

# Financial Integration in Africa



## 7.1 Introduction

Strong financial markets and institutions play an important role in supporting economic development, because they enhance the exchange of goods and services, the mobilization of resources (both domestic and international), the efficient allocation of factors of production, and the diversification of risk. The economic literature shows strong evidence of a positive relationship between developed financial markets and economic growth.<sup>1</sup>

Although some form of financial development has taken place in Africa in recent years, financial market activities remain very shallow, with low capitalization and inadequate liquidity in capital markets. Most financial instruments issued in Africa have very short-term maturities. Bank financing continues to be concentrated at the short end of the term structure. Consequently, the spread between lending and deposit rates remains very high and the ratio of non-performing loans is also high, indicating a weakness in the financial market structure on the continent. Furthermore, only a limited number of financial instruments are issued on the financial markets, making it extremely difficult to hedge against financial market risk in Africa.

Recognizing the need for the pooling of financial resources, African regional economic communities (RECs) are beginning to establish subregional capital markets to overcome the limitations of their fragmented capital markets. RECs recognize the need to integrate and consolidate financial markets as a vehicle for promoting economic development on the continent. Furthermore, financial integration would enhance competition, promote efficiency and productivity and facilitate the flow of information.

They are pursuing strategies of financial integration through programmes for the harmonization of regulatory and legislative frameworks and policies and the promotion of cross-border investments and listing of securities. Overall, regional financial integration is expected to establish stronger links with financial systems and capital markets in more developed countries.

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<sup>1</sup> See Levine (1997); Gelbard and Pereira Leite (1999) and Rousseau and Sylla (2001).

“ *Financial integration involves a process whereby a country’s financial markets become linked or integrated with those of other countries or with those of the rest of the world* ”

RECs need to carry out financial integration programmes to complement their monetary integration efforts. The economic literature demonstrates that deeper integration of financial markets strengthens the transmission of monetary shocks as well as monetary policy across the member countries of a monetary union.<sup>2</sup> Weak forms of financial integration lead to differential effects of monetary policy and lack of financial integration, because of the differences they generate in propagation mechanisms and responses to REC-wide shocks. This in turn increases the costs of participation in a monetary union. Therefore, there is a clear case for financial integration to match the process of monetary integration.

## 7.2 Need for financial integration

Financial integration involves a process whereby a country’s financial markets become linked or integrated with those of other countries or with those of the rest of the world. In fully integrated markets, all forms of barriers are eliminated to enable foreign financial institutions to participate in domestic markets. In such an environment, domestic banking networks, equity and other types of financial markets are linked to their foreign counterparts.

There are several ways in which a country’s financial markets could be integrated. It could occur through membership in a regional integration community where formal protocols have been established to link up the financial markets of the community. In this arrangement, the regional integration community would remove or minimize restrictions that impede the flow of capital, and harmonize all financial rules, regulations and taxes between member countries.

Financial integration could also occur through the penetration of foreign financial institutions into domestic markets, in the absence of formal integration agreements. For example, developed countries allow foreign participation in the banking and insurance markets and pension funds, securities trading abroad and direct borrowing by domestic firms in international markets. These activities are possible because domestic laws permit the operation of foreign financial institutions in the domestic markets.

Whether a country chooses to integrate its financial markets formally or informally, it needs to create an enabling environment that would attract foreign participation. To this end, steps that the country could take include the harmonization of rules and regulations governing its domestic financial markets, and the creation of standards and benchmarks similar to those of international markets.

2 See Buch, 2001, De Bondt, 2000, Dornbusch et al. 1998

However, for financial integration to be effective in Africa, it needs to be achieved through the regional economic communities. Formal financial integration at the level of the RECs would allow small African economies to increase their financial links with the rest of the world. An African regional economic community could harmonize the standards and regulations governing financial markets in the region, so as to attract foreign participation. Such an effort could lead to the creation of a large financial market that would support Africa's regional integration agenda, particularly in the area of economic development. Indeed, smaller African countries cannot achieve such economic impact by themselves unless they are linked up through the financial markets of the regional economic communities.

The strengthening of African financial markets through integration with world financial markets would also lead to the promotion and strengthening of trade and investments. The presence of foreign financial institutions in African countries strengthens ties between the countries involved, since these same institutions facilitate financial services linked to trade and investment flows.

### 7.3 Markets and stock exchanges in Africa

In a very short time period, Africa has developed an equity market sector. By the end of 1996, there were only 11 operating stock markets in sub-Saharan Africa, excluding South Africa. Today, Africa has about 20 active stock exchanges, including one of the only regional stock exchanges in the world, linking eight French-speaking countries in West Africa. Capital market development across Africa is primarily aimed at domestic resources mobilization – both corporate and individual. It is also expected to increase cross-border investments and catalyze foreign direct investment by helping to establish partnerships with foreign investors. Although it is very small in comparison to the United States capital market, which has a total capitalization of \$US10 trillion, the South African stock market is valued at \$US245 billion, making it the sixteenth-largest exchange in the world. The emergence and expansion of stock markets in Africa represents a significant trend toward attracting private capital investment and integration into the global financial marketplace.

With the exception of the South African market and to a limited extent the North African markets, African stock markets are fragmented, with very low capitalization and liquidity levels. The total value of African stocks outside South Africa is only 0.6 per cent of all emerging-market stocks. The exchanges are also small relative to their own economies. Market capitalization in Nigeria is only 8 per cent of GNP, while Kenya, Ghana and Zimbabwe's capitalizations are 25-35 per cent. These figures are much less than those of other emerging markets. For example, many stock market capitalizations in Asia and Latin America represent up to 100 per cent of their coun-

tries' GNP, with some close to 200 per cent. As a consequence, most of these markets are excluded from the main regional equity market indices and therefore attract little Global Emerging Markets (GEM) portfolio funds.

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With the exception of South Africa, the small bourses created south of the Sahara are highly illiquid, with very few shares to be traded. None of the stock markets had a turnover above 10 per cent of capitalization in 1996, compared to 226 per cent in Turkey, 115 per cent in China and 85 per cent in the United States of America (IFC, 1996). Lack of liquidity is also demonstrated in large gaps between buy and sell orders.

Despite their small size, illiquidity and often-unstable political and economic environments, several leading African capital markets have recorded solid performances lately. Many of these small African markets are offering dramatic returns for investors, making them relatively immune to the global jitters hitting share values worldwide, due to their lack of correlation with developed markets. This distinct characteristic of African equity markets offers positive benefits in terms of risk diversification.

In an effort to deepen their capital markets, some African countries have made impressive changes in recent years. As a result, capital markets that had been dormant for years have rebounded strongly and several new ones have emerged. Moreover, since the 1990s, a number of African countries are moving to free market policies, which are driven by the desire to reduce the burden on government finances. As a result, African governments are implementing market-friendly reforms, particularly the privatization of State-owned companies. A number of these privatization efforts were supported through listings on local exchanges. In order to further stimulate the development of a local capital market, many subsidiaries of large international companies have also been encouraged to list their local operations. For entrepreneurs as well as emerging private companies, capital generation in African equity markets is vibrant, despite the relative small size of issues.

