EXCLUSIVE INTERVIEW
Mr. SUNIL BENIMADHU
Chief Executive Officer
Stock Exchange of Mauritius

AFRICA’S EQUITY
CAPITAL MARKETS
SPECIAL GUEST FEATURES BY:
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African Capital Markets Update
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Welcome to 2013’s third edition of ACM-Insight! your award-winning magazine on Africa’s Banking, Insurance and Capital Markets containing analyses, educational materials, academic articles, capital market updates and lots more. This is brought to you courtesy of Applied Capital Markets Limited (ACM) – risk management consultants with expertise in cutting-edge solutions and general business advisory services.

It has been a wonderful year here at ACM-Insight! with an important highlight being winning the BEST FINANCE FEATURE award at the Diageo Africa Business Reporting Awards 2013.

In this edition of ACM-Insight, we have a special focus on the Equity Capital Markets. The central article: “Africa’s Equity Capital Markets” covers the role and common features of equity markets, an overview of the equity markets in Africa, recent developments and ongoing transformation, Africa’s equity market potential and the role of technology.

Equity capital markets are, of course, critical to the operation of the modern economy. Their role in facilitating the buying and selling of securities should not be underestimated. They help to efficiently channel capital/savings to productive areas of the economy, thereby boosting economic development, creating wealth and raising standards of living. Africa does not have a single, homogenous equity market, so by “Africa’s equity capital markets”, we mean an aggregated view of the major equity markets on the African continent.

As usual, to add value to our readers, we invited senior-level executives and significant players on the African scene to offer unique insights into the various segments of equity markets in Africa and from diverse viewpoints.

We bring you EVANS OSANO and TAMUNA LOLADZE (from the International Finance Corporation - the private sector arm of the World Bank Group); ZUKILE SIKO and OLUWAKEMI OWONUBI (Rand Merchant Bank); GREG BARKER (Director, Head of Research & Portfolio Manager, Sustainable Capital Mauritius); ANNE GUIMARD (President, FINEO Investor Relations Advisors & The School of Investor Relations) and IBUKUN ADEBAYO (Head, Primary Markets Africa, London Stock Exchange).

And we’re not done yet! Other expert guest contributors include: the MSCI ANALYTICS RESEARCH TEAM; RORY ORD (Head of RisCura Fundamentals); TAMSIN FREEMANTLE (Business Development Manager at the Johannesburg Stock Exchange); TUTU AGYARE (Managing Partner and Chief Investment Officer, Nubuke Investment LLP); and MONICA SINGER (CEO of Strate, South Africa’s Central Securities Depository).

And there’s more... in this edition, we bring you AN EXCLUSIVE INTERVIEW with perhaps the leading African stock exchange chief of his generation: MR. SUNIL BENIMADHU (Chief Executive of the Stock Exchange of Mauritius (SEM) and currently the President of the African Securities Exchanges Association (ASEA) - an association of 23 Exchanges operating on the continent).

As usual, we provide you with timely updates on African Capital Markets.

As you know, we publish three editions a year. This is our fourth year of bringing you insightful and exclusive analytical articles and interviews with the leading players in Africa’s fast-growing financial sectors. This is the third and final issue of 2013. But, rest assured, as you can expect three more insightful and action-packed editions in 2014. Please forward to all your colleagues who may be interested in this publication.

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Now recognised as the world’s leading pan-African trade gathering, Africa Trade Finance Week 2014 will bring together the region’s leading trade and export finance professionals for extensive networking and discussion.

LAST YEAR’S VITAL STATISTICS

- **Delegates Attended**: 257
- **Companies Represented**: 134
- **Countries Represented**: 26

SECTORS REPRESENTED LAST YEAR

- 33% CORPORATES & TRADERS
- 30% BANKS & FINANCIERS
- 12% INSURERS, LAWYERS & RISK ANALYSTS
- 7% NON-BANK FINANCIERS
- 5% SOLUTION PROVIDERS
- 5% ECAS & MULTILATERALS
- 4% GOVT ORG & PUBLIC BODIES
- 4% MEDIA

- “Most certainly “the” conference to attend for Africa – networking and information superb.”
  - D. Oliphant, Drum Commodities
- “Every year this conference just gets better and exceeds my expectations.”
  - E. Rabie, JLT

For further information please contact Grant Naughton at gnaughton@exportagroup.com or call +44(0) 20 8673 9666
Foreword

The editorial team provide a brief overview of this edition and give an indication of what readers can expect from ACM-Insight! going forward.

Africa’s Equity Capital Markets

The Journey to a listing in sub-Saharan Africa
By Zukile Siko, and Oluwakemi Owonubi, Rand Merchant Bank

Capital market integration in Africa: A case study of East Africa:
By Evans Osano and Tamuna Loladze, World Bank Group

Debunking the Biggest Myths of Corporate Governance in Listed African Equities.
By Greg Barker - Director, Head of Research, Portfolio Manager - Sustainable Capital Mauritius

Embracing Environmental, Social and (corporate) Governance as a value maximizing strategy
By Anne GUIMARD, President, FINEO Investor Relations Advisors & The School of Investor Relations

Africa and London – an ever close partnership
Ibukun Adebayo, Head, Primary Markets Africa, London Stock Exchange

Market Insight: Diversity on the Frontier
By MSCI Analytics Research Team

Private and listed equity exposure key for investors in Africa
By Rory Ord, Head of RisCura Fundamentals

The JSE – unlocking African opportunities
By Tamsin Freemantle, Business Development Manager at the JSE

Investment opportunities in Equities across Africa
By Tutu Agyare, Managing Partner and Chief Investment Officer, Nubuke Investment LLP

Market Growth & Liquidity: Effective clearing and settlement system
By Monica Singer, CEO of Strate, South Africa’s Central Securities Depository

Redefining Development Equity in Africa
Advertorial

GBOT is now bourse Africa
Advertorial

Exclusive Interview
An exclusive interview with Sunil Benimadhu, Chief Executive of the Stock Exchange of Mauritius

African Capital Markets Update
This regular section of ACM-Insight! is dedicated to African capital markets update and comparisons with developed economies, and the main focus will be on the frontier African countries.
BACKGROUND ON EQUITY CAPITAL MARKETS

What is an equity capital market?
Equity capital refers to the total ownership interest in a company. It differs from debt capital in that the latter does not confer an ownership interest but instead represents a liability for the company with the investor being a creditor. Equity capital markets are marketplaces for the bringing together of companies seeking equity capital and investors wishing to provide such capital. Equity capital markets also deal with derivative instruments of equity capital such as swaps, futures and options. This article focuses on “public equity” capital markets; that is, public offerings and listing of shares on exchanges.

Why have equity capital markets?
The equity capital market is one of the key components of the engine of a modern economy, as it mobilises and pools savings from the public and efficiently channels them into business investments. It also helps firms and individuals to manage risks and provides incentives for companies to improve their performance. Equity capital markets complement other sectors of the financial system, such as debt capital markets, banks and insurance firms; thus expanding the range of funding sources available (such as public equity markets, private equity, and the issuance of debt securities) and creating alternative investible assets for investors.

Role of equity capital markets
Below are some of the important roles of equity capital markets in the development of an economy:

■ Providing companies with access to risk capital, thereby reducing their debt servicing costs.
■ Providing opportunities for companies to raise funds for expansion of operations – leading to increased production, employment and economic growth.
■ Promoting capital formation by providing the platform for savings to be efficiently mobilised for productive investments; hence ensuring an efficient and effective distribution of scarce financial resources.
■ Encouraging inflow of foreign capital when foreign companies or investors invest in domestic equity securities.

3 See the Introduction section of “Nigeria’s Capital Markets @ 50”, ACM Insight magazine, September 2011
4 See the Introduction section of “Nigeria’s Capital Markets @ 50”, ACM Insight magazine, September 2011 (http://www.acm-consult.com/our-services/acm-insight/acm-insight-magazine-editions/).
Promoting transparency and good accounting/management practices through appropriate disclosure by companies.

Reducing the over-reliance of the corporate sector on short-term financing for long-term projects.

Common features of equity capital markets

A company’s first entrance into the market is usually via an Initial Public Offering (IPO) where the company offers a share of itself to the investing public for the first time. Investors in the company’s shares are the owners of the company and are known as shareholders. In the event of the winding up of the company, shareholders share whatever is left after all senior and subordinated creditors have been paid.

Periodically, if a company is sufficiently profitable and has extra money left after servicing its debt, management will usually declare a dividend for the benefit of shareholders. This is their primary, ongoing reward for investing in the company. Another way to reap the reward of investing might be to sell the shares at a higher price than the investor bought them for, thereby making a capital gain. Some equity investors are primarily long-term (strategic) investors who wish to benefit from a steady dividend stream or interest in acquiring majority shareholdings whilst others are short-term (tactical) investors who are interested in capital gain of the shares.

Another common feature of equity markets is the cyclical nature of stock prices. The history of stock markets has shown that bubbles inevitably develop as good liquidity lead to stocks becoming overvalued and eventually some stocks will lose significant portions of their value (sometimes suddenly), thereby leading to a boom and bust scenarios. This cycle of stock markets has been witnessed over time and all over the world. The financial historian, Niall Ferguson, characterised this pattern as having five stages:

1. Displacement - new and profitable opportunities arise for some companies.
2. Euphoria - feedback loop as rising profits lead to rapid growth in share prices.
3. Mania - apparently easy profits lure first-time investors into the market.
4. Distress – insiders suspect overvaluation and start to cash in by selling their shares.
5. Revulsion – falling share prices lead everyone to sell in a hurry causing the bubble to burst.

How big is the world’s aggregated equity market?

Equity markets make up a significant proportion of the world’s business financing. As at the end of 2012, the world’s equity market capitalization stood at USD 55 trillion - down from a high of USD 64 trillion in 2007 and up from a low of USD 28 trillion in mid-2008 - with approximately 50,000 companies listed. Equity markets are very liquid indeed with the value of share trading in the year 2012 at USD 49 trillion.

Overview of Africa’s equity markets

Africa’s growth sustainability

Africa’s equity markets have an extraordinary potential to help transform and sustain Africa’s growth trajectory. The perception that has often characterized Africa has been that of political instability, lack of development, poor infrastructure as well as lack of human capital skills, all of which have often mired its overall economic growth. However, a new dynamic is in play much more stable political landscapes, fast-paced growth and investments pouring in in a race to reduce the infrastructure deficit. Africa’s equity markets are also witnessing rapid growth and this is changing the investment landscape. For instance, Africa’s economic growth had averaged 5% per year between 2000 and 2012 compared to an average of 2% per year in the 1990s.

Although, growth rates have declined in some African countries as a result of the global financial crisis of 2008, Africa has recovered quickly (compared to developed markets) due to sound and prudent macroeconomic policies, political stability, and multilateral agency support. Besides, the recent successful initiatives to stabilize and strengthen many African economies and to liberalize the business environment (deregulation and privatization) coupled with increased regional collaboration have promoted African equity markets not only as viable investment opportunity environments but also a notable segment of global frontier markets. Global investors commonly refer to African markets as the last frontier.

As has been witnessed in both the developed and the large emerging economies, developing the equity markets in Africa will improve domestic savings and investment. The resultant effect will be to strengthen and deepen domestic financial and capital markets systems as well as promoting good corporate governance. African equity markets have now begun to provide funding for many African businesses and are fast becoming one of the most significant sources of long-term corporate finance.

Africa’s market platform

The number of active securities exchanges in Africa has increased from seven (Egypt, Morocco, Tunisia, South Africa, Zimbabwe, Kenya, and Nigeria) in 1989 to currently twenty-four (representing thirty-nine countries’ capital markets), with the Seychelles Securities Exchange (established in 2012) being the newest and the Egyptian Exchange the oldest (1883). The continent also hosts two of the few regional stock exchanges in the world, the BRVM, and BVMAC. While the overall number seems high, many of these markets are still in their infancy and market capitalization remain generally low relative to more developed markets and to the true capacities of the African markets. This means that there is still considerable scope to deepen the equity markets across Africa.

In absolute terms, total market capitalization is around USD$1.5 trillion.

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4 The Regional Stock Exchange (Bourse Régionale des Valeurs Mobilières) is an electronic stock exchange for eight West Africa countries (Benin, Burkina Faso, Côte d’Ivoire, Mali, Niger, Senegal, Togo, and Guinea Bissau). Its Head Office is in Abidjan.
5 The Regional stock exchange (Bourse Régionale des Valeurs Mobilières-BRVM) for six member countries: Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea and Gabon.
African securities exchanges do not closely represent the economic sectors that contribute to their countries' GDPs. For instance, the financial sector (banks in particular) dominates the Nigerian Stock Exchange, although this sector remains a relatively small component of Nigerian real economy. Typically, the main contributors to GDP are rarely present on the listed African equity markets. Moreover, most of Africa’s equity markets involve stocks being mostly owned by individuals rather than institutional investors.

**Africa’s market transformation**

The domino effect of the global financial crisis was immediately felt on stock markets across Africa. Contrary to the popular belief that the African equity markets were uncorrelated with advanced economies’ equity markets, proved to have been misplaced. In fact, the market capitalization at the peak in 2007 dropped 46% by the end of 2008. Also, the Johannesburg Stock Exchange all-share index declined 42% between May and October 2008.

The aftermath of the global economic recession, has led to a lot of policy reforms and accelerated the transformation agenda in many African securities exchanges. For instance, there are massive calls to encourage the privatization of public enterprises through the exchanges and also encourage multinational companies (in regulated sectors such as telecommunication, oil and gas, energy, mining and so on) to list part of their shareholdings in the local stock markets via capital market “local content” policies. Additionally, to provide a platform for SME businesses, some African exchanges (such as those of Ghana, Egypt, Nigeria, and Kenya) have, or are, introducing “growth boards” (i.e. junior markets), with less demanding listing requirements than the “main boards”, to attract SMEs to be listed. Besides, the exchanges are extending the financial product offerings by providing platform for the listing of new securities including Exchange Traded Funds (ETFs) and mutual funds. As part of the drive to enhance liquidity and depth in the markets, market-markers are being introduced in some African securities exchanges (for example, Nigeria).

Likewise, securities cross-listing agreements and collaboration exist among some African exchanges. Notably, the East African Securities Regulatory Authority through the Kenyan Capital Markets Authority

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**Table 1: African Securities Exchanges Market Capitalization (USD 'Billion) and Listed Companies | Source: Various African Securities Exchanges and Applied Capital Markets Limited (ACM)**

<table>
<thead>
<tr>
<th>Country</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Sep-13</th>
<th>No of Listing</th>
</tr>
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<td>Botswana</td>
<td>13.4</td>
<td>23.8</td>
<td>54.4</td>
<td>41.8</td>
<td>56.1</td>
<td>67.5</td>
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<td>0.4</td>
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<td>4.2</td>
<td>8.4</td>
<td>7.1</td>
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<td>7.0</td>
<td>7.0</td>
<td>8.1</td>
<td>10.5</td>
<td>72</td>
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<td>Tunisia</td>
<td>2.9</td>
<td>4.4</td>
<td>5.1</td>
<td>6.7</td>
<td>7.3</td>
<td>10.6</td>
<td>9.6</td>
<td>8.9</td>
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<td>76.0</td>
<td>65.7</td>
<td>64.7</td>
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<td>60.2</td>
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<td>3.8</td>
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<td>14.8</td>
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<td>N/A</td>
<td>N/A</td>
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<td>0.4</td>
<td>0.2</td>
<td>0.6</td>
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<td>Egypt</td>
<td>79.0</td>
<td>93.7</td>
<td>139.7</td>
<td>86.6</td>
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<td>0.1</td>
<td>0.1</td>
<td>14.9</td>
<td>11.2</td>
<td>13.7</td>
<td>28.5</td>
<td>30.5</td>
<td>28.2</td>
<td>34</td>
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<tr>
<td>South Africa</td>
<td>67.6</td>
<td>816.9</td>
<td>836.3</td>
<td>549.2</td>
<td>801.3</td>
<td>981.4</td>
<td>845.6</td>
<td>998.3</td>
<td>970.5</td>
<td>388</td>
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<td>5.2</td>
<td>4.2</td>
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<td>3.3</td>
<td>9.4</td>
<td>9.4</td>
<td>10.2</td>
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<td>Zambibia</td>
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<td>3.2</td>
<td>4.8</td>
<td>4.1</td>
<td>5.3</td>
<td>6.3</td>
<td>9.4</td>
<td>9.4</td>
<td>10.2</td>
<td>22</td>
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<tr>
<td>Malawi</td>
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<td>0.7</td>
<td>1.3</td>
<td>1.8</td>
<td>1.5</td>
<td>8.5</td>
<td>16.4</td>
<td>10.6</td>
<td>13.0</td>
<td>14</td>
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<td>13.6</td>
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<td>10.3</td>
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<td>43.1</td>
<td>57.8</td>
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<td>N/A</td>
<td>N/A</td>
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<td>1.7</td>
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<td>4</td>
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<td>Sierra Leone</td>
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<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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</tr>
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<td>Mauritius</td>
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<td>3.5</td>
<td>7.8</td>
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<td>Uganda</td>
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<td>3.5</td>
<td>2.9</td>
<td>3.1</td>
<td>5.5</td>
<td>4.1</td>
<td>5.9</td>
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<td>26.9</td>
<td>821.8</td>
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<td>3.9</td>
<td>3.7</td>
<td>4.0</td>
<td>5.4</td>
<td>69</td>
</tr>
</tbody>
</table>

| Total         | 363.5 | 1245.4| 2087.5| 964.0 | 1263.5| 1514.3| 1303.0| 1480.3| 1518.4 | 1,495        |

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corporate governance index as part of NSE’s commitment to firm and fair corporate governance.

