

Progress Towards East African Regional Capital Markets Integration

Presentation
at the

EMERGING PRIORITIES IN EAC FINANCIAL SECTOR INTEGRATION

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By

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Presentation Outline

- History of EA Regional Integration
- History of the EA Capital Markets
- A Cross Regional Comparison of Stock Markets Size
- Progress in Capital Markets Integration
- Challenges
- Way Forward
 - ✓ *Immediate Priorities*
 - ✓ *Medium-Term Priorities*
- Conclusion

History of East African Regional Integration

History

- 1917 Customs Union between Kenya and Uganda, Tanganyika joins later in 1922
- 1919 East African Currency Board (EACB) established and started issuing legal tender of Kenya, Tanganyika and Uganda in 1920
- 1948 High Commission
- 1961 Common Services Organisation
- 1965 EACB Collapses
- 1977 EAC Collapses

History

- 1993 Permanent Tripartite Commission for Africa Cooperation
- 2000 Revived EAC Treaty is signed
- 2004 EAC Customs Union protocol Signed
- 2005 Implementation of the Customs Union



History of East African Capital Markets

History

- Nairobi Stock Exchange was the bourse for all East African Companies established in 1954
- 1977 Collapse of EAC
- Non-Kenyan companies de-listed
- Capital Markets Authority (K) - 1990

