

**THE UNIVERSITY OF THE WESTERN CAPE  
FACULTY OF LAW**

**PROSPECTS OF FORMAL REGIONAL STOCK EXCHANGE IN THE EAST  
AFRICAN COMMUNITY: LEGAL AND REGULATORY CONSIDERATIONS**

**A mini-thesis submitted in partial fulfilment of the requirements for the  
degree of Master of Laws (LLM) in International Trade, Investment and  
Business Law**

**Sia Aidan Mziray**

**Student Number:**

**4004767**

**UNIVERSITY of the  
WESTERN CAPE**

**Supervisor: Prof. Patricia Lenaghan**

**Date: 3 November 2021**

## DECLARATION

I, **Sia Aidan Mziray**, declare that the mini-thesis titled '**Prospects of Formal Regional Stock Exchange in the East African Community: Legal and Regulatory Considerations**' is my original work and that all other works used or quoted have been indicated and acknowledged as complete references. This work has not been submitted to any University, College or other learning institution for any academic or other awards.

The logo of the University of the Western Cape, featuring a classical building with six columns and a pediment.

\_\_\_\_\_  
Signed SA Mziray\_\_\_\_\_  
**Sia Aidan Mziray**

This mini-dissertation has been submitted for examination with my approval as  
supervisor.

UNIVERSITY *of the*  
WESTERN CAPE

\_\_\_\_\_  
Signed P Lenaghan\_\_\_\_\_  
**Prof. Patricia Lenaghan**

November 2021

## DEDICATION

This study is dedicated to my late father, Mr Aidan Donald Mziray, and aunt Joyce Frederick who forever hold a special place in my heart. Also, a special dedication goes to my Uncle Samuel Walter Frederick for relentlessly believing and supporting me financially and morally. The study is also dedicated to my mother, Rose Aidan Mziray, my brother Donald Mziray and my sister Elizabeth Frederick for their infinite patience, support, prayer and love in the whole period when this study is underway.



## ACKNOWLEDGEMENTS

First and foremost, I would like to acknowledge that this journey would not have been possible without the help and guidance of the almighty God. I thank God for keeping me healthy, giving me the strength, spiritual push and necessary resources to see this study through.

Secondly, I would like to acknowledge the contribution of Prof. Patricia Lenaghan, my supervisor. Her invaluable guidance, encouragement, savvy and discerning comments ensured I put my best towards completing my study. Thank you for challenging me to obtain a higher level of precision of thought and presentation.

Thirdly, I am very grateful to Prof Maria Riekie Wandrag, my Course Coordinator, for taking a leap of faith in me and giving me the opportunity to broaden my knowledge and meet exceptional lecturers and colleagues from different organisations and cultures.

In addition, I extend special thanks to Albert Chris Puja and Prof. Kenneth Mwenda for their ever-present profound knowledge and support throughout this study in one way or the other.

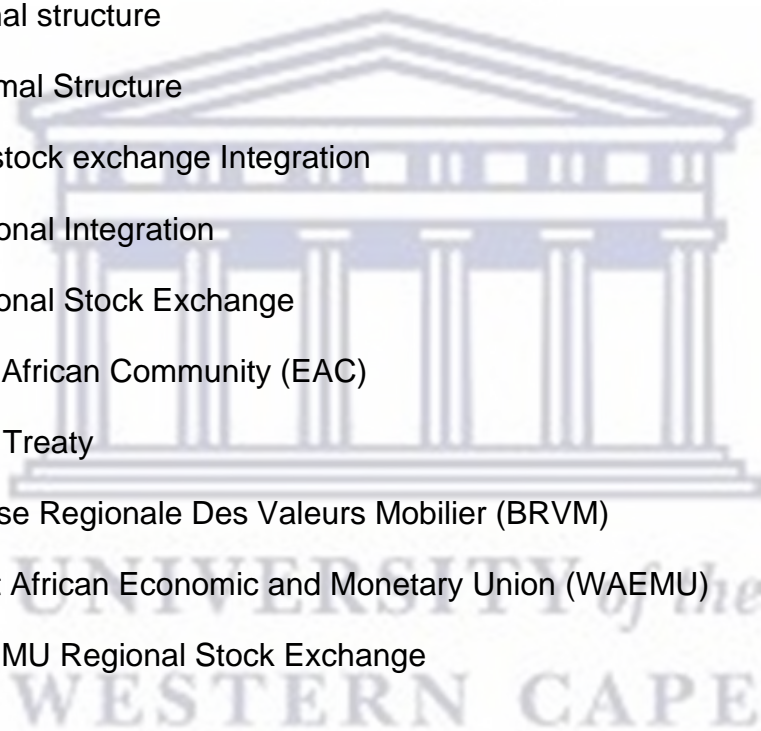
Finally, I wish to acknowledge:

- The lecturers who taught me in the LLM program
- My family for their prayers and words of encouragement
- My relatives, Cheggy Clement, Godwin Nguluma, and Dora Kyungu, keep inspiring me to do greater things.
- My mentor and former boss, Joseph Ndazi, for always encouraging me to aim for the best
- My classmates in the LLM programme

Thank you all.

## KEYWORDS

- Stock Market
- Stock Exchange Integration
- Stock Exchange
- Securities
- Formal Stock Exchange Integration
- Informal Stock Exchange Integration
- Formal structure
- Informal Structure
- Full stock exchange Integration
- Regional Integration
- Regional Stock Exchange
- East African Community (EAC)
- EAC Treaty
- Bourse Regionale Des Valeurs Mobilier (BRVM)
- West African Economic and Monetary Union (WAEMU)
- WAEMU Regional Stock Exchange



## ACRONYMS AND ABBREVIATIONS

ASEA	African Stock Exchanges Association
BCEAO	Banque Centrale des Etats de l' Afrique de l' Ouest / Central Bank of the West African States
BRVM	Bourse Régionale de Valeurs Mobilières
BVMAC	Bourse des Valeurs Mobilières de l'Afrique Centrale
CEMAC	Economic and Monetary Community of Central Africa
CMA	Capital Markets Authority
CMI	Capital Markets Infrastructure.
CMSA	Capital Market and Securities Authority
COMESA	Common Market for Eastern and Southern Africa
CREPMF	Conseil Régional de l'Epargne Publique et de Marchés Financiers
CSD	Central Security Depository
DC/BR	Central Deposit and Settlement Organisation
DSE	Dar-es-Salaam Stock Exchange
EAC	East African Community
EAMU	East African Monetary Union
EASBA	East African Stock Exchange Brokers Association
EASEA	East Africa Stock Exchanges Association
EASRA	East African Member States Securities Regulatory Authority
ESMID	Efficient Securities Markets Institutional Development
FSDRP	World Bank-funded Financial Sector Development and Regionalisation Project
GDP	Gross Domestic Product
GSE	Ghana Stock Exchange
IFC	International Financial Corporation
IPO	Initial Public Offering

JSE	Johannesburg Stock Exchange
MoU	Memorandum of Understanding
NiSE	Nigerian Stock Exchange
NSE	Nairobi Securities Exchange
OHADA	Organisation for the Harmonisation of Business Law in Africa
RSE	Rwanda Stock Exchange
SACU	Southern African Customs Union
SADC	Southern African Development Community
UMOEA	Union Monétaire et Économique de l'Afrique de l'Ouest
USE	Uganda Securities Exchange
WACMI	West African Capital Market Integration
WAEMU	West African Economic and Monetary Union



UNIVERSITY *of the*  
WESTERN CAPE

## TABLE ON CONTENTS

<b>DECLARATION</b> .....	<b>ii</b>
<b>DEDICATION</b> .....	<b>iii</b>
<b>ACKNOWLEDGEMENTS</b> .....	<b>iv</b>
<b>KEYWORDS</b> .....	<b>v</b>
<b>ACRONYMS AND ABBREVIATIONS</b> .....	<b>vi</b>
<b>CHAPTER ONE</b> .....	<b>1</b>
<b>INTRODUCTION AND BACKGROUND</b> .....	<b>1</b>
1.1. Background to the study .....	1
1.2. Context of Study .....	3
1.3. Problem Statement .....	6
1.4. Research Question .....	7
1.5. Research hypothesis .....	8
1.6. Significance of Study .....	9
1.7. Methodology .....	10
1.8. Chapter Outline .....	10
<b>CHAPTER TWO</b> .....	<b>12</b>
<b>CONCEPT OF STOCK EXCHANGE INTEGRATION</b> .....	<b>12</b>
2.1. Introduction .....	12
2.2. Concept of a stock exchange integration .....	13
2.2.1. Formal Structure .....	17
2.2.2. Informal Structure .....	18
2.3. Experience in Stock Exchange integration in Africa .....	20
2.4. Benefits of integrating Stock Exchanges and Building Block .....	25
2.5. Factors that influence the integration of the Stock Exchange .....	28
2.6. Conclusion .....	30



CHAPTER THREE .....	<b>32</b>
LEGAL AND REGULATORY SYSTEM OF STOCK MARKETS IN THE EAST AFRICAN COMMUNITY .....	<b>32</b>
3.1. Introduction.....	32
3.2. Historical Underpinning of Stock Exchanges in East African Community (EAC).....	32
3.3. Organs and Principles of the East African Community (EAC) .....	35
3.4. Efforts towards an integrated Stock Exchange in the East African Community (EAC) .....	36
3.5. Extant Legal and Regulatory Framework of the East African Community (EAC) on Stock Exchange integration.....	40
3.5.1. East African Community (EAC) Treaty.....	40
3.5.2. Protocol on the Establishment of the East African Community Common Market .....	42
3.5.3. The Council .....	42
3.5.3.1. East African Community (EAC) Council of Ministers Directives on Regional Listings in the Securities Market .....	43
3.5.3.2. East African Community (EAC) Council Directives on Securities Exchanges.....	45
3.5.3.3. Directives of the Council of Ministers of the East African Community (EAC) on Licensing in the Securities Market.....	45
3.5.3.4. Directives of the Council of Ministers of the East African Community (EAC) on Self-Regulatory Organisations .....	46
3.5.3.5. Directives of the Council of Ministers the East African Community (EAC) Securities Market Investor Compensation Funds .....	47
3.6. A critique of the five aforementioned directives.....	48
3.7. Inadequacies of the informal structure.....	49
3.7.1. Licensing regulations and approval requirements among the member states .	50
3.7.2. The difference in prudential and capital requirement .....	50
3.7.3. Cross-listing fee.....	51
3.7.4. Foreign Ownership Limitations.....	51
3.7.5. Cross-Border Investment Restrictions .....	52
3.7.6. Investor Compensation Funds: size and management.....	53
3.7.7. Absence of sanction on member states failure to transpose Council directives ..	54
3.8. Addressing the current gaps.....	55

3.8.1.	Use of formal structure and harmonisation strategy .....	55
3.8.2.	Promoting and involving institutional investors.....	56
3.8.3.	Lifting the veil on capital restriction.....	56
3.8.4.	Establishment of a common investment code .....	57
3.8.5.	Uniform Prudential and Capital Requirements; .....	57
3.9.	Conclusion.....	58

**CHAPTER FOUR..... 60**

**A CASE FOR THE USE OF A FORMAL STRUCTURE IN THE INTEGRATION OF STOCK EXCHANGES REGIONALLY..... 60**

4.1.	Introduction.....	60
4.2.	Formal structure versus Informal structure .....	61
4.3.	The West African Economic and Monetary Union (WAEMU) formal regional stock exchange.....	66
4.3.1.	Overview of the West African Economic and Monetary Union (WAEMU) .....	66
4.3.2.	The Bourse Regionale Des Valeurs Mobilier (BRVM).....	68
4.3.3.	Achievements so far .....	70
4.3.4.	Structural setting of the West African Economic and Monetary Union (WAEMU) stock market.....	72
4.3.5.	Institutional and Regulatory Framework of the West African Economic and Monetary Union (WAEMU) regional stock exchange.....	73
4.3.5.1.	Regional Council for Public Savings and Financial Markets (CREPMF).....	74
4.3.5.2.	Central Deposit and Settlement Organisation (DC/BR) .....	75
4.4.	Summary of the West African Economic and Monetary Union (WAEMU) formal stock exchange.....	76
4.5.	Lessons for the East African Community (EAC) .....	77
4.6.	Conclusion.....	78

**CHAPTER FIVE..... 80**

**CONCLUSIONS AND RECOMMENDATIONS..... 80**

5.1.	Introduction.....	80
5.2.	Summary of findings .....	81

5.3. Recommendations ..... 85

5.3.1. Proposal for 'Full Stock Exchange integration' under the Informal Structure.... 86

5.3.2. Proposal for 'Full integration of Stock Exchanges under the Formal Structure 87

5.4. Recommendations for further research ..... 88

**BIBLIOGRAPHY..... 89**



## CHAPTER ONE

### INTRODUCTION AND BACKGROUND

#### 1.1. Background to the study

The East African Community (EAC) is among the eight regional economic communities recognised under the platform of the African Union.<sup>1</sup> What has transformed to become the EAC was initially founded in 1967 with the name East African Co-operation, having Kenya, the United Republic of Tanzania and Uganda as members states.<sup>2</sup> The Treaty establishing the East African Cooperation was subsequently dissolved in 1977 owing to various reasons, including the perceived dominance of Kenya, misunderstandings on resource sharing and ideological differences of the three-member states.<sup>3</sup>

The Treaty for the Establishment of the East African Community of 1999 (henceforth called the EAC Treaty) signed by Kenya, Uganda, and the United Republic of Tanzania revived the EAC as we have it today.<sup>4</sup> These founding member states signed the EAC Treaty on 30 November 1999, and it entered into force on 7 July 2000.<sup>5</sup> In July 2007, Rwanda and Burundi joined the EAC.<sup>6</sup> The Republic of South Sudan became the last country to join the EAC in April 2016,<sup>7</sup> thereby bringing the total number of member states to the EAC Treaty to six.

As part of its objectives, EAC aims to widen and deepen cooperation among member states, for their mutual benefit, in the political, economic, social and cultural

---

<sup>1</sup>The other communities include Arab Maghreb Union (AMU), The Community of Sahel-Saharan States (CEN-SAD), Economic Community of Central African States (ECCAS), Economic Community of West African States (ECOWAS), Intergovernmental Authority on Development (IGAD), Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA). See United Nations Economic Commission for Africa 'Regional Economic Communities' available at <https://www.uneca.org/oria/pages/regional-economic-communities> (accessed on 17 July 2020).

<sup>2</sup>Njenga LN 'The legal status of the East African Community (EAC)' (2018) 22(3) *RUDN Journal of Law* 374.

<sup>3</sup> Verhaeghe E & Mathieson C 'Understanding the East African Community and its transport agenda' (2017) 2 available at <http://ecdpm.org/wp-content/uploads/EAC-Background-Paper-PEDRO-Political-Economy-Dynamics-Regional-Organisations-Africa-ECDPM-2017.pdf> (accessed on 19 June 2021).

<sup>4</sup> Kipkorir RB *Capital Market Integration in East Africa: Inadequacy of East African Council of Ministers Directives on Capital Market Integration* (Unpublished LL.B thesis, Strathmore University Law School, 2017) 1.

<sup>5</sup> Njenga LN (2018) 375.

<sup>6</sup> Kipkorir RB (2017) 1.

<sup>7</sup> Njenga LN (2018) 375.

fields, research and technology, defence, security and legal and judicial affairs.<sup>8</sup> These objectives are to be pursued by establishing a Customs Union, a Common Market, a Monetary Union, and ultimately a Political Federation.<sup>9</sup>

In the efforts towards widening and deepening economic cooperation among member states, initiatives have been targeted at stock exchange integration.<sup>10</sup> These initiatives are founded on certain mandates on member states in the EAC Treaty. As a starting point, according to Article 85(g) of the EAC Treaty, member states shall promote cooperation of their stock exchanges, capital markets and securities regulators through mutual assistance, the exchange of information and training.<sup>11</sup> In the same vein, it is provided in Article 85(h) of the EAC Treaty that member states shall promote the establishment of a regional stock exchange within the EAC with trading floors in each of the member states.<sup>12</sup> Connected to the foregoing provisions, Article 86(b) mandates member states to ensure that citizens and residents of other member states can acquire stocks, shares, and other securities or invest in enterprises in their states.<sup>13</sup>

The objective of facilitating stock exchange integration within the EAC did not originate with the EAC Treaty. In fact, even before signing the EAC Treaty, Kenya, Uganda, and the United Republic of Tanzania had, in 1977, signed a Memorandum of Understanding (MoU), setting out goals for mutually cooperating and harmonising their laws governing the securities exchange market.<sup>14</sup> The MoU established a regulatory authority, the East African Member States Securities Regulatory Authorities (EASRA), to coordinate the integration of the stock exchanges.<sup>15</sup>

---

<sup>8</sup> Article 5(1) of the Treaty Establishing the East African Community 1999.

<sup>9</sup> Article 5(2) of the Treaty Establishing the East African Community 1999.

<sup>10</sup> United Nations Economic Commission for Africa (UNECA) 'EAC – East African Community' available at <https://www.uneca.org/oria/pages/eac-%E2%80%93-east-african-community> (accessed on 17 July 2020); Onyuma SO 'Regional Integration of Stock Exchanges in Africa' 2006 *African Review of Money, Banking & Finance (Supplement Issue)* 109.

<sup>11</sup> Treaty Establishing the East African Community 1999.

<sup>12</sup> Treaty Establishing the East African Community 1999.

<sup>13</sup> Treaty Establishing the East African Community 1999.

<sup>14</sup> Capital Markets & Securities Authority 'Affiliated Organizations' available at <https://www.cmsa.go.tz/index.php/2015-03-01-17-53-26/affiliated> (accessed on 17 July 2020).

<sup>15</sup> Onyuma SO (2006)108-9; Capital Markets & Securities Authority 'Affiliated Organizations' available at <https://www.cmsa.go.tz/index.php/2015-03-01-17-53-26/affiliated> (accessed on 17 July 2020).

Currently, only four out of the six EAC member states have an established and functioning stock exchange.<sup>16</sup> Kenya's stock exchange, the Nairobi Securities Exchange (NSE), was the first to be established in 1954.<sup>17</sup> The Uganda Securities Exchange (USE) was established in 1997, while the Dar-es-Salaam Stock Exchange (DSE) for the United Republic of Tanzania was established in 1998.<sup>18</sup> In 2011, the last of these stock exchanges, the Rwanda Stock Exchange (RSE), was set up and started running.<sup>19</sup> Burundi and South Sudan are working on establishing and getting their stock exchanges up and running as well.<sup>20</sup>

Generally, EAC's regional financial services market remains small and dominated by banks. The stock exchange component of the financial services market has not developed as much as the banking sector.<sup>21</sup> The existing stock exchanges across the EAC vary in size, investor base, infrastructure, and regulatory and supervisory capacity.<sup>22</sup> Given the critical role of an integrated stock exchange regime in growing the respective stock exchanges within the EAC, stock exchange integration is a burning topic at the moment. But, sadly, the stock exchange integration process within the EAC remains slow even as full integration is far from sight.<sup>23</sup>

## 1.2. Context of Study

Economic interdependence and integration have been intensified by the desire to grow the movement of goods, services, financial capital and knowledge across

---

<sup>16</sup> Raubenheimer H *African Capital Market: Challenges and Opportunities* (2019) 41-2.

<sup>17</sup> Raubenheimer H (2019) 41-2.

<sup>18</sup> Raubenheimer H (2019) 41-2.

<sup>19</sup> Raubenheimer H (2019) 41-2.

<sup>20</sup> Iranzi F 'Burundi is Getting Ready to Launch its First Stock Exchange Market' available at <https://regionweek.com/burundi-is-getting-ready-to-launch-its-first-stock-exchange-market/> (accessed on 17 July 2020); The Kenyan Wall Street 'South Sudan Keen on Setting up a Stock Exchange' available at <https://kenyanwallstreet.com/south-sudan-keen-on-setting-up-a-stock-exchange/> (accessed on 17 July 2020).

<sup>21</sup> World Bank 'Scaling up Regional Financial Integration in the EAC' available at <http://documents1.worldbank.org/curated/en/974441468247855194/pdf/638100BRI0EAC000Box0361527B0PUBLIC0.pdf> (accessed on 17 July 2020).

<sup>22</sup> World Bank 'Scaling up Regional Financial Integration in the EAC' available at <http://documents1.worldbank.org/curated/en/974441468247855194/pdf/638100BRI0EAC000Box0361527B0PUBLIC0.pdf> (accessed on 17 July 2020).

<sup>23</sup> Onyuma S (2006) 108 - 9.

national and regional boundaries.<sup>24</sup> This assertion is supported by the fact that there are currently over 200 regional trade agreements.<sup>25</sup> Particularly, regarding the movement of financial capital, there has been an increasing move towards the integration of stock exchanges and their various stakeholders within regional and sub-regional blocs.<sup>26</sup>

Stock exchanges are of huge economic significance as they provide an efficient means of circulating wealth and stimulating economic growth.<sup>27</sup> This results from it providing a forum for raising capital through public regulated markets, lowering the cost of capital and providing a regulated market for the buying and selling of shares.<sup>28</sup> Particularly, listing on stock exchanges provide firms with a possible long-term source of capital for investment requirements.<sup>29</sup> These benefits seem to become even more replete as national stock exchanges integrate and cooperate among themselves. Ncube and Mingiri observed that integration of the stock exchanges leads to better-established markets and institutions, reduces operational costs and increases liquidity within markets.<sup>30</sup> They further noted that it boosts competitiveness, encourages information exchange across financial institutions, promotes innovations and offers more choices to companies and consumers.<sup>31</sup>

The integration of stock exchanges may occur within or outside a regional bloc. Mwenda identifies two structures/models that can be adopted in integrating stock exchanges regionally - formal and informal structures.<sup>32</sup> Under the formal structure, a stock exchange is established for the region, and this exchange is

---

<sup>24</sup>Yepes-Rios B, Gonzalez-Tapia K & Gonzalez-Perez MA 'The Integration of Stock Exchanges: The Case of the Latin American Integrated Market (MILA) and its Impact on Ownership and Internationalization Status in Colombian Brokerage Firms' (2015) 20 *Journal of Economics, Finance and Administrative Science* 85.

<sup>25</sup> Yepes-Rios B, Gonzalez-Tapia K & Gonzalez-Perez MA (2015) 85.

<sup>26</sup> Yepes-Rios B, Gonzalez-Tapia K & Gonzalez-Perez MA (2015) 85.

<sup>27</sup> Huggins R & Prokop D 'Stock markets and economic development: the case for regional exchanges' (2013) 5(3) *International Journal of Innovation and Regional Development* 281.

<sup>28</sup> Huggins R & Prokop D (2013) 281.

<sup>29</sup> Huggins R & Prokop D (2013) 281.

<sup>30</sup> Ncube G & Mingiri KF 'Stock Market Integration in Africa: The Case of the Johannesburg Stock Exchange and Selected African Countries' (2015) 14(2) *International Business & Economics Research Journal* 367.

<sup>31</sup> Ncube G & Mingiri KF (2015) 367.

<sup>32</sup> Mwenda KK & Muuka GN 'Prospects and Constraints to Capital Markets Integration in Eastern and Southern Africa' (2001) 2(1) *Journal of African Business* 48-9.

independent of the stock exchanges that may or may not exist at the national level.<sup>33</sup> Article 85(h) of the EAC Treaty earlier cited advocates for adopting the formal structure by providing for the establishment of a regional stock exchange for the EAC. In contrast, an informal structure does not adopt a centralised approach of having a stock exchange at the regional level; instead, it is segmented and mainly involves cooperation among national stock exchanges.<sup>34</sup> The informal structure can be understood in the context of Article 85(g) earlier mentioned, which, in the main, requires member states to promote the cooperation of their stock exchanges.

An excellent example of a formally structured regional stock exchange is the West African Economic and Monetary Union (WAEMU) regional stock exchange, formerly known as the Bourse Regionale Des Valeurs Mobilier (BRVM).<sup>35</sup> The BRVM stock exchange is regulated by the Regional Council for Public Savings and Financial Markets (CREPMF) and comprises eight French-speaking states of the WAEMU region.<sup>36</sup> These States comprise Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.<sup>37</sup> Due to its centralised structure and other factors, the BRVM stock exchange is among the leading market performers in the African securities market, with a market capitalisation of about US\$20.33 billion as of December 2020.<sup>38</sup>

Quite surprisingly, even with the mandate under Article 85(h) of the EAC Treaty, the regional stock exchange integration model implemented within the EAC is an informal market structure. No centralised stock exchange has been established for the EAC so far. What is provided for is an arrangement that facilitates cooperation among national stock exchanges to facilitate cross-listing transactions and foreign portfolio investment within the EAC. Even then, the full

---

<sup>33</sup> Mwenda KK & Muuka GN (2001) 49.

<sup>34</sup> Mwenda KK & Muuka (2001) 49.

<sup>35</sup> Bourse Regionale Des Valeurs Mobilier 'Background' available at <http://www.brvm.org/en/node/61597> (accessed on 26 July 2020).

<sup>36</sup> Bourse Regionale Des Valeurs Mobilier 'Background' available at <http://www.brvm.org/en/node/61597> (accessed on 26 July 2020).

<sup>37</sup> Bourse Regionale Des Valeurs Mobilier 'Background' available at <http://www.brvm.org/en/node/61597> (accessed on 26 July 2020).

<sup>38</sup> African Securities Exchange Association 'The African Exchanges Linkage Project (AELP) Phase 1' available at [file:///C:/Users/admine/Desktop/brochure210420\\_AELP\\_updated\\_FINAL-compressed.pdf](file:///C:/Users/admine/Desktop/brochure210420_AELP_updated_FINAL-compressed.pdf) (accessed on 3 May 2021) 10.



operationalisation of the informal structure of the regional stock exchange within the EAC is yet to be achieved.<sup>39</sup>

### 1.3. Problem Statement

Many writers and commentators have buttressed the significance of stock exchange integration in advancing growth and development within the participating member states.<sup>40</sup> In establishing such Regional stock exchange, the formal structure has been promoted to have more benefits than the informal structure.<sup>41</sup> Among the benefits of the formal structure include the feasibility of the structure, the security, predictability and protection of investors, strategy for capital market development, promoting an efficient and competitive market, and developing economies of scale.<sup>42</sup> Also, the formal structure provides room for efficiency, presence of multiple listing and monitoring of the stock exchanges through a centralised approach.<sup>43</sup> Seeing all these benefits, it is therefore surprising that the EAC opted for an informal approach against the formal structure.

Dorodnykh, one of the leading authors on stock exchange integration, extended a tripod test for determining whether stock exchanges have been 'fully integrated' irrespective of the model that has been adopted.<sup>44</sup> He notes that there is 'full integration' where all identical potential market participants in such market:<sup>45</sup>

- (a) Face the same set of rules when dealing in financial instruments and services in the market;
- (b) Have equal access to financial services and the market; or
- (c) They are treated equally when they are active in the market.

---

<sup>39</sup> Lutwama JS *Capital Market Integration: Strategies For The East African Community* (2010) 8.

<sup>40</sup> Yartey CA & Adjasi CK *Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges* (2007) 4.

<sup>41</sup> Mwenda KK & Muuka GN 'Prospects and Constraints to Capital Markets Integration in Eastern and Southern Africa' (2001) 2(1) *Journal of African Business* 50.

<sup>42</sup> Mwenda KK & Muuka GN (2001) 51.

<sup>43</sup> Mwenda KK & Muuka GN (2001) 71.

<sup>44</sup> Dorodnykh E 'What Drives Stock Exchange Integration?' (2013) 6(2) *International Journal of Economic Sciences and Applied Research* 49.

<sup>45</sup> Dorodnykh E (2013) 49.

Unfortunately, a review of available literature that has assessed the state of stock exchange integration within the EAC indicates that the conditions specified by Dorodnykh are yet to be present. Put differently, full integration has not yet been achieved within the EAC. The EAC's stock exchange integration under the informal structure is defined by numerous challenges, including differences in licensing requirements, cross-listing fees, foreign ownership, and cross-border investments as well inconsistencies in the regulation of derivatives and investor compensation funds.<sup>46</sup> This situation raises questions about whether the formal structure could present a better alternative to the informal structure towards achieving 'full integration' of the stock exchanges within the EAC. Additionally, in the event that the implementation of the formal structure is not feasible, what form of reforms could be made to the extant informal structure to accelerate its attainment of full integration.