Technology
Another of the most pivotal aspects of this transformation is technology enhancement. The use of trading software systems is of immense importance in terms of the reduction in the time taken to process transactions. Prominent African exchanges (like Nigeria, Kenya, Ghana and Egypt) have adopted automation of trading systems to help reduce costs and inefficiencies and increase trading activity and liquidity by speeding up operations. Notably, in September 2013, the Nigerian bourse migrated to the NASDAQ OMX X-Stream Trading platform. This will support trading of cash equities, bonds, ETFs and derivatives; providing wider access to real time data, improved market transparency and better governance. With the aid of this new multi asset trading platform, the Nigerian bourse hopes to achieve a market capitalization for the exchange of USD$1trillion by 2016. Also, listed securities are being dematerialised and migrated to the electronic settlement environment via establishment of central securities depositories.


Africa's equity market potential
In recent times, Africa’s equity markets have created better value for its investors and promoted entrepreneurship. Just like the listing of Apple, Google, Facebook and Twitter and so on made their founders billionaires by public listing, by the mere listing of Dangote Cement on Nigerian Stock Exchange in late 2010, Alhaji Aliko Dangote (the founder) became Africa’s richest man, and the World’s richest black African man in 2011 and the World’s 25th richest person in 2013 according to Forbes. Equally, African equity exchanges have created about USD$30 billion in term of year-to-date market capitalization for investors in the African equity markets.

Furthermore, African capital markets have supported privatization of public corporations by providing necessary capital and creating value for investors and entrenching social impact. A good case is that of Safaricom Limited, in respect of which in June 2008 the Government of Kenya offered and sold 25% of its 60% shareholding to the public via the Nairobi Securities Exchange. As a result, the Kenyan Government ceased to have a controlling interest in Safaricom and hence allowed Safaricom to be run as a private sector, profit-making company. Note that Safaricom is the world’s leader in mobile money through its world-renowned M-pesa service. Likewise, during the Nigerian banking and insurance consolidation exercises between 2004 and 2007, banks and insurance companies raised over USD 10 billion of fresh capital, from the Nigerian Stock Exchange, to meet the then new minimum regulatory share capital requirement.

More so, African equity markets have seen a surge in Africa-focused equity funds. These funds have mandates to invest directly in equity and equity-related securities of companies listed on a regulated market in, or domiciled in Africa. Examples are: JPMorgan’s Africa Equity Fund (fund size: USD$ 451 million, and 1-year performance of 12.21%), and Old Mutual African Frontiers Fund (fund size: USD$ 72 million, year-to-date return of 16.8%). Similarly, Africa-focused ETFs are also increasing.

Inclusion in international indices
In addition, in recognition of its potential, African equities are now included in the emerging frontier indices and many Africa-focused benchmark indices. Stock market indices are indicators used by investors and portfolio managers to measure the performance of stock markets segmented by category on the basis of specific criteria. For instance, at 14.5%, African frontier equity markets now exceed both

12 For details information and performances across different African Exchanges, see African Market Updates section.
European and American frontier equity markets by market capitalization in the Russell Frontier Index (RFI). Some African-focused benchmarked indices are MSCI Emerging Frontier Markets Africa (excluding South Africa) Index, S&P Africa Frontier, S&P Pan Africa, and FTSE ASEA Pan Africa Index and so on.

Being included in globally-recognised indices is also helping to make some African exchanges more attractive since some investment fund have restrictions in their mandates which allow them to invest only in securities that are included in certain indices. Further, such inclusions bring certain securities to the attention of a wider array of investors including, for example, those that have not necessarily hitherto focused on African securities. In this light, it is worth noting that the S&P Africa Frontier index tracks stocks in Botswana, Cote d’Ivoire, Ghana, Kenya, Mauritius, Namibia, Nigeria and Zambia. Similarly the MSCI Frontier Markets index includes Kenya, Mauritius, Tunisia, Morocco and Nigeria.

Challenges remain, however, for even the frontier markets in Africa in terms of improving liquidity and attracting more companies to list on exchanges.

“Being included in globally-recognised indices ... bring certain securities to the attention of a wider array of investors including, for example, those that have not necessarily hitherto focused on African securities”

Africa’s market progression
To continue maximizing and sustaining recent economic benefits and growth, African equity markets need to promote transparent and accountable institutions, to provide adequate shareholder protection and investor education. Furthermore, regional collaboration needs to be strengthened and financial innovation (such as derivatives, securities lending, margin lending, ETFs, mutual funds and over-the-counter for private equity assets) need to be encouraged.

Africa securities exchanges need to be demutualised to improve corporate governance and broaden ownership (that is allowing the investing public to invest in exchanges). However, demutualization would be more effective after having improved liquidity and infrastructure and strengthened regional cooperation has been achieved.

On a final note, governments should continue giving their support to the stock exchanges by privatization of public enterprises via exchanges and by providing an enabled environment including tax incentives to encourage listing of multinationals, foreign companies and SMEs.
EXCLUSIVE GUEST FEATURE
By Zukile Siko, and Oluwakemi Owonubi, Rand Merchant Bank

THE JOURNEY TO A LISTING IN SUB-SAHARAN AFRICA

Introduction
One of the most significant decisions that a company can make during its life cycle is the decision to list. There are more than 900 companies listed across the 11 largest stock exchanges in sub-Saharan Africa with the JSE Limited (“JSE”) being the largest stock exchange in the region by both number of listed companies and market capitalisation. The JSE has 374 companies with an aggregate market capitalisation of c.USD965 billion. The three largest stock exchanges in sub-Saharan Africa, being the JSE, the Nigerian Stock Exchange (“NGSE”), and the Nairobi Securities Exchange Limited (“NSE”) in Kenya, account for c.82% of the total market capitalisation of all stock exchanges in the region.

Since 2010, African and offshore companies have raised in excess of USD3.0 billion on stock exchanges across the sub-Saharan region via listings and initial public offerings (“IPO”). Additionally, in the same period listed companies have raised c.USD34 billion in follow-on capital raisings (including placements, rights offers and convertible bonds). 2010 saw the largest number of IPOs and listings in sub-Saharan Africa since the 2008 financial crisis, with more than 55 listings, raising USD1.5 billion in a combination of primary and secondary placements. It also saw one of the largest IPOs ever in African history, with a total of c.USD670 million raised on the listing of Life Healthcare on the JSE.

Rationale for listing
There are predominantly six reasons why companies would consider a listing and these reasons are: 1. raising capital to fund growth and acquisitions; 2. raising capital to reduce debt and strengthen the balance sheet; 3. providing existing shareholders an opportunity to realise value and on-going liquidity; 4. enhancing the company profile; 5. incentivising and retaining staff; 6. strategic imperatives such as securing licenses and facilitating local public participation.

For any company to achieve a successful listing, it needs to have a clear and well-articulated ‘equity story’ premised on one or a combination of the above objectives.

Listing mechanisms
Whilst there are a number of listing mechanisms, the main mechanisms include i) a listing by introduction, ii) an IPO (public or private) or iii) a reverse listing. Ultimately, the rationale for listing and whether or not the company intends to raise capital as part of the listing, by and large determines the appropriate listing.
A listing by introduction is the quickest and cheapest listing process and is suitable for companies with no immediate requirement for raising capital. There is no offer made to investors to purchase or subscribe for shares in the company. The company’s shares are simply included into the exchange’s platform and start trading. This is the route typically followed by companies wanting to raise their profile, create liquidity and establish a track record as a listed company.

On the other hand, for companies that require capital, equity is one of the most attractive sources and can be raised through an IPO. In an IPO an offer is typically made to potential investors to subscribe (“primary placement”) for and / or purchase (“secondary placement”) shares. A primary placement comprises an new issue of shares by the company to investors, with proceeds going to the company, whereas a secondary placement comprises a sale of shares by existing shareholders, with proceeds going to selling shareholders.

Lastly, in a reverse listing, the target (usually a smaller listed company or a cash shell), acquires an unlisted company, reverse listing the acquired company. This form of listing is less dependent on prevailing market conditions as no offer needs to be made to investors. However, in the case of an operating target the merger must be sound.

A listing is a time intensive process and requires the company’s management and shareholders to commit themselves to a process that typically takes six to nine months. A typical listing process can be split into a number of overlapping workstreams which include preparing the company to operate in a listed environment, obtaining regulatory approvals and marketing to potential investors. The process entails the coordination of the workstreams of a number of parties including financial advisors, legal counsel, reporting accountants, investor relations practitioners as well as engaging with regulators. The listing process is challenging and is therefore imperative for a company to appoint advisors with extensive and relevant transaction experience to ensure that it puts its best foot forward from the outset and maximises the probability of success.

Listing venue considerations

Once a company has taken the decision to list, it needs to make an assessment as to the best listing venue. For instance the NASDAQ Stock Market has predominantly been the listing venue of choice for US and global technology companies, while the Toronto Stock Exchange has attracted early stage mining and exploration companies. The appropriate listing exchange is the one that best achieves the company’s objectives for listing.

Historically, in sub-Saharan Africa the JSE, NGSE andNSE have been the most popular destinations for new listings and IPOs.

The JSE is the largest and most liquid exchange in Africa. Its market capitalisation represents c.74% of all the stock exchanges in sub-Saharan Africa and trades an average of USD1.6 billion per day. As a modern exchange, the JSE provides a trading platform that investors from developed markets are familiar with. The bourse benefits from large sums of captive capital in South Africa, with funds under management in excess of USD500 billion. Recent South African Reserve Bank regulation amendments provide foreign companies listed on the JSE with the ability to raise capital in South Africa and redeploy it elsewhere without restrictions. There are currently 54 foreign companies listed on the JSE and 37% of the JSE’s market capitalisation is held by foreign investors.

The second largest stock exchange in Africa is the NGSE with 201 listed companies and an aggregate market capitalisation of USD72 billion. In the past 5 years the NGSE has seen the listing of c.40 companies, with the largest listing being the USD14 billion listing of Dangote Cement Plc in October 2010. The NGSE has recently undergone a number of significant changes to bring it in line with international best practice and regulatory frameworks.

These changes include the update of the listing rules as well as the upgrade of the trading system. These and other market-friendly reforms continue to positively impact the NGSE, making it the second fastest growing African bourse and providing an attractive destination for investors. Total foreign inflows on the NGSE reached USD2.2 billion as at July 2013, relative to USD2.8 billion for the whole of 2012, illustrative of the increasing international participation on the NGSE.

The NSE is East Africa’s largest stock exchange and home to 58 listed companies with an aggregate market capitalisation of USD22 billion. The NSE was recently voted as “The Most Innovative African Stock Exchange” in Africa. In July 2011, the Nairobi Stock Exchange Limited, changed its name to the Nairobi Securities Exchange Limited. The change of name reflected the strategic plan of the Nairobi Securities Exchange to evolve into a full service securities exchange which supports trading, clearing and settlement of equities, debt, derivatives and other associated instruments.

Listing requirements

A company seeking to list needs to satisfy a number of regulatory and market requirements in order to determine its readiness for a listing. Of paramount importance is the ability to demonstrate a strong financial and operating track record as well as future growth prospects. Most exchanges require audited historical financial statements for a 3-year period, showing a prescribed minimum asset value and net profit. By and large this is used as a proxy for a track record. Companies are also required to have a minimum equity capital, free-float (freely tradable shares held by the public) and a shareholder spread (number of shareholders). Certain categories of companies such as mining, property and investment holding companies may have other specific listing requirements.

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17 Source: Bloomberg
18 Source: RMB research
19 Source: Capital IQ
20 Source: Capital IQ
21 Source: Dialogic
22 Source: Capital IQ
23 Source: Capital IQ
24 Source: Capital IQ
25 Source: Capital IQ
In addition to the listing requirements, corporate governance is a key theme for investors across stock exchanges globally and, while often not legally binding, companies are expected to comply with specific codes of good corporate governance. In most cases of non-compliance companies are required to disclose such non-compliances. Different stock exchanges have different codes. Companies seeking a listing on the JSE need to comply with the King Code of Corporate Governance, with the Nigerian Code of Corporate Governance and the Capital Markets Authority Corporate Governance Guidelines being the NGSE and NSE equivalents respectively.

**Document**
While the listing process requires a number of documents, the main one is the prospectus. This document is referred to by different names, depending on the type of transaction being implemented, including a pre-listing statement in the case of a private placement and a listing by introduction or revised listing particulars in a reverse listing. A prospectus is a regulatory document with a specific form and content intended to provide information about the company to potential investors. At a minimum this document is required to contain particulars of the company seeking the listing, its operations, directors and management, securities to be listed, financial information as well as material contracts. Although it is primarily a regulatory document and is not intended to be a marketing document, a prospectus is critical in articulating the company’s ‘equity story’ as it is the primary source of reference for investors.

**Marketing and distribution**
Meeting the minimum listing requirements does not automatically make a company a good candidate for a listing. A company needs to have a compelling ‘equity story’ before attempting a listing. An ‘equity story’ essentially provides the rationale for why investors should invest in a particular company. This story has no predefined format, but emphasises the key investment highlights and prospects of the company. Each company needs to work closely with its advisors to formulate a compelling and well-articulated ‘equity story’ positioning the company and emphasising its sector ranking and key strengths. Thought needs to be given to the prevailing macro-economic conditions with the view to build a case to support the company’s positive prospects. These conditions may be a new technological paradigm, the stage of the economic cycle, the demographic trend that expands the customer base, or any other positive development to promote the company. A well thought-out ‘equity story’ is critical to maximising the valuation of and demand for the company’s shares.

The ‘equity story’ forms the backbone of the marketing and distribution process. In an IPO a company will need to approach a large number of potential investors to educate them on the company and its prospects. Smaller transactions tend to be local only, whereas the larger transactions need to access investors in a number of jurisdictions. Although processes may differ across regions, the marketing process typically involves pre-marketing, analyst roadshows and finally management roadshows and book building processes. The marketing and distribution is an integral part of the IPO process. Companies need to retain a bookrunner with in-depth, sector specific knowledge, appropriate marketing strategies, active market participation, research capabilities as well as an extensive distribution network. Additionally, recent and relevant experience of the bookrunner is key to accessing the ‘right’ investor base.

It is common for companies to approach a select number of influential investors on a confidential basis to pre-market the transaction and solicit early feedback. As a result companies are able to establish, on a confidential basis, what the key investor highlights and concerns are likely to be regarding the company or its prospects.

Although not compulsory, it is often recommended in a capital-raising for the offering to be supported by an analyst research note. The company presents to the research analyst(s) who, on the back of the presentation and multiple interactions with the bookrunner and the company, writes an independent research report on the company and the proposed IPO. Armed with this research note the research analyst goes on an investor education roadshow for a period of one to two weeks. The objectives of the investor education roadshow are to educate investors as to a company’s operations and prospects, and to seek feedback on valuation parameters and to identify areas of investor enthusiasm and concern.

Following the pre-marketing and investor education roadshows, the company will have gathered sufficient market intelligence to assist in deciding whether to proceed, refine, delay or abort the listing. Having made the decision to proceed, the company will then publish the prospectus, and launch the offer. The offer typically remains open for 2 - 3 weeks, during which time management goes on a roadshow to present to a number of potential investors. On the management roadshow, management will have one-on-one and group meetings with investors to present the transaction and solicit demand. During the offer period the bookrunner solicits offers and takes orders from investors typically in an auction type process (“bookbuild process”) whereby
investors submit orders for quantum at a price.

Finally, supportive equity market conditions are crucial for a successful bookbuild process and IPO. Equities in Africa and globally are currently trading at or near all-time highs. Currently buoyed by central banks’ support, the equity markets remain a viable platform to generate long-term returns as evidenced by their long-term out-performance relative to cash and bonds. Sub-Saharan African exchanges are therefore well positioned to benefit from this environment and should serve as an importance source of capital and catalyst to the development and growth of African economies and companies going forward.

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Zukile has 7 years Corporate Finance and Equity Capital Markets experience and joined RMB in 2009 having worked at J.P. Morgan in M&A. His transactional experience includes IPOs, market placements as well as mergers and acquisitions. Since joining RMB Zukile has advised on a number of transactions including:
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Kemi joined RMB in March 2012, having previously worked for Vetiva Capital Management Limited and Oando Plc. She has over 7 years Corporate Finance, Advisory and Equity Capital markets experience, while based in Lagos and Johannesburg. Her transaction experience includes capital raisings, mergers & acquisitions and providing financial advice to companies across a number of sectors. Notable transactions in Nigeria include equity capital raisings for Dangote Sugar Plc, Diamond Bank Plc, Cornerstone Insurance Plc and Industrial and General Insurance Plc and M&A transactions for Diamond Bank Plc and Royal Exchange Plc.
Capital market integration in Africa: A case study of East Africa

Introduction
There are three main drivers for regionalization of capital markets: the quest for scale, cost savings, and competitiveness. While all countries benefit from regionalization, smaller countries stand to benefit even more, not only because they are starting from a very low base, but also because they are less likely to develop viable markets on their own.

Smaller countries face structural issues, such as the size and competitiveness of the economies, which restrict the number of listings in the markets. With limited issuers, it is also challenging to attract and broaden the investor base, whose development and professionalization is linked with the availability of investment products.

East Africa can significantly benefit from regionalization, given the small size of the markets and limited prospects for growth on a standalone basis, especially outside of Kenya. In 2012, the aggregate market capitalization of all EAC debt and equity markets was only USD 29 billion (35 percent of combined EAC GDP), with Kenya alone accounting for 81 percent. Moreover, there are marked differences among the countries in the size and level of development of the investor base. Regionalization provides an opportunity to gain scale and visibility, as well as save resources by building common regulatory frameworks and market infrastructure. It also reduces the learning curve through sharing of experiences from the relatively more developed markets in a region.

African countries have pursued different regionalization approaches with varying degrees of success. Many initiatives have encountered all too familiar challenges frustrating progress, including political concerns (e.g., location of marketplace, settlement currency), lack of trust, nationalistic agendas, and coordination difficulties among stakeholders across participating countries.

Since 1997, East Africa has taken a number of steps to regionalize its markets, moving the process further than many other regional groups that have tried. But challenges remain and considerable work is still needed for East Africa’s capital markets to function as one.

Meeting the preconditions to regionalization
East Africa broadly meets two key preconditions for having a regional marketplace, namely: (i) political will to create a conducive enabling environment; and (ii) business case for end-users to participate in a regional marketplace.

