Success Factors for the Establishment of a Pan-African Securities Exchange

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ABSTRACT

This research investigated the critical success factors for the establishment of a pan-African securities exchange. Interviews with participants from the financial markets from around Africa enabled 16 critical success factors to be identified. These were then categorised into three sub-categories: catalysts for growth, challenges, and absolute requirements for the establishment of such an exchange. Catalysts for growth are factors from which the growth of an exchange would benefit if these factors were in place. Challenges are factors that individually represent varying levels of dependence for the successful establishment of such an exchange but collectively form a key requirement for the successful establishment of a pan-African securities exchange. Absolute requirements represent those requirements without which the establishment of a pan-African exchange would not be successful. The key findings are that despite the numerous and often difficult critical success factors required, it would not be an impossible task to create a regional exchange or even a pan-African exchange.

DECLARATION

I, Andrew Foster, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Andrew Chris Foster

Signed at ……………………………………………………

On the …………………………….. day of ………………………… 2010

DEDICATION

Carlyn, Mom, Dad.

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The completion of this research would not have been possible without the involvement of many people. I thank you all.

Firstly, I thank my wife Carlyn and my parents for the patience, love and support they all offered every step of the way.

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CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

The purpose of this research was to investigate the success factors for the establishment of a consolidated securities exchange across all African countries. The research also assesses the relative importance of these factors.

1.2 Context of the study

There are 54 countries in Africa, 23 of which have at least one securities exchange (Some have more than one exchange; South Africa, for example, has more than four exchanges). There is a regional exchange based in Côte d'Ivoire, servicing the countries of Benin, Burkina Faso, Guinea Bissau, Côte d'Ivoire, Mali, Niger, Senegal and Togo (Bourse Régionale des Valeurs Mobilières SA 2009). Additionally, the Johannesburg Securities Exchange (JSE) has recently launched a pan-African board on its exchange, with the first listing taking place on 19 February 2009 (JSE Limited 2008)

In Europe there are two regional securities exchanges. In the Caribbean there is one major regional securities exchange, *The Eastern Caribbean Securities Exchange,* and the United States has six regional securities exchanges.

The African Union tabled the idea of a pan-African securities exchange in the agenda of the 2006 Assembly of the African Union (African Union 2006), and undertook a study of the feasibility of such an exchange in April 2007, with subsequent workshops held thereafter (Mkwezalamba 2009). The reason for the need for such an exchange is that it will assist in mobilising the financial resources of the continent and promote a more dynamic economy. (Mkwezalamba 2009).

The African Union conference of 2006 indicates that there is interest in a pan-African securities exchange from an economic and political point of view. In addition, because there are other regional exchanges in existence around the world, one can deduce that there may be an advantage to the creation of a regional securities exchange in Africa.

An investigation of the opinions of the potential stakeholders of such a market could aim to disclose critical success factors for the establishment of a pan-African securities exchange and the relative importance of the success factors to each other.

1.3 Problem statement

1.3.1 *Main problem*

The main problem that this research investigates is the critical success factors for the establishment of a pan-African securities exchange.

1.4 Significance of the study

The study fills a knowledge gap in that although the JSE has launched an African board on its exchange and although there is already a regional exchange operating in Eastern Africa, the success of these exchanges is not guaranteed.

Noting the establishment of various regional European and American securities exchanges, this study aimed to outline what the key success factors would be in establishing a pan-African securities exchange. These factors have not been researched before and the results of this research might provide insight for existing exchanges as to their strategy formulation going forward.

The study may provide insight for governments and regional development councils within Africa that want to make platforms available for businesses to raise funds through public listings.

The study should provide future guidance for investment institutions and investment professionals wanting to invest in Africa or that have a mandate to invest in Africa and wish to establish whether a pan-African securities exchange is likely to be successful or not. In this way, Africa could warrant consideration as an investment destination.

The study may provide future guidance to multinational firms that are exploring the possibility of listing, and the selection of exchange to list on to establish whether a pan-

African securities exchange is likely to be successful or not and thus warrant consideration as a listing destination.

1.5 **Delimitations of the study**

This study investigates the critical success factors and their relative importance for the establishment of a pan-African securities exchange but does not investigate how the success factors can be attained.

1.6 **Definition of terms**

- Pan-African – The collective reference to all 54 countries that are either geographically located on the African continent or are not part of the African continent, but are still classified as being African (e.g. Madagascar).
- Equity securities – Includes common or ordinary shares, preferred or preference shares.
- Common/Ordinary shares – Any shares that are not preferred shares and do not have any predetermined dividend amounts. An ordinary share represents equity ownership in a company and entitles the owner to a vote in matters put before shareholders in proportion to their percentage ownership in the company (Firer, Ross, Westerfield and Jordan 2004).
- Preferred/Preference shares – A class of ownership in a corporation that denotes a higher claim on the assets and earnings than common securities have. Preferred securities generally have a dividend that must be paid out before dividends to common securities holders. The shares usually do not have voting rights (Firer et al. 2004).
- African Union – An intergovernmental organisation consisting of 52 members. Currently, three African countries are suspended from the Union for various political reasons.
- Securities exchange – An organised market for the buying and selling of securities (Firer et al. 2004).
- Liquidity – The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterised by a high level

of trading activity. Assets that can be easily bought or sold are known as liquid assets (Firer et al. 2004).

- Listed company – A company that has issued securities through an initial public offering (IPO) and is traded on at least one securities exchange (Firer et al. 2004).
- Listed security – Securities that have been accepted for trading purposes by a recognised and regulated exchange (Firer et al. 2004).

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

Following a background discussion, this chapter discusses the possible success factors of a pan-African securities exchange on the basis of the literature. This discussion is then followed by an explanation of the purposes of a securities exchange and of a pan-African securities exchange in particular. Thereafter, existing security exchanges in Africa and the challenges with financial markets in Africa will be highlighted. Finally, the chapter concludes with the identification of salient factors that may be instrumental in the successful implementation of a pan-African securities exchange.

2.2 Background discussion

The idea of a pan-African securities exchange was tabled at the meeting of the African Union in 2009 (Mkwezalamba 2009) and has recently been implemented by the continent's largest stock exchange by market capitalisation the JSE (JSE Limited 2008). The successful implementation of such an exchange is, however, an ideal that is not yet a reality.

Many of the securities exchanges in Africa went through a reform process in the early 1980s and 1990s as a part of the IMF/World Bank structural adjustment programmes (Singh 1999). Even so, the African exchanges are, 20 to 30 years later, in comparison to those in other emerging markets, still small and illiquid (Yartey and Adjasi 2007).

It has been proposed that the implementation of individual (local) securities exchanges in many African countries would not benefit the individual countries and would be both expensive and irrelevant, especially when there are inadequate banking systems in place (Singh 1999).

Another aspect to consider is nationalist politics in Africa; studies in the SADC region have demonstrated that smaller economies have a perception that South Africa dominates the region and this perception has been the largest impediment to establishing a regional exchange in the SADC region. However, it can be argued that forging links between other African countries and South Africa could be of benefit to Africa at large because of the available technology of the JSE as well as linkages to the London Stock Exchange, and may lead to an increase in direct investment from South Africa to Africa, as well as between the countries integrated with this technology (Yartey and Adjasi 2007).

2.3 Possible success factors for the implementation of a pan-African securities exchange

2.3.1 *Why the move to pan-African and regional integration?*

The African continent has had a legacy of impoverishment primarily due to the effects of colonialism, the cold war, inadequate policies pursued by many African countries after achieving independence, as well as the workings of the international economic system (African Union 2001). Much of the infrastructure within African nations is still geared towards servicing these old colonial masters. The infrastructure of several African capitals are even today still geared towards and connected with the likes of Brussels, Paris, London, Rome and Frankfurt, instead of with one another. As an example, shipping links are geared towards extra-African trans-oceanic trade as opposed to intra-African coastal trade (Mistry 2000).

Africa's place in the global economy has for centuries been mainly as a supplier of goods, based on its cheap labour and raw materials. In more recent times, the role of supplier has resulted in minerals and raw materials being used to develop manufacturing industries and the opportunity to develop a highly skilled labour force and to sustain growth and development being lost. These factors have contributed to Africa remaining the poorest continent despite being the most richly commodity endowed region in the world (African Union 2001).

Despite the fact that African countries are generally so well endowed with natural resources, most of them have proven themselves to be economically unviable as independent entities (Mistry 2000). Africa's future growth is currently highly reliant on inflows of external aid and there is doubt whether the reforms introduced by the IMF and World Bank since the 1980s will produce sustained, durable growth for the continent (Mistry 2000). It is important to note, however, that regional integration and co-operation are not new concepts to Africa. As an example, the origins of SACU (Southern African Customs Union) date back to 1889 (Gibb 1997).

With a population growth of four per cent per year, Africa requires at least a five per cent to seven per cent economic growth rate to merely sustain itself before growing (Mistry 2000). While globalisation is taking place outside of Africa, greater opportunities are being created for developed countries, thus reinforcing the powerful status of some of the powerful nations while African nations are moving towards disintegration rather than integration (Forje 2004).

It has been suggested that Africa's approach to integration has in the past been illogical and unrealistic, with lofty ambitions and no follow through. These grand plans have been undertaken with little or no attention paid to the day-to-day practical realities of the African situation (Mistry 2000). It is important that regional groupings be used for the interests of the citizens and the region and not become a façade to cover up other reasons (Forje 2004).

African nations operate in a context that poses a challenge to the smaller economies being able to run efficiently as independent entities. Of the 54 countries, only 10 have markets of more than 25 million people (Mistry 2000). In addition, because of old colonial-designated geographic boundaries and past influences, often small nations cover tracts of land that are large and barren, which makes not only the development of infrastructure costly but increases transportation costs exponentially as well (Mistry 2000; Forje 2004). It has been calculated that often transportation costs account for between 30 per cent and 50 per cent of the final retail price in land-locked African countries (Mistry 2000).

The new partnership for Africa (NEPAD) was formed to consolidate democracy and sound economic management on the African continent (African Union 2001). This programme is getting the commitment of African leaders to work together and to hold each other accountable in rebuilding the continent by promoting peace and stability, sound economic management, and people-centred development.

Along with the ideals of the inter-African bodies, the practicalities of leveraging economies of scale within the African continent must be exploited to assist in the level of growth required in order achieve the sustainable and durable African continent spoken of by politicians. Additionally, while globalisation is creating new wealth and economic opportunity, polarisation is taking place between countries of the world, with African countries moving towards disintegration rather than integration with one another (Forje 2004).

2.3.2 *Advantages of regionalisation*

Rowlands (1998) suggests that although regionalisation is regarded as a second prize to globalisation, it is seen as the much needed stepping stone. Regionalisation offers developing countries the opportunity to group together and increase their bargaining power with external actors such as international financial institutions, donors and transnational corporations.

The relatively small size of most African countries in terms of their population, per capita income and limited markets, has resulted in most investors being discouraged by the prospects of unattractive returns. The limited investments in infrastructure further negatively impacts the viability of achieving economies of scale, diversifying production and exporting goods (Mistry 2000).

Regionalisation will allow for African countries to pool their resources through regional development and economic integration thus improving their international competitiveness (Rowlands 1998; Mistry 2000). Regional exchanges will allow for the countries involved to benefit from economies of scale as well as an improvement in pricing efficiency (Jefferis and Smith 2005). Countries in Africa that adopt open market policies, while at the same time maintaining stable economies, will capture a greater share of foreign capital, implying increased trade and thus improving the economic state of the nation (Forje 2004).

Worldwide, focus is currently shifting towards economic activities of transnational concern such as economic integration, regional cooperation and globalisation, making efforts towards sharing both the benefits and the burden of such a move more viable (Forje 2004).