#### **1.4. Research Question**

Against the above background, this mini-thesis principally sought to determine the legal and regulatory factors inhibiting the full integration of the stock exchanges within the EAC and underscore the role of a formal structure in expediting the integration process. In addressing the above central question, the study will meet the following objectives:

- (a) To demystify the concept of stock exchange integration, focusing on the regional stock exchange, its penetration in the African continent and the economic benefits it presents.
- (b) To establish the factors that influence the development of a stock exchange regionally as presented by related literature on the topic.
- (c) To underscore the concept of a formally structured regional stock exchange compared to the informal regional stock exchange.

---

<sup>46</sup> Lutwama JS (2010) 14-15.

- (d) To assess how the informal structure of integration adopted within the EAC could have stood in the way of full stock exchange integration.
- (e) To examine the utility of a formally integrated stock exchange in facilitating full integration using the Bourse Regionale Des Valeurs Mobilier (BRVM) as a case study in order to extend recommendations for reforms to the EAC's approach.

## 1.5. Research Hypothesis

This study is premised on the following arguments:

- 1.5.1. To unlock the benefits and opportunities inherent in stock exchange integration, it is imperative that the integrated stock exchanges achieve the status of full integration. Stock exchanges are said to be fully integrated when they meet the following indices;<sup>47</sup>
  - (a) A uniform set of rules are applied to all market participants in the integrated stock market
  - (b) The market participants have equal access to the integrated stock market and the services offered; and
  - (c) The market participants in the integrated stock market are treated equally when they are active in the market.
- 1.5.2. Full integration can be achieved both under a formal and informally structured integrated stock exchange. However, the structure and architecture of a formally structured stock exchange may facilitate the attainment of full integration to be faster and more seamless than the informal structure.
- 1.5.3. The EAC informal structure of stock exchange integration currently being practised and adopted is poorly suited for attaining a full stock exchange integration. It is assumed that adopting a formal structure will provide a better framework for achieving full integration and even serve member states of the EAC that do not have stock exchanges better.

---

<sup>47</sup> Dorodnykh E (2013) 49.

1.5.4. Moving to the formal structure of stock exchange integration is an option that would present significant benefits to the EAC. Especially given that the objectives of stock exchange integration have not been achieved by adopting a formal structure. Nonetheless, certain initiatives could be taken, and adjustments could be made to the existing informal structure to optimise its potential to achieve full stock exchange integration.

## **1.6. Significance of the Study**

As stated above, stock exchanges play a pivotal role in the economy. Integration of stock exchanges in a region stimulates economic growth and development. Given this, the EAC made initiatives to integrate their stock exchanges in the region by adopting the informal structure. The EAC has managed to cooperate and cross-list securities across the region. However, the informal structure has its shortfalls. These shortfalls include inconsistency in licensing requirements, cross-listing fees, foreign ownership, and cross-border investment restrictions. These shortfalls impede the achievement of a full integration stock exchange integration in the region.

The EAC would therefore benefit from an efficient and autonomous formal structure of a regional stock exchange. This structure would ensure sustainability in the growth of the economy. It would do so by luring investors, increasing the pool of funds, boosting investor confidence, and providing a secure and predictable environment. It will also eliminate legislative risk and make room for exploring other avenues that can develop the economy and increase competition—for example, multiple listing of securities. Furthermore, a formal structure will overcome the shortfalls in the current structure adopted.

Drawing from the foregoing, the study, therefore, would add to other scholarly works and be of practical use in assisting policymakers and the drivers of the integration programme in expediting the integration of the EAC stock exchanges. Despite the possibility of the proposed structure not being adopted fully, it is hoped that the study would be a valuable addition to the wealth of knowledge on effective and efficient securities sector regulation of the EAC regional stock exchange. One would hope that this study can provide a firm ground and basis for

further research in this field and facilitate the EAC Treaty vision by aiding to push a full stock exchange integration in the EAC region.

## 1.7. Methodology

The study was completed using the desk research methodology. There was a qualitative review of primary and secondary literature on stock exchange integration, particularly in Africa. The literature source comprises peer-reviewed articles, working papers, reports, dissertations and internet materials.

The study has also employed descriptive, analytical, prescriptive, and comparative techniques in addressing the research questions and object. Regarding the comparative approach, the study used the structural and legal framework under the BRVM to draw lessons for the EAC. Three reasons have motivated the choice of the BRVM. First, it is in Africa, and this being the case, there is a strong basis for considering that its structure and framework can easily be replicated in another region within the African continent. Secondly, the structure under the BRVM is a formal structure that the study seeks to propose to be adopted within the EAC. Lastly, BRVM has achieved commendable market performance under its formal structure.<sup>48</sup>

## 1.8. Chapter Outline

The study comprises five chapters that address the following issues:

Chapter one presents an introduction to the study from a historical perspective, including addressing other preliminary matters such as the problem statement, research question and objectives, research hypothesis, significance of the study, and research methodology. Lastly, the chapter provides for the study's outline.

---

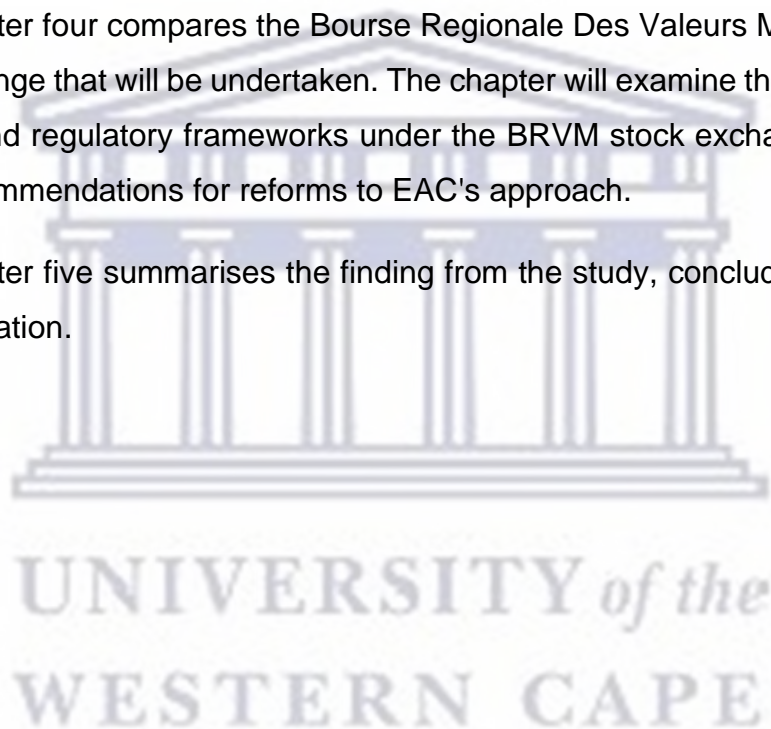
<sup>48</sup> African Markets 'Market Performance: overview' available at <https://www.african-markets.com/en/stock-markets> (accessed on 26 July 2020); African 'Xchanges 'BRVM Stock Exchange (BRVM) Live' available at <https://afx.kwayisi.org/brvm/> (accessed on 26 July 2020).

Chapter two explains the concept of a stock exchange, stock exchange integration, and the structures adopted in the stock exchange integration. The chapter will also outline the developments in stock exchanges in Africa, the benefits, building blocks and factors that influence the development of a stock exchange regionally.

Chapter three examined the EAC's current legal and regulatory frameworks under the informal structure adopted for stock exchange integration. The chapter will further highlight the various challenges in the structure adopted and address the gaps in that structure.

Chapter four compares the Bourse Regionale Des Valeurs Mobilier (BRVM) stock exchange that will be undertaken. The chapter will examine the efficacy of the structural and regulatory frameworks under the BRVM stock exchange in order to extend recommendations for reforms to EAC's approach.

Chapter five summarises the finding from the study, conclude and makes a recommendation.



## CHAPTER TWO

### CONCEPT OF STOCK EXCHANGE INTEGRATION

#### 2.1. Introduction

One of the numerous impediments to the growth of Africa's economy, as expected, is the problem of unaffordable, unavailability and inadequate access to finance for businesses, especially small and medium-sized enterprises (SMEs).<sup>49</sup> According to The World Bank, access to finance is among the most cited obstacles constraining SMEs' growth in emerging and developing countries.<sup>50</sup>

In seeking ways to improve access to finance, for the most part, the focus has been on how to enhance bank lending, which, unfortunately, has become increasingly more expensive and challenging to access following the global financial crisis.<sup>51</sup> However, there is also a growing emphasis on expanding the range of financing options available to businesses. Consequently, it has increased awareness in policy circles on the potential roles of stock markets in improving access to finance.<sup>52</sup>

Policymakers and governments across Africa have been called upon to develop and support stock market activities that enable the issuing, buying, and selling of debt and equity securities as a means to unlock financing to the private sector. Initially, the focus was on developing these markets nationally; however, recent decades have witnessed considerable efforts at sub-regional levels in Africa towards integrating stock exchanges.

Against this background, this chapter will begin by discussing stock exchange and stock exchange integration concepts. The chapter will also discuss the structures used in the integration of stock exchange within a region. It will further

---

<sup>49</sup> International Finance Corporation *Report on MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets* (2017) 31; World Trade Organisation (WTO) *Report on Trade Finance and SMEs: Bridging the gaps in provision* (2016) 8; Osei-Asabi E 'Source of finance and small enterprise's productivity growth in Ghana' (2013) 4(3) *African Journal of Economic and Management Studies* 372.

<sup>50</sup> The World Bank 'Small and Medium enterprises (SMEs) Finance: Improving SMEs' Access to Finance and Finding Innovative Solutions to Unlock Sources of Capital' available at <https://www.worldbank.org/en/topic/smefinance> (accessed on 21 April 2020).

<sup>51</sup> World Federation of Exchanges *Report on SME Financing and Equity Markets* (2016) 3.

<sup>52</sup> World Federation of Exchanges (2016) 3.

discuss developments in stock exchanges in Africa as well as the building blocks and the factors influencing this development. This will be followed by highlighting the benefits of stock exchange integration. The discussion in this chapter aims to provide the foundation for understanding reasons that have motivated the integration of stock exchanges within the East African Community (EAC) and the form of integration currently being adopted in the region.

## 2.2. Concept of a Stock Exchange Integration

Before discussing what stock exchange integration entails, it is crucial that the term 'stock exchange' is first explained. Understanding what a stock exchange is would assist in appreciating the motivations for developing stock exchanges at national and regional levels. The best approach to defining a stock exchange is to identify its place in the capital market.

Olusoji and Enofe describe the capital market as a segment of the financial market established to mobilise and utilise long-term funds for social, economic, and industrial development.<sup>53</sup> They further explain that the capital market provides a platform for eligible trading equities and debt securities, particularly government bonds and the shares and bonds of companies.<sup>54</sup> On the other hand, Mihajlovic describes that the capital market has a market in which long term investments for periods greater than one year are offered and traded in the market and other existing issued securities.<sup>55</sup>

The capital market comprises two segments, namely, primary and secondary markets.<sup>56</sup> The primary market provides a platform where securities are issued for the first time by governments or companies. If a company has never issued its securities to investors, the offer to investors to purchase the securities is termed Initial Public Offering (IPO).<sup>57</sup> After a company has done an IPO, it can also issue

---

<sup>53</sup> Olusoji MO & Enofe EE 'Capital Market and the Development of the Small and Medium – Scale Enterprises in Nigeria' (2012) 5(4) *IOSR Journal of Business and Management* 5.

<sup>54</sup> Olusoji MO & Enofe EE (2012) 5.

<sup>55</sup> Mihajlovic L 'Functioning of Financial and Capital Markets in Modern Conditions' (2016) 4(4) *Journal of Process Management New Technologies* 31.

<sup>56</sup> Mihajlovic L (2016) 31.

<sup>57</sup> Mihajlovic L (2016) 31.



additional securities to investors in the primary market, known as a Public Offering simpliciter.<sup>58</sup> Also, the assembling of capital occurs through a prospectus, rights issue and sale of securities to private investors, also known as a private placement.<sup>59</sup>

On the other hand, the secondary market provides a platform where securities earlier issued and purchased in the primary market are subsequently traded between investors. Issuing companies play no part in the secondary market; the main actors are investors selling and buying securities.<sup>60</sup>

The stock exchange falls under the secondary market. Generally, a stock exchange is a specialised, centralised and organised market designed to trade financial securities listed within them.<sup>61</sup> It is a market where securities such as shares and bonds are sold and bought.<sup>62</sup> In a stock exchange, buyers and sellers do not transact personally; instead, they are mediated by people licensed to trade, such as stockbrokers and traders.<sup>63</sup> The stock exchange activities are guided by numerous documents, including a legal framework, constitution, by-laws and rules and regulations that govern membership, listing, trading, and other organisational and operational matters.<sup>64</sup>

According to El-Wassal, the stock exchange's primary function is to serve as a mechanism for transforming savings into financing for the real sector.<sup>65</sup> He adds that the stock exchange also helps accelerate economic growth by mobilising and boosting domestic savings and improving the quantity and quality of investment.<sup>66</sup> Sometimes the term stock exchange is used interchangeably with the stock market. However, more technically, the stock market comprises numerous funding

---

<sup>58</sup> Mihajlovic L (2016) 31; Business Jargons 'Capital Markets' available at <https://businessjargons.com/capital-market.html> (accessed on 11 February 2021).

<sup>59</sup> Business Jargons 'Capital Markets' available at <https://businessjargons.com/capital-market.html> (accessed on 11 February 2021); Mihajlovic L (2016) 31.

<sup>60</sup> Mihajlovic L (2016) 31.

<sup>61</sup> Statistical Economic and Social Research and Training Center for Islamic Country' (2005) 26(2) *Journal of Economic Cooperation* 38.

<sup>62</sup> IG 'Stock Exchange Definition' available at <https://www.ig.com/za/glossary-trading-terms/stock-exchange-definition> (accessed on 6 October 2020).

<sup>63</sup> Harper D 'Getting to Know the Stock Exchanges' available at <https://www.investopedia.com/articles/basics/04/092404.asp> (accessed on 6 October 2020).

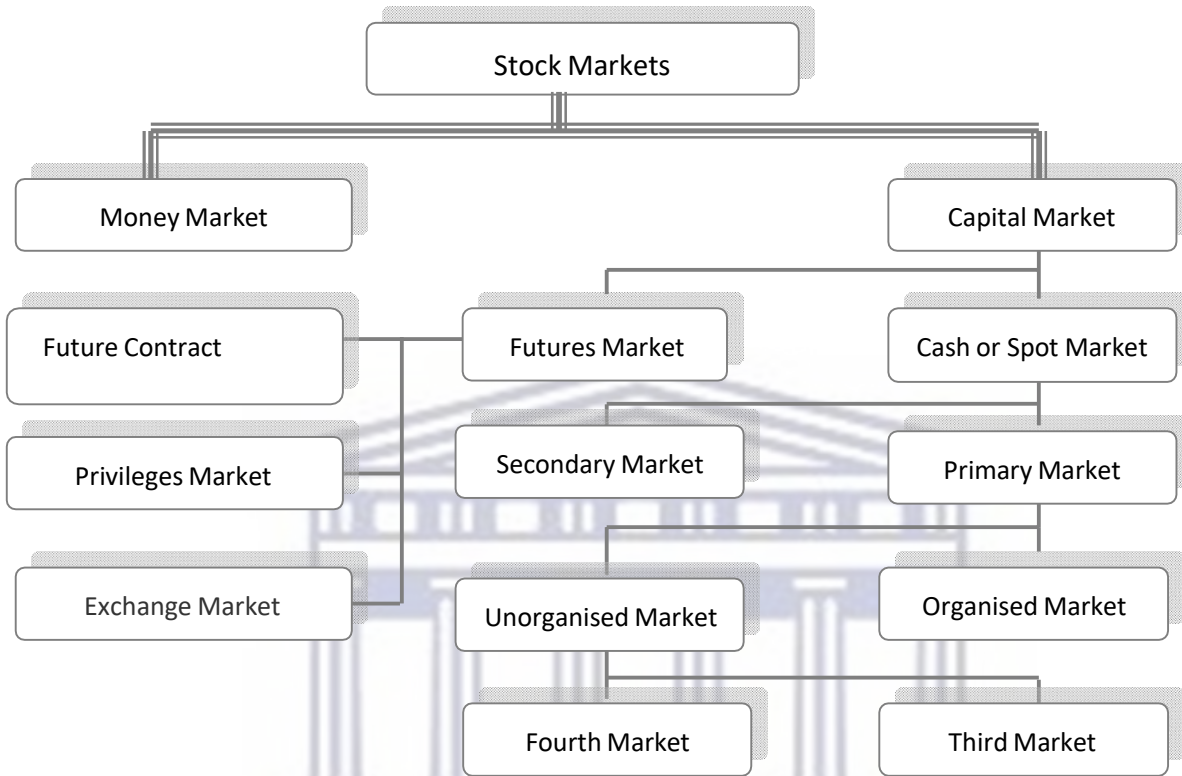
<sup>64</sup> Statistical Economic and Social Research and Training Center for Islamic Country (2005) 38.

<sup>65</sup> El-Wassal KA 'The Development of Stock Markets: in Search of a Theory' (2013) 3(3) *International Journal of Economics and Financial Issues* 606.

<sup>66</sup> El-Wassal KA (2013) 606.

platforms, including money, market, and capital markets, as shown in Table 1 below;<sup>67</sup>

**Table 1: OVERVIEW OF THE STOCK MARKET**



The primary and secondary markets in the capital market complement each other. It will be more promising for a company to sell its securities to raise capital in the primary market and encourage buyers to purchase the same in the primary market. There is an established and efficient secondary market where these securities can subsequently be traded.

Having explained what a stock exchange is and pinned its place in the capital market, the explanation of stock exchange integration then follows.

Calvi provides an apt and useful definition.<sup>68</sup> He defines stock exchange integration as an action where national stock exchanges become more closely integrated with those in other states or regions, eliminating barriers to exchange and more efficient capital allocation.<sup>69</sup> Dorodnykh observes that stock exchange

<sup>67</sup> Masoud N 'The Impact of Stock Market Performance upon Economic Growth' (2013) 3(4) *International Journal of Economics and Financial Issues* 789-790.

<sup>68</sup> Calvi R *Assessing Financial Integration: A Comparison between Europe and East Asia* (2010) 3.

<sup>69</sup> Calvi R (2010) 3.

integration enables investors to buy and sell securities in another country without restrictions.<sup>70</sup> He further notes that a peculiar attribute of integrated stock exchanges is that identical securities are issued and traded at the same price across markets after adjusting foreign exchange rates.<sup>71</sup>

There are different ways through which stock exchanges can be integrated. Stock exchange integration could range from decentralised arrangements to fully integrated ones. In line with the theme of this study, a stock exchange can be integrated regionally – a regional stock exchange. As the name suggests, a regional stock exchange is a stock exchange created for a region.<sup>72</sup> Usually, such a stock exchange will be established under the platform of a regional economic community such as the EAC. Mwenda explains that the stock exchange created for the region will be located in one of the countries in the region.<sup>73</sup> It is good to clarify that in some places like the United States of America, the term regional stock exchange is used to describe stock exchanges outside New York City.<sup>74</sup> However, its usage in this study relates to stock exchanges created for a regional bloc.

According to Pieper and Vogel, regional stock exchanges are markets where investors can, in one country, buy and sell without restriction equities that are issued in another country.<sup>75</sup> He further explains that identical securities are issued and traded at the same price across markets after adjusting foreign exchange rates in such markets. Ganti explains that securities qualified for listing in national exchanges can also be listed under the regional exchange, given that regional stock exchanges are regarded as sub-markets of national exchanges.<sup>76</sup>

Furthermore, stock exchanges may also be integrated outside a regional arrangement. On this note, Onyuma explains that an integrated stock exchange can

---

<sup>70</sup> Dorodnykh E 'What Drives Stock Exchange Integration?' (2013) 6(2) *International Journal of Economic Sciences and Applied Research* 49.

<sup>71</sup> Dorodnykh E (2013) 49.

<sup>72</sup> Chisadza MW *The Role of Cross-Listings in Establishing a SADC Regional stock exchange* (unpublished LL.M thesis, University of the Western Cape, 2013) 1.

<sup>73</sup> Mwenda KK *Legal Aspects of Corporate Finance: The Case for an emerging stock market* (unpublished PhD thesis, Warwick University, 2000) 131.

<sup>74</sup> Ganti A 'Regional stock exchange available at <https://www.investopedia.com/terms/r/regionalstockexchange.asp> (accessed on 1 October 2020).

<sup>75</sup> Dorodnykh E *Stock Market Integration: An International Perspective* (2014) 51.

<sup>76</sup> Ganti A 'Regional stock exchange available at <https://www.investopedia.com/terms/r/regionalstockexchange.asp> (accessed on 1 October 2020).

be organised as a consortium of stock exchanges within proximate geographic nations and not necessarily within a regional economic community.<sup>77</sup> Stock exchanges can also be integrated through cooperation among select national stock exchanges, either within or in different regions. Under this form of integration, an independent stock exchange is not created as with a regional stock exchange.

The integration of stock exchanges is also classified in terms of the structure adopted. Under this classification, a distinction can be drawn between formal and informal structures of integration. These two are explained below:

### 2.2.1. Formal Structure

A formal structure used in stock exchange integration is a structure with centralised governance.<sup>78</sup> The centralised governance will have a single regulator and institution overseeing the stock exchanges. Mwenda and Muuka further observe that a regional stock exchange established under the formal structure can exist alongside the national stock exchanges.<sup>79</sup> Given this, a regional supervisory authority must be established to regulate activities in a region's formal stock exchange.<sup>80</sup> The regional authority established shall be responsible for the approval of the conduct of business in the formal regional stock exchange.<sup>81</sup>

Correspondingly, Lutwama agrees that a formal stock exchange integration in a region can have sole regulatory authority.<sup>82</sup> The sole regulatory authority will have a single regulator operating under a supranational regulatory authority.<sup>83</sup> He further explains that having a single regulatory authority regulating the stock exchanges in the region ensures consistency in the setting and application of regulations across the region's stock exchanges.<sup>84</sup>

---

<sup>77</sup> Onyuma SO 'Regional Integration of Stock Exchanges in Africa' 2006 *African Review of Money, Banking & Finance (Supplement Issue)* 103.

<sup>78</sup> Mwenda KK & Muuka GN 'Prospects and Constraints to Capital Markets Integration in Eastern and Southern Africa' (2001) 2(1) *Journal of African Business* 49.

<sup>79</sup> Mwenda KK & Muuka GN (2001) 49.

<sup>80</sup> Mwenda KK (2000) 350.

<sup>81</sup> Mwenda KK (2000) 350.

<sup>82</sup> Lutwama JS *Capital Market Integration: Strategies For The East African Community* (2010)19.

<sup>83</sup> Lutwama JS (2010) 19.

<sup>84</sup> Lutwama JS (2010) 19.

The formal structure is not without its benefits. Mwenda observes that a formal structure of integrating stock exchanges in a region opens doors for increased liquidity, cost-effectiveness and quicker executions of security activities.<sup>85</sup> It will also give room to obtain the best market prices in any member state where an investor has cross-listed securities.<sup>86</sup> He further argues that multiple-listing of securities in the region will be possible in a formal structure.<sup>87</sup>

In respect of the observations made above, the following characteristics of a formal structure can be extracted;

- (a) Presence of a single regulator
- (b) Co-existence of National stock exchanges with the regional stock exchange
- (c) Multiple listing of securities
- (d) Presence of a regional institution overseeing the stock market activities, also known as a regional supervisory authority.

### 2.2.2. Informal Structure

An informal structure of integrating stock exchanges is segmented, unlike the formal one that is centralised.<sup>88</sup> In this structure, the national stock exchanges mutually harmonise their laws and cooperate. There is no supranational regulator and institution. Instead, each member state has a separate regulator and institution regulating their national stock exchanges in the region. In the formal structure, member states' national stock exchanges mostly cross-list in each other's stock exchanges.<sup>89</sup>

Mwenda observes that national stock exchanges can establish securities to be traded at a regional level through the dual listing or multiple listing in an informal structure.<sup>90</sup> He further explains that this arrangement is not expensive to set up.<sup>91</sup> He observes that harmonising the national laws and rules regulating the national

---

<sup>85</sup> Mwenda KK (2000) 356; see also Mwenda KK (2000).

<sup>86</sup> Mwenda KK (2000) 356; see also Mwenda KK (2000).

<sup>87</sup> Mwenda KK (2000) 356; see also Mwenda KK Securities Regulation And Emerging Markets: Legal And Institutional Issues For Southern And Eastern Africa' (2000) 7(1) *Murdoch University Electronic Journal of Law* ( hereafter referred as Mwenda KK 2000).

<sup>88</sup> Mwenda KK & Muuka (2001) 49.

<sup>89</sup> Mwenda KK & Muuka (2001) 49.

<sup>90</sup> Mwenda KK (2000) 133.

<sup>91</sup> Mwenda KK (2000) 133.

stock exchanges of the member states within the region must be made to make the arrangement work.<sup>92</sup>

Similarly, Lutwama argues that a single market can be created in an informal structure. He observes that markets could merge, enter a joint venture, or have cooperation agreements allowing for cross-listing in an informal structure.<sup>93</sup> His observations are explained as follows;

- (a) Mergers are when firms seeking to diversify their activities and who are in combined entities mutually agree to merge and move to become one entity.<sup>94</sup> Another option is for the merged entities to be under one brand, but each entity operates separately under different regulators and jurisdictions.<sup>95</sup>
- (b) Joint Ventures; is the pooling of resources by two independent firms that ally for a particular activity.<sup>96</sup>
- (c) Cooperation Agreements; involves the national stock exchanges within the region agreeing to cooperate through allowing cross remote access or memberships and cross-listing securities on national stock exchanges.<sup>97</sup> It is contended that cross-listing tends to split the liquidity between markets instead of increasing liquidity to the integrated stock markets, therefore defeating the goal of integrating stock exchanges.<sup>98</sup> Further, the cross-listing agreement between national stock exchanges may be untenable due to increased competition across the region's stock exchanges.<sup>99</sup> This increase in competition will subject these national stock exchanges to compete for liquidity on the same security; therefore, reducing trading in cross-listed securities across the exchanges or cross-listed securities remains primarily in the home market.<sup>100</sup>

---

<sup>92</sup> Mwenda KK (2000) 133.

<sup>93</sup> Lutwama JS (2010) 4.

<sup>94</sup> Lutwama JS (2010) 25.

<sup>95</sup> Lutwama JS (2010) 25.

<sup>96</sup> Lutwama JS (2010) 26.

<sup>97</sup> Lutwama JS (2010) 26.

<sup>98</sup> Lutwama JS (2010) 27.

<sup>99</sup> Lutwama JS (2010) 27.

<sup>100</sup> Lutwama JS (2010) 27.

With the observations made above, the following characteristics of the informal structure stand out

- (a) Harmonisation of national laws and cooperation through agreements among the member states.
- (b) Every member state has its independent regulatory authority
- (c) Presence of cross-border and multiple listing on national stock exchanges.
- (d) Each domestic exchange has different listing requirements and regulations for financial intermediaries.

### 2.3. Experience in Stock Exchange Integration in Africa

Due to advancements in technology and globalisation, countries have a growing need to expand their stock exchange activities beyond their national borders.<sup>101</sup> This has led to the proliferation of a few integrated stock exchanges, even within Africa.<sup>102</sup>

The penetration of integration of stock in Africa can be said to have its roots in regionalism. Starting with the first regional economic community, the Southern African Customs Union (SACU), established in 1910, regionalism in Africa was primarily targeted at boosting trade.<sup>103</sup> However, African countries have diversified from integrating for trade and customs union purposes to financial, economic and monetary integrations over the years.<sup>104</sup> An integrated stock exchange is complementary to financial integration as it facilitates the movement of financial capital.<sup>105</sup>

Integration initiatives in more developed regions, mainly Europe, have greatly influenced Africa's regionalism in general and the efforts towards diversification.<sup>106</sup>

---

<sup>101</sup> Onyuma SO (2006) 97.