Political will: East African countries have a long history of working together as a regional grouping since 1917, including establishment of a customs union, currency board and the first East African Community (see Figure 1). Despite some bumps on the road with efforts coming apart in 1977 due to political differences, the regionalization process has been on a continuous path and, with recent acceleration of efforts, has been deemed irreversible.

The treaty establishing the current EAC with five Partner States - Burundi, Kenya, Rwanda, Tanzania and Uganda – came into force in July 2000, marking the date after which regionalization has seen particularly strong support at the high policy level. The treaty envisages the establishment of a common market and the integration of the financial systems, eventually culminating in a Monetary Union and a Political Federation. A Common Market Protocol became effective in July 2010 and provides for free movement of goods, labor, people, services and capital across the region.

Business case: EAC market participants appear to share a strong business need for capital market regionalization, driven by close historical, cultural, and geographical ties among EAC members. Regional agreements struck at the policy level provided strong incentives for businesses to seek opportunities in an expanded market and competitive pressures have encouraged companies to expand regionally. The movement to the regions has urged companies to raise their profile in these new markets, including through
cross-listing.

Key achievements to date
Progress has been made towards the regionalization of the East African capital markets from different fronts. The primary advances have been in largely implementing a “mutual recognition” regime for harmonization of regulatory frameworks. The process of reaching this stage has entailed a series of involved steps and significant efforts as outlined below.

1) Shared Vision and Broad Policy Framework: The EAC countries have developed and adopted a shared vision, articulated in a comprehensive capital market regionalization roadmap, which outlines detailed actions that need to be taken regionally and within each country to advance the capital market regionalization agenda.

2) Establishment of regional institutions to facilitate the regionalization process: East Africa has put in place an institutional framework to support the regionalization process, including formal EAC sectorial committees (CMPIC and MAC) as well as industry-led associations (EASRA and EASEA) (see Box 1).

EASRA and EASEA have been the main drivers of key changes in the regionalization process. The two institutions have led and championed the regionalization efforts at the regulatory and market infrastructure levels, respectively. The EAC Secretariat has largely played a coordinating role as its capacity to spearhead the regionalization process has been restricted by technical capacity, financial resources and, in some instances, a limited mandate from Partner States.

3) Establishment of the regional regulatory framework:
The EAC countries have harmonized aspects of their regulatory frameworks in line with their move towards implementing a mutual recognition regime, a process that has largely been completed for existing regulations\(^{21}\). Mutual recognition requires underlying regulatory frameworks and institutions to be comparable but not necessarily identical. It occurs when “Jurisdiction A” recognizes compliance with the regulatory regime in “Jurisdiction B” as sufficient to constitute compliance in its own territory. Efforts to adopt a mutual recognition regime is an example of the EAC members recognizing existing constraints related to nationalistic agendas that would prevent implementation of a single regulatory structure and instead agreeing on practical solutions to keep the regionalization momentum going.

The following are the achievements in regulatory harmonization:
- The regulatory frameworks, codes of corporate governance, listing and trading rules have largely been modeled along those in Kenya.
- IPOs that are approved by one regulator are already recognized by regulators in other countries.
- EASRA has developed a framework for the issuance of regional bonds which has already been transposed into national law in Rwanda, Kenya and Uganda.
- EASRA has undertaken to create Supervisory Colleges that would administer joint inspection programs and investigations within regional operators, as well as coordinated surveillance for cross listed companies, where need arises. This will be critical in building confidence among the EAC securities markets and facilitating greater investor protection across the region.

4) Changes in practices and business models
a. Issuers – there has been a number of cross listings among the region’s exchanges, dominated by Kenyan companies (see Table 1) but it has been used more for advertising, as the companies value the visibility it provides to their regional operations.

b. Investors – There has been significant cross border interest and participation by investors in securities issued in the EAC Partner States. For example, the Safaricom IPO in Kenya attracted investor interest from all the EAC Partner States (including from Tanzania, despite its capital controls – see below). Investors are driven by a search of returns but feel more secure investing in markets that are close to home and with which they are relatively familiar. Moreover, a lot of institutional investors have started to establish a physical presence throughout the region. For example, 20 Kenyan insurance companies have established regional operations and four Kenyan asset managers have a presence in Uganda. In all cases, the establishment of the offices was

Box 1: East Africa Regional Institutional Framework

- East African Member States Securities Regulatory Authorities (EASRA) – established in 1997 to enhance member cooperation and advance market integration.
- Capital Markets Pensions and Insurance Committee (CMIPC) – established in 2001 as a committee of the Council of Ministers of the EAC to coordinate and steer regionalization of capital markets, pensions and insurance sectors in the region.
- East African Stock Exchanges Association (EASEA) – established in 2004 to enhance cooperation amongst the exchanges.
- East African Insurance Supervisors Association (EAIASA) – established in 2009 to enhance cooperation amongst insurance regulators.
- Monetary Affairs Committee (MAC) – established in 2000 to enhance cooperation among East African central banks on issues related to macroeconomic policies, banking supervision, payment systems, information technology, financial markets, and capacity building.

Footnotes:
1. A few regulatory areas remain to be harmonized, such as, for example, licensing categories for market participants.
preceded by portfolio investments in the country.

c. Intermediaries – Similar to investors, intermediaries have also started to establish operations throughout the region, opening subsidiaries in Partner States outside of their home country. For example, several Kenyan stock broking firms have subsidiaries within the EAC region.

Remaining Challenges
Despite many successful aspects in the regionalization in East Africa, a number of significant challenges still need to be addressed.

1) Improve cross-country flows: Capital controls have not been fully liberalized in Tanzania and Burundi, posing obstacles to cross-border trading and investment. Consequently, the Tanzanian market has been largely un-investable to both EAC and international investors and Tanzanians’ access to investment opportunities in the region and elsewhere have also been restricted.

2) Strengthen market operations
• Advance integration of market infrastructure: Unlike relative progress on the regulatory side, the integration of market infrastructure in the EAC is lagging. Today, trading and post-trade infrastructure is still highly fragmented, with four exchanges and seven central securities depositories (CSDs) operating in the region and not yet interconnected. Moreover, the consequence of dispersing resources amongst many CSDs has meant that the post-trade infrastructure is also operating at a rudimentary level in each of the markets, with shortcomings identified in the CSD systems at the national level.

   The process on the market infrastructure side has been slow mainly due to:
   (i) difficulties in reaching an agreement on the type of integration model to pursue – a single (shared) solution or a link-up approach; and
   (ii) nationalistic interests playing a stronger presence in market infrastructure decisions that involve more drastic changes and have direct, financial consequences; in particular, purely commercial decisions have been more difficult to make due to the strong public sector influence in most exchanges. Despite these challenges, consensus seems to be emerging around pursing a link-up model as an intermediate step, due to its more practical appeal and less political resistance, and assessing later on whether conditions are ripe to transition to a single solution.

• Strengthen liquidity of cross-listed securities: There is little or no trading on the cross listed stocks largely because of
   (i) post trade infrastructure challenges, which entail a transfer of securities from one market to another taking up to 60 days;
   (ii) investors’ preference to trade in companies’ home markets due to greater liquidity in those markets;
   (iii) the fact that cross-listing has not been accompanied by fund raising in order to create a pool of local investors in those markets who can create the secondary market.

The exchanges and regulators have engaged in bilateral initiatives to address the cumbersome post-trade procedures for cross-listed securities before a regional solution can be in place.

• Professionalize investors:
Considerable effort is still needed to professionalize institutional investor segments in most of the markets and to remove regulatory obstacles to invest regionally.

• Upgrade regulations and capacity:
Regulatory regimes in the member countries require modernization to support further development of capital markets (e.g., introduction of new products) with appropriate supervision and risk management. A number of initiatives are ongoing particularly in Kenya, Tanzania and Rwanda to address these issues.

3) Strengthen ability to implement actions: Though political will to support regionalization has been strong at the high policy level, problems arise when it comes to implementing specific protocols and agreeing on more micro-level integration decisions. Several reasons can be highlighted:

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<table>
<thead>
<tr>
<th>Company</th>
<th>Primary Listing</th>
<th>Bourse Where Cross Listed</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Africa Breweries</td>
<td>NSE</td>
<td>USE, DSE</td>
</tr>
<tr>
<td>Kenya Airways</td>
<td>NSE</td>
<td>USE, DSE</td>
</tr>
<tr>
<td>Jubilee Insurance Holdings</td>
<td>NSE</td>
<td>USE, DSE</td>
</tr>
<tr>
<td>Kenya Commercial Bank</td>
<td>NSE</td>
<td>USE, DSE, RSE</td>
</tr>
<tr>
<td>Equity Bank Limited</td>
<td>NSE</td>
<td>USE</td>
</tr>
<tr>
<td>Centum Investments</td>
<td>NSE</td>
<td>USE</td>
</tr>
<tr>
<td>Nation Media Group</td>
<td>NSE</td>
<td>RSE, DSE, USE</td>
</tr>
<tr>
<td>Umeme Limited</td>
<td>USE</td>
<td>NSE</td>
</tr>
</tbody>
</table>

Table 1: Regional Issuance – Cross Border Listings in East Africa


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\textsuperscript{22} Shared Model – A solution essentially merging all exchanges and CSDs to establish a single regional exchange and CSD. This option has the most cost savings but is the most difficult to achieve due to sensitive decisions related to the location, ownership, and governance of the regional entity. Link-up Model – A solution maintaining separate exchanges and CSDs that are interlinked directly or through some sort of a hub. This option faces the least obstacles in reaching an agreement but entails establishing a complicated web of linkages and addressing potential CSD risks.

\textsuperscript{23} Some of the exchanges are working on implementing an inter-depositary transfers initiative that will facilitate the electronic movement of securities from one CSD to another. The regulators are working on a depositary receipts initiative that also aims to facilitate trading in cross-listed securities.
Membership dynamics have complicated decision making. Having Kenya in the group, a more advanced member, can be a double-edged sword. It helps transfer knowledge to and raise capacity of other members, which have modeled many of Kenya’s regulations and systems, but causes some wariness among other members about being dominated by Kenya. Member alliances with regional groupings outside the EAC, for instance Tanzania with SADC, can create conflicting objectives in ways that can delay EAC decision-making.

Consensus based decision making, which is needed in a regionalization effort, often slows down progress at the EAC Secretariat, exacerbated by the presence of diverse representatives in committees such as CMPIC, which come with varied interests and perspectives.

Differences in capacity levels among Partner States in terms of technical and financial resources and institutional set-ups lead to challenges in implementation of decisions at the national level.

Coordination between the regulators and exchanges can be less than optimal at times, often delaying regional initiatives and duplicating efforts. In some instances, EASRA and EASEA may pursue parallel initiatives to address a similar challenge without sufficient coordination like, for example, respective regulator- and exchange-led bilateral initiatives, both working to address the low liquidity in cross-listed securities.

Conclusion
Regionalization in East Africa has the potential to improve access to debt and equity financing and investment opportunities for the five involved countries. A number of elements have helped make the EAC an appropriate place to move the regionalization agenda forward, among them a strong business case supported by shared historical and cultural aspects that have created a natural propensity for cross border business and market activities in the region and, at least at the highest policy level, strong commitment to change.

The EAC has taken many positive steps to move its capital market regionalization process forward and ranks as one of the more successful initiatives in Africa, given its progress in many top-down and bottom-up actions, high-level commitment and long-term vision to achieve regionalization in a sustainable and impactful way.

Contributor’s Profile
Tamuna Loladze

Tamuna Loladze is a Securities Markets Specialist with the World Bank-IFC Capital Markets and Corporate Governance team, where she works on technical assistance projects related to developing government and non-government bond markets in emerging market countries. Prior to joining the World Bank Group, she worked as a financial associate at A.G. Edwards and before that, as an equity trader at Deutsche Bank. She has also held short-term consulting positions with Emerging Markets Group and NASD (now FINRA), where she worked on private sector and capital markets development projects, respectively. Tamuna has an MBA and a Master of Science in Foreign Service from Georgetown University.

Evans Osano

Evans Osano is a Senior Securities Market Specialist with the World Bank-IFC Capital Markets and Corporate Governance team, where he works on technical assistance projects related to developing government, non-government bond and equity markets in emerging market countries. He is also Head, Efficient Securities Markets Institutional Development (ESMID) Africa.

Before joining the World Bank Group, he served as a Vice President, Head of Investments/Chief Investment Officer at AIG Global Investment Group where his responsibilities included managing a pan-African total return fund that was a pioneer investor in debt and equity markets in Africa. Evans started his career at the Nairobi Securities Exchange were he was responsible for trading and clearing & settlement operations respectively.

Evans attained his Master of Business Administration (MBA) and Master of Philosophy (MPhil) degrees from the Maastricht School of Management, Netherlands. He is also a Certified Public Accountant (CPA).
Debunking the Biggest Myths of Corporate Governance in Listed African Equities.

“The great enemy of the truth is very often not the lie, deliberate, contrived and dishonest, but the myth, persistent, persuasive and unrealistic.” . . . John F. Kennedy

Introduction
Myths tend to thrive in environments of imperfect information. Africa and its financial markets certainly fall into this category. The most persistent of these ‘African investment’ myths have an element of truth that makes them intuitively appealing, yet they fail to pass muster under the close scrutiny of empirical evidence. We test the ‘urban legends’ of corporate governance in African equity investment against the hurdle of empirical research and objective analysis and conclude that these myths are ‘busted’ when weighed against factual data. In support of our case, we present evidence and case studies to debunk the following myths:

Myth #1: “There are not enough well-governed, high-quality African companies to invest in. Management quality and corporate governance is generally poor”: We lay this fairy tale to rest by outlining the investable universe of over 900 Africa ex-SA dominant companies and by drawing on our first-hand experience of high-quality companies in Africa ex-SA over the past 5 years. The low success rate of international companies who have entered Africa over the past decade on the assumption of inferior, poorly-governed domestic competitors provides credence to our case.

Myth #2: “African investments in Africa are ‘off the page’ risky from a corporate governance perspective”: We distinguish between socio-political risk (including country governance risks), investment risk (on a stock-specific basis, including corporate governance risks) and portfolio risk. Unlike socio-political risk, investment risk includes the key component of price. The case study of post-revolution Egypt in 2011-2012 is a key example of short-term perceptions of country governance risk leading to great opportunities for contrarian investors.

Myth #3: “You can’t do sustainable investment in African listed equities”: We have often faced the question of how it is possible to do sustainable investment in Africa; the underlying assumption being that companies operating in Africa are not sophisticated enough to manage material environmental, social and corporate governance risks and opportunities that face their businesses. Nothing could be further from the truth! Our own experience suggests that the potential to generate ‘sustainability alpha’ is in fact far greater in Africa than it is in more mature markets, and that the difference between disclosure and reality can only be reliably uncovered through first-hand due diligence.

Myth #4: “Foreign multinationals in Africa are better governed than local, family-owned businesses”: The listed equity market in Africa presents cases that often contradict traditional corporate governance wisdom. For example, family-owned, controlled and managed businesses with intergenerational time horizons and material, direct shareholdings may present far lower governance risks to long-term investors than listed companies controlled by a foreign multinationals where management have little incentive to grow the value of the local subsidiary.
Myth #1: “There are not enough well-governed, high-quality African companies to invest in. Management quality and corporate governance is generally poor”.

Myth: This fairy tale inevitably comes in the form of a question from foreign investors who have typically never set foot in Africa (except perhaps on a safari holiday) and have certainly not met the senior management teams of Africa-dominant companies, nor witnessed the corporate governance, asset quality and earnings growth prospects of these companies. The assumption that Africa-dominant companies and their management teams are somehow inferior to others around the world is so preposterous that a rational observer would find it hard to believe that sophisticated investment professionals and seasoned business people could hold this perception. Yet, African countries are littered with the bones of international companies who entered African markets on the assumption that poorly-governed domestic competitors would yield easily and offer up rapid market share gains at high margins (consider the low success rate of South African companies in the rest of Africa as a prime example).

Reality: Let’s put the myth that ‘there are not enough companies to invest in’ to the test. Our investment universe includes all Africa-dominant companies (excluding South Africa). This definition includes any listed company with the majority of its economic footprint (by assets, revenues, operating profit) in Africa ex-SA, regardless of where it is listed. By our calculations, 901 companies meet this criterion. If we narrow this down to companies with a market capitalisation of greater than USD10m, the number comes down to 767 companies. Based on our minimum liquidity requirements, we reduce that universe to about 300 companies. Since we typically aim for high-conviction, concentrated portfolios of less than 25 stocks (with most of our portfolios concentrated in the top 10), we only need to be invested in less than 5-10% of the investment universe at any point in time. Our job is to find the top 5% of Africa’s well-governed, high-quality companies that are trading at material discounts to their fair values and thereby warrant material overweight positions in our portfolios.

Case Study: Since we founded Sustainable Capital 5 years ago, our investment team has conducted over 650 detailed management interviews and due diligences on Africa-dominant companies in their home countries, including detailed corporate governance assessments and forensic investigations of potential conflicts of interests with shareholders. We see daily examples of world-class companies across all industries with top notch management teams, often operating ‘below the radar screen’. By any objective measure, these companies are often way ahead of best international practice in terms of corporate governance, operating efficiency, innovation and asset allocation.

Myth #2: “Investments in African listed equities are ‘off the page’ risky from a corporate governance perspective”.

Myth: A common premise is that African countries are riddled by socio-political risk, armed conflict and corruption (country governance risks) and that companies suffer from poor corporate governance, making it difficult to secure a fair return by investing in listed companies. Investments in African listed equities are often seen as ‘off the page’ risky by uninformed investors, who believe that the geography should play no role in the portfolio of a rational investor due to the risk of capital losses.

Reality: A key underlying assumption of this myth is that corporate governance and socio-political risk is equivalent to investment risk. This is clearly an incorrect premise, since investment risk is a function of both fundamentals (such as country or company risk, or growth prospects) as well as the crucial element of price. From a fund manager’s perspective, we believe that investment risk in Africa comes from: a) Not knowing what you are doing (not knowing enough about the company that you are investing in); b) The price paid for an asset (a share of a company, in our case). The former risk source can be mitigated through detailed company research and due diligence, which should include detailed corporate governance research. The latter can only be overcome through a disciplined investment process.

