.

Greater competition would limit the ability of banks acting as dealers to exploit their buying, that is, monopony, power in actions of government securities. It would also help stimulate a move towards greater disinter mediation through development of funds and direct access for non-financial corporations to tap the bond market. New entrants can also raise overall liquidity in the markets and information standards. Foreign entrants present an opportunity to import many useful financial services, leading to adopting and adapting standards and procedures for supervision and regulation of financial institutions that are used in other countries. Given new technology, the benefit of liberalizing entry through cross border provision of service has increased. Such revote access to the market could include access, subject to appropriate licensing provision for e-trading by virtual brokers, foreign entities wanting to participate in domestic securities markets via the Internet. Policies in the area of failure resolution are also important for government securities market development. If the exit of weak or failing institutions in not timely, there can be greater scope for a bidding up of interest rates in the interbank market. The incentive to invest in high –return deposits issued by distressed houses can become pervasive if the safety let is defined or assumed so that investors have confidence they will be, if necessary, paid in full through the safety net provisions on all liabilities.

Rationalization and balance- sheet consolidation by the private sector have accursed against the backdrop of an acceleration of growth in Asia and technological advances that have underpinned tight productivity gains. Moreover, aggressive microeconomic policy responses by high-income countries have been important in improving the external financing conditions of African countries. However, the microeconomic policies in advanced economics are to be adjustment towards more sustainable in the long-term and their needs to be adjustment towards

more balanced global economic growth and more sustainable financing of current account imbalances. How the current imbalances are resolved will have a critical bearing on the availability of finances for African countries. The nature and timing of this adjustment will depend on several related factors the speed with which economic activity picks up in the rest of the world. The success of policymakers in facilitating orderly adjustment in exchange rates, the continued willingness of private investor and official institutions to finance existing current account imbalances without sharp adjustment in asset prices and exchange rates, and the willingness of policymakers to reevaluate stimulative policies as the recovery in activity gathers strength. A gradual tightening of fiscal policies in high-income countries could contribute to an imbalances and stability in the flows of capital to the African world.

Savings mobilization is both a service in high demand and a source of finance for macroeconomics. Yet not all micro credit institutions should capture voluntary savings and not all micro loans needs be financed by savings. Micro finance institutions that are permitted to mobilize public savings should be regulated and public supervised by competent, well-informed supervision agencies. They should also have accountable owners and managers and a record of high loan repayment and good financial management. Micro finance institutions that do not meet these basic criteria should not collect savings from the public. other commercial sources of funds are important for the development of micro finance, voluntary savings from the public are potentially the longest and most immediately available source of finance for micro credit programs. Profitable financial intermediation on a large scale has a policy implication that is of critical importance for the poor. Most poor people have assets (houses farms business) for which they lack legal title. Even in the poorest countries, the poor save. The value of savings among the poor is infact, immense (about forty times all the foreign aid received through the world. But they hold these resource in defective forms: house built on land whose ownership right are not adequately recorded, unincorporated business with undefined liability, industries located where financiers and invertors can not see them. Because the right to those possessions are not adequately, these assets cannot readily be turned into capital, cannot be traded outside of narrow local circles where people know and trust each other cannot used as collateral for a loan, and cannot be used as share against an investment

Therefore, micro finance is an important part of the solution to poor people's problems with dead capital. Savings accounts in regulated financial institutions are legally recognized assets, often the

One manifestation of the greater participation of the poor in economic growth is the fact that the growth elasticity of poverty reduction falls with greater income inequality. In other words, the impact of the same amount of growth on poverty reduction is significantly greater when initial income inequality is lower. Policies that lead to greater equity this lead to lower poverty i.e. directly through expanding the opportunities of the poor and indirectly through higher levels of sustained development. Here, the best policies for poverty reduction could involve redistributions of influence, advantage of subsidies away from dominant groups. While such equity enhancing redistributions (for power, or access to government spending and markets) can often be efficiency- increasing, possible trade offs need to be assured in the design of policy.

And because economic policies are determined within a socio-political reality, how policies are designed, introduced or reformed matters as much as which specific policies are proposed. That group will resist policy reforms that result in losses for a particular group. If the group is powerful, it will usually subvert the reform. The sustainability of the reforms may therefore depend on the making information about its distributional consequences publicly available and perhaps, forming coalitions of middle and power groups that stand to gain from them to “empower” directly or indirectly relatively disadvantaged members of the society. However this focus on equity does not change the fact that asset expropriation (even in stances of his historical grievances) many have adverse consequences for subsequently investment that high marginal tax rates create disincentives to work or that inflationary financing of budget deficits tends to lead to regressive implicit taxation economic disorganization and reduced investment and growth.

Finally, we live in an integrated world in which people, goods, ideas, and capital flow across countries. And most policy advice given to African countries has emphasized the advantages of participating in the global economy. But global markets are far from equitable, and the rules governing their functioning have a disproportionately negative effect on African countries. These rules are the outcome of complex negotiating processes in which African countries have less voice. Moreover, even if market worked equitably, unequal endowments would limit the ability of poor African countries to benefit from global opportunities leveling the global economic and political playing fields this requires more equitable rules for the functioning of global markets, more effective participation of African countries in global rule-setting processes, and more actions to

help build and maintain the endowments of the poor people of African countries (as well as enhancing their wealth creation).

