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FINAL

REPORT ON THE PROCEEDINGS

THE INTERNATIONAL CONFERENCE

ON PROMOTING

CAPITAL MARKETS IN AFRICA

November 11-13, 1992

Abuja, Nigeria

AFRICA VENTURE CAPITAL PROJECT (AVCP)

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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT - NIGERIA

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1. EXECUTIVE SUMMARY

1.1 Background

The US Agency for International Development (AID) is making every effort to strengthen private sector activity in developing countries as a means of stimulating and accelerating economic development in a more efficient manner.

Within the African Bureau, the Operations and New Initiatives Department (ONI) has been operating the Africa Venture Capital Project (AVCP) as an instrument to assist productive investment in the private sector. The overall goal of the AVCP is to increase the mobilization of long-term debt and equity capital for private enterprise investment in Africa. Harvey & Company, Inc., as contractor for the project, has been working with AID to achieve its objectives with a five year project.

AID has been examining the possibility of utilizing the AVCP in several African countries to stimulate more private sector activity through the implementation of venture capital funds. For venture capital funds to be most beneficial to their owners, it is required that adequate exit strategies and options are available. Capital markets, and more specifically stock markets, provide some of the most efficient and profitable exit options for venture capitalists. Recognizing this fact, the AID supports the development of capital markets in African countries.

1.2 Capital Market Conference

A mission consisting of Dr. Warren Weinstein of AID and Arthur Polk, a consultant to Harvey & Company, Inc., attended the International Conference On Promoting Capital Markets In Africa which was held at the Nicon Noga Hilton Hotel in Abuja, Nigeria from November 11-13, 1992. The conference was sponsored by the Nigerian Securities and Exchange Commission (SEC) in collaboration with the African Development Bank (ADB).

The sponsors and almost 200 participants from 25 countries attended this conference with the objective of discussing the current condition of capital markets, more specifically stock markets, on the continent of Africa, and what might be done to improve the operation of these existing markets as well as create new markets with the ability to be internationally competitive.

The adoption of market-oriented reforms by countries of Eastern Europe and the former Soviet Republics has definitely altered the pecking order in international resource flows. There are now numerous other claimants to the goodwill and support of the international community and Africa has to learn to compete for such financial attention.

There is also a new recognition in Africa that the private sector must be supported and brought into the forefront of the economic development process. Stock markets can become extremely useful tools of economic development if allowed to function properly in support of entrepreneurship.

1.3 Financial Markets Development

Generally, money and capital markets are at a very early stage of development in Africa, and are, arguably, the least developed in the world. For instance, there are no money and securitized capital markets in Ethiopia, Somalia and Tanzania for the flow of funds between financial institutions, and associated interest rates are determined by the government. For Africa, based on a calculation of the market capitalization of stock markets in some 7 countries in 1985 and 10 countries in 1991, the figures for the markets are US$60 billion and US$127 billion respectively. These represent effectively less than 1.5% of the values for mature economies although some small, interperiod growth is noted.

It is significant to note that the speakers had differing numbers when discussing which countries had existing stock markets. Zimbabwe, Ghana, Kenya, Nigeria, Botswana, Abidjan, and Mauritius are the markets which were mentioned either directly or peripherally. South Africa, which has the most sophisticated market on the continent and is slowly becoming a political reality, was only a subject of conversation off the record. Discussions on the subject of regional stock market development must eventually include South Africa given the impending dominance of this market in the southern African countries.

There are many factors which have caused African stock markets to develop very slowly compared to their counter-parts in other areas of the world. These negative factors can be considered both macro and micro in their origin and nature. African and non-African participants at the conference more or less agreed on the same negative factors. What was most significant was the fact that the majority of the African governmental officials acknowledged the failure of bad policies or that there was poor implementation of good policies.

In general, the areas of greatest weakness in these African capital markets center on a lack of stable macroeconomic and political environments; regressive and inconsistent monetary and fiscal policies; inappropriate regulatory, legal and tax regimes; an overly intrusive involvement of management deficient governments in the markets; low levels of industrialization; private sector participation rates are low; and the existence of underdeveloped infrastructure and communications facilities. Additionally, archaic and ill conceived micro-financial policies have served the purpose of causing distortions in the financial markets which have further restricted stock market development.

A major issue never discussed at the conference in any form was the subject of how do you develop regional stock markets to include the Franc CFA Zone countries. Economic and financial policies of the individual countries operating in this CFA Zone usually have no connection with their individual economic circumstances, but usually reflect the knock-on effect of France's economic and financial standing within the European Community and the larger global financial markets. Given the evident political sensitivity of this topic, none of the participants discussed the subject of regionalization of stock markets to include Abidjan in the debate.

1.4 Recommendations for Improved Stock Markets

The conference participants offered different suggestions to improve the prospects of developing globally competitive stock markets on the African Continent. These were:

1. Provide stable political environments.
2. Implement comprehensive fundamental economic reform programs to correct economic distortions on a macro level.
3. Put in place progressive and consistent internal monetary and fiscal policies.
4. Create appropriate regulatory, legal, and tax legislation which can stimulate domestic and foreign investment.
5. Tailor foreign participation.
6. Improve infrastructure and communications capabilities.
7. Strengthen and support private sector involvement in the development process and in capital markets.
8. Modify and remove foreign exchange controls and deregulate exchange rates.

9. Support the creation of more financial intermediaries (i.e. venture capital firms, investment banks etc.) to stimulate business activity and grow capital markets.

10. Minimize direct governmental roles in the operation of capital markets and emphasize the oversight functions.

11. Promote stock market educational initiatives for the public, market participants and journalists.

12. Implement free market pricing mechanisms which discard government pricing and allocation functions.

13. There is a need to improve the quality of management in African governments regarding policy implementation.

14. Regional organizations should assist in the establishment and development of capital markets.

A verbal communique was issued by the Conference which specified several immediate objectives for African countries desirous of developing their capital markets. They should:

1. Move as quickly as possible to dismantle foreign exchange control restrictions and move to market determined exchange rates;

2. Move to reform the regulatory, legal and tax regimes required to attract domestic and foreign investment to their capital markets;

3. Move to create financial intermediaries, with emphasis on venture capital funds, capable of supporting private enterprise; and

4. Create an African Capital Markets Forum which should meet periodically to deliberate on issues affecting markets, find solutions to problems and promote measures to encourage market growth.

1.5 Establishment of an African Capital Markets Forum

The Director-General of the Nigerian Securities and Exchange Commission accepted responsibility to organize and inform the other conference participants on the first meeting of the Forum. In addition, the conference participants from the bilateral and multilateral organizations present (i.e., AID, IFC, IOSCO, AfDB, etc.) agreed to support the Forum in principle.

It was quite obvious that Nigeria and Ghana are the driving forces behind the conference and the movement to improve the stock markets of their respective countries, but there is an awareness by their officials of the need for the other African countries to improve their investment climates and stock markets so that there is mutually beneficial regional and continent-wide economic development.

An important first step in solving the problems of capital markets development is that the participants soberly assess the condition of their respective markets. This conference moved in the direction of achieving that objective. Additionally, the conference discussed rational economic solutions facing these markets and what assistance is available to countries willing to make the hard decisions to implement these solutions. Traditionally, in African countries deficiencies in policy implementation limits the effectiveness of good policies when adopted by the various governments. The African Capital Markets Forum is an attempt to provide an institutional monitor to follow up on the decisions taken by the conference participants.

1.6 Capital Markets in Francophone Africa

Special note should be taken of the fact that the Franc CFA countries did not discuss the issue of the unattractiveness of their capital markets to investors resulting from the fixed parity of the CFA and the French Franc. Failure to face this issue head on will continue to impede these countries from taking decisions which will allow their markets to develop and become internationally competitive. This factor will also frustrate their efforts to move toward regional markets in the near future, if these markets are to include the non-CFA countries.

2. The International Conference on Promoting Capital Markets in Africa

An AID African Bureau Mission consisting of Dr. Warren Weinstein of AID and Arthur Polk, a consultant to Harvey & Company, Inc., attended the International Conference On Promoting Capital Markets In Africa which was held at the Nicon Noga Hilton Hotel in Abuja, Nigeria from November 11-13, 1992.

2.1 Conference Purpose

The Nigerian Securities and Exchange Commission (SEC) in collaboration with the African Development Bank (AfDB) decided to sponsor this conference with the objective of studying and discussing the current position of emerging stock markets in

Africa and what must be done by the governments of these countries to stimulate and encourage rapid development of these markets so that they might contribute positively to their respective economic development processes.

Mr. George Akamiokhor, Director-General of the SEC, who is a member of the Presidential Committee of the International Organization of Securities Commissions (IOSCO); a member, Development Committee of Emerging Markets and a member of the Executive Committee of IOSCO- representing Africa and the Middle East regions, served as the major catalyst in formulating this conference. It was recognized by African delegates and participants in the international financial markets that major structural changes were required to make African stock markets economically viable and attractive to domestic as well as international investors.

2.2 Conference Participants

The conference was attended by almost 200 participants from over 25 African countries, the International Finance Corporation, the African Development Bank, the Economic Commission for Africa, the Organization of African Unity, the International Organization of Securities Commissions and the United Nations Development Programme (See Appendix A & B).

The African countries were represented by individuals from their Central Banks, Ministries of Finance, Stock Markets, or were private and sometimes public sector money and capital markets operators. The representatives from the bilateral and multilateral financial institutions offered very realistic viewpoints, discussed in greater detail later, which contributed to a realistic discussion on capital market development in Africa (See Appendix A & B).

The Conference discussions were quite frank and free flowing and dealt with the problems facing the development of capital markets and more specifically stock markets in most African countries. The speakers could generally be divided into two camps. First would be the group of individuals who are from outside the African countries and who are most interested in how investor friendly the various African countries are and how attractive are their environments for operating stock markets. The second camp would be the Africans from the various countries, who are primarily interested in developing their local and regional capital markets, assessing how attractive their markets are to domestic and external investors, and determining what can be done to make these markets more hospitable to investment.

Detailed summaries and conclusions of the presentations for each speaker are given in another section of this report.

3. Conference Conclusions

3.1 Negative Economic Conditions

Drawing on a consensus of the speakers from outside Africa, it could be concluded that all were of the opinion that much is yet to be done to bring the few stock markets existing in Africa up to an operating level sufficient to make a contribution to the development process of these countries.

Several sighted negative economic conditions prevalent in many African countries which mitigated against the attraction of investors in general, such as:

1. Lack of political stability.

2. Lack of a conducive and stable macroeconomic environment.

3. Insufficiently progressive monetary and fiscal policies.

4. Inappropriate regulatory, legal, tax and enforcement mechanisms.

5. A deficiency in financial, monetary, and economic leadership and management from government officials.

6. An over participation of government in the operations of most economies.

7. Low levels of industrialization.

8. Private sector participation rates are low.

9. Underdeveloped infrastructural and communications facilities.

10. Lack of trained personnel.

3.2 Problems with Micro Financial Problems

In addition, as countries move toward solving these economic difficulties and attempt to adopt financial policies which would specifically promote capital markets, there are certain micro-financial policies which cause major problems:

1. Artificially low interest rates which have encouraged sub-optimal investments;

2. Mandatory and subsidized credits which encourage companies to borrow instead of raise equity;

3. Tax disincentives such as triple taxation on dividend income is one example;

4. Weak and unclear legal frameworks especially in the banking industry;

5. Strict foreign exchange controls;

6. Preferential treatment of banks and development financial institutions; and

7. Dependence on deposit type instruments and short-term credit in mobilizing savings.

3.3 Competition for Investment

It can be concluded that most of the African participants fully understand that with the emergence of Central and Eastern Europe from the 'command & control' systems of government and their subsequent move toward market economies, that there is now a new competition to attract scarce investment capital into the developing economies of both the North and South.

Most of the African participants were rather clear in detailing what they felt were the major problems facing their countries in this competition for investment in general and specifically what has gone wrong in the quest to develop the few stock markets which do exist in Africa. In most cases the problem areas they identified duplicated those of the participants from outside Africa but it was most significant that the Africans were willing to accept fully that there were failed policies in the past.