<sup>102</sup> Onyuma SO (2006)103.

<sup>103</sup> South African Customs Union 'History of SACU' available at <http://www.sacu.int/about/history-old.html> (accessed on 6 November 2020).

<sup>104</sup> African Development Bank Group *Working Paper on Regional Financial Integration and Economic Activity in Africa* (2017) 4.

<sup>105</sup> Yepes-Rios B, Gonzalez-Tapia K & Gonzalez-Perez MA 'The Integration of Stock Exchanges: The Case of the Latin American Integrated Market (MILA) and its Impact on Ownership and Internationalization Status in Colombian Brokerage Firms' (2015) 20 *Journal of Economics, Finance and Administrative Science* 85.

<sup>106</sup> Fioramonti L & Mattheis F 'Is Africa Really Following Europe? An Integrated Framework for Comparative Regionalism' (2016)54(3) *Journal of Common Market Studies* 675.

Many developed countries in these other regions made significant changes to their financial markets and became more financially integrated.<sup>107</sup>

They intensely pursued liberalisation of trade internationally and in global exchanges, therefore creating a 'liberalisation global trend'.<sup>108</sup> Due to the global trend, the African governments came to an ideological shift and realised that it is beneficial to have an open market.<sup>109</sup> The governments believed some of these benefits were to elevate the domestic financial sector and attract investors' inflow and the quality of investments.<sup>110</sup> Subsequently, African countries started to consider restructuring their financial sectors by allowing their stock exchange markets to integrate and operate at regional levels.<sup>111</sup>

The rapid development of national stock exchanges is another critical factor in inspiring stock exchanges integration in Africa. In the last two decades, stock exchanges in African countries rapidly increased. For instance, before 1989, the sub-Sahara of Africa only had five established stock exchanges and three in North Africa.<sup>112</sup> Interestingly, out of 54 sovereign states in Africa, forty have established official stock exchanges in the continent.<sup>113</sup> Out of the forty countries with established stock exchanges, six countries from the Economic and Monetary Community of Central Africa (CEMAC) region and eight from the West African Economic and Monetary Union region formed their own single regional stock exchange. The fourteen states without official stock exchanges are Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Liberia, Madagascar, Mauretania, São Tomé & Príncipe and South Sudan.<sup>114</sup> Table 2 below provides for the official stock exchanges in Africa, together with their year of establishment.<sup>115</sup>

---

<sup>107</sup> Yartey CA & Adjasi CK *Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges* (2007) 3.

<sup>108</sup> Yartey CA & Adjasi CK (2007) 3.

<sup>109</sup> Moss T *Economic Factors: The Technocratic Rationale for African Stock Markets*. In: *Adventure Capitalism* (2003) 22.

<sup>110</sup> Yartey CA & Adjasi CK (2007) 3.

<sup>111</sup> Moss T (2003) 22.

<sup>112</sup> Yartey CA & Adjasi CK (2007) 3.

<sup>113</sup> Schiereck D, Freytag A & Grimm M, et al *Public corporations in Africa: A continental survey on stock exchanges and capital markets performance* (2018) 3.

<sup>114</sup> Schiereck D, Freytag A & Grimm M, et al (2018) 5.

<sup>115</sup> Schiereck D, Freytag A & Grimm M, et al (2018) 3-4.



**Table 2: AFRICAN STOCK EXCHANGES**

#	Economy	Stock Exchange	Short	Location	Currency	Founded
1	Algeria	Algiers Exchange	Stock	SGBV	Algiers	DZD 1997
2	Botswana	Botswana Exchange*	Stock	BSE	Gaborone	BWP 1995
3	Cameroon	Douala Exchange*	Stock	DSE	Douala	XAF 2001
4	Cabo Verde	Bolsa de Valores de Cabo Verde*		BCV	Praia	CVE 2005
5	CEMAC	Bourse Régionale des Valeurs Mobilières d'Afrique Centrale		BVMA C	Libreville (Gabon)	XAF 1994
6	Egypt	Egyptian Exchange*		EGX	Cairo/ Alexandria	EGP 1883
7	Ghana	Ghana Exchange*	Stock	GSE	Accra	GHS 1990
8	Kenya	Nairobi Exchange*	Securities	NSE	Nairobi	KES 1954
9	Lesotho	Maseru Exchange	Securities	MSM	Maseru	LSL 2016
10	Libya	Libyan Stock Market*		LSM	Tripolis	LYD 2007
11	Malawi	Malawi Exchange*	Stock	MSE	Blantyre	MWK 1996

12	Mauritius	Stock Exchange of Mauritius*	SEM	Port Louis	MUR	1988
13	Morocco	Casablanca Stock Exchange*	CSE	Casablanca	MAD	1929
14	Mozambique	Bolsa de Valores de Moçambique*	BVM	Maputo	MZN	1999
15	Namibia	Namibia Stock Exchange*	NSX	Windhoek	NAD	1992
16	Nigeria	Nigerian Stock Exchange*	NGSE	Lagos	NGN	1960
17	Rwanda	Rwanda Stock Exchange*	RSE	Kigali	RWF	2005
18	UEMOA	Bourse Régionale des Valeurs Mobilières*	BRVM	Abidjan (Côte d'Ivoire)	XOF	1998
19	Seychelles	Seychelles Securities Exchange*	Trop-X	Victoria	SCR	2012
20	Sierra Leone	Sierra Leone Stock Exchange*	SLS	Freetown	SLL	2009
21	Somalia	Somali Stock Exchange	SSE	Garowe	SOS	2015
22	South Africa	Johannesburg Stock Exchange*	JSE	Johannesburg	ZAR	1887
23	Sudan	Khartoum Stock Exchange*	KSE	Khartoum	SDG	1994

24	Swaziland	Swaziland Stock Exchange*	SSX	Mbabane	SZL	1990
25	Tanzania	Dar Es Salaam Stock Exchange*	DSE	Dar Es Sa-laam	TZS	1998
26	Tunisia	Bourse de Tunis*	BVMT	Tunis	TND	1969
27	Uganda	Uganda Securities Exchange*	USE	Kampala	UGX	1997
28	Uganda	ALTX East Africa Exchange	ALTX	Kampala	UGX	2016
29	Zambia	Lusaka Securities Exchange*	LuSE	Lusaka	ZMK	1994
30	Zimbabwe	Zimbabwe Stock Exchange*	ZSE	Harare	ZWD	1946

Source: Schiereck D, Freytag A & Grimm M, et al<sup>116</sup>

As captured in the above table, the African continent currently has thirty stock exchanges, and two are Regional stock exchanges.<sup>117</sup> The two Regional stock exchanges presently operating in Africa are the Bourse Régionale des Valeurs Mobilières (BRVM) and the Bourse des Valeurs Mobilières de l'Afrique Centrale (BVMAC).<sup>118</sup> Other regional economic communities within the continent, including the EAC, have also intensified efforts towards integrating their stock exchanges, even though at present it operates an informal integrated structure involving regional cooperation of the stock exchanges with the regional bloc.

<sup>116</sup> Schiereck D, Freytag A & Grimm M, et al (2018) 3-4.

<sup>117</sup> Schiereck D, Freytag A & Grimm M, et al (2018) 3-4.

<sup>118</sup> Schiereck D, Freytag A & Grimm M, et al (2018) 5 (BRVM comprises of Benin, Burkina Faso, Guinea Bissau, Côte d'Ivoire, Mali, Niger, Senegal and Togo and BVMAC comprises of Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea and Gabon).

## 2.4. Benefits of integrating Stock Exchanges and Building Block

As demonstrated in the preceding sub-section, the growth of stock exchanges across Africa has commendably been at a fast pace. Some of the stock exchanges were established years before the states in which they operate gained independence, while others have been established more recently. These exchanges have actively provided organisations and investors with a trading platform to trade securities and access capital for equity.<sup>119</sup>

Despite the rapid development of stock markets in Africa, they remain comparatively different and insignificant compared to the stock exchanges in other countries.<sup>120</sup> This is attributable to the factors, including that they are small in size, do not match the size of the economy, and are highly vulnerable to speculation and manipulation.<sup>121</sup> However, it is expected, and reasonably so, that the integration of stock exchanges at different levels in the continent will attract numerous benefits and overcome the challenges facing the national stock exchanges.<sup>122</sup> In fact, scholars like Ncube and Mingiri believe that the diminutive level of stock exchange integration practice in Africa has depressed saving and investment opportunities, thereby hindering economic progress.<sup>123</sup> The point being propagated by Ncube and Mingiri is that the integration of stock exchanges in Africa could grow capital flow and boost investment. These are both critical for economic development. This is supported by Onyuma, who argued that a regional stock exchange would encourage more companies to list their companies on the stock exchange market.<sup>124</sup>

Another benefit of an integrated stock exchange in the African context is that it will complement the inadequacy of national stock exchanges. This is because integrated stock exchanges are more efficient and more liquid than segmented stock exchanges.<sup>125</sup> This argument even holds more weight within the African

---

<sup>119</sup> Schiereck D, Freytag A & Grimm M, et al (2018) 2.

<sup>120</sup> Ntim CG Why African Stock Markets Should Formally Harmonise and Integrate their Operations (2012) 4(1) *African Review of Economics and Finance* 54.

<sup>121</sup> Ntim CG (2012) 54.

<sup>122</sup> Ntim CG (2012) 55.

<sup>123</sup> Ncube G & Mingiri KF (2015) 368.

<sup>124</sup> Onyuma SO (2006) 103-4.

<sup>125</sup> Ncube G & Mingiri KF (2015) 367; African Development Bank Group *Financial Sector integration in African Regions: How Regional Financial Integration Can Support Growth, Development, and Poverty Reduction* (2010) 52.

continent. The segmented stock exchanges in Africa are individually tiny and still growing compared to world market standards.<sup>126</sup> They are also illiquid and are ranked lowly on the global financial market scale.<sup>127</sup> Moreover, the insufficient number of listings in most African stock exchanges, the high cost of listing and the huge costs to maintaining and establishing has lured scholars to argue in favour of integrating the segmented stock exchanges for efficiency and cost management.<sup>128</sup>

Further, Irving advocates that integrating the disjointed stock markets will help increase capital liquidity, reduce capital cost, and secure market access across Africa.<sup>129</sup> It will also broaden the stock exchanges, increase their efficiency and elevate the stock markets' turnover.<sup>130</sup> In corroborating these views, Bilau observes that regional integration of stock exchanges within sub-regional markets in Africa like the EAC will attract local and international investment, reduce government borrowing, and generally improve macroeconomic balances.<sup>131</sup> He further opines that the arrangement will grow stability, alleviate debt and improve equity activities, leading to heightening capital growth and inflows across the region.<sup>132</sup>

The International Financial Corporation (IFC), under its Efficient Securities Markets Institutional Development (ESMID) program, estimates that the stock markets in Africa have the potential to bridge a US\$31 billion financing gap annually for implementing developmental projects in the continent.<sup>133</sup>

The point has also been made that regional economic communities have a role in unlocking the benefits of integrated stock exchanges. In this regard, Irving posits that regional integration can improve the liquidity, efficiency, and competitiveness of regional stock exchanges if rightly implemented by the relevant stakeholders.<sup>134</sup> She further noted that the integration opens the exchanges to an increased cross-

---

<sup>126</sup> Ncube G & Mingiri KF (2015) 367.

<sup>127</sup> African Development Bank (2010) 52.

<sup>128</sup> African Development Bank (2010) 52.

<sup>129</sup> Irving J *Regional Integration of Stock Exchanges in Eastern and Southern Africa: Progress and prospects* (2005) 8.

<sup>130</sup> Lutwama JS (2010) 8.

<sup>131</sup> Bilau C *Common Capital Market Infrastructure for East Africa: Options for the way forward* (2018) 2.

<sup>132</sup> Bilau C (2018) 2.

<sup>133</sup> International Monetary Fund *Working Paper Developing Securities Markets in East Africa: Challenging, but Well Worth the Effort* (2010) 1.

<sup>134</sup> Irving J (2005) 9.

border listing, technology, information sharing, and capacity building. However, she cautions that the development of integrated stock exchanges must begin at individual member states' exchanges before integrating them with their partner states. Her advice is that limitations that exist at the national level in frameworks, institutions and infrastructure should be addressed not to complicate the regional efforts.

Further, Canh, Thai and Schinckus observe that an improved institution reduces restrictions and costs, increases the stock exchange market's efficiency, and reduces the national stock market risk.<sup>135</sup> Therefore, a quality institution will prompt investors to trade in the stock exchange markets, induce a swift and systematic transmission of information from one country to another, and lower transaction costs.<sup>136</sup> They further observe that the integration of stock exchanges will control corruption.<sup>137</sup> The regulatory quality of the regional stock exchange will influence the influx of investments. Investors invest where they have the assurance that corruption will not come between their investments.<sup>138</sup> The safer the environment, the more the investors will invest.<sup>139</sup>

Lee enumerates the various benefits that could arise from integrating a region's capital and stock market activities.<sup>140</sup> It will lower the prices for all financial services given that competition lowers transaction costs, facilitating larger regional firms to exploit economies of scale. It will also promote the market to be more effective, more liquid and broaden the securities market. Other benefits he highlighted include driving the promotion of innovative financial products and services, attracting cheaper financing for companies, and leading to the industrial transformation of all the capital markets industry sectors. He further notes that integration would bring about more efficient capital allocation, improve higher returns because of the transaction's lower costs, reduce the risk for investors, and open them to better investment opportunities.

---

<sup>135</sup> Canh N, Thai N & Schinckus C 'Stock-Return Co-Movements and Institutional Quality: An Empirical Investigation of the European Emerging Markets' (2018) 8(5) *Theoretical Economics Letters* 824.

<sup>136</sup> Canh N, Thai N & Schinckus C (2018) 824.

<sup>137</sup> Canh N, Thai N & Schinckus C (2018) 832.

<sup>138</sup> Canh N, Thai N & Schinckus C (2018) 832.

<sup>139</sup> Canh N, Thai N & Schinckus C (2018) 832.

<sup>140</sup> Lee R *Promoting Regional Capital Market Integration* (2000) 4-8 See also Lutwama JS *Capital Market Integration: Strategies For The East African Community* (2010) 8.

Despite these numerous benefits, Lee went further to observe that integration of capital market and stock exchange activities have certain barriers and restrictions, including;<sup>141</sup>

- (a) There could be pushbacks to integration, especially by protected industries and protectionist thinkers;
- (b) Integration of the stock exchange will bring about competition, and this could ultimately lead to the demise of uncompetitive companies;
- (c) Market participants may have to pay additional costs in the form of regulatory fees, either directly or indirectly, brought about due to the integrated market.

By and large, the review of related literature under this sub-section brings three-point to light. First, integrating the stock exchange to form a regional stock exchange has a crucial role in the economic and financial advancement of a country and regional bloc. Secondly, certain drawbacks and restrictions could be impacted by the regional integration of stock exchanges, especially protectionist views and industries. Thirdly, national stock exchanges' inefficiencies and inadequacies could hinder unlocking the potential and benefits of a regionally integrated stock exchange. These are critical areas that regional blocs should carefully consider and address if they intend to establish a robust and efficient integrated stock exchange arrangement.

## **2.5. Factors that influence the integration of the Stock Exchange**

The above section has made a convincing case that the integration of stock exchanges will increase efficiency and create an economic prosperity environment. Laichena and Obwogi argue that the economy's growth and development (either nationally or regionally) depends largely on the stock market's stability.<sup>142</sup> Beyond being motivated by the desire to attract the benefits of an integrated stock exchange, as earlier highlighted, the question remains: What are the other influencing factors influencing stock exchange integration?

---

<sup>141</sup> Lee R (2000) 4-8; See also Lutwama JS (2010) 8.

<sup>142</sup> Laichena K & Obwogi T (2015) 306.

Yartey and Adjasi's book titled 'Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges' has argued the determinants for developing Africa's stock market.<sup>143</sup> These arguments are instrumental in discussing the factors influencing the integration of stock exchanges. These conditions are enumerated as follows:

- (a) A predictable and stable macroeconomic environment can promote the stock market's efficiency—for example, low and predictable inflation rates.
- (b) The presence of developed financial intermediaries, such as banking systems, supports the stock market's investment flow.
- (c) The presence of transparent and accountable institutions is necessary to attract equity investment and boost investor confidence
- (d) The existence of an effective shareholder protection regime and enforcement mechanism. The stronger the rules and legal system protect shareholders, especially publicly traded companies, the more attractive the economy will be for stock market activities.

More specifically, Dorodnykh observes that integration is not a simple process but a complex one.<sup>144</sup> The integration of stock exchanges rests upon different structural, operative, and macroeconomic forces, where various stakeholders can affect decisions.<sup>145</sup> Among the principal factors for integrating regional stock exchanges are geographical and cultural factors.<sup>146</sup> The stock exchanges within the exact geographic location can grow and improve efficiency through regional financial integration.<sup>147</sup> He further notes that the principal drivers in integrating the stock exchanges are financial harmonisation, cross-membership agreements, for-profit corporate structure, trading engine and integration openness.<sup>148</sup>

---

<sup>143</sup> Yartey CA & Adjasi CK (2007) 16.

<sup>144</sup> Dorodnykh E 'Determinants of Stock Exchange Integration: Evidence in Worldwide Perspective' (2014) 4(2) *Journal of economic studies* 311.

<sup>145</sup> Dorodnykh E (2014)311.

<sup>146</sup> Dorodnykh E (2014) 301.

<sup>147</sup> Dorodnykh E (2014) 301.

<sup>148</sup> Dorodnykh E (2014) 311-2.



## 2.6. Conclusion

This chapter presented an overview of the capital market segments, the stock market's place within the capital market and the concept of stock exchange integration. The chapter further discussed the two structures used in the integration of stock exchanges. These are the formal and informal structures. The formal structure is said to have a stock exchange and a supranational regulatory authority overseeing the stock exchange. In this structure, the integrated stock exchange is within a region. On the other hand, the informal structure does not have a centralised regulatory authority. Instead, the national stock exchanges harmonise their laws and cooperate in the region without being regulated by a single entity.

The chapter also discussed the experiences in stock exchange integration in Africa. It was found that many factors pinned the need for African countries to engage in stock market activities beyond their national borders. The factors include inefficiency of the national stock exchanges, advancement in technology, regionalism, trade liberalisation globally, and the rapid increase in the establishment of stock exchanges in the African region.

In addition, the chapter made a convincing case on why the integration of stock exchanges regionally is essential by highlighting the numerous benefits of integration. Some of the benefits discussed include improving competition, reducing corruption, increasing cross-border listing, facilitating technology advancement, boosting investments, and increasing capital flow. This chapter has also shown that the stakeholders, such as the member states and regulators' governments, need to integrate and involve themselves more in the stock market activities. For the reason that the stock exchange provides a platform for corporations to gain additional capital to finance their operations and meet the region's increasing demand. It also presents a platform for investors to save and profit from their investments by selling their securities.

Apart from the benefits of stock exchange integration, the chapter has discussed the various factors influencing regional stock exchange development. These factors include advanced financial intermediaries, a secure and predictable macroeconomic environment, transparency and accountability, and geographic and structural factors. Overall, this chapter has shown that a regionally integrated stock

exchange will be subject to the stability and sustainability of the member states' economy and the proper functioning of their national exchanges. Also, it is seen that economic growth is dependent on an effective and functioning stock exchange, not just by the existence of a stock exchange.

This chapter has cast the light on what will be discussed in the next chapter. The next chapter will discuss the history behind stock exchanges in EAC, the efforts made by the EAC in integrating their stock exchanges, the extant legal and regulatory frameworks of the EAC on stock exchange integration and the inadequacies of the stock exchange integration structure adopted by the EAC.



## CHAPTER THREE

### LEGAL AND REGULATORY SYSTEM OF STOCK MARKETS IN THE EAST AFRICAN COMMUNITY

#### 3.1. Introduction

The previous chapter overviewed the stock exchange and stock exchange integration concept, the structures used to integrate stock exchanges, Africa's experiences in stock exchange integration, the benefit, the building blocks, and the factors influencing its development. It was highlighted that stock exchanges integration is essential to a regional bloc. In this regard, two structures were highlighted that member countries could adopt within a region towards integrating their stock exchanges. The formal structure involves a supranational regulator and overseer of the region's central stock exchange. Alternatively, the informal structure where the member states mutually agree to harmonise laws and cooperate through their national stock exchanges without forming a central regional stock exchange.

From the earlier reviews in chapters one and two, it has been highlighted that the East African Community (EAC) has adopted an informal structure for stock exchange integration. Therefore, this chapter will discuss the historical underpinning of stock exchanges in EAC and the extant legal and regulatory framework under the informal structure adopted for stock exchange integration. Notably, the chapter will identify the inadequacies of the structure adopted to address these gaps with a view of propelling the attainment of full integration of the stock exchange in the EAC.

#### 3.2. Historical Underpinning of Stock Exchanges in East African Community (EAC)

The EAC member states were all colonised by the British, which accounts for the similarities in their legal system.<sup>149</sup> The doctrine of equity and common law are

---

<sup>149</sup> Kipkorir RB *Capital Market Integration in East Africa: Inadequacy of East African Council of Ministers Directives on Capital Market Integration* (Unpublished LL.B thesis, Strathmore University Law School, 2017) 14.

relevant to the region's legal systems.<sup>150</sup> In 1954, the British colonists established the Nairobi Securities Exchange (NSE), a stock exchange for the EAC member states.<sup>151</sup> This exchange was recognised by the London Stock Exchange and listed as an overseas stock exchange.<sup>152</sup> The exchange was registered as a volitional association of stockbrokers under the Societies Act of 1954, entrusted to set the securities market in motion and oversee trading activities.<sup>153</sup> During that time, trading was conducted through handsets like telephones, and there was no fixed trading rate; instead, it was bargained.<sup>154</sup> Moreover, there was an absence of specialists in trade and a physical office; therefore, the exchange and prices settlement was conducted in coffee houses.<sup>155</sup>

During the post-colonial era, the NSE continued to run as the EAC stock exchange until 1977, when the East African Cooperation disintegrated. Other member states were delisted from the NSE.<sup>156</sup> The East African Cooperation member states differed in their objectives and ideals towards the growth of their respective economies. For example, Tanzania espoused a socialist policy requiring the domestication of industries. On the other hand, Uganda backed out from the East African Cooperation's free and standard exchange rate agreement on currencies. The withdrawal of Uganda from the free and standard currency exchange agreement contributed to the fall of the East African Cooperation and the regional integration arrangements such as having a regional capital market.<sup>157</sup>

Subsequently, NSE remained to be a Kenyan Stock Exchange with only listings from Kenyan companies.<sup>158</sup> Given this, the Kenya government went on to establish a committee that will oversee the stock market.<sup>159</sup> This committee was established

---

<sup>150</sup> Kipkorir RB (2017) 14.

<sup>151</sup> Nairobi Securities Exchange 'History of NSE' available at <https://www.nse.co.ke/nse/history-of-nse.html> (accessed on 2 February 2021).

<sup>152</sup> Ngugi R *Development of Nairobi Stock Exchange: A Historical Perspective* (2003) 11; Nairobi Securities Exchange 'History of NSE' available at <https://www.nse.co.ke/nse/history-of-nse.html> (accessed on 2 February 2021).

<sup>153</sup> Ngugi R (2003) 11; Nairobi Securities Exchange 'History of NSE' available at <https://www.nse.co.ke/nse/history-of-nse.html> (accessed on 2 February 2021); Kipkorir RB (2017) 14.

<sup>154</sup> Ngugi R (2003) 13; Nairobi Securities Exchange 'History of NSE' available at <https://www.nse.co.ke/nse/history-of-nse.html> (accessed on 2 February 2021).

<sup>155</sup> Ngugi R (2003) 13.

<sup>156</sup> East African Community 'Capital Markets: An Overview' available at <https://www.eac.int/financial/capital-markets> (accessed on 4 February 2021); Kipkorir RB (2017) 14.

<sup>157</sup> Kipkorir RB (2017) 14-5.

<sup>158</sup> Ngugi R (2003) 15.

<sup>159</sup> Ngugi R (2003) 19.

under the finance ministry, which was self-regulating at the time.<sup>160</sup> Later in the years, Kenya established the Kenya Capital Markets Authority (CMA(K) to regulate and supervise the NSE and the country's securities market.<sup>161</sup>

In the late 1990s, Tanzania and Uganda formed their domestic stock exchanges, namely the Dar-es-Salaam Stock Exchange (DSE) and Uganda Securities Exchange (USE).<sup>162</sup> Before establishing the DSE in 1996 under the Capital Market and Securities Act of 1994, Tanzania established the Capital Market and Securities Authority (CMSA) to regulate and supervise the securities market.<sup>163</sup> Also, Uganda instituted a Capital Markets Authority (CMA (U) in 1996 to develop and regulate the country's securities market.<sup>164</sup> The CMA (U) was established under the Capital Markets Authorities Act of 1996.<sup>165</sup> Notably, despite the three stock exchanges having established a regulating authority, each is currently self-regulated.<sup>166</sup>

Even after the initial disintegration of the East African Cooperation, In 1977, the EAC member states, namely Uganda, Tanzania, and Kenya, signed a Memorandum of Understanding (MoU) to cooperate and harmonise their securities exchange market laws.<sup>167</sup> Understanding that an efficient regulatory framework in the securities market is vital for protecting investors and the market's integrity also motivated the MoU's signing.<sup>168</sup> The MoU established a regulatory authority, namely the East African member States Securities Regulatory Authorities (EASRA), to

---

<sup>160</sup> Ngugi R (2003) 20.

<sup>161</sup> Ngugi R (2003) 25.

<sup>162</sup> East African Community 'Capital Markets: An Overview' available at <https://www.eac.int/financial/capital-markets> (accessed on 4 February 2021);

<sup>163</sup> Capital Markets and Securities Authority 'Establishment' available at <https://www.cmsa.go.tz/uploads/publications/en-1580904580-2-%20B1%20CMSA%20English.pdf> (accessed on 4 February 2021) 1; Kipkorir RB (2017) 16

<sup>164</sup> Kipkorir RB (2017) 16; Capital Markets Authority 'Who we are' available at <https://cmauganda.co.ug/> (accessed on 4 February 2021).

<sup>165</sup> Kipkorir RB (2017) 16.

<sup>166</sup> Nairobi Securities Exchange 'About NSE' available at <https://www.nse.co.ke/nse/about-nse.html> (accessed on 4 February 2021); Dar es salaam Stock Exchange 'DSE historical background' available at <https://www.dse.co.tz/content/historical-background> (accessed on 4 February 2021); Uganda Securities Exchange 'Milestones of the USE' available at <https://www.use.or.ug/content/milestones-use> (accessed on 4 February 2021).

<sup>167</sup> Capital Markets & Securities Authority 'Affiliated Organizations' available at <https://www.cmsa.go.tz/index.php/2015-03-01-17-53-26/affiliated> (accessed on 17 July 2020).

<sup>168</sup> Onyuma SO 'Regional Integration of Stock Exchanges in Africa' 2006 *African Review of Money, Banking & Finance (Supplement Issue)* 109.

coordinate the integration of stock exchanges.<sup>169</sup> EASRA was formed on the understanding that an integrated market will generally facilitate economic growth and promote adequate supervision and regulation of the securities market.<sup>170</sup> All the Capital Market and Securities Authorities of the member states are part of the EASRA.<sup>171</sup> While the EASRA exists still today, it is not one of the formal institutions subsequently established under the EAC Treaty as explained in the ensuing subsection. Accordingly, it has not been very instrumental in shaping EAC's stock exchange integration discussions and frameworks.