Privatization efforts undertaken in almost all African countries as part of their structural reforms were expected to stimulate the development and dynamism of capital markets. But this did not necessarily happen because privatization alone could not do much without supportive government policies. Nevertheless, in some countries such as Botswana, Ghana and Nigeria, privatization efforts backed by appropriate policies have stimulated their respective stock markets.

Empirical evidence in the economic literature suggests that market efficiency, defined as the degree to which prices efficiently factor in all available information on companies and the environment, is comparable in some African countries (notably Botswana, Côte d'Ivoire, Kenya, Mauritius, Nigeria and South Africa) to that achieved in emerging Asian and Latin American economies (Magnusson and Wydick, 2002).

Indeed, these equity markets have facilitated cross-border investments, although the extent is constrained by currency inconvertibility and payment system problems and by variations in listing procedures.

Some African governments have taken advantage of the development of the local capital markets to issue exchange-listed treasury debt instruments. For example, the governments of Kenya and Ghana have been able to issue longer-term instruments that have allowed them to better manage their local debt, improve transparency in the pricing of local bank lending facilities, and increase competition in their banking industries.

It must also be noted that modest progress has been registered in the development of the pension fund industry in Africa. With the exception of South Africa and some Southern African countries, private and institutional cash flows have traditionally been invested mostly in real estate, term bank deposits and treasury bills. In recent years, a number of African countries have introduced, as part of wider financial sector reforms, new laws enabling the emergence of a local fund management industry. African capital markets have great potential, provided that political instability, conflict and bad governance become a thing of the past.

Despite the modest progress made, African stock exchanges still face a number of challenges. To strengthen the institutional operation of their exchanges, they need to set up mechanisms to support the dissemination of information on these markets, the implementation of robust electronic trading systems and the adoption of central depository systems. Some of the countries have already started introducing changes, particularly in the area of trading and settlement systems and regulatory regimes.

The move by African countries towards privatization and market-friendly reforms has also helped strengthen their stock exchanges as the number of listings has increased. In addition, the listing of many subsidiaries of large international companies has helped to further stimulate and firm up African exchange markets.

### **7.3.1 The South African Stock Market**

The South African stock market or the Johannesburg Stock Exchange (JSE) was founded on 8 November 1887. From its humble beginnings, the JSE has emerged as a technological and innovative exchange, becoming the seventeenth-largest equity exchange in the world, with a total market capitalization of some \$US570 billion at the end of 2005 (table 7.1). The value of traded assets on the JSE at the end of 2005 stood at \$US203 billion, up from \$US187 billion the previous year. With approximately 400 companies listed on the exchange, the JSE is the largest in Africa, and is also larger than exchanges in some developed economies.

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**Table 7.1**  
**Snapshot of the Johannesburg Stock Exchange (JSE)**

	2000	2001	2002	2003	2004	2005
Market capitalization (USD million)	204, 952	139, 750	182, 616	272, 900	467, 500	570, 100
Value traded (USD Million)	77, 494	69, 676	76, 792	114, 800	187, 800	203, 300
General index	8, 326	10, 441	9, 358.90	N/A	12, 656.86	18, 096.54
Number of listed companies	616	542	472	426	403	388

**Source:** ECA, African Security Exchange Association 2005 Year Book, UNDP African Stock Market Review

The JSE has been affected by exchange rate movements in recent years. In the early 2000s, the Reserve Bank of South Africa tightened its monetary policy in a bid to keep inflation within the target band of 3-6 per cent. Consequently, the South African rand appreciated significantly. However, the strength of the rand led to a 10 per cent decline in the JSE index in local currency terms and a 24 per cent increase in US dollar terms.

Unlike most other African exchanges, the JSE is affected by shocks to global stock markets. Hence, the downturn of global markets in the early 2000s weakened the performance of South African blue-chip companies. Standard & Poor’s rates South Africa’s international debt very favourably, because of the prudent monetary and fiscal policies undertaken by the country. As a result, South Africa is seen as having one of the best-run emerging economies in the world, with efficiently managed world-class companies. Hence, JSE stands as an attractive vehicle for the infusion of foreign investments into Africa.

### 7.3.2 The Namibian Stock Exchange

The Namibian Stock Exchange was created shortly after the country’s independence in 1990. Since its inception, it has been very efficient in offering long-term capital to Namibian entrepreneurs and businesses to create wealth, jobs, profits and economic growth.

At end of 2005, the market capitalization of the exchange stood at \$US121,270 million, up from \$US101,210 million in 2004 (table 7.2). In the same period, the value of traded assets on the exchange was about \$US529 million. From 2000, the index has been appreciating strongly, making it one of the most the attractive exchanges for investors. It must be noted that with the Namibian dollar linked to the South African rand, the exchange is not immune to shocks to the Johannesburg Stock Exchange.

The Namibian Stock Exchange, which is self-regulated, trades shares and other financial securities such as government and corporate bonds. Both local and foreign investors can trade on the exchange. It currently has a cooperation arrangement with the Johannesburg and London Stock Exchanges, which has allowed it to raise capital for businesses in offshore diamond mining, food and groceries distribution, cement manufacturing, farming, banking, a bulk cargo terminal and the national airline.

“The Alexandria Stock Exchange is one of the oldest in the Middle East”

**Table 7.2**  
**Snapshot of the Namibian Stock Exchange**

	2000	2001	2002	2003	2004	2005
Market capitalization (USD million)	311	151	201	69, 200	101, 210	121, 270
Value traded (USD million)	22	8	129	272	450	529
General index	92	88.50	47.28	N/A	425. 93	561. 68
Number of listed companies	13	13	13	35	32	28

**Source:** ECA, African Security Exchange Association 2005 Year Book, UNDP African Stock Market Review

### 7.3.3 The Cairo and Alexandria Stock Exchanges

The Alexandria Stock Exchange is one of the oldest in the Middle East. It was founded in 1883. Known as the Alexandria Bourse, it operated at that time in coffee houses where merchants met to strike their deals. The Cairo Stock Exchange was established in 1903 with 97 listed companies and an aggregate capital of Egyptian pound 29 million. By 1907, the number of listings had jumped to 228 companies and the aggregate capital had risen to Egyptian pound 91 million. In the early 1940s, the two bourses were merged.

**Table 7.3**  
**Snapshot of the Cairo and Alexandria Stock Exchanges (CASE)**

	2000	2001	2002	2003	2004	2005
Market capitalization (USD million)	28, 741	24, 335	26, 245	28, 000	28, 000	79, 000
Value traded (USD million)	11, 120	3, 897	7, 362	4, 514	6,808	27, 937
General index	626.00	613.00	491.67	N/A	2,567	6324
Number of listed companies	1,076	1, 110	1, 151	978	795	744

**Source:** ECA, African Security Exchange Association 2005 Year Book, UNDP African Stock Market Review

The Cairo and Alexandria Stock Exchange (CASE), which is the third-largest exchange in Africa, has been strengthening in recent years. As of 2005, its market capitalization stood at \$US79 billion compared to its value of \$US29 billion in

2000 (table 7.3). Trades on the bourse, although very small by world standards, are relatively strong by African standards. In 2005, the market value of traded assets was \$US28 billion, four times higher than the previous year.

