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**REPORT OF THE CAPACITY BUILDING WORKSHOP
ON THE ROLE OF CAPITAL MARKETS IN MOBILIZING DOMESTIC
RESOURCES IN AFRICA**

GABORONE, BOTSWANA

5– 7 DECEMBER 2018



I. Introduction

1. The Capacity Building Workshop on the Role of Capital Markets in Mobilizing Domestic Resources in Africa was held in Gaborone, Botswana, from 5 to 7 December 2018. The meeting was chaired by Dr. Dossina Yeo, Senior Statistician, Department of Economic Affairs at the African Union Commission.

II. Attendance

2. The meeting was attended by representatives from the following organizations: African Union Commission;; African Securities Exchanges Association (ASEA); BODIVA; Botswana Embassy (Ethiopia); Botswana Stock Exchange Limited; Bourse Régionale des Valeurs Mobilières (BRVM); CSD and Registry Company Limited; Dar-es-Salaam Stock Exchange; Douala Stock Exchange; Eswatini Stock Exchange; Ghana Stock Exchange; IMARA Capital Securities; Malawi Stock Exchange; Nairobi Securities Exchange; Namibian Stock Exchange; The Nigerian Stock Exchange; Khartoum Stock Exchange; PAC Capital Limited; The African Capacity Building Foundation; The Egyptian Exchange; Uganda Securities Exchange; Lusaka Securities Exchange; and Zimbabwe Stock Exchange.

III. Adoption of the Work Programme

3. The following work programme was adopted by the workshop:

- a) Opening Ceremony;
- b) Plenary discussion on the theme;
- c) Breakaway sessions
 - Infrastructure and Technology;
 - Liquidity; and
 - Regional Integration.
- d) Report back from breakaway sessions;
- e) Consideration of the report; and
- f) Closing session

IV. Account of proceedings

A. Opening Address

4. During the opening session, the CEO of Botswana Stock Exchange made the introductory remarks, followed by opening remarks by the representative of the African Union Commission.



5. The **CEO of Botswana Stock Exchange, Mr. Thapelo Tsheole** welcomed the participants and thanked the AUC for choosing Botswana to host the meeting. He stressed the important role that financial systems have played over the decades in the advancements around the world. He also noted that the remarkable economic growth that Africa has witnessed over the past years has not been translated into the development of capital markets. He pointed out that capital markets are imperative in driving the growth of Africa given their role in creating capital and enabling efficient allocation of resources. He recalled that the continued reforms in the continent's pension industry and the commitment to creating an enabling regulatory environment have been some of the major factors that have helped to unleash Africa's vast institutional financial capacity to optimise growth opportunities across the continent.

6. Mr. Tsheole further underscored the importance of the African Union to prioritise the development of capital markets in an effort to address structural challenges limiting them. In addition, he stressed how the workshop intends to identify challenges and solutions, promote synergies and sharing of experiences and best practices. He noted that Botswana was honoured that the African Union Commission decided to kick-start the series of capacity building workshops in Botswana, and that the AUC is a strategic partner to ASEA to which the BSE is a member. Mr. Tsheole also invited the participants to attend the 23rd Annual Conference of ASEA in Kasane, in November 2019 under the theme "building resilient African capital markets".

7. The Representative **of the African Union Commission, Dr. Dossina Yeo** welcomed the participants on behalf of H.E Mr Moussa Faki Mahamat, the Chairperson of the African Union Commission, to the Capacity Building Workshop on the role of capital markets in mobilizing domestic resources. He also extended his gratitude to the Government and the people of the Republic of Botswana for their warm welcome to all the delegations since their arrival to the magnificent City of Gaborone. He further noted that the Workshop is significant and timely within the context of the theme of the AU Specialized Technical Committee on Finance, Monetary Affairs and Integration on the Mobilization of domestic resources: fighting against corruption and Illicit Financial flows.

8. Moreover, Dr. Dossina indicated that the amount Africa can mobilize through traditional sources of finance such as tax revenues and official development assistance is far below the investments needed to achieve sustainable development for the continent. Therefore, Africa has to look for viable alternative sources of sustainable financial including the development of local financial market to mobilise domestic resources to close the financing gaps. He pointed out that the Workshop provides a platform to engage capital market practitioners in the mobilization of domestic resources to finance the continent's development agenda and the African Union wishes to continue building the capacity of capital markets, with a view of

establishing a continent-wide network of people to drive the continental agenda of the creation of a Pan-African Stock Exchange. Lastly, he thanked all the participants for taking time out of their busy schedules to attend the Workshop.

