AGENCY FOR INTERNATIONAL DEVELOPMENT
PPC/CDIE/DI REPORT PROCESSING FORM

ENTER INFORMATION ONLY IF NOT INCLUDED ON COVER OR TITLE PAGE OF DOCUMENT

1. Project/Subproject Number

2. Contract/Grant Number

Trade and Investment Reform Program (TIRP)
USAID Contract Number: 641-C-00-98-00229

3. Publication Date

August 1999

4. Document Title/Translated Title

Proceedings of International Conference of the African Capital Markets Forum on International Competitiveness

5. Author (s)

1. SEM International
2. Sigma One Corporation

6. Contributing Organization (s)

7. Pagination

204

8. Report Number

CLIN 6.4

9. Sponsoring A.I.D. Office

USAID. Mission to Ghana

10. Abstract (optional - 250 word limit)

11. Subject Keywords (optional)

1. Ghana
2. Africa Capital Markets
3. International Competitiveness
4. Trade and Investment Reform
5. Financial Intermediation
6.

12. Supplementary Notes

13. Submitting Official

Barbara Pietuch

14. Telephone Number

(919) 361-9800

15. Today's Date

10/10/03

..........DO NOT write below this line..........

16. DOCID

17. Document Disposition

DOCRD [ ] INV [ ] DUPLICATE [ ]

AID 590-7 (10/88)

A

Proceedings of International Conference of the African Capital Markets Forum on International Competitiveness

August 1999

Sigma One Corporation

B

Sigma One Corporation (U.S. Office)
Post Office Box 12836
Research Triangle Park, North Carolina 27709-2836

Phone: (919) 361-9800
Fax: (919) 361-5858
Email: sigma1@sigmaone.com

Proceedings of International Conference of the African Capital Markets Forum on International Competitiveness

Submitted to:

U.S. Agency for International Development
Mission to Ghana

for:

Trade and Investment Reform Program (TIRP)
Improved Policy Reform and Financial Intermediation
USAID Contract Number: 641-C-00-98-00229

Prepared by:

SEM International

For:

Sigma One Corporation

In fulfillment of the following milestones:

6.4 One Conference Held in Ghana per Year (Year 2)

August 1999 **Sigma One Corporation**

d

TABLE OF CONTENTS

PREFACE

HISTORY OF AFRICA CAPITAL MARKETS FORUM

The African Capital Markets Forum (ACMF) traces its beginnings to the November 1992 International Conference held in Abuja, Nigeria with the objective of promoting capital markets in Africa. One of the recommendations resulting from the conference was the establishment of an African Capital Markets Forum to discuss common problems of members, proffer solutions to them, and promote the exchange of information and co-operation among all stakeholders. The thinking was that such a body, if given the necessary support by African governments and the private sector, could accelerate the development of capital markets in the region. At the time, there were eight stock exchanges in Africa.

ACMF was launched in Accra by Zimbabwean President Robert Mugabe during African Heads of State Conference on Reviving Private Investment in Africa in June, 1996. ACMF is incorporated in Ghana as a company limited by guarantee. The Secretariat of the organization is also based in Ghana.

ACMF has four broad objectives, namely to:

- Promote the establishment of formal capital markets in Africa;
- Accelerate the development of existing markets;
- Promote co-operation among African capital market institutions; and
- Provide a forum for the exchange of ideas among African capital market institutions.

BACKGROUND TO CONFERENCE

The recent financial turmoil in Asian economies has been a subject of extensive discussion. While opinions differ, there is agreement that a sudden cessation and withdrawal of previously large inflows of portfolio capital can be destabilizing. The negative effects have been reflected in steep declines in currency and equity values and a contraction of economic activity. While African economies have not received the large doses of capital inflows which Asian economies enjoyed, portfolio flows into Africa have increased in the wake of Africa's economies restructuring and opening up of financial markets.

The 1999 International Conference of the African Capital Markets Forum, therefore, focused on the risks and benefits of global capital flows, with particular emphasis on Africa. A distinguished group of speakers were assembled who shared their perspectives on how Africa can position itself to minimize the economic shocks associated with global flows while maximizing the benefits to African economies. In addition to the main theme of the conference, there were round-tables of stock exchanges, investment bankers and mutual funds, and workshops on research, market integration, training and regulation. The programme for the Conference and the list of members for the technical planning committee are provided in Annexes B and C.

The Conference was well attended by participants from the OAU Secretariat, the U.S.A, Europe and Africa. In all, there were 120 participants. The list of the participants is included in Annex B.

Sam Mensah
Secretary, Governing Council
African Capital Markets Forum
Suite 413, SSNIT Tower Block
P. O. Box CT 5789
Accra, Ghana
Tel: 233-21-701-0249
Fax:233-21-701-0248

CHAPTER 1

CHAIRMAN'S OPENING REMARKS

Jude K. Bucknor
Managing Director, CAL Merchant Bank, Ghana

I would like to formally welcome you all to this conference. Before I proceed, I would like to thank African Capital Markets Forum for organising this conference which brings together expertise from various countries in Africa and other parts of the world to deliberate on the risks and benefits of the globalization of African capital markets. I would also like to thank very much the sponsors for supporting this conference and for their appreciation of how critical the type of discussions we will have here today are.

Those of you who are watching the markets would agree with me that there are exciting things happening in the capital markets. We have seen the aftermath of the Asian crisis and the restructuring taking place in places such as Korea, Japan, etc. We have also seen all kinds of mergers in the financial services, the oil and the energy sectors. There have also been record breaking stock market performances in the US. All these show that the times we are in are very exciting moments for the capital markets.

From all these observations, it becomes clear then that during the next decade as the world becomes globalized, those who will win are those who will be able to compete for capital. Also, two things become very obvious, especially as we look at the Asian crisis. In the first place, Africa was spared from some of the negative effects of the Asian crisis. The other side of the coin was that Africa has not benefited from the immense capital flows that are going around the world looking for investments.

In order to allow capital flows into our capital markets to spur economic growth, certain issues need to be addressed. There are questions about institutional mechanisms, the legal framework, problems of liquidity of our stock markets, the sizes of our markets and the macro-economic policies that we have to put in place to prevent the kind of misalignments that precipitated the Asian crisis.

I hope that this conference would provide the right platform for detailed discussions on these issues raised.

Thank You.

CHAPTER 2

WELCOME REMARKS

Mr. George Akamiokhor
Chairperson, African Capital Markets Forum (ACMF)

I am delighted to formally welcome you this morning to this important conference on "Globalization of African Capital Markets: Risks and Benefits" organized by the African Capital Markets Forum (ACMF). The conference is particularly significant as it is aimed at focusing on the globalization of African capital markets, an issue, which has no doubt generated interest and concern among observers of the continent. The conference is also being held at the twilight of the 20th century, a century which has been marked by major financial market developments including its globalization. It is indeed believed that financial markets, given recent and expected developments, would become much more global in the 21st century. But how has Africa fared in the globalization moves? While there is no doubt that progress has been made, the continent still lags behind others in this regard. Within the continent, the level of progress has also differed among countries as some have made admirable progress while others have not.

There are obvious constraints to the globalization of African capital markets. These include size, as many of these markets are quite small measured by such indicators as markets capitalization, trading value and listings. Market capitalization of a number of African capital markets is, for instance, much smaller than the size of assets of many global funds managers. African entrepreneurs are still very much evasive of opening their companies to outside membership – preferring to remain closed even under serious financial requirements. Besides, the size of many African enterprises are relatively small.

There are also in some markets infrastructural inadequacies, particularly in the area of clearing, settlement, depository and custody services, although these are improving remarkably. Added to these, is the fact that information on African markets is relatively limited and not widely circulated. I need also mention restrictive policies such as exchange control and unfavourable tax regimes, which still exist in a few markets. These weaknesses have clearly impacted on the global competitiveness of many African capital markets. Nevertheless, there are many positive developments on the continent which need highlighting. For instance, various measures have been taken and are being taking to strengthen African markets and indeed prepare them for the global challenges of the next millennium. In Nigeria for instance, the stock exchange has significantly improved its infrastructural facilities with the introduction in 1997 of a central securities clearing and settlement facility which has enabled the market achieve a T+5 clearing and settlement cycle. Trading facilities were up-dated earlier in 1999. Today, the Nigerian Stock Exchange operates an automated (screen-based) trading system with workstations on the floor for brokers to transact trade. The exchange is working towards attaining a T+3 settlement system.

Also a new securities law – the Investments and Securities Decree has been introduced in

Nigeria with enlarged functions and responsibilities for the Securities and Exchange Commission, as well as provisions for the establishment and regulation of commodity, options and future exchanges, and capital trade points, among others. With these developments, the transparency and efficiency of the Nigerian capital market have been strengthened, while new financial instruments have been introduced.

I am aware that significant developments are also taking place elsewhere in Africa. In Ghana, the Securities Regulatory Commission commenced full operation recently. This is a healthy development for the growth of Ghana's securities industry.

Cooperation has also increased among African's capital markets, particularly at the sub-regional level, and I must commend the African Stock Exchanges Association (ASEA) for its work in promoting cooperation among Africa's Stock Exchanges.

The improving macro-economic and political environment in some African countries has encouraged access to the international capital market for funds and listing.

There is no gainsaying that sound macro-economic policies, good legal and regulatory infrastructure, as well as favourable tax environments, are vital to the development and globalization of capital markets. The development of a professional work force in the capital market is also a must for efficient financial intermediation, while a strong private sector could be engendered by promoting the development of capital markets. Globalization of capital markets with attendant capital inflow could also foster the development of private enterprises.

The benefits of capital market globalization are obvious, but we should not lose sight of the risk which recent global happenings have shown. We need to learn lessons from the Mexican debacle and, in more recent times, from the financial market turmoil in East Asia and Russia. Experiences in these markets have shown that foreign investors would pull out quickly from a market if the fundamentals go wrong, and such exit could have far reaching effects on an economy. It has also vividly revealed that to attract and retain foreign investment, and as a matter of fact, derive the benefit of globalization, we must ensure that "our house is always in order".

There are also lessons to learn from the domino effect of the crisis. In other words, developments in a country can no longer be viewed as the sole affairs of that country. Today, one country's problem could easily become everybody's problem and concern. Although African markets have not achieved the level of linkage in other regions, they are increasingly becoming linked, which raises the risk of contagion.

Distinguished ladies and gentlemen, the task of building the African continent as an attractive investment destination is no doubt challenging, but certainly not insurmountable. The world has indeed become a global village with greater interdependency among nations. It is therefore imperative for African markets to move toward strong linkages among themselves and with the international financial system which the globalization concept represents.

The theme of this conference, which is Globalization of African Capital Markets: Risks and Benefits, is most appropriate, especially as we approach the next millennium. Let me reiterate that Africa requires massive investments if it is to be developed and be a major part of the global economy in the 21st century.

Interestingly, capital markets in Africa are rapidly evolving as important sources of mobilizing savings and facilitating efficient resource allocation to productive sectors of the economies. Cross-border listings and capital sourcing should be further encouraged as a useful mechanism for corporate entities to tap from the international capital market, thereby improving the market's profile and the visibility of the continent in the global market.

At this juncture, may I state that this conference is a clear testimony of the commitment of the African Capital Markets Forum (ACMF) to one of its cardinal objectives of providing a forum for the exchange of ideas among African capital market institutions. I therefore urge delegates at this august gathering to painstakingly examine the subject matter in all its ramifications, bearing in mind the enormous challenges facing the continent and the urgent need to accelerate its socio-economic development.

Before I conclude my address, let me once again remind you that the challenges of the new millennium are quite enormous, particularly for Africa. What is however required is the right policies, the will and commitment to the development of the continent. Cooperative efforts among financial markets in the region are also important.

It is my belief that globalization as a concept will only be meaningful if we effectively harness the opportunities it has to offer to the African continent.

I thank you for your attention.

CHAPTER 3

WELCOME ADDRESS

Ambassador Vijay S. Makhan,
Assistant Secretary General of the Organization of African Unity (OAU)

It gives me great pleasure to address this distinguished gathering of policy makers, professionals, and practitioners in the financial sector and on a very topical issue, that is: the risk that global capital flows pose and the opportunities that these flows open for the nascent African capital markets. The subject of the Conference derives special significance for various reasons, important among which are:

- its likely effects on the parallel complementary efforts pursued by the African Capital Markets Forum (ACMF) which are envisaged to reinforce those of the OAU/AEC;
- its recognition of the dangers that could stem from unregulated short term destabilising capital movements;
- the importance of capital flows for strengthening African capital markets and integrating them into the global financial system.
- its relevance to the keen interest and consistent efforts of the Organisation of African Unity (OAU)/African Economic Community (AEC) in the area of financial market integration and development in Africa;

In my speech this morning, I intend to throw some light on the foregoing factors which, I believe, underline the importance of capital flows for African capital markets and the role that these markets should play in the development process of the continent and its various regions. I will therefore take, in order, the above selected areas, which are also thematically linked.

To start with, I propose to revisit the vision of the founding fathers of the OAU and situate the Abuja Treaty in today's world of globalisation and liberalisation and as far as this relates to the role of the financial system in development. Considering the role that has been assigned to money, finance and payments by Articles 44 and 45 of sound financial policies at the macroeconomic level, the establishment of responsive financial institutions and the development of dynamic and resilient financial markets will be critical in achieving the objectives of the AEC Treaty. Indeed, the financial system that is in place can either be inducing or discouraging to economic activity. I may further argue that efficient financial markets, along with other allied policies, could be conducive to sustainable economic growth and development. Conversely, inefficient markets create effects that these might precipitate on national as well as cross-border economic transactions.

It is in recognition of the crucial role of financial markets as a facilitator of regional economic integration that the OAU/AEC organised the Forum on Financial Market Integration and Development in Africa in July 1997 in Mauritius to exchange views and share experiences. As a result of this cross-fertilisation, the Forum drew up a list of recommendations with the primary objective of reforming the financial sector and enhancing its efficiency and contribution to development in African countries. In the same vein, the forum had identified some future research agenda, such as promotion of private investment, promotion of regional capital markets, harmonisation of regional monetary policies, etc, which are currently being implemented by the OAU/AEC as substantive individual projects.

Let me now turn to the second point in my speech, namely, the challenges that are likely to be posed by global capital flows to African capital markets. First, I would contend that greater risks to any fragile and not prudently regulated financial system reside in short-term speculative capital flows. Consequently, opening of the capital account and liberalising the domestic financial sector before having in place a developed, efficient and responsive financial system backed by the necessary economic and financial policies would simply exert pressures on the domestic exchange rate, money supply, inflation, interest rates and the current account of the balance of payments. However, in most African countries, capital markets either do not exist or are in the embryonic stage, at best. Moreover, most African countries continue to rely on Official Development Assistance (ODA) flows (medium and long-term) for their economic and social development, with short-term capital flows mostly felt in trade financing. For these countries, therefore, the challenge will be how to develop capital markets capable of playing a developmental role through efficient financial intermediation. Until these markets are developed and also become integrated regionally and internationally, hot money movements will not have noticeable destabilising effects on the economies of these countries.

However, in the African countries (e.g., Nigeria, Ghana, Côte d'Ivoire, Egypt, Tunisia, Morocco, Cameroon, Kenya, Mauritius, Botswana and Zimbabwe) where capital markets have been steadily emerging, the risks that capital flows may bring about will be closely related to the size of these flows and the degree of liberalisation of these markets. While private capital flows have so far failed to raise the low savings rate of Africa (around 16-17 percent of GDP), the foregoing countries have introduced significant financial sector reforms, including interest rate and exchange rate liberalisation, competition in the financial system and considerable liberalisation of their capital accounts. Although Foreign Direct Investment (FDI) for Africa as a whole has been declining in recent years, these countries, nevertheless, were able to attract most of the FDI and to strengthen private sector activities in general. Capital market development has been a major thrust of financial policies in these countries.

Due to its importance, I would like to dwell a bit on capital market development, which typically involves four main areas of policy:

- Efficient Regulatory Framework: establishing an adequate regulatory framework for both primary and secondary markets so that an array of financial assets can be traded with sufficient requirements for regular accounting and disclosure of accounts, and protection of minority interests. It is also important that the existing legal system ensures honouring of financial obligations between contracting parties.

- Fiscal Incentives: reducing differences between the effective rate of taxation applying to different types of market assets, so as to reduce financial disincentives, especially to the use of equity and long-term debt.

- Capacity Building: technical assistance and training in the setting up of necessary institutions and intermediaries. Reform efforts in this important policy area should be pursued regularly and as part of other financial sector support policies.

- Market Liquidity: ensuring an institutional framework for providing adequate liquidity to the market. Banks, for example, could be permitted to participate in securities markets, though this might create problems both of prudential regulation and potential conflicts of interest. However, this depends whether the financial system is "bank-based," where banks and firms have close relationships, or "market-based", in which securities markets are highly developed and banks are not closely involved in industry.

The East Asian currency crisis and its contagion effects had amply demonstrated the need for well-developed capital markets capable of absorbing and coping with financial shocks and, if bank-based, quickly identifying, containing and effectively dealing with financial distress in the system. It also showed that financial liberalisation must be properly sequenced with other policies in order to minimise cost and risks and maximise the benefits and opportunities of global capital flows. It is my contention that an early and full liberalisation of the capital account may not bring about all of the much hoped for dividends from increased capital flows to the market-oriented and fast-reforming African countries as their financial markets are not yet fully developed nor adequately integrated. Caution must however be exercised in this regard. It is to be recalled that during the joint IMF/WB meetings in Hong Kong in 1997, the G-24 firmly opposed opening of the capital account of developing countries. Ministers of the G-24 emphasised, instead, the need for a progressive and flexible approach, even under any transitional arrangements, to enable members to adjust the pace and sequencing of the liberalisation of their capital account, in light of their policy, institutional, and financial conditions. They also underscored the imperative for adequate technical assistance and financing assurances to help countries to move toward capital account convertibility. In addition, they stressed that: a) the liberalisation of the capital account should not be made a condition for using IMF resources; b) restrictions arising from measures taken by members for prudential and financial markets development purposes should benefit from flexible approval policies; and c) developing countries are strongly advised to develop their financial market infrastructures policies, create stable macroeconomic conditions, and ensure other elements of an enabling environment such as attractive rates of return to investors, liberal investment regime and political stability, etc.

The third theme in my introductory speech today concerns the opportunities that global capital flows offer to African capital markets. A well-developed stock market is essential for developing the national economy and serving as a conduit to foreign investment. Among other benefits, FDI brings in technology, new management techniques and access to foreign markets for African goods. Also, capital flows hold the potential for facilitation the integration of African financial markets to the global financial system. The possibilities for raising capital in foreign markets will be expanded and the prospects for long term development of African countries, in which the private sector plays a pivotal role, will be encouraged. By stimulating investment and growth, a well-functioning stock market will also serve to enhance the privatisation process, among other things.

The benefits of financial market integration (and development) have been identified to include: improved price stability (actual and expected) leading to increased trade and investment flows within the region; reduced transaction costs and improved price transparency which also increase trade and investments in the region; resource savings from reduced exchange rate risk and eventually from pooling of foreign exchange reserves and centralisation of monetary policy. It should be clear that the regionalisation of economic and financial activities in Africa will enable our national economies to build-up capacities in all critical areas, from the absorption and generation of new technology to production and marketing as a springboard for more meaningful participation in the world economy.

I thank you for your attention.

CHAPTER 4

OPENING ADDRESS

Honourable Kwame Peprah
Minister of Finance, Ghana

Mr. Chairman, His Excellency Ambassador Makhan, distinguished guests, ladies and gentlemen, it gives me great pleasure to welcome you to this international event. We in Ghana feel most honored to host this distinguished gathering of financial experts.

The theme of the conference is most appropriate for the times. We are all well aware of what happened in Thailand in July 1997, where what appears to have started as a simple currency devaluation seemingly led to a general upheaval in financial markets throughout the world. Suddenly, globalized capital markets, which have been credited with the so-called East Asian miracle was seen as the major cause of the crisis that ensued. While the jury is still out on both the fundamental and proximate causes of the Asian financial crisis, and debate continues an what the appropriate policy responses should have been, no one is calling for emerging economies to limit their participation in global financial markets. The globalization of capital markets is a worldwide phenomenon and undoubtedly a key element in the inevitable convergence of global economics.

The benefits of portfolio capital flows are well known. Among others, inflows of portfolio capital into our markets would promote the efficient employment of resources by the most creditworthy firms, and help lower the overall cost of capital for local firms. In our own country, we have seen how Ashanti Goldfields Limited has taken advantage of international capital markets to expand its access to both equity and debt capital.

In recognition of these benefits, African countries have taken significant steps to liberalize and integrate their capital markets to the global economy. Here in Ghana, we have taken steps to open our capital market to international portfolio capital. A single non-resident investor can buy up to 10% of the shares of a company listed on the Ghana Stock Exchange with the cumulative total for all non-resident investors set a maximum of 74%. However, we are also painfully aware of the risks associated with short-term external finance. The Asian crisis has demonstrated that dependence on external finance and herd behavior by portfolio investors can expose an economy to sudden cessation and even reversals of capital flows that defy economic fundamentals. The effect of such external shocks has in other places resulted in a drastic contraction of economic activity with consequent social and political disruptions.

While African economies have not benefited from the large doses of international capital which were transferred to the Asian economies, there are indications that portfolio capital flows are playing a major role on our relatively new and small stock exchanges. The numerous Africa funds, which have sprung up in Europe and the USA, attest to this. There are also tentative indications that African capital markets have caught some cold from the upheavals that occurred in the Asian and more recently the Russian markets, with some of our markets being immediate beneficiaries of funds fleeing the Asian markets, creating unrealistic and unsustainable price movements. The volatility associated with such flows are easily seen in the returns on the Ghana stock exchange which soared to 70% in 1998 and dropped to a negative return of 10% by mid-1999.

As policy makers, we are continually evaluating our policy stance with respect to the appropriate trade-off between the benefits of an open capital market, the need for significant local participation in the economy and the potential for economic disruption that is driven by the volatility of offshore global portfolio flows. Undoubtedly, we will be looking for practical and balanced proposals from this forum which will assist us in fine-tuning our policies in this area.

Mr. Chairman, Ladies and Gentlemen, I am happy to note from your program that you will be deliberating on several other issues that are currently significant items of Ghana's financial sector policy. In the area of capital market integration, it is now becoming increasingly clear that, with the possible exception of South Africa, none of Africa's 16 exchanges can hope to be large enough to be a significant participant in the global capital market. Improved market liquidity, lower transaction costs and the stabilization of portfolio flows cannot be achieved by individual countries acting in isolation. The trend undoubtedly is in the direction of integrating markets not just in Africa, but worldwide, so that the large pools of capital can be raised more efficiently. For Africa's stock exchanges, which are battling the disadvantages of size and poor liquidity, the challenge is clear: "Integrate or Perish". I note with satisfaction in this regard that our own Ghana Stock Exchange has initiated tentative moves in this direction by signing cooperation agreements with the Nigerian and Johannesburg Stock Exchanges. The ECOWAS region has also witnessed the set-up of the first regional stock exchange in the world to serve the member countries of UMOEA, thus bringing the number of stock exchanges in the region to three. We need to go further in this direction, by working aggressively towards the integration of all three stock exchanges into a strong and efficient market to serve the needs of the entire region.

I can assure you that appropriate steps are being taken at the government and central bank level to create the necessary conditions for such integration. Only recently, Ghana hosted a seminar on the issue of a single monetary zone for the ECOWAS region. We are also reviewing Ghana's options for currency reform, particularly in light of the introduction of the EURO and the challenge of being surrounded by the large CFA franc zone, which is expected to be anchored to the EURO. We hope that you will support government efforts in this regard by making appropriate input into the policy process. Our doors are always open.

Mr. Chairman, ladies and gentlemen, let me also take this opportunity to congratulate and thank the African Capital Markets Forum for giving Ghana the honour of being the international headquarters of your organization. I can assure you of our full support in your efforts to promote the development of efficient capital markets in Africa. We look forward to a long and fruitful relationship with your organization.

To those of you who have come from outside our borders, we say "Akwaaba", Welcome. We hope you will take time out of your busy schedule to see a bit more of our country and enjoy the proverbial Ghanaian hospitality.

I now have the singular privilege of declaring this important conference open and wish you fruitful deliberations.

CHAPTER 5

THE IDB'S EFFORT TO FACILITATE CAPITAL MARKET DEVELOPMENT IN LATIN AMERICA AND THE CARIBBEAN

Kenroy A. Dowers
Inter-American Development Bank

I want to take you across to the Western Hemisphere and try to benchmark what may have happened in some of the Latin American and the Caribbean countries to the issues of capital market development on the African continent. Obviously, we have a lot in common and to some extent some of the countries in Latin America may be in an advanced stage along the path of going towards the emerging market club. However, there are some also who are lagging behind and in a sense, we can see both sides of the spectrum and understand the types of experiences and lessons gained and also some of the directions that may be informative for us. My presentation would, therefore, be based on the following four issues:

- A description of the profile of the Latin American and the Caribbean region in terms of capital market development.
- The framework that the IDB has tried to utilize to support the development of the capital market in the region
- The four initiatives that have been implemented in the region and how best to replicate these within the African context.
- Lessons learnt from the Latin American and the Caribbean region and some possible challenges.

LEVELS OF CAPITAL MARKET DEVELOPMENT

In Latin America and the Caribbean, we have four levels of capital market development. The first level pertains to a mature capital market. In this category we have diverse instruments including options and derivatives and a sophisticated market infrastructure. Probably the only three markets that fit into this group are Brazil, Argentina and Mexico. One of the concerns within the capital market right now is a link between settlement on the banking side and the security side and countries in this category have been able to introduce sufficient systems that ensure that the link reduces the underlying risk of clearing and settlement. Also, countries in this category have high and well-established disclosure principles and an advanced regulatory framework.

The next level is the mature emerging economies. Here there are equities being traded, but they tend to dominate most of the market. Some of the countries in this category are Chile, Columbia, Equador and Venezuela. One of the issues we have realized is that sometimes if one equity being traded leaves the market place, its impact on the overall market is phenomenal. From the regulatory perspective, issues pertaining to capital market infrastructure, minority shareholder's right and securitization have usually been dealt with in this level of capital market development.

The next category is the pre-emerging economies. Here we have most of the Central American countries like Bolivia, Uruguay and the English speaking countries. Generally, the banking sector is still a major player in providing capital and we have many money market instruments such as government T-bills and commercial paper being the dominant entities traded at the market place. If there is any corporate debt, it is usually not exceeding five years. A lot of these countries are now building the legal and regulatory framework to encourage and facilitate additional market involvement. A particular feature about the entities in this category is that they tend to be regionalized. Many of these countries have realized that instead of doing it alone, they have to seek financial market integration and they struggle with how to harmonize the regulatory framework and other issues such as how to facilitate cross-listing within the region.

The last category is called "the non-existent category" and here there is nothing to be traded and hardly any legal framework. We have very little investment capital and commercial banking is the main source of activities. The question as to what happens to these countries is still being contemplated and effort is being made to incorporate members of this category into the regional groupings.

IDB'S FRAMEWORK

The most fundamental issue that IDB has emphasized is the development of the micro-economic fundamentals. We build on these fundamentals by looking at the two sides of the equation – the supply and the demand side and in between these two we have the market infrastructure. On the supply side, we have innovation and capital market instruments. Here we also have the institutional investors. On the demand side, we are talking about the mobilization of domestic savings. In the case of the market infrastructure which constitutes building the legal and regulatory framework, enhancing information environment and structuring the capital market infrastructure, we have a significant comparative advantage.

Enhancing the Information Environment

One category that we have not mentioned is the issue of disclosure and the role of accountants and the International Accounting Standards (IAS). We have realized that many of our countries, although they claim to subscribe to the IAS, do not maintain such standards. We are, therefore, working with the countries both on a regional and a national perspective to provide support for enhancement and also to introduce IAS, which allows a benchmark to regional principles. Information is not only in the sense of the mechanisms or the conduits to get information to investors, but also it has to do with the upgrading of investor knowledge and what capital markets are and what we are trying to realize in our objectives. We are also working seriously on the issue of rating agencies and credit bureaus in terms of building that within the economy and also the issue of investor education.

Institutional Investors

On the issue of institutional investors and the mobilization of domestic savings, I want to mention a couple of areas we have found to be very useful.

I do not know whether Africa has the pre-requisites in place, but definitely there are issues to be considered. The first one is the support of the development of private pension funds. The Chilean model with a national system of private pension funds was instituted in 1981. This has stimulated a ripple effect within our region. Now, with the exception of the Central American countries like Nicaragua, Equador and Bolivia, all the countries have established a private pension fund system. This has created a significant boom of funds looking for long-term investment or opportunities. These funds are looking for national investment opportunities because there are still restrictions on investing these funds outside. The other issue is the support for the expansion of mutual funds industry. There has been a little bit of a problem, particularly within South, America simply because they have to compete with the objectives of the pension funds systems; but, one area which has significant potential is the insurance industry. The total annual premium collected for the insurance industry between 1994 and 1997 moved from $15 billion to $38 billion. It is expected that in the year 2005 the market for insurance premiums will move to around $90 billion for the region, which is significant growth and again gives rise to the issue of looking for instruments for investments. Of course, there is still a lot of work to be done to facilitate the growth of the insurance industry in terms of prudential regulation, capital requirements, solving some of the principal agency problems regarding portfolio manager's performance, etc.

SPECIFIC TYPES OF INITIATIVES

I want to give examples of four initiatives that we have implemented or supported in the region. This is just mentioning the specifics without going into details as to whether they are applicable within the African region or not.

- Harmonizing of the regional stock exchanges
- Standardization of public debt
- Information requirements
- A secondary mortgage market development

HARMONIZATION OF REGIONAL STOCK EXCHANGES

In terms of the harmonization of the regional stock exchanges, there are two projects that we have launched within the Latin America and Caribbean regions. The first one was within the Central American countries with an entity called Bolsan. This included Costa Rica, Panama, Nicaragua, Guatemela, etc. The second one was the harmonization of the Caribbean stock exchanges. This included Dominican Republic, Trinidad & Tobago, Barbados and Jamaica. I will focus on the case of the Caribbean just to explain what we are dealing with.

What was the background? In 1995 equities being traded in Jamaica were approximately $1.3 billion, $1.7 billion in Trinidad and $67 million in Barbados. The Dominican Republic, which was dominated by REPOS and commercial papers, was approximately $1 billion. Trading in the three English Speaking countries of Trinidad & Tobago, Barbados and Jamaica was done through the sequential call auction system and trading was done twice per week. In the case of Dominican Republic, it was done through an open outcry system.

The first thing done was to harmonize the legal requirement for trading across the board. A steering committee was formed across the stock exchanges and the first step was exploring the inconsistencies in the legal framework. The second was a vote made on what the legal requirements to facilitate the harmonizing process were. The third step was to form a steering committee made up of the chairpersons of the stock exchanges of all the countries in the region involved in the project to agree on a basic core set of principles to be implemented at the local level. The second component of the reform process was the introduction of a central securities depository (CSD) using G-30 principles for clearing and settlements.

First, the "book-entry system" was introduced. Second was the decentralization and registration within the stock exchanges. The third element was the introduction of cross-listing for specific securities within the region. The final element was the introduction of a hardware and software fund.

One of the comparative advantages we can realize, as emerging economies or as entities that are operating within the emerging economy, is to leap-frog. Technology is rather cheap and so there is the possibility to secure the appropriate technology and not go through the evolution process that many of the countries have to engage in. This is the advantage that we can be able to secure.

STANDARDIZATION OF PUBLIC DEBT

The second initiative we took was to standardize the public debt and this was the case in Nicaragua. Here, we have physical issues of the securities and also widespread dissatisfaction with the single-price auction system. What did we introduce?

The first step was the multi-price auction mechanism. Second was the reform system between the Central Bank and the Treasury Department. Third was the standardization of the instrument and fourthly, the dematerialization of the instrument of the instrument which could then be traded with the CSD. Finally, one of the compelling motivations for working with standardization of public debt or enhancing public debt market is utility from a monetary control process. This was the element we were able to introduce within the program in terms of reducing its use as a monetary control.

INFORMATION REQUIREMENTS

We have also received complaints that it is difficult to understand what the information requirement across the various countries within Central America is.

What was the process? Again, we have Bolsan being in place which is the regional body of stock exchanges. The first task was identifying the listing requirements for prospectus within each country. The second was identifying what would be the appropriate standards at the national level and the third was at the level of the region, explaining what would be the appropriate and acceptable standards for each stock exchange member of the Bolsan and finally, implementing this as a standard for the stock exchange.

SECONDARY MORTGAGE MARKET DEVELOPMENT

The final initiative that I want to refer to, is the issue of the introduction of a secondary mortgage market in Equador. You may know about the success of Fannie Mac and Freddie Mac as secondary mortgage market entities within the US; and since then we have seen similar types of entities developed around the world. For example, Morocco, Algeria, Russia, Yugoslavia, Columbia, Argentina and Brazil.

What does a secondary mortgage market entity provide? It facilitates the flow of funds from the private sector towards the public sector. The second benefit is that it facilitates the development of institutional investors having appropriate instruments for their portfolio. Of course, there are some pre-requisites that have to be in place to facilitate this one. These pre-requisites are ensuring that there are appropriate primary markets, practices of standardization, appropriate valuation procedures, appropriate credit principles and also the legal framework to facilitate securitization. This entity that was derived in Equador was a private-public program. We consulted the banks together with capital from IDB forming the Securitization Mortgage Company. It allowed for the issue of mortgage-backed instrument within the market base and it has been very successful.

LESSONS LEARNT

There are three main lessons that I want to emphasize here:

1. We cannot get away from the first mover. That is, micro-economic fundamentals have to be our focus. We cannot have capital market entities being developed or formed without having that principle.

2. There are significant challenges of harmonization. Some of them include natural pride. Cultivating home-grown market is of interest to each entity and this proprietary interest could become an obstacle for harmonization. There are different levels of harmonization. Some of the questions we have to address are the level of integration, what type of integration we should focus on, and whether the level of integration at the legal level should be holistic.

3. There is a natural process that ought to be followed. There is the issue of migration. What would happen if after we develop the appropriate legal and regulatory framework we have entities not willing to list, but are encouraged to list elsewhere?

CHAPTER 6

GLOBAL FINANCIAL CRISIS – IMPLICATIONS FOR AFRICA

Prof. Lemma W. Senbet
William A. Mayer Professor of Finance
University of Maryland, USA

GOOD NEWS OUT OF AFRICA

Let me begin with good news out of Africa. Last year in April 1998, I ran across a cover story about Africa in TIME magazine entitled "Africa is rising". What is remarkable about the cover story was that it came out in the wake of the East Asian crisis. The 1990's had been a decade of opportunities and challenges for Africa. One of the reasons that there has been such positive attention to this region has to do with fundamentals. There have been extensive financial and economic sector reforms of almost the same proportion as those in East Asia and Latin America. A natural outgrowth of this positive result has been a surge of interest in stock market development. Right now, there are about 16 stock markets in Africa. In a sense, there is some sense of competition in establishing stock exchanges in Africa.

Another interesting thing is that we do have regional initiatives. This is because apart from South Africa, these Africa markets are very thin and so we need to pull together resources. As it turns out, we have regional initiatives in West Africa Francophone countries at Abidjan. There are also regional initiatives in East Africa, Central Africa and South Africa. So there is some surge of interest in the regionalization of stock markets in Africa.

Correspondingly, there has been global interest in Africa. There are about 18 investor funds, which are traded in Europe and the US. This is a positive step towards globalization of African capital markets despite the fact that the region is not sufficiently integrated into the global economy. In fact, one way to avoid global financial crisis is to avoid globalization altogether. That may explain why Africa has been spared of the global financial crisis. The other side of the coin is that it ends up getting countries to become marginalized and completely devoid of the potential benefits that come with globalization.

POTENTIAL BENEFITS OF GLOBALIZATION

In order for genuine globalization to occur, there must be mutuality of benefits. That is, Africa must benefit from globalization as well as outside investors.

Global Diversification

Economies of the world do not move in tandem. There is diversity of economic cycles. It would therefore, be wrong for say a US investor to put all his investments in the US. In fact, rational investors take a global view. This means that the extent to which Africa can attract outside investors would depend on its competitive positioning in markets for global capital. There is extensive available evidence that shows that the inclusion of emerging markets in the global portfolio improves a global risk-reward ratio. The second has to do with the fact that there are some indications pointing to the fact that Africa may actually turn out to be a bargain. One thing that I look at in a very crude form is Price-Earning multiples. There are some companies in Zambia, Ghana and other African countries, which have performed excellently relative to a corporate PE ratio. For example, in the US in 1997, PE ratios for hi-tech companies are only getting to the 100s. This suggests that there is either gross under-valuation of companies in Africa or there is excessive risk faced by the region.

Now the second indicator is that if we look at the performance of Africa stock markets, they performed creditably. For example, if we look at Table 1 on performances of African Stock markets, it shows that they outperformed the index of emerging stock markets. These all prove that Africa could position itself to become an attractive investment center in the world.

TABLE 1: PERFORMANCE OF AFRICAN STOCK MARKETS (Total Return in US$)

	1997	1994-97
EGYPT	15.7%	284.7%
MOROCCO	42.1%	167.5%
COTE D' IVOIRE	9.9%	132.3%
NIGERIA	-4.6%	120.4%
BOTSWANA	93.5%	70.7%
TUNISIA	-30.4%	64.3%
KENYA	-12.1%	33.7%
GHANA	10.0%	27.3%
ZIMBABWE	-52.0%	13.1%
MAURITIUS	-0.7%	2.4%
NAMIBIA	5.0%	-1.9%
SOUTH AFRICA	-10.5%	-11.4%
SWAZILAND	-42.4%	-21.2%
IFCG GLOBAL	**-14.4%**	**-21,2%**

SOURCE: IFC and John Neipold, Emerging Markets Management (1998)

WHAT OUTSIDE INVESTORS BRING TO THE TABLE

The benefits of globalization to Africa are beyond just capital mobilization. It also helps access the diverse source of capital, which is especially important in the African context. This is because in the past, Africa had depended on sovereign debt, which has resulted in serious crisis coupled with huge debt burden all around the entire region. What equity participation allows for is risk sharing outside investment. Looking at the basic principle of international investment allocation, it becomes obvious that emerging markets are currently under-represented in the global portfolio and Africa is grossly under-represented even in the emerging markets. This means that as our markets reform more, we are more likely to participate more in the global markets.

A second advantage has to do with the fact that when we allow global investors to share local risk, it is going to reduce the overall cost of global capital. It means that creating incentives for local firms to actually mobilize capital would result in more advantages and eventually result in more output.

The third point has to do with the fact that when you deal with international investors, you get your act together. This means that there is pressure from international investors to actually force government to come up with more disclosure, have appropriate rule of law and enforce deals and contracts. So there is a discipline that comes along with globalization.

RISK OF GLOBALIZATION

Though globalization has enormous benefits, it also comes with several problems.

- With globalization, a country becomes prone to volatility in the global financial markets. For example, unfavourable swings in international interest rates and changes in exchange rates may translate into large unfavourable swings in capital and sudden collapses. This is what happened in Asia and the effects are amply illustrated in Table 2.
- Another adverse effects of globalization is what is called debt maturity effect. Usually, when conditions are unfavourable and a country's international results are insufficient to meet foreign currency denominated debt, the situation gets aggravated.

TABLE 2: ASIA FINANCIAL CRISIS: DAMAGE

	% Decline in Currency Value		% Decline in Equity Value		GDP Growth	
	Crisis-1997	Cummulative 11/24/98	Crisis 1997	Cummulative 11/24/98	1997	1998 (Forecast)
Thailand	-48.7	-31.7	-29.3	-27.2	6.4	-8.0
Malaysia	-35.0	-33.4	-44.8	-54.5	–	–
Indonesia	-44.4	-67.9	-44.6	-42.1	7.8	-15.0
Phillipines	-33.9	-33.1	-33.5	-30.2	5.7	-0.6
Hong-Kong	0.0	0.1	-29.4	-28.6	4.9	-5.0
Korea	-47.7	-28.9	-49.5	-38.2	7.1	-7.0
Taiwan	-14.8	-14.2	-9.3	-17.7	–	–
Singapore	-15.0	-12.5	-23.0	-28.9	–	–

CHALLENGES OF GLOBALIZATION OF AFRICA

The challenges here are those pertaining to the banking system and the capital market systems.

Malfunctioning Banking Sector

Issues such as excessive risk-taking and moral hazard may result if the mechanisms to regulate the banking sector are not working. When a country gets globalized, there is also a moral hazard problem, because there is implicit guarantee coming from the International Monetary Fund (IMF) by bail-out, and what it does is that it create incentives for outside lenders to engage in high risk activities. Domestically, the deposit insurance serves as an implicit guarantee because here there is a transfer of risk to the insurance agencies. There is therefore a moral hazard problem because lenders may undertake high-risk activities.

Malfunctioning Capital Markets

There are risk factors and illiquidity problems with African capital markets (See Table 3 & 4 below). Most of our markets are thin and illiquid. Regional integration of these stock markets may be the only way to enhance liquidity and therefore attract international investors. Also, issues of macroeconomic and political risk and the fluctuations of our currencies need to be addressed. There is a virtually absence of hedging mechanisms in most of our markets and if our markets are going to attract foreign investors, then capital markets must have the availability of hedging instruments.

CAPACITY BUILDING IN BANKING AND BANK REGULATION

Issues of capacity building and banking regulation must include the following:

- Capital regulation
- Asset regulation
- Incentivized regulation
- Market discipline

CAPACITY BUILDING AND DEVELOPMENT OF CAPITAL MARKETS

The following may serve as policy guidelines in the capacity building and the development of our capital markets:

- Developing public confidence and informational efficiency
- Designing efficient systems for capital market regulation
  - Self-regulation
  - Oversight
- Privatization through capital markets
  - Market depth
  - Fair pricing

TABLE 3: CAPITAL MARKET DEVELOPMENT AND ECONOMIC GROWTH

Annual Averages 1976-1993	Turnover Ratio	Value Traded Ratio	Per Capita GDP Growth
Low-income			
Bangladesh	0.015	0.000	1.89%
Cote d'Ivoire	0.028	0.001	-2.50%
Egypt	0.060	0.030	3.56%
India	0.537	0.036	2.43%
Nigeria	0.006	0.000	-0.11%
Pakistan	0.105	0.008	3.13%
Zimbabwe	0.059	0.010	-0.97%
Lower-middle-income			
Colombia	0.087	0.004	1.95%
Costa Rica	0.013	0.001	0.89%
Indonesia	0.193	0.010	4.18%
Jordan	0.154	0.085	3.01%
Phillipines	0.250	0.026	0.21%
Thailand	0.739	0.144	5.90%
Turkey	0.207	0.026	2.32%
Upper-middle-income			
Argentia	0.266	0.013	0.22%
Brazil	0.355	0.041	0.65%
Chile	0.060	0.021	3.61%
Korea	0.832	0.186	9.67%
Malaysia	0.230	0.243	4.27%
Mauritius	0.059	0.003	1.76%
Mexico	0.498	0.044	0.85%
Portugal	0.108	0.014	2.85%
High-income			
Australia	0.256	0.124	1.57%
Germany	0.704	0.156	0.95%
Great Britain	0.349	0.253	1.75%
Hong Kong	0.372	0.471	6.20%
Israel	0.669	0.144	1.72%
Italy	0.253	0.028	2.68%
Japan	0.469	0.406	3.42%
Netherlands	0.490	0.123	1.43%
Norway	0.318	0.059	2.48%
Spain	0.216	0.045	1.75%
Switzerland	0.467	0.442	1.16%
United States	0.493	0.299	1.67%

- ownership diversity

- Regional co-operation and regional markets
- Information and research
- Restructuring of the financial sector (banking system)
- Restructuring of the corporate sector
- Matching maturity and liquidity (foreign currency denominated debt versus reserves)
- Taxes on capital flows
- Fiscal discipline
- Streamlining bankruptcy proceedings

TABLE 4: CHARACTERISTICS OF PRE0EMERGING STOCK MARKETS IN AFRICA

[illegible]	[illegible]	[illegible]		[illegible]		[illegible]		[illegible]		[illegible]		[illegible]	[illegible]	[illegible]
		96	97	96	97	96	97	96	97	96	97			
Botswana	1989	12	12	397	614.5	9	12.1	27.2	51.1	8.6	15.8	15	0	NA
Cote d' Ivoire	1976	31	35	914	1,276	9.1	12.4	29.5	35.1	2.1	2.2	NA	0	NA
Egypt		646	650	14,193	20,830	23.3	27.6	21.9	32	22.1	33.5	0	0	
Ghana	1990	21	21	1,492	1,137.80	24.1	16.5	71	53.8	1.1	3.6	10	0	4
Kenya	1954	56	58	1,846	1,824	20.6	17.8	33	31.2	3.6	5.7	5	0	2
Morocco		47	49	8,705	12,177	26.8	36.3		248.5	5.9	10	10	0	
Namibia	1992	12	13	473	689	15.2	21	39.4	53	11.5	4.1	10	0	NA
Nigeria	1960	183	187	3,560	3,646	8.6	9.1	19.5	20	2.6	3.7	10	10	4.75
Malawi	1995	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
South Arica		640	642	208,526	232,069	165.1	179.8	438	361.5	10.4	19	NA	NA	
Swaziland	1990	6	16	1,642	212	10.9	16.1	273.7	32.3	0.8	12.6	15	0	NA
Tunisia	1992	30	34	4,263	2,320.60	21.8	12.3	142.1	68	6.9	8.7	0	0	
Zambia	1994	5	6	229	705	6.8	18.2	45.8	117.5	0.9	2	15	0	NA
Zimbabwe	1946	64	64	3,635	1,969	4.7	22.1	56.8	30.8	9	19	15	10	2.35

*Figures are for 1996

Source: Emerging Stock Markets Database

CHAPTER 7

GLOBALIZATION OF AFRICAN CAPITAL MARKETS: RISKS AND BENEFITS

Clifford Mpare
Executive-Vice President
New Africa Advisors, USA

INTRODUCTION

I want to frame my discussion by first giving you a thesis and then discuss basically three points. The thesis that I have is that Africa is unintegrated into the world capital market and this has led to a very low levels of direct foreign investment which essentially has impacted the continent very negatively.

I am sure that most of you would recall that when President Clinton visited Africa in 1998 to work on creating a partnership with Africa, his message was simple: "It's time to put the new Africa on our map". We are happy to see the process of integrating Africa in the world market get such a big push and the proof of this big push is the fact that numerous investment funds have been launched for the continent in the last several years which hopefully would enable Africa to be integrated into the global Financial Market.

This process of integration is very important because if it does not happen it is going to adversely affect the future course of the continent and the task is not an easy one. For Africa to be properly integrated into the global financial capital markets, there are certain things that we need to do. I just want to talk about basically what has happened to capital flows to the continent.

CAPITAL FLOWS TO AFRICA

During 1977 to 1982, Africa received around 9% of all capital flows into the developing countries. This fell to 2% in 1993 and it has not increased dramatically since that time. Most of the flows come that come into the continent are through bilateral and multilateral aid which basically accounts for about 80% of the external resources inflows into Africa. For Africa to move forward, the reverse have to happen - private flows have to be 80% and bilateral and multi-lateral have to be 20%. If you look at the entire emerging market, you can see that there is gravitation away from aid to portfolio flows and foreign direct investment, which is critical in opening up an economy and making sure that capital is used in the most productive manner. If you again look at foreign direct investment, you can see that over the last several years 50% of Africa foreign direct investment has gone to Angola and Nigeria and the reason for that is oil. The sad situation about that is that the returns that have been obtained by foreign direct investors in Africa has been very respectably between 24-30% which is higher compared to the average 16-18% obtained in other developing economies. This means that when people finally decide to invest in Africa, it becomes worthwhile because the returns are very attractive. How do people then make decisions to invest in Africa? What is going to make it worthwhile to invest in Africa?

