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Full Length Research Paper

An Assessment of the Determinants of Financial Market Development in Cameroon

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Financial market development is very vital for growth of emerging economies. Empirically, understanding the length and breadth of financial market development in Cameron a quarterly data set from 2006-2014 is analyzed using the Ordinary Least Square technique to highlight the key determinants of financial market development in Cameroon. From this analysis, it is established that Domestic Credit to the private sector, Commercial Bank Deposits, Commercial Bank Asset Concentration Ratio, Inflation Rate and Total Value Traded of the DSX market are very significantly tools in the Financial Market Development in Cameroon. Furthermore, Interest Rate Spreads and Stock Market Capitalization were insignificant. On these bases it is very clearly that developing the Banking System is very crucial for the effective financial market by guaranteeing commercial banks credit to the small and Medium Size enterprises, reducing the Lending/Deposit gap and encourage competition of commercial banks through bank assets concentration ratio. This typically says the potentials of the Banking systems have not been fully utilized in Cameroon yet.

Keywords: Financial Markets, Bank Deposits, Bank Asset Concentration Ratio, Market Capitalization.

INTRODUCTION

Financial resource is a prerequisite for modern business irrespective of its size and location and financial markets play a vital role in the efficient allocation of these resources for the proper functioning of the economy. Fully developed financial market is instrumental in attaining sustainable and balanced growth. This is justifiable as financial markets increase the availability of financial resources through the mobilization idle resources (Savings), facilitating transactions and attracting foreign investments. Fully developed financial markets can achieve effective and efficient allocation of financial resources and enhance risk management, transparency and foster good corporate governance (Ayadi, 2013). Financial resources therefore are the life wire linking the various sectors and itself in a monetized economy. In this this light there are central debates emerging such as that on high interest rate spread with commercial banks in a currency union. This debate is keen for this study given that Cameroon finds herself in a Custom and Monetary Union of Central African States (CEMAC). With the case of the Eastern Caribbean Currency Union (ECCU i.e. Morrocco, Tunisia, Egypt), high interest rate spread of the commercial banking industry emerged as key public policy issue. This is

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because Commercial banks served as the main source of investment funding in the Eastern Caribbean Currency Union and caused the level of interest rate spreads to emerge as an important policy variable. Interest rate spreads indicates how efficiently banks perform their intermediation role of savings mobilisation and allocation. Large interest rate spreads are deemed to be inimical to economic growth, as they act as disincentive to private investment and otherwise constrain it to suboptimal levels.

The average level of bank concentration as bring a new turn to the debate of financial market development. Over the periods 1990-1997, the average level of bank concentration-measured by a fraction of commercial bank loans controlled by the three largest banks- across 99 countries was 0.72, but ranged between 0.2 to 1.0 with a standard deviation of 0.2. During these periods, the level of bank concentraion in India rose from 0.44 to 0.88 and France's bank concentarion ratio jumped from 0.21 to 0.46. This shows that commercial banks dominate financing in many places and even in the most developed countries. Although the Stock markets are only small part of the overall financial system there are very instrumental in fully developed financial market economies. This is so because, the existence of an equity market provides investors with an exi mechanism, which also attracts foreign capital inflows, especially by providing full information on the valuation of companies and the efficiency of the financial system and instruments. Not until recently has the focus increasingly shifted to stock market indicators, due to their increasing contribution of financial markets in economies (Naceur *et al*., 2007).

Prior to the 1990s, the European stock market capitalisation and stock market total value traded seemed to be greater in more liberalised markets. Some scholars try to explain this using the coming of Legal Code that protects private property owner. La Porta *et al*. (1997, 1998) argued that the origin of the legal code substantially influence the treatment of creditors and shareholders and the efficiency of contract enforcement. They document that countries with a legal code like Common Law tend to protect private property owners, while countries with a legal French Civil Law tend to care more about the rights of state and less about the rights of the masses. These countries are said to have comparatively inefficient contract enforcement and higher corruption and less well developed financial systems while the British Legal Origin achieved higher levels of financial market development. Mayer and Sussman (2001) emphasized that regulations concerning information disclosure, accounting standards, permissible practice of banks and deposit insurance do appear to have material effects on financial market development. This is the reason why in 1990, the ratio of private credit to GDP in the UK (112%) was much higher than the same ratio in France (89%). Stock market capitalization to GDP ratio in the UK was more than three times higher than that in France (Huang, 2005).

