Examining the Role of Stock Markets in Facilitating Long-Term Financing of the Private Sector in Sub-Saharan Africa

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ABSTRACT

Private investment is central to fostering economic development, generating livelihoods, and advancing inclusive growth in Sub-Saharan Africa. However, private investment in the region has been on a declining trajectory since 2008, raising concerns about the mechanisms available to finance productive sectors. Existing literature highlights the need to close the funding gap, prompting interest in the role of capital markets as a source of private sector financing. This study investigates how stock markets can serve as a catalyst for private investment and, by extension, promote economic development and livelihoods. Using panel data from World Development Indicators and other sources, the research focuses on thirteen Sub-Saharan African countries with active stock markets between 2008 and 2022. The model incorporates key financial indicators, including stock market turnover ratio, liquid liabilities, gross domestic savings, and foreign direct investment (FDI). Descriptive results reveal a low mean for gross fixed capital formation, underscoring weak private investment performance. Despite the low turnover ratio of stock markets, ARDL techniques reveal that stock markets exert a significant positive influence on private sector financing in both the short and long run. FDI also demonstrates a positive effect, reinforcing its role in enhancing capital availability. The findings emphasise the untapped potential of stock markets in supporting private investment, boosting livelihoods, and fostering inclusive economic growth. Strengthening stock market infrastructure, implementing robust investor protection mechanisms, and attracting sustainable FDI flows are recommended as strategic pathways to deepen financial inclusion and promote economic development. The study calls for further research on optimising stock market performance and designing policies that integrate capital markets into inclusive development agendas.

Keywords: Stock Markets, Private Sector Financing, Sub-Saharan Africa, Long-term Investment, Panel ARDL Analysis, Stock Turnover Ratio

JEL Classification: G2, G3, O16, O4, F3, G21, O5, C58 and C33

INTRODUCTION

Access to finance remains one of the most severe obstacles to doing business in Africa, particularly for small enterprises that are critical to livelihoods and inclusive economic development. According to UNECA (2020), 19% of small firms identify lack of finance as their most significant barrier, with inadequate private sector financing impeding growth, particularly in the manufacturing and services sectors, which are both essential for job creation and poverty reduction. The United Nations Economic Report on Africa (2020) further reveals that most African start-ups fail to survive beyond their first three years, undermining efforts to build resilient and inclusive economies.

Private investment is widely regarded as a key driver for achieving the Sustainable Development Goals (SDGs) by 2030, especially given the limitations of public sector resources and external aid. The private sector contributes over 80% of government revenues in least developed countries through business and employee taxation, underscoring its vital role in financing social welfare, public services, and broader development initiatives (UNECA, 2020). To realise inclusive and sustainable economic development, there is an urgent

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need to enhance the private sector ecosystem, including increasing investment levels to between 35% and 40% of GDP.

Improving the business environment is thus critical for attracting private investors, promoting financial inclusion, and transforming Africa's development financing landscape. However, structural barriers within development sectors such as governance deficits, regulatory inefficiencies, and socio-economic exclusion continue to limit private sector participation, even where business climates appear conducive (IMF, 2021). Addressing these governance challenges, alongside strengthening financial systems and capital markets, is essential for creating more inclusive, equitable, and livelihood-enhancing economic opportunities across the region.

Figure 1. illustrates the inadequate incentives for private sector participation in Sub-Saharan Africa, a critical concern for sustainable economic development and livelihoods.