It is significant to note that in general the African participants agreed with the above 10 listed negative economic conditions of the non-Africans, but they also had several others on their lists. These were:

1. Mounting foreign debt.

2. Unfavorable terms of trade.

3. High population growth rates.

4. Drought and unnecessary civil strife.

3.4 Factors Inhibiting Stock Market Development

Their opinions on specific factors that inhibited the development of the stock markets which did exist in Africa (Zimbabwe, Nigeria, Kenya, Botswana and Abidjan) were:

1. Primitive level of trading and operations technology.

2. Habits of the users of the market.

3. Lack of education of the public.

4. Intrusiveness of government in the governance and operation of the markets.

5. Lack of liquidity.

6. Questionable pricing formulas.

7. Poor information disclosure.

8. Minimized involvement of the private sector in the economic development process.

9. Dominance of family businesses.

10. Rigid exchange controls.

11. Excessive inflation.

3.5 Investment Codes

Even though the discussions on regulatory environmental factors address issues on a macro level, more specifically the investment codes of most of these countries (Nigeria and Ghana specifically) are major impediments to the development of their capital markets. The codes were designed to guarantee minimum levels of indigenous ownership of local companies. This is a direct hindrance to foreign investors efficiently buying and selling shares in a stock market. These Indigenization Acts, which were passed in the 1970's, even though modified and somewhat ameliorated by the Nigerian Enterprises Promotion Act, 1990, still diminish the attractiveness of these markets for foreign investors, particularly stock market investors.

3.6 Utilization of the Call Over Method

The next problem of interest is the utilization of the call-over method for stock trading. This method controls the allocation process as well as price level movements of stocks. Allocation by individual and/or committee invites the usual human frailties and limitations to enter the resource allocation process which a free market auction-based pricing system eliminates. A system of controlling price level movements to prevent the markets from being too volatile, in a misguided effort to protect investors, is counter productive. This not only prevents markets from imputing the true value to traded stocks but it also inhibits speculative investors from entering the markets. These speculative investors are, historically, the main source of liquidity in markets worldwide.

3.7 CFA Currency Countries

An issue of major significance which was never addressed by any of the conference participants is the restriction on capital market development which results from the fixed parity between the Franc CFA and the French Franc. This factor inhibits the development of the capital markets in the CFA countries due to the variable impact of France's macro and microeconomic policies on the value of the French Franc. The development of a regional stock market which incorporates the CFA countries as well as the non-CFA countries will also prove extremely difficult unless this fixed parity issue is properly addressed. This is obviously a very sensitive political issue.

4. Recommendations

It was the consensus of all the participants at the conference that African capital markets are lagging behind their counter-parts in some other areas of the world for the various above detailed reasons. The participants were also in agreement that steps be implemented as soon as possible to address these problems.

Several of the speakers suggested general solutions to some of the problems which were discussed. In the discussions which occurred after the presentations, some of the suggestions generated were quite useful. A summation of the suggestions were as follow:

1. Provide stable political environments.

2. Implement comprehensive fundamental economic reform programs to correct economic distortions on a macro level.

3. Put in place progressive and consistent internal monetary and fiscal policies.

4. Create appropriate regulatory, legal, and tax legislation which can stimulate domestic and foreign investment.

5. Tailor foreign participation.

6. Improve infrastructure and communications capabilities.

7. Strengthen and support private sector involvement in the development process and in capital markets.

8. Modify and remove foreign exchange controls and deregulate exchange rates.

9. Support the creation of more financial intermediaries (i.e. venture capital firms, investment banks etc.) to stimulate business activity and grow capital markets.

10. Minimize direct governmental roles in the operation of capital markets and emphasize the oversight functions.

11. Promote stock market educational initiatives for the public, market participants and journalists.

12. Implement free market pricing mechanisms which discard government pricing and allocation functions.

13. There is a need to improve the quality of management in African governments regarding policy implementation.

14. Regional organizations should assist in the establishment and development of capital markets.

5. Conference Action Plan

The Conference ultimately issued a verbal communique which specified several immediate objectives for African countries desirous of developing their capital markets. They should:

1. Move as quickly as possible to dismantle foreign exchange control restrictions and move to market determined exchange rates;

2. Move to reform the regulatory, legal and tax regimes required to attract domestic and foreign investment to their capital markets;

3. Move to create financial intermediaries, with emphasis on venture capital funds, capable of supporting private enterprise; and

4. Create an African Capital Markets Forum which should meet periodically to deliberate on issues affecting markets, find solutions to problems and promote measures to encourage market growth.

The Director-General of the Nigerian Securities and Exchange Commission accepted responsibility to organize and inform the other conference participants on the first meeting of the Forum. In addition, the conference participants from the bilateral and multilateral organizations present (i.e., AID, IFC, IOSCO, AfDB, etc.) agreed to support the Forum in principle.

6. Presentations- Compilation of Conclusions

There follows a compilation of the conclusions from each presentation which, taken together, provide a quick introduction to the depth and thoughtfulness of the speakers contributions. The full summations then follow in Appendix A.

Brief summations of major addresses to the Conference are presented in this appendix. In some instances full or partial text was provided by the speakers. In other cases, the summations were prepared from notes or interviews. In all cases, the content of these summations is the responsibility of the consultant and should not be attributed to the designated speaker.

6.1 Africa is lagging behind in developing its financial and capital markets. The purpose of this conference is to generate suggestions on how African countries can create capital markets and improve the operations of existing markets.

6.2 African countries face significant economic problems such as declining per capita income, external imbalances, mounting foreign debt, unfavorable terms of trade, low savings and investments, policy failures, high population growth rates and poverty rates. In addition, political instability, drought and civil strife have combined to stifle economic growth. Africa can and must mobilize its natural and human resources to overcome these problems. Nigeria through its introduction of its structural adjustment programme (SAP) in 1986 moved to achieve this goal. It is a long term reform program which has shown progress.

A market driven economy without price controls and bureaucratic bottlenecks is being put in place. Even though the economy is still highly oil dependent, the deregulation of exchange rates is diversifying the export sector. An integral part of the SAP is the reformation of the financial system in its totality to include internationalization. It is hoped that these measures will attract foreign investors to the Nigerian market.

African governments must provide appropriate and adequate legal frameworks, information and education for entrepreneurs as well as coordinate and cooperate with regional organizations in establishing and developing capital markets. An African Capital Markets Forum should be established to meet periodically to monitor progress, find solutions to problems and share this information with participants.

6.3 IOSCO was established to stimulate cooperation between capital market regulators on a North-South basis. IOSCO set up Technical and Development Committees to assist members with problems affecting the operations of their stock markets. IOSCO stands ready to welcome into membership new emerging markets and is ready to make available the experience of its current members to reduce the incidence of repeating errors by new members.

6.4 Inefficiency in economic management by African governments is generally the norm and these inefficiencies have been extended into the four capital markets found in Zimbabwe, Kenya, Nigeria and Botswana. Government intervention has not allowed capital markets to function properly. Utilizing all information dissemination channels, to include this conference, a vigorous debate is necessary which can lead to necessary improvements in African capital markets.

6.5 The regional economic integration process in Africa and the development of capital markets have become issues in the discussion of economic development. Several efforts have been made in the past to establish regional economic organizations such as ECOWAS, the East African Economic Community, etc. Recently, a Treaty establishing the Pan-African Economic Community was signed at the 28th ordinary session of the Conference of Heads of State and Government of the OAU, in Abuja, in June 1991. The goal of the treaty is the promotion of the economic, social and cultural development of African countries by creating a continent-wide framework for developing, mobilizing and using Africa's human and material resources to achieve self-sustained development.

A clear lesson learned from previous development experience is that the private sector cannot be ignored in future integration efforts. Capital markets can give added impetus to the economic integration process, but there are less than 6 stock markets and they are generally weak. Capital markets need to be developed and diversified if they are to play a role in mobilizing and channelling savings into productive investment.

Encouraging entrepreneurship is fundamental to achieving sustained economic development and growth, and the support of venture capital funds can assist in this worthwhile endeavor. Venture capital can provide not only risk capital but also management expertise and skills. The AfDB in an effort to provide technical and managerial assistance to the indigenous private sector has established two regional facilities; the African Project Development Facility and the African Management Services Company. The Bank also is currently considering the possibility of opening an African Finance Corporation to cater to the financing needs of the private sector.

6.6 Mr. Yaker correctly identified the international financial realities of African capital markets facing competition from other countries to attract capital and investment. In addition he recommends that these African countries also adapt a strategy of pursuing a goal of self reliance where possible. Stimulating capital markets and supporting the financial and non-financial participants in these markets should and must be encouraged, especially private sector participants.

6.7 As a private operator in the Nigerian capital market the important issue of the market pricing function being removed from the SEC for new issues is of great importance. Private operators have complained about this function of new issue pricing for many years. The SEC through various technical financial formulae have determined the new issue price for securities issued in the market. This policy has greatly reduced market participation and has been the object of much criticism. The authorities have stated that this policy is to be removed over the next several months so that the Nigerian market can become more efficient as well as competitive.

For Nigeria's stock market to become internationally competitive, this change is fundamental in conjunction with a change to a purely market determined pricing mechanism for secondary market trading. Currently in the secondary market, the exchange utilizes a call-over method of trading with restrictions on the size of the allowable movements in price.

6.8 It is now accepted as the common wisdom that finance has an important and integral function to play in the economic development equation as opposed to pre-World War II thinking. Finance, specifically money and capital markets, figure prominently in the development process. The level of development of African capital markets has lagged behind that of developed and in most cases other developing countries.

Lack of liquidity, poor information disclosure, capital gains taxes, imperfect markets protection, questionable pricing formula, dominance of family businesses, low savings levels, excessive inflation, market concentration, political instability, the overwhelming presence of government, and the prevalence of very rigid exchange controls combine to impede the development of these markets. To this list should be added the lack of political will and consistency. Increased private sector involvement appears to provide the only hope for positive movement on these issues.

6.9 The general opinion is that the Nigerian capital markets and the general environment for conducting financial transactions requires reform. The main complaints center on de-politicizing and allowing stock markets to be more market driven, better educating market operators and regulators, and establishing policies which suit the conditions found in the various countries. As is the complaint with other private operators, the subject of non-market determined pricing of new issues is of great significance and must be effectively addressed by the authorities (SEC).

6.10 The United States implemented the Securities Acts of 1933 and 1934 in response to the economic emergency of the times. These Acts were instrumental in returning confidence to American investors in the capital market. The SEC, created as a result of the Act of 1934, has served a useful role in assisting in the promotion of the market. The SEC plays a vital role in the regulation process for stock markets but this must occur within a larger enabling environment which results from a politically stable government, a legal system which protects private property, efforts to improve the education and awareness level of its citizens, and the countries level of industrialization.

Each country must determine its current operating conditions and fashion its regulatory environment and the regulatory entities to suit its particular needs.

6.11 The SIB is the market regulatory body which functions in the UK. The SIB came into existence only in 1986. The market, established in 1773, therefore has pre-determined many aspects of the SIB's functions as a regulator. The SIB ultimately operates as an arm of the government to insure open, competitive and fair markets while meeting investor protection standards.

6.12 The Nigerian SEC carries on the usual functions of a market regulatory agency which are quite similar to those of the UK's SIB and the United State's SEC, however, there are some additional functions which are quite troubling. The SEC had the authority, in the case of new issues, to establish the new issue price through a pricing formula. Many market operators have agitated for an alteration in this 'command & control' procedure which the SEC has agreed to in principle. As is the case with other policy changes, the investing community is waiting for the actualization and implementation of this policy. The operators want a market determined pricing procedure which is very important if the market is to operate in an efficient fashion.

6.13 Central banks have influenced and can greatly promote capital market activities. The Central Bank of Nigeria is a case in point. It is important to note that financial institutions and markets are more effectively guided and promoted by market forces than by administrative controls. Interest rate controls and high intermediation costs tend to stifle capital market growth and development. In the wake of restricted flow of capital to developing countries, particularly those in sub-Sahara Africa, owing mainly to the debt crisis, the role of domestic and international capital markets in the capital formation process cannot be overemphasized. African countries cannot ignore the global pressures and realities that underscore the need for effective financial markets to bridge the gap in the financial requirements of developing countries. Efficient financial markets facilitate the use of open market operations in maintaining monetary stability. The stock market indices of such markets also provide an effective barometer for monitoring the pulse or overall well-being of the system.

