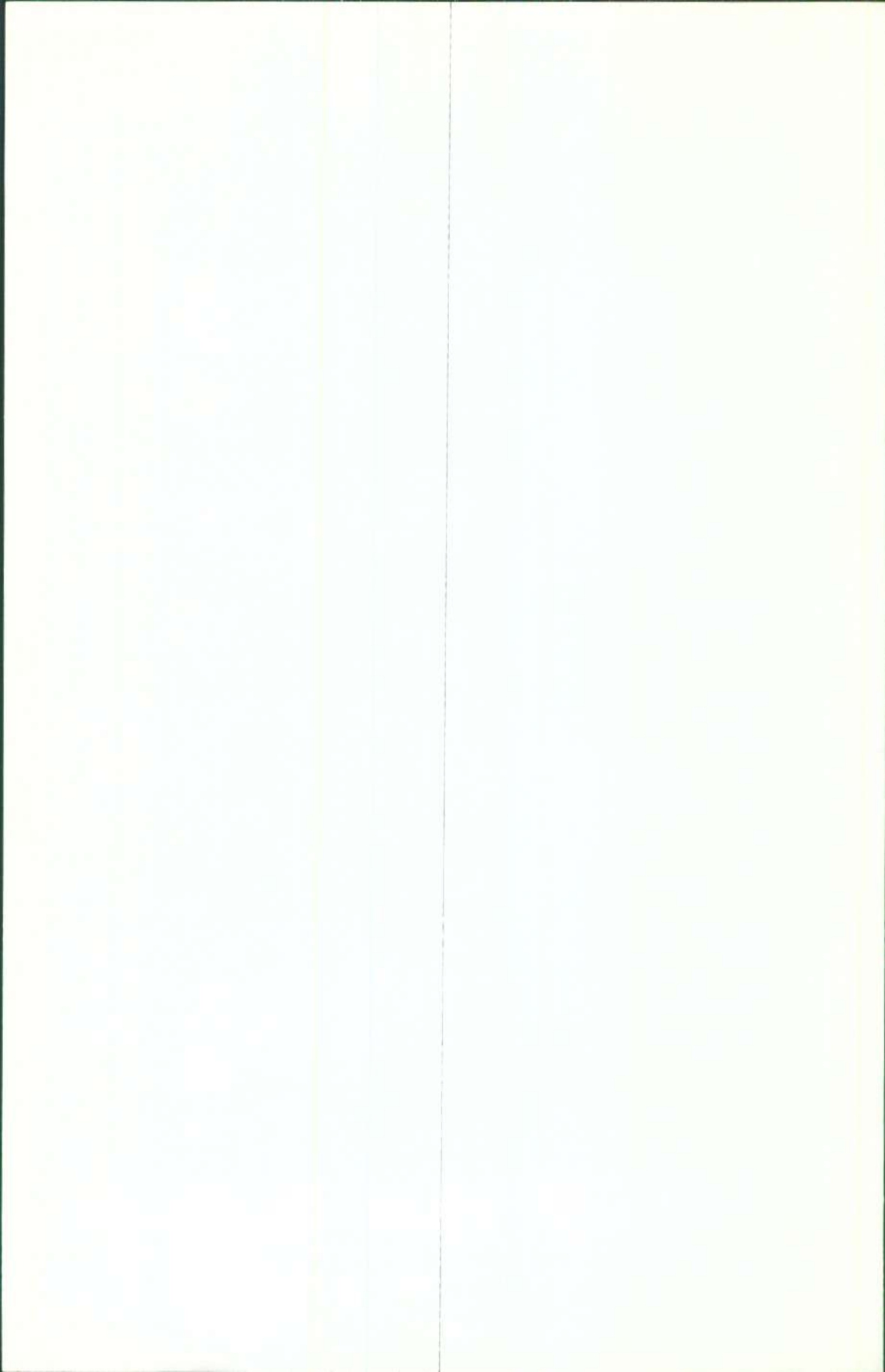


**PART TWO**

**SECURITIES MARKETS  
IN FRENCH-SPEAKING AFRICAN COUNTRIES**

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## INTRODUCTION

There are five African countries with stock markets (excluding countries with an apartheid regime). They are Kenya, Nigeria, Tunisia, Morocco and the Ivory Coast. The securities markets of both Kenya and Nigeria have already been dealt with in a number of studies and a fairly wide selection of statistical information is available on them. However, no surveys whatsoever have been made of the markets in the three French-speaking countries, and little information on them is generally available.

It will therefore be sufficient here to recall the salient aspects of the securities markets in Kenya and Nigeria, while giving brief bibliographical notes for further detailed study, if desired. Kenya<sup>1</sup> was the first African country south of the Sahara to establish a stock exchange in 1958. This was in effect demand-induced, and came about largely on the initiative of certain stockbrokers, who for a number of years had already been engaged in securities dealing on a sporadic basis. At certain times, the Nairobi exchange has also operated as a regional bourse, with stocks issued by residents of Uganda and Tanzania also being traded. In addition to financing productive investment (albeit in practice on a very small scale) and the public spending

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<sup>1</sup> Studies on the Nairobi Stock Exchange include E.A. AROWOLO (1971), *op. cit.*; S. BORTOLANI, *Central Banking in Africa*, Cassa di Risparmio delle Provincie Lombarde, Milan, 1978, pp. 180-182; (which also refers to stock exchanges in other African countries); H.L. ENGBERG (1976), *op. cit.*; J. LOXLEY (1969), *op. cit.*; PETER MARRIS and ANTONY SOMERSET, *African Businessmen*, Routledge Kegan, London, 1979, Chap. 8; H.T. MBOYA (1969), *op. cit.*; U TUN WAI and PATRICK (1973), *op. cit.*

deficit, the objectives of the securities market included non-coercitive indigenisation of the country's economic activity. Although the Kenya stock exchange is one of the largest in Africa, it is generally considered not to provide a major source of capital for the private sector, except for a few companies, and the number of shares held by the public at large is fairly limited. In short, it is a market which tends to cater for an élite, and its impact on the Kenyan economy as a whole has been marginal. One positive effect it seems to have exerted, however, is to have encouraged to some extent the disclosure of corporate information, and also its operating costs appear to be very limited.

The Nigerian stock market was established on the initiative of the Government in 1961 with the declared intent of pursuing objectives such as financing the public sector borrowing requirement and productive investment, expansion of share ownership in particular by transferring Government-held stock in manufacturing concerns to private individuals, and in general improving the distribution of wealth<sup>2</sup>.

The Lagos stock market has shown a fair degree of growth since 1971, but this however has tended to be « forced », since the stock exchange has become the principal means of implementing a coercitive policy aimed at indigenising business activities. This policy was enacted in two stages in 1972 and 1977 and required the largest companies to transfer portions of their equity to local shareholders via the stock exchange. In order to achieve widespread distribution, limits to individual holdings have been set, and in many cases the offering price to the public has been fixed at an artificially low level by the Capital Issues

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<sup>2</sup> For information on the Nigerian securities market, see: E.A. AROWOLO (1971), *op. cit.*; C.V. BROWN, *The Nigerian Banking System*, Allen and Unwin, London, 1966; L. DALDRY, *Nigeria*, in W.F. CRICK, *Commonwealth Banking Systems*, Clarendon Press, Oxford, 1965; D. GUSTAFSON (1965), *op. cit.*, *Nigeria*, in « The Financial Times », of August 30, 1978 and C.O. NWANKWO (1977), *op. cit.*



Commission; while this encourages investment in securities, it does of course penalise the companies concerned. As a result of these measures, the new issue market has grown very substantially, but trading volume on the secondary market has been virtually negligible. In 1978, two further stock exchanges, in addition to that in Lagos, were inaugurated at Kaduna and Port Harcourt. The actual results achieved are hard to assess in view of the manner in which the market has been developed. What is certain is that many problems have still to be solved<sup>3</sup>, and once the Nigerianisation process has been completed, future prospects for the market seem highly uncertain.

Other English-speaking African nations worth mentioning are Egypt and Ghana. The Cairo Stock Exchange was founded in 1889, and had become the fifth largest Bourse in the world prior to the onset of nationalisation. In Ghana, the Central Bank submitted a plan to establish a stock exchange some time ago, but this still awaits Government approval. At the present time, securities dealings are handled by a few brokers, but as far as is known, the actual (and potential) size of the market is pretty small.

The stock exchanges in Tunisia, Morocco and the Ivory Coast are of more recent origin, and in general their volume of trading is lower than in Kenya and Nigeria. They form the specific subject of this study and accordingly at this stage I shall confine myself to making two main points.

First, (apart from the Ivory Coast, which in some ways is a special case standing on its own, and is also difficult to assess fully owing to the fact that the Abidjan Bourse is of very recent origin), the securities markets concerned have many characteristics in common. As will be shown, these involve objectives pursued and results achieved, their origins, and also the tendency to

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<sup>3</sup> See article entitled *Nigeria* in « The Financial Times » of August 30, 1978.

imitate financial structures typical of developed countries (especially, of course the former colonial power, France), which tend to characterise the decisions made by Tunisia and Morocco in terms of external and internal financial processes. Secondly, it should be noted that the shortage of statistical data in these countries (owing to the fact that what figures are available tend to be over-aggregated and in some cases unreliable) do not enable one to prove, even on an empirical basis, the theoretical views propounded in the first part of this study. Even so, on the basis of favourable information, the results emerging from this country-by-country analysis tend to bear out in full the judgements given in the theoretical section.

## 1. THE STOCK EXCHANGE AND THE SECURITIES MARKET IN IVORY COAST

### INTRODUCTION

The Abidjan Stock Exchange is the youngest African stock exchange. It was created by the Government in 1976 after a preparatory and experimental period beginning in 1969 with some public bond issues covered by repurchase guarantee at par value and the foundation of a rudimentary centralized secondary market at the Central Bank, whose operations were guaranteed by a repurchase syndicate.

Unlike other African countries, the Ivory Coast had had no previous experience in organized securities markets, such as the *chambres de compensation* or the *office de cotation des valeurs mobilières*. This is probably because the French considered it a « colonial preserve » and at the time of independence had not yet begun to exploit it. Consequently, the colonial authorities felt no need to promote institutions to facilitate the circulation of securities, as was the case in Morocco and Tunisia.

### 1.1. FEATURES OF THE IVORY COAST'S SOCIO-ECONOMIC SYSTEM.

The Ivory Coast, an ex-French colony which attained independence in 1960, covers an area of 322,500 sq. km. and has a population of 7.5 million, including a large foreign contingent of mostly European and Lebanese-Syrian, besides African, origins. Although the population's annual average rate of growth has

increased considerably, from 3.1% in 1955-65 to 4.0% in 1966-77, the country is still sparsely populated and is characterized by immigration. Furthermore, the population's average age is very young (50% is less than 20 years old) and is 70% rural with a very rapid tendency to urbanization<sup>1</sup>.

Moving on to the economic system we see first of all that the Ivory Coast is prevalently an agricultural, albeit an industrializing, country. Agriculture, in particular, is the mainstay of economic development, which is based on the transformation and exploitation of local agricultural resources. These resources, furthermore, account for two-thirds of national exports.

Secondly, it should be pointed out that the country has developed fairly rapidly, especially in 1960-70 when it experienced a high growth rate and a fair degree of monetary stability. But after 1970 there was both a slow-down in the rhythm of development with the growth rate dropping and fluctuating between 8.5% and 5.8% (minimum for 1973) and a considerable increase in the general price level particularly large in 1974 and traceable to the increase in imports of final investment and consumer goods<sup>2</sup> as well as the increased price of oil-based products. However, 1976 brought an appreciable recovery: gross domestic product increased by 12.5% in volume, while inflation remained high at 18.9%<sup>3</sup>.

Observing the structure of the economic system we see that although the primary sector (agriculture, forestry and underground resources) is still the most important one in terms of

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<sup>1</sup> For greater detail see: UNIDO, *Summary of Industrial Development Plans*, Vol. 1, p. 34 and the following.