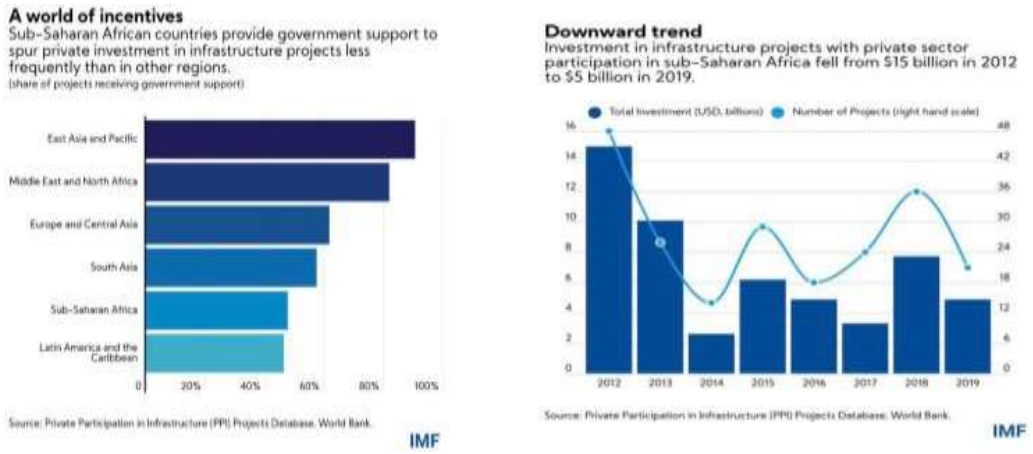

Figure 1 Regional Disparities in Government Support for Private Infrastructure Investment

Historically, gross domestic investment rates in the region have been low and inconsistent with the development needs of African economies. Sub-Saharan Africa's investment rate gap widened from 6–8% in the 1960s to 10–15% by the mid-1990s, highlighting structural financial deficiencies (Oyejide, 1999). Domestic resources have consistently fallen short in financing investment needs, undermining opportunities for enterprise development, job creation, and poverty reduction.

At the same time, the region's share of private capital flows to developing countries dropped from nearly 9% in 1977–82 to less than 2% by 1996 (Oyejide, 1999), reflecting growing marginalisation in global financial markets and limiting avenues for financial inclusion. This decline has compounded long-term financial constraints, weakened private sector capacity and entrenched socio-economic vulnerabilities. Since 2015, Sub-Saharan Africa has experienced a 4% annual decline in private investment, with over two-thirds of countries reporting stagnation or contraction (IMF, 2018). These patterns have direct implications for livelihoods, employment, and social welfare, further exacerbating development inequalities.

Persistent underinvestment reflects broader governance and structural challenges facing African economies. Access to financial resources remains one of the most significant barriers to private sector growth, constraining capacity building, entrepreneurship, and inclusive economic participation (UNCTAD, 2015). Other key risks—including unemployment, infrastructure deficits, fiscal instability, and climate change—further limit opportunities for socio-economic mobility and equitable development (Flemming, 2019; OECD, 2019).

Sustainable growth, poverty reduction, and inclusive development hinge on well-functioning financial systems and a vibrant private sector (World Bank, 2022). Mobilising capital from private sources is essential to reduce dependence on strained public resources and promote job-rich, equitable recovery across the continent (IMF, 2021). In this context, expanding private investment and deepening financial markets are critical, particularly under frameworks like the African Continental Free Trade Area (AfCFTA), which aim to unlock intra-African trade, expand the middle class, and promote urbanisation.

This study investigates the role of stock markets in addressing long-term private sector financing challenges, drawing on data from thirteen Sub-Saharan African countries with active stock exchanges between 2008 and

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2022. The selected period covers significant global financial crises and regional shifts, providing a unique opportunity to assess how capital markets contribute to private sector growth, financial inclusion, and improved livelihoods. The study specifically asks: What is the role of stock markets in financing private investment in Sub-Saharan Africa? Findings reveal stock markets play a vital role in capital formation, alleviating the undercapitalisation of small businesses, reducing unemployment, and promoting broad-based economic development.

The research highlights how stock markets and diversified financing mechanisms can complement governance reforms, strengthen financial inclusion, and expand equitable access to economic opportunities. Strengthening stock market infrastructure, improving investor protections, and enhancing financial literacy will promote citizen agency, facilitate sustainable livelihoods, and build more inclusive, resilient economies across Sub-Saharan Africa.

