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Financial Market Integration and Economic Growth: Assessing the Role of Cross-Border Investments in Africa

Akomolehin Francis Olugbenga[1] ✉
Ofoama Chukwudi Innicent[2]
Akomolehin Victor Bolawale[3]
Akintan Edamison Moyonuoluwa[4]

[1,2]*Dept of Finance, School of Social and Management College, Afe Babalola University, Ado - Ekiti, Nigeria.*
[3]*Dept of Economics, Faculty of Social Science, Ekiti State University, Ado - Ekiti, Nigeria.*
[4]*Dept of Economics, Faculty of Education, Ekiti State University, Ado - Ekiti, Nigeria.*
Email: akomolehinfrancis@pg.abuard.edu.ng
Email: nomasonofoama@gmail.com
Email: walekom2000@yahoo.com
Email: akintanedamiso@gmail.com
(✉ Corresponding Author)

Abstract

This research studies how African countries' economic growth is linked to the integration of their financial markets and the flow of investments across borders. While new regional projects like AfCFTA and AELP are being implemented, the African financial sector remains divided, so the continent cannot maximize the benefits of global financial linkages for broad development. Reviewing ECOWAS, SADC and COMESA regions combines with comparative case analysis helps see the effects of economic integration on capital inflows, the smoothness of markets and lasting economic results. Secondary data and institutional reports provided by the IMF, AfDB, UNCTAD and ASEA are used in the research, together with thematic and comparative analysis to determine what helps and hinders financial integration. The results show that digital growth, unified laws and partnerships are important, while unreliable currency, weak institutions and political challenges continue to obstruct the system. East Africa's markets are more separated, so they have not advanced as much under ECOWAS' progress as West Africa has, due to better monetary coordination. The study stresses that to achieve significant economic growth in Africa, reforms should be phased out by harmonizing policies regionally, digitalizing finances and strengthening institutions, all based on the Sustainable Development Goals (SDG 8 and SDG 17).

Keywords: Africa, Capital flows, SDGs, Cross-border investments, Economic growth, Financial integration.

1. Introduction

Financial market integration in the context of African economies: Evidence from a panel of five financial market indicators By Fayissa B Iphap, South Africa, Temesgen K Tucho, Eastern Horn of Africa & Yaya Sissoko, Mali. During the past two decades, the economies of Africa made conscious efforts to integrate their financial markets to stimulate economic growth, improve capital movements andattract foreign direct investment. Projects such as the African Continental Free Trade Area (AfCFTA) which was established in 2018 and African Securities Exchanges Association (ASEA) have been geared towards standardizing regulatory environments, lowering investment barriers, and enhancing regional financial integration (UNECA, 2020; Asongu et al., 2022). These efforts are underpinned by the realization that fragmented capital markets impede the resource allocation, restrict investor access and hinder the continent from exploiting financial globalization for inclusive development (Odhiambo, 2021).

However, although the momentum is building up, African financial markets remain highly fragmented, characterized by different regulation systems, low infrastructural developments, as well as limited access to investors, impeding the integration efforts (Wang et al., 2020). In addition, differences in market depth and institutional quality in different African countries have led to uneven progress in the development of effective cross-border investment flows. Although some regional groupings like the West African Economic and Monetary Union (WAEMU) have progressed in harmonising their capital markets, others are plagued by currency fluctuation, information asymmetry, and lack of depth in financial instruments (Adelegan 2023).

The key issue being grappled with under this study, is the question of why it is that financial market integration — especially through cross-border investment — does not easily lead to measurable economic growth in the case of a wide variety of African economies. Previous research has concentrated majorly on the development of domestic capital market or broad trade integration without sufficient exploration of the transmission link between financial integration and economic performance (see Kanga et al., 2021; Nketiah-Amponsah & Sarpong, 2023). In addition, although there is some empirical work on the growth impact of FDI, there is much less work on the impact of intra-African cross-border capital flows and regional financial linkages on macroeconomic development.

This study fills an important void by analysing the linkage between financial market integration and economic growth in the case of African cross-border investment. It focuses, in particular, on the possibilities for - and constraints on - the movement of investment capital across African borders and seeks to estimate the degree to which such flows promote efficiency and resilience in markets. By shedding light on the forces of regional integration, and presenting country-level case studies, the contribution fosters a better comprehension of the processes and the development potential of integrated African financial markets.

In this vein, the study is motivated by the research questions: (1) what is the relationship between cross-border investments and economic growth of African countries and (2) what is the contribution of financial market's integration in promoting capital flows and market efficiency. In a related vein, it attempts to respond to two main research questions: (i) What impact, if any, does financial market integration have on economic growth in African economies? and(ii)What are the challenges to and drivers of cross-border investments in Africa?

This study adds to regional economic integration studies by providing an African perspective on the finance-growth connection. This contrasts with most of the literature, which has concentrated on foreign investments emanating from beyond the continent; instead an emphasis is placed here on intra-African financial flows and market linkages. Further, the results may be used to guide policy frameworks under AfCFTA, ASEA, and Agenda 2063 to develop practicable approaches towards enhancing financial integration and sustainable economic development. It also reinforces global development goals, in particular SDG 8 on inclusive economic growth and SDG 17 on enhancing the means of implementation through increased regional partnerships.

2. Conceptual and Theoretical Review

2.1. Conceptual Review

The notion of financial market integration has been the focus of growing interest within the wider discussion of globalization, economic growth and regional cooperation. Financial integration is a concept and is a measure in the extent to which one country's financial institutions, markets, regulations and infrastructure are integrated with other countries, allowing for the free flow of capital cross-border and promoting global sustainability by monetizing universality patterns of cross-national asset pricing (Claessens & Kose, 2019). In the African context, financial market integration includes formal and informal mechanisms that promote the free movement of capital across borders, that align financial rules and standards, and that enable participants to access more diversified investment opportunities within the continent. They deepen financial connections not only, they also contribute to big macroeconomic expectations like efficiency, stability and growth in the financial system (Asongu, Nwachukwu & Orim, 2022).

A central theoretical presumption concerning financial integration is that it facilitates efficient capital allocation, directing capital surplus from capital-rich countries to be invested in capital-scarce ones. This is consistent with the neoclassical view that open financial systems promote growth through improved risk sharing, greater liquidity, and more competitive markets (Raza et al., 2020). Yet, in developing economies like those found in Africa, the gains from digitalization are also impacted by institutional preparedness, regulatory alignment, and macroeconomic underpinnings. In such environments, financial integration is not deregulatory, but (evidence-driven) strong legal regime, credible financial institution and infrastructure (Okonkwo et al., 2021).