In terms of governance at a country level, Sustainable Capital measures country quality according to a ‘country sustainability rating’ using quantitative metrics, including factors such as rule of law, control of corruption, government effectiveness, political stability, infrastructure quality, human capital, voice and accountability, regulatory quality and environmental footprint. Analysis of our historical data over the period 1995-2012 reveals that African countries have made dramatic structural and long-term improvements in the operating environment for businesses over the past 10-15 years.

Case study: The Nigerian banking crisis that unfolded in 2009 represents a classic case of mispriced corporate governance risk. Investment returns in USD measured from 1 January 2009 to 30 September 2013 range from -92% for the worst-governed banks to +995% for the best-governed banks (see Nigeria Banking Crisis Chart below). The quality of the corporate governance of these banks translated directly into financial performance (through dramatic market share gains and losses) and ultimately into shareholder value. Yet, when we consider valuation levels in 2009 on a price to book basis, the corporate governance risk that was clearly inherent in the poorly managed banks was totally mispriced by the stock market, with the worst-governed banks trading at a premium to their better-quality peers.

Myth #3: “You can’t do sustainable investment in African listed equities”.

Myth: In 2008, Sustainable Capital set out to pioneer sustainable investment in listed African equities (outside of South Africa). We define ‘sustainable investment’ as the integration of material environmental, social and corporate governance factors into investment management practices with the conviction that they have a substantial effect on the long-term financial performance of companies and, ultimately, on shareholder value. Over the past 5 years, we have often faced the question of whether it is possible to do sustainable investment in Africa. The assumption behind this question is that companies operating in Africa are not sophisticated enough to manage material environmental, social and corporate governance risks and opportunities that face their businesses over the next 10-20 years.

Reality: Nothing could be further from the truth! In fact, we would argue that the potential to generate ‘sustainability alpha’ (outperformance generated by
exploiting mispriced sustainability risks and opportunities) is far greater in Africa ex-SA than it is in more mature markets, where disclosure is more freely available. It seems that few listed equity investors in Africa are conducting true long-term investment research. Apparently, Africa’s listed equity markets have not yet reached the size where they justify the dedicated efforts of international, sustainability-focused researchers and asset managers.

However, our experience provides clear evidence that long-term, sustainability factors are materially mispriced in African equity markets, which is not particularly surprising in an environment of imperfect information. There is a wide gap between disclosure and reality in African companies. Equally, there is a major divergence in company quality. Some companies masquerade in their formal reports as exemplary corporate citizens, yet a due diligence of their operations often reveals a different picture. At the other extreme, there are incognito African companies that are ‘flying below the radar screen’ with limited reporting. Under close scrutiny, it becomes clear that they are world-class, cutting-edge companies ahead of best international practice on issues ranging from labour practices and corporate governance to environmental management.

The only reliable way to differentiate between ‘spin doctor’ pretenders and companies of authentic quality is first-hand due diligence conducted on the ground in African countries. The reality is that sustainability disclosure and third-party research is probably 10-20 years away from the point where high-conviction investment decisions can be supported purely by desktop research conducted from a stuffed chair in an air-conditioned office. Sustainable investment in Africa certainly makes sense from our perspective, as we view this long-term research as mutually inclusive with investment outperformance.

**Case study:** Having conducted over 650 sustainability audits on Africa-dominant companies over the past 5 years, we have encountered many examples of inefficiently priced sustainability factors: Commercial banks where differences in the quality of corporate governance have been chronically mispriced; real estate companies with contaminated groundwater liabilities equivalent over 50% of their market values; mining companies where the 30-year geological mine life has been rendered irrelevant by the lack of ethical backbone in the management team (with subsequent loss of the company’s title); and, industrial manufacturers where poor labour practices and subsidised energy costs have later unwound in material cash cost escalations and margin compression.

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*24 This 'integration approach' should not be confused with simple negative screening by sector or geography, which often detracts from long-term sustainability outcomes through unintended negative impacts on stakeholders (including investors).*
The listed equity market in Africa presents cases that often contradict traditional corporate governance wisdom. For example, family-owned, controlled and managed businesses with intergenerational time horizons and material, direct shareholdings may present far lower governance risks to long-term investors than listed companies controlled by a foreign multinationals where management have little incentive to grow the value of the local subsidiary.

Different controlling shareholding structures demand a case-by-case, company-specific research approach that includes an analysis of sector dynamics, the historical and cultural context of corporate governance practices in specific companies and countries, and the economic value derived from the controlling shareholder’s input. Sustainable Capital’s long-term investment approach and our emphasis on downside risk protection makes the analysis of corporate governance a key component of our company analysis, valuation and investment decision-making process.

Case study: The subject of ‘management fees’ is a good example of poor corporate governance that is common practice amongst listed subsidiaries of foreign multinationals. Minority shareholders need to be aware that parent companies may unfairly tap the economic profits of their listed subsidiaries (for example, through revenue-sharing arrangements) before the stage at which minority shareholders participate, which is ultimately at the level of earnings and cash dividends. In most cases, we find it difficult to justify the level of fees charged by parent companies based on an arm’s length assessment of the economic benefit of goods and services provided. The difference between the ‘management / service / brand fees’ paid to the parent company and the intrinsic value of these assets amounts to a tax on minority shareholders. Our own research indicates that these fees can amount to between 15 and 25% of the company’s profit before tax, with questionable benefits from the group holding company. At Sustainable Capital, we believe it is important to integrate this corporate governance risk into company valuations through appropriate discounts.

Conclusion
We have tested some of the ‘urban legends’ of African equity investment against the hurdle of empirical research and objective analysis. Having put some entrenched assumptions to the sword, we leave it to investors to draw their own conclusions in light of the evidence and case studies presented. We find that, though generally based on some element of truth, these myths are ‘busted’ under close scrutiny when weighed against factual information. We present evidence and case studies to debunk the myths that “investments in African listed equities are ‘off the page’ risky from a corporate governance perspective”, “there are not enough well-governed, high-quality African companies to invest in”, “you can’t do sustainable investment in African listed equities” and “listed subsidiaries of foreign multinationals in Africa are better governed than domestic, family-owned businesses”.

Contributor Profile

Greg heads up Sustainable Capital’s investment, manages the Africa Alpha Fund and co-manages Sustainable Capital’s Africa Sustainability Fund, Nigeria Fund and Africa Consumer Fund. Greg has led the development of Sustainable Capital’s investment process, which relies on proprietary, in-house research with an emphasis on detailed industry- and company-specific analysis and valuation. Greg has extensive experience in sustainable investment research and has developed a strong track record of investment decision-making in listed African equities over the past 9 years. Since co-founding Sustainable Capital 5 years ago, Greg has been travelling into African countries to conduct detailed, bottom-up research on companies. Greg is a CFA Charter holder with over 14 years of industry experience. He is a graduate of the University of Cape Town, having completed a Masters Degree in Sustainability and subsequently an MBA from the Graduate School of Business.
Our offerings include:

Risk Management Advisory
- Risk Management framework
- Enterprise Risk Management
- Stress and Scenario Testing
- Credit and Counterparty Risk
- Market Risk Management
- Operational Risk Management
- Insurance Risk Management
- ALM and Liquidity Risk Management
- Reputational Risk Management
- Political Risk Assessment
- Regulatory Risk and Compliance
- Business / Commercial Risk Management
- Project Cost Analysis & Risk Assessment

Business Consulting
- Business Strategy
- Corporate Strategy
- Regulatory Strategy
- Bank and insurance regulatory balance sheet optimization
- Independent pricing and valuation models & tools
- Performance Measurement (developing performance and risk metrics for different asset classes)
- Analysis of capital market products
- Training and Human Capital Development (bespoke training and seminars on financial products, concepts and risk management)

Research & Publications
- Publication of ACM-Insight! magazine
- Bespoke Research – country and sector
- Bespoke Analysis – products, concepts
Biography

Sunil Benimadhu has been in office as Chief Executive of the Stock Exchange of Mauritius (SEM) since May 1998 after having held various positions in the Securities Industry. Sunil has played an instrumental role in uplifting the operational, technical and regulatory infrastructure of the SEM and contributed to its emergence as one of the leading Exchanges in Africa. Sunil is currently the President of the African Securities Exchanges Association (ASEA) an association of 23 Exchanges operating on the continent. Sunil is a regular speaker on emerging markets and on African markets in international stock exchange conferences.

Before joining the Stock Exchange of Mauritius, Sunil Benimadhu worked in the Treasury Department of the African Development Bank (ADB) from February 1997 to April 1998, where he managed the Bank’s assets on international fixed-income markets. Sunil Benimadhu was the General Manager of the National Mutual Fund Limited between December 1992 and February 1997. He played an instrumental role in the structuring, marketing and setting up of the National Investment Trust Limited, one of the largest investment trusts listed on the Stock Exchange of Mauritius.

Sunil Benimadhu holds a MBA in Finance and Investment from the University of Illinois, United States. He also holds a D.E.A in Development Economics and a Maîtrise in Macro-Economics from the University of Aix-Marseille, France.
ACM-Insight!: As the Chief Executive of the Stock Exchange of Mauritius (SEM), please tell our readers what your main aims and objectives are and are there any major recent or upcoming events?

Mr. Benimadhu: My objectives have always been to work relentlessly towards the improvement of the operational and regulatory framework of the exchange with a view to offering better services to our different stakeholders, innovate and bring new products to the market, enhance the visibility of the SEM at the international level, reach out to international investors and bring our contribution to the national agenda of positioning Mauritius as an attractive and competitive international financial services centre.

In recent years, we have focused on the internationalisation of the SEM’s platform to gradually move away from an equity-centric domestic exchange to a multi-asset class international exchange. All the changes that we have brought since 2010 to our operational and regulatory set-up are geared towards this internationalisation agenda.

ACM-Insight!: In 2005, under your leadership, the SEM became a member of the World Federation of Exchanges. In your view, how has this impacted the development of the SEM?

Mr. Benimadhu: The attainment of Membership status of the World Federation of Exchanges (WFE) in 2005 indeed constitutes an important milestone that has enabled the SEM to join the league of stock exchanges that are compliant with the stringent standards and market principles established by the WFE. The WFE is a central reference point and standards setter for exchanges and the securities industry in the world. Membership identifies the SEM as having assumed the commitment to prescribed business standards, recognised as such by users of exchanges, as well as by regulators and supervisory bodies. This has led to 2 further recognitions: In March 2010, the SEM was designated by the Cayman Islands Monetary Authority (CIMA), an Approved Stock Exchange by virtue of its membership of the World Federation of Exchanges for the purposes of CIMA’s Mutual Funds Law, Banks and Trust Companies Law, Insurance Law, Companies Management Law and Securities Investment Business Law. The CIMA recognition undoubtedly raises the profile of the SEM as a well-structured and properly regulated Exchange and enhances SEM’s position as an attractive Listing venue for global and specialised funds. With effect from 31 January 2011, SEM has also been designated by the United Kingdom’s Her Majesty’s Revenue and Customs (HMRC), as a ‘Recognised Stock Exchange’ under section 1005 (1) (b) Income Tax Act 2007.

These international recognitions are important as they comfort both local and international investors that the SEM is a well regulated exchange and adheres to international standards. They also enhance our attractiveness as a listing, trading and capital-raising platform. They have also opened up the space for the SEM to move up the value-chain of products listed and traded on our platform.

ACM-Insight!: In addition to the Official Market, the SEM also operates a second market, the Development & Enterprise Market (DEM) which is aimed at Small and Medium-sized Enterprises. What has been the impact of the DEM since its creation in 2006?

Mr. Benimadhu: The Development & Enterprise Market is a relatively new initiative launched in August 2006. It is a market designed for junior and newly set-up companies which possess a sound business plan and demonstrate a good growth potential. It is meant for companies wishing to avail themselves of the advantages and facilities provided by an organised and regulated market to raise capital to fund their future growth, improve liquidity in their shares, obtain an objective market valuation of their shares and enhance their overall corporate image.

There are presently 48 companies listed on this market with a market capitalization of nearly MUR 52 billion as at 31 October 2013. Total capital raised on the DEM since the creation of this market amounts to MUR 5.7 billion. A time-series analysis reveals that the performances of the top 20 companies listed on the DEM since its creation only seven years ago, have been commendable. The annualised total return of the top 20 DEM companies from their dates of listing up to end October 2013 ranges from 15% to 48%. During the same time frame, the total return to shareholders of the top 20 companies varies approximately between 279 % and an astounding 1720 %.

ACM-Insight!: The SEM has a reputation for innovation and won Africa investor’s “Most Innovative African Stock Exchange” award in 2011 and 2012. What have been your notable innovations and where do you see the SEM in five year’s time?

Mr. Benimadhu: The Stock Exchange of Mauritius (SEM) won the Africa Investor’s “Most Innovative African Stock Exchange of the year Award” in 2011 and 2012. The Award was given on the basis of a number of criteria, including, amongst others, initiatives implemented by the Exchange to embrace new areas of development, programmes in place to enhance the services it provides to its key stakeholders and compliance of the Exchange’s regulatory and operational set-up with international standards.

This Award for the second consecutive year comes as recognition of the numerous initiatives taken recently by the SEM to scale up its activities and move up the value-chain of products and services it offers. Some of these innovations introduced recently can be summarized as follows:

- The introduction of a multi-currency listing, trading and settlement platform that allows issuers to list and trade their securities in USD, Euro, GBP and ZAR and settle the underlying transactions in these four international currencies.
- The implementation of competitive rules to cater for the listing of a wide spectrum of Global funds including, amongst others, specialized funds, professional funds, real-estate funds and other focused fund structures.
- The adoption of competitive rules to attract the listing
of Global Business Companies on the Exchange and use the Exchange platform for capital-raising. Listing Rules have also been introduced to cater for the listing and trading of specialist debt-instruments targeted to qualified institutional and retail investors.

- The introduction of depositary receipts rules targeting African issuers that wish to raise capital from international investors.

In five years’ time, we expect to see our internationalisation process in full swing with a number of international companies, Africa-focussed products and other specialised products listed and traded on our Exchange. We also expect the value of transactions effected in USD and other international currencies to increase substantially, confirming thereby our internationalisation strategy.

**ACM-Insight!**: You are also the President of the African Securities Exchanges Association (ASEA) the aims of which are to enable cooperation amongst African exchanges, help facilitate the process of financial integration, mobilise capital and accelerate economic development in Africa. What is your assessment of how ASEA has performed against this objective?

**Mr. Benimadhu**: The African Securities Exchanges Association (ASEA) has raised its profile in recent years, growing in number and succeeding in attracting new Exchanges to join the Association. ASEA has also successfully implemented a number of key initiatives to raise the visibility of African Exchanges at the international level and has actively participated with other institutions to sponsor events linked to the promotion of African Stock markets.

ASEA is emerging as the cell of reference and choice for investors to obtain first-hand information on African stock markets. The ASEA website http://www.african-exchanges.org/ has been revamped to give up-to-date information to investors who want to understand the performance of African markets characterizing the African Exchange Sphere.

As your question rightly depicts, ASEA is also a forum which emphasises mutual cooperation among the member exchanges, facilitates information-sharing and intelligence-gathering. It allows member exchanges to learn from each other’s experience and work towards regional and/or continental linkages.

**ACM-Insight!**: What do you see as the role of stock exchanges, and capital markets more broadly, in addressing the significant infrastructure deficit in Africa?

**Mr. Benimadhu**: Africa has embarked on a process of economic transformation which has yielded sustained growth in a number of African countries during the last decade. Africa still has massive infrastructure needs. It invests only 4% of its GDP in infrastructure. Bridging the infrastructure gap could increase GDP growth by an estimated 2 percentage points a year.

Africa’s current and future growth (+5 %) is expected to be underpinned by massive sector investments in infrastructure development, Agro-business, telecommunications, mining etc. Private and Public sector entities in Africa will require funding to support their growth requirements.

As the experience of other emerging regions of the world underscores, Stock Exchanges have a very important role to play as a key funding agent for both African Governments and private sector entities. Stock Exchanges in Africa can provide centralised and organised platforms for these private and public sector entities to raise capital to fund their future growth. The important role of Stock Exchanges and Capital Markets to fund the infrastructure deficit and fund the requirements of other sectors in Africa is comforted by some recent interesting developments. Asset allocation at the international level is growingly shifting towards emerging and frontier markets. African Stock Exchanges are expected to benefit from this asset allocation shift and witness increased portfolio flows from international institutional and retail investors. A number of private equity funds have been created to invest in big projects in Africa. Private Equity as well as dedicated Africa funds to invest on Africa’s Stock Exchanges have been on the rise and will gain increased momentum in the coming years. All these augur well for the funding of Africa’s growth and I expect growing capital markets in Africa to channel some of these funds towards infrastructure financing.

**ACM-Insight!**: In your view, how developed and liquid are Africa’s Equity Capital Markets?

**Mr. Benimadhu**: We need to look at African Stock Exchanges from a dynamic perspective. They may look small and relatively illiquid today in relation to other larger emerging markets and developed markets but they have grown during the last five years, have performed very well and have seen their liquidity improve. We should expect the growth of these markets to accelerate in the coming years, reflecting not only the solid earnings’ growth of listed companies but also the attractive growth perspectives of African economies. Consequently, we should expect these markets to move up the value-chain in terms of products traded and liquidity to improve significantly from their current levels.

**ACM-Insight!**: The African Union, the African Development Bank and others have in the past muted the possibility of creating a pan-African stock exchange. What are your views on this idea (highlighting any merits and demerits)?