B. Plenary discussion on the theme: Role of Capital Markets in Mobilizing Domestic Resources in Africa

9. The representative of the AUC, Ms. Ndinaye Charumbira made a presentation on the theme of the workshop, “the role of capital markets in mobilizing domestic resource in Africa”. She recalled the decision of the Heads of State and Government that called for domestic resource mobilization to foster economic development and integration. She highlighted that over the years the African securities markets have grown, however, most capital markets are still underperforming because of the inadequacy of infrastructure, poor investment climate, high trading costs, lack of confidence and low investor base. She further emphasized the importance of the modernization of the capital markets by creating enabling environment and good investment climate, improved infrastructure and technology in order to mobilize domestic resources more effectively. She concluded the presentation by making recommendations in order to improve the efficiency of financial markets in Africa and achieving agenda 2063 and sustainable development agenda; these include: improvement of infrastructure and technology to facilitate cross-border trading, fast-track financial integration for raising revenues across the continent and the establishment two regional exchanges by 2023.

10. Dr. Robert Nantchouang from the African Capacity Building Foundation (ACBF) made a presentation of the key findings of the Africa Capacity Report 2015 on capacity imperatives for domestic resource mobilization in Africa (ACR 2015) produced by ACBF. He introduced the Africa Capacity Report (ACR) as the ACBF flagship publication. The ACR intends to highlight key determinants and components of capacity for development and how they can be measured. To this end, the ACR maps out the capacity development landscape in Africa with the view of sharpening the focus on capacity deficits as a major development policy issue. He explained that the reason behind assessing capacity in Africa is to better plan, manage, implement and account for results of policies and programs. The ACR 2015 underscores the need to mobilize internal resources to implement the Sustainable Development Goals (SDGs) and Agenda 2063. On one hand, the external financial flows can be unpredictable and tend to decrease over time. On the other hand, there is significant untapped DRM potential in Africa as domestic tax revenues mobilized are increasing and remain larger than external financial flows. Additionally, illicit financial outflows, if curbed, can retain significant resources for development on the continent. Despite encouraging achievements, African countries face various challenges, capacity being the most important, preventing them from effectively mobilizing domestic resources.



Therefore, beside the rules, regulations and building of the required human capacity, it is imperative to build the capacity of key continental, regional and national institutions to improve domestic resource mobilization (DRM) by improving tax collection and management and curbing illicit financial flows on the continent. Also, key stakeholders (Governments; Private sector; Civil society; Parliaments; Partners) must play their role. Lastly, he concluded that ACBF will continue to produce and disseminate knowledge products as well as advisory services on capacity building related to DRM.

11. After the ensuing debate, the meeting made the following recommendations:

- a) Request Member States to improve the business and investment climate by establishing a sound macroeconomic framework and an effective legal and regulatory framework and institutional systems;
- b) Urge Member States to harmonize legislation and regulations to accelerate regional integration in order to expand the market so as to raise more funds across the continent for the development of the continent;
- c) Call upon Stock Exchanges to modernize their systems by investing in infrastructure and technology advancements;
- d) Request also Stock Exchanges to build the capacity of government officials, parliamentarians and citizens on the importance of capital markets; and
- e) Request AUC, ACBF and ASEA to build the capacity of Exchanges to better mobilize resources on the local markets.

C. Breakaway sessions

12. The Workshop was divided into three sub-groups to discuss the following sub-themes: infrastructure and energy; liquidity; and regional integration. Following are a summary of the discussions and recommendations emanating from the groups.

C.1. Infrastructure and technology

13. The infrastructure and technology group identified several challenges that are faced by African Securities Exchanges. The challenges included limited investors on the stock market and limited investor awareness of the stock market; long “time to market”; Know Your Customer (KYC) compliance; unauthorized transactions by brokers, and lack of investor confidence and transparency. It was noted that infrastructure and technological advancement is key to dealing with most of the challenges facing stock exchanges in Africa. The need for adoption of broker back office systems, Automated Trading Systems (ATS) and Central Securities Depository

(CSD) technology to ensure straight-through processing of transactions was highlighted.

14. The group noted, however, that there was slow uptake of technological advancement in most African countries due to the cost of purchasing the infrastructure as well as the maintenance costs. It proposed that stock exchanges in Africa could consider shared services similar to the Namibian Stock Exchange which is using the JSE Trading System. Data vending as an additional income line was also encouraged to partly cover some of the maintenance costs. It was felt that Africa has the capacity to develop stock market systems that could be offered at a more affordable cost. The Egypt Stock Exchange was cited as having developed all its systems in-house.

Recommendations

15. The following recommendations on how technological solutions can assist in addressing some of the challenges were proposed:

- (a) Request the AUC to support the development of infrastructure and technology in African Stock Exchanges through financing infrastructure at the African stock markets, facilitating South-South cooperation and developing local solutions;
- (b) Call upon Stock Exchanges to use mobile trading platforms to promote financial inclusion and improve access to markets;
- (c) Request Stock Exchanges to carry out investor education utilizing technology such as applications that mimic stock market activities at a national level and to also target students as future investors;
- (d) Encourage Stock Exchanges to introduce e-IPO with documentation submission, regulatory review and investor subscription done online;
- (e) Further encourage Stock Exchanges to introduce central data management systems to link the capital market to the other available databases such as banks, which already carry out KYC;
- (f) Call upon Stock Exchanges to raise investors' awareness on trading and settlement processes; and
- (g) Encourage Stock Exchanges to introduce mobile phone notifications to investors when their orders are executed on the Exchange and/or direct cash settlement to client bank accounts.