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The geo-political tensions in the Middle East and weak macroeconomic environment impacted negatively on the CASE in 2001 and 2002, with its index falling in those periods. The poor economic performance at the time weakened the balance sheet of the banking sector, as increased bank loan loss provisions were observed. Since then, the markets in Cairo have recovered strongly, bolstered by investor confidence, infusion of foreign capital and a rise in the number of listings.

### 7.3.4 The Moroccan Stock Exchange

The Moroccan Stock Exchange or the Casablanca Stock Exchange was established on 7 November 1929. Since then it has undergone a number of structural and institutional reforms, which have lent strong legal support to the exchange, introduced a range of rules and technical procedures, and defined the key market players. The exchange has also been strengthened with the launching of an electronic-based trading system and a central securities depository system in 1997. It has also introduced an efficient and state-of-the-art settlement and payment system.

Table 7.4 shows that the market capitalization of the Casablanca Stock Exchange stood at \$US27,280 million in 2005 compared to \$US25,150 a year before. The fourth-largest exchange on the continent also saw \$US16,060 assets being traded, up from \$US8,740 the previous year. The general index appreciated from 4,522 at the end of 2004 to 5,539 at the end of 2005. All these factors indicate that the exchange is poised for bigger growth in the future and would continue to have a central role in the economic development of Morocco.

**Table 7.4**  
**Snapshot of the Casablanca Stock Exchange**

	2000	2001	2002	2003	2004	2005
Market capitalization (USD million)	10, 899	9, 087	8, 319	13, 180	25, 150	27, 280
Value traded (USD Million)	1, 094	974	922	6, 130	8, 740	16, 060
General index	3,995.27	3,568.68	2,980.44	N/A	4,521.98	5,539.13
Number of listed companies	53	55	56	52	53	54

**Source:** ECA, African Security Exchange Association 2005 Year Book, UNDP African Stock Market Review

The Moroccan economy relies heavily on trade with Europe and tourism. The dirham is also linked to the euro and therefore has appreciated recently vis-à-vis the US dollar, mainly propelled by the strength of the euro. Agriculture output also remains strong for the country. All these factors and the sound monetary and fiscal policies undertaken by the country bode well for the Casablanca Stock Exchange.

### 7.3.5 The Zimbabwe Stock Exchange

The Zimbabwe Stock Exchange was established in 1946 in Bulawayo and later moved to Harare in 1951. Equities, preference shares, government bonds and municipal stocks, debentures and warrants are the instruments traded on the exchange. It is regulated by an Act of Parliament and operates under the supervision of a nine-member committee composed of seven representatives of stock-broking companies and two government nominees.

Despite the worsening macroeconomic conditions in Zimbabwe, perhaps due to current political uncertainties, table 7.5 shows that the Zimbabwe Stock Exchange is performing extremely well. It shows that market capitalization stood at about \$US20,000 million, up significantly from \$US10,000 million a year earlier. The value of assets traded in 2005 was \$US760 million, with the number companies listed rising from 69 in 2000 to 80 by the end of 2005.

**Table 7.5**  
**Snapshot of the Zimbabwe Stock Exchange**

	2000	2001	2002	2003	2004	2005
Market Capitalization (USD million)	2, 432	7, 972	11, 689	40, 000	10, 000	20, 000
Value traded (USD Million)	279	1,530	131	190	1, 220	760
General index	17, 984.30	46, 351.90	10, 2229	N/A	1, 097, 493	18, 055, 724
Number of listed companies	69	72	77	80	80	80

**Source:** ECA, African Security Exchange Association 2005 Year Book, UNDP African Stock Market Review

Given the poor economic fundamentals of Zimbabwe, the relative good performance of the Zimbabwe Stock Exchange defies the prediction of any sound economic model. This may be because in an environment of negative real interest rates, high inflation and a fixed exchange rate regime, investors seek alternatives for the preservation of their financial capital. Hence, investors have moved away from interest-bearing instruments and are investing in real estate and equities. However, this capi-

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tal preservation strategy is not sustainable in the long run if the political situation does not improve.

The weak economic environment has diminished Zimbabwe's productive capacity, particularly in key sectors such as banking, agriculture, mining and manufacturing. A study by UNDP suggests that Zimbabwe's GDP has declined by 25 per cent and the trend would continue unless the Government is able to rectify the damage. Compounding the economic challenges are unresolved matters related to property rights, which in turn are making it difficult for banks to recover loan losses.

The modest capital valuations of the Zimbabwe Stock Exchange have made it attractive to investors. A number of conglomerates have also taken steps to unbundle their risk, and sound risk management of the corporate sector has made it more efficient and thus strengthened the Exchange.

### 7.3.6 Other stock exchanges

In addition to the five large African stock exchanges referred to earlier, there are exchanges in Algeria, Botswana, Côte D'Ivoire, Ghana, Kenya, Malawi, Mauritius, Mozambique, Nigeria, Swaziland, Tanzania, Tunisia, Uganda and Zambia.

The **Algeria Stock Exchange** was created in 1993, with a few companies listed. Its market capitalization is about \$US200 million. The value of trade in financial assets (equities and corporate bonds) on the floor each year is about \$US3 million. Since 2002, when the market experienced a significant downturn, a number of economic policies have been put in place to strengthen the economy. Given its endowment with petroleum and natural gas, Algeria has been able to improve its economy thanks to the high prices of petroleum products and its strong trading ties with the European Union. As result, the Algeria Stock Exchange is expected to grow in the future as more companies look to list on the exchange.

The **Botswana Stock Exchange (BSE)** was established in 1989 to operate and regulate the equities and fixed interest securities market. The BSE, with about 28 companies listed on it, offers an avenue for government, quasi-government and the private sector to raise debt and equity capital. The market valuation of the BSE at the end of 2005 stood at \$US2,650 million, up from \$US2,320 million in 2004. The market is very active and efficient, with \$US47.19 million of financial securities and bonds being traded at the end of 2005, also up from \$US44.94 million in 2004.

The economy of Botswana is very strong and vibrant, driven mainly by the diamond mining industry, which accounts for 25 per cent of world diamond production. The economy has also benefited from sound monetary and fiscal policies over the

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last three decades. Inflation remains tamed and the pula has strengthened relative to the South African rand. The stock exchange closed the year up 74 per cent in 2005, largely due to good economic fundamentals. With the government policy to diversify the economy into manufacturing, tourism and financial services firmly in place and with continued sound monetary and fiscal policy, the BSE is set for continuous strong growth.