The AU plans to prioritise capacity building to enhance regional structures and to rationalise regional organisations. Harmonisation of economic and investment policies will thus become necessary. The African Development Bank has to play a key role in financing regional studies, programmes and studies according to the AU report (2001). The success, however, of regionalisation as per the plans of the AU, is paramount to the future success of African nations. Integration and cooperation are no longer an option, but are instead an imperative for the economic growth and longevity of the movement out of poverty for many African countries (Mistry 2000).

The requirement of good governance within the regional body can also be viewed in terms of empowerment of the diverse array of people and not simply a function of political parties (Forje 2004).

2.3.3 *Disadvantages and challenges of regionalisation*

Rowlands (1998) suggests that within a regional securities exchange the larger member countries may seek greater benefits and exploit the smaller countries. The converse may also apply, where the smaller member countries are allowed a 'free ride' and the larger member countries commit disproportionally more resources.

It has also been suggested that larger nations may hamper the establishment of regional integration as a way of protecting themselves and their economy. At the same time, smaller economic powers are fearful of new neo-colonial relationships being formed and strongly fight against these relationships (Rowlands 1998).

A plethora of challenges has been faced during previous attempts at regionalisation in Africa (Mistry 2000; Yartey and Adjasi 2007). These include *inter alia* the failure to translate regional agreements into national policies, often as a result of political instability and a reluctance of African leaders towards private enterprise and foreign investment. The reluctance of African leaders to towards private enterprise is fuelled by governments not wanting to jeopardise short-term national political interests, for long-term regional goals (Mistry 2000). Additionally there is, in most cases, a lack of sufficient enforcement and monitoring of agreed policies (Mistry 2000). On a practical level, poor intra-regional infrastructure has created a hurdle to intra-industrial trade, opportunity for trade expansion and liquidity of financial markets (Mistry 2000; Yartey and Adjasi 2007). Finally, there is little or no harmonisation of legal, accounting, legislative, credit or industrial development structures, implying a cost and risk to regional expansion (Yartey and Adjasi 2007).

2.3.4 *Challenges with multiple regional bodies*

With regional integration gaining unprecedented momentum in the global economy, Africa has engaged in a number of regional integration initiatives, such as: the Southern African Development Community (SADC); the Economic Community of West African States (ECOWAS); and the Common Market for Eastern and Southern Africa (COMESA) (Ramessur-Seenarain and Durbarry 2007). Meyn (2008) believes that countries belonging to two or more regional integration schemes are operating with a conflict of interest. Figure 1 below depicts the large amount of overlap of these regional bodies within Africa. Note that seven of the 14 members of SADC belong to COMESA and that both of these schemes intend to establish customer unions for their members.

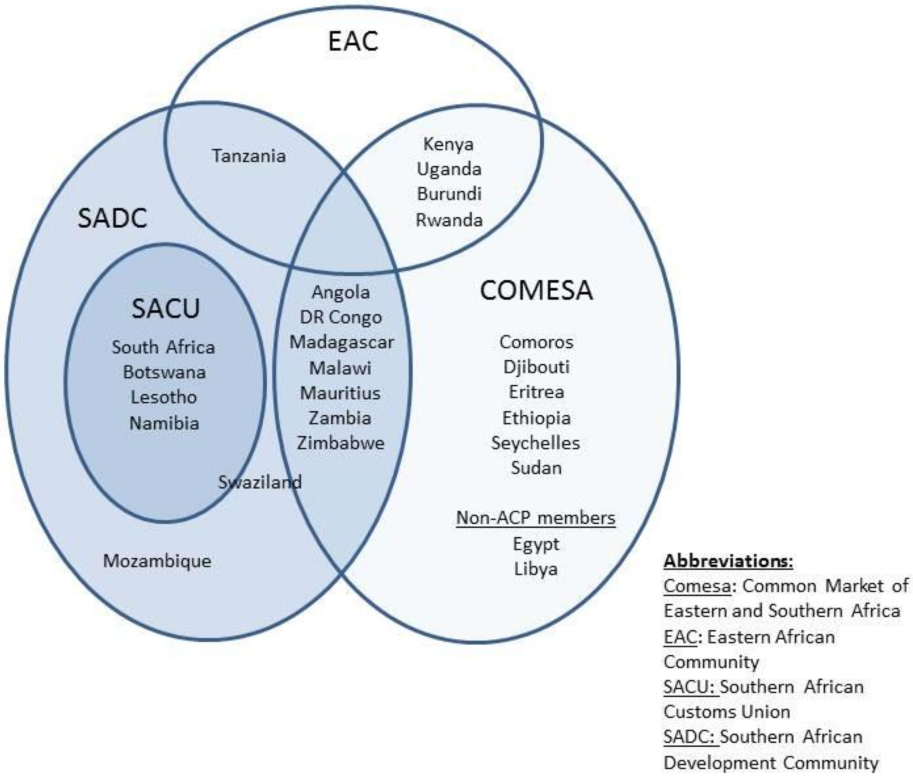

Figure 1: Overlapping regional membership in Southern and Eastern Africa (Meyn 2008).

2.3.5 *Outlook for regionalisation*

Regional integration in Africa is no longer something that can be treated as an ideal for politicians to dream and talk about; it is a goal that needs to become a reality in order for Africa to lift itself from its current state and to join with and be competitive in world markets. There are certainly challenges to regional integration on the world's largest continent, but these need to be heeded and navigated in order for regionalisation to succeed.

2.3.6 *Bourse Regionale des Valeurs Mobilieres: a case study*

Over and above the Africa board recently introduced by the JSE, there is currently only one regional exchange in Africa (Yartey and Adjasi 2007). The *Bourse Regionale des Valeurs Mobilieres* (BRVM), based in Côte d'Ivoire was opened in 1998 and has branches in eight of the *West African Economic and Monetary Union (*WAEMU) countries (Yartey and Adjasi 2007). In 2007, the member states owned 13.4 per cent of the capital, with the rest of the shareholding being held in the private sector (Yartey and Adjasi 2007). The idea of the *bourse* was conceptualised in 1973 and, once it finally came to fruition, it was a conversion of the existing exchange in Abidjan to the now regional exchange (Jeffreys 2009). Technical assistance for the establishment of the *bourse* was supplied by the World Bank as well as the governments of France, USA, and Canada.

Between 2007 and 2008 trading volumes surged from 11 million to 44 million, with values increasing by 184%. The volumes are largely attributed to Togo-based bank Ecobank embarking on an aggressive expansion drive after its listing in 2008 (Jeffreys 2009).

Trading is electronic and, unlike many other African exchanges, this means that brokers and agents can submit, consult and edit these orders from their own offices to the central site in Abidjan via computerised satellite links.

The BRVM has grown to include 37 listed companies, in seven different sectors on the equity exchange. Although liquidity is still very low − on 8 February 2010 only 10 of the 37 companies traded in 55 transactions − the BRVM continues to attract more listings and has recently opened a bond and a rights exchange (BRVM 2010).

It has been suggested that the success of the BRVM can be linked to the fact that it was established 50 years after a common currency and single economy was established between the member countries and that other regional bodies and agreements were already in place before the exchange began operations. These regional bodies included a central bank, a financial markets supervisory body, a Supreme Court and a regional legislative framework (Irving 2005).

The majority of the equity listings on the *bourse* are Ivorian companies and, as at 2004, all countries other than Côte d'Ivoire had a maximum of one company listed. Some countries had no listings. The challenge of and reason for this lack of listings from some countries were the tough task that management and governments were having in trying to convince companies of the merits of listing. Combined with this challenge, the *bourse* was struggling to increase participation in the market, as finding investors to trade in the listed stocks and/or attracting foreign capital flows to such a new exchange was not easy (Jeffreys 2009).

In 2004 the BRVM had two indices, and as at 29 January 2010, they still had only these two indices (Gillet 2010). Whilst trade continues to grow on the *bourse*, the market capitalisation of the exchange is still small in comparison to its member countries. As an example, the Nigerian Stock Exchange‘s market capitalisation in 2008 was 28,6 % of GDP whereas the BRVM was only 11,5% of its members countries GDP (Jeffreys 2009).

One of the other challenges faced by the BRVM is the mindset of French vs. English corporate financiers, with French investors looking to invest in less volatile instruments, than those English investors look to invest in (Jeffreys 2009).

As of January 2010, the BRVM has a combined market capitalisation of $ 5.9 bn, with an average daily turnover of $679 731. It operates from Monday to Friday and settles on a t+3 basis. It currently has equities, corporate bonds and government bonds traded on it (BRVM 2010; Renaissance Capital 2010).

2.4 The purpose of securities exchanges in financial markets

Fundamentally, securities markets are based on the provision of a mechanism for growing companies to raise capital at a low cost (Yartey and Adjasi 2007). Securities markets are also expected to accelerate economic growth by providing the service of retail savings and increasing the quantity and quality of investment for investors (Singh 1999).

Historically, financial systems have been focused on banks and banking, although there is now an expanding library on the link between stock markets and long-run growth. It has been observed that countries with established securities exchanges are also less dependent on bank financing, which reduces credit risk (Yartey and Adjasi 2007). At the same time, stock market liquidity and banking development both positively predict growth, capital accumulation, and productivity improvements (Levine and Zervos 1998).

Through the effective market participation of an open market, firms are effectively incentivised to manage and run their firms in a manner that maximises firm value. This encouragement has a positive impact not only on the stakeholders of the business but also on the country where the firm is listed (Yartey and Adjasi 2007).

Levine and Zervos (1998) proved that stock market liquidity, and not just the presence of a stock market, has significant relationships with future values of output growth, capital stock growth and productivity growth. It is also worth noting that a liquid securities exchange is expected to reduce the downside risk and costs of investing in projects for a long time. With a liquid market, the initial investors do not lose access to their savings for the duration of the investment project because they can easily, quickly, and cheaply, sell their stake in the company (Yartey and Adjasi 2007).

2.4.1 *Existing securities exchanges in Africa*

Recent years have seen a number of new securities markets in Africa; it seems that no programme of financial sector reform in Africa is complete unless it includes the establishment of a new securities market or the rehabilitation of an old one (Yartey and Adjasi 2007).

The Johannesburg Securities Exchange (JSE) is the oldest securities market in Africa, having been established in 1887 shortly after the discovery of gold on the Witwatersrand. In the early years, most of the capital required for the development of gold mines was raised overseas, primarily in London. The role of the JSE as a forum for raising capital was limited, since it was characterised by speculative behaviour with frequent booms and crashes. Over the past century, the market has grown steadily and become more diversified, but remains heavily influenced by the fortunes of the mining sector (Jefferis and Okeahalam 2000). In 2007, the JSE had 90 per cent of combined market capitalisation of the entire continent (Yartey and Adjasi 2007).

In terms of number of exchanges there has been exceptional growth in the establishment of such. In 1992 there were just nine markets, 18 in 2002, and by 2006 there were more than 20 exchanges in operation on the continent (Adjasi and Biekpe 2006).

Figure 2 represents diagrammatically the geographical layout of the existing securities exchanges in Africa (Renaissance Capital 2010; World Bank 2010).