<sup>2</sup> To a large degree this seems to have been induced by the characteristics of the economic development process. Consider the meticulous observation made by SAMIR AMIN, *Le développement du capitalisme en Côte d'Ivoire*, J.D.E.P., Dakar, January 1971.

<sup>3</sup> Cfr. MINISTÈRE DE L'ECONOMIE, DES FINANCES ET DU PLAN, *La Côte d'Ivoire en chiffres, 1878-1979*, p. 37.

value-added and is closely followed by the services sector, it is progressively losing its predominant position thanks to the high rate of growth of the latter and, especially, to that of the secondary sector (industry). This is seen in the distribution of gross internal production between the primary, secondary and tertiary sectors, which goes from 46.8%, 15.2% and 38.0% respectively in 1960, to 30.7%, 24.0% and 45.3% in 1974-76 as a result of average annual rates of growth of 7.6%, 14.4% and 12.2% (in value) in the respective sectors<sup>4</sup>. Thus the Ivory Coast's economy is characterized by a tendency towards industrialization and progressively greater emphasis on the services sector.

The industrialization process can be subdivided into three periods:

i) *Before independence* the industrial sector was practically nonexistent, except for a few small firms engaged in the transformation of local products, and with negligible overall sales.

ii) *In the period following independence* — 1960-1970 — the actual industrialization process began with the creation of industries oriented towards producing goods to satisfy internal market needs and protected by customs duties. Except in the case of Government initiative, these firms were created predominantly with foreign capital, technology and management. This inflow was encouraged by a liberal Government policy, or one based on free enterprise, both national and foreign<sup>5</sup>.

iii) *After 1970* another policy was pursued: the diversification of the industrial system through the creation of a few large to exploit raw materials and to produce, using economies of scale, export goods. Here too they were multinational firms or

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<sup>4</sup> Cfr. MINISTÈRE DE L'ECONOMIE, DES FINANCES ET DU PLAN, *op. cit.*, p. 38.

<sup>5</sup> In this framework should be included some fiscal provisions to encourage the installation of new firms (see the *Code des investissements privées*, instituted with *La Loi du 3 septembre 1959*, as well as *La Loi n. 73-368 du 27 juillet 1963* and the *Décret n. 73-401 du 22 Août 1973*).



at least largely financed by foreign capital. In addition to the above policy the Government made clear its intention of promoting smaller firms, created and managed by local entrepreneurs<sup>6</sup>.

The relevant features of the ensuing industrial fabric can be summed up in: *a*) a fairly satisfactory degree of development and diversification with respect to the starting point and the time period involved, but still very limited in comparison with other economies; *b*) a heavy concentration of production in the larger firms (35 of 388 industries existing in 1976 accounted for 74% of sales); *c*) a high degree of dependence on foreign capital and executive and intermediate management. With respect to this feature it can be seen that local capital's share in many sectors is definitely a minority one and is mainly attributable to the State and only in a very limited degree to private investors who only began to hold shares in some of more important companies (16 in all) in 1968 when the first stock issues were offered for sale to the public.

In any case, foreign supremacy is not limited to capital but includes other productive factors such as technology, organization, specialized labor and management. In other words, the sector's decision and control centers as government official themselves affirmed, are abroad and most of its profits flow in the same direction. These aspects are very important for the effective scope and the future prospects of the development process. In all probability the Ivory Coast has only partially benefited from the considerable growth of its national economy.

To complete this brief analysis of the Ivory Coast economic system, it will be useful to cursorily examine savings formation. First, it has grown fairly continuously, except in 1975. Its formation, however, is subject to significant changes, identifiable in a considerable reduction, both in absolute and relative terms, in

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<sup>6</sup> Cfr. MINISTÈRE DE L'ÉCONOMIE, DES FINANCES ET DU PLAN, *op. cit.*, pp. 36-38 and p. 149 and following.

business savings and increase in public sector savings. On the other hand the house-hold sector's share is fairly stable (see. Table 1). Overall domestic savings is still less than investment and foreign financing has filled in the gap, accounting for an average of 16% of the total over the past five years.

Also, in estimating the effective potential of domestic savings, we must keep in mind its probable distribution within each sector, and the possible forms of investment it might take given the structure of the socio-economic system and income distribution between nationals and foreigners. Naturally this applies to the business sector where the foreign presence is sometimes considerable and to the household sector where there seems to be a high concentration of wealth. The main features of the economy of the Ivory Coast can be summarized in: *a*) a large degree of dependency on foreigners; *b*) an underdeveloped industrial sector; *c*) inadequate domestic savings; *d*) an inequitable distribution of wealth among the local population.

## 1.2. DOMESTIC INSTITUTIONS FOR PROMOTING ECONOMIC DEVELOPMENT

In an attempt to promote economic development through the mobilization of local capital and, equally important, to further the indigenization of the productive sector, the Government has set up various *ad hoc* boards and a stock exchange. This study is most directly concerned with the activity and functioning of: the *Fonds National d'Investissement* (F.N.I.) the *Société Nationale de Financement* (Sona) and the *Caisse Autonome d'Amortissement* (C.A.A.).

*Le Fonds National d'Investissement* was created in 1962 and partly reformed in 1973 and is a public agency under the jurisdiction of the Ministry of the Economy and Finance. Its function is the forced mobilization of savings for the direct financing of investments, or the financing of organisms that support



TABLE I  
SAVINGS AND INVESTMENTS  
(in millions of francs CFA)

Year	1971	1972	1973	1974	1975	1976						
<i>Domestic Savings</i>												
Households . . . . .	21,332	27.1%	22,877	27.4%	25,300	23.4%	35,579	24.2%	40,649	33.9%	54,731	25.4%
Firms . . . . .	36,765	46.8%	35,847	42.9%	38,105	35.2%	41,975	26.3%	39,956	33.4%	14,642	6.7%
Financial Institutions . . . .	(4,654)		(5,411)		(4,227)		(3,585)		(4,951)		(4,951)	
Public Administration . . . .	20,360	26.1%	24,878	29.7%	44,853	41.4%	78,875	49.5%	39,159	32.7%	148,522	68.9%
Total . . . . .	98,657	100.0%	83,602	100.0%	108,258	100.0%	159,429	100.0%	119,264	100.0%	215,423	100.0%
<i>External Financing</i> . . . . .							17,345	13,776	21,465	3,376	63,092	36,188
<i>Total Savings</i> . . . . .							96,002	97,378	129,723	162,805	182,856	251,611
<i>Gross Net Capital Formation</i>												
Total G.N.C.F. . . . .	92,364	96.2%	94,250	96.8%	121,960	94.0%	143,655	88.2%	183,947	98.2%	240,303	95.5%
Variations in Stock . . . . .	3,638	3.8%	3,128	3.2%	7,763	6.0%	19,150	11.8%	3,446	1.8%	11,308	4.5%
Total Fixed Investments . . . .	96,002	100.0%	97,378	100.0%	129,723	100.0%	162,805	100.0%	187,393	100.0%	251,611	100.0%

Source: Ministère de l'Economie, des Finances et du Plan, *La Côte d'Ivoire en chiffres*, 1978-79, p. 41.

the productive system (only Sonafi so far). In addition it attempts to attract investors to and make them receptive to securities. These objectives are easy to see in the mobilization mechanism. F.N.I. is funded by an annual surtax of 10% on certain direct taxes. In return each « contributor » receives from the Fund non-trasferable, non-negotiable registered certificates which can be used in the following ways.

First, the holder can redeem certificates by making those investments outlined in a special set of rules and that have been approved by the *Comité d'Agrément du Fonds*. These certificates can also be used to subscribe, by depositing a third in cash, non-trasferable, non-negotiable Sonafi bonds, with a ten year maturity and a 7% interest rate<sup>7</sup>; otherwise he can purchase, with no additional cash payment, securities issued by State authorized and guaranteed Investment Companies. However, at the end of 1978 this alternative was not yet feasible.

Certificates not used within two years of these alternatives are officially converted into fourty year Government bonds at a 2.5% interest rate. The funds thus obtained are turned over to Sonafi which reinvests them in the productive sector, and assumes the responsibility of progressively reimbursing the C.A.A. in conformity with the conditions of the original Government loan. The Government keeps the amount relative to certificates not withdrawn within seven years. Table 2 shows the results obtained with this system. Over the entire period that the F.N.I. functioned (1963-1976) 52.7% of total surtaxes collected went to investments and subsequent redemptions, 8.5% and 13.4% respectively, went to Sonafi bonds and Government bonds, and the remaining 25.1% to certificates never withdrawn. In particular, the share used to finance direct investments increased steadily while the share invested in Sonafi bonds declined pro-

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<sup>7</sup> Until 1972 the interest rate was 6%. Furthermore, before 1974 the cash share was 50%.

TABLE 2

ANNUAL AND CUMULATIVE ISSUES AND USES OF F.N.I. CERTIFICATES FOR THE PERIOD 1963-1976  
(in millions of francs CFA)

Year	Issues		Reimbursements for Investments		Subscriptions of SONAFI Bonds		Subscriptions of Government Bonds		Unused or Unwithdrawn Certificates	
	annual	cumul.	annual	cumul.	annual	cumul.	annual	cumul.	annual	cumul.
1963	Total	1,370	—	—	352	352	—	—	1,018	1,018
	%	100			25.7	25.7			74.3	74.3
1964	Total	833	249	249	50	402	—	—	534	1,552
	%	100			11.3	18.2			30	70.5
1965	Total	813	271	520	132	534	440	440	—	1,522
	%	100			17.2	17.7			14.6	50.5
1966	Total	2,241	381	901	118	652	370	810	1,372	2,894
	%	100			12.4	12.4			15.4	55.1
1967	Total	1,368	327	1,228	75	1,228	359	1,069	857	3,751
	%	100			18.7	10.6			15.7	55.0
1968	Total	672	642	1,870	—	727	470	1,539	—	3,311
	%	100			25.6	9.7			20.5	44.2
1969	Total	845	729	2,599	157	884	441	1,980	—	4,291
	%	100			31.7	10.6			23.7	34.0
1970	Total	2,031	1,080	3,729	90	974	320	2,300	541	3,370
	%	100			35.9	9.4			22.2	32.5
1971	Total	587	1,467	5,196	—	971	153	2,453	—	2,337
	%	100			47.4	8.9			22.4	21.3
1972	Total	1,096	1,126	6,322	163	1,137	113	2,566	294	2,631
	%	100			49.9	11.37			20.3	20.8
1973	Total	3,398	1,653	7,975	—	1,137	355	2,921	1,390	4,021
	%	100			7.1	18.2			25.0	25.0
1974	Total	3,239	2,095	10,070	421	1,558	472	3,393	251	4,272
	%	100			52.2	8.1			22.1	22.1
1975	Total	4,317	2,638	12,708	356	1,914	262	3,655	1,061	5,333
	%	100			8.1	8.1			15.5	22.6
1976	Total	4,884	2,311	15,019	524	2,438	176	3,831	1,873	7,206
	%	100			32.7	8.5			13.4	25.3

Source: F.N.I., *Rapport d'activité*, 1976, p. 25.

gressively, in keeping with a cyclical conversion into government bonds and a pronounced decline in certificates not withdrawn, which remain high.

The explanation for these tendencies lies in the different behavior of individuals and corporate bodies. Since individuals have fewer opportunities for making investments, rarely being entrepreneurs, they generally find the alternatives open to them limited to Sonafi bonds and Government bonds. The fact that Sonafi bonds not only entail a cash deposit equal to one third of their value but are not negotiable and that Government bonds are so long-term and offer a negligible return, generally induces these investors to consider the surtax a proper tax and not to withdraw the certificates or else use them to buy Government bonds that do not require ulterior cash outflows. Corporate bodies, instead, use the certificates especially for the reimbursement in the case of new investments.