Over the years, there has been an accelaration in the number of African companies going public. Between 2007 and 2009, over USD 10 billion of share capital was raised across 18 stock exchanges mostly thanks to the listing of 170 new copmanies. The market capitalisation of the 10 largest markets grew from USD 222 billion to over USD 700 billion between 2002 and 2008, a Constant Annual Growth Rate (CAGR) of 18%. In Nigeria, the recapitalisation of the banking sector between 2005 and 2008 attracted over USD 4 billion of new investment through the stock market mainly from local investors. The strong after market performance of the Initial Public Offerings (IPOs) in Africa drew even more investors into pre-IPO investments (Nkontchou, 2010). In Nigeria alone between 2007 and 2009, over USD 8 billion of equity capital was raised in such pre -IPO private placements. Increased investors appetite for shares in banks such as Zanco in Zambia allows African states to benefit by successfully offloading large stakes in these companies. They also took advantage of the renewed investor appetite for African sovereign credit to raise bonds on the international market. The government of Ghana raised USD 750 million in debt sovereign bonds, while the Republic of Gabon suceessfully raised a USD 1 billion 10-year bond on the international market. The Government of Seychelles raised a USD 230 million three year bond. In effect, these flows enhance governments' financing capacities and constitute fresh money for public investment (Nkontchou, 2010).

By Ordinance No. 90/7, a new investment code was instituted in Cameroon. It's all embracing purpose is to encourage and promote productive investments in the country. Investment in Cameroon is now opened to all natural persons irrespective of their place of origin (Halle, 2006). The effect of this reform in the Structural Adjustment Programme (SAP) resulted to an increase in the number of commercial banks in the country from 8 banks in 1995 to 13 in 2013 and over 700 micro financial institutions. The public sector's stake in the banking sector decreased greatly after banks were restructured in favour of the private sectors due to mismanagement. This period also marked the entry of some new banks especially between 1997 and 2008 among which were Commercial Bank of Cameroon (CBC), CITIBANK, Union Bank of Cameroon (UBC), ECOBANK, United Bank of Africa (UBA) and National Financial Credit (NFC) Bank. The major players in the financial sector of the country is the banking sector, which accounted for about 84.4% of the total assets of the sector in 2005 and contributed to 19.6% to the GDP (Akule, 2012).

The CEMAC sub regions currently host two stock exchanges i.e. the Stock Exchange of Gabon and the Douala Stock Exchange (DSX). The DSX in Cameroon was created by an Act of Parliament N^{o} 99/015 of the 22 of December1999. It effectively started its trading in

2006. The DSX opened in April 2003. Three companies were listed on the DSX as of January 2010: the Mineral Water Company (SEMC), the African Society of Agricultural and Forestry in Cameroon (SAFACAM) and the Cameroon Society of Palms (SOCAPALM). It is respectively the local subsidiaries of two French multinationals, the first belonging to the Castel group while the latter two are owned by the Bolloré group. This market has however been successful in the mobilization of funds through the public calls for the acquisition of treasury bonds for example when the Gabonese Government raised the sum of 81.5% billion at the rate of 5.5% for the periods 2007-2013. In its struggle for its maintenance alongside a regional exchange involving six countries, the DSX scored valuable points in December 2009 at the close of the first bond issue made by the International Finance Corporation (IFC) (Nkwi, 2012). From July 2006 to January 2010, the average market capitalization in the DSX was 29.49 FCFA billion with highest capitalization of FCFA 93.73 billion in April 2009 and the lowest capitalization of 2.43 FCFA billion in April 2007 (Ake *et al*, 2010).

Exploring what determines financial market development has become an increasingly significant research topic in recent years (La Porta *et al*. 1997, 1998, Beck *et al*. 2003, Stulz and Williamson 2003). La Porta *et al*. (1997, 1998) have made a significant contribution to this debate by highlighting the importance of the legal determinants of financial market development. By applying the Mortality Hypothesis of Ace-moglu, Johnson *et al.* (2001) and Beck *et al*, (2003) emphasized the importance of institutions for the development of financial markets. Rajan and Zingales (2003) argued in favour of the Interest Groups theory highlighting that politics plays a central role in financial market development. Stulz and William (2003) illustrate that culture matters although it may be tempered by openness. As to the role of policy among others, Baltagi *et al.* (2009) studied the importance of trade openness while Chinn and Ito (2005) as cited in Yongfu, (2010) focused on the effect of financial openness on Financial Market Development. With this list of important factors of financial market, this study focuses on the empirical evidence of the Cameroonian economy to highlight the determinants of the financial market development across two categories: Banking system and the Stock Market capitalization.