ATTRACTING FOREIGN DIRECT INVESTMENT

Only countries with sound political and economic policies will attract direct foreign investments. As a Fund Manager, I am often asked about the crisis in Asia and whether it can happen in Africa. My answer is that it can happen in Africa but it does not have to. This is because there are certain policy initiatives that could be put in place to ensure that it never happens. What caused the crisis in Asia included a poorly regulated banking system, excessive investments, a fixed-exchange rate regime which has since been liberalized and terms of trade deterioration. All these factors culminated in creating an environment which resulted in a bubble that blew up. As you would recall, the crisis took a heavy toll on Asia and the currency devaluation that took place resulted in the first economic contraction in the region. It is interesting to note that Africa stock markets held up very well last year. For example, the Ghana Stock Exchange was up about 66% last year, which was very impressive amid the dramatic upheavals that took place in the stock markets around the globe. While that may seem to be something very wonderful, I submit to you that it is not necessary good and the reason is that of liquidity constraints in the African markets. What happens to portfolio managers when they want to liquidate their portfolios is that, they go to the most liquid markets, such as the US, Asia and Latin America. Africa is left untouched and that is because we do not have liquidity in our markets for the portfolio managers to raid our markets.

What needs to be done is for the markets to expand to improve liquidity and efficiency. One of the well-known giants in emerging markets investments stated that what he looks for when investing in a foreign market is FELT which is an acronym for fair, efficient, liquid and transparent. If these conditions do not prevail in the market, then he is not going to invest in that country. So what Asia's crisis taught us was that, good economic policies alone are not good enough. The soundness of the banking system must be monitored at all times. Corruption, nepotism, favoritism, cronyism, etc. should all be avoided at all cost. All reform programs should promote transparency and accountability in governments and corporate affairs.

AFTERMATH OF THE ASIAN CRISIS

Twelve months after the Asian crisis as we look forward into the emerging markets including Africa, I think there are some positive signs. The global growth environment has improved and so has its risk premium. (Most of you will recall that, there was a huge risk premium in September and October last year when the crisis took place and the difference between A and B-rated bonds was really huge; that has collapsed quite aggressively and what we have is a positive environment).

The interest rate outlook is positive and we see that Asia is recovering. What is happening in emerging markets is that valuations are very attractive and that should help support fund flows as we move forward. On the negative side, the US stock market is treading water in terms of valuation. Valuation is too excessive and that could be one of the reasons why we could see another problem with the global financial system. If the US market were to collapse, surely it will have an impact on the emerging market. That is one of the risks of integrating Africa into the global economy; but that is a small risk that one has to pay in order to increase the foreign direct investment.

AFRICA RISING

Certainly, as we look at what is happening in Africa, we can see that there has been tremendous improvement in the economies. For example, the average real growth has increased from 1% in 1992 to 5% in 1998 and it has been forecasted to average about 5% from the years 1999 to 2004. By 1992, 18 countries have reported growth of 3% or more and by 1997, the number has increased to 32. Real per capital income of about 40 countries are on the rise and so there has been some good economic progress in African countries.

POLICY RECOMMENDATIONS

What I want to dwell on is the policy recommendations that we have in terms of what needs to be done to ensure that Africa becomes totally and fully integrated into the global capital markets. These policy recommendations are as follows:

- Seek sovereign debt rating.
- Reinforce and accelerate economic liberalization.
- Strengthen the financial sector.
- Achieve good governance.
- Encourage the participation of all sectors of the societies in economic policy debates.
- Step up regional integration.

SOVEREIGN DEBT RATING

The sovereign credit rating system is basically the willingness and capability of government to repay debt according to the terms that it has contracted. What it does is that, it serves as signal to the investor of the likelihood that the country would not default. Why is that important? The fact is that an Africa country with the rating is further down the road towards integration into the world financial system. While rating may not guarantee an increase in investment, what it does is that it prepares the ground for higher levels of investment flows. The credit rating process starts with an extensive market research and followed by recommendation report. Most of the credit rating agencies are located in the US (e.g., Standard & Poor and Moody's Investor Services) and there are also other credit rating agencies. What happens is that they do the analysis and give recommendations to the recipient country; and then a rating is formally assigned with the permission of the country that is being rated. The benefits of this includes assisting the country to better understand how the economy appears to outsiders. It also serves as a baseline for evaluating the economic environment surrounding the investment opportunities; and thirdly serves as a benchmark for investors to distinguish among markets. It also provides invaluable data on how investors evaluate risks. Some of the indicators of credit risks includes per capital income, GDP, Inflation and other macro-economic issues.

REINFORCE AND ACCELERATE ECONOMIC LIBERALIZATION

This is basically reinforcing and accelerating economic reforms. This can be done by encouraging the privatization process. This will result in improving liquidity and making things easier for foreign direct investment to flow into the economy and portfolio flows to increase. Of course, if we can also encourage a faster pace of trade liberalization that would also help. Another issue is that of improving the tax system. As you all know, in 1998, it was not only Asia that suffered, but Russia also defaulted on its debt. One of the problems in Russia was the very complex tax system in place. It has about 200 different tax codes. Most of the companies in Russia paid about 80% of their hard-earned money in taxes. It makes it very difficult for a country to operate under those conditions so if the tax system can improve, it would help in integrating the economy into the global market.

STRENGTHENING THE FINANCIAL SECTOR

In terms of strengthening the financial sector, we need to ensure strong, independent and accountable Central Banks. This will ensure price stability. Again, price stability has been well handled in Africa over the last several years with inflation coming down aggressively.

GOOD GOVERNANCE

Obviously, we need to tackle corruption and inefficiency and enhance accountability of all public administrators.

REGIONAL INTEGRATION

The issue is stepping up regional integration. There are 20 countries in Africa with fewer than 10 million inhabitants with 15 of those countries being landlocked. It is then very difficult for someone who wants a big market to really have a real dialogue with these smaller countries. So regional integration becomes very important when dealing with the financial world. Most of the companies in the US and Europe are actually merging. With the advent of technology, it has becomes very easy for companies to become larger and improve efficiency. That should be the focus of Africa companies - to get larger so that they can deal with the world. The regional organizations must certainly be perceived as effective vehicles for the integration of Africa into the world economy.

I know that the francophone countries of West Africa have put together a regional stock exchange. Again, the issue of liquidity must force regions such as the ECOWAS countries to seek regionalization or integration of the various capital markets within the region. This will ensure that there is size that portfolio managers can deal with. Other regions like COMESA should also do the same.

GAINS OF FINANCIAL INTEGRATION

With financial integration, we have much greater access to large volumes of financial instruments. We increase the real economic growth by raising the level of investments and improve the returns of such investments. With financial integration, most African countries can then re-allocate the investment mix towards transactions that have much higher expected returns. Certainly, it would enhance liquidity and the efficiency of the financial market.

RISKS OF FINANCIAL INTEGRATION

Obviously, countries that are slow to integrate, face the risk of marginalization and what we saw in Asia is that when investors lose confidence, portfolio flows can be very rapid and can be very damaging to a country's economy. Short-term portfolio flows are certainly one of the risks that one may endure.

CONCLUSION

Basically, Africa cannot do it alone. I have mentioned the fact that about 80% of the flows are from bilateral and multi-lateral organizations. Thus, we need to have the role of international partners to help out and the role of the international community to promote economic growth.

In concluding, let me emphasize that there certainly has to be progress in Africa as we look at what has happened in different economies. We have certainly laid the foundation for the continent to build on, but we do need to have the countries within Africa integrated into the world's capital markets in order to have a bright future.

CHAPTER 8

LES AVANTAGES ET LES RISQUES DE L'OUVERTURE DES MARCHES AFRICAINS DES CAPITAUX A LA GLOBALISATION FINANCIERE

Charles Konan Banny
Governor,
Central Bank of West Africa States (BCEAO)

Permettez-moi, tout d'abord, au nom de Monsieur Charles Konan Banny, Gouverneur de la Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) de feliciter les organisateurs pour la pertinence du thème de notre conférence, à savoir les enjeux de l'ouverture des marchés africains des capitaux à la globalisation financière. Il s'agit là d'un thème d'une brûlante actualité à l'orée du troisième millénaire qui consacrera, sans nul doute, le parachèvement du processus de mondialisation des marchés et des flux financiers.

Il va de soi que les pays africains ne sauraient rester en marge de ce processus inéluctable, porteur de risques certes, mais potentiellement générateur d'une croissance économique renforcée. Par conséquent, il importe qu'ils s'organisent pour en tirer le meilleur parti, de manière à améliorer leurs perpectives de developpement et accélérer l'indispensable réduction de la pauvreté.

C'est à dire l'opportunité de la présente conférence qui offre aux acteurs, privés comme publics, de la gestion économique et financière, l'occasion d'échanger des vues sur les voies d'une intégration réussie des pays africains au processus de globalisation, singulièrement à sa composante financière.

A en juger par la qualité des participants, nos discussions déboucheront, j'en suis persuadé, sur des propositions novatrices, quant aux voies d'une insertion harmonieuse des marchés africains des capitaux au processus de globalisation financière.

J' aimerais articuler ma contribution sur le thème introductif de la conférence, portant sur les risques et les avantages de l'ouverture des marchés africains des capitaux à la globalisation financière, autour des trois parties. Dans la première partie, j'évoquerai les caractéstiques de la globalisation financière qui me paraîssent les plus importantes pour nos échanges de vues. Dans la deuxième partie, je vous ferai part des avantages et des risques que présente, à mon sens, l'ouverture des marchés africains des capitaux au processus de globalisation, à la lumière d'un bref état des lieux. Sur cette base, j'essaierai d'identifier, dans la troisième partie, quelques actions dont la mise en oeuvre me paraît de nature à permettre à ces marchés de tirer le meilleur parti de leur insertion à cette globalisation.

QUELS SONT LES ENJEUX DE LA GLOBALISATION FINANCIERE ?

Processus multidimensionnel, la globalisation financière a été accélérée, au cours de ces dernieres années par la généralisation de la tendance à la déréglementation, l'assouplissement des réglementations des changes et la libéralisation corrélative des mouvements de capitaux, la révolution des technologies de l'information et de la communication et la libéralisation accrue des échanges commerciaux, à la suite de l'avènement de l'Organisation Mondiale du Commerce (OMC). Ses aspects les plus tangibles me semblent résider dans:

- La libre circulation, à l'échelle mondiale, de liquidité considérables, en quête des meilleurs rendements;
- L'accéleration des innovations financières, qui a conduit à une prolifératon d'instruments financiers de plus en plus sophistiquées, venant s'ajouter à la gamme traditionnelle de services offerts par les banques et les marchés financiers;
- Une désintermédiation croissante, rendant de plus en plus mouvantes les frontières entre les activités bancaires et financières, imposant ainsi des contraintes nouvelles à la conduite des politiques monétaires et à la surveillance des systèmes financiers;
- Une intégration croissante des marchés monétaires et financiers nationaux, conduisant à l'émergence progressive d'un marché global, fonctionnant de façon quasi ininterrompue;
- Une tendance à la concentration des établissements financiers, à la recherche de la taille critique pour renforcer leur position concurrentielle dans un environnemement d' âpre concurrence, comme en atteste l'actualité récente dans les secteurs de la banque et des assurances aux Etats-Unis et en Europe.

Si cette mutation majeure de l'économie contemporaine est porteuse d'avantages en termes d'efficacité dans la mobilisation et l'allocation des ressources, elle s'accopmpagne de défis inédits pour la poursuite des politiques économiques, financières et monétaires.

En particulier, la volatilité des capitaux à court terme, qui consitutuent une composante essentielle des flux financiers internationaux, accentue l'instabilité dans la sphère financière. En effet, le comportement "moutonier" des gestionnaires de portefeuilles, singulièrement des fonds de pension et des organismes de placements collectifs, et les ajustements, parfois brutaux, de leurs portefeuilles constituent des facteurs importants de fragilisation des marchés financiers.

Cette caractéristiques de l'environnement financier contemporain et la sophistication croissante des operation de marché qui l'accompagne rendent particulièrment complexe la gestion des risques, comme l'ont revéle les crises financières récentes. Elle a été propice à l'acquisition, par les banques centrales, d'une autonomie accrue, voire de l'independence, celle-ci étant perçue par les marchés comme un gage de qualité de gestion des monnaies en fonction des seuls impératifs de la stabilité macroéconomique.

Par ailleurs, les innovations financières, singulièrement les avancées dans le domaine de la monnaie électronique, imposent la recherche de nouvelles modalités de supervision des sysytémes financiers. La multiplication des initiatives officielles et privées dans ce domaine est la preuve d'une prise de conscience de la nécessité d'une maîtrise des risques inhérents aux paiements électroniques, appelés à progresser à un rythme soutenu avec le developpment des technologies et de la communication.

Au total, la globalisation financiere impose une adaptation constante des réglementations monétaires et financières, un renforcement de la cooperation monétaires et financières, un renforcement de la cooperation monétaire à l'échelle régionale et internationale, ainsi qu'une surveillance prudentielle plus efficace.

QUELS AVANTAGES ET QUELS RISQUES REPRESENTE. POUR LES MARCHES AFRICAINS DE CAPITAUX, L'OUVERTURE A LA GLOBALISATION FINANCIARE?

Tout d'abord, quel est l'état des lieux?

Un constant s'impose de ce point de vue. Les marches africains des capitaux se trouvent, dans la plupart des cas, à un état embryonnaire et pour l'heure, très peu intégrés au processus de globalisation financière.

C'est du reste, cette caractéristique qui a mis à l'abri de la tourmente financière de ces dernières années. A l'exception de l' Afrique du Sud et, dans une moindre mesure, de l'île Maurice, l'impact de ces pertubations sur le système financier du continent africain a été très limité. Le continent africain compte dix-huit (18) bourses des valeurs. Leur capitalisation est ressortie à environ 225 milliards[1] de dollars EU en 1998, soit moins de 1% de la capitalisation boursière mondiale, la Bourse de Johannesburg, classée au 20 ème rang mondiale, représentant à elle seule près de 80% de ce total.

Pour l'heure les performances de la plupart de ces bourses n'ont pas été à la hauteur des attentes. En effet, elles restent caracterisées par des faiblesses stucturelles au nombre desquelles figurent la petite taille des marchés, leur insuffisance au nombre desquelles figurent la petite taille des marchés, leur insuffisante liquidité et la faible diversification des secteurs représentés à la côté. A ces problèmes s'ajoutent le manque de fiabllité des systèmes de règlement et de compensation ainsi que des insuffisances dans la supervision des activités boursières.

C'est dire l'opportunité d'une dynamisation de ces bourses, afin qu'elles puissent participer de façon plus active au financement d'économies, dont les performances se ressentent de la faiblesse de leur taux d'investissement, consécutive à l'importance de leur déficit d'épargne.

QUELS ENJEUX REVET, DANS CETTE PERSPECTIVE, L'OUVERTURE A LA GLOBALLSATION FINANCIERE?

Les avantages potentiels de la globalisation financière

Le marché mondial des capitaux, corrigé des excès liés à l'instabilité des flux à court terme, est de nature à contribuer à une meilleure allocation des capitaux entre pays et entre secteurs d'activités, assortie d'une réduction du coût des financements.

Pour les pays confrontés à un déficit d'épargne, tels que ceux d'Afrique, la globalisation financière permet d'accéder à l'épargne des autres pays. Ce faisant, elle est susceptible de favoriser une détente des taux d'intérét sur leurs marchés financiers, un développement plus soutenu des investissements et donc une croissnce accélérée.

---

[1] Données obtenues auprès du Secrétariat de African Capital Markets Forum.

En outre, la globalisation financière peut stimuler un renforcement des systèmes financiers, à la faveur des transferts de technologies dans le cadre de relations de partenariat entre les institutions financières locales et des établissements étrangers spécialisés.

L'ouverture des marchés financiers africains devrait également permettre aux entrepreneurs locaux de prendre davantage de risques, appelés à être mieux partagés avec des investisseurs étrangers. Cet aspect me paraît essentiel dans la mesure ou il contribue à alléger les contraintes inhérentes à l'endettement bancaire des entreprises. Pour ce faire, ces dernières devront améliorer leur gestion et adhérer aux règles de ce qu'il est convenu d'appeler le « gouvernement d'entreprise ».

Par ailleurs, l'intégration à la globalisation financière constitureva, pour les Etats africains, un puissant stimulant pour améliorer la qualité et la gestion de leurs politiques économiques ainsi que de leur environnement institutionnel, afin de bénéficier d'un accès peu onéreux aux marchés financiers internationaux.

Bien exploitées, ces opportunités sont de nature à favoriser une accéleration de la croissance, indispensable au développement durable des économies africaines et à l'urgente réduction de la pauvreté.

Enfin, l'amélioration du cadre d'exercice des activités financières, induite par l'ouverture au marché mondial, devrait rassurer les épargnants locaux à investir sur les marchés nationaux les fonds précédemment détenus à l'extérieur.

LES RISQUES LIES A LA GLOBALISATION FINANCIERE

Aux côtés des avantages que je viens d'évoquer, l'intégration au marché financier global comporte des risques potentiels non négligeables.

En partculier, la volatilité des capitaux à court terme, qui constituent une composante importante des flux financiers internationaux, accentue l'instabilité dans la sphère financière. En effet, la frilosité précitée des gestionaires de portefeuille constitue un risque important de déstabilisation, singuliérement pour des marchés financiers qui n'ont pas encore atteint leur vitesse de croisiére.

Un autre risque attaché à l'insertion au processus de globalisation réside dans la probable polarisation des flux financiers au profit des filiales des grandes sociétés multinationales établies dans les pays africains, au détriment des petites et moyennes entreprises, appelées à jouer un rôle crucial dans l'amélioration des perspectives de croissance du continent.

Enfin, il importe qu'une vigilance permanente soit de mise pour prévenir les risques que la globalisation financière ne serve de vecteur au blanchment « d'argent sale».

A la lumière des ces considérations que nous venons d'évoquer, l'insertion des marchés financiers africans dans le processus de la globalisation est assurément opportune, si les risques qui lui sont attachés sont maîtrisés.

QUELLES SONT LES CONDITIONS D'UNE OUVERTURE BENEFIQUE DES MARCHES AFRICAINS DES CAPITAUX A LA GLOBALISATION FINANCIERE?

A l'analyse, l'intégration réussie des marchés des capitaux du continent à la globalisation financière passe par l'amélioration de la perception qu'ont les investisseurs des perpectives de croissance des économies africaines, dont dépendent la compétitivité de leurs entreprises et, partant, l'attrait de leurs émissions, sur les marchés financiers.

C'est dire l'urgence que revêt la mise en oeuvre des politiques macroéconomiques de qualité, propices à une croissance forte permettant de dégager des taux de rendement sectoriels à la hauteur des rémunérations recherchées par les investisseurs étrangers. A cet égard, l'accélération des processus d'intégration en gestation dans l'ensemble des sous-régions de notre continent revêt une priorité élevée, car elle conditionne l'émergence d'éspaces économiques régionaux, propices à l'amélioration de la compétitivité des entreprises.

Il importe également que soit instauré un environnement attractif et sécurisant pour les détenteurs de capitaux, au plan politique, juridique, économique et financier. Les pouvoirs publics ont, de ce point de vue, un rôle déterminant à jouer. Il leur revient notamment de faire de la bonne gouvernance leur leitmotiv, en renforçant l'Etat de droit à travers une plus grande transparence dans la gestion des affaires publiques, en mettant en oeuvre une gestion macroéconomique de qualité et, d'une manière générale, en instaurant un environnement favorable aux activités économiques. L'assainissement des finances publiques aux fins de conforter la financière des Etats, l'adoption de politiques de taux d'intérêt et de politiques de change appropriées constituent, à cet égard, des priorités.

Les initiatives des pouvoirs publics devraient également viser l'instauration d'un environnement juridique stable et sécurisant pour les investisseurs, parce que transparent et respectueux de la propriété privée. Les règles déjà mises en oeuvre ou envisagées dans le cadre de l'Organisation pour l'Harmonisation du Droit des Affaires en Afrique (OHADA) constituent, à cet égard, des orientations opportunes, susceptibles d'être adaptées dans d'autres régions du continent.

Les Banques Centrales ont également un rôle important à jouer, notamment en contribuant à l'instauration d'un environnement financier sain et stable. L'exercice d'une indépendance effective par les Instituts d'émission, en renforçant leur crédibilité quant aux objectifs de stabilité des prix et de sauvegarde de la valeur de la monnaie, s'avérera décisif de ce point de vue.

La modernisation des instruments de politique monétaire constitue, à cet égard, une priorité de premier ordre, au même titre que l'adoption de politiques de taux de change et de taux d'intérêt appropriés. Il en est de même de l'impérieux assainissement des systèmes bancaires et financiers, à travers le renforcement de la supervision bancaire et financière, en vue d'améliorer la qualité de l'intermédiation financière et de renforcer la confiance des agents économiques nationaux et des investisseurs étrangers à l'égard des institutions financières.

Les Instituts d'émission devront également jouer un rôle de catalyseur dans la modernisation et la diversification des instruments financiers, de manière à offrir aux détenteurs de capitaux une gamme diversifiée d'opportunités de placements sécurisés et rémunérateurs.

L'insertion harmonieuse des marchés financiers africains à la globalisation financière serait, par ailleurs, facilitée par des initiatives dans les domaines suivants:

- La diversification des systèmes bancaires et financiers, en vue de les doter de la capacité d'absorber et de gérer les entrées de capitaux résuitant de la libéralisation;

- l'amélioration des systèmes de paiement et de compensation, pour les adapter aux exigences de célérité et de fiabilité inhérentes à la globalisation financière;

- Une gestion des bourses des valeurs orientée vers la transparence des opérations, qui évite l'introduction de clauses discriminatoires entre épargnants résidents et investisseurs étrangers;

- La conclusion d'accords de cooperation avec les organismes de contrôle ou de gestion des marchés financiers éntrangers, en particulier les gestionnaires des bourses des valeurs, afin de renforcer les capacités de gestion et de supervision des responsables des structures africaines;

- Une libéralisation ordonnée mais résolue des réglementations des changes, s'agissant en particulier de l'ouverture du compte de capital, compatible avec la capacité des économies à faire face aux effets déstabilisateurs des flux de capitaux à court terme.

Par ailleurs, la faible rentabilité des bourses nationales liée à l'étroitesse des économies et leur insuffisante liquidité me semblent militer en faveur de leur régionalisation, à l'image de l'expérience en cours dans les huit pays membres de l'UMOA, avec l'institution de la Bourse Régionale des Valeurs Mobilières (BRVM) d'Abidjan qui a démarré ses opérations le 16 Septembre 1997. Cette régionalisation, conjuguée à l'impact des programmes de privatisation, me semble de nature à jouer un rôle catalyseur dans l'insertion harmonieuse des marchés financiers africains au processus de globalisation financière, en favorisant l'élargisement de la base des investisseurs intérieurs et l'amélloration de la crèdibilité et des perspectives de rentabilité de ces marchés.

Telles sont les conditions qui me paraîssent essentielles pour une intégration réussie des marchés financiers africains à la mondialisation.

Pour avoir leur plein effet, ces mesures devront être confortées par des initiatives de la **communauté internationale**. Celle-ci doit notamment veiller à l'institution de mécanismes aptes à assurer une plus grande transparence dans les mouvements de capitaux et une meilleure maîtrise du processus de leur libéralisation, de manière à prévenir les risques de crises systémiques, telles que celles qui ont récemment ébranlé les fondements du systéme monétaire et financier international. Les réflexions en cours sur la nouvelle architecture du système monétaire et financier international devraient prendre dûment en compte cet enjeu
Je vous remercie de votre aimable attention.

CHAPTER 9

KEYNOTE ADDRESS I

Prof. Felipe Larrain,
Director of the Central American Project
Harvard Institute for International Development

POLICY OPTIONS IN THE FACE OF THE ASIAN CRISIS

Macroeconomic management and structural reforms

The Asian crisis hit Latin America with a lag of just a few months. Starting in October 1997, stock markets fell substantially and several currencies came under severe attack. In response to this panic and to its aftermath, the Brazilian government decided to counterattack the speculation against the domestic currency by raising short-term interest rates. As a result, overnight interest rates rose from about 22 to over 40 percent at the peak of the crisis. Later, in November 1997, the Brazilian government announced an important package of measures oriented to reduce the fiscal deficit. During 1998, interest rates fell back to the levels of September 1997, around 20 percent, and then climbed back to over 40 percent, remaining highly volatile.

Notwithstanding the efforts of the Brazilian government in late 1997 to attack the problem at its roots, the fiscal adjustment proposed by the government has not been enough to reduce the vulnerability of the economy. The fiscal adjustment will probably have to be strengthened in order to have a lasting effect on the stability of the country. It is clear that keeping the interest rates at 30 or even 20 percent (with inflation at less than 4 percent) cannot be sustained for long without a significant deterioration in the assets of the banking system and, thus, increased risk of financial collapse.

Brazil needs to implement not only the fiscal package presented in November 1997, but also needs to make progress in structural areas such as the reforms to social security, public administration and privatization. Although significant progress has occurred in some of these (including the recent successful privatization of Telebras, the domestic Telecommunications Company), several crucial aspects of the administrative reform are still waiting for Congress approval and their implementation will probably not occur for several months. Additionally, some reports suggest that some of the policy measures announced last year have been postponed or delayed without justification. It is clear that moving in the direction of deepening structural reforms is the appropriate way for Brazil to regain the initiative and to attain the credibility necessary to reduce interest rates. A related issue is that Brazil needs to increase the flexibility of its exchange rate policy so that it can gradually move away from its current overvaluation.

As a result of the financial shock of late October 1997, the Chilean peso reversed its course of sustained appreciation in the 1990s and suffered significant pressure towards depreciation. The Central Bank drastically raised interest rates and spent about $1.6 billion (or 9 percent of its foreign exchange reserves) intervening to support the peso in the foreign exchange market. In spite of this, the Chilean peso depreciated around 10 percent against the US dollar between October and December 1997. Given the pressures that the economy was experiencing, particularly the collapse of copper prices, and the conditions of instability prevalent in the financial markets, the devaluation of the Chilean peso should be seen as a necessary correction in an otherwise unsustainable appreciating trend. In light of the high dependence of Chilean exports on Asian markets and on primary products, however, a prudent economic policy is strongly desirable. Appropriately, Chile's government cut fiscal spending twice in 1998, and accepted a modest devaluation of the currency.

Through most of 1998, Argentina endured high real interest rates and a significant stock market decline, but was able to maintain its fixed exchange rate to the dollar. Considering the macroeconomic indicators discussed above, however, Argentina may face serious problems if Brazil falls into crisis. In such a case, Argentina's monetary arrangement (a currency board) would become subject to severe pressures and its currency could undergo a speculative attack, as in the first months of 1995. The Argentinean authorities will likely stick to the full convertibility policy since exchange rate stability is so much at the heart of the country's reform process. They can also take heart in the fact that the two most visible countries with currency boards (Argentina and Hong Kong) were successful in defending their currencies when neighboring currencies fell in 1995 and 1997, respectively.

Currency boards, however, have costs and risks. They tie the hands of the policymakers and eliminate the role of the central bank as a lender of last resort. In case of a run on deposits in the financial system, the Central Bank would face a rough dilemma: it could maintain the currency board but only at the cost of a collapse in the financial system, a collapse of much higher dimensions than under alternative monetary regimes. Even if the system does not collapse, the costs of this policy in terms of output and/or employment can be very high, as evidenced by Argentina in 1995 and Hong-Kong in 1998. The best way for Argentina to confront these pressures is to deepen even further its reform program, particularly the liberalization of its labor market. This reform, however, faces unusual complications in the current political conditions of a weakened administration.

After the 1994-95 crisis, Mexico undertook a painful adjustment in its economy that included a severe macroeconomic contraction and the introduction of corrective measures in its financial sector. Yet, current conditions in the banking system are far from optimal and unless the problems in the financial system are tackled on time, they may become the Achilles' heel of the Mexican economy. The recent financial pressures have also provoked a jump in the exchange rate that has helped to relieve part of the appreciation pressures accumulated in the real exchange rate between 1995 and 1998. One of the main sources of concern for Mexico now is the uncertainty associated with the political conflict over the bailout of the banking system. Resolving this problem soon will greatly help Mexico to face the Asian crisis. Otherwise, the economic situation could become extremely complex and explosive in the near future.

DEALING WITH CAPITAL FLOWS

The Asian crisis has put the issue of how to deal with capital flows at the forefront of economic discussion. In particular, one of the most debated aspects is the role of the capital controls in affecting the magnitude and composition of capital that a country may attract. Many authors have suggested that imposing some form of capital control may help a country avoid unnecessary exchange rate fluctuations and, more generally, may reduce an economy's vulnerability to external shocks. The stability of Chile after the Mexican crisis has often been quoted as a leading example of the benefits of such benefits of such policies, and thus we take on this case in some further detail.

In 1991, Chile implemented a 20 percent non-remunerated reserve requirement on foreign credits that was increased to 30 percent in 1992. Whether the reserve requirement has been an effective tool to stem the inflow of short-term capital, however, is subject to debate. Recently, Larraín, Laban and Chumacero (1997) have shown that capital control measures in Chile affect the composition of capital inflows away from those flows that are subject to taxes. In the short run, though, controls appear not to have a significant effect on the overall magnitude of the flows, while some overall deterring effect remains in the medium to long term.

Another option that has been widely used to defend the real exchange rate in the presence of large capital inflows is the relaxation of a number of restrictions on capital outflows. These policies used both in developed and developing countries, include the reduction of restrictions for profit and capital repatriation on foreign investments, and the liberalization of investment options abroad for institutional investors. Nonetheless, as Laban and Larraín (1997) argue, the liberalization of capital outflows is more likely to provide little relief in reducing the pressures on exchange rate appreciation that arise form capital inflows.

Nonetheless, the role of capital controls is fundamentally different in normal periods, in the presence of large capital inflows (as in Latin America during most of the 1990s) than at times of potential crisis, when inflows turn into outflows (as after October 1997). In periods of crisis, inflow controls turn redundant and by and large mainly increase the cost of capital for domestic companies in international markets; increased outflow controls, on the other hand, are likely to reduce net inflows.

CONCLUSIONS

Some important lessons emerge when comparing the experiences of Latin America in the 1980s, Mexico in 1994 and Asia in 1997. First, not all currency crises are alike. Most crises in Latin America during the 1980s had a strong fiscal component and, in that sense, tend to fit well with the explanations posited by traditional models of balance-of-payments crises. On the other hand, it is clear that crises in Chile (1982), Mexico (1994) and Asia (1997) did not have a fiscal origin and therefore the roots of the crises are located elsewhere, mainly in the financial sector. Second, contrary to popular assertions, and in spite of their different nature, most crises have been preceded by strong indications of fundamental weakness in the economy. Some of the most important signals are given by the current account deficit, real exchange rate appreciation, and a rapid expansion of credit to the private sector. In addition to these signals, standard balance-of-payments crises (mainly in the 1980s) were also preceded by large fiscal deficits and high rates of seigniorage.

CHAPTER 10

KEYNOTE ADDRESS II

Mr. Eric Chatman
Division Manager, Special Operation Team
African Development Bank

Your Excellencies,
Ladies and Gentlemen,

It is indeed a pleasure for me to be here today to speak before the African Capital Markets Forum. First, I want to convey the greetings of Dr. Ahmed Bahgat, Vice President, Finance and Planning of African Development Bank, who could not be here today to give this address. He has a strong personal interest in helping to foster the development of African capital markets and we hope that my talk this afternoon will serve as the continuation and strengthening of the relationship between the Forum and the African Development Bank.

Being here today is especially a delight for me for a couple of reasons. First, this conference is focused on a subject that has been an intellectual and professional interest of mine for some time. The focus of the Forum, which includes the promotion of formal capital markets in Africa, is a very critical goal, which can contribute to the further economic and social development of Africa. It's a laudable goal and the Forum deserves significant support to help achieve it.

Second, it is a distinct pleasure for me to return to Accra, my second home, where I lived and worked for several years. While here, I had the opportunity of working at Databank Financial Services where I learned first hand the challenges and opportunities associated with the development of an African capital market from a private sector perspective. It was an invaluable experience. It's also great to see so many familiar faces, friends, and those whom I consider family here today. I thank you in advance for staying awake during my speech.

My talk today will focus on two issues. First, I will talk about what I believe are the key factors that will contribute to the development of African capital markets and the impact that liberalization and integration into the global capital markets implies for the path chosen for the development of the these markets. Second, I will talk about the role that the African Development Bank has played and hopes to play in the development of African capital markets in the future. I believe that the Bank is well positioned to participate and contribute.

THE GLOBAL FINANCIAL CRISIS

It is impossible, however, to talk of about international capital markets today, without mentioning the impact of and lessons learned from the recent global financial crises. The experiences of global capital markets in the last few years have challenged many of the widely held assumptions about the behavior and riskiness of these markets. The Asian crisis not only challenged the efficacy of the "Asian miracle", but it also changed some of the fundamental assumptions held by most participants in the global capital markets.

First and foremost was the assumption that markets were not correlated. This is obviously dead wrong in times of crises and the word contagion is now applied to international capital markets. The crises also highlighted the weaknesses in widely used financial risk management techniques which were based on historical correlations and volatilities between asset prices to determine the riskiness of a trade, a portfolio, or a balance sheet. The Asian crisis highlighted the weakness of this seemingly "scientific" approach.

The Russian crisis not only confirmed the weaknesses of the Russian financial system, but it also highlighted the weakness in legal agreements, documentation, and other institutional arrangements governing international financial transactions.

To make matters worst, the rescue of Long-Term Capital Management, not only challenged our assumptions concerning the safety of a "conservative" trading strategy, but it also reminded us of the risk associated with of "old fashioned leverage" and the human frailties of Nobel Prize winning economists.

In short, everything has now been challenged and everyone has shared some of the blame.

1. The IMF has taken a great deal of the heat for being uninformed, opaque and sending the wrong signals to its member countries prior to and during crises.

2. Credit rating agencies have been blamed for missing the call on the fundamental problems existing in Asian prior to the crisis.

3. Regulators have been blamed for failing to effectively supervise their local institutions and contributing to the "moral hazard" problem.

4. Market practitioners have been blamed for taking excessive risks and not being "bailed in" to crises that they help to create.

5. Bankers have been blamed for not doing an effective job at credit review and monitoring of their customers.

6. Governments have been blamed for cronyism and just about everything else.

Where does that leave us in Africa?

GLOBALIZATION OF AFRICAN CAPITAL MARKETS

This time around, Africa, for the most past, has had the luxury of sitting on the sidelines and watching the rest of the world deal with a major crisis. Except for the fall in commodity prices and the impact on the South African market, the impact of these crises on the African capital markets has been moderate. Why? African markets are not yet sufficiently integrated into global capital markets for them to be susceptible to this type of global instability. This is quite obvious. But does this mean that Africa should slow down the process of opening its capital markets to insulate itself from future crises?

In my opinion no. What it does mean is that Africa has an opportunity. It is an opportunity to learn from the mistakes of others while establishing financial systems that will not be as susceptible to future crises and are better able to withstand global market instability. The factors to achieve this are well known, I will go through them briefly here:

First, is to achieve macroeconomic stability. No matter how effective the regulation, how strong the financial infrastructure or how appropriate the incentive mechanisms, capital will not flow to or remain in a country that is not economically stable. Nor will it be invested productively.

Second, an effective regulatory system must be in place. The best regulator, in my view, is a body that works with the industry to develop rules and guidelines, establishes them, and then gets out of the way to let the market mechanism work. While regulators must play the role of a watchdog, they must understand market forces and should not stand in the way because they do not understand or are "uncomfortable" with a new market development or product.

Fundamentally, the market should know what to expect from the regulators. The rules should be clear and enforceable.

The Central Bank should be free to build the credibility necessary to limit monetary instability and uncertainty.

There must be an effective legal framework in place for financial transactions. Contracts must be enforceable and the legal process should be transparent, fair and work within reasonable periods of time.

A system of disclosure, particularly among publicly traded companies and financial institutions, must be in place so that material events are reported fully and in a timely manner. This includes adherence to international accounting practices and disclosures focused on facilitating market transparency.

An effective corporate governance framework should also be in place. This should include provisions for the equitable treatment of all shareholders, provisions to ensure timely and accurate disclosures, the recognition of the rights of all stakeholders, and rules on the responsibilities of Boards of Directors. The OECD Principles of Corporate Governance are instructive in this regard.

The system should also be free of undue political interference. I am not so naïve to think that political interference does not occur, but it should be the exception rather than the rule.

These are all well known and generally acknowledged requirements for a well functioning capital market. Along with the right to repatriate capital, freedom from excessive taxation and other restrictions, it is clear that in most African countries reforms need to be continued.

Despite the conventional wisdom, experience has shown us that the liberalization of capital markets runs the risk of exposing fledging financial systems and economies to significant instability. If the reforms undertaken have not taken hold, or are not fully implemented, the economy is at risk to potential crises. External financial liberalization can exacerbate any external or internal shocks to the system. This was the case in the Asian and Russian crises.

As a consequence, there have recently been renewed emphasis on the path to reform and the importance of sequencing of reforms. The rationale behind this thinking is the need to prepare a financial system to handle the market forces that it will be subject to once opening up. This implies a gradual or sequencing approach to reform. A recent article published by the IMF identifies the following general principles related to sequencing of reforms:

1. While foreign direct investment raises concerns about foreign ownership and control, it can bring benefits in the form of technology transfer and managerial know-how. Also, FDI is less prone to the "hot money" problem, hence does not generate the same risk of financial crises associated with sharp reversals of debt flows. Therefore, it is generally attractive to liberalize foreign direct investment.

2. Nonviable financial institutions should be weeded out and remaining banks strengthened domestically prior to domestic liberalization or opening the market fully capital to inflows. In other words, get your house in order first.

3. The establishment of an adequate financial infrastructure for portfolio investment in equities and debt instruments should be established to reduce the reliance on the banking system for financial intermediation services.

4. Given the potential risk associated with short-term capital flows, there may be a case for liberalizing longer-term flows, particularly foreign direct investment, ahead of short-term capital flows.

5. Finally, any liberalization of capital outflows should occur in an environment of macroeconomic stability.

All this is much easier said than done. While it is quite easy to decide on a logical path to development of capital markets, it is in the implementation of reforms, particularly ensuring that the capacity to carry out such reforms is in place, that is most challenging. But it can be done; the talent and know how is readily available in Africa, just look at the person sitting next to you and it has been done before elsewhere, it can be done here.

Recently, there has been a great deal of work to assist countries to determine the most effective path to development and to identify the factors that foster the deepening and broadening of capital markets. For example, the World Bank has developed a database on financial development and structure. The purpose of the database is to help researchers and practitioners to evaluate the key issues associated with financial sector development.

Many organizations such as IOSCO, the BIS, OECD, UN, IMF, ADB and others have refocused efforts to determine ways to not only prevent future financial crises, but also to determine the most effective ways to develop such markets. Hopefully, these efforts will lead to more effective methods for the development of emerging capital markets.

My suggestion is that officials and participants in African capital markets should be engaged and participate in international initiatives and developments to bring their local markets to international standards. Africa should ensure they have a seat at the table. A sequenced approach appears to be the most effective for the development of these markets.

Now, I will turn to the African Development Bank's activities in the financial sector. I will talk about the financial sector broadly because the Bank's interventions normally have several components, one of which often includes capital market development. Broadly speaking, as you know, the Bank provides support to governments and the private sector.

The Bank provides assistance to the financial sector in the following ways:

1. Lines of credit to financial intermediaries, for example Development Bank of South Africa.

2. Financial Sector Adjustment Loans – Côte d'Ivoire.

3. Competitiveness Development Projects - Tunisia.

4. Investments in Private Equity and Venture Capital funds - South Africa Infrastructure Fund.

5. Investments in Financial Intermediaries – Africa Re.

The objectives of the Bank's support includes the following:

- To broaden the range of financial Instruments used in regional member countries and to foster the development of secondary markets.

- To strengthen key institutions through restructuring, privatization, and capacity building.
- To develop financial infrastructures to enhance the legal and regulatory frameworks, improve accounting standards, and establish effective institutional arrangements for financial transactions.

For example, early this year the Bank's Board approved its participation in a competitiveness project in Tunisia, which is being co-financed with the World Bank. The program includes the following components.

- The restructuring/modernisation of the banking system
- The reform of parastatals (incl. Privatisation)
- The revitalisation of treasury secondary markets
- The recruitment of Treasury Bond specialists
- The modernisation of financial management instruments

- The strengthening of insurance companies
- The adoption of a new banking law
- The improvement of accounting practices to bring them international standards.

These types of projects will continue to be supported by the Bank.

NEW INITIATIVES

The Bank has also embarked on a number of new initiatives. These include the:

- Development of Financial Sector Policy which will be completed this year and will outline the role that the Bank will take in fostering financial market development in the region.

- The Private Sector Unit has been elevated to Department level, a Director has been hired as well as its key management. One goal of the Private Sector Department is to provide advisory services in capital market development to regional countries.

- The Bank's Treasury Department has leveraged its expertise in investment management to provide assistance to African Central Banks to improve their reserves management capability and capacity building through participation in workshops with training organizations.

- Also, the Bank's Treasury and Operations Departments have launched an initiative to provide external debt management advisory services to regional member countries. A seminar to launch this program is planned is the near future to take place in Abidjan.

- The Bank's Treasury Department is also investigating the possibility of issuing bonds in local African currencies. This, we believe, will assist ADB in meeting the funding needs of some of its private sector clients, but also will serve as a development tool for these markets.

- The Bank is a participant in the International Task Force on Commodity Risk Management and is exploring ways to introduce financial risk management products to selected regional member countries internally.

- The Bank is also a participant in the IMF/World Bank initiatives to identify a group of "experts" that will intervene in future cases of financial crises.

- Finally, the Bank is also expanding its involvement with outside organizations. It is a member of the International Swap and Derivatives Dealers Association (ISDA) and participates in its programs, and plans to become an associate member of International Organization of Securities Commissioners (IOSCO). It has participated in African Stock Exchange Association program and many others. And I personally hope to contribute to stepping up our efforts to participate in the Forum's programs and initiatives.

The Bank is active in the financial sector broadly through its programs for both the public and private sector. We expect that the coming financial sector policy should enable the Bank to refocus and contribute even more in the future.

As I said earlier, I believe that African Capital Markets have an opportunity. It is the opportunity to learn from the problems, which others have had in the past and choose a path to the development of its markets that will be both beneficial to the markets and Africa as a whole. It is an opportunity that should be seized. Despite all of the challenges and risks, I for one am optimistic. I base my optimism on the talent that the Africa possesses, both inside and outside of Africa, my experience here in Ghana where I had the opportunity to watch and participate in many positive changes in this market, and finally because Africa has no other choice.

Thank you.

CHAPTER 11

KEYNOTE ADDRESS III

Dr. K. Y. Amoako
Executive Secretary
United Nations Economic Commission for Africa

Honorable Ministers, Your Excellencies, Distinguished Delegates, Ladies and Gentlemen,

This Conference is taking place at the dawn of the new millennium and at a critical stage in Africa's development history. Africa has in recent years made significant strides to reform its political, economic, and financial structures and systems. As a consequence, some positive results have emanated from these reforms, as reflected in improved economic performance in many countries for the last four years, and a shift towards democratic systems of government.

The recent growth and progress in economic reforms, Mr. Chairman, are clearly fragile, and African countries cannot afford to be complacent. Moreover, most of the countries of the continent lack the fundamentals for sustained and increased future growth—the growth needed to realize meaningful reduction in poverty. Furthermore, in a number of countries civil strife, civil wars and external conflicts continue to be a serious impediment to economic and social development.

As we approach the new millennium, Mr. Chairman and Colleagues, Africa faces fundamental challenges, among which sustaining growth at rates required to realize significant poverty reduction is the most important. Poverty reduction must clearly become the focus of development in Africa. At ECA, we have estimated that in order to attain Copenhagen internationally agreed social development targets—i.e., reducing poverty by half by the year 2015, GDP must grow at no less than 7 percent per annum on average. The levels of investment required to generate this growth are so large that at today's savings rate in the continent a large financing gap, equivalent to 9 percent of GDP on average, has to be filled.

Thus, making a dent in Africa's poverty requires massive mobilization of resources, both domestic and external, which process affects, and is affected by prospects for developing capital markets in Africa. Further, it is now a reality that resource mobilization has to be undertaken in an increasingly challenging environment of globalization of trade and declining commodity prices for primary products exported by most African countries. Additionally, responding to the trading environment created by the WTO pauses particular challenges for Africa. Declining aid flows, strained public sector budgets, unsustainable external debt, low domestic savings and high capital flight are issues to grapple with. Globalization of financial markets and increased competition for private capital, the risk of contagion effects-- in the aftermath of the Asian economic financial crisis-- are all a reality.

Closing the huge resource gap requires concerted efforts by our countries and their development partners at addressing these issues. At the heart of measures to address them is the need for a new development partnership between donors and Africa. Related to this is the need to resolve the debt issue, raise the level ODA and make aid more efficient, and strengthen public sector resource mobilization to support robust economic and social infrastructures.

Equally importantly, Mr. Chairman and Colleagues, Africa needs a credible strategy to be more efficient, initially in the production of our primary products, while pursuing a major effort to diversify the production base, and improving trade support services, particularly transport. Africa also needs to be able to negotiate substantively and effectively on issues of interest to the continent in the context of the WTO agreements. Domestic private savings need to increase by at least fifty percent, and measures must be taken to stem capital flight, and keep Africa's wealth in Africa. Increased competition for private capital flows means that Africa must do all it takes to make the continent a desirable destination of capital, while pursuing measures to avoid the East Asian experience. All these necessary steps, Mr. Chairman, affect and are affected by the development of capital markets.

FINANCING AFRICA'S DEVELOPMENT: CHALLENGES AND PROSPECTS

Mr. Chairman, Distinguished delegates, Colleagues

Now let me walk you through the salient elements of the challenges outlined above, which are relevant to any strategy to finance Africa's development, including the necessary institutional support services like capital markets.

A new donor-recipient partnership: ODA is critical to building the countries' infrastructure, which support private sector development, in light of low domestic savings and low foreign direct investment. It is also generally agreed that ODA was not as effective in the past as it could have been, for reasons that both donors and recipients have contributed to. To focus ODA and budgetary resources towards targets where they will be most effective, including strengthening local financial and capital markets requires effective coordination. This is more likely to be attained when Africa sets the development agenda and gets the appropriate international support for it. In such a framework, besides ODA, key issues of interest to donors and Africa, such as multilateral trade negotiations and debt, could be resolved in a more comprehensive and rational way.

I am happy to report that towards a new donor-recipient relationship, and the need to support one agenda, the Economic Commission for Africa (ECA) with the support of the Organization of African Unity (OAU) and the African Development Bank has created the Africa Development Forum (ADF). The Forum, to be convened annually, will facilitate the process of consensus-building among the key stakeholders of African development - the African governments, civil society, researchers and academics, intergovernmental organizations and donors - towards a shared vision of the continent's development objectives and priorities, as well as the strategy and instruments for realizing them.