The situation has been improving, also because taxpayers understand the mechanism better, but this behavior is still common and corporate bodies are still affected less adversely than individuals.

In conclusion, the objective of savings mobilization is fully met, thanks to the coercive nature of the surtaxes, as is, to a significant degree, the objective of promoting direct investments, which in 1971-1976 amounted to 12.7% of gross capital formation. But the goal of attracting investors to securities does not seem to have been met. This is largely due to the low return and liquidity of the available securities.

A necessary, if not sufficient condition, for the diffusion of both Sonafi bonds and Government bonds, through FNI certificates, might be to raise interest rates, especially on Government bonds, render them fully negotiable, and perhaps list them on the Stock Exchange. But besides being incompatible with the objectives of low cost financing, these changes could have very negative repercussions on the secondary securities market, which is not yet sufficiently mature or consolidated to handle

securities with different technical characteristics from those already in circulation. In fact, this would almost certainly result in strong selling pressures with obvious results. Offering the securities of authorized investment companies might be an improvement, if their economic-technical characteristics are sufficiently appetizing.

Certainly, in its present form this system does nothing valid to promote securities' investments, nor can it or could it fund a Stock Exchange. On the contrary, there is the risk that through a psychological association of negative experiences it could generate an aversion to securities in the less financially knowledgeable investors.

*The Société Nationale de Financement* is a State company endowed with legal status and financial autonomy. It was created in 1963 to promote economic development, the progressive indigenization of the productive system and the spread of securities' investments. Operationally it can be likened to both a merchant bank and a development bank. In fact, its objectives are to buy shares in different economic sectors, either on its own initiative or at Government urging, and to grant medium-and long-term credit, even under special conditions.

To better understand how Sonafi operates it is useful to recall its sources of financing. These can be divided into ordinary resources and endowments.

The first are funds from:

- a) the issue of its own bonds guaranteed by the State and subscribed by the public and by institutional investors;
- b) the issue of those bonds involved in the mechanism of the FNI certificates;
- c) the receipt of funds from FNI certificates not employed within two years and automatically converted into government bonds.

Endowment funds come from:

- a) owner's capital given by the State, increases in it and undistributed profits destined to reserves;



*b)* a special fund for small and medium firms set up in 1970;

*c)* an endowment fund for particular economic or deferred income transactions, on behalf of the State.

Sonafi employs these financial means, as has been said, in different ways depending on their nature. Ordinary resources are used to purchase shares according to the criteria of the investment's return and risk. These shareholdings can be minority interest and even symbolic, or majority interest and can be in companies just being set up or in already existing ones.

In the case of new companies Sonafi can enter directly into partnership with national or foreign entrepreneurs or it can provide partners for them. In the case of existing companies Sonafi's intervention, should a foreign capital company be at stake, would undoubtedly have an indigenization affect on productive activity. But it would also run the risk of slowing down economic development to the degree that the sums paid out for the shares might turn out to be a net disinvestment for the national economy. To avoid this Sonafi usually prefers to subscribe to capital increases. If this is not possible it tries to persuade the sellers to reinvest the amount in new operations.

Endowment funds are invested in equity capital on Government initiative, and even jointly, in loans or advances on current account. These are generally large-scale investments or deferred income investments and are motivated less by economic criterion, as in the case of ordinary funds, than by public policy with regard to the productive sector. The last category of investments is long-term credit to small and medium firms run by local businessmen, in order to encourage development in that sector.

Finally, Sonafi is also interested in restoring capital shares to national businessmen, as a means of encouraging indigenization and investments in securities. It also, as will be discussed later on, deals directly on the stock exchange in the securities it holds in its portfolio to correct imbalances in their supply and

demand. Last, but not least, it can take steps to have those firms in which it holds shares admitted to quotation.

*The Caisse Autonome d'Amortissement*, created in 1959, is a public institution with legal status and is independent of the Treasury. This autonomy is intended to guarantee the entrepreneurs that fund the C.A.A. This is founded on legal provisions that, on one hand, bar the C.A.A. from current account dealings with the Treasury or from making loans to the Treasury and, on the other hand, ensure that most of its operations are guaranteed by the State.

From an operational point of view, the C.A.A. performs two administratively separate activities. The first (*gestion des dépôts*) is the acceptance of public sector deposits and security deposits and their subsequent investment in both short and longer-term credit to the extended public sector, to a much lesser degree, to private firms, in conformity with pre-established rules. A few financial intermediaries operating in the long-term are also recipients of this credit. Through these operations which complement the banking system, the C.A.A. pursues the objective of economic development and in this sense can be linked to a development bank.

Its second activity, public debt management, is more directly related to the subject of this paper and includes floating and servicing bond issues and converting FNI certificates. In this field the C.A.A. played a very important role during the experimental period preceeding the creation of the stock exchange.

### 1.3. THE EXPERIENCES PRECEEDING AND PREPARATORY TO THE CREATION OF THE ABIDJAN STOCK EXCHANGE

The origins of the Ivory Coast's Stock Exchange can be traced back to 1969. Before 1969 what few bond issues there were, were almost exclusively Government bonds and were mostly placed abroad and with institutional investors. Actually, the first



internal issues were floated in 1963, with Sonafi bonds, and in 1965, with 40 year Government bonds, both of which were to be converted into certificates. But the first real securities issue offered for sale to the public without recourse to coercive means took place in 1969 through the C.A.A. In so doing the C.A.A. was not aiming exclusively at mobilising internal savings, but also wanted to test the feasibility of creating a regular primary and secondary securities market and, in particular, to attract the run of investors to securities.

In accordance with these objectives the loan — issued at par for a total value of 500 million francs cfa, repayable in ten annual uniform installments and at a 7% rate of interest — was guaranteed redeemable at par value at any moment on request of the subscribers. This guarantee was provided by a syndicate composed of the C.A.A., Sonafi and most of the banking establishment.

Furthermore, a quotation committee that met periodically (twice a month) at the Central Bank was set up to insure the negotiability of the securities. The Central Bank functions as a simple observer and does not intervene in transactions which are, in practice, carried out by commercial banks on the order of customers.

Thus a rudimentary secondary market was set up, which was replaced by the stock exchange in March 1976.

Every year until 1972 the C.A.A. loan was matched by new issues for the same amount and under identical conditions with, according to the competent authorities, fairly satisfactory results. Beginning in 1972 the C.A.A. began to experiment more with the market, and went so far as to offer for sale to the public higher interest securities not covered by the repurchase guarantee. Naturally, the idea was to test the public's preference for liquidity over income.

Thus in 1973 and 1974 we have a case of 7% loans with repurchase guarantee, and 9% (1973) and 10% (1974) loans with no repurchase guarantee being floated simultaneously.

TABLE 3

GROSS ISSUES OF C.A.A. BONDS  
(in francs CFA)

Subscribers	1973					1974		
	Year	1969	1970	1971	1972	C.A.A. 7%	C.A.A. 9%	Total
Number of Subscriptions . . . . .		9,140	1,227	1,148	855	374	232	606
Amounts Collected . . . . .		494,715,000	540,050,000	461,235,000	481,895,000	196,260,000	158,700,000	354,960,000
Intervention of the Placement Syndicate . . . . .		5,285,000	—	38,765,000	18,105,000	3,740,000	141,300,000	145,040,000
Cessions of Securities by the Guarantee Syndicate . . . . .		—	40,050,000	—	—	—	—	—
Total Amount of Issues . . . . .		500,000,000	500,000,000	500,000,000	500,000,000	200,000,000	300,000,000	500,000,000
						200,000,000	100,000,000	300,000,000 (1)

Subscribers	1976					1977		
	Year	1975	C.A.A. 10% INST	C.A.A. 10% PPM	C.A.A. 8%	C.A.A. 6.50%	C.A.A. 10% INST	Total
Number of Subscriptions . . . . .		300	19	74	38	63	(*)	(*)
Amounts Collected . . . . .		464,000,000 (2)	1,527,270,000	46,130,000	12,630,000	9,640,000	(*)	(*)
Intervention of the Placement Syndicate . . . . .		36,000,000	—	—	—	—	(*)	(*)
Cessions of Securities by the Guarantee Syndicate . . . . .		—	—	—	—	—	—	—
Total Amount of Issues . . . . .		500,000,000	400,000,000	100,000,000	100,000,000	500,000,000	400,000,000	500,000,000

(1) The nominal value anticipated was 500,000,000 but the issue was limited to 300,000,000.

(2) Of which 315 millions were subscribed by 9 institutional investors.

(\*) The loan was still open when the table was compiled.

Sources: *Compte-rendu de l'émission des emprunts C.A.A. 10% 1974* and *C.A.A. 10% 1974 à lots*, P. 4-5 (for 1969-74); *Compte-rendu de l'emprunt C.A.A. 10% 1975* (for 1975) and *C.A.A. 6.5% and 10% 1976* (for 1976) *Arrêté n. 2880 du 29 décembre 1977* (for 1977).

A comparison of the volume of subscriptions for each loans shows a high preference for liquidity. In fact, subscriptions to guaranteed securities are greater than those to nonguaranteed securities in both absolute and relative terms<sup>8</sup>. Overall subscriptions declined steeply forcing a rare intervention by the placing syndicate which was saddled with 29% of the 1973 issue and 40% of the 1974 issue, in comparison with 3.6% in 1972, 7.7% in 1971 and 1% in 1969.

This situation seems to be due to a series of factors, such as: the high rate of inflation, the fact that anonymous subscriptions were not accepted and, especially, a certain market saturation, especially in the case of individual investors who were beginning to be attracted to the first stock issues offered for sale to the public.

The only positive results the C.A.A. found were: *a*) a numerically increasing participation by small savers (but on the whole very limited); *b*) a relatively higher rate of participation by Ivory Coasters; *c*) a decentralization tendency of placements towards the interior. However, the Abidjan area still accounts for 78% of subscriptions<sup>9</sup>.

Given this crisis of receptivity the C.A.A. decided to make certain modifications in the issues without, however, abandoning them altogether. In 1975 it launched a new loan at 10% and allowed institutional investors to subscribe. And in 1976 it differentiated the technical characteristics of its securities into three categories: *i*) two-year at a 6.5% rate of interest; *ii*) five-year at 8%; *iii*) ten year at 10% with a tranche reserved for institutional investors.

Thanks to the intervention of these investors subscriptions were very close to the total of 1975 issues and were a good deal

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<sup>8</sup> See Table 3 for 1973 and 1974.

<sup>9</sup> Cfr. *Compte-rendu de l'émission des emprunts C.A.A. 7% 1974 à lots et C.A.A. 10% à lots*, p. 15.

greater in 1976. But individual investors still account for very little inspite of the range of available choices. On the basis of the empirical results obtained in 1969-76 with these loans, following its first experiences with public stock issues and encouraged by an *ad hoc* study coordinated by the Minister of the Economy and Finance, the Government decided to create a stock exchange.

These experiences, however, did not fully corroborate the existence of valid prerequisites for the effective creation and functioning of a stock exchange.

Not only are there very few companies large enough, but they are not very diversified and are largely dependent on foreign capital. The result is that the number of firms eligible for listing is minimal as are the volume and the sectoral variety of the stock potentially available for trading. But even ignoring these factors, there are serious doubts about the volume of capital that investors would be inclined to put into securities given the level and distribution of internal savings, the degree of concentration of wealth, as well as the investment preferences and entrepreneurial skills of the local well-off classes.

Nor were the results of the post 1968 stock issues particularly impressive. Besides being, on the whole, small and easily absorbed, in some cases they came from companies with Sonafi participation which were and are very susceptible to pressures exerted by the monetary authorities to publicly place part of their securities.

A look at the sales of the CAA bonds raises other doubts. They would indicate an essentially thin potential market that would quickly reach the saturation point. In fact, after the first two issues an even larger quota of successive loans cannot be placed. A recovery is seen only after the entry of institutional investors and even if the last, more appetizing issues stimulate more interest on the part of non-financial investors, this interest must be qualified because in the meantime guaranteed securities were being phased out.