Statement of Problem

Few research works have focused on the determinants of financial market development in Africa particularly in Cameroon. This accounts for limited policies such as the Structural Adjustment Programs (SAP) in Africa's financial markets as such the expected slow growth most African Economies. Furthermore, measures such as financial sector reforms that were implemented to assist in the development of African economy did not last. Africa' financial market development has been slow and in some cases stagnant for a while and measures such as financial sector reforms that have been implemented have little success in the development of the financial market. Countries in regions such as the Middle East and Asia that initially had similar income levels as Africa have experienced extensive improvements in their financial markets when compared to Africa. Many countries on this continent are plagued by low sometimes stagnant economic growth which in turn leads to difficulty in poverty eradication. This problem leaves researchers to contemplate between the an inherently slow level of financial market development or inappropriate financial market development policies especially the trade-off between risk management and innovative financial market instruments, (Allen *et al*., 2010 as cited in Benya, 2012). Although other thoughts evolve around the large interest rate spread in most African markets as an indication of high cost of credit in Africa, a fully developed financial market would efficiency allocate resources. In effect, the problem of difficulties in accessing credit hinder growth thereby lowering household savings which in turn depresses investment and domestic resource mobilisation (Karim *et al*., 2009) seems to be an outcome of low level of development of the financial market with strict risk management policies.

It is in this vein that the Cameroon financial market is perceived. Although, there seems to be many improvements in the financial markets in Cameroon more efforts have to be put in place to revamp the banking sector of Cameroon among which include the guarantee of bank deposits, the establishment of a regional deposit insurance scheme in 2009. The Fonds de Gurantee des Depot en Afrique Central (FOGADAC) started accepting contributions in March 2011. The FOGADAC is supervised by COBAC, under the oversight of BEAC and Banking Sector Representatives. The scheme funded by fees from financial institutions will ensure deposits up to 5million once it becomes operational (IMF Staff Consultative Report, 2012). Despite the high jump of almost 15 percent of credit to the private sector in 2013, Cameroon's banking sector is still characterized by a high level of excess liquidity, a heavy concentration of loan and deposit activity and a low level of financial intermediation and innovation.

CEMAC countries created a regional stock exchange in Libreville that is the "Bourse de Valeur Mobilier d'Afrique Central" (BVMAC) while at the same time Cameroon established a national stock exchange in Douala (DSX) the co-existence of the two stock markets (Douala Stock Markets and the "Bourse de Valeur Mobilierd'Afrique Central") which are similar in terms of market infrastructure, that is in terms of technical resources and procedures is not only costly but undermines regional cohesion. Furthermore**,** The CEMAC community regulatory instruments recognize a single regulator in the region i.e. the Commission for Market Surveillance of the Central African Financial Markets (COSUMAF) while Cameroon has established a regulatory body for its stock market which is the Financial Market Commission (FMC) whose power covers the entire territory. This has given rise to legal uncertainties that could arise from the coexistence of two regulatory bodies in the region (Moyo J., nd).

From the above it can be seen that there is much importance to an efficient functioning financial system in achieving to economic growth and macroeconomic stability. However, the question here is what determines the development of a Financial Market in Cameroon? In order to answer this question this study assess: the extent to which Domestic Credit to the Private Sector, Commercial Bank Deposits, Commercial Bank Asset Concentration Ratio and Interest Rate Spreads determine Financial Market Development in Cameroon as well as the extent do wich the Stock Market Capitalisation, Stock Market Value Traded and Inflation Level foster Financial Market Development Cameroon?

All of these is to meet the objective of assessing the importance of the Banking System Variables and the Stock Market Capitalization variables in the development of the financial market in Cameroon. Using the Bayesian hypothesis testing approach this study hypothesizes that:

Ho_1: Domestic Credit to the Private Sector and Commercial Bank Deposits Commercial Bank Asset Concentration Ratio and Interest Rates Spread do not significantly determine Financial Market Development in Cameroon and,

Ho_2: Stock Market Capitalisation, Stock Market Value Traded and the level of Inflation do not have any statistical significant influence on Financial Market Development in Cameroon.

Area and Scope of the Study

This study is limited to the study of the development of the financial market in Cameroon. The Cameroon financial market includes all financial institutions operating with the economy of Cameroon. This refers to the money market, capital markets, with key financial instruments such as bonds, securities, shares, money not forgetting the laws and institutional structures that run the financial market and includes the commercial banks, investment banks, stock exchange market, Central bank, government regulatory agencies. With is delimiting of the study and the study area and overview of the study area will reveal more insight to better assess the breadth and depth of the financial market in Cameroon. Cameroon from a point of protection of private property and arbitration ensures that prospective foreign investors who wish to avoid entanglement in the court system should consider arbitration as a form of dispute settlement. Thus in the 1990 Investment Code states that, at the time of incorporation or application for Investment Code benefits, a firm may choose one of several options in the eventual need for dispute resolution: adjudication by local courts, arbitration by the international courts of justice, or resolution at an international arbitration center, according to Cameroonian law and the arbitration regimes of which Cameroon is a member. Furthermore, under the 2002 Charter, claimants should forward petitions for redress or non-compliance with the provisions of the Charter to the Regulation and Competition Board. Cameroon accepts binding international arbitration on investment disputes between foreign investors and the government. In tax-related disputes, the new 2012 finance law stipulates that decisions rendered by the Ministry of Finance can be challenged before the Administrative Court within 60 days. Difficulty in resolving commercial disputes, particularly the enforcement of contractual rights, remains one of the serious obstacles to promoting investment in Cameroon. Foreign corporate plaintiffs are often frustrated with the slow pace of the Cameroon legal system. Local businesses routinely exert pressure on the courts, which may be swayed by bribes or by the clout of a political heavyweight. Some foreign companies have alleged that judgments against them were obtained fraudulently or as the result of frivolous lawsuits. The enforcement of judicial decisions is also slow and fraught with administrative and legal bottlenecks. However, Cameroon is a member of the International Center for the Settlement of Investment Disputes (ICSID, also known as the Washington Convention), and is a signatory to the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards (also known as the New York Convention). In May 1997, Cameroon's Council of Business Managers and Professional Associations (GICAM), an association of 207 companies and 15 professional associations representing 70 percent of all formal sector business activity in the country, created its own arbitration center to handle business disputes. In 2011, however, approximately half of GICAM's members separated to form a competing business association called "eCAM. (USD - Bureau of Economic and Business Affairs, 2013).