WTO and global trading environment: As foreign direct investment has often spurred expansion of exports in other regions, Africa needs to build solid financial infrastructures. Well-functioning capital markets are an integral element of such financial infrastructure. A corollary is that as trade grows, it gives momentum to the development of financial services. Africa's trade prospects are tied to the reality of the WTO framework created at the conclusion of the Uruguay Round (UR) of Negotiations, in which Africa's voice was marginal in influencing the outcomes. In this context, there are issues that Africa needs to raise at the next multilateral trade negotiations (MTN) which are expected to be launched at the third WTO Ministerial Conference, scheduled to be held in Seattle, USA, from 30 November to 3 December 1999.

The key issues revolve around the need for market access, particularly in agricultural products of export interest to African countries; export subsidies in agriculture; the damping of subsidized agricultural surpluses by OECD countries, which undermine Africa's products in OECD markets, African markets, and third-country markets where Africa has the potential to export; the technical barriers to trade and restrictions on the sanitary basis; the need to accelerate the phase-in of textile tariff reduction under the Textile and Clothing Agreement; and better recognition and safeguard of African interests, including the recognition of the development factor and the leveling of the playing field. This would justify longer transitional provisions for Africa, greater technical capacity-enhancement assistance and delay in phasing in the "built-in agenda", such as competition policy and the Multilateral Investment Agreement.

<u>Debt</u>: Besides releasing resources from debt servicing, research has shown that relieving the debt overhang could be the most effective way to stem and reverse capital flight and attract private foreign investment, as the sustainability of a stable macroeconomic framework - a key worry of investors - would look more credible. Credible solution to Africa's debt problem must entail substantial debt cancellation-besides better debt management by Africa in the future, of course. An appropriate macroeconomic framework and financial sector reforms are necessary for the efficient use of savings from debt relief for poverty reduction and strengthening financial and capital markets.

<u>Capital flight</u>: While striving for official and private foreign savings for development, Africa has a larger proportion of wealth held overseas by residents than any other continent (39 per cent compared with 6 per cent for East Asia before the crisis). Stemming and reversing capital flight could go a long way to solving Africa's development finance problem. Adverse investor risk ratings, unsustainably high external debts and macroeconomic policy errors - or fear of their possible occurrence - are root causes of flight capital. Policy errors that cause inflation, exchange rate misalignment and high fiscal deficits choke off opportunities for profitable investments. Inconsistent and unsustainable sets of policies can also trigger capital flight even when, in the very short run, everything looks just fine. The absence or weakness of capital markets contributes to the problem. Additionally, large amounts of corruptly obtained funds, particularly by public officials, are more likely to be stashed away overseas than invested in their country of origin. Corruption raises transaction costs and its unpredictability makes returns on investment uncertain, which discourages private risk-taking.

<u>Domestic resources</u>: In the medium-to-long run, sustainable development requires higher levels of domestic resource mobilization. Africa needs to raise the savings effort - from its present level of about 18 per cent to about 24 per cent of GDP (the average for all

developing countries as a group). Policies to raise the savings rate need to focus on macroeconomic stability, financial and capital market reforms, financial deepening through institutional reforms and innovative savings instruments, and interest rate policy management. For public savings, the potential for further implementation of tax reforms, cost-sharing in the provision of public goods and services, the management of the terms of trade-related booms and the enhancement of public expenditure productivity are important policy areas on which to focus.

Foreign Private Financial Flows: Africa has not benefited from the phenomenal growth in foreign flows, compared say to East Asia. Some key conditions and policy challenges are necessary to attract foreign investment. Among them are supportive macroeconomic policy and legal and regulatory frameworks; the rule of law and the enforcement of contracts; functioning social and economic infrastructure, financial sector reforms, support for capital markets development; deliberate and explicit attention to the concerns of investor risk rating agencies, etc. Privatization needs to be pursued mindful of its possible downside — the political risk associated with the declining share of national assets in the total domestic investment portfolio. Promoting capital markets is a key to attracting long-term capital flows, including venture capital and footloose portfolio investment. However, the risks associated with globally mobile capital should be recognized, particularly in light of recent evidence from the Asian crisis.

DEVELOPMENT OF CAPITAL MARKETS IN AFRICA: THE ROLE OF ECA AND THE AFRICAN CAPITAL MARKETS FORUM (ACMF)

The development of capital markets has emerged as critical to raising the level of domestic savings, attracting foreign private investment and stemming, and possibly reversing capital flight. In the context of its regional mandate, ECA has identified priority interventions to support capital markets in Africa. Because economically small nation-states are inimical to the development of efficient financial and capital markets – a sub-regional approach to capital market development has been adopted by ECA.

As you will recall, Mr. Chairman, in 1996, ECA organized in Accra, Ghana, a major conference on "Reviving Private Sector Partnerships for Growth and Investment," out of which the African Capital Markets Forum was born. Its functions are to serve as a clearing-house for the exchange of views and to provide training and other services needed to build and strengthen the capacity of capital markets in Africa. The Forum also tracks key emerging issues, like globalization of financial markets. The theme of this *International Conference on Globalization of African Capital Markets: Risks and Benefits,* is the best evidence of the type of services the Forum provides for the benefit of Africa.

As further commitment to the development of capital markets in Africa, ECA, in collaboration with the African Capital Markets Forum and the United Nations Conference on Trade and Development (UNCTAD), put together, a comprehensive ***"Technical Cooperation and Capacity Building Project on the Promotion of Capital Markets in Africa",*** to be implemented in partnership with other agencies. The first phase of this Project is now under implementation. This phase involves needs-assessment missions to a number of African countries to ascertain their technical assistance and training needs. Phases

II and III of the Project will focus on implementing the actual capacity-building program identified in Phase I, namely:

- to strengthen the capacity of selected local stock exchanges;
- to strengthen the role of the regional institutions designed to support African countries in their national and regional capital market strategies;
- to train operators in capital markets through seminars, workshops, courses, and internships in countries where the market is sufficiently developed;
- to provide advisory services and technical assistance for the development, administration, operation, and regulation of capital markets;
- to support joint studies in areas where action is required to foster capital markets, improve the regulatory framework, and promote regional co-operation between financial associations of the private sector, securities exchanges, and the regulatory authorities; and
- to study the feasibility of establishing sub-regional capital markets and stock exchanges.

I wish to take this opportunity to thank sincerely the Government of Japan for making available US$ 250,000.00 for implementation of the first phase.

It is our conviction that the African Capital Markets Forum can play an important role in galvanizing African countries' efforts at developing well-functioning and effective capital markets. More, importantly we appeal to the donor community to support our efforts in the implementation of the more important "Technical Cooperation and Capacity Building Project on the Development of Capital Markets in Africa".

Once more, I wish to congratulate you all for a very successful Conference.

Thank you.

CHAPTER 12

GLOBALIZATION OF THE NIGERIAN STOCK EXCHANGE

Goodie M. Ibru Esq.
President
The Nigerian Stock Exchange

INTRODUCTION

In recent times, the world has been witnessing an increase in the globalization of capital markets and the liberalization of cross-border financial transactions. An associated development most welcome to us has been the rapid surge in private capital flows to developing countries. One remarkable feature of this development is the growing importance of foreign investment in securities from developed countries. Indeed, about half of total capital inflows to developing countries is now in the form of portfolio investment in tradable bonds and equity shares, as against only 15 percent (15%) in 1990.

The new-found confidence in emerging market derives from improved economic indicators emanating from successful structural adjustment in many developing countries. In these countries, growth has been fuelled by increased investment and productivity as well as reforms in trade and exchange controls. Those countries that have rolled back regulatory controls over the private sector have been more easily assimilated into the global funds market. Many developing counties have also shown increasing economic maturity by exhibiting more fiscal discipline and public accountability.

The keen interest of portfolio investors from industrial economics, especially institutional funds, in the developing world represents an opportunity for attracting much-needed foreign capital, and developing countries, especially in Africa simply cannot afford to ignore it. The more so as the current trend is towards a drying up of the sources of external capital on which most developing countries relied heavily for their development.

Official Development Assistance (ODA) has in fact fallen successively in the last decade in real terms. We have also witnessed a growing reluctance by industrial countries to honor their pledges to the ODA. The era of privileged access to development finance for Africa may well be coming to an end. Thus, Africa runs the risk of being not only economically marginalised, but also financially marginalised.

This awareness has propelled many African countries to use stock markets as conduits for channeling long-term funds to their productive sectors as the stock market route has become a credible alternative source of supporting equity and long-term investment financing for modernizing economies. These realities must have given rise to the decision at the Abuja Summit of OAU Heads of States in 1991 that each country in Africa should set up a stock exchange as a way of promoting a balanced financial system. Today, there are eighteen stock exchanges in Africa that are members of the African Stock Exchanges Association (ASEA).

The concept of regional exchange is also being floated to encourage countries to come together where it might not be very practical, owing, for instance, to economic size for individual countries to establish their own exchange. This position was endorsed by the African Capital Markets Forum (ACMF) and the Inter-governmental Group of Experts at the sixth conference of African Finance Ministers in Addis Ababa, in March, 1997.

Recognizing the importance of capital markets in national development, the group of experts also urged African countries to establish and promote capital markets and use such markets to implement privatization programs.

ANALYSIS OF RISKS IN AFRICAN CAPITAL MARKETS

It is unfortunate, but true that Africa faces a playing field tilted against it. The perceived risks associated with investing in African markets are high. An analysis of these risks will reveal why foreign investors are patronizing other emerging markets while shying away from Africa.

SOCIO-POLITICAL RISK

There is no gainsaying the fact that a stable socio-political climate is a sine-qua-non for economic development. Unfortunately, most of Africa is beset with seemingly intractable problems which for most part are traceable to unacceptable poor public governance. Because of the dictatorial tendencies of many of Africa's leadership, there is often little or no room for intellectual contribution, with the result that defective policies are perpetuated in the bid to maintain control over the machinery of government. Consequently, there is a lack of credible economic policies due mainly to short-lived policy formulating and implementing bodies. Therefore, the recent emergence of democratic rule in Nigeria is likely to usher in a new lease of life for the economy.

Another problem common with emerging markets is an apparent lack of regulatory transparency. Conflicts easily arise between government and non-government agencies because personal and sectional considerations are allowed to outweigh objective and fair market interests. Foreign investors are not oblivious of the fact that unwritten rules, which are difficult to follow, dominate the regulatory process in emerging markets.

ECONOMIC RISKS

Apart from the foregoing socio-political considerations, international investment requires primarily a well-defined macro-economic framework characterised by consistency of monetary and fiscal policies. Without this broad framework, issuers and investors are restricted to short and medium-term planning whereas industrial/corporate development depends on long-term funds and long-term planning.

Several countries, still under the phobia of foreign domination, maintain restrictions on foreign investments. Repatriation of capital and benefits play high on the minds of portfolio investors. Those countries with restrictive investment regulations only deny themselves an active role in cross-border dealings.

Economies, which are characterised by inconsistencies and volatility, usually attract little or no foreign funds. In Nigeria, Government has embraced a market-driven economy. Interest rates and exchange rates are market-determined. Privatisation is also receiving attention. A recent World Bank study concludes that the way privatisation was carried out in Nigeria was among the best on the African continent, largely because of the skill and professionalism of the Bureau of Public Enterprises. Before the program ran out of steam, 86 firms were privatised. Several others have been commercialised. However, since 1993, the program seems to have been stalled. Currently, efforts are being made to privatise major government utilities companies. Nigeria is also planning ahead and has begun implementing a new perspective plan tagged "Vision 2010".

CURRENCY RISK

International investors recognise the inherent risk posed by currency movements. This risk is higher in emerging markets where the interest and exchange rates are often pegged. The investor is then faced with the problem of staying ahead of inflation as well as the threat of losses in the event of a sudden devaluation of the currency or shifts in exchange control regulations by the target country.

LOCATIONAL RISK

Apart from anything else, the location of a market may be regarded as a risk by foreign investors. This awareness may explain why movement of funds has continued to flow West to East. The other regions, especially Sub-Saharan Africa, continue to suffer neglect mainly because of their location, which unfortunately is perceived as a risk by foreign investors. This phenomenon explains why many African countries have swallowed the bitter pills of structural adjustment programs; the investors are nowhere to be found.

OTHER RISK CONSIDERATIONS

International investors have long claimed that company risks are higher in emerging markets. In this context, risk refers to making investment decisions when the company does not make full disclosure of information. Statistics show that it is more common in emerging markets to find quoted companies where management and ownership are intertwined. Moreover, the philosophy of many companies relegates the interest of the shareholders while operating for the benefit of the management. Regulators of emerging markets have a long way to go in guaranteeing funds managers that their decisions are based on full and fair disclosure of company information. Fortunately for Nigeria and many other emerging markets, the regulators are alert to their duties and auditing is professionally mature, meeting with international standards.

OPPORTUNITIES FOR INVESTMENT IN AFRICAN MARKET

The development of African stock markets has been receiving international attention. In September 1996, the IFC Emerging Market Database added 8 African Countries to the 5 existing ones on its Global Composite Index, thus bringing the total to 13. IFC produces both the Global Composite Index and Investable Index for 3 African countries – South Africa, Zimbabwe and Nigeria. The construction of indices for these markets has raised awareness among international fund managers of the tremendous opportunities in African stock markets. Currently, a dozen African funds with total investment of about $1 billion are trading in New York and Europe.

The attraction of African stock markets has been influenced by the following positive attributes:

- Markets are attractively valued;
- Prices have moved but market fundamentals remain the attraction on a historical basis;

- Earnings growth is accelerating;
- Modern settlement and clearing systems;
- Custody arrangements;
- Steady past or recent devaluation has made currency more competitive;
- Structural economic reforms;
- Growing private sector.

The objective of the fund managers has remained risk diversification and long-term capital appreciation. This is to be achieved through selection of stocks based on the market, macro economic and political factors. The investors want to know that the markets are operated fairly. As much as possible, however, African markets need to upgrade their clearing and settlement systems to international standard in line with the recommendation G-30. The Nigerian Stock Exchange now operates a T + 5 clearing and settlement system.

Investors also need regular information about the companies in which they own shares. They also need prompt disclosure and administration of corporate action such as dividend payment.

Finally, offshore investors want to be able to move in and out of markets and individual stocks easily without moving the market. Therefore, liquidity problems of African stock markets must be addressed through privatisation and other new listings. Efforts should be made to float flagship issues using instruments such as ADRs and GDRs.

GLOBALISATION OF THE NIGERIAN CAPITAL MARKET

The year 1995 was a watershed in the operation of the Nigerian capital market as the market was effectively opened to foreign participation. In July 1995 precisely, the Government repealed the Exchange Control Act of 1962 and the Nigerian Enterprises Promotion Decree 1989 – two legislation that constrained foreign participation in the Nigerian capital market. The two legislation were replaced with two investment laws – the Nigerian Investment Promotion Commission Decree No 16 of 1995 and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree No. 17 of 1995. Until these changes, the country had operated an essentially closed market, even though foreigners accounted for 43% of our market capitalisation.

Consequently, upon the abrogation of the Exchange Control Act 1962 and the Nigerian Enterprise Promotion Decree 1989, foreigners can now participate in the Nigerian capital market both as operators and investors. Also, there are no limits any more to the percentage of foreign holding in any company registered in the country. As a result of the repeal of the Exchange Control Act of 1962, any foreigner may now invest in Nigeria without reference to the Ministry of Finance for 'Approval Status' or 'Approval-in-Principle'. Also payment in respect of foreign loan servicing, remittance of proceeds and other application in the event of sale or liquidation of enterprise are remittable without reference to the Ministry of Finance. The banks to which the remittances are to be made are to ensure, however, that all the taxes have been deducted and paid and the amounts being repatriated are in respect of funds imported into Nigeria.

The internationalisation of the market in 1995 made it imperative for our market practices to be aligned with international standards and elicited an improvement in our systems for enhanced service delivery. The internationalisation of the Nigerian capital market immediately put us in the mainstream of the globalisation of capital markets as actively promoted by the Federation of International Stock Exchanges (FIBV), raising questions about standards and the competitiveness of our market vis-à-vis other national markets, the capitalisation of our stockbroking firms, and the safety of our market. Are our operational standards in tune with international standards? How about the cost of transactions in our market? These questions were at the centre of the challenges of globalisation to the Nigerian capital market. They were important for our consideration because for our market and the nation, the gains of internationalisation would depend on the strength of our domestic services capacity, our efficiency and competitiveness.

However, in anticipation of the need of the market and economy, the Nigerian Stock Exchange had since 1987 began a phased automation of its operations. Consequently, on June 2, 1987, the Exchange was linked up with the Reuters Electronic Contributor System for an on-line global dissemination of our market information. Under this arrangement, trading statistics, the NSE All-Share Index, company financial statements and investment ratios, among other information, are fed into our Reuters terminal for onward transmission to the global investment community. This has boosted global awareness for our market, with the International Financial Corporation (IFC), a member of the World Bank Group, now depending on the network for the data it uses in computing the IFC Global Index and the IFC Investible Index on Nigeria. The prestige acquired and free publicity for our quoted companies as a result of this arrangement cannot be over-estimated. Indeed, this technological advancement in financial information flow has boosted foreign interest regarding possible investment in Nigeria.

Partly in consideration of the imperatives of internationalisation, the Exchange in 1996 began implementing a five-year strategic plan with the broad objectives of improving the international competitiveness of the stock market, while improving turnover and liquidity.

At the time we started implementing the strategic plan, the Call-Over Trading System was in place at the Exchange. Settlement was by exchange of cheques every fortnight and it took an average of two months for deliveries to be made. Also during the period, our total market capitalisation stood at about 11% of the Gross Domestic Product (GDP). Foreign portfolio investment was low, and high transaction costs made our market very expensive, relative to other markets.

Against this background, the Exchange in 1996 dropped the flat 3% brokerage charged on secondary market transactions for a graduated brokerage rate, thereby improving the international competitiveness of our market in the area of costs. Also during the year, the Exchange launched its Internet System (CAPNET) as one of the infrastructural support for meeting the challenges of internationalisation, achieving an enhanced service delivery. The Internet system enables investors have a direct access to information on the nation's stock market and those of other countries. CAPNET collates and stores information on daily trading activities, stock market statistics, as well as information on various securities quoted on the Exchange. This initiative by the Exchange was necessitated by the fact that timely availability of information to stakeholders of the Exchange can add value to the different decisions they make in their respective capacities as quoted companies, stockbrokers, issuing houses, investors, etc.

In April 1997, the Exchange made a major leap in its automation program with the commissioning of the Central Securities Clearing System (CSCS). The CSCS was introduced in keeping with the decision of the FIBV, with a view to making our stock market more transparent, efficient and investor-friendly. Consequently, transactions on the Exchange are now settled on a rolling T + 5 cycle, which is the international standard for emerging stock markets.

Apart from automated clearing, settlement and delivery, the CSCS also offers custodial services. It is pertinent to remark here that apart from the changes in the legal framework of the Nigerian capital market, the first GDR program by a Nigerian company (The United Bank for Africa Plc) was successful because the nation at the time had central securities clearing system in place and, therefore, a lower risk profile, as required by the US SEC.

Since the coming of the CSCS, the Exchange has made the transition from the manual Call-Over Trading System to the Automated Trading System (ATS). The transition, which was made on April 27, was at once a progression on the CSCS and a response to developments in our operating environment. In getting set for the global capital market in the next millennium, too much attention cannot be paid to technology. Technology has proven implications for the quality and efficiency of services in our market. Technology, as a facilitator of high quality service delivery, has transformed markets around the world; and these markets now compete on the basis of efficiency and speed of execution. Should a market not meet the speed and efficiency standards, the capital meant for it will invariably be invested elsewhere, possibly resulting in net capital outflow. In the case of Nigeria, as a newly liberalised market, the capital inflow may be less than optimal if effort is not made to enhance the speed and efficiency of our market.

Therefore, the transition to the ATS was done with a view to enhancing the role of the stock market in the economic development of the country. There is no doubt that the benefits of the Automated Trading System will engender recourse to the stock market, with positive implications for savings and capital formation in the economy. Also, the ATS, as an upgrade of our trading system, has placed our market on equal pedestal with many emerging and mature markets, thereby enhancing our competitive position among the world stock markets.

In the next few months, we expect that brokers can migrate their trading from the trading floor in Lagos to their offices and the other floors in Nigeria. Also, in the next 12 months, negotiations are on for the Nigerian Stock Exchange to lead a Regional Market for West Africa via V-SAT link with the Ghana and Abidjan stock markets. It is expected that the transition to remote trading will impact positively on stockbrokers' running costs, while the evolution of a regional market will raise the volume of business done by our stockbrokers, placing them in a position to take advantage the resultant economies of scale to charge internationally competitive rates for their services.

The value of foreign portfolio transactions on the Exchange grew to $50.5 million in 1998, up from $9.4 million in 1997. The success of the United Bank for Africa Plc in executing the program by a Nigerian company contributed to the growth in the value of foreign portfolio transactions during the year. More Nigerian companies are expected to execute GDR programs in 1999, as they diversify their financing mix and seek more innovative means of meeting their foreign exchange needs.

CONCLUSION

There are good prospects for African stock markets to develop and grow if they continue with the liberalisation of their markets. Cost of raising funds on the markets, should be and are becoming competitive. Capital gains tax and stamp duty should be abolished while withholding tax on dividends should be low if it should be imposed at all. Also, African countries must keep up with pressure for the reforms of their local stock markets in response to the globalisation of the securities markets. Above all, a capital market can only be effective if there is a vigorous and healthy private sector with the economy. Fiscal incentives and sound macro-economic policies must therefore be adopted to promote private sector development and growth in all countries in Africa.

The challenge that lies ahead is to be able to increase and retain as many of our domestic individual and institutional investors as possible and simultaneously attract foreign ones to our markets. To achieve this we have to be dynamic, innovative, and have an open mind so that new ideas can now be absorbed and put productively in use. In this respect, the market must be able to provide a spectrum of investment alternatives, new trading instruments with which investors can hedge their risks, as well as environment which is honest, has efficient structures and where policies are flexible enough to accommodate different investment needs. It does not matter if the investor is foreign or local; he will go where he is comfortable with his risk profile. Our objective, thus, must always be to implement policies and strategies with the progress and good of the entire industry in mind – the investors who are the savers, the fund-raisers who are the government and publicly listed companies, and the stockbroking community.

Although banks dominate the African economic scene, they are underdeveloped. Loans are predominantly of short maturities and intermediation costs are high. They cannot finance long-term investments for industries, commerce or infrastructure. As a result, economic growth suffers. If, therefore, African economies are to grow, they must adopt balanced financial systems wherein securities markets complement strong banking/money markets to provide optimal finance to their enterprises and economies.

CHAPTER 13

BOURSE REGIONALE DES VALEURS MOBILIERES (BRVM) – WEST AFRICA

(THE WEST AFRICAN REGIONAL STOCK EXCHANGE)

Kokou Gozan
Chief Executive, La Bourse Regionale de Valeurs Mobilieres, Abijian, La Cote d'Ivoire

I HISTORY

The West African Regional Stock Exchange, BRVM, started its activities on 16th September, 1998. It was unanimously set up by the 8 West African Monetary Union (WAMU) countries, namely, Benin, Burkina Faso, Cote D'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo.

The BRVM has the following objectives:

- Raising sub-regional funds in order to finance investments;
- Strengthening economic integration among member states of the Union.

WAMU is a market with 69.3 millions inhabitants, with GDP growth and inflation estimated at 5.7% and 3.6%, respectively, in 1998.

REGULATORY ENVIRONMENT

The regional stock exchange market is centered around two major entities:

- A public entity composed of the Regional Council for Public Savings and Capital Markets (CREPMF). It is the supervising body of the market in the entire WAMU territory. It is the equivalent of the SEC US or SIB UK or COB in France.

- A private entity, made up of the Regional Stock Exchange, the Central Depository and Settlement Bank (DCBR), and participants, such as Brokerage Companies (SGI), Portfolio Management Companies (SGP), Income Generating Companies, Sales People.

The Regional Stock Exchange is a private Limited Company with a 2.904 billion CFA capital (i.e., $4.84 million) 87% of the capital is owned by private businessmen of WAMU. 13% of the capital is owned by the member states. The BRVM is in charge of ensuring that securities transactions are carried out accordingly. Its objectives are:

- The organization of the listing requirements at the BRVM;
- The dissemination of quotes and other related information;
- The promotion and development of the securities market.

THE CENTRAL DEPOSITORY / SETTLEMENT BANK, DCBR

The DCBR is a private company with a 1.481 billion CFA capital ($2.47 million). It is responsible for custody and the registry of the securities. It is also a settlement bank and handles cash accounts of brokerage companies.

The DCBR is original in the sense that it both carries out central depository and settlement bank activities. This choice was made in order to have a better interface between cash and securities positions. This improves the settlement and the safety of cash position.

The DCBR has the following responsibilities:

- Centralizing securities current accounts custody on behalf of members;
- Settling and clearing the stock exchange transactions;
  (interests, dividends and so on);
- The use of the Guarantee Fund in case of participant default.

THE BROKERAGE COMPANIES (SGI)

They are private limited companies. They have the monopoly with regard to the trading of listed securities and are mainly in charge of custody for their clients.

All the central bodies (Regional Council, BRVM, and the Central Depository and Settlement Bank) are based in Abidjan, Cote D'Ivoire.

ACCESSIBILITY

The regional stock exchange is represented in all the WAMU countries by an antenna, which is responsible for:

- The centralization of orders and their transmission to the central site
  (refer to chart in annex);
- The dissemination of stock exchange information;
- The promotion of the market at the national level;

Since 24th March 1999, the BRVM has been equipped with a satellite transmission system that allows the Brokerage Companies to:

- Introduce client orders in the trading system from the antennas;
- Online access to the trading session results;
- Print transaction reports.

MARKET STATISTICS

The regional stock exchange started its activities with the 34 companies listed at the former Abidjan stock exchange (BVA). On 15 August, 37 companies were listed. The total volume of transactions is estimated at 2.02 million securities representing 33.82 billion CFA ($56.33 million). This represents an average 14,777 securities for 245.8 million CFA ($411, 367) per trading session. The average market capitalization is 952 billion CFA ($1,587 million).

II TRENDS AND FUTURE PLANS OF EXCHANGE OPERATIONS

	16 / 09/ 98	15 / 08 / 99
Reference Index (BRVM 10)	101.03	92.16
Composite Index (BRVM)	100.56	89.02
Volume of Transactions (Securities)	856	11.391
Value of Transactions in CFA (million)	23.09	297.60
Market Capitalization (billion)	836	933

After 137 trading sessions, the figures recorded indicate a significant increase in the stock exchange activities:

- The average volume of transactions per trading session increased by over 1600%;
- The average value if transactions was multiplied by 10;
- The fall in the index, despite a slight increase in the first quarter of the year is mainly the result of the training of participants in the use of new trading tools in the regional stock exchange market.

This significant increase in activities can only be greater with the advertising and information campaign on stock exchange operations.

This campaign basically aims at familiarizing the general public with the stock exchange activities that are mostly reserved to the professionals. It is also oriented towards foreign investors especially pension funds and issuers (State, Companies) so that they can use the BRVM mechanism to finance their capital needs.

In a move to increase the activities of the stock exchange, the marked regulators have drafted the rules for collective investments that will be implemented during the fourth quarter of 1999. This product will undoubtedly increase the activities of the regional stock exchange since it will diversify the savers' investments.

	1999	2000	2001	2002	2003
New companies to be listed per year	5	7	14	22	23
Total number of companies listed at the end of year	40	47	61	83	106
Introduction of new bonds per year	5	6	7	7	7
Total number of bonds listed at the end of year	9	16	23	30	37
Common stocks (*)	1,172,261	1,410,987	1,699,586	2,063,544	2,377,415
Bonds (*)	45,500	73,000	105,500	140,500	158,017
Total (*)	1,217,761	1,483,987	1,805,086	22,040	2,535,433
(*) in millions of CFA					

BRVM prospects over the next five (5) years are as follows:

For the year 1999, nine (9) new debt issues will be listed against the five previously scheduled. On the common stock market, three (3) new companies will be listed which will bring to 40 the number companies listed at the BRVM.

INVESTMENT GROWTH

The current objective of the BRVM is to consolidate its investments by fully using the technically tools (elimination of bugs, back up plan, network security). This will allow brokerage companies to directly get connected to the BRVM site from their office. At the same time, the promotion of the market within the WAMU and abroad is a priority, as is the creation of the BRVM internet site. With this rate of increase, additional investments will be necessary so as to meet the requirements of the market (moving to continuous market).

III STATE OF BRVM AUTOMATION AND FUTURE PROSPECTS

Automation

The fully automated BRVM uses two systems: the first one for trading, and the other for the Central Depository. Both systems are PC based (Client / Server):

BRVM has the following equipment:

1. Compaq Proliants Servers (Intel Pentium);
2. Compaq Work stations (Intel Pentium) for clients (Workstations for traders, BRVM internal staff).

a) BRVM Systems

For the operating systems, we have:

- Windows NT Server 4.0;
- Windows NT Work station for Clients;

For the database management systems, we have:

- Microsoft SQL Server (system for trading depository)

For the trading system, we have:

- Horizon Trading System supplied by the Canadian Company EFA de Calgary.

This trading system is set up in 18 regional stock exchanges, several of them in emerging markets, such as the Teheran and Bucharest stock exchanges.

b) System of the Central Depository / Settlement Bank

The Central Depository uses Depository 2000 supplied by the British Company Percival

Software. This system is used in the Tallinn Depository (Estonia).

c) Inter-connectivity of sites

Given that the BRVN is present in 8 WAMU countries, some of the systems are linked to a satellite network, VSAT (VSAT Plus II) supplied by NSI, a Canadian company.

IV FUTURE PROSPECTS

The BRVM is a new stock exchange entirely computerized. Its activities started on 16 September 1998. With the growth of the market, the BRVM will make plans for the introduction of new tools (Equipment, and so on) in order to boost the performance of the systems already set up and seek solutions by offering more facilities to the users, especially, by being more flexible with brokerage companies and the media.

V IMPLEMENTATION OF THE RULES

The BRVM is a computerized stock exchange with a Central Depository / Settlement Bank. All the operations settled automatically. The market is characterized by:

- A central market driven by orders;
- Three weekly trading sessions and two fixings per session, which will eventually be done on a daily basis with a continuous fixing;
- Cash Market;
- An improved settlement cycle of transactions from T+5 to T+3;
- Secure transactions thanks to the creation of a Guarantee Fund constituted by the brokerage companies' contribution to be used in case of default.

CHAPTER 14

THE NAMIBIAN STOCK EXCHANGE EXPERIENCE

Tom Minney
General Manager, Namibian Stock Exchange, Namibia

INTRODUCTION

This paper is about strategy and strategy implementation for a developing stock exchange. Although I refer to my own experience with the Namibian Stock Exchange, some of the lessons may be applicable to other stock exchanges, which may find that one or more elements of our situation ring a bell.

Despite being the second largest stock exchange in Africa by market capitalization and fourth largest by value traded, I still regard our stock exchange as a very small stock exchange. Liquidity is our biggest challenge. The NSX was set up in 1992 by an association of 36 Namibian businesses who each donated N$10,000 (about US$1,700) to the set up costs and working capital for the first three years. The Government gave its full support and amended the relevant legislation to allow the market to begin. The growth of the NSX is driven largely by the domestic institutional market. Local insurance and pension funds are worth an estimated US$2 billion and they invest some of this in the Namibian capital market. There are 41 listed companies, of which 26 are foreign companies dual-listed on the NSX with large operations in Namibia. Fifteen are called "local" companies, in the sense of being Namibian-owned or with the majority of their operations in Namibia. They include the brewery (a star performer), a bank, and several companies mining diamonds in our rich seabed diamond fields off the coast. Trading last year was just over N$1 billion (US$170 million) in equities. There are five bonds listed, but not much traded.

It is clear from the studies and literature that stock exchanges can perform many important economic functions and I am sure more information and knowledge on this important topic will come out of the forum's deliberations. Among others, stock exchanges encourage savings, both local and foreign. At the other end of the process, stock exchanges provide capital for entrepreneurs (the process is (savings→stock exchange → entrepreneurs, job- and wealth-creating investment). In Namibia, where we have a fast-growing, well-regulated and orderly financial and banking sector, about US$150 million a year of local savings could fuel our development if there were the entrepreneurs and projects. In order to encourage investment and to get the right, market-oriented prices for entrepreneurs, we need liquidity. Liquidity comes from the maximization of order flows into the market and from more trading, especially from local and regional sources. We also need a steady stream of new listings of investable projects. There are many other economic functions which stock exchanges are meant to perform, including price setting, reallocating resources to the most productive users, regulation, etc.; but we will not achieve any of them without liquidity, or active trading.

In addition, we are exposed to increasing competition driven by technology, innovation and globalization. It is already easier for the small investor in Francistown in Botswana or Outjo in Namibia to trade actively on Nasdaq or the New York Stock Exchange than on her local stock exchange, if she has a good Internet connection. The local exchange is a few hundred kilometres away from these two towns and information about the local exchange may be harder to access than information on the international exchanges. Local settlement may require delivery of a paper share certificate, while international trading may be conveniently paperless. This global Internet competition does not apply only to stock exchanges, but will soon be true for other African financial services, such as insurance. This is the challenge we face if we are to serve our region.

We developed the strategy for the NSX early in 1998 when peace seemed to be settled in our region. Our vision was based on an optimistic "high road" ahead of growth for Namibia and the Southern African Development Community (SADC) on the back of increasing regional economic links and stability. This still seems the only reasonable basis for the region to develop. Each economy on its own is too small to shut out the global economy, but as a region we are better placed to compete. Similarly, stock exchanges in the region need to look for ways to create a common regional pool for capital-raising and creating liquidity.

As stock exchanges we have set up a regional SADC committee, within the framework proposed by the African Stock Exchanges Association, to build cooperation. As stock exchanges we are competing with each other, but there are also many ways to cooperate to grow the whole cake rather than just fighting about slicing the existing cake. Many foreign investors see the region as a whole, and we can work together to make investment in the region more attractive and to reduce costs, including risk and discovery costs. Steps we have already taken include introducing internationally-acceptable listing requirements across the region, based on those of the London and Johannesburg stock exchanges. Across the region, there is harmony on issues such as accounting standards and disclosure of information, but there are local variations in the minimum size of a company for listing and the minimum number of investors, etc. We are also harmonizing training and education, for instance setting the International Securities Institute as the base-level qualification for all employees who deal with the public. We are investigating other areas, including trading rules and systems.

The bigger goal is to build increased liquidity. A first step was relaxing exchange control in the Common Monetary Area to encourage trading on SADC stock exchanges and to allow dual-listings. Both Namibia and South Africa have started allowing this and further steps will include relaxing regulations for local institutional investors to invest in SADC exchanges. The aim is to get more liquidity for traders and lower the cost of capital for entrepreneurs.

To achieve this vision of building cross-border trading and investment, we must also find ways to link the markets together and here technology comes to the rescue. The NSX was the first computerized exchange in Africa in 1992, but by 1997 we investigated upgrading our system to accommodate the dramatic growth in broking firms and trading. In line with our strategy, we decided to take up the offer from the Johannesburg Stock Exchange to use their Johannesburg Equity Trading (JET) system, originally developed for the Chicago Stock Exchange, and their home-grown Broker Deal Accounting (BDA) system. Thanks to the JSE team, this project was completed on schedule and under budget by November 1998. Our trading and broker back offices are now run on computers in Johannesburg and linked to us by telephone lines.

Since we switched on last November, the NSX and its brokers use one of the top trading systems in the world. Trading volumes are climbing. Equity trading in the first seven months of this year is worth about US$150 million, up more than 40% on last year, despite a very slow start in the first quarter. Our daily dealing peaks are already twice those of last year and it will take many, many years of very fast growth before we start testing the limits of the system. JSE and NSX brokers can see all the transactions and actions on each other's markets, although only NSX brokers can deal on the NSX and similarly for the JSE brokers.

Other important steps in building our capital market stemming from this link are:

- Human resource development. Common rules and systems mean that staff in the brokers' offices can move between Johannesburg and Windhoek for training.
- Surveillance and transparency are boosted and the BDA system gives detailed control of all client accounts on the desktop of the NSX's Manager: Surveillance.
- We have a common platform for selling data to the international stock exchange information resellers, such as Reuters, Bloomberg and Bridge, who already receive feeds from JET.
- The JSE generously lends expertise and training in use of systems and market development.

In future we plan to link into the JSE's paperless or immobilized clearing and settlement system. Their STRATE project is closely linked to South Africa's National Payments System and the current phase will not accommodate cross-border movements. However, future phases are designed to be the core of a regional central depository. In June, central banks of our region were discussing progress in their plans to build national payments systems in each country and then link them across the region. This will be the foundation for seamless clearing and settlement across all the SADC markets. We also aim to improve transparency and disclosure in our market by releasing our company announcements through the JSE's Stock Exchange News Service, which provides warning to JET traders and then instant release to news agencies and electronic subscribers.

We are working in line with our SADC vision, agreed in February 1999, of one desktop trader workstation that can access all the region's stock exchanges. It does not all have to be on one trading system, as open architecture means that computers can talk to each other. We believe in national stock exchanges, providing local listing services, surveillance, education, jobs and regulation, under the regulatory control of our national governments, and responsive to the needs of our own economies and populations. But we also believe that our region can only grow fast through integration and the capital markets must use technology to pool trading and capital-raising, and thus achieve liquidity.

We in the private sector, and especially in the capital markets, are already busy. The stock exchanges, business and Government must continue to work smarter and together if our capital markets are to play their proper role as engines for the region's economic growth and helping raise living standards for all our people. SADC stock exchanges must be the best place to trade SADC equities and bonds if we are to stay on the global map. Our regional plan is the key to unlocking this opportunity.

CHAPTER 15

INITIATIVES UNDERTAKEN BY JOHANNESBURG STOCK EXCHANGE

Jeffrey Ngobeni
Manager, Research and Development,
Johannesburg Stock Exchange

INTRODUCTION

I am going to give you a very high level perspective in terms of some of the initiatives that we have undertaken not only in the Johannesburg stock exchange, but also in the SADC region to bring together all the players to get the integration that we think is important for the survival of African markets vis-a-vis what is happening globally and of course to get all the co-operation initiative so that we could present a favourable block to the fund managers out there. I will categorise my talk into two main areas in terms of what the JSE has done in terms of the promotion, integration and initiative from an outside perspective and secondly, from what the JSE has done internally in terms of bringing about efficiency in the internal operational systems which to a greater extent needs to be emphasized before we can begin to talk about integration, co-operation, about strategic alliances, about mergers and whatever the case may be.

EVOLUTION OF JOHANNESBURG STOCK EXCHANGE

The Johannesburg stock exchange has come a long way off, more than 100 years ago. It is the only stock exchange in South Africa and we have throughout the last ten years tried to get together with our SADC partners (there are fourteen of them). However, we have about nine operational exchanges within the SADC region. Before we even went out to our SADC partners for harmonisation of our operating systems, etc., we began to do our own evolution from inside the stock exchange. What we did is called the 1996 bang where we changed our operational system. We came out with the strategic development by which we moved from the open outcry floor, which we closed in 1996, and switched to the Johannesburg Equity Trading system, which is an electronic trading system. Since then our transactions have sky-rocketed. I will not go into the actual figures. However, what this implies is that as we move into the integration of the market we can certainly leapfrog, and we do not have to follow what everyone else has done.

Trading has increased tremendously and the number of listed companies today exceeds 680. For an African stock exchange, that is quite tremendous. Currently, our typical daily average turnover is, approximately, 16,000 and so our system has a provision of up to 16,000 trades a day. We are currently working on a clearing and settlement system and we have given it a name which is the 'share transactions totally electronic'. Through that system we are trying to work towards improvement of our liquidity. We are working together with our banking system through the de-materialisation of share certificates that we hope this new clearing and settlement will bring into the market.

Certainly there has been a number of objectives that we have identified that we thought would help to improve the liquidity of the market, to improve the clearing and settlement system. We have a T+7 settlement system in South Africa which we will like to improve to T+5 and T+3, and even better than that. So the development of this new clearing and settlement system is being undertaken to replace the cumbersome manual share transfer system that has been in place. We hope it will enable the dematerialisation of share certificates in the Central Securities Depository and it will facilitate the settlement and transfer of ownership by electronic book entry. Those are some of the major objectives that the new clearing and settlement system we are putting into place will hope to achieve on the market. This would have a contractual rolling and gross settlement system that will make sure that when we trade there is continuity in terms of trade and settlement. This will bring a measure of security not only for the individual investor, but also for the fund manager and the institutional investor out there.

Towards the end of last year we began to look at our sectors, and developed a sector classification system (SCS). We put a team of consultants together to look into the various sectors to see if they were comparable with what pertained in the London, New York or Australian Stock Exchanges. We noticed that we were relatively far off the mark. The group of consultants and the team that we put together initiated and implemented this sector classification system as of the 13th of March 1999, of course with the view to improving the classification of listed companies into various sectors and sub-sectors. Through this SCS we now have homogenous sectors and sub-sectors that we hope will begin to react similarly to measure the economic or political events that generally happen, not only in the country, but also internationally. The major changes that have been brought by the SCS include the combination of the current mining sector and the industrial commodity sub-sectors into a new resource sector which is something that is happening globally. The property, the property loan stock and the property unit trust sub-sectors now fall into one sector called the Real Estate Sector.

Sometime last year too, we initiated a programme whose aim was to attract small businesses which were not listed on the JSE. We tried to bring them on board even though they could not meet some of the listing requirements for the main board, the venture board or even the development board. The aim was to bring together the providers of capital and the seekers of capital in a specific board that will then encourage them to interchange their capital and their needs. We hope that these small businesses will grow, and as they grow will have a need to transfer their activities either onto the main board, the development board or the venture board. We have got that system into place now: it is called the Emerging Enterprise Zone. So far we have picked up some of the big players that we can think of from Citibank to ING as capital providers who will then help to encourage the small businesses who might ordinarily not be in a position to promote themselves and get a listing on the main board or the other boards of the JSE.

Furthermore, since 1996 we have, through our big bang approach introduced a stock exchange service that will ensure that insider trading is to a great extent managed, because there will be adequate, effective and immediate announcement that will take place. This means that we will not have a situation where a group of investors will have access to information which the others do not have.

I am pleased to announce that through the SADC Commission of Exchanges we have managed to complete the process of harmonising the listings requirements within our region. Now what we need to do is simply to send out a press statement to that effect.

CHAPTER 16

ROUNDTABLE 1: STOCK EXCHANGES – SUMMARY AND DISCUSSION

QUESTION:

We did listen very carefully to the presentation of Mr. Gozan on the West African Regional Stock Exchange which has just opened. Namibia and South Africa have cross-listings. Now is that based on the satellite approach that Mr. Gozan was presenting or it is less than that? And if it is, I would like to find out whether it is the intention of the Johannesburg Stock Exchange to have a similar link in terms of trading with the other SADC countries' stock exchanges in view of the fact that, for example, my colleague from Malawi here can testify that the Malawi Stock Exchange is still very small. The question one asks is should Malawi really have an independent Stock Exchange or whether it makes sense for it to be linked to a larger Stock Exchange.

ANSWER:

What we have with the Namibia Stock Exchange is not a fully integrated satellite link, but a partially integrated satellite link with the Namibia Stock Exchange, in which they utilize our electronic trading system at a cost. We have signed a Memorandum of Understanding with Namibia to the extent that they could utilize our electronic trading system and we would provide any technical assistance in terms of the IT fundamentals. We have actually transferred part of our IT representatives to Namibia, initially to put the system into place and to provide continuous management of the system. So what happens really is that to an extent they will operate integratively with our system, but they have the latitude to bring in some new dimensions into the system as much as they wish to.

QUESTION:

I had asked whether it was the intention of the Johannesburg Stock Exchange to replicate the example of the West African Regional Stock Exchange in terms of satellite links to other stock exchanges of the SADC sub-region. That is the question I think I had asked and I hope in future I can get an answer to that. Thank you.

ANSWER:

The Johannesburg Equities Trading system that was provided to the Namibia Stock Exchange was not only provided to Namibia per se. It was an initiative that was introduced in the SADC Committee of Exchanges; and through that all members of the SADC Committee of Exchanges were invited to participate in the system and to evaluate and see whether they would like to adopt it. And yes, we would have liked from the Johannesburg Stock Exchange to get everybody on board so that we all share in the same system, since initially we spent several million rands to get the system into place. So certainly yes, we still would like all our SADC partners to come on board so that we can share in this new system. Thank you.

QUESTION:

I had a question for the President of the Nigerian Stock Exchange. In 1992, when we had a very successful international conference with George Akamiorkhor here, one lady came up and said that for two years she did not get settlement for her shares for the simple reason that she did not know where to go to find these shares which she had bought and which were never delivered. I think the problem must have been the settlement system. Therefore I would like to hear whether that situation has been rectified.

ANSWER:

I am happy to say that that was in 1992 and we have not heard from her since then, so I presume she had the transaction settled. In 1992, most of these transactions were manual. The trading was by the call-over system and after that the old share certificate had to be sent to the Registrar to be canceled and a new share certificate had to be issued and signed, before it was dispatched. Unfortunately, this process used to take some time, especially considering the poor internal postal system. But two years is unusual. I would say two months, at most six months, but certainly not two years. So that must have been an abnormal case. But having said that, things have since changed.

Three things have happened since then. Since April 1997, we have commissioned the Central Security Clearing System. Which means that the exercise is now automated and that is why we now have T + 5. So within three days there should be settlement of any transaction. Also since then we have had the Custodial Services which makes it a very modern system of trading in the capital markets in Nigeria. In addition to that only recently we have automated our trading system. So within a week you should be in a position after settlement to resell your shares and I think that is a remarkable improvement on what used to be in the past.

QUESTION:

This question is addressed to Mr. Gozan and Mr. Ibru coming from the ECOWAS region. In the ECOWAS region now we have three stock exchanges and we have heard about what our friends in SADC have been doing to integrate their markets. Now if they could, I would like them to share with us what kind of a vision they have for a stock exchange in West Africa and also any tentative steps that they have taken or discussed in terms of bringing together the three stock exchanges in the region. Thank you.

ANSWER:

About the Regional Stock Exchange, we have introduced a system of automated trading and settlement systems. The next logical thing is to have a satellite link. In fact we are in the process of working with the Ghana Stock Exchange and the Abidjan Stock Exchange so that we can have a truly regional group in West Africa. The advantages are obvious. First of all the volumes of transactions will increase and that will make it possible for all the participating stock exchanges to take advantage of economies of scale. Also it will make the regional market competitive because one of the big problems that foreign investors complain about is that our cost of doing business in our exchanges is high.

But with regional integration, hopefully this will be reduced. I believe once we have the additional infrastructure, namely the VSAT satellite link, this will make it possible. Because then we will not have to rely on the traditional telecommunications systems which unfortunately within even member states in Africa is not the best. With the satellite link I think that problem can be overcome and then all the participating stock markets will have the full advantage of the synergy which is going to be created by the integration of all the capital markets in West Africa.