The **Côte D'Ivoire Stock Exchange** or **Bourse Regionale des Valeurs Mobilières/ West African Stock Exchange (BRVM)** is the only regional stock exchange on the continent and was founded in 1998. The exchange, which replaced the old Ivorian Bourse des Valeurs d'Abidjan, serves the UEMOA member States: Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. It trades securities and bonds, with no restriction for foreign participation. Its market capitalization is about \$US1.6 billion and the annual value of trades is about \$US20 billion. It currently has about 40 companies listed on it.

The political uncertainty in Côte d'Ivoire has had negative effects on the market. Some of the challenges faced by BRVM include: establishing fast and efficient clearing and settlement, currency and accounting systems in all countries; developing the necessary political will; integration of markets; and respect of competition rules. However, if the recent peace initiative holds and if the country continues on a path of prudent macroeconomic policies, then the regional exchange could record significant gains in the future.

The **Ghana Stock Exchange** was established in 1990, trading securities and government and corporate bonds. Its market capitalization is about \$US400 million and the number of companies listed on it is 30. In 2005, the value of assets traded was about \$US15 billion. The Ghanaian economy is growing at a robust rate despite the nascent energy crisis. Sound fiscal and monetary policies have given the country very good economic fundamentals, such as a stable exchange rate, relatively low inflation and a low debt-to-GDP ratio. Furthermore, production and prices of gold and cocoa, the main export commodities of the country, have improved. Relatively low interest rates have provided the needed support for the stock exchange as investors seeking higher returns have invested in local equities. Ghanaian companies posted higher earnings in 2005, which further encouraged investors to enter the equity market. Looking ahead, the exchange would make significant gains if the Government continues to pursue prudent economic policies.

The **Kenyan Stock Exchange** began in 1951 as a private entity. In 1954, and under the colonial authorities, the Nairobi Stock Exchange (NSE) was recognized by the London Stock Exchange as an overseas stock exchange. Since Africans and Asians were not permitted to trade in securities until after attaining independence in 1963, the trading of shares was then confined to the resident European community. In

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1984, the exchange underwent major structural reforms that led to the formation of the *Capital Markets Authority (CMA)* in 1989, a regulatory body of the NSE. The overall objective of the CMA is to help create an environment conducive to the growth and development of the country's capital markets.

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Reforms have helped strengthen the NSE as its market capitalization rose from \$US3,860 million in 2004 to \$US6,140 million at the end of 2005. With about 48 companies listed on the exchange, trading of financial instruments has been very active, amounting to \$US485 million in 2005. The outlook for the stock market is very positive because the economy is growing at a robust rate and the Government is determined to continue with its current sound macroeconomic policies. Furthermore, the Government's plan to increase investments in infrastructure would induce more private investment and therefore boost the stock market.

The **Malawi Stock Exchange** started its operations in 1996, under the aegis of the Reserve Bank of Malawi. International Finance Corporation and the Financierings Maatschappij Ontwikkelingslanden, a Dutch development bank with close ties to the Dutch Ministry for Development Cooperation, provided 40 per cent of the \$500,000 required to establish the stock market in Blantyre. Its market capitalization at the end of 2005 was \$US9,050 million, up from \$US6,490 million in 2004. There are 10 companies listed on the exchange and trading in 2005 totalled \$US62 million. The exchange is supervised by a supervisory committee comprising representatives of the central bank, the Government and the private sector.

The **Stock Exchange of Mauritius Ltd (SEM)** began its operation in 1989. It is composed of two markets: the official market and the over-the-counter (OTC) market. The official market started its operations in 1989 with five listed companies and a market capitalization of only \$US92 million. There are 41 companies currently listed on the official market and market capitalization has expanded significantly to the tune of \$US2,650 million at end of 2005. The OTC market commenced its operations in 1990 and has since grown quite substantially. There are 76 companies with a market capitalization of \$US1.1 billion traded on this market.

Since 1994, foreign investors can freely trade any share listed on the official market without any restriction, except for listed sugar companies, where foreign investors collectively cannot hold more than 15 per cent of the shares. The performance of the stock market has been very strong, with the SEMDEX all-share price index growing by 723 per cent during a 17-year period. The outlook for the rest of the year remains positive, supported by a set of excellent economic fundamentals. Mauritius has managed to diversify its economy over the past few years, enabling it to better absorb external economic shocks.

The **Mozambique Stock Exchange** is one of the smallest exchanges on the continent. Its market capitalization at the end of 2005 was about \$US242 million. There are 13 companies listed but only five are traded. The value of traded assets in 2005 was about \$US34 million. Efforts are being made by the Government and the private sector to strengthen the exchange.

The **Nigerian Stock Exchange** was established in 1960. It is owned by the private sector and subscribes to international accounting standards. It has a market capitalization of about \$US10,000 million. The annual trade of financial assets averages about \$US1,000 million, with about 250 companies listed. Strong oil prices, the debt pay-out and prudent macroeconomic policies are helping to strengthen the economy. The outlook of the stock exchange is therefore positive, as it stands to benefit from robust economic performance in the future.

The **Swaziland Stock Market** was established in July 1990. There were six companies listed on the exchange as at the end of 2005. Financial assets traded are government stock options, debentures, government-guaranteed stock and non-trading mutual funds. The market capitalization as at 2005 was \$US197 million, up from \$US193 million in 2004. The value of trades stands at about \$US70 million on an annual basis. It should be noted that exchange control approval is required for foreign investors to participate in the stock market.

The **Tanzania Stock Exchange** or the Dar-es-Salaam Stock Exchange (DSE) was founded in 1996 to support the privatization initiatives of the Government. The listings had increased from two to eight by the end of 2005. The market capitalization also grew strongly from \$US236 million in 1998 to \$US 2,283 million in 2005. Similarly, the value of trading on the floor increased steadily from \$US7 million to \$US28 million at the end of 2005. The governing organ of the DSE is the Council of the Exchange, which consists of 10 members representing various interest groups in the society.

In a bid to deepen the market, the exchange has embarked on activities, including identifying potential companies and encouraging cross-border listings and linkage of the markets in the East African region and in the SADC area. As a result of these activities, two companies have cross-listed on both the Nairobi Stock Exchange (NSE) and the Uganda Securities Exchange (USE) as well on the DSE. Several other companies are in the process of obtaining cross-listings in all the three markets.

The **Tunisia Stock Exchange** was established in 1969 and subsequently privatized in 1994. The number of companies listed grew from 17 in 1992 to about 50 at the end of 2005. At the same time, the market capitalization rose substantially from \$US814 million in 1992 to roughly \$US3, 000 million by the end of 2005. The value of traded assets also grew significantly from \$US33 million in 1992 to about

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\$US800 million at end of 2005. The Tunisian stock market is poised to strengthen further because of the expected robust growth of the Tunisian economy, which is benefiting from improved tourism, gains in trade with the European Union (EU) and a strong banking sector.