An overview of the financial market in Cameroon as presented by the African Financial Markets Initiative (AFMI, 2016) presents that, the financial market in Cameroon is made up of 13 commercial banks in Cameroon, which represent 38% of the total bank assets in the CEMAC region with XAF 2916 billion, and the Douala Stock Exchange (DSX) opened in April 2003. DSX has just 3 companies are currently listed: water bottling company SEMC, agro-forestry company SAFACAM, and agro-industrial company SOCAPALM. SOCAPALM's offering in 2009 was overbid. In late 2009, the World Bank's Investment Finance Corporation issued bonds worth $40 million, one third of which are traded on the DSX. Cameroon issued its first bond for XAF 200 billion in December 2010 with a maturity of 5 years at

5.6% for the financing of infrastructure projects. The bond is also currently traded on the DSX and the BVMAC, the Central Africa Stock Exchange.

Looking at the instruments or market structure they following instruments can be seen: Treasury Bills (T-Bills): Maturities available are 13 weeks, 26 weeks and 52 weeks. Treasury Bonds (T-Bonds): Maturities available are equal or greater than 2 years. The nominal value of T-Bills is set at XAF 1 million or a multiple of this amount. The nominal value of Treasury bonds XAF 10 000 or a multiple of this amount. The T-Bills and T-Bonds have the same characteristics for all CEMAC members.

The participants of the financial market are: the State which issues government securities by tender. States that maintain arrears on securities issued cannot issue further until the debt related to past emissions is cleared, the Central Bank of Central Africa States (BEAC) organizes the auctions, Primary Dealers (PDs), who are selected among the credit institutions, and are the only ones who can participate in the auctions and Commercial banks who are the most active investors in government debt instruments.

The operation or functioning of the market can be summarized with the following operations:

Primary market were in 2012, Cameroon issued T-bills amounting to XAF 110 billion. This represents an increase of 120% compared to the amount issued in 2011. The 26-week maturity represented 68% of the T-Bill issuances in 2012. At end of 2012, the total outstanding T-Bills were equal to XAF 160 billion. The 26-week maturity represented 50% of the stock of T-Bills, followed by the 13-week maturity with 33% and 52-week maturity with 17%. The only one T-Bonds issued by Cameroon is the “ECMR 5, 60% net 2010-2015” for a total of XAF 200 billion and with a 5-year maturity. The total outstanding of this bond at end of 2012 was XAF 160 billion. The average interest rate for government debt instruments at end of 2012 was 4, 52%, of which 5,60% for the T-Bond and 1,82% for T-Bills.

Secondary Market which when compared to the embryonic stage of development of CEMAC securities market, the secondary market is clearly inexistent. There is a need to stimulate the secondary market. However, has been some activity on the secondary market since 2011. Cameroon’s T-Bills secondary market recorded only a few transactions, 8,429 T-bills, for a total amount of XAF 8,4 billion in 2012. The turnover ratio of the T-Bills in 2012 was estimated at 5, 27%. Regarding the T-Bonds secondary market, 6,367,466 securities were traded in 2012 on the stock market. The turnover ratio is estimated at 31,8%.

Clearing, Settlement and Custody where the “Cellule de Regulation et de Conservation des Titres (CRCT)” serves as account manager, settlement agent and central depository. The CRCT is a structure, which receives the securities issued by the Treasuries of Member States of CEMAC, and held by Primary Dealers (PDs) who are its members exclusive. Membership is of Primary Dealer to the CRCT is mandatory. The CRCT assumes the role of accounting issue. It debits the securities account of the government at each issuance and credit the investor account. It ensures daily system integrity by comparing the debited accounts against PDs accounts. On the secondary market, any legal entity, wishing to acquire securities issued under this structure must have a "securities account" opened with a credit institution established in the CEMAC, an authorized Primary Dealers affiliated with the CRCT.