QUESTION:

This question is addressed principally to Mr. Jeffrey Ngobeni. The question concerns the issue of clearance and settlement. We hear T+ 7 and then we hear there is a target for T + 1 and so those are realities that we have to confront. But one of critical concerns that we are facing is: as we attempt to develop clearance and settlement entities in the securities side, there is also that link to the bank payment side that has to be fostered.

Unfortunately, maybe we do not know how much bank transactions that people on the banking side have. But this is a critical issue and I am directing this question to Mr. Ngobeni because his exchange is in the process of reforming this. I think it will be interesting to know what you are doing on the bank payment side in terms of how you get a same - day funds process being realised. You can work very hard to introduce technology on the clearing side, but you still have to have that link. And I think it is critical that the region focuses on it.

ANSWER:

From the equities perspective, we are on T+ 7. What is the situation with banks? The situation with banks is like this. The new system that we are trying to put into place, the so-called share transactions total electronic system, is an initiative of the banking sector in South Africa. It was brought about by the South African Chamber of Banks, together with the Central Bank. As far as the bond sector and the derivative sector, they operate on a T + 3 basis. And so it was realized by the banks that although they were on a T + 3 basis, there was a gap as far as the equities sector was concerned. So to bring about uniformity in all these systems, they got together with the Central Bank and some members to bring into place this new clearing and settlement system.

However, over time the Johannesburg Stock Exchange was also brought into the picture and now we are currently running the whole process of putting the clearing and settlement system into place. Of course, we still have the banks in place, but now it has become much more of an initiative of the Johannesburg Stock Exchange. So hopefully with the passage of time we should have this system fully operational, in synchrony with what is happening in the bond exchange, in the futures exchange and, of course with the whole banking sector.

QUESTION:

Mr. Ngobeni are you thinking of other SADC members joining you or do you want to do it alone? I don't understand your system. Is it your plan that you will initiate it and then decide to bring the others into the scheme, or is it going to be a joint affair?

ANSWER:

Let me just take you back further. When we introduced the trading system in 1996. None of our SADC partners had such a system in place. We thought that since the system was in place and we had realized the benefits in terms of our market capitalisation, in terms of our turn-over and in terms of encouraging integrity in the market, we thought that it would be a good initiative to get everybody on board. However, since we have the SADC Committee of Exchanges if at some stage further down the line the members do feel that the system needs to be changed. We are quite open to that and certainly nothing is cast in stone. Everything is adaptable.

QUESTION:

This question is addressed to Mr. Ibru, President of the Nigerian Stock Exchange or any member of the SEC of Nigeria for an answer regarding a second stock exchange for Nigeria in Abuja. Is it coming on or it is just political talk? Thank you.

ANSWER:

Because we live in a world that is dynamic there are bound to be periodic reviews. The last time there was a review of the financial system in Nigeria was in 1977. At that time we had a renowned economist who had recommended that there should be multiple stock exchanges. But Government in its wisdom at the time said no. We will have just one Stock Exchange, but we will have branches. The Nigeria Stock Exchange used to be known as the Lagos Stock Exchange but Government in its wisdom at the time changed that and created five branches of the Exchange apart from Lagos. These were in Ibadan, Port Harcourt, Kaduna, Kano and Onicha. Twenty years after, in 1997 or thereabouts, the Government decidede to review the financial system. Again the panel recommended multiple stock exchanges. The Abuja Stock Exchange was therefore set up or is in formation, but it has not taken off. With the new dispensation, a new government, a new dawn, I think that it is worth asking whether we really need another stock exchange. From the experience in other areas of the world where stock exchanges are integrating it is very difficult to make a case for a new Stock Exchange. In fact, the general feeling from most of the speakers at this conference has been integration rather than multiplicity.

Another development is that the stock exchanges, as we traditionally knew them, are now changing. Stock exchanges are no longer the floors. With automation and satellite link you can trade in the comfort of your room or office screen-based. So really physical structures are not important. What is important is technology. Thus making a case for another stock exchange becomes difficult to sell.

ROUNDTABLE SUMMARY

Factors that have accounted for low foreign investor patronage of African markets in favour of other emerging markets include perceived socio-political, economic, currency and locational risks. Despite these problems, African stock markets are beginning to look attractive as a result of increasing market value and earnings, modern settlement and clearing systems, effective custodial arrangements, economic and regulatory reforms and increased private sector participation in the economy. There is near unanimity that none of the stock exchanges in Africa is large enough to be a relevant participant in global financial markets. Integration of markets into larger regional entities is recognized as the only viable road to efficient and globally relevant capital markets in Africa.

CHAPTER 17

AFRICA, CAPITAL FLOWS AND INVESTMENT: THE WAY FORWARD

Phillip Clayton
Economist, Standard Equities Ltd., South Africa

INTRODUCTION

In the film, "Field of Dreams", Kevin Costner, a farmer, built a baseball diamond as a consequence of a vision. He built it in his corn (maize) field – so that the greats of baseball would come and play there. He built; they came. Attracting capital flows is the same: build the field – and the funds will come. My group has done deals with cotton in Karapakalstan in Uzbekistan – even the country is hard to place on the map for many – and the local delicacy, goats' eyes, was sampled in negotiating the deal in the field. The same for Africa: build the baseball diamond, and they will come.

The focus of my talk is how best to mobilise savings – both domestic and foreign – for better growth. Africa's growth performance in the last few years has improved: from a position of decades of decline in per capita incomes, the average African is becoming (painfully slowly) more wealthy. This statement hides more than it reveals, but nonetheless it is a positive development. Furthermore, the good performance is spreading: more countries are experiencing better per capita growth, rather than a few stars.

Investment bankers are able to help in mobilising savings efficiently and effectively. My group has been involved in a number of IPOs, especially Southern Africa. It has helped in financing the planned buyout of a state-owned firm by an indigenous firm in Tanzania. Our services – and those of our competitors – include structuring of privatisations, how and where to raise debt capital, etc.

Good economic growth helps investment banking. In 1960, there was a country that the US State Department felt would need food aid for a decade and financial assistance until the end of the century. That country is now a member of the OECD – the rich man's club; it has been an exporter of capital; and, although the last few years have been difficult, and there are significant structural problems to overcome, the economic outlook is good. I am talking about South Korea.

South Korea in 1960 had an economy four-fifths the size of another's. That other country was hopeful of a rosy economic future: it was blessed with a rich store of minerals, and its agricultural potential was good. Its population was relatively well educated. Yet, by the end of the century, its economy was around a fiftieth the size of that of South Korea's. I am talking about Ghana. Until a decade or so ago, investment bankers were not welcome in Accra – nor would they have wanted to come. Now the situation is different – and the economic outlook for Ghana has improved.

There are a number of responses one could make to the above unfair comparison: Ghana stuck with commodities, South Korea industrialized. Ghana had the misfortune of focusing on political activities rather than economics; also, the focus on socialism was incorrect. Although Ghana's growth record has been good since the focus on more market-friendly economics, it will still take at current progress until the 2020s before per capita incomes reach those last seen in the 1960s. In Nigeria, now that it has a democratic government more committed to best international economic practice, investors have begun to show more attention in the country.

It is unfortunate that conflict is now a scourge again – after a period of optimism in the mid-1990s. Unless this is tackled, all the good economic frameworks, good programs – and better performance - could be unwound.

Although Sub-Saharan Africa contains a tenth of the globe's population, its contribution to GDP is a paltry 1%. Despite Sub-Saharan Africa having a good rate of return on foreign investment – President Clinton last year indicated it was around 30% - the region has been unable to attract much in the way of foreign direct investment in recent years. This is despite a significant shift in economic policy across the continent. Much of the inward investment that has occurred has been location-specific: into oil in Angola and Equatorial Guinea; gold in Tanzania; and fishing in Namibia. Africa has been bypassed on the whole for footloose investment, such as into manufacturing or services. There are a few counter-examples to this broad statement: Namibia has attracted some motor component investment; Mauritius has built up a textile industry and now is moving towards offshore financial services and higher value-added electronics.

STEPS AFRICA CAN TAKE TO BOOST INWARD INVESTMENT

There are at least eight steps that would help boost inward investment.

1. An acceptance that Africa is facing a challenge for the globe's scarce savings pool. In Africa, the ratio between successful and unsuccessful investments is unfavourable compared with other regions. Further, fairly secure investments in developed world equities or bonds have on a risk-adjusted basis, delivered good returns in recent years.

2. Africans must invest in Africa themselves. The old joke that the capital of Nigeria is Zurich is too painful to ignore. Foreigners will follow if Africans themselves are comfortable in investing in concrete projects at home. Estimates suggest that there is up to $100 billion in flight capital out of Africa.

3. A stable and predictable policy and macro-economic environment. This is crucial. It takes years to build up a reputation; but just one high-profile misjudgment can destroy it for years. BHP in Zimbabwe has walked away from an investment of over US$250m, not only because of poor commodity prices and unfavourable geology, but also because of problems with regard to work permits and others.

4. Growth-oriented policies. Firms will invest more readily when the local market is large – and grown. Fighting for a slice of a shrinking pie is not appetizing. In line with this, efforts to create meaningful regional integration must be applauded (Southern African Development Community and East African Cooperation; both are attempting to create

common markets).

5. Vigorous and fair privatisation programs. Although methods of tilting the balance in favour of locals can be implemented (for example, the allocation of Sucoma shares in Malawi favoured the smaller local investors), a politically inspired bias to a particular company, individual or favoured groups is less acceptable. A vigorous program is essential. Although Zambia gained kudos for selling off four-fifths of its state-owned companies (the state had controlled 80% or more of the economy) delay over the main asset, ZCCM was costly. It was costly not only in reputation, but also money. An asset that could have fetched $2bn a couple of years earlier was sold off for around a tenth of that eventually.

6. A focus on a well educated labour force and a well-developed infrastructure. Recent findings suggest that a focus on tertiary education is perhaps inappropriate: Africa is exporting tens of thousands of its graduates per year. Nonetheless, basic literacy, numeracy and other skills are prerequisites for working in a modern firm. Infrastructure is also vital: decayed roads, poor telecommunications links and unreliable electricity supplies can turn a profitable venture into a very risky one. So far this year, Luanda, for example, had had power for only a total of a couple of months – yet gas is flared from wells.

7. Deregulation and the creation of investment promotion agencies. Such agencies must be able to take decisions: a one-stop shop must not turn into a one-more stop shop. Deregulation is also important. Proscribed sectors, and ministerial discretion, open the way to bribery and uncertainty. Policies must also be consistent: although South Africa welcomes inward investment, and is proud of BMW's position as the country's most important manufacturing exporter, the firm's local subsidiary cannot easily obtain a work permit for its MD.

8. Rooting out government corruption is important. A level playing field is important: this makes it easier to plan investment, and be sure that profits will be made. In an East African country, a South African firm found that the rules governing the non-payment of duties before goods left a bonded warehouse was altered to payment upon entry into the country. Further, the levels were raised. This was just because some influential politicians had stakes in a competitor firm.

There may be other reasons why Africa has not been able to attract inward investment – including racism on the part of westerners. But there is an interesting point: success will force such people to swallow their prejudice – as westerners had to do as the east rose. A final point with regard to the above discussion. It is crucial to do most, if not all, of these things if African countries wish to attract substantially more inward investment. A mere 3% of the flows to developing countries – and 1% of global flows – is not good enough.

To conclude this economic discussion: African countries are starting to do many things right – after the lost decades post independence. Impatience is understandable. But more work is required – and a good track record needs to be built up – before the rewards in better inward investment occur. FDI is important as a component for the prize: lifting the standard of living of most Africans, including the two-fifths of those living in Sub-Saharan Africa who live on less than $1 per day.

CHAPTER 18

ROUNDTABLE 2: BROKERAGE AND INVESTMENT BANKING

DISCUSSION AND SUMMARY

QUESTION:

I have a question for my colleague from Abidjan. I particularly want to find out how they are dealing with the issue of investor education, because all over the third world in general and in Africa in particular, we need to demystify the Stock Exchange. We need to get the ordinary person in all the eight countries to participate in the stock market.

ANSWER:

As I said, this is one of the most difficult tasks we have. In fact we have been tackling the problem through privatisation because people are not interested in the Stock Exchange itself or in stocks. They are interested in companies they know and have been dealing with since they were born. For instance, every body knows of the Sonatel in Senegal and similarly well known companies in other countries. Therefore, it is important that when there is a privatisation, there is a lot of promotion, a lot of television education, a lot of press coverage of the company, and promotion of the advantages of holding stocks. And I can tell you that the last time I attended a General Meeting of Sonatel, there were some people who did not know how to read or write, but they asked questions about their money and I think that is an indication that people are understanding what they are doing and that they are interested in holding stocks and investing in the development of their own countries. My response in summary is that I think privatisation is probably the best vehicle.

QUESTION:

This is for Mr. Fal. One of the things that was not mentioned was what happens if you deal with a broker in another country and that regulator does not settle disputes to your satisfaction. Is there a regional body that you can turn to?

ANSWER:

In fact we do not have several securities commissions. We have one regional securities commission, which is composed of a representative of the regional central bank, a representative of each Ministry of Finance, a representative of the courts and also of the chartered accountants.

CONTRIBUTION:

I would also like to mention specifically that the Harmonised Business Law Code of UMOA has been a real catalyst including managing and providing a dispute resolution mechanism for the bourse in Abidjan.

QUESTION:

This is for our colleague from Ghana. You mentioned that there may have been a disconnect in terms of the privatisation and the expansion of the Ghana Stock Exchange. I think one of the major fears that African countries have had in the context of privatisation is this problem of ownership. Now could it be that fundamentally maybe the privatisation process did not deal adequately with the issues of ownership? We at the ECA tried to do a paper, which will be coming out. This paper is on local participation in privatisation of public assets; and interestingly enough we looked around to see how privatisation was progressing within the context of capital markets. One of the examples we found very interesting is from Zambia, where they created a Trust Fund to hold partially certain proportions of the privatised assets so that the local indigenous people later on, assuming that they do have resources, can then buy these holdings. We thought that, that was very interesting and in fact this publication which we will be producing does compare with various examples that have been done in Uganda, Kenya and so on. So I am wondering whether the issue was exactly one of ownership of assets; that maybe the Government was concerned that even though they were willing to privatize, the whole issue of ownership of these assets prevented them from making them more open.

ANSWER:

I think Mr. Alipui in the morning did mention the possibility of the Forum having an observer status either at the OAU or ECA meetings. That was what I thought we should promote. On the issue of ownership, the companies did get privatised into private hands. So I was really talking about the vehicle of privatisation; why was the stock market not used more effectively in doing that?

Another question that I wanted to address was the original question that was given to Gabriel, which was the issue of education and stock ownership. I think in the USA at this point maybe 90% of the population is engaged in the stock market, but in reality there may be about 20 or 25 % of individuals who actually own shares. This means that they have developed the asset management business over several years. That is something that we are being slow at doing; i.e., promoting asset management, pension fund management, so that the benefits of that comes to people. So it is a critical thing we need to do as we push the capacity of the country to understand how to manage pension and other investment funds.

QUESTION:

This question is to all the stockbrokers in general so anyone can address it. It is very saddening to actually discover that with all the boost that is being given the stock market, very little financing is really raised through the stock market. And this goes to what Professor Senbet has said before. It is becoming the trend that most of the activities are in the secondary market rather than in the primary market. Now one of the important things is what kind of costs we incur if we go into the secondary market. So could you please address the issue of transaction costs and what your experiences have been in your various countries.

ANSWER:

I think the issue of transaction costs was addressed by the President of the Nigerian Stock Exchange saying that the various taxes should either be lowered or done away with. It is a chicken and egg situation. If liquidity improves, then transaction costs go down; but if transaction costs are high, then liquidity is not that good. So which comes first? In South

Africa, transaction costs have gone down with the increase in liquidity with the introduction of electronic trading. That may be what is so good with the regional stock exchange in Abidjan.

If I may I would like to say one word on the privatisation and ownership. I mentioned SUCOMA, which is the sugar corporation of Malawi. And there, there was not the method which is being used in Zambia and which is going to be used in South Africa with the privatisation Trust Fund for the indigenous or disadvantaged people. But in the allocation of shares, there was a bias towards those who had applied for a smaller number of shares which automatically meant that there was a bias towards the indigeneous people who had subscribed. And that was open, transparent and fairly successful.

CONTRIBUTION:

I have to say that in our region one of the major criticisms that the former Bourse of Abidjan had to suffer was the question of high transaction costs. Therefore, when we put together the Regional Stock Exchange, one of the main issues and objectives was to be able to have the lowest possible transaction costs. And basically I have to say that despite the fact that the regional organisation, the satelite system, etc. are the costs, of course, we managed to have costs which are probably comparable to other exchanges like the exchange in Tunisia, or the exchange of Mauritius.

CONTRIBUTION:

I think in Ghana the authorities have done very well. We have had no capital gains tax on transactions on the Stock market since its initiation. And if you consider that in some years we have had returns of 80%, 70%, that is really a windfall for most people. And the dividend withholding tax is really just 10% and that is not outrageous. The commissions for any size transaction for anybody coming into the country is 1%. So really maybe the problem is that we have not disseminated this information and we are all blanketed as an expensive place to transact. Transaction costs may come through the telephone calls that do not come through, the transfer of your funds that take a while and those will be the issues.

Now you mention that the primary market has not done well and that there is more secondary market activity. I would imagine that if you look at the value of trade, really, in the secondary market, it is not much on a daily basis and that is the illiquidity that we face. And so the primary market in and of itself has brought in more of the deals than secondary trades. Secondary trades are quite thin. But eventually like any stock market, it is the secondary trades that are going to make the market anyway, and that is where the trades will occur. So there may be some adjustments to be made, but at least here, government recognized the need to reduce these.

QUESTION:

My question is for Mr. Fal. I would like to learn about your experience on the bond market; you said you had a fairly successful bond market. One of the major problems we have in Nigeria at the moment is how to get the bond market very active. What would you say are the critical success factors of your bond market?

ANSWER:

I would say they are macro-economic factors. In other words, in our francophone region, most of the commercial banks are subsidiaries of French banks or foreign banks in general. Those banks are more involved in short-term trade finance, so it was a big issue for a company to raise long-term finance. The opening of the regional financial market has allowed them to have access to long-term borrowing. We have some companies that were waiting for this to happen. And the other thing is that before, they were only allowed to borrow long-term in foreign currency with foreign exchange risks, and today with a market that is for the time being, I would say deep enough, they are able to borrow long-term without having an exchange risk attached to their borrowings. Therefore, all these factors have favoured the bond market in our region.

QUESTION:

This question is for the three presenters. I just wanted to get a sense of what you have experienced in terms of foreign investors' participation in your different markets; if it has been good for your markets, if they have been a hindrance or have really made no impact and what you need to do to attract more foreign investment in your various markets?

ANSWER:

i) In South Africa, foreign participation in both the stock market and the bond market is very significant. It runs into the tune of a billion rands or more a week in inflows. And that is for the bond market alone; so it is very significant. Foreign participation has improved quite substantially for a number of reasons. With the political liberalization in South Africa has come increased focus into the South African market. It has also increased with the transparency of the South African system with the introduction of electronic trading and the bringing of South Africa into the IFC and other indices. Generally speaking, it has been a positive move, it tends to help with corporate governance and it has assisted in covering our current account deficit that we had had over the last while. However, portfolio inflows, as has been discussed earlier, just as easy as they can come in, they can go out; and we have had some exchange rate instability over the last couple of years which to a certain extent has been exacerbated by these flows. However, after saying that, it is policy mismatches that lead to the rapid outflows, so it is a rather painful attempt to get policy in the right direction. But generally speaking it has been good.

ii) At BRMV, we have just started so we do not have too many foreign investors. But what I can say is that they have been active in the field of stocks. I am talking of stocks of the largest companies. In other words they need a critical size of the company before they invest. And I would say that the critical size is much higher than our own bench-mark; and therefore, only a few companies can really attract foreign investors. But we think that they will help us learn our job, learn how to operate a market efficiently and, as I mentioned during my short presentation, it is really important because we need to upgrade our research and also our contacts.

iii) In Ghana I think we have, over the nine years, had experiences with really all the majors: Morgan Stanley, Saloman, NewAfrica. They have all sort of come through and I think what has been helpful has been the custody services where primarily Barclays Bank was the custodian and therefore it was quite easy for the book entries to be executed without running around and that gave them the confidence. But the hindrance is obviously the issue of liquidity, will I be able to get out when I want? Size is also a problem. The small cap size of the companies means that with a position of $200,000 or $500,000, you are hitting somewhere near 15% of the company; and that is a little too much for a company as you diversify your portfolio. We certainly, as brokers, could do a lot more than we are doing in research, which as Gabriel mentioned is key. We have not done that very well, calling road shows on a regular basis so that clients feel a connection. And I think really boosting up our technology so that if I have a Ghanaian in Boston he could potentially log in and look at his statement. That alone would lead to a certain confidence and intimacy and I think we need to get to that type of platform for that to occur. You then begin to get non-residents investing and I think we have a bit to do. But I think that the most sophisticated large investors in the big houses have found a way of coming in and have come in and stayed pretty long-term and are quite happy with the returns they have made. So the challenge will be to get more paper on the ground so that the options will be increased.

iv) One last point which I would like to underscore: South Africa is the only African country that is part of the emerging market indices and I think it benefits in that regard from capital flows from institutional managers. And so one of the advocacy areas to look at is to get more African exchanges being part of these emerging markets indices. Also a point that was emerging in terms of attracting capital from individuals is the potential role of unit trusts and mutual funds; and I think that point is a natural sequel to our next panel which will come on I believe after the break.

ROUNDTABLE SUMMARY

The roundtable discussion generally focused on several problem areas, including privatization, transaction costs, investor education, research and the role of foreign participation. All agreed that more needed to be done in terms of using the stock market as a medium for privatization, improving technology and market infrastructure as a means of lowering communication costs and stepping up the research output of brokerage firms. There is also a need to get more African stock exchanges into the emerging market indices in order to attract more attention from foreign portfolio managers.

CHAPTER 19

MUTUAL FUNDS – THE USA PERSPECTIVE

Cesar J. Gonzalez, Jr.
Investment Analyst, Calvet Group Limited, USA

HISTORY OF MUTUAL FUNDS IN USA

The first mutual fund started in 1924 and three different laws were enacted by the government in 1933, 1934 and 1940 to regulate the industry. For the next fifty years not much happened; and it was only in 1969 that the number of shareholders went from zero to ten million. If you look at the number of shareholders now, it is about seventy million; so it took another thirty years to gain sixty million individuals. The process of developing rules and regulations does not really give you more shareholders, it takes a while for people to become comfortable. It is not an overnight success for the USA; and even now I think there is still plenty of room for new events to help facilitate and to encourage investors, not only local, but also foreigners to invest in the USA.

Mutual fund companies pool money from different shareholders and invest it in a diversified portfolio of securities. There are four different basic funds, such as stock, bond and hybrid, which are considered long-term investments, and the money-market funds, which are considered short-term investments. There were about US$ 5.5 trillion in investments in the USA alone at the end of 1998 and 54% of that was accounted for by stocks and 25% was accounted for by money market funds.

There are about 7,300 different mutual funds in the USA; and in the last ten years it has grown by 252%. That is because of more demands for new products from the baby boomers of the 1940s and 1950s who have started saving. The young generation are starting to understand that saving for their retirement should start at an early age. So there is a lot of flows right now. A third of the mutual fund industry assets comes from retirement funds. And many are not just using private investment advisors to manage separate accounts for them, but they are also using mutual funds as a source of investment. A lot of mutual fund complexes now are starting to introduce an 'I' share, which stands for Institutional shares, to attract pension funds and retirement money. There are thirty-three different types of mutual funds by objectives, so everyone has a fund that they can use.

There is so much diversity there that the market is really big. There are about 419 different mutual fund complexes in the USA now. From 1979 to 1998 it went from 119 different complexes to 419, that is about a 352% increase in just the last twenty years. There is a lot of consolidation appearing in the USA right now, and I think that will be a good way for African countries to learn and understand how to consolidate.

ATTRACTING INVESTORS

Now how can you get people to put their money into mutual funds? The key factors are: information availability, regulations and infrastructure. If different institutions and government regulatory bodies can work together and participate, and everyone feels that there is safety and protection, then that will trigger a confidence level from all the different sectors of society. With that, money will start coming in, and corporations and entities can start selling their mutual funds.

Let me mention some of the trends that are happening now. A lot of major warehouses are announcing on-line training programmes competing with discount brokers. Web-site development is very key in serving not just domestic potential clients, but also international clients. And there is electronic commerce, which is becoming more of a necessity, and also sophisticated technology, timeliness of delivery of information.

An additional source of information is rating systems. People are watching you and you have to be very careful to understand how they are presenting you. A mutual fund operator should always review information being published about his fund to ensure accuracy.

Lastly, what is the foundation of a successful system of financial intermediary? It is trust. We talked about confidence; earlier we talked about fiduciary duties. Well you need to have fiduciary duties, you need to care for someone's assets as if they were yours. Because they trusted you, they entrusted you with the special responsibility of taking care of their hard-earned money. Again, it is no accident that the word 'trust' is used to describe many accounts of this nature. Regulatory structures and rules can help develop a sense of trust. Actions of participants are what really makes it work. So if you have the rules there, but no one is participating and no one is monitoring, they do not work. An important idea is to always talk about risk and not reward to your investors. You need to tell them what you cannot do, what you will not do, what you can do and what you will do. Disclosure is the first step to developing a mutual fund. Thank you.

CHAPTER 20

UNIT TRUSTS AND MUTUAL FUNDS – HOME FINANCE COMPANY EXPERIENCE IN GHANA

Mrs. Stephanie Baeta -Ansah
Managing Director,
Home Finance Company Limited, Accra, Ghana

INTRODUCTION

The development of our fledgling capital markets in Africa can be enhanced through collective investment investment schemes, already known to us through the "Susu" systems that operate on the continent. Mutual Funds, particularly, could play the role of market makers and small savers could safely have their investments channeled to the capital market through well-regulated schemes. The schemes could be cost-effective and make our capital markets less volatile. They could also accelerate capital formation for development. The continent is notorious for low incomes and low savings rates. Collective investment schemes could be the solution to these endemic economic problems.

In Ghana, the concepts of Unit Trusts and Mutual Funds were first introduced to this country by the 1963 Companies Code (Act 179), which was a little ahead of its time. Professor Gower who drafted the Companies Code prepared an excellent law, which was ahead of the British Companies Act at the time and was, for at least twenty years in Ghana, a modern and progressive law. Thus, those two types of collective investment schemes were first introduced and available for use by investment managers in Ghana thirty-six (36) years ago. There are however, other types of collective investment schemes which under the English Financial Services Act 1986 are widely defined to include: -

> "any arrangement with respect to property of any description, including money, the purpose or effect of which is to enable persons taking part in the arrangements (whether by becoming owners of the property or any part of it or otherwise) to participate in or receive profits or income arising from, the acquisition, holding, management or disposal of the property or sums paid, out of such profits or income."

Under Ghana Law, all schemes must meet with the approval of the Securities Regulatory Commission and, in some cases, also the approval of the Registrar of Companies.

UNIT TRUST

In 1991, HFC became the first institution to take advantage of Act 179 to set up in Ghana, a Unit Trust principally serving as a vehicle to assist prospective borrowers save up money for the 20% down payment required for mortgage loans. The objectives for the HFC Unit Trust were, however, widely defined to be a collective investment scheme for corporate, groups and individual clients. Indeed, many of the investors in the HFC Unit Trust currently, are not potential mortgage customers, but investors in a well-managed and diversified portfolio.

Approval was obtained from the government for the establishment of the HFC Unit Trust in 1991 through the publication of a Legislative Instrument, which set out clear areas of approved investments. This was in addition to the Trust Deed.

The HFC Unit Trust Fund has rapidly grown from nothing to its present level of ¢22 billion. In all, we have mobilized about ¢40 billion through the HFC Unit Trust, in a period of 7½ years. Some of the funds have gone into financing mortgages for the purchase of homes. Basically, it has been a money market fund and the yield has been attractive, always at least 1% above the average treasury bill rates. Although the investment portfolio of the Fund allows for property investment, HFC has established the HFC-REIT specifically for property investment, for various technical reasons. We intend at the appropriate time to establish a specialised equity fund.

In managing the HFC Unit Trust, we have set for ourselves the highest standards of integrity, expertise, transparency and, of course, best business practices. Though not required by law, we have kept investors informed of all developments by publishing annual reports and hosting annual general meetings, obtaining unitholders' approval whenever necessary. For the first 3 – 4 years, we were charging only 1% management fees, meaning that HFC supported the Unit Trust in its early years, passing on very little by way of costs to this new investment vehicle. Now that we have done the pioneering work, some speak as if HFC had been favoured, but this is not so. It is difficult and expensive to be a pioneer, but there are also rewards for this unique position. We expect that other funds will be licensed and regulated by the Securities Regulatory Commission (SRC). This is good for the industry. However, every effort must be made to ensure that fraudsters and unqualified people are kept out of the business.

In the U.K where the Unit Trust concept was first developed, it took over 200 years before the State intervened to regulate the business under the Financial Services Act (FSA). Earlier on, those who undertook this business formed self-regulatory bodies to ensure high standards of integrity and professional expertise. (Incidentally the regulators under the FSA still work closely with the Associations of Collective Investment Scheme Operators). The only legal constraints in those days were the various statutes against fraud. Our experiences in Ghana make it absolutely necessary to regulate the industry and firmly deal with those who contravene the law.

The loss of confidence in the financial sector, which resulted from the illegal operations of pyramid institutions, is still very fresh in the minds of investors. Unqualified persons capitalised on human greed, and were able to take in deposits of over ¢40 billion from unsuspecting investors.

Today, it is not clear how many investors have recovered their monies. The perpetrators seem to have vanished into thin air. We cannot allow such a situation to crop up again. It is our intention to establish an association so that professional integrity can become the order of the day in the local collective investment industry.

In many developing countries, for example, Trinidad and Tobago as well as India, a Unit Trust has been licensed to operate as a national investment fund. The Unit Trust of India is the major source of mobilization of wholesale funds for the development of that country. Corporate bodies borrow long-term funds from the fund, which is comprised of the savings of individuals as well as corporate bodies. We are hopeful that the HFC Unit Trust, being the first and a well-managed unit trust in Ghana, will become a truly national fund to mobilize resources for the housing sector in this country. Perhaps, other funds can harness resources for other developmental purposes to hasten the realisation of our dear country's Vision 2020 goals.

MUTUAL FUNDS

Mutual Funds, basically, are companies governed by the Companies Code and the Securities Industry Law. The first one to be established in Ghana is the E-Pack Scheme operated by Databank Financial Services Group. The 'Open-ended' mutual fund is an American concept recognised under the English Financial Services Act 1986, but should be better described in Ghana as a Unit Trust. Known definitions of 'authorized' and 'stated capital' are difficult to apply to a company that is a mutual fund and 'open-ended'. These issues are being considered and a Legislative Instrument is expected to specifically regulate the operation of mutual funds and unit trusts in Ghana. There will also be the need to upgrade Ghana's Companies Code 1963 to take account of all modern company law practices, including, inter alia, the acquisition and sale of companies, etc.

The existing law on mutual funds under the Companies Code is not exhaustive and many procedural and regulatory steps need to be either instituted or clarified. As companies, mutual funds have to be registered with the Registrar of Companies. This legal status is separate and different from that of the management company. The mutual fund also requires a license from the Securities Regulatory Commission. Procedural matters like the order to be followed for the acquisition of a license to operate must be clearly established. Should promoters go through the expense of obtaining a Certificate of Incorporation and Certificate to Commence Business before the license will be issued from Securities Regulatory Commission or should they be given the license before they proceed to be incorporated, etc.? What is the minimum stated capital required for mutual Funds? In the case of an 'open-ended' Mutual Fund, how does one determine the stated capital for purposes such as bank lending?

The advent of mutual funds and their investment in listed equities, requires a deepening of the stock market. The Ghana Stock Exchange and financial services companies will be required to work hard to bring in additional companies to be listed. The development of the mutual funds will improve liquidity to make our stock market an attractive place for foreign investment.

The increased liquidity will also enable individual investors in mutual funds to easily disinvest/sell their shares on the market. The regulatory authorities must put in place a thorough and effective system for mutual funds to report on their portfolio status to serve as a guide for trading of mutual fund shares on the stock market. This includes the determination and publication of the Net Asset Values of the Funds. Increased market activity in shares and bonds, would be beneficial, especially where mutual funds are able to borrow from the banks to acquire shares and bonds, and thus take advantage of market conditions. Market practitioners, of course, have to be professional in such endeavours to avoid exposing investor funds to undue risk or loss.

To encourage the growth of our stock market and to promote mutual funds, the rules on investment in unlisted equities must also be clearly stated. Unlisted equities traded on an OTC basis must be brought within the supervision of the stock exchange in one form or another to ensure transparent and fair pricing.

By reason of its nature, a mutual fund would not normally have a track record before it applies for a listing and therefore starts as a new venture. As such, the potential growth and risks involved in the management of the fund's investments are dependent on the qualification and experience of its manager. Though a corporate body, the minimum qualification required for the management company's personnel needs to be determined. All stakeholders in the capital market must ensure that standards required are maintained to enable our stock market acquire and retain investor confidence.

GENERAL OBSERVATIONS:

There is an urgent need to undertake commercial law review in Ghana. Included in this and as a matter of great priority is the need for us to have a Trust Law in the country. What we have now is based on old English statutes, which are difficult to find, and which are seriously out-dated. The Unit Trust system relies greatly on modern and clearly defined Trust Law, which is not available in the system now. This is the time for the Law Review Committee to quickly come up with a draft Trust Law for Ghana.

In ten minutes, it is impossible to cover more ground than has been done already. It is hoped that the round-table on Unit Trusts and Mutual Funds will come up with good recommendations which can be seriously considered and maybe adopted by the Securities Regulatory Commission (SRC). We must learn from the experiences of other countries, particularly the English Law countries and the USA regulatory framework. Their case law should assist us to formulate a sound basis for regulating collective investment schemes in this country.

In any event, there is the need for substantial public education on authorized collective investment schemes and the management of unit trusts and mutual funds in particular. The SRC should spearhead this educational process and also ensure that the management of unit trusts and mutual funds is entrusted only to professionals of good standing. The Securities Regulatory Commission must also encourage the development of trade associations or self-regulatory bodies which can work together with them to commission and develop a sound system in Ghana.

CHAPTER 21

UNIT TRUSTS – THE ZIMBABWE EXPERIENCE

Mr. Remo Pollastri
Executive Director, Dataworld Unit Trusts, Zimbabwe

INTRODUCTION

If you look at the unit trust industry in Africa, a lot of lessons can be learnt from the demise of the Zimbabwean financial market over the last couple of years. Zimbabwe is one of the more maturing markets in Africa. However it has fallen well behind other African states in recent times. Zimbabwe has been in an economic crisis now for almost two years and it was very interesting listening to Professor Larrain at lunch time. We basically talked about the seven factors which are identified as common in an economic crisis. At least six of those were in existence just prior to the November market knock-down in Zimbabwe.

The country has basically staggered through two years of economic turmoil and is still going through that now. From a financial market perspective this has had a very severe impact. The Zimbabwean stock exchange industrial index which is the main index there collapsed from a peak of just over 12,000 points in August 1997 to less than 6,000 in September 1998. The Zimbabwean dollar has fallen from 12 to the US dollar in November 1997 to 39 at the current date. Inflation and interest rates have rocketed to 63% and 44% respectively and you can see from that that despite very high interest rates, real interest rates have fallen from a peak of 17% to an average of 6%.

Following a number of years in which the Zimbabwe stock exchange was one of the top performing markets in the world, recent poor performance has been abysmal. Despite that, this year the market has recovered 60% from a very low level. The market is still now only about 25% of its value of two years ago. Overall, the environment has not been conducive to investment from either foreigners or the extremely poverty-stricken locals. Businesses including banks have come under increasing financial pressure resulting in a proliferation of bankruptcies.

If you look at the history of unit trusts in Zimbabwe, the first unit trust was established in 1989. Currently there are 8 institutions that operate unit trusts there, but there are over 30 individual unit trusts. The unit trusts are regulated by the Collective Investment Schemes Act of 1998 and there is a relatively equal number of money market-low risk equity funds or general funds, high risk equity funds or specialist funds and property unit trusts. There were a number of property unit trusts, in the early years, but those have fallen away due to liquidity problems and difficulty in getting rid of property in difficult times. Total funds in unit trust management in Zimbabwe are between 25 and 30 million US dollars. That is tiny, especially when you consider that it was significantly higher than that a few years ago. More than 80% of these funds are in money market linked funds. Equity unit trust investment constitutes less than 3% of the overall market capitalisation.

CONSTRAINTS

Going through the problems that have affected the development of the unit trust industry in Zimbabwe, I have broken these up into four constraints.

The first constraint is economic. Economic instability in the last couple of years has resulted in a destabilized financial market and this has had a major effect on the industry. Inflation has impacted on real returns. Negative real interest rates have meant negative real money market returns and some people have looked for other investments, especially foreign investments. The harsh economic environment has led to the collapse of the banks and other businesses. The outcome has been growing loss of confidence in the financial sector. Foreign investors have significantly reduced exposure on the Zimbawean stock market thereby causing the price shift process and declining unit trust valuations.

The second constraint is investor constraint. The local population is generally very uneducated on investments and savings. Like Ghana, there is perceived similarity between unit trusts and pyramid schemes. And the collapse of a number of these pyramid schemes in the early 1990's continues to have a very serious negative impact on investment products. Savings levels have fallen due to diminishing disposable incomes. The large rural population in Zimbabwe is very unsophisticated and there are problems with distribution of the products.

There are also some statutory constraints. The first one has been the Collective Investment Schemes Act only coming into being in 1998, and so for a number of years there was no specific legislation. There are still numerous problems with the legislation. Statute also limits unit trust investments to local residents. This limits the demand for unit trusts.

Industry constraints are the last ones I would like to speak about. Historically the equity market has been extremely volatile due to drugs, foreign investment and economic policies. The equity and money markets have a poor image with the government, the press and certain local groups. On the whole investment schemes get slanted, rather than promoted. The Zimbabwe Stock Exchange has given little support to the development of the unit trust industry and that is why it is such a small portion of the overall industry. Skills within the industry itself are highly inadequate: corruption and fraud have also tarnished the financial sector as a whole and this has had a negative impact on the industry. There are also no official measures of performance to compare various funds within the industry.

We are looking at the future development of the mutual fund industry in Zimbabwe and Africa. Mutual funds have become a principal vehicle of savings in other parts of the world as we have already seen. There is no reason why this should not be the case in Africa. It is widely accepted that education and understanding are one of the principal reasons for success elsewhere in the world. I would like to say that I think the most vital thing for the success of unit trusts is education. And it is not only education of investors, it starts right at the top. It is actually education within the industry itself. From there it is education going through to the relevant authorities; for example, government, and it is vital that that comes through. And ultimately it is to the potential investor himself.

Other factors which I am just going to summarize are cross-border co-operation and promotion, effective implementation of appropriate legislation, (we can learn from each other in that regard) and reduction of volatility in the financial market through a diversified portfolio. By that I mean, for instance, in Zimbabwe if you are able to invest in places like South Africa it will make it a lot easier to get more even returns. Establishment of independent monitoring agencies to compare performance and public comparative returns. We also need to actively canvass for an opening up of cross-border unit trust investment.

Finally I would like to add one other thing which is the fundamental of all investments, that is sound economic fundamentals and consistency in policy making.

CHAPTER 22

UNIT TRUSTS & MUTUAL FUNDS – DISCUSSION AND SUMMARY

DISCUSSION

QUESTION

How have you succeeded in attracting investments from the informal sector in Ghana?

ANSWER

I was personally involved in talking to the market women including pepper and tomato sellers, educating them on the need to acquire real property in their own names or jointly with their husbands. They were advised that to do this they could channel their savings through unit trusts so that their money grew to a point where they could get mortgage financing for their homes, etc. And this worked.

QUESTION

What problems did you encounter in educating these market women?

ANSWER

Initially they were uncomfortable about the prospect of acquiring property jointly with their husbands. They wanted to know what would happen if their husbands married other women for instance. We advised them to formalize and register their marriages to give them some amount of security. They were also assured that properties they acquired through mortgage funding would be in the joint names of both parties and not in the sole names of the men. This encouraged them to participate in the unit trust scheme. Incidentally, a lot of savings have been mobilized through the informal sector this way.

SUMMARY

The loss of confidence in the financial sector, which resulted from the illegal operations of pyramid institutions, has not augured well for the unit trust industry in a lot of African countries. Other problems that have affected the development of the unit trust industry in Africa are economic, investor constraint (lack of education and low incomes), statutory and industry constraints.

More investors will be attracted to put their money into mutual funds when there is readily available information and clear and adequate regulations in place. The development of mutual funds will improve liquidity of our stock markets and will make them attractive to foreign investors.

Regulatory structures and rules can help develop a sense of trust in the market. An association of industry practitioners must be formed to promote professional integrity within the collective investment scheme industry. The advent of mutual funds, and their investment in listed equities, requires a deepening of the stock market. The regulatory authorities must put in place a thorough and effective system for mutual funds to report on their portfolio status to serve as a guide for trading of mutual fund shares on the stock market. All stakeholders in the capital market must ensure that standards required are maintained to enable our stock market to acquire and retain investor confidence.

There is the need for substantial public education on authorized collective investment schemes and the management of unit trusts and mutual funds in particular. The development of trade associations or self-regulatory bodies must be encouraged to help develop a sound financial system. Effective legislation relating to commercial and company practices, securities and trust laws must be put in place and implemented to enhance investor confidence.

CHAPTER 23

CAPITAL MARKETS RESEARCH IN AFRICA: ISSUES AND THE WAY FORWARD

Diery Seck, Ph.D.
Secretariat for Institutional Support
For Economic Research in Africa
c/o IDRC Dakar, Senegal

INTRODUCTION

In the wake of two decades of African countries' experience with Structural Adjustment Programs (SAPs), there is a growing consensus that stabilization and liberalization alone have been unable to stimulate economic growth through increased levels of investment or significant supply response to market-friendlier policies. One of the revelations of past reform programs is that improving investment, either direct or portfolio, cannot be considered an automatic consequence of adequate macroeconomic and sectoral policies. This, combined with the failure by African countries to mobilize financial domestic resources through direct government control of banking and financial markets, has given new emphasis to the role of capital markets in the promotion of investment and economic growth on the continent.

Although there is hardly any meaningful opposition to market forces playing a more prominent role in African economies or to the creation and expansion of capital markets, several factors may mitigate the potential benefits that can be derived from the change in policies that this new liberalism would entail. These range from severe comparative under-development of African countries relative to other regions of the world, lack of familiarity with or reluctant acceptance of, market liberalism by African policy-makers, limited monetization of the economies, social and political unrest, weak infrastructure, etc. However, it can equally be argued that there are considerable differences between the specific situations of African countries, and that some of them offer excellent investment prospects. One could also claim that some of the very weaknesses that afflict Africa constitute economic opportunities whose hefty returns wait to be reaped through judicious investment decisions.

One could assert, without risk of contradiction, that proper understanding and promotion of the African investment environment would be considerably enhanced by the availability of a massive and credible research base that will guide and inform market participants and policy-makers. The purpose of the present paper is to identify key issues that could be part of a research agenda on the issue of capital market development in Africa. The common underlying thread is that properly functioning capital markets have a number of desirable features whose degree of realisation play a major role in their success. In this regard, the rationale leading to the formulation of the research questions listed below is, admittedly, a deliberate blend between the modern theory of finance and the African experience with finance and development.

A RESEARCH AGENDA FOR AFRICAN CAPITAL MARKETS

A properly formulated research agenda on African capital markets must identify clearly the main goal to be attained through this implementation. It also needs to differentiate between the various stakeholders who have a specific role to play in an well-orchestrated capital market. The main objective that is pursued in the formulation of the research issues listed below is the expansion – in terms of volume – and improvement – defined as allocation and operational efficiency – of capital markets in Africa. While some issues address normative issues and others have a descriptive focus, they collectively seek to capture the various concerns that permeate the market and to pinpoint research questions whose resolution will contribute to the development of African capital markets. In that regard, public concern issues are organized around three main viewpoints i.e., the individual investor, the institutional investor and the African firms. Public concern issues address the viewpoints of capital market organizers and regulators on the one hand and the viewpoint of central governments, on the other hand. The discussion will focus equally on primary and secondary markets.

A. Private Concern Issues

1. <u>The viewpoint of the individual investor</u>

<u>Rationale:</u> It is generally agreed that individual investors' active participation in capital markets is a key ingredient in their success because it increases aggregate savings and promotes wide ownership of securities issued by companies. It is also recognized that small investors need to ensure that the securities that they are offered present reasonable prospects of adequate return for their level of risk. Furthermore, small investors need some guarantee that the integrity of the expected future cash flows accruing to them is protected from the adverse behaviour of other market participants who may be tempted to take advantage of the high cost for individual investors to monitor their actions or seek redress.

<u>Research Issues:</u>

1. Asset return performance and market characteristics

   (Risk-return relationship, potential for portfolio diversification, thinness, liquidity, etc.)

2. Fairness in treatment of small investors

   (Existence and enforcement of insider trading rules, agency problems, disclosure rules, truth in financial advertising, etc.)

3. Financial contracting and protection of creditors

   (Mechanism and extent of investor protection under bankruptcy, procedures of debt call by issuer, preemption of moral hazard, etc.)

<u>2. The viewpoint of the institutional investor</u>

<u>Rationale:</u> Institutional investors' capacity to raise and invest large sums of money and to seize the best investment opportunities available is a highly desirable trait for society. However, this capacity may be considerably curtailed by regulations that tend to hinder the nature or amount of assets that they can hold, or by repressive laws that put restrictions on their mobility or tax them heavily. Considering that arbitrage trading is often an integral part of institutional

investors' investment behaviour, the quality and timeliness of the information that they need play important roles in the extent of their exposure in capital markets.

Research Issues:

i Asset ownership

(Ownership limits, citizenship/residency rules, etc.)

ii Freedom of movement and taxation of financial flows

iii Reliability and timeliness of market information/data

3. The viewpoint of African firms

Rationale: The often-decried low level of investment in Africa can be remedied through increased funding of companies' profitable investment ventures. The improvement in the functioning of African primary markets that is needed to enhance private investment requires a number of conditions, among which is easy and inexpensive access by firms to the capital market and listing requirements that do not constitute a burden on them. By the same token, potential investors need to be assured that they will have a say in the way firms are managed and that their interests will be safeguarded.

Research Issues:

i Access to market and cost of issuance of securities

(Criteria for company listing, channels for security issuance, cost of issues)

ii Rules and cost of financial disclosure

(Prospectus: content completeness and disclosure of trade secrets, financial reporting and auditing, rules of diligence in information/news disclosure)

iii Corporate governance

(Market for corporate control, management incentive schemes, social liabilities of privatized firms, etc.)

B Public Concern Issues

4. The viewpoint of capital market organizers and regulators

Rationale: The role of market organizers and regulators is to promote a healthy and vibrant market. This requires identification of the appropriate mechanics through which market operations are accomplished by competent personnel and that unfair practices are eliminated.