LITERATURE REVIEW

Persistent gaps in private investment financing have been widely documented since the 1960s, with ongoing debate on the appropriate mechanisms for sustaining long-term investment growth in developing economies. While traditional growth models largely abstract from financial structures, more recent empirical work increasingly recognises the role of financial markets particularly stock markets in supporting private sector development. This section reviews the theoretical foundations and empirical evidence relevant to the role of stock markets, foreign direct investment, and savings in financing private investment.

Neoclassical and Endogenous Growth Perspectives

Neoclassical growth models assume that firms optimally choose capital inputs to maximise returns, implicitly overlooking financial constraints and market imperfections. In practice, especially in developing economies, firms, particularly small and medium-sized enterprises (SMEs) often face limited access to external finance and rely heavily on internal cash flows (Mills, Morling & Tease, 1994). Regulatory barriers and weak financial institutions further restrict access to capital markets (Woo & Lange, 1992), highlighting the inadequacy of neoclassical assumptions in explaining investment dynamics in capital-constrained economies.

Endogenous growth models address these limitations by emphasising the role of sustained investment in driving long-run economic growth. High investment rates, typically ranging between 20% and 30% of income, are associated with faster growth in developing countries (Roemer, 1986; Lucas, 1988 cited in Oyejide, 1999). These models implicitly point to the importance of financial systems that can mobilise and allocate long-term capital efficiently, thereby strengthening the case for deeper capital markets.

Stock Markets and Long-Term Private Sector Financing

The expansion of stock exchanges across Sub-Saharan Africa reflects growing recognition of capital markets as potential engines of private sector financing. The region now hosts 29 stock exchanges, up from just five prior to 1989, although development remains uneven (Senbet & Otchere, 2008). Southern Africa dominates the continent's market capitalisation, accounting for approximately 86% as of 2017 (Zamble, 2018), underscoring significant regional disparities. Empirical evidence suggests that well-developed stock markets enhance financial depth, reduce capital constraints, and support private investment by improving liquidity and lowering transaction costs (Alshubiri, 2021). However, many African capital markets remain small, illiquid, and institutionally weak, limiting their effectiveness (Laeven, 2014). Consequently, banks continue to dominate private investment financing, while SMEs face persistent barriers to accessing equity and bond markets (IMF, 2018; McKinsey & Company, 2011).

Despite these challenges, country-specific evidence such as from Nigeria demonstrates that stock market development can stimulate private investment when institutional conditions are supportive (Ezeoha, 2009). Moreover, capital markets can complement banking systems by offering alternative financing channels that promote economic inclusion and poverty reduction (Strumeyer & Swammy, 2017). Sceptics argue that stock markets in developing economies may contribute little to productive investment due to fragmentation, weak regulation, and low liquidity (OECD, 2015; Raubenheimer, 2019). Nevertheless, a growing body of literature highlights the stabilising role of financial markets in enhancing liquidity, mitigating shocks, and supporting firm survival during periods of economic stress (Soliman, 2017; IOSCO Emerging Markets Committee, 2007).

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XII Issue XII December 2025

Foreign Direct Investment and Private Investment

Foreign direct investment remains an important, albeit uneven, source of private sector financing in Sub-Saharan Africa, with inflows concentrated in a few resource-rich economies (Michalowski, 2012). While FDI can promote capital formation, technology transfer, and productivity growth, its overall contribution to domestic investment and growth has been mixed (Ndambedia & Njoupouognigni, 2018). This underscores the need to assess domestic financial markets as complementary or alternative channels for financing private investment.

Savings and Private Investment

Low domestic savings have long constrained private sector financing in Sub-Saharan Africa (Elbadawi & Mwega, 2000). Weak financial development, high government consumption, and macroeconomic instability further dampen savings mobilisation (Boateng, Agbola & Mahmood, 2019). Although savings are theoretically expected to support investment, their effectiveness depends critically on the efficiency of financial intermediation mechanisms.