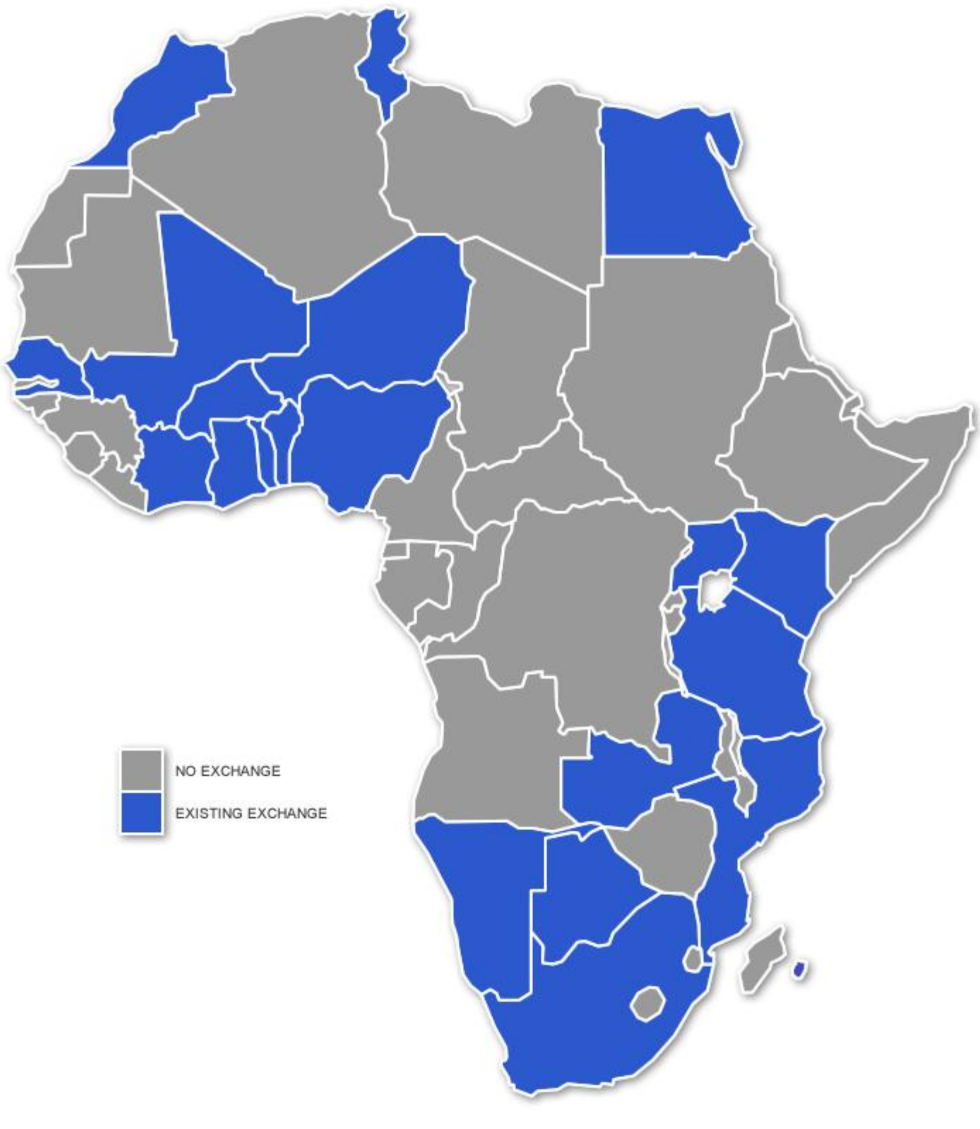

Figure 2: Geographical distribution of exchanges in Africa.

2.4.2 *African securities exchanges*

Although there are a number of securities markets in Africa, all of them, except South Africas, are small by global standards. Prior to 1989, the continent was home to only eight securities exchanges, five in sub-Saharan Africa and three in northern Africa. As at the end of 1998, there were 14 active securities markets in Africa, of which 11 were in sub-Saharan Africa (Table 1). New markets have been established in Malawi, Uganda and Tanzania and, as of 2007, there were 19 active exchanges on the continent (Yartey and Adjasi 2007). Figure 3 and Figure 4 below graphically represent the size difference of the current exchanges (World Bank 2010).

Most of the sub-Saharan African markets are relatively small, whether measured in terms of capitalisation, turnover or number of securities, with the main exception being the JSE. Although the Nigerian Securities Exchange (NSE) has a large number of securities, it has historically been dominated by trading in government instruments and has been illiquid. Since the mid-1990s, however, it has enjoyed something of a resurgence despite Nigeria's ongoing economic and political problems (Jefferis 2000).

African securities / stock markets, however, increased in turnover at an annual rate of 22% between 1994 and 2003, compared to other emerging markets at 9%. There are various factors that have contributed to the growth of the African securities exchanges, including the following (Kenny and Moss 1998; Jefferis and Smith 2005).

- Economic reforms in many countries, leading to a reduction in the role of the state and a strengthening of the private sector;
- Improvement of existing or the establishment of new securities exchanges;
- Privatisation of state-owned enterprises providing a supply of new shares and a boost to the further development of the securities exchanges; and
- The potential for high returns having garnered increased interest from international investors, accompanied by the easing of barriers to entry for foreign investors.

In general, African securities markets – including the JSE – are illiquid by global standards, a characteristic which may well have negative implications for market efficiency. As liquidity has also been found to be one of the most important factors linking securities market development with economic growth, this lack of liquidity could explain why the emergence of securities markets in Africa has as yet had little broader economic impact (Levine and Zervos 1998).

Of the sub-Saharan African markets, those in Nigeria and Zimbabwe have been part of the International Finance Corporation's (IFC) Emerging Market Index for many years, while South Africa has been incorporated since the beginning of 1995. Nigeria and Zimbabwe are the two smallest markets on the IFC index (Levine and Zervos 1998).

Figure 3 graphically represents the vast contrast in size between various exchanges in Africa. Note the dominance in size of the JSE as well as the fact that although the GDP of South Africa is not that much larger than Egypts', the JSE is still significantly larger in terms of market capitalisation. Figure 4 depicts the same data, with South Africa, Egypt, Nigeria, Morocco and the BRVM removed for clarity (World Bank 2010).

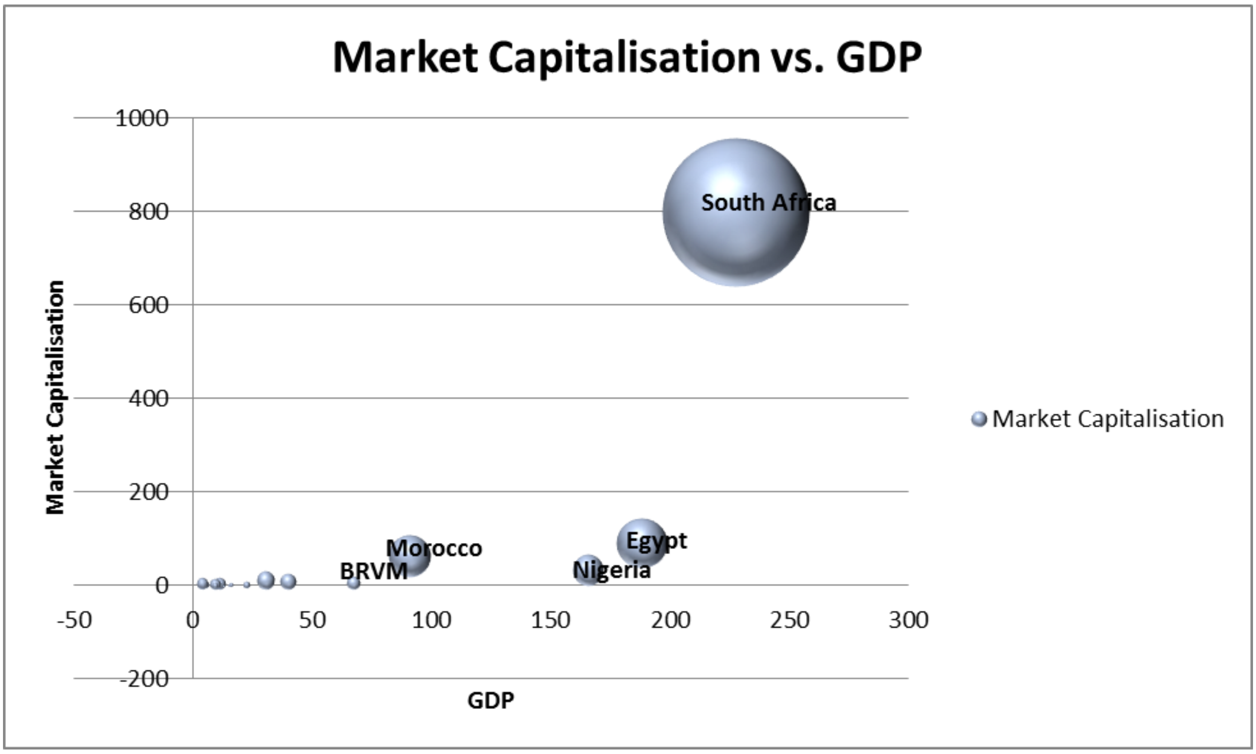

Figure 3: Market Capitalisation vs. GDP (World Bank 2010)

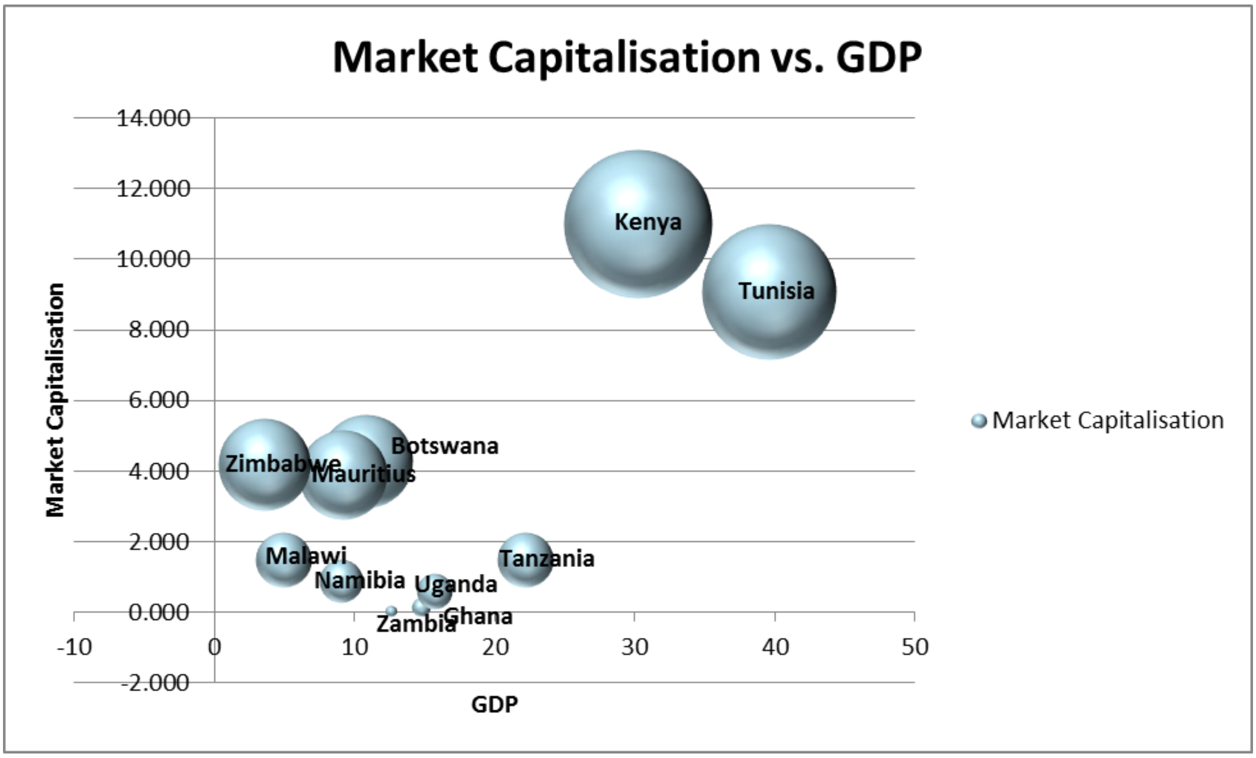

Figure 4: Market Capitalisation vs. GDP excluding South Africa, Egypt, Nigeria, Morocco and the BRVM (World Bank 2010).

While the more established emerging markets have been the topic of extensive analysis of market efficiency, the same cannot be said for African markets, largely because many of them are new and very small, and there has often been a problem obtaining data on them (Smith 2002). It is still worth noting, however, that securities markets surged over the few decades leading up to 2007 and emerging markets played a large part of this surge (Yartey and Adjasi 2007). Yartey and Komla (2007) go on to note that securities market development in Africa may be a result of developments, changes and integration of markets in more advanced economies.