Research Issues:

i Microstructure

(Market clearing mechanism, single vs dual listing, settlement mechanism and deadlines, use of circuit breakers)

ii Competition and efficiency

(Fixation of bid-ask spreads, price discovery rules, number and quality of participants, conflicts of interest)

iii Determinants of capital market growth

5. The viewpoint of African governments

Rationale: While African governments may view development of capital markets as a convenient means to increase private investment and finance fiscal deficits domestically in a less inflationary manner, they need to harmonize capital market policies with intervention in other policy areas. These areas include the need to mitigate the adverse impact of highly volatile capital flows, the effort to increase revenues through taxation of capital market transactions and the need to compete on the debt instrument market with private issuers. African governments also need to include capital markets in their concerted efforts towards regional integration.

Research Issues:

i Capital flows and volatility

(Regulation and taxation of flows, foreign exchange regime and policy)

ii Fiscal policy

(Taxation of transactions, deficit financing, rules of government debt placement)

iii Regional integration and inter-listing

(Harmonization of market rules, inter-market settlement procedures, taxation, etc.)

CHAPTER 24

AFRICAN CAPITAL MARKETS IN THE GLOBAL ECONOMY: EVIDENCE FROM THE RESEARCH PORTFOLIO OF THE AFRICAN ECONOMIC RESEARCH CONSORTIUM (AERC)[1]

Chidozie Emenuga
Senior Macroeconomist
African Development Bank

INTRODUCTION

There are three distinct ways to characterize capital market development. These are the traditional characteristics, the institutional characteristics and the asset pricing characteristics (Demirguc-Kunt and Levine, 1993). Traditional characteristics measure the basic growth indices, such as, number of listed companies, liquidity and market capitalization. Institutional characteristics encompass the regulatory and legal rules in the market, as well as its information disclosure and transparency requirements, market barriers and trading costs. Asset pricing characteristics relate to the efficiency of a market in pricing risk.

In this paper, we examine the findings from the AERC research portfolio along the lines of these three characterisations. A cursory survey of the AERC research portfolio shows that the organisation has sponsored research in the wide area of financial and capital markets development, all of which cannot be reviewed in this paper. In view of the subject of this conference, the focus of this paper is on the AERC research on the stock markets, without, however, implying that the term stock market is synonymous with capital market. The scope of the paper is on Sub-Saharan Africa and the research papers that formed the background documents are listed as Annex 1.

CHARACTERISTICS OF AFRICAN CAPITAL MARKETS

Traditional Characteristics

The stock markets in the Sub-Saharan Africa are characterised by small size and few quoted (listed) companies. The quoted companies are as low as six (6) in some of the stock exchanges. With the exception of South Africa and Nigeria, the rest of the markets have less than 100 quoted companies. In part, the dearth of quoted companies in the Sub-Saharan African stock markets is explained by their recent origin. The bourse in Zimbabwe that was established in 1946 is the oldest in the list (excluding South Africa). With the exception of the stock exchanges in Kenya (1954), Nigeria (1960) and Cote d'Ivoire (1976), the rest were established after 1988 and have been in operation for only about 10 years.

[1] The views expressed in this paper are those of the author and no responsibility for them should be attributed to the African Development Bank or the African Economic Research Consortium.

As it is with numerical size, so are the stock markets small in market capitalization. As at December 1997, their market values ranged from about US$200 million in Namibia to US$3,646 million in Nigeria and US$38 million in Zimbabwe. The average market capitalisation of a quoted company is less than $50 million. The South African market provides a clue of what is possible even in Africa with market capitalization of $280,526 million.

Liquidity: Stock market liquidity, by which is meant the ease to buy and sell shares, is an important index of economic performance. It has been demonstrated that the link between stock markets and economic growth has shown that the strongest positive link is through liquidity. Other factors remaining unchanged, economic growth is faster the more liquid is the stock market is (Levine and Zervos, 1996).

Liquidity is important for a few reasons. Generally investors are leery of illiquid markets because exit cannot be made at the desired time. The more liquid a stock market is, the more it commands investors' interest, since resale of shares is easily guaranteed. Further, quoted firms have more access to debt (debenture) and equity (new issues) in a liquid market. Also in an economy with a liquid stock market, shares become easily acceptable as collateral for bank lending and this boosts credits and investment.

This cherished quality of liquidity is lacking in African stock markets. The turnover ratio, a measure of the value of shares traded relative to total market capitalization, is very low in Africa. It is as low as 0.6% in Swaziland, 1.0% in Zambia, 1.1% in Ghana and 2.6% in Nigeria (JOM, 1997). The highest turnover ratio is the 12.1% in Namibia, followed by 9.0% in Botswana and 8.8% in Zimbabwe. The low volume of activities is unfortunately not necessarily a consequence of the young ages of many of the stock markets. In Nigeria where the stock market has been in operation for about four decades, the ratio is still less than 3 per cent. The poor liquidity of the stock markets in Africa has been identified as a factor that may explain the low broader economic impact of the stock markets (Jefferis, et al, 1997).

Institutional Characteristics

Regulatory Institutions: The purpose of regulating securities markets is to ensure fair play and transparency in market operations. In the developed securities markets, the operating concept is positive supervision, which ensures that every market participant is treated fairly and equally. It also seeks to develop regulatory institutions competent and robust in their scope of activities and yet not meddling unnecessarily in a manner that stultifies market activities.

The existence of effective regulatory agencies enhances the quality of regulation and supervision of the capital market and boosts the confidence of internal and external investors in the capital market. The Securities and Exchange Commission in Nigeria and Zambia and the Capital Markets Authority in Kenya are a few examples of effective regulatory institutions in Africa. The efficiency of these institutions is one of the major strengths of these markets and other African capital markets that have similar bodies (Emenuga, 1997).

Information Disclosure and Accounting Standards: The supply and disclosure of information and adequate accounting standards are necessary for stock market development. It is the flow of information that makes and unmakes capital markets. The available information on

African stock markets is mostly that required by law. The same applies to accounting principles. Companies are required to publish reports of their operations and in many cases the annual reports are the only published document on the quoted firms. In Botswana, Zimbabwe and South Africa however, brokers provide analytical reports on the quoted companies, apparently due to the participation of international brokers. Since quoted companies only try to comply with the required information disclosure and accounting rules, a larger role still awaits the regulatory institutions in setting the reporting standards for the quoted companies.

Globalisation of the Markets (Openness and Market Barriers): The process of developing domestic capital markets in Africa has, in part, entailed dismantling of existing barriers to foreign participation. In the opening up process, some countries have gone as far as revoking previous legislation that restricted the participation of foreign investors. A few examples of such measures are reviewed in the following sections.

In Ghana, the removal of market barriers started with the grant of exchange control permission by the Bank of Ghana for the following:

- free investment by non-residents through the stock exchange without prior approval of government;
- a maximum of 10% equity in a single quoted company for a non-resident portfolio investor, whether an individual or an institution;
- a maximum of 74% of foreign holding in a single quoted company; and
- free and full foreign exchange remittance of the initial capital, capital gains and other forms of earnings (subject to existing taxes).

The above guidelines and limitations do not apply to Ashanti Goldfields Corporation which has dual listing in Accra and London.

In 1995, the government of **Kenya** rolled out measures to open the Nairobi Stock Exchange to the outside world. The cardinal planks of the policy are:

- that foreign investors could purchase government securities;
- removal of all exchange controls on capital flows and repatriation of earnings; and
- reduction in tax rates and brokerage charges.

Foreign investors are permitted to hold cumulatively up to 40% of a company's equity, while individual foreign investors can hold a maximum of 5% of the issued capital of a firm.

By the Indigenization Decree of 1972 (amended and reinforced in 1977) the government of the Federal Republic of **Nigeria** restricted the scope of foreign investment and limited the interest of foreigners to a maximum of 40% equity holding in a listed security. The indigenization legislations were amended in 1989 to accommodate larger foreign presence in the capital market. By this amendment, the ceiling of 40% holding was retained only for Banking/Insurance, Petroleum prospecting and Mining industries.

On July 15, 1995, the Federal Government of Nigeria promulgated the Nigerian Investment Promotion Commission Decree (No. 16), whose thrust was to liberalize the investment climate in the country. The decree established the Nigerian Investment Promotion Commission, a body charged with the responsibility for promoting foreign and domestic investment in the country. It also set the following guidelines for foreign investment:

- a repeal of the previous indigenization legislations which limited foreign participation in the capital market;
- allowed unrestricted foreign interest in Nigerian quoted companies;
- accorded foreigners and residents the same rights, privileges and opportunities of investment in the Nigerian capital market;
- allowed free repatriation of capital, dividends, capital gains, and other interests from investment in securities;
- established an OTC (Over the Counter) market through which foreign investors can purchase shares of unlisted companies; and
- authorized foreign investors to buy shares of Nigerian companies in any convertible currency.

A legislation, captioned Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree No. 17, (January 16, 1995), further eased the mechanism for foreign investment flows. It repealed the Exchange Control Act of 1962 and made the following major enactments:

- established autonomous foreign exchange market;
- allowed free transactions in foreign exchange at market rates; and
- permitted unrestricted import and export of foreign exchange.

Measures to attract foreign investment to **South Africa** were initiated in May 1994, when the Johannesburg Stock Exchange announced relaxation of restrictions on foreign participation in the market. The exchange started admitting foreign brokers from Nov. 8, 1994. Apart from these changes which could be considered marginal, the exchange is still largely closed. Exchange control is still enforced and domestic portfolio investors remain restricted from investing outside the country.

In April 1993, **Zimbabwe** announced a set of investment guidelines (effective June 23, 1993) whose highlights include:

- Participation of foreign investors in the Zimbabwe Stock Exchange provided that the investment is financed by inward transfer of foreign currency through normal banking channels.
- Participation of foreign shareholders in the equity of a company up to 25% of the total shareholding (excluding existing foreign shareholding before May 1, 1993). Operationally, this implies that foreign shareholding is allowed up to 35% of a company's equity.
- Approval for an individual foreign investor to hold up to 5% of a company's equity.
- A 100% after-tax dividend remittance.
- Free remittance of capital and capital gains subject to capital gains tax.
- Abolition of exchange control approval for importation of capital.
- Freedom to register shares in own names or names of nominee companies.

<u>Some Gains of Globalisation:</u> As has been demonstrated in the preceding section, through the reforms, many of the barriers to foreign investors were eliminated by 1995. Among

the countries that have adopted a more open outlook are Kenya, Ghana, Nigeria and Zimbabwe. In each of these countries, as well as in Mauritius and Botswana, entry and repatriation of income and capital are now completely free. Permissible foreign interests in a quoted company range from the lowest 35% in Zimbabwe through 74% in Ghana to the case of Nigeria, Mauritius and Zambia where no limit holds. Individual foreign investors are allowed a maximum of 5% stake in a domestic company in Zimbabwe and Kenya and 10% in Ghana. Again no limit is placed in Nigeria, Mauritius and Zambia. In all these countries, exchange controls have been abolished and there is no limit on the size of earnings that can be repatriated.

The opening up of the capital markets have been greeted with benefits that tend to reinforce the desirability and expediency of the measure. In Zimbabwe, the measure had immediate impact on the stock market. The increased demand for shares by foreign investors led to the soaring of share prices, resulting in over 100% return in U.S. Dollar terms between June and December, 1993 (IFC, 1994). In Nigeria, the liberalization of investment in 1995 also had profound positive impact on the stock market. Prices of most blue chip stocks, the target of foreign investors increased by over 200%. In naira terms, the return index increased 130.9%, an all time highest performance. In Kenya, the highly successful privatization of Kenya Airways in 1996 was aided by the prior removal of barriers to foreign investment which enabled foreign investors to subscribe to the offer, given the peculiar approach of using a foreign core investor (KLM) to shore up the firm's image.

From the experiences of Kenya, Nigeria, and Zimbabwe, opening the stock exchanges to foreign investors appears to be an effective instrument in overcoming the characteristic market rigidities in Africa, such as low capitalization, poor returns and low tradability.

Taxation

In a capital market, the operating tax policies do have implications for the supply of and demand for financial assets. Depending on its nature and structure, taxation could either enhance or retard capital market development. The use of tax instruments in promoting the growth of emerging capital markets assumes more importance as investment capital becomes more internationally mobile and more sensitive to the investment climate in the host countries. On the positive side of taxation, removal of onerous levels of taxation stimulates financial intermediation and investment, particularly when the measures are conceived to be a permanent policy change (Chamley, 1991). On the other hand, tax becomes vexing to investors when its rate is high or levied at multiple stages. It also retards investment for the financial instruments for which the tax burden is discriminatory and heavier.

The role of taxation in promoting investment in a capital market seems to have been recognized by many African countries of late. In 1995, Kenya reduced the withholding tax on dividends from 10% to 5%. Botswana, Ghana, Kenya, Mauritius, Namibia and Swaziland are among the countries that have joined the world trend by either suspending or abolishing capital gains tax. A capital gains tax of 35% which was introduced in Kenya in 1975 was suspended in 1985 as the capital market authorities perceived it to be a serious hindrance to capital market development. Among the few African countries that still impose capital gains tax on securities are Nigeria (20%) and Zimbabwe (10%).

What makes the capital gains tax more obnoxious is its imposition on nominal returns in the face of high rates of inflation in the African countries. An AERC study (Inanga and Emenuga, 1995) shows that for Nigeria, due to taxation of the nominal rather than the real gains, equities suffer effective tax rate of 61.3% in real terms making the asset the highest taxed financial instrument. A simulated effect of taxing real capital gains instead of the nominal gains shows that the effective tax rate on real equity returns could have been reduced to 30% (a 50% reduction). The situation could be similar in Cote d'Ivoire and some other African countries. In Zimbabwe, a partial cushion is provided for the adverse effects of capital gains tax on real returns.

In many African countries, equities were in the past subjected to multiple taxation at the following stages:

Stage 1 -	Corporate Income tax
Stage 2 -	Dividend Withholding tax
Stage 3 -	Personal Income tax on dividend
Stage 4 -	Remittance tax on foreign investors.

The on-going reforms have helped to eliminate some of the tax stages. In most of the countries, the fourth stage has ceased to be levied and the tax regimes have tried to eliminate all discriminatory tax elements against foreign capital. The South African government in its 1995/96 budget announced the elimination of the 15% tax on dividend remittances by non-resident investors with effect from October 1995. The third stage of multiple taxation has also disappeared in few countries where the withholding tax is made the final tax on securities, but in some others (e.g., Nigeria), the dividend income is still taxed as part of personal income.

Taxation of equities at both the corporate tax and dividend withholding levels is a veritable area for reform in Africa. This calls for corporate-personal tax integration. In recognition and pursuit of the classical separate entity status of companies and shareholders, company and personal taxes are imposed independently of each other without recognition that income originating from companies are taxed twice at the company and shareholder levels (Takirambudde, 1995). The reform could be in terms of full integration or partial integration. Under the former, the company tax appears as a withholding tax which, in whole, is credited to the shareholders to offset their varying personal income tax due on their share of company profits irrespective of whether the profits are distributed as dividends or not (Sato and Bird, 1975). In partial integration, tax relief is offered either at the company level or at the individual shareholder level against possible double taxation at corporate and personnel levels. This is operationalised either at the company or personal levels. Integration at the company level involves a split system which excludes dividends from corporate income tax or which taxes the dividend component at a lower rate. At the personal level, integration implies giving tax credit to the shareholder for part of the corporate tax of the company (Sato and Bird, 1975).

The practices in developed countries may be useful for Africa. In the United Kingdom, through the Advance Corporate Tax (ACT) system, individuals are given tax relief at the corporate level for distributed earnings. The ACT was introduced in Britain to correct the distortions which the existing double taxation was having on corporate investment (Poterba and Summers, 1985). France and Canada also practice partial integration system at the shareholder level. Investors are offered tax credit against corporate tax paid at the company level (Brean, 1996). In the application of Germany's "split-rate" system, corporate distributions are taxed at a lower rate than retained earnings. It is recommended that African countries should initiate measures to integrate taxes at the corporate and personal income levels, as a means of fostering capital market development.

ASSET PRICING CHARACTERISTICS

Trading Rules and Asset Pricing

In most African stock markets, trading is by the call-over system. By this trading rule, stocks are called up in turn, during which brokers bid for or offer to sell any stock within the restricted trading time, usually about two hours per day. In some of the markets, share prices are allowed to change within a restricted band. These measures all contribute to the repressed share prices.

Evidence from Ghana clearly illustrates the repressed share pricing in Africa. Ashanti Goldfields Corporation (AGC), which has a dual listing in Accra and London stock exchanges, presents a basis to evaluate stock pricing in the two exchanges. If stock pricing in both markets is efficient, there would not exist an opportunity for arbitrage in the two exchanges. In other words, it would be unprofitable to buy from one market to sell in another. Equality of prices in the two markets have been tested empirically (Osei, 1998). The findings from the study show that the law of one price does not hold for the AGC shares in Accra and London. A one-way arbitrage profit opportunity exists from buying in Accra and reselling in London. In response to the price differential, a total of 1,670,418 shares representing 2.6% of the total number of shares registered in Accra were transferred to London in the first year of listing AGC. No share was moved from the London register to Accra.

Due to the regulated prices in Nigeria, equity prices are insensitive to macroeconomic conditions - exchange rate, interest rate, money supply, inflation, etc. (Emenuga, 1996). This is the main reason for the huge disparity between the growth rate of market capitalization in U.S. dollars and in the local currencies in Nigeria and other Sub-Saharan African stock markets. It is only the Johannesburg stock exchange that has demonstrated long term relationship to real economic variables (Jefferis, et al, 1997).

Efficiency of the Capital Markets The foregoing discussion on the pricing characteristics leads to the question of whether the capital markets in Africa are efficient. In an efficient market, prices fully and correctly reflect all available and relevant information and security prices adjust instantaneously to new information. Fama (1970) shows that there are three levels of market efficiency: weak form; semi-strong form; and strong form levels. In the weak form level, prices reflect all information contained in the historical price pattern, such that the past series of prices cannot be used to predict future prices. In other words, successive price changes are independent, identically distributed and follow a random walk. At the "semi-strong" level of market efficiency, current stock prices reflect both the information contained in the historical prices and all publicly available information. At the "strong-form" level of market efficiency, the hypothesis asserts that security prices reflect all information publicly and privately available to any market participant.

The asset pricing characteristics in some African markets show deviations from the expected behaviour. Stock prices in Nigeria (Inanga and Emenuga, 1997) have characteristics of weak-form inefficiency. The same weak-form inefficiency has also been identified for Botswana and Ghana (Jefferis et al, 1997; Osei, 1998). However, for a recent sample period that included the years of increasing globalisation, the Botswana market was efficient at the weak-form level. The Zimbabwe market shows a strong level of weak-form efficiency apparently due to its openness and participation of international brokers. Globalisation of the African markets should be encouraged as a way of improving the asset pricing efficiency of the markets.

CAPITAL MARKETS INTEGRATION

African stock markets are small in size and scope of operations. For some of the countries that do not have stock exchanges, the sheer small size of their GDP and industrial/commercial activities do not raise high hopes for a viable local exchange. Cooperation among African countries should therefore be explored in the development of their capital markets. Some of the benefits accruable from coordinated stock market services are;

- expansion of the investment opportunity of African investors and companies;
- availability of broader range of stocks to African investors; and
- reduced risk of investment through diversification of country-specific macroeconomic risks (including exchange rate risks).

The economic bases for the integration of the markets are beginning to emerge. A study has shown that there are ample common grounds for the Abidjan stock market to serve as a regional bourse for the members of the West African Franc zone (N'Guessa and Foade, 1997). Evidence of linkage has also been found between the Botswana and the South African markets, as their indices are co-integrated in the long run (Jefferis et al 1997). Although the level of price integration is still very low, there is also evidence that the inter-linkages between the stock markets in Southern Africa have been increasing over time, particularly since the liberalisation of the markets in the mid 1990s. While the liberalisation of the national markets has increased the possibility for integration of African capital markets, there are still bold initial steps to be taken towards the realisation of such objectives. The required actions include the following:

-Harmonization of taxes, investment policies and guidelines and transactions costs; and
-Internationalization of brokerage services.

RESEARCH ISSUES AND AGENDA

The efforts of the African Economic Research Consortium (AERC) represent the boldest initiative in the study of the African capital markets. In comparison to other regions, the African capital markets are under-studied. The dearth of empirical studies on the African capital markets could be attributed to two principal factors, data limitations and funding constraints. The data problem is two-dimensional. One is the general poor data quality in Africa. As in other developing countries, the macroeconomic data needed for capital market studies are often not available in the required high frequency forms. The other is that the required financial statistics for financial analysis are either not available at all or not prepared and published in a form required by researchers. For instance, the indices published by the stock exchanges are indices of capitalization. The index of returns, which is more useful for analyzing asset pricing characteristics and market efficiency, is not published. Often researchers would first expend about 50% of their efforts and funds on computing the returns and similar statistics on their sample data before embarking on the research issue of interest. Firm specific statistics, such as mergers, acquisitions, dividend records and stock splits, are not chronologically documented.

On account of huge computations and enormous data handling associated with capital market studies, they tend to be too expensive for researchers to undertake without funding/research grants. Such grants are hardly available for the study of the African markets.

The challenges facing scholars, research institutions and funding are enormous. The African Capital Markets Forum (ACMF) should embrace the challenge by providing a leadership in capital market studies. The ACMF will find in AERC a willing partner for tackling the challenge, starting with investigation of the following issues:

1. The quality of the data base for capital market studies and the framework for periodic updating of stock market data. The most relevant required publications are indices of stock returns for individual securities, sectoral groups and the whole market in each country. The data base would also provide for measures of firm performance, such as earnings per share, earnings-price ratio, dividend pay-out ratio, etc. Part of this initial research work would be to document the type of published data researchers would need (based on financial market models and the peculiarities of these markets) and propose who could be responsible for supplying each data set.

2. The relationship between stock market indices (aggregate and sectoral) and the performance of the economies. In some developed countries the trend in stock market indices serves as the barometer for gauging the performance of the economy and vice versa. The Arbitrage Pricing Theory (an expanded Capital Asset Pricing Model) provides the theoretical terrain for such analysis.

3. Country-specific analysis of the nature of government policies that affect the performance of the stock markets and their effects on capital market development. Taxation, exchange controls and regulations, income and capital repatriation, dividend payment controls, country-wide and industry-specific guidelines for foreign investment are among issues to be examined on a regular basis.

4. Asset Pricing Efficiency in the primary and secondary securities markets, and for different categories (debt-equity) and classes (small, large, domestic and foreign firms) of securities.

5. The composition of investors in the capital markets, their stockholding behaviour and disposition towards short-term and long-term capital supply. The financing pattern of corporations (the choice between debt and equity) and the effects of bank distress and financial liberalization on the financing mix, the impact of stock market development on the cost of capital and the response of domestic savings and foreign portfolio flows to stock market development.

6. The relationship between the stock market and other financial institutions: the emerging mortgage institutions, insurance companies, pension funds and banks, ascertaining their complementarity and substitutability in resource mobilization.

7. The risk-return profile of the stock markets, the nature of idiosyncratic and systematic risks and the distribution of the latter across firms.

8. The potentials for capital markets integration and the existing barriers to the process.

9. The prospects of widening and deepening the capital markets through introduction of new products like mutual funds, derivatives and cross-listing of securities across African market and beyond.

CONCLUSION

The Sub-Saharan African stock markets are small in size, having few listed companies, low market capitalization, and low volume of transactions. They are also inefficient (weak-form) at pricing risk. But notwithstanding these features which to some extent result from their fledgling nature, the exchanges are developing and improving their performance. The past few years have been remarkable in the globalisation of the markets through implementation of policies aimed at removing perceived barriers to development.

Among these recently introduced market-friendly measures are:

- establishment and strengthening of their regulatory capacities and institutions;
- reform of the operational procedures, such as trading arrangements and settlement procedures;
- removal of barriers on the entry and exit of foreign capital, as well as on repatriation of earnings;
- increased scope for participation of foreign investors and elimination of the rules that discriminate against foreign investors;
- tax reforms that have shortened the stages for multiple taxation of returns;
- abolition or suspension of capital gains tax, or in some cases provision for inflation adjustment in taxing capital gains; and
- reduction in the dividend withholding tax rate.

The countries that have implemented these measures have started getting the benefits in terms of increased market capitalization and turnover, more efficient asset pricing, improved savings-investment process and even successful privatization.

However, there are several areas that could still be reviewed and reformed to improve the quality of the stock markets and their relevance for national development. These include:

- improving the quality of market information;
- introducing tax reforms to eliminate onerous and discriminatory taxes on investment in the stock markets; eliminating multiple taxation and integrating taxes at the corporate and personal income levels.;
- Improving the quality of brokerage services;
- Integrating the capital markets; and

- Promoting capital markets research.

ANNEX 1: SOME OF THE AERC-SPONSORED RESEARCH ON CAPITAL MARKETS IN AFRICA

Emenuga, C. (1997), "Development of Stock Markets in Sub-Saharan Africa", African Development Review, African Development Bank, Vol. 9. No. 1, 156-186.

Inanga, E. L., and Emenuga, C. (1995), "Taxation of Financial Assets and Capital Market Development in Nigeria" Research Monograph, No. 47, African Economic Research Consortium, Nairobi, Kenya.

Inanga, E. L., and Emenuga, C. (1997), "Institutional, Traditional and Asset Pricing Characteristics of the Nigerian Stock Exchange" Research Monograph No. 60, African Economic Research Consortium, Nairobi, Kenya.

Jefferis, K., Okeahalam, C., and Matome, T., (1997), "International Stock Market Linkages in Southern Africa" Final Research Report, African Economic Research Consortium, Nairobi, Kenya.

N'guessan, T., and Foade, J. (1997), "La Bourse des Valeurs d'Abidjan: Instrument de Mobilisation de Ressources et Perspectives de Creation d'un Marche Financier Regional", Final Report, African Economic Research Consortium, Nairobi, Kenya.

Omole, D., and Falokun, G. (1999), " The Impact of Interest Rate Liberalisation on the Corporate Financing Strategies of Quoted Companies in Nigeria", Research Monograph, Research Monograph, No. 88, African Economic Research Consortium, Nairobi, Kenya.

Osei, K., (1998), "Analysis of Factors Affecting the Development of an Emerging Capital Market: The Case of the Ghana Stock Market," Research Monograph, No. 76, African Economic Research Consortium, Nairobi, Kenya.

REFERENCES

Brean, D. (1996), "Taxation and Capital Market Development," in S. Mensah (ed.), African Capital Markets: Contemporary Issues, (Massachusetts: Rector Press), pp. 76-84.

Chamley, C. (1991), "Taxation of Financial Assets in Developing Countries", The World Bank Economic Review, Vol. 5, No.3 (September), pp. 513 - 533.

Claessens, S., Dasgupta, S. and Glen, J. (1993), "Stock Price Behaviour in Emerging Stock Markets", Paper for the World Bank Conference on "Portfolio Flows to Developing Countries", September. 9-10 (Washington, D. C.: The World Bank).

Dailami, M. and Atkin, M.(1990)," Stock Market in Developing Countries: Key Issues and a Research Agenda," PRE Working Paper Series, WPS 515, The World Bank.

Demirguc-Kunt, A., and Levine, R. (1993), "Stock Market Development and Financial Intermediary Growth", Working Papers, WPS 1159, Washington, D.C.: World Bank.

Demirguc-Kunt, A., and Maksimovic, V. (1995), "Stock Market Development and Firm Financing Choices", The World Bank, Washington, D.C.

Emenuga, C. (1996), "Macroeconomic Factors and Returns on Equities: Evidence from the Nigerian Capital Market," in S. Mensah (ed.), African Capital Markets: Contemporary Issues (Massachusetts: Rector Press), pp. 86-96.

Emenuga, C. (1997), "Development of Stock Markets in Sub-Saharan Africa", African Development Review, African Development Bank, Vol. 9. No. 1, 156-186.

Fama, E. F. (1970), "Efficient Capital Market: A Review of Theory and Empirical Work", Journal of Finance, Vol. 25, No. 1-2: 383-417.

Ghana Stock Exchange (1996), The Ghana Stock Market Review and Outlook (Accra: Strategic African Securities Ltd. (SAS)).

Gurley, J. and Shaw, E.S. (1967), "Financial Development and Economic Development", Economic Development and Cultural Change, Vol. 15, (April), Pp. 257-265.

Horch, H. (1989)", Policies for Developing Financial Markets," EDI Working Papers (The World Bank), September.

Inanga, E. L., and Emenuga, C. (1995), "Taxation of Financial Assets and Capital Market Development in Nigeria" Research Monograph, No. 47, African Economic Research Consortium, Nairobi, Kenya.

Inanga, E. L., and Emenuga, C. (1997), "Institutional, Traditional and Asset Pricing Characteristics of the Nigerian Stock Exchange" Research Monograph, No. 60, African

Economic Research Consortium, Nairobi, Kenya.

International Finance Corporation (IFC), Emerging Stock Markets Factbook (1994-1998 Issues). Washington, D.C.

Jefferis, K., Okeahalam, C., and Matome, T., (1997), "International Stock Market Linkages in Southern Africa" Final Research Report, African Economic Research Consortium, Nairobi, Kenya.

Killick, T., and Martin, M. (1990), "Financial Policies in the Adaptive Economy", ODI Working Paper, No. 35.

Levine, R., and Zervos, S. (1996), "Stock Market Development and Long-Run Growth," Policy Research Working Paper, No. 1582, The World Bank (March).

McKinnon, R. I. (1973), Money and Capital in Economic Development (Washington, D.C.: The Brookings Institution).

N'guessan, T., and Foade, J. (1997), "La Bourse des Valeurs d'Abidjan: Instrument de Mobilisation de Ressources et Perspectives de Creation d'un Marche Financier Regional", Final Report, African Economic Research Consortium, Nairobi, Kenya.

Osei, K., (1998), "Analysis of Factors Affecting the Development of an Emerging Capital Market: The Case of the Ghana Stock Market," Research Monograph, No. 76, African Economic Research Consortium, Nairobi, Kenya

Poterba, J., and Summers, L. (1985), "The Economic Effects of Dividend Taxation," Edward F. Altman and M. G. Subrahmanyam, eds., Recent Advances in Corporate Finance (Homewood, Illinois: Richard D. Irwin).

Popiel, P.A. (1990), "Developing Financial Markets in Sub-Saharan Africa", EDI Working Papers, (Washington, D.C.: The World Bank).

Roe, A. (1990), "Financial Systems and Development in Africa", EDI Working Papers, The World Bank.

Sato, M. and Bird, R. (1975), "International Aspects of the Taxation of Corporations and Shareholders," IMF Staff Papers, No. 22

Shaw, E. (1973), Financial Deepening in Economic Development (New York: Oxford University Press).

Stiglitz, J. (1994), "The Role of the State in Financial Markets", Proceedings of the 1993 Annual World Bank Conference on Development Economics, pp. 19-52.

Takirambudde, P. (1995), Financial, Corporation and Tax Harmonization for Capital Market Development in Southern Africa," Development Southern Africa, Vol.12, No.3 (June).

Villanueva, D., and Mirakhor, A. (1990), " Strategies for Financial Reforms," IMF Staff Papers, Vol. 37, No. 3 (September), pp.509-536.

CHAPTER 25

THE KENYA FIXED INCOME MARKET

Joe K. Kihumba
Chairman, Institute of Certified Public Secretaries of Kenya
(Formerly, Chief Executive, Nairobi Stock Exchange)

THE KENYA FIXED INCOME MARKET

Background

The Kenya debt securities market has existed for over forty years, since the early fifties when the Government issued its long dated government stocks, which could be traded in the stock market. Until the late seventies, the government issued many such government stocks which were all listed on the stock exchange. Local authorities likewise issued municipal stocks which were also listed on the exchange. A number of corporations also followed and made tradable loan stocks which were also listed. Those were the days when inflation was hardly known and market uncertainties minimal with fairly stable interest rates. This, however, did not last long, and by early eighties the Government could no longer issue long-term debt securities because they were unpopular with investors. The Government, with an even bigger appetite for funds, started borrowing short-term by way of Treasury Bills with maturities up to 270 days. This trend continued into the nineties and today the most popular government paper is the 91-Day Treasury Bill which accounts for over 70% of the Government's domestic debt of Ksh.150 Billion (US$2.03Billion), which is nearly 21% of the GDP.

The local authorities, on account of serious mismanagement and instability, stopped this method of financing because no investor could invest in their bonds. The last municipal bond issued was by the Nairobi City Council in 1986. Likewise, companies stopped borrowing through securitized debt and were financed through commercial banks loans, internal savings, and other arrangements.

For some time, definitely the eighties and early nineties, the debt securities market was virtually non-existent because even the government securities did not have a secondary market. They were mostly patronised in the primary market by institutions that were required to maintain some of their assets in form of government securities. These included insurance companies, the National Social Security Fund, commercial banks, non-bank financial companies, building societies, state corporations, etc.

Current Position

Changes started to take effect in the mid-nineties. The Government in its efforts to diversify its loan portfolio and to encourage long term investments started to issue Treasury Bonds, initially one-year, then two years and now up to three years. The companies, not wanting to be left behind, starting considering bond financing as an alternative. Today there are a number of debt securities issued and traded, including Commercial Paper, Medium Term Notes and Corporate Bonds. We will briefly consider these developments and what impact they are likely to have on the economy.

Government Securities

As mentioned above, the government securities market is not new, but has in recent years received a boost and is now relatively active. This market is made up of:

Treasury Bills

These are issued every week and are usually put on tender. Interest rates on Treasury Bills have become the benchmarks for other types of debt securities. Interest rates on TBs reached a high of 78% in 1993 and a low of 8.3 % in March 1999. They are now standing at about 15%. They have maturities of 91 days and 182 days. The average weekly intake is about Ksh.5 Billion (US$ 68 Million). Proceeds from these issues are utilised to redeem maturing bills and finance government expenditure.

Treasury Bills are not listed for trading at the stock exchange, but there is fairly active secondary trading of these instruments by institutional investors and business corporations.

Treasury Bonds

Two types of bonds with one, two and three year maturities have been issued. The most popular is the registered bonds market. The bearer bond market is being phased out on account of the insecurity of such instruments.

All Treasury Bonds issued since 1996 have been listed on the stock exchange and a fairly active secondary market has developed.

Most bonds issued between 1996 and 1998 have floating interest rates to encourage investors to buy long-term government paper in times of uncertainties. The floating rate was based on the 91-day Treasury Bill.

Special Treasury Bonds

In 1997, the Government issued special Treasury Bonds that were called Tax Amnesty Bonds. These were two and three-year bonds issued specially to encourage tax evaders to pay taxes on a promise that their past misdeeds on tax evasion would not be dug up. The bonds were similar to the other bonds and were tradable on the Secondary Market. A number of organisations showed up and purchased these bonds.

Recently the Government has started to issue another type of bond for the purpose of settling government creditors, whose claims had been accumulating to dangerous levels. Those who accept payment using these bonds relieve the Government of an immediate cash problem. The creditor is happy because they have the option of discounting the bond in the secondary market or holding on as an investment. These bonds have become quite popular in the market and creditors are clamoring to be settled in total using these instruments instead of waiting to be paid by cheque, which is not guaranteed. Since July 1999, bonds worth approximately Ksh. 2 Billion (US$ 27 Million) have been issued and are trading in the stock market.

Corporate Debt Securities

As mentioned earlier, companies have started issuing debt securities in form of bonds, term paper and commercial paper.

Corporate Bonds

After many years of absence, corporate bonds were issued in the Kenyan market in 1995. The issue was well received by investors and secondary trading started almost immediately. The Bonds had a 3 year maturity with a floating rate coupon which was pegged at 1.5% above the 12 week moving average of the Treasury Bills rates. At the time, the interest rates on Treasury Bills were gradually falling, which meant that the 12 week moving average was much better than the current TB rate. This made the bond very attractive at that time. If the TB rates were rising, as happened later in 1997, the moving average would be lower than the current TB rate. Some bonds issued encountered this problem as the Government continued to borrow heavily and bill rates continued rising.

Term Notes

These are similar to bonds, but with shorter maturities. Those issued in the market so far have been called Medium Term Notes and Short-Term Notes, and have been very well received by investors. Because the government has continued to borrow through bills and bonds, corporate notes issuers have been forced to give higher yields to attract investors.

Commercial Paper (CP)

This is a very popular corporate debt security. In the last of few years, more than twenty large corporate organisations have made CP issues with a lot of success. The paper has a maturity of up to one year. Like the rest of the debt instruments, issuers try to peg the yield to the prevailing TB rates.

REGULATION OF DEBT MARKET

The debt markets in Kenya are controlled by two governmental regulators:

The Capital Markets Authority and the Central Bank of Kenya. The Central Bank regulates the money markets and the Capital Markets Authority (CMA) the capital markets. There are a number of securities that pose regulatory problems because both regulators think they should regulate them. The commercial paper market is one such instrument which both regulators have felt they have a right of regulation. The other problem is posed by instruments that should be ideally regulated by Central Bank, but by being traded on the stock market, which is regulated by the CMA, CMA have a direct interest. The third type of regulatory problem is in respect of Treasury Securities, which under the Kenya law are issued by the Central Bank on behalf of the Government. As an issuer and a regulator, there are occasional conflicts of interest.

In the capital markets arena the CMA has issued guidelines on issue, trading and redemption of commercial paper, corporate bonds and other debt instruments. The issuers, the traders, the stock exchange, investment advisers and other players are guided by these guidelines.

Trading of Debt Instruments on the Stock Market

Pricing

Pricing of the instruments is done by stockbrokers using some of the standard methods that have been used in other markets. In case of floating rate bonds, and where the interest rates keep falling and rising over relatively short periods, the pricing model becomes much more complicated. The final determinant of pricing is the market where forces of demand and supply interplay.

Trading & Settlement

Trading is effected on an open outcry method on the boards of the exchange. Orders are posted on the boards and yield levels indicated for each bond depending on the prevailing interest (Treasury Bill) rate. A trade takes place when there is a match of buying and selling orders. Being an auction type market, over bidding or underselling is allowed and usually takes place at the point of transactions.

Although the trading system is manual, traded transactions are captured immediately and a transaction slip with a unique computer code is produced through a post-trading computer system. The system produces settlement schedules, based on the T + 3 rolling settlement system. Settlement is also on a delivery versus payment system, clearing through the stock exchange.

Treasury securities have a depository system, which means that there are no certificates issued to holders of these securities. The stockbrokers authenticate ownership before trading by reference to the Central Bank Registry. After trade and settlement confirmation on new ownership, the Central Bank Registry sends account balance statements to investors on request or as instructed.

Way Ahead

Kenya equities market has been undergoing one of its most difficult times in its history. Both domestic and foreign investors have avoided investing in these securities. As a result, the market for debt securities seems to have been re-discovered by investors, even small ones. Despite the problems and risks associated with it, it at least assures the investor some return, which the equity market is unable to give. It can be expected that this market will therefore grow, and this is already being reflected in daily trading in the stock market.

CHAPTER 26

THE SOUTH AFRICAN BOND MARKET

David Stuart Rennie
Former General Manager,
Commercial Union Investment Management (SA) Ltd.

EVOLUTION OF THE BOND MARKET

The South African bond market offers investors a liquid and efficient market with some R400 billion of listed bonds. The government is the largest issuer with the other major issuers being ESKOM, TELKOM, TRANSNET and the Development Bank. The issuance of private sector bonds has not developed and to date there is only one marketable listed corporate bond, but liquidity is poor, for they tend to be issued directly to Life Assurors or Pension Funds, who hold them for long term investment purposes.

In May 1996 the Bond Exchange of SA was licensed, with a turnover of R3.1 trillion during its first year. This turnover has grown to R7.1 trillion 1998, of which R5.8 trillion was in RSA stock. The secondary market in bonds evolved in the 1970's when the Discount Houses, and to a limited extent some of the Commercial Banks began dedicating capital and creating bond portfolios and quoting prices on a range of bonds.

The market has been dominated by the Life Assurance and Pension Funds, who adopted "a buy and hold" strategy, in which their focus was on Asset/Liability matching, and in which Performance was of secondary importance. However, due to be increased market competition and the fact that 50% of their portfolio's had to invested in fixed interest securities, the so-called "Prescribed Assets" created the need to have an active secondary market.

The largest Pension Fund (Public Investment Commissioners) could only invest in bonds and Treasury Bills. The issuers traded directly with investors, which periodically created market aberrations. The SARB performed the role of issuer on behalf of the Treasury and the typical blurring of interest occurred.

The country had operated under a dual currency system since 1961. The Financial Rand was re-introduced as a foreign exchange control mechanism in 1985 when foreign banks froze a new credit to the country, which was consequently plunged into financial crisis amid political turbulence which heralded the anti-apartheid sanctions era. During this period, the Financial Rand traded at a substantial discount to the Commercial Rand. Foreign Investors were able to take advantage of high interest rates and invest in SA bonds via the FINRAND. Interest was repatriated in COMRAND. During this period, the bonds issued by the Parastatals, particularly ESKOM traded at a discount to Government bonds. This was due to foreign purchases. In 1993 ESKOM estimated that 45% of its issues was held offshore. This factor coupled with aggressive market making resulted in ESKOM bonds trading at a discount of up to 0.5% on RSA bonds. It enabled ESKOM to pull off a coup by issuing an additional tranch of E168, the then benchmark stock and invest the proceeds in RSA bonds of a comparable coupon and maturity.

ESKOM followed up its active market-making role creating an OTC option market in E168's. It was this development which acted as a catalyst to market liquidity and laid the foundation of today's active market. It enabled the financial services sector to gear their capital and increase their participation in the bond market through the development and use of sophisticated risk management tools. Prescribed assets began to be phased out during 1986 with regulation determining the maximum exposure allowed in certain asset classes for Pension Funds and Life Assurors. A tax on interest and property rental income was recently introduced for Pension Funds. There is no tax on foreign investment in South Africa Bonds and no capital gains tax for local investors.

After the political transition of 1994, a further milestone in the development of the market was achieved with the abolition of the Financial Rand in 1995, and the start of the process of phasing out of exchange control. Asset Swaps were introduced, whereby Pension Funds and Life Assurance companies could invest up to 10% of their assets offshore. An Asset Swap has a neutral effect on the currency market as an offshore investment is linked to a new foreign investment in South Africa.

South African bonds are quoted and traded in yield, but are, of course, settled in price. The market uses a standardized formula on all bonds including zero coupons. The bonds have two coupon payment dates per year, one of which coincides with the anniversary of the bond's maturity date. The market currently operates through rates quoted on a screen or by telephone. However, an automated trading system is about to be activated.

The securities and derivative markets are vital to the growth, development and strength of market economies. They support corporate initiatives, finance the exploitation of new ideas and facilitate the management of financial risk. Further, since retail investors are placing an increasing proportion of their money in mutual funds or other collective investments, securities markets have become central to individual wealth and retirement planning. Sound and effective regulation, and in turn the confidence it brings, is important for the integrity, growth and development of capital markets.

LEGISLATION AND REGULATION STRUCTURE

There is no single correct approach to a regulatory issue. Legislation and regulatory structures vary between jurisdictions and reflect local market conditions and historical development. However, as domestic markets increasingly become integrated into the global market, the pressure to conform increases. International investors require security regulation which:

1. Has as its base the protection of the investor
2. Ensures that the market is fair, efficient and transparent
3. Reduces systemic risk

The South African Bond Exchange recognizes the importance of conforming to international best practice and has based its regulation on the following principles:

1. Full disclosure of information through applying internationally acceptable accounting and auditing standards
2. The dissemination of relevant information is widespread, timely and is reflected in the price formation process
3. Minimum capital adequacy is applied to authorized and primary dealers
4. Effective exposure and reporting systems.

SETTLEMENT

In order to align the South African settlement system with international standards, the two-week settlement period was reduced to T+3 in November 1997. Many feared a serious collapse of liquidity as a result and an explosion of activity on the futures market, but this never happened. The settlement process is based on the following principles:

- Counterparty risk applies to all trades
- Client risk is borne by the member

SETTLEMENT RISK

The risk of tainted scrip is carried by the settlement agent (who retains the right of recourse against the participant who introduced the scrip). The member carries the risk of non-performance in terms of scrip or funds. Settlement agents only guarantee settlement once all the settlement agents have committed to all trades. The risk of settlement agent failing before the funds are cleared, in the national payment system is carried by the **SARB**. Clients can either appoint their own or use the settlement agent of the member they traded through. Offshore trades may be transacted outside of the BME and settled in the settlement agent system in South Africa

GUARANTEE FUND

The Exchange Guarantee Fund, subject to maximum of R10m per member default, covers a price movement. The Guarantee Fund currently stands at R150m, of which R40m is cash and the balance in the form of an insurance policy. Members initially contributed R5 per million traded, but no longer contribute. There have been no claims on the fund to date.

PRIMARY DEALERS

Primary Dealers were introduced in April 1998 for RSA bonds. There are currently 11. They have to be a local bank or a foreign bank with a branch registered in RSA. They need a minimum of R1 billion Tier 1 capital. A calendar of regular auctions is published by the Dept. of Finance. There is minimum bid requirement, and they are limited to a maximum of 40% of an auction. Primary Dealers are required to make two-way prices at all times.

CENTRALIZED SCRIP DEPOSITORY

A Centralized Scrip Depository is linked to the clearing and settlement process. The market is moving to de-materialize all scrip. An additional charge is levied, through the settlement agents, on all scrip settled outside of the CSD.

CARRY/REPURCHASE MARKET

The existing carry market underpins the current market liquidity. The market is broken down into 3 types of transactions. **Buy/back, repurchase** and **securities lending.** These transactions are primarily used for funding, or scrip lending to cover short sales, arbitrage transactions or to implement hedging or other derivative strategies. Securities lending transactions are not reported to the BME.

LARGE EXPOSURE/DEFAULT PROCEDURES

Quantitative and quanlitative criteria are used in assessing the risk position of members and clients. It is important for an SRO to assess the information with regard to the beneficial ownership and size of positions. In setting up or expanding a domestic capital market, it is essential that the regulators not only be interested in risk reduction, but also the assumption and shifting of risk among participants in clearing and settlement systems must be monitored in order to minimize the risk of failure to individual participants and the overall risk to the system. Margin requirements should be used in combination with other mechanisms, such as circuit breakers, position limits, price limits and capital adequacy, to ensure the soundness of the market.

RATING AGENCIES

Local, as well as international rating agencies operate in South Africa. It is impossible to attract any investment into a new capital market issues without a rating and the appropriate risk premium is priced into the bond.

DEVELOPING AN AFRICAN CAPITAL MARKET

Foreign investors have the luxury of global investment alternatives and are not prepared to take on systemic risk. With the onset of globalization and the advantages of technology, capital is increasingly becoming selective and demanding. The question of establishing competitive capital markets in Africa is a complex one, for we are faced with a range of issues, most of which have been raised at this conference. I do not have the answers, but will put forward some the questions, that in my experience have to be addressed. We can then debate the issues.

CHAPTER 27

FIXED INCOME MARKETS - DISCUSSION AND SUMMARY

Question: In Nigeria, the bond market is virtually non-existent and this can be attributed to the unstable nature of interest rates and inflation. Many have suggested having a variable interest rate, but this does not go down well with borrowers who want to know with certainty all the cost involved in sourcing capital. How would such a problem be solved and so have the bond market functioning?

Answer: The interest rate regimes in most Africa countries are very erratic. Until 1991, Kenya enjoyed a fairly stable interest rate regime, but from that time onwards, it became a thing of the past and so fluctuations began. To overcome that, the government started issuing floating-rate bonds, which were actually based on the 91-day bill. The rate was about 1% higher than the average or moving average. Because the T-bills are issued weekly and investors compete with the moving average for the period of 3 months, this became the benchmark which we can base our yield for 1 or more years. The corporate bonds based their rates on the Treasury bill. The Treasury bill therefore became the benchmark for pricing all other instruments. The variable bill is what has helped us to create a market; because without it, it is impossible to foresee what will happen in a year or two. The floating-rate bonds, therefore, ensure that we overcome this hurdle.