Research Gap

While existing studies provide valuable insights, much of the empirical evidence on stock markets and private investment in Sub-Saharan Africa is country-specific or fragmented, yielding mixed conclusions. This study contributes to the literature by examining a panel of 13 Sub-Saharan African countries with active stock exchanges, offering a broader and more systematic assessment of the role of stock markets in long-term private sector financing.

MATERIALS AND METHODS

This section outlines the data sources, sample selection, and analytical framework employed to examine the role of stock markets in long-term private sector financing in Sub-Saharan Africa. The methodological approach is designed to ensure transparency, consistency, and reliability of the empirical results.

Research Population and Sample Selection

The study population comprises 29 Sub-Saharan African countries with formally established stock exchanges, as reported by the World Bank. However, only 13 countries maintained active stock exchanges with complete data throughout the study period (2008–2022). Consequently, the analysis adopts a census approach, where the sample coincides with the population of eligible countries. The selected countries are Botswana, Côte d'Ivoire, Kenya, Malawi, Mauritius, Namibia, Nigeria, Rwanda, South Africa, Sudan, Tanzania, Zambia, and Zimbabwe. Countries without stock exchanges or with incomplete data were excluded to maintain data consistency and ensure robust longitudinal analysis. While this selection narrows the scope of the study, it enhances the reliability of the findings by focusing on markets with sustained trading activity.

Data Sources and Coverage

The analysis draws primarily on data from the World Development Indicators (WDI) database of the World Bank. To complement and validate these data, additional information was sourced from OECD.stat, CEIC Data, Federal Reserve Economic Data (FRED), the African Development Bank Group, the International Monetary Fund (IMF), and annual reports of the respective stock exchanges. All data sources are publicly accessible, ensuring transparency and reproducibility.

Data Structure and Rationale

The study employs panel data covering the period 2008–2022. This data structure allows for the examination of both cross-country differences and time dynamics in the relationship between stock market development and private investment. Panel data improves estimation efficiency, increases variability, and reduces bias arising from unobserved heterogeneity compared to purely cross-sectional or time-series approaches (Eric, 2021). These advantages make panel analysis particularly suitable for studying financial development in heterogeneous economies.

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XII Issue XII December 2025

Model Specifications

The following subsections detail the model specifications used to test this hypothesis: **H1:** Stock markets play a significant positive role in the long-term financing of the private sector in Sub-Saharan African countries.

The Model:

The ARDL model takes the following general form:

$y_{it} = \sum_{j=1}^{p} \delta_i y_{i,t-j} + \sum_{j=0}^{q} \beta_{ij} X_{i,t-j} + \varphi_i + e_{it}$ ……. Equation 1

Where

$y_{it} = the\ dependent\ variable$, $\delta_i\ denotes\ coefficient\ of\ the\ lagged\ dependent\ variable$,
$y_{i,t-j} = lagged\ dependent\ variable$
$\beta_{ij} = coefficients\ of\ independent\ variables$
$X_{i,t-j} = independent\ variables$
$\varphi_i = unit\ specific\ fixed\ effects$
$e_{it} = the\ error\ term$
$p, q = optimal\ lag\ orders$

Below is the re-parameterised ARDL (p, q,q…q) error correction model

$\Delta y_{it} = \theta_i [y_{i,t-1} - \lambda_i X_{i,t}] + \sum_{j=1}^{p-1} \xi_{ij} \Delta y_{i,t-j} + \sum_{j=0}^{q-1} \beta_{ij} \Delta X_{i,t-j} + \varphi_i + e_{it}$ …. Equation 2

Where:

$\theta_i = group\ specific\ speed\ of\ adjustment\ coefficient$
$\lambda_i = vector\ of\ long\ run\ relationships$
$[y_{i,t-1} - \lambda_i X_{i,t}] = error\ correction\ term$
$\xi_{ij}, \beta_{ij} = short\ run\ dynamic\ coefficients$

The variables and their measurement are explained in Table 1 below

Table 1: The model variables and measurement

Defining variable	GFCF	Market turnover	Liquid liabilities	GDS	FDI
Detailed description of variable and measurement	Gross fixed capital formation by the private sector as a % of GDP	Stocks traded, turnover ratio of domestic shares (%)	Liquid liabilities to GDP (%)	Gross domestic Savings as a % of GDP	Foreign direct investment as a % of GDP

Data Analysis And Diagnostic Framework

Empirical analysis was conducted using Stata 12 and is based on the panel autoregressive distributed lag (ARDL) approach to examine both short-run and long-run relationships between stock market development and private investment. The panel ARDL framework is appropriate for heterogeneous panels and accommodates variables with mixed orders of integration, allowing for dynamic adjustment across countries (Pesaran, Shin & Smith, 2001). Model reliability was ensured through standard diagnostic procedures. Multicollinearity, heteroskedasticity, and stationarity were assessed using the Variance Inflation Factor, Breusch–Pagan/Cook–Weisberg, and Levin–Lin–Chu tests, respectively. The optimal lag structure was selected using the Akaike Information Criterion, while model consistency and efficiency were evaluated using the Hausman test. The Durbin–Watson statistic confirmed the absence of serial correlation. With these diagnostics confirming the adequacy of the empirical framework, the following section presents and interprets the estimated short-run and long-run effects of stock market development and related financial variables on private investment in Sub-Saharan Africa.

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XII Issue XII December 2025

RESULTS AND DISCUSSION OF FINDINGS

Descriptive statistics for all variables used in the study models

Table 2 presents summary statistics for all variables used in the analysis. Overall, the results indicate low levels of private investment and financial market development across Sub-Saharan Africa.

Table 2 Descriptive statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
Gross fixed capital formation	195	8.40986	11.90471	-27.7	161
Stock market turnover ratio	195	2.949692	2.949252	0.31	41.97
Liquid liabilities	195	20.01113	31.86607	2.245	93.97
Gross domestic savings	195	17.05656	20.53279	-21.46	52.47
Foreign direct investment	195	2.759185	2.651658	-0.03	10.57

Source: Researcher's computation

The mean value of gross fixed capital formation (8.41) confirms that private investment remains weak in the region. The wide range, from –27.7 to 161, reflects significant cross-country differences, with higher values largely driven by relatively more developed economies such as Botswana, Namibia, and South Africa. For most countries in the sample, however, private investment levels remain modest. The average stock market turnover ratio of 2.95 indicates low market liquidity, suggesting that many African stock exchanges remain shallow and thinly traded. Low liquidity limits the ability of markets to mobilize long-term capital, which constrains private sector financing. Foreign direct investment (FDI) levels are also relatively low, with values ranging from –0.03% to about 10%. This reflects persistent macroeconomic instability, political risk, and weak institutional frameworks in parts of the region, which discourage sustained foreign investment inflows.

Diagnostic tests

Diagnostic tests were conducted to ensure the reliability of the empirical results

Table 3 VIF Multicollinearity test

Variable	VIF	I/VIF
Stock market turnover ratio	0.96	0.813
Liquid liabilities	1.13	0.69
Gross domestic savings	1.08	0.725
Foreign direct investment	1.01	0.774
Mean VIF	**1.04**	

Source: Researcher's computation

The variance inflation factor (VIF) results indicate no multicollinearity, meaning that the explanatory variables do not distort each other's effects. This strengthens confidence in the estimated relationships. The Variance Inflation Factor (VIF) test results above revealed a mean VIF value of 1.04, indicating no multicollinearity in the model. Values of the VIF less than 10 indicate that no multicollinearity influences the least squares estimates.