So much so that according to the available data for the last sessions of the quotation committee the repurchase syndicates were left holding portfolios containing 34.47%, 71.43%, 56.28%, 80.56% and 5.62% of the total of each outstanding issue. In addition, a not insignificant percentage of subscriptions came from foreign investors and, judging from the distribution of subscriptions by par value tranches and by professional categories, the contribution of small savers, even though numerically high, was relatively very low. This is probably due to and an index of the thinness of internal savings and its concentration in the medium-high income classes, which are also the most literate in financial matters.

It, therefore, would be legitimate to conclude that the Abidjan Stock Exchange was not created in response to the direct or indirect requirements of the various investors, and even less on the basis of the existence of the necessary pre-requisites. Rather, it would seem to be result of the Government's intention to use it in the pursuit of its objective of transferring control of the economic system to the local populace. Thus, in the present context, the stock exchange becomes a non-coercive tool for substituting domestic private capital for foreign capital and, secondarily, for financing firms and the State, and, more importantly, for increasing the liquidity of securities wealth.

#### 1.4. THE BIRTH OF THE STOCK EXCHANGE AND ITS FUNCTIONS

Officially the process of creating the Stock Exchange began in 1974 with law no. 74-353 of 24 July and decree no. 74-717 of 27 November<sup>10</sup> regulating, respectively, the structure of the financial market and the general organization of the Stock Exchange<sup>11</sup>. In their wake came, after about a year, the ratification

<sup>10</sup> Modified by the *Décret n. 75-609 du septembre 1975*.

<sup>11</sup> Furthermore, in 1973 provision was made to regulate savings collection with public appeal (cfr. *Décret n. 73-26 du 17 janvier 1973*).



of the new institution's internal regulations<sup>12</sup> and its official opening on the 7 April 1976 with the first quotation session.

As of that date the Stock Exchange is part of the financial system of the Ivory Coast and has the following functions, as defined by the same law that created it:

- to organize and direct the securities market<sup>13</sup>;
- to check the regularity of transactions under the best security conditions;
- to make raising of capital easier for companies.

To these functions, typical of any stock exchange and conditioned by all the factors mentioned previously, can be added that of the indigenization of the economic system. According to official declarations, this is the stock exchange's ultimate objective and is firmly grounded in the regulations governing the securities market.

In fact, these last decree that all operations involving public offerings of securities (increases in capital, the transfer of blocks of shares and bond issues) must first be authorized by the Ministry of the Economy and Finance which also has the right to fix the maximum shares that can be bought, even on the secondary market, by foreign investors.

The practical effect of this rule is that anyone can be a seller in the stock exchange, but only citizens and national companies can be buyers. The same holds for the primary equity market. If, on one hand, this means a progressive penetration or substitution of national for foreign capital, on the other, it limits the security market's activity and potential development, which must now depend almost exclusively on that part of domestic savings that investors are willing to put into securities.

This brief overview of the primary goals of the stock exchange is indispensable for identifying the ulterior limits and constraints deriving from them and for evaluating the results ob-

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<sup>12</sup> Cfr. *Arrêté n. 0282-MEF-BV du 30 mars 1976.*

<sup>13</sup> Cfr. *Loi n. 74-353 du 24 juillet 1974, art. 5.*

tained. But before facing these issues it is useful to briefly discuss the organization and functioning of the stock exchange.

### 1.5. THE STRUCTURE AND ORGANIZATION OF THE ABIDJAN STOCK EXCHANGE

The Abidjan Stock Exchange is a commercial public entity, endowed with civil status and financial autonomy, and is under the supervision and control of the Minister of the Economy and Finance.

Three organs guarantee its functioning: the Stock Exchange Council, the Director General and the stock registrar agent.

The Stock Exchange Council consists of a Chairman proposed by the Minister of the Economy and Finance, a Deputy Chairman and five members representing: the Central Bank, the C.A.A., the Stockbrokers Association, the *chambres consulaires* and the development banks. It is responsible for the general administration of the stock exchange and for a series of specific functions including deciding, even *ex officio*, which securities will be admitted to quotation. Some decisions must be approved first by the organ of control.

The Director General's duties, are of an executive nature and he represents the exchange in contact with third parties. Finally, the stock registrar agent takes care of the accounting, acts as treasurer, settles transactions by checking them off against the orders.

The situation with regard to stockbrokers is very similar to the Moroccan and Tunisian experiences. In fact, here too — for usual reasons related both to the lack of sufficiently skilled and financially endowed professionals, and to the low income earned by brokers — the stockbroker function is performed exclusively by banks. In the Ivory Coast they are actually recognized by the law as stockbrokers. Legally, in fact, this functions is li-



mitted to companies alone, and no provision whatsoever is made for individuals.

As for the rights and duties of the stockbrokers, observe first that they have a monopoly position and are directly responsible for the transactions made, for which they must keep full and concise accounts. They must execute orders separately, not directly matching orders to buy with orders to sell, but they are allowed, within the limits of the stock exchange regulations, to directly fill orders to help maintain an orderly market and not for speculative purposes.

Each stockbroker must belong to the Stockbrokers Association and can delegate the exercise of its own functions to some of the *Fondés de Pouvoir* that are under its control. Unlike stock exchanges in other Francophone African countries, stockbrokers are not required to maintain a security deposit or a special fund for this purpose.

#### 1.6. THE FUNCTIONING OF THE ABIDJAN STOCK EXCHANGE

By law, all transactions in listed securities must be effected in the stock exchange through intermediaries. Direct transfers are allowed only for unlisted securities and for a few special operations. This rule, which is less restrictive and more realistic than the one applied in Tunisia, tends to concentrate transactions in the official market and, above all, makes it possible to effectively control the underlying indigenization process. This is reinforced by the law requiring that shares offered for sale to the public be registered.

In accordance with the provisions mentioned at the beginning, the Ivory Coast's securities market is composed of:

- an *official market* for listed securities, and
- a *parallel or free market*, for all the other securities.

Provision has actually been made to create a *marché hors-cote* and its organization would be the responsibility of the

Stock Exchange. But at the end of 1978 it was not yet in operation and in two years there has only been one transaction *hors-cote* (17 June 1978), the transfer with public offering of a block of Cacomiaf shares, held by a foreign shareholder<sup>14</sup>.

Stock Exchange deals are transacted during weekly sessions<sup>15</sup> and use the system of bids and calls. To avoid speculative maneuvers only cash transactions are allowed and a maximum limit has been set on price variations from one session to another. These fluctuations cannot exceed 3 for fixed income securities and 5 for stocks<sup>16</sup>. The Council can also intervene to even up any disequilibria between the supply of and demand for any particular security<sup>17</sup>.

A positive feature of the stock exchange rules regards the procedure and conditions for quotation which are established along the same lines as those applying to public issues.

The latter call for a preliminary authorization by the Minister of the Economy and Finance and require that the authorized companies publish information on their organization, economic and financial situation and business developments. This information is passed on to the Council which can request clarifications or justifications and that changes and additions be made. It also has the right, usually exercised, to have the company audited.

The same rules apply to the applications for listing received by the Stock Exchange Council. The law defines the require-

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<sup>14</sup> Cfr. BOURSE DES VALEURS D'ABIDJAN, *Bulletin de la cote* n. 28 du 12 juillet 1978.

<sup>15</sup> Meetings are held on Wednesday or the day after.

<sup>16</sup> In the same session the margin between variations in two successive price movements for each security must be at least 5 francs cfa for movements of less than 5,000 francs cfa and 10 francs cfa in the other cases. (Cfr. *Règlement intérieur de la Bourse des Valeurs Mobilières d'Abidjan*, art. 9).

<sup>17</sup> Cfr. *Règlement intérieur*, cit., art. 11, 12, 13, and 14.

ments the companies must fulfill and the criteria on which the Council must base its decision. These requirements are:

i) authorized capital must not be less than 100 million francs cfr.;

ii) the company must present balance-sheets for at least three years;

iii) at least one dividend must have been distributed;

iv) it must have good income prospects and, in the case of stock,

v) it must show that not less than 20% of its capital is in the hands of the public, or else promise to fulfill this requirement within a year of listing.

Needless to say, the Council can *ex officio* promote the listing of a company. But it does not seem to have ever employed this procedure. Obviously, all listed companies must provide the information referred to above.

#### 1.7. THE IVORY COAST SECURITIES MARKET AFTER THE CREATION OF THE STOCK EXCHANGE.

With the elements obtained from the above analysis, especially for what concerns the priorities of the Stock Exchange, we will now try to evaluate its overall activity.

To have an overall view of the entire phenomenon we must first have a closer look at the primary securities market.

##### 1.7.1. *The Primary Market*

We can review the primary market very quickly because it is a relatively recent phenomenon, dating from the late '60's. The first bond issues, Sonafi bonds and Government bonds associated with FNI certificates, were floated in 1964-65 and were followed in 1969 by the C.A.A. bonds.

In the years that followed the composition of issues remained unchanged and, if we ignore the forced subscriptions associated with the certificates, boils down to C.A.A. loans and a few Sonafi bonds<sup>18</sup>. There is not a single trade involving private firms. The latter have never relied on bonds to satisfy their financial requirements. The situation, then, is one of a very limited supply of securities entirely dependent on the public sector.

This situation will probably not change in the short-term. Most likely, the growth of issues will depend for a long time exclusively on C.A.A. securities and, to a lesser degree, on Sonafi bonds or those of some other financial intermediary.

TABLE 4

GROSS ISSUES AND SUBSCRIPTIONS OF SONAFI BONDS  
(in francs CFA)

Year of Issue and Rate of Interest	Total Subscriptions	Cash Subscriptions		Subscriptions with F.N.I. Certificates	% of Issues Subscribed with F.N.I. Certificates (excluding C.N.P.S. subscriptions)
		C.N.P.S.	Others		
1963 6%	871,695,000	100,000,000	419,222,985	352,472,015	45.7
1964 6%	161,525,000	0	111,391,500	50,135,500	31.0
1965 6%	320,085,000	55,670,000	132,129,294	132,285,706	50.0
1966 6%	463,750,000	200,000,000	145,956,361	117,793,639	44.7
1967 6%	453,110,000	300,000,000	78,206,153	74,903,847	48.9
1969 6%	644,050,000	300,000,000	186,914,960	157,135,040	45.7
1970 6%	191,535,000	0	101,322,865	90,212,135	47.1
1972 7%	1,485,360,000	1,000,000,000	322,174,463	163,185,537	33.6
1974 7%	706,850,000	0	285,793,502	421,056,498	96.5
1975 7%	585,480,000	50,000,000	179,424,703	356,055,297	66.5
1976 7%	1,346,500,000	500,000,000	320,715,172	525,784,828	62.1
Total	7,229,940,000	2,505,670,000	2,283,251,958	2,441,018,042	51.7
% of Total		34.66	31.58	33.76	

Source: FNI, *Rapport d'activité 1976*, p. 22.

<sup>18</sup> To reconstruct the time series of bond issues refer to Table 3 for C.A.A. securities, Table 4 for Sonafi bonds and the next to last column of Table 2 for Government bonds.



In fact, it is correct to assume that firms will not be very active, since the larger ones are mostly financed by foreign capital. To allow these firms to float their debts on the internal market would mean transferring to foreign entrepreneurs a share of already inadequate domestic savings and depriving the indigenization process of a like amount. On the other hand local firms are generally small and unable to operate directly on the bond market. The consequences for the diversification of issuing bodies are fairly obvious.

It has already been mentioned that after the first few issues the supply of funds showed signs of stagnation and even, in some years, of retrogression. However, given the brief period covered, it is too early to make a definite judgement. The market's rapid saturation thus far could also be due to the economic-technical characteristics of the securities.