Cross-border investment – a central transmitting channel of financial integration – has been similarly affiliated to growth along different channels, but also in the theoretical literature. It supplies not only finance, but also managerial technology, transfer of technology and governance spillovers. Ndikumana and Boyce (2020) argue that regional and cross-border FDI is more sustainable and suitable to context when the source of investment is from the region and may encourage local partnerships and collective economic interest. Unlike the extractive practices or external shocks often associated with traditional FDI from outside the continent, intra-African investments are sometimes more closely linked to local realities.

Related to this is the notion of regional financial cooperation that emphasizes cooperative arrangements to harmonize monetary policy, develop credit rating systems, link up capital markets so that they can provide funds to economically similar countries and even erecting supra-national bodies such as the creation of regional development banks. The fact that a convergence increases cross-border investment flows is already an important advantage in itself: cooperation both lessens the information asymmetry and transaction costs. For instance, the African Continental Free Trade Area (AfCFTA) and the African Exchanges Linkage Project (AELP) are institutionalised initiatives aimed at strengthening financial integration and intra-regional investments in terms of regulatory convergence and technological interoperability (UNECA, 2020; Fofack, 2021).

On the policy front, financial integration is also conceptually related to financial inclusion and sustainable development. The greater a region is integrated in financial markets, the more it will attract all types of capital, green, impact, blended with regard to the Sustainable Development Goals (SDGs). Kanga et al. (2021) contend that in the case of Africa, promoting financial inclusion can ensure the attainment of both SDG 8 (Decent Work and Economic Growth) and SDG 17 (Partnerships for the Goals), focusing attention on the potential to mobilize local institutional investors, such as pension funds and sovereign wealth funds, to enable the flow of long-term funds into infrastructure and industrial development.

In addition, the theoretical literature implies that financial market integration is a priori not growth promoting in general. If not well handled, it could amplify macroeconomic instability and financial contagion (Bailey, Karolyi, & Salva, 2021). For Africa's shallower financial markets and weaker institutions in many countries, premature or mistimed integration could expose economies to external vulnerabilities. The integration-growth nexus is thus specific to contexts and requires judicious policy instrument calibration, including the use of macroprudential regulation, capital mobility restrictions, and market surveillance (Roodman, 2023).

Taken together, the reviewing of the conceptual literature implies a multi-faceted view of financial market integration and cross-border investment. They are not merely financial transactions with which they are entangled in political economy, institution dynamics and development strategies. In African terms, the possibility of an economic transformation via financial integration is there, but would need to be supported by well-synchronised policy reforms, capacity building and open investment policies. This theoretical perspective underlines the importance of empirical evaluations which incorporate regional heterogeneity, structural asymmetries and the changing anatomy of African financial systems.

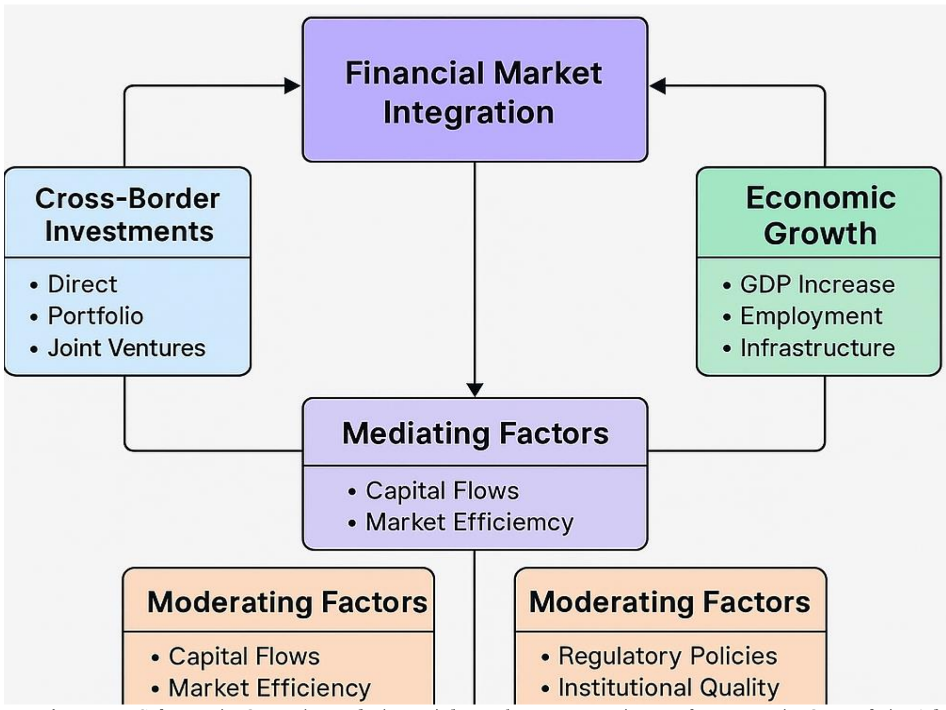

Figure 1. Schematic Overview of Financial Market Integration and Economic Growth in Africa

Here you can see the whole structure of this study's underlying concepts. It shows that the links between financial market integration, global investments and economic growth are influenced by capital flow and the efficiency of markets, while being guided by the rules of the institutions, government laws and policies. The structure reflects and complies with the research's theory as well as its data output.

2.2. Theoretical Framework

The association between financial market integration and African economic growth can be elucidated with reference to the underlying economic theories of how capital flows, market efficiency, and long-run growth interrelate. Within these, we propose that the Endogenous Growth, Capital Market Integration and Gravity Models of capital flows provide a multi-lens structure to examine how cross border investment can affect development in a more integrated African financial setting.

After these three geographical pillars were identified, the literature thought on the common determinants of growth in these papers and the villager between growth and its determinants to have come back based on two pillars: (1) Internal growth (which is based on the endogenous growth theory of (Romer 1986 and Lucas 1988), this theory states that what determines the rate of long term growth of economy is, internal factors such as human capital, innovation and development of the financial sector rather than external shocks. The approach view is that investments – in knowledge, in infrastructure, in financial systems – are what drives productivity growth and societally-sustainable growth. In the African setting, the integration of financial markets serves as a mechanism to mobilize capital across frontiers to foster productive sector investments in basic and diversified activities and promote the scaling of economies, the diffusion of technology and the improvement of resources allocation (Asongu & Odhiambo, 2020). They argue that properly allocated cross-border investments can have a positive influence on innovation, financial deepening, and endogenous growth, particularly in countries with underdeveloped capital markets.