The growth of African securities has been extraordinary, with most African exchanges doubling market capitalisation between 1992 and 2002. The problem, however, is that in many of these markets, listed instruments are still few and active trading takes place in a subset of these listed instruments with price, instrument information and disclosure dissemination still a challenge for the other less liquid securities (Yartey and Adjasi 2007).

2.5 Problems with securities markets in Africa

African securities markets have always been small and illiquid, with poor infrastructure and weak regulatory structures. By 1996 listed securities in Africa, excluding South Africa, made up only 0.6% of all listed securities in emerging countries. Further to this, eight of the world's 12 most illiquid securities exchanges were found in Africa (Kenny and Moss 1998).

Growth since 1996 has been far from ideal; in 2004 African exchanges were still struggling with low levels of liquidity and very low capitalisation. The only exceptions to the low capitalisation levels were Egypt, South Africa, Nigeria and Zimbabwe (Yartey and Adjasi 2007).

With the exception of the JSE, most of the African markets are relatively small in terms of capitalisation, turnover and number of securities. Most, including Johannesburg's, are also illiquid by global standards; this situation has implications for market efficiency because liquidity has been found to be one of the most important links between securities markets and economic growth (Yartey and Adjasi 2007).

The relatively small size of the markets has historically been attributed to Africa having a low savings rate, which is coupled to an inefficient distribution of capital resources. Causes of this have been blamed on poverty levels as well as economic mismanagement, large government deficits and a lack of reliable financial institutions. Historically, domestic savers elected to hold their savings in more risk-free assets (Singh 1999; Cherif and Kaouther 2008).

Historical factors that have negatively affected most African countries establishing effective financial markets is their lack of an effective banking system and insufficient regulatory control. It has been written that over the past few years, these issues should have been given priority over the establishment or development of existing securities markets and that the establishment of securities markets without efficient banking and regulatory control may in fact lead to the further fragility of the overall financial system (Singh 1999). Additionally, markets in Africa are being further hampered by either real or perceived lack of political will, regulatory reform and foreign interest to expand markets, though Kenny and Moss mentioned as far back as 1998 that this lack of political will may be slowly changing (Kenny and Moss 1998; Moss 2003).

Moss (2003) mentioned some factors that prevent growth and liquidity in some African exchanges. Two of these factors are external risks and political considerations. External risk is the relationship between the speed at which, due to the interconnectedness and automation of the global financial markets, funds can gain access to a market, so they can be withdrawn at a similar speed. Within the African context, and because of the small size of the exchanges, this risk makes them particularly vulnerable (Moss 2003). Political consideration refers to the fact that with the emergence of securities markets there is often a move by governments to start a process of privatisation of state-owned enterprises. With privatisation comes a need to make these organisations more attractive to investors, which results in restructuring and possible retrenchments (Levine and Zervos 1998; Moss 2003). These two factors, combined with the political pride of having a national securities exchange (no matter the business case for it), creates a formidable challenge to exchanges (Moss 2003)

Cherif and Kaouther (2008) also state that one of the prerequisites for financial market development is macroeconomic stability, something that many African countries do not have. In addition to lack of macroeconomic stability, securities exchanges in North Africa have struggled to attract listings despite their best efforts to do so (Cherif and Kaouther 2008). The reasons for this were not stated by Cherif and Kaouther but the obvious deduction is that without listings, a stock exchange can become bought up by long-term investors and significantly reduce liquidity (Adjasi and Biekpe 2006).

2.6 Discussion of a pan-African securities exchange

In a global environment there is strong competition between securities market exchanges in attracting listings from foreign firms. There are benefits to both firms and exchanges in increasing the number of foreign listings. Naturally, there are factors that influence the extent of these listings. The introduction of a pan-African exchange would need to consider these factors in terms of being viable, attractive, successful and competitive.

Listings by multi-nationals or by companies from various countries onto a single exchange offer investors more opportunity to diversify their portfolios (Stapleton and Subrahmanyam 1977). Various local economies are affected in different ways and by different orders of magnitude, influencing the profitability and returns generated by companies. By having such companies from various economies listed on a regional exchange, the creation of portfolios that contain diversity to absorb macro and micro disturbances would be enabled. The benefits of diversification are well understood by investors. A closed market, therefore, only allows diversification through industry segments and alternative investment products, which are still based on the performance of the underlying equities within the same closed market (Stapleton and Subrahmanyam 1977).

While the ideal of a consolidated exchange for Africa is a noble one, a further stumbling block to regional securities market integration can be identified − that being nationalistic politics. Securities exchanges are often considered national assets and, as such, governments are hesitant to embark upon any endeavour that could be perceived as reducing their national identity. Smaller economies could further fear larger, possible more domineering markets overshadowing them and, in so doing, divert capital that may have otherwise have flowed to them (Yartey and Adjasi 2007).

Cooperation could be a way of developing markets overcoming key challenges that are currently constraining development. Possible benefits could be diversification of risk in a wider market, more efficient and competitive markets, lower costs, higher returns and increased cross-border capital flows (Irving 2005). In addition to these factors, regionalisation could help boost liquidity and the ability of the participant markets to secure international capital for infrastructural development (Irving 2005).

2.6.1 *Stock market integration in Africa*

A number of initiatives have been undertaken to integrate African stock exchanges. These include the Committee of SADC Stock Exchanges (COSSE) and the BRVM (Yartey and Adjasi 2007). In addition, a number of memoranda of understanding (MoU) regarding collaborative programmes have been signed amongst various African exchanges. The JSE and the Nairobi Stock Exchange have taken these initiatives beyond their direct neighbors and the JSE has signed MoUs with Egypt, Uganda, Kenya, Nigeria, and Ghana, with Nairobi having done the same with the last two (Yartey and Adjasi 2007). In East Africa, MoUs have been signed between Kenya, Tanzania and Uganda, which seek to promote integration amongst East African exchanges, with Kenya having taken the anchoring role by having the largest exchange (Irving 2005).

The Namibian Stock Exchange (NSX) has taken the final step and currently makes use of the JSE's trading and settlement systems, while at the same time basing its rules and requirements on those of the JSE. Currently, the majority of the listings on the NSX have primary listings on the JSE (Yartey and Adjasi 2007).

2.6.2 *Segmentation and integration*

Market segmentation due to investor restrictions produces incentives for international mergers and multiple listings (Stapleton and Subrahmanyam 1977). Jorion and Schwartz (1986) describe segmentation as arising from market imperfections that they classify into two categories; these being indirect barriers and legal barriers to international investments. The former may include limited access to company information or difficulty in obtaining securities performance information. The interpretation of financial reports may be hindered because of differences in accounting disclosure requirements. There often exist traditional practices and preferences that influence willingness in dealing with foreign investors. Legal barriers on the other hand result from any limitation imposed on foreign investment, be it restrictions on the value of a fund that can be owned by foreign investors or restrictions on the portion of local assets that may be held in off-shore securities.

Foreign listings afford companies access to alternative or possibly larger sources of capital. Foreign listings become an increasingly important strategic consideration during global growth initiatives (Pagano, Roell and Zechner 2002). The work of these authors presented the following characteristics that attract foreign listing promoting the success of such an exchange: 1) a deep and liquid securities market; 2) knowledgeable investors and analysts; 3) high regulatory standards; 4) securities market with low spreads, low brokerage fees, and high volumes; 5) securities market located where the company's foreign sales are high and/or may have high growth potential; and 6) low listing fees and disclosure requirements.

2.6.3 *Implications of thin financial markets in Africa*

Economides and Siow (1988) suggest that limited liquidity may restrict the financial instruments or the range of products that an exchange may offer. A highly liquid financial market is an essential factor for the success of futures contracts. Market liquidity, therefore, influences the competitiveness of an exchange. Liquidity is a stimulant in its own right. If a market is considered to be liquid the higher volumes would attract more investments, which, in turn, attracts more company listings and adds to the volume of trades. A thin market, on the other hand, would need a stimulus to attract and increase volumes.

2.6.4 *Listing requirements and costs*

Companies wanting to list on foreign exchanges may need to comply with additional requirements that hinder listing. Karolyi (1998) identifies two basic requirements that a foreign company may be required to comply with. The first is to satisfy the minimum standards of the specific exchange. This minimum standard usually seeks to limit foreign listings to large firms that would exceed a specific pre-tax profit threshold. The New York Securities Exchange, for instance, requires that a non-US firm wanting to list must have a pre-tax income exceeding $100 million as compared to the $40 million requirement for US firms. Secondly, the firm wanting to list would need to comply with the local accounting standards and reporting requirements, including disclosure obligations. Local disclosure requirements may be more demanding than those a foreign firm would need to satisfy if it were listing at home or on a competing exchange.

2.7 **Conclusion of literature review**

The concept of a pan-African securities exchange has been discussed at high levels within regional African organisations. Not much literature is, however, available on what would make such a venture successful. Africa currently has multiple local securities exchanges, and only two regional exchanges. In the literature reviewed, it was established that politics, among other factors, pose a challenge to the establishment of not only regional exchanges, but also local exchanges. In this chapter, it has been noted that Africa has struggled in the global economy for many reasons. There is now a general trend towards regional integration and NEPAD is heading up this movement, with the buy-in of many African leaders.

Arguments for and against the concept of regionalisation were presented in the chapter. It was suggested that regionalisation could be a stepping stone to globalisation by increasing the bargaining power of some smaller and otherwise neglected countries. In addition, by banding together, relatively small African countries are able to leverage economies of scale and attract otherwise reluctant investors. The argument against regionalisation outlines the challenges, as the exploitation of smaller stakeholders by those with more power or greater interest in the venture is a concern. Conversely, free riders gaining advantage at the expense of others is a distinct disadvantage to regionalisation. It has been acknowledged that there are conflicting views in terms of the roles of regional bodies and their views in terms of mandate; it is suggested that these conflicting roles pose a severe challenge to regional integration.

The purpose of securities exchanges is fundamentally based on the provision of a mechanism for growing companies to raise capital at a low cost. In addition, securities exchanges are expected to accelerate economic growth, reduce bank financing, incentivise listed firms to manage and run themselves in a manner that maximises value, and provide an investment destination for investors to eliminate liquidity risk. It has also been suggested, however, that local exchanges are not guaranteed to deliver an economic benefit to a country.

Africa has multiple securities exchanges with generally negative credentials. Few are large and liquid; most are small and illiquid. Recent years have seen the establishment of more and more local African exchanges and until 2003 there was a strong growth in their turnover. Most have small market capitalisations relative to non-African exchanges. Liquidity is one of the key areas by which African exchanges do not measure up to international standards and thus are not able to attract new listings and more investors. In addition, most African countries have ineffective banking and regulatory control, and many believe that these issues should take priority over the establishment of a securities exchange. Some other barriers to rapid growth of African markets are: a weak economic environment, external risks, political considerations, market volatility, and lack of access to market information.

A pan-African securities exchange would need to factor in the fierce competition in the global securities exchange market for both new listings and investors into those listed companies. The pan-African exchange would need to be cognizant of and capitalise on the requirement for investors to diversify their portfolios on a single exchange. Additionally, a pan-African exchange would need to cater for both indirect and legal barriers to international investment.

Foreign listings afford listed firms access to potentially larger sources of capital and/or springboards into new markets. This springboard becomes important when one is looking at the growth plan of the firm and new markets that the business wishes to enter. There are other benefits to offshore listing, including: access to knowledgeable investors; larger and/or more liquid exchanges, high regulatory standards, low spreads, low fees, high volumes, low listing fees and disclosure requirements.

There are many advantages and disadvantages to a pan-African securities exchange. There are also many challenges in the establishment of such an exchange. Generally one can conclude that there are certain key issues that if addressed correctly can be used to promote such an exchange and ensure its longevity and success. It is now a matter of deciding which of these issues matter and which of the potential issues are not important to the success of an exchange.