**Mr. Benimadhu**: The creation of a Pan-African Exchange, though conceptually attractive, is difficult to realise as the path leading to its implementation is littered with obstacles. Some of these obstacles relate to the existence of Exchange control in many African countries, the non-convertibility of currency amongst African countries, differential regulatory standards and nationalistic ambitions, just to name a few. I rather envisage African Stock Exchanges to establish linkages among themselves through the use of technology to broaden and deepen the Exchange Space in which they operate.
ACM-Insight!: Africa’s demographics are astounding. Presently, there are one billion people living in Africa and this is expected to double by 2050, the majority of whom will be young people. This is a two-sided coin opportunities and threats. Do you have any suggestions on what governments and policymakers should be doing to manage the threats and capitalize on the opportunities?

Mr. Benimadhu: Africa is the world’s second fastest-growing continent. Africa will have one of the youngest populations by 2050, with forecast population of 2bn and will have overtaken both India (forecasted at 1.6bn) and China (forecasted at 1.4bn). Rapid population growth means that Africa’s population will be younger than that of every other region in the world. The continent’s resources, youthful age structure and growing population, and increasing middle class and consumers are major resources for the world. Some of the larger economies with expanding middle classes such as Nigeria, South Africa, Kenya and Ghana, are increasingly attracting investment to their growing consumer sector, including retail and consumer banking.

However, Africa’s growing population means that more jobs need to be created at a sustained space to absorb all the qualified and non qualified youngsters that are expected to flood the job market in the coming years. Furthermore, while Africa continues to grow faster than the global average, much remains to be done to raise the quality of life for the many who live in extreme poverty. I think that one of the key challenges that African Governments will need to grapple with is the promotion of inclusive growth that can help propel a growing middle class at the forefront of the change process on the continent, create the space for the emergence of successful SME’s that can help to create jobs for the young people and unleash the virtuous circle of sustained growth and low unemployment.

ACM-Insight!: How would you like to be remembered?
Mr. Benimadhu: I would like to be remembered as a committed professional who’s strived to bring value and make a difference to the different institutions that I’ve worked for.

ACM-Insight!: What do you do in your spare time (when not busy managing SEM)?
Mr. Benimadhu: I like to spend quality time with my family. I enjoy social gatherings with friends. I love sports and try to practice team sports like football every week. Sports on TV, reading and watching movies make up the rest of the spare time.

ACM-Insight!: Thank you very much for granting this interview.
EXCLUSIVE GUEST FEATURE

By Anne GUIMARD
President, FINEO Investor Relations Advisors & The School of Investor Relations

Embracing Environmental, Social and (corporate) Governance as a value maximizing strategy

ESG as a key differentiator in the global competition for capital

With Africa getting bigger and bigger everyday on the radar screen of fund managers worldwide, global competition for capital is heightening. Just as in any competition, there will be winners and losers. In this particular instance, it is quite likely that the winners will be the ones who will not only have an outstanding financial track record, but also who will have been able to effectively communicate a compelling investment case, both in form and in content.

In order to win this contest, companies should therefore be well advised to adopt a holistic approach to the way they showcase their past performance and future prospects. Not everything is in the numbers and long gone are the days when it was enough to post good earnings to count on the stock price to take care of itself. In today’s world, and most certainly in tomorrow’s as well, senior management and boards of directors need to be able to articulate their companies’ competitive differentiators to attract and retain the investors they need to fund future growth projects and expansion strategies.

Environmental, Social and Governance issues are much more than the latest fad in Investor Relations and financial communications. Come to think of it, many companies already have such policies in place, because they have recognized their value or, as is sometimes the case of industrial groups, because they have paid a dear price not to have them, on the occasion of highly publicized pollution related trials or misconduct with their employees. All of which may in turn have cost them in profitable contracts and/or in reputation damage, if not outright loss. As a consequence, their valuation may have lastingly suffered.

Certain countries have made the ESG reporting mandatory, which can take various forms such as the integrated reporting mandated by the KING III governance code in South Africa in 2009 or sustainability and governance practice related reports in certain European countries like France (Grenelle II Act). Actually, according to a study by Ernst & Young LLP and the Boston College Center for Corporate Citizenship, “as of 2012, the governments or stock exchanges of 33 countries have required or encouraged some level of sustainability reporting”. A strong example is the Hong Kong Stock Exchange which made sustainability reporting recommended best practice for listed companies starting from the end of 2012.

But it is not because it is not (yet) required by your local exchange or regulatory authorities that you should not start adding ESG metrics and messages to your corporate communications and Investor Relations strategies. In this respect, it is worth having a look at ArcelorMittal’s quarterly earnings releases which always start with health and safety performance metrics, before discussing financial indicators. Fair enough, companies will argue that investors usually do not ask ESG related questions when they meet with them, unless they have a specific ESG focus. It does not however mean that they are not interested.

Then, of course, it is critical to understand which value term exactly we want to maximize and that goes far beyond the stock price.

Ten reasons to adopt and disclose ESG policies and metrics

The whole concept of ESG reporting and disclosure can be perceived as an additional layer of regulatory constraints and hence, join the list of necessary evils that senior executives, the world over, often consider listing and reporting rules to be. True, the requirements are not always adequately tailored to a given

25 Value of sustainability reporting.
industry or to the actual size of companies which may be ill-equipped to track and provide the required data. However, nothing prevents them from proactively showcasing the ESG-related indicators that they think are most relevant to the nature of their business, their history or capital structure. They can also decide to anticipate the advent of additional legislation of such requirements and start investing in the systems to do so, thus progressing on their learning curve at their own pace.

ESG has many things in common with the value of having a proper Investor Relations strategy in the sense that it is a major corporate responsibility which involves:
- Establishing and maintaining trust... through good times and bad
- Retaining existing shareholders, private individual as well as institutional investors, domestic and foreign ones alike
- Motivating and boosting «stakeholders», not only «shareholders»
- Winning over new targets, be they potential customers or acquisitions
- Conveying the company’s identity to a wide range of constituencies, internally and externally
- Contributing to (re)building corporate reputation
- Providing all relevant information in a timely manner to achieve adequate valuation.

But what type of value are we actually talking about? At any point in time in its life cycle, a company might want to maximize any or all of the 10 value terms below, which are exactly the same 10 reasons why ESG, like Investor Relations, is no longer a “nice-to-have” but a “must-have” component of corporate strategy:
1. Attracting and retaining employees
2. Being better positioned than competitors
3. Diversifying the shareholder base
4. Enjoying broader access to capital to fund development
5. Issuing securities at an attractive price at any time
6. Limiting excessive reaction to adverse news flows
7. Preventing hostile bids and shareholder activism
8. Providing liquidity
9. Raising visibility and increase corporate reputation
10. And, last but not least, reducing cost of capital through increased valuation.

Still doubtful? Well, read this: “Plan sponsors, particularly public pension funds in Europe, are increasingly focusing on environmental, social and governance issues. So far, most fund managers pay only lip-service to this. But momentum is building and companies with superior ESG policies and disclosure might start to outperform. After all, who wants to buy a company with poor corporate governance, which pollutes or treats its staff badly?”

### Contributor Profile

A Certified Financial Analyst and a PhD in international finance from the University of Paris-Dauphine, Anne Guimard is the Founder and President of FINEO Investor Relations Advisors and The School of Investor Relations. Following nearly two decades of experience as a Chief Investor Relations Officer at multi-listed groups and as financial analyst in equity research and Mergers & Acquisitions at leading investments banks, she founded FINEO Investor Relations Advisors in 1999. With offices in London, Paris and Johannesburg, the firm offers companies the independent, high value-added advice they need to effectively compete for capital on a global scale. One of FINEO’s key differentiators is that it has always put training and international best practices at the heart of its IR strategy consulting practice. This is further evidenced with the creation of The School of Investor Relations, a uniquely innovative training portal offering onsite and online Investor Relations training courses. To this date, FINEO has attracted more than 1,300 companies in more than 60 countries.

Author of several books on Investor Relations, Anne Guimard regularly speaks at international conferences. Anne serves on the Board of Directors of the National Investor Relations Institute in the USA, the world’s largest organization for Investor Relations professionals. She is also a member of the Investor Relations Society, the French Securities Analysts Association and the French Institute of Directors.
The increasingly close ties between Africa and London were in sharp focus at an African Capital Markets conference I attended earlier this month in Nigeria. Issuers and investors it seemed, could sense the enthusiasm and appetite for listings rapidly returning to global markets.

That enthusiasm is particularly well founded in Africa. The continent’s unbridled growth continues apace, as does its diversification away from traditional sectors in the extractive industries. Alongside the usual market chatter and gossip, I detected among delegates a greater understanding than ever of the power of African markets and London to work together.

There’s nothing new in that. London Stock Exchange has a long history of supporting the funding efforts of African companies and helping the development of African exchanges. There are 118 African companies listed in London. 27 on the Main Market (5 in GDR format) and 89 on AIM. £4.2 billion raised by African companies in new and further issues since 2008. An increasing number of Africa-focussed ETFs offer investors an opportunity to build a wide exposure to African stocks. There are also wide range of AIM-quoted, closed-ended funds which track selected opportunities by country or pan-Africa by sector. London Stock Exchange Group, through our technology arm has developed a close partnership with a number of African exchanges providing state-of-the-art exchange technology to help jump-start their development and attract institutional investors to their market. To date we have worked with 12 exchanges in Africa including Johannesburg, Egypt, Botswana, Nairobi and Dar Es Salaam.

We will continue to do work with African exchanges and issuers in this manner but we are also developing new mechanisms, to help a broader range of companies and markets connect more closely to the deep pool of international investment capital in London. In recent months we have sensed a new-found interest in a cross-exchange trading and settlement mechanism between London and a number of the larger African markets.

The mechanism, for companies listed as ordinary shares on both markets, could provide a benchmark for issuers seeking an IPO on either or both exchanges. This “dual primary listing” structure would help facilitate cross-border dual listings where the liquidity pools in London and an African market are linked via common central depositaries.

Though still a development concept, one can understand very clearly how such a construct would suit an Africa-domiciled entity keen to retain it’s indigenous status and benefit from it’s domestic market as well as a global market like London. Or indeed, a UK company seeking to list in Africa and attract a local shareholder base. The objective would be to ensure a market infrastructure that is this efficient and facilitating a liquid market (in Africa and London) resulting in transparent pricing across both exchanges. Without this seamless trading mechanism for cross-exchange trading, the risk is that investors could seek to arbitrage between two non-fungible markets – potentially to the detriment of investors who are unwilling or unable to adopt such a trading strategy. This solution seeks to address the imbalance of trade flow favouring one venue and thus encouraging “good” arbitrage and capital flow on both markets.

Seven of the world’s ten fastest growing economies are in Africa. That excites institutions and is having a very real effect on the investment strategies of those accessing London’s markets. At the same moment, more democratised and privatised economies flourishing across Africa mean heightened domestic demand for capital within the continent, as governments invest in infrastructure, and as new private businesses appear and grow. Ensuring that these projects, companies and entrepreneurs are well funded, in a transparent and well-regulated manner is a common goal for London Stock Exchange and its African counterparts.

We will continue to work together, in partnership with local exchanges, to ensure that Africa’s most ambitious companies continue to actively use our markets alongside those in Africa to raise growth capital from the widest pool of investors. London remains uniquely suited to facilitate Africa’s financing needs, as the continent continues to push forward, and realise its full potential within the global economy.

**Contributor Profile**

Ibukun Adebayo is responsible for the London Stock Exchange’s business development activities in Africa, the Middle East and South Asia. Ibukun spends a majority of his time working with companies, international advisors and regulators in the regions interested in London Stock Exchange’s markets.

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Abstract: The integration of global financial markets has caused concern that future returns and volatility may become increasingly correlated with developed markets. Risk-tolerant investors are exploring fledgling equity markets in far flung corners of the globe, hoping to find better growth prospects and investment returns that are less dependent on global integration. In this paper we review the potential for international diversification that frontier markets could offer relative to its more mature emerging and developed counterparts. We observe that the relative isolation and idiosyncratic nature of frontier markets could provide an attractive source of equity exposure while mitigating overall portfolio volatility.

Why This Matters: The seeming opacity of frontier markets can raise important questions for investors:
- How do the risk characteristics of frontier markets compare to emerging and developed markets?
- Are frontier markets an attractive source of diversification?
- Have frontier markets offered any diversification benefits since the crisis of 2008?

This article provides a first step in addressing these questions.

Introduction
Globalization appears inevitable. Financial markets around the world are becoming progressively integrated while emerging and frontier markets are capturing an increasing share of world market capitalization. Frontier markets include many publicly traded companies across the Middle East, Africa, Asia, and Europe. Although these markets have had limited analyst coverage, they may offer undiscovered investment opportunities.

International economies are becoming more closely linked, not only because of growing international trade and investment flows, but also due to the nature of international financial transactions, including the advances in financial systems technology and the growing influence of multinational companies from major industrialized nations. As noted in Khandani and Lo (2007), financial markets have become much more interconnected than they were a decade ago; hence the risk of contagion is now much higher than in 1998.

The recent financial crisis starting in 2008 (“crisis”) has increased instability in equity markets worldwide. Many of the most stable developed market countries suffered negative publicity owing to investment downgrades due to high levels of government debt and the slow pace of economic recovery. While this may have led many investors to seek opportunities outside of developed equity markets, it is also widely accepted that the risks involved could be substantial. While part of the risk may ease with the rebalancing of worldwide markets, other risks may be mitigated through appropriate...
Correlations (and Beta)

While it is true that cross-country correlations are on the rise, perhaps driven by the growing interdependence among international financial markets, many investors may be concerned that the benefits of international portfolio diversification are overstated. However, as seen in Figure 1, the data does not appear to be a cause for concern, at least not yet.

During 2003-2012, the MSCI World and MSCI Emerging Markets indices had an average correlation on a rolling 52-week basis of roughly 0.87. In contrast, frontier markets remain more local in character, heavily driven by internal economic and political dynamics. Although their correlations with the MSCI World rose during the financial crisis, the average rolling correlation between the MSCI Frontier Markets Index and the MSCI World is still at a relatively low 0.48. Although historical correlations may point to the diversification benefits of frontier markets, it is less clear in Figure 1 if this holds in the more recent, post-crisis period.

Figure 2 displays the Beta factor exposures of the stocks within the MSCI Frontier Markets, MSCI Emerging Markets, and MSCI World indices respectively, and provides a more lucid post-crisis picture. Although it appears the developed and emerging worlds are moving in lockstep, a striking feature of the pattern in Figure 2 is the consistently low beta factor exposures of the MSCI Frontier Markets Index compared to the MSCI Emerging Markets and MSCI World indices.

International diversification also has a sector diversification component that is based on observations of diversity in the sector composition of national markets across countries. As different sectors are less than perfectly correlated, investing in frontier markets may also enable the investor to take advantage of potential diversification effects driven by the sector composition of the portfolio.

Volatilities

At an aggregate level, frontier market stock returns tend to be driven by fundamental and country-specific risk drivers. While the appeal of investing in individual frontier countries may be driven by the potential for higher returns (compared to a more diversified strategy), similar to stock picking, country selection also represents unique investment styles. As noted in Ankrim and Ding (2002), it is well-known that a change in the level of cross-sectional volatility (CSV) of returns tends to exhibit a strong link with the distribution of active manager returns. Hence an upward-trending country factor CSV could suggest a widening potential for disparity in the performance of an asset manager who follows a country rotation strategy. Figure 3 displays a time series of historical CSV of monthly country factor returns for frontier, emerging, and developed countries. In the shaded region of the chart, the sharply upward trending “spike” in the CSV values for the frontier countries between September 2008 and March 2009 is rather striking. We examine this next.

It is likely that the spike in the frontier country factor CSV observed in Figure 3 is broadly indicative of a change in the frontier country cross-correlations, with the frontier economies experiencing differential (idiosyncratic) patterns in market movement. Intuitively, a rise in cross-sectional volatility could be broadly attributable to declining correlations (also see, Campbell, Lettau, Malkiel, and Xu (2001)).

We explore this further by examining the three-month (daily time series, average) rolling correlations of the top five constituents of the MSCI Frontier Markets Index - MSCI Kuwait, MSCI Qatar, MSCI UAE, MSCI Nigeria, and MSCI Argentina Indices respectively (figure 4). Note that these five countries account for approximately 2/3rd of the total free float adjusted market capitalization of the MSCI Frontier Markets Index. Hence it stands to reason that they would together also serve as a significant driver of the cap-weighted frontier market CSV spike that is observed between September 2008 and March 2009. Figure 4 focuses on this time period.

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27 Using GEM3L model, results as of March 30th, 2012 (http://www.barra.com/support/models/equity/datasheets/GEM3L.pdf)
28 Cap-weighted based on USD market cap, 3 months trailing average
29 This consists of 24, 21, and 25 country factors corresponding to the constituents of the MSCI World Index, MSCI Emerging Markets Index, and MSCI Frontier Markets Index, respectively.
30 This time period also coincided with the decline in Dubai’s real estate market. In particular, Dubai’s requests for a debt deferment following its massive renovation and development projects, as well as the late-2000s recession caused global stock markets to drop.
Interestingly, as figure 4 shows, the CSV spike coincides with a steady decline in correlations (from 0.31 to 0.05), corroborating the intuitive observation noted earlier. Such domination by the local-market-behavior may not be totally unexpected as the countries are located in different parts of the world and only really share the characteristics that they are for the most part relatively small and underdeveloped. Differing drivers of growth between the frontier countries adds credence to the observation of the idiosyncratic nature of these financial markets, pointing to a “developed market – frontier market” link that is perhaps tenuous at best.

Conclusion
Frontier markets have traditionally been closed to foreign investors because of local investment restrictions, high capital gains taxes, and illiquid currency markets. While many frontier countries have recently been promoting the maturity of their financial markets, various investment risks remain.

The lack of information about frontier markets may cause these stocks to be less efficiently priced than the blue chips that dominate institutional investors’ portfolios. In general, the less developed and less liquid a frontier market is, the less volatile its returns. This is true in part because markets that trade less frequently have fewer price movements captured by standard volatility statistics. However, this does not imply fewer risks. Because frontier markets are smaller and relatively insulated from one another, especially in comparison to their more mature “emerging” and “developed” counterparts, the consistently low levels of beta factor exposures observed indicate the inherent diversification benefits that they may provide.

