

The **KENYA INSTITUTE** for **PUBLIC
POLICY RESEARCH** and **ANALYSIS**

Thinking Policy Together

The Domestic Savings Shortfall in Sub-Saharan Africa: What Can Be Done About It?

Capital Markets in Sub-Saharan Africa

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Introduction

- Primary role of capital markets is to channel surplus funds - companies' and households' savings- into long-term productive use by making long-term investments **through the issuance and trading of long-term securities**
- ✓ Governments also utilize the capital markets to raise funds -bonds
- ✓ Facilitate capital growth by mobilizing savings and converting them into investments - stimulating of economic growth
- Africa Union (2015)...*For Africa to take full responsibility in financing her development, the development of Africa's capital markets is a key priority area.*
- South and East Asian countries have experienced high economic growth mainly due to the high level of domestic savings
- Study aims to enlarge the prevailing literature on developing capital markets in SSA countries.

Evolution, Structure and Products

❑ Evolution

- ✓ Most capital markets in SSA established after the financial crises in 1990s-young at 32 years and below
- ✓ South Africa, Nigeria and Zambia have more than one Stock Exchanges/ Securities.
- ✓ Two regional Stock Exchanges in West and Central Africa

❑ Structure -institutional and legal

- ✓ Presence of the legal and regulatory framework in SSA countries-laws and regulations-**effectiveness??**
- ✓ Global competitiveness index 2018 & 2019- regulation of securities exchanges indicator - South Africa, Namibia, Rwanda, Nigeria, Botswana, Kenya ,Mauritius, and Zambia score high.
- ✓ Singapore and Malaysia rank highly