The benefits of regionalisation, such as improving opportunity for growth, increasing competitiveness and sustainable development of the continent have to be the motivating factor and the challenges of political instability, poverty and low skill levels have to be overcome. To truly achieve regionalisation, Africa will have to have fewer schemes and greater commitment to programmes such as NEPAD.

2.8 **Research question**

What are the critical success factors or the establishment of a pan-African securities exchange?

CHAPTER 3: RESEARCH METHODOLOGY

This chapter describes the methodology that was employed to carry out the research. It begins with an overview of qualitative research (which was used in this study), followed by a description of the research design. Salient points regarding data collection and analysis are then discussed, followed by a brief discussion on validity and reliability as relevant to this research.

3.1 Research methodology

This study employed an exploratory methodology in order to best gather, evaluate and interpret data that could lead to an answer to the research question. Qualitative research often involves an iterative process of reviewing, interpreting and synthesising data in order to describe and explain the topic being studied (Fossey, Harvey, McDermott and Davidson 2002).

Qualitative research can be defined as "…a broad term for research methodologies that describe and explain persons' experiences, behaviours, interactions and social contexts without the use of statistical procedures or quantification" (Fossey et al. 2002:2). It is important to understand that any kind of research and understanding the topic being researched is a function of interpretation of data, whether represented by numbers or words (Onwuegbuzie and Leech 2005).

Key to good qualitative research is the ability for the research participants' subjective meanings, actions and social contexts, as understood by them, to be highlighted and understood. In addition to this, qualitative research undertaken needs to draw on different perspectives, methodologies and techniques, to generate a breadth of knowledge and depth of understanding (Fossey et al. 2002).

Qualitative research is possible with a small number of participants, which does not negate the possibility of mining the large quantities of data essential to providing sufficient depth in the subject studied (Fossey et al. 2002). Qualitative research generally incorporates the collection of substantial data through, amongst other techniques, prolonged engagement with the interviewee or respondent (Onwuegbuzie and Leech 2005).

The data for this research report was collected in a series of in-depth interviews with each interviewee. The length of the interview was not limited, so as to give interviewees the ability to pass on as much data as possible. This unlimited interview length allowed the researcher to explore avenues of interest to understand a particular point or item being discussed without being restricted by time.

Semi-structured interviews are generally used by researchers to guide the discussion and address in more detail certain topics that require attention (Fossey et al. 2002). Interviews for this study thus took a semi-structured format in the case of telephone interviews and a more informal, yet semi-structured format, in face-to-face interviews. Again, this format allowed the researcher the freedom to direct questions towards any unclear points, topics or items pertinent to the study.

The assumption of honesty and candour from the respondents was made for this this study.

3.2 Research design

This research followed the format of an exploratory study (Creswell, Plano Clark, Gutmann and Hanson 2003). The advantage of this approach was the ability to openly discuss complex issues and focus on certain topics. This research design allowed for flexibility in approach and an iterative investigation.

One of the advantages of such an approach was the familiarity of respondents with the data-mining process. The challenge of such an investigation to the interviewer, however, was to provide an environment where interviewees could be open, honest, and provide as much feedback as possible without feeling threatened or coerced into providing certain responses.

3.3 Population and sample

3.3.1 *Population*

The sample population comprised the potential market participants and stakeholders of the hypothetic securities exchange and included stock brokers, portfolio managers, asset managers, fund managers, research analysts and exchange employees. Examples of such are described in table 1 below.

A total of 14 respondents were interviewed across this group of stakeholders.

3.3.2 *Sample and sampling method*

Individuals were selected from each entity who were:

1. In a position to decide where and how funds are allocated, if the potential interviewee was employed on the investment side; and
2. In a position to have influence over exchange operations and understand the dynamics of a securities exchange.

Interviews were requested by telephone and email. If certain individuals were unavailable during the interview period, a suitably experienced alternative respondent was identified and requested.

To circumvent the language barrier, a translated version of the questionnaire was produced for respondents that do not speak English. It was acknowledged that there may have been data loss in the interpretation between French and English. For this reason, written questionnaires were limited as far as possible and in fact were not used during the research process as a result of the availability of English-speaking interviewees at each stakeholder entity.

Table 1: Profile of respondents interviewed

Respondent type	Minimum Number to be sampled	Countries/companies/individuals
Portfolio managers	5	3 from Southern Africa, 1 from Egypt, 1 from Kenya, 1from Namibia
Stock brokers	4	1 from Egypt, 1 Kenyan, 1 from BRVM, 1 Namibian
Research analyst	2	1 Nigerian, 1 Kenyan
Exchanges	3	JSE/ Nigerian exchange / Kenyan Exchange

3.4 The research instrument

The semi-structured interview guideline is provided in Appendix A. The questions were derived from the literature review and evolved over the period of investigation. The interview was adaptive in nature, allowing the interviewer to explore interesting insights when they arose (Creswell 2009). Using the semi-structured interview technique is a popular method of data mining in qualitative research and is mostly used when the researcher wants to focus on specific topics (Fossey et al. 2002).

The research was initially in the form of an interview with those English-speaking participants with whom a telephonic or face-to-face session was scheduled. Thereafter, it was planned that a French translated questionnaire would be submitted for those respondents with whom an English interview is not possible. Once the data was mined, the French was to be translated back into English for interpretation and analysis.

It transpired, however, that only verbal interviews and no questionnaires were required. On three occasions a follow up email to clarify a few points was required, even though the majority of the data was collected through the verbal channel.

3.5 **Procedure for data collection**

Interviews were pre-arranged face-to-face sessions, if possible; when not possible, interviews were conducted over the telephone. Interviews, both face-to-face and over the telephone were recorded where possible; while at the same time handwritten notes were used. In some telephonic interviews recordings were not taken and, instead, only notes were taken.

Thereafter, an email was sent to a minority of interviewees to clarify certain points if clarification was required.

3.6 **Data analysis and interpretation**

The analysis and interpretation of the data mined for this research followed an analytical process. An analytical process of qualitative research is not quantifying qualitative data, but merely an approach to a nonmathematical understanding of data in order to interpret and discover concepts and relationships (Thorne 2000).

The basic theory of data analysis is of conceptualising and reducing data, elaborating on the categories, and then relating these categories back to the topic being researched (Thorne 2000).

The analytical process undertaken followed three steps (Fossey et al. 2002):

- Recurrent themes within data were reviewed and identified;
- Common themes and areas of divergence across interviewees were identified; and
- Themes were brought together in meaningful relation to each other, to develop a synthesis of the observations.

3.7 **Limitations of the study**

This study was dependent on the availability of the interviewees identified. Although it was envisaged that most respondents would agree to an interview the reality was that some interviews were cancelled and postponed for unforeseen reasons. Every effort was necessary in making certain that the interviews took place and that sufficient depth of data was collected.

3.8 **Validity and reliability**

3.8.1 *External validity*

Although generalisability is not usually the major purpose of qualitative research, in this research it becomes important because data was received from a small population, which represents a large continent and many countries. External validity is thus important to this research as it aims to generalise, from a set of research findings, to other people in different settings (Johnson 1997). Validity is established if an instrument actually provides to the research a measure of what it is intended to measure (Kember and Leung 2008).

It is understood that there is no guarantee as to whether a study of a sample in a qualitative study can be generalised to the entire population. However, it is noted that the more similar the respondents are in research to the population that one wants to generalise to the more defensible the generalisation can be (Johnson 1997).

In order to make this research externally valid, triangulation was achieved by identifying the number and type of respondents and including a mix of countries and participants from those countries. This process should provide validity for those wishing to make use of the report and generalise its findings to a population (Johnson 1997).

In addition, by taking a cautious approach to the collection of data, having based the interview questions on a detailed literature review and by reporting any research adjustments or deviations from the original research plan, this research might be considered as having strong validity (Spilka 1993).

3.8.2 *Internal validity*

Internal validity refers to the degree to which conclusions concerning causal relationships can be said to be true (Johnson 1997). In the case of qualitative research the researcher is most often not looking for relationships between cause and effect. Qualitative research can, however, be used as a powerful tool in establishing cause and effect relationships. The ability to do so is achieved when a researcher takes on the role of ‘detective’ and firmly focuses and investigates the cause and effect relationships as described by interviewees (Johnson 1997).

With the goal of making this research internally valid, a cross-section of respondents were selected and during the interviews, a conscious effort was made to detect and investigate any cause and effect relationships that may have been highlighted through the interviews.

3.8.3 *Reliability*

Reliability was assured with a rigorous interview of respondents and follow ups if required. Refinements and clarifications were made to the research instrument as insights were made into the sample. Reliability is the extent to which the same outcome can be expected from repeated sampling of the population (Kember and Leung 2008). In the context of qualitative research, the reliability of the research methodology can be aimed for through gaining the input of others in the field regarding their opinions on the research instrument. Refinements and corrections to the research Instrument were made on the basis of this input and the experience gained from interviews.

CHAPTER 4: PRESENTATION AND DISCUSSION OF THE RESULTS.

4.1 Introduction

The interviews conducted revealed 13 key success factors for the establishment of a pan-African securities exchange. These key factors have been divided into two categories, namely a*bsolute* requirements and *challenges.* Additionally, there is a category entitled *catalysts,* which have some overlap with critical success factors. This chapter presents and then describes these key factors identified in the various interviews that were conducted by first presenting each factor and then discussing it. Interviews concluded were with exchange employees, stock brokers, research analysts and portfolio managers from South Africa, Kenya, Namibia, Nigeria, Egypt and the BRVM.

4.2 Defining success

In searching for what would make a pan-African securities exchange successful, it is important to define *success*. As a senior manager from the JSE mentioned, there are two key parties to the listed securities industry − the issuers, and the investors. Investors seek liquidity and strong assets into which they will invest (as per the interview results below). Issuers on the other hand, seek a market to raise capital (Yartey and Adjasi 2007). Additionally, investors will seek within those two broad requirements, regulated companies, certain degrees of governance from the exchange and other factors that are highlighted below. Thus, by satisfying the needs of both of those parties, one could assume that an adequate definition of success has been acheived.

As one research analyst mentioned, different stakeholders have different agendas. A government or regional body may define success as increased economic activity (Singh 1999), even if liquidity is low, whereas if such an exchange were owned by a set of shareholders, the definition of success may be to increase shareholder wealth.

Thus, for the reason of avoiding ambiguity, and in an attempt to cater for as broad a definition as possible, the definition of a successful pan-African securities exchange, for the purposes of this report, has been narrowed down to an exchange on which, issuers from participating African countries would be willing to list and on which potential investors would be willing to buy and sell stock.

4.3 Critical success factors for the establishment of a pan-African securities exchange

In every single one of the interviews, each respondent agreed with the fact that: a) there is a mandate to invest in Africa by African as well as non-African investors; and that b) there are assets that these investors would like to invest in. This simple indication that business is taking place in Africa is important to consider before even venturing into the realm of securities exchanges.

An overriding trend in the responses to the questions posed in the interviews was that there are certain challenges to the establishment of a pan-African securities exchange. Independently, each challenge is not significant enough to prevent the exchange from being successfully established. Combinations of these challenges, however, pose as significant detraction to issuers or investors; enough to prevent the uptake of an exchange by both issuers and investors.

In addition, there are three factors termed *catalysts* below, which, although not critical per the definition of a successful exchange set out in 4.3 above, are enablers to growth and further success.

4.3.1 *Catalysts*

Catalysts are those factors that will take the successfully established exchange from foundation levels to a highly liquid, competitive market, with volumes and market capitalisation comparable to some of the other exchanges in the world. So, although not critical to the initial establishment of a pan-African securities exchange, they are important factors to the longevity and growth of such a venture. These factors have been included in the results of this research as they overlap with the other categories, and, in turn, some of the factors identified in the other categories overlap with this category. Three catalysts were identified and these are described below.

a. ***Liquidity***

What comes first − the issuers and investors or the liquidity? The overriding theme of many of the interviews was that there are numerous success factors to the establishment of a pan-African securities exchange, but that once there is liquidity in the market, it can be concluded that the exchange is a success. But how is liquidity achieved?