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(MDGs)

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The **Uganda Stock Exchange** (USE) started its operations in 1998 with the listing of the East African Development Bank 4-year bond. In January 2000, USE listed its first equity, Uganda Clays Ltd. The market capitalization of the exchange has increased over time, from \$US37 million in 2000 to \$US1,850 million in 2005. There were seven companies listed on the exchange as at 2005. As a result, the value of traded assets at 2005 was \$US3.1 million. Like the Nairobi and the Dar-es-Salaam exchanges, the USE encourages cross-listing. Three companies are currently listed on the exchange and on the three exchanges in the East African subregion. The outlook is very positive for the USE as the Ugandan economy continues to grow remarkably. However, the economy's strong reliance on agriculture (approximately 50 per cent of GDP) leaves it and the USE susceptible to swings in commodity prices.

The **Zambia Stock Exchange** or Lusaka Stock Exchange was established in 1993, but started its operations in 1994. The Exchange was created as a vehicle for the private sector to raise long-term capital and thus create wealth. It started with a market capitalization of \$US19 million and grew rapidly to the tune of \$US2,456 million in 2005. At the end of 2005, there were 13 companies listed on it and the value of trades was \$US20 million, a seven-fold increase from 1996 when it was only \$US3 million.

The Zambian economy is heavily reliant on the price of copper and the rise of commodity prices, including those of copper, is contributing to its growth. Agricultural output has been very favourable in recent times, accounting for approximately 17 per cent of GDP. The positive economic performance is helping to strengthen the exchange, but for the exchange to grow further, the economy needs to be diversified away from agriculture and mining.

## 7.4 Regional integration of African capital markets

As noted earlier, Africa needs deep, efficient and well-established financial markets, including bond markets and stock exchanges, to mobilize the necessary domestic resources to support its development objectives, particularly the Millennium Development Goals (MDGs). These markets would help increase the quantity and productivity of investment, bolster competition in the financial sector, and improve corporate governance. Furthermore, capital markets provide policymakers with an

array of tools to conduct monetary policy also serve as vehicles for Africa to integrate into the global economy.

The discussion in section 3 clearly demonstrates that capital markets in Africa remain relatively underdeveloped compared to other emerging markets. Most of the established national stock exchanges are small and fragmented. Their market capitalization/GDP is very low and investors have no access to long-term capital. In addition, the exchanges have very low liquidity and investors still have a limited choice of financial instruments and face liquidity problems.

Integration of national capital markets has the potential to address the thinness and lack of liquidity in African capital markets by enabling various countries to pool their resources for regional cooperation and capital market development. An integrated market would reduce costs and facilitate capacity-building and the provision of regional and international services and infrastructure. This approach would help small African economies in particular to jointly build and operate efficient regional capital markets that maximize resource mobilization and allocation in all countries, while minimizing the cost of market infrastructure, operations and administration. Ultimately, capital market integration will also contribute to wider economic integration in Africa.

Implementing a regional approach to capital market development on the continent, however, entails overcoming numerous barriers and impediments at the national, regional and continental levels. This will require, above all, the adoption of common policies and the establishment of institutions and regulatory frameworks for policy coordination and harmonization.

The focus of this section is to examine policies and strategies that could be used to enhance regional integration of the financial markets in Africa. It shall also look at the challenges and offer a “way forward” for deeper market integration.

#### **7.4.1 Case for integration of African financial markets**

Given the small and fragmented capital markets in Africa, the markets need to be integrated in order to unlock the economic potential of the continent and alleviate the mass poverty that afflicts its people. The integration of markets would entail the reduction or removal of fiscal, infrastructure, legal and regulatory barriers, in order to facilitate transactions and the movement of financial capital and services.

Capital market integration often involves the harmonization of laws, regulations and standards among countries so as to achieve the desired levels of mobility of capital and financial services. The harmonization process could take the form of member States adopting similar laws. Through the harmonization process, standards

“*Integration of national capital markets has the potential to address the thinness and lack of liquidity in African capital markets by enabling various countries to pool their resources for regional cooperation and capital market development*”

are created to act as guideposts for the operation of the markets in a region. The harmonization process ensures that differences in the technical content of standards are prevented or eliminated, because the markets are forced to adopt international treaties and regulatory principles.

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*For the success of the integration process, member States need to ensure that there is macroeconomic stability and an independent central bank committed to price stability so that the real value of financial assets is protected*  
”

It must be noted that the harmonization of fragmented national markets does not mean the adoption of a single or uniform set of rules nor does it necessarily require standardizing all the rules, because some of rules are very specific to certain member States. What is required is an eventual convergence of national markets to common standards of rules and procedures for the operation of the markets.

Many advantages could result from the integration of African financial markets:

- Economies of scale, increased competition and a wider range of instruments available for both investors and savers;
- Vehicle for the mobilization of domestic resources, foreign investment and remittances, and reverse capital flight, and hence, enhanced market liquidity;
- Avenue for financing regional projects such as infrastructure projects;
- Lower transaction and capital costs;
- Governments gain a larger set of monetary and fiscal policy instruments;
- Promotion, strengthening and supporting of the private sector by providing platforms for the mobilization of productive financial capital;
- Facilitation of capacity building in countries with less developed capital markets
- Opportunities for long-term investment financing; and
- Deepening of financial development and economic integration, key strategies for accelerating economic growth and reducing poverty in Africa.

The integration of the financial markets requires that appropriate steps be taken to create the enabling environment. This environment could be attained through common policies, institutions and regional frameworks and, above all, the necessary political commitment. For the success of the integration process, member States need to ensure that there is macroeconomic stability and an independent central bank committed to price stability so that the real value of financial assets is protected. National policies must also be pro-growth and the capital markets backed by strong legal, regulatory and supervisory mechanisms as well as good general economic and corporate governance and a respect for property rights.

To ensure the stability of an integrated market, national governments would have to harmonize their respective macroeconomic policies as well

as the legislative, institutional, regulatory frameworks across countries. Solid information and communications technology (ICTs) would have to be put in place to support the high-quality, efficient and linked clearance and payment settlement systems required to facilitate financial asset transactions. The technology should also facilitate the flow of information to all stakeholders.

The operation of financial markets is a very complex process that requires specific skill sets. Member States would therefore have to commit to develop sufficient capacity and skills at all levels, including governments, regulators, brokers, auditors, stock exchanges and regional institutions, so as to ensure the smooth operation of the markets. To improve liquidity, governments also need to use the financial markets for privatization of well-functioning State-owned enterprises as well as bond issues. The political commitment and the adoption of consistent policies by governments are paramount for the success of market integration.

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The operation of  
financial markets  
is a very complex  
process that  
requires specific  
skill sets  
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#### **7.4.2 Models of financial markets integration**

Integration of African capital markets could take different forms. However, some of the models which could be considered in the process are:

- (a) A single formal regional regulator and stock exchange;
- (b) Cross-listing;
- (c) Cross-border trading;
- (d) The European Union model;
- (e) The Euronext model (a virtual stock exchange); and
- (f) Pan-African institutions.

##### ***A single formal regulator and stock exchange***

The single formal regional regulator and stock exchange model requires that all the existing financial markets be merged into one single market and under a single regulator. In this case, all the member States would use one single rule book for listing, trading, clearing and settlement. An example is the Bourse Régionale des Valeurs Mobilières (BRVM) situated in Côte d’Ivoire. As explained in section 3, the BRVM is the only fully integrated regional capital market in Africa, covering eight West African Francophone countries.