### 3.3. Organs and Principles of the East African Community (EAC)

Seven key organs make up the EAC's organisational structure: Summit, Council of Ministers, Coordinating Committee, Sectoral Committee, East African Court of Justice, East African Legislative Assembly, and the Secretariat.<sup>172</sup> These organs and eight other subsidiary institutions play different but interrelated roles in ensuring the realisation of the goals and objectives of the EAC Treaty.<sup>173</sup>

The EAC ultimately seeks to establish a Customs Union, Common Market, Monetary Union, and a Political Federation among its Member States.<sup>174</sup> In achieving these objectives, the EAC Treaty sets out the principles and values that member States should abide by in their relations.<sup>175</sup> These principles are categorised under the broad headings of fundamental and operational principles.<sup>176</sup>

As prescribed in Article 6 of the EAC Treaty, the fundamental principles include mutual trust, political will, sovereign equality, good governance, equal distribution

---

<sup>169</sup> Onyuma S (2006) 108-9; Capital Markets & Securities Authority 'Affiliated Organizations' available at <https://www.cmsa.go.tz/index.php/2015-03-01-17-53-26/affiliated> (accessed on 17 July 2020).

<sup>170</sup> Capital Markets & Securities Authority 'Affiliated Organizations' available at <https://www.cmsa.go.tz/index.php/2015-03-01-17-53-26/affiliated> (accessed on 17 July 2020).

<sup>171</sup> Capital Markets & Securities Authority 'Affiliated Organizations' available at <https://www.cmsa.go.tz/index.php/2015-03-01-17-53-26/affiliated> (accessed on 4 February 2021).

<sup>172</sup> Article 9 of the Treaty for the Establishment of the East African Community of 1999.

<sup>173</sup> The Eastern African Centre for Constitutional Development & The Ford Foundation *Report 2012 - Overview of The Organs of The East African Community and Functionality of the Current East African Community Institutional Framework* (2012) 2-19.

<sup>174</sup> United Nations Economic Commission for Africa 'EAC – East African Community' available at <https://www.uneca.org/oria/pages/eac-%E2%80%93-east-african-community> (accessed on 17 July 2020).

<sup>175</sup> East African Community 'EAC Partner States' available at <https://www.eac.int/eac-partner-states> (accessed on 17 July 2020).

<sup>176</sup> Article 6 of Treaty for the Establishment of the East African Community of 1999.

of benefits and cooperation for mutual benefit.<sup>177</sup> The operational principles are captured under Article 7 of the EAC Treaty.<sup>178</sup> They include asymmetry, viable geometry, subsidiarity, complementarity, people-centred and market-driven cooperation.<sup>179</sup> Presently, the EAC has achieved progress in establishing the Custom Market in 2010 and is working towards implementing the East African Monetary Union Protocol and the East African Federation.<sup>180</sup>

The EAC Member States also signed the Common Market Protocol of 2009 and the East African Monetary Union (EAMU) Protocol of 2013<sup>181</sup>. These Protocols aimed to attain a regional financial framework by 2018 and a common currency by 2024.<sup>182</sup> They also aim to facilitate free movement of capital, goods, services, labour, foreign ownership and the right to acquire residency.<sup>183</sup> Thus, fairly to say, the EAC framework accommodates the widening and deepening of cooperation as essential spheres to mutually benefit the member states.<sup>184</sup>

### **3.4. Efforts towards an integrated Stock Exchange in the East African Community (EAC)**

Significant strides towards economic integration have been made over the years by the EAC member states. The member states' economic condition has been the driving force behind the strides made towards their economies' growth and development.<sup>185</sup> Each member state has been making substantial efforts in carrying through the region's economic objectives.<sup>186</sup>

---

<sup>177</sup> Treaty for the Establishment of the East African Community of 1999.

<sup>178</sup> Treaty for the Establishment of the East African Community of 1999.

<sup>179</sup> Treaty for the Establishment of the East African Community of 1999.

<sup>180</sup> East African Community 'Overview of the EAC' available at <https://www.eac.int/overview-of-eac> (accessed on 17 July 2020).

<sup>181</sup> East African Community 'Common Market' available at <https://www.eac.int/common-market> (accessed on 17 July 2020); East African Community 'Monetary Union' available at <https://www.eac.int/monetary-union> (accessed on 17 July 2020).

<sup>182</sup> United Nations Economic Commission for Africa report 2017-*The East African Monetary Union: Ready or Not?* (2017) 5.

<sup>183</sup> Article 2 of Protocol on the Establishment of the EAC Common Market of 2009.

<sup>184</sup> East African Community 'Overview of the EAC' available at <https://www.eac.int/overview-of-eac> (accessed on 17 July 2020).

<sup>185</sup> Laichena K & Obwogi T 'Effects Of Macroeconomic Variables On Stock Returns In The East African Community Stock Exchange Market' (2015) 3(10) *International Journal of Education and Research* 306.

<sup>186</sup> Laichena K & Obwogi T (2015) 306.

The EAC Treaty inferred the need to establish a regulatory institution, more formal and supranational than the EASRA. The EAC Treaty articles have furnished the need for harmonising policies and regulatory frameworks, cross-border listing and trading among the member states' stock exchanges, and cooperation in developing a joint-stock exchange for the bloc.<sup>187</sup> Accordingly, besides the efforts of Kenya, Uganda and the United Republic of Tanzania, several attempts have been made within the EAC framework to facilitate the establishment of a regionally integrated stock exchange.

Article 85 of the EAC Treaty advocates that the member states should implement measures that promote an environment that supports the movement of capital within the region and leads to the full integration of the region's capital market.<sup>188</sup> Kipkorir lists the measures required to achieve these objectives: harmonising capital market policies, regulatory and legislative frameworks, and promoting cooperation among the exchanges and regulators.<sup>189</sup> In addition, he highlighted other actions: promoting cross-border listing, trading of securities, and developing a regional rating system for securities.<sup>190</sup> Some of these measures have already been implemented. The most daring initiatives are the Protocol on the Establishment of the EAC Common Market, setting up the East Africa Stock Exchange Association and Council Directives on Securities Market.<sup>191</sup>

The EAC has achieved a cross-listing initiative in which companies within the member states have cross-listed.<sup>192</sup> For example, cross-listing of companies in the Nairobi Securities Exchange (NSE) to the Uganda Securities Exchange (USE), Dar es Salaam Stock Exchange (DSE) and Rwanda Stock Exchange (RSE).<sup>193</sup>

---

<sup>187</sup> African Financial Market Initiative 'East Africa' available at <https://www.africanbondmarkets.org/en/country-profiles/east-africa/> (accessed on 18 July 2020).

<sup>188</sup> Treaty for the Establishment of the East African Community of 1999.

<sup>189</sup> Kipkorir RB (2017) 1.

<sup>190</sup> Kipkorir RB (2017) 1.

<sup>191</sup> East African Community 'Capital Markets: An Overview' available at <https://www.eac.int/financial/capital-markets> (accessed on 17 July 2020); Protocol on the Establishment of the East African Community Common Market of 2009; East African Community (EAC) White Paper on East African Community Council of Ministers Directives (Legal Notice 21 of 29 May 2015).

<sup>192</sup> East African Community 'Capital Markets Infrastructure adding value to East Africans' available at <https://www.eac.int/financial/68-sector/financial> (accessed on 18 July 2020).

<sup>193</sup> Raubenheimer H *African Capital Market: Challenges and Opportunities* (2019) 42.



Recent reports confirm that only Uganda, Tanzania, and Rwanda have collaborated towards integrating the stock exchanges under the auspices of the regional bloc.<sup>194</sup> The three countries have integrated their trading systems with the EAC's capital markets infrastructure (CMI) information technology platform.<sup>195</sup> However, the infrastructure is yet to go live to date.<sup>196</sup> Kenya, a pioneering member state for this integration project, has been sluggish in seeing its full implementation according to regional commitments for reasons shrouded in debates.<sup>197</sup> However, one frequently cited reason is that Kenya was displeased with the procurement process that had a Pakistan firm emerging as the winner for the linkage project.<sup>198</sup> Furthermore, the stock exchanges in EAC trade on an automated trading system, and in 2019, the EAC stock exchanges had a combined equity market capitalisation of USD\$ 22 billion.<sup>199</sup>

Since its establishment, the EAC has achieved remarkable strides, with its combined Gross Domestic Product (GDP) estimated to be in the order of USD 193 billion as of 2019.<sup>200</sup> The EAC arrangement has aided the establishment of uniform policies and frameworks for investment and trade among its member states and other third-party organisations like the African Continental Free Trade Agreement (AfCFTA), EAC- European Union Economic Partnership Agreements (EAC– EU EPAs) and COMESA-EAC-SADC Tripartite Arrangement.<sup>201</sup> These uniform

---

<sup>194</sup> Kazeem Y 'Three East African Countries are Merging their Stock Markets to boost Local Investment' *Quartz Africa* 24 September 2020 available at <https://qz.com/africa/1908441/rwanda-tanzania-uganda-to-create-joint-stock-exchange/> (accessed on 25 September 2020) 1.

<sup>195</sup> Soumaré S, Kanga D, Tyson J, & et al. *Working Paper on Capital market development in sub-Saharan Africa: Progress, challenges and innovations* (2021) 28.

<sup>196</sup> The East African 'Tanzania, Rwanda and Uganda race ahead to forge a single stock market' available at <https://www.theeastafrican.co.ke/tea/business/tanzania-rwanda-and-uganda-race-ahead-to-forge-a-single-stock-market-2219156> (accessed on 25 September 2021)

<sup>197</sup> Kazeem Y 'Three East African Countries are Merging their Stock Markets to boost Local Investment' *Quartz Africa* 24 September 2020 available at <https://qz.com/africa/1908441/rwanda-tanzania-uganda-to-create-joint-stock-exchange/> (accessed on 25 September 2020) 1.

<sup>198</sup> The East African 'Tanzania, Rwanda and Uganda race ahead to forge a single stock market' available at <https://www.theeastafrican.co.ke/tea/business/tanzania-rwanda-and-uganda-race-ahead-to-forge-a-single-stock-market-2219156> (accessed on 25 September 2021) ; The New Times ' East Africa:Regional Stock Markets Automate Trading' available at <https://allafrica.com/stories/202011300185.html> (accessed on 25 September 2021).

<sup>199</sup> Raubenheimer H (2019) 41-2.

<sup>200</sup> East African Community 'Overview of the EAC' available at <https://www.eac.int/overview-of-eac> (accessed on 17 July 2020).

<sup>201</sup> East African Community *Report on EAC 5<sup>th</sup> Development Strategy: Accelerating a Peoples Centred and Market Driven Integration* (2017) 34-5; Trade Law Centre ' Status of AfCFTA Ratification' available at <https://www.tralac.org/resources/infographic/13795-status-of-afcfta-ratification.html> (accessed on 25 October 2021).

frameworks and arrangements generally have increased market access, cross border investments, increased government revenue, and broader involvement of stakeholders, thereby supporting the contention that the EAC is one of the fastest-growing economic regional blocs in the continent.<sup>202</sup>

So far, through The World Bank-funded Financial Sector Development and Regionalisation Project (FSDRP), the EAC developed the legal and regulatory framework for the securities market.<sup>203</sup> As a result, the member states all conceded to council directives which are legal instruments that are to be transposed into the member states' domestic laws.<sup>204</sup> In addition, the EAC developed a stock exchange directive to allow mutual recognition of member states' market intermediaries. The directive's objective is to ensure that intermediaries such as stockbrokers can operate and conduct business across the EAC member states.<sup>205</sup>

The same World Bank project is implementing an infrastructure that is a regional financial markets trading platform that allows market players to access the trades that are happening across the region.<sup>206</sup> At present, the infrastructure has been installed in the EAC and works to link the member states' stock exchanges, namely the Dar-es-Salaam Stock Exchange (DSE), Uganda Securities Exchange (USE) and Rwanda Stock Exchange (RSE).<sup>207</sup> The three markets will be linked to interact with each other through a connected satellite network.<sup>208</sup> However, even though Kenya is the leading trading exchange in EAC, it has not connected to the platform yet for sketchy reasons.<sup>209</sup> This is worrisome considering that 90 per cent of the cross-listed companies in Uganda, Tanzania and Rwanda are Kenyan

---

<sup>202</sup> EAC (2017) 35.

<sup>203</sup> The World Bank 'Financial sector development & Regionalisation project I (FSDRP I)' available at <https://projects.worldbank.org/en/projects-operations/project-detail/P121611?lang=en&tab=procurement> (accessed on 22 July 2020).

<sup>204</sup> Article 47 (2) of Protocol on the Establishment of the EAC Common Market of 2009.

<sup>205</sup> East African Community Gazette 7 Legal Notice EAC/21 of 29 May 2015.

<sup>206</sup> The World Bank *Report on Project Appraisal document on a Proposed Grant to East African Community -East African Community Financial Sector Development and Regionalization Project I* (2010) 10.

<sup>207</sup> The World Bank *Report on Project Appraisal document on a Proposed Grant to East African Community -East African Community Financial Sector Development and Regionalization Project I* (2010) 10.

<sup>208</sup> East African Community 'Capital Markets infrastructure adding value to East Africans' available at <https://www.eac.int/financial/68-sector/financial> (accessed on 22 July 2020).

<sup>209</sup> East African Community 'Capital Markets infrastructure adding value to East Africans' available at <https://www.eac.int/financial/68-sector/financial> (accessed on 22 July 2020).

companies.<sup>210</sup> On the legal aspect, EAC member states are expected to update/amend their national laws and align them to the multilateral commitments to cater to the integrated stock exchange market.<sup>211</sup> Commendably, only Kenya has made significant strides in harmonising its domestic regulations with regional obligations.<sup>212</sup> In the light of these issues highlighted, the 'full' integration of the stock exchanges in the EAC is far from being achieved.

### **3.5. Extant Legal and Regulatory Framework of the East African Community (EAC) on Stock Exchange Integration**

This section will discuss the main institutional, regulatory and legal frameworks that define the informal structure of stock exchange integration currently adopted in the EAC. The inadequacies of the extant frameworks will be highlighted where applicable to evidence how that could have impacted the attainment of 'full' integration of the stock exchanges in the EAC. Based on these inadequacies, the study in the ensuing chapter suggests that a formal structure could better accelerate the 'full' integration of the stock exchange.

#### **3.5.1. East African Community (EAC) Treaty**

The EAC Treaty has laid a descriptive foundation in its articles to ensure the deepening and widening of the member states' cooperation in different areas of economic and financial significance. One among the foundation it has descriptively laid down is integrating the stock exchange in the region. This foundation is portrayed under Articles 85 and 86 of the Treaty.

Article 85 of the Treaty touches on the development of the stock market within the region.<sup>213</sup> It emphasises that the EAC will implement a programme for developing a stock market with an environment conducive to facilitating easy capital flow.<sup>214</sup> In ensuring the programme is successful, the Article empowers and

---

<sup>210</sup> East African Community 'Financial: Integration of stock exchanges' available at <https://www.eac.int/financial> (accessed on 23 July 2020).

<sup>211</sup> Article 47(1) of the Protocol on the Establishment of the EAC Common Market of 2009.

<sup>212</sup> East African Common Market Score Card (2014) 3.

<sup>213</sup> Treaty Establishing the East African Community 1999.

<sup>214</sup> Article 85 of Treaty Establishing the East African Community 1999.

encourages the EAC member states to cooperate with regulators of their partnering state stock exchanges and capital markets.<sup>215</sup> It further emphasises harmonisation in cross-border listings policies and the regulatory, legislative, and structural frameworks catering to stock exchanges.<sup>216</sup> Also, under the same Article, the member states are permitted to develop a regional stock exchange within the region.<sup>217</sup> This provision can be gleaned that the Treaty recognises the possibility of having a Regional stock exchange formally structured within the EAC. The regional stock exchange to be established has to comprise trading floors in each member state.<sup>218</sup> Moreover, the Article expects the member states to develop a cross-listing of stocks within the EAC, a rating system of listed companies, and a trade performance index that will help in negotiating and selling shares within and outside the EAC,<sup>219</sup> harmonise and implement common standards for market conduct;<sup>220</sup> harmonise capital market policies on the cross-border listing, foreign portfolio investors, taxation of capital market transactions, accounting, auditing and financial reporting standards, procedures for setting commissions and other charges;<sup>221</sup>

Article 86 of the Treaty speaks on the movement of capital.<sup>222</sup> The Article sets the ground for the member states to ensure free movement of capital, harmonise their laws, and integrate the region's financial system.<sup>223</sup> This Article fosters an informal structure arrangement, although its mandate is also relevant in implementing a formal structure. Member states under this Article are expected to ensure that citizens of member states are permitted to invest in stocks, shares and other securities.<sup>224</sup> Notably, member states are to eliminate controls on the transfer of capital among the member states to ensure there are no barriers in the flow of capital within the EAC<sup>225</sup> and support cross-border trade in financial instruments.<sup>226</sup>

---

<sup>215</sup> Article 85 (g) of Treaty Establishing the East African Community 1999.

<sup>216</sup> Article 85(d) of Treaty Establishing the East African Community 1999.

<sup>217</sup> Article 85 (h) of Treaty Establishing the East African Community 1999.

<sup>218</sup> Article 85 (h) of Treaty Establishing the East African Community 1999.

<sup>219</sup> Article 85 (j) of Treaty Establishing the East African Community 1999.

<sup>220</sup> Article 85 (e) of Treaty Establishing the East African Community 1999.

<sup>221</sup> Article 85 (c) of Treaty Establishing the East African Community 1999.

<sup>222</sup> Treaty Establishing the East African Community 1999.

<sup>223</sup> Article 86 of Treaty Establishing the East African Community 1999.

<sup>224</sup> Article 86 (b) of Treaty Establishing the East African Community 1999.

<sup>225</sup> Article 86 (a) of Treaty Establishing the East African Community 1999.

<sup>226</sup> Article 86 (c) of Treaty Establishing the East African Community 1999.

### 3.5.2. Protocol on the Establishment of the East African Community Common Market

The establishment of the common market protocol is imprinted in Article 76 of the EAC Treaty. The said Article provides that the common market will comprise the free movement of goods, services, labour, capital, and the right to establish, among other freedoms.<sup>227</sup>

The common market's general objective is to deepen and widen cooperation among the member states economically and socially for their benefit.<sup>228</sup> In this regard, the member states agreed, among other things, under Article 5(2)(f) of the Protocol to push for investments in the stock exchange with the idea of integrating the financial system in the future.<sup>229</sup> They also agreed on cooperation to ensure cross-border investments are protected<sup>230</sup> and harmonising their economic, monetary, and financial policies.<sup>231</sup> In espousing the common market protocol, Gastorn and Masinde observe that the EAC common market focuses on four central freedoms: freedom of goods, services, labour, and capital.<sup>232</sup> Therefore, in ensuring freedom of movement, integration must occur in all four markets, the goods market, the service market, the labour market, and the stock exchanges.<sup>233</sup>

### 3.5.3. The Council

In ensuring that the treaty provisions are adhered to, the EAC Treaty under Article 14 established the Council.<sup>234</sup> The Council is deemed to be the policy organ of the

---

<sup>227</sup> Treaty Establishing the East African Community 1999.

<sup>228</sup> Article 4(1) of Protocol On The Establishment Of The East African Community Common Market 2010.

<sup>229</sup> Article 5(2)(f) of Protocol On The Establishment Of The East African Community Common Market 2010.

<sup>230</sup> Article 5(3)(b) of Protocol On The Establishment Of The East African Community Common Market 2010.

<sup>231</sup> Article 5(3)(c) of Protocol On The Establishment Of The East African Community Common Market 2010.

<sup>232</sup> Gastorn K & Masinde W ' The EAC Common Market' in Ugirashebuja E, Ruhangisa JE, Ottervanger T & et al (ed) *The East African Community Law: Institutional, Substantive and Comparative EU Aspects* (2017) 289.

<sup>233</sup> Gastorn K & Masinde W (2017) 290.

<sup>234</sup> Treaty Establishing the East African Community 1999.

EAC.<sup>235</sup> It comprises officials from each member state, namely the Attorney General, National Ministers and Ministers of Affairs in the EAC.<sup>236</sup>

Generally, the Council is tasked to monitor, promote, develop, and regulate the EAC's functioning and review implementations of programmes in the EAC.<sup>237</sup> In reviewing, monitoring and regulating the EAC functions, the Council shall, among other things, make policy decisions for the efficient and harmonious functioning and development of the community.<sup>238</sup> They shall also make regulations, recommendations and opinions, issue directives, take decisions per the Treaty.<sup>239</sup> It is important to note that the decisions, recommendations, regulations, and directives of the Council are binding to the member states and other organs and institutions of the EAC, except the Summit, the Court and the Assembly within their jurisdiction those addressed under the Treaty.<sup>240</sup>

With respect to the integration of stock exchanges in the region, the Council exercised its powers conferred to it under the EAC Treaty to enact directives to regulate the region's stock market activities. The Council directives were enacted to create a level field among the stock exchanges in EAC. Also, the directives are to be transposed into the member states' domestic laws. Some of these directives relevant to this study are discussed below. These directives include directives on regional listings on the securities market, securities exchanges, licensing requirements in the securities market, self-regulatory organisations, and securities market investor compensation funds. They were selected because they relate and focus more on rules that will fully integrate the region's stock market.

### **3.5.3.1. East African Community (EAC) Council of Ministers Directives on Regional Listings in the Securities Market**

According to this directive, a regional listing is a security listed in more than one exchange.<sup>241</sup> The directive was established to harmonise the listing requirements

---

<sup>235</sup> Article 14(1) of Treaty Establishing the East African Community 1999.

<sup>236</sup> Kipkorir RB (2017) 17.

<sup>237</sup> Article 14(2) of Treaty Establishing the East African Community 1999.

<sup>238</sup> Article 14(3)(a) of Treaty Establishing the East African Community 1999.

<sup>239</sup> Article 14(3)(d) of Treaty Establishing the East African Community 1999.

<sup>240</sup> Article 16 of Treaty Establishing the East African Community 1999.

<sup>241</sup> Article 1, EAC/EX/CN29/Directive 17 of the Council of Ministers on Regional Listings in the Securities Market 2015 (hereafter referred to as Directive on Regional Listings in the Securities Market 2015).

in the EAC stock exchanges arising from the regional offer.<sup>242</sup> The harmonisation of regional listings was on the view of permitting multiple or simultaneous listings within the region.<sup>243</sup> The scope of this directive applies to listings of securities arising from a regional offer.<sup>244</sup>

The directive also provides for admission to the regional listing. An application of the listing must be submitted in a form prescribed under the directive to the exchange.<sup>245</sup> The directive defines an 'exchange' as an approved stock exchange within the member states.<sup>246</sup> Furthermore, the directive provides an appointment of a sponsoring stockbroker for any issuer intending to carry out a regional listing.<sup>247</sup> A sponsoring stockbroker is a body corporate with trading rights at a stock exchange in any member state.<sup>248</sup> If the sponsoring stockbroker appointed is not a regional stockbroker, then another will be appointed within the member state stock exchange the issuer wishes to make the listing.<sup>249</sup> Other requirements include having a minimum issued and paid-up ordinary share capital of US\$ 850,000<sup>250</sup>. In addition, the company wishing to be listed must be registered as a foreign entity incorporated in all the jurisdictions where the listing has to be made.<sup>251</sup>

However, the directive does not have a fixed proposed fee for a regional listing in any member state's stock exchanges. Even though the directive stipulates that each EAC member state shall propose a listing fee subject to the National Regulatory Authority Agency approval,<sup>252</sup> uniformity in listing fees would still be absent in the EAC stock market.

Moreover, the directive has enlisted offences that are sanctionable for non-compliances. These offences include not submitting audited annual accounts and semi-annual accounts on time and failure to notify early on material information or

---

<sup>242</sup> Article 3 of the Directive on Regional Listings in the Securities Market 2015.

<sup>243</sup> Article 3 of the Directive on Regional Listings in the Securities Market 2015.

<sup>244</sup> Article 4 of the Directive on Regional Listings in the Securities Market 2015.

<sup>245</sup> Article 6 of the Directive on Regional Listings in the Securities Market 2015.

<sup>246</sup> Article 1 of the Directive on Regional Listings in the Securities Market 2015.

<sup>247</sup> Article 7(1) of the Directive on Regional Listings in the Securities Market 2015.

<sup>248</sup> Article 1 of the Directive on Regional Listings in the Securities Market 2015.

<sup>249</sup> Article 7(2) of the Directive on Regional Listings in the Securities Market 2015.

<sup>250</sup> Article 10 (2) of the Directive on Regional Listings in the Securities Market 2015.

<sup>251</sup> Article 10(1) of the Directive on Regional Listings in the Securities Market 2015.

<sup>252</sup> Article 22 of the Directive on Regional Listings in the Securities Market 2015; The National Regulatory Authority Agency is the principal supervisor of the member state's securities market, also known as a competent authority. This is defined in Article 1 of the same directive.

disclosures.<sup>253</sup> In ensuring that each member state adopts the directive, there is an implementation period of no later than one year to transpose the directive to each member state's national laws.<sup>254</sup>

### **3.5.3.2. East African Community (EAC) Council Directives on Securities Exchanges**

The securities exchange directive was formed to set standards for the operation of securities exchanges in the EAC member states.<sup>255</sup> The standards were set to establish and sustain efficient cross-border securities trading and its movement within the member states.<sup>256</sup> Under the directive, each member state's stock exchange shall be transparent with its trading rules, admission and registration of the listed securities.<sup>257</sup> Also, the exchange has to have independent management and budgetary structure for the administrative, commercial and regulatory functions.<sup>258</sup> The exchange further has to provide procedures and systems of exercising self-regulation over their trading members and facilitate the development and integration of the EAC stock market.<sup>259</sup> The EAC member states are expected to transpose the directive to its national laws no less than a year from its issuance date.<sup>260</sup>

### **3.5.3.3. Directives of the Council of Ministers of the East African Community (EAC) on Licensing in the Securities Market**

This directive was established to lay down requirements for licensing stock market intermediaries operating in more than one member state.<sup>261</sup> Other objectives are to ensure an investor's protection, grant a single authorisation to the intermediaries to operate throughout the EAC and provide a fair, efficient and transparent stock

---

<sup>253</sup> Sixth Schedule of the Directive on Regional Listings in the Securities Market 2015.

<sup>254</sup> Article 25 of the Directive on Regional Listings in the Securities Market 2015.

<sup>255</sup> Article 2(a) of the Directive of the Council of Ministers on Securities Exchanges 2018.

<sup>256</sup> Article 2(a)&(b) of the Directive of the Council of Ministers on Securities Exchanges 2018.

<sup>257</sup> Article 3 of the Directive of the Council of Ministers on Securities Exchanges 2018.

<sup>258</sup> Article 3 of the Directive of the Council of Ministers on Securities Exchanges 2018.

<sup>259</sup> Article 3 of the Directive of the Council of Ministers on Securities Exchanges 2018.

<sup>260</sup> Article 15 of the Directive of the Council of Ministers on Securities Exchanges 2018.

<sup>261</sup> Article 3, EAC/CM/35/Directive 15 of the Directive of the Council of Ministers on Licensing In The Securities Market 2017.(hereinafter Directive of the Council of Ministers on Licensing in the Securities Market 2017).



exchange market within the EAC.<sup>262</sup> Under this directive, the member states are prohibited from introducing any additional requirements other than those provided for market intermediaries operating in more than one member state.<sup>263</sup>

The licensing requirements include that the intermediary must be incorporated in any member state by a competent authority.<sup>264</sup> The intermediary also has to apply in the member state it wishes to operate and meet the capital adequacy provided in the directive schedules.<sup>265</sup> The directive also mandates the member states to enact laws, regulations and administrative provisions no later than a year to comply with the directive from the day it is issued.<sup>266</sup>

#### **3.5.3.4. Directives of the Council of Ministers of the East African Community (EAC) on Self-Regulatory Organisations**

A self-regulatory organisation is defined in this directive as an organisation regulating its members' operations and activities and users of its services.<sup>267</sup> Also, the organisation is recognised by a national regulatory agency that is the principal supervisor of the securities market in a member state.<sup>268</sup> The main object of the directive is to encourage self-regulation in the EAC securities market. Under this directive, the self-regulatory organisation is expected to support the principal supervisors of the securities market in the member state to deal with compliance and the conduct of business by the licensed entities.<sup>269</sup> Also, the self-organisations are to obtain the stock market inputs on regulatory initiatives for the industry's development to make informed policy decisions.<sup>270</sup>

A self-regulatory organisation in the EAC can only be recognised once it applies to a competent authority for such recognition in the member state it wishes to be recognised.<sup>271</sup> In the application, the self-regulatory organisation shall demonstrate

---

<sup>262</sup> Article 3 of the Directive of the Council of Ministers on Licensing in the Securities Market 2017.