It is important to note that capital market instruments and institutions help to support national growth and development. Capital markets should therefore be accorded a pride of place in national economic programs.

6.14 In an effort to economically restructure the economies of developing countries many countries were able to securitize the debt which had accumulated over the last several decades. Through enhancement of these debts by guaranteeing repayment, secondary debt trading markets have come into existence on the international level. Nigeria has promissory notes and par bonds which are outstanding and traded internationally. LDC debt trading can be used to reduce and restructure repayment requirements as well as allow for debt/equity swaps. Therefore, LDC debt trading can be viewed as an additional tool for economic development.

6.15 Establishing a conducive Regulatory, Legal and Tax (RLT) framework and a vigorous enforcement mechanism is critical to developing a strong and competitive financial market. Inappropriate RLT frameworks have led to the failure of many financial institutions, rampant corruption, inefficiency and the overall underdevelopment of financial markets in Africa. Many countries are undertaking macroeconomic reforms and a few countries are implementing financial sector adjustment programs. Countries need to integrate macroeconomic reforms with financial sector reforms. Specifically, the following measures are necessary to establish a conducive RLT framework for the development of financial markets: (i) creating a policy environment which favor market oriented mechanisms such as: deregulating interest rates, eliminating mandatory credit allocation and provision of fiscal incentives for equity investment; (ii) improving the institutional regulatory environment; and (iii) improving the legal framework.

6.16 The Ghana Stock Exchange has only been operating since November 1990 and therefore qualifies as a start-up operation. The Exchange was incorporated as a private company limited by guarantee with the shares of the company in the hands of three private sector owners which is keeping in step with government policy. After dealing with the problems of establishing a market such as the legal framework, funding, trading and settlement systems, and initial training of staff the market was able to open and has grown from 11 companies listed to 15 companies. An extensive public education program has been undertaken and this program has started to impact positively. Low volumes of trading is the major problem facing the exchange at this time.

6.17 With regard to the stock exchange in Abidjan, Cote d'Ivoire, the experience of establishing a stock market in a French CFA country seems to differ significantly from the English-speaking countries. There are fewer of the financial intermediaries such as investment banks, stock brokers, stock exchanges, etc. than are found in english-speaking countries. The Abidjan Stock Exchange commenced operations in 1976 with 8 stocks and 6 companies.

The market suffers from low volume and lack of product diversification and a concentration of trading activity in departments of commercial banks. The exchange has undertaken a program to enlighten the public as well as companies on the benefits of the exchange. Efforts are also underway to put in place a sub-regional market for West African Monetary Union operators. These and other reforms are the basis of moving in the future to a more active market.

6.18 The Nigerian stock market will continue to provide avenues for government and corporate entities to effect optimal financing and capital base broadening. The government's assistance will be required in the area of fiscal policies and provision of efficient infrastructure, telecommunication and investment incentives. Therefore, all efforts will be made to assist government to put in place, where required, the proper enabling environment through the implementation of legislation with a defined and prominent role for the private sector, realistic exchange rate policies, effective interest rates, and an attractive tax regime. We will then find an overall socio-political climate which should stimulate savings and investment, and hence growth.

Appendix A - Summary of Presentations

Brief summations of major addresses to the Conference are presented in this appendix. In some instances full or partial text was provided by the speakers. In other cases, the summations were prepared from notes or interviews. In all cases, the content of these summations is the responsibility of the consultant and should not be attributed to the designated speaker. The numbering of the presentations are keyed to the compilation of conclusions numbering in Section 6.

6.1 Welcoming Address by the Chairman of the SEC, Alhaji Amusa O.G. Otiti

It is noted that this is the first time that delegates had gathered to examine the ways and means of establishing formal capital markets by African countries as well as examine necessary measures to accelerate the development of existing markets on the continent. The Nigerian SEC has been committed to the promotion of a strong and vibrant capital market in Nigeria. Various programs have been adapted to increase the general knowledge and operational facilities of the market. The SEC also performs a regulatory role through its registration, surveillance, investigation and enforcement activities.

The Nigerian market, although still emerging has made strides. Market capitalization in local currency terms has increased over six fold since 1980, from N4.5 Billion to N28.9 Billion as at the end of September 1992. The International Finance Corporation (IFC) considered the Nigerian market as one of the best performing fifteen markets in the world in this respect in 1991. The market is becoming an attractive source of funds for industry as the yearly new issues market has consecutively been in the billion naira mark this decade. Equity listings on the market stood at 151 equities on the 4th of November, 1992 in contrast to 91 equities in 1980 and just 8 equities in 1970. The decade of the 1990's has already seen the quotation of 38 companies on the stock exchange.

The world's capital markets have become more dynamic and sophisticated. New instruments are being created while new markets are coming into existence and older ones becoming more competitive. Financial markets are becoming increasingly global and cross country trading and securities offerings are now common place, hence events in one country quickly impact on others. Africa is sadly lagging behind in developing its financial and capital markets. Few markets are in existence and most are highly underdeveloped. Given the importance of capital markets in the developmental process, African countries must endeavor to establish formal capital markets where they do not exist and take measures to improve existing ones. This is the motivation behind this conference. Hopefully the conference will generate useful suggestions to be made available to African governments as well as the private sector on ways and means of promoting capital markets in the continent.

6.2 Conference opening speech by the President, Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria, General Ibrahim B. Babangida, CFR, FSS, mni, delivered by the Honorable Minister of Finance, Alhaji Ahmadu Abubakar.

The delegates were welcomed to the first capital market conference focussed specifically on the African continent. Africa's economic problems have been severe and prolonged. Many economies have been characterized by declining per capita income, external imbalances, mounting foreign debt, unfavorable terms of trade, low savings and investments as well as policy failures. In addition the region records one of the highest population growth rates in the world, while a large proportion of its populace live in abject poverty. These problems are worsened by political instability, drought and unnecessary civil strife, which have halted economic growth and shifted resources away from productive activities.

These problems are not insurmountable. With concerted efforts and commitment of all Africans, as well as the support of the international community, this trend can be reversed. Africa's resources, both human and material, need to be properly harnessed and appropriate economic policy measures, legal and regulatory framework put in place to stimulate development. Nigeria has taken positive steps in this direction. In 1986, far-reaching corrective measures of the economy were introduced through a structural adjustment program (SAP). The program, unlike earlier measures, took a long term view of the economy and the political situation of the country. Fundamental reforms aimed at correcting distortions in the economy and charting a new course towards a path of growth were thus embarked upon. Six years after the introduction of the reform programs, records show that considerable progress has been made.

The economy has been significantly freed from bureaucratic bottlenecks and a market driven private sector economy is fast being entrenched. Today, price controls have been totally removed, subsidies considerably reduced and the tariff structure reviewed and harmonized to encourage the competitiveness of local enterprises. The size of the public sector has shrunk as a result of the government privatization program while enterprises being commercialized are displaying greater efficiency. The export sector has been markedly enhanced by various government incentives and the deregulation of exchange rates. While the economy is still largely oil dependent, adequate measures are being taken to promote a more diversified, competitive and virile economy.

The efficiency and effectiveness of the financial system in mobilizing and allocating funds is very vital to economic development as an inefficient system would tend to misallocate resources and consequently stifle growth and development. In realization of this and to build a system which is more responsive to the developmental needs and aspirations of the nation, fundamental reform of the financial system was introduced in 1986 as an integral part of the SAP. Specifically, interest and exchange rates were deregulated, while other activities of the banking sector have been largely liberalized. As a result of these measures, we have witnessed a rise in the number and types of financial institutions leading to increased competition, efficiency and innovations in these institutions.

At this juncture the Federal Government is committed to reforming the financial sector in its totality. The deregulation of the economy which had already begun is regarded as a journey and not a destination. The overall objective should be a continuous examination of the strategies that can energize the economy, to provide rising prosperity for people. A form of groundwork is being undertaken to prepare our financial markets towards internationalization. The experience of other emerging markets in the Asiatic Region in this connection has been quite rewarding. In a world that is increasingly turning to the free enterprise system, international investors should be seeking more efficiency anchored upon higher returns, better incentives and exit facilitation. Our resolve, as African nations as we wade through the nineties, should place greater emphasis on the deregulation of our capital markets so as to promote its efficiency and innovations, and ultimately enhance the economic development of our countries.

It is hoped that these measures would encourage the participation of more foreign investors in our domestic capital markets. In Nigeria, obstacles which were previously encountered in the remittance of dividends and principal have been removed. In promoting and developing capital markets, African governments and regional organizations have to play prominent roles. First, African governments must provide appropriate and adequate legal frameworks to ensure orderly development of the market, discourage fraudulent practices, induce confidence and encourage participation of intermediaries and investors in the market place. Secondly, governments should provide incentives which would stimulate both the demand and supply sides of the market. The problem with many developing countries is the reluctance of entrepreneurs to dilute their holdings, however small they may be. Incentives and proper education are therefore necessary to attract entrepreneurs to the market.

Regional organizations should stand ready to assist in the establishment and development of capital markets in Africa. We also would like to suggest that the organizers of this conference create an African Capital Markets Forum which should meet periodically to deliberate on issues affecting markets, find solutions to problems and promote measures to encourage their growth.

6.3 Address by Mr. Paul Guy, Secretary-General of the International Organization of Securities Commissions (IOSCO)

IOSCO was created in 1974 as an initiative to stimulate cooperation between North and South American regulators. It became an international organization in 1984. As of the moment it has 102 members from all continents with four main objectives:

(1) Cooperation - to ensure a better regulation of markets on the domestic as well as on the international level, in order to maintain fair and efficient markets;

(2) Exchange of information - on respective experiences in order to promote the development of domestic markets;

(3) Establish standards - and an effective surveillance of international securities transactions;

(4) Mutual assistance - to ensure the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses.

In an Executive Committee meeting held November 1986 in Rio, a resolution concerning mutual assistance was adopted. This was one of the first steps to international cooperation between securities and futures regulators. This resolution recognizes the need to promote investors protection by effective markets and intermediaries surveillance and by active enforcement of securities and futures regulations. Regulators who sign the resolution undertake, on a reciprocal basis, to provide assistance in gathering information related to market surveillance and protection from fraudulent securities and futures transactions. Most of the regular members of IOSCO have now signed this resolution.

IOSCO has also set up the Technical Committee in 1987 and the Development Committee in 1989. The Technical Committee reviews major problems related to international securities and futures transactions and proposes the shortest possible practical solutions to these problems. The Development Committee deals with problems facing the emerging markets and tries to provide workable solutions to these problems. During the Annual Conference held in London in June 1992, the Development Committee decided to set up working groups in the following areas: privatization, institutional investors and derivative products. It also urged all members to establish new clearing and settlement systems or improve existing ones. There was also a recommendation to adopt minimum disclosure standards covering the primary and secondary markets.

IOSCO encourages all of the new emerging markets to join the organization so that they can benefit from the experience of its current members. This can prevent these countries from repeating the mistakes already made in other countries.

6.4 Session Chairman's opening remarks given by Mr. Pius Okigbo, former Nigerian Minister of Economy and Planning and noted economist.

At independence, African leaders were filled with hope for and expectations for a bright future. They however were left with economies which were financially dependent on the former colonial masters and few of the leaders were adequately prepared for the task before them. Few, if any, African countries can be classified as operating efficiently from an economic management point of view.

Some sixteen years ago, as Chairman of a Committee appointed by the Federal Government, I undertook a comprehensive survey of the Nigerian financial system. Put quite simply the capital market is supposed to bring together those who need capital for investment and those who have savings to make available to investors. The efficiency of a market depends on how unimpeded is the flow into and out of the market and the speed of concluding transactions. This function of intermediation is performed by the operators of the capital market.

There are, as of today, only four capital markets in Africa: Zimbabwe (1896), Kenya (1954; 1989), Nigeria (1961), and Botswana (1989) with Algeria waiting in the wings. None of these exchanges have developed as many thought they would which leads to the necessity of this timely seminar. It is clear that there are many limiting factors which must be addressed. Among them are: the primitive level of technology of trading and operations, the habits of the users of the market, lack of education of the public, and the intrusiveness of government in the governance and operations of the market. It is now recognized that an essential ingredient of a free market is not only the fast flow of information to the operators in the market but also the force of expectations of the future movement of prices and volumes. Consequently, spot traders as well as speculators have a powerful influence on the evolution of the market. If all who buy stocks and securities hold on to them because they regard them just as an alternative to holding durable assets, if, therefore, they do not offer them for trading, the market is bound to remain narrow and shallow.