Based on the definition outlined in 4.3 above, the willingness of issuers and investors to be involved in a regional exchange will define the exchange as being a success. Therefore, liquidity follows the creation of an environment where the two key parties are likely to participate and in order to achieve this situation, the factors outlined below play a key part.

As Yartey and Adjasi (2007) mention, proponents of a regional African exchange argue that a well-structured regional exchange will solve the problem of liquidity. Liquidity attracts more liquidity, and thus liquidity is seen as a goal and a catalyst to more investment and thus not one of the critical success factors for the establishment of a pan-African stock exchange, but rather a cyclical goal.

b. ***Technology***

Technology is a massive enabler of access to a market place. Although mentioned during interviews not as a critical success factor, technology was described by most interviewees as being central to taking the market to investors and enabling a regional venture.

Without technology, it was stated that a regional exchange would not be able to grow beyond foundation stages. It was stated, mainly by portfolio managers, that if there was an easier way to transact and obtain the assets that the portfolio managers are after, then there would be more and more trade. Technology is the obvious solution to simplify the transaction process. However, if a fund manager has a mandate to invest into Africa, and there is an asset that he or she find attractive, then he or she will take the necessary steps to purchase the asset.

Using the definition of success as outlined in 4.3 above, a pan-African exchange could be established successfully without the extensive use of technology, but would require technology more and more to grow.

c. *Capital market infrastructure*

Having a strong capital market infrastructure is as important to the success of such a regional exchange as it is to a local exchange. A simple example given by one of the exchange employees was that companies wanting to list would require a sponsor to assist with the issuing process. This example is in agreement with what Levine and Zervos (1998) found and complements their argument that although banks and securities exchanges offer different services, their development is strongly correlated to future economic growth (Levine and Zervos 1998).

Additionally, securities exchanges often trade in more than just the underlying shares in a company. Preference shares, derivatives on equity instruments and market making in certain securities, can help increase volumes and liquidity. By creating an environment where banks can create and trade these instruments, the capital market infrastructure contributes to the liquidity of and investment into an exchange.

Capital market infrastructure is absolutely important, and the current infrastructure is already an enabler for Initial Public Offerings (IPOs). For a regional securities exchange to experience growth beyond establishment, capital market infrastructure will need to lead or be led in the right direction.

4.3.2 *Challenges*

The challenges outlined below are individually not large enough hurdles to negate the successful establishment of a pan-African securities exchange. However, as mentioned collectively, they represent the components of a successful exchange. They are thus critical, as a collective unit, and serious consideration should be given to each of them.

a. ***Education***

Education was identified as a key factor in establishing a pan-African securities exchange. The definition of education in this context includes:

- Education of individual investors − as to the market(s), how they operate and what the benefits and risks are;
- Education of listed companies – how to drive trading in their shares, market their stock, realise that more is required than just publishing financials and one annual statement, realise value in listing and learn how to maximise this value.
- Education of participant countries - to understand that a regional venture is not a threat, but a means to leverage off other countries infrastructure and strengths.
- Education of local stock exchanges to be open to regional integration and the benefits of these.

As regard the third of these four points, education of participant countries also includes the understanding of policy makers that with the correct legislation, and environment, they can still benefit economically from a regional exchange.

Education is a topic that initiated a varied amount of discussion with interviewees. Often when linked to the education of participant countries, interviewees agreed that governments needed to be educated as to the potential opportunities of regional exchanges for their individual countries. The discussion around the education of participant countries sparked some debate as to the timeframe of such a venture and the suggestion that smaller regional exchanges would be more viable in the short term was raised.

Often the impression was created by interviewees that education could be seen as the foundation of any financial venture, and not only one such as this.

While it was agreed by 11 of the 14 interviewees that the levels of education of investors is seriously lacking in most African countries, it was noted by six of the interviewees that the education of legislators, governments, businesses and stock exchanges would perhaps be even more of a difficult task.
One interviewee noted that by educating governments, legislators and regional bodies as to the benefits of such a regional exchange, a result would be an exchange that would attract foreign investment and that would enable the education of local (often private) investors in future.

Education has been identified here as a challenge. It was, however, argued by two interviewees that education falls into all three categories of success factors identified: education is a catalyst for the future development of the exchange, to educate investors to invest into the companies listed, and for listed companies to better understand their role of marketing and corporate governance. These two interviewees saw education, is an absolute requirement for the establishment of a pan-African securities exchange as without it companies would never see the benefits of listing and investors would not see the benefits of investing.

b. ***Threat to national identity and intensions.***

In one interview an analogy was made to what was referred to as *the national airline mentality*, where each African country feels that to be able to be well presented as a country it needs to have its own exchange (as many African countries currently feel the need to have their own airline). Having used this analogy may or may not be a co-incidence that Moss used the same metaphor (Moss 2003). This metaphor implies, however, that even though most of the individual African exchanges do not trade very often, and companies do not list on them, nor do the African exchanges generally add any economic value to their countries, business and political leaders are reluctant to part with such a status symbol.

For very good and noble reasons, each country in Africa is out to defend and fight for itself and achieve its own economic, political and social goals. In this way countries seem not to want to investigate the potential benefit of a pan-African or even a regional venture. Okeahalam and Jefferis (1999) agreed with this notion reporting that Botswanan officials were uncomfortable with the proposal of South Africa's virtual exchange proposal.

There is a lack of cash and, importantly, in most African countries a lack of sound business cases for their own exchanges, indicating that there should be a requirement to leverage off regional integration. It was mentioned however by four of the interviewees that this is, however, often seen as a threat to an economy and not an opportunity. Certain interviewees felt that governments are open to investigating regional exchanges, and this again often led to the need for education of governments, and the fact that they need to understand that a regional exchange may benefit them.

Additionally, it was suggested by one interviewee that in order for individual countries to buy into such a venture geographical location would be important. The interviewee went on to state that it would be important to have regional offices within different member countries, in order for the securities exchange to be:

- Visible;
- Accessible (not for daily trading but for feedback and communications); and
- Committed – it was felt that by having a physical presence, the regional exchange displays a commitment to the region or country.

c. *Shareholding, stakeholder involvement*

Of major importance is the shareholding of such a venture. It was widely agreed by majority of the interviewees that such a venture should be a joint private and public venture. While there was no preference shown to the actual stake that the public entity takes, it was a general view of the interviewees that the public interest should be less than that of the private interest. The reasons for this view was that the regulatory facility that the public entity could bring combined with the financial objectives of the public involvement should form a formidable combination.

One interviewee felt it possible for a regional exchange to be launched by a regional body, and sold off to the public in future, using the power of regulation to attract issuers and investors to the exchange.

It was also mentioned by a minority of the interviewees that if the regulation and governance of the exchange could achieve the objectives of the stakeholders, then the exchange would be a success. The argument was that stakeholders, be they government, regional body, private consortium, or a combination would seek more issuers and investors as a way to find liquidity. In other words, whoever the stakeholders were, the exchange would need to service basic requirements, and as long as these basic requirements were met, then issuers and investors would be attracted.

d. ***Political factors***

A key factor mentioned by all except one interviewee, counting against the establishment of such a pan-African exchange is political issues. The political issues mentioned were on both a macro and a micro level, and at both an intra-country level and an inter-country level. Often during interviews, interviewees would start talking about political factors and move directly into regulatory issues and requirements. The direction that the discussion took indicated the close link between government and regulation. To get around political interference, it was agreed by most interviewees that the makeup of the shareholders of such an exchange and the geographical location of such an exchange could be used to circumvent these challenges. It was agreed that creating an exchange that could attract the listings of a few African companies would pave the way for politicians in countries that are not encouraging listing on a regional exchange to buy into the concept.

e. *Quality of the exchange*

An African exchange would need to compete with international exchanges. Competing with other exchanges means changing the mind-set that international is always better and providing an exchange that could compete with international exchanges in terms of quality. To provide an exchange that could compete internationally includes *inter alia:*

- Quality companies listed;
- Quality settlement processes;
- Quality access to information;
- Accessibility (through technology); and
- Liquidity.

f. *Settlement*

Any exchange needs to have a settlement process that is reliable; i.e. timeous and accurate. Settlement was however mentioned by a majority of the interviewees as not individually a very important success factor.

An example was given where a dividend paid by a certain company in Africa was settled 60 days late. This late settlement had an impact on the valuation of the firm, and some investors stopped trading on the exchange, but most investors stayed invested, and continue to invest on the exchange.

An interesting point to note is that nowhere in the literature review conducted, was the issue of settlement raised. It did, however, get raised in most interviews conducted. The fact that settlement was discussed so frequently indicated that settlement is important enough to be mentioned, but is manageable in the African context.

g. *Costs*

With smaller economies, the costs of the financial markets can be high. The costs referred to can be divided into two categories: a) the cost of investing; and b) the cost of listing. The costs of investing include transaction fees, settlement costs, and infrastructure investments. The cost of listing includes the listing fees, regulatory compliance fees (audits etc.) and marketing costs.

It was agreed – mainly by the portfolio managers and research analysts − that investment costs need to be in line with international standards to generate large volumes of trade. However, none of the portfolio managers interviewed saw cost as a hindrance to buying a quality asset. They all seemed to concur that the cost of transacting, within reason, will be priced into the asset.

h. ***Currency***

The currency that the underlying share is traded, quoted and settled in is important to the establishment of such an exchange. The general feeling, however, was that differences in currency is not an insurmountable hurdle and is, in fact, easily overcome through current exchange processes and the current presence of global banks and global market participants.

It should also be noted that as in Europe, an exchange should not always require a settlement in one currency. Currency is a factor of global trade and thus it should not be a significant hurdle. Foreign exchange risk and the cost of foreign exchange is factored into deals around the world. In Africa it is no different.

i. ***Language***

Having multiple languages on the African continent was not identified as a critical success factor. It was agreed that language is a small obstacle that can be easily overcome. All entities contacted for interviews had English-speaking representatives, and there was in fact not a single representative who was not able to converse in English.

j. ***Time Zones***

It was mentioned on numerous occasions that most of the investment in Africa come through Europe and, more specifically, through London. This fact makes the hours of operation ideally suited for the foreign investment from Europe.

Again, it was stated that fund managers would take all the necessary steps to buy an asset that they liked, and that if this meant having brokers work irregular hours such a situation would not be a hindrance to business. It was, however, acknowledged, mainly by the actual brokers interviewed, that it would be unfair to favour one side of the continent and that having accessibility to the market, no matter what the times zone from which the investor is buying or selling, would impact the willingness to issue or invest.

There is a maximum five-hour time spread between the time zones of African countries. A regional exchange needs to be accessible to the entire continent as well as non-African investors at a convenient time.

k. ***Funding***

Funding the establishment of a pan-African securities exchange, it was viewed, should come from both public and private investors, as it is believed that no matter who is responsible for running such a venture and thus have a vested interest in its success, both private and public enterprises will benefit. Funding was not seen as a large impediment to establishing such an exchange as it was felt that there is large-scale investment in emerging markets and, as was sometimes stated, ‘frontier’ markets are waiting for opportunities for investment (not only on listed instruments, but also into new ventures like a regional securities exchange).

4.3.3 *Absolutes*

Absolute requirements are what is understood to be of the utmost importance to the successful establishment of a pan-African securities exchange. It emerged from the interviews that, without these two factors, the exchange could not be successfully established. Some may argue that both items are so closely linked to each other that they could be treated as one requirement. However, during the interview process, the items were referred to individually and so have been reported below individually as well.

a. ***Regulatory environment***

The regulatory environment in which the exchange operates was identified by the interviewees as being exceptionally important to the successful establishment of a pan-

African exchange. The regulatory environment includes listing rules and regulations as well as on-going regulations pertaining to the operation of the listed entity, its operations, and its compliance with exchange requirements. Regulation, according to an employee of the JSE, of such an exchange would need to be a) transparent, b) predictable and c) clear.

