

# ISSUES AND CHALLENGES ON REGIONAL INTEGRATION OF CAPITAL MARKETS:



## THE EAST AFRICAN EXPERIENCE

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## OUTLINE



- History is not easily replicated
- The relevance of integration and market dynamics
- Two tiered approach in the EAC
- Institutions of integration
- The outlook and challenges

## THE HISTORY OF THE EAC

- **East African Community in place since the late '50's**
  - Common currency
  - Integrated Monetary and Fiscal Policy
  - Free movement of services and capital
- **EAC was a case study for the development of the European Union**
- **Changing political ideology led to collapse in 1977**
- **Efforts to resurrect the EAC commenced in 1996 with re-establishment of Community Secretariat**

## What is driving Integration Agenda

- **Political agenda to integrate community**
  - Phased approach agreed
    - ✦ Customs Union
    - ✦ Common market
    - ✦ Monetary Union
    - ✦ Federal union
- **Commercial appreciation of opportunities presented by larger market:**
  - Greater economies of scale
  - More efficient resource allocation
  - Harnessing natural affinity of EAC communities that stretch across borders

## Broadening Possibilities

- **Original 3 EAC members from first community:**
  - Uganda, Tanzania and Kenya
- **Membership continues to grow**
  - Rwanda and Burundi
- **Additional members under consideration:**
  - South Sudan, Somalia, Ethiopia, DR Congo
- **Larger scale increases the opportunities but also the challenges**

## Two tiers: Political foundations

- **EAC Treaty concluded in 2001.**
  - Article 85 and 86
    - ✦ **Prioritize the development of Banking and Capital Markets**
      - Harmonized policies on foreign investors, tax, cross border activity
      - Harmonized capital markets laws and regulation
      - Harmonized standards of conduct
      - Promotion of cooperation and integration of market infrastructure institutions (exchanges and CSDs)
      - Coordination amongst capital markets regulators through mutual assistance and coordinated enforcement
    - ✦ **Facilitate the free movement of capital and cross border trade in financial instruments**

## Two Tiers: Securities Regulator Initiative

- EAC Regulators have been at forefront of harmonization drive since executing MOU in **1997**
- Membership of East African Securities Regulatory Authorities (EASRA) has grown from original 3 members to 5:
  - Tanzania, Uganda, Kenya, Rwanda and Burundi
- Focus on harmonization of laws and regulations, licensing standards, approval processes, supervisory cooperation

## INSTITUTIONS OF INTEGRATION

- **EAC Treaty Institutions:**
  - EAC Secretariat
  - Capital Markets, Insurance and Pensions Committee
  - Monetary Affairs Committee
  - High level National Negotiations Task Forces
  - CMIPC: Capital Markets Subcommittee
- **East African Securities Regulatory Authorities (EASRA)**
- **East African Securities Exchanges Association (EASEA)**
  - Includes the Exchanges and CSD's

## Ongoing Initiatives

- **Through EASRA**
  - Regional IOSCO MMoU Self Assessments
  - Regional Full IOSCO Principles self Assessment
  - Regional Certification Program to Harmonize Licensing Standards
  - Strengthening of supervisory cooperation for cross border licensees and listed companies
  - Regional Debt Issuance Framework
  - Harmonization of licensing standards
  - Harmonization of disclosure standards
  - Mutual assistance and peer review on market development initiatives

## Ongoing Initiatives

- **Through EAC**
  - Common Market Protocol concluded in July 2010
    - ✦ Imposes commitment on facilitation of free movement of capital, free movement of services and rights of establishment
    - ✦ Yet to be fully implemented
  - Negotiations of Monetary Union at an advanced stage
    - ✦ Execution expected in Q1 2013
    - ✦ Lessons from Euro crisis introduce new thinking especially in light of variable geometry
  - Financial Sector Development and Regionalization project
    - ✦ Join initiative of EAC secretariat and World bank covering banking, insurance, pensions and capital markets sectors

## Challenges in Context



- **National interest perspective and varying priorities**
  - Single exchange and CSD for the region or linking of distinct national institutions
  - Capital controls and market access restrictions
- **Delays in passage of necessary laws**
  - Government policy agenda
  - Parliamentary calendar
- **Approach to Legal and regulatory framework harmonization**
  - EAC Laws or EAC Directives and Standards
- **Market intermediary resistance to change and competition**
- **Lessons from the crisis on risks associated with more efficient transmission mechanisms from increased integration**

## Challenges in context



- **Competition among existing regional blocks**
  - Prioritization and resource allocation
- **Complexities of public awareness and investor education**
  - Challenges already evident at national level
  - How will these be tackled at regional level (Language and cultural differences)
- **National market development initiatives and competing demands for resource availability**
  - Develop nationally then integrate or develop once an integrated market achieved
  - Are there necessary Pre-conditions for effective integration?
    - × Infrastructure, legal framework, product scope, intermediary awareness

## Why do it?

- **Increasing competition for global funds:**
  - Minimum investment thresholds
  - Level of infrastructure investment needed to compete
- **Opportunities to grow domestic savings and investment to drive economic growth**
  - Regional issuance opens opportunity for larger fund raising and accelerated attainment of middle income status
- **“One People, One Destiny”**

THANK YOU



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