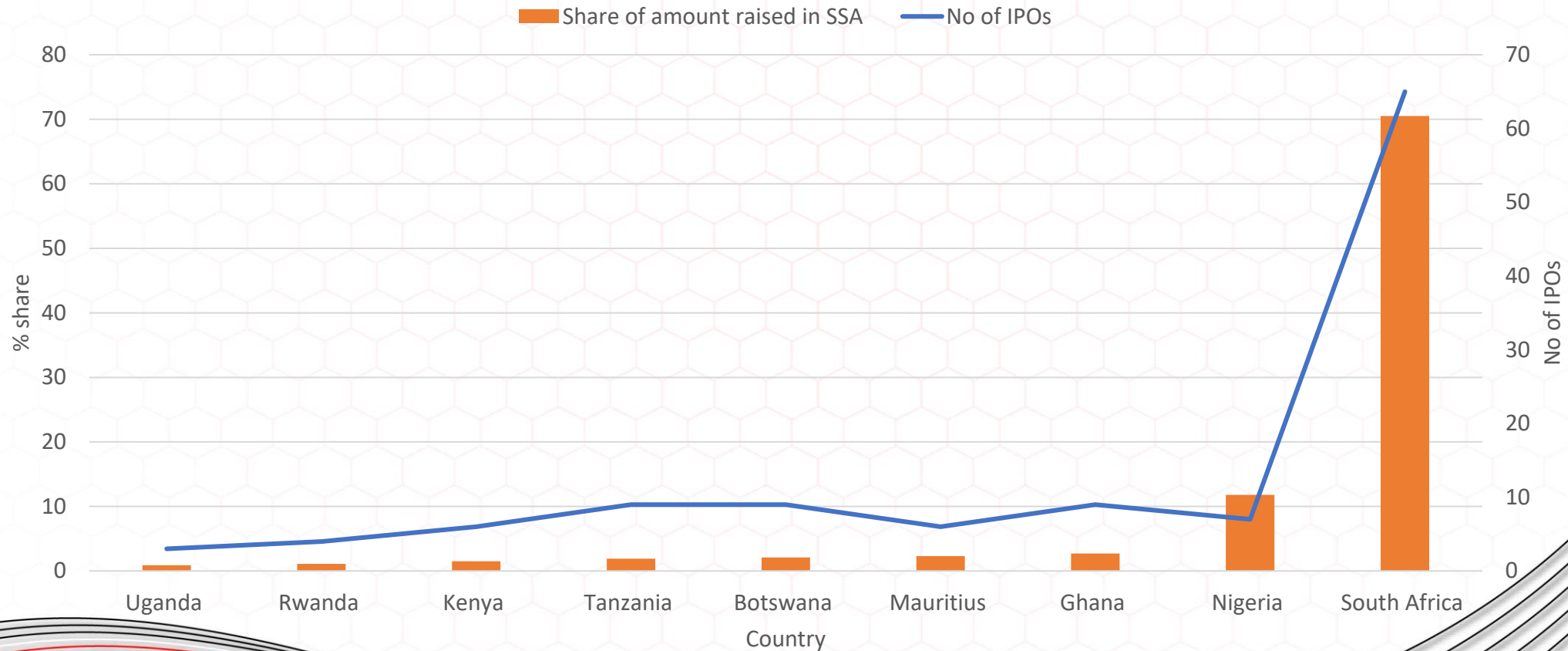
❑ Products

- ✓ Limited diversity of products
- ✓ Except South Africa's Johannesburg Stock Exchange, Nairobi Securities Exchange & Seychelles (Merj Exchange Limited)