In opposition of this view is the Capital Market Integration Theory which describes how open and connected financial market can improve the allocation of capital and increase financial stability. Under this model, integrated markets make possible portfolio diversification across borders, thereby lowering risk premiums and enhancing liquidity. For African economies, increased integration with other stock exchanges and financial institutions can lead to greater market participation, long-term capital inflows and reduced exposure to idiosyncratic shocks (Bailey et al., 2021). The integration of capital markets has also the impact of convergence of financial and banking regulations with associated exchange in transparency which is a precodition to investors' trust and perpetuation of economic cooperation. The level of integration varies as it is largely determined by quality of institutions, legal systems and political stability which also varies across the continent (Adelegan, 2023).

The Gravity Model of capital flows, which was, in the first instance, borrowed from trade theory, has been extensively used to explain the determinants of cross-border investment. Investment among countries is assumed to be directly related to size (e.g., GDP) and negatively related to distance or obstacles that inhibit investment, such as regulatory concern and currency risk (Portes & Rey, 2005). When applied to Africa, the model offers itself as an important analytical tool for explaining the dynamics of intra-regional capital flows and the inherent structural barriers to the same. Investment integration will tend to be stronger within regional economic communities, such as ECOWAS and SADC, on account of proximity and common institutional structures. However, different economic size and market depth of host countries or regions will cause asymmetric investment behaviour to lead some dominant economies such as South Africa and Nigeria to receive an excessive amount of cross-border capital inflows (Wang et al., 2020).

Together, these theories give a theoretical framework useful to analyze financial market integration and cross-border investment in Africa. The Endogenous Growth Theory accounts for domestic determinants of investment, and the mechanisms through which an influx of capital might spur innovation and productivity; Capital Market Integration Theory describes the systemic advantages of well coordinated and integrated markets; and the Gravity Model explains the forces that drive and limit the flow of actual investment. A combined theoretical description is suitable for the present study explicit. The Endogenous Growth Theory will be employed in order to assess how cross-border investment is promoting long term economic development, while the Capital Market Integration Theory and the Gravity Model will be used to analyze market structures, capital dynamics, and the obstacles or pulls to regional financial integration. This hybrid theoretical basis facilitates a nuanced consideration of macro-economic results and underlying mechanisms in Africa's dynamic financial structure.

2.3. Empirical Review

Empirical research into financial integration, cross-border investment, and economic growth has been burgeoning, in response to escalating internationalization of economies, as well as to the quest of sustainable growth. At the world level, the financial integration would be associated with enhanced mobility of capital, better risk sharing, and greater economic efficiency. Bekaert et al. (2020) find that more financially integrated countries benefit from higher long-run growth, as improved capital allocation and a lower cost of capital fuel growth. Likewise, Forbes and Warnock (2021) stress the role of stable institutional settings as an offsetting force to the beneficial impact of financial openness on growth, suggesting that short-run volatility is frequently reduced by macroprudential policies and investor safeguards. Positive relationship between financial and economic openness A meta-analysis by Lane and Milesi-Ferretti (2020) indicates that cross-border financial flows – in particular, portfolio equity and foreign direct investment – have a positive association with a country's economic performance only when that country has strong governance and its financial system is well developed.

Empirical findings for (open) emerging markets are fairly mixed and the evidence is overall supportive of the positive relationship of cross-border capital flows with economic growth. For instance, Sahay et al. (2019) observed an increase in access to finance, capital accumulation and productivity gains in Latin America and South East Asia following financial openness and regional integration, especially in the presence of regulatory convergence and adequate monetary policy support. Meanwhile, Caporale et al. (2020) using panel cointegration methods investigated the long-run link between financial integration and economic growth in BRICS nations and found the favourable impacts to be more pronounced in countries with well capitalized banking systems and liquid capital markets. Moreover, Zhang and Wang (2022) studied the effect of BITs between seasons in the cross-broader flows of investment in East Asia, finding that investor protection as well as the treaties' mechanisms of conflict resolution through treaties help release positive signals for the presence of inflows, while at the same time the latter has external effects on economic growth.

In Africa itself, evidence suggests financial integration promises much but is not without challenge. Asongu and Odhiambo (2020) applied GMM estimation for 42 African countries and found that financial integration has a significant positive effect on economic growth, although it is conditional on the degree of institutional development. Countries with low corruption, independent judiciary and strong regulative bodies profit from integration more than the aspiring one do. Ezenwakwelu and Okonkwo (2021) studied the impact of cross-border investment in the ECOWAS vicinity and discovered that openness of trade and reforms of the financial sector were determinants of capital inflows, while political instability and exchange rate uncertainty were deterrents. Similarly, Adeleke et al. (2022) carried out the dynamic panel analysis among SADC countries and concluded that mutual intra-regional financial investments increased market liquidity and business expansion, although infrastructure bottlenecks and poor legal enforcement continued to be key constraints.

Academic studies have also focused on ASEA's regional stock market integration initiatives. Okonkwo et al. (2020) studied the African Exchanges Linkage Project (AELP) and studies conclude that the trading interoperability increased the efficiency of price discovery and enhanced portfolio diversification, however, insufficient regulatory harmonization and technology asymmetries restricted the potential of the AELP. In East Africa, Mwenda and Wanjala (2023) established that regional cross-listing firms in multiple stock exchanges enhanced participation by foreign investors and reduced capital costs, but gains were uneven with more benefits accruing to larger markets such as Kenya and limited gains for smaller markets such as Rwanda or Burundi. Conversely, Kanga et al. (2021) used panel data threshold regression system for African Union countries and found a non-linear relationship for openness and growth, which worked only after an openness threshold had been exceeded by quality of institution and macroeconomic stability.

The particular transmission channels though which financial integration affects growth have also been the object of a number of studies. For example, Osei and Nketiah-Amponsah (2022) underscored the importance of capital market depth and financial inclusion in deepening the growth effects of financial integration, cautioning that in the absence of a matching development of domestic financial intermediation, integration could deepen rather than alleviate inequality to facilitate inclusive growth. Their findings are supported by Biekpe & Agbloyor (2021) who employed structural equation modeling and found that financial integration has a direct impact and influence on growth by indirect channel after taking controlling effect of intermediary variables such as private sector credit, investment-to-GDP ratio and inflation.

It is worth mentioning that regional disparities in integration are reported in the literature. By comparison, Ayodele and Aluko (2023) observed that North and Southern African nations benefit more from cross-border financial flows when juxtaposed with their West and Central African counterparts, largely driven by differences in the level of financial architecture and regulatory structure in place. Similarly, Musonda et al. (2020) found that countries in Monetary Union such as the WAEMU could have relatively more stable investment and growth linkages as a consequence of exchange rate and fiscal policy interaction.