Protection of Investors is placed under the Commission for the Supervision of Financial Markets in Central Africa (CONSUMAF) who is the regulator and controller of Financial Markets in Central Africa. As such, it aims to ensure the protection of investor information, savings invested in securities and the proper functioning of the market. FOGADAC, a Guarantee Fund deposits in Central Africa was set up on 21 February 2011. The FOGADAC is a system of bank deposit insurance. Its main role is to repay or return deposits and other assets placed with banks, when they are finally in a position to make such repayment. The maximum amount, which may be claimed for reimbursement, for an investor eligible asset placed in a bank, is 5 million FCFA.

To participate in the market the BEAC organizes the auction on behalf of the states. The auction takes place at the asking price. Orders are served retained interest rates or the price offered by the bidders within the maximum interest rate or maximum price decided by the government. At the end of the auction, the general information, including the amount of bids expressed the amounts used and the rate and limit price selected are disseminated through the press. The methods of creating, presenting and counting of the tenders shall be determined by agreements on the one hand, between BEAC and National Treasuries, and secondly, between the BEAC and the Primary Dealers (PD). Subscriptions to government securities are firm and irrevocable. They are paid in a single payment by debiting the account of the PDs at the BEAC and credited to a special Treasury account opened for this purpose. Given that the debt market is under developed, the optimal schedule has been adopted as part of regular program. The six National Treasures issue in turn, at regular intervals. Each National Treasury will issue T-Bills weekly on Wednesday. The amounts are generally low to allow all states to issue at the same time, resulting in each State having fifty-two issues of T-Bills per year. Each National Treasury can issue T-Bonds monthly. The auctions are scheduled to take place every Wednesday. However, given the nature of the instrument and the expected volume of transactions in relation to the needs for public investment, treasuries are not able to issue on the set day.

A shift schedule was developed for planned Wednesday auction sessions: Cameroon: 1st

Wednesday of the month, Central Africa - Congo: 2nd Wednesday of the month, Gabon: 3rd Wednesday of the month, Equatorial Guinea-Chad: 4th Wednesday of the month. These emissions will occur at regular time intervals and are publicly known. The total amount of the twelve issuances will be released in the Finance Act each year. For each fiscal year, this amount will be communicated to the market by the Minister of Finance no later than November 30th of the previous year. This communication from the Minister responsible for finance may take the form of a conference, briefing or a press release. The amount of the issuance will not be announced at this time. However, the amount to be raised for each auction is specified in the auction announcement in accordance with National Treasury issuance calendar. On the secondary market, the T-Bills are traded OTC and the T-Bonds are traded on the DSX and the BVMAC.

The settlement of transactions takes place at T+3. The level of taxation pursuant to Regulation No. 14/07 - UEAC-175-CM-15 instituting a specific tax regime applicable to the transactions listed on the Securities of Central Africa (BVMAC) "are exempt from income Tax Securities (IRVM) or any other taxes or levies of a similar nature, interest obligations of States for residents of the CEMAC." Subscribers residing outside the CEMAC zone must comply with income tax laws of their country of residence. The Issuer shall levy any withholding tax on loan repayments. Auctions of Government securities are exclusively reserved for Primary Dealers. Each CEMAC state has its own network of Primary Dealers. However, a credit institution, which meets the eligibility requirements, may be a Primary dealer only for the country they belong to or upon request, all the states. The Ministers of Finance, select Primary Dealers from all the credit institutions in CEMAC that meet specifications adopted by the Committee of Ministers, after consulting the Monetary Policy Committee.

There are Market restrictions such as: Openness to international investors, foreign investors can access the debt market under the same terms as nationals of the zone. There are no rules that discriminate foreign participants in the market. Capital control has no restriction on foreign ownership in the CEMAC zone while there are restrictions on FX and profit repatriation. There are no restrictions on obtaining foreign exchange. The regional central bank, the BEAC, issues CFA for circulation among the members of the CEMAC. Although the Central African franc is at par with the West African CFA franc, the two currencies are not usually accepted for payment in each other’s zones. Foreign investors have the right to repatriate earnings and the profits from sales of financial instruments. There are no restrictions on converting or transferring funds associated with investments, including remittances of investment capital, earnings, loan repayments, and lease payments.

This study happens to align with the works of Rajan And Zingales (2003) and Levine (1999) who argued that financial market development is the ability of a financial sector to acquire information, enforce contracts, facilitate transactions and create incentives for the emergence of particular types of financial contracts, markets and intermediaries, and all at low cost. Domestically, with work happens to align with the works of Djoumessi (2009) who claims that financial market development only occurs when financial instruments, markets and intermediaries ameliorate though not necessarily eliminating the effect of information, enforcement and transaction costs yet better provide financial services. This is due to the fact that efficiency is judged from the perspective of least cost. On these assertion this work builds on the empirical works of Randall (1998) as cited in Kari Grenade (2007) who devised two approaches to explain various determinants of interest rate spreads. In the first approach, using 24 quarterly observations for each of the countries over the periods 1991-96, an accounting framework was formulated to decompose spreads into shares of various components. Using two-stage least square methodology, the coefficients of parameters were obtained. However, her framework was purely descriptive and lacked any behavioural content, which she duly acknowledged.