In addition, the government has intervened often to insist on a particular pattern of distribution of share ownership. These are laudable efforts at redistribution of income and wealth but the capital markets are not the place to engage in this pursuit. Therefore, even though there are capital markets in existence in Africa, they are not allowed to function properly because governments have gutted them.

Also financial journalists should not be left out of our debate. They also have a responsibility to increase their analytical skills so that they might be more productive in providing information to the investing public. Information flows are fundamental to the free functioning of capital markets. Let us hope that there will be a vigorous debate so that this can lead to improvements in African capital markets.

6.5 African Economic Integration: The Capital Markets in Focus presented by Tessama Gedamu, Vice President of the African Development Bank.

This discussion will center on the issue of regional economic integration efforts in Africa and the potential impact of capital markets on this process. For over a decade Africa has been trapped in a development crisis the end of which is still beyond the horizon. It is a crisis which threatens the livelihood of millions of its inhabitants and that has seen the number of least developed nations grow from 17 to 28 countries. Economic integration has clearly become a subject of renewed interest, as one key instrument for addressing this crisis.

There have been several economic integration efforts in Africa, especially at the sub-regional level. The East African Economic Community is the earliest example of this. Several similar arrangements have been made in different parts of the continent, with ECOWAS and the PTA as the most recent examples. At the regional level, African Heads of States and Governments took an historic decision in 1980 with the adoption of the Lagos Plan of Action and the Final Act of Lagos - in which recognition was given to the need to develop our common geopolitical space. The ambitious target of achieving economic integration by the year 2000 was adopted.

More recently, a Treaty establishing the Pan-African Economic Community was signed at the 28th ordinary session of the Conference of Heads of State and Government of the Organization of African Unity (OAU), here in Abuja, in June 1991. The Treaty embodies the determination of African leaders to halt the fragmentation of African economies and arrest the increasing marginalization of the continent in a rapidly changing world. The Pan-African Economic Community has, as its main goal, the promotion of the economic, social and cultural development of African countries by creating a continent-wide framework for developing, mobilizing and using Africa's human and material resources to achieve self-sustained development. That is why the treaty is so important. It comes at the end of a long period of disappointing results and should benefit from the lessons of that experience. The initiatives which will be put in place as we move towards establishing an African Economic Community should reflect the experience of the past, the lessons learnt from errors, and the gains on which can be built future integration policies, programs and projects.

One clear lesson is that we can no longer afford to ignore the private sector in future integration efforts. More particularly, we need to see how the development of capital markets can give added impetus to the process of economic integration.

Traditionally, capital market institutions are classified in accordance with the type of financing they provide i.e. debt or equity. Accordingly, there is a securities segment primarily concerned with equity financing and a non-securities (lending) segment concerned with the provision of term financing. In Africa, the non-securities segment is relatively more developed. As at the end of 1991 there were less than 6 stock exchanges operating in Africa. These are generally weak. For example, market capitalization as a proportion of GDP was less than 4 per cent for Nigeria in 1988, compared with over 55 per cent for South Korea. The absence of a strong and active private sector has been a limiting factor for the development of capital markets. Other contributing factors have to do with the limited use of securities instruments by the corporate sector in Africa; inadequacies in regulatory frameworks; poorly enforced reporting and disclosure requirements; and a general lack of understanding of the operation of securities markets.

In the non-securities segment, development finance institutions (DFIs) have been the main purveyors of long term financing. DFIs were established by governments in the early 50's; following the reluctance of the traditional banking sector to provide term financing. Several factors have limited the effectiveness of DFIs, and presently most of them are undercapitalized and would require substantial injection of fresh resources to be able to meet their barest minimum lending requirements. They face many other problems not the least of which is the unfavorable macro-economic environment in which they find themselves. But it is difficult to deny that they have played a role in promoting development.

Capital markets in Africa need to be developed and diversified if they are to play a role in mobilizing and channelling savings into productive investment. An important factor is the need to stimulate entrepreneurial activity which would spur demand for capital markets. Next, legislation, particularly Company Law, should be updated and kept abreast of the rapid changes taking place in the international capital markets. This needs to be accompanied by strict enforcement of reporting and disclosure requirements to increase investor confidence. Awareness of the appreciation for the role and importance of stock exchanges and other capital market instruments need to be increased.

With respect to diversifying capital market institutions and instruments, let me briefly mention venture capital financing and some of the other capital market instruments that have been successfully employed by the developing countries of Asia and Latin America. Venture capital has attracted considerable attention worldwide because of its dramatic success in the United States where it originated. In Asia, venture capital is seen as a means to attract capital and, technology, and promote indigenous entrepreneurship. Through this mechanism, Asian countries have been able to mobilize about US$ 10 billion. This is remarkable considering that in 1980 only a few venture capital companies existed in Asia. By 1989 the number had risen to 300.

Venture capital as a vehicle for delivering risk capital, management support and access to markets and resources, is important to capital markets in Africa because of the acute shortage of risk capital and management skills. Some of the key conditions required for the development of venture capital include: the availability of a steady flow of new investment opportunities (in the United States for example, only 1 out of every 100 venture capital projects succeeds); an adequate capacity for screening, negotiating and managing investments; and the availability of exit mechanisms for mature investments.

Some other methods that have been successfully employed by capital markets in Asia and Latin America in attracting portfolio capital flows include: the issuance of offshore convertible bonds: the creation of specialized investment funds for foreign investors in the domestic capital markets; allowing portfolio investments by foreigners in certain strategic industries; allowing the participation of foreign investors in the privatization of public enterprises; and permitting unrestricted repatriation of earnings from portfolio investments in local enterprises.

The private sector is a principal actor in the development process. National stock exchanges which function with increasing interaction and act as midwives for the birth of their regional and sub-regional counterparts are institutional bonds. The

African Development Bank will continue and increase its role in the capital markets in Africa. The Bank recently created a Private Sector Development Unit to manage its private investment operations. Also the African Business Roundtable - an autonomous body of Africa's leading entrepreneurs in the region - was established some three years ago. The ABR has as its objectives: the attraction of foreign investments to Africa; the promotion of intra-African trade and investments; and the strengthening of the private sector in Africa.

To address the inherent technical and managerial weaknesses of the indigenous private sector, the Bank, together with the UNDP, IFC and other donors, has established two regional facilities: the African Project Development Facility (APDF) and the African Management Services Company (AMSCO), for the provision of assistance to the private sector. Through the APDF, it provides assistance to entrepreneurs in formulating business proposals, while through AMSCO it provides training and management expertise to African companies. Considering the special needs of the private sector in Africa, the Bank is exploring the possibility of establishing an African Finance Corporation that would cater to the development financing needs of the private sector in Africa. This institution could play a role in supporting the growth of capital markets in Africa.

6.6 African Economies in Perspective by Mr. Layashi Yaker, United Nations Under-Secretary General and Executive Secretary, Economic Commission for Africa.

It was only twenty five years ago that our countries freed themselves from the bondage of colonialism and political domination. Two decades later Africa faces another major challenge as aspirations and hopes of many African countries were shattered by events both at home and abroad. The standards of living in many African countries declined sharply with the consequent rise of starvation, malnutrition and disease in many parts of Africa. The modest gains made by some of our countries during the immediate post-independence era all but disappeared as one African country after another abandoned long-term development strategies in order to deal with issues of "daily survival." The end of the 1980s found many African economies in a state of decline or stagnation. Even for those that could claim positive GDP growth rates there were serious imbalances in many aspects of their economies.

When the political aftershocks from the revolution which swept Eastern Europe and the Soviet Union reached the shores of the continent, Africa was already in the midst of a serious economic crisis. The latter threatened not only the lives of many of its people but also the very fabric of the states and societies that had emerged in the post-independence era. The continent is once again at a very important cross-road, just like the one faced in the late 1950s and early 1960s when Africa had to mobilize all its resources in order to emancipate its people and territories from the grip of colonial domination. The current challenge is not only focused on how the continent can once more feed its people but more importantly how it can attain sustainable development. Africa, which was able to attain "political independence" needs to prove to an increasingly skeptical world that we have the grit, the will and the determination to translate our political decolonization into economic independence, stability, self-reliance and prosperity. This is the African challenge of the 1990s.

The adoption of market-oriented reforms by countries of Eastern Europe and the former Soviet Republics has definitely altered the pecking order in international resource flows. There are now numerous other claimants to the goodwill and support of the international community and Africa has to learn to compete for such attention. More importantly, Africa has to adapt the strategy of self-reliance so as to reduce its heavy dependence on external aid. This in my view is the next most urgent challenge facing our continent in the 1990s and beyond. It is in this context that I welcome your initiative in hosting the capital markets conference.

There have been noticeable features of the evolution of capital flows in the last two decades. The scale of net and gross capital flows among the industrial countries and the participation by foreign investors and financial institutions in the major domestic financial markets have sharply expanded. Capital controls have been eased and the liberalization of financial markets in industrial countries have broadened. Private rather than official capital flows are becoming the principal source of financing for the historically large current account and fiscal imbalances of industrial countries. Lastly, access to international financial markets of many indebted developing countries was sharply curtailed in the 1980s thereby making them heavily dependent on official capital flows.

Major policy changes and reorientation will be needed for the financial system in Africa to meet the challenges of the 1990s and beyond. The intermediation process of the banking and non-banking financial system has to improve. The financial system has to become more flexible to respond to market signals and other developments. The development of the non-bank financial intermediaries has to be encouraged. Capital and money markets in Africa are still in infancy and need to be nurtured and developed. It is hoped that the capital market conference will help meet these needs.

6.7 Nigerian Capital Market: An Operators Perspective presented by Mr. E. A. Ocholi, Vice Chairman, Chief Executive Officer of Rims Merchant Bank, Lagos.

Rims operated in the capital market through it's subsidiary Rims Securities Limited. Some of Rims' officers have been operating in the capital market since the 1977 indigenization exercise. The firm is currently quite active as an operator. The Nigerian market was quite shallow as of 1976, made up of very few operators. There were three active issuing houses, three stockbrokers,, three registrars and a couple of institutional investors mainly the National Provident Fund (NPF) and several insurance companies. The stock exchange was called the Lagos Stock Exchange and there was also the Capital Issues Commission then housed and managed by the Central Bank of Nigeria. The last fifteen years have witnessed a monumental growth in the depth and complexity of the market such that as at today the playing field is made up of at least 500 players.

There were several factors impacting on market development, amongst others, which were:

1. The creation of the Capital Issues Commission and the market activities resulting from the 1974 and 1977 indigenization exercise were evidence of government legislation that have positively impacted on the development of the market.

2. The Structural Adjustment Program and the emphasis on deregulation would account for the current impact of the on-going privatization exercise as well as the rapid increase in the number of operators.

3. The Securities and Exchange Act further impacted on the market by charging it, for the first time, with the responsibility for registering other operators. This positioned the Securities and Exchange Commission as the apex regulating body and by so doing marked the beginning of a formally organized market.

4. Fiscal and monetary policy pronouncements have caused gyrations in the markets over the last fifteen years. While generous allocation of credit for the share purchase scheme encouraged the development of market depth, the current interest rate structure coupled with the pricing strategies of the Securities and Exchange Commission for loan stocks have literally distorted the structure of any vibrant capital market. Currently there is no market for loan stocks due to the interest rate structure.

systems and assets over the previous two decades are so. For instance, by 1980 financial markets had been estimated to have emerged significantly from levels of a decade or two earlier, mainly due to growth in the securities segment of these markets. This trend was sustained through the 1980s. By far the bulk of the growth in these securities markets was prompted by expansions in new issues of international bonds, which in 1980 alone amounted to some US$42 Billion, only 6% of which were from developing countries. Aggregate market capitalization for stock markets had by then grown to over US$2.5 trillion in mature economies, compared with some US$92 billion for emerging markets. By mid 1985, market capitalization in mature stock markets had grown to just under US$5 trillion, rising sharply to about US$11 trillion by the end of 1991. This compares with US$115 billion and US$642 billion for developing countries for the same period.