If, in one sense, they are attractive because they are simple and easy to understand, in another their maturities are not differentiated enough and they are often unresponsive to general market conditions. For example, interest rates have been much less than the rate of inflation and reductions in maturity have been slow in coming. To avoid early liquidations and to encourage subscriptions, it might even have been the case to award increasingly high premiums for longer-term securities, and to repay medium-term loans using the direct reduction method.

These innovations would, at any rate, be useful in the future to stimulate a tendentially apathetic market. In this context it might be useful to examine the composition of fixed-income assets. The data available are for the initial placements of the various C.A.A. loans but can be considered fairly representative of final placements, which, judging from the secondary market's low trade volume, should not be radically different.

The nationality of the subscribers is the first element to be considered. Time series' show a net increase in purchase by nationals. They advanced from approximately 36% of issues in 1969-73 to 60.7% in 1974 and 84.7% in 1976. Post 1974 in-

creases, however, are mostly attributable to institutional investors that, in a period of net decline in purchases by private investors, absorbed a high share of new issues. Parenthetically, most of the institutional investors are insurance companies. There are 31 of these companies and they are, for the most part, foreign. Although they do not trade actively and steadily on the securities market, they do buy a large volume of securities, particularly fixed-income ones, in compliance with the regulations governing technical reserves<sup>19</sup>. This regulation is about to be modified since certain aspects are no longer compatible with the rules of the Stock Exchange. The new version, which also takes into account agreements reached with foreign companies, should permit these intermediaries to play a more active role in both segments of the securities market.

Another point of interest is the geographic and professional distribution of subscriptions. There is a heavy concentration of placements in the Abidjan area. Except for a few years, this tendency has been gaining strength and gives the impression of a market practically confined to the capital and its environs.

Available data for distribution by professional category show the absolute predominance of the middle and upper classes. In fact, the largest, though discontinuous, subscriptions are made by officials, businessmen and entrepreneurs, followed by non-salaried professionals and private sector wage-earners. Farmers and planters, on the other hand, account for very little.

This shows that the Ivory Coast's primary securities market, besides being very thin and largely supported by institutional investors, is still limited to a few categories of private investors residing in the Abidjan area.

Assuming no change in the situation with respect to issuers, the growth potential of the securities market would appear to depend principally on a greater decentralization of placements.

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<sup>19</sup> Cfr. *Arrêté n. 1255 du 1er juin 1963*.

It might be worthwhile to pressure banks into assuming a more active educative role with respect to certain social categories (for example, planters), and into distributing securities placements more evenly in the various parts of the country.

Other measures might be provided for. However, the creation of conditions which are too competitive or unfavorable to stocks and might imperil the objectives of indigenization must be avoided at all costs.

For this same reason we would like to see a broader base of subscribers so that those investors inclined to invest in risk capital will be continually exchanged and substituted.

The first equity offering for sale to the public was a 70 million franc Cfa capital increase floated in 1969 by a prevalently State owned company — la Société de Distribution d'Eau de Côte d'Ivoire — and limited to domestic investors.

This was followed in 1971 by the reversion to the public of Sonafi held shares in Société Ivoirienne des Tabacs. These two operations are the first steps in a process that, through increases in and transfers of capital, will place the control of the major firms more and more in the hands of private domestic savers.

When the Stock exchange opened there were already 12 companies offering shares to the public, for an amount equal to about 3,574 million francs cfa. In the second half of 1976 they were joined by another 4 companies, in 1977 by another 3 and in the first six months of 1978 by another 2. With a single exception all of these operations were very successful. This was also thanks to the public authorities who, through the exercise of their authorization rights, tried to select sound companies with good growth prospects. They also saw to it that the companies were audited in order to ensure that the prices offered on the market were just.

In fact, savers reacted positively. It is calculated that at the end of 1977 there were 6,000 domestic shareholders and that they possessed capital shares amounting to about 11,5 million francs cfa. Private savings' spontaneous acceptance of the new



financial instrument also helped to speed up the indigenization of the productive system. In this way, in fact, 2.2 billion francs cfa, worth of foreign held shares was transferred to Ivory Coasters<sup>20</sup>. But in relation to all companies the share of private national investors is a good deal less.

It should be mentioned that most holders of stock portfolios belong to the well-to-do classes. Although there are no official statistics, data collected by the major banks involved in the securities market<sup>21</sup> show, in fact, that 10% of outstanding shares (excluding those held in the public sector) are held by companies, while the remaining 90% has been placed, fairly well fragmented, with individuals. Of these approximately 60% are public sector officials and employees, 20% are businessmen and entrepreneurs, 15% are private sector employees and the rest belong to other categories. The volume of securities held by farmers and planters is negligible. Once again we see a concentration of securities holdings in the Abidjan area and an inability to attract certain financially eligible social groups (such as planters).

However, the balance can only be positive and nourish the authorities' expectations for the securities market.

But doubts arise as to how long these trends can last. The most serious ones regard the potential supply of securities, since if we exclude the companies already traded on the market, there are only ten or so large-enough ones. It was not pure coincidence that 1978 witnessed a certain deceleration in the primary market's activity.

Actually, there is a multitude of small and medium firms which satisfy the legal requirements for quotation, at least in

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<sup>20</sup> Cfr. *Marchés Tropicaux*, 26 août 1978, p. 2251 and *Quarterly Economic Review of Ivory Coast*, Togo, Benin, Niger, Upper Volta, 4th Quarter 1976, The Economist Intelligence Unit Ltd.

<sup>21</sup> This is information received from the responsible persons in the securities' services of a few commercial banks during the author's research mission in August 1978.

terms of nominal capital. But it remains to be seen how many of them offer the necessary income prospects and investment security, and to what degree they are inclined to go public. Finally, subscribers are generally reluctant to rush into young and unknown firms<sup>22</sup>. In other words, we can expect a probable slowdown in new « issues » in the market.

There are also certain reserves concerning the mobilization of increasing quotas of savings. It is true that at the present moment demand for stocks often exceeds supply, but this does not necessarily mean that the market has a high absorption capacity. Undoubtedly it can be improved upon, for example, through investment companies which already enjoy a special legal status (possibly to be revised) and favorable fiscal conditions<sup>23</sup>. Here again the repeated observations about the level of domestic savings, the concentration of wealth and the investment choices of the medium-high-income classes play a role. These are factors which create constraints very difficult to overcome in the short-term.

At the present, however, the evolution of the equity market can only be evaluated positively, especially if one considers the point of departure and the structure of the socio-economic system.

#### 1.7.2. *The Secondary Market.*

In the previous section we traced a general outline of the primary securities market and also briefly touched on the secondary market. Furthermore, for the equity sector we did not make the classic distinction between new issues and trades in

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<sup>22</sup> Witness the case of Sebroko referred to previously.

<sup>23</sup> See respectively: *Loi sur les sociétés du 24 juillet* and successive modifications, and *Code général des impôts: nouvelle rédaction du livre cinquième introduite par l'annexe fiscale à la Loi n. 77-1003 du 30 décembre 1977*, art. 975.

outstanding securities because, given its objectives and the particular structure of the Ivory Coasts' economy, it is natural to include in the primary market pre-stock exchange cessions of blocks of shares in foreign owned companies for sale to the public. We will now analyze those aspects of the secondary market not dealt with so far. The first observation concerns the number of securities listed in the market and the trade volume. This shows that stocks and bonds evolved very differently.

While listed fixed-income securities remained stable at 9 even in the two years following the inauguration of the Stock Exchange, the number of Stocks has increased considerably thanks to the steady listing of new companies, which have gone from 6 to 15. This phenomenon is easily seen in the data for the capitalization of the two sectors. The table below shows very clearly that in March 1978 the total volume of stocks, in terms of value, was three times its initial level. But the volume of fixed income securities, with no new listings in the meantime, actually shows a tendency to contract and is only one twentieth of the stock sector.

Thus the securities market of the Ivory Coast was rapidly transformed from its initial status of bond market to, essentially, an equity market, in accordance with the wishes of the public authorities.

This statement is also supported by the volume of transactions. In fact, the largest trades in absolute value involved variable-income securities: 3,373.5 million francs cfa. versus 339.0 million (see table). The inverse is true for the turnover rates, 12.8% for stock and 20.6% for bonds. However, the greater animation of the bond sector is more apparent than real. On one hand, it is the result of the low volume of bonds in circulation and the unconditional negotiability of loans with repurchase guarantees and, on the other hand, of the different targets and the lower constraints that condition its activity. The Government's indigenization policy makes only Ivory Coasters eligible to buy stocks on the Stock Exchange.

In addition, institutional investors account for approximately three-quarters of transactions in fixed-income securities. But in the equity market private investors are responsible for 90% of trade and this proportion is increasing slowly but surely<sup>24</sup>. Sonafi is the only institutional investor which can intervene on the Stock Market. Sonafi keeps an observer on the floor to follow daily trade movements and trades in its portfolio securities to equilibrate supply and demand or to stabilize price movements within certain limits. It would appear that for a while C.A.A. also performed this function with regard to the stocks of Cfao-Ci, Gonfreville, Blohorn and Peyrissac.

TABLE 5

Date	Securities (in millions of FCA)			
	Bonds	Stocks		
	Number of Loans	Capitalization	Number of Companies	Capitalization
— 7 April 1976 . . . . .	9 (*)	1,694.8	6	12,420.4
— 8 March 1978 . . . . .	9 (*)	1,596.5	15	38,797.2
Volume of securities traded between 7 April 1976 - 8 March 1978 . . .		339.0		3,272.5
Turnover rate (Volume of securities traded/Capitalization (1) . . . . .		20.6%		12.8%

(\*) Including 6 with repurchase guarantee.

(1) Ratio of the volume of securities traded in this period to the arithmetic average of stock capitalization as of the 7.4.1976 and the 8.3.1978.

Source: *Fraternité Matin*, Vendredi 10 mars 1978.

The banking system gives no direct support. As in Tunisia and Morocco, the Central Bank is not involved in issues or open market operations. Actually, as things are there is no great need for such a policy since, for most bonds, this job is performed by the guarantee syndicates. However, should there be a growth

<sup>24</sup> Cfr. *Marchés tropicaux*, 21 avril 1978, p. 1085.

in issues unaccompanied by repurchase guarantee, given the limited operative freedom of institutional investors, the Central Bank could employ instruments of direct intervention to regulate the Market's activity and price fluctuations.

Commercial banks are mostly interested in short-term investments and do not invest very much in either fixed-income securities or stocks. Even ignoring the policies of the single credit institutes, their intervention in the stock market is still limited by the fact that almost all commercial banks are prevalently foreign-owned and thus cannot subscribe to or buy in the exchange public shares reserved for nationals.

Even though the banking system does not directly intervene, it has still made a valid contribution to the development of the securities market. The Central Bank, besides having played an active role in the creation of the Stock Exchange, in 1976 devised a mechanism for refinancing domestic purchases of assets in foreign-owned companies operating within the sphere of the Monetary Union of West Africa<sup>25</sup>. This mechanism should further stimulate the indigenization process and the expansion of the equity market, since it also provides for the refinancing of minority holdings in capital companies.

The commercial banks have undoubtedly made the greater contribution. They have actively diffused securities and educated potential investors, through the creation and consolidation of their securities services, and through participation in placement and guarantee syndicates, and finally, through the institution of savings-stock exchange plans. This service is offered by the four largest commercial banks and has shown itself to be very useful in mobilizing and administering household savings and in funding the Stock Exchange.

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<sup>25</sup> Cfr. BANQUE CENTRALE DES ETATS DE L'AFRIQUE DE L'OUEST, *Règlement portant définition du régime des interventions de la Banque Centrale pour les opérations d'acquisition d'actifs cédés par des non-nationaux de l'union Monétaire Ouest Africaine*.

This rule applies to all the countries of the U.M.O.A. area.



It has also influenced the maturities and investment choices of the holders of these accounts. In fact, without subordinating the best interests of their customers, the banks have done everything possible to change their behavior in favor of a steady and gradual increase in circulation and an orderly market growth. From this point of view we should keep in mind that, to a large degree, the conduct of the credit agencies was influenced by the authorities and that it has shown itself to be very responsible.