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The effectiveness  
of cross-border  
trading requires the  
recognition of each  
market’s trading  
rules and practices  
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### ***Cross-listing***

Under the cross-listing model, member States would have their own capital markets and their own regulators. However, trans-boundary listings would be encouraged among member States within a REC or a particular subregion. In other words, a regional capital market could be developed with different regulators and stock exchanges through the promotion of cross-border IPOs and simultaneous cross-listing of securities on all the securities exchanges. Cross-listing has been utilized in a number of African regions, including East Africa (Kenya, Uganda and Tanzania), and in Anglophone West Africa (Gambia, Ghana and Nigeria). Through cross-listing, investors could mobilize resources outside their countries of residence.

### ***Cross-border trading***

Cross-border trading is different from cross-border listing in that it allows the trading of financial assets across a subregion regardless of their origin. This approach, which is the fastest route to the market integration process, gives investors access to other financial markets through their local intermediaries, who are in turn linked to their counterparts in the other countries within a subregion. The benefits of cross-border trading include the diversification of investment portfolios in the wider market; increased liquidity; lower transaction costs and good corporate governance through competition.

It also encourages and promotes parallel development of local markets and deeper regional integration. The effectiveness of cross-border trading requires the recognition of each market’s trading rules and practices. Investors must also conform and adhere to the set disclosure standards and the information dissemination system. Furthermore, there should be agreements between local intermediaries and local clearing and settlement houses.

### ***The European Union model***

The European Union (EU) has member States maintaining their own separate regulators and securities exchanges, but they are subject to EU laws and directives and common minimum standards. The Union also allows market operators licensed in one country to freely operate in any of the member countries of the Union. However, the operators remain subject to supervision by the licensing State regulator. A financial institution incorporated in a member State is also permitted to do business across the EU. The vision of the EU integration process is that minimal harmonization of rules and mutual recognition should lead to gradual convergence over time. The EU is currently working on a policy, which it terms “mutual recognition”, to

allow a company listed in one market to be automatically recognized by other regulators.

### *Euronext model (a virtual stock exchange)*

The other European model is the Euronext approach, which is a pan-European stock exchange with subsidiaries in Belgium, France, Netherlands, Portugal and the United Kingdom. Euronext was formed in 2000 through a merger of the stock exchanges of Amsterdam, Brussels and Paris, in order to take advantage of the harmonization of the European Union financial markets. As of January 2006, markets run by Euronext had a market capitalization of \$US2.9 trillion, making it the fifth-largest exchange in the world. The model allows for several domestic markets operating under domestic rules, but they all follow a single rule book for trading and listing. Market operators licensed in one country can freely operate in any of the participating countries of Euronext, but are subject to the supervision of a licensing State regulator.

### *Pan-African stock markets*

The Constitutive Act of 2000, which transformed the Organization of African Unity (OAU) into the African Union, and the Treaty establishing the African Economic Community (AEC) or the Abuja Treaty, proposed the setting up of an African Stock Market. This is to be created alongside other pan-African bodies such as an African Central Bank, an African Investment Bank and an African Monetary Fund. Studies are being conducted on the framework and modalities for the creation of these pan-African financial institutions.

## **7.4.3 Creating regional stock markets**

To reach the goal of developing a regional capital market, African countries have to consider reducing the disparities among rules and regulations between countries within subregions, regions and the continent as a whole. Policies would need to be put in place to minimize the costs of dealing with diverse regulatory systems so as to attract both domestic and foreign investors and savers.

An approach that could be adopted is perhaps to begin the process of integration of the financial markets with subregional groupings such the regional economic communities (RECs). This is because the RECs have in place policies and legal, political and institutional frameworks that would facilitate the integration process. The RECs could then form a working group made up of stock exchanges, market operators,

“To reach the goal of developing a regional capital market, African countries have to consider reducing the disparities among rules and regulations between countries within subregions, regions and the continent as a whole”

regulators and policymakers to draw up the modalities and framework for the integration of the financial markets within the respective RECs.

However, before any process of integration can begin, it is important that African countries strengthen their respective capital markets, because the aggregation of small, weak domestic capital markets in an effort to establish a well-functioning regional capital market poses particular difficulties. Therefore, strengthening domestic capital markets will assist in the broader objective of integration.

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However, before any process of integration can begin, it is important that African countries strengthen their respective capital markets, because the aggregation of small, weak domestic capital markets in an effort to establish a well-functioning regional capital market poses particular difficulties  
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Once the initial conditions of domestic capital markets are addressed, countries have to decide on the institutional structures for establishing the regional market. The roles of the RECs in facilitating the integration process are very critical at this juncture. The committee mentioned above could be established at the level of the RECs to develop minimum standards based on international standards that would guide the operation of the regional stock markets.

The committee should encourage and support member States in implementing their recommendations. To ensure convergence towards a continental financial market, the committees across all regions would have to cooperate in sharing training and investor education programmes and facilities, streamline licensing requirements for market operators, work together with policymakers to tackle impediments to market integration, and establish monitoring and enforcement mechanisms.

To ensure the success of the integration process, the RECs, in collaboration with member States, should strive for the harmonization of laws, regulations and standards of the existing financial markets. It should be noted that harmonization would require the adoption of similar laws, elimination of discrepancies between rules in different national jurisdictions, and establishment of common standards. It is very important that the RECs and member States do not ignore other impediments to capital market integration as they pursue the harmonization of the standards, rules and regulation of the market.

#### **7.4.4 Initiatives by the regional economic communities to harmonize their markets**

As we saw in section 3, there are stock exchanges in all regional economic communities recognized by the African Union. SADC has the most national exchanges, with the most active and important one being the Johannesburg (South Africa) Stock Exchange, which also serves as a subregional hub. Cross-border investments are very high in SADC, particularly among Botswana, Namibia, Lesotho, Swaziland and South Africa. ECOWAS, and to a large extent CENSAD, has three exchanges: the Nigeria Stock Exchange, the Ghana Stock Exchange, and a regional exchange for UEMOA in Abidjan (Côte d’Ivoire). There are also a number of exchanges in

COMESA, with the Cairo (Egypt) and Nairobi (Kenya) Stock Exchanges being the most active. UMA has evolving exchanges in Morocco and Tunisia. In the ECCAS zone, there is the relatively new Douala Stock Exchange in Cameroon, and there are plans for a regional exchange.

These exchanges have different tax regimes and capital account restrictions. The rules and regulations governing the operations of the markets vary from country to country. The laws and statutes for the listing, disclosure, trading, clearing and settlement systems and rules, capital adequacy requirements and accounting standards vary across the markets and across the RECs. As a result, some of the RECs are embarking on initiatives to harmonize the financial markets in their zone with the view of achieving convergence.