For Africa, based on a calculation of stock markets in some 7 countries in 1985 and 10 countries in 1991, corresponding figures for stock markets are US$60 billion and US$127 billion respectively. These represent effectively less than 1.5% of the values for mature economies although some small, interperiod growth is noted. Expansions in listing on stock markets over the 1979-1982 period were less than satisfactory compared to developed and other developing countries.

In evaluating the African experience over the past one or two decades, a number of factors should be taken into consideration. These include:

(a) Increasing reforms and liberalization of financial markets;
(b) Growing internationalization of capital markets;
(c) Changing institutional structures of such financial markets; and
(d) Tightening of prudential regulation of financial systems.

Many of these key phenomena are of course interrelated and interdependent.

Over and beyond these key areas, the development of African capital markets has been radically constrained by a few other critical factors. These include lack of liquidity, poor information disclosure, capital gains taxes, imperfect markets protection, questionable pricing formula, dominance of family businesses, low savings levels, excessive inflation, market concentration, political instability, and the overwhelming presence of government. One key limiting factor in addition, has been the continued prevalence of very rigid exchange controls in most African economies. For instance, of some about 3 dozen countries with no exchange controls world-wide, only one (Djibouti) is African.

Given the key financial reform decisions taken in a growing number of African economies and the increasingly positive steps towards good governance, some infrastructure continues to be laid for favorable evolution of capital markets continent-wide. The efforts and success to date of African countries such as Botswana, Mauritius, Ghana, and to a lesser extent Nigeria, have already begun to demonstrate the dividends that are payable from system-wide reduction of financial repression, removal of 'financial asphyxiation' and from the exercise of financial and fiscal disciplines in the management of the continent's economies and resources. The prognosis is therefore encouraging, though major challenges remain for the bulk of African economies. In my view the continued evolution of African capital markets will necessitate the reconciliation of at least four major categories of challenges. In some respects, these challenges themselves present dilemmas for local financial authorities and policy makers, often appearing contradictory in their broad objectives. They are, however, not necessarily mutually exclusive and could be largely accommodated with careful and insightful management and adequate planning.

The key challenges for the continued development of African capital markets are:

(a) The need to manage the process of regionalization, within a wider desideratum of internationalization of markets;

(b) The management of wider economic liberalization in the face of enhanced prudential regulation;

(c) The need for continued rationalization of inward looking, indigenous financial structures, vis-a-vis more outward foreign investment-oriented strategies; and

(d) Management of government in the process - the implication for fiscal, monetary and other policies, especially in respect of the vital role of resource mobilization for financial development; i.e. raising the savings ratios in African economies, thus enhancing opportunities for greater capital formation.

6.9 The Role of Capital Market Operators in a Developing Economy, presented by Mr. Dennis O. Odife, Chief Executive Officer of Centre-Point Merchant Bank Limited, Lagos.

Centre-Point is a group of companies comprised of a merchant bank, a stock brokerage, a finance house and registrar, and a trustee company, all of which operate in the capital market. Mr. Odife (U.S. educated and trained) is considered to be an expert on the Nigerian capital market and is the author of several books on the subject.

The capital market is the framework which facilitates the transfer of claims to financial assets between economic units. The stock market is the most visible sign of the capital market though, contrary to popular belief, the stock exchange does not provide capital; what it provides is a market for the resale of transferable securities. In an economy with a very large informal sector, an informal capital market would also be expected to exist. At this forum we shall understandably focus on the formal capital market, though one of the goals of policy would be to absorb all or as much as possible of such an informal capital market where it exists.

The role of capital market operators in an economy would also naturally derive from the role of the capital market itself in the economy. Even as we speak, only a few African economies have capital markets or formal stock markets worth speaking about: South Africa, Nigeria, Ghana and Kenya.

Nigeria as one of the oldest stock markets in Africa and in spite of the devaluation of the Naira, the market is performing reasonably well; as well as it can under the circumstances. Perhaps from that point of view, I should say that we, the operators are operating as well as we can under the circumstances. But I do not expect that everyone will agree with that. While I commend the authorities responsible for regulating the capital markets, in Nigeria, namely, the Ministry of Finance, The Central Bank of Nigeria (CBN), The Nigerian Stock Exchange (NSE) and The Securities and Exchange Commission (SEC), I should like to say that there are areas which are in need of reform to enable the market to perform whatever role the government of the day desires for it in the economy. These areas are:

(a) More must be done to educate the populace in general and then more specifically afterwards on the functions of the capital markets;

(b) The skill of market operators should be improved if this is a short-coming;

(c) International experts state that African economies are repressed, then a coherent set of policies need be formulated and implemented;

(d) Capital markets cannot be used deliberately or otherwise as instruments of nationalization but instead as instruments of resource allocation;

(e) Capital markets which have experienced price controls and other forms of income policies will have problems switching over to a regime of freely market determined prices; and

(f) Each country must choose a market model it feel best suits its circumstances.

We as stockbrokers have not had available enough volume of business to make a decent living conducting that business solely. As an issuing house, the capital market operator is expected to offer securities to the public for subscription on the primary and secondary market. Elsewhere in the world, capital market operators are expected to underwrite securities and to make funds readily available to the issuer. It is not possible today for the issuing house to underwrite securities, in a market in which price is determined on the basis of some prescribed formula, of which the issuing house may be aware but which it may not be in a position to reject.

It is arguable whether free market determination of prices is possible in an environment where the issuing house is unable to place its money where its mouth is.

As a registrar, the capital market operator is merely an extension of a department of the company secretary. There is a need for more clarity in the legal framework about how the Company Secretary is to operate for the registrar to perform his task properly. As advisers generally, the capital market operator will invariably find himself, from time to time, in a position of conflict, either with the government or with one of the other of the regulatory bodies. He might be pinched for talking too much or might even loose clients by finding himself against a popular but unfortunate view.

Capital market operators must keep laws and legal reform on their agendas at all times. They must be prepared to interpret the law to clients, and these may be corporate bodies, individuals or governments.

I believe that we are led by men of vision and that the right decisions will be made to free up the capital markets to enhance the welfare of the people. The capital market operators are prepared to work with the authorities in partnerships whose only aim is the betterment of the lot of the common man.

6.10 The Role of Regulatory Bodies in Capital Market Development: The U.S. Experience, presented by Mrs. Marianne Smythe, Director Division of Investment Management, United States Securities and Exchange Commission.

The SEC is the agency that is primarily responsible for regulating the raising of capital by private firms through the issuance of securities. The SEC was created in 1934, during the Great Depression, almost 60 years ago. The American public had invested widely in securities, and millions were ruined by the collapse of securities prices. Of the $50 billion in securities issued during the 1920's, fully half proved to be worthless. In adopting the Securities Act of 1933, Congress found that securities dealers had not acted in a fair and honest manner. Congress intended the securities laws to "restore the confidence of the prospective investor in his ability to select sound securities." The experience of the Depression has not been repeated. Since the 1940's economic growth has generally been steady, despite the occurrence of several recessions. Some of the characteristics of the American capital markets that have permitted them to play a vital role in our economy are:

(1) Ownership of equity and debt is dispersed broadly throughout the country. Most Americans participate directly or indirectly in the capital market.

(2) The capital market's breadth means that industry can raise funds less expensively, and that more money is available for equity capital.

(3) Broad participation in the capital markets means that decision making about the allocation of capital is dispersed and based on market forces. Businesses with promise have a greater chance of finding funding than if decision making were centralized.

The SEC has played an important role in promoting the development of the market. Of course, other factors are more important than SEC regulation; the relative stability and strength of the American governmental system, the protection it offers to private property, the energy and level of education of Americans, and the country's advanced stage of industrialization, to name a few. But widespread participation in the market outlined above can only be sustained if the market is perceived to be, and is, fundamentally honest.

There are institutional characteristics which permit it to perform its mission effectively. First, the SEC is an independent agency. Second, the SEC has the powers it needs to perform its functions. The SEC is at once an executive, a quasi-judicial, and a quasi-legislative body. Finally, the SEC functions as an appeals board with respect to punishments that industry self-regulatory organizations impose on their members. Self-regulatory organizations, or SROs, have the power to suspend, fine, or permanently bar members from the industry. These disciplinary actions may be reviewed by the SEC on its own initiative, or at the request of an aggrieved party. The SEC also relies to a very significant degree on the accounting profession. Financial statements are a key part of the disclosure documents that are filed with SEC, and these statements are audited by accountants.

The American capital market has served for fifty years as a deep and reliable source of capital for business, and the SEC has played an important role in achieving this result. The U.S. market does have problems such as high debt levels, low savings levels and repeated occurrences of insider trading, but the level of honesty in the market is certainly far higher than it was in the 1920's, and this has been indispensable to American growth.

6.11 The Role of Regulatory Bodies in Capital Market Development: The United Kingdom Experience, presented by Mr. John Barass, Assistant Director of the Securities and Investments Board, London.

The establishment of fair, efficient, and orderly capital markets plays a vital role in the plans being laid in countries for their future economic development. Capital markets perform significant economic functions. They attract savings and transform them into long-term investment capital for industry and commerce. In the primary equity market, capital is raised by the sale of new securities, while in the secondary market investors can trade securities already issued. In the bond markets, both corporate and government debt is sold and bought in different forms. The commodity futures markets are an essential part of the process of wholesale production, delivery, and pricing of physical commodities worldwide. And the financial futures and options markets have an increasingly significant function in hedging investment capital against risk and securing its future value.

Governments as well as industry are keenly interested in these functions, since the supply and efficient pricing of long-term investment capital are of national - and sometimes international - interest. Certain organizations involved in capital market operations, such as Central Banks, may act as the instrument of governments. And others, such as stock exchanges and futures exchanges, may find their every move closely monitored, and pressure put on them to fall in line with public policy objectives.

The regulation and development of capital markets, and the interaction between regulatory bodies and capital market institutions, are thus matters of political, and not merely economic concern. Regulators have a direct responsibility to secure an overall regulatory environment in which the investor is properly protected while markets flourish. To achieve these objectives, the right balance must be struck between too much and too little regulation; or, to put it another way, between regulation on the one hand and open competition on the other. This is as true in the UK as it is anywhere else in the world. Each jurisdiction, each market place, has grown out of specific underlying historical and cultural circumstances and is thus different. There are lessons to be learned in every case about the common principles on which the operation and regulation of all markets are based, and a need to share experiences which assist the development of the regulatory process. It is important not to assume that there is a common model, a way of doing things that we all should follow. Appropriate adaptation of others' experiences to local circumstances is always vital.

The City of London is generally recognized as the world's largest international financial centre - and it should be emphasized international. Over 500 foreign banks and 100 foreign securities houses have located branches or other entities there; London is the world's leading foreign exchange market; it is the second largest world centre for international bank lending; it is the largest centre for the issuing and trading of Eurobonds; it is home to Europe's largest financial futures and options exchange; a higher percentage of the world's insurance is underwritten in London than in any other city; it is the dominant European focus for the international management of institutional portfolios; and in the securities business, the London market has captured about 95% of the total cross-border European trade, and 66% of the total equivalent world trade, in equities. The range of large scale financial sector activity taking place in London thus covers the waterfront, from banking and foreign exchange, through markets in equity and debt and their derivatives, to fund management and insurance.

The focus of attention of the Securities and Investments Board (SIB), is limited: we are essentially responsible under UK law - the Financial Services Act of 1986, with subsequent amendments - for the regulation of investment business carried on in or into the UK. This includes statutory obligations in relation to the Exchanges which operate the equity and derivatives markets. The Financial Services ACT, or FSA, prohibits any body from carrying on investment business in the UK without authorization (i.e. a license). The concept of authorization is however designed to apply to firms, and the authorization criteria are not appropriate for investment exchanges. In order to carry on their business such Exchanges need to be legally exempted from authorization. The FSA provides for an exemption procedure, called recognition. Any investment exchange operating a market in the UK must, therefore, be recognized.