During one interview with an employee of an exchange it was stated that regulation cannot just be alignment to other exchange regulations. It was stressed that the regulations need to be:

- Relevant to the African environment, and cannot simply be a copy and paste from European/American regulation; and
- Enforced and complied with.

In the context of a pan-African securities exchange being established, corporate governance is no small task. An exchange could threaten to delist, penalise (possibly financially), or punish in some other way a listed company that does not comply with the corporate governance rules laid out by the exchange. However, this penalty may be after the crime has been committed and potentially after the investors have lost money. This challenge is not unique to a pan-African exchange and is prevalent in local exchanges as well. Indeed, the problem is compounded when a company operates in one country and is listed in another. The fact that the exchange now has to factor into the corporate governance of the companies the local laws and, importantly, the enforcement of these laws, makes the regulatory environment an even tougher challenge than local companies listed on a local exchange. As an example, if the director of a company operating in a particular jurisdiction in Africa is party to insider trading and the governance rules of a pan-African exchange do not allow this, besides penalising the company and thus the investors, can the director be otherwise penalised, and thus the governance rules enforced? Or could the director walk free, under the protection of the law of a particular country? What this indicates is that the regulatory environment is dependent on political factors, which was one of the challenges highlighted by the interviewees.

Finally, in creating a regulatory environment, the exchange and policy makers need to create an environment that encourages the growth of companies and does not restrict them. An important factor mentioned here was that if the regulatory environment was too restrictive, companies would not want to list on such an exchange for fear of such restrictions.

b. *Corporate governance*

Of very close relation to the regulatory environment is the importance of putting the minds of the investors at ease with regard to corporate governance. Investors need to know that they are buying good-quality assets and that their risk in buying these assets is limited to what has been priced into their pricing and valuation models. Investors need comfort in the fact that they are not being fooled by, for example, false reporting, inaccurate information, or being led astray by companies with conflicts of interests.

The close link between the regulatory environment and corporate governance now becomes evident. The regulatory environment includes the enforcement of the rules that govern such an exchange. Obviously, enforcement ensures that the regulations are adhered to, without which investors cannot price the risk of investing into certain assets into their pricing and valuation models, which would discourage investors from being able to invest in the assets and encourage investors to look elsewhere for assest.

It was stated by three of the interviewees that regulation becomes a result, and a function of the success of regulation. In other words, the better the company, and the more it complies with regulation, the more effectively analysts can value the company's stock when building risk into their models. Also, the more demand there will be for the stock due to the limited regulatory risk and the price would be driven up. So the successful increase of the company's share price depends on the regulation of the company and the company becomes almost self-regulating. The concept of the company becoming self-regulating is in agreement with the sentiments of Yartey and Adjasi (2007), who mentioned that through effective and open-market participation companies are incentivised to manage and run themselves in a manner that maximises shareholder value. One could say that corporate governance is thus related to and dependant on education of companies listed as to the benefits of good corporate governance.

4.4 **Summary of the results**

It has been identified that there are many factors for the successful establishment of a pan-African securities exchange. Some of these factors are dependent on others and some are of more importance than others.

A broad spectrum of candidates was interviewed, and a pattern quickly emerged that a venture like this is not an impossible task. It was highlighted again and again that if the collective challenges, which are not uncommon to any other exchange in the world, could be overcome, then the establishment of a pan-African exchange could become reality.

The results were divided into three parts: catalysts for growth; challenges to the successful establishment of such an exchange; and absolute requirements for the establishment of such an exchange. It is interesting to note that the number of absolute requirements is small but the absolute requirements are difficult to achieve, whereas the challenges are small, and independently, of little significance, yet still collectively become difficult to achieve. The absolute requirements, it should be noted are dependent to a degree on the challenges identified which makes them seem once more even more unattainable. Catalysts for growth after the establishment of such an exchange are important, and should not be ignored.

It is also noted that the categorisation into these three groups is not an exact science. They have been categorised according to the interpretation of the interviewer. In some cases there may be overlaps, as can be seen in Figure 5 below. Figure 5 attempts to visually depict the relationship between the factors identified when categorised into the three main categories. In addition, one can see the increasing difficulty of the implementation of the factors identified relative to one another.

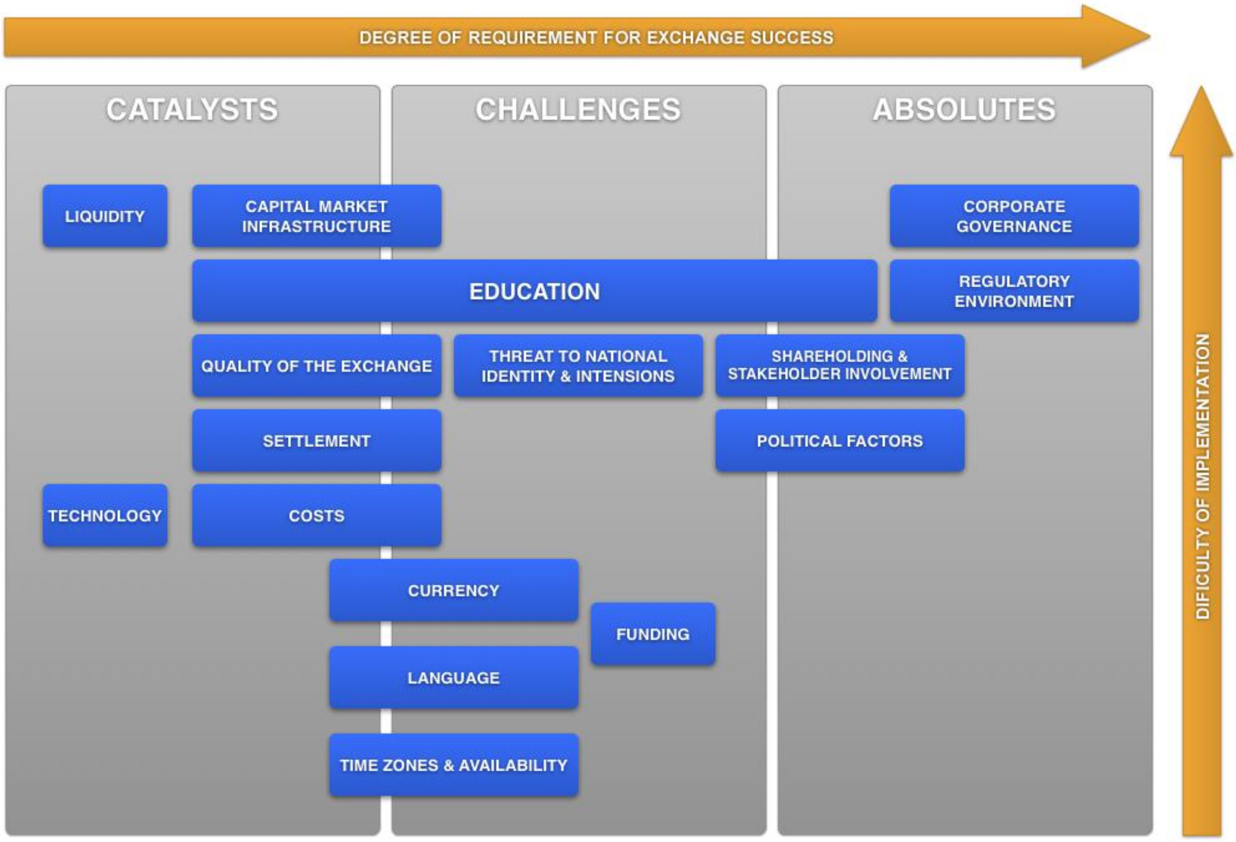

Figure 5: Relationship between factors identified

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The existing African board, as recently established by the JSE, has just had its second listing. The JSE is fortunate in that it already has most of the infrastructure in place to allow for the establishment of the exchange. The technology is available, and many of the challenges like currency, language, funding, settlement, quality of the exchange and time-zones identified have already been addressed. Based on the current research, future challenges may be corporate governance of the companies listed, when the listed companies operate outside of the jurisdiction of the JSE. Further, only time will tell whether listings will be forthcoming from more and more companies in Africa. The JSE is a dominant exchange in Africa, and it has the financial resources to make an African board work. Below is a presentation of the conclusions of this study as to the success factors for the establishment of a pan-African securities exchange.

This chapter starts with a section on the conclusions of the study undertaken. Conclusions have been drawn from the data mined through interviews, the literature reviewed, and the combination of these inputs. Following the conclusions is a section with suggestions for readers such as the stakeholders mentioned in Section 1.4. Finally, this chapter closes with some suggestions for further study to follow on from this research.

5.2 Conclusions of the study

The responses from interviewees regarding the concept of a pan-African securities exchange indicated that the concept was very foreign to many of the interviewees. When the interviewer explained the purpose of the study, there were mixed responses. Some interviewees started out by saying that the establishment of such an exchange is not possible in our lifetimes, and to quote a senior employee at one of the smaller exchanges in Africa, “A bold attempt but I don’t think I will see it happen; if so there will be winners and more losers.”

Other interviewees were more optimistic about the real prospects of the exchange. Of interest is that only one of the 14 interviewees was completely anti the prospect of the exchange and, although many believed that this concept may be a pipe dream, all interviewees were in agreement that there would be value to a pan-African securities exchange. The companies, governments, individual economies and investors − both private and individual − would be able to reap strong rewards from such an exchange. Additionally, there are a lot of business transactions in Africa and there is mandate to invest into Africa from both local South African firms, other African firms, and firms outside of Africa.

With the data pointing to two absolute requirements for the successful establishment of a pan-African Exchange − regulation and corporate governance − which are both closely linked, it seems that the prospect of such an exchange is not that out of reach. It is, however, difficult to see these two factors being addressed without the buy-in from policy makers and law makers. One could also see the objective of having good, or even adequate corporate governance, and a sound regulatory environment as being dependant on many of the factors identified as challenges. Corporate governance and especially the enforcement thereof, become near impossible without political influence. Political influence, in turn, is dependent on resolving the perceived threat to national identity that such an exchange might bring.

There were three success factors identified as being challenges that overlapped with absolute requirements for the establishment of a pan-African securities exchange. These were: education, shareholding and stakeholder involvement, and political factors. What is interesting is that none of these three factors are easy to overcome, and, as mentioned above, corporate governance and the regulatory environment depend to a degree on them. Education was identified as being a critical success factor, which overlapped with the category of being an absolute requirement to the establishment of a pan-African securities exchange; the argument being that without education, the companies would never list, and investors would never invest in such an exchange.

There were 11 challenges identified, and each on their own does not seem significant (although one could argue that education is very significant). Of the 11 factors, only four are directly human dependent: education, threat to national identity and intentions, shareholding and stakeholder involvement, and political factors. These were also identified as the most difficult to overcome.

One could argue that with education as per the definition in 4.4.2 a) the other three human-dependent challenges could be overcome. By educating governments, perhaps governments would understand that a regional exchange is not necessarily a threat to their national identities and the goals for their economies. In a similar vein, education of the politicians may encourage them to buy into such a venture, because of the benefits for their countries, even if the governments were not shareholders in this venture. Bearing this discussion in mind the term “education” may not be adequate for such a challenge, and the challenge termed “education” should be looked at in a serious light.

The other seven challenges identified are challenges that have been overcome many times over by exchanges around the world and are not directly linked to human relationships. There are many good-quality exchanges that settle on time and accurately in various currencies. The cost structures of the exchanges have been created in such a way that they are attractive listing and investment destinations. Language barriers, time zones and the funding capital challenges have been addressed numerous times and on numerous continents. It is thus not foreseeable that these are insurmountable hurdles to the successful establishment of a pan-African securities exchange, although collectively the challenges the do become significant.