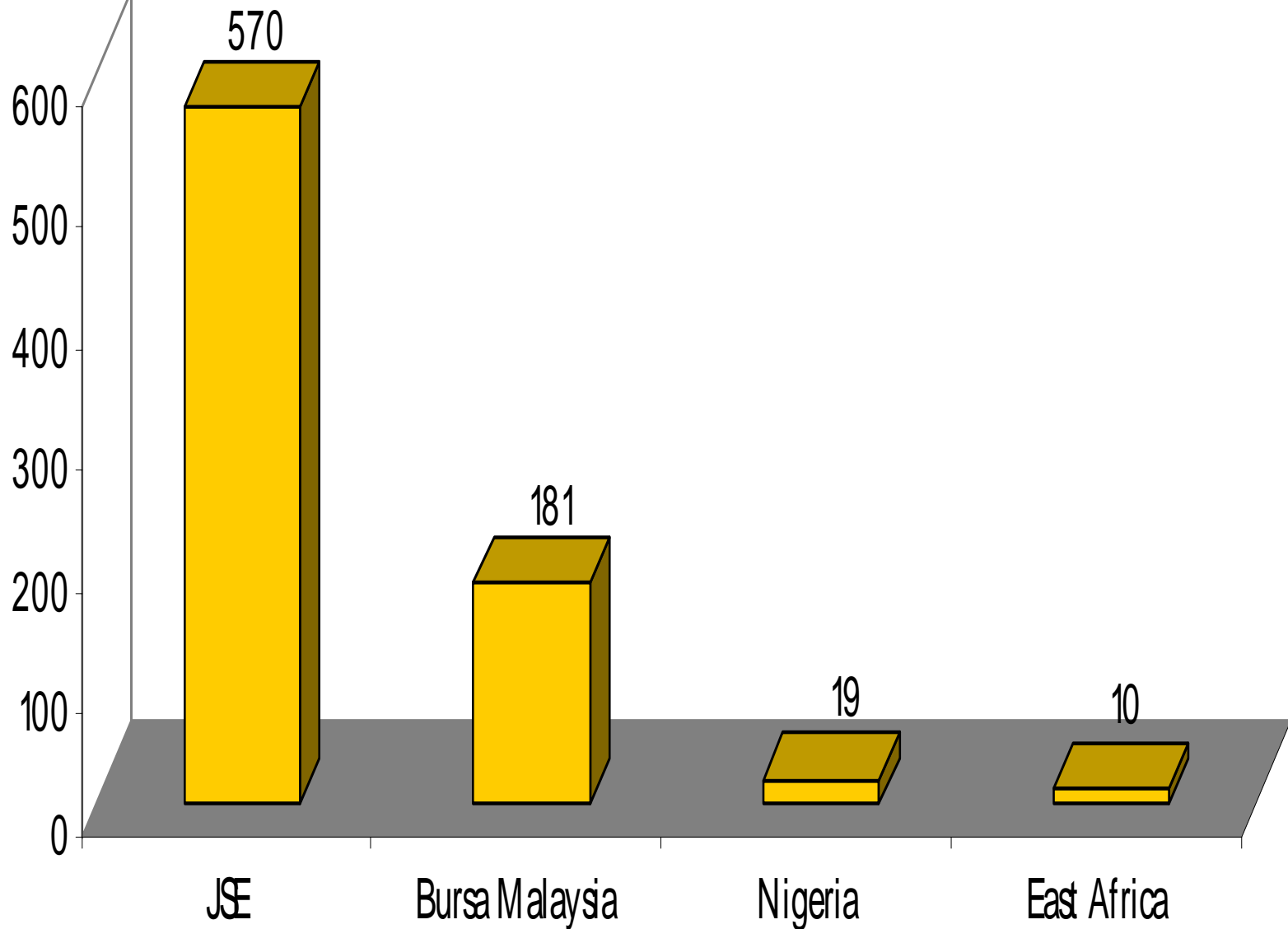
History

- Capital Markets and Securities Authority(T)
-1994
- Capital Markets Authority (U) – 1996
- Dar es Salaam Stock Exchange -1996
- Uganda Securities Exchange - 1997