Table 4 Heteroskedasticity test results

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
$chi^2(1)$ = 43.63
Prob > chi^2 = 0.0000

Source: Researcher's computation

The Breusch-pagan/Cook-Weisberg test was conducted to test for heteroskedasticity, which gave prob>chi^2 less than 0.05, signifying the rejection of the null hypothesis, hence the presence of heteroskedasticity. Although heteroskedasticity was detected, common in financial and macroeconomic data, the use of robust standard errors ensured that coefficient estimates remained reliable. Importantly, these adjustments improve

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XII Issue XII December 2025

the credibility of the findings rather than altering their interpretation.

Stationarity test

Unit root tests confirmed that all variables were stationary at levels. In practical terms, this means that the data exhibit stable long-run behaviour, making them suitable for analysing long-term relationships between stock markets and private investment without extensive data transformations.

Table 5 LLC Unit root test results

Levin-Lin-Chu unit-root test for Gross fixed capital formation (Private investment)				
H_0: Panels contain unit roots , H_1: Panels are stationary				
Variable	**Adjusted t* Statistic**	**p-value**	**Order of Integration**	**Explanation**
Gross fixed capital formation	-4.010	0.001	I(0)	Stationary
Stock market turnover ratio	-3.890	0.002	I(0)	Stationary
Liquid liabilities	-4.520	0.000	I(0)	Stationary
Gross domestic savings	-4.230	0.001	I(0)	Stationary
Foreign direct investment	-4.050	0.001	I(0)	Stationary

Source: Researcher's computation

Panel ARDL model

The Dynamic Fixed Effects (DFE) panel ARDL model explains approximately 96% of the variation in private investment**,** indicating that the selected financial variables capture the key long-run drivers of private sector financing in Sub-Saharan Africa. Model selection based on the Akaike Information Criterion confirms the superiority of the DFE specification over alternative estimators, ensuring reliable long-run inference. The estimated coefficients reveal economically meaningful and statistically significant relationships between stock market development, financial structure indicators, and private investment. The discussion that follows focuses on the economic interpretation of these relationships and their implications for long-term private sector financing in the region.

Table 6 Model selection results – AIC Values

Model	**AIC**	**ΔAIC**	**Akaike Weight**
ARDL (1,1,2,2,1)	971.1255	0	1

Source: Researcher's computation

The AIC results indicate that the Dynamic Fixed Effects (DFE) model with ARDL (1,1,2,2,1) lags provides the best fit to the data, with an AIC value of 971.1255 and an Akaike weight of 1. This confirms that the selected specification most effectively captures the underlying long-run dynamics between stock market development and private investment, making it suitable for inference and policy analysis.

Table 7 Dynamic fixed effects model results with ARDL specifications

Variables	**Long-run Coefficients**	**Standard Error**	**Z - statistic**	**P-value**
Estimated error correction	0.2780	0.0802	3.47	0.000
Stock turnover ratio (lag 1)	2.7627	0.0584	54.00	0.000
Liquid liabilities (lag 2)	-11.0144	1.3752	-8.03	0.001
Gross domestic savings (lag 2)	-2.1828	0.9144	-2.38	0.018
Foreign direct Investment (lag 1)	4.8165	0.5052	9.60	0.010
Constant	1.3389	0.0802	16.63	0.000
F-statistic	23.68			
Prob > F	0.0000			
R-Squared	0.9652			
Adj R-Squared	0.9371			

Source: Researcher's computation

Building on the model selection highlighted in Table 6 above, Table 7 reports the long-run DFE–ARDL

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XII Issue XII December 2025

estimates. The results show that all key financial variables are significantly related to private investment, with the model explaining approximately 96% of the variation in gross fixed capital formation. Diagnostic statistics further indicate a well-specified model, with no evidence of serial correlation, thereby reinforcing the credibility of the estimated relationships. Having established the robustness of the model, the discussion now turns to the economic interpretation of each explanatory variable and its role in financing private investment in Sub-Saharan Africa.