For a pan-African exchange to be successfully launched, the challenges and absolute requirements would need to be addressed. Addressing challenges would make the establishment of the exchange successful and bring some issuers and investors to the market. However, the catalysts identified − liquidity, technology and capital market infrastructure − are important to making the exchange successful moving forward. It would thus be highly advisable that these items be addressed as part of creating such an exchange. Obviously, liquidity is not something that can be ‘put in place’ but it is something that could be encouraged through volume price advantages to members etc. Similarly, capital market infrastructure is not something that can be grown without a need for it and, indeed, a strong capital market infrastructure may follow the growth of the exchange. It is, however, advised that the environment in which a capital market infrastructure can operate and grow is created.

A few of the challenges identified that, if overcome, would also go a long way to assisting as a catalyst to further growth. These were education, quality of the exchange, settlement, and costs. It would thus make sense for these items to be addressed where necessary (e.g. settlement within the regulatory environment) so that they continue to be catalysts to future growth post the launch of such an exchange. Education overlaps with the catalyst category, as with the correct amount of education, it was felt that more listings, more investors and as a result, more liquidity could be achieved in the newly formed exchange.

Finally, although these items have been presented as being exclusive to one another, there is a strong link between many of the success factors identified and they do not operate independently from one another. As an example, education of governments and policy makers would go a long way to implementing and enforcing stronger corporate governance and create a better regulatory environment. As another example, technology could be used to address costs, currency, language, and time zones. It is thus important that these factors are looked at in unison and not as individual success factors.

5.3 **Recommendations**

The establishment of a pan-African securities exchange is not something that will happen quickly or easily. There are many challenges to doing so. It is, however, interesting to note the interest shown in such an exchange by the participants in the research. One of the foremost recommendations to anybody attempting to create such an exchange would thus be to include the current market participants in its establishment. Merely including market participants will not, however, guarantee success, especially if corporate governance and a strong regulatory environment are not in place. Below are further recommendations to those interested in the success factors of the establishment of a pan-African securities exchange.

There is a heavy dependence on humans in the establishment of a pan-African securities exchange. If one looks at the larger exchanges in Africa, there is certainly infrastructure to enable such a venture. The critical element would, however, be to create an environment in which companies could be governed in accordance with the rules of the exchange and where companies could be regulated sufficiently. In order to achieve this, an education process with governments and policy makers would be required – something which is a long process and still does not guarantee success. Alternatively, if an African-wide exchange were launched, with the buy in of countries whose laws already complement the regulations of the exchange, such an exchange could begin to operate while at the same time the education process of those countries that do not comply could continue. The challenges of corporate governance and regulation are not simple matters and would require far more research to establish how these challenges could be overcome. The key finding from this research, however, is that for any entity wishing to establish such an exchange, it is of paramount importance that corporate governance and regulation are addressed.

For existing exchanges in Africa and governments in Africa, it would be a possible strategic move to look at merging / integrating with neighbouring exchanges as a way to gain liquidity and increase trade on the combined exchange. The example of the BRVM operating in West Africa is a perfect example of such a venture. Perhaps, in future, several of these regional exchanges could come together to form even larger, more liquid exchanges. By starting like this it may be possible for the regional exchanges to grow credibility in the critical areas of corporate governance and regulation. To assist in growing liquidity, these exchanges would need to invest in technology, marketing and other capital expenditure requirements. They would need to research and address the challenges of differing currencies, carefully manage their settlement process, create a cost-effective trading platform, and make certain that they cater for the needs of the governments and policy makers so as not to destroy the identity of the local exchanges. All of this may be far simple across a smaller region of countries that operate in the same industries, face similar challenges, and, at the very least, speak the same language than across the entire continent.

It is of importance to any stakeholders of an exchange, not only those trying to establish a pan-African exchange, to consider the catalysts for increased volume of trade. The correct technology, allowing local, African and non-African investors to trade on their listed instruments, with as much ease as possible can be made possible through the correct technology decisions. Similarly, in markets where there is not a strong capital market infrastructure, banks and capital market players should be encouraged, through regulation, to participate and create facilities for further investment in the exchange.

Companies, both national and multi-national, looking for listing destinations would be well advised to investigate the possibilities of listing on a regional exchange, instead of just a local *bourse*. By listing on a regional exchange this brings − if the exchange is of good quality − more potential investors to company. It would also be advisable for the companies to learn the dynamics of the listed financial markets. Listed companies should strive to understand their role in educating investors to help promote liquidity on the exchange.

With the heavy dependence on humans to address some of the fierce challenges and the two absolute requirements for the successful establishment of a pan-African securities exchange, it may be more realistic to look at a crossing network, or a dark pool, for the trading of securities in African companies. Having such a system in place may then imply reporting of the execution from one of these “alternative exchanges”, through to the independent traditional exchange where the stock traded has its primary listing. Whether or not a dark pool or crossing network would be possible is not known, but there may need to be some lateral thinking around how these potential issues could be addressed. The establishment of an “alternative exchange” will in itself have many challenges, liquidity being one of them, unless the assets listed on the major exchanges in Africa are included in such a destination. The establishment of an “alternative exchange” does however create a trading destination, the likes of which Europeans and Americans are used to trading on, even though the destination is not a formal securities exchange.

There are many successful exchanges around the world, and as the JSE has done in creating an African board, it may be possible to create a board similar to the JSE’s African board in a neutral country outside of Africa. The problem, however, is getting governments to allow companies in their countries to list on these destinations and being able to govern the companies outside of the jurisdiction of the exchange.

5.4 **Suggestions for further research**

There are many more questions that come to the fore following this study; below are some of the suggested areas of study for anybody interested in the direction that this study has begun moving. It is suggested that research be carried out into the areas of:

- Crossing networks and dark pools and whether or not they contribute to the economies of the host countries;
- The sustainability of individual exchanges in Africa and, possibly, the feasibility of some existing security exchanges;
- Regional exchanges in Africa and the mechanics of their potential operation, the feasibility thereof, and the success factors;
- Regulation of listed companies/dual listed companies in Africa and how these companies could be regulated possibly in unregulated economies;
- The link between regulation, self-regulation and share price;
- The impact of capital market infrastructure on securities exchanges;
- The linkages between technology and liquidity, not only in the equities markets, but also in the futures, OTC and fixed-income financial markets; and
- The level of political influence over the security exchanges in Africa.

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APPENDIX A

Letter to potential interview respondents

Dear Respondent

I am currently a student at Wits Business School in Johannesburg, South Africa and am busy working on research which will contribute towards my MBA degree. I am gathering data related to the critical success factors for the establishment of a pan-African securities exchange.

I would be grateful if I could arrange a one-hour interview with you or a suitable representative of your establishment to gain an understanding of your views on such an exchange.

The interview will not involve questions regarding your strategic plans for the future, and will be focused more on past experiences and your opinions of financial markets in Africa.

I understand that you may be extremely busy; however, your agreement to partake in my research would be greatly appreciated. Confidentiality will be observed throughout the process and the final report will be for academic purposes only.

Should you be willing to partake, I am happy to meet at a time of your convenience.

Yours sincerely

Andrew Foster

Mobile: +27 82 523 4268

Landline: +27 11 575 3763

APPENDIX B

English version of Letter to questionnaire interview respondents

Dear Respondent

I am currently a student at Wits Business School in Johannesburg, South Africa and am busy working on research which will contribute towards my MBA degree. I am gathering data related to the critical success factors for the establishment of a pan-African securities exchange.

I would be grateful if you or a suitable representative of your establishment could take the time to fill out a questionnaire relating to this research topic. This would go a long way to assisting me in understanding the potential market's views on such an exchange.

The questionnaire does not involve questions regarding your strategic plans for the future and is focused more on past experiences and your opinions of financial markets in Africa.

I understand that you may be extremely busy; however, your agreement to partake in my research would be greatly appreciated. Confidentiality will be observed throughout the thesis process and the final report will be for academic purposes only.

Should you be willing to partake, I will forward you a copy of the questionnaire at your convenience.

Yours sincerely

Andrew Foster

Mobile: +27 82 523 4268

Landline: +27 11 575 3763

APPENDIX C

French version of letter to questionnaire interview respondents

Cher Monsieur/Chère Madame,

Je suis actuellement étudiant à l'école de commerce WITS de l'Université de Johannesburg, en Afrique du Sud et prépare des recherches qui contribueront à mon diplôme de MBA. Je rassemble des données liées aux éléments de succès critiques pour la création d'un Echange de Sécurités Panafricain.

Je vous seriez très reconnaissant si vous - ou un représentant de votre établissement - pourrait prendre le temps de compléter un sondage lié à ce thème. Ceci m'aidera énormément dans mon but de comprendre les perspectifs des marchés é l'égard d'un tel échange.

Le sondage ne comprend pas de questions vis-à-vis de vos projets stratégiques pour l'avenir, et cible plutôt vos expériences antérieurs ainsi que vos opinions des marchés financiers en Afrique.

Je comprends si vous êtes très occupé, mais votre accord à participer dans mes recherches serait extrêmement apprécié. Bien évidemment, votre confidentialité sera respectée le long du processus de mon thèse et mon rapport final ne serait que pour des fins académiques.

Au cas où vous accepteriez de participer, je vous enverrais un exemplaire du sondage.

En vous remerciant d'avance, je vous prie d'agréer, MONSIEUR/MADAME, l'expression de mes sentiments distingués.

Andrew Foster

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APPENDIX D

Interview guideline for telephonic or face-to-face interview

Interview Questions

- On which exchanges do you currently invest/support consider listing?
    - For what reasons do you invest/investigate (on) these exchanges?
    - Would there be any reason why you would not trade/list on these/this exchange(s)?
    - Is the cost structure of these exchanges fair?
    - What are the challenges to investing on these exchanges?
    - What are the key features of these exchanges?
    - What are the key challenges of these exchanges?
    - What are the potential growth prospects of these exchanges?

- Would the establishment of a pan-African securities exchange be useful and for what reasons?

- What would be a deciding factor to move to a pan-African exchange?

- Which factors would be important to your investing on a pan-African exchange?
    - Of these factors, which are the most important and the least important
    - And WHY for each of them.

- How should the shareholding of a pan-African exchange be made up and how should it NOT be made up?

- What is the ideal geographical location for a pan-African exchange?

- What are the key factors that would detract from the concept a pan-African exchange being successful?

- What are the greatest challenges to the establishment of a pan-African exchange?

- What are the key factors in favour of a pan-African exchange?

- What role should government and regional bodies play in the establishment of a pan-African exchange?

- What role should government and regional bodies play in the regulation of a pan-African exchange?

- What are your views regarding independent national identity of countries? Would they be threatened by such an exchange?

- How should a pan-African securities exchange be linked with international exchanges?

- How do you perceive the integration of such an exchange with real economies; e.g. international trade, regional economics and politics?

APPENDIX E

English questionnaire to respondents

Questionnaire

1. On which exchanges do you currently invest/support consider listing?

2. For what reasons do you invest/investigate (on) these exchanges?

3. Would there be any reason why you would not trade/list on these/this exchange(s)?

4. Is the cost structure of these exchanges fair?

5. What are the challenges to investing on these exchanges?

6. What are the key features of these exchanges?

7. What are the key challenges of these exchanges?

8. What are the potential growth prospects of these exchanges?

9. What would be a deciding factor to move to a pan-African exchange?

10. Which factors would be important to your investing (moving to) a pan-African exchange?

11. Of these factors, which are the most important, and the least important?

12. How should the shareholding of a pan-African exchange be made up and how should it NOT be made up?

13. Is the shareholding important to its success?

14. What is the ideal geographical location for a pan-African exchange?

15. Is the geographical location important to its success?

16. What are the key factors that would detract from the successful establishment from a pan-African exchange?

17. What are the greatest challenges to the establishment of a pan-African exchange?

18. What are the key factors in favour of a pan-African exchange?

19. What role should government and regional bodies play in the establishment of a pan-African exchange?

20. What role should government and regional bodies play in the regulation of a pan-African exchange?

What are your views regarding independent national identity of countries? Would they be threatened by such an exchange?