Huang (2005) as cited in Aden (2009) examined the main factors of financial market development. A comparison of a number of countries was made to justify the different role of various factors of financial market development. These important factors are grouped into three categories. These included institutions, policy and geography. To capture the depth of the financial system, the liquid liabilities, banks overhead cost, net interest margins were included. For the impact of stock market on financial market development, three main variables included, the stock market capitalization, total values traded and turnover ratio. The data was averaged over the periods of 1990-2001. Four indices were made by using the method of principal component analysis. These indices are FD (Financial Development) bank, FD stock, FD efficiency and FD size. Two techniques that is the Bayesian Model Averaging (BMA) and general to specific methods were used to gauge the robustness of a selection of determinants of financial market development. The findings suggested that the level of financial market development is basically determined by the quality of its institutions, government policies, geographic conditions, its income level and finally its cultural characteristics. Ramful (2001) as cited in Kari Grenade (2007) in his study on the Mauritian banking sector found that interest rate spread was used not only to cover the cost of operating expenses and required reserves but also reflected the high degree of market power among banks and poor quality of loans.

To theoretical build a case for the determinants of the financial market in Cameroon the theoretical synthesis of the Efficient Market Hypothesis are brought to fore.

Efficiency of the financial market in itself is implicit of minimum asset risks based on the right market information. Given that asset risks vary over times full market information because the most valuable indicator for financial assets and instruments. Fama (1960) in his efficient market hypothesis theorized that, a market is efficient if it is impossible to make economic profits by trading on available information because prices on traded assets reflect known information. Therefore, the theory asserts that it is impossible to consistently outperform the market by using any information that the market already knows, except through luck. This assert was made on the assumption that all investors are independent, rational, and well-informed and hope for the highest profits. As a limitation to this market form, if there are legal barriers to private information becoming public, as with insider trading laws, this is impossible except in the case where the laws are universally. However, this theory is in line with this study because an efficient financial market will reflect all information which is an indication of stock market development. This theoretical assumption greatly recreates the market environment of the financial market of Cameroon as presented in the Area and Scope of Study. Therefore, it sets a very relevant theoretical platform for the Analytical method.

Analytical Method

The study uses secondary data running from 2006-2014 inclusive. The ex post facto research design was adopted for this study. One independent model was designed. This work adopts the Ordinary Least Square Technique to analyse data assuming linearity in the parameters. The variables in the model estimated include; DCPS, CMBDs, CMBCR, IRS, MKC, TVT, and L.INFL. The Augmented Dickey-Fuller (ADF) and the Phillips -Perron (PP) tests were employed to test for unit root given the time series nature of the data.

This study adopts and augment the model used by Benya (2010) in his study on the Determinants of Financial Development in Africa.

$\text{Ln FD} = \beta_0 + \beta_1 \ln(TO)_i + \beta_2 \ln(FO)_i + \beta_3 \ln(Growth)_i + \mu ii$ ……………………………….(1)

Based On the Above, the Model for This Study Is Stated As:

$FDt = \beta_0 + \beta_1 L(DCRPS)_t + \beta_2 L(CMBDs)_t + \beta_3 L(CMBCR)_t + \beta_4 L(IRS)_t + \beta_5 L(MKC)_t + \beta_6 L(TVT)_t + \beta_7 L(INF)_t + \mu ii$ ……………………………………………………………………………(2)

$\text{M2 to GDP} = \beta_0 + \beta_1 L(DCPS)_t + \beta_2 L(CMBDs)_t + \beta_3 L(IRS)_t + \beta_4 L(CMBCR)_t + \beta_5 L(MKC)_t + \beta_6 L(TVT)_t + \beta_7 L(INFL)_t + \mu ii$ ……………………………………………………………………...(3)

Where FD: Financial Market Development measured using Liquid Liability (M2) to GDP, M2 to GDP: Broad money Supply (% of GDP) , DCPS: Domestic Credit to the Private Sector, CMBDs: Commercial Bank Deposits, IRS: Interest Rate Spread, CMBCR: Commercial Bank Concentration Ratio, MKC: Market Capitalization, TVT: Total Value Traded, INFL: Level of inflation (CPI).

The following are the a priories;

$\beta_0>0$, $\beta_1>0$, $\beta_2>0$, $\beta_3<0$, $\beta_4<0$, $\beta_5>0$, $\beta_6>0$, $\beta_7>0$, where; β_0, β_1, β_2, β_3, β_4, β_5, β_6, β_7, are unknown parameters to be estimated and µii is the white noise Error Correction (EC) term which is a self-correcting mechanism of the dependent variable from its long run trend.