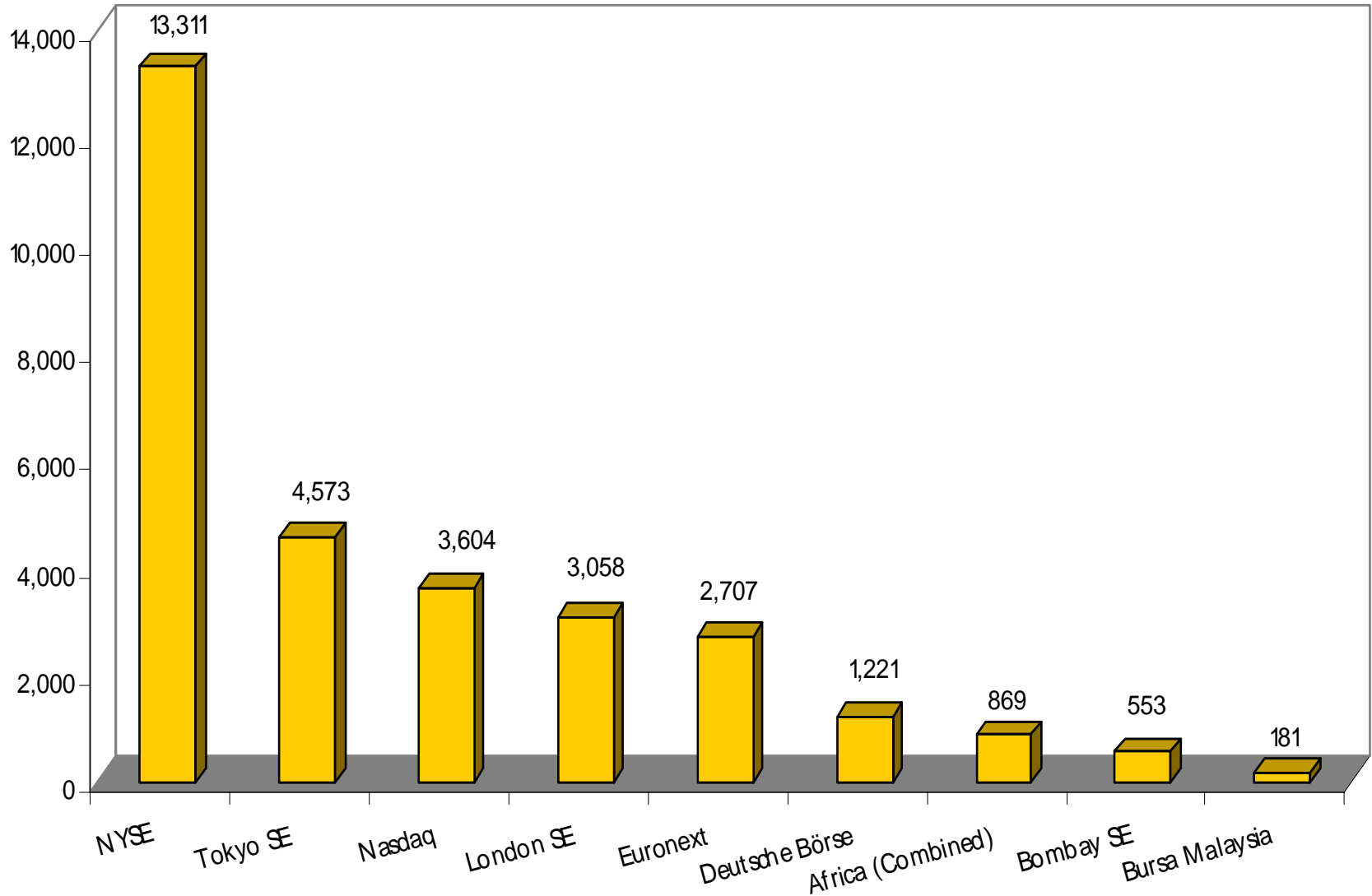


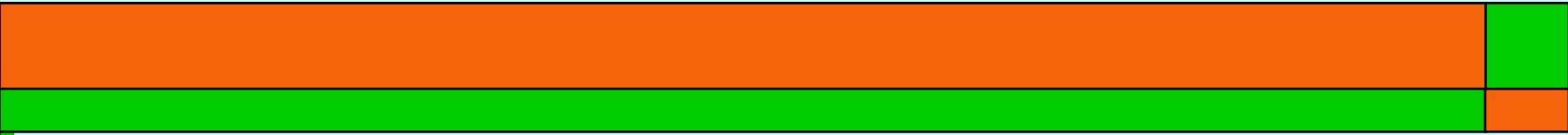
Cross Regional Comparison of Stock Markets Size

Market Capitalisation (Billion US\$)-2005



Market Capitalisation (Billion US\$)-2005





Progress on Capital Markets Integration

Capital Markets Integration Journey

- MOU establishing East African Member States Securities Regulatory Authorities (EASRA) - 1997
- Capital Markets Development Committee (CMDC) established -2001
- Incorporation of Insurance and Pension Sector regulators in CMDC-2006
- MOU establishing East African Stock Exchanges Association (EASEA)-2004
- East African Stock Brokers Association(EASBA)

Capital Markets highlights of the EAC Treaty

■ Article 85

- ✓ *Implementation of capital market development program and creation of conducive environment for the movement of capital within the Community*

■ Article 86

- ✓ *Unimpeded flow of capital within the EAC*
- ✓ *Equal status to all EAC citizens when it comes to investing in securities*
- ✓ *Encourage cross border trade in financial instruments*

Legal and Regulatory Regime

Harmonized Features

- Common English legal system
- Framework for Collective Investment Schemes
- Guidelines on the issue of corporate debt
- Cross border listing requirements regulations

Legal and Regulatory Regime

Harmonized Features

- Compliance with International Financial Reporting Standards (IFRS)
- Corporate governance guidelines
- Disclosure requirements

Legal and Regulatory Regime

Unharmonized Features

- Trading rules and procedures (*Manual Vs Automated*)
- Cross Border Dispute resolutions (*On going*)
- CDS Legislation (*On going*)
- Compliance with International Organization of Securities Commissions (IOSCO) principles (*On going*)

Structural, Market/Institutional

- Common market structure *(3-tier)*
- Establishment of a regional CDS & Automated Trading Systems *(on-going)*
- Regional certification program *(on-going)*
- Cross border listings *(3 companies so far)*

Policy

- Domestic investor status for all East Africans (*ongoing*)
- Regulatory consolidation (*discussions*)
- Harmonization of tax rates, incentives and incidences (*ongoing*)
- Pension sector reform (*ongoing in Uganda & Tanzania*)