<sup>263</sup> Article 1 of the Directive of the Council of Ministers on Licensing in the Securities Market 2017.

<sup>264</sup> Article 4 of the Directive of the Council of Ministers on Licensing in the Securities Market 2017.

<sup>265</sup> Article 4 of the Directive of the Council of Ministers on Licensing in the Securities Market 2017.

<sup>266</sup> Article 6 of the Directive of the Council of Ministers on Licensing in the Securities Market 2017.

<sup>267</sup> Article 4(1), EAC/CM/35/Directive 15 of the Council of Ministers on Self-Regulatory Organisations 2017. ( hereinafter Directive of the Council of Ministers on Self-Regulatory Organisations 2017).

<sup>268</sup> Article 4(1) of the Directive of the Council of Ministers on Self-Regulatory Organisations 2017.

<sup>269</sup> Article 2(2)(a) of the Directive of the Council of Ministers on Self-Regulatory Organisations 2017.

<sup>270</sup> Article 2(2)(b) of the Directive of the Council of Ministers on Self-Regulatory Organisations 2017.

<sup>271</sup> Article 4(2) of the Directive of the Council of Ministers on Self-Regulatory Organisations 2017.

the functions and powers it seeks to exercise upon approval by the competent authority.<sup>272</sup> Upon the national regulatory authority's approval for securities activities in the member state, the authority has the mandate to delegate its powers and functions to the self-regulatory organisation.<sup>273</sup> In its delegation, the authority will specify the powers delegated, the extent and scope of disciplinary powers and sanctions that the self-regulatory organisation may impose, the terms, conditions and exercise of the delegated powers and who may exercise the powers delegated.<sup>274</sup>

The self-regulatory organisation can exercise regulatory and supervisory powers over its organisation.<sup>275</sup> Furthermore, it has the mandate to enact rules to manage its members, investors or users of its services.<sup>276</sup> Such rules include member admission requirements, dispute resolution procedures, rules and procedures governing the organisation and shareholder rights.<sup>277</sup> Additionally, the directive urges cooperation among the member states' national regulators of stock market activities and self-regulatory organisations in licensing and supervising these activities.<sup>278</sup> Lastly, the directive must be transposed to member states' national laws within a year from its publication date.<sup>279</sup>

### **3.5.3.5. Directives of the Council of Ministers the East African Community (EAC) Securities Market Investor Compensation Funds**

This directive has been established to harmonise investor compensation funds standards in member states' securities markets.<sup>280</sup> The reasons behind the harmonisation of these standards are so that a level of compensation payable to investors is set up; systematic risk is reduced, promote cooperation between

---

<sup>272</sup> Article 4(2) of the Directive of the Council of Ministers on Self-Regulatory Organisations 2017.

<sup>273</sup> Article 4(2), of the Directive of the Council of Ministers on Self-Regulatory Organisations 2017.

<sup>274</sup> Article 4(2) of the Directive of the Council of Ministers on Self-Regulatory Organisations 2017.

<sup>275</sup> Article 4(3) of the Directive of the Council of Ministers on Self-Regulatory Organisations 2017.

<sup>276</sup> Article 4(3) of the Directive of the Council of Ministers on Self-Regulatory Organisations 2017.

<sup>277</sup> Article 4(3) of the Directive of the Council of Ministers on Self-Regulatory Organisations 2017.

<sup>278</sup> Article 5 of the Directive of the Council of Ministers on Self-Regulatory Organisations 2017.

<sup>279</sup> Article 6 of the Directive of the Council of Ministers on Self-Regulatory Organisations 2017.

<sup>280</sup> Article 2, EAC/CM/35/ Directive 15 of the Council of Ministers on the East African Community Securities Market Investor Compensation Funds No.15, 2017. (hereinafter Directive of the Council of Ministers on the East African Community Securities Market Investor Compensation Funds 2017).

member states' compensation funds, uniformity in the criteria for compensation and minimal delays in the payment of claims to investors.<sup>281</sup>

The directive is to be applied by the investor compensation funds established in the member states in respect to their securities markets.<sup>282</sup> By the directive, the member states have agreed to abide by the d principles of promoting transparency, timely compensation of payment, investor disclosure and protection, consistency in enforcing rules upon a mandatory establishment of a compensation fund and coherence in legislation o.<sup>283</sup>In addition, the directive set a maximum compensation fee of US\$ 1000.<sup>284</sup> Further, the directive insists on cooperation among the national regulators responsible for the stock market in exercising their powers under the directive or domestic laws.<sup>285</sup>

### **3.6. A critique of the five aforementioned directives**

While the Council of Minister's directives discussed above supports the objectives set on Articles 85 and 86 of the EAC Treaty on harmonisation and cooperation to achieve regional integration of stock exchanges, these directives are not free of fault. From the review of the directives above, it is essential to highlight the following drawbacks;

First, the objective of the Council of Minister directives is to set uniform standards on the securities market conduct of business. The directive on the regional listing in the securities market has ensured that listing requirements are harmonised and uniform across the region. It, however, did not set a standard fee for listing in the stock exchanges across the region. Therefore, having different listing fees in stock exchanges across the region means the objective set for the directives has failed. As a result, the growth, development, and integration of the

---

<sup>281</sup> Article 2 of the Directive of the Council of Ministers on the East African Community Securities Market Investor Compensation Funds 2017.

<sup>282</sup> Article 1 of the Directive of the Council of Ministers on the East African Community Securities Market Investor Compensation Funds 2017.

<sup>283</sup> Article 3 of the Directive of the Council of Ministers on the East African Community Securities Market Investor Compensation Funds 2017.

<sup>284</sup> Article 4(6) of the Directive of the Council of Ministers on the East African Community Securities Market Investor Compensation Funds 2017.

<sup>285</sup> Article 6 of the Directive of the Council of Ministers on the East African Community Securities Market Investor Compensation Funds 2017.

regions' stock market will be slow due to investors going to the country with the most favourable fee.

Secondly, the directives are biased to some extent. For a foreign company to be listed in another country, it must first be listed in the national stock exchange of the country of origin. Therefore, if the foreign entity's country of origin does not have an established stock exchange, it will not be allowed to apply for listing in another country. In light of this, there seems to be no room for companies in countries like Burundi or South Sudan to be listed in any of the member states' stock exchanges unless they too have a stock exchange or a regulatory authority regulating the stock market activities. Therefore, this shows that the directives do not accommodate all the member states.

Thirdly, while the duration set for transposing the directives to member states' national laws is an incentive to achieve the integration of stock exchanges within a good time. However, there are no sanctions for the member states' failure in transposing these laws to their national laws. The sanctions set in the directives have selective offences, of which none of them is on non-compliance of implementing the directive into national laws. Given this, the non-compliance will therefore slow the integration process of stock exchanges in the region.

Lastly, the directives have been established to cater for the effective functioning of one type of integrating structure. This is the informal structure. As explained in the previous chapter, this structure involves cooperation and harmonisation of member state national laws and stock exchanges. Therefore, the failure of the member states to cooperate, harmonise and transpose the directives to national laws will mean that the attainment of a full regional stock exchange integration will be hampered.

### **3.7. Inadequacies of the informal structure.**

This study has undertaken the review of the East African Community (EAC) member state national securities market and investment laws. The review has identified the following seven inadequacies in the informal structure, which have also been reflected in other literature. These inadequacies are discussed to lay a

foundation for why the EAC should consider using a formal structure in integrating their stock exchanges regionally. These inadequacies are discussed as follows;

### **3.7.1. Licensing regulations and approval requirements among the member states**

There exist differences in licencing of market intermediaries in some member states. For example, brokers and dealers in some member states like Kenya and Rwanda issue separate licenses, whilst brokers and dealers in Uganda and Tanzania are issued dual licenses.<sup>286</sup> Another example is licencing of investment representatives. Not all member states grant licenses for investment representatives to operate in the country.<sup>287</sup> For example, Kenya does not have a licencing category for investment representatives; therefore, this license does not exist. However, investment representatives are licensed in Uganda and Tanzania.<sup>288</sup> Some of these discrepancies in licencing regimes are taken care of under the directive on licencing in the securities market explained above.<sup>289</sup> Unfortunately, most EAC member states have not transposed the directive to their national laws, making it difficult for intermediaries to perform their duties on behalf of an investor more quickly and efficiently.

### **3.7.2. The difference in prudential and capital requirement**

The stock exchanges in EAC differ in size and level of development. Each stock exchange has its capital adequacy requirement for cross-listing.<sup>290</sup> For example, the stock exchange in Kenya is more prominent in size and the most developed and performing stock exchange more developed than the rest e in the region.<sup>291</sup> Given this, the prudential and capital requirements are higher compared to the rest.<sup>292</sup> Consequently, smaller market players in less developed stock exchanges find it difficult to engage effectively in cross-border trade of securities using their domestic

---

<sup>286</sup> Lutwama JS *Capital Market Integration: Strategies For The East African Community* (2010) 14.

<sup>287</sup> Lutwama JS (2010) 14.

<sup>288</sup> Lutwama JS (2010) 14.

<sup>289</sup> See section 3.5.3.3.

<sup>290</sup> Lutwama JS (2010) 14.

<sup>291</sup> Lutwama JS (2010) 14.

<sup>292</sup> Lutwama JS (2010) 14.

licenses.<sup>293</sup> Therefore, this makes the operation to integrate the stock exchanges process less effective.

### 3.7.3. Cross-listing fee

There is an absence of a standard cross-listing fee for securities issued across the member states. Some member states like Rwanda does not charge a fee to a foreign company wishing to cross-list its security in the stock exchange.<sup>294</sup> However, the cross-listed company will pay an annual fee that is a regular listing fee applicable to all companies listed on the stock exchange.<sup>295</sup> In contrast to Rwanda, the rest of the member states with established stock exchanges: Uganda, Kenya and Tanzania, require a fee to be paid before the company can be cross-listed on its exchanges.<sup>296</sup> Further, the foregoing shows that the fee required differs, depending on the country the company wishes to cross-list. Unfortunately, the directive on regional listings does not address these issues because it does not specify a standard cross-listing fee.<sup>297</sup> As a result, the member states lack uniformity on the matter. The difference in cross-listing fees across the region reduces the influx of capital, growth and free movement of capital.

### 3.7.4. Foreign Ownership Limitations

Each EAC member state has restrictions on foreign ownership of entities in their markets, save for Uganda.<sup>298</sup> Uganda does not have restrictions on foreign ownership.<sup>299</sup> Foreigners can own up to 100 per cent voting share in an entity save for regulated sectors like oil and gas that limit foreign ownership.<sup>300</sup> Another

---

<sup>293</sup> Lutwama JS (2010) 14.

<sup>294</sup> Article 4 of the Rwanda Regulation on Capital Markets Cross-Border introduction 2012.

<sup>295</sup> Article 4 of the Rwanda Regulation on Capital Markets Cross-Border introduction 2012.

<sup>296</sup> Article 3 of the Uganda Capital Markets (Cross Border Introductions) Regulations 2004; Rule 193 of Dar es Salaam Stock Exchange Public Limited Company Rules, 2016; Article 4A of the Kenya Capital Markets Securities (Public Offers Listing and Disclosures Regulations) 2002 (as amended).

<sup>297</sup> Article 22 of the Directive on Regional Listings in the Securities Market 2015.

<sup>298</sup> Lutwama JS (2010) 15.

<sup>299</sup> United States Department of State ' 2020 Investment Climate Statements: Uganda' available at [https://www.state.gov/reports/2020-investment-climate-statements/uganda/#:~:text=Foreigners%20cannot%20own%20land%20directly,of%20freehold\)%2C%20and%20leasehold](https://www.state.gov/reports/2020-investment-climate-statements/uganda/#:~:text=Foreigners%20cannot%20own%20land%20directly,of%20freehold)%2C%20and%20leasehold). (accessed on 23 April 2021).

<sup>300</sup> United States Department of State ' 2020 Investment Climate Statements: Uganda' available at <https://www.state.gov/reports/2020-investment-climate->

example is that voting shares in a brokerage firm differ across the member states.<sup>301</sup> Voting shares in a brokerage firm in Kenya is limited to 30 per cent ownership for Kenyans, while in Tanzania and Rwanda, their nationals voting shares is 50 per cent.<sup>302</sup> However, such restrictions are not present in Uganda.<sup>303</sup> Given the difference, the free operation of firms within the EAC stock markets is almost unattainable.<sup>304</sup> The limitation is inconsistent with article 86 of the EAC treaty that emphasises the need for member states to remove any barriers in capital flow.<sup>305</sup> Therefore, the limitation on foreign ownership impedes the growth and development of the economy in the region.

### 3.7.5. Cross-Border Investment Restrictions

Institutional investors, pension funds, and insurance firms are known for dominating the stock markets.<sup>306</sup> In EAC, some of the member states do not permit cross-border investment in specific financial sectors. These sectors include the insurance and pensions industry.<sup>307</sup> States that place these restrictions are Tanzania and Uganda.<sup>308</sup> However, this is not the case for Kenya. Kenya has enacted laws to cater for pension funds investing in the market. The pension funds can invest up to 75 per cent of their pooled resources in stocks offered in the EAC member states' stock exchanges or the total market value.<sup>309</sup> Also, Kenya has placed a 15 per cent limit of its market value on investments made abroad by pension funds.<sup>310</sup> However, article 85 of the EAC Treaty mandates the EAC member states to have conducive

---

[statements/uganda/#:~:text=Foreigners%20cannot%20own%20land%20directly,of%20freehold\)%2C%20and%20leasehold.](#) (accessed on 23 April 2021).

<sup>301</sup> Lutwama JS (2010) 15.

<sup>302</sup> Lutwama JS (2010) 15; see also United States Department of State '2019 Investment Climate Statements: Tanzania' available at <https://www.state.gov/reports/2019-investment-climate-statements/tanzania/> (accessed on 23 April 2021).

<sup>303</sup> Lutwama JS (2010) 15.

<sup>304</sup> Lutwama JS (2010) 15.

<sup>305</sup> Treaty Establishing the East African Community 1999.

<sup>306</sup> Wagh S, Lovegrove A, Kashangaki J, et al *Scaling-up Regional Financial Integration in the EAC* (2011) 5.

<sup>307</sup> Slater A 'Why African Pension Funds should Diversify including Cross-Border' available at <http://www.financialnigeria.com/why-african-pension-funds-should-diversify-including-cross-borders-news-356.html> (accessed on 26 April 2021).

<sup>308</sup> Slater A 'Why African Pension Funds should Diversify including Cross-Border' available at <http://www.financialnigeria.com/why-african-pension-funds-should-diversify-including-cross-borders-news-356.html> (accessed on 26 April 2021); Kipkorir RB (2017) 28.

<sup>309</sup> Wagh S, Lovegrove A, Kashangaki J, et al (2011) 23; see also Kipkorir RB (2017) 28.

<sup>310</sup> Kipkorir RB (2017) 28.

environments to develop the stock market.<sup>311</sup> Likewise, in the same Treaty, article 86 requires the member states to remove any restrictions that will affect capital flow. Instead, the member states are to support trade in financial instruments within the region.<sup>312</sup> Given the foregoing, the restrictions on cross-border investment of institutional investors like pension funds and insurance firms create an environment that is not conducive for stock market development. It, therefore, affects the increase of capital in the economy of EAC member states.

### **3.7.6. Investor Compensation Funds: size and management**

There is a difference in the investor compensation funds size and management across the EAC member states with an established compensation fund. For example, Uganda and Rwanda have no limitation on the amount to be compensated;<sup>313</sup> however, Kenya has a limitation on the amount to be compensated.<sup>314</sup> Further, the Council directive on investor compensation fund in EAC places a compensation limit of US\$1000 to be used across the member states.<sup>315</sup> In this regard, there seems to be inconsistency in the limits placed by the directive and the member states.<sup>316</sup> This inconsistency contrasts with the principles highlighted and agreed upon by the member states in the directive. The directive urges the member states to have coherence and consistency with the rules and legislation on investor compensation funds.<sup>317</sup> Also, regarding the development and benefit of national and foreign investor confidence in the stock market, the limit presented is too small to cater to a broader EAC stock market such as the regional stock exchange.<sup>318</sup> Therefore, investors will feel less likely to invest in the region

---

<sup>311</sup> Treaty Establishing the East African Community 1999.

<sup>312</sup> Treaty Establishing the East African Community 1999.

<sup>313</sup> Article 6 of Capital Market Regulation establishing the Compensation Scheme in Rwanda (2012); Article 20 of the Capital Markets( Investor Compensation Fund) Regulations, 2018 in Uganda.

<sup>314</sup> Rule 6.4 of Compensation Rules and Procedures for the Investor Protection Fund in Kenya read together with Section 18 A of the Capital Markets Act ,R.E 2012 ( Chapter 485A of the Laws of Kenya)

<sup>315</sup> Article 4(6) of the Directive of the Council of Ministers on the East African Community Securities Market Investor Compensation Funds 2017.

<sup>316</sup> Lutwama JS (2010) 15.

<sup>317</sup> Article 3 of the Directive of the Council of Ministers on the East African Community Securities Market Investor Compensation Funds 2017.

<sup>318</sup> Lutwama JS (2010) 15.



than if the EAC member states had standard investor compensation fund rules and laws.

Also, each EAC member state has its own investor compensation fund regulation except for Tanzania, contrary to the obligation vested upon it in the directive of the Council of Ministers on the EAC Securities Market Investor Compensation Funds.<sup>319</sup> The directive stipulates that the member states must apply the directive in their national investor compensation funds laws or establish an investor compensation fund.<sup>320</sup> Tanzania does not have a law establishing an investor compensation fund. Therefore, this is against what was agreed in the directive. Consequently, it will increase the systematic risk for the stock market and an incentive for other stock markets in the region to be less cooperative. Also, it is among the obstacles in achieving full integration of stock exchanges regionally.

### **3.7.7. Absence of sanction on member states failure to transpose Council directives**

The Council of Minister enacted directives that are to be applied and transposed in Member State national laws. These directives, as previously explained, are binding to all member states of the EAC. However, despite the directives binding to all member states,<sup>321</sup> they have not been transposed to national laws. There is no sanction for the failure of it being transposed into the national laws.<sup>322</sup> Given this, the member states have failed to explore and implement the informal structure fully. If the directives were transposed to national laws, the gap in the informal structure would have less likely been present.

---

<sup>319</sup> Lutwama JS (2010) 15; see also Article 3 of the Directive of the Council of Ministers on the East African Community Securities Market Investor Compensation Funds 2017.

<sup>320</sup> Article 3 of the Directive of the Council of Ministers on the East African Community Securities Market Investor Compensation Funds 2017.

<sup>321</sup> EAC/EX/CN29/Directive 17 of the Council of Ministers on East African Community Securities Market 2015; see also Directive of the Council of Ministers on East African Community Securities Market 2017; Directive of the Council of Ministers on Securities Exchanges 2018.

<sup>322</sup> Directive of the Council of Ministers on East African Community Securities Market 2015; see also Directive of the Council of Ministers on East African Community Securities Market 2017; Directive of the Council of Ministers on Securities Exchanges 2018.

### 3.8. Addressing the current gaps

The inadequacies mentioned above are not peculiar to the EAC only. Observations from studies show that most stock exchanges in Africa face the same problems as those explained above<sup>323</sup> Nevertheless, these studies have made propositions that they believe will resolve the problems faced by African stock markets. The propositions are adopting a formal structure in the integration process, opening the stock market to institutional investors, removing capital restrictions, establishing a common investment code and providing uniform requirements on capital adequacy.<sup>324</sup> The study focuses on these propositions because they create a road map on attaining a full stock exchange integration in the region. Secondly, the propositions suggested are believed to resolve the inadequacies identified above. Therefore, these propositions are elaborated as follows:

#### 3.8.1. Use of formal structure and harmonisation strategy

The stock exchanges should integrate through the establishment of a regional stock exchange.<sup>325</sup> In other words, the formal structure of integration should be adopted. However, it should be noted that integrating the stock markets into a single regional exchange could be challenging, especially considering the cost complexities associated institutionally and financially.<sup>326</sup> Nonetheless, a formal, regionally integrated, and well-structured stock exchange will solve fragmentation problems in the region.<sup>327</sup> Further, there should be a single payment for a listing fee in a regionally integrated stock exchange, synergies in risk management through improved surveillance and access to market segments information and the

---

<sup>323</sup> Yartey CA & Adjasi CK *Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges* (2007) 18.

<sup>324</sup> See generally Soumaré S, Kanga D, Tyson J, & et al. *Working Paper on Capital market development in sub-Saharan Africa: Progress, challenges and innovations* (2021) ; Atsin JA, & Ocran MK *Financial liberalization and the development of stock markets in Sub-Saharan Africa* (2017) Drummond P, Wajid SK & Williams O *The quest for regional integration in the East African Community* (2015); Yartey CA & Adjasi CK *Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges* (2007); Lutwama JS *Capital Market Integration: Strategies For The East African Community* (2010); Irving J *Regional Integration of Stock Exchanges in Eastern and Southern Africa: Progress and prospects* (2005).

<sup>325</sup> Yartey CA & Adjasi CK (2007) 21 ; see also Soumaré S, Kanga D, Tyson J, & et al. (2021) 26.

<sup>326</sup> Yartey CA & Adjasi CK (2007) 22.

<sup>327</sup> Yartey CA & Adjasi CK (2007) 22; see also Soumaré S, Kanga D, Tyson J, & et al. (2021) 26.

harmonisation of rules, legislation and listing requirements.<sup>328</sup> Finally, it is necessary to adopt and/or harmonise the existing rules in national stock exchanges and their systems in an integrated regional stock exchange.<sup>329</sup>

### 3.8.2. Promoting and involving institutional investors

The promotion and involvement of institutional investors are vital to African stock exchanges.<sup>330</sup> Institutional investors often spearhead the promotion of market practices that are efficient and financial innovations.<sup>331</sup> Institutional investors are observed to be seekers of lower transaction costs, advocates of transparency and market integrity in the stock exchanges and stimulants of efficient trading and settlement facilities.<sup>332</sup> In addition, institutional investors such as pension funds and insurance firms can act as a countervailing force to stir up competition and efficiency on market intermediaries such as commercial and investment banks.<sup>333</sup> They will also boost the liquidity of the stock exchanges and bond markets.<sup>334</sup> In this regard, it is contended that exchanges in Africa stand to gain more from enhancing institutional investors involved in their stock exchanges.<sup>335</sup>

### 3.8.3. Lifting the veil on capital restriction

It is believed that fear of having capital flights and financial crisis resulting from capital liberalisation is the reason behind capital restrictions in most African countries.<sup>336</sup> However, it is contended that the nature of capital flowing in the country determines the problems arising from capital liberalisation.<sup>337</sup> For example, flows in debt-based capital could cause a crisis to the economy, especially if creditors hear of any bad news would immediately want to obtain their funds.<sup>338</sup> At

---

<sup>328</sup> Yartey CA & Adjasi CK (2007) 23.

<sup>329</sup> Yartey CA & Adjasi CK (2007) 23.

<sup>330</sup> Soumaré S, Kanga D, Tyson J, & et al. (2021) 29; see also Yartey CA & Adjasi CK (2007) 24.

<sup>331</sup> Soumaré S, Kanga D, Tyson J, & et al. (2021) 29; see also Yartey CA & Adjasi CK (2007) 24.

<sup>332</sup> Yartey CA & Adjasi CK (2007) 24.

<sup>333</sup> Yartey CA & Adjasi CK (2007) 24.

<sup>334</sup> Soumaré S, Kanga D, Tyson J, & et al. (2021) 29.

<sup>335</sup> Yartey CA & Adjasi CK (2007) 24.

<sup>336</sup> Yartey CA & Adjasi CK (2007) 26.

<sup>337</sup> Yartey CA & Adjasi CK (2007) 26; see also Atsin JA, & Ocran MK *Financial liberalization and the development of stock markets in Sub-Saharan Africa* (2017) 27.

<sup>338</sup> Yartey CA & Adjasi CK (2007) 26.

the same time, capital flows based on equity or bond based are risk-sharing investments that in good times have high payouts and in less or no crisis during bad times.<sup>339</sup> On this basis, it is in the best interest of African stock exchanges to lift capital account restrictions to attract and allow portfolio investments.<sup>340</sup> Further, it is believed that countries should open up their markets to foreign participants.<sup>341</sup> Market liberalisation to foreign participants will increase capital flows and improve and escalate the trading and liquidity of the stock market.<sup>342</sup>

#### **3.8.4. Establishment of a common investment code**

A common investment code should be created to further facilitate cross-border investments within the region.<sup>343</sup> The establishment of a common investment code is believed to lead to a formal regional stock exchange.<sup>344</sup> Given the preceding, a regional regulatory body for securities must be created as it is an essential part following the establishment of a formal regional stock exchange.<sup>345</sup> The investment code is said to be fundamental to the trading of securities and cross-border investments' efficient operation. However, the investment code can only be effective if the member states transpose it into its national legislation and binding to all member states.<sup>346</sup>

#### **3.8.5. Uniform Prudential and Capital Requirements**

Lutwama argues that the member states from a regional bloc must adopt uniform prudential and capital adequacy requirements to smoothly maintain an integrated stock market in the region.<sup>347</sup> He notes that each stock exchange differs in the level of development. He, therefore, believes that the capital adequacy requirement for the most developed stock exchanges will be higher than the least developed

---

<sup>339</sup> Yartey CA & Adjasi CK (2007) 26.

<sup>340</sup> Yartey CA & Adjasi CK (2007) 26; Atsin JA, & Ocran MK (2017) 27.

<sup>341</sup> Yartey CA & Adjasi CK (2007) 26; Atsin JA, & Ocran MK (2017) 27.

<sup>342</sup> Yartey CA & Adjasi CK (2007) 26; Atsin JA, & Ocran MK (2017) 27.

<sup>343</sup> Irving J (2005) 19; see also Drummond P, Wajid SK & Williams O (2015) 201.

<sup>344</sup> Irving J (2005) 19.

<sup>345</sup> Irving J (2005) 19.

<sup>346</sup> Irving J (2005) 19.

<sup>347</sup> Lutwama JS (2010) 14; see also Drummond P, Wajid SK & Williams O (2015) 205.

ones.<sup>348</sup> He further argues that it would be a daunting environment for market players from the small and least developed stock markets to effectively participate using their domestic market licenses in highly developed stock markets because of the high requirement on capital adequacy.<sup>349</sup> Therefore, he proposes that there should be uniformity across the region on the capital adequacy requirements for stock market activities.<sup>350</sup>

Alternatively, if the first proposal is not attainable, he proposes that a separate category of requirements for the market players within the region should be established.<sup>351</sup> The first category should be for market players who want to conduct stock market activities on a regional and domestic level. At the same time, the second category would be for the market players whose securities business would be limited to the national stock market.<sup>352</sup> Drawing from the proposals, the second proposal may likely work for the EAC. This is because, in the EAC, stock markets differ in the level of development. There are stock markets that are more highly developed than the others.<sup>353</sup> For example, the Nairobi Securities Exchange is the largest and most developed stock exchange in the EAC.<sup>354</sup> Therefore not all corporations in the region would meet the standard capital requirements that are set. Instead, having different categories of prudential and capital adequacy requirements would accommodate the interests of both the regional and domestic level market players.

### 3.9. Conclusion

This chapter has discussed the historical underpinning of stock exchanges in the EAC and its efforts towards stock exchange integration.

---

<sup>348</sup> Lutwama JS (2010) 14..

<sup>349</sup> Lutwama JS (2010) 14.

<sup>350</sup> Lutwama JS (2010) 14; Drummond P, Wajid SK & Williams O (2015) 205.

<sup>351</sup> Lutwama JS (2010) 14.

<sup>352</sup> Lutwama JS (2010) 14.