C.2. Liquidity

16. The group that was discussing the liquidity sub-theme noted the importance of liquidity in providing both economic and political stability, and therefore, attracting foreign investors. The factors affecting market liquidity were emphasized including the practice of institutional investors to buy and hold securities; lack of robust capital market strategies; lack of coherent policy direction in regulation; limited product

offering; and long settlement and clearing timelines. Among interventions suggested to improve liquidity were media workshops and programmes, and peer forums; introduction of stock market education into tertiary and secondary school syllabi; alternative market formalization; introduction of proper disclosure guidelines; allotment policy at IPO stage; and pushing of free float compliance.

Recommendations

17. The following recommendations for improving market liquidity were proposed:

- (a) Request Stock Exchanges to implement risk management solutions for brokers to enhance their activity;
- (b) Further request Stock Exchanges to conduct annual reviews of listed or quoted stocks;
- (c) Also request Stock Exchanges to consider liquidity enhancement such as short selling and securities lending and borrowing;
- (d) Stock Exchanges are encouraged to increase their product offering and conduct public awareness programmes;
- (e) Call upon stock exchanges to leverage technological advancements;
- (f) Request governments to introduce more conducive tax regimes to support the activities of the Exchanges; ;
- (g) Encourage Stock Exchanges to strike a balance between the buyer and sellers to promote liquidity in the markets;
- (h) Regulators and Stock Exchanges should introduce an Allotment Policy to guide issuers to strike a good balance between institutional and retail investors during IPOs; and
- (i) Regulators should encourage market intermediaries to provide robust market analysis to guide prospective investors.

C.3. Regional Integration

18. The group on regional integration discussed how to link African stock exchanges organically. The group presented some key benefits of regional integration for national markets, investors and intermediaries, issuers and regulators. Some of the benefits include facilitating economic growth, economies of scale, opportunity to tap into a larger pool of investors, reducing costs of trading, and more efficient allocation of capital. The different types of integration were identified as a fully integrated market with single virtual access; sponsored access; and direct market access. The group proposed the processes on how to integrate African markets and highlighted some key features of the AELP project. The group also presented an overview of the West African Capital Markets Integration Council (WACMIC) established in 2013 by the Economic Community of West African States (ECOWAS) and its different phases.

19. In order ensure successful integration of African markets, the group discussed some basic requirements including creating an enabling environment, alignment of regulations and harmonization of rules towards best practices, modernizing infrastructure to facilitate connectivity, defining a clear roadmap with milestones and mobilizing political support. The group also requested the AU's support for capacity building and financial education and fostering Political will.

Recommendations

20. After the debate that took place, the meeting made the following recommendations for fast-track financial integration on the continent:

- a) Request the AUC in collaboration with ASEA to work towards the establishment of an integrated African market to create economies of scale and mobilize adequate resources for financing Africa development agendas;
- b) Request the AUC support for capacity building and financial education;
- c) Request the AU to provide political support;
- d) Request Member States to liberalize their capital accounts;
- e) Request Member States Regulators to review multiple restrictions for operation of institutional investors; and
- f) Request Stock Exchanges to facilitate the availability of information for all market participants

21. In conclusion, the Workshop recommended that a task force should be established to monitor the implementation of the recommendations of the Workshop, in collaboration with ASEA.

D. Adoption of the report and recommendations

22. The report was adopted with amendments.

E. Closing ceremony



23. In her closing remarks, Ms Thapelo Moribame from the Botswana Stock Exchange noted that Africa is faced with numerous challenges and that Stock Exchanges are in a position to mobilize the resources that are required to finance the development of the continent. She said that the onus was on the Exchanges to ensure the implementation of the recommendations emanating from the Workshop. She thanked the AUC for making the arrangements for the Workshop. She also thanked the participants for their fruitful deliberations and wished all a pleasant journey to their respective destinations.
24. On his part, Dr Dossina Yeo, Senior Statistician at the AUC, commended the participants for the rich and insightful discussions. He said that the Workshop had been a platform for experience sharing and exchange of best practices. He said that this should be a continuing collaboration to reach the objectives of Agenda 2063. He called on African countries to use vast amounts of resources available on the continent to finance their own development. He said that the contribution of Stock Exchanges was essential in this regard. He thanked the interpreters for facilitating communication during the entire duration of the Workshop. In conclusion, he thanked the Botswana authorities and BSE for facilitating preparations for the Workshop.