Performance of Capital Markets

☐ Equity market

❖ IPOs (2010-2020) -Macro-economic environment key (Global competitiveness Index)

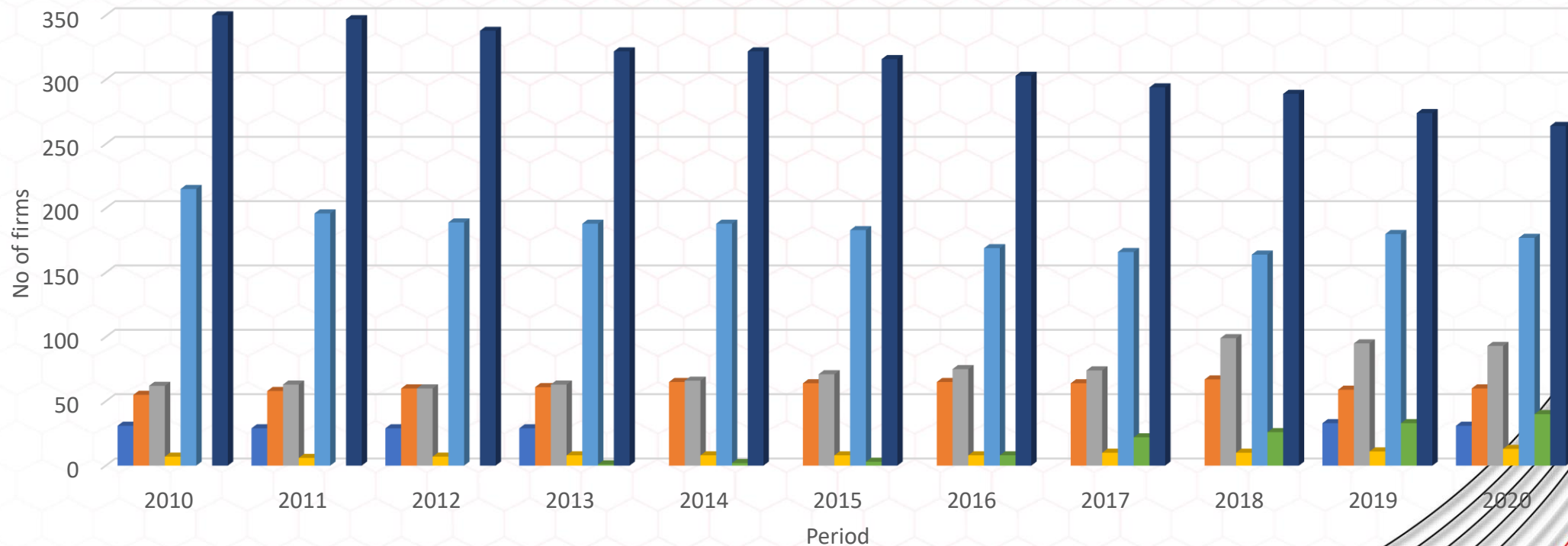


Performance....