Investors should be aware that a single-country or regional approach to frontier-markets investing could create significant sovereign and sector concentration risks; at the same time, it could provide the opportunity to participate in the growth of these countries and realize the benefits of diversification while taking advantage of market segmentation on a global scale. Financial theory implies an inverse relationship between the benefits of international diversification and the integration levels of global markets, and it seems there is currently little evidence of frontier markets integrating with the global marketplace. Meaning there is still diversity on the frontier.

References

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Africa’s image has come a long way since its portrayal as the “Hopeless Continent” by the Economist in 2000. Thirteen years later the Economist labelled the continent “Aspiring Africa”, as the many benefits of more stable societies and booming resource prices has led to fast-growing economies with improved living standards.

These improvements have caught the attention of investors from around the world looking for growth in a post-financial-crisis world. While Africa represents only 4% of global GDP on a purchasing power parity basis, its rate of change and the absolute level of growth in several African economies is proving attractive to investors with a long-term view of the role of Africa in the global economy. Africa’s small slice of global GDP is despite the population making up 14% of the world’s total, leaving significant room for growth to normalise Africa’s GDP over time.

In a new report titled Bright Africa RisCura Fundamentals recently analysed the areas of Africa showing growth and compared these to other emerging markets. For example, over the last three years, Niger has enjoyed a 10% growth in GDP; Zambia, Chad, Zimbabwe and Mozambique have seen 9%; the Democratic Republic of Congo 8% and Libya 7%. GDP growth in Africa as a whole has averaged around 5% for each of the last three years.

This has resulted in nominal GDP in 2012 of approximately US$2trn, roughly equivalent to the GDP of Italy and slightly above those of India and Russia respectively. On a purchasing power parity basis, this jumps to $3.3bn, approximately equivalent to Germany’s GDP on this basis.

Individual African markets remain small in comparison to the large emerging markets making up the BRICs. While the individual African economies are certainly not homogenous, grouping the 54 individual countries is useful for comparative purposes and Africa’s place alongside these fast-developing large countries is better understood. The population of the whole of Africa is just over 1 billion people, not far from the 1.3 and 1.1 billion of China and India respectively. This makes India the nearest comparison to Africa on a GDP per capita basis.

Africa’s GDP grew by an impressive 57% on a purchasing power parity basis (PPP) between 2005 and 2012, slightly ahead of Brazil and Russia at approximately 50%, but behind China and India, which doubled the size of their economies over this period. In contrast, the US and Japan, two of the world’s most developed economies, grew only around 20% over this period and consequently lost a significant share of global GDP.

In Bright Africa listed and private equity transaction multiples are also compared. This is a measure of the price of an investment, relative to the earnings of that investment – the higher the ratio the greater the premium paid for the company.

While this ratio is more commonly used in private rather than listed equity analysis, it applies across both asset classes, providing a way to compare them.

There are challenges present in listed equity markets in Africa, in particular the fact that, apart from South Africa, the majority of African stock exchanges do not closely represent the economic sectors that contribute to their countries’ GDPs.

For example, Africa’s second largest economy and stock exchange, Egypt, shows an obvious skew towards financials, which account for 29% of the exchange compared to the contribution of 7% this sector makes to GDP.

In Kenya and Nigeria, this disconnects between sectors making up GDP and the stock market sector composition is more pronounced. Financials, and banks in particular, dominate these exchanges yet they remain small components of the real economy. In many cases the main drivers of GDP are barely present on the listed market.

In Nigeria, the energy sector makes up 40% of the country’s annual GDP, but is not a significant component of the listed market. In Kenya, the energy sector makes up 10% of GDP, but only 3% of the stock exchange.

It should be noted that the mismatch of sectors represented on African countries’ exchanges, to the sectors contributing to GDP is even more pronounced in countries with smaller stock exchanges than the four major exchanges mentioned above.

Investing in listed equity may well be a...
part of an investment strategy for Africa, but this analysis demonstrates that an investor may not gain full exposure to the continent’s growth through this channel alone. Investors should consider supplementary routes to gain a more complete exposure to African growth.

More than GDP
A country’s GDP is not enough to determine the attractiveness of that country to private equity investment. The GDP of many African countries is concentrated in key sectors, and often within a few companies within these sectors. This is particularly true in the case of resource-based economies, where GDP may be derived from a handful of large companies operating within this sector. One way to assess the attractiveness of a country is to look at the combination of the size of the economy and its number of large companies. In order to do this, the GDP of a selection of African countries has been compared to the number of companies with revenues exceeding $50m within these countries.

African countries with a disproportionately high GDP compared to the number of large companies, may struggle to absorb private equity capital, as there may not be a sufficient number of target companies in which private equity firms can invest.

A country ranking high on this scale would have both a large economy and many large companies, implying that it would be possible for companies to achieve scale in the country. Consider the Nigeria-Angola example. While the Nigerian economy is much larger than that of Angola, it has roughly the same number of large companies, which may make their relative attractiveness more similar than an initial look at GDP would suggest. Nigeria’s oil sector is a very large part of its economy, but it is fairly concentrated in a small number of large companies, which pushes Nigeria above the trend line. Compare this to Morocco, which has a much smaller GDP than Nigeria, but has many more large companies and a more developed private equity market.

Private equity sector focus
African private equity, like listed equity, is by no means perfectly diversified. Private capital will follow the most attractive deals, and this tends to favour certain sectors at certain times, as opportunities arise. The value of private equity deals in Africa is weighted towards consumer discretionary, industrials and materials, which make up three-quarters of deals by number in the data set.

While deals in the financial sector are certainly a part of African private equity, the sector plays a much smaller role compared to listed markets where financials are prevalent. There are several private equity deals that took place in this sector prior to 2006 when the data set starts. There has certainly been a dip in interest in financials since the onset of the difficulties in the Nigerian banking sector in 2009.

The graph indicates a number of deals, albeit of small value, in the Healthcare sector. There appears to be growing interest in Healthcare around the continent after some high-profile successes in South Africa, and the changing demographics in many parts of the continent. Deals across many other sectors make up the balance of the data, including information technology and consumer staples. Based on this sample of deals, it appears that African private equity offers a different sector focus to listed equity, and may complement listed equity to create a more diversified African equity exposure.

Despite its relatively early stage, African private equity has been growing and a strong core of practitioners has emerged capable of managing institutional capital on the continent. RisCura Fundamentals has compiled an extensive database of African private equity deals, this data reveals that private equity deals in Africa are taking place at lower prices than deals globally, across all deal sizes. However, deal prices in Africa outside of South Africa are, on average, higher than South African deal prices. Further, private equity deal prices in African private equity are generally lower than listed market multiples.

Debt in African private equity
There are also much lower levels of debt in African PE transactions than is the case globally. African deals on average use only half the levels of debt compared to global private equity, and only a third of the debt used in an average US private equity deal. This means that returns have to come primarily from actual profit growth as opposed to leverage.

The main reason for this is the small size of banks outside South Africa, many of which are conservative in their lending practices and lack sufficient capital to participate in major deals. In addition, African banks tend to make
excellent returns at low risk from lending to their governments, so their appetite for riskier investments like private equity (PE) has been somewhat blunted. “The fiscal situation in a country like Nigeria, for example, is excellent. With so much money flowing in from oil revenues, the government’s balance sheet is very healthy, much more so than in developed markets.

Typically, the use of debt in PE deals allows investors to leverage their investment and enhance their returns, as debt funding is cheaper than equity. But if you’re only using a small amount of debt, you can’t rely on leverage for returns. The upside of this situation, however, is that investors avoid the additional risk that leverage brings; interest payments still need to be made even if things don’t go according to plan.

If you’re an investor in Africa, you’re not going to get the return from the leverage that you would if you were investing in private equity in other countries. You have to rely on real growth in earnings to drive the increase in a company’s value when you finally sell.

This means that private equity practitioners in Africa need somewhat different skills. In developed markets, the focus is towards financial engineering skills such as gearing, structuring debt packages, and optimising the capital structure of the deal. In Africa, on the other hand, PE practitioners need to be good businessmen who get involved in the companies they invest in, assisting strategically, operationally and financially.

In developed markets, investors are trying to get the most out of the existing asset whereas in Africa they’re trying to grow the asset to create something bigger and more valuable. Interestingly, African PE deals are by and large able to achieve strong returns even without the leverage used in the full PE model that exists in other parts of the world.

The message to investors is to engage with a private equity fund manager with an experienced team on the ground who understands the risk and financial environment in different parts of Africa. It’s essential to know the local commercial landscape and how to operate in it profitably.

**Transaction multiples**

Focusing on the price of listed equity deals, we’ve found that companies operating in Africa trade at a similar EV/EBITDA multiple to developed market companies at around 8x. This appears to be a result of the trade-off of a higher risk perception balanced by greater growth prospects in African markets.

On the other hand, an analysis of the number of private equity deals falling into deal multiple groupings shows interesting results when compared to global private equity deals. Almost half of global deals take place in the 5-7.5x EV/EBITDA grouping, and a quarter in the greater than 7.5x grouping, leaving only 20% happening at below 5x.

In contrast, African PE deals predominantly take place in two groupings namely the cheaper 2.5-5x and the most expensive above 7.5x bucket. This leaves only 20% of deals taking place in the bucket where almost half of global deals take place at 5-7.5x.

A reason for this appears to be the number of attractive high-growth, medium-sized African companies that fall into the more expensive 7.5x category, in addition to the large buy-out transactions already in this category.

Many more deals happen at lower prices in Africa than is the case globally, which may be a result of the higher risk assessment of investing on the continent and the higher required rate of return.

In practice, investors use a combination of listed and private equity investments to fill their African equity allocations. This is expected to continue for the foreseeable future as an effective way to gain exposure to Africa’s growth potential.

RisCura Fundamentals recently published the Bright Africa Report, a look at transaction multiples across the continent. The Report can be accessed at http://brightafrica.riscura.com/

**Contributor Profile**

**Rory Ord**

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Rory heads up RisCura Fundamentals, and is one of South Africa’s leading experts in valuing African unlisted investments. He regularly speaks on private equity valuation as well as regulation and performance measurement around Africa and Europe.
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The JSE – unlocking African opportunities

The fundamentals for investing in Africa are clear: many economies are growing faster than global averages and offer economic potential both in terms of millions of Africans entering the middle-classes and a wealth of resources. Unlocking investment on the African continent is a focus for the Johannesburg Stock Exchange (JSE), especially given the increasing South African and global appetite for African investments. With this in mind, the exchange is encouraging African companies to list on the JSE, pursuing African debt listings as well as exploring products that give investors exposure to the continent.

Appetite for Africa
According to The Economist from 2000 to 2010, six of the 10 fastest-growing economies in the world were in Africa. Today, the IMF estimates that Sub-Saharan Africa is now the second-fastest-growing region in the world, trailing only emerging Asia. With stats like these, it is no surprise that global investors are looking at Africa with increased interest as shown by investment flows and the number of funds focused on the region.

It is appropriate to make use of this increased interest to make investment in Africa more ‘mainstream’ rather than a temporary alternative, with the aim of attracting longer-term and more consistent investment flows.

Investors considering putting funds into a new investment destination look for a number of factors, including a sound economy, companies with promise and, for listed investments, stock exchanges with regulatory and operational standards which meet investor standards. In each context, exchanges must have predictable sets of rules, fair operating schemes and properly operating systems. If any of these factors aren’t present, another investment destination may be found.

The JSE, a long-standing member of the World Federation of Exchanges (WFE), is positioning itself as a bridge to investors worldwide wishing to access opportunities throughout the African continent and has developed the strategic links and technological capacity to do so. The JSE’s strategy is in line with its commitment to various Africa-centric business and stock exchange organisations, including the Committee of Southern African Development Community Stock Exchanges, the Association of Stock Exchanges in Africa and the Nepad Business Foundation. The JSE, believes that it can provide a solution to this while contributing to the development of markets within their own economies.

The JSE
With a market capitalisation of $825 billion, the JSE is the largest exchange in Africa and the 19th largest globally. In its 126 year history the exchange has evolved into a modern securities exchange providing electronic trading, clearing and settlement in equities, bonds as well as interest rate, equity, commodity and currency derivatives. Apart from this horizontal and vertical integration, the exchange is a major provider of financial data – with 45% of this data sold outside of South Africa in 2012. The South African exchange is known to investors globally, who have developed a level of comfort with its systems and regulatory framework.

The latest World Economic Forum (WEF) Global Competitiveness Report released this past September ranks South Africa first out of 148 countries for regulation of securities exchanges for the fourth consecutive year. This, together with several other elements of the report, points to the country’s exchange as a sound environment in which to invest.

Other elements of the report which should give investors comfort are South Africa’s first place rankings for strength of auditing and reporting standards; efficacy of corporate boards; and the protection of minority shareholders’ interests. This is the first time that South Africa has achieved a first place ranking for protection of minority shareholders’ interests.

Another key WEF ranking is South Africa’s second place for financing through the local equity market, moving up from third place last year. South Africa has access to deep pools of capital both from its well-developed local investment community and high participation of foreign investors. This makes the exchange an ideal destination to raise capital for development in the region.

Raising capital in South Africa
While many companies still choose to list on their domestic stock exchanges, the globalisation of capital has broadened the listing options around the world. Listing standards, fees, regulatory environment, quality of institutional investors and participation of foreign investors are just a few of the factors that companies must consider carefully when selecting a listing destination.

With about 400 companies across the
exchange’s Main Board and AltX (a board for promising small to medium-sized companies), the JSE is known for its sophistication, access to high levels of capital funding and high participation of foreign investors. Between 20 to 40 percent of equities trading on the Johannesburg exchange is done by foreign investors. The cost of a JSE listing is also attractive compared to a listing on its international peers.

There are currently 12 African companies listed on the exchange and the JSE would like to attract more African companies to list. The exchange favours a dual-issuance model which would see listing on the local market as well as the JSE. This will allow African companies access to the deep capital pools that South Africa offers while also benefiting from local market participation. Dual issuance on the exchange will also allow foreign fund managers with mandates to invest in World Federation of Exchange (WFE) members, of which the JSE is one, the opportunity to take advantage of these opportunities. In addition to this, this model of dual issuance in conjunction with domestic financial market practitioners will allow a flow of skills across markets. The better developed Africa’s financial markets; the more attractive they will be to investors.

In recent years there have been a number of regulatory changes that have made the JSE a more appealing listings destination. An October 2011 announcement by the South African National Treasury allowed local investors to trade in foreign domiciled companies where they were previously restricted by prudential limits. In addition, these companies are now also eligible for domestic index inclusion. The impact of this change was that South African asset managers were able to invest more freely in these companies whilst making the JSE much more attractive as a listing destination.

In the 2013 annual budget speech, National Treasury also made its support clear for South African companies that want to expand into Africa and offshore. Each JSE-listed entity will be entitled to establish one subsidiary to hold African and offshore operations (HoldCo), which will not be subject to foreign exchange restrictions. This will incentivise companies to manage their African and offshore operations from South Africa, maximising the benefits to South Africa’s economy.

Another welcome development was a change in the JSE listing requirements in April which now allows special purpose acquisition companies (SPACs) or cash shells to list on the exchange. This change opens up a new channel for primary capital raising for fledgling investment companies and could spur new listings activity – both for SPACs listings and - over the long term - if SPAC portfolio investments are successful, they could be listed separately.

Raising debt on the continent

Meeting Africa’s infrastructural development needs will require consolidated efforts from the governments in Africa, public private partnerships as well as significant on-going investment. The African Development Bank estimates that $93 billion needs to be spent over the next decade to sustain economic growth. Fortunately investment demand is there as international investors want to take part in the African growth story. Much-needed infrastructural spend is often the missing ingredient to growing African industries. This interest is illustrated by the 2012 Zambian Eurobond issue of $750m that was 15 times oversubscribed. Most of the issue was taken up by institutional investors as many of them utilise opportunities to invest in debt, in order to match their long term liabilities and assets. Issues emanating from Africa also have higher yields than those from developed regions.

There are 54 countries in Africa, and thus far only 13 of them have issued debt on international markets. Reasons for this include the fact that there have traditionally been other sources of finance available to these governments, such as bank financing, private financing and multilateral and bilateral financing solutions. The availability of these alternative financing sources is likely to change in the future, and more countries in Africa will need to access debt markets in order to finance their very necessary infrastructural needs. Many African markets are unable to provide the quantum required for an issue. Consequently some countries have gone to the Euro or Dollar markets where they are oversubscribed. However, ideally we should be raising debt in Africa for Africa.

The JSE was the world’s fourth largest exchange by total value of bonds traded in 2012, according to the WFE. We believe that the finance required to build Africa can be channelled through the South African exchange. The JSE offers access to significant capital as well as world class systems and regulation. The debt offering on the JSE includes infrastructural bonds, sovereign, project as well as corporate debt. The market is institutional due to the size of trades. At the end of October 2013 the exchange had more than 1,400 bonds in issue with a total value traded of US$17 billion.

A first step in the JSE’s drive to build a debt listings venue for Africa was the Republic of Namibia’s listing of its first Rand-denominated government bond in late 2012. With a $300 million medium-term note programme approved, the first tranche is an issuance of R850 million. The bond was twice oversubscribed and the take-up was mainly from South Africa’s institutional investors, indicating the demand for African sovereign debt listings.

Much like in the equity market, the JSE seeks to partner with other African exchanges with a dual-issuance model. As with equity listings, these debt listings will be eligible investments for global fund managers that are mandated to only invest in bonds that are listed on WFE exchanges. Collaborating on debt issues is a means to ensuring that the investment that we need into infrastructure initiatives on the continent is channelled in Africa. The more efficiently we do this, the faster our journey to sustainable development and growth in Africa.

Contributor Profile

Tamsin Freemantle

Tamsin Freemantle is a Business Development Manager at the JSE a position she has held for over five years. Prior to working at the JSE Tamsin held business management positions. Tamsin has a Bachelor of Arts degree in International Relations and English from the University of the Witwatersrand and is currently studying for her MBA from the Gordon Institute of Business Science.