PRESENTATION AND DISCUSSION OF RESULTS

The results obtained from the econometric tests suggest that domestic credit to the Private sector, commercial bank deposits, commercial bank asset concentration ratio, inflation rate, total value traded are significantly related to Financial Market Development though interest rate spreads and stock market capitalization statistically insignificant.

The regression results shows that the coefficient of the constant term (-0.0078476) is negative. This entails that in the absence of our explanatory variables (DCPS, CMBDs, IRS, CMBCR, MKC, TVT and INFL) Broad Money Supply will still be negative. The reason for the negative value of the M2/GDP could stem from the fact that money in the hands of individuals plus moneys in the banks is less than Cameroon's external debts meaning that we are merely transacting with borrowed money. Moreover, the coefficient of DCPS is positive (0.9284786). The regression result indicates that DCPS is positively significant at 5% level thus we reject the Null Hypothesis that DCPS does not significantly determine M2/GDP. The reason for the positive relationship between Broad Money Supply and DCPS is because when banks give out credit, the amount of money in circulation also increases as people tend to carry out investments and more investments indicates more employment and thus more income as a result of the multiplier effect or the money multiplier effect.

Furthermore, the regression result for CMBDs is positively significant at 1% level. As a result, we fail to accept the null hypothesis that there is no significant relationship between CMBDs and M2/GDP. The result is consistent with the a priori expectation of this study. The reason for the positive significant relationship between broad money supply and CMBDs may be because as bank deposits increases, idle cash also increases. Since idle cash is not profitable to banks, they tend to create

Table 1 Presentation of the Regression Results

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*P>| t |*
C	-0.0078476	0.0076181	-1.03	0.316
LOG(DCPS)	0.9284786***	0.3255441	2.85	0.010
LOG(CMBDs)	0.6959349***	0.1431015	4.86	0.0000
LOG(IRS)	-0.6316116	0.803382	-0.79	0.441
LOG(CMBCR)	0.744481***	0.2132514	3.40	0.003
LOG(MKC)	0.0187057	0.221625	0.84	0.409
LOG(TVT)	-0.160288*	0.0092623	-1.73	0.098
LOG(INFL)	0.13768040**	0.0619316	2.22	0.039
Dependent Variable:	D(BMS)			
R-squared	0.7642			
Adjusted R-squared	0.6774			
Durbin-Watson stat	1.985577			
F-statistic	8.80			
Prob (F-statistic)	0.0001			
observations	34			

Source: *Computed from data Extra of Cameroon from the Quarterly Economic Bulletins published by BEAC, the Douala Stock Exchange Report, International Monetary Fund (IMF) and the World Bank.*
* Statistically significant at 10 percent α - level, ** statistically significant at 5 percent α - level and *** statistically significant at 1 percent α – level.

more money by given out these deposits in the form of loans that bear different rates of interests.

The regression result for interest rate spreads (IRS) shows that IRS is insignificant at 10% level. This leads us to accept the null hypothesis which states that there is no statistical significant relationship between interest rate spread and Broad Money Supply. The results of the coefficient is in line with the a priori expectation. The reason for this may be due to the high lending interest rates of 15% for banks in Cameroon as against a low deposit interest rate which on average is 3.25% giving a Spread of 11.75% as against the international standard of 3.6% (Grenarde, 2007). The ceiling on bank lending rates currently set at 15 percent by BEAC, is likely to limit the possibilities of bank lending to small and medium size enterprises (SMEs) and households whose risk profile are high. This rate has been constant throughout the periods under observation as seen from the low standard deviation of 0.09648.This high IRS in Cameroon tends to hinder borrowings from Commercial banks since it is more costly to borrow money than to lend in Cameroon Commercial banks.

According to the results from regression, CMBCR has a positive coefficient. This means that, it is positively and statistically significant at 1% level with broad money supply in Cameroon. As a result, we fail to accept the alternative hypothesis and accept the null hypothesis which states that CMBCR positively influence M2/GDP. The level of significance may indicates that the high level of concentration of Commercial Banks in Cameroon have been beneficial to banking sector efficiency.

This work also focused on examining whether stock market capitalization determines financial market development in Cameroon from 2006-2014 using quarterly data. Employing the Ordinary Least Squares method of parameter estimates, the result shows that stock market capitalization has a positive coefficient but insignificantly determines financial market development even at 10% level. This means that improving market capitalization of the DSX is not sufficient to enhance Financial Market Development or M2/GDP.