- **Listed companies**

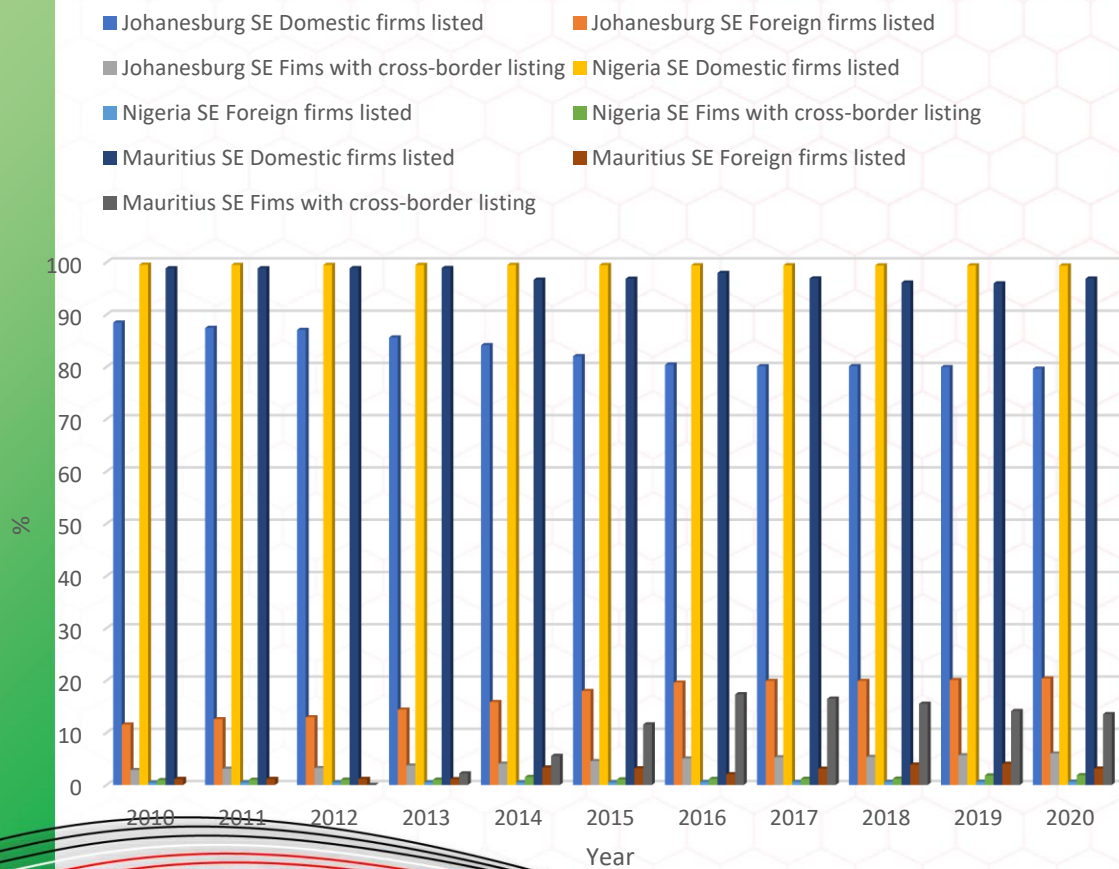
- ❖ **Small number of listings**

■ Ghana ■ Kenya ■ Mauritius ■ Namibia ■ Nigeria ■ Seychelles ■ South Africa

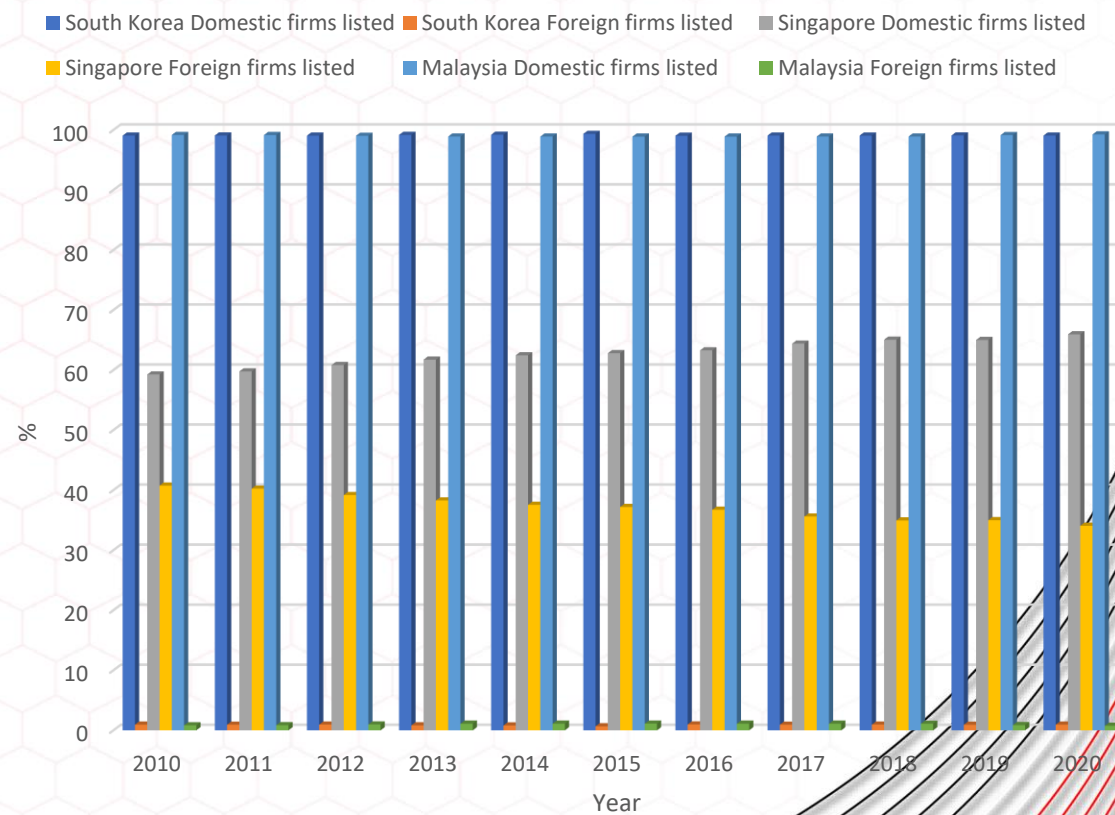


Performance....

