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## **CONVERGENCE OF AFRICA CAPITAL MARKETS: *Africa's Efforts to Pool Together its Liquidity***

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Africa capital markets battle with the conundrum of illiquidity being the main catalyst of its sustained lack of liquidity. The process of trying to boost liquidity and depth in the region through i) increase in cross-border activities of broker-dealers, fund managers and private equity funds and ii) increase in cross-listings within and outside economic blocs – ECOWAS, East Africa, Southern Africa, etc. has been ongoing pretty much since the independence of African nations from their colonial masters.

Now, more than ever, market forces are calling for the convergence of African capital markets as one potential solution to the problem. Several sub-regional integration initiatives have active capital market integration programs for example, the i) Southern African Development Community (SADC) initiative; ii) East Africa Community (EAC) initiative; and iii) West African Monetary Institute (WAMI). With only nuggets of successes to boast of on a sub-regional level, it is no wonder that Africa's most liquid and developed markets have decided to aggregate the learnings from each of their respective regional integration efforts and create one large pool of liquidity as opposed to maintaining multiple small-medium sized markets that will inevitably stay small-medium.

### **AFRICAN EXCHANGES LINKAGE PROJECT (AELP)**

The African Exchanges Linkage Project (AELP) is Africa's most optimistic capital market integration initiative at the moment. Driven by the Africa Securities Exchanges Association (ASEA), it is backed by a formal partnership with the African Development Bank (AfDB).

What is disparate about the AELP compared to other existing sub-regional integration projects in Africa, is that the AELP transcends any particular regional bias. It also doesn't hurt that the incumbent two term ASEA president is the chief executive officer of the Nigerian Stock Exchange (NSE), one of the Exchanges participating in the pilot project. As ASEA President and CEO of the NSE, Mr. Oscar N. Onyema OON is able to galvanize the commercial will required to drive the project through to fruition.

The project focuses on linking some of the most developed and vibrant markets across Africa including the Johannesburg Stock Exchange, Nairobi Securities Exchange, Nigerian Stock Exchange, Casablanca Securities Exchange, Stock Exchange of Mauritius and Bourse Régionale des Valeurs Mobilières SA, and will open access to trading across all linked exchanges, sharing all market information between them and offering investors access to a deeper pool of liquidity.

The AELP officially launched in 2015 and in its initial stage, established two (2) work streams; (i) a Steering Committee comprising of Principals of the Exchanges and Officials from the AfDB; (ii) a Technical Committee, comprising of technical experts from the Exchanges and their CSD counterparts, as well as a sub technical committee made up of legal experts. So far, the project has concluded: i) a feasibility study and an Economic Sector Work (ESW) report; ii) execution of a non-disclosure agreement (NDA) by all participants; iii) several technical workshops; and iv) wide spread national consultation efforts. The key next steps for the project is the establishment of a project management office to ensure the projects stays on course, and the successful application for funding from the capital market division of the AfDB.



Despite significant strides in a relatively short span, most linkages, capital market or otherwise have failed because of: i) over-optimistic IT assumptions – cost & speed; ii) exchange governance implications; iii) lack of credibility of contractual commitments; iv) cross-jurisdictional legal and regulatory issues; and v) politics. The AELP is not going to be immune to some, if not all of these challenges. However, the principals of the initiative have proffered the following as adequate solutions to anticipated challenges.

S/N	Challenges	Proffered Solutions
1	Post-trade Settlement Challenges	<ul style="list-style-type: none"> <li>Engage the services of a single settlement bank (with provision for a back-up) with presence in all jurisdictions in the pilot, to address real-time gross settlement (RTGS) issues.</li> <li>Reduce FX costs by using an SPV model that will have branches in each country and act as a funds settlement agent within the existing national settlement system.</li> </ul>
2	Regulatory Impediments	<ul style="list-style-type: none"> <li>Harmonize standards across the regions to reduce the administrative burden and costs in cross-border capital-raising by replacing many different sets of diverging rules with a single set.</li> </ul>
3	Governance Issues	<ul style="list-style-type: none"> <li>Use a multi-tiered organization structure communication framework where decision makers are very broadly distributed across work streams.</li> </ul>
4	Project Timeline	<ul style="list-style-type: none"> <li>Engage dedicated person(s) with a mandate and resources to fulfill a project management and reporting role to the AELP stakeholders for a period of five (5) years (Average time for such projects is 3-5 Yrs).</li> </ul>
5	Political Willingness and Stakeholders Commitment	<ul style="list-style-type: none"> <li>Early engagement and initiation of government policy at the highest levels of leadership.</li> </ul>

#### **WEST AFRICAN CAPITAL MARKETS INTEGRATION (WACMI) PROJECT**

Undoubtedly, the AELP is taking its cue from one of the most successful Africa capital market integration programs to date – the West African Capital Markets Integration (WACMI) project. The WACMI is an initiative to establish a harmonized regulatory environment for the issuance and trading of financial securities across the West African sub-region. Inaugurated in 2013, the project saw its first cross border trade in 2015 and has been an influential beacon in the development of the AELP and other capital market integration programs across Africa.

The WACMI program is designed to be rolled out in three phases: i) Phase 1 - Sponsored Access; ii) Phase 2 - Direct Access by Qualified West African Brokers (QWABs); and iii) Phase 3 - Integrated West African Securities Market (WASM). The project is still in its first phase, however, Direct Market Access (DMA) for the region has been successfully launched under a sub phase of the Sponsored Access phase. This formed the basis for the first cross border trade and has been instrumental in the scoping out of the AELP.

The WACMI program faces the same set of challenges as all integration projects, including a language barrier (i.e. English, French and Portuguese) which is being addressed through the use of translators to breach the gap.

#### **CONCLUSION**

Evidently, the African rising story is being truncated as global flows to Africa circumvent volatility and single commodity based economies. However, successful integration of key African capital markets has the potential to speed up the development of Africa's various domestic financial systems, promote increased competition, as well as increase opportunities for innovation and risk diversification. Successful integration will also harmonize regulations



that can enhance national profiles in areas such as taxation, accounting standards, corporate governance, and legal practices, and facilitate the sub-region's integration with the global economy. The large and diverse population of over 290 million translates into a consumer base with significant domestic savings and investment potential. Thus it is envisaged that the convergence of Africa capital markets will promote the size of issues distributed at attractive prices and provide trading and settlement processes that support active clearing and settlement.

Ultimately, removing barriers to cross-border investments through integration will provide more choices of financial products in the coming years, reduce costs of raising capital and improve access to financing for businesses, particularly SMEs. African securities exchanges as highly valued national symbols must therefore collaborate to harness the increased revenues and synergy from ongoing integration efforts.