There are currently 6 domestic, or UK, recognized investment exchanges in London, known as UKRIEs, and 4 overseas recognized investment exchanges or ORIEs. This latter category comprises exchanges whose headquarters are not in the UK, but which have extended their market operations into UK jurisdiction. The UKRIEs are split into 3 categories. First, for equities, there is the London Stock Exchange, which operates two major markets: that in the shares of UK incorporated companies known as SEAQ, and that in international stock, known as SEAQ International or, more commonly, SEAQ(I). Second, for financial derivatives, there are the London International Financial Futures and Options Exchange, or LIFFE, and the Options Market, called OML, which specializes in options on Swedish stock. Third are three commodities markets: the London Metals Exchange (LME), the International Petroleum Exchange (IPE), and the London Fox, where contracts in soft commodities such as cocoa and sugar are traded.

The regulator for the UKRIEs is SIB, while that for the ORIEs - which at present are NASDAQ (the electronic market in US stock and American Depository Receipts, or ADRs), the Chicago Mercantile Exchange (CME), the Chicago Board of Trade (CBOT), and the Sydney Futures Exchange - is the government in the form of the Treasury. The means of regulating the ORIEs is different from that of the UKRIEs, and involves striking an agreement with the exchange's home country regulator for passing information.

In the UK is the concept of self-regulation and the role and function of self-regulating organizations, or SROs, and recognized professional bodies (RPBs). Their most important responsibility is for the authorization and monitoring of firms involved in one way or another in the investment business. The SIB regulates these two groups of regulators, as well as a Recognized Clearing House. SIB also has policy responsibility for an investor's compensation scheme administered by a separate company, and a relationship with a curious body called an International Securities Self-Regulating Organization, or ISSRO, which is headquartered in Switzerland but regulates the London Eurobond Market. The SIB sets overall policy and regulates the regulators and exchanges which themselves regulate the firms and the markets. The membership structure of those bodies is such that they are self-regulating in so far as the members regulate themselves within the overall statutory framework laid down by Parliament and administered by SIB.

Basically, the London Stock Exchange started in 1773 with some built-in self-regulations put in place at the foundation, however, because of it's age the markets here have basically led the regulators and set the parameters for them to follow. Therefore, in the UK there is a long history which shaped the arena which regulators are to set rules for almost as an after fact. The "Big Bang" of 1986, greatly altered the UK market with the de-regulation of commissions. Even though there is a type of centralization in the UK markets, due to the self-regulating nature of these markets there is not the heavy hand of government causing these markets not to be internationally competitive. There is a great degree of subjectivity, but given the fact that the effort has only really existed in its present form since 1986, the learning process is still underway and conclusive results are not yet in. What we do have is a government which is committed to open and competitive markets and a level regulatory field for all, while meeting investor protection standards. This will not change for the foreseeable future, and sets the backcloth against which the regulator must continue to ensure that the credibility of, and public confidence in, the market is upheld.

6.12 The Role of Regulatory Bodies In Capital Market Development: The Nigerian Experience, presented by Mr. George A. Akamiokhor, Director-General, Securities and Exchange Commission, Nigeria

With the wave of economic liberalization across the globe, the issue of appropriate regulatory mechanisms for capital markets and indeed financial markets as a whole has come under focus in some countries. To some observers, the introduction of new regulations when financial markets are undergoing liberalization seems contradictory given that liberalization is characterized by policies which encourage greater freedom and less government control. We have seen for instance, that in the former command economies of Eastern Europe the transition to market-oriented economies have brought about the establishment of capitalist institutions such as stock exchanges and other capital market institutions. The introduction of these institutions has in turn necessitated the setting-up of statutory regulatory agencies to regulate the activities of market participants in some of these countries. In essence, economic or financial market liberalization may compel the introduction of more regulations.

The need for capital market regulation is motivated by the desire to protect the investing public from malpractices, instill confidence in the system and ensure financial market and economic stability which are pivotal to economic growth and development. History has shown that inadequate or absence of regulation is detrimental to the capital market as it encourages sharp practices by participants (e.g. investors, operators and issuers). Regulatory agencies are therefore necessary to police activities in the market with the ultimate aim of preventing or minimizing abuses which might mar investor confidence, the market's integrity and stability. As financial markets get liberalized, market participants are more likely to abuse the system hence new and sometimes stiffer regulations are usually introduced to prevent likely abuses, and keep the market in check.

The regulatory functions of the Nigerian SEC is not substantially different from those of its counterparts elsewhere (which mainly is that of investor protection). The protection of investors is fundamental and requires certain safe guards which are put in place by the SEC. Like other Securities Commissions, safe-guards are ensured through inter-alia the adoption of basic orthodox methods of market regulation. These methods include registration, surveillance, investigation and enforcement. Through these and other activities of the SEC, investors' confidence have been strengthened and participation in the capital market stimulated. In addition, the SEC also formulates rules and regulations aimed at maintaining stability and inducing sustainable growth and development of the capital market. The SEC regulates mergers, acquisitions and all forms of business combinations.

The SEC has devised a number of means to foster capital market growth and development: policy initiation by advising the government on matters affecting the market; and public awareness through the promotion of capital market literacy programs. The regulatory roles of the SEC and the Nigerian Stock Exchange are complementary. As a self-regulatory organization the Stock Exchange has authority over its members to whom it sets rules of ethics to guide their professional behavior. Although the responsibility of market development falls principally on the SEC, the Nigerian Stock Exchange, as an SRO, and a major player in the market also has the duty of increasing public knowledge towards enhanced participation in the market place.

6.13 The Role of Central Banks In Capital Market Development: The Nigerian Experience, presented by Alhaji Abdulkadir Ahmed, Governor of the Central Bank of Nigeria.

Central Banks, especially in the Third World countries, play a major role in the growth and development process. Although the structures, functions and powers of central banks vary from country to country, depending on the economic, political, social and other environmental realities prevailing in a society, the primary role of any central bank is the promotion of monetary stability and a sound financial system. In performing this role, a central bank necessarily undertakes some functions which include the issue of the national currency, enhancement of funds mobilization, facilitation of competitive efficiency among banks and other financial institutions within the system and promotion of active money and capital markets. The Central Bank of Nigeria (CBN) has influenced greatly the development of the Nigerian Capital Market.

The CBN was set up by the Central Bank Of Nigeria Act of 1958. The CBN Act of 1958 has undergone various amendments and currently, legal backing for the CBN in the execution of its functions is provided by the Central Bank of Nigeria Decree No. 24 of 20th June, 1991 [which supersedes the CBN Act of 1958 and its various amendments], and the Banks and Other Financial Institutions [BOFI] Decree No. 25 also of 20th June, 1992. The Nigerian Stock Exchange is a private institution with government backing. The Exchange grew from a few securities and only one stock broker in 1961 to 153 securities in 1980 and more than 200 securities in 1992. Moreover, the number of stockbrokers increased to 10, 21 and 110 in 1980, 1985, and 1992, respectively, while the market capitalization grew steadily from N4.5 billion in 1980 to N6.7 billion in 1985, N12.8 billion in 1989 and to about N25 billion to date. The Exchange also has the Second-Tier Securities Market [SSM] which was set up in 1985 to provide access for small and medium scale enterprises wishing to raise long term funds but which cannot meet the stringent listing requirements on the main exchange. There are at present 16 companies listed on the SSM.

The major regulatory body for the capital market is the Securities and Exchange Commission [SEC]. This commission evolved from the Capital Issues Commission, which was set up as a department in 1962 by the CBN to regulate capital issues in the country. The major objective of the SEC is to promote the development of an orderly capital market. In doing this, the SEC has the major role of providing adequate protection for the investing public. SEC's functions cover price determination [soon to phased out] of securities placed in the market; surveillance and regulation of the securities market to prevent trading malpractices such as insider-dealing and unfair or manipulative dealings in securities; capital market development through the enlightenment of the investing public; granting approval in respect of mergers, acquisitions and all forms of business combinations; and undertaking the allotment of the securities of all public companies to foster the attainment of government's egalitarian policy objectives.

Considering that central banking refers to the role of an apex monetary authority within the entire financial superstructure in promoting monetary stability and a sound financial system, central banks especially in the developing world cannot but be actively involved in capital market development. The CBN has been active in this regard in recognition of the fact that a durable capital market plays a major role in the acceleration of the capital market process. The Nigerian capital market is a network of facilities for mobilizing and dealing in long-term funds. The market has two segments: (i) The market for newly-issued securities - the primary market and; (ii) The market for dealing in existing securities - the secondary market. An active and efficient secondary market is a necessary condition for marketing new issues effectively.

Rated as one of the emerging markets to be reckoned with, the Nigerian Capital Market has the potential for rapid growth and development. This cannot be done singled-handedly by the SEC, the NSE, or even the CBN. The concerted efforts of all the market operators, users and regulators are required. In particular, to forge ahead the way the Korean capital market has done over the years, the Nigerian capital market has to overcome certain rigidities and hurdles. One of such is the low turnover on the market as measured by the value of transactions on the Exchange compared with the market capitalization value. Another challenge to be dealt with is the need for gradual liberalization and internationalization of the Nigerian market. Presently, the capital market cannot accommodate foreign portfolio investment. This bar falls under the Exchange Control Act of 1962. Also, Nigerian companies cannot as of now issue foreign-currency-denominated financial instruments. These are areas which the CBN and other regulatory bodies are examining to ensure that the market is integrated with the global market at a pace that is in concert with other macro-objectives.

On their part, market operators have to infuse increased professionalism into securities trading. There is also a need to shorten the period of settlement of transactions. The proposed move by the NSE to introduce an automated clearing and settlement system [five days in 1992, from the date of transaction, and three days from the date of transaction with effect from 3rd quarter 1992] is laudable. Efforts will be intensified to implement the proposals. Other challenges include exploring ways and means of changing the buy-and-hold attitude of the Nigerian investing public, ensuring that the prices of new issues as well as securities traded on the exchange are market determined and the level of efficiency in the market increases significantly, such that all relevant information is disseminated and transmitted promptly and effectively via appropriate movements in securities prices.

6.14 African Capital Market Development: Implications of LDC Secondary Debt Trading, presented by, Dr. Kalu I. Kalu, Former Minister of Finance, Nigeria and former World Bank Manager.

LDC secondary debt trading resulted in Nigeria, and in most other developing countries, from the initiation of an economic restructuring plan [called Structural Adjustment Program or SAP]. This plan served to:

1. Realign prices, interest rates, and exchange rates.

2. Restructure financial obligations.

3. Rationalization of the debt burden.
   - refinancing high cost liabilities
   - improve cash-flow in the budget and ease net flows in the balance of payments.
   - minimize gross outflow of debt service
   - diversify and restructure short, medium, and long term liabilities

4. Access new money to optimize gross capital inflows.

5. Restructure productive base into lines of dynamic comparative advantage.

There are certain objectives and pre-requisites which should be met which would facilitate entry of portfolio investors into the African and LDC investment market:

1. Predictable, if not absolutely, stable political environment.

2. Predictable, and reasonably internally consistent economic and financial policies.

3. Discernible industrial policies and laws/regulations on investment, both domestic and foreign, including clear signals on attitudes to foreign/domestic investment, including regulations on the treatment of returns to investment, tax laws, and uniformity and stability of treatment over time.

4. Financial, monetary, and economic leadership and management (Ministry of Finance, Central Banking authorities, Presidency/Prime Minister etc.).

5. Stable financial indicators such as inflation, interest rates, exchange rates etc.).

6. Clear presentation and recognition of the countries resource endowment such as minerals, agricultural resources, raw materials, human skills, and the market size and potential - on its own, or by location, providing economies of scale.

The principal tradeable foreign debt instruments are promissory notes and par bonds usually issued by companies/institutions and government. The par bonds were issued after Nigeria agreed to the 1991 Commercial Bank Refinancing proposals of the Federal Government of Nigeria. The proposals represent Nigeria's sovereign debt obligations to its foreign bank creditors, totalling some US$5.5 billion. The par bonds are guaranteed for a single payment at maturity, the year 2020, by U.S. Treasury zero coupon bonds maturing on or near maturity date of the par bonds. The zero coupon bonds are held at the Bank of England for the benefit of the par bondholders.