In the ECOWAS region, three exchanges, the Nigerian Stock Exchange, BRVM and the Ghana Stock Exchange, are negotiating on how they can increase cooperation and achieve convergence of their rules. The Nigerian Stock Exchange and the Ghana Stock Exchange have also signed a memorandum of understanding to cooperate in the areas of staff training, surveillance procedures, self-regulation and communication of information. Although they are very cumbersome and costly, cross-border listings are also being promoted in the ECOWAS zone. For example, some Gambian banks have listed on the Ghana Stock Exchange, while Ecobank Transnational Inc (incorporated in Togo) has also listed on the three exchanges. Other companies are being encouraged to do the same.

The proposed Central African Exchange based in Gabon and serving Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Equatorial Guinea and Gabon, has focused on the harmonization of trading rules. There are ongoing discussions to merge the Central African Exchange with the Douala Exchange.

In SADC, the Johannesburg Stock Exchange (JSE) is heavily involved in cross-border investment. The SADC Committee of Stock Exchanges is providing the leadership in the process of harmonizing the listing requirements of exchanges of member States based on 13 principles set out in the JSE listing guidelines. The region is also harmonizing the operating systems of all the exchanges as well as encouraging cross-listing amongst exchanges within SADC. The Committee is in discussions to set up a common entry-level examination for all stockbrokers in the SADC zone.

The financial markets in the AMA region are also pursuing integration initiatives. Libya, Morocco, Tunisia and Egypt have signed cooperation agreements on technological and regulatory support for each other, and Morocco, Tunisia and Egypt allow cross-border trading. When fully operationalized, the agreements would allow investors of the different capital markets to have access to each other's markets through their local intermediaries. The agreements also require participating countries to

*In the ECOWAS region, three exchanges, the Nigerian Stock Exchange, BRVM and the Ghana Stock Exchange, are negotiating on how they can increase cooperation and achieve convergence of their rules*

recognize each other's market trading rules and practices and securities listed in the regional markets; and to conform to established disclosure standards and the information dissemination system.

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Although efforts are under way on the harmonization of legal and regulatory frameworks, the progress of financial markets in various subregions has been very slow. In addition to full harmonization, it is essential that countries recognize, respect and comply with regulatory regimes of other countries”

The experience in the EAC subregion could serve as a model for the integration of financial markets in Africa. The areas of cooperation and harmonization are: (a) policy formulation; (b) regulatory and legal issues; and (c) structural and institutional matters. Common policies for the subregion are initiated by the Capital Markets Development Committee (CMDC) of EAC, which was established in 2001.

The CMDC is made up of representatives of member States from the following institutions: central banks, securities markets regulators; ministries of finance/treasuries, stock exchanges, and insurance and pension sector regulators. The objective of the CMDC is to facilitate implementation of sections of the Treaty for the Establishment of the East African Community (EAC) related to capital markets. It generally formulates policies for consideration by the Ministers of Finance, who then submit them to the Summit of Heads of State for a decision.

The CMDC facilitates the strengthening of capital markets so as to ensure free movement of capital within the EAC. It is working on the harmonization of capital market policies on cross-border listing, foreign portfolio investors, taxation of capital market transactions, accounting, auditing and financial reporting standards, commissions and other charges. These harmonization measures are being undertaken to establish a regional stock exchange within the EAC with trading floors in each of the Partner States. Furthermore, the CMDC ensures that national authorities adhere to harmonized stock trading systems, which allow residents of the member States to acquire and negotiate monetary instruments freely within the EAC.

#### **7.4.5 Way forward on the integration of financial markets in Africa**

The experiences shared here of the RECs are very helpful in pushing forward the agenda on capital markets integration in Africa. We have witnessed that interventions being advocated to strengthen capital markets on the continent call for action at national level, with limited consideration for action at regional level. Although efforts are under way on the harmonization of legal and regulatory frameworks, the progress of financial markets in various subregions has been very slow. In addition to full harmonization, it is essential that countries recognize, respect and comply with regulatory regimes of other countries. Harmonization of reporting and disclosure requirements and liberalization of financial services are also needed at the national, subregional and continental levels.

It must be noted that capital markets are not created by mere declaration, but must be backed by sufficiently large demand and supply of securities. This is why regional cooperation can be used to establish links with other markets in order to achieve a critical mass of demand and supply. The RECs and other regional bodies have a major role to play in the promotion of costs and benefits of stock market trading so as to educate investors and involve more potential issuers. Coordination of regional capital market development should include strategies for private sector involvement as well as promotion of cross-border listing.

Yet, it should also be noted that the creation of regional markets might face some difficulties and challenges in some of the subregions, because of the interest that countries have in retaining their individual stock exchanges. In such cases, consideration could be given to “virtual” regional markets based on automated common trading systems and central depository systems (World Bank 2002).

An approach toward integration of the financial markets in Africa could begin with the integration of the markets in the subregions. The RECs have already put in place programmes that seek to offer a framework for the creation of subregional financial markets, which could serve as the overall driving force behind continental capital market integration. For the effective integration of the markets in the subregion, it is important that committees are established in the RECs made up of representatives of stock exchanges, central banks, market operators, regulators and other policy-makers. These committees would facilitate the formulation and implementation of programmes geared towards the formation of subregional markets.

These programmes could include the merger of some of the markets and the establishment of strategic alliances for cooperation and platform-sharing arrangements. The committees should also encourage countries with no formal stock exchanges to establish a well-regulated OTC market, while allowing their issuers to cross-list on neighbouring exchanges. New markets could rent/buy capacity on the market infrastructure of neighbouring exchanges without having to invest in expensive technical platforms.

The committees could also determine the level of integration to adopt and the level of control each market would retain. They should also establish the level of control of national market regulators and minimum benchmarks and standards in each subregion. They should develop common training standards and standards of professional conduct for market professionals as well as investor education programmes and facilities. The committees should provide a framework for streamlining licensing requirements for market operators and improve information sharing among regulators.

For the market effectiveness and efficiency, the committees should work with policy-makers to remove legal and tax impediments to cross-border capital market activity

“An approach toward integration of the financial markets in Africa could begin with the integration of the markets in the subregions”

(e.g. exchange control restrictions) and to streamline and simplify cross-border dispute resolution mechanisms, settlement delays and costs (multiple currencies even at the REC level), weaknesses in payment systems and ICTs.

“ It is important that measurable indicators and time bounds are established jointly between the RECs and the African Union Commission for the creation of a continental financial market ”

Once the strong subregional financial markets have been well established, the committees could come together and work towards the formation of a continental market as proposed under the Constitutive Act establishing the African Union and the Abuja Treaty. It is important that measurable indicators and time bounds are established jointly between the RECs and the African Union Commission for the creation of a continental financial market. As argued earlier, Africa needs a continent-wide stock market for the mobilization of resources for growth and development. The need to integrate Africa’s financial markets into the globalized financial system implies that regional standards should be raised to meet international standards.

## 7.5 Regional financial institutions in Africa

To support their integration and development agenda, some of the RECs have established institutions to support regional financial cooperation. Regional development banks operate in CEMAC, COMESA, EAC, ECOWAS, UEMOA and UMA (table 7.6).