<sup>353</sup> Bizimungu J 'East Africa: Regional Stock Market Automate Trading' available at <https://allafrica.com/stories/202011300185.html> (accessed on 8 September 2021).

<sup>354</sup> Bizimungu J 'East Africa: Regional Stock Market Automate Trading' available at <https://allafrica.com/stories/202011300185.html> (accessed on 8 September 2021).

The chapter examined the extant legal and regulatory framework of the adopted informal structure on stock exchange integration. It was mentioned that the EAC Treaty lays provisions supporting both the formal and informal structure; however, what has been adopted in the EAC is the informal structure. Various rules and directives on securities market operation and conduct of business were enacted to cater to the informal structure. The chapter also examined the inadequacies of the informal structure adopted in the EAC. The inadequacies are inconsistency in cross-listing fees, capital requirements, licensing requirements, investor compensation fund and restrictions on cross-border investments, foreign ownership, and inadequate sanctions for failure to transpose the Directives to national laws. These gaps prevent the proper functioning and full integration under the informal structure adopted for stock exchange integration in the EAC region.

The chapter ends with addressing the gaps in the informal structure. It was revealed that the inadequacies of the informal structure are not new in African stock exchanges. Therefore, a formal regional stock exchange, promotion of institutional investors in the stock exchanges, market liberalisation through lifting capital account restrictions, and uniform rules and requirements for the region's securities market are propositions raised to address the extant inadequacies faced by the EAC in regionally integrating their stock exchanges. The next chapter will make a case for a formal structure in integrating the regional stock exchange.

UNIVERSITY of the  
WESTERN CAPE

## CHAPTER FOUR

### A CASE FOR THE USE OF A FORMAL STRUCTURE IN THE INTEGRATION OF STOCK EXCHANGES REGIONALLY

#### 4.1. Introduction

The previous chapter has discussed the historical background of stock exchanges in the East African Community (EAC) and efforts made by the region in integrating their stock exchanges. It was indicated that the EAC during the colonial era had a formally structured regional stock exchange - the Nairobi Securities Exchange, which was domiciled in Kenya. However, after independence, each member state formed a separate national exchange. So far, the EAC has been making strides to integrate its exchanges. These efforts result from the terms agreed by them in the EAC Treaty. They have achieved cooperation by adopting an informal structure for integrating the stock exchanges shown in the previous chapter to face many challenges.

Overall, the findings in chapter three found evidencing supporting that the informal structure may have constituted a disincentive towards the attainment of 'full integration'. The chapter identified that one of the options available towards pursuing the attainment of 'full integration' was for the EAC to explore and adopt the formal structure for its regional stock exchange.

Against the above background, this chapter will assess the role and utility of a formal structure in facilitating and expediting the 'full integration' of the EAC stock exchanges. The chapter will outline the advantages of the formal structure over the informal structure to facilitate and accelerate the attainment of 'full integration' in a regionally integrated stock exchange regime. The chapter will discuss the West African Economic and Monetary Union (WAEMU) regional stock exchange, which has a formal structure to extend recommendations for reforms to EAC's approach. The WAEMU stock exchange has been selected for this study for three significant reasons. First, the regional exchange is in Africa; for this reason, there is a high probability that any African region can replicate it. Secondly, the stock exchange uses a formal structure that is the main essence of this study's stock exchange integration proposal for the EAC. As previously explained in chapter two, a formal

structure contains a centralised approach in regulating and supervising stock exchange activities. Lastly, the exchange has been exceptionally performing over the years, including despite the recent coronavirus pandemic.<sup>355</sup> Buttressing this point, the capitalisation of the WAEMU regional stock exchange in 2020 is recorded to be about US\$ 20.33 billion.<sup>356</sup>

#### 4.2. Formal structure versus Informal structure

As already mentioned in chapter one,<sup>357</sup> the 'full integration' of stock exchanges could be said to have crystallised where all identical potential market participants of the integrated stock exchange:

- (a) Face a similar set of rules when dealing in financial services and instruments in the stock market;
- (b) Unbiased access to financial services and the stock market; and
- (c) Equal treatment when active in the market.

The numerous benefits of integrated stock exchanges discussed in chapter two are best unlocked when 'full integration in the indices specified above has been achieved.'<sup>358</sup> This is because the integrated stock exchange is not only fully operational but also supports a level playing ground for market participants. Laichana and Obwogi observe that economic growth and efficient functioning of stock exchanges cannot be ignored.<sup>359</sup> Accordingly, adopting a stock exchange integration model or structure aids and accelerates the attainment of 'full integration is the right way to go for regional blocs like the East African Community (EAC) looking to unlock the benefits of integrating their member states' stock exchanges.

---

<sup>355</sup> African Markets 'Market Performance: overview' available at <https://www.african-markets.com/en/stock-markets> (accessed on 26 July 2020); African 'Xchanges 'BRVM Stock Exchange (BRVM) Live' available at <https://afx.kwayisi.org/brvm/> (accessed on 26 July 2020).

<sup>356</sup> African Markets 'Market Performance: overview' available at <https://www.african-markets.com/en/stock-markets> (accessed on 26 July 2020); African 'Xchanges 'BRVM Stock Exchange (BRVM) Live' available at <https://afx.kwayisi.org/brvm/> (accessed on 26 July 2020).

<sup>357</sup> See section 1.3.

<sup>358</sup> See section 2.

<sup>359</sup> Laichana K and Obwogi T' Effects Of Macroeconomic Variables On Stock Returns In The East African Community Stock Exchange Market' (2015) 3(10) *International Journal of Education and Research* 306.



As previously highlighted in chapter two, the two structures that can be adopted in integrating the stock exchange regionally are the formal and informal structures.<sup>360</sup> The formal structure involves having a single stock exchange that has centralised governance. The stock exchange may or may not exist with the national stock exchanges already established in the region. At the same time, the informal structure involves the cooperation and harmonisation of national laws and regulators of stock exchanges.<sup>361</sup> The EAC adopts the informal structure in regionally integrating the stock exchanges of member states. Many efforts have gone into establishing this structure in the EAC. The integrated stock exchange is not only fully operational; the findings in chapter three show that it has flaws.<sup>362</sup>

The study postulates that arguments from scholars support that the formal structure is better suited for achieving full integration than the informal structure. The reasons for this were viewed in chapter two and are enumerated below:

- a) Minimal systematic and legislative risk<sup>363</sup>
- b) It accommodates investors from all member states, even the states that do not have established stock exchanges<sup>364</sup>
- c) Uniformity in the listing and fee requirements of securities<sup>365</sup>
- d) It is cost-effective<sup>366</sup>
- e) Provides room for multiple listing of securities<sup>367</sup>
- f) It will increase the pool of funds for companies seeking to increase capital<sup>368</sup>

However, Irving observes that countries do not need to wait to have a formal regional stock exchange. Instead, as an interim measure before such structure is achieved, countries should cooperate to harmonise their regulations, encouraging cross-listing and cross-border investment, technology, and information sharing.<sup>369</sup>

---

<sup>360</sup> See section 2.2.1.

<sup>361</sup> See section 2.2.1.

<sup>362</sup> See section 3.7.

<sup>363</sup> See section 2.2.1.

<sup>364</sup> See section 2.2.1.

<sup>365</sup> See section 2.2.1.

<sup>366</sup> See section 2.2.1.

<sup>367</sup> See section 2.2.1.

<sup>368</sup> See section 2.2.1.

<sup>369</sup> Irving J *Regional Integration of Stock Exchanges in Eastern and Southern Africa: Progress and prospects* (2005)19.

She supports this recommendation by saying that cooperation among stock exchanges is better than having only segmented national stock exchanges.<sup>370</sup>

In attaining the smooth implementation of regionally integrating the stock exchanges using an informal structure to the point of 'full integration', a common uniform law must be adopted. In this regard, Lutwama observes that segmented national regulators can exist together in an integrated stock market regionally by harmonising the national laws, allowing and applying a single law across the region's stock market or adopting a mutually recognised regime. This entails that the national laws apply to all the region's stock exchanges.<sup>371</sup> In other words, in a mutually recognised regime minimum set of standards have to be agreed upon by the member states.<sup>372</sup> He further argues that the states' national legal frameworks have to adopt this set of standards to facilitate cross-border transactions across the region's stock exchange.<sup>373</sup> Mwenda contends that the informal structure is not expensive to set up, though it lacks elements of a formal structure.<sup>374</sup> He notes that harmonising the national laws and rules regulating the member states' national stock exchanges within the region must be made to make the informal arrangement work.<sup>375</sup>

Further, Irving argues that any regional integration plan with the likelihood to cause a country's sovereignty to relinquish may face resistance in its implementation.<sup>376</sup> She observes that a plan that proposes an informal structure of which national stock exchanges are independently integrated into a network might face less resistance than a plan to remove the national exchanges and replace them with a formally structured single regional stock exchange.<sup>377</sup> Nonetheless, she highlights that national leaders' pivotal role is to rally the political will to push through

---

<sup>370</sup> Irving J (2005) 19.

<sup>371</sup> Lutwama JS *Capital Market Integration: Strategies For The East African Community* (2010) 20.

<sup>372</sup> Lutwama JS (2010) 20.

<sup>373</sup> Lutwama JS (2010) 20.

<sup>374</sup> Mwenda KK *Legal Aspects of Corporate Finance: The Case for an Emerging Stock Market* (unpublished PhD thesis, University of Warwick, 2000)133.

<sup>375</sup> Mwenda KK (2000) 133.

<sup>376</sup> Irving J (2005) 19.

<sup>377</sup> Irving J (2005) 19.

and implement the cooperation agreements of harmonising their policies and regulations.<sup>378</sup>

Be that as it may, the fact that countries within the same region have separate cultures, politics, differing levels of economic development and national interest is a justification for opting for a formal structure of stock exchange integration. This structure makes it easy for member states to have a middle point. On this point, Mwenda notes that the member states in a region often have divided views regarding their states' social and economic interests.<sup>379</sup> Consequently, the member states' self-interest agendas in the region might make it challenging to achieve the regional objectives they have in place.<sup>380</sup> This renders the driving power to stimulate the member states' will to cooperate less likely.<sup>381</sup> He observes that where there is no supra-national authority in a regional stock exchange, the effectiveness of pursuing and addressing matters like insider dealings by policy mechanisms will not be present.<sup>382</sup> Because of this, he argues that a formal structure should be adopted in regional stock exchange integration.<sup>383</sup> He further argues that a formal system regulating these stock exchanges would eliminate not only a lawless regulatory system but also promote the regions' securities regulatory system's efficiency and effectiveness.<sup>384</sup>

Speaking to the regulatory regime under a formal structure, Mwenda notes that a regional supervisory authority must be established to regulate activities in a region's formal stock exchange.<sup>385</sup> The regional authority established shall be responsible for the approval of the conduct of business in the regional stock exchange.<sup>386</sup> He notes that a mutual investment code should be established in the region's formal stock exchange with a single regulatory body supervising it.<sup>387</sup> The investment code provisions should supersede the municipal laws and regulations

---

<sup>378</sup> Irving J (2005) 19.

<sup>379</sup> Mwenda KK (2000) 134.

<sup>380</sup> Mwenda KK (2000) 133.

<sup>381</sup> Mwenda KK (2000) 134.

<sup>382</sup> Mwenda KK (2000) 133.

<sup>383</sup> Mwenda KK (2000) 134.

<sup>384</sup> Mwenda KK (2000) 136.

<sup>385</sup> Mwenda KK (2000) 350.

<sup>386</sup> Mwenda KK (2000) 350.

<sup>387</sup> Mwenda KK (2000) 350-1.

of the member states within the region.<sup>388</sup> Such provisions are dispute settlements, securities advertisements, market abuses, regulation of financial intermediaries, and obligations for disclosing information.<sup>389</sup> Mwenda's observation on investment code supports the argument made in chapter three by Irving. Irving believes that a common investment code in a region will result in a formal regional stock exchange.<sup>390</sup>

In addition to having a common investment code, there is a need for a joint clearance and settlement system that operates as a result of the investment code. Lutwama believes that a region can have a single regional stock market system that creates a monopoly.<sup>391</sup> Therefore the stock exchanges in the region should have one regional market and a clearance and settlement system.<sup>392</sup> It is contended that the need to maximise economies of scale or scope and to enrich the synergies resulting from the diversification are the reasons that drive the regional stock exchange integration or a clearance and settlement system integration.<sup>393</sup>

Mwenda clarifies that the regional stock exchange must not necessarily replace the existing national stock exchanges within the region in a formal structure.<sup>394</sup> Instead, he argues that both exchanges should co-exist.<sup>395</sup> The reason behind his argument is that having the two exchanges co-existing with each other will give an option for companies that cannot meet the listing costs and requirements to be listed in a less costly stock exchange within the region.<sup>396</sup>

Given the extensive theoretical perspective on the formal structure of integrating stock exchanges, the study posits that the formal structure appears more promising in attaining the full stock exchange integration in the region than the informal one. The structure will ensure that the stock market's rules and procedures are aligned to serve the market participants best. It further seems that the structure

---

<sup>388</sup> Mwenda KK (2000) 351.

<sup>389</sup> Mwenda KK (2000) 351.

<sup>390</sup> Irving J (2005) 19; see section 3.8.5.

<sup>391</sup> Lutwama JS (2010) 24.

<sup>392</sup> Lutwama JS (2010) 24.

<sup>393</sup> Lutwama JS (2010) 24.

<sup>394</sup> Mwenda KK (2000) 136; see also Mwenda KK 'Securities Regulation And Emerging Markets: Legal And Institutional Issues For Southern And Eastern Africa' (2000) 7(1) Murdoch University Electronic Journal of Law.

<sup>395</sup> Mwenda KK (2000) 136 ;see also Mwenda KK (2000).

<sup>396</sup> Mwenda KK (2000) 136.

will accommodate investors and market participants from both member states with and without established stock exchanges, unlike the informal structure. However, though the formal structure is attractive, it also appears to be more expensive to implement than the EAC member states' informal structure. Given this, the study notes that a plan to implement the formal structure can be a long-term solution that should be planned out in phases. The following section will shed light on how the formal structure has been adopted in practice using the West African Economic and Monetary Union (WAEMU) regional stock exchange. The success of the WAEMU regional stock exchange will also be highlighted to draw attention to the benefits that the formal structure may provide.

#### **4.3. The West African Economic and Monetary Union (WAEMU) formal regional stock exchange**

Having discussed the inadequacies of the informal structure adopted in the East African Community (EAC) in chapter three, the discussion highlighted that it might be useful to consider a formal structure in integrating the stock exchanges in the region. Given this, the WAEMU regional stock exchange uses a formal structure, and it would therefore be good to undertake a discussion and give an overview of the formal structure under the WAEMU, the establishment, the regulatory and institutional framework of the regional stock exchange, and the success achieved so far. The reason for this discussion is to draw lessons for the EAC. Specifically, it would guide the legal, regulatory and institutional framework that EAC can follow in setting up a formal regional stock exchange.

##### **4.3.1. Overview of the West African Economic and Monetary Union (WAEMU)**

The WAEMU region has adopted a formal structure to integrate the regional stock exchange. The formal structure adopted by the region is centralised governance. It comprises one central bank, stock exchange, central depository and settlement house, as well as one regulatory authority for the regulation of the financial

market.<sup>397</sup> The structure contrasts with the EAC, which uses an informal model to integrate their national stock exchanges. <sup>398</sup>As previously explained in chapter two, this informal model uses a segmented approach whereby member states harmonise and cooperate in cross-listing securities across the region.<sup>399</sup>

Furthermore, the WAEMU region using the formal structure has successfully established the Bourse Regionale Des Valeurs Mobilier (BRVM), a formal regional stock exchange. This establishment was a success because the states shared a common currency and similar laws.<sup>400</sup> The WAEMU member states inherited French business laws; therefore, the member states have similar business laws.<sup>401</sup> The law governing the regional stock exchange is the Organisation for Harmonisation of Business Laws in Africa (OHADA), known as the OHADA Uniform Act.<sup>402</sup> The study notes that regions with the same colonial regime do not necessarily have uniform laws and currency. An example is the EAC; despite having shared the same colonist – Britain, they do not fully share uniform laws and currency.<sup>403</sup>

The establishment of the BRVM was followed by the WAEMU region's Council of Ministers' decision to integrate the regions' financial market to cater to the financial needs of the Member States and private corporations.<sup>404</sup> The integrated market was created to ensure that the financial needs of the region's member states and private corporations are responded to in an efficient, transparent and harmonised fashion.<sup>405</sup> In this regard, to further achieve the objective of creating the regional stock exchange, the Council of Ministers created a regional agency to

---

<sup>397</sup> African Securities Exchange Association 'The African Exchanges Linkage Project (AELP) Phase 1' available at [file:///C:/Users/admine/Desktop/brochure210420\\_AELP\\_updated\\_FINAL-compressed.pdf](file:///C:/Users/admine/Desktop/brochure210420_AELP_updated_FINAL-compressed.pdf) (accessed on 3 May 2021) 10.

<sup>398</sup> Mwenda KK (2000) 364.

<sup>399</sup> Mwenda KK & Muuka GN 'Prospects and Constraints to Capital Markets Integration in Eastern and Southern Africa' (2001) 2(1) *Journal of African Business* 49; see section 2.2.2.

<sup>400</sup> Chisadza MW *The Role of Cross-Listings in Establishing a SADC Regional stock exchange* (unpublished LL.M thesis, University of the Western Cape, 2013) 43.

<sup>401</sup> Mwenda KK (2000) 365

<sup>402</sup> The World Bank *Report on Senegal Observance of Standards and Codes (ROSC): Corporate Governance* (2006) 12.

<sup>403</sup> Chisadza MW (2013) 43.; see also The East African 'Four years to go, single currency still elusive' available at <https://www.theeastafrican.co.ke/tea/business/four-years-to-go-single-currency-still-elusive-3220906> (accessed on 18 May 2021).

<sup>404</sup> Diouf MA & Dufresne FB *Financing Growth in the WAEMU through the Regional Securities Market: Past Successes And Current Challenges* (2012) 3.

<sup>405</sup> Diouf MA & Dufresne FB (2012) 3.

help the member states raise resources needed at a reasonable cost to fund their economic development policies.<sup>406</sup> The regional agency is called the L'Union Monétaire Ouest Africaine (UMOA-Titres). This agency is an international public institution with financial and legal independence.<sup>407</sup> The UMOA-Titres's primary objective also includes assisting in the issuance of public securities and the Union's management.<sup>408</sup>

#### 4.3.2. The Bourse Regionale Des Valeurs Mobilier (BRVM)

The Bourse Regionale Des Valeurs Mobilier (BRVM), also known as the WAEMU regional stock exchange, was first established in 1996 and started operating in 1998.<sup>409</sup> The BRVM is the first regional stock exchange globally and specifically in Africa.<sup>410</sup> BRVM is headquartered at Abidjan, Cote d'Ivoire.<sup>411</sup> The regional stock exchange in the West African Economic and Monetary Union (WAEMU) results from a cross-border merger of eight French-speaking member states in the region.<sup>412</sup> These member states are Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo, Benin and Burkina Faso.<sup>413</sup>

The BRVM is a private company limited by liability. It is also an economic and political institution established solely to serve the public in the WAEMU region.<sup>414</sup> It is therefore not owned by a particular state, rather the region. Its board of directors

---

<sup>406</sup> UMOA-Titres 'About Us' available at <https://www.umoatitres.org/en/qui-sommes-nous/> (accessed on 1 June 2021).

<sup>407</sup> UMOA-Titres 'About Us' available at <https://www.umoatitres.org/en/qui-sommes-nous/> (accessed on 1 June 2021).

<sup>408</sup> UMOA-Titres 'About Us' available at <https://www.umoatitres.org/en/qui-sommes-nous/> (accessed on 1 June 2021).

<sup>409</sup> Onyuma SO (2006) 108; see also Tachiwou AM 'Stock Market Development and Economic Growth: The Case of West African Monetary Union' (2010) 2(3) *International Journal of Economics and Finance* 97.

<sup>410</sup> Mbendi 'Bourse Regionale Des Valeurs Mobilier-Overview' available at [https://mbendi.co.za/exch/25/p0005.htm#:~:text=After%20extensive%20negotiations%20between%20member,Stock%20Exchange\)%2C%20finally%20opened.](https://mbendi.co.za/exch/25/p0005.htm#:~:text=After%20extensive%20negotiations%20between%20member,Stock%20Exchange)%2C%20finally%20opened.) (accessed on 11 May 2021).

<sup>411</sup> Onyuma SO 'Regional Integration of Stock Exchanges in Africa' 2006 *African Review of Money, Banking & Finance (Supplement Issue)* 108.

<sup>412</sup> Onyuma SO (2006) 108.

<sup>413</sup> Bourse Regionale Des Valeurs Mobilier 'Background' available at <http://www.brvm.org/en/node/61597> (accessed on 26 July 2020).

<sup>414</sup> African 'Xchanges 'BRVM Stock Exchange (BRVM) Live' available at <https://afx.kwayisi.org/brvm/> (accessed on 18 May 2021).

comprises fourteen members from each State.<sup>415</sup> Currently, a branch in each member state represents it.<sup>416</sup> As of 2020, forty-six companies are listed on the BRVM.<sup>417</sup> In addition, the exchanges in these states are connected through a satellite link.<sup>418</sup> This structure is different in the EAC, of which the national exchanges are self-regulated and belong to the specific member states, as previously explained in chapter three.<sup>419</sup>

The BRVM trades both stocks and bonds.<sup>420</sup> The BRVM has designated its department of market operations staff to ensure the negotiation and quotation of transferable securities, listing securities, and providing market participants with market prices and information.<sup>421</sup> Also, the BRVM market operations department runs quasi-real-time market surveillance to take note of any infractions.<sup>422</sup> If the system notes any potential market violations, the department must immediately inform the regional stock exchange regulator.<sup>423</sup> The BRVM further can sanction market participants such as brokers when they have acted against the financial market interest and temporarily suspend the broker's operations in the stock exchange.<sup>424</sup> The sanctions and suspensions can be given by BRVM but implemented by the regional stock exchange regulator.<sup>425</sup>

Moreover, the regulatory framework of BRVM accommodates multiple listings of securities. The framework has made it possible for investors within the region and outside to invest in multiple markets due to multiple regional listings of securities.<sup>426</sup> Companies like the Ecobank is listed in the BRVM, the Nigerian Stock Exchange (NiSE) and the Ghana Stock Exchange (GSE).<sup>427</sup> This, however, is not

---

<sup>415</sup> Bourse Regionale Des Valeurs Mobilier 'Governance' available at <http://www.brvm.org/en/node/61597> (accessed on 18 May 2021); see also The World Bank (2009) 19.

<sup>416</sup> Chisadza MW (2013) 43.

<sup>417</sup> African Securities Exchange Association 'The Arican Exchanges Linkage Project (AELP) Phase 1 ' available at [file:///C:/Users/admine/Desktop/brochure210420\\_AELP\\_updated\\_FINAL-compressed.pdf](file:///C:/Users/admine/Desktop/brochure210420_AELP_updated_FINAL-compressed.pdf) (accessed on 3 May 2021) 10.

<sup>418</sup> Onyuma SO (2006) 108.

<sup>419</sup> See section 3.2.

<sup>420</sup> Da Silva D 'Central Depository / Settlement Bank' available at <https://slideplayer.fr/slide/1155530/> (accessed on 31 May 2021).

<sup>421</sup> Diouf MA & Dufresne FB (2012) 5; see also Allen F, Otchere I & Senbet LW (2011) 1(2) 'African financial systems: A Review' Review of Development Finance 106.

<sup>422</sup> The World Bank (2009) 19.

<sup>423</sup> The World Bank (2009) 19.

<sup>424</sup> The World Bank (2009) 19.

<sup>425</sup> The World Bank (2009) 19.

<sup>426</sup> Chisadza MW(2013) 9.

<sup>427</sup> Chisadza MW(2013) 11.



the case in the EAC informal regional market.<sup>428</sup> National stock exchanges in the EAC currently can only cross-list securities.<sup>429</sup> Although they can cross-list, the rules for cross-listing are not harmonised enough.<sup>430</sup>

### 4.3.3. Achievements so far

In the beginning, the WAEMU region only had one stock exchange located in Cote d'Ivoire before the integration of the financial market. The integration was followed by the decision of the Council of Ministers to establish a regional stock exchange.<sup>431</sup> However, after the integration, the regional stock exchange successfully established branches across the member states. The branches are connected with the main stock exchange using a satellite link, and it runs its operations digitally.<sup>432</sup>

Unfortunately, this is not the case for the EAC. The EAC does not have a satellite platform linking their exchanges, although there have been initiatives on linking the national exchanges in the region. As mentioned in chapter three, only three EAC member states with established stock exchanges have collaborated to implement a World Bank-funded financial project. The project aims to connect the national stock exchanges digitally for the sole purpose of operating as a single market.<sup>433</sup> This project began in 2011, but to date, it has not launched. Moreover, not all EAC member states' stock exchanges are on board with the project; thus, this is a challenge as there is a lack of cooperation among the EAC member states compared to the WAEMU member states who work uniformly.<sup>434</sup>

---

<sup>428</sup> See section 3.4.

<sup>429</sup> See section 3.4.

<sup>430</sup> Salami I 'Financial regulation in African frontier markets: can the EU approach work?' (2011) 5(5) *Law and Financial Markets Review* 383 .

<sup>431</sup> Mwenda KK (2000) 365.

<sup>432</sup> Lovegrove A, Fuchs M, Long M & et al *Financial sector integration in two regions of Sub-Saharan Africa: How creating scale in financial markets can support growth and development Making Finance Work for Development*, World Bank (2007) 88; see also Memoire Online ' An Emerging Market: Bourse Regionale des Valeurs Mobiles a West African Stock Exchange' available at [https://www.memoireonline.com/11/07/682/m\\_emerging-market-west-african-stock-exchange2.html](https://www.memoireonline.com/11/07/682/m_emerging-market-west-african-stock-exchange2.html) (accessed on 18 May 2021).

<sup>433</sup> See section 3.4; see also The East African 'Tanzania, Rwanda and Uganda race ahead to forge a single stock market' available at <https://www.theeastafrican.co.ke/tea/business/tanzania-rwanda-and-uganda-race-ahead-to-forge-a-single-stock-market-2219156> (accessed on 18 May 2021).

<sup>434</sup> The World Bank Report on *Project Appraisal document on a Proposed Grant to East African Community -East African Community Financial Sector Development and Regionalization Project I* (2010) 10.

Furthermore, the WAEMU region made strides by creating an environment that is easy to conduct securities business across the West African region. It established the West African Capital Market Integration (WACMI).<sup>435</sup> This project was established to provide a uniform regulatory environment for issuing and trading securities across the West African region.<sup>436</sup> It also aimed at improving businesses and entrepreneurs in small, medium-sized enterprises (SMEs) access to finance by reducing the cost of raising capital from other financial product choices.<sup>437</sup> The WACMI project caught the Africa Securities Exchanges Association (ASEA) attention, which decided to formally create a project that links the African exchanges to provide access to investors across the African region to a pool of liquidity and trading of securities.<sup>438</sup> Among the participants in this project are the Nairobi Securities Exchange (NSE), the BRVM, the Stock Exchange of Mauritius, and the Johannesburg Stock Exchange (JSE).<sup>439</sup>

Based on the above, the study posits that the WAEMU joined as a whole region in the ASEA linkage project; this resulted from them being a single regional market that allowed all the eight-member states to be part of the project. However, only one out of the four established stock exchanges in EAC participates in the project. Therefore, this shows a lack of synergy and raises the concern that if they had a formal regional stock exchange, they would have participated as one regional bloc similar to WAEMU.

Commendably, despite the coronavirus global pandemic affecting stock markets globally, the BRVM performance was still stable. The pandemic had little impact on the stock exchange.<sup>440</sup> As of 31 December 2020, the regional stock exchange had a total market capitalisation of US\$ 20.33 billion, and the value of US\$1.83 million was traded every day.<sup>441</sup> Gnahe, Huang and Ashraf observe that

---

<sup>435</sup> Nageri KI 'Ease of Doing Business and Capital Market Development in a Demand Following Hypothesis: Evidence from ECOWAS' (2020) 3(4) *Studia Universitatis Vasile Goldis Arad. Economics Series* 27.