Low listing of foreign firms and cross listing in SSA

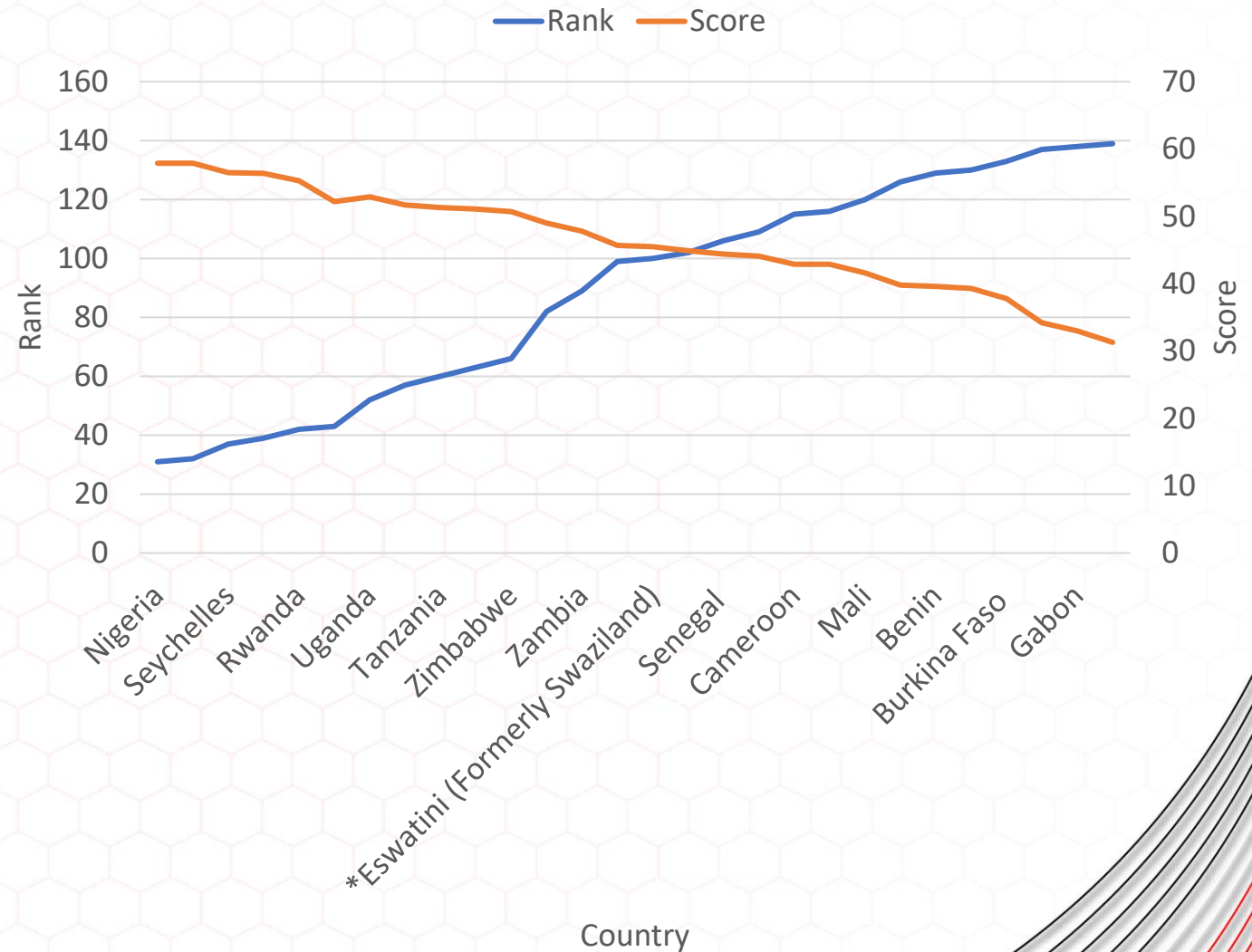


Domestic firms listing dominate in South Korea and Malaysia



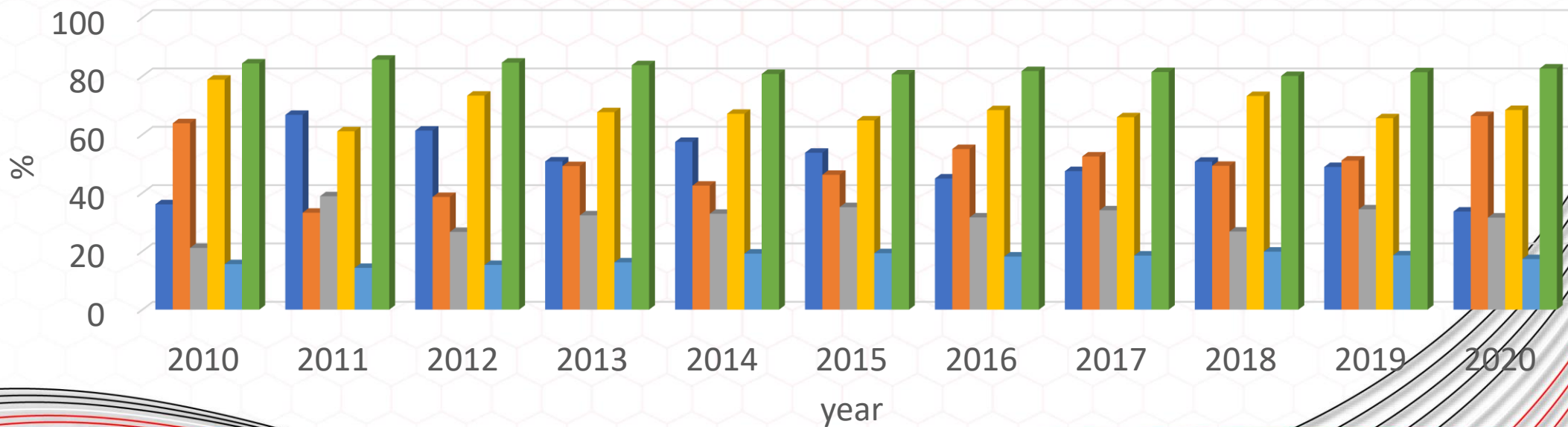
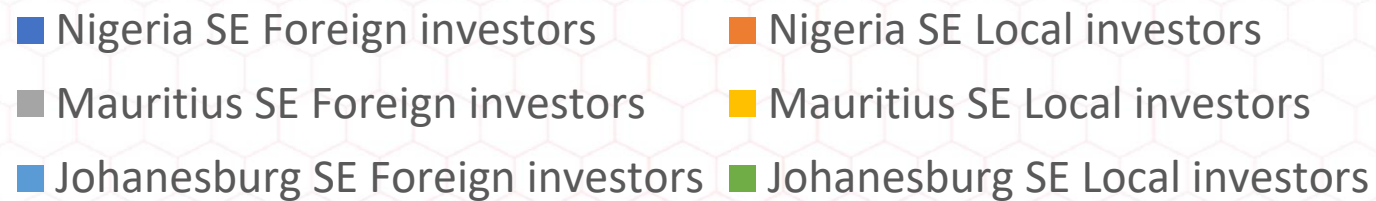
Performance.....

- ❑ Set up over-the-counter markets and boards -to attract indigenous firms-largely informal
- JSE AltX(130 listed firms) , Growth Enterprise Market Segment at NSE (5 firms listed), Nigeria & Ghana
- **Is entrepreneurial culture an issue?**
- ✓ Weak in most SSA countries (Global Competitiveness Index report 2019)
- ✓ South Korea, Singapore, and Malaysia scored 52.1, 64.2 and 70.4 respectively.