Question: The second speaker talked about credit rating as a tool in promoting an active bond market. Most African markets do not have credit ratings. What recommendations would you give for the development of credit rating in the African markets.

Answer: Rating agencies are profit making or commercial institutions; and if they identify a market that they think will have enough business, they will set up there. It is a question of a chicken and an egg. If there are not enough debt instruments in the market, the rating agencies will not develop. On the other hand, if at the end of the day, a market does not have rating agencies, then we cannot have an active bond market. This is because investors want to know everything about where they are putting their money; especially when it comes to foreign investors. Foreign investors find it very difficult to put their money where debt is not rated. I think a market is required to have a certain level of debt instrument issue before one can talk about rating agencies.

Right now in Kenya, we are talking about setting up a rating agency. This agency is not necessarily a Kenyan rating agency, but an international rating agency working with local investors to create a rating agency in Kenya. Because the Kenyan market is small, the rating agencies have the bigger East African market of Kenya, Uganda and Tanzania in view.

Question: From the first presentation, it looks like Kenya has developed an active bond market. What is the trade-off between government bond and the private sector bonds. That is, the situation where the government is competing with corporation to raise capital through long-term bond issue. Secondly, what is the yield differential?

Answer: It is true that the Kenyan debt market is active because statistics show that in 1992, the value of debt market was double that of equity. In 1998, for example, the debt market was one and half times the equity market. Certain specific factors may have contributed to the creation of an active debt market in Kenya. For example, the instability in the equity market may have contributed to investor's interest in the fixed income market. Investors are not sure of what is happening in the equities market. A lot of equity shares are performing so badly that investors would rather put their money in the debt market.

There is a yield differential between government Treasury bill and corporate money market instruments. In order for corporations to compete with the government, they have to give better yields. Corporations have pegged their interest rate at one or half percent above Treasury bill rate. Again, there is an element of floating-rate here since the Treasury bill rate is floating. This is what has made them attractive. Last year, over 20 companies issued Commercial Paper which were not listed on the stock exchanges but were fairly active.

Contribution: Regarding the yield curve, I think it all boils down on confidence. We had the same problem in South Africa where there was lack of confidence in the question of government finance and the inflation rate. I really think it's a question of the risk-taker investor, whether he will be prepared to price the inflation. What typically happens is that we get the government flooding the market with short-term bills and so quite often when the investor is looking for long-term paper, there is none available in the market. These sorts of constraints imposed on the market destroy confidence and will not create liquidity. To overcome this, we encourage buy-back facility.

Question: Does the government provide discount facilities to facilitate liquidity for the government bills and notes, and corporate bonds?

Answer: Previously, the market, through the discount houses, was able to rediscount commercial paper with the consent of the government. However, with the introduction of primary dealers, the government and the reserve bank have withdrawn from the market totally. They look to the primary dealers who are required to absorb liquidity and make the market. When we look at the turnover figures of the bond exchange, this indicates that the market is active and this mechanism is used to create liquidity in the market. Foreign participation in the turnover figures is around 27% of the total turnover.

SUMMARY

Several factors identified as responsible for the inactivity of the bond markets in most parts of Africa include:

- The macroeconomic instability in many countries, which has led to high and volatile inflation rates.
- The arbitrary fixing of interest rates by governments as means to fund government deficits.
- The lack of meaningful term-structures to serve as benchmarks for pricing long-term

instruments.

- The lack of credit rating facilities.

Some of the measures that can be taken to encourage investments in the bond markets include:

- Creating macroeconomic stability (low and stable inflation and low fiscal deficits).

- Improving private sector production and sale of information about companies and their securities.

- Existence of sufficient government regulation to increase information in securities markets.

- Creating conducive legal environment: that is, uncomplicated ownership restrictions, enforcement of property laws, procedures for perfecting and enforcing collateral, etc.

CHAPTER 28

THE ESSENTIAL ROLE OF TRAINING IN DEVELOPING CAPITAL MARKETS

Geoff Truman
Senior Manager,
Crown Agents Financial Services Ltd.

INVESTOR CONFIDENCE IN CAPITAL MARKETS

Bad Things and Good Things

Ask the average man for his opinion about 'Brokers', 'Traders', 'Advisers', 'Stock Markets' and they are likely to say they are "Bad Things". Ask for opinions about 'Investments in the Economy', 'Personal Savings', 'Control and Regulation', you are likely to be told these are "Good Things" to have.

Actually they are all part of the same system generally known as 'Capital Markets'. Capital markets are one of the mechanisms used by intermediaries to channel savings from individuals to institutions who need funds.

The average man may not fully understand the process and its complex relationships, but he probably knows that there are a number of financial institutions through whom he could invest his savings. Most people in fully developed countries can choose between:-

- banks;
- building societies;
- insurance companies;
- pensions;
- trust funds.

Most importantly, investors can trust that their investment will not be abused or stolen. Similarly, borrowers of funds can raise finance simply and on competitive terms.

Capital markets need institutions which are staffed by well trained professionals who are competent in their jobs.

The absence of reliable financial institutions lies at the heart of problems in most developing countries.

CONFIDENCE BUILDING IN SMALL INVESTORS

People who live in developed countries take for granted that they can:

- save modest amounts of money;

- earn reasonable rates of interest;
- get their savings back on request.

In countries going through significant development and transition, building such confidence in the small saver is often disregarded by governments who have more pressing problems, such as preserving employment and funding the budget.

It is from these small savers that the capital for growth and development will flow, but they need to have confidence that their funds will not be lost or abused; and to do this calls for legislation and regulation. This means amongst other things that: -

The standards of individuals involved in the financial markets have to be raised through qualification and through training to get those qualifications.

Furthermore, the knowledge and ability of those regulating the markets has to be raised and maintained too.

This raising of standards is not something that can be achieved overnight and is not something which is going to solve the crises of today and also be visible in a political way. It is a long term objective which requires a solid infrastructure to deliver an environment which will instil investor confidence and encourage savings.

Personal savings, a vital component in economic progress, will only grow in an environment of investor confidence. Training and regulation is at the heart of growing investor confidence.

PRODUCTS

Small investors need a variety of products in which they can invest. The role of the institutions is to create products which will attract the small investor and then through investment to channel those savings through the markets to borrowers. Financial innovation is the name of the game here as products are evolved to meet special needs.

Institutions need to be able to offer domestic investors a mixture of products to encourage them to be long-term investors. Even more, domestic savings institutions (insurance companies, pension funds and investment funds, where they exist) are crucial in counterbalancing the volatility that can be caused by international investors.

Institutions need to know about different types of products and how to structure them for domestic use. Clearly this is a requirement for training.

REGULATION

Markets operate more smoothly when staff have knowledge of the regulations and an awareness of investor protection. Furthermore, where participants in the market include international organisations, there is a minimum standard that such organisations expect to exist in a market. Regulation is essential for the credibility of the market and the perception of fairness.

Regulators and the management and staff of regulated organisation need to know and understand the 'rules' in order to make sure they are compliant.

COMPETENCIES

When considering the whole question of training for capital markets, one has to consider the five 'Ws'; that is who, what, why, where and when.

Classes of Competence

In this particular section we consider the 'Who' question. Who requires training and to what level of competence?

The following categories of individual or organisation can be identified. This list is not exhaustive, but it identifies the main groups of participants in the capital markets

- Regulators, both internal and external
- Investment Advisers
- Dealers / Brokers
- Back office staff
- Exchange staff
- Fund Managers
- Corporate Advisers
- Consumers

Each of these categories has a requirement for training and maintenance of knowledge.

The Training Gap

Another 'W' - What should be taught?

Managers in organisations are responsible not only for meeting present goals, but also for ensuring they have the resources to meet their future goals. In the same way as buildings and computers need upgrading as the demand changes, so do people. The process of upgrading is learning. It can be planned or coincidental with individuals gaining skills for their career or by organisations trying to ensure they have the skills and knowledge to achieve their business objectives.

The healthiest form of learning is that driven by both parties for both reasons, career and job requirements. Job requirement could be further considered as being either

- organisational needs that result from change such as new legislation, new areas of business;
- occupational needs which only apply to a specific category of work.

Here we are looking at the subject through the eyes of the organisation.

How can we establish what should be the subject of the training? This is usually established by carrying out a training needs analysis. There are many different ways of analysing requirements.

Pearn and Kandola (1988) in their book *Job Analysis*, describe 18 different analytical techniques. The analogy of digging a hole can well be applied to the task of job analysis. Both the area to be covered and the depth are arrived at by knowing the purpose of the hole.

At this point it is enough to say that part of training needs analysis is to look at the knowledge and skills required for the successful completion of a job or task, then to look at the skills that are currently possessed and to identify the gap. This should further take into consideration not just the job as it currently exists, but also planned changes, thus ensuring corporate plans are considered too.

The Hows of Training

This is not another 'W' but it is a very important question. In what way can and should the identified gap be met?

From birth we learn in many different contexts. Early behavioural research focused on the external controls of learning.

- We have 'Pavlov and his dogs' who salivated every time a bell rang. We have 'Skinners rats' who were taught to operate a lever, which gave them a reward of food. This early work showed that the role of the trainer is important in ensuring that rewards are clearly linked to the behaviour required.
- Later research focused on the role of motivation to achieve an individual's potential. Maslow and his hierarchy of human needs showed the encouragement that was experienced as one strives to achieve one's own potential.

The more current thinking talks about the 'learner-centred approach' developed by Carl Rogers. This approach has three tenets:

- You cannot teach someone directly, only facilitate their learning. 'You can lead a horse to water but you cannot make it drink'.
- A person learns significantly only those things which he perceives as being involved in the structure of self. Or 'What's in it for me?'.
- Significant learning is resisted or 'This is too much to handle!'. Major learning may result in someone having to completely rethink their ideas and beliefs, so that person protects their existing beliefs by blocking new ideas.

The most effective learning allows for:-

- the threat to the staff to be reduced to a minimum
- the facilitation of learning rather than forced learning.

Carl Rogers has been extremely influential and his ideas permeate most management, training and counselling approaches, and many of the ground rules that trainers take for granted.

MAKING IT HAPPEN

How can an organisation help someone to learn? An obvious solution is running an in-house course to make it happen, but there are a number of options for creating learning.

Coaching - where one-to-one learning takes place. A manager or co-worker can coach someone to learn new skills by directing their effort, giving them feedback and encouraging them on the job.

Open or Distance Learning - Open learning can be started at any time and at a pace to suit. Distance learning usually means that the learners are remote from the teachers and may involve workbooks, computers, video, etc.

External Courses - Like open learning, these are usually generic and not connected to one organisation. These are sometimes not at the most convenient time to suit the person. External courses can be conducted outside of the home country or can be in-country. Experience has shown that you can train six people in-country for the cost of sending one person overseas.

Professional Studies - most qualifications require an assessment which might typically be in the form of an exam. Many examining authorities will offer training to assist with the attainment of their qualification. In the area of capital markets, one major thrust of this paper is a requirement to control the quality of the participants by establishing a minimum level of knowledge - in other words, require participants to be qualified as part of the authorisation process.

Who Pays? This is a question which is always tricky to answer. There is no clear answer here. Is it the organisation for whom the individual works, or is there a central organisation or institute which is partially funded?

QUALIFICATION OF PARTICIPANTS

This is probably the most important point I would like to make. The long term development of a capital market has to have amongst its building blocks well trained and qualified market participants who perform to a minimum standard.

Most markets have a minimum standard for dealers and frequently for those giving investment advise. However, do they have a training programme to support the qualification process, and how rigorous is it? Such programmes should have as a

Key aim of training, the promotion of high standards of professional competence.

They need to consider:-

- training to achieve qualifications which demonstrate achievement of the regulatory authorities' minimum (benchmark) standards of knowledge,
- training to equip staff with specialist roles within their organisations.

THE UK EXPERIENCE – QUALIFICATION

Until recently, it was the responsibility of UK Self Regulatory Organisations (SRO) to ensure that individuals involved with UK financial markets met the criteria appropriate to the role they were to perform.

The UK now has a new authority, the Financial Services Authority (FSA), which will be taking over this responsibility. The FSA is a new single statutory regulator for financial services, which combines prudential, conduct of business and market conduct regulation across the full range of financial services.

Financial Services Authority

The FSA believes that requiring an individual to obtain approval before he is permitted to carry out a specific controlled function is consistent with the concept that authorisation processes are the first step in risk based regulation. The proposed criteria they will use covers three groups of factors:-

- honesty, integrity and reputation;
- financial soundness; and
- ***competence and capability***

When it comes to the determining of a person's competence and capability, the FSA will have regard to, but not be limited to:-

Whether he satisfies the requirements of the FSA's Training and Competence regime in relation to the function he performs.

Whether he has demonstrated by experience and/or training that he is able to perform the function he is intended to carry out.

This means there has to be a formal mechanism for training and assessment.

It is also worth mentioning here that the FSA has amongst its statutory objectives the following:

"Promoting public understanding of the financial system, including promoting awareness of the benefits and risks associated with different kinds of investment or other financial dealing".

Here we see what could be interpreted as a training need - to educate the public.

The Securities Institute

In the UK, the Securities Institute has established an examinations board which offers a range of industry-relevant qualifications, many of which, if passed, will demonstrate to the FSA that the compulsory benchmark standard of knowledge has been achieved.

The Securities Institute and a number of other organisations in the UK provide training courses for the various examinations to achieve qualification.

The US - Securities and Exchange Commission

The SEC, as the senior regulator in the US, has a commitment to training. It has a technical assistance programme that helps emerging foreign securities markets to develop regulatory structures that promote investor confidence. The technical assistance programme is multifaceted and includes training programmes. In 1977, the US Office of International Affairs provided US training for 341 market officials from 91 countries.

The cornerstone of their training programme is the International Institute for Securities Market Development.

EXPERIENCE OF CROWN AGENTS FINANCIAL SERVICES LTD

Crown Agents Financial Services Limited (CAFSL) is a bank, authorised under the UK Banking Act 1987, providing banking services to the clients of Crown Agents and to the Crown Agents group. CAFSL is a wholly owned subsidiary of the Crown Agents.

CAFSL provides financial advisory and training services to clients in the public and private sectors world-wide, including international development agencies, central banks, ministries of finance, development banks and commercial banks. In providing advisory services, CAFSL works with and draws upon the resources of the Crown Agents group and an extensive network of senior international banking and financial consultants.

Crown Agents for Overseas Governments and Administrations Limited is a private limited company which provides, on commercial terms, services which assist in the process of development. It is owned by the Crown Agents Foundation.

Operating in over 100 countries, Crown Agents provides procurement and professional services to governments and public bodies, as well as to major international development and assistance organisations. The group's professional and institutional development businesses provide project management and human resource development across a range of disciplines. In the past, CAFSL has provided financial advisory and project management services in the following disciplines:-

- capital market development;
- commercial banking operations;
- central banking operations;
- debt management;
- financial training;
- aid management and disbursement.

Crown Agents and CAFSL offer:-

- a well established reputation for integrity and reliability in the delivery of services world-wide;
- a global network of links;
- in-house technical expertise including banking and financial consultancy;
- proven capabilities and practical experience of institutional development and restructuring sponsored by international agencies;
- human resource management and development programmes.

Crown Agents has its own international management training centre in the UK delivering an extensive range of training courses to overseas delegates. Included in those courses are financial courses which specifically target delegates from commercial and central banks. CAFSL, as a bank, plays an active role in planning and delivering bank related training in a wide range of subjects, including:

- Bank Lending for Developing Economics
- Development of Capital Markets
- Debt Management Strategies for Sovereign Debt
- Specialist Courses for Central Banks and Government Ministries
- Financial Management of Development Projects
- Computer Applications in Finance and Accounts
- Accounting Management
- Improving External Audit Skills
- Computer Audit
- Treasury Controls Within Banks
- Pensions Administration
- Regulation and Supervision of Financial Institutions
- Foreign Exchange Dealing
- Reserves Management for Sovereign Reserves
- Combating Economic Crime
- Commercial Law and Practice
- Accounting for Non-Financial Managers
- Internal Audit for Banks

This project will build upon CAFSL's extensive experience in training senior staff from transitional and developing economies.

Crown Agents' international network of offices plays a vital role in the management of projects, and we are well represented throughout Africa with offices in Ghana, Kenya, Malami, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Tanzania, Uganda, Zambia and Zimbabwe.

CHAPTER 29

SPECIFIC ISSUES FOR TRAINING STAFF IN TRANSITION COUNTRIES

Dr. Ulrich Camen
Program Director, Monetary Sector and Financial Reform Program,
Graduate School of International Studies, Switzerland.

STATUS OF THE DEVELOPMENT OF FINANCIAL MARKETS IN SUB-SAHARAN AFRICA

In describing some of the training needs and possible response, we realize that they are limited and there are many aspects to look at.

Financial systems in African countries have undergone drastic changes since the second half of the eighties. In all countries we have financial liberalization. A large number of countries in SSA have fully abolished interest rate and credit controls (19 out of 43 countries) and a majority of SSA countries (24 out of 43 countries) are in the process of financial liberalization.

Important challenges are still ahead. Currently, a large group of SSA countries (32 out of 43 countries) are in the process of developing financial markets. Many countries have by now primary markets, but lack secondary markets for T-bills and markets for long-term fixed income securities.

One of the main challenges facing almost all African countries in the next few years will be the strengthening of primary markets and the development of secondary markets for fixed income securities.

A crucial condition for the development of financial markets, which is often neglected, is the availability of trained and motivated market participants. Humans are in the center of the market. Human capital is crucial in the financial industry where the interpretation and assessment of information is vital. It is therefore important that not only lip service is paid.

TRAINING NEEDS AND AVAILABILITY OF TRAINING IN AFRICAN COUNTRIES

In the group of countries that are in the process of developing financial markets, there exists a wide range of training needs:

- Basic vocational training for dealers, brokers back-office staff, and regulators.
- Highly specialized training in the operation of trading systems and book-entry systems, as well as the supervision of financial markets.
- University level training; especially undergraduate and graduate level training in finance.

While basic professional training in banking is available in most countries, systematic training for dealers and back-office staff are not available in many African countries, with the exception of South Africa and Zimbabwe as well as Kenya.

TWO SPECIFIC ISSUES FOR TRAINING STAFF IN TRANSITION COUNTRIES

A large part of training in the area of financial markets is commonly on the job training. The scope of on-the-job training in African countries is somewhat limited in many areas since the practice for which people need to be trained often does not exist in a country. It is therefore not sufficient to learn existing practice, but learning has gone beyond this practice.

Working in a market economy and liberalized financial markets requires fundamentally different skills than wok in a command-type economy. Given that many African countries had administered financial systems in the past, training needs to bring about a shift in the mindset of staff from a command-type to a market-type economy.

FEATURES OF A TRAINING PROGRAMME IN COUNTRIES WHICH ARE IN THE PROCESS OF DEVELOPING SECONDARY MARKETS

Emphasis should be given initially to basic vocational training that gives staff a sound working knowledge of money and foreign exchange market products and a good practical understanding of the functioning of financial markets.

Training should be systematic, giving the possibility to upgrade knowledge in line with market developments and needs and leading to recognised professional degrees.

Training offered should be organized in accordance with international practice and based on syllabus and examinations designed by international professional associations.

This links up to the theme of the conference, Globalization of African Capital Markets: Risks and Benefits. An important condition for realizing the benefits of globalization is that market participants in Africa use the same language and practice that is used internationally. Training that is based on a similar syllabus also has important advantages for the harmonization and integration of African financial markets.

In concluding, let me mention two training activities that should be considered:
- Basic vocational training co-ordinated with that of appropriate international professional associations and based on their syllabus and examinations.

This would be important to provide market participants with sound working knowledge in foreign exchange and money market products.

- Executive courses for mid-level and senior management, which are adapted to the specific African situation.

Apart from standard courses, such as bond portfolios and interest rate management courses of specific interest in Africa, such as financial market development, could be offered.

CHAPTER 30

TRAINING AND CAPACITY BUILDING: DISCUSSION AND SUMMARY

QUESTION

How is the problem of brain drain being addressed?

ANSWER

In trying to find a solution to the brain drain problem, we bond people who have been trained by the company for a number of years, and the also require guarantors from outside the company to guarantee the bond. Also, to ensure retention of trained staff, we should try to make the institutions attractive enough to retain the employees.

CONTRIBUTION

There were other key components of capital necessary for a balanced development. Beyond financial capital, the speaker wondered how we could mobilise other capital, e.g., human capital. He thought that human capital was another relevant factor that should be taken into consideration. If companies could sponsor university courses and design courses in financial management that could help in the sense that students would already be exposed to the area and this would help to train people at that level. He also thought that, they could recruit people with basic university education or qualification and train them.

Others suggested that students in high school be introduced to financial management. Somebody gave an example of a company that organizes training for students, Junior Achievement.

QUESTION

Who would benefit from the training and who bears the cost?

ANSWER

The direct cost is borne by the company, and the indirect cost is that of exit from the company, i.e., trained personnel who move from the company to another company.

CHAPTER 31

CAPITAL MARKET INTEGRATION – THE ROLE OF OAU AND AEC

Fred Alipui
Head of Division, Trade, Tourism, Customs and Finance
OAU/AEC

The heads of state and governments of Africa have established the African Economic Community and the legal instruments have been signed in Abuja. It is legally in force and the OAU secretariat, which has be designated as the secretariat for this purpose is currently implementing it. This is currently being implemented as directed by the presidents of Africa through the regional economic communities, namely ECOWAS, COMESA, SADC, ARAB MAGRAB and CEMAG. At the operational level, we have found the need whilst working with ECOWAS to deal with the CFA zone, although legally it is not a regional community. We have the five regional communities, which are building blocks.

Now coming to this forum, the focus is on how the Organization of African Unity and the African Economic Community can work with the African Capital Markets Forum (ACMF) to implement Articles 44 and 45 of the Abuja Accord. The ultimate objective of the mandate in this sector is to create an African economic and monetary union. The monetary union envisages that eventually there should be a single African currency, a single African central bank, a mechanism to be put in place for the co-ordination and harmonization of economic policies and the harmonization of monetary and financial committees in due course.

The African Economic Community would be put in place over a period of thirty-four years. There are several stages through which this process should go. On the other hand, there are people who think that the world is globalising so fast that why do African leaders want to create an African Economic Community after thirty-four years? To present it dramatically, I would refer to what the great leader Mummar Gaddafi said at the OAU summit. He said 'you wanted to create an African economic community since 1945 when you held a congress on Pan - Africanism in Manchester, before the Europeans signed their treaty of Rome, but now they are about to use the single currency and you still want to have the African economic community in thirty-four years.' So he called for an extraordinary summit which will take place in about two weeks in Algeria to see how this position could be reviewed. That is just on the side of those groups of countries that are labeled as idealist or progressives.

Apart from creating a monetary union, the Abuja treaty envisages the creation of an African common market. This market is envisaged as a stage whereby the free trade area that is going on now in SADC, COMESA, ECOWAS and other parts of Africa will converge into a continental customs union and a common market. These are supposed to precede the African monetary union. In fact, it is not possible to compartmentalize the stages because some of them are running concurrently. However, it is envisaged that during stages two and three, the regional economic areas will converge into an African common market. For the process that is going on in the monetary and financial sector, it is important to take cognizance of this parallel development.

For the information of this meeting in April, the first stage for creation of the African economic community ended after running for five years since it came into force in 1994, although the treaty was signed in 1991.

Now at the last Council of Ministers of the African Economic Community, it was decided that a thorough study should be undertaken in order to review the success and pitfalls in the implementation of the first stage. As I said, one cannot compartmentalize the process. In this regard, it is important to note that the COMESA region have decided to embark on a voluntary currency convertibility. These are all processes that must be taken into consideration when policies are being put in place at the African Economic Forum. In the ECOWAS region, the OAU project, which we call the policy analysis support unit, has subcontracted ECOWAS to undertake a study on the convertibility of the West African currencies. The first draft of the report is ready and would be published soon. The relevant financial and economic counterparts would be translated into policy at the ECOWAS summit.

This is just to give you an idea of the operational framework, which is being laid, so that whatever is taking place in your capitals, you might want to know that there is a legal framework. As you commit yourselves to other partners, African and non-African, you might want to know that there is a legal framework at the highest political level.

CHAPTER 32

CAPITAL MARKET INTEGRATION – LATEST DEVELOPMENTS IN THE SADC REGION

Jeffrey Ngobeni
Manager, Research and Development
Johannesburg Stock Exchange

You are probably aware that, the SADC region involves about fourteen countries. Within that group we have nine working stocking exchanges, namely Namibia, Botswana, Mauritius, Swaziland, Zambia, Tanzania, Zimbabwe, Malawi and South Africa. However, we do have a committee, which is known as the SADC Committee of Exchanges, which is all embracing (including everybody in the region). We have had a series of meetings, about eighteen to date. During those eighteen meetings we have deliberated on how to rationalize operations in the region, harmonize listing requirements in the region rationalize and harmonize clearing and settlement systems within the region. To date we have managed to finalize issues relating to the harmonization of listing requirements, which means, in effect, that through constant discussions and deliberation, we have all agreed that we will have one set of listing requirements for everybody in the region. We thought this was a significant achievement on the part of the stock exchanges in the region and we also look forward to getting a commonality in terms of clearing and settlement systems and in terms of electronic trading systems.

The Johannesburg Stock Exchange has also had a memorandum of understanding and co-operation with the Namibian and Ghanaian stock exchanges. The one with Namibia relates more specifically to the electronic trading system that they are utilizing at this point in time. Such a system has been introduced and made accessible to all other members of the SADC region, especially SADC members of the Committee of Exchanges. So hopefully we should be able to rationalize some of the systems and present a much more formidable region.

At the same time we have the African Stock Exchanges Association (ASEA). It does give an impression of fragmentation and my belief is that the sooner we got commonality in terms of either understanding or a Memorandum of Understanding between the various exchanges in the region the better it would be for all of us. To date we have not had as much discussion and agreement within ASEA, as those in the SADC region; and that is something that I feel we should improve upon.

Certainly we have had quite a number of discussions and issues relating to other issues that we think the SADC Committee of Exchanges should achieve. Amongst those would be investor education and the establishment of a common entry-level exam for all stock-brokers.

Last week, Monday through Wednesday, there was a SADC summit that was held in

Mozambique. Some of the resolutions that were passed were the relaxation of visa requirements, encouragement of crosslisting amongst the SADC region, complete removal of exchange controls and stimulation of cross border investment. These were some of the issues that were identified in the summit that needed to be promoted. To a large extent, exchange controls have been removed from the South African side and through the SADC Committee there have been agreements regarding the level of amount of investment that can take place in the region; e.g., South African companies and vice versa can invest up to fifty million rand either way across borders without any restrictions and, of course, with regards to capital markets, two percent of listed market capitalization could also be crosslisted across the stock exchanges. Those are some of the developments that have taken place within the region which surely augur well, for not only the SADC region, but also sub-Saharan Africa if ever we get agreements and commonalties in terms of our working relationships.

CHAPTER 33

CAPITAL MARKET INTEGRATION - THE LATIN AMERICA AND THE CARIBBEAN EXPERIENCE

Dr. Kenroy Dowers
Financial Sector Specialist
Inter-American Development Bank

MOTIVATION

I think it is very important to realize from the context of motivation (within the Latin American region) that competition is global and that it has significant implications in three areas:

- Revealing new opportunities, both internal to our countries and emerging economics and also external.
- The second issue has to do with volume. Volume would migrate to more established exchanges, if we do not create the right conditions and procedures. An example is what has happened in the Latin Americas and the Caribbean. There are more than fifty Latin American Depository Receipts (ADR) listed on the New York Stock Exchange. Fifteen equity options and two equity indices are listed on the Chicago Board of Options and Exchange, the Chicago Board of Trade and the Chicago Mercantile Exchange list futures and options of the Brazilian and Argentine Brady bonds and the Chicago Mercantile Exchange trades in Mexican Peso and the Brazilian Cruizeiro. The implication is very clear: if we do not do something internally, somebody would do that for us.

- I think what regionalisation also fosters is a need to realize that there are international standards that are required. I will give you some of these international standards, although I know for those of you who work in the area you might already know them. The International Accounting Standards of the International Accounting Standards Committee (IASCO) has identified a framework within which accounting standards ought to be utilized. We have the G-30 recommendations for clearance and settlement, which came out in 1989, which have since been updated by the ISSA. We have the IOSCO principles of securities regulation which have to be facilitated; and then we also have something which came out recently- the OECD principles of corporate governance, which takes me to the second point.

  The issue of resource capabilities is important. Internally we have the resource capabilities to be able to adequately put up with these requirements of international standards.

  I think it is important to realize what the motivation is, and that has to do with what is called disynergy. Now I want to give you guys a quiz. Let us suppose you have two exchanges - a very efficient one with high standards of disclosure, and then we have another exchange with no standards, no disclosure, no infrastructure, but they are linked. What would you think the standard would be for the link, the high one or the lower one? From an external entity looking at the link, he or she would think it is the standard of the lower one. When there are disynergies in place, even if you attempt to have harmonization in certain areas, unless you bring every one up to a particular standard, you do not necessarily eradicate the necessary risks within the systems.

The final point on motivation has to do with the fact that there are already existing linkages in place on trade or on different types of activities and this serves as a catalyst for what could be realized within the financial sector. For example in the Latin American region, perhaps we have the Latin American Integration Association, The Andean Community, which consists of Peru, Bolivia, Venezuela, Ecuador and Paraguay; the Central American Common Market, the Caribbean Common Market; MERCOSUR, which comprises the southern cone countries, namely Argentina, Brazil, Chile and Uruguay; and we have the Free Trade Association of Americas.

Benefits of Integration

- In Trinidad and Tobago we have 1 million people; in Jamaica we have 7 million; in Barbados 250,000 people; and in the Bahamas less than 200,000. They each have independent stock exchanges. My personal belief is that there is no need for that. The volume is not sufficient. It does not allow for appropriate price discovery.

- Higher volumes foster lower trading costs.

- It is important for stimulating confidence, both internally and externally, to ask yourself the question: Where do you feel more comfortable? In the Caribbean Stock Exchange or the Bahamas Stock Exchange?

Challenges

As I said, there are specific challenges. There are challenges in terms of:

a) National pride: Coming from the Caribbean, these are issues that we always had to deal with. That is, from our colonial past we had something called the mercantile system (in a sense the best way to rule a colonial empire is of course to divide and rule), the metropolis being the colonial power at the time. This has created a certain fragmented approach in which we view our economy and ourselves and I think that this has been a hindrance. National pride is critical. We each want to have our local exchanges -probably not a rational decision, but it is something that is driven by other factors. Not withstanding national pride, it is important to realize that synergies are more important than individual benefits.

b) Proprietary interests - Most of the time, stock exchanges are developed by certain individuals of the private sector. One of the areas where this is evident is the development of multiple exchanges in small communities. Do we need two exchanges in Bolivia with three million people? This stifles development in the market place and creates competition internally.

Approach

Finally we have heard a lot from Jeffrey and Mr. Gozan regarding the specific areas of cooperation and the issue of the Memorandum of Understanding. Let us start with something easy, let us start with success behind us, then we think of harmonizing rules and regulation in terms of harmonizing education. E.g., Council of Securities Regulators of Americas (COSERA), it is a body of regulators that has a secretariat to facilitate development of market infrastructure, training and education in the region, that is a possibility you can look at.

We have to focus on standards and best practices, we have to develop standards and best practices that are functioning. If we could focus on these, we can later on use that as a basis for additional types of harmonization and integration.

I thank you very much for the opportunity to speak, and I think I have enjoyed being at this conference.

CHAPTER 34

CAPITAL MARKET INTEGRATION – FRANCOPHONE WEST AFRICAN EXPERIENCE

Kokou Gozan
Chief Executive, La Bourse Regionale de Valeurs Mobilieres (BRVM)
Abidjan, La Cote d'Ivoire

Our experience when we started in 1991 was that every country wanted to have a stock exchange. The Ministry of Finance of the Union decided that we should have one stock exchange for all the countries because integration was the mode. Important for this mode of integration was that all the countries had the same currency and the same central bank. This made it easier to create one stock exchange.

To arrive at this goal of one stock exchange we had to pass some laws to oblige all the countries to move in the same direction. Therefore, various parliaments voted into law the decisions of the Ministry of Finance and this law is the basis of creation of the stock exchange. Today, through out all the countries, the companies have to observe the same process to list on our stock exchange, we have the same commission controlling the brokers and all the companies listed on the exchange.

Now the problem of integration in West Africa is not an issue between the eight countries in this union, because they have common currencies. The problem is how to harmonize our stock exchange rules with other stock exchanges in the ECOWAS region. We have to identify some points which are necessary to harmonize.

I think that it is very important that we do not operate differently, such as T + 5 settlement after trading on one exchange and T + 15 for another exchange. Another important point is that we must observe the same rules to list companies on the stock exchange and the same information control. When I am in Ivory Coast and I have to buy shares on the Nigerian Stock Exchange, I must be sure that the same rule applies in Nigeria for information on companies.

I have to emphasize that today we have to find together the main points we have to harmonize. I think that the proposed listing of ECOBANK on the three stock exchanges in the year 2000 (i.e., in Ghana, Nigeria and BRVM) would be an opportunity for us to know what points we have to harmonize.

One principal problem is that of custody. We have to have a custodian for all the shares. This is very important, because if you are in Liberia and you buy a share of Ecobank on BRVM and your share is in Nigeria, you must have all the assurance that the share is conserved in a secure form.

CHAPTER 35

CAPITAL MARKET INTEGRATION - DISCUSSION AND SUMMARY

CONTRIBUTIONS

- Most speakers have outlined the virtues of integration, what has to be done, etc. One thing, which should not be an issue of financial integration, is the need to tackle each section differently; i.e., banking, insurance, stocks, etc. An example is that in Mauritius the Central Bank decides to increase interest rates, the bond markets do not react, neither do the stock markets, and therefore there should be consolidation and efficiency at the national level before integration. In the European Union, there is a well run financial sector, which has been integrated totally.

- What we need to do to integrate the financial markets is to tackle financial reforms in a holistic manner and avoid the piecemeal approach we have here in Ghana, where we bring in consultants to tackle insurance reforms, then the next time it is the money markets and the next the banking sector, etc. We need to set up a National Commission on Financial Reform to review comprehensively the financial sector.

- In the SADC region, in order to tackle this financial sector reform we started banking sector reform, which is focused on improving the cheque clearing system in banks so that cheques can have the same day value and this is by using electronic clearing systems in the individual countries. In South Africa, when clearing and settlement systems were initiated it was from the Chamber of Banks to the Central Market to bonds and stocks, but it is not yet complete. I think this is also partly due to the human factor where people feel a little uncomfortable about the fact that they may loose their positions, etc. We, however, have a committee of regulators of insurance, securities and non-banking financial sectors; and this has resulted in all the regulators agreeing to a memorandum of understanding to correlate efforts on training and licensing for intermediaries.

- In the CFA zone, what happened was that reforms were initiated in all the other sections of the financial sector so all of us worked together. We did not want to finish one section before we tackled another. I think basically what we have to do is get a common direction of financial sector reform in each country and then we can tackle it across the countries.

QUESTION

In European Economic Community, when fourteen member countries got to rationalize their financial system, they began with the Central banks. The central banks had to be independent, set inflation targets, unemployment rates, debt-to-GDP ratios. This began to streamline them. In contrast, what did the CFA zone do?

ANSWER

In the CFA zone it was easier for individual governments to accept one stock exchange because most economic reforms were done together. Eight countries had decided to harmonize monetary and fiscal policies and this was successful because all countries had gone through economic reform.

QUESTION

What could be the role of international entities in this process of integration?

ANSWER

I think they can play a major role as an international advisory council to give guidance and direction to a Committee of Exchanges when one is formed in the areas of education, regulation and control. I think leadership of this Committee of Exchanges should be local with minimal interference. An example of this is the relationship between the Canadian and American Stock Exchanges and the Latin American Stock Exchanges.

SUMMARY

THE NEED FOR INTEGRATION

The session on capital markets integration ended with emphasis on the following:

- That competition is global and that integration reveals new opportunities both internal and external.

- It helps us to create the right environment and procedures to cater for the volume of capital that it creates. It helps us to come out with a better market than the individual exchanges could have provided.

- It would help us improve on the resource capabilities of our individual markets so that we can meet international standards.

- It would serve as a catalyst to enhance already existing linkages within the financial sector between the individual countries whose capital markets have been integrated.

- It helps to create volume, which in turn creates liquidity and allows for efficient price discovery.

- It fosters lower trading costs.

- It stimulates confidence both internally and externally in the market.

HOW TO INTEGRATE

Having outlined the need and benefits of integration, the question was how to integrate such a large number of countries. The following steps were therefore recommended:

- It was agreed that the first step was for all the countries to move in the same direction; that is, to have the same aim, to integrate. Then the appropriate steps would be taken to reform the whole of the financial sectors of individual countries to meet the criteria necessary for this integration (an example of this what the CFA zone did to achieve BRVM). This would be in line with the objective of the African Economic Community of the OAU secretariat, which seeks African economic and monetary union. This objective is currently being implemented through the regional economic communities by a legal instrument signed in Abuja.

- The next step would be to identify processes that need to be harmonized between individual country's stock exchanges and also across the regional economic communities (SADC, ECOWAS, etc.). Some of the processes, which need to be harmonized, include listing rules and requirements of companies to be listed on the exchange, legal framework, etc.

In the mean-time individual stock exchanges have to reach understandings with each other to foster relations between the various exchanges. Work should be enhanced in the various regional economic communities to harmonize their individual stock exchanges (as is being done in the SADC region) to form regional stock exchanges, so that it would be easier to form a single African Capital Market at the opportune time.

CHAPTER 36

THE REGULATION OF EMERGING CAPITAL MARKETS

Ester Saverson, Jr. [1]
Assistant Director
Office of International Affairs
U.S. Securities & Exchange Commission

I would like to discuss the role of capital markets and the role of governments in developing and maintaining fair, efficient and effective capital markets.

The Role of Capital Markets

What is the basic role of capital markets? The reason capital markets exist, or should exist, is to mobilize domestic savings and make them available to investors.

Attracting foreign investments may be a goal, but not your primary goal. A fair, efficient and effective domestic capital market is the best way to attract foreign capital.

Capital markets must be designed to promote capital raising. Capital markets, to have any real economic impact, must have real investments that will create real jobs and real growth. Capital markets that do not promote capital raising are merely gambling establishments where high risk adventurers trade pieces of papers of dubious value and have little or no real economic impact.

The primary market, as well as the secondary market, must be developed to have a fair, efficient and effective capital market that promotes real investments. These markets go hand in hand. A capital market, not only helps to mobilize savings, but it also:

- Provides intermediaries for buyers and sellers;
- Provides liquidity;[2]
- Reduces costs of capital formation; and
- Provides price discovery.[3]

1 The Securities and Exchange Commission ("SEC"), as a matter of policy, disclaims responsibility for any private publication or statement by any of its employees. The views expressed herein are those of the author and do not necessarily reflect the views of the Commission or of the author's colleagues on the staff of the Commission.

2 "Liquidity" is the state of a market in which an immediate transaction of a reasonable size does not cause more than a reasonable variation in price.

3 "Price discovery" is the process by which the interaction of the buyer's demand and the seller's supply establishes a price for a security.

THE ROLE OF THE GOVERNMENT

The government's role is to provide the climate for capital formation. The factors that help promote a healthy climate for capital formation include:

- Economic and political stability;
- Sound and consistent fiscal, monetary and economic policies (including policies that promote domestic savings);
- Open foreign exchange markets that facilitate both inflow and outflow of capital;
- Equitable tax treatment of income from different types of financial instruments;
- Appropriate legal and accounting frameworks; and
- A securities regulatory framework.

Because I am a securities regulator, I will focus my remarks on the last item, a securities regulatory framework. However, I would like to say a few words on having appropriate legal and accounting frameworks.

LEGAL FRAMEWORK

It is imperative that a jurisdiction have laws that are compatible with the formation of capital and the trading of securities. Governments need to review their laws to make sure they are compatible with the fair, efficient and effective operations of a capital market. Those laws include:

- Company law;
- Contract law;
- Commercial code;
- Banking law;
- Custody law; and
- Bankruptcy law.

A good legal foundation is needed to have a strong capital market. A good legal system also is needed that provides timely and effective enforcement of these laws by both the government and the private sector.

ACCOUNTING FRAMEWORK

Financial accounting standards are the cornerstone of a regulatory framework built on the idea of full and fair disclosure. Accounting standards should be designed to make sure a company's financial statement is an accurate picture of the financial health of that company. Financial standards should be investor oriented. In other words, the standards should make sure that financial statements provide the relevant (material) information to investors, so that investors may make informed investment decisions.

A public company's financial statements should be subject to verification by an independent accountant. Sound auditing standards are needed so that an independent accountant may assess the fairness of the company's financial statements.

Someone needs to set those accounting and auditing standards. I prefer having the private sector set the standards and having the securities regulator perform an oversight role. Regardless of who sets the standards, the standard making process should be open to review and comment by issuers, market intermediaries, investors and the general public. Transparency in the standard setting process helps to assure fair and sound standards that are investor oriented.

THE REGULATORY AUTHORITY

The objectives of securities regulation should be to protect investors:
The important regulatory goals are:

- The full and fair disclosure of information material to investment decisions;
- A fair, orderly and transparent market;
- The prevention of fraudulent conduct and transactions; and
- The prompt accurate clearance and settlement of securities transactions.

Regulation also should not impede competition.

Regulators need the regulatory authority to act independently and decisively and to preserve market integrity.

Regulators should have the authority to:

- Regulate the issuance of securities for public sale and publicly-traded issuers;

- License market participants:

    - broker-dealers,
    - collective investment schemes,
    - investment advisors and
    - transfer agents [registrars]);

- market infrastructures:

    - securities trading markets,[4]
    - self regulatory organizations,
    - membership organizations of market participants ("Participant Organizations") and
    - clearance and settlement facilities;

- Rulemaking powers for all statutory authority; and

- Supervisory, inspection and examination powers.

The securities regulator must have the financial resources to hire and retain a qualified professional staff. In addition, the securities regulator should require its staff to adhere to the highest standards of ethical conduct to avoid even an appearance of impropriety.

REGULATING THE ISSUANCE OF SECURITIES FOR PUBLIC SALE AND PUBLICLY-TRADED ISSUERS

Disclosure Regulations

The securities regulator needs to have the authority to regulate the issuance of securities and the publicly-traded issuers. The goal is to provide investors with the information that is material to making an investment decision. Also, without adequate disclosure the investor and the market can not adequately price the securities (price discovery).

Regulation of public issues and public issuers by disclosure does not judge the merits of the sale of securities, but only requires that the issuer is truthful and discloses all material information about the issuer and the securities offered for public sale.

When a company wishes to raise funds by issuing securities to the public, the company as an issuer should disclose material information about:

- The issuer's finances and operations; and

- The securities offered for public sale (including what it plans to do with

[4] The term securities trading markets is being used to cover all organized securities markets, including exchanges and electronic trading systems.

the funds raised).

The securities regulator should also make sure investors are provided with relevant information to prevent misrepresentations, deceit and other fraud in the sale of securities.

Ongoing information is needed about the issuer to help the secondary market continue to fulfill its price discovery function. Timely disclosure of material information on issuers and securities offered for public sale is critical to market integrity.

Merit Vs. Disclosure Regulation

Some jurisdictions have what is called merit based regulation. The securities regulator evaluates the merits of the offer and decides if the issuer may offer the securities for sale to the public.

I believe disclosure base regulation is far superior to merit base regulation. Merit regulation leads to the inefficient allocation of capital.

First, merit base regulation replaces investors with the securities regulator as evaluator of the merits of the deal. Merit base regulation presupposes that regulators are better at determining what is a good deal. I would contend that investors' judgment, when armed with the material information needed to make an informed decision, is far superior to the judgment of a securities regulator.

Second, governments have social and political policies that may influence the merit decision process. These policies may cause governments to favor certain industries or companies over others.

Third, merit regulation is more susceptible to cronyism and corruption.. Under merit regulation, the decision of whether a securities offer is a good investment is made by government bureaucrats. Under disclosure regulation, the decision of whether a securities offer is a good investment is made by investors.

LICENSING OF MARKET PARTICIPANTS AND MARKET INFRASTRUCTURES

The securities regulator should establish licensing criteria for the various types of market participants and market infrastructures. As noted above, there are various types of market participants and market infrastructures that should be subject to licensing requirements. This section will focus on licensing for securities trading markets, Participant Organizations, clearance and settlement facilities and broker-dealers.[5]

Governments need to decide whether to have self-regulatory organizations ("SROs"). In other words, they need to decide whether market infrastructures should have the power to regulate their members.

---

5 This paper's primary focus is on regulation of the capital formation and the securities trading process. This paper does not discuss the licensing of collective investment schemes and investment advisors.

All markets will need organized trading markets and clearance and settlement facilities. It is a good idea to require them to regulate their participants and to give them the power to enforce securities laws and regulations.

Governments must also decide whether to have SROs that are Participant Organizations. The answer should be based on such considerations as:

- Size of the capital market;
- Number of market participants; and
- Ability of the Participant Organization to play a meaningful role in regulating market participants.

Broker-Dealers

The licensing requirements for broker-dealers should be based on the protection of investors, including safeguarding of customer funds and securities, and on curbing fraudulent and manipulative acts and practices. Licensing standards should cover:

- Prudent capital standards;
- Adequate operational standards; and
- Appropriate knowledge and skill level requirements for employees.

These licensing requirements must be ongoing obligations of the broker-dealer. A broker-dealer who fails to meet these requirements should lose its license.

A broker-dealer should be required to have the capacity to safeguard customer funds and securities. It should be required to maintain adequate records (including customer account records) and segregate customer funds and securities from its own. In addition, a broker-dealer should be prohibited from conducting fraudulent and manipulative acts or practices.

Securities Trading Markets

To obtain a license, the securities regulator should require a securities trading market to demonstrate it has the financial and operational capacity to meet its obligations as a trading market and to comply with the securities laws and regulations. It also should have rules to:

- Prevent fraudulent and manipulative acts and practices;
- Promote just and equitable principles of trade;
- Foster cooperation and coordination with clearance and settlement

facilities;

- Remove impediments to a free and open market;
- Protect investors and the public interest;
- Provide fair and adequate disciplinary procedures to enforce violations by its members of the securities laws and regulations, and its own rules;
- Provide fair representation of its membership in the election of its directors and in the administration of its affairs; and
- Provide for the equitable allocation of reasonable dues, fees and other charges.

In addition, the securities trading market should not have rules that are anti-competitive or that permit unfair discrimination between customers, issuers or broker-dealers.

<u>Participant Organizations</u>

The licensing requirements for an Participant Organization should require it to demonstrate it has the sufficient number of members, the sufficient geographical distribution among its members, and the financial and operational capacity to meet its obligation as a Participant organization, including its obligations to comply with the securities laws and regulations. It also should have rules to:

- Prevent fraudulent and manipulative acts and practices;
- Promote just and equitable principles of trade;
- Foster cooperation and coordination with clearance and settlement facilities;
- Remove impediments to a free and open market;
- Protect investors and the public interest;
- Provide fair and adequate disciplinary procedures to enforce violations by its members of the securities laws and rules and its own rules;
- Provide fair representation of its membership in the election of its directors and in the administration of its affairs; and
- Provide for the equitable allocation of reasonable dues, fees and other charges.