<sup>436</sup> Nageri KI (2020) 27.

<sup>437</sup> Nageri KI (2020) 28.

<sup>438</sup> Nageri KI (2020) 27.

<sup>439</sup> Nageri KI (2020) 27.

<sup>440</sup> Gnahe FE, Huang Fei-Ming & Ashraf J 'The Impact of COVID-19 on Stock Market Returns: Case of Bourse Regionale des Valeurs Mobilières' (2021) 18 *Technium Social Sciences Journal* 212.

<sup>441</sup> African Securities Exchange Association 'The African Exchanges Linkage Project (AELP) Phase 1' available at [file:///C:/Users/admin/Desktop/brochure210420\\_AELP\\_updated\\_FINAL-compressed.pdf](file:///C:/Users/admin/Desktop/brochure210420_AELP_updated_FINAL-compressed.pdf) (accessed on 3 May 2021) 10.

the stability of the regional stock exchange was because of the well-sufficient and efficient monetary policy and exchange of the WAEMU region.<sup>442</sup> The next sections will further demonstrate the WAEMU regional stock exchange's structural, institutional and regulatory setting to understand why the regional stock exchange is considered efficient and sufficient.

#### **4.3.4. Structural setting of the West African Economic and Monetary Union (WAEMU) stock market**

The WAEMU region uses a centralised structure in governing stock market activities. This structure is facilitated by the Council of Ministers who govern the Union.<sup>443</sup> In addition, the Council of Ministers established the regulatory authority responsible for regulating and supervising the regional stock exchange.<sup>444</sup>

Furthermore, two main components make up the structure of the WAEMU regional stock exchange. These components are the public and private components.<sup>445</sup> The public component comprises the Regional Council for Public Saving and Financial Markets (CREPMF), the regional stock exchange regulator.<sup>446</sup> Its obligation under this component is to supervise the stock market and represent the general interest.<sup>447</sup> Moreover, the private component comprises the regional securities exchange (BRVM) and Central Deposit and Settlement Organisation (DC/BR), the central clearinghouse.<sup>448</sup> Also, other stakeholders like brokerage

---

<sup>442</sup> Gnahe FE, Huang Fei-Ming & Ashraf J (2021) 213.

<sup>443</sup> Memoire Online ' An Emerging Market: Bourse Regionale des Valeurs Mobileres a West African Stock Exchange' available at [https://www.memoireonline.com/11/07/682/m\\_emerging-market-west-african-stock-exchange2.html](https://www.memoireonline.com/11/07/682/m_emerging-market-west-african-stock-exchange2.html) (accessed on 18 May 2021).

<sup>444</sup> Memoire Online ' An Emerging Market: Bourse Regionale des Valeurs Mobileres a West African Stock Exchange' available at [https://www.memoireonline.com/11/07/682/m\\_emerging-market-west-african-stock-exchange2.html](https://www.memoireonline.com/11/07/682/m_emerging-market-west-african-stock-exchange2.html) (accessed on 18 May 2021).

<sup>445</sup> Memoire Online ' An Emerging Market: Bourse Regionale des Valeurs Mobileres a West African Stock Exchange' available at [https://www.memoireonline.com/11/07/682/m\\_emerging-market-west-african-stock-exchange2.html](https://www.memoireonline.com/11/07/682/m_emerging-market-west-african-stock-exchange2.html) (accessed on 18 May 2021).

<sup>446</sup> World Trade Organisation ' Trade Policy Review on the Member Countries of the West African Economic and Monetary Union (WAEMU)' available at <https://www.tralac.org/images/docs/12324/wto-trade-policy-review-waemu-member-countries-report-by-the-secretariat-september-2017.pdf> (accessed on 11 May 2021) 78.

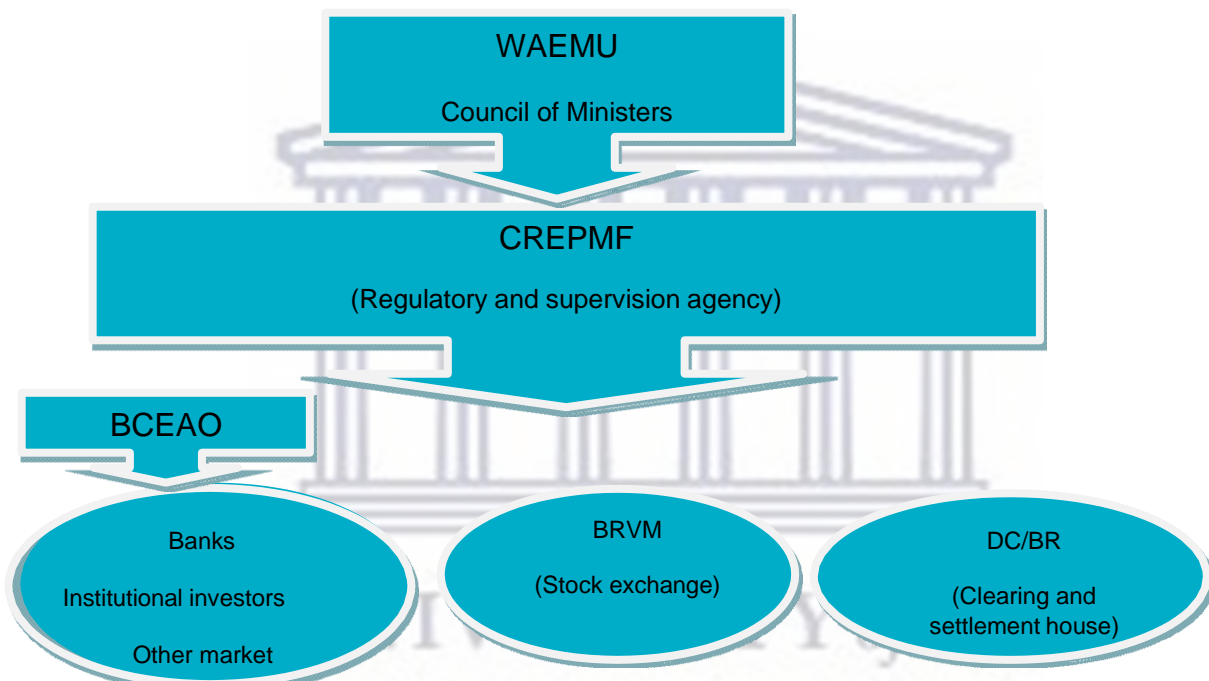
<sup>447</sup> Memoire Online ' An Emerging Market: Bourse Regionale des Valeurs Mobileres a West African Stock Exchange' available at [https://www.memoireonline.com/11/07/682/m\\_emerging-market-west-african-stock-exchange2.html](https://www.memoireonline.com/11/07/682/m_emerging-market-west-african-stock-exchange2.html) (accessed on 18 May 2021).

<sup>448</sup> Memoire Online ' An Emerging Market: Bourse Regionale des Valeurs Mobileres a West African Stock Exchange' available at [https://www.memoireonline.com/11/07/682/m\\_emerging-market-west-african-stock-exchange2.html](https://www.memoireonline.com/11/07/682/m_emerging-market-west-african-stock-exchange2.html) (accessed on 18 May 2021); see also Allen F, Otchere I & Senbet LW (2011) 1(2) 'African financial systems: A Review' *Review of Development Finance* 105.

firms, business developers, canvassing brokers, stock market consulting firms and asset administration firms are part of the private component.<sup>449</sup>

In addition, the regional stock exchange structure also comprises the Central Bank of the West African States (BCEAO). The BCEAO controls the WAEMU states securities issued through auctions and regulates financial institutions such as banks.<sup>450</sup> The below diagram illustrates the WAEMU region's stock market structure, as previously explained.

### Structure of the WAEMU Stock Market



Source: Diouf MA & Dufresne FB<sup>451</sup>

#### 4.3.5. Institutional and Regulatory Framework of the West African Economic and Monetary Union (WAEMU) regional stock exchange

The primary regulator of the regional stock exchange is the Regional Council for Public Savings and Financial Markets (CREPMF). However, another institution under the supervision of the CREPMF makes up the regulatory setting of the

<sup>449</sup> Memoire Online ' An Emerging Market: Bourse Regionale des Valeurs Mobileres a West African Stock Exchange' available at [https://www.memoireonline.com/11/07/682/m\\_emerging-market-west-african-stock-exchange2.html](https://www.memoireonline.com/11/07/682/m_emerging-market-west-african-stock-exchange2.html) (accessed on 18 May 2021).

<sup>450</sup> Diouf MA & Dufresne FB (2012) 4.

<sup>451</sup> Diouf MA & Dufresne FB (2012) 5.

regional stock exchange in the WAEMU region. This institution is the Central Deposit and Settlement Organisation (DC/BR).<sup>452</sup> Furthermore, the General Regulations of the Regional Council for Public Savings and Financial Markets of 1997, the General Rules of the CREPMF and the General Rules of the Regional stock exchange (BRVM rules) are the central legislations regulating the regional stock exchange.<sup>453</sup>

Having briefly discussed who the main securities regulator in the region is and the institution it supervises, the next subsections will further expand the discussion and discuss the functions and powers of the CREPMF and the DC/BR. The discussion will lay the foundation for understanding how a formal structure's institutional and regulatory framework operates.

#### **4.3.5.1. Regional Council for Public Savings and Financial Markets (CREPMF)**

The CREPMF is an autonomous regulating body and has decision making independence.<sup>454</sup> It regulates and supervises the regional stock exchange. It has the power and function to control the market and its participants, such as brokers, investment funds, advisors, dealers, and asset managers. To make regulations, give instructions and clarity on regulations.<sup>455</sup> To make investigations and administer justice.<sup>456</sup> It further can make sanctions such as warnings, temporary and permanent suspensions of a license, market participants, market activities and reprimands.<sup>457</sup> It also can make investigations regarding complaints raised about an investor's rights and the stock market operations.

The CREPMF can make a ruling on disputes and complaints lodged.<sup>458</sup> The institution monitors activities in the regional stock exchange through its surveillance

---

<sup>452</sup> Bourse Regionale Des Valeurs Mobilier 'Background' available at <http://www.brvm.org/en/node/61597> (accessed on 26 July 2020); see also Allen F, Otchere I & Senbet LW (2011) 105.

<sup>453</sup> Sow M 'Senegal: Investment Rules of the World' (2021) 15 available at <file:///C:/Users/admine/Desktop/THESIS/DLA-Piper-Investment-Rules-Senegal.pdf> (accessed on 18 May 2021).

<sup>454</sup> The World Bank *Report on Togo: the Observance of Standards and Codes (ROSC): Corporate Governance* (2009) 19.

<sup>455</sup> The World Bank (2009) 19.

<sup>456</sup> The World Bank (2009) 19.

<sup>457</sup> The World Bank (2009) 19.

<sup>458</sup> The World Bank (2009) 19.

system and the BRVM trading system to which it is connected.<sup>459</sup> It makes surveillance monthly on market violations and the stock exchanges deviations.<sup>460</sup>

#### 4.3.5.2. Central Deposit and Settlement Organisation (DC/BR)

The DC/BR is a private firm separate from the BRVM. The CREPMF regulates the DC/BR.<sup>461</sup> The DC/BR is an investor's custodian, and it is the clearinghouse for securities traded under the BRVM.<sup>462</sup> The DC/BR has three main functions in the stock market. These functions are to be the central holder of security accounts for members, close operations in the market, and settle balances deriving from market operations and payment of products, for example, dividends and interests.<sup>463</sup>

On the contrary, each East African Community (EAC) member states with an established stock exchange have a central security depository (CSD) that clears and settles securities in the national exchanges.<sup>464</sup> For example, Uganda and Kenya have two CSDs, one for the government bonds and the other for the bonds and equities listed in the stock exchanges. At the same time, Rwanda and Tanzania have one that clears and settles both government bonds, corporate bonds and equities listed in the stock exchanges.<sup>465</sup> In view of this, it is clear that the EAC does not have a centralised custodian for the region's investors and a clearinghouse. However, this may be possible once a full formal integration of the stock exchanges is achieved.

---

<sup>459</sup> The World Bank (2009) 20.

<sup>460</sup> The World Bank (2009) 20.

<sup>461</sup> The World Bank (2009) 19.

<sup>462</sup> Diouf MA & Dufresne FB (2012) 5.

<sup>463</sup> Diouf MA & Dufresne FB (2012) 5; See also Memoire Online 'An Emerging Market: Bourse Regionale des Valeurs Mobiles a West African Stock Exchange' available at [https://www.memoireonline.com/11/07/682/m\\_emerging-market-west-african-stock-exchange2.html](https://www.memoireonline.com/11/07/682/m_emerging-market-west-african-stock-exchange2.html) (accessed on 18 May 2021).

<sup>464</sup> East African Community 'Capital Markets:An Overview' available at <https://www.eac.int/financial/capital-markets> (accessed on 8 July 2021).

<sup>465</sup> East African Community 'Capital Markets:An Overview' available at <https://www.eac.int/financial/capital-markets> (accessed on 8 July 2021).

#### 4.4. Summary of the West African Economic and Monetary Union (WAEMU) Formal Stock Exchange

From the literature reviewed so far, it is understood that there are main factors that facilitated the West African Economic and Monetary Union (WAEMU) region to achieve a full regional stock exchange integration under a formal structure. These factors are the political, the institution of a common currency, and the establishment of uniform business laws. With particular reference to the common currency, the world bank contends that the absence of common currency limits the regionalisation of stock markets.<sup>466</sup> They further argue that even with common currency in the region, policies have to be put in place to support the regionalisation of stock markets.<sup>467</sup> Regarding uniform laws, the WAEMU region has achieved it under the Organisation for Harmonisation of Business Laws in Africa (OHADA) framework. The foregoing factors made the integration process easy and seem less.

In comparison to the East African Community (EAC), it has been noted that the political will is lacking. Additionally, they have been unable to implement a common currency and develop uniform business laws. Notably, the directives mentioned in chapter three were aimed at unifying securities laws across the region.<sup>468</sup> Unfortunately, most of the member states are yet to domesticate the provisions of the directives into their laws; as a result, these directives can be viewed as toothless bulldogs. With all this, full integration of stock exchanges in the EAC has been slow to attain despite the initiatives made.

Furthermore, it is shown that the WAEMU formal regional stock exchange has established branches in each member state and connects to them using a satellite platform. The infrastructure allows investors from any member state to participate in the regional stock exchange. Unfortunately, in the EAC, this arrangement does not exist. Member states without established stock exchanges cannot participate in partner stock exchanges, for example, through cross-listing. However, a formal structure like the WAEMU would enable all the member states in the region to participate in stock market activities.

---

<sup>466</sup> World Bank *Can Africa Claim the 21<sup>st</sup> Century?* (2000) 168.

<sup>467</sup> World Bank (2000) 168.

<sup>468</sup> See section 3.5.3.

#### 4.5. Lessons for the East African Community (EAC)

The West African Economic and Monetary Union (WAEMU) experience shows that the EAC member states need to do much work nationally and within the region before a full stock exchange integration is achieved. From the literature reviewed, the commendable attainability and stability of the WAEMU regional stock exchange to date may be attributable to

- a. Centralised regulator
- b. Uniform business laws
- c. Common currency
- d. The political willingness of member states to cooperate
- e. Strong regulatory framework
- f. Strong independent institutional and structural framework

The EAC may note that having a centralised regulator may be effective if the EAC is determined to achieve a regional stock exchange integration fully. They, therefore, can learn to formalise the East African Securities Regulatory Authority (EASRA) to be like the Regional Council for Public Savings and Financial Markets (CREPMF), the regulator of the securities market in the WAEMU region. The CREPMF is an independent institution where its decisions are legally binding to all member states and the stock market. The EAC can move from having EASRA, a regional forum formed from a Memorandum of Understandings ( MoU) which is not binding to a legally binding one. The legally binding institution will ensure that the member states and national regulators effectively cooperate on securities matters.

Furthermore, the EAC may note that having an independent regulatory institution like the CREPMF ensures uniformity in the laws and consistency in the standards of stock markets activities across the member states, as evidenced in the WAEMU region. The CREPMF has the power to enforce rules and policies relating to stock market activities. Following this, the EAC, if it formalises the EASRA to a legally binding institution, the enforcement of directives on the securities market to the respective member states and their regulators will be more attainable. Without this, both the EASRA and the directives will remain toothless bulldogs.



Lastly, what has underpinned the success of the WAEMU regional stock exchange is the political will of the member states. In the same vein, political willingness will also be required to develop and implement any initiative aimed at facilitating full integration of the stock exchanges in the EAC. With the political will, the EAC can pursue other integration measures which are part of the region's agenda to cooperate further—for example, having a monetary union and uniform business laws like in the WAEMU region.

#### **4.6. Conclusion**

This chapter has made a case for why a formal structure is a better option for regionally integrating the stock exchanges. The formal structure uses a centralised framework in regulating the regional stock exchange. This framework involves having one regulator and one regional stock exchange that may or may not be separate from the existing national stock exchanges. The structure would have uniform and standard rules across the region. However, the informal structure involved cooperating and harmonising member states' national laws and rules in accommodating the exchanges regionally. This structure was argued to be less likely to work due to the member states' divided views and interests on the economic growth of their states.

The chapter further examined the regulatory and institutional framework of the West African Economic and Monetary Union (WAEMU) regional stock exchange. These frameworks were examined because they are a good example of what and how a formal structure is. Also, the WAEMU region being the first to have a well-functioning and successful formal regional stock exchange in Africa, lessons can be drawn from it for the EAC. The analysis shows that the WAEMU region uses a centralised approach in regulating and overseeing the stock exchange activities in the region, unlike the EAC which does not have one. The WAEMU member states all share a common currency and business laws. Thereby, investors only deal with a uniform business law across the WAEMU region. During the WAEMU regional stock exchange establishment, there was only one stock exchange operating in the region. Even so, all member states elsewhere are currently digitally connected and have branches in each member state. The regional regulator controls and oversees

all activities in the stock market branch of each member state through surveillance connected to the regional stock exchange, therefore minimal market violations. The regional stock exchange has been shown to withstand any global impact due to its formal structure. It has been observed that the regional stock exchange, regardless of the coronavirus, still performed well. Finally, the findings show that the regional stock exchange has achieved more in the formal structure and cooperated with other West and Southern African stock exchanges to grow their economy better and increase capital flow and investor confidence. Most importantly, these observations have also paved the way for this study's possible recommendations and conclusions in the next chapter.



## CHAPTER FIVE

### CONCLUSIONS AND RECOMMENDATIONS

#### 5.1. Introduction

As the last chapter of the study, this chapter will serve two main purposes. First, the chapter will summarise the findings of the study. The summary of the findings is based on the outcome of the five objectives of the study highlighted in chapter one. These objectives are as follows;

- a) To demystify the concept of a regional stock exchange, its penetration in the African continent and the economic benefits it presents.<sup>469</sup>
- b) To establish the factors that influence the development of a stock exchange regionally as presented by related literature on the topic.<sup>470</sup>
- c) To underscore the concept of a formally structured regional stock exchange compared to the informal regional stock exchange.<sup>471</sup>
- d) To assess how the informal structure of integration adopted within the East Africa Community (EAC) could have stood in the way of full stock exchange integration.<sup>472</sup>
- e) To examine the efficacy of the legislative, regulatory and institutional framework under a formally integrated stock exchange in facilitating full integration using the Bourse Regionale Des Valeurs Mobilier (BRVM) stock exchange in order to extend recommendations for reforms to the EAC's approach.<sup>473</sup>

Secondly, the chapter will make recommendations. These recommendations focus on interventions that can facilitate and accelerate the attainment of full integration of stock exchanges in the EAC region, whether based on a formal or an

---

<sup>469</sup> See section 1.4.

<sup>470</sup> See section 1.4.

<sup>471</sup> See section 1.4.

<sup>472</sup> See section 1.4.

<sup>473</sup> See section 1.4.

informal structure, to ensure that the benefits of stock exchange integration are fully unlocked in the region.

## 5.2. Summary of findings

Chapter two discussed the concept of a stock exchange, stock exchange integration and regional stock exchange. It further discussed the two main types of structures used to integrate stock exchanges in a region: Formal and informal. It also discussed the emergence of the stock exchange in Africa, the benefits, bottlenecks and factors influencing the development of an integrated stock exchange in a region. The chapter, therefore, responded to the first, second and third objectives of the study. Findings from this chapter show that there are three ways of integrating a stock exchange. It is either by having a supranational regional stock exchange, stock exchanges in the same region cooperating through harmonised laws to cross-list or a consortium of stock exchanges that do not belong to the same region cooperating and forming a single stock market.<sup>474</sup>

However, there are two main structures in a regional stock exchange integration in relevance to the study. First is the formal structure, which involves having supranational governance regulating and overseeing the regional stock exchange.<sup>475</sup> Secondly, the informal structure comprises the national stock exchanges cooperating through harmonisation of their laws.<sup>476</sup> In this structure, there is an absence of centralised governance governing the stock exchanges. Furthermore, the chapter found that an integrated stock exchange in the region is beneficial to the region's states' economies.<sup>477</sup> It would attract investment, increase capital flow, technological advancement, reduce corruption, lower transaction costs, improve competition, increase security listings and minimise legislative risks.<sup>478</sup> Additionally, chapter two found that advanced financial intermediaries, a secure and predictable macroeconomic environment, transparency and accountability, and

---

<sup>474</sup> See section 2.1.

<sup>475</sup> See section 2.1.

<sup>476</sup> See section 2.2.

<sup>477</sup> See section 2.4.

<sup>478</sup> See section 2.4.

geographic and structural factors are the key factors that will influence the development of an integrated stock exchange.<sup>479</sup>

The findings supporting objectives one, two and three made in chapter two shined a light on the findings in chapter three. Chapter three provided the history of the EAC stock exchanges, the state of affairs in integrating the stock exchanges in the region, the extant informal structure adopted in the EAC on the integration of stock exchanges in the region and how the structure adopted stands in the way of a full stock exchange integration in the region. The findings in the chapter show that a regional stock exchange existed before the independence of the member states in the EAC.<sup>480</sup> The stock exchange was established during the colonial era. ; unfortunately, after independence, the EAC member states removed themselves from the regional exchange to form their national exchanges.<sup>481</sup> The findings further show that the EAC has made several initiatives to harmonise their laws and cross-list across the member states. It has also gone far to initiate full informal integration of stock exchanges by digitally having a satellite platform connecting the national stock exchanges in the region.<sup>482</sup> However, not all the member states with established national stock exchanges are on board. For example, Kenya has refused to join the platform. To date, the remaining national stock exchanges have not been linked together.<sup>483</sup>

Moreover, findings from the extant informal structure adopted in EAC have responded to the fourth objective of the study. The findings show that the Council of Ministers has created Directives favouring the informal structure of integration. These directives include licensing in the securities market, self-regulatory organisations, investor compensation funds in a securities market, securities exchanges and regional listing in the securities market.<sup>484</sup> These directives are binding to all the member states; however, they have not been transposed to their national laws. As a result of the preceding, there is inconsistency in the licensing regulations and approvals of intermediaries, cross-listing fees, derivative market

---

<sup>479</sup> See section 2.5

<sup>480</sup> See section 3.2.

<sup>481</sup> See section 3.2

<sup>482</sup> See section 3.4.

<sup>483</sup> See section 3.4.

<sup>484</sup> See section 3.5.3.

regulations and investor compensation funds rules. In addition, there are restrictions on foreign ownership, cross-border investments and the absence of sanctions on the member states for failure to transpose the directives.<sup>485</sup> These findings have shown that the initial legal and regulatory issues under the informal structure discussed inhibit the full integration of stock exchanges in the EAC. Therefore, there is a need for a formal structure that would address the issues previously stated.<sup>486</sup>

The study's fifth and final objective was addressed in chapter four. The chapter made a case for the use of a formal structure in integrating a regional stock exchange. The formal structure was compared to the informal structure. The findings of the formal structure show that it uses a supranational approach in governing the region's stock exchange. The approach involves having a single regional stock exchange, with a regional regulator regulating and supervising the stock market activities in the region.<sup>487</sup> This approach was discovered that it would ensure a level playing field in the rules and laws of the stock market in the region by having uniform and standard stock market rules. It was assessed that the formal structure would work where the national stock exchanges co-exist with the formal regional stock exchange instead of only having one regional stock exchange for the region that removes the existing national stock exchanges.<sup>488</sup> On the other hand, the informal structure was assessed to involve cooperation among the member states by harmonising rules and laws of stock market activities across the region.<sup>489</sup> However, the member states' divided views and interests on economic growth show that the informal structure is less likely to work.<sup>490</sup>

Furthermore, chapter four examined the efficacy of the regulatory and institutional framework under the formally integrated stock exchange in facilitating full integration using the West African Economic and Monetary Union (WAEMU) regional stock exchange as a case study. The WAEMU regional stock exchange assessment showed that the inadequacies identified in the informal structure

---

<sup>485</sup> See section 3.6.

<sup>486</sup> See section 3.7.




<sup>487</sup> See section 4.2.

<sup>488</sup> See section 4.2.

<sup>489</sup> See section 4.2.

<sup>490</sup> See section 4.2.

adopted by the EAC region are absent in the WAEMU regional stock exchange. The results from the comparative analysis are outlined in the table below;

NO	RESPONSE TO THE QUESTION		EAC	WAEMU
	YES 	NO 		
1	Adoption of a formal structure in regional stock exchange integration			
2	A single stock exchange for the region			
3	Regional stock exchange regulator			
4	Centralised regional securities depository			
5	Regional central bank			
6	Common currency			
7	Uniform legislation and regulation on the securities market in the region			
8	A satellite platform linking Member States' stock exchanges			
9	Cross-listing of securities			
10	Multiple-listing of securities			

By comparing the frameworks in EAC with that of the WAEMU region, the study made four key findings. First, it discovered evidence supporting that a formal structure in regionally integrating stock exchanges likely will be an incentive to

investment and economic growth within the region.<sup>491</sup> This is observed in the stable economic growth of the WAEMU regional stock exchange over the years.<sup>492</sup> Also, with the recent global pandemic disrupting the economy, evidence shows that WAEMU regional stock exchange had minimal impact.<sup>493</sup> Secondly, it found proof supporting that the structure adopted by the EAC might be the force behind the delay in the regional stock exchange integration. The absence of a formal regulatory and institutional framework is likely to have been an incentive for the member states not to cooperate fully in achieving the full integration of stock exchanges within the region.<sup>494</sup> Thirdly, it found proof supporting that the member states that do not have an established stock exchange can list securities in the formal regional stock exchange.<sup>495</sup> Therefore, having one stock exchange with branches across the member states stands as an incentive for investment in the region, leading to economic growth. Fourthly, it found evidence supporting that the formal structure prompts further cooperation and linkage with other stock exchanges located in different African regions.<sup>496</sup> Therefore increasing options for access to capital lowered systematic risk and built investor confidence.<sup>497</sup> The absence of a formal structure in EAC likely obstructed linking the national stock exchanges as a single regional stock market.

In summary, the mini-thesis argues that a formal structure will facilitate regional listing of all stock exchanges, even for those not fully developed.<sup>498</sup> The formal structure would monitor the regional stock market, co-exist with the national stock exchanges, and incorporate the regional listings with the national stock exchange listings.

### 5.3. Recommendations

While the study projects the formal structure as the better alternative, it also makes recommendations on interventions that will facilitate full integration under EAC's

---

<sup>491</sup> See section 4.3.

<sup>492</sup> See section 4.3.

<sup>493</sup> See section 4.3.

<sup>494</sup> See section 4.3.

<sup>495</sup> See section 4.3.

<sup>496</sup> See section 4.3.1.

<sup>497</sup> See section 4.3.1.

