

AFRICA'S
FINANCIAL MARKETS:
A REAL
DEVELOPMENT TOOL?

Popular shareholding in Africa – which could have failed due to the weakness of financial systems – has today become a local reality. It has been led by the political will of States to include the population in their privatization programs and has also given the public access to long-term savings products. Laurent Demey, Deputy CEO of Proparco, takes a look at these developments. Some of them – such as the promotion of employee savings – have been supported by Proparco.

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Popular Shareholding in Africa, both a Political and Financial Tool

Popular shareholding in the context of Africa would seem doomed to failure, yet it has now become a major development area for African financial markets. This type of equity ownership seems to have met with real popular success, particularly with urban executives. But it has especially been a success for governments who see it as the tool they require to implement privatizations. By promoting the participation of the population in a company's initial public offering it is possible to reach both economic and political targets – to gain long-term popular support and, at the same time, develop new savings products.

By Laurent Demey, Deputy Chief Executive Officer of Proparco

Today, Africa continues to remain poor with an extremely low level of access to banking services. If popular shareholding is to be developed, there must be relatively sophisticated financial markets, but the population must also have high savings capacities. Any attempt to establish it in Africa would consequently seem doomed to failure. And yet despite this difficult context, popular shareholding is for most governments and stock market authorities in developing countries a key area for strengthening their financial markets. It is also used as a real communication tool to promote privatization programs. Very few studies have aimed to study popular shareholding in this context and yet it would appear essential to analyze its importance. To do so, its political dimension must not be neglected and it is necessary to show how it may possibly – in various ways – foster the development of the poorest countries.

An African reality: little resemblance to preconceived ideas

The recent study conducted by Grout *et alii* (2009) gives a comprehensive overview of popular shareholding in developed and developing countries. Although individual results are surely questionable – due to the lack of reliable data in many countries – the overall analysis is relevant. Stock market penetration rates among populations range between 10 and 20% in developed countries, between 2 and 8% in emerging countries (or Eastern Europe) and between 0 and 3% in poor countries. The situation in Africa – as shown by the study – is generally difficult, but bears little resemblance to preconceived ideas: a country like South Africa has proportionately more shareholders than Spain, and the figures for Ghana (1.5% of the population) are quite honorable compared to those for middle-income countries (Table 1). These figures are made even more interesting by the fact that they

apply to countries where there are extremely high wealth gaps and where investment *via* funds or collective investment entities – the main vehicles for stock market investment in developed countries – is made difficult or even impossible by the low level of market sophistication. In addition, correlation studies show – in a rather counterintuitive manner – that most macroeconomic determinants have little influence on the success of popular shareholding in a country: this is particularly the case for the Gini coefficient that measures income disparities. The only influential criterion is GDP *per capita* which is shored up in rich countries by the extremely high levels of shareholding.

A “bond-oriented” vision

The phenomenon of popular shareholding in Africa – although it does still remain limited – has therefore become a reality. This shareholding has developed in a difficult context: these emerging stock markets have little liquidity and by nature carry risks. The level of savings in these countries is also very low¹ – even though the level of informal savings, which is difficult to estimate accurately, is high. Unfortunately, here again very few studies exist on the behavior of individual African shareholders. Data from field experiments does however provide some indications on their identity; they are mainly urban executives from the middle – or wealthy – classes and work in both the public and private sectors. This investment is seen by the vast majority of them as a long-term investment that will provide regular income in the form of dividends and will consequently build up a nest egg for their retirement. This almost “bond-oriented” vision of investment in shares is reflected in some of the main features of Africa's stock markets: extremely high returns on dividends (three to four times higher than in Europe), often higher than the money market, and the very low level of liquidity. ...

¹ For example, the rate of access to banking services in Burkina Faso is below 10%.

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Table 1: Popular shareholding by country

Country	% population	Number of shareholders
DEVELOPED COUNTRIES		
France	14.7	9 000 000
United States	21.2	62 880 000
Spain	2.2	954 348
EASTERN EUROPE		
Poland	2.7	1 000 000
Hungary	0.4	40 000
MAJOR EMERGING COUNTRIES		
China	5.9	76 700 000
Brazil	1.6	3 100 000
Russia	0.14	204 000
Turkey	5.9	4 300 000
SUB-SAHARAN AFRICA		
South Africa	2.6	1 200 000
Kenya	0.37	110 000
Zambia	0.25	29 000
Ghana	1.5	345 000

Source: Grout et alii (2009)

... These shareholders have a much stronger attachment to the companies than in Europe – this can be seen by the extremely high attendance rates at shareholder meetings. This conception of shareholding has, however, tended to evolve over the past few years and has fostered the development of margin loans (loans to buy shares) that are widely available in Nigeria. This type of financing naturally promotes a “short-term” logic and behavior and can cause a major systemic risk in markets that have low liquidity levels. The recent stock market crisis in Nigeria was widely caused by margin loans and should, moreover, make regulators take more rigorous measures. Be that as it may, generally speaking stock market investment in Africa remains an attractive long-term savings product that is adapted to the characteristics of the continent and a financial environment which offers small savers very few choices.

