State of liquidity in African capital markets

- From 8 exchanges prior to 1989 to about 28 today, covering 32 countries. Most have doubled their sizes over the past 3 decades.
- But this growth has not been associated with similar growth in liquidity.
- As a percentage of world market capitalisation, Africa accounts for just over 2%.
- Emerging markets turnover velocity hovers around 50%.
- Africa turnover velocity (ex. JSE) can be as low as 0.02% to just over 5% on average.

- Liquidity concentration – few stocks and a few sectors
- Still, some highly concentrated stocks remain illiquid (e.g. Anglo)

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<thead>
<tr>
<th>Mining</th>
<th>Industrial</th>
<th>Telecoms</th>
<th>Banking</th>
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<tbody>
<tr>
<td>Anglo (BSE, 83%)</td>
<td>Dangote (NiSE, 22%)</td>
<td>Safaricom (NSE, 44%)</td>
<td>CIB (EGX, 12%)</td>
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<td>Econet (ZSE, 24%)</td>
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- Mining
- Industrial
- Telecoms
- Banking
Generally, African markets suffer from low levels of liquidity. Some of the factors:

- Undeveloped PE and VC markets
- High risk – counterparty and settlement
- Limited information channels
- Low number of IPOs
- Small retail investor base
- High transaction costs
- Buy-and-hold strategies
- Lack of financial literacy
- Limited avenues to access markets
- Limited foreign investor participation
Adverse effects of illiquidity

- Disparities in securities pricing and poor price discovery
- Issuers are deterred leading to limited availability of stock for portfolio allocations – hence buy-and-hold
- Foreign investors are deterred
- High transaction costs
- Countries end up exporting excess capital
Importance of increasing liquidity

Benefits of increasing liquidity

- Better confidence in the market – both issuers and investors
- Greater investment choices and visibility
- Better price discovery and lower cost of equity
- Attract investment flows from foreign investors
- Mobilisation of finance for domestic enterprises and governments
- Reduced counterparty risk and high certainty - in terms of settlement
- Better quality capital markets
- Investment banks able to offer diverse financial products
How can African markets improve liquidity?

**Automation**: CSD and ATS, cross border linkages

**Simplified Market Access**: Internet trading, Mobile App

**Retail investors** – Education (investors & issuers), tailored products for retail

**Active Marketing** of the exchange

**SBL, Short-Selling & Market Making** – basis for derivative markets

**Regulation** – higher free float, lower transaction costs

**SME Boards, OTC Boards, Mentorships, PE & VC markets** – pipeline of listings

**Internationalization** - WFE: best practices

**Market Data** – Bloomberg, Reuters, MSCI Indices, etc

**Products** – ETFs, CP, GDRs, International Bonds – Supranationals, Eurobonds

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Broadly, a Stock Exchange is a platform for two (2) things:

- **Capital Raising**: enables corporates & governments to raise investments by investors (secondary market).

- **Driving liquidity on the BSE**: Successes & Pitfalls

### Average Daily Turnover (P' Mn)

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<tr>
<td>2003</td>
<td>1.6</td>
<td>0.9</td>
<td>1.0</td>
<td>1.7</td>
<td>3.4</td>
<td>4.8</td>
<td>3.1</td>
<td>3.9</td>
<td>4.1</td>
<td>3.6</td>
<td>9.3</td>
<td>8.8</td>
<td>12.2</td>
<td>10.2</td>
<td>10.0</td>
<td>7.5</td>
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### Product & Market Development
- ETFs, market education (investors & issuers), international bonds

### Regulation
- Transaction costs, OTC & SME boards, demutualisation

### Infrastructure Development
- CSD, T+3, dematerialisation, ATS

### Internationalisation
- Best practices, WFE, ASEA, CoSSE, visibility, market data

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**Driving liquidity on the BSE – Successes & Pitfalls**

- GDRs, CP, REITs, retail bonds, data screens
- Market-making, SBL, derivatives
- Mobile app, online CSD access, internet-based trading
- Direct market access
Some of the initiatives in African markets

Collaborations & partnerships
- African exchanges linkage project
- Local roadshows & exhibitions
- Listings promotion & one-on-ones
- Social media
- Television and radio
- Publications & media
- Advocacy and lobbying
- Transaction pricing reviews
- Trading technology
- celery
- Marketing
- Capacity building
- Indices
- Demutualisation
- Market-making
- Open Days
- Issuer and product education
- Listings conferences & seminars
- SME Boards
- Product development
- Young Investor Awards
- Mentorship programmes
- Stock exchange academy
- Mobile-Apps
- Free float

Attracting listings and investors in African exchanges
**Additional considerations**

**Would regional integration increase liquidity?**

- Multiple trading platforms fragment the markets. Regional integration could help consolidate liquidity.

- Strong sense of sovereignty and independence for their exchanges – although it is not financially viable for some of the smaller countries to own stock exchanges.

- Moreover, capacity of the electronic trading, clearing and settlement infrastructure is underutilised.

**Would cross-listings increase liquidity?**

- More useful when a stock listed in a smaller market dual lists in a larger market.

- But no value is added when a stock that is illiquid in its primary market dual lists. Even worse when such a listing is by introduction.
Thank You!!

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