<sup>498</sup> See section 4.3.1.



extant informal structure. This approach has been taken because it is acknowledged that it shall require cost, time and political will to shift from the informal structure that the EAC is currently adopting. Many efforts have gone into establishing this informal structure, and reversing this version in lieu of starting afresh for a formal structure might be a daunting task. It would likely also be frustrated by pushbacks from some member states. Whether it is a formal or informal structure that EAC is adopting, the key target is to achieve 'full' integration of the stock exchanges in the region. Only through the attainment of full integration can the stock market fully become efficient, and all the numerous benefits integration can be unlocked. With this in mind, the study makes the following recommendations;

### **5.3.1. Proposal for 'Full Stock Exchange Integration' under the Informal Structure**

The initiative that can facilitate full integration under the informal structure is streamlined as follows;

- a) Harmonising the national laws and entering into a mutually binding agreement that will create a digital infrastructure to integrate the national stock exchanges in a single network
- b) Adoption of common business laws to facilitate cross-border investments and transactions across stock markets in the region or establishment of a mutual regime with a minimal set of standards for the conduct of securities business in the region
- c) Adoption of uniform rules and laws on cross-listing fees, capital and prudential requirements in Member States national exchanges
- d) Lifting capital account restrictions and liberalising the market to attract more foreign investments. Liberalisation of the market can be granted through a short-term or medium-long term plan. The short-term plan should apply to residents within the region. At the same time, the long-term plan should apply to foreign investors outside of the EAC region
- e) Allowing the involvement of institutional investors to participate and cross-list across the regions stock exchanges

- f) Establish separate capital requirements for market players intending to cross-list at the regional level and those whose securities business is limited to national stock exchanges
- g) Creation of sanctions for the Member States who fail to transpose Directives, rules and laws to national laws concerning the securities market
- h) Regular monitoring of stock market activities in the region

### **5.3.2. Proposal for 'Full integration of Stock Exchanges under the Formal Structure**

In the long term, even if the formal structure might not be implemented immediately, it should be on the regions' agenda. As a starting point, there should be a resolution on the EAC committing to implement the formal structure at some point, so it can be on record in view of something that should be done in the near future. As shown in the assessment done in this study, the formal structure is better than the formal one.

In setting up the formal structure, the EAC should pay particular attention to establishing a regional stock exchange that co-exists with the national stock exchanges. The stock exchange should be a stand-alone institution located in one of the Member States. The established stock exchange should include a regional regulator, a central bank, a central clearing and a settlement house and introduce a legal framework in the form of legislation or regulation. The legislation should cater for the following:

- a) The interactivity of regulations on securities between the regional stock exchange and the national stock exchanges
- b) The listing requirements and fees on the regional stock exchange
- c) Disclosure obligation rules that will govern cross-listings on the national stock exchanges and the regional stock exchange
- d) The establishment of a competent regional authority responsible for regulating and supervising the regional stock exchange
- e) The regulation of financial and market intermediaries
- f) Sanctions on market violations and failure to transpose the rules to national laws

- g) Regulation on dispute settlement
- h) Stock exchange surveillance of segments in the market and intermediaries activities
- i) The establishment of an investor compensation fund
- j) Establishment for a clearing and settlement house for securities traded in the stock exchange
- k) Establishment of branches of the regional stock exchange in each member state

In conclusion, the study submits that although the recommendations proposed may not be implemented as submitted. It is hoped that the study has played a good role in adding to the existing literature and debates on the subject matter. Furthermore, it hopes that the study may at least provide a framework for implementing necessary regulatory and legislative changes in the stock market sector within the EAC. Finally, further areas for research have been identified and are hoped to be undertaken because of this study.

#### **5.4. Recommendations for further research**

The following ideas have been identified in the course of the study as areas that could be identified for further research;

- a) If the formal structure is to be adopted, what would be the clear cut legislative, regulatory, institutional and structural requirements necessary to make it or any part of it operational?
- b) Political considerations surrounding the possibility of adopting a formal structure
- c) Prospects on the unification of business laws in EAC, drawing lessons from the Organization for the Harmonization of Business Law in Africa (OHADA)
- d) How can the EAC member states that do not have national stock exchanges benefit from a formal regional stock exchange?

## BIBLIOGRAPHY

### A. Primary Sources

#### I. International Instruments

- Directive of the Council of Ministers on Securities Exchanges 2018.
- EAC/CM/35/ Directive 15 of the Council of Ministers on the East African Community Securities Market Investor Compensation Funds 2017.
- EAC/CM/35/Directive 15 of the Council of Ministers on Licensing in the Securities Market 2017.
- EAC/CM/35/Directive 15 of the Council of Ministers on Self-Regulatory Organisations 2017.
- EAC/EX/CN29/Directive 17 of the Council of Ministers on Regional Listings in the Securities Market 2015.
- Protocol on the Establishment of the EAC Common Market of 2009.
- Protocol on the Establishment of the East African Community Monetary Union 2013.
- Treaty on the Establishment of the East African Community 1999.

#### II. Domestic Instruments

##### Kenya

- Compensation Rules and Procedures for the Investor Protection Fund 1995.
- The Capital Markets Act 2012 (Chapter 485A of the Laws of Kenya).
- The Kenya Capital Markets Securities (Public Offers Listing and Disclosures Regulations) 2002 (as amended).

##### Rwanda

- Capital Market Regulation establishing the Compensation Scheme 2012.
- Rwanda Law regulating commodity exchange and related contracts 2017.
- Rwanda Regulation on Capital Markets Cross-Border introduction 2012.

##### Tanzania

- The Commodity Exchanges Act Tanzania (2015).
- The Dar es Salaam Stock Exchange Public Limited Company Rules, 2016.

Uganda

- The Capital Markets( Investor Compensation Fund) Regulations, 2018.
- The Uganda Capital Markets (Cross Border Introductions) Regulations 2004.

## **B. Secondary Sources**

### **i. Books**

- African Development Bank Group *Financial Sector Integration in Three African Regions: How Regional Financial Integration Can Support Growth, Development, and Poverty Reduction* ( 2010) Tunis: SILDAR.
- Bilau C *Common Capital Market Infrastructure for East Africa: Options for the way forward* (2018) Milken Institute: California
- Calvi R *Assessing Financial Integration: A Comparison between Europe and East Asia* (2010) Brussels: European Commission:
- Davoodi H *The East African Community after Ten Years: Deepening Integration* (2012) International Monetary Fund: Washington, D.C.
- Diouf MA & Dufresne FB *Financing Growth in the WAEMU through the Regional Securities Market: Past Successes And Current Challenges* (2012) International Monetary Fund: Washington D.C
- Dorodnykh E *Stock Market Integration: An International Perspective* (2014) London: Palgrave Macmillan
- Drummond P, Wajid SK & Williams O *The quest for regional integration in the East African Community* (2015) International Monetary Fund: Washington, D.C.
- Emre AC, Wenjie C, Jemma & et al. *A Work in Progress: Integrating Markets for Goods, Labor and Capital in the East African Community* (2016) International Monetary Fund: Washington DC.
- Irving J *Regional Integration of Stock Exchanges in Eastern and Southern Africa: Progress and prospects* (2005) International Monetary Fund: Washington, D.C.
- Lee R *Promoting Regional Capital Market Integration* (2000) Inter American Development Bank: Washington D.C.

- Linn J & Wagh S *Regional Financial Integration: Its Potential Contribution to Financial Sector Growth and Development in Sub-Saharan Africa* (2008) International Monetary Fund: Washington D.C.
- Lovegrove A, Fuchs M, Long M & et al. *Financial sector integration in two regions of Sub-Saharan Africa: How creating scale in financial markets can support growth and development Making Finance Work for Development*, World Bank (2007) World Bank: Washington D.C
- Lutwama JS *Capital Market Integration: Strategies For The East African Community* (2010) Capital Market Authority Uganda: Kampala.
- Moss T *Economic Factors: The Technocratic Rationale for African Stock Markets. In: Adventure Capitalism* (2003) Palgrave Macmillan: London:
- Ngugi R *Development of Nairobi Stock Exchange: A Historical Perspective* (2003) Kenya Institute for Public Policy Research and Analysis: Nairobi.
- Raubenheimer H *African Capital Market: Challenges and Opportunities* (2019) CFA Institute Research Foundation: Charlottesville.
- Schiereck D, Freytag A & Grimm M, et al. *Public corporations in Africa: A continental survey on stock exchanges and capital markets performance* (2018) Friedrich Schiller University: Jena.
- Wagh S, Lovegrove A., Kashangaki J, et al. *Scaling-up Regional Financial Integration in the EAC* (2011) World Bank: Washington DC.
- World Bank *Can Africa Claim the 21ST Century?* (2000) World Bank: Washington D.C
- World Federation of *Exchanges Report on SME Financing and Equity Markets* (2016) World Federation of Exchanges: London.
- Yabara M *Capital Market Integration: Progress Ahead of the East African Community Monetary Union* (2012) International Monetary Fund: Washington DC.
- Yartey CA & Adjasi CK *Stock Market Development in Sub-Saharan Africa: Critical Issues and Challenges* (2007) International Monetary Fund: Washington, D.C.

## II. Chapter in books

- Gastorn K & Masinde W ' The EAC Common Market' in Ugirashebuja E, Ruhangisa JE, Ottervanger T & et al. (ed) *The East African Community Law: Institutional, Substantive and Comparative EU Aspects* (2017) BRILL: Leiden.

iii. Reports and Working Papers

- African Development Bank Group *Working Paper on Regional Financial Integration and Economic Activity in Africa* (2017). African Development Bank Group: Abidjan.
- Atsin JA, & Ocran MK *Financial liberalization and the development of stock markets in Sub-Saharan Africa* (2017) University Library of Munich: Germany.
- East African Common Market Scorecard *report 2014 – Tracking EAC compliance in the movement of capital, goods, and services* (2014) The World Bank: Washington, D.C.
- East African Community *Report on EAC 5<sup>th</sup> Development Strategy: Accelerating a Peoples Centred and Market Driven Integration* (2017) East African Community: Arusha,
- International Finance Corporation *Report on MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets* (2017). International Finance Corporation: Washington D.C
- International Monetary Fund *Working Paper Developing Securities Markets in East Africa: Challenging, but Well Worth the Effort* (2010) International Monetary Fund: Washington, D.C.
- International Monetary Fund *Working Paper Developing Securities Markets in East Africa: Challenging, but Well Worth the Effort* (2010) International Monetary Fund: Washington D.C.
- Soumaré S, Kanga D, Tyson J, & et al. *Working Paper on Capital market development in sub-Saharan Africa: Progress, challenges and innovations* (2021) Overseas Development Institute: London.
- The Eastern African Centre for Constitutional Development & The Ford Foundation *Report 2012 - Overview of The Organs of The East African Community and Functionality of the Current East African Community Institutional Framework* (2012) East African Community: Arusha.
- The Eastern African Centre for Constitutional Development & The Ford Foundation *Report 2012 - Overview of The Organs of The East African Community and Functionality of the Current East African Community Institutional Framework* (2012) The Ford Foundation: Nairobi

- The World Bank *Report on Capital Market Integration in the East African Community* (2002) The World Bank: Washington, D.C.
- The World Bank *report on Project appraisal document on a proposed grant to East African Community report 2010 -East African Community Financial Sector Development and Regionalization Project I* (2010) The World Bank: Washington, D.C.
- The World Bank *report on Project appraisal document on a proposed grant to East African Community report 2010 -East African Community Financial Sector Development and Regionalization Project I* (2010) The World Bank: Washington, D.C.
- The World Bank *Report on Senegal Observance of Standards and Codes (ROSC): Corporate Governance* (2006).
- The World Bank *Report on the Observance of Standards and Codes (ROSC): Corporate Governance* (2009) World Bank: Washington D.C.
- United Nations Economic Commission for Africa *report 2017-'The East African Monetary Union: Ready or Not?'* (2017) United Nations Economic Commission for Africa:
- World Trade Organisation (WTO) *Report on Trade Finance and SMEs: Bridging the gaps in provision* (2016) World Trade Organization: Switzerland.

#### iv. Thesis

- Chisadza MW *The Role of Cross-Listings in Establishing a SADC Regional Stock Exchange* (unpublished LL.M thesis, University of the Western Cape, 2013).
- Kipkorir RB *Capital Market Integration in East Africa: Inadequacy of East African Council of Ministers Directives on Capital Market Integration* (Unpublished LL.B thesis, Strathmore University Law School, 2017).
- Mwenda KK *Legal Aspects of Corporate Finance: The Case for an Emerging Stock Market* (unpublished PhD thesis, University of Warwick, 2000).



v. Journal Articles

- Allen F, Otchere I & Senbet LW (2011) 1(2) 'African financial systems: A Review' *Review of Development Finance* 79-113.
- Canh N, Thai N and Schinckus C' Stock-Return Co-Movements and Institutional Quality: An Empirical Investigation of the European Emerging Markets' (2018) 8(5) *Theoretical Economics Letters* 820-843.
- Dorodnykh E 'Determinants of Stock Exchange Integration: Evidence in Worldwide Perspective' (2014) 41(2) *Journal of economic studies (Bradford)* 292–316.
- Dorodnykh E 'What Drives Stock Exchange Integration?' (2013) 6(2) *International Journal of Economic Sciences and Applied Research* 47-79.
- El-Wassal KA 'The Development of Stock Markets: in Search of a Theory' (2013) 3(3) *International Journal of Economics and Financial Issues* 606-624.
- Fioramonti L & Mattheis F 'Is Africa Really Following Europe? An Integrated Framework for Comparative Regionalism' (2016) 54(3) *Journal of Common Market Studies* 674-690.
- Gakeri JK 'Enhancing Securities Markets in Sub-Saharan Africa: An Overview of the Legal and Institutional Arrangements in Kenya' (2011) 1(9) *International Journal of Humanities and Social Science* 134-169.
- Gnahe FE, Huang Fei-Ming & Ashraf J 'The Impact of COVID-19 on Stock Market Returns: Case of Bourse Regionale des Valeurs Mobiliers' (2021) 18 *Technium Social Sciences Journal* 207-214.
- Huggins R & Prokop D 'Stock markets and economic development: the case for regional exchanges' (2013) 5(3) *International Journal of Innovation and Regional Development* 279 - 303.
- King N The Benefits for Listing Securities with the Dar es Salaam Stock Exchange in Tanzania (2011) 3(1) *Journal of Global Business and Economics* 24-30.
- Laichena K and Obwogi T' Effects Of Macroeconomic Variables On Stock Returns In The East African Community Stock Exchange Market' (2015) 3(10) *International Journal of Education and Research* 305-320.
- Masoud N 'The Impact of Stock Market Performance upon Economic Growth' (2013) 3(4) *International Journal of Economics and Financial Issues* 788-798.

- Maxfield S ' Stock exchanges in low and middle-income countries (2009) 4(1) *International Journal of Emerging Markets* 43-55.
- Mihajlovic L 'Functioning of Financial and Capital Markets in Modern Conditions' (2016) 4(4) *Journal of Process Management New Technologies* 30-38.
- Mwenda KK & Muuka GN' Prospects and Constraints to Capital Markets Integration in Eastern and Southern Africa' (2001) 2(1) *Journal of African Business* 47-73.
- Mwenda KK 'Securities Regulation And Emerging Markets: Legal And Institutional Issues For Southern And Eastern Africa' (2000) 7(1) Murdoch University Electronic Journal of Law
- Nageri KI 'Ease of Doing Business and Capital Market Development in a Demand Following Hypothesis: Evidence from ECOWAS' (2020) 3(4) *Studia Universitatis Vasile Goldis Arad. Economics Series* 24-54.
- Ncube G & Mingiri KF' Stock Market Integration in Africa: The Case of the Johannesburg Stock Exchange and Selected African Countries' (2015) 14(2) *International Business & Economics Research Journal* 367 - 386.
- Njenga LN 'The legal status of the East African Community (EAC)' (2018) 22(3) *RUDN Journal of Law* 370-384.
- Ntim CG Why African Stock Markets Should Formally Harmonise and Integrate their Operations (2012) 4(1) *African Review of Economics and Finance* 53 - 72.
- Olusoji MO & Enofe EE' Capital Market and the Development of the Small and Medium – Scale Enterprises in Nigeria' (2012) 5(4) *IOSR Journal of Business and Management* 5-12.
- Onyuma S, Mugo R & Karuiya J 'Does Cross-Border Listing (Still) Improve Firm Financial Performance In Eastern Africa?' (2012) 1(1) *Journal of Business Economics and Finance* 92-109.
- Onyuma SO' Regional Integration of Stock Exchanges in Africa' 2006 *African Review of Money, Banking & Finance (Supplement Issue)* 99-124.
- Osei-Asabi E 'Source of finance and small enterprise's productivity growth in Ghana' (2013) 4(3) *African Journal of Economic and Management Studies* 372-386.
- Salami I 'Financial regulation in African frontier markets: can the EU approach work?' (2011) 5(5) *Law and Financial Markets Review* 380-387.

- Statistical Economic and Social Research and Training Center for Islamic Country' (2005) 26(2) *Journal of Economic Cooperation* 35 - 68.
- Tachiwou AM 'Stock Market Development and Economic Growth: The Case of West African Monetary Union' (2010) 2(3) *International Journal of Economics and Finance* 97-103.
- Yepes-Rios B, Gonzalez-Tapia K & Gonzalez-Perez MA 'The Integration of Stock Exchanges: The Case of the Latin American Integrated Market (MILA) and its Impact on Ownership and Internationalisation Status in Colombian Brokerage Firms' (2015) 20 *Journal of Economics, Finance and Administrative Science* 84 - 93.

vi. White paper

- East African Community (EAC) White Paper on East African Community Council of Ministers Directives (Legal Notice 21 of 29 May 2015).

vii. Internet Sources

- African Markets' Market Performance: Overview' available at <https://www.african-markets.com/en/stock-markets> (accessed on 26 July 2020).
- African Markets' Market Performance: Overview' available at <https://www.african-markets.com/en/stock-markets> (accessed on 26 July 2020).
- African Securities Exchange Association 'The African Exchanges Linkage Project (AELP) Phase 1' available at [file:///C:/Users/admine/Desktop/brochure210420\\_AELP\\_updated\\_FINAL-compressed.pdf](file:///C:/Users/admine/Desktop/brochure210420_AELP_updated_FINAL-compressed.pdf) (accessed on 3 May 2021) 10.
- African Securities Exchange Association 'The African Exchanges Linkage Project (AELP) Phase 1' available at [file:///C:/Users/admine/Desktop/brochure210420\\_AELP\\_updated\\_FINAL-compressed.pdf](file:///C:/Users/admine/Desktop/brochure210420_AELP_updated_FINAL-compressed.pdf) (accessed on 3 May 2021) 10.
- African Securities Exchange Association 'The African Exchanges Linkage Project (AELP) Phase 1' available at [file:///C:/Users/admine/Desktop/brochure210420\\_AELP\\_updated\\_FINAL-compressed.pdf](file:///C:/Users/admine/Desktop/brochure210420_AELP_updated_FINAL-compressed.pdf) (accessed on 3 May 2021) 10.

- African Securities Exchange Association 'The African Exchanges Linkage Project (AELP) Phase 1' available at [file:///C:/Users/admine/Desktop/brochure210420\\_AELP\\_updated\\_FINAL-compressed.pdf](file:///C:/Users/admine/Desktop/brochure210420_AELP_updated_FINAL-compressed.pdf) (accessed on 3 May 2021) 10.
- African Securities Exchange 'Dar es Salaam Stock Exchange Background' available at <https://african-exchanges.org/en/membership/members/dar-es-salaam-stock-exchange-dse#:~:text=Background%3A,212>. (accessed on 4 February 2021).
- African 'Xchanges' BRVM Stock Exchange (BRVM) Live' available at <https://afx.kwayisi.org/brvm/> (accessed on 26 July 2020).
- Bizimungu J 'East Africa: Regional Stock Market Automate Trading' available at <https://allafrica.com/stories/202011300185.html> (accessed on 8 September 2021).
- Bourse Regionale Des Valeurs Mobilier 'Background' available at <http://www.brvm.org/en/node/61597> (accessed on 26 July 2020).
- Business Jargons' Capital Markets' available at <https://businessjargons.com/capital-market.html> (accessed on 11 February 2021).
- Capital Markets & Securities Authority 'Affiliated Organizations' available at <https://www.cmsa.go.tz/index.php/2015-03-01-17-53-26/affiliated> (accessed on 17 July 2020).
- Capital Markets and Securities Authority' Establishment' available at <https://www.cmsa.go.tz/uploads/publications/en-1580904580-2.%20B1%20CMSA%20English.pdf> (accessed on 4 February 2021) 1.
- Capital Markets Authority 'Listed Companies' available at <https://cmauganda.co.ug/ug/smnu/23/Listed-Companies.html> (accessed on 22 January 2021).
- Capital Markets Authority 'Who we are' available at <https://cmauganda.co.ug/> (accessed on 4 February 2021).
- Da Silva D 'Central Depository / Settlement Bank' available at <https://slideplayer.fr/slide/1155530/> (accessed on 31 May 2021).
- East African Community' Capital Markets Infrastructure adding value to East Africans' available at <https://www.eac.int/financial/68-sector/financial> (accessed on 18 July 2020).
- East African Community' Capital Markets: An Overview' available at <https://www.eac.int/financial/capital-markets> (accessed on 4 February 2021).

- East African Community' Capital Markets: An Overview' available at <https://www.eac.int/financial/capital-markets> (accessed on 4 February 2021).
- East African Community' Financial: Integration of stock exchanges' available at <https://www.eac.int/financial> (accessed on 23 July 2020).
- East African Community' History of the EAC' available at <https://www.eac.int/eac-history> (accessed on 17 July 2020).
- Eastern Caribbean Securities Regulatory Commission ' About the ECSRC' available at <https://www.ecsrc.com/> (accessed on 13 April 2021).
- Ganti A' Regional Stock Exchange' available at <https://www.investopedia.com/terms/r/regionalstockexchange.asp#:~:text=Key%20Takeaways,listing%20on%20a%20regional%20exchange> (accessed on 1 October 2020).
- Harper D' Getting to Know the Stock Exchanges' available at
- Harper D' Getting to Know the Stock Exchanges' available at <https://www.investopedia.com/articles/basics/04/092404.asp> (accessed on 6 October 2020).
- IG' Stock Exchange Definition' available at <https://www.ig.com/za/glossary-trading-terms/stock-exchange-definition> (accessed on 6 October 2020).
- Iranzi F 'Burundi is Getting Ready to Launch its First Stock Exchange Market' available at <https://regionweek.com/burundi-is-getting-ready-to-launch-its-first-stock-exchange-market/> (accessed on 17 July 2020).
- Kazeem Y 'Three East African Countries are Merging their Stock Markets to boost Local Investment' Quartz Africa 24 September 2020 available at <https://qz.com/africa/1908441/rwanda-tanzania-uganda-to-create-joint-stock-exchange/> (acc Dar es salaam Stock Exchange ' DSE historical background' available at <https://www.dse.co.tz/content/historical-background> (accessed on 4 February 2021).
- Mbendi ' Bourse Regionale Des Valeurs Mobilier-Overview' available at [https://mbendi.co.za/exch/25/p0005.htm#:~:text=After%20extensive%20negotiations%20between%20member,Stock%20Exchange\)%2C%20finally%20opened.](https://mbendi.co.za/exch/25/p0005.htm#:~:text=After%20extensive%20negotiations%20between%20member,Stock%20Exchange)%2C%20finally%20opened.) (accessed on 11 May 2021).
- Memoire Online ' An Emerging Market: Bourse Regionale des Valeurs Mobileres a West African Stock Exchange' available at

[https://www.memoireonline.com/11/07/682/m\\_emerging-market-west-african-stock-exchange2.html](https://www.memoireonline.com/11/07/682/m_emerging-market-west-african-stock-exchange2.html) (accessed on 18 May 2021).

- Nairobi Securities Exchange' History of NSE' available at <https://www.nse.co.ke/nse/history-of-nse.html> (accessed on 2 February 2021).
- Nairobi Securities Exchange' History of NSE' available at <https://www.nse.co.ke/nse/history-of-nse.html> (accessed on 2 February 2021).
- Rwanda Stock Exchange 'Listed Companies' available at <https://rse.rw/product-and-services/Listed-Companies/> (accessed on 22 January 2021).
- Rwanda Stock Exchange 'Listed Companies' available at <https://rse.rw/product-and-services/Listed-Companies/> (accessed on 22 January 2021).
- Slater A 'Why African Pension Funds should Diversify including Cross-Border' available at <http://www.financialnigeria.com/why-african-pension-funds-should-diversify-including-cross-borders-news-356.html> (accessed on 26 April 2021);
- South African Customs Union' History' available at <http://www.sacu.int/about/history-old.html> (accessed on 6 November 2020).
- Sow M 'Senegal: Investment Rules of the World' (2021) 15 available at <file:///C:/Users/admine/Desktop/THESIS/DLA-Piper-Investment-Rules-Senegal.pdf> (accessed on 18 May 2021).
- The East African 'Four years to go, single currency still elusive' available at <https://www.theeastafrican.co.ke/tea/business/four-years-to-go-single-currency-still-elusive-3220906> (accessed on 18 May 2021).
- The East African 'Tanzania, Rwanda and Uganda race ahead to forge a single stock market' available at <https://www.theeastafrican.co.ke/tea/business/tanzania-rwanda-and-uganda-race-ahead-to-forge-a-single-stock-market-2219156> (accessed on 18 May 2021).
- The Kenyan Wall Street' South Sudan Keen on Setting up a Stock Exchange' available at <https://kenyanwallstreet.com/south-sudan-keen-on-setting-up-a-stock-exchange/> (accessed on 17 July 2020).
- The New Times ' East Africa: Regional Stock Markets Automate Trading' available at <https://allafrica.com/stories/202011300185.html> (accessed on 25 September 2021).

- The World Bank' Financial sector development & Regionalisation project I (FSDRP I)' available at <https://projects.worldbank.org/en/projects-operations/project-detail/P121611?lang=en&tab=procurement> (accessed on 22 July 2020).
- The World Bank' Small and Medium Enterprises (SMEs) Finance: Improving SMEs' Access to Finance and Finding Innovative Solutions to Unlock Sources of Capital' available at <https://www.worldbank.org/en/topic/smefinance> (accessed on 21 April 2020).
- Trade Law Centre ' Status of AfCFTA Ratification' available at <https://www.tralac.org/resources/infographic/13795-status-of-afcfta-ratification.html> (accessed on 25 October 2021).
- Uganda Securities Exchange ' Milestones of the USE' available at <https://www.use.or.ug/content/milestones-use> (accessed on 4 February 2021).
- UMOA-Titres ' About Us' available at <https://www.umoatitres.org/en/qui-sommes-nous/> (accessed on 1 June 2021).
- United Nations Economic Commission for Africa (UNECA)'EAC – East African Community' available at <https://www.uneca.org/oria/pages/eac-%E2%80%93-east-african-community> (accessed on 17 July 2020).
- United Nations Economic Commission for Africa' Regional Economic Communities' available at <https://www.uneca.org/oria/pages/regional-economic-communities> (accessed on 17 July 2020).
- United States Department of State ' 2019 Investment Climate Statements: Tanzania' available at <https://www.state.gov/reports/2019-investment-climate-statements/tanzania/> (accessed on 23 April 2021).
- United States Department of State '2020 Investment Climate Statements : Uganda' available at [https://www.state.gov/reports/2020-investment-climate-statements/uganda/#:~:text=Foreigners%20cannot%20own%20land%20directly,o f%20freehold\)%2C%20and%20leasehold.](https://www.state.gov/reports/2020-investment-climate-statements/uganda/#:~:text=Foreigners%20cannot%20own%20land%20directly,o f%20freehold)%2C%20and%20leasehold.) (accessed on 23 April 2021).
- World Bank' Scaling up Regional Financial Integration in the EAC' available at <http://documents1.worldbank.org/curated/en/974441468247855194/pdf/638100BRI0EAC000Box0361527B0PUBLIC0.pdf> (accessed on 17 July 2020).
- World Trade Organisation ' Trade Policy Review on the Member Countries of the West African Economic and Monetary Union (WAEMU)' available at <https://www.tralac.org/images/docs/12324/wto-trade-policy-review-waemu->

[member-countries-report-by-the-secretariat-september-2017.pdf](#) (accessed on 11 May 2021) 78.