Popular shareholding serves political targets

The development of popular shareholding in Africa mainly stems from political targets – particularly the one that in the 1990s and 2000s led to the implementation of privatization programs inspired by the major donors. Following the ex-

ample of countries like France at the end of the 1980s, a large number of African governments used the stock market as a tool to promote their privatization programs and allow the population to participate in them. In the 1990s, Côte d'Ivoire made around 20 such operations; Senegal, Kenya, Nigeria, Zambia and Ghana are implementing similar operations. This explains why there is such a high level of shareholders in Ghana. The amounts raised may be modest – proportionate to the size of these economies – but the target remains the same: the general public.

The initial public offering (IPO) of ONATEL² in Burkina Faso at the beginning of 2009 is a good example of the reasons for which authorities in these countries support popular shareholding so much. ONATEL, a national telecommunications company that enjoyed a monopoly, was partly sold to Maroc Telecom (Vivendi Group) in 2006 in the framework of a privatization operation. This profitable and renowned company – a flagship for the public sector – was the ideal candidate for an IPO, but its sale to a foreign group caused intense political debate in Burkina Faso. The authorities consequently envisaged the IPO as much as a ...

² ONATEL, the national telecommunications office, is the traditional operator in Burkina Faso's telecoms sector. In 2006, 51% of its capital was sold – following an international bid invitation – to Maroc Telecom, a 53%-owned subsidiary of Vivendi Group.

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... financial operation (the State sold 20% of its capital *via* this method) as an operation of political communication and to promote national identity. It was supported by a vast audiovisual campaign mainly targeting the general public which aimed as much to justify the privatization operation as to promote ONATEL. The public was offered preferential price conditions (“ONATEL for the people of Burkina Faso”) and priority access to shares.

The operation aimed to raise 29 billion CFA francs (44 million euros). It was, of course, managed by the country’s only brokerage firm – SBIF³ – and was a success: the oversubscription rate reached 140% and 73% of funds raised came from investments made by 3 300 local shareholders in Burkina Faso. This figure may seem low in a country of 14 million inhabitants, but it does become respectable if it is compared to the number of people in Burkina Faso that have a formal job – only 200 000 people, most of whom have a monthly salary that is only slightly above the price of an ONATEL share (80 euros). The target was therefore fully reached: ONATEL was once again a “national company” in the minds of the population. Quite a considerable number of wealthy city dwellers that had become shareholders will consequently feel they are involved in the success of the company. No classic promotional operation could have obtained this result – the strong attachment to shareholding (and dividends) means the message will be exceptionally sustainable.

Creating employee savings

The stock market can also be used as an instrument to promote the participation of a company’s employees in its privatization. SONATEL⁴ in Senegal followed a path that was very similar to ONATEL. Its IPO in 1999 gave rise to an even greater alliance between economic targets (mainly for savings) and socio-political targets. In a profitable and highly unionized institution such as SONATEL, the privatization would only be accepted if it was accompanied by active employee participation in the company’s earnings – this participation was implemented in two phases. In 1999, the State – which was selling the shares – initially granted reductions that allowed 1 470 employees to purchase 10% of the company’s capital, valued at 32 million euros at the time. The payment was spread out over time and was withdrawn from the paid-up dividends. This participation today represents some 90 million

euros, *i.e.* 40 000 euros per employee, in a country where GDP *per capita* stood at USD 1 066 in 2009. In addition, in the second phase the company sought to both stabilize this shareholding and use this resource to solve the retirement problem – as the public system only left the retired with a very low income. Following an agreement with the unions, in 2004 practically all the shares were transferred to a corporate mutual fund. This type of product was completely new in the country. The mechanism guarantees a nest egg for employees when they retire and means they can top up their income and consequently keep it at the same level.

How to gain long-term popular support and simultaneously develop new savings products

The development of popular shareholding can consequently be fully justified by the simple need to support the series of privatizations that have been taking place in Africa for the past 20 years. These operations – which have widely benefited foreign and often European players – have often been perceived as having been imposed by donors. Moreover, they have often been accompanied by painful restructuring processes. They could therefore only be made with the agreement and participation of the local population and employees. This popular support was even more essential because the privatizations often coincided with a wider democratization movement which compelled governments to be more regularly accountable to populations.

The stock market is consequently a tool that has made it possible to meet several targets – both political and economic – at the same time: involve the population in privatization operations in order to gain its support and, of course, guarantee a high level of national investment in capital. But the main objective was to create a long-term link between the new private company and the local population by targeting the segment of the population that was most likely to influence future political choices – the emerging urban middle classes that are currently propping up the development of the continent. Beyond this socio-political aspect, share investment has also demonstrated its interest as a savings product in countries which often lack such products. The percentage of small investors in these poor countries which is, ultimately, high shows the extent to which the stock market is an instrument that has become a local reality. ●

³ Burkina Faso financial intermediation company.

⁴ The national telecommunications company was set up in 1985 and has traditionally been Senegal’s leading telecommunications operator.

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