Stock Market Turnover Ratio

The results indicate that higher stock market turnover significantly increases private investment. Specifically, a one-unit increase in turnover is associated with a 2.76 increase in gross fixed capital formation, underscoring the importance of market liquidity in facilitating long-term investment. More liquid markets attract greater participation, reduce transaction costs, and improve access to capital, thereby encouraging firms to expand investment activity. This finding aligns with Alshubiri (2021), who emphasises the role of stock market efficiency and investor protection in overcoming capital constraints.

Liquid Liabilities

In contrast, liquid liabilities exert a strong negative effect on private investment. A one-unit increase in liquid liabilities reduces long-term private sector financing by approximately 11 units. This reflects the crowding-out effect associated with excessive reliance on short-term banking finance, where funds are diverted toward meeting near-term obligations rather than supporting productive investment. The result is consistent with Cave, Chaudhuri, and Kumbhakar (2019), who document a negative association between banking sector dominance and economic growth beyond certain thresholds.

Gross Domestic Savings

Gross domestic savings are also found to have a negative relationship with private investment. A one-unit increase in savings reduces gross fixed capital formation by 2.18. While this contrasts with Ribaj and Mexhuani (2021), the finding may reflect heightened economic uncertainty during the study period, particularly in the aftermath of the global financial crisis. Under such conditions, households and firms tend to increase precautionary savings while postponing investment decisions. Additionally, government borrowing and interest rate volatility may crowd out private investment, reinforcing the observed negative relationship.

Foreign Direct Investment

Finally, foreign direct investment has a positive and statistically significant effect on private investment. An increase in FDI leads to higher gross fixed capital formation, supporting the view that foreign capital complements domestic investment. Beyond providing financial resources, FDI facilitates technology transfer, managerial expertise, and access to international markets, thereby enhancing productivity and encouraging further investment. This finding is consistent with Krkoska (2001) and highlights the importance of stable economic and institutional environments in maximising the investment benefits of FDI.

CONCLUSIONS AND RECOMMENDATIONS

This study investigated the role of stock markets in long-term private sector financing across thirteen Sub-Saharan African countries with active stock exchanges between 2008 and 2022. The findings reveal that weak stock turnover ratios, coupled with low levels of FDI, significantly constrain private investment performance in the region. Furthermore, overreliance on banking sector liquidity, reflected by the negative association between liquid liabilities and private investment, highlights structural weaknesses in Sub-Saharan Africa's financial systems.

The decline in private investment is exacerbated by political instability and policy inconsistencies, which undermine investor confidence. The study confirms that, despite low turnover ratios, stock markets remain significant drivers of long-term private sector financing. Expanding stock market activity offers an important avenue for promoting financial inclusion, enhancing livelihoods, and addressing socio-economic inequalities. These findings are consistent with Krkoska (2001) and Alshubiri (2021), who emphasise the positive relationship between stock market development, FDI, and private investment, while supporting Cave et al. (2019) on the potential adverse effects of excessive banking sector dominance on economic growth.

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XII Issue XII December 2025

Policy Recommendations

- Policymakers should pursue integrated financial development strategies that combine stock market deepening, improved liquidity, and enhanced investor protection to stimulate private investment and inclusive growth.
- Institutional strengthening and governance reforms are critical for improving the effectiveness of foreign direct investment and ensuring its contribution to sustainable private sector development.
- Diversification of financing sources, particularly through well-functioning capital markets, is essential to support SMEs, reduce unemployment, and alleviate poverty.
- Improving deposit interest rates and long-term savings mobilisation can enhance domestic capital accumulation and reduce overreliance on short-term liquid liabilities.
- Regional integration initiatives, such as AfCFTA, should be leveraged to attract investment, expand market access, and promote more equitable and resilient economic systems across Sub-Saharan Africa.

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