In addition, Participant Organizations should not have rules that are anti-competitive or that permit unfair discrimination between customers, issuers or broker-dealers.
Clearance and Settlement Facilities

The licensing requirements for a clearance and settlement facility should require it to have the capacity:

- To facilitate the prompt and accurate clearance and settlement of securities transactions for which it is responsible;
- To safeguard securities and funds under its responsibility; and
- To comply with the securities laws and regulations.

A clearance and settlement facility also shall have fair and effective rules that:

- Admit all qualified market participants needing access to its facilities;
- Provide fair and adequate disciplinary procedures to enforce violations by its members of the securities laws and rules and its own rules;
- Foster cooperation and coordination with clearance and settlement facilities;
- Remove impediments to and perfect the mechanism of a central system for the clearance and settlement of securities transactions;
- Protect investors and the public interest;
- Provide fair representation of its membership in the election of its directors and in the administration of its affairs; and
- Provide for the equitable allocation of reasonable dues, fees and other charges.

Clearance and settlement facilities should not have rules that are anti-competitive. In addition, securities regulators should make sure that clearance and settlement rules and procedures are designed to reduce credit risk, market risk, systemic risk and liquidity risk.

Credit Risk

There are two major tools to manage credit risk. They are:

- Financial and operational membership standards for clearance and settlement facilities; and

- Mechanisms to insure the simultaneous and irreversible delivery of securities in exchange for money to settle a transaction ("DVP").

Market Risk

The Group of Thirty has stated that netting is an effective settlement mechanism. However, the Group of Thirty recognizes that netting is not appropriate for many markets. In addition to novation, there are other recognized tools to reduce market risk. These tools include margin, buy-ins, and participants' deposits. Regulators and clearance and settlement facilities in emerging markets should evaluate these tools to determine if one or more of them are helpful to manage market risk in their markets.

Systemic Risk

All clearance and settlement facilities should have detail procedures and plans to assure:

- The safeguarding of securities, funds and the underling records;

- The integrity of their automated data processing systems; and

- The recovery from loss or destruction of securities, funds or data under a variety of contingencies that may arise.

Liquidity Risk

Clearance and settlement facilities need sufficient funds to perform their duties and to meet their potential clearance and settlement risk exposures in a timely manner. The lack of liquidity may delay settlements, cause participants to lose money and, most important, cause a lack of confidence in the clearance and settlement system.

RULEMAKING POWERS FOR ALL CONFIRMED STATUTORY AUTHORITY

As stated above, securities regulators should have rulemaking power for all statutory authority. The statutory authority and the rulemaking power should include:

- Disclosure regulations for public companies and the sale of publicly offered securities;

- Investor protection rules

- Oversight over accounting and auditing standards;

- Licensing and oversight market participants;

- Licensing and oversight market infrastructures;

- Open, fair and orderly trading market rules; and

- Sales practices rules.

Rulemaking should take place in an open and transparent environment. Rules should be proposed and published. The general public should have the opportunity to comment on these rules. Securities regulators should conduct rulemaking proceedings in an open forum where meetings, written communications and records are open to the public.

COMPREHENSIVE SUPERVISORY, INSPECTION AND ENFORCEMENT POWERS

The securities regulator should have the power to inspect the books and records of market participants and market infrastructures. It is essential that the securities regulator has the right to conduct routine and "for cause" inspections of market participants and market infrastructures. The securities regulator should be able to conduct such inspections without advance notice and at any time.

The securities regulator should have broad investigatory and enforcement powers to take action against any person whom it reasonably believes to have violated the securities laws or regulations. It also is essential that the regulator have authority to obtain testimony and documents from any person or entity (not just licensed persons or entities) whom the regulator reasonably believes to have information relevant to potential violations of securities laws and regulations.

The securities regulator should have a wide range of administrative, civil and criminal remedies. In addition, the regulator should have the power to publish a report of investigation or inquiry pertaining to any securities law matter.

Relying on criminal prosecution may not be the most effective way to enforce securities law violations. First, in many countries, a higher burden of proof is needed to convict a person. In the U.S., for example, any criminal violation must be proven beyond a reasonable doubt.

Second, criminal remedies may be an inappropriate or ineffective punishment. For example, criminal fines or imprisonment for a broker-dealer that failed to timely execute a customer's trade because of internal operating problems may be ineffective to solve the problem and too harsh for the violation. It would be better if the regulator had more flexible remedies to correct such violations.

Third, as is the case in the U.S., the securities regulator may not have direct authority to seek criminal sanctions. In these cases, the securities regulator must go to the appropriate criminal prosecutor. Many times criminal prosecutors may not have sufficient interest in such cases or sufficient knowledge of the securities law.

Relying on civil courts alone also may not provide the securities regulator with expeditious enforcement of securities law violations. In cases where swift action is needed, securities regulators need administrative powers to act quickly. Typically, securities regulators have the administrative power to:

- Impose appropriate sanctions to licensed market participants and market infrastructures (including censure, fines, temporary suspension, limitation on business or persons associated with a licensed entity, revocation of license);

- Bar persons who have violated securities, commodities or similar financial laws from being associated with a market participant or market infrastructure; and

- Issue cease and desist orders against any person who violates securities laws or regulations.

Granting the securities regulator the power to conduct administrative proceedings is a powerful tool for expedited enforcement of the securities laws and regulations. However, to insure fairness, any remedies ordered by the securities regulator should be subject to judicial review.

Regulators also should have the power to seek court orders enforcing the securities regulator's investigatory demands and administrative orders; appointing a receiver or trustee; recovering of assets for the benefit of injured investors, freezing of assets; and imposing monetary penalties.

Civil, administrative and criminal sanctions should not be mutually exclusive. Regulators should be able to refer for criminal prosecution any securities violations that may be prosecuted under civil or administrative proceedings.

Another effective enforcement tool is to allow harmed investors the right to seek remedies and damages for securities law violations. Properly structured, investor remedies and damages can play an important role in creating private investor incentives for securities compliance.

CHAPTER 37

CAPITAL MARKET REGULATION – DISCUSSION AND SUMMARY

QUESTION

The Ghanaian market is beginning to encounter problems with broker/client relationships which lead to loss of client funds. There have been some claims on the Ghana Stock Exchange Fidelity Fund. The problem is that the minimum amount required to be put in is ¢5 million and then we put in ten percent of the income we make in the course of the year. Almost all the claims that come in are well above the Fund's capacity. Now we are trying to find a way out of the problem and one of the recommendations that we have now is to encourage the brokers to take out fidelity insurance. The market operators do not appear to be keen on this since it involves a high financial outlay. It is in the interest of the market as whole that we protect the investors so that we do not lose the little confidence that they have reposed in us. What are your own views on this issue?

ANSWER

First of all, we do not require brokers to get insurance. We have very strict capital requirements, most people complain that we demand too much capital. We also have record keeping requirements that we strictly enforce. They are required to record accurately all transactions with customers, and all customer instructions. They are also required to calculate and send on a monthly basis to the NYSE and to the SEC what their net capital is. If they are not compliant, they go out of business and they are not given time to rectify it. So any day you find out you are below the required minimum net capital you are required to close down and not operate as broker/dealer until you get sufficient capital. This is designed as a major tool to protect investors in case the broker/dealer goes bankrupt. They are also required to keep separate accounts for their customers; and so when we go on inspection and find out that accounts are co-mingled, they are going to be in trouble. We also require them to have insurance against fraud committed by their employees in relation to their clients' money. Broker/Dealers are supposed to supervise their employees. We therefore punish them for illegal actions of their employees that affect their clients' money.

QUESTION

What happens when firms realize that they are below the minimum capital requirements and they borrow overnight to window-dress their accounts and escape punishment and return such borrowed money soon after that?

ANSWER

First of all, we can go in to inspect at any time. If your capital dropped 50% below what is required, you have to report it to us. If it dropped this low someone is going to be in your office everyday calculating your net capital. We will monitor you very closely and will advise you to put in more capital to avoid going out of business. You need a system that enables you to do this on a very frequent basis, either daily, weekly, etc. As a regulator, you will be working with scarce resources, and therefore you will need to rely on the honesty of your broker/dealers. If they are going to be honest, you have to make capital requirements reasonable, taking into account the strengths of the industry. If they cannot be honest and truthful, then they should not be in the business.

QUESTION

To what extent are you able to ensure that representations made in prospectuses are true?

ANSWER

If they falsify facts they go to jail or they are otherwise severely punished. We check this in different ways. You need to present a current statement of accounts when you file a prospectus. Your accounts must be approved by an independent accountant who signs his professional career away; and if it is wrong, he is out of business. It is less likely that any one would want to lie in order to make a few thousands of dollars and not be able be make any more money in his professional life because of that. Lawyers have to read over all the documents and are required to sign saying everything is in order to the best of their knowledge. They are also signing their livelihood away. Also they are required to disclose all relevant information to the investor so that they make informed decisions. If you said that I have no experience in manufacturing cookies, I like to eat them, but I do not know how to make them, so give me your money so I can work with it, so I can start a cookie business, I might do that, but at least I know what I am getting into and I cannot complain.

QUESTION

To what extent can an investor who has lost money due to improper supervision sue the regulator?

ANSWER

We are government, you cannot sue us. Investors have a right to private action and in the USA they sue for every little thing, including suing companies for misrepresentation, etc.

QUESTION

What has been the role of the regulator in the USA? Has it been the ultimate forum for redress or is it supervised by another arm of government? Under Ghana's current legal regime, the Minister of Finance is empowered to hear appeals against decisions of the Securities Regulatory Commission. Is this in line with the USA practice?

ANSWER

No. It is not a good idea because the Minister of Finance is subject to the political whims of the government and that will undermine the independence of the Regulator. In the USA, persons who are aggrieved by the decisions of the SEC can turn to the courts for redress.

CONTRIBUTION

There is a Bill currently waiting to be passed into law which seeks to strip Ghana's Minister of Finance of this power.

QUESTION

How far is the USA market deregulated?

ANSWER

I will not say that we deregulated. We are very careful in our regulatory process; our rules are very broad. For instance, we do not have rules against insider trading per se or rules against specific market manipulation. The rules say for instance that you cannot manipulate the market. We make them very broad because markets change and if there are specific regulations, they will have to be adapted to suit the changing market. However, we are able to do that because we are a common law country and that means we are able to determine our laws very liberally. You should ideally have a regulatory authority which has some legislative power so you do not have to go back to the legislature and wait so long to get laws passed.

QUESTION

I would like you to give us some examples of what the Self Regulatory Organisation (SRO) can do. For instance, can they send out bailiffs, etc?

ANSWER

SRO's can fine, they can suspend and revoke licenses. For instance, if you are a member of an Exchange which is an SRO, they can censure or kick you out of the exchange.

QUESTION

I agree, but how do they enforce these powers?

ANSWER

If you do not pay a fine for example, they can kick you out to enforce it and if the member in question does not agree with his fine, he can come to the SEC for a review and they will decided what is fair. Even though they have wide powers and authority, SROs have to exercise such authority in a fair manner, they cannot act arbitrarily or discriminate; e.g., you are my friend, so I will not fine you, or that I do not like you and so I will fine you. That will not work. And we also inspect SRO operations. We go there and we inspect how they treat their members. The New York Stock Exchange (NYSE) actually inspects its members. We look over the inspection reports to make sure they are looking at things they should be looking at. NYSE carries out surveillance over the market and gives us the report. The SEC does no surveillance of the market in terms of tracking, market price manipulation, insider trading, etc. We do have the capability to do that. We rely upon the NYSE and the other exchanges to have their own surveillance capabilities.

However, we ensure several times a year that they are doing their job. But also, they actually do it better and cheaper than we could do it. They have more efficient computers and more sophisticated systems than we have.

QUESTION

How do you make sure that they perform their regulatory duties in terms of sit downs?

ANSWER

We send our people out there two or three times a year. What we look at is whether there appears to be price manipulation. If it looks like there is a problem, we go back to the broker-dealers to find out who traded that transaction, which customers. If for instance Microsoft is taking over a company and it announced it the next day, if someone has bought an unusual number of shares, we go back and look at it, and if we realise he has never bought shares before, we get concerned.

The evidence might not have proved insider trading, but that raises a red flag. The regulators then send the case to the SEC, because they have no authority over customers; they have authority over broker/dealers.

We will then look at the records, to determine who is a kin to the customer, his dealings with the company, etc. And that is how we deal with the records before establishing a case.

QUESTION

Do you have to have your presence felt on the NYSE?

ANSWER

We are not there on a daily or weekly basis. We are not on the NYSE.

QUESTION

Because in many African markets you find that the SEC representative is on the market to even watch trade.

In Nigeria, when we had the call-over system, they were always there, so they saw what you did. Now with the move to automated trading, they are also there, they came in with their own surveillance systems.

ANSWER

We don't go to the NYSE on a daily basis. What we do when you go to inspect is to take samples. We may look at different dates where we think there might be problems with trading. It is their job to do surveillance, not our job.

Maybe out of a year, we may look at 3 days trading. If we find something wrong with those days, we will look at more. If you tried to catch everything, it wouldn't be cost effective.

QUESTION

Do you have any other market in the world apart from the USA where the SEC computer is linked directly to the trading centre?

ANSWER

Yes, mostly in emerging markets. You find that a lot in the former Soviet Union Countries, Eastern Europe, Ukraine.

QUESTION

You talked about contracts. When we were doing call-over trading systems in Nigeria, the contracts were signed by the brokers on page 3? Now with the automated trading system, some of the brokers do not want to sign, because everything is computerised and we cannot touch the records. Do you have contracts signed in the NYSE after trading?

ANSWER

No, because what happens is that, when you become a member of the Exchange, you sign a contract saying that you agree to be bound by electronic trade. You agree that settlement is going to take place within T+3. These are contractual terms already agreed to before the trade. That is how you create efficiency. This is why in the USA it is cheaper to do trading than anywhere else in the world.

QUESTION

Rule 17(f5) of SEC Rules of the USA says any custodian outside the USA is required to have a certain minimum capital to hold mutual funds in the USA. It seems that most of our companies in Africa could not offer custodial services, since they could not meet the requirements. The information now is that the requirement has been abolished.

ANSWER

No, it has not been abolished, but changed. We used to have a US dollar requirement and that was because we thought that was the best way of regulating. We put the requirement upon the mutual fund company so that once it invests money, there is a criteria, such as safety of the bank, the size of the bank, whether they have appropriate procedures and things like that. And they have to take a decision on whether they think it is safe. Now we can review the decision when we go in to inspect, and we do not think that it is right. What it is, is that if it is a national depository, it is automatically a good location for all securities; and this is probably a determination that must be made on an individual basis by mutual funds.

LIST OF PARTICIPANTS

ADDO DANIEL

Full Name: Daniel Addo
Job Title: Head of Financial Management
Company: Ghana Airways Ltd.
P. O. Box 1636, Accra
Ghana
Bus. Tel: 233-21-774063
Bus. Fax: 233-21-777078

ADDO ELSIE

Full Name: Elsie Addo
Job Title: Associate
Company: SEM International Associate
Suite 415, SSNIT Tower Block
P. O. Box CT 5790
Accra, Ghana
Bus. Tel: 233-21-7010250
Bus. Fax: 7010251
E-mail: Elsie@hotmail.com

ADIHYIRA EMMA

Full Name: Emma Adihyira (Mrs.)
Job Title: Deputy Head, Financial Markets Dept..
Company: Bank of Ghana
P. O. Box 2674, Accra
Ghana
Bus. Tel: 660807
Bus. Fax: 662996
E-mail: eadinyira@Yahoo.com

ADJIE SAMUEL ASHITEY

Full Name: Samuel Ashitey Adjei
Job Title: Treasurer
Company: Ecobank Ghana
PMB General Post Office
Accra, Ghana
Bus. Tel: 231933
Bus. Fax: 231934

ADU ANANE ANTWI

Full Name: Adu Anane Antwi
Job Title: Head, Corporate Finance & Investment Mgt.
Company: Securities Regulatory Commission
PMB Ministries, Accra
Ghana
Bus. Tel: 669019 / 303092 / 7010476
Bus. Fax: 663935
E-mail: sec@africaonline.com.gh

ADU ENNINFUL ELSIE

Full Name: Elsie Enninful Adu
Job Title: Head, Corporate Finance
Company: CDH Financial Holdings Ltd.
SSNIT Tower Block, 3rd Floor
Accra, Ghana
Bus. Tel: 667478
Bus. Fax: 662167
E-mail: elsie_adu@cdhghana.com

AFEDZIE EKOW

Full Name: Ekow Afedzi
Job Title: Snr. Manager, Marketing Research Systems
Company: Ghana Stock Exchange
P. O. Box 1849
5th Floor, Cedi House, Accra, Ghana
Bus. Tel: 669908
Bus. Fax: 669913

AGBETSOAMEDO BRIDGET

Full Name: Bridget Agbetsoamedo
Job Title: Consultant
Company: PCL Consulting Group
P. O. Box 16009
Airport-Accra
Bus. Tel: 779867-8
Bus. Fax: 778894
E-mail: PCL@ighmail.com

AUGUSTINE KWAKYE AGYEKUM

Full Name: Augustine Kwakye Agyekum
Job Title: Africa Research Analyst
Company: Standard Equities (Pty) Ltd.
Bank of South Africa
3 Simmonds Street
Johannesburg, 2001
RSA
Bus. Tel: 27 11 636 0468
Bus. Fax: 27 11 636 9311
E-mail: kwakye@scmb.co.za

AHENKORA EFFA

Full Name: Effa Ahenkora
Job Title: Consultant
Company: PCL Consulting
P. O. Box 16009
Airport-Accra
Bus. Tel: 772088 / 772091
E-mail: effa_ahenkora@hotmail.com

E-mail: sigma1gh@ghana.com

A

AIGBOJE HIGO

Full Name: Higo Aigboje
Job Title: Chief Operating Officer
Company: Counters Trust Securities Limited
1/5 Odunlami St.
Niger House (7th Floor), Lagos, Nigeria
Bus. Tel: 264 0160-9
Bus. Fax: 264 0173-4
E-mail: ctsl@fsdh.com.ng

AKAMIORKHOR GEORGE

Full Name: George Akamiorkhor
Job Title: Chief Consultant
Company: Capital Markets Development Centre
136 Lewis Street
P. O. Box 53888
Ikoyi-Lagos, Nigeria
Bus. Tel: 263 0530
Bus. Fax: 263 785
E-mail: a=cmcd@linkserve.com.ng

AKPAN W. OKOKON

Full Name: Okokon W. Akpan
Job Title: Manager, Director General's Office
Company: Securities and Exchange Commission
Plot 2001
Tafawa Balewa Way, Garki Abuja
Nigeria
Bus. Tel: 2346 593
Bus. Fax: 234 6276

ALIPUI YAO FREDERICK

Full Name: Frederick Yao Alipui (Ing.)
Job Title: Head of Finance, Monetary and Trade Div.
Company: OAU / AEC
P. O. Box 3243
Addis Ababa, Ethiopia
Bus. Tel: 251-1-51-2622
Bus. Fax: 251-1-51-2622
E-mail: FAlipui@hotmail.com

AMISSAH-ARTHUR K.B.

Full Name: K. B. Amissah-Arthur
Job Title: Senior Economist
Company: Sigma One Corporation
P. O. Box CT 4713, Accra
Ghana
Bus. Tel: 222274
Bus. Fax: 221094

AMONOO K. BENJAMIN

Full Name: Benjamin K. Amonoo
Job Title: Head of Administration
Company: Ghana Airways Ltd.
P. O. Box 1636
Accra, Ghana
Bus. Tel: 775023
Bus. Fax: 777078

AMPONSAH-DADZIE K. O.

Full Name: K. O. Amponsah-Dadzie
Job Title: Head of Operations
Company: NTHC Ltd.
P. O. Box 9563
Accra, Ghana
Bus. Tel: 238492-3
Bus. Fax: 229925

ANDAH KOJO

Full Name: Kojo Andah
Job Title: Chief Executive
Company: Sterling Financial Securities
P. O. Box CT 2932
Accra, Ghana
Bus. Tel: 762955
Bus. Fax: 762954

ANYEMEDU KWAKU

Full Name: Dr. Kwaku Anyemedu
Job Title: Legal Counsel
Company: Ministry of Finance
P. O. Box M40
Accra, Ghana
Bus. Tel: 668015
Bus. Fax: 667069

ANYINSAH H. G.

Full Name: Felix H.G. Anyinsah
Job Title: Head of Merban Stockbrokers Ltd.
Company: Merchant Bank (Gh) Ltd.
P. O. Box 401
Accra, Ghana
Bus. Tel: 666331-5
Bus. Fax: 667305
E-mail: felixanyinsah@yahoo.com

Company: University of Jos
Department of Accounting and Management Sciences
Jos, Nigeria
Bus. Tel: 234-73-456-469
Bus. Fax: 234-73-456-469
E-mail: Melvin@hisen.org

A

APALOO FRED

Full Name: Fred Apaloo
Job Title: Managing Director
Company: CDH Financial Holdings Ltd.
P. O. Box 14911
Accra, Ghana
Bus. Tel: 666041
Bus. Fax: 662167

APANKWA FRANCIS

Full Name: Francis Apankwa
Job Title: Corporate Finance Officer
Company: Ecobank
19, Seventh Avenue, Ridge West
PMB General Post Office
Accra, Ghana
Bus. Tel: 232044
Bus. Fax: 232096
E-mail: fapanka@ecobank.com.gh

APOTSI N. T.

Full Name: Mr. N.T. Apotsi
Job Title: Deputy Chief Executive
Company: Ghana Investment Promotion Centre
Ghana

ASHONG MICHAEL

Full Name: Michael Ashong
Job Title: Supervisor
Company: Ecobank Ghana
PMB General Post Office
Accra
Bus. Tel: 238606
Bus. Fax: 231931

AWUNYO RICHARD

Full Name: Richard Awunyo
Job Title: Consultant
Company: PCL Consulting Group
Opeibea House
Airport-Accra
Bus. Tel: 774275
Bus. Fax: 778894

AYOGU MELVIN

Full Name: Dr.Melvin Ayogu
Job Title: Economist

AZIAWA JOSEPH

Full Name: Joseph Aziawa
Job Title: Reuters Representative (Ghana)
Company: Reuters
Bus. Tel: 228539
Bus. Fax: 027-545877

B

BAETA-ANSAH STEPHANIE

Full Name: Stephanie Baeta-Ansah
Job Title: Managing Director
Company: Home Finance Company Ltd.
Ebankese
Accra, Ghana
Bus. Tel: 242090
Bus. Fax: 242095

BAIDEN JIM

Full Name: Jim Baiden
Job Title: General Manager
Company: Fidelity Discount House
20 Fidelity House PMB 43
Cantonments, Accra
Bus. Tel: 245853
Bus. Fax: 245851
E-mail: jbaiden@fidelityGhana.com

BARNES A. EBENEZER

Full Name: Ebenezer A. Barnes
Job Title: Senior Financial Consultant
Company: SEM Financial Associates
P. O. Box CT 5790
Cantonments, Accra
Bus. Tel: 7010250
Bus. Fax: 7010251
E-mail: abarnes@semfinancial.com

BELO-OSAGIE N. RILWAN

Full Name: Rilwan N. Belo-Osagie
Job Title: Managing Director
Company: First Securities Discount House Ltd.
6th Floor, Niger House
1/5 Odunlami St. PMB 12913
Lagos, Nigeria
Bus. Tel: 264 0160-9
Bus. Fax: 264 0172-3

E-mail: fsdh@fsdh.com.ng

Job Title: Managing Director
Company: CAL Merchant Bank
P. O. Box 14596
Accra, Ghana
Bus. Tel: 231949
E-mail: jude@calbank-gh.com

B

BENIMADHU SUNIL

Full Name: Sunil Benimadhu
Job Title: Chief Executive
Company: Mauritius Stock Exchange
2nd Floor "Les Cascades"
Edith Cavell Street
Port Louis, Mauritius
Bus. Tel: 230-212-9541
Bus. Fax: 230-208-849
E-mail: stxbeni@intnet.mu

BENTSI-ENCHILL KOJO

Full Name: Kojo Bentsi-Enchill
Job Title: Partner
Company: Bentsi-Enchill Letsa and Mate
P. O. Box 1632
Accra, Ghana
Bus. Tel: 221171
Bus. Fax: 226129
E-mail: belm@africaonline.com.gh

BILEY MARIE DÉSIRÉE

Full Name: Marie Désirée Biley
Job Title: Customer Support Executive
Company:Reuters
20, Blvd Clozel, Immeuble les Accacias
Abidjan, Côte d'Ivoire
Bus. Tel: 225-21-12-22

BONIN N.A.

Full Name: N. A. Bonin
Job Title: Interpretor
Ghana

BROWN PAA EKOW

Full Name: Paa Ekow Brown
Job Title: UNECA Consultant
Company: UNECA
117 Poeldtjkstraat
Amsterdam, Netherlands
Bus. Tel: 0031-626-554-2335
E-mail: PAPA85@HOTMAIL.COM

BUCKNOR JUDE KOFI

Full Name: Jude Kofi Bucknor

C

CAMEN ULRICH

Full Name: Ulrich Camen (Dr.)
Job Title: Economist
Company: Graduate School of International Studies
132, Rue de Lausanne
1202 Geneva
Switzerland
Bus. Tel: +41-227-348-950
Bus. Fax: +41-227-333-049
E-mail: CAMEN@HEi.UNIGE.CH

CHATMAN ERIC

Full Name: Eric Chatman
Job Title: Division Manager
Company: African Development Bank
01 Bp 1387
Abidjan, Côte d'Ivoire
Bus. Tel: 225-20-4146
E-mail: e.chatman@afdb.org

CLAYTON PHILLIP

Full Name: Phillip Clayton
Job Title: Economist
Company: Standard Equities
P. O. Box 61309
Marshalltown, 2107 Johannesburg
RSA
Bus. Tel: 27-11-636-2904
Bus. Fax: 27-11-636-0512
E-mail: clayton@scmb.co.za

D

DARKWA MAXWELL ADJEI

Full Name: Maxwell Adjei Darkwa
Job Title: Consultnat
Company: PCL Consulting Group
Opeiba House
Airport-Accra
Bus. Tel: 774275
Bus. Fax: 778854

DARKWA ROSALYN

Full Name: Mrs. Rosalyn Darkwa
Job Title: Investment Analyst

Company: Merchant Bank (Gh) Ltd.
P. O. Box M401
Accra, Ghana
Bus. Tel: 666331-5
Bus. Fax: 667305
E-mail: Merbanservices@ighmail.com

D

DAVIES JOHN

Full Name: John Davies
Job Title: Division Head (Policy and Special Investigation) Banking Sup. Dept.
Company: Bank of Sierra Leone
P. O. Box 30, Freetown
Sierra Leone
Bus. Tel: 226 501
Bus. Fax: 224 764

DEBRAH JOSEPH ABOAGYE

Full Name: Joseph Aboagye Debrah
Job Title: Legal Advisor
Company: Ghana Stock Exchange
5th Floor, Cedi House
P. O. Box 1849
Accra, Ghana
Bus. Tel: 669908 / 669914 / 669935
Bus. Fax: 669913
E-mail stockex@ghana.com

DIOP MAMADOU

Full Name: Mamadou Diop
Job Title: Advisor to the Governor (BCEAO)
Company: BCEAO
BP 3108
Dakar, Senegal
Bus. Tel: 221-839-0500
E-mail: mdiop@bceao.int

DJIN EVELYN

Full Name: Evelyn Djin
Job Title: Interpretor
Ghana

DOWERS KENROY A.

Full Name: Kenroy A. Dowers (Dr.)
Job Title: Financial Economist
Company: Inter-American Development Bank
1300 New York
New York
USA

E

EFFAH EDWARD

Full Name: Edward Effah
Job Title: Managing Director
Company: Fidelity Group
Ghana

DAISY EKINEH

Full Name: Daisy Ekineh (Ms.)
Job Title: Deputy Director, Research and Marketing Dev.
Company:Securities and Exchange Commission (Nigeria)
Plot 2001, Tafawa-Balewa Way
Area 7, PMB 315, Garki,
Abuja, Nigeria
Bus. Tel: 234-9 234 6593
Bus. Fax: 234-9 234 6276

EKOW ACQUAH ARHIN G.R.

Full Name: Acquah Arhin G.R. Ekow
Job Title: Head, Accounts and Market Surveillance
Company: SRC (Ghana)

ESTER SAVERSON JNR.

Full Name: Ester Saverson Jnr.
Job Title: Assistant Director
Company: US Securities Exchange Commission
450 5th Street, NW
Washington DC 20009
USA

Bus. Tel: 202-483-1653
Bus. Fax: 202-942-9524
E-mail: saverson@sec.gov

F

FAL GABRIEL

Full Name: Mr. Gabriel Fal
Job Title: Chief Executive
Company: CGF Finances
B.P. 11516
Dakar, Senegal
Bus. Tel: 221-821-0317-8
Bus. Fax: 221-823-3899

FILSON KWADWO B.

Full Name: Kwadwo B. Filson
Job Title: Deputy Director
Company: Ghana Investment Promotion Centre
P. O. Box M193

Accra, Ghana
Bus. Tel: 027-548303
Bus. Fax: 663807
E-mail: gjipc@ghana.com

F

FORSON ANGELA

Full Name: Angela Forson
Job Title: Analyst
Company: Databank Financial Services
5th Floor, SSNIT Tower Block
Accra, Ghana
Bus. Tel: 7010071
Bus. Fax: 6699100
E-mail: aforson@databank.gh.com

G

GADZEKPO KELI

Full Name: Keli Gadzekpo
Job Title: Vice Chairman
Company: Databank Financial Services Ltd.
PMB Ministries Post Office
5th Floor, SSNIT Tower Block, Accra, Ghana
Bus. Tel: 669110
Bus. Fax: 669100
E-mail: kekeli@databankgh.com

GBEGNON JOSEPH

Full Name: Joseph Gbegnon
Job Title: Fonde de Pouvoirs
Company: BCEAO
Avenue Abdoulaye FADIGA
BP 3108, Dakar Senegal
Bus. Tel:221-839-0500
Bus. Fax: 221-823-9335
E-mail: jgbegnon@bceao.int

GONZALES CÉSAR J.

Full Name: césar J. Gonzales Jr.
Job Title: Investment Analyst
Company: Calvert Group
4550 Montgomery Ave., 10th Floor North
Bethesda, MD 20814
USA
Bus. Tel: 301-657-7076
Bus. Fax: 301-951-0721
E-mail:
CESAR.GONZALES@CALVERTGROUP.COM

GOODWIN JOSEPH

Full Name: Joseph Goodwin (Dr.)
Job Title: Senior International Economist
Company: Signma One Corporation
P. O. Box 1630
Accra, Ghana
Bus. Tel: 222274

GOZAN KOKOU

Full Name: Kokou Gozan
Job Title: Coordinator/Ag. Managing Director
Company: BRVM
Abidjan, Côte d'Ivoire
Bus. Tel: 225-326-689
Bus. Fax: 225-326-684
E-mail: brvm@brvm.org

GRANT YOOFI

Full Name: Yoofi Grant
Job Title: Executive Director
Company: Databank Financial Services Ltd.
5th Floor, SSNIT Tower Block
Accra, Ghana
Bus. Tel: 7010198
Bus. Fax: 669100
E-mail ygrant@databankgh.com

GUNN FERDINAND

Full Name: Ferdinand Gunn
Job Title: Senior Manager
Company: PCL Consulting
Accra, Ghana
Bus. Tel: 779223

GUY LAWSON BODY

Full Name: Lawson Body Guy
Job Title: Head, Development and Promotion
Company: BRVM
01 BP 3802, 18 Rue Joseph Anoma
Abidjan 01
Côte d'Ivoire
Bus. Tel: 225-326-585
Bus. Fax: 225-326-684
E-mail: glawson@brvm.org

I

IBRAHIM DIOUF

Full Name: Diouf Ibrahim
Job Title: Head, Central Depositary
Company: BRVM
18, Rue des Banques, 3802
Abidjan 01
Côte d'Ivoire
Bus. Tel: 225-326-685-6
Bus. Fax: 225-324-777
E-mail: birohimd@brvm.org

Job Title: Management Consulting
Company: Ministry of Finance
P. O. Box M40
Accra, Ghana
Bus. Tel: 665310
Bus. Fax: 667069

I

IBRU GOODIE M.

Full Name: Goddie M. Ibru
Job Title: President
Company: Nigeria Stock Exchang, The 2-4 Customs Street
P. O. Box 2457
Lagos, Nigeria
Bus. Tel: 234-1 266 0287
Bus. Fax: 231-1 266 8724
E-mail: nse@linkserve.com.ng

K

KAPUMPA MUMBA S.

Full Name: Mumba S. Kapumpa
Job Title: Secretary and Chief Executive
Company: Securities Exchange Commission, Zambia
P. O. Box 35165
Lusaka, Zambia
Bus. Tel: 2601-227-012
Bus. Fax: 2601-225-443
E-mail: sec@zamnet.zm

KEELER ANDY

Full Name: Dr. Andy Keeler
Job Title: Professor, Dept. of Applied Economics
Company: University of Georgia/Sigma One
Athens, GA 30602
USA
Bus. Tel: 706-542-0849
E-mail: akeeler@archs.uga.edu

KIHUMBA JOB

Full Name: Job Kihumba
Job Title: Chairman, Institute of Secretaries, Kenya
Bus. Tel: 254-2 224-487

Kosi michael

Full Name: Michael Kosi

KWAKYE-MINTAH K.

Full Name: Mr. K. Kwakye-Mintah
Job Title: Manager, Research and Corp. Planning Dept.
Company: Bank for Housing and Construction
P. O. Box M1
Accra, Ghana
Bus. Tel: 666800
Bus. Fax: 229631
E-mail: BHC@GHANA.COM

L

LARRAIN FELIPE

Full Name: Professor Félipe
Job Title: Professor
Company: Harvard University
79 JFK ST., Cambridge MA 02138
USA
Bus. Tel: 617-496-6421

M

MAKONNEN DAWIT

Full Name: Dawit Makonnen (Dr.)
Job Title: Project Director
Company: UNECA
P. O. Box 3001
Addis Ababa, Ethiopia
Bus. Tel: 251 1 517200 ext 35329
Bus. Fax: 251 1 51 0389

MBATIA KESSE-SIA

Full Name: Kesse-Sia Mbatia (Ms.)
Job Title: Director, Financial Markets
Company: Bank of Tanzania
P. O. Box 2939
10 Mirambo Street, Dar es Salaam
Tanzania
Bus. Tel: 255-51 118194

Bus. Fax: 255-51 112702
E-mail: ambatia@hq.bot-tz.org

MDLULI SIBONGILE G.

Full Name: Sibongile G. Mdluli
Job Title: Deputy Governor
Company: Bank of Swaziland
P. O. Box 546
Werner Street, H100 Mbabane
Swaziland
Bus. Tel: 09-268-43194 / 09-268-43221/5 (Direct line)
Bus. Fax: 09-268-4040013
E-mail: Mdluli@cbs.sz

MENSAH DAN ATO KWAMINAH

Full Name: Dan Ato Kwaminah Mensah
Job Title: Executive Secretary
Company: Ghana Association of Bankers
P. O. Box 41
4th Floor, SSNIT Tower Block, Accra, Ghana
Bus. Tel: 780629
Bus. Fax: 667138
E-mail: Assbankers@ighmail.com

MENSAH SAM

Full Name: Sam Mensah (Dr.)
Job Title: Secretary Interim Governing Council
Company: African Capital Markets Forum
4th Floor, SSNIT Tower Block
Accra, Ghana
Bus. Tel: 7010249
Bus. Fax: 7010248
E-mail: smensah@ighmail.com

MENSAH WING CDR ANDY

Full Name: Wing Cdr Andy Mensah
Job Title: Director-General
Company: Ghana Civil Aviation Authority
K.I.A., Accra
Bus. Tel: 777320
Bus. Fax: 773293

MINNEY TOM

Full Name: Mr. Tom Minney
Job Title: General Manager
Company: Namibia Stock Exchange

MOSES AJAYI

Full Name: Ajayi Moses
Job Title: Assistant Director
Company: Central Bank of Nigeria Research Dept.
Abuja, Nigeria
Bus. Tel: 234-09-2346-580/46
Bus. Fax: 234-09-2346-587

MPARE CLIFFORD

Full Name: Clifford Mpare
Job Title: Chief Investment Strategist
Company: New Africa Advisors
103 West Main Street
Durham, NC 27701
USA
Bus. Tel: 919-688-0620
Bus. Fax: 919-682-0414
E-mail: CMPARE@SLOAN_GROUP.COM

MÜLLER NORMAN

Full Name: Norman Müller
Job Title: Manager, Financial Markets
Company: Financial Services Board
Erasmurand
Pretoria, USA
Bus. Tel: 27 12 4288100
Bus. Fax: 27 12 347 1379
E-mail: normanm@fsb.co.za

MUSONDA BRIAN S.

Full Name: Brian S. Musonda
Job Title: Chairman
Company: Securities and Exchange Commission
P. O. Box 35165
Lusaka, Zambia
E-mail: sec@zamnet.zamnet.zm

MWALWANDA C.T.

Full Name: C. T. Mwalawanda (Dr.)
Job Title: Senior Economic Affairs Officer
Company: Economic Commission for Africa (ECA)
Trade and Development Finance Division
P. O. Box 3001
Addis Ababa, Ethiopia
Bus. Tel: 251-515-391
Home: 251-510-389
E-mail: mwalwanda@un.org

N

NDAMBALA HARRY J. S.

Full Name: Harry J. S. Ndambala
Job Title: Principal Bank Officer
Company: Bank of Tanzania
P. O. Box 2939
Dar es Salaam, Tanzania
Bus. Tel: 255-51-119153

Bus. Fax: 255-51-460225
E-mail: hjndambala@hq.bot-tz.org

NGOBENI JEFFREY

Full Name: Jeffrey Ngobeni
Job Title: Manager, Research & Development
Company: Johannesburg Stock Exchange
P. O. Box 1174
Johannesburg, RSA
Bus. Tel: 27-11-377-2274
Bus. Fax: 27-11-834-3937
E-mail: Jeffrey@jse.co.za

NKRUMAH S.A.

Full Name: Professor S.A. Nkrumah
Job Title: Director
Company: School of Administration
University of Ghana
P. O. Box 78, Legon, Accra
Bus. Tel: 500591
Bus. Fax: 500024
E-mail: soa@libr.ug.edu.gh

NTIM TERESA

Full Name: Mrs. Teresa Ntim
Job Title: Head, Financial Markets
Company: Bank of Ghana
Ghana

NUER FREDE

Full Name: Fred Nuer
Job Title: Head
Company: SDC Brokerage Services Ltd.
P. O. Box 14198
Accra, Ghana
Bus. Tel: 669894
Bus. Fax: 669371
E-mail: fnuer@sdcgh.com

NXUMALO JAMES

Full Name: James Nxumalo
Company: UNECA
Ethiopia

NYIRONGO NEIL

Full Name: Niel Nyirongo
Job Title: Director, Financial Market Operations
Company: Reserve Bank of Malawi
P. O. Box 30063
Lilongwe3, Malawi
Bus. Tel: 265-780-600
Bus. Fax: 265-782-301
E-mail: neilnyirongo@rbm.malawi.net

O

Ofori-Acquah Charles

Full Name: Charles Ofori-Acquah
Job Title: Treasurer
Company: Home Finance Company Ltd.
Ebankese, 35 Sixth Avenue
Accra, Ghana
Bus. Tel: 242090-4
Bus. Fax: 242095

OFORI-ATTA KEN

Full Name: Ken Ofori-Atta
Job Title: Executive Chairman
Company: Databank Financial Services
5th Floor, SSNIT Tower Block
PMB Ministries Post Office, Accra, Ghana
Bus. Tel: 7010070
Bus. Fax: 669100

OLADEJO RASAKI

Full Name: Rasaki Oladejo
Job Title: Assistant Director-General
Company: Nigeria Stock Exchange
The 2-4 Customs Street
P. O. Box 2457
Lagos, Nigeria
Bus. Tel: 234-1-266-0287
Bus. Fax: 234-1-266-8724

OPOKU S.D.Y.

Full Name: S.D.Y. Opoku
Job Title: Head, Treasury Department
Company: SSB Bank Ltd.
P. O. Box 13119
Accra, Ghana
Bus. Tel: 229174
Bus. Fax: 229174
E-mail: sopoku@ssb.com.gh

OPPONG-SAMPONG SHEILA (MS)

Full Name: Ms. Sheila Opong-Sampong
Job Title: Broker/Analyst
Company: New World Investment Limited
P. O. Box C2868
Cantonments, Accra
Bus. Tel: 660163
Bus. Fax: 780518

E-mail: newworld@ghana.com

P

PEPRAH KWAME

Full Name: Hon. Kwame Peprah
Job Title: Minister of Finance
Company: Ministry of Finance
P. O. Box M40
Accra, Ghana

P

POLLASTRI REMO

Full Name: Remo Pollastri
Job Title: Director
Company: Dataworld Asset Management
P. O. Box 49450
Highlands, Harare, Zimbabwe
Bus. Tel: 263-4-724-333
E-mail: dataworld@id.zw

R

RASHID PETER

Full Name: Peter Rashid
Job Title: Manager, Capital Markets Dev.
Company: Reserve Bank of Malawi
P. O. Box 30063
Lilongwe, Malawi
Bus. Tel: 265-780-606
Bus. Fax: 265-780-301

RENNIE DAVID

Full Name: David Rennie
Job Title: Consultant
RSA

RODER GREG

Full Name: Greg Roder (Dr.)
Job Title: Head of Equities
Company: Standard Equities
3, Simmonds St.
Johannesburg, RSA
Bus. Tel: 27-11-636-9890
Bus. Fax: 27-11-636-8989

S

SALAMI K.A.

Full Name: K. A. Salami (Dr.)
Job Title: NBFI Project Manager
Company: Ministry of Finance
P. O. Box M393
Accra, Ghana
Bus. Tel: 669607
Bus. Fax: 669607

SALKIN JAY

Full Name: Jay Salkin (Dr.)
Job Title: Senior Monetary Economist
Company: Sigma One Corporation
P. O. Box CT 4713
Cantonments, Accra
Bus. Tel: 222274
E-mail: jss@sigmaone.com

SAMSON

Full Name: Dr. Samson
Job Title: Interpretor
Ghana

SATTAR ABRAR

Full Name: Abrar Sattar
Job Title: Operations Manager
Company: Sigma One Corporation
P. O. Box 12836
CTP, NC 27709
USA
Bus. Tel: 911-361-9840

SECK DIERY

Full Name: Deiry Seck (Dr.)
Job Title: Executive Director
Company: SISERA
C/O IDRC
P. O. Box 11007 CD Annex
Dakar, Senegal
Bus. Tel: 221-864-0000
Bus. Fax: 221-825-3255
E-mail: dseck@idrc.org.sn

SENBET LEMMA W.

Full Name: Professor Lemma W. Senbet
Job Title: The William E. Mayer Professor of
Finance and Chair of Finance
Company: University of Maryland
The Robert H. Smith School of Business
University of Maryland
College Park, MD 20742

USA
Bus. Tel: 301-1105-2242
Home: 301-314-9157
E-mail: LSENEBET@RHSMITH.UMD.EDU

SHAH AARTI

Full Name: Aarti Shah (Ms.)
Job Title: Marketing Executive East West and Southern Africa
Company: Reuters
P. O. Box 34043
Nairobi, Kenya
Bus. Tel: 254-2-330261
Bus. Fax: 254-2-330270
E-mail: aarti.shah@reuter.com

S

STEVENS CHARLES

Full Name: Charles Stevens
Job Title: Senior Manager
Company: Barclays Bank
London
Bus. Tel: 44-171-977-3090
Bus. Fax: 44-171-977-4555

SUDARKASA MICHAEL E. M.

Full Name: Michael E. M. Sudarkasa
Job Title: Chief Operating Officer
Company: New Africa Advisors
35 Pritchard Street
9th Floor, Johannesburg, RSA
Bus. Tel: 27-11-836-2027
Bus. Fax: 27-11-836-0029
E-mail: sudarkasa@fwaa.co.za

T

TESFAYE EYOB

Full Name: Eyob Tesfaye
Job Title: Head, Domestic Economy
Company: National Bank of Ethiopia
Addis Ababa, Ethiopia
Bus. Tel: 51-58-67
Bus. Fax: 51-45-88
E-mail: nbe.excd@telecom.net.et

TETTEH VICTOR

Full Name: Victor Tetteh
Job Title: Senior Accounts Manager
Company: Strategic African Securities Ltd.
P. O. Box 16446,
Airport-Accra
Bus. Tel: 231386 / 244236
Bus. Fax: 244237
E-mail: SASLTD@AFRICAONLINE.COM

TETTEH S.

Full Name: S. Tettey
Job Title: Interpretor
Ghana

TODO E.

Full Name: E. Todo
Ghana

TRUMAN GEOFF

Full Name: Geoff Truman
Job Title: Head of Financial Training
Company: Crown Agents Financial Services Ltd.
St. Nicholas House
Sutton Surrey, SMI IEL
Bus. Tel: 44-181-643-3311
E-mail: gtruman@globalnet.co.uk

TWUM SETH NTIRI

Full Name: Seth Ntiri Twum
Job Title: Managing Director
Company: New India Assurance Co. Ltd.
P. O. Box 138
Accra, Ghana
Bus. Tel: 236494-5
Bus. Fax: 236549

V

VAN THANH TRAN

Full Name: Tran Van Thanh
Job Title: Fund Manager
Company: West Africa Enterprise Fund
5th Floor, SSNIT Tower Block
C/O Databank, Accra, Ghana
Bus. Tel: 7010070
E-mail: tytran@databank.com

VANDON MAX

Full Name: Max Vardon
Job Title: Senior Manager

Company: PCL Consulting Ltd.
P. O. Box 16009
KIA, Accra
Bus. Tel: 779867
E-mail: mvardon@ghana.com

Y

YAKUBU MOHAMMED

Full Name: Mohammed Yakubu
Job Title: Operations Manager
Company: CAL Brokers Ltd.
P. O. Box 14596
Accra, Ghana
Bus. Tel: 231102
Bus. Fax: 231913
E-mail: yakubu@CALBANK_gh.com

Y

YEBOA AMOA

Full Name: Mr. Yeboa Amoa
Job Title: Managing Director
Company: Ghana Stock Exchange
P. O. Box 1849
Accra, Ghana
Bus. Tel: 669914/669908
Bus. Fax: 669913

Z

ZIORKHLUI SAM

Full Name: Sam Ziorkhlui (Dr.)
Job Title: Associate Professor
Company: Howard University
Washington DC
USA
Bus. Tel: 301-948-7279
Bus. Fax:

INTERNATIONAL CONFERENCE OF THE AFRICAN CAPITAL MARKETS FORUM

GLOBALIZATION OF AFRICAN CAPITAL MARKETS: RISKS AND BENEFITS

23 – 25 August, 1999

Venue: Novotel Hotel, Accra, Ghana

ms

CONFERENCE PLANNING COMMITTEE

- Chair: Sam Mensah, Secretary, ACMF
- Dr. K. Anyemedu, Private Sector and Financial Institutions Division, Ministry of Finance
- Mrs. Teresa Ntim, Head of Financial Markets Department, Bank of Ghana
- Ms. Patricia Asaam, Legal Officer, Securities Regulatory Commission
- Mrs. Melvina Amoafo, Assistant Manager, Marketing Department, Ghana Stock Exchange
- Mr. N. T. Apotsi, Deputy Chief Executive, Ghana Investment Promotion Centre
- Mr. Yoofi Grant, Executive Director, Databank Brokerage Limited
- Mr. James Addo, Manager, Corporate Finance, CAL Merchant Bank
- Mr. Michael Ashong, Head, Capital Markets, Ecobank Ghana, Ltd.

