



Department
of Economics
and Business

CENTRAL
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ANALYSIS OF THE SECURITIES BROKERAGE MARKET IN TEN AFRICAN COUNTRIES

CEU CAPSTONE PROJECT

PUBLIC SUMMARY

STUDENT

Name:	FAITH AMARO
Program:	MSc in Finance '23
Student ID:	2200669

SUPERVISOR

Name:	IBOLYA SCHINDELE
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Introduction

With the evolution of global capital markets, stock exchanges are increasing in importance as they boost economic growth by providing platforms for the efficient operation of markets. Stockbrokers receive a commission and act as intermediaries between markets and the investing public. The securities brokerage market is closely regulated by government to ensure investor protection. In most jurisdictions, stockbrokers are required to hold appropriate registrations and licenses before they are allowed to operate.

Because of its market potential, available natural resources, pace of development, and the gap in integrating into the world economy, Africa's economy is increasingly one of the fastest developing regions globally and the continent is becoming an attractive investment destination.

There are currently twenty-nine stock exchanges in Africa, with the largest located in South Africa, Nigeria and Egypt. The market capitalization of Africa's stock markets has grown tremendously from \$113 billion in the early 1990's to \$1.6trillion. This represents 4% of the US equity markets (USD 44trillion market capitalization) which are among the most advanced. South Africa is the biggest player in the African stock market, with a market capitalization of USD 1trillion which represents close to 80% of the total market capitalization across the ten countries reviewed during this project.

Some of the major drivers for growth in Africa's stock market include the continent's high potential for growth and investment returns, government reforms focused on improving the business climate and attracting investment as well as an increasing number of domestic investors. This has increased the number of listed companies and fast tracked the development of new financial products and services.

Despite these positive developments, Africa's stock market is still small and illiquid, making it more difficult for investors to buy and sell securities. Political instability and economic volatility also make investment in some African stock markets riskier.

As international investors explore opportunities to participate in Africa's securities brokerage market, they should be well armed with relevant information on the operation of the securities brokerage market to make informed investment decisions. This knowledge should extend to the regulatory environment in which markets operate, key local and international brokers, available investment products, relevant fees and statutory taxes as well as incentives available to investors.

BrokerChooser works as a conduit to connect investors who desire to invest in different stock markets globally, to suitable brokers who will satisfy their investment needs. In 2022, investor interest in Africa, measured by the number of onsite visitors to the BrokerChooser website, was highest in South Africa, Nigeria, Kenya, Egypt, Algeria, Morocco, Ghana, Uganda, Botswana, and Zimbabwe. The goal of this Capstone project is to conduct a detailed review of the securities brokerage market in the ten selected countries with the highest online traffic. This will provide prospective

investors who visit the BrokerChooser website with visibility and a good appreciation of the operational environment in these countries, thereby enabling them to make informed investment decisions.

Specifically, the company will use these research findings to update the following Uniform Resource Locators on its website, ensuring that onsite visitors obtain bespoke, relevant country specific information on the African brokerage market:

- Country pages;
- Best international online brokers; and
- Best Contract for Difference (CFD) brokers.

Data collection and analysis

Exploratory research design was adopted for each country. This methodology interprets secondary data, laying particular emphasis on analysis and interpretation of the existing and available information covering the following key areas:

Regulatory framework: Country specific regulatory websites were used as the starting point to understand the existing regulatory framework. Thereafter, relevant governing legislation, annual reports and media articles were analyzed to assess the investor protection environment as well as the strength and performance of each regulatory authority.

Tax legislation: Tax legislation on the applicable Capital Gains Tax, dividend taxes and interest taxes were reviewed. This was corroborated with information on country specific tax authority websites as well as publications by reliable consulting firms like PricewaterhouseCoopers. Where applicable, the review extended to cover the requirements for set up of tax-free investment accounts.

Licensed brokers: Confirmation of licensed stockbrokers was obtained from the official websites of the respective regulatory authorities. Thereafter, the individual broker platforms were reviewed to confirm their product and service offerings, trading and non- trading fees, country specific trading requirements and ease of trading. A side-by-side analysis of the service offerings of the top brokers was also performed to aid decision making. The analysis of each country's Contract For Difference (CFD) trading position took a similar approach. This covered confirming the legality of trading CFDs, identifying the top regulated CFD brokers, specific trading requirements and tax implications on profits earned.

The data collected for the project was analyzed logically to arrive at meaningful conclusions. As this was a qualitative research project, no statistical tools were applied.

Findings

The regulatory environment in each country reviewed was assessed as functional, with clear guidelines on the Regulator's mandate and investor protection rules. The research identified the need for legislative reforms and

strengthening the regulator's administrative capacity in countries like Nigeria. Although CFD trading was found to be legal and, in most cases, included within the Regulator's ambit, only two countries (South Africa and Kenya) had domestic CFD traders. The rest continued to rely on international brokers, requiring traders to perform due diligence on these brokers before trading with them. Islamic banking is growing in popularity, with most of the reviewed countries now providing Islamic trading accounts in accordance with Sharia law.

The research identified Ghana, Kenya and Botswana as having the highest transaction fees, which explains in part the low volumes of trade owing to investor sensitivity to the high fees and cost of shares. Cost of trading is critical in influencing investor decision making on where to invest and what brokerage firm to work with. Brokerage commission fees and the corresponding regulator fees build up to the total transaction cost.

Uganda is the only country where the brokerage commission (currently 2.1%) is fixed by the regulator. This has an advantage of streamlining the market and creating consistency, although it may be a disincentive to brokers looking to enter and compete favorably in the market (as seen by the low number of stockbrokers currently licensed to operate in Uganda).

Egypt has the lowest transaction fees across all the countries reviewed. This is likely because of the prominence of Islamic financial products and services in the country which attract low to no fees.

Like the transaction fees, an understanding of the prevalent tax regime is key for any investor looking to make a meaningful investment decision. Uganda's capital gains tax regime which corresponds to the personal income tax rates is the highest across all ten countries. South Africa and Zimbabwe have the highest dividend tax rates while Morocco has the highest interest income taxation rate. However, the dividend and interest tax rates on payments to non-residents could potentially be lowered where there is an applicable Double Taxation Treaty in place.

Conclusion

The cost of investing to trade on stock exchange markets in Africa is substantially higher compared to developed global exchange markets. In the US, equity investing is usually free while in the European Union, stockbrokers typically charge less than 0.2% for trades. The largest portion of fees charged is comprised of stockbrokers' commission. Investor fee sensitivity explains why the African capital markets generally have lower volumes of trade, and why the entrance of online brokers who charge significantly lower fees is taking root in the continent.

The older, more established markets like South Africa, Egypt and Morocco trade a variety of securities. The newer market entrants generally have a lower market capitalization and mainly deal in bonds and equities. Legislative reforms to ensure that securities investments are as safe as possible and the regulator's capacity is strengthened is crucial to increase investor confidence.