For a combination of reasons the overall effect has been positive. With the exception of a few securities, which were temporarily rejected by investors, all the others aroused considerable interest<sup>26</sup>. Although activity was heaviest at listings or transfers of blocks of shares, it has been fairly continuous. Price fluctuations are characterized by a general upward trend, and variations are contained within the moderate limits typical of a non speculative market (cfr. Table 6)<sup>27</sup>. Finally, returns are fairly attractive<sup>28</sup>. In spite of persistent excess demand due to the low volume of outstanding securities, the market has developed pretty well.

## CONCLUSION

The short time period that has elapsed since the creation of the Abidjan Stock Market renders premature any analysis of its activity and repercussions. Consequently, the opinions about to be expressed are to be considered anything but final. On this

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<sup>26</sup> However, their trend does not fully reflect the free interplay of supply and demand. Banks, as a result of pressure exerted by the public authorities, generally apply moral suasion to investors to avoid rapid decreases or increases in the quotations.

<sup>27</sup> Cfr. BOURSE DES VALEURS D'ABIDJAN, *Rapport 1976*, p. 6 and the following.

<sup>28</sup> Cfr. BOURSE DES VALEURS D'ABIDJAN, *cit.*, pp. 17-18 and 26-27.

TABLE 6  
EVOLUTION OF OUTSTANDING SHARE PRICES

Stocks	Admission to Quotation		Price as of 29-12-1976 (2)	Maximums and Minimums in 1976		Relative Variations		
	Date	Price (1)		Minimum (3)	Maximum (4)	(2) %	(3) %	(4) %
BICICI . . . . .	7-4-1976	16,800	17,400	16,800	17,750	+ 3.57	—	+ 5.65
SGBCI . . . . .	7-4-1976	6,400	8,700	6,530	8,700	+ 35.93	+ 2.03	+ 35.93
SAFCA . . . . .	7-4-1976	11,460	13,000	11,000	13,000	+ 11.68	— 4.18	+ 13.43
CFAO-CI . . . . .	7-4-1976	5,000	5,000	4,990	5,180	—	— 0.20	+ 3.60
Peryssac-CI . . . . .	14-4-1976	7,400	7,820	7,400	7,820	+ 5.67	—	+ 5.67
Gonfreville . . . . .	7-4-1976	3,000	3,010	2,600	3,010	+ 0.33	— 15.38	+ 0.33
SITAB . . . . .	7-4-1976	10,000	11,620	10,000	11,750	+ 16.20	—	+ 17.50
Blohorn . . . . .	18-8-1976	6,200	6,200 (*)	5,800 (*)	6,540	—	— 6.89	+ 5.48

(\*) Ex-cedola 1976.

Source: BOURSE DES VALEURS D'ABIDJAN, *Rapport 1976*, p. 25.

basis we can attempt to summarize the major points of the analysis. Although the securities market of the Ivory Coast initially dealt in fixed-income securities, it very quickly evolved into, essentially, an equity market. In particular, it is above all a primary market, or one characterized more by a large volume of issues and in-block stock transfers than by stock trades. The thinness of the latter can be seen from the turnover rate of securities: in the course of one year barely 10% of listed securities were traded.

This situation is anything but anomalous given the objectives pursued and the youth of the Stock Exchange. In fact, it is normal that in this initial phase the primary securities market is more active than the secondary, since the growth in trading generally takes place when there is a sufficiently large volume of securities in circulation.

In the Ivory Coast this process will probably take more time because placements are very stable and because the objectives of the indigenization of the economic system induce the Government to give priority to stock issues reserved for nationals and to block transfers of stocks held by foreign investors<sup>29</sup>. In other words, a real securities market will be created, assuming existing objectives and rules remain constant<sup>30</sup>, only when a considerable volume of shareholdings has shifted from foreign to domestic portfolios. At the present, it is only a noncoercive instrument for the promotion of the indigenization of the capital of companies.

From this viewpoint the results are satisfactory enough. The securities market immediately met with the public's favor and grew steadily, in spite of the absence of institutional investors. It was positively influenced by:

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<sup>29</sup> These last, as shown in the previous section, can be considered primary market transactions.

<sup>30</sup> This refers to the complex of regulations which *de facto* limit Stock Exchange transactions (and in some cases increases in capital) to national investors alone.

*a)* the behaviour of the banks which in response to the wishes of the public authorities, took active steps to encourage the diffusion of securities;

*b)* the same behavior by the C.A.A. and Sonafi;

*c)* the shrewd mediation of the central authorities during the initial foundation of the market and in the subsequent control and management of the same;

*d)* the validity of the companies listed and those that made public securities offerings, in terms of yield and investment security;

*e)* the favorable tax treatment of securities.

The only negative aspects found so far are:

*a)* not having continued to fully exploit the bonds sector;

*b)* the difficulty involved in decentralizing placements and in attracting certain social categories possessing large incomes, for example, planters;

*c)* the high degree of competition offered by investments in real estate, plantations, and trade activities;

*d)* the limited number of potentially available securities;

*e)* the poor development of local entrepreneurial expertise and the excessive fragmentation of shares held by private national investors. Although in a normal securities market this fragmentation might be desirable, in this context it makes control more difficult to the advantage of foreign equity, thereby partly limiting the effective range of the indigenization process.

With regard to the future, although it is very difficult to make forecasts, there will probably be an initial slow-down in the market's rate of growth, mostly due to the scarcity of companies qualified to make public stock offerings. But even leaving aside this obstacle, the evolution of the securities market seems to be strongly conditioned by such factors as the development of the industrial sector, the thinness of domestic savings, the great difficulties involved in breaking free of foreign capital, and by the other socio-economic factors mentioned repeatedly above.

It would be wrong to think that these factors can be modified through the Stock Exchange. Most likely, it is only through their elimination that the Exchange will be able to take hold and operate in a significant way within the context of the financial system.

From the technical side, however, we must stress the need to revise certain, by now obsolete, aspects of the regulations regarding capital companies, to improve information and to promote the creation of investment companies and other institutional investors. In any case, the Ivory Coast's experience is undoubtedly interesting and deserves to be followed with attention.



## 2. THE STOCK EXCHANGE AND THE SECURITIES MARKET IN MOROCCO

### INTRODUCTION

Morocco was the first country in French-speaking Africa to set up a stock exchange, at the end of 1967. Its history has much in common with the Tunisia stock exchange, but, in addition to its institutional seniority, the Casablanca market always operated on a larger scale and on a more continuous basis.

It is of some interest to trace what differences there may have been in the organization and working of the securities market in the two countries in colonial times, and to find out whether and how these differences later affected the activities of their respective stock exchanges. To this end it will be useful, to look in some detail at the period preceding the establishment of the stock exchange as such. This period may conveniently be divided into two parts, the first comprising the years 1929-1947, and the second running from 1948 to 1967.

#### 2.1. THE OFFICE DE COMPENSATION DES VALEURS MOBILIÈRES (1929-1947)

Before independence, the people of Morocco, like those of other African Protectorates, had no part in major economic and financial activities, which were almost wholly in the hands of foreigners. This applies also to stocks and shares of Moroccan companies; these were issued and placed predominantly on the French market, where, save for rare exceptions, they were also traded.

The first change can be dated to 1929. Without any significant departure from the system described, that year did see the emergence of a rudimentary secondary market in securities in Morocco, in the shape of the *Office de Compensation des Valeurs Mobilières* set up by the leading banks of Casablanca<sup>1</sup>.

Unlike the *Chambres de Compensation* in Tunisia which were attached to issuing companies and, by each dealing only in its own securities, divided the market into separate compartments — the *Office de Compensation* concerned itself with all issues of Moroccan companies not quoted on any stock exchange abroad. It therefore imparted a more unitary aspect to the market.

Still, it was a very small market, hardly more than an appendix to a foreign one. Dealings took place in the form of clearing once a week; in the absence of any sort of official status, prices were fixed arbitrarily by stockholders.

As in Tunisia, however, so in Morocco the market catered exclusively to the interests of foreigners, who were of course all but alone in owning securities and hence in trading them.

Although the Moroccan *Office de Compensation* was older than the Tunisian *Chambres de Compensation*, and although it was organized on more rational and unitary lines, neither did anything of note to create and develop a local bourse tradition, because indigenous business men simply took no part in the market. The *Office* must, rather, be seen as a colonial legacy needing to be reshaped so as to meet new and different requirements.

This being said, it remains to take a look at the specific development of the Casablanca *Office* without dwelling at length on the Tunisian experience, much of which is common to Morocco as well.

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<sup>1</sup> See BOURSE DES VALEURS MOBILIÈRES DE CASABLANCA, *Bourse des Valeurs des Casablanca 1967-1977*, p. 3.

The Casablanca *Office de Compensation* steadily enlarged its volume of business, and most so during the second world war. At that time there was a sizeable inflow of European capital in search of a haven in a country where the local economy was in transition from a pre-capitalistic to a capitalistic pattern. In consequence, the amount of stocks and shares in circulation increased greatly and so did the volume of trading in them<sup>2</sup>.

Soon the scale of transactions became large enough to attract the attention of the central authorities, who felt that official regulations were called for. The first step was to confer official status upon the *Office de Compensation*<sup>3</sup> by means of three decrees by the *Directeur des Finances*, the first dated August 1942, followed by two more in April 1943. These measures not only stimulated further growth in the activities of the *Office*, but marked the beginning of a series of reforms in its organization and working, all intend to make it more closely resemble what is commonly understood to be a bourse.

## 2.2. THE OFFICE DE COTATION DES VALEURS MOBILIÈRES (1947-1964)

The first of the reforms so set in motion concerned the structure of the market and led eventually to the transformation of the *Office de Compensation des Valeurs Mobilières* into the *Office de Cotation des Valeurs Mobilières* (OCVM) with its own legal personality (Decrees of 13 June and 8 September 1948).

From the outset, the Casablanca OCVM worked like a stock exchange. Sessions took place initially three times a week, and

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<sup>2</sup> In the absence of full statistics, one significant figure may be cited by way of illustration. Turnover rose from 10,000 stock units traded in 1939 to 2 million in 1948. (BOURSE DES VALEURS DE CASABLANCA, *Bulletin Mensuel d'information*, No. 1, p. 3).

<sup>3</sup> PAUL DESROUX, *Les Sociétés en droit marocain*, Rabat, La Porte, 1978, p. 313.

from 1951 on every day in response to the growing volume of business. In addition, an auction market (*marché à la criée*) was set up in 1949 for stocks and shares traded regularly, and an unofficial market (*marché hors cote*) for the rest; both had the purpose of replacing the direct deals customary until then.

The OCVM at once assumed considerable importance, not least thanks to its close links with the Paris bourse via arbitraging<sup>4</sup>. The volume of transactions rose steadily, as can be seen from such partial figures as are available (Table 7), and the number of bargains increased even more.

TABLE 7

ANNUAL VOLUME OF SECURITY TRANSACTIONS  
OF THE OCVM, 1941 TO 1958  
(thousand old francs)

Year	Amount
1941 . . . . .	29,506
1942 . . . . .	124,456
1943 . . . . .	452,792
1944 . . . . .	755,000
1946 . . . . .	3,416,000
1955 . . . . .	5,800,000
1956 . . . . .	4,200,000
1957 . . . . .	2,400,000
1958 . . . . .	1,500,000

Source: BOURSE DES VALEURS DE CASABLANCA, *Bulletin mensuel d'information*, No. 1, p. 4 and 5.

However, nothing much changed in the underlying conditions of trading. The market was run by the banks, and the overwhelming bulk of deals was still done by foreigners, with the local business community taking part to a no more than de-risory extent.

<sup>4</sup> BOURSE DES VALEURS DE CASABLANCA 1967-1977, *op. cit.*, p. 3.