Challenges

Challenges

- Macro economic stability
- Tax policies not fully harmonized
- Foreign Investment polices not fully harmonized
- Lack of depth and liquidity in the stock markets
- Disparities in trading, clearing and settlement infrastructure
- Insufficient capacity and skills
- Undeveloped pension and insurance sectors especially in Uganda & Tanzania

Challenges

- Lack of a fully harmonized legal and regulatory regime
- Lack of Political will especially in the passing of legislation necessary for integration
- Bringing new members with different legal systems and structures to speed
- Multiplicity of regional blocks (map illustrates)

AFRICA



Priorities for Way Forward

Immediate Priorities

Provide a favourable macro-economic environment

- ✓ Maintain macroeconomic stability.
- ✓ Deal with the problem of wide interest spreads by addressing some of the underlying causes, such as heavy short-term government borrowing and poor payment systems. This will reduce the crowding out effect of high interest rates.

Immediate Priorities

Conducive Policy framework

- ✓ Continue the present level of commitment to the overall integration agenda in the EAC.
- ✓ Maintain the commitment to privatizing state enterprises through the capital market, but the market should not become a dumping ground for weak and non-performing public enterprises.
- ✓ Fiscal incentives to promote the capital market should be used with careful consideration for the potential impact on government finances.

Immediate Priorities

Conducive and Policy framework

- ✓ In order to maximize the gains from cross-listing and promote cross-border trading, free flow of capital across borders is essential.

Legal, and Regulatory Framework

- ✓ Expedite the passing of laws e.g. The Ugandan CDS Act

Market Structure

- ✓ Establish a CDS & Automated Trading System in Uganda

Medium-Term Priorities

Macro-economic environment

- ✓ Have a single currency in place

Legal and regulatory framework

- ✓ Regulatory authorities should consider adopting principles of mutual recognition, especially where full harmonization proves too costly and time-consuming.
- ✓ Liberalize financial services and allow various market intermediaries and other financial institutions to provide cross-border services using licenses obtained from their domiciliary regulators. (Single-Passport System)

Medium-Term Priorities

Legal and regulatory framework

- ✓ Regulators should consider minimizing multiple prospectus filings so as to encourage cross border IPOs.
- ✓ Companies' law should be modernized to eliminate current problems of duplication and overlap with securities laws.

Medium-Term Priorities

Demand for securities

- ✓ Pursue pension reform in Tanzania and Uganda.
- ✓ Pursue the development of the long-term insurance industry especially in Uganda and Tanzania
- ✓ Treat EAC investors as nationals in all three countries, both in the trading of securities and in the taxation of investment income.

Medium-Term Priorities

Market development

- ✓ Study the suitability of over-the-counter markets
- ✓ Encourage Equity and venture capital funds
(Government and Donors should take lead)
- ✓ Develop investment banking and underwriting particularly in Tanzania and Uganda in order to further strengthen the institutional framework for capital market activities.

Medium-Term Priorities

Market infrastructure

- ✓ The proposed CDS system currently focuses on broker-exchange-depository linkages but should also consider broker-customer linkages as well as a virtual communication network among the three exchanges.
- ✓ Consideration should be given to linking payment systems in the EAC to the CDS system to form an integrated payment, clearing and settlement framework.

Key Areas for Donor Assistance

- Coordination of country and regional strategies to support regionalization
- Technical assistance to build capacity to implement both regional and national reforms
- Carrying out studies on the different aspects of capital markets integration

Conclusion

- The success of regional integration will depend on finding solutions to key country-level problems.
- Consistent and assured political backing of the EAC authorities will be crucial for capital market integration to materialize.
- The observed diversity in the member countries could be a source of regional strength as they can capitalize on complementarities.
- Stakeholder consultations are vital at every stage of the integration process
- Overall, significant progress has been made towards EA integration so far.

QUOTE.....

“There is a strong view among various observers and stakeholders that effort should be made to promote an integrated regional capital market given that, on an individual country basis, the investor base is too narrow and small to support the emergence of a truly dynamic capital market in any of the three countries...”

*Mr. Godfrey Tumusiime,
Director General, East African Development Bank
7th November 2003*



THANK YOU

ASANTE SANA



QUESTIONS?

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