**Table 7.6**  
**List of financial institutions in each REC**

RECs	Financial institutions
CEMAC	Commercial banks, development banks, micro-finance establishments, insurance companies, stock exchanges
COMESA	1) PTA Bank, 2) African Trade Insurance Agency (ATIA), 3) clearing house, 4) ZEPRI
EAC	1) East African Development Bank 2) Several commercial banks with branches in the three countries
ECOWAS	1) Central banks, 2) Deposit money banks, 3) Discount Houses, 4) Mortgage Institutions, 5) finance companies, 6) micro finance institutions, 7) foreign exchange bureaus, 8) development banks, 9) insurance companies, 10) cooperative societies and credit unions and 11) stock exchanges
SADC	1) Central banking institutions (CCBG), 2) development finance institutions (DFI), 3) stock exchanges (COSSE) and insurance and non-banking institutions (CISNA)
UEMOA	1) Central bank (BCEAO) and development bank (BOAD), 2) commercial banks and financial institutions, 3) Intermediation and management companies, 4) property holding firms, 5) insurance companies, 6) decentralized financial systems and 7) regional solidarity bank in each UEMOA Member State

Source: ECA

The role and functions played by the financial institutions are: collecting of deposits and granting of loans to individuals and enterprises; transmission of stock exchange

orders and management of interactions between financial institutions through the central bank; financial intermediation on short-term and long-term considerations and receiving public funds. Furthermore, the regional institutions have limited relations with the national institutions (table 7.7), in most cases dealing only through the central banks.

**Table 7.7**

***Relationship between national and regional financial institutions***

RECs	Interaction between national and regional financial institutions
COMESA	The PTA Bank has relationships with commercial banks in the region. e.g. co-financing arrangements, floating of local currency bonds. The clearing house also has a close relationship with central banks
EAC	Not much interaction. Basically not serving the same clients
ECOWAS	At UEMOA, national banks are branches of the regional central bank (BCEAO)
SADC	Regional financial institutions are not yet in place
UEMOA	Interaction between financial institutions through the central bank.

Source: ECA

Since 2002, the Maghreb Bank for Investment and External Trade has been operating in the UMA zone. Headquartered in Tunis, the bank supports the economic integration agenda of UMA by financing agricultural and industrial projects in which the member States have a common interest. It provides financing services to facilitate trade, to undertake projects at national and regional level; and to assist poorer members in each region. It also mobilizes investments for other bankable projects and promotes trade and related payment arrangements. In SADC, the South African Development Bank has taken the responsibility for serving the interests of all community members.

The COMESA Clearing House, which was established in 1984, provides foreign exchange support for the facilitation of intra-COMESA trade. The clearing house has been restructured in a number of areas, including: (a) transferring the clearing function to commercial banks, (b) transforming the clearing house into a regional SWIFT centre and a hub for electronic money transfer among regional commercial banks, and (c) putting the new clearing house in charge of providing regional export guarantee against political risk.

The PTA Reinsurance Company (ZEP-RE), which was opened in 1991, provides insurance and re-insurance to investors in the region. The COMESA PTA Bank, a development bank based in Burundi, provides financing for trade and projects at national and regional level in the form of credit, credit guarantee and minority equity participation in joint ventures. The bank also supplements the activities of national development agencies of member States through joint financing operations

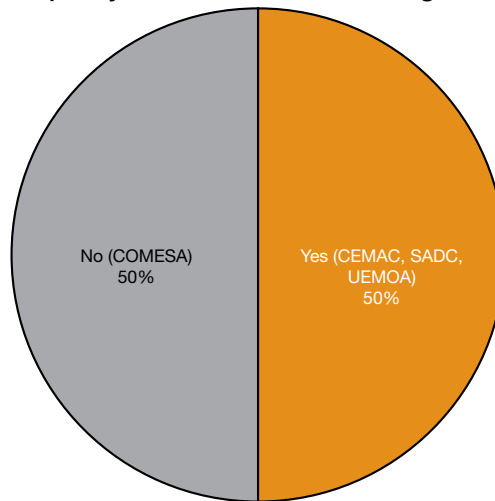
“The COMESA PTA Bank, a development bank based in Burundi, provides financing for trade and projects at national and regional level in the form of credit, credit guarantee and minority equity participation in joint ventures”

and the financing of development projects. Since its operations began, the bank has financed the manufacturing, agribusiness, tourism, mining, infrastructure and energy sectors of the REC.

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In order to promote the creation of regional financial institutions, the RECs are making attempts to deregulate the financial environment”

In order to promote the creation of regional financial institutions, the RECs are making attempts to deregulate the financial environment. Some of the RECs are instituting policies to support their deregulation efforts, as summarized in table 7.8.

**Figure 7.1**  
*Existence of regional policy on financial sector deregulation*



**Table 7.8****Regional policy on financial sector deregulation**

RECs	Have regional policy	Do not have
COMESA		Plans to have financial system development and stability plan
EAC		Has not progressed to that stage of monetary union
ECOWAS		NA
SADC	<ul style="list-style-type: none"> <li>- Liberalization of capital markets</li> <li>- Liberalization of exchange rates</li> <li>- Convertibility of national currencies</li> <li>- Liberalization of banking sector and financial institutions</li> </ul>	
UEMOA	The regional policy on financial sector deregulation is aimed at ensuring free movement of capital within the Union, the free provision of financial services to registered institutions on the basis of a uniform regulation and legislation within member States, and at providing even access to resources through the strengthening of market infrastructures.	

Source: ECA

Some of the measures taken to deregulate the market include the liberalization of capital markets; liberalization of exchange rate controls, convertibility of national currencies and liberalization of national banking laws. With respect to international standards, member States are making efforts to eliminate controls on capital transfer and capital repatriation.

## 7.6 Conclusion

Development of Africa's capital markets and a deeper degree of financial intermediation are crucial for the mobilization of resources needed to carry out regional integration objectives, particularly in the areas of growth and development. The need to integrate local financial markets into the globalized financial system implies that regional standards should be raised to meet international standards.

African financial markets are attempting to integrate within the continent. However, their integration into the global market is still a distant target. Financial integration in Africa comes mainly through the creation of development banks by the regional

“The need to integrate local financial markets into the globalized financial system implies that regional standards should be raised to meet international standards”

economic communities to support regional integration objectives. In general, the macroeconomic and institutional set-up of countries within Africa has not favoured the development of integrated markets. A number of different types of policies can foster integration.

*Direct policies such as eliminating controls and impediments to the free mobility of financial capital or creating specific agreements between countries or within regions can serve as a basis for financial integration*

Direct policies such as eliminating controls and impediments to the free mobility of financial capital or creating specific agreements between countries or within regions can serve as a basis for financial integration. Types of indirect policies that play an important role for future financial integration include the adoption of international best practices on accounting standards, disclosure of information and tax regimes. Other useful instruments include harmonizing regulations that govern information sharing, and allowing cross-border information sharing. Even if full harmonization of regulations is reached, however, problems with key national institutions and macroeconomic instability can hinder the process of financial integration. Protection of property rights and legal stability must also be safeguarded.

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