Notwithstanding this burgeoning literature, there are some empirical lacunae. First, the current literature often treats Africa as a homogenous unit, thereby neglecting areas of sub-regional difference, structural asymmetries and differential experience of integration. Second, the majority of studies concentrate on the effect of external (non-African) financial flows, without investigating the implications of African cross-border flows and their unique role in building resilience to economic crises. Third, only few works offer thorough assessments of the role played by financial integration in combination with other enablers, i.e. technological infrastructure, legal harmonization and sustainable investment frameworks. Furthermore, the most common ones use only macro-level information and largely ignore the effects of integration at firm or sector level. Finally, there continues to be a lack of evidence on the long-term sustainability of integration-induced growth, particularly in the context of environmental, social, and governance (ESG) considerations.

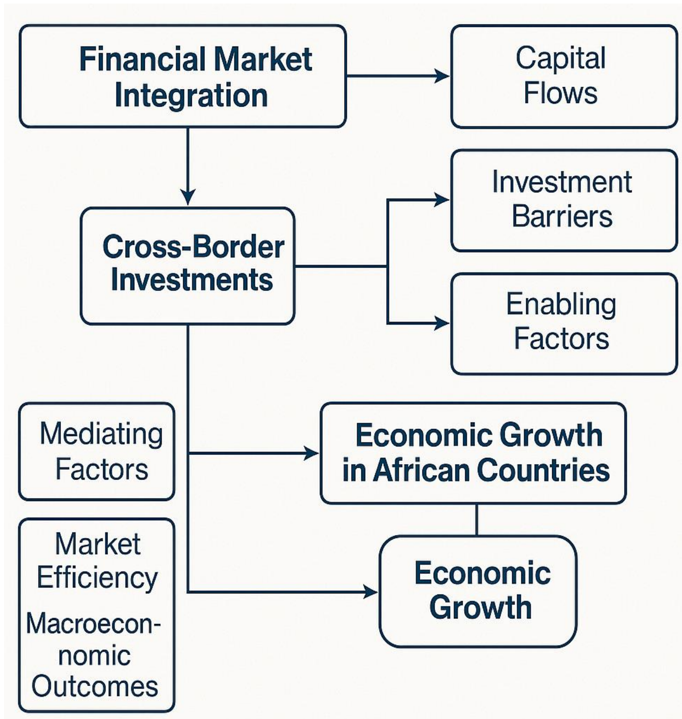

Figure 2. Conceptual Framework

2.4. Explanation of the Conceptual Framework

A description of the Conceptual Framework is provided here.

The framework shows how financial market integration, cross-border investments and economic growth are linked to each other in African countries. At the head of the model, Financial Market Integration is the only independent structure. It measures how well different African financial systems are joined, compatible and governed by the same policies. Integration in financial systems makes it easier to transfer capital, helps investors diversify their funds and eases financial barriers, eventually encouraging investment.

This integration affects things in two main ways. To begin with, it encourages international investments by lowering costs, matching infrastructure in markets and making information more accessible. The model specifies three important elements that interact in this channel: capital movements, barriers to investment and factors that assist them. They play a big role in setting how much and what type of investment happens across borders on the continent. For instance, if countries have stable currencies and rules, investors are more likely to commit funds in foreign markets.

Combined financial markets in Africa lead to better uses of capital and lower financing costs, helping boost the region's Economic Growth, employment rates, productivity and infrastructure development. The results are shown straight up (when more funding is provided and investment happens) as well as indirectly (as institutions pick up on new practices and policies spread).

At the start of the diagram is Economic Growth and it can be described by the results of all the paths previously discussed. This is the dependent variable in the analysis, shaped by both the size and quality of international investments, as well as financial integration. The model agrees with neither the Endogenous Growth Theory nor Capital Market Integration Theory, as it views growth as arising from steady movements of capital and progress within the system.

The framework will support the collection and analysis of information as well as the provision of policy advice on how better financial market integration might bring about more regional funds, close economic gaps and boost growth for all.

3.Methodology

The approach used in this study is a review-based and qualitative case study design, which is underpinned by a systematic synthesis of secondary data in order to interrogate the link between financial market integration, cross-border investments and economic growth in Africa. Given the diversity and heterogeneity of financial systems in Africa, this approach is suitable for analysing the multi-faceted nature of the process of integration but also for making sensitive inferences in context of regional development objectives.

The review type of research methodology allows for comprehensive review of peer reviewed literature institutional reports, policy briefs and empirical data of identified multilateral agencies. This provides for academic soundness as well as policy relevance. The analysis is designed to learn from cross-national experiences, test regional trends and analyze drivers and constraints that affect cross-border financial flows in investments in countries across the Continent.

To enrich the empirical understanding of these two forms of monetary regionalism, the paper combines the comparative study method with the case study technique and uses regional blocs as cases. Thirty five case studies are culled from three African RECs: ECOWAS (Economic Community of West African States), SADC (Southern African Development Community) and COMESA (Common Market for Eastern and Southern Africa). These areas were purposely chosen on a number of factors that include: (1) extent of capital markets development and integration initiatives (e.g., existence of regional exchanges, cross-listing, financial infrastructure sharing); (2) level of convergence of regulatory and policy initiatives (e.g., monetary unions, liberalization of the capital account); and (3) data availability on cross-border investment. For each bloc, approximately 3 countries with developed capital markets and stable macroeconomy, with Nigeria, South Africa and Kenya as focus, will provide for an in-depth comparative analysis.

The research works with secondary data collected from several well recognised and authoritative agencies. These range from macro-financial databases and thematic reports of the International Monetary Fund (IMF), African Development Bank (AfDB), the United Nations Conference on Trade and Development (UNCTAD), African Securities Exchanges Association (ASEA), to the World Bank. Other sources comprise reports of the Africa Union, OECD, and national financial market regulators. These data and documents contain valuable information on capital flows, market performance, regulatory framework and other indices on integration useful for the objectives set for the study.

The research uses a qualitative analytic method which involves thematic and comparative analysis for data interpretation purposes. Thematic analysis is applied to capture and integrate cross-case patterns, co-drivers, and barriers associated with financial integration and economic performance. The themes identify issues such as: the mobility of capital, co-ordination among institutions, risk to investment and coherence in policy. These categories are also validated with local data for contextual support.

Concurrently comparative analysis is used to draw comparisons and contrasts in integration outcomes between ECOWAS, SADC and COMESA. The findings from this can be of great value in identifying best practices as well as regional barriers and possible avenues to harmonize integration initiatives at a continental level. Use of the logic of comparison increases the external validity while maintaining the internal validity related to specific regional contexts.