In these circumstances it was natural enough that the fortunes of the Casablanca OCVN depended largely upon foreign interests. This became blatantly clear in 1956, when Morocco gained its independence and many of the French left, taking their capital with them. The effect on the stock market was immediate and catastrophic; the activities of the OCVN collapsed all but totally and the country was left with the empty shell of an institution quite incapable of coping with the serious new financial problems or, for that matter, with any other requirements of the economy.

Given that the OCVN was managed by the banks, it was largely out side the control of government and barely susceptible to its influence; it did nothing to mobilize local savings, partly because it was exclusively a secondary market, and partly because the people of Morocco knew so little about it that it offered no attraction to the bulk of local savers.

### 2.3. THE CREATION OF THE CASABLANCA STOCK EXCHANGE

The problem for the government, then, was so to reorganize the OCVN that it could be useful in the new conditions. In practice this meant establishing a stock exchange in the true and full sense of the word. But there was the prior and by no means easy question whether the Moroccan context was such as to make an institution of this kind at all viable and whether the foreseeable results warranted the necessary expenditure.

Since the local business community showed no interest whatever in the matter, decisions had to be taken on other grounds. Saving appeared to be growing throughout the economy, with confidence in the new nation re-established foreign capital was coming back as soon as economic recovery set in, and the country badly needed a capital market to meet the high financial requirement of new investment projects. One of the determinant factors, finally, was the then fairly deep-rooted con-



vection that Morocco, set as it was on the road to economic planning, had to have some of the institutions possessed by those countries whose development strategies and practices it was proposed to emulate.

This was the background of a decision which found expression in a law dated 14 October 1967, which abrogated the statute of the *Office de Cotation des Valeurs Mobilières* and established the Casablanca Stock Exchange<sup>5</sup>. Legal and administrative details were filled in by another Royal Decree setting out rules for the organization and working of the stock exchange<sup>6</sup> and by the Finance Ministry's approval of the stock exchange regulations<sup>7</sup>.

Formally, the new institution was charged only with the implicit task of making arrangements for efficient and regular trading in securities<sup>8</sup>. Most realistically, the legislator refrained from assigning to the stock exchange functions which normally do not belong to such an institution and which it would have found difficult to discharge. This approach contrasts with what was done in Tunisia and, in a more co-ordinated manner, to some extent in the Ivory Coast, here the stock exchange has wide-ranging responsibilities with regard to the whole capital market.

In practice, the chief role of the stock exchange in Morocco, too, is to help companies to raise funds. This is of course typically the function of a primary market, but also one in which the stock exchange can be of signal use in so far as it admits new security issues and facilitates their circulation.

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<sup>5</sup> *Décret royal n. 494-67 du 14 novembre 1967 portant loi relatif à la Bourse des Valeurs.*

<sup>6</sup> *Décret royal n. 495-67 du 15 novembre 1967 relatif à l'organisation et au fonctionnement de la Bourse des Valeurs.*

<sup>7</sup> *Arrêté du Ministre des Finances n. 555-68 du 19 septembre 1968 portant approbation du règlement intérieur de la Bourse des Valeurs.*

<sup>8</sup> There are many statements on record which attribute much wider purposes to the stock exchange (see, for example, *BOURSE DES VALEURS DE CASABLANCA, Note sur l'évolution de la bourse, 1973-1977*, p. 1), but none of these is anchored in law or in any administrative regulation.

TABLE 8

GROSS SECURITY ISSUES, 1971 TO 1977  
(million dirhams)

	1971	1972	1973	1974	1975	1976	1977
Government stock up to 5 years . . . . .	44	84	24	68	40	46	69
Medium-term government stock and bonds . .	84	123	153	97	227	1,222	495
(of which: 15-year bonds) . . . . .	(45)	(60)	(107)	(35)	(150)	(1,125)	(271)
Government-guaranteed semi-public issues . .	59	30	135	218	230	185	270
(1) Total fixed-interest security issues . . .	187	237	312	383	497	1,453	744
(2) Total corporate issues (*) . . . . .	277	356	481	974	1,050	773	1,493
of which:							
(Capital increase) (A) . . . . .	(188)	(277)	(332)	(725)	(802)	(575)	(886)
(Foundation of companies) (B) . . . . .	(89)	(79)	(149)	(249)	(248)	(198)	(607)
(Gross capital increase) (A + B) . . . . .	(277)	(356)	(481)	(974)	(1,050)	(773)	(1,493)
(Capital reductions) (C) . . . . .	(- 45)	(- 59)	(- 64)	(- 86)	(- 45)	(- 85)	(- 71)
(Net capital increase) (A + B + C) . . . .	(232)	(297)	(417)	(888)	(1,005)	(688)	(1,422)
(1) + (2) = Total issues . . . . .	464	593	793	1,357	1,547	2,226	2,237
Annual rate of increase (per cent) . . . .	- 30.5	+ 27.8	+ 33.7	+ 71.1	+ 14.0	+ 43.9	+ 0.5

(\*) Including foundation of new companies and capital increases without new security issues.

Source: BANQUE DU MAROC, *Rapport pour l'exercice 1975*, p. 125-126; *Rapport pour l'exercice 1976*, p. 117 and 119.

As regards the primary market itself, it must be pointed out that the law fails to deal effectively with either its legal statute or its organizational structure. There is, as we shall see presently, no mechanism for placing new issues among the public. Moreover, the regulations governing the new issue market are fragmentary and partial, and go back to colonial times. Bond issues, it is true, have to be notified in advance to the Ministry of Finance, which thereby gains some influence both on their timing and on the rate of interest payable to subscribers<sup>9</sup>, but equity issues carry no obligation other than publication in the *bulletin officiel* of a notice in specified form<sup>10</sup>. The new issue market, therefore, largely escapes unitary control and co-ordination, and gives the monetary authorities little scope to exercise any influence. In Morocco, as in the Tunisia and the Ivory Coast the new issue market appears to be somewhat neglected in comparison with the secondary market. It would be well to make good this shortcoming as soon as possible.

One interesting difference from the Ivory Coast is that when the stock exchange was set up in Morocco, the law laid no duty of Morocconization upon it. In practice, when a new company is listed, share subscription is normally reserved for persons of Moroccan nationality. But this has reasons which have nothing to do with the stock exchange as such. There is other legislation concerned specifically with strengthening the native element in the conduct of economic affairs; this dates back to 1973, and fixes a deadline of 31 May 1974 for certain activities, and of 31 May 1975 for others<sup>11</sup>. It is probably this 1973 legisla-

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<sup>9</sup> *Dahir du 30 août 1946*. Bond issues by banks need the Ministry's prior approval, and notice of all bond issues has to be published in the « *Bulletin officiel* » (*Dahir du 11 août 1933*).

<sup>10</sup> *Dahir du 11 août 1932*.

<sup>11</sup> *Dahir portant loi n. 1-73-210 du 2 mars 1973 relatif à l'exercice de certaines activités; Dahir portant loi n. 1-73-339 du 7 mai 1973 modifiant le Dahir portant loi n. 1-73-210 du 2 mars 1973 and Décret n. 2-73-220 du 8 mai 1973 pris pour l'application du Dahir portant loi n. 1-73-210 du 2 mars 1973*.

tion which is having indirect effects on the stock exchange, rather than the stock exchange itself being used as an instrument of Moroccanization.

#### 2.4. THE STATUS AND ORGANIZATION OF THE STOCK EXCHANGE

The transformation of the *Office de Cotation des Valeurs Mobilières* into a stock exchange involved a reorganization under public law with its own legal personality and financial autonomy.

As such, the stock exchange is subject to the supervision and control of the Minister of Finance, who appoints a Government Commissioner responsible for making sure that transactions are according to rule and that the decision of the competent authorities are carried out. In addition he has advisory functions, has a veto power on decisions as to what securities are to be admitted to quotation (or struck off), and takes part in the meeting of the bourse's governing bodies<sup>12</sup>. All this gives him effective powers of supervision and control.

For the rest, the conduct of bourse's affairs is in the hands of

- 1) the Board of Directors (*Conseil d'Administration*)
- 2) the Technical Committee (*Comité Technique*)
- 3) the Managing Director (*Directeur*).

The *Board of Directors* has ten members<sup>13</sup> meeting under the chairmanship of a representative of the Finance Minister. It

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<sup>12</sup> On the Government Commissioner's powers and duties see *Décret royal n. 494-67, cit.*, art. 11; *Décret royal n. 495-67, cit.*, art. 5, and *Arrêté du Ministre des Finances n. 555-67, cit.*, art. 3 and 5.

<sup>13</sup> Board members represent, respectively, the Central Bank, the *Caisse de Dépôt et de Gestion*, the *Banque Nationale pour le Développement Economique*, the *Société Nationale d'Investissement*, the Bankers' Association, the Federation of Insurance Companies, the stockbrokers, and the Federation of Chambers of Commerce.



is responsible for the administration of the stock exchange, including approval of the balance sheet, personnel matters, and the purchase or sale of real property as well as of major items of equipment.

The *Technical Committee* has wide-ranging powers pertaining to the organization and working of the stock exchange. It controls and supervises the activities of stockbrokers, and is responsible for making sure that transactions are according to rule and that the apposite laws and regulations are strictly applied. It also has limited advisory functions vis-à-vis the Finance Ministry, and decides what securities are to be admitted to official quotation, or struck off.

The composition of the Technical Committee is open to the critical comment that it does not fully represent all the parties to which the stock exchange may be of interest. There is one representative each of the Central Bank, the *Société Nationale d'Investissement*, the Stockbrokers' Association, the Moroccan Federation of Insurance Companies and the Bankers' Association, but none to speak for the interests of issuing companies or of investors, who surely ought to have a voice on the Committee.

The *Managing Director*, finally, takes care of day-to-day management of the stock exchange, examines requests for admission to quotation, and may, by delegated authority, exercise some of the functions normally incumbent upon the Board of Directors.

Stockbrokers on the Casablanca stock exchange have the exclusive right of transactions in listed securities and in others traded on the stock exchange, as well as of the (now compulsory) registration of direct deals. Brokers are appointed by decree of the Finance Minister acting upon advice from the Technical Committee, and have a monopoly position. They are directly responsible for the legality of their transactions and may not buy or sell on their own account. In addition to keeping regular account, they have to lodge with the Treasury depositing in cash or securities as coverage for all their commitments.



All stockbrokers must belong to the Stockbrokers' Association and must contribute to a joint guarantee fund, which backs up individual surety deposits.

In Morocco, stockbrokers may be individuals or companies. If they are individuals, they must be over 30 years of age, have Moroccan nationality and be in full enjoyment of their civic rights. Corporate brokers are either banks or brokerage companies. The latter must have the status of either a limited liability company or a limited partnership, their capital must not be less than a specified amount<sup>14</sup>, and they may act as intermediaries only on the official market<sup>15</sup>.

At present, fourteen brokers are authorized members of the Casablanca stock exchange — all of them banks<sup>16</sup>, except for the *Société de Courtage en Valeurs Mobilières* (SOMACOVAM) which is a brokerage firm set up, as we shall see, by the *Société Nationale d'Investissement* for the specific purpose of invigorating the market.

There is not a single individual among authorized stockbrokers, for the same reasons as Tunisia. In Morocco, however, the bourse authorities did try to secure the participation of individual brokers, but without any success.

## 2.5. TRADING ARRANGEMENTS

Following the tradition of the *Office de Cotation des Valeurs Mobilières*, the Casablanca stock exchange holds daily sessions, except Saturdays, Sundays and holidays. All transactions are in cash and this tends to discourage speculators; but the law

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<sup>14</sup> At present, the minimum capital is 50,000 dirhams.

<sup>15</sup> For the other rights and duties of stockbrokers see *Décret royal n. 494-67, cit.*, art. 14-27.

<sup>16</sup> Banks previously acting as intermediaries on the OCVM were admitted as stockbrokers upon their simple request. (*Décret royal n. 494-67, cit.* art. 28).