The crucial need of a steady and robust development of domestic capital markets in the LDC's cannot be over-emphasized. Such a market would be expected to play critical roles in an emerging economy such as:

- providing the necessary liquidity for readily and systematically alternating between various short and medium-term liabilities including stocks, bonds, debts of various maturities;

- mobilization of savings from diverse sectors of the economy for transformation into investment channelled through broad based portfolio investments;

- perhaps more important than all of the above, providing a vehicle for the sustained emergence of foreign Portfolio/Equity investors. This class of investors historically test the waters by first speculative short-term offshore instruments. Thereafter they venture forth into more substantial and longer gestation equity positions in such sectors as (a) mineral resource development, (b) broad based manufacturing for export, (c) energy intensive sectors based on relatively cheap abundant local natural resources, (d) capital goods sectors catering to both the domestic, and later, the export markets, and finally (e) the development and capital deepening heavy industry and related high skill intensive technological based sectors.

The implications of a meaningful African capital market are therefore a function of the well known pattern of industrial development via the mobilization of all kinds of liquid and other financial assets from the domestic economy and from the external sources with the very important components of adaptation, technological transfer and modern techniques of management. LDC debt trading, can assist in this overall process by reducing the debt burden, restructuring cash flow requirements, and reversing investment flows through debt/equity swaps etc. LDC secondary debt trading can be another tool which can contribute to economic development when wisely utilized.

6.15 Creating Appropriate Regulatory, Legal & Tax Frameworks to Stimulate Money and Capital Market Development, presented by Ms Teresa C. Barger, Division Manager (Capital Markets) Sub-Saharan African Division, International Finance Corporation.

To create a proper enabling environment for a developing capital market requires that the following conditions be addressed:

1. A conducive and stable macroeconomic environment;
2. Progressive monetary and fiscal policies;
3. Appropriate regulatory and enforcement mechanisms; and
4. Tailored foreign participation.

Financial markets in many developing countries are at an early stage of development. Usually the short term functions are more developed than long term resource mobilization and allocation functions. Many factors have been forwarded by academicians and development practitioners alike as to why financial markets have not been able to expand rapidly in developing countries. However, one of the most important factors to staggered development of financial markets in many developing countries has been an inappropriately designed regulatory, legal and tax framework (RLT). Inappropriate RLT frameworks have hampered the development of financial markets in three major ways:

(a) Reducing the availability of financial resources and financial instruments by restricting the involvement of private sector investors/financial institutions;

(b) Undermining efficiency and innovation in resource utilization by providing preferential regulatory treatment to a particular segment of financial institutions (largely for control purposes);

(c) Negatively impacting stability, fairness and transparency in the financial markets, for there have been no clear mandates or consistent enforcement mechanisms in information disclosure, accounting and auditing standards, company laws and financial market operations.

Generally, money and capital markets are at a very early stage of development in Africa, and are arguably, the least developed in the world. For instance, there are no money and securitized capital markets in Ethiopia and Tanzania for the flow of funds between financial institutions, and associated interest rates are determined by the Government. In these and other similar countries, including Angola and Mozambique, money and capital markets have not developed since all finance is required to be conducted through the banking system. In much of Africa, public enterprises which comprise the bulk of the non financial sector are prohibited by law from lending or borrowing excess funds to and from other enterprises, and hence lack the capability to raise resources from sources other than banks, and must place excess cash on deposit with banks.

Financial policies and regulations constitute the mechanisms by which financial institutions are allowed to operate and financial instruments are transferred. The development of financial policies and regulation also depends on the health of the economy. Many of the countries of Africa are plagued by macroeconomic instability, high inflation and largely state owned economies. It is expected that this will soon change. Added to these, the underdeveloped infrastructural and communication facilities, the lack of trained personnel, the unpredictability of government policies and the deteriorating terms of trade have made it impossible for some countries to adhere to existing financial policies and regulations. The following have been major policy and regulatory problems:

1. Artificially low interest rates which have encouraged sub-optimal investments;

2. Mandatory and subsidized credits which encourage companies to borrow instead of raise equity;

3. Tax disincentives such as triple taxation on dividend income is one example;

4. Weak and unclear legal frameworks especially in the banking industry;

5. Strict foreign exchange control;

6. Preferential treatment of banks and development financial institutions; and

7. Dependence on deposit type instruments and short-term credit in mobilizing savings.

6.16 Establishing a Stock Market: Ghanaian Experience, presented by Dr. Charles Asembri, Head of Marketing and Educational Department, Ghana Stock Exchange.

The Ghana Stock Exchange is a very young market and is just two years old. The Exchange commenced operations in November 1990 after an executive instrument giving recognition to Ghana Stock Exchange under our Stock Exchange Act, 1971 was signed by the Secretary for Finance and Economic Planning. However, the idea of a stock exchange had been conceived as far back as 1968. The Government of Ghana in 1968 commissioned a feasibility study into the establishment of a stock exchange in Ghana. The study was sponsored by the Commonwealth Development Finance Co. and recommended the establishment of an exchange within two years. In 1971 the Stock Exchange was incorporated but never operated probably as the result of a military take-over in 1972.

Unfavorable macroeconomic and political conditions contributed over the following years but also there was the basic feeling that there was a need for government to finance the existence of the exchange. Governmental bureaucracy delayed for many years the start up of the exchange. The present Government launched an Economic Recovery Program in 1983 to address the distortions in the economy and place it back on a sound footing. It was determined that the private sector should when possible be the engine for economic recovery with government assisting where required.

Establishing a Stock Exchange was revisited in 1989, a national committee under the chairmanship of the Governor of the Central Bank was set up to take charge of the project. In July, 1989, as a result of the committee's work, Ghana Stock Exchange was incorporated as a private company limited by guarantee. The promoters were three private sector firms, namely: National Trust Holdings Ltd., Consolidated Discount House Ltd., and Merban Stockbrokers Ltd. A thirteen member Council of the Exchange was inaugurated on November 12, 1990, followed immediately by the first trading in eleven (11) provisionally listed companies. Upon the inauguration of the Council, the National Committee became inoperative and was considered dissolved. The official launching of the Exchange, however, took place two months later on January 11, 1991.

Issues that the Committee had to contend with during the preparations for the establishment of Ghana Stock Exchange included the legal framework, funding, trading system and settlement and initial training for staff and operations of the market. Funding was raised from the private sector to eliminate government delays. The legal framework was put in place with assistance from the Technical Assistance Group of the Commonwealth Fund for Technical Co-operation and the Attorney-General's department in developing regulations regarding membership of the Exchange as well as listings. The Call-over System was adopted for trading. Rules regarding trading and settlement were also developed after the Committee had studied the trading systems prevailing in other exchanges in developing countries.

The Stock Exchange has received financial support and technical assistance from the Commonwealth Secretariat, CIDA Inc. of Canada, UNDP and the World Bank. This assistance has gone a long way in setting up the exchange and also its development. The experience of the Nigerian Stock Exchange has also been usefully tapped through study tours by key officials of the exchange.

The Ghana Stock Exchange has made some notable achievements to date. From an initial three promoters of the Exchange, the Exchange now has 41 members. This shows the importance of the private sector and other institutions attached to the development of the capital market in Ghana especially when one remembers that most of the members have no direct or immediate financial benefit but are obliged to pay annual subscriptions apart from their initial contributions. The number of listed companies has increased from eleven to fifteen as at September 30th, 1992. The Exchange has also made it possible for a private company to go public and raise C630 million. It is the first company to have gone public in sixteen years. On the stock market, some companies are beginning to pay dividends to their shareholders. A shareholders association has been formed. Over 400 professionals in the securities industry have been trained by the courses organized by the Exchange. We hope that with intensified education, the privatization of government owned enterprises through the Exchange, that modest gains can be made in the future.

Problems facing the Exchange include low volumes of trading and funding, the Exchange is currently still operating at a loss and will require several more years to become self-financing. Finally, there is a need to develop promotional and educational programs to create some awareness in the general public about the Exchange. Lack of understanding the basics can easily derail all other efforts. Training of market operators is important but equally important is the preparation of journalists who are necessary to keep the public well informed.

6.17 Establishing A Stock Market: Cote D'Ivoire Experience, presented by Mr. Emmanuel Diarra, Special Advisor to the President, Abidjan Stock Exchange, Cote d'Ivoire.

It should be recalled that savings and investment activities have always occupied key positions in the consideration of policies aimed at ensuring national growth. In this regard, certain economists such as W. Arthur Lewis have written that "in the theory of economic development, the issue at stake lies in understanding the process through which a particular community which previously saved and invested at most 4 or 5% of its national income, has metamorphosed into an economy where voluntary savings stand between 12% or 15% or more, of its national income." Despite the temptation for African countries to resort to external aid, efforts were made to mobilize existing savings. Among them is the establishment of supporting institutions such as development banks and savings and loans associations which have been established all over the continent.

However, one striking feature these days, especially in French-speaking Black Africa, is the absence of big intermediaries, such as investment banks and in particular stock exchanges, in the financial market. Even if the emergence of such financial institutions in Africa are experiencing many difficulties (a poor financial culture, complex nature of stock exchange mechanisms etc), the need to establish such institutions can not be over-emphasized.

Shortly after independence and as a result of the dearth of domestic resources in Africa on the one hand and the lack of local entrepreneurs on the other, the recourse to direct foreign investment offered an alternative that could speed up the country's industrialization. However, over the years, the gradual increase in the volume of local savings brought about the need to organize the capital market in Cote d'Ivoire with the view to attracting domestic savings while at the same time protecting the

Ivoirian saver. A series of legislative texts and regulations in 1974 organized the Abidjan Stock Exchange (ASE). It was entrusted with the task, among others, of:

- organizing and managing the buying and selling of securities quoted on the Stock Exchange;
- ensuring the legitimacy of stock transactions in an atmosphere of maximum security; and finally
- facilitating access of companies to new capital.

The market, managed by the Stock Exchange, deals in securities traditionally made up of stocks and bonds. It is divided into a primary market and a secondary market. The former, also dubbed "the first-hand market", where they could be traded twice per week. The framework offered by the secondary market by facilitating the mobility and liquidity of securities is a valuable asset to the investor-saver who holds listed stocks or bonds.

The ASE started its operations in 1976 and at the opening of the market on April 7th of that year, 8 stocks and 6 companies were admitted on the official list. From 1976 to 1982, 10 new stocks and 16 new companies were admitted, increasing the membership to 18 stocks and 22 companies. At the same time, three other companies joined the over-the-counter market. During this period, a total of 55 billion CFA Francs were mobilized through public issues. Out of this sum, 48.9 billion CFA represents bonds issued and the remaining 6.1 billion were for floated shares.

However, from 1983 onwards, i.e. immediately after the boom years of 1976 to 1982, the ASE market began to show signs of decline. In effect, during the 7-year period from 1983 to 1991, no new companies were admitted to the Stock Exchange. As for the primary bond market, it registered a boom up to 1989 with an increased rate of issue of CAA and FNI loans coupled with the introduction of a new loan scheme by Ets Robert GONFREVILLE. Unfortunately under the two-pronged influence of the economic crisis and repayment difficulties, the CAA loans began declining drastically from 1989; 20.6 billion CFA Francs in 1988; 11.6 billion in 1989; 6.3 billion in 1990 and lastly 5.8 billion in 1991. During the period 1983 to 1991, 103.1 billion CFA was mobilized by the primary market: of which 2.8 billion emanated from an increase in the capital of quoted companies and 100.3 billion from the issuance of bonds.

As at 31/12/91, the total quoted value of the ASE stood at 67 securities, 24 companies and 43 stocks while the market capitalization level attained 146.7 billion CFA (48.1 billion as bonds and 98.6 billion as shares). In the secondary market, the annual average volume of transactions increased from 1.4 billion CFA (1.3 billion representing shares and 100 million debentures) during the 1976-1982 period, to 2.0 billion CFA (1.6 billion representing shares and 400 million debentures) during the 1983-1991 period.

Even with the improvements there are lingering problems for the ASE which are:

1. Non-renewal of quotations; and

2. The low volume of transactions on the secondary market.

The non-renewal of quotation is partly attributable to high ASE lending rates and the low level of diversification in the stock market. The factors responsible for the low volume of transactions are basically the inadequate liquidity in the market and the lukewarm attitude of stockbrokers. In addition, there is insufficient knowledge of portfolio investments, a handicap which adversely affects operations in both the primary and secondary markets. A series of reforms were undertaken to overcome these difficulties:

1. The ASE became financially autonomous and began to operate without subsidies, management of the Exchange improved;

2. The ASE improved its method of price determination to better reflect market rates and correct the impression of artificial prices.