In conclusion, the method employed in this study integrates a systematic literature review with purposive regionally-specific selection of case studies and in-depth qualitative analysis to provide a comprehensive account of the impact of financial market integration on cross-border investments and economic development in Africa. Such an effort helps to ensure that the results are embedded in a theoretical and empirical literature, while being flexible for changing regional policy discourses.

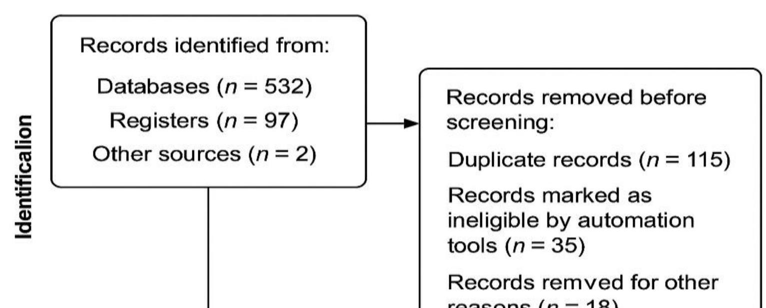

Figure 3. PRISMA 2020 Flow Diagram.

4. Results and Discussion

The combined results of review-based analysis and regional case studies also indicate a complex and country-specific relationship between the integration of financial markets, cross-border investment and economic growth in African countries. Lessons from ECOWAS, SADC and COMESA suggest that financial integration could exert a very substantial positive impact on growth through the combination of supportive institutional, technological and regulatory conditions. Countries with more integration levels of integration and whose involvement in the regional stock exchange linkages, monetary cooperation and regulatory harmonization is not in doubt, have relatively better investor confidence, capital formation and macroeconomic stability (Asongu et al., 2022; Adeleke et al., 2022).

The contribution of integration to the acceleration of growth is especially clear in capital markets which promoted technological change and regional convergence. The African Exchanges Linkage Project (AELP), an effort of the ASEA has, for example, constituted new possibilities in cross-border investment through a harmonised digital trading infrastructure. Early responding countries such as Kenya and South Africa have recorded higher transaction volumes, more liquidity and greater involvement from international and regional investors (Okonkwo et al., 2021). This digital progress is also accompanied by macroeconomic harmonisation and monetary assistance, such as in WAEMU where common currency and policy harmonisation have simplified transaction costs and enhanced financial predictability (Musonda et al., 2020).

Key Drivers of Financial Integrations in the review include the consolidation of regional economic blocks, fintech innovations and gradual harmonisation of regulatory frameworks. Russell and our colleagues from the Centre on their recent work using the Law Library of Congress and the ALB platform to explore financial interoperability and investor protection The institutional efforts of RECs such as ECOWAS and SADC on regulatory convergence, financial interoperability and investor protection have been instrumental in facilitating intra-African investment flows. This have been augmented by digital financial infrastructure – such as mobile money systems and digital identity systems – which has allowed for instantaneous transactions, enhanced financial inclusion, and eased cross-border investor onboarding (Biekpe & Agbloyor, 2021). In Rwanda and Ghana, the use of regulatory sandboxes and fintech hubs has also stimulated the innovation in capital mobilization with the development of flexible, safe, and scalable investment vehicles.

The analysis, however, also shows several important obstacles that continue acting as such to the effectiveness of financial integration. The first of these is foreign exchange risk, which can complicate international investment by making cross-border investment less predictable. A significant number of African countries continue to have relatively weaker currency markets and hedging products, which discourage portfolio and long-term investment. Besides, regulatory discrepancies between jurisdictions hinder investor confidence, especially in territories with highly disparate financial reporting standards, licensing qr market access requirements (Adelegan, 2023). Political risk, including electoral instability, policy reversal, and governance deficiencies, continue to be a major headwind in many countries to Investor confidence as well as sustainability of regional financial initiatives (Roodman, 2023).

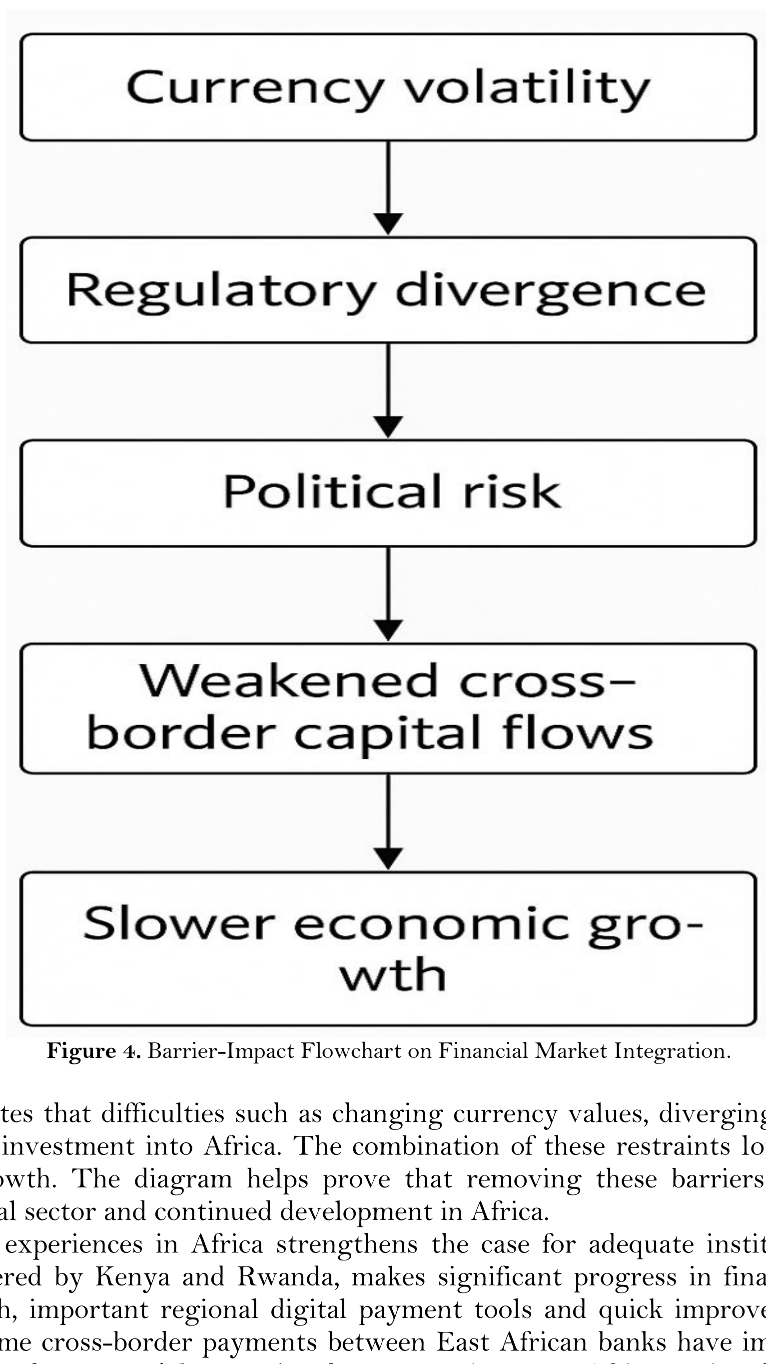

Figure 4. Barrier-Impact Flowchart on Financial Market Integration.