Broad money supply was further captured by Total value traded of the Douala Stock Exchange. Its coefficient shows negative but significant at 10% level. We therefore fail to accept the null hypothesis in favour of the alternative hypothesis that total value traded significantly determines financial market development in Cameroon at 10% level. However, the coefficient is not consistent with the a priori of this study. Empirical findings on this has however been very scarce.

Lastly, this study used inflation rate to capture M2/GDP. According to the regression result the coefficient of inflation rate measured using CPI is positive and significant at 5%. We therefore conclude that inflation positively and significantly determine M2/GDP in Cameroon thus rejecting the null hypothesis. The reason may be that recently the Cameroon government is making efforts to encourage the granting of loans to small and medium sized enterprises.

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

It has been suggested that there are many sectors on which countries across Africa can focus their economic objectives on in order to ameliorate their poor economic situations and improve on their financial markets as discussed in introduction. Among others, the development of the Douala Stock Exchange is suggested to be important for the Cameroonian economy in order to achieve sustainable economic growth.

Considering the determinants from the Banking system, broad money supply (M2/GDP) and seven indicators were used. These indicators are consistent with what most other studies have used though at times may not use all the proxies. Broad money supply (M2/GDP) was chosen to serve as the indicator for financial market development consistent with what is obtained from literature for example (Levine, 1997; Dushimumukiza, 2010; Benya, 2010). The results obtained suggest that domestic credit to the private Sector, Commercial Bank Deposits, Commercial Bank Concentration, Interest Rate Spreads, Inflation Rate, Total Value and M2/GDP are significantly related to Financial Market Development though Stock Market Capitalisation proved contrary as such, this calls for further research on this same mechanism.

The determinants of financial market development in Cameroon is very instrumental to its economy and the world at large and so it is not an issue for researchers especially in Cameroon to ignore as very little have been done in developing the Capital market and even private securities such as company securities and bonds. Besides, financial markets particularly the stock exchange market of any economy is regarded as a barometer of growth as it provides long term financing not only to the government but also to private investors as well as international companies through the issue of securities. Assessing the determinants of financial market development in Cameroon has helped pin pointed those factors that should be taken seriously by policy makers in the course of achieving vision 2035. It is equally an outstanding step towards the improvement of stock market capitalization and total value traded of the Douala Stock Exchange.

Based on the fact that the relationship between domestic credit to the private sector and M2/GDP is positive and significant, the government of Cameroon should gear their policies towards strengthening and developing the financial markets more specifically in the area of credit extension which helps boosts investment in the economy. Some measures such as reducing the required collateral security for loan extension so as to encourage small and medium sized enterprises, government guarantees to financial institutions in case of loan defaults will help increase the rate of investments in the country. Commercial bank deposits also showed a positive and significant relationship. This variable should also be looked into because an increase in bank deposits is an indication of a fall in bank credit. Also measures should be taken to reduce unnecessary idle cash in the banks for they do not yield profit but costs to the bank. This can further be achieved if the government of Cameroon revised bank interest rates. Talking with respect to Interest Rate Spread, this variable is negatively significant. This implies that Interest Rate Gap is negatively related to financial market development and its significance implies more policy attention. Bank lending rate in Cameroon is 15% while their borrowing rate is 3.25% per annum giving which gives an Interest Rate Gap of 11.25% (15-3% -3.75). This rate is too high for an average Cameroonian given the economic situation of Cameroon. Serious policy measures should thus be taken to reduce the interest rate gap in Cameroon to boost investments through more credit extension as we strive for vision 2035.

Again, commercial bank asset concentration ratio (CMBCR) is the ratio of total assets of the three largest banks in Cameroon to total banking sector assets Beck *et al*. (2003b). It measures the degree of concentration in the banking industry. The coefficient of CMBCR was positive and significant. Demirguc-Kunt and Levine (2000), argued that commercial bank concentration will only be profitable depending on the level of economic development of the country. For low income countries it is more profitable than for high income countries. This implies that the government in Cameroon should encourage bank concentration. In Cameroon the top three banks in are BICEC, SGBC and Afriland First Bank. These banks seem to be doing well. Furthermore, Levine (2000) argues that banks with high market share or monopolistic power have greater incentive to incur the cost associated with overcoming information barriers which then facilitate the flow of credit to worthy enterprises. With increasing returns, greater concentration may increase bank efficiency through more efficient scale, organization, management, scope and product mix.

The proxies for stock markets were stock market capitalization and total value traded. These proxies don't actually affect financial market development in the case of Cameroon except for Total Value Traded that was almost insignificant at 10% in determining broad money supply in Cameroon. These results are better understood by the fact that the market is still not active. Cameroonians don't yet have stock market culture; the main financial system is bank loans when money is needed. As a result of this, the government should put in measures to revamp the market.

The rate of inflation shows significant and positive. It means that inflation is positively associated to financial market development. This implies that even though the Government needs to encourage credit extension by banks they have to watch out for inflation because inflation seems to have a negative impact on banking activities.

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