EXCLUSIVE GUEST FEATURE
By Tutu Agyare, Managing Partner and Chief Investment Officer, Nubuke Investment LLP

The last quarter saw a number of structural changes occurring in global markets. With Europe’s slow recovery steadying the ship, attention tuned to the US where the Fed’s decision not to taper immediately brought welcome relief across all markets. Emerging market redemptions posted ahead of the decision were either cancelled or significantly reduced as a result.

On returning from the annual UN General Assembly gathering in New York, I was struck by a couple of issues discussed in the Africa focused periphery meetings. The first was the level of progress made since the last meeting. The dialogue has moved on from debating reasons why to invest in Africa, to establishing the appropriate methods of investment for each country and sector. It was refreshing to witness African and US captains of industry speak candidly about their investment strategies. When the discussion switched to reforms in the power sector in particular, I noticed how the debate has shifted. Consensus has been reached that the wide ranging efficiency gains across the continent have now facilitated bankable transactions to be structured. This focus has occurred in many African countries.

Over the past decade, Africa has received great attention as an investment destination. Robust GDP rate, rapidly growing middle class, infrastructure, political and fiscal reforms have given investors hope that the continent is moving from a charity seeking environment to an investment yielding nation- a far cry from the Economist’s front page reference to Africa in May 2000 “The hopeless continent” - Asphyxiated by civil war, corruption and political instability; Investors ran a mile at the mere mention of Kenya or Rwanda. Today, returns in more expensive developed markets threaten to be low for years to come. Slow global growth and low yields are the norm and as today’s investors seek higher yields and stronger fundamentals. They run to countries with fundamentals better placed than many developed markets. The African market is one that is a significant and growing part of the global economy with plenty of room for productivity gains, favourable demographics, commodity richness and recent history of fiscal and monetary reforms.

This attention has led to 14 countries issuing international sovereign bonds and 6 more set to issue them. Some of these bonds of recent have seen over subscription due to investors seeking higher yields and a certain degree of diversification that cannot be achieved from exposure to other emerging and developed markets. According to a recent Goldman Sachs report, issuances of around $7bn in the supply of hard-currency sovereign debt (excluding South Africa) can be expected in 2013 and possibly double that amount in 2014. Generally speaking, at lows, sovereign debt offers equity like returns with only sovereign debt risk. Africa’s equity markets are exciting, with investors attracted by the region’s strong GDP growth numbers. The past year has seen the two main markets in the sub region; Nigeria and Kenya return 39.77% and 43.85% consecutively, whilst the Ghana’s composite index has returned 88.69%. From the first quarter of this year, the two best performing markets were Ghana and Kenya. Both benefiting from a benign post election environment despite fears of violence. Pent up demand from local and international institutions fuelled investments. The dropping of interest rates in Kenya led to a switch in investments from fixed income into equities, coupled with significant outperformance of bank earnings relative to expectations which led to enhanced returns. Both countries also benefitted from significant inflows as commercial investors positioned themselves for each country to be a regional hub for investment (west and east). I believe this will continue, principally because it would be challenging to replicate the legal, regulatory and infrastructure elsewhere in each sub region in the near future.

The rest of Sub-Saharan Africa is now beginning to offer significant opportunities with countries like Cameroon, Cote D’Ivoire and other Francophone countries beginning to deliver green shoots of recovery and growth. Lusophone Africa continues to grow at an extraordinary rate although it is challenging to find the right vehicles to capture this growth. The main drivers are in the oil and gas and mining space and various equities listed on local and international exchanges can be proxies for this.

With the population of Nigeria and Ghana just less than 200 million, Kenya, Uganda and Tanzania have a population of just over 127 million
people combined, the African consumer story is one that cannot be ignored. Consumer firms that have been in Nigeria for a long time, such as Unilever and Nestle are listed locally and are liquid enough for some investors. The beer companies are another way to gain exposure to the African consumer story. From West to East Africa, these companies are gaining significant traction with the rapidly growing population.

Agriculture is another sector that can be tapped utilising the stock markets; In Nigeria for example, the new agricultural policy being implemented will also help transform the balance of payment and potentially turn it into a net food exporter. The Minister for trade and industry has galvanised local businesses and the amount of inward investment announced recently is unprecedented. We believe that Nigeria is Africa’s China and will be a driver for the sub regions growth. Exposure to Palm oil, rubber, tea and coffee in the other West African countries can also be achieved through regional stock exchanges.

Although some multi-national companies hold a vast majority of stocks which can reduce free float. One way around the shortage of liquid stocks is to buy companies that have most of their assets or earnings in Africa but are listed elsewhere, like Toronto or London. There are over $120 billion market capitalisation worth of these types of companies sitting in Toronto, London and Australian stock exchange.

In closing, I will continue to reiterate that the Africa story is not just one of buy and hold but of one where the different strengths and weaknesses of different country growth rates, opportunities and investment cycles will continue to change from time to time and the relative attractiveness of Africa will result in more investments, the best way to take advantage of this it to broadly increase your equity exposure.

Contributor Profile

He is currently the Managing Partner at Nubuke Investments, an FSA registered asset management firm focused solely on Africa, which he founded in 2007. Nubuke Investments is one of the Premier African Asset Managers. Their fund was awarded Multi-Strategy Hedge Fund of the Year by Africa Fund Manager. Previously, he had a 21-year career with UBS Investment Bank holding a number of senior positions, most recently as the Head of European Emerging Markets and a member of the Investment Bank Board. He has a degree in Mathematics and Computing from Ghana and is a Director of the Nubuke Foundation in Ghana. He is also a non-executive Director of Tullow Oil the largest Independent Oil Exploration company in Africa. He is also the co-Chair of the African Acquisition Committee of the Tate Modern Museum.
Following the completion of fundraising for the African Agriculture Fund (AAF), with total commitments of US$ 243 million, and the first close of Pan Africa Housing Fund (PAHF), US$ 41.5 million committed to date, Phatisa discusses its role as an African private equity fund manager committed to development in Africa.

Phatisa, a private equity firm founded in 2005, has over the past eight years developed deep investment roots across sub-Saharan Africa, now with a notable presence throughout the continent, operating from offices in Mauritius, South, East and West Africa.

Speaking on the firm’s commitment to Africa and its two sector-specific funds, Senior Managing Partner of Phatisa, Duncan Owen says, “Development equity has always been at the heart of Phatisa’s investment philosophy. Food security and affordable housing are crucial issues across Africa and both of our funds are aimed at combating the chronic undercapitalisation in these respective sectors. The Phatisa funds behave much the same as traditional Private Equity (PE) funds by optimising operational efficiencies and maximising value on exit. However, we focus on sectors we know and understand so we are able to stimulate development in food and housing in Africa.”

Phatisa is single minded in its efforts to find investment opportunities throughout sub-Sahara Africa, aligning with the best of African businesses and building long term sustainable value that will continue far beyond the life of the Fund – leaving a tangible legacy for a more prosperous Africa.

The AAF, launched in July 2009, was developed on the principle of harnessing capital from diverse international sources to invest in Africa’s long term food security in a progressive and transparent manner. The Fund’s investors are a wide-ranging institutional mix of US, EU and African development finance institutions, government agencies, development banks, commercial banks, fund-of-funds and private investors that have come together to bolster this truly continental effort to stimulate food production and consumption.

One of the Fund’s most unique features is its innovative share structure; where DFIs offer ‘more commercial’ investors a preferred return. The Fund has successfully brought together European DFIs and the Overseas Private Investment Corporation (OPIC), an independent US Government agency – underlining the G8 vision of a shared initiative.

“Being at the forefront of development equity in Africa means having the right knowledge, experience and relationships. There isn’t an asset in agriculture in Africa we don’t know of and we believe this sets us apart in supporting development in Africa,” says Owen. “At Phatisa we consider development equity as more than simply maximising value on exit. It is about creating a balanced blend of PE and development finance. We strive to build assets on the ground; investments need to give the best possible return for our investors, but also the community in which these funds operate.”

The AAF’s first deal, which demonstrates Phatisa’s philosophy, was an early-stage investment in post-conflict Sierra Leone, building a new palm oil mill to service 8,000 outgrowers in the eastern part of the country. Construction and commissioning of the mill took 18 months under challenging circumstances. While the business experienced the usual teething issues associated with early stage investments, both the fund manager and investors have shown commitment. The medium-term view is to deliver returns in excess of 20% per annum.

Phatisa’s investment momentum has continued and, to date, the AAF has committed investments in excess of US$ 90 million from Sierra Leone in West Africa to Madagascar, far East Africa and six other countries in between, accounting for just shy of 50% of the AAF’s investors’ equity. This reflects a total of 10 investments across diverse sectors: primary farming, processing, inputs, fertiliser, protein production and FMCG beverages.

“Since launch, AAF’s portfolio companies employ approximately 5,500 people and we have built relationships with 9,000 outgrowers and vendors across Africa. Supporting the need for food security in Africa, the AAF portfolio produces 54,000 tons of food & beverages and hopes to triple-fold this output amount within five years,” adds Owen.

The Fund also has additional development attributes including a Euro 10 million Technical Assistance Facility, supporting capacity-building for small- and medium-sized enterprises, such as outgrowers, smallholders and bottom-of-the-pyramid distributors, with the capacity to spend up to US$500k in each AAF investment. This grant facility is managed by TechnoServe, a not-for-profit organisation resident throughout Africa. A further development initiative is the US$ 30 million standalone SME fund (AAF SME Fund) investing in agri and food businesses with an individual investment limit of US$ 4 million.

Owen adds: “Given the make-up of the Phatisa senior team, who have a blend of development (largely ex-CDC) and commerce experience (Unilever, Coca Cola and Lonrho) in their DNA, it is hardly surprising that we have embarked on this journey. The evolving investment strategy of European DFIs has created a gap in the market for development equity – which supplements the DFIs who traditionally provide softer loans and the banks who provide secured debt, while the larger private equity managers have traditionally focused on generalist funds.

“We decided to concentrate initially on food production and housing in emerging economies. Managing funds focused on a particular sector meant that we could build a team with the relevant business skills and experience. Phatisa is willing to invest in early stage and brownfield investments, but is also attracted to leveraged management buyouts – empowering local management and providing exits for shareholders. Having said this, we are a PE fund manager and expect to deliver PE returns to investors. But development is also about making a positive impact in the communities in which we invest,” concludes Owen.

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Phatisa is a private equity fund manager, operating across sub-Saharan Africa, operating from offices in Port Louis, Johannesburg, Lusaka, Nairobi, Accra and London. Phatisa comprises a team with a significant track record of managing private equity funds and agricultural businesses throughout the continent. The Phatisa team is located in Africa and spends a considerable amount of time developing relationships with strategic partners in all countries where funds under management are active. This ensures that funds have reliable networks and information in the countries in which they invest. Team members have a reputation built up over the last decade, which can be seen in their track records, on-the-ground network, and access to agricultural players and facilities on the continent.
The African economy is developing at a rapid pace when compared to other continents internationally. A recent report by the African Development Bank highlights that Africa is the fastest growing continent globally and that one-third of African countries have GDP growth rates of more than six percent (6%).

The continent’s improved economic governance and enhanced business climate has become appealing to the global community. Africa has huge growth potential that is being tapping in to; the continent is rich in resources and there is also a large amount of infrastructure development across all sectors. With growth equating to greater opportunities, companies in South Africa and abroad are expanding their footprint into Africa. According to the World Bank, the region’s growth is underpinned by strong private and public investment. In 2013 it reported that gross fixed capital formation in Sub-Saharan Africa has steadily increased from approximately 16.4 percent of GDP in 2000 to approximately 20.4 percent in 2011. Foreign direct investment flows, which accounted for over 50 percent of total capital flows to the region in 2010-12, have increased at a steady pace in recent years and they are projected to rise by 24 percent to approximately $40 billion in 2013.

Many international banks are entering the market alongside a large number of local South African financial institutions that are already established and successfully operating business in parts of Africa for some time now. While South African banks across the board have well-established businesses, each with a strong client base, competition is intense as many of them branch into Africa.

Africa supported by Financial Market Infrastructures (FMIs)

The primary role of a Central Securities Depository (CSD) is to bring efficiencies to the market and attract investment as a Financial Market Infrastructure (FMI).

Many countries typically have one CSD that is considered to be a Financial Market Infrastructure (FMI) and a national asset. The CSD normally co-exists with a stock exchange and both play the important role of providing a resilient pre-trade, trade and post-trade infrastructure to attract investors and listed companies for the benefit of the financial markets.

Both attract investors with modern technologies, bringing an assurance that transactions processed through that stock exchange can be settled and investors’ portfolios won’t be held at risk of operational settlement delays. The importance of a country’s clearing and settlement system cannot be undermined. The technology of a modern clearing and settlement system can be attractive to investors and promote economic growth, as it facilitates the overall stability of the financial system as well as the implementation of monetary policy and efficient processing of transactions.

In South Africa, Strate is the only licensed CSD. With securities transactions in excess of R130 billion going through it daily, Strate is responsible for the settlement of money market securities as well as equities and bonds for the Johannesburg Stock Exchange (JSE), which is the only exchange for trading securities in South Africa. Strate is also responsible for the settlement of a range of derivative products, such as warrants, exchange-traded funds, retail notes and tracker funds.

The introduction of Strate over 15 years ago led to an adoption of a modern electronic-based settlement and clearing model, which has eliminated a number of associated risks. Buyers and sellers can now enjoy trading in a dematerialised environment, where paper shares have been converted to electronic format, rather than having to worry about market claims and insurance due to theft, loss, fraud and other...
risks associated to paper clearing and settlement.

Under Strate, the settlement cycle for equities is five working days after the trade is made (T+5), while bonds is three days (T+3) and money markets is same day (T+0).

The South African market, via Strate, offers Simultaneous Final Irrevocable Delivery versus Payment (SFiDvP) in central bank funds, an accolade that eludes many developed markets around the world. It also keeps the official legal register of securities ownership in South Africa.

Strate is not only recognised for having a low risk profile and mitigating risk in the financial markets, but it also offers state-of-the-art technology, international expertise and it adopts global best practice for the benefit of the financial markets.

Surveys, such as the World Economic Forum’s The Global Competitiveness Report 2013-2014, are increasingly acknowledging the improvement in South Africa’s financial market development. In the Report, South Africa was ranked third for ‘financial market development’ out of 148 countries. It has maintained the same rank as that noted in the previous year’s report. I believe the survey is evidence that South Africa’s rank places it globally as one of the countries to be benchmarked against, proving that both local and international market players can be confident in South Africa when investing in the country.

Notably South Africa was ranked first within the financial market development pillar for both its regulation of securities exchanges and legal rights index, as well as second for availability of financial services and financing through the local equity market. It is also placed third for soundness of banks within the financial market development pillar in the report.

Financial market development is important to maintain a country’s profile as an investment destination driven by investor protection and financial stability. It is with modern technology and effective clearing and settlement system, which mitigates a number of risks in the market, that brings the benefits of technologies that are aligned to high international standards and recommendations, such as those of the Committee on Payment and Settlement Systems and the Technical Committee of the International Organisation of Securities Commissions (CPSS-IOSCO).

In 2012, the IOSCO’s Technical Committee acknowledged that FMIs performed well during the financial crisis and robust FMIs help markets to continue functioning even in conditions of great uncertainty, making them a fundamental element of financial stability.

One could argue that this is because FMIs, particularly CSDs, have always had risk mitigation and transparency at the core of their business models. While the world shifts to adopt new regulatory reforms after the financial crisis - evident by increasing recommendations from the Group of Twenty Finance Ministers and Governors (G-20), the CPSS-IOSCO, as well as regulatory changes applicable to international economies aimed to protect the financial markets and promote investor confidence and economic growth – CSDs like Strate are quite easily accepting these reforms as an opportunity to further protect the markets that they serve.

**Partnerships**

While many market entrants may be competing with one another, a very different approach of partnership and collaboration is being taken by CSDs as they share a greater vision of how systemic risk can spread, therefore they aim to achieve harmony through risk mitigation and transparency in the best interest of all financial markets.

Like other CSDs, Strate has always had a philosophy to collaborate and partner; it is always looking to partner with other African countries in any forum of sharing, be it technology or know-how. There are some strong networks and relationships across the region where FMIs share information with one another to further develop their markets and proactively implement solutions to become more resilient.

In Africa, there has been a steady increase of foreign investors into the continent and a growth in the international client base for many of the custodians. Fortunately for African countries, they have an advantage over their developed peers and can use it as an opportunity to set up strong financial market infrastructures based on the knowledge and experience of other CSDs and the lessons they have learnt from the international community. They don’t carry legacy systems that take years to change and can move much faster than some other markets.

While linking and integrating different Financial Market Infrastructures is not impossible, one of the greater challenges in the region relates to exchange controls and multiple currencies that one needs to consider when engaging in cross-border transactions and settlements.

From a Strate perspective, it has three different initiatives that it is currently involved in within Africa.

**AMEDA**

Aligned to its philosophy of collaboration and knowledge sharing, Strate has been a member of the Africa and Middle East Depository Association (AMEDA) for approximately seven years. Established in April 2005, AMEDA is a non-profit organisation comprised of 25 members from 21 countries that are made up of CSDs and Clearing Houses in Africa and the Middle East.

AMEDA’s main purpose is to be a forum for the exchange of information and experiences among its members in the spirit of mutual cooperation and to promote best practice recommendations in services like securities depository, clearance, settlement and risk management. Its goal is also to support local markets in their efforts to adopt securities market regulations, while considering their specific circumstances and to serve as a dialogue channel with other organisations worldwide.

Within AMEDA, there is a focus on the Principles for FMIs (PFMIs), as published by CPSS-IOSCO in April 2012. The 24 Principles apply to all systemically important payment systems, such as CSDs, securities settlement systems, central
counterparties and trade repositories. They replace the three existing sets of international standards set out in the core principles for systemically important payment systems (CPSS, 2001); the recommendations for securities settlement systems (CPSS-IOSCO, 2001); and the recommendations for central counterparties (CPSS-IOSCO, 2004). CPSS-IOSCO have strengthened and harmonised these three sets of standards by raising minimum requirements, providing more detailed guidance and broadening the scope of the standards to cover new risk-management areas and new types of FMIs.