The diagram illustrates that difficulties such as changing currency values, diverging regulations and political risks harm cross-border investment into Africa. The combination of these restraints lowers movement of capital and slows economic growth. The diagram helps prove that removing these barriers is a must for successful integration in the financial sector and continued development in Africa.

Comparing regional experiences in Africa strengthens the case for adequate institutions and deep financial sectors. East Africa, steered by Kenya and Rwanda, makes significant progress in financial integration through widespread use of fintech, important regional digital payment tools and quick improvements to laws and rules. Thanks to EAPS, real-time cross-border payments between East African banks have improved cash flow and cut trading difficulties (Mwenda & Wanjala, 2023). The pattern in West Africa varies differently from the other regions. Even though WAEMU members can rely on the CFA and its stable value, countries such as Nigeria experience ongoing variation in regulations, placing heavier obstacles on their goal for continual integration.

South Africa and the rest of Southern Africa are strong in financial services and deep capital markets, yet they face problems with joining the region because of differences between themselves and smaller SADC countries. Despite being the major recipient of international funds in the region, neighboring markets usually are not prepared to approve and deal with these funds (Kanga et al., 2021). As a result, regions call for special integration procedures related to their various financial strengths and abilities.

The results imply that financial market linkage in Africa positively influences the growth of its economies, but not all regions show equal results. How successful it is depends on how well macroeconomic issues, technologies, regulations and institutions work together. While progress

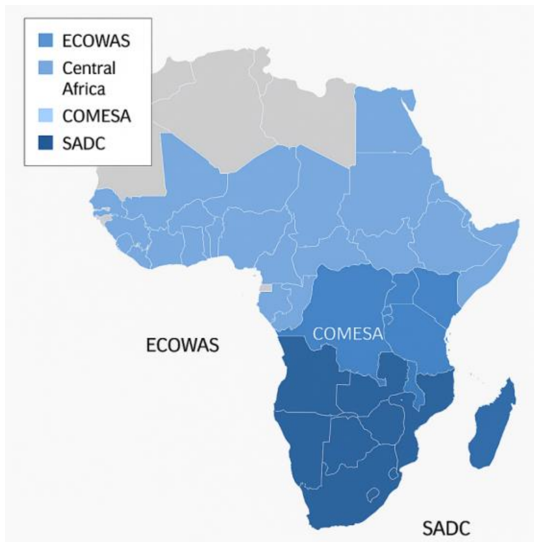

Figure 5. Comparative Regional Distribution of African Economic Blocs (ECOWAS, COMESA, SADC)

There are three primary Regional Economic Communities (RECs) shown on this map promoting financial market integration in Africa: ECOWAS in West Africa, COMESA in Eastern and a part of Central Africa and SADC in Southern Africa. Using the visualization allows for easy comparison of international investment flows and integration projects, supporting the results and discussion presented in the next section.

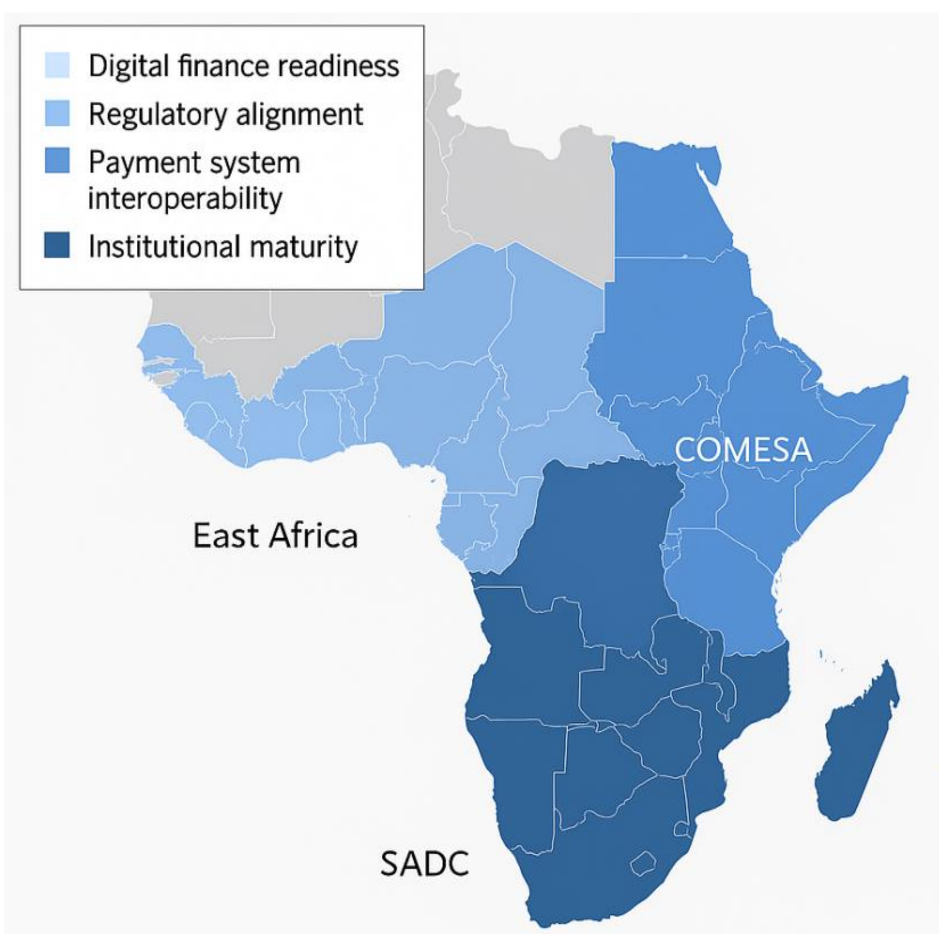

Figure 6. Financial Integration Enabler Map Across African Regions

The map illustrates the primary supporting conditions for integrated financial markets in Africa such as preparedness for digital finance, regulation consistency, compatibility among payment systems and the strength of financial institutions. Showing each area's advantages, the diagram guides policy suggestions for prompter integration and investment, particularly in ECOWAS, COMESA, SADC and East Africa.