REFERENCES

- Barro, R. J. (1974) “Are Government Bonds Net Wealth?” Journey of Political Economy. Vol. 82 No. 6
- Brooks, R. et al. (2003) “Dancing in Unison?” Finance and Development, June.
- Buckberg, E. (1992) “Emerging Stock Markets and International Asset Pricing”, MIT Working Paper, November.
- Combell, J. Y and R. J. Shiller (1988) “Stock Prices, Earnings and Expected Dividends”, Journey of Finance. 43:661 – 76
- Combell, J. and J. Ammer (1993) “What moves the Stock and Bond Market? Variance Decomposition for Long-term Asset Returns” Journey of Finance, 48: 3 – 38.
- Collier, Pard J. Gunning (1999) “Explaining African Economic Performance”, Journey of Economic Literature, Vol. XXXVII Pp. 64 – 111.
- Claessens, S. (1993) Risk management in developing countries. Washington: World Bank.
- Claessens, S. and Gooptu, S. (Eds) (1993) “Portfolio investment in Developing countries” World Bank Discussion Paper December.
- Dasgupta, P. and Serageldin, I. (1999) Social Capital: A Multifaceted Perspective, Washington: World Bank.
- Dikecha, A. Et al (1992) “Emerging Markets: A Quantitative Perspective”, Journey of Portfolio Management, 19: 41–56.

- Dumas, B. (1993) “Partial-Equilibrium Verses General-Equilibrium Models of International Capital Market-Equilibrium, in Rick V. (ed) Handbook of International Economics, Basic Blackwell.
- Elbadawi, I. A. et al (1992) “Why Structural Adjustment has not Succeeded in Sub-Saharan Africa”, World Bank Policy Research Working Paper, October.
- Errunza, V. and E. Losq (1985) “Capital Flow Controls, International Asset Pricing and Investor’s Welfare: A Multicountry Framework”, Journey of Finance, 44 (4) : 1025 – 37.
- Fafchamps, M. (1999) Networks, Communities, and Markets in Sub-Saharan Africa: Implications for Firm Growth and Investment, AERC BIENNIAL SEMINAR SERIES.
- Frankel, J. (1979) “The Diversifiability of Exchange Risk”, Journey of International Economics, (9) 379 – 94.
- Frankel, J. A. (1992) “Measuring International Capital Mobility: A Review”, American Economic Review, 82 : 197 – 202.
- Gallant, R. et al (1990) “Using Conditional Moments of Asset Payoffs to Infer the Volatility of International Marginal Rate of Substitution”, Journal of Econometrics, 45 : 141 – 79.
- Gertler, M. (1988) “Financial Structure and Aggregate Economic Activity”, Journal of Money Credit and Banking, 20 (August): 559 – 88.
- Ghura, D and M. T. Hadji Michael (1996) “Growth in Sub-Saharan African”, IMF Staff Papers, Vol. 43 No. 3
- Greuning, H. and Bratanovic, S. (2003) Analyzing and Managing Banking Risk Washington: World Bank.
- Howell, M. and A. Cozzini (1991) “International Equity Flows”, London: Baring Securities.

- IMF (1989) “Managing Financial Risks in Indebted Developing Countries”, IMF Occasional Paper. No. 65 June.
- IMF (2001) “Developing Government Bond Markets: A Handbook”, Washington: International Monetary Fund.
- Jorion, P. (1989) “The Linkages between National Stock Markets”, In R. Aliber (ed) The Handbook of International Financial Management, Irwin : Dow Jones
- North, D. C. (1997) “The Contribution of the New Institution Economics to an Understanding of the Transition Problem,” WIDER ANNUAL LECTURE I.
- North, Douglas C. (1990) “Institutions, Institutional Change and Economic Performance”, New York: Cambridge University Press.
- Nwaobi, G. C. (2000) “The Knowledge Economics Trends and Perspectives, Lagos Quarterb/Goan Communication Press.
- Nwaobi, G. C. (2004) “Programming Solutions for Economics and Business”, Benin: Quarters/Nehisco Publishing Press.
- Oshikya, T.W. (1996) “Investing for Long-term Growth in Africa,” ADB Economic Research Paper No. 27.
- Otasi, I and D. Villanueva (1990) “Long-term Growth in Developing Countries and Its Determinants: An Empirical Analysis”, World Bank Vol. 18, No. 6 pp 769 – 783.
- Priovolos, T. and R. Duncan (Eds) (1991) Commodity Risk Management and Finance, Oxford: Oxford University Press.
- Robinson, M.S. (2001) “The Micro finance Revolution: Sustainable Finance for the Poor”, Washington: World Bank.
- Schultz, T. (1961) “Investment in Human Capita”, American Economic Review 51 (March): 1 – 17.
- Winter, S.G. (1995) “Small and Medium-size Enterprises in Economic Development: Possibilities for Research and Policy,

World Bank Policy Research Working Paper,
September.

World Bank (2004) Global Development Finance, Washington: World
Bank.

World Bank (2006) World Development Report, Washington,
World Bank.

;