Jurisdictions globally are in the process of incorporating the PFMIs into their regulatory frameworks to foster the safety, efficiency and resilience of their Financial Market Infrastructures. In South Africa, there is already legislation in place to support the PFMIs called the Financial Markets Act, which became operational at the beginning of June 2013. As an active member of AMEDA, Strate is extensively involved in sharing information and its experiences relating to the CPSS-IOSCO Principles.

CoSSE/SADC BA
In addition, Central Bank Governors within the Southern African Development Community (SADC) have initiated a project to integrate the banking infrastructures. It focuses specifically on the movement of cash from one country to another to ensure that the cash settlement obligation can be fulfilled. As such, CSDs in the regions – which include Strate - have identified a gap in the securities processing component that accompanies the cash movement, specifically related to CSD integration within the SADC region. Through the Committee of SADC Stock Exchanges (CoSSE), of which Strate is a member, a working group has been formed to look at cross border settlement in the region. The working group has devised a model for securities settlement, which is currently under discussion.

During July 2013, the SADC Integrated Regional Electronic Settlement System (SIRESST) was successfully implemented in a live environment for the four countries of the Common Monetary Area, namely: South Africa, Namibia, Lesotho and Swaziland. The system makes the payment element of intra-regional trade much easier and more efficient.

CoSSE has also made progress in harmonising the listing requirements and the SADC is making it easier for the SADC integration project to be successful.

Namibia
In the spirit of mutual cooperation, Strate is working with some African markets that are looking to understand or incorporate the use of the CSD technologies being used in South Africa for their own jurisdictions. It is in talks with the Namibian Stock Exchange (NSX) to provide Strate’s existing CSD infrastructure to settle their non-dual listed transactions, as Strate has already been settling their dual-listed stocks for over a decade.

Conclusion
With Africa undoubtedly becoming increasingly competitive, Africans need to work together and embrace collaboration that drives sustainability, investor safety and cements the foundation of risk mitigation and transparency. By partnering with resilient companies, and learning from thought leaders such as the FMIs that have withstood multiple financial crises and continued to add layers of protection for investors, the African financial market can tap in to the benefits of an effective clearing and settlement system, one which drives African market growth and liquidity.

Sources:
2. CPSS – Red Book – 2012

Contributor Profile
Monica Singer is a Chartered Accountant and has held the position of Chief Executive Officer of Strate Ltd, South Africa’s Central Securities Depository, since its inception in 1998. She is a board member of LinkUp Markets, vice chairman of the Executive Committee of the African Middle East Depositories Association (AMEDA) and a member of the Executive Committee of the World Forum of CSDs (WFC). She also represents Strate on the Committee of Southern African Development Community Stock Exchanges (CoSSE).

Monica is the chairperson of the MaAfrika Tikken Endowment Trust and a board member of the Strate Charity Shares (Section 21 Company). In 2006 she was the winner of the ABSA/Jewish Report Business Achiever Award in the category of unlisted companies. Singer has held numerous board and advisory positions including being the Technical Director of the South African Institute of Chartered Accountants (SAICA) from 1990 to 1996 and consultant to the World Bank.

Monica has a BAcc in Accounting and Auditing from the University of the Witwatersrand in Johannesburg, South Africa.
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BusinessinAfrica Events
Creating Opportunities for Business
Mauritius, Tuesday, 29th October 2013 – Global Board of Trade Ltd. (GBOT), the first international multi-asset class exchange from Mauritius will now be known as BOURSE AFRICA LIMITED (BOURSE AFRICA). The change in the name symbolizes the larger focus of the exchange towards Africa and the opportunities offered by the African Financial and Commodities Markets.

Mr. Rinsy Ansalam, MD & CEO of Bourse Africa (formerly GBOT), said: “The decision to change the name from GBOT to Bourse Africa is a representation of our absolute focus towards African Financial and commodity Markets. Bourse Africa endeavors to provide market participants with an efficient market for Africa centric risk management, trading, investing and capital raising needs.”

The exchange was formally launched on 15th October 2010 by Dr The Honourable Navinchandra Ramgoolam, GCSK, FRCP, Prime Minister of the Republic of Mauritius and went live with trading on 18th October 2010. Ever since its launch, the exchange has lived the spirit of innovation through various market and product development initiatives. Some of the landmark developments at the exchange include –

- Successfully launched Contracts for Difference (CFDs) on commodities and currencies – the 1st exchange in Africa and 2nd in the world to introduce exchange traded CFDs
- Collaborated with Nairobi Securities Exchange (NSE) and Ghana Stock Exchange (GSE) to introduce African equity index futures of both exchanges
- Launched its financial markets education initiative titled “Empowerment & Development through ‘Global financial markets’ Education” (EDGE). Under the programme, over 100 workshops and seminars have been conducted in Mauritius, Ghana, Kenya, South Africa and Nigeria to create awareness on financial markets and educate participants
- Extended trading hours, from 6.00 am to 6.00 pm (GMT) to enable the global investment community to trade vis-à-vis international markets
- Created a modern co-location centre to provide proximity hosting for members to access market data within a short span of time hence, enabling the development of innovative low latency trading strategies
- Introduced commodity futures, African and Global currency futures, CFDs on commodities and currencies.
- Bourse Africa Clear Ltd. has been formed to act as the designated Clearing House of Bourse Africa, an independent entity licensed by the Financial Services Commission (FSC) of Mauritius.

Commenting on the developments, Mr. Rinsy Ansalam added that, “At Bourse Africa, we envision to be the global hub for Africa centric risk management, trading, investing and capital raising requirements. We are successfully progressing towards our vision through our market democratization initiatives that include - market education, product innovation, development of retail participation, pan African and global collaborations, state-of-the-art technology implementation that includes direct market access to clients and ensuring high level of support and service to all market participants.”

As a continuation of the strategy of product innovation, Bourse Africa, subject to regulatory approvals, is evaluating introduction of agro commodity futures, base metal futures, African equity index futures, interest rate futures, exchange traded funds (ETFs) and exchange traded notes (ETNs)

About BOURSE AFRICA (www.bourseafrica.com)

BOURSE AFRICA LIMITED (Bourse Africa) is the first international multi-asset class exchange from Mauritius that currently offers trading on three market segments viz., commodities, currencies and equities.

The exchange offers participants, from across the globe, access to a tech centric market that is regulated, liquid and transparent with efficient clearing and settlement systems. Bourse Africa’s state of the art infrastructure provides a world class platform for risk management, trading and investment on global and African products. The exchange is licensed and regulated by Financial Services Commission (FSC), Mauritius to offer trading in commodity derivatives, currency derivatives, equity cash and equity derivatives.

BOURSE AFRICA CLEAR LTD is the designated Clearing House of Bourse Africa and acts as the counterparty to its Clearing Members. The clearing house is an independent entity which is licensed by the Financial Services Commission (FSC) of Mauritius.

Bourse Africa is promoted by the Financial Technologies Group (www.ftindia.com), a global leader in setting up and operating tech-centric next generation exchanges in the emerging but fast growing economies from Africa to Asia and Middle East to South-East Asia.

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Certain statements with reference to the company’s future growth prospects are forward-looking statements, which involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The Company from time to time, make additional written and oral forward-looking statements, and the company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the company unless it is required by law.
AFRICAN CAPITAL MARKETS UPDATES

Economic Outlook Overview:

The World Bank’s World Economic Outlook (WEO): Transitions and Tensions, October 2013 stated that:

“The world economy has entered yet another transition. Advanced economies are gradually strengthening. At the same time, growth in emerging market economies has slowed. This confluence is leading to tensions, with emerging market economies facing the dual challenges of slowing growth and tighter global financial conditions.”

Furthermore, in spite of signs of recovery in the euro area, the WEO predicted the global economy to expand by 2.9% in 2013 and 3.6% in 2014, down by 0.3 and 0.2 points respectively forecasted in July, as a result of concerns on emerging policy challenges and policy spillovers. It further reported that, the advanced economies GDP (Gross Domestic Product) is expected to expand by 1.2% in 2013 and strengthen to 2.0% in 2014. In addition, developing-country GDP is projected to be around 4.5 % in 2013 (a downgrade from 5.1% in July forecast) with growth in Brazil, China, and India accounted for two thirds of the decline but will strengthen to 5.1% in 2014. More so, the economic outlook for sub-Saharan Africa for 2014 was raised to 5.3% from 5.1% projected in July, as a result of “strong domestic demand” as well as higher production of commodities coupled with strong private and public investment. Sub-Saharan Africa was expected to grow 5.5% in 2015 and 4.9 percent in 2013. However, it cautions that African countries are vulnerable to declining commodity prices and the eventual tapering of the U.S. Federal Reserve’s bond-buying stimulus.

Africa’s economic performance

In third quarter of 2013 (3Q13), most African economies have witnessed economic growth in term of real GDP. For instance, according to the report by National Bureau of Statistics, Nigeria (NBE), the Nigerian economy grew by 6.81% year-on-year (y/y) in 3Q13 up from 6.18% y/y in 2Q13 and 6.56% y/y in 1Q13. The crude petroleum & natural gas sector contracted by 0.5% y/y in 3Q13, which was an improvement from the previous quarter’s contraction of 1.15% y/y. This was driven by improved performances in the agricultural sector, banking, trade, and construction. Whereas, South Africa’s economy grew at its slowest pace in four years last quarter, as Africa’s biggest economy struggled to contain a wave of automotive strikes. Gross domestic product fell to a lower than expected 0.7 percent in the third quarter, down from 3.2 percent in the quarter before according to Statistics South Africa. The main negative contributor was the manufacturing industry, a result of low production caused by work stoppages in the auto sector. However, the finance, retail sales, and government service sectors were also surprisingly weak. While Moroccan economy grew by close to 4.5% during the 3Q13, which was a slowdown compared to 5.1% recorded in 2Q13. Mauritius’s GDP for 3Q13 grew by 4.9% y/y and Kenyan GDP increased 4.3% y/y in 2Q13, down from 5.2% in the previous quarter.

See table on next page for other countries’ real GDP in 2Q13.

Capital Markets Summary:

In advanced and emerging economies, it was a bull year for equities to date; the best performing index was the Japanese NIKKEI 225 which rose by 50.7% year-to-date as at November month end. The S&P 500 closed at 1806 (as at November month end) an increased of 26.6% increase compared to beginning of the January, while the FTSE100 rose by 12.8% to close at 6651 (at end of November 2013).

African equity markets also had positive news in 2013, the Malawian equity market outperform other African markets as well as emerging markets, with overall gains of 106%, followed by Ghana’s and Kenya’s equity with 77% and 49% increase over the year respectively.

Most African currencies depreciated against the US dollar in over the year (except Botswana, CFA Franc, Mauritius, Morocco and Ugandan currencies). The depreciation of some currencies was attributable to increased commodity prices, and expected positive economic outlook for developed economy.

See table on next page for other countries economic and financial indicators figures at end of November 2013.
### African Equity Market Indicators as at 29-Nov-2013

<table>
<thead>
<tr>
<th>Country Name</th>
<th>Currency Name</th>
<th>ISO Code</th>
<th>FX Rate at 29-November</th>
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<tbody>
<tr>
<td>Botswana</td>
<td>BSE DCI</td>
<td>8,854</td>
<td>4.23</td>
</tr>
<tr>
<td>BRVM</td>
<td>IC Comp</td>
<td>218</td>
<td>7.88</td>
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<tr>
<td>Egypt</td>
<td>FTSE Egypt All</td>
<td>1,552</td>
<td>16.05</td>
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<tr>
<td>Ghana</td>
<td>GSE ALSI</td>
<td>2,124</td>
<td>6.75</td>
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<tr>
<td>Kenya</td>
<td>FTSE NSE15</td>
<td>1,611</td>
<td>17.68</td>
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<tr>
<td>Malawi</td>
<td>MSE ALSI</td>
<td>12,417</td>
<td>25.61</td>
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<tr>
<td>Mauritius</td>
<td>SEMDEX</td>
<td>2,032</td>
<td>5.33</td>
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<tr>
<td>Morocco</td>
<td>MORALSI</td>
<td>9,262</td>
<td>10.09</td>
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<tr>
<td>Namibia</td>
<td>Local</td>
<td>983</td>
<td>5.42</td>
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<tr>
<td>Nigeria</td>
<td>NIG ALSI</td>
<td>38,921</td>
<td>7.37</td>
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<tr>
<td>South Africa</td>
<td>JSE ALSI</td>
<td>14,066</td>
<td>5.51</td>
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<td>Swaziland</td>
<td>SSX ALSI</td>
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<td>Tanzania</td>
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<td>USE ALSI</td>
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<td>LuSE ALSI</td>
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<td>Zimbabwe</td>
<td>IDX (USD)</td>
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<td>17.27</td>
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### Developed and Emerging Equity Market Indicator as at 29-Nov-2013

<table>
<thead>
<tr>
<th>Country Name</th>
<th>Index Name</th>
<th>Index at 29-November</th>
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<tbody>
<tr>
<td>Botswana</td>
<td>BSE DCI</td>
<td>8,854</td>
</tr>
<tr>
<td>BRVM</td>
<td>IC Comp</td>
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<td>Egypt</td>
<td>FTSE Egypt</td>
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<td>Ghana</td>
<td>GSE ALSI</td>
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<tr>
<td>Kenya</td>
<td>FTSE NSE15</td>
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<td>Malawi</td>
<td>MSE ALSI</td>
<td>12,417</td>
</tr>
<tr>
<td>Mauritius</td>
<td>SEMDEX</td>
<td>2,032</td>
</tr>
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<td>MORALSI</td>
<td>9,262</td>
</tr>
<tr>
<td>Namibia</td>
<td>Local</td>
<td>983</td>
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<tr>
<td>Nigeria</td>
<td>NIG ALSI</td>
<td>38,921</td>
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<tr>
<td>South Africa</td>
<td>JSE ALSI</td>
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<td>Swaziland</td>
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<td>Tunisia</td>
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<td>Uganda</td>
<td>USE ALSI</td>
<td>1,940</td>
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<tr>
<td>Zambia</td>
<td>LuSE ALSI</td>
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</tr>
<tr>
<td>Zimbabwe</td>
<td>IDX (USD)</td>
<td>213</td>
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### Selected African Countries Economic and Financial Indicators

<table>
<thead>
<tr>
<th>Country Name</th>
<th>Currency Name</th>
<th>ISO Code</th>
<th>2Q13 Real GDP (%)</th>
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<td>Algeria</td>
<td>Dina DZD</td>
<td>80.00</td>
<td>3.1*</td>
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<tr>
<td>Angola</td>
<td>Kwanza AAO</td>
<td>97.39</td>
<td>1.4**</td>
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<tr>
<td>Botswana</td>
<td>Pula BWP</td>
<td>0.12</td>
<td>-9.6%</td>
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<tr>
<td>BRVM</td>
<td>CFA Franc XOF</td>
<td>482.13</td>
<td>-3.09 n.a.</td>
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<tr>
<td>Egypt</td>
<td>Pound GHS</td>
<td>6.88</td>
<td>1.5</td>
</tr>
<tr>
<td>Ghana</td>
<td>Cedi GHS</td>
<td>2.28</td>
<td>4.5</td>
</tr>
<tr>
<td>Kenya</td>
<td>Shilling KES</td>
<td>86.62</td>
<td>4.3</td>
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<tr>
<td>Malawi</td>
<td>Kwacha MKW</td>
<td>410.00</td>
<td>5.0*</td>
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<tr>
<td>Mauritius</td>
<td>Rupes MUR</td>
<td>30.25</td>
<td>3.7</td>
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<tr>
<td>Morocco</td>
<td>Dirham MAD</td>
<td>8.26</td>
<td>5.1</td>
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<tr>
<td>Namibia</td>
<td>Dollar NAD</td>
<td>10.19</td>
<td>2.3</td>
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<td>Nigeria</td>
<td>Naira NGN</td>
<td>158.25</td>
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<td>Rwanda</td>
<td>Franc RWF</td>
<td>671.00</td>
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<tr>
<td>South Africa</td>
<td>Rand ZAR</td>
<td>10.19</td>
<td>2.3</td>
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<td>Swaziland</td>
<td>Liliangeni S/L</td>
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<td>2.00</td>
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<td>Shilling TKS</td>
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<td>Dina TND</td>
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<td>3.2</td>
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<td>Shilling UGX</td>
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<tr>
<td>Zambia</td>
<td>Kwacha ZMK</td>
<td>5,535.00</td>
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### World Major Commodity Markets as at 29-Nov-2013

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<tr>
<th>Commodity</th>
<th>Reference Markets</th>
<th>Index at 29-November</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>Gold Spot</td>
<td>1,253</td>
</tr>
<tr>
<td>Silver</td>
<td>Silver Spot</td>
<td>20</td>
</tr>
<tr>
<td>Platinum</td>
<td>Platinum Spot</td>
<td>1,362</td>
</tr>
<tr>
<td>Palladium</td>
<td>Palladium Spot</td>
<td>719</td>
</tr>
<tr>
<td>Diamond</td>
<td>Diamond Spot</td>
<td>144</td>
</tr>
<tr>
<td>Crude Oil</td>
<td>WTI Future</td>
<td>92</td>
</tr>
<tr>
<td>Crude Oil</td>
<td>Brent Future</td>
<td>102</td>
</tr>
<tr>
<td>Gasoline</td>
<td>Gasoline Future</td>
<td>279</td>
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<tr>
<td>Natural Gas</td>
<td>Natural Gas Future</td>
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<tr>
<td>Wheat</td>
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<tr>
<td>Cocoa</td>
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<tr>
<td>Sugar</td>
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<tr>
<td>Cotton</td>
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<td>77</td>
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<tr>
<td>Corn</td>
<td>Corn Future</td>
<td>454</td>
</tr>
<tr>
<td>Coffee</td>
<td>Coffee Future</td>
<td>118</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Central Banks, Statistical Offices and Applied Capital Markets Limited (ACM)

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