5. Policy and Practice Relevance

The results of this study have important implications for policy makers and regulators, as well as private sector participants, who are looking to improve the development impact of financial market integration and capital flows across borders in Africa. A multi-pronged approach is needed to unleash the full potential of integrated financial markets and catalyze inclusive economic transformation based on regional collaboration, institution building, and financial innovation. Additionally, such policy orientations equally reflect directly on Sustainable Development Goal (SDG) 8 (promoting sustained, inclusive, and sustainable economic growth), and on SDG 17 (encouraging regional and international partnerships for development).

There is an urgent need to establish policy environment among African countries for regulatory harmonization and legal convergence especially within and across regional blocks such as ECOWAS, SADC, and COMESA. Contrasting regulations also shield cross-border capital movements and inflate dealing costs. A continental jurisdiction in the area of capital market regulation, entrusted perhaps to the African Union and ASEA would help to harmonize listing requirements, disclosure requirements and protections for investors. This would reduce risk premiums and encourage portfolio and direct investments from one African country to another. Policy should also promote harmonization of the financial reporting standards, capital adequacy norms and dispute resolution systems.

Second, regional governments and central banks must enhance macroeconomic coordination, particularly in monetary and exchange rate policy. Currency instability and misalignment still are the big hurdles to investments pouring across borders. Deepened regional monetary cooperation — for example, broader regional payment system usage and common digital currencies — helps to make transactions predictable and investment environments predictable. Single payment systems such as the East African Cross-Border Payment System (EAPS) and the Pan-African Payment and Settlement System (PAPSS) should be bolstered and expanded to encompass the continent.

Three, regulators need to adopt digital financial infrastructure, and the innovations that go with it, to de-risk capital markets and broaden participation. Sandboxes, fintech licensing models and open finance approaches can promote financial innovation, while safeguarding investors and the system. The guy who sends $50–$100 to Brazil every other month or who has an account with a Canadian robo-advisor will transfer in more cash and trade directly from his phone, while those who have an account with a US site that has all the stocks like a Robinhood or Open Invest will now have access to them 24/7, all of which I think 5 can really help to democratize access to capital markets through digitization.e-KYC platforms can help bank and verify additional users using all of the aforementioned methods.Blockchain and DLT can also be applied to clearing and settlement, specifically relating to blockchain-featured (as well as managed) clearing and settlement systems.Streamlining this most expensive cost and operational task will drive further capital cost capacity, as I mentioned, and expedite time to market across many asset types.Speaking of all these huge flows of both payments and capital that now know no boundaries, there is also a second 10 Named after the bottom row on a computer, it's a task force that will delineate the property rights of a digitally wrapped asset.c update to Baer Chain that I think will broadly benefit SDG # 8: Financial Inclusion.Digitization of all capital markets through clearing and settling faster, more securely and with lower costs online, in Cyberspace, versus old-world banking infrastructure, could enable a megatrend for both retail and institutional investors to access capital markets. 6 This would lower the working capital (or capital at risk) for the now mobile or web-based Wall Street Journal or Toronto Stock Exchange, for all its users Blockchain is evolving fintech again and offering digitizedaccess to capital markets 7 and the digital escape 11bil integrative payment system.page 4 of 4Payment will follow the path of capital markets, especially if it can recirculate back into these digital financial channels quickly and cheaply, very much along the lines of 3This leads to even more and faster financial inclusion.financial inclusion, detailed in SDG # 8, would encourage the rapid roll out of blockchain enabled capital markets for institutional and retail investors around the world through digital asset tokenization Capital Markets that digitize themselves using blockchain and built in IOT channels as well as electronic wallets will also incorporate a kinetically expanding swift or Ripple payment system that will loop around the Earth flowing with both digital information and value.

Fourth, there is an important role for the private sector to take advantage of the opportunities for integration, notably of institutional investors such as pension funds, insurance companies and sovereign wealth funds. These are the actors who should be encouraged to increase the ratio of their investment in regional infrastructure, green bonds or cross-listed securities. Governments can facilitate that with credit enhancement facilities, public-private investment platforms and regulatory incentives that reduce the risk of investing in other countries.

Fifth, capacity building and institution-building should be expanded among all stakeholders in financial markets, including regulators, exchanges, and investment banks and brokers. Training schemes, exchange of regional knowledge and cross-border internships all can create a new generation of practitioners comfortable with running integrated financial systems. Multilateral agencies such as the African Development Bank and UNCTAD can provide technical support to help build domestic capacity to track and regulate these more sophisticated flows of finance.

Finally, multi-stakeholder partnership and cooperation is key to the sustainability and furthering of financial integration, consistent with SDG 17. Governments, regional entities, development finance agencies, private investors and civil society should work together to co-create regulatory standards, innovation ecosystems and monitoring infrastructure that balance market efficiency with financial stability and equity. Forming regional integration councils and investment roundtables among RECs could offer an institutionalised opportunity for continued dialogue, joint prospecting and collective action.

In summary, the potential for the integration of African financial markets to contribute to enhancing inclusive and sustainable economic growth in the continent is huge. But unlocking this potential will require bold, unified reforms that cover governance, infrastructure, technology and regional diplomacy. Suitably handled, cross-border investments can lead to structural transformation, job creation and long-term resilience for African economies.

