

## **PROMOTING REGIONAL CAPITAL MARKETS**

**Statement delivered at the 4<sup>th</sup> UNCTAD Inter-regional Debt Management  
Conference**

**Geneva, 10 – 11 November 2003**

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Firstly I would like to welcome you to this session, commonly known as the “grave-yard” session, just after lunch. I am sure, however, that the panellists have interesting experiences that will keep you all from succumbing to the forces of nature !

We have a distinguished list of panellists with us today:

Mr. Sergio Edeza – Treasurer of the Philippines;

Mr. Jose Adrian Vargas Barrantes – Treasurer of Costa Rica;

Mr. Carlos Santizo Reyes – Head of Capital Markets, Ministry of Finance, Guatemala;

Mr. Jorge Barboza – Principal Economist at the Executive Secretariat of the Central American Monetary Council, Costa Rica; and

Mr. Surinder Kathpalia – Managing Director of Standard & Poor’s Credit Market Services for South and South East Asia based in Singapore.

But, before we get to the panellists, I would like to say a few words from the experiences, though limited, in Africa on regional capital markets.

I need not elaborate on the fact that Africa faces daunting economic challenges. We have debt markets covering the full spectrum of development from many small and undeveloped economies to the much larger and more sophisticated South African market where most instruments available in the developed economies can be traded (South Africa has some USD 55 billion in outstanding debt with Botswana and Namibia immeasurably lower). We have countries with very low debt burdens like Botswana at some 10-15% of GDP but also those with high debt burdens like Zambia (> 200% of GDP). The most appropriate way of moving forward in this environment may best be achieved by regional capital markets and pooled market infrastructure, in large part to minimize the costs associated with small local markets. We can use the analogy of a national airline, which I recall has been used in the past in this context. Is it a national imperative to have your own market (airline) and start from scratch ? Could the objective of issuing your paper be equally achieved by using a more developed market in the region and so issue your own bonds and money market paper into that market or can a dual listing work ? They may be a start.

In that context, the Swaziland Posts and Telecommunications Corporation recently created a domestic Medium Term Notes (MTN) programme that has also been listed on the Bond Exchange of South Africa, despite differences in settlement regimes, South Africa has T+3 electronic net settlement while Swaziland has physical settlement. The point is that the processes can be modified to make things work. Mr. Tom Lawless, CEO of the Bond Exchange of South Africa makes the following two recommendations:

Look and learn from others around you and do not be afraid to ask for help – you cannot live long enough to make all the same mistakes again as others have !

Africa is also able to brag with a truly regional market. Almost 30 years ago to the day (14 Nov 1973), the West African Monetary Union (UMOA) was established through the foresight of the member states seeing the need to create a common financial area to consolidate the foundations for regional integration. UMOA consists of 8 countries (Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo).

The regional financial market of the West African Economic and Monetary Union (UEMOA, Union économique et monétaire Ouest Africaine) was created in 1996. This region has succeeded in creating the critical mass of market demand and supply, the absence of which is very common among the smaller economies in developing countries. Needless to say that the single currency of the Union, the CFA franc, was a key factor in creating this critical mass. The pegging of the regional currency to the French Franc and now of course to the Euro has helped to keep inflationary pressures under control which has also aided the development of the bond market.

Although still at an early stage of its development, the bond market in the UMOA region has shown relatively rapid growth since the commencement of the regional stock exchange in 1998. The rationale for pursuing a regional approach was the decision to widen the investors and potential issuers' base, a step that would result in guaranteeing increased liquidity in the market, the need to reduce the cost of transactions through

economies of scale and reduce the training period of market operators. Such an approach would also enable the regional stock exchange to become visible on the international capital market, a possibility that may be denied to any national project.

The issuers that have tapped this regional market have comprised state governments, a regional development bank, financial institutions and non-financial institutions, generally in equal proportions. However, not all the governments of the 8 member states have tapped the market, Cote d'Ivoire, Benin and Burkina Faso having been the major state issuers. One of the problems associated with the regional model is who to regard as the benchmark issuer. In the national model, the government is clearly the most likely candidate for creating a benchmark yield curve, but in the regional model there are 8 governments, which one does one choose ! In the case of UEMOA, the West African Development Bank or BOAD to use its French acronym, is the oldest and largest bond issuer and many market participants regard its bonds as being the (proxy) benchmark.

The last point I want to make is that under the NEPAD (New Partnership for Africa's Development) framework, developing domestic financial and regional capital markets and improving regulation is one of the collective priorities over the next few years to promote capital flows that will assist in development of local financial markets. Indeed the Financial Markets Initiative of NEPAD sets out an ambitious agenda for market development, including:

- strengthening domestic markets, through establishing sound regulatory frameworks and legislation, strengthening national banking regulation and

supervision, implementing modern payments systems, strengthening and development of bond markets; simultaneously with

- harmonising regional markets, through legislative and regulatory harmonisation, sharing of market infrastructure, and movement towards capital control liberalisation; both leading to a movement toward the free flow of capital in the region.

I want to end with a quotation from a recent workshop on capital markets development hosted by UNECA and Rand Merchant Bank in Johannesburg from 27 – 29 October 2003. The Chairman of RMB, Mr. Paul Harris stated: “The African Renaissance being promoted by President Thabo Mbeki and other African leaders will not happen unless the continent develops its soft infrastructure – i.e., sound, well-regulated financial markets. Hard infrastructure such as roads, buildings and telecommunications are the easy part, soft infrastructure is much harder to put in place. It involves the creation of a sound legal and regulatory framework free from political interference – one in which investors can have confidence and contracts can be enforced.”

With this brief background, let’s hear from the panellists.