CO-SPONSORS

- African Economic Community/OAU
- International Development Research Centre (Canada)
- Swedish International Development and Cooperation Agency
- United Nations Economic Commission for Africa
- United States Agency for International Development (USAID, Ghana)

CORPORATE SPONSORS

- CAL Merchant Bank Ltd.
- CDH Financial Holdings Ltd.
- Databank Financial Services Ltd.
- Ecobank (Ghana) Ltd.
- Enterprise Insurance Company Limited
- Ghana Airways
- Ghana Association of Bankers
- Merchant Bank (Ghana) Ltd.
- Sigma One Corporation, U.S.A.
- SSB Bank Limited
- Standard Chartered Bank (Ghana) Ltd.

EXHIBITORS (BIRIM II)

- Ghana Stock Exchange
- SEM Financial Group Limited
- Reuters

MB

PREAMBLE

The recent financial turmoil in Asian economies has been a subject of extensive discussion. While opinions differ, there is agreement that the sudden cessation and withdrawal of previously large inflows of portfolio capital can be destabilizing. The negative effects have been reflected in steep declines in currency and equity values and a contraction of economic activity.

While African economies have not received the large doses of capital inflows which Asian economies enjoyed, portfolio flows into Africa have increased in the wake of Africa's economic restructuring and the opening up of financial markets.

The 1999 International Conference of the African Capital Markets Forum has chosen to focus on the risks and benefits of global capital flows, with particular emphasis on Africa. We have assembled a distinguished group of speakers to share their perspectives on how Africa can position itself to minimize the economic shocks with global flows while maximizing the benefits to African economies.

ABOUT THE AFRICAN CAPITAL MARKETS FORUM

ACMF is a regional organization under which all stakeholders in capital market development in Africa can share experiences, technology and expertise. Membership is open to stock exchanges, market operators, policy and regulatory agencies, central banks, professional and academic institutes, bilateral and multilateral organizations. Inaugurated in 1996, ACMF maintains its Secretariat in Accra, Ghana.

ACMF'S OBJECTIVES INCLUDE:

- Promoting the establishment of formal capital markets in Africa and supporting the development of existing markets;
- Promoting co-operation among African capital market institutions;
- Providing a forum for the exchange of ideas among African capital market institutions.

To achieve these objectives, ACMF carries out the following activities:

- Building and maintenance of a database on African capital markets;
- Research, training and technical assistance to members;
- Advisory services to African governments, institutions and international agencies on capital market-related issues.

A thirteen-member Governing Council with membership drawn from the United Nations Economic Commission for Africa, African Development Bank and representatives of stock exchanges, market operators and regulatory agencies is charged with the management of ACMF.

For further information, contact:

Sam Mensah, Secretary, African Capital Markets Forum, Suite 413, SSNIT Tower Block, P.O. Box CT 5789, Accra, GHANA. Tel: 233-21-701-0249 Fax: 233-21-701-0248 Email:smensah@ighmail.com

SUMMARY

SUNDAY, 22 AUGUST, 1999

- Arrival of Participants
- Conference Registration
- ACMF Committee Meetings

DAY 1: MONDAY, 23 AUGUST, 1999

- Official Opening
- Conference
- Formal Lunch
- Conference
- ACMF Governing Council Meeting
- Reception/Entertainment (Dress: Casual/informal)

DAY 2: TUESDAY, 24 AUGUST 1999

- Conference
- Formal Lunch
- Conference
- Farewell Dinner/Entertainment (Dress: Formal)

DAY 3: WEDNESDAY, 25 AUGUST, 1999

- ACMF Meeting
- Ghana Stock Exchange Visits
- Post conference visits to tourist attractions

SUNDAY, 22 AUGUST, 1999

Delegates and speakers arrive.

08:00 - 17:00	Delegates and speakers register and obtain conference information packs.
14:30 - 16:00	ACMF Committee Meetings Venue: Novotel Hotel
16:30 - 18:30	ACMF Council Meeting Venue: Novotel Hotel

DAY 1: MONDAY, 23 AUGUST, 1999

08:00 - 09:00	Registration	
OPENING SESSION (ANKOBRAH HALL) **Chair: Jude Kofi Bucknor, Managing Director, CAL Merchant Bank, Ghana**		
09:15	Chairman's Opening Remarks	
09:20	Welcome	George Akamiokhor, Chairperson, ACMF
09:40	Address	Ambassador Vijay S. Makhan, Assistant Secretary-General, Economic Development and Cooperation, African Economic Community/OAU
09:50	Opening Address	Kwame Peprah, Minister of Finance, Ghana
10:10	Vote of Thanks	Charles Asembri, Director-General, Securities Regulatory Commission, Ghana

PREVIOUS PAGE BLANK

10:15 – 10:30	COFFEE BREAK

SESSION 1: 10:30 – 12:30 (ANKOBRAH HALL)	
THEME: GLOBALIZATION OF AFRICAN CAPITAL MARKETS: RISKS AND BENEFITS	
Chairperson: Mumba S. Kapumpa, Chief Executive, Securities and Exchange Commission, Zambia	
Speaker 1:	Dr. Kenroy Dowers, Financial Sector Specialist, Inter-American Development Bank, U.S.A.
Speaker 2:	Lemma M. Senbet, William A. Mayer Professor of Finance, University of Maryland, USA
Speaker 3:	Clifford Mpare, Executive-Vice President, New Africa Advisors, USA
Speaker 4:	Charles Konan Banny, Governor, Central Bank of West African States (BCEAO)
DISCUSSION / QUESTIONS	

LUNCH: 12:30 – 14:30 (TERRACE RESTAURANT)

Chair: Professor Steve A. Nkrumah, Director, School of Administration, University of Ghana

KEY NOTE SPEAKER: Professor Felipe Larrain, Robert F. Kennedy Visiting Professor of Latin-American Studies, John F. Kennedy School of Government, Harvard University and Director of the Central American Project, Harvard Institute for International Development

Sponsored by:

Standard Chartered Bank (Ghana) Limited

SESSION 2 : 14:45 – 18:15 (ANKOBRAH HALL)		
Roundtables		
14:45 – 15:45	**Roundtable: Stock Exchanges** Sponsored by: ECOBANK (Ghana) Limited	Chair: George Akamiorkhor, Chairman, African Capital Markets Forum (ACMF) Panelists: 1. Goodie M. Ibru, President, Nigerian Stock Exchange 2. Kokou Gozan, The Chief Executive of La Bourse Régionale de Valeurs Mobilières (BRVM), Abidjan, La Côte d'Ivoire 3. Tom Minney, Chief Executive, Namibia Stock Exchange 4. Jeffrey Ngobeni, Manager, Research and Development, Johannesburg Stock Exchange
15:50 – 16: 50	**Roundtable: Brokerage and Investment Banking**	Chair: Michael E.M. Sudarkasa, Vice President, New Africa Advisors, USA Panelists: 1. Dr. Shamsuddeen Usman, Deputy Governor, Central Bank of Nigeria 2. Phillip Clayton, Economist, Standard Equities Ltd., South Africa 3. Ken Ofori-Atta, Chairman, Databank Financial Services, Ghana 4. Gabriel Fal, Executive Chairman, CCF Bourse, Senegal
16:55 – 17:10	COFFEE BREAK	

17: 15 – 18:15	**Roundtable: Unit Trusts/Mutual Funds**	Chair: Mr. Sunil Benimadhu, Chief Executive Officer, Mauritius Stock Exchange Panelists: 1. Cesar J. Gonzales, Jr., Investment Analyst, Calvert Group Limited, USA 2. Mrs. Stephanie Baeta Ansah, Managing Director, Home Finance Company Ltd., Ghana 3. Mr. Remo Pollastri, Executive Director, Dataworld Unit Trusts, Zimbabwe

18:30 - 20:00: RECEPTION

(POOLSIDE)

- Cocktail
- Guest of Honor: Governor, Bank of Ghana
- Entertainment

Sponsored by:

CAL Merchant Bank Limited

DAY 2: TUESDAY 24 AUGUST, 1999

SESSION 3: 8:30 –10: 30:

(ANKOBRAH HALL)

Research Workshop

Chair: Dr. Sam Mensah, Secretary, African Capital Markets Forum

Speaker : Dr. Diery Seck, Executive Director, Secretariat for Institutional Support for Economic Research in Africa (SISERA), Senegal	Topic: "Capital Markets Research in Africa: Issues and the Way Forward"

Speaker : Dr. Sam Ziorklui, Associate Professor of Finance, Howard University, Washington D.C/Eager Principal Investigator	Topic: "The Development of Capital Markets and Growth in Sub-Saharan Africa" Discussant: Dr. K.A. Salami, NBFI Project Director, Ministry of Finance, Ghana.
Speaker: Dr. Chidozie Emenuga	Topic: "African Capital Markets in the Global Economy: Evidence from the Research Portfolio of the African Economic Research Consortium"
Speaker: Dr. Melvin Ayogu; University of Jos, Nigeria	Topic: "Corporate Governance: Issues and Implications for Corporate Performance and Capital Market Efficiency" Discussant: Dr. Robert Yaansah, Deputy Chief Executive, Ghana Airways
10:30 – 10:45	**Coffee Break**

SESSION 4: 10:45 – 12:30

The Development Agenda (Small Group Sessions)

Fixed Income Markets Chair: Dr. Jay Salkin, Senior Monetary Economist, Sigma One Corporation (ANKOBRAH I)	Presenters: 1. Job Kihumba, Institute of Certified Public Secretaries of Kenya, Former CEO, Nairobi Stock Exchange 2. David Stuart Rennie, Former General Manager, Commercial Union Investment Management (SA) Ltd.
Training and Capacity-Building Chair: Mr. K.B. Amissah-Arthur, Senior Economist, Sigma One Corporation (ANKOBRAH II)	Presenters: 1. Geoff Truman, Senior Manager, Crown Agents Financial Services Limited 2. Dr. Dawit Makonnen, Project Director, Capital Markets Promotion in Africa, UNECA 3. Dr. Ulrich Camen, Program Director, Monetary Sector and Financial Reform Program, Graduate School of International Studies, Switzerland

Capital Market Integration Chair: S. Brian Musonda, Chairman, Securities and Exchange Commission, Zambia (ANKOBRAH III)	Presenters: 1. Fred Alipui, Head of Division, Trade, Tourism, Customs and Finance, OAU/AEC 2. R.D. Asante, Head of Monetary Cooperation and Payments Relations Division, Economic Community of West African States (ECOWAS)
Capital Market Regulation Chair: Norman Müller, Manager, Department of Financial Markets, Financial Services Board, South Africa (BIRIM I)	Presenter: Ester Saverson, Jr., Assistant Director, U.S. Securities and Exchange Commission

LUNCH: 12:30 – 14:30 (TERRACE RESTAURANT)

Chair: Dr. Cornelius Mwalwanda, Senior Economic Affairs Officer

KEY NOTE SPEAKER: Mr. Eric Chatman, Division Manager, Special Operations Team, African Development Bank

Sponsored by:

Ghana Association of Bankers

SESSION 5: 14:30 - 16:00 **(ANKOBRAH HALL)**	
Summary of Small Group Sessions	
Chair: Mr. Yeboa Amoa, Director, Ghana Stock Exchange.	
Presenter: Dr. Jay Salkin,	Fixed Income Markets
Presenter: K.B. Amissah-Arthur	Training and Capacity Building- African Capital Markets
Presenter: Norman Müller	Regulation of Capital Markets
Presenter: S. Brian Musonda	Capital Market Integration
Discussion/Questions	
16:00 - 16:15	**COFFEE BREAK**

SESSION 6: 16:15 – 17:30

(ANKOBRAH HALL)

Final Plenary Session

Chairperson: Mr. Wole Adetunji, Ag. Director-General, Securities and Exchange Commission, Nigeria

Rapporteur's Reports:

1. **Globalization of African Capital Markets:** Dr. Mthuli Ncube, Managing Director, Barbican Asset Management, Zimbabwe.
2. **Roundtables:** Kojo Andah, Managing Director, Sterling Securities Ltd., Ghana.
3. **Research Workshop:** Dr. Augustin Fosu, Director of Research, African Economic Research Consortium, Nairobi, Kenya.

Discussion/ Questions

DAY 3 WEDNESDAY, 25 AUGUST, 1999 (ANKOBRAH I)

09:00	ACMF Annual General Meeting
14:00	Release of Communiqué Meet the Press - ACMF Executives only

'WOLE ADETUNJI

Mr. Wole Adentunji was born some 56 years ago in Ibadan of Oyo State of Nigeria. He attended the famous Yaba College of Technology, and the University of Lagos majoring in Finance and Banking. He is also an associate member of the Chartered Institute of Chartered Stockbrokers of Nigeria. He started his working career at the Central Bank of Nigeria in 1962 where he rose through the ranks before being seconded to the Securities and Exchange Commission as a Senior Manager in January 1980. He was the director of Administration of Securities and Exchange Commission of Nigeria between 1992 and 1996 and Director of Corporate Finance between 1996 and 1997 before becoming the Acting Director-General.

KWESI AHWOI

Since January 1994, Mr. Kwesi Ahwoi has been the Chief Executive of the Ghana Investment Promotion Centre, responsible for strategising and mobilisation of both local and foreign direct private investments into Ghana. Prior to that, Mr. Ahwoi served in various positions that have a critical bearing on Ghana's economical management and external trade including: serving as Economic Researcher with the National Planning Commission; Executive Secretary of the Ghana Export Promotion Council, Director General of the Ghana Trade Fair Authority; and Member of the Ghana Cocoa Board Oversight Committee. Mr. Ahwoi currently serves on numerous Boards and Committees in Ghana, key among which are: Chairman, Ghana Trade Fair Company, Chairman, CASHPRO Co. Ltd., the largest private sector commodity (COCOA) trader in Ghana; Member, Ghana Investment Promotion Centre Board; Member, Ghana Free Zones Board; Member, National Development Planning Commission; and Member, National Economic Management Team – Ghana. On the international front, he has participated as a resource person in many international conferences and workshops relating to International Trade and Investment. Mr. Ahwoi has served as technical expert to the International Trade Centre, UNCTAD/GATT, Geneva. He is currently the President of the Association of African Investment Promotion Agencies (AFRIPA) and the President of the Hubert H. Humphrey International Fellowship Alumni (Ghana Chapter). He holds a Bachelor of Arts Degree in Economics, Geography and Education from the University of Cape Coast, Ghana and Certificates in Planning and Resource Management, GIMPA, Ghana; and University of Maryland, College Park, USA under the Hubert Humphrey Fellowship Program, USA. Mr. Ahwoi has publications in Corporate Planning and Human Resource Development to his credit. He has traveled extensively around the globe. He plays Tennis, is adept at scrabble and draughts and loves music.

GEORGE AKAMIOKHOR

George Akamiokhor is Chairman of the Interim Governing Council of the African Capital Markets Forum and Chief Consultant of Capital Market Services Limited, Nigeria.. From 1984-97, he was Director-General of the Securities and Exchange Commission of Nigeria where he led several initiatives in the development of capital markets in Nigeria, including the development of the Second Tier Securities Market and the establishment of unit trust schemes. His career at the Securities and Exchange Commission was preceded by a long and distinguished service at the Central Bank of Nigeria where he held various managerial and executive positions between 1960-1979. In 1993, he was elected as Chair of the Steering Committee for the Establishment of the African Capital Markets Forum and in that capacity was instrumental in the set-up of the African Capital Markets Forum which was inaugurated in 1996. Mr Akamiokhor has served on several international committees and bodies, including member of the Executive Committee of the International Organization of Securities Commissions (IOSCO) and First Chairman of the African-Middle East Regional Committee of IOSCO. Born in 1939 in the Edo State of Nigeria, Mr. Akamiokhor holds a B.Sc(Hons,) degree in Accountancy and Associateship of the Institute of Bankers.

YEBOA AMOA

Mr. Yeboa Amoa is currently the Managing Director of the Ghana Stock Exchange. A lawyer of 30 years standing, Mr. Amoa is a product of the University of Ghana and Ghana Law School. After five years in private legal practice, during which he specialized in corporate and commercial law practice, Mr. Amoa worked at the Merchant Bank Group for 15 years. During the period, he served in different capacities including – manager/registrars' department; joint manager, corporate finance division; group company secretary and legal adviser; executive director of the bank's stockbroking company – i.e., the National Stockbrokers Co. Ltd. (now Merban Stockbrokers Ltd.) and non-executive director of the first Ghanaian discount house – i.e., the Consolidated Discount Co. Ltd. In 1988, he was seconded to the Bank of Ghana to help develop the capital market. In this capacity, Mr. Amoa was instrumental in setting up of the Ghana Stock Exchange. He is currently involved: (i) as a member of the Ghana National Payments Council in overhauling the entire payments, clearing and settlement system in the Ghana; and (ii) in the Ghana Futures Market project.

R.D. ASANTE

Mr. R.D. Asante is currently Head of Monetary Co-operation and Payments Relations Division of the ECOWAS Secretariat in Abuja. He is the designer and architect of the ECOWAS Monetary Co-operation programme which seeks to achieve regional currency convertibility and a common currency. One of the regional payments instruments that have become a reality since July 1 is the ECOWAS Travellers cheque. Before taking up the appointment with ECOWAS he worked as an Economist for eleven years in the Research Department of the Bank of Ghana. He is very conversant with monetary cooperation and integration issues in West Africa, having spent a considerable number of years working on the issue. He has coordinated over 15 studies on various issues relating to monetary integration in West Africa. He has participated in many regional and international conferences on this issue. Mr. Asante holds a B.Sc. Economics degree from the University of Ghana, Legon, and a Masters Degree in Economics from the University of Melbourne, Australia.

MELVIN AYOGU

Dr. Melvin Ayogu is a lecturer in economics and finance at the University of Jos. He was formerly the Head of the Department of Accounting and Management Sciences at the same university. He is also a research associate of the African Economic Research Consortium [AERC]. His research has focused on corporate finance, international finance, industrial organization and public policy. He has consulted extensively for Shelter Afrique [The Company for Habitat and Housing in Africa] on mortgage finance for the World Bank and the African Development Bank on developmental issues in Africa. He taught international finance at the Joint Facility for Electives for the AERC [MA Economics] Collaborative program, and taught with the IMF Institute team at the Macroeconomic and Financial Management Institute of Eastern and Southern Africa. Melvin Ayogu was elected to the Associateship of the Chartered Institute of Bankers, London in August 1979. He is a graduate of Santa Monica College, California, California State University Northridge, and Ohio State University, and was formerly Assistant Professor of Economics at the College of Business, James Madison University, U.S.A.

STEPHANIE HENRIETTA BAETA-ANSAH

Mrs Baeta-Ansah is Managing Director of Home Finance Company in Ghana. She graduated from the University of Ghana in 1967 and was called to the Ghana Bar in October, 1968. She was in private legal practice as an Associate of Lynes Quarshie-Idun & Co. for seven (7) years. Mrs. Baeta-Ansah joined Merchant Bank (Ghana) Limited in May 1975 and rose to the position of Deputy Managing Director in 1982. She maintained this position until her appointment as Managing Director of Home Finance Company Limited on its inception in May 1990. Mrs. Baeta-Ansah has traveled widely and obtained financial and management training at various well-known institutions in Ghana and elsewhere. Mrs. Baeta-Ansah won the Marketing Woman of the Year Award in 1995 by the Chartered Institute of Marketing, Ghana (CIMG) and Euromoney's Award for Top Fifty Women in Finance in the World in 1997.

SUNIL BENIMADHU

Mr. Sunil Benimadhu has been in office as the Chief Executive of the Stock Exchange of Mauritius since May 1998 after having held various positions within the securities industry. He was a portfolio manager at the African Development Bank (ADB) from February 1997 to April 1998. At the ADB, he managed the Deutschemark and French Franc denominated portfolios on international fixed income markets and was also the project leader on a feasibility study on the setting up of a trading room for the Central Bank of West African States(BCEAO). Prior to 1997, Mr. Benimadhu was General Manager of the National Mutual Fund Limited in Mauritius. He also played an instrumental role in the structuring, marketing and setting up of National Investment Trust Limited, one of the largest investment trusts quoted on the stock exchange of Mauritius. Mr. Benimadhu holds an MBA in Finance and Investment from the University of Aix-Marseille, France.

J. KOFI BUCKNOR

Mr. Kofi Bucknor has been the Managing Director of CAL Merchant Bank since July 1997. Until his appointment, he was Executive Director for Corporate Finance with the investment-banking firm of Lehman Brothers, London focusing on Africa. Prior to that he served as Deputy Treasurer and then Treasurer of the African Development Bank in Abidjan for eight years. After completing his MBA at Columbia University (New York) in 1979, during which he served an internship at The First Boston Corporation, an investment banking firm, Mr. Bucknor was appointed the Vice President of Chemical Bank in New York and Abidjan until 1986. Mr. Bucknor also holds a B.Sc. (Admin.) degree from the University of Ghana.

ULRICH CAMEN

Dr. Ulrich Camen is currently Programme Director of the Monetary Policy and Financial Sector Reform Programme at the Graduate Institute of International Studies, Switzerland. An essential component of the Programme is the provision of training and technical support to Central Banks in Africa and Asia apart from research in the areas monetary policy and financial sector reforms. Dr. Camen has served as a consultant to the World Bank, UNCTAD, and the World Health Organisation. His research related to Africa focuses on financial sector issues, monetary and macroeconomic policies, regional monetary integration, and the design of training and technical assistance programs. Ulrich Camen wrote amongst others a paper on 'The Role of the Financial System in the Operation of Monetary Policy in Africa' (co-authored with Mthuli Ncube and Lemma W. Senbet).

ERIC CHATMAN

Mr. Eric Chatman is a Division Manager in the Treasury Department of the African Development Bank in Abijdan, Cote d'Ivoire, where he established the group that is responsible for financial risk management and monitoring of the Bank's capital market operations. Prior to joining ADB, Mr. Chatman was Vice-President of Corporate Finance at Databank Financial Services in Accra, Ghana. In that capacity, he worked on company listings on the Ghana Stock Exchange, corporate valuations, restructuring assignments and other corporate advisory mandates. Mr. Chatman spent five years at the Federal Reserve Bank of New York, where he conducted research on international and United States domestic financial markets, as well as supervised a group of United States primary government securities dealers. Mr. Chatman earned his MBA in Finance and Economics from the University of Chicago Graduate School of Business, an MA in International Affairs from George Washington University, and a BA in Economics from Tufts University.

PHILIP CLAYTON

Dr. Philip Clayton holds a B. Com (Hons) in Economics, with distinction. Prior to taking up a Rhodes Scholarship at Oxford University, he lectured in the Economics Department. At Pembroke College Oxford, he obtained an MA in Politics, Philosophy and Economics. Upon his return to South Africa in 1988, he was appointed a lecturer in Economics at Rhodes University. Following a short stint in the civil service, he joined the Economics Division of Standard Bank in 1991. In 1991 he was promoted to Senior Economist. In 1998, he Joined Standard Equities, the stockbroking arm of the Standard Bank Group, as economic strategist. He has written several articles for journals and magazines concerning sub-Saharan Africa. He has also spoken widely throughout southern Africa, and at conferences further afield.

KENROY A. DOWERS

Dr. Kenroy A. Dowers is a financial economist doing research and providing advisory services on issues relating to securities and financial market development at the Inter-American Development Bank (IDB). In this capacity he has worked on projects pertaining to developing stock exchanges in Latin America and the Caribbean, strengthening of clearance and settlement systems in Mexico and Nicaragua, Regulation of securities markets in Guatemala, Bahamas and El Salvador; promoting the securitization of tradable assets in Ecuador, Peru, Bolivia and Belize developing sub-national debt markets in Mexico and Ecuador; and pension fund reform in Barbados, Nicaragua and Trinidad and Tobago. Before joining the Inter-American Development Bank, he was a Financial Economist at the Federal Home Loan Mortgage Corporation (Freddie Mac), where he worked in the risk management department on models to monitor and control portfolio risk. He has also worked as a Financial Analyst at the U.S. Securities and Exchange Commission on the regulation and supervision of collective investment vehicles. Dr. Dowers holds a Ph.D. in finance and an MBA in corporate finance and investments from the University of New York at Buffalo. He has also published research and technical studies pertaining to corporate governance, evaluation of the performance of mutual funds, clearance and settlement, and the development of secondary mortgage market.

GABRIEL FAL

Mr. Gabriel Fal is currently the Chief Executive and Founder of CGF Bourse, a stock exchange brokerage firm and a member of BRVM (Regional Stock Exchange in West Africa). Mr. Fal is also a director of BRVM. He is a graduate of McGill University in Montreal, Canada where he obtained an MBA in finance and the Graduate School of Commerce and Administration in Rouen, France where he obtained a Diploma in Administrative Finance and Accounting. Before founding CGF Finances, he worked at the Citibank in Dakar where he served as Regional Director in Francophone Africa and rose to the rank of Vice President. He later served as director in the credit department, Citibank, London. Mr. Fal has written several articles on Stock Exchanges and Financial Markets.

KOKOU GOZAN

Mr. Kokou Gozan is currently the Co-ordinator of the BRVM, the regional stock exchange of West Africa. He holds a Bachelors Degree in Economics from the University of Grenoble, France. He is also a Diplomate of the Sorbonne University where he graduated with post-graduate diplomas in Banking and Finance. He worked at the Central Bank of West African States in Dakar, Senegal as an advisor to the Director of Research. He also undertook a diploma course in Banking and Finance from the training centre of the Central Bank of West African States in Dakar, Senegal.

AUGUSTIN KWASI FOSU

Dr. Augustin K. Fosu is Director of Research of the African Economic Research Consortium (AERC), based in Nairobi, Kenya. He is currently on leave as Professor of Economics, Department of Economics, School of Business Administration, Oakland University, Michigan, U.S.A., where he taught for nearly twenty years and served as Chair of the department. He was Visiting Associate Professor at the University of Rochester, New York, during 1992-1993. He received his doctorate and master's degrees in economics from Northwestern University in 1975 and 1979, respectively. Prof. Fosu has served as a consultant for both national and international entities, including the National Research Council and the Educational Testing Service in the U.S., as well as for the African Capacity Building Foundation and the AERC. He has published widely in both labor economics and economic growth and development.

CESAR J. GONZALES JR.

Mr. Cesar Gonzales is currently an Investment Analyst at the Calvert Asset Management Company Inc, where he is responsible for all the relationships with external sub-advisors with assets of $2.0 billion under management.. He was previously employed by Progress Investment Management Company as a fund manager, and Hutchinson Investment Management as an Assistant Portfolio Manager. Mr. Gonzales graduated from the Strayer University in Washington D.C., USA with a Bachelors degree in

Economics.

GOODIE M. IBRU

Mr. Ibru is President of the Nigerian Stock Exchange and Acting Chairman, Board of Trustees, Federation of Tourism Associations of Nigeria. He was born in Kano in 1942. He had his primary education at Yaba Methodist School, Yaba and later went to Ibadan Grammar School, Ibadan. He proceeded to University of London (Holborn College of Law), graduated LLB in 1966 and was called to the English Bar (Inner Temple) in 1966. He enrolled in the Nigerian Law Scholl in 1967 and at the Supreme Court as Solicitor & Advocate in 1968. He became a Notary Public in 1973. Mr. Ibru is chairman/director of various companies including Ikeja Hotel, owners of Sheraton Lagos Hotel & Towers, Tourist Company of Nigeria (Owners of Federal Palace Hotel) and Triumph Merchant Bank Plc. He is also a member of several social and professional organizations like the Rotary Club of Lagos, Metropolitan Club, Institute of Directors and Nigerian Institute of Management.

MUMBA KAPUMPA

Mumba S. Kapumpa has been Secretary and Chief Executive, Securities and Exchange Commission, Zambia since 1992. After obtaining an LLB with distinction in International Law and Company Law in 1970 at the University of Zambia, he was admitted to practice as Advocate in 1971. Mr. Kapumpa was leader of the research team for establishing the securities industry in Zambia; Deputy Leader of the Organization of African Unity (OAU) Fact-finding Mission of Experts on question of violence in South Africa; Chairman, Negotiating Team for the Zambia Privatization Agency; Member, Interim Governing Council of the African Capital Markets Forum and Member, Law Association of Zambia (LAZ) since 1975. In 1990, he won the Schweppes Service Award for Dedication to Duty. He has served as Chairman, National Arts Council of Zambia and produced and hosted a television programme on Law and the Community.

JOB KIHUMBA

Mr. Kihumba is currently a practicing business and corporate consultant. He retired recently after serving the Nairobi Stock Exchange as its Chief Executive and Secretary for over a decade, between 1987 and 1999. During his time at the Stock Exchange he oversaw the creation of a formal stock market as its first Chief Executive. He designed and implemented new trading and settlement systems and supervised a twelve-fold growth of the stock market's capitalization in only eight years. He supervised privatization issues through the stock market for all major state corporations listed on the exchange during the period. He was also instrumental in the introduction of Government and Corporate Debt securities trading on the stock market. He was involved in various capacities in all the developments of capital markets in Kenya and East Africa during the period and was instrumental in the creation of the Africa Stock Exchange Association from conception. He was involved in the founding of the Africa Capital Markets Forum and was one of the five persons elected to its first steering committee in 1993. Mr. Kihumba holds a MBA from UK and is a member of a number of professional institutes.

FELIPE LARRAIN

Since early 1997, Dr. Felipe Larrain has been the Robert P. Kennedy visiting Professor of Latin American Studies at the John F. Kennedy School of Government, Harvard University, and Director of the Central America Project at the Harvard Institute for International Development. He is also a Faculty Fellow at Harvard's Center for International Development, a Professor of Economics (on extended leave) at Universidad Catolica de Chile in Santiago and President of Felipe Larrain B. & Associates, an economic consulting company. Since 1985, he has served as economic advisor to several American governments, including Bolivia, Canada, Ecuador, Jamaica, Mexico, Nicaragua, Paraguay, Peru and Venezuela. He is currently an advisor to the governments of Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua and Peru. Professor Larrain is also a consultant on macroeconomics issues to the United Nations, the World Bank, the Economic Commission for Latin America and the Caribbean, and the Inter-American Development Bank. He has also been a consultant to a number of Latin American and U.S. companies, and a board member of several companies and institutions in Chile, the U.S. and

Europe. He received a Ph.D. (1985) and Master of Arts (1983) in Economics from Harvard University, and he obtained a Bachelor of Arts in Economics from the Universidad Catolica de Chile (1981). He is the editor and author of seven books. His book Macroeconomics in the Global Economy, co-authored with Professor Jeffrey Sachs (Prentice Hall, New Jersey, Harvester Wheatsheath: London, 1993), has been translated into Chinese, German, Italian, Japanese, Portuguese, Russian and Spanish and is forthcoming in Arabic and Dutch. He has published over 80 articles in books and specialised journals in Latin America, the United States and Europe.

AMBASSADOR VIJAY SINGH MAKHAN

Ambassador Vijay Makhan was recently reelected Assistant Secretary-General of the OAU at the 1999 Summit Meeting of the OAU Heads of State and Government held in Algeria, having been first elected to the position in 1995. Prior to that, he served as Secretary for Foreign Affairs of the Republic of Mauritius. His distinguished diplomatic career included positions as Ambassador of Mauritius to the OAU and Permanent Representative of Mauritius to FAO, UNEP, UNESCO and UNECA. Ambassador Makhan holds a BA in History and a Diploma in International Relations from the University of New Delhi and a Diploma in International Relations and Diplomatic Practice from Canberra University. He is author of Policy Consesnsus: Strategy Vacuum – A Pan-African Vision for the 21st Century, published by Macmillan in July 1997 and has published several papers on the subject of African development and diplomacy.

SAM MENSAH

Dr. Sam Mensah, is a Financial Economist and an Investment Banking Consultant. Until recently, Dr. Mensah was Assistant Professor of Finance at the University of Michigan. He holds an MBA and Ph.D. in Finance from the University of Toronto and an M.A. in Economics from the University of Ottawa. Dr. Mensah is also a Certified Management Accountant (Society of Management Accountants of Canada). Dr. Mensah has held positions in Corporate Finance with Aetna Insurance and was a Senior Policy Analyst for the Ministry of Finance of Canada. Dr. Mensah has consulted extensively for Ghanaian firms and international clients including the Ghana Stock Exchange, USAID, the Commonwealth Secretariat, the World Bank and the Canadian International Development Agency. His publication record includes articles in the *Journal of Futures Markets*, *Public Finance Quarterly* and *Financial Review*. He is editor of *African Capital Markets: Contemporary Issues*, a compilation of research papers published in 1996 and author of *Securities Markets and Investments: A Ghanaian Primer*. He was instrumental in the establishment of the African Capital Markets Forum, a regional organization of regulatory and policy agencies, capital market operators, stock exchanges and donor agencies and continues to serve as Secretary of the Interim Governing Council, with responsibility for the secretariat.

TOM MINNEY

Mr. Tom Minney is the General Manager of the Namibian Stock Exchange (NSX). His education includes a BA Honours degree in Literae Humaniores from Balliol College, Oxford University (1983), a Post-Graduate Diploma in Journalism from the University of Wales (1984) and a Master of Business Leadership degree at the University of South Africa, passed cum laude (1998). He was a journalist for ten years (including working for Investor's Chronicle and Christian Aid in UK, and for The Namibian daily newspaper, as well as stringing for the BBC, Reuters and other international agencies). He moved to Namibia in 1990, after independence. In 1994 he joined the NSX as Administrative Officer and, since 1995, has been the General Manager managing strategy and operations.

NORMAN MÜLLER

Mr Norman Müller is presently Manager of Financial Markets with the Financial Services Board's (FSB) Department of Financial Markets in South Africa. His current responsibility is, amongst others, the supervision of the Johannesburg Stock Exchange. Before he joined the FSB, he was Deputy Director, Manpower Utilisation and Head of the Economic Division at the National Manpower Commission (NMC) (1989 to 1993). He also acted as Head of the Secretariat of the NMC for a period of two years (1994 to 1995). He holds two Bachelor of Commerce degrees as well as a Master of Commerce from the University of Stellenbosch.

He also holds a Diploma in Financial Markets and Instruments obtained from the Rand Afrikaans University. Mr Müller has also lectured at the University of Stellenbosch (1981 to 1989) in Business Economics.

CLIFFORD D. MPARE

Mr. Clifford D. Mpare is Executive Vice President and Co-Chief Investment officer for Sloan Financial Group Inc. Clifford manages the fixed income management and equity management teams for NCM Capital Management Group, a subsidiary of Sloan Financial Group. He develop and implements strategies for the company's $4.4 billion portfolio. Prior to joining Sloan Financial Group, Clifford was a Senior Analyst with First Union National Bank of North Carolina, where he managed the bank's privately held business investments for the Southeast region. Clifford is also the Chief Investment Officer for New Africa Advisors, a subsidiary of the Sloan Financial Group. Clifford is a Chartered Financial Analyst and a Certified Management Accountant. He received a Bachelor of Commerce from St. Mary's University and a MBA from Dalhousie University in Canada. He is a well respected figure in the professional investment community. Clifford has served as a grader and panelist on standard setting for the Association for Investment Management and Research (AIMR). He has been a guest panelist at various conferences on domestic and international investing, and he has been featured in various business publications including Fortune, Black Enterprise, USA Today, and Emerging Markets Week. Clifford has also appeared on CNBC's Taking Stock. He served as a professor of Accounting and Finance at Wingate College. Clifford is a member of the Institute of Management Accountants where he held the position of Vice President for Education and Professional Development for the North Caroline chapter. He is a member of The North Caroline Society of Financial Analysts. Mr. Mpare is listed in the Who's Who Registry of Business Leaders.

S. BRIAN MUSONDA

Mr. Musonda is currently in his second term as Chairman of the Securities and Exchange Commission of Zambia, his first term having been from 1994 to 1997. He is a professional accountant by training and qualification, having attained membership of the United Kingdom-based Chartered Association of Certified Accountants in 1985. Mr. Musonda has spent most of his working life in the professional accounting field with Deloitte & Touche, where he retired as a partner in 1996. He now works as a financial consultant with his firm, Paragon Consulting Limited, specializing in insolvency, and is also a partner in the internationally affiliated accounting firm of BDO Kateka Evans.

CORNELIUS T. MWALWANDA

Cornelius T. Mwalwamda (a citizen of Malawi) is employed by the United Nations Economic Commission for Africa (UNECA), as Senior Economic Affairs Officer in the Economic and Social Policy Division. He has been with ECA since July 1990 and has served in various capacities including as Chief of the Monetary and Financial Relations Section in the Trade and Development Finance Division and Officer-in-Charge of that Division on several occasions. He was instrumental in the establishment of the African Capital Markets Forum, serving as a member of the Interim Governing Council. Professionally, Cornelius is a development economist, a central banker with extensive knowledge of international finance and problems of structural adjustment of African economies. He began his career as a Bank Clerk (Economist) in the Reserve Bank of Malawi and rose through academic and professional improvement to hold posts of Assistant Director, Deputy Director, and Director of Research and Statistics; and then Deputy General Manager for Economic Services of the Bank. While with the Bank he participated in two debt rescheduling exercises of that country with the Paris and London Clubs. Cornelius has served as member of the Board of Directors of numerous public enterprises in Malawi as well as a member of the Advisory Board of the African Economic Research Consortium (AERC). He has also been a member of the Board of Directors of the Sanford English Community School in Addis Ababa. He holds the degrees of B.Soc.Sc, M.A.(Economics) and Ph.D.

MTHULI NCUBE

Dr. Mthuli Ncube has been Managing Director of Barbican Asset Management, Zimbabwe since 1997. Prior to that he was Head of Asset

Allocation Strategy and Executive Director of Investec Asset Management, Botswana. After completing his Ph.D in Finance at Selwyn College, University of Cambridge in 1990, Dr. Ncube served as Assistant Professor at the London School of Economics for five years.

JEFFREY NGOBENI

Jeffrey Ethan Ngobeni is currently employed at the Johannesburg Stock Exchange (JSE) in the capacity of Manager: Research and Development since 1997. He is responsible for developing and managing the JSE's internal database of qualitative research on securities markets locally and internationally. He also monitors and reports on market and product trends globally. His department is also responsible for initiating research into development of new or upgraded securities markets products as well as developing the stock exchange's corporate strategic plan. Prior to his appointment at the JSE, he was employed as a Strategy Consultant at Gemini Consulting Ltd, a South African subsidiary of CapGemini Sageti, a multinational management consulting company. He completed his Masters degree in Business Administration (MBA) at Jackson State University, Mississippi, USA in 1996. During his tenure in the USA, he was employed at Systems Consultants Associates, a consulting company, as a Business Analyst until his departure in 1996.

KEN OFORI-ATTA

Mr. Ken Ofori-Atta is the Executive Chairman and Cofounder of Databank Financial Services Limited, in Ghana, a full service non bank financial institution established in 1990. Ken received his BA in Economics from Columbia College in New York and his MBA from the Yale School of Management. He worked at both Morgan Stanley and Salomon Brothers in New York City in their Corporate Finance and Mergers & Acquisition Units (1984-1990) prior to his founding Databank. He is a Director of a number of companies listed on the Ghana Stock Exchange: Home Finance Company Limited, SSB Bank Limited and Enterprise Insurance Company Limited. He is also on the Board of Aid to Artisans and a Trustee of the University of Ghana ISSER Endowment Trust.

REMO POLLASTRI

Remo is an Executive Director and joint controlling shareholder of Dataworld Asset Management (Pvt) Ltd which is based in Harare, Zimbabwe. Dataworld is the largest privately owned investment company in Zimbabwe, with substantial funds invested in the stock market and money market. The company has a relatively small but prestigious base of high net worth individuals, corporates and pension funds. Dataworld also manages two prominent equity and a money market unit trust to cater for the smaller investor. Remo Pollastri was born in Kenya and was educated in Zimbabwe. He holds a Bachelor of Accountancy (Honours) Degree and is a qualified Chartered Management Accountant (UK). Prior to joining Dataworld, Remo held senior executive positions in two of Zimbabwe's leading conglomerates.

DAVID STUART RENNIE

David Stuart Rennie is General Manager, Commercial Union Investment Management in South Africa. Prior to that he was Portfolio Manager, Protea Assurance Investment and Manager, Bond and Derivative Trading, for Anderson Wilson and Partners Inc., a member of the Johannesburg Stock Exchange (JSE). Mr. Rennie has been extremely involved in the South African Capital Market in various capacities which include member of the gilts sub-committee of the JSE, member of the product development committee of the South African Futures Exchange and executive member of the Bond Market Association. Mr. Rennie is a Fellow of the Institute of Financial Markets of South Africa.

J.S. SALKIN,

Dr. Salkin is Senior Monetary Economist for the Government of Ghana/USAID Trade and Investment Reform Program: Improved Policy Reform and Financial Intermediation Project. His previous experience includes: Director of the Research Department, Principal Research Officer, Bank of Botswana; Director of Macroeconomic Planning, Chief Economist, Macroeconomic Planning, Principal Planning Officer, Senior Planning Officer, Ministry of Finance and Development Planning, Government of Botswana; Associate Professor of Economics, University of Botswana, North Carolina Central University, Naval Postgraduate School; Visiting Professor, Thammasat University, Thailand, University of Delaware; Assistant Professor of Economics, Duke University; Lecturer, Northwestern University, Depaul University, Illinois; Senior Policy Analyst, Government of Indonesia, Government of Nepal, USAID.

ESTER SAVERSON, JR.

Ester Saverson, Jr. is an Assistant Director in the Office of International Affairs of the Securities and Exchange Commission. As an Assistant Director, Mr. Saverson has participated in numerous technical assistance and training projects to securities market regulators and professionals around the world. Prior to assuming this position in January 1996, Mr. Saverson worked in the Division of Market Regulation of the Securities and Exchange Commission as a Special Counsel in the Office of Self-Regulatory Oversight and Market Structure from April 1993 to December 1995 and as a Branch Chief in the Office of Securities Processing from July 1988 to April 1993. Mr. Saverson joined the Division of Market Regulation as a Staff Attorney in September 1981. Mr. Saverson received his LL.M. with emphasis in Securities Law from Georgetown University Law Center in January 1991, and his J.D. from Washington University School of Law in 1979. Mr. Saverson received an A.B. with honors from the University of Illinois in 1976. Mr. Saverson is a member of the District of Columbia Bar.

LEMMA W. SENBET

Lemma W. Senbet is the William E. Mayer Chair Professor of Finance at the University of Maryland. Previously he held two endowed chairs at the University of Wisconsin - Madison as the Charles Albright Professor of Finance (1987-90) and as Dickson-Bascom Professor (1983-87). As Visiting Professor, he taught at Northwestern University (1980-81), University of California-Berkeley (1984-85), and New York University (1996). He was also Distinguished Research Visitor at the London School of Economics in June 1994. Professor Senbet is internationally recognized for his extensive contributions to corporate and international finance, and he has received numerous honors and awards. The 1986 survey ranked him third among world-wide contributing authors to the Journal of Finance for the period 1976-1985. He has been elected twice to the Board of Directors of the American Finance Association and has been the President of the Western Finance Association. He attained these prestigious professional offices on the basis of his lasting impact on the finance profession. Professor Senbet has also served on numerous journal editorial boards. Professor Senbet has been a consultant for the World Bank, the International Monetary Fund, the United Nations, and various governmental agencies in USA, Canada, and Africa on issues relating to corporate finance, capital market development, financial sector reforms, banking regulation, globalization, and institutional design. An Ethiopian by birth, he was awarded the 1970 Chancellor's Gold Medal as outstanding graduate of Haile Sellassie I University (received from the Emperor). Professor Senbet has chaired numerous national and international programs, delivered invited and keynote speeches, and served on numerous panels at international forums around the United States, the Pacific-Basin, and Africa, including at the Third African/African-American Summit (Dakar, 1995) and the Conference of Council of African Ministers of Finance (Addis Ababa, 1997). He is a recipient of the 1994 Allen Krowe Award for Teaching Excellence at the University of Maryland Business School.

MICHAEL E.M. SUDARKASA

Michael E.M. Sudarkasa currently serves as the Vice-President, Chief Operations Officer of New Africa Advisers, a private equity finance firm which specializes in foreign direct and portfolio, investment in Africa. Prior to joining New Africa Advisers, Mr. Sudarkasa served for almost two years as the Director, International Trade and Investment Promotion Services of Labat-Anderson Incorporated (LABAT), a $60 million consulting firm which specializes in Information Services, Environmental Services and Private Sector development. For seven years prior to joining LABAT, he served as the President of 21st Century Africa Inc., a professional service firm which promoted U.S/Africa trade and investment by offering Research services, Representation services and Trade and Investment facilitation services and related Training. Mr. Sudarkasa has authored several articles and publications related to U.S./Africa trade and Investment development, including: The African Business Handbook: a Practical Guide to Business Resources for US/Africa Trade and Investment. Mr. Sudarkasa is a Co-Chair of the American Bar Association's African Law Committee, and of the Durham, North Carolina based AfricaNews Online (an Internet-based Africa news service). Michael Sudarkasa received his Bachelors of Arts degree in 1985 from the University of Michigan, Ann Arbor with High Honors in History (African Studies concentration) and a Juris Doctorate degree in 1988 from Harvard Law School. He is admitted to practice before the State of Florida Bar, the Bar of the District of Columbia Court of Appeal and the U.S. Court of International Trade.

GEOFF TRUMAN

Mr. Geoff Truman is the Head of Financial Training for Crown Agents Financial Services Limited in the UK. His career and original discipline was that of accountancy with a bias towards business development consultancy and computing. His computing knowledge took him to the London Stock Exchange where he was responsible for the development of trading systems for trading equity derivative products. Within the London Stock Exchange, Geoff became Head of Market Operations for the London Traded Options Market, a role which included product development, market operations and regulation. From the London Stock Exchange Geoff joined LIFFE the London derivatives exchange and from there he joined Crown Agents in a senior training role. Geoff has advised exchanges in Russia, Central Asia and Europe on trading and product development and currently heads a team providing a wide range of training and project management both in the UK and in-country in financial disciplines.

SAM ZIORKLUI

Dr. Ziorklui is an Associate Professor of Finance at Howard University, School of Business, Department of Finance and Insurance, Washington, D.C. USA. He has extensive research and publication records on topics relating but not limited to the financial sector reforms and the development of African financial (capital) markets and growth. He is the principal investigator of two USAID sponsored EAGER/PSGE (Equity and Growth through Economic Research)/(Public Sector for Growth and Equity) research projects under the collaborative agreements with the Harvard Institute of International Development (HIID), USA. Dr. Ziorklui has been an external reviewer for the National Research Council (NRC), USA, and a reviewer for various refereed journal publications in the USA. He has also been a consultant with many domestic and international organizations in the USA.