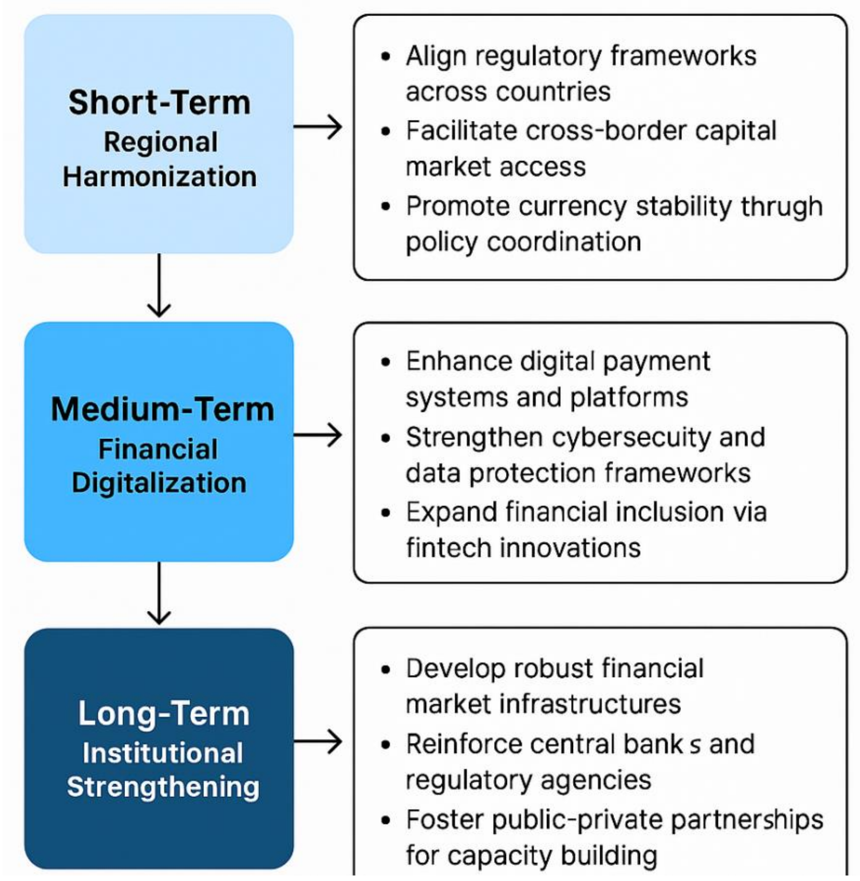

Figure 7. Policy Action Roadmap – Phased Reforms for Financial Market Integration.

The vertical roadmap sets out a plan where the main effort at the start is short-term harmonization, then financial services are digitized more and finally institutions gain strength. The plan outlines particular actions such as bringing regulations together, boosting digital networks and improving institutions, that need to happen to create an integrated and strong financial sector across Africa.

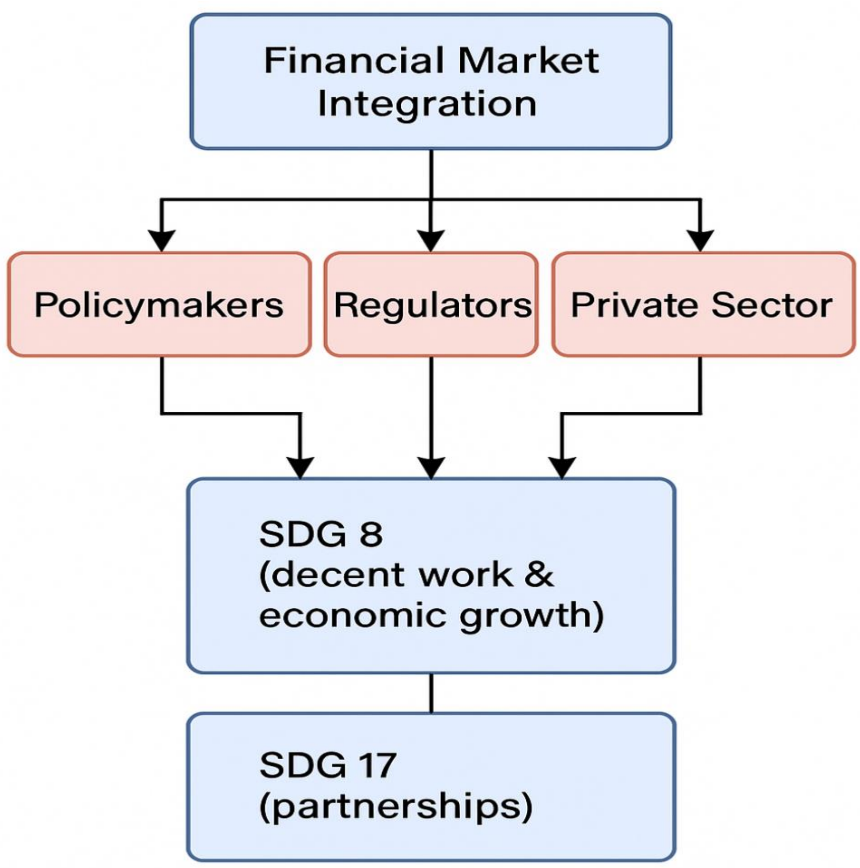

Figure 8. Policy and Practical Implications of Financial Market Integration in Africa.

The figure reveals the way financial market integration influences the decisions of different groups and how they relate to Sustainable Development Goals. It proves that harmonizing financial systems in Africa is important for achieving better work opportunities and economic growth, as well as successful partnerships for growth and SDGs.

6. Conclusion

This paper aimed to investigate the link between financial market integration and economic growth in Africa, and more, specifically, the effect of cross-border investments. Using a review based methodology and regional case studies in ECOWAS, SADC and COMESA, the paper concludes that financial integration can substantially boost inclusive and faster growth on the continent when deliberately managed and facilitated by institutional and technological enablers.

The findings support that the integration of financial markets make capital allocation more efficient, bolster liquidity, and raise investor confidence, key factors for long-term growth. Foreign investment is one thing but we need cross-border investments, especially investments from Africa that have the potential to do more than a mere investment;bringing regional ownership around that investment, promoting intra-African trade and limiting reliance on outside injections that hardly support local development. But these advantages are not self-executing. The paper identifies ongoing challenges -- in the form of non-convergence of regulations, exchange rate volatility, and political unrest -- that prevent realization of the full growth-promoting potential of integration.

Significantly, the comparative exercise shows the extent to which regional variations in financial maturity, infrastructure and institutional preparedness mould differing outcomes across African sub-regions. Countries that enjoy relatively stable macroeconomic environments, strong, coordinated policies, and strong digital infrastructure (evidence of this type of setup can be seen, for example, in East and Southern Africa) have tended to have derived more from the efforts of financial integration than less prepared ones.

In this sense, this study adds to the literature by drawing on theoretical tools from Endogenous Growth Theory, Capital Market Integration Theory, and the Gravity Model of capital flows to re-conceptualize financial integration as not merely a technical route but a development path infused with political economy and governance influences. It is also in line with global development plans, espesially SDG 8 (decent work and economic growth) and SDG 17 (partnerships for the goals), by underlining the demand of a coordinated and multiple engaging for inclusive regional development.

Finally, the results suggest the need for targeted and regionally coordinated policy reform to lower investment friction, streamline regulation, encourage innovation, and build institutional capacity. Financial integration as a cornerstone of Africa's economic transformation agenda For as long as Africa endures in the pursuit of continental integration aims, including through the African Continental Free Trade Area (AfCFTA), market integration, properly accountable, can be a quoin of the continent's transit to economic transformation.

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