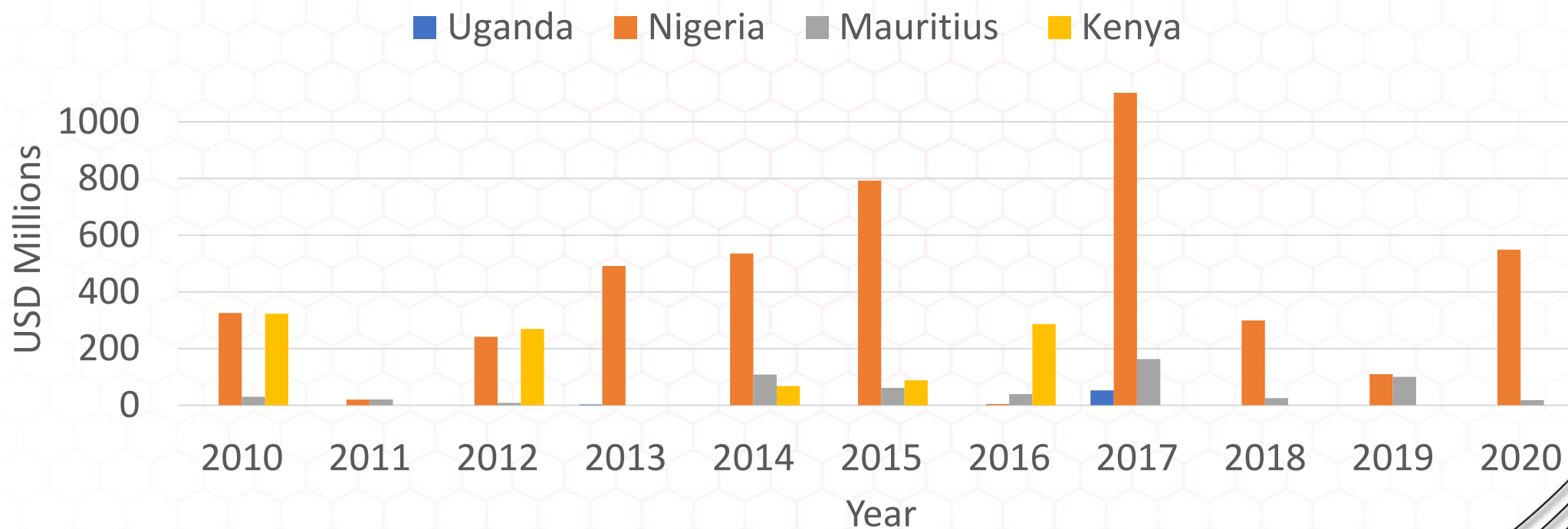
Performance....

- Equity participation



Performance....

- **Rights issue is low-the macroeconomic environment is key**



Performance....

□ Bonds market

- Corporate bonds constitute a tiny part of the bond markets.-in Kenya ,Treasury bonds dominate the market at 99 %
- South Africa and Nigeria -corporate bonds markets dominate in terms of number of issuances
- External debt has become a key source of capital due to undeveloped capital markets
- ✓ Countries in SSA have issued Eurobonds
- ✓ 2011-2019, USD 120 billion raised from Eurobonds issues
- ✓ Attract relatively high interest rates- average coupon rate 5% for Mozambique to 10.14% for Zambia-other indirect fees
- ✓ A few countries have defaulted while others are experiencing difficulties in servicing
- ✓ In December 2020, six countries in SSA were in debt distress while 14 others were at a high risk of debt distress (AfDB, 2021).

Key messages

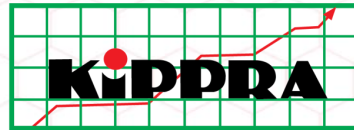
- There exists a legal and regulatory framework that governs capital markets in most SSA countries-uncertainty in ensuring the stability of the markets remain & influences investor confidence.
- A conducive macro-economic environment is critical-influences firms' investment decisions, and hence the raising of capital through IPOs and rights issues.
- The weak entrepreneurial culture in most SSA countries constrains MSMEs' growth thus making the enterprises unattractive for listing.
- There are friendly capital flows policies in most SSA countries. However, the participation of foreigners in the capital markets is low, probably due to other underlying factors.
- Presence of underdeveloped capital markets in most SSA countries, likely to plunge the countries into external debt crises because of high interest rates, and other associated indirect fees especially on Eurobonds.

Policy implications

- Ensure strict enforcement of the enacted laws, regulations, and rules governing capital markets & enhance professionalism of public officers to strengthen regulatory oversight.
- Ensure a continuous, stable, and conducive macroeconomic environment to incentivize investments, thus spurring growth of the capital markets.
- Develop and implement focused policies for supporting MSMEs' to ameliorate constraints such as the weak entrepreneurial culture.
- Reflect on prudent and comprehensive policies that support the development of capital markets and their timely review.
- Design effective approaches to exploit the anticipated benefits from trade agreements such as the African Continental Free Trade Area to grow the vibrant private sector.

THANK YOU

For your Attention



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