There was also an effort to broaden the scope of financial market products to investors and to improve the liquidity position of the secondary market. To achieve this, the Stock Exchange has to open up fully to all economic operators: companies, public enterprises, investor-savers; speculators etc. A "second-tier market" was created and the over-the-counter market reorganized. The ASE also reduced its rates for its services to alleviate costs to operators and customers. Membership was increased to include the issuers of listed stocks and bonds.

Most stockbroking is conducted by departments of banks and more is being done to diversify and train more individuals in the art of stockbroking. The ASE is also establishing a club of quoted companies, which will be a forum through which member companies could express their views, promote their images and create a support structure to offer assistance and advice to newly quoted companies. The club can also inform non-quoted companies about the benefits of becoming quoted.

The ASE is also undertaking a program of public enlightenment to inform the public of the advantages of the Stock Market and to better provide information on its operations. This will be done through use of the mass media and the distribution of booklets and brochures on specific themes.

We view these reforms as the beginning, not the end of our efforts. The national and international economies are beginning to show signs of recovery and this will be a source of increased business activity. Also domestically, the privatization exercise will provide economic activity and opportunities to bring more companies to the public market. On the international scene, there are efforts underway to put in place a sub-regional stock exchange to provide for the diversification of the sources of financing West African Monetary Union (WAMU) economic operators. In this regard, the advent of a regional stock exchange will go a long way in strengthening the institutional base of the sub-regional financial mechanisms and instruments. The regional stock exchange would monitor, develop and improve upon all the initiatives that have been set in motion.

6.18 Establishing A Stock Market: Nigerian Experience presented by Mr. Hayford I. Alile, Director-General of The Nigerian Stock Exchange.

The paucity of long-term capital for economic development and growth has been a bane of most African countries including Nigeria. In order to move away from this depressed state, funds must be effectively mobilized to harness our human, material and management resources for optimal output. Towards this end, many economies use capital market development as a potential conduit for channelling long-term funds into productive sectors. In particular, with the difficulties faced by many development finance institutions in developing economies, the capital market development route has become one of the focal points in the debate as a credible alternative source and mechanism of supporting equity long-term investment financing.

The main function of a capital market is the mobilization and allocation of a nation's limited capital resources among various competing alternative uses. An efficient capital market should allocate a greater proportion of a given volume of savings to those companies which provide the highest prospective rates of return, after giving due allowance for risk. The political objectives of nearly all countries involve an attempt to combine the need to increase the growth rate of output with the need to improve the distribution of income, wealth and economic power. Somehow, the flow of capital within an economy must also reflect a nation's socio-economic priorities. It goes without saying that political, social and/or economic instability is a most unhelpful environment within which to develop a capital market.

When examining the factors important for the establishment of a Stock Market, the main focus should be on the enabling environment in which one operates. Therefore, the political and economic environments, the private sector role in the process, rational fiscal and monetary policies, the institutional operators, and the legal and regulatory environment are all important and contribute to the success of a developing market.

The Nigerian Stock Exchange resulted from a committee set up in 1958 under the Minister of Commerce and Industry. In 1959 the Barback Committee recommended: (a) the creation of facilities for dealing in shares; (b) the establishment of rules regulating transfers, and (c) measures to encourage savings and issue of securities of government and other organizations. In May 1959, the Central Bank of Nigeria in pursuance of its role in respect to the development of a capital market floated the first Federation of Nigeria Development Loan of N4.0 million on behalf of the Government. Because a formal Stock Market had not been established, the Central Bank had to ensure that the stocks carried with them reasonable assurance of marketability by introducing a central register for matching buyers and sellers of shares and suggesting prices at which the deals took place. In 1960, the Lagos Stock Exchange was incorporated and trading commenced in 1961 after the enactment of The Lagos Stock Exchange Act of 1961. Subsequently, the Exchange was reorganized and transformed into The Nigerian Stock Exchange in 1977. Since then, five other branches have been opened in Kaduna (1978), Port Harcourt (1980), Kano (1989), Onitsha (1990) and Ibadan (1990). All six branches function primarily as Trading Floors. A new branch of the Exchange will be opened soon in Abuja.

During the early years trading was however, very low because of the slow rate of capital formation, the predominant lack of awareness of the mechanics of Stock Exchange transactions and poor communication. Buyers and sellers of securities were mostly concentrated in the Lagos area. From 1962 to 1970, the Exchange handled only four new issues of industrial securities. Issues of Federal Government stocks came out regularly at the rate of once a year during the same period. Very rarely however, did the annual turnover of the Exchange exceed N15.0 million. Out of this, Government stocks regularly accounted for between 90% and 98%. This picture started to change with the implementation of the Nigerian Enterprises Promotion Decrees of 1972 and 1977 popularly known as "Indigenization Decrees." The companies which complied with the provisions of these Decrees through the Nigerian Stock Market boosted equities listings so that by the end of 1980, a total of 91 companies were on board.

Furthermore, since the introduction of the Structural Adjustment Program in 1986 and the adoption of some fiscal and monetary policies and the promulgation of several Decrees to correct the problems of the past, the nation's investment climate has improved considerably. The effects of these adjustment policies have enhanced the performance of the securities market.

Since 1988, The Exchange witnessed remarkable growth in the number of listed securities, market capitalization and the price index. The growth of listed securities coupled with greater awareness on the part of Nigerian investors resulted in the dramatic increase in market capitalization which grew from N8.9 billion at the end of 1987 to over N31 billion at the moment. Today, equities and industriales account for 89 percent of the market capitalization while the gilts account for the balance of 11 percent. This trend is in line with the on-going deregulation of the economy under the Structural Adjustment Program wherein the public sector should roll back its frontiers of direct involvement in commerce and industry.

The Stock Exchange index has grown from 100 on 3rd January, 1984 to 1080 in 1992 providing an adequate hedge against inflation for investors. The index calculated in dollar terms by the International Finance Corporation grew by over 27% in 1991 thus placing it among the best 15 in the world.

The Stock Exchange will be focusing in the immediate future in the areas of increased capital formation and efficient development by emphasizing:

(a) The Second-tier Securities Market (geared toward promotion of small and medium sized companies;
(b) Securitization of Domestic National Debt;
(c) Financing Oil and Gas Industries;
(d) Privatization; and
(e) Internationalization of the Stock Market.

Appendix B - List of Program Speakers

	NAME	COUNTRY	INSTITUTION
1.	Alhaji Amusa O.G. Otiti Chairman	Nigeria	Securities & Exchange Commission
2.	Alhaji Ahmadu Abubakar Honorable Minister	Nigeria	Ministry of Finance
3.	Mr. Paul Guy Secretary-General	Canada	Internatl. Organ. of Securities Comm.
4.	Mr. Pius Okigbo Former Minister	Nigeria	Ministry of Economy & Planning
5.	Mr. Tessama Gedamu Vice President	Cote d'Ivoire	African Dev. Bank
6.	Mr. Layashi Yaker Under-Secretary General	Ethiopia	Econ. Commission for Africa
7.	Mr. E.A. Ocholi Vice Chairman, CEO	Nigeria	Rims Merchant Bank
8.	Dr. Laurence Clarke Deputy Governor	Botswana	Bank of Botswana
9.	Mr. Dennis O. Odife Chief Executive Officer	Nigeria	Centre-Point Merchant Bank Ltd.
10.	Mrs. Marianne Smythe	U.S.A.	Sec. & Exchange Comm.
11.	Mr. John Barass Assistant Director	England	Sec. & Investments Board
12.	Mr. George A. Akamiokhor Director-General	Nigeria	Sec. & Exchange Comm.
13.	Alhaji Abdulkadir Ahmed Governor	Nigeria	Central Bank of Nig.
14.	Dr. Kalu I. Kalu Former Minister	Nigeria	Ministry of Finance & Ministry of Transport
15.	Ms Teresa C. Barger Division Manager (Cap. Mkts.)	U.S.A.	International Finance Corporation
16.	Dr. Charles Asembri Head of Marketing & Education	Ghana	Ghana Stock Exchange
17.	Mr. Emmanuel Diarra Ass't to President	Cote D'Ivoire	Abidjan Stock Spec. Exchange
18.	Mr. Hayford I. Alile Director-General	Nigeria	Nigeria Stock Exchange

Gothenburg University	Lulseged G. Yohannes, Research School of Economics Associate Finance
Federation International Des Bourses de Valeurs (Paris)	Gerrit de Marez Oyens, Co-Secretaire General
Osindero Oni & Lasebikan Ernst & Young (Nig.)	K. Osun-Benjamin, Partner
F.O. Akinrele & Co.(Nig.)	Chiagozie Hilary-Nwokonko,Barrister
Goldman Sachs International	Ellias Preko, Assoc. Equities Div.
Nigerian Institute of International Affairs	Dr. George Obiozor, Director-General
Union Patronale de Cote d'Ivoire	Daniel Teurquetil, Secretaire General
Signet Investments & Sec. (Nigeria) Ltd.	Oladipo Aina, Managing Director
Irving & Bonnar (Nig.)	Nnenna U. Ejekam, Partner
Financial Equities Ltd.	E.B. Adegbite, Chairman
Lateef Adegbite & Co.	Dr. Lateef Adegbite, Solicitor
State Street Bank & Trust Coy. of Boston, Ma.	James Lathrop, Vice President
M&M Securities (Nig.) Ltd.	Emeka Anyanwu, General Manager
Investment Banking & Trust Coy. (Nig.) Ltd.	Olawale Edun, Executive Director
The Guardian Newspaper (Nig.)	Joseph Inyang, Finance Reporter
Alpha Merchant Bank (Nig.)	Jimi Lawal, President Gabriel Oguah, General Manager
Concord Press of Nigeria	Andy Nssien, Ass't. Editor
Investicon Nigeria Ltd.	Mohammed Shehu Birma, Managing Dir.
Ministry of Information & Culture (Nigeria)	Dr. G.A. Adeosun, Director-General
Rims Merchant Bank (Nig.)	Emmanuel Ocholi, Chief Executive
International Finance Corp.	Teresa Barger, Division Manager
International Organisation of Securities Commissions	Paul Guy, Secretary General
Securities Discount Co. (Ghana) Ltd.	Fred Oware, Managing Director

Central Bank of Nigeria	O. Ola Vincent, Former Governor Alh. Abdulkadir Ahmed, Governor
National Investment Board of Gambia	Bye Malleh Wadda, Senior Economist Private Enterprises
Partner Investment Co. (Nig.) Ltd.	Victor Oglemwonyi, Managing Director
International Development Research Center (Kenya)	Osita M. Ogbu, Regional Program Officer
Ministry of Foreign Affairs of Nigeria	Hon. Minister Maj. Gen. Ike Nwachukwu
US Securities & Exchange Commission	Marianne Smythe, Director, Division of Investment Management
Centre Point Merchant Bank (Nig.) Ltd.	Dennis O. Odife, Managing Director
Technical Committee on Privatization & Commercialization (Nig.)	Dr. Hamza Zayyad, Chairman
Nigerian Stock Exchange	Hayford A. Alile, Director General

Appendix D - Task Order Description

In response to a request for services from USAID, Harvey & Company, sent a consultant, Arthur Polk, to Nigeria to provide advice and assist in discussions during meetings with regard to the securities market and meetings with the USAID Mission with regard to the potential for venture capital in Nigeria. The consultancy was performed under Task Order No. 51, pursuant to Contract No. AFR-0438-Z-0006-00. The consultant was Arthur E. Polk. The consultant departed from Washington's Dulles Airport on Saturday, November 7, 1992 arriving in Abuja, Nigeria on Tuesday, November 10, 1992. The consultant attended the Capital Markets Conference November 11 - 13, 1992. The consultant then traveled to Lagos, Nigeria and attended meetings in Lagos at the USAID Mission and departed Lagos the night of November 19, 1992.

Purpose of the Consultancy:

The purpose of the consultancy, as set out in the Task Order, under the heading "Scope of Work," is as follows:

1. Travel to Nigeria to advise and assist in discussions during meetings with regard to the securities market and meetings with the USAID Mission with regard to the potential for venture capital geared toward health in Nigeria.

2. Provide technical assistance, as necessary, on discussions of the securities market and venture capital funding.

3. Prepare a draft report for meetings with HC and AFR/ONI.

4. Prepare a final report and make verbal presentation to the AVCP and AFR/ONI.