The *marché hors tout* takes care of the rest, that is, dealings in any security neither listed nor traded on any of the above markets. Transactions here are subject to the special rule that broker must submit to the Managing Director such documentation as enables him to assess the real asset value of the securities concerned. While this rule helps in supervising transactions and in checking the genuineness of prices, it is rather onerous and as such may obstruct the growth of the market.

That the secondary market of the Casablanca stock exchange also has a section for *direct deals* goes almost without saying. Sales by private treaty are permissible and most often involve the block transfer of majority stakes by prior agreement between the buyers and sellers, and, so far as is known, account for a large volume of total business, both in relative and in absolute terms<sup>23</sup>. Although these deals do not go through the stock exchange, they are known to it thanks to their compulsory registration by a broker.

So much for actual trading arrangements on the Casablanca stock exchange. There is one more detail to be mentioned here, namely, the rules governing the official listing of securities. Government and government-guaranteed stocks and mortgage bonds are admitted to quotation as of right. Other securities, notably corporate bonds and shares, are admitted to quotation by decision of the Bourse Committee, after the Managing Director has examined the documentation which must accompany any request for listing. The documents required are:

a) a copy of the applicant company's articles of association as well as balance sheets and company reports for the last three financial years;

b) a memorandum supplying information on the company, its past performance and its plans for the future;

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<sup>23</sup> See below, section 3.2.

c) a list of directors and shareholders, and details of actual shareholdings;

d) a number of other documents.

The applicant company must, moreover, undertake to make available to the public shares corresponding to at least 20 per cent of its authorized capital<sup>24</sup> and to establish the initial offer price in agreement with the bourse authorities. Subscriptions are, of course, reserved for individuals of Moroccan nationality, subject to a maximum limit per person. At the first two bourse sessions following their listing, shares are dealt with by matching bargains.

All in all, these rules are much the same as in most other countries. The one special feature is that, since the price at which shares are offered to the public must be agreed with the bourse authorities, this placing price tends to be fixed slightly below the shares' real value. The intention of this practice is to help new shares to be placed widely among the public, but it also has undesirable side effects and creates a number of problems, which will be discussed later.

## 2.6. THE SECURITIES MARKET IN MOROCCO SINCE THE ESTABLISHMENT OF THE CASABLANCA STOCK EXCHANGE

Having described the origins and the institutional aspects of the Casablanca stock exchange, it remains to discuss its fortunes in the ten years since its inception.

In order to see the bourse's activities in their broader context, we shall first consider the structure and development of the primary, or new issue, market, and then the secondary market and the results achieved by the establishment of the stock exchange. The discussion will have to be mainly in qualitative

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<sup>24</sup> A lower percentage may be established by agreement with the Bourse Committee.

terms, since there is not enough statistical information for satisfactory empirical verification. But this is no serious handicap, for the matters to be discussed are sufficiently well defined not to require detailed quantitative proof.

## 2.7. THE NEW ISSUE MARKET

Compared with such bourses as exist in other French-speaking countries of Africa, the Casablanca stock exchange is structurally more diversified, in so far as the bond section, while a good deal smaller than the equity section, is definitely more developed than elsewhere (Table 2).

But the difference is on the whole only a formal one and has to do almost entirely with the primary market, in so far as both demand and supply in the new issue market for fixed-interest securities are largely institutional and as such constitute a sort of privileged financial circuit of their own.

Apart from its larger size, the bond market in Morocco differs little from those in Tunisia and in Ivory Coast. Bonds are placed with institutional investors and issued either by the state or, to a lesser extent, by a few semi-public financial institutions; barring two exceptions, there are no non-financial corporate bonds at all.

On the side of the demand for funds, the state regularly issues medium- and long-term bonds<sup>25</sup>; in addition, loans are floated sporadically by (1) the *Crédit Immobilier et Hôtelier* (which finances real estate and tourism), (2) the *Compagnie Générale Immobilière* (a public corporation concerned with real estate and building); (3) the *Banque Nationale pour le Développement Economique* (the National Development bank, which finances, among others, the foundation of small businesses); (4) the

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<sup>25</sup> Short-term government paper is not considered here; it is entirely taken up by banks.

*Caisse Nationale de Crédit Agricole* (a semi-public credit institute for agriculture); (5) the *Office Nationale d'Electricité* (the public Electricity Generating Board), and by three companies, namely (6) *Céllulose du Maroc*, (7) *Société Minière et Métallurgique* and (8) *Société Marocaine de Distribution d'Eau, de Gaz et d'Electricité*. The last-named few come to the market quite infrequently, and in some cases their last issues date several years back<sup>26</sup>. In Morocco, as in Tunisia, companies do not raise loan funds on the capital market, but prefer to borrow from banks and other financial institutions. This has two partly interacting reasons. First, companies lack expertise in the techniques of financial management, in part for internal reasons, and in part because of external or institutional factors. Secondly, the market itself lacks adequate official regulation and, in the absence to indirect credit is easier.

Moroccan company law, indeed, is silent on several important points. It deals less than tully with the conditions of access to the capital market, and not at all whith some categories of securities, such as convertible bonds. Reputedly, however, the Finance Ministry are preparing a decree-law allowing and indeed encouraging, companies to issue convertible and other bonds.

As for arrangements for placing bonds, it has already been mentioned that the country lacks specialist intermediaries in this field, while the banks make little effort to fill the gap, and indeed have little incentive to do so. Issuing syndicates for corporate bonds are quite unknown; government stock is taken care of

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<sup>26</sup> It is worth mentioning that index-linked bonds were issued in the past, but actually only in three cases: (1) an issue of *parts de production de l'Energie Electrique du Maroc*, with both capital value and interest rate linked to the average price of one kwh of energy; (2) a 1952 loan issue by *Auto-Marocaine*, index-linked to changes in the wholesale price of certain products; (3) a public loan issued in 1952 with a 4½% coupon, its capital index-linked to the price quoted on the open market in Paris for 20-franc gold coins. But these bonds were taken up entirely by a few institutional investors and very few people were involved (P. Decroux, *op. cit.*, p. 208).



by the central bank, and other issuers — the semi-public corporations mentioned above — make use of the *Caisse de Dépôt et de Gestion*<sup>27</sup>. The only exceptions are the loan of the *Banque de Développement Economique*, in 1972, and that of the *Crédit Immobilier et Hôtelier*, in 1974, where the issuers made their own arrangements.

This state of affairs, which is largely due to the passive acceptance of the institutional character of the demands for bonds, explains both why companies make so little use of the new issue market and why the public at large takes so little part in loan subscriptions. This last point is confirmed, from the opposite viewpoint, by the striking success of the Sahara Loan, floated in 1976 to finance the development of the Sahara regions<sup>28</sup>. For the first time, on this occasion, the loan issue received wide publicity and arrangements were made for subscriptions to be accepted not only by the Treasury, but also by banks and other financial institutions. The results exceeded all expectations, no doubt to some extent also thanks to the spirit of national solidarity aroused by the purpose of the loan. The issue was greatly oversubscribed, and initial sales were widely distributed among individual investors and small savers.

But apart from that one case, nothing has changed in the structure and working of the least because of the high rate of inflation and of the low yield of fixed-interest securities<sup>29</sup>, pre-

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<sup>27</sup> For a description of the *Caisse de Dépôt et de Gestion* see below.

<sup>28</sup> On the terms and conditions of this loan see Bourse des Valeurs de Casablanca, *Note sur la cotation éventuelle de l'Emprunt National du Sahara au marché boursier* (typescript).

<sup>29</sup> The differential between average bond yields (about 6½%) and the rate paid on time deposits is virtually nil for maturities between 6 and 12 months and for those over 12 months is actually negative. The present range of compulsory borrowing rates for banks, introduced by the monetary authorities in 1978 with the intent of encouraging saving, is as follows: 3% for deposits tids for one to three months; 4½% for three to six month; 6% for six to twelve months; 7% for twelve to eighteen months; and 8% for eighteen to twenty four months. For deposits tied for more than two years the rate of interest is free.

fer to keep their money in bank deposits, to buy property, or to acquire equities for speculative purposes<sup>30</sup>.

Demand for bonds remains limited to institutional investors. What is worse, there are few of them, their demand is in no way diversified and claims upon them are pressing to all intents and purposes institutional investors are insurance companies plus in a residual manner, the *Caisse de dépôts et de gestion*.

Insurance companies invest a high proportion of their technical reserves<sup>31</sup> in securities — sometimes because they choose to but a large extent compulsorily.

There are statistics only on portfolio holdings (Table 9-9 bis), but even these make it clear how strongly and in a sense continuously insurance companies support the market in fixed-interest securities<sup>32</sup>. The direct portfolio investments of individual insurance companies do not, of course, tell the whole story; to them must be added the holdings of the *Société Centrale de Réassurance* (SCR) against reinsurance premium<sup>33</sup>.

More important still, and indeed essential, is the part played by the *Caisse de Dépôt et de Gestion* (CDG). This is a public financial institution in charge of the administration and management of the funds accruing to the *Caisse Nationale d'Épargne*, of a number of surety deposits, and of the security holdings and liquid assets of several local authorities<sup>34</sup>.

<sup>30</sup> See below, p. 16.

<sup>31</sup> Rules for the use of the technical reserves are laid down in *Arrêté du Directeur des Finances du 3 décembre 1941*, subsequently amended by orders dated 28 October 1949, 14 August 1951, 30 December 1954, 18 April 1958, 3 March 1959, 16 June 1961, 29 July 1964 and 24 March 1965.

<sup>32</sup> For more detail on the insurance companies' operations on the securities market see MINISTÈRE DES FINANCES, *Compte-rendu de l'activité des entreprises d'assurances et de réassurances*, Rabat, various years after 1970.

<sup>33</sup> These correspond roughly to 6 per cent of the amounts shown in Table 3 as credits to the Central Reinsurance Company.

<sup>34</sup> For the functions of the CDG and for rules governing its activities as an intermediary especially for local authorities, see *Dahir n. 1-59-074 du 10 février 1959* and *Dahir n. 1-59-420 du 6 février 1960*.

TABLE 9

INVESTMENT OF INSURANCE COMPANIES' TECHNICAL RESERVES AND ITS COMPOSITION, 1967 TO 1976  
(Amounts in million dirhams)

Types of assets	1967	%	1968	%	1969	%	1970	%	1971	%
A. Assets subject to no limitation:										
Long-term government stock . . .							295	28.75	294	25.00
Bons d'équipement and medium-term stock . . . . .							142	13.84	119	10.12
Treasury Bills . . . . .							49	4.77	32	2.72
Securities of public corporations and concessionary companies . . .							80	7.80	78	6.63
Bonds of <i>Crédit Immobilier et Hôtelier</i> . . . . .							21	2.05	27	2.30
Government-guaranteed bonds . . .							21	2.05	25	2.12
Miscellaneous securities . . . . .							(0.02)	—	—	—
Credits to <i>Société Centrale de Réassurance</i> . . . . .							54	5.26	63	5.36
Others . . . . .							9	0.88	4	0.34
Companies in liquidation . . . . .							—	—	(a) 96	8.16
Total (A) . . . . .	481	57	537	63	559	58	671	65.40	738	62.75
B. Assets subject to limitation										
Buildings . . . . .	(76)		(72)		(68)		82	7.99	76	6.47
Listed securities . . . . .	...		...		...		...		...	
Cash . . . . .	...		...		...		...		...	
Others . . . . .	...		...		...		...		...	
Companies in liquidation . . . . .	...		...		...		273	26.61	362	30.78
Total (B) . . . . .	365	43	316	37	398	42	355	34.60	438	37.25
Grand total (A + B) . . . . .	846	100	853	100	957	100	1,026	100	1,176	100

(a) Including corresponding assets in category B.  
... = Not known.

Source: MINISTÈRE DES FINANCES, *Compte-rendu de l'activité des entreprises d'assurance et de réassurances*, various years (for the period 1970-1975), and direct information from the Finance Ministry (for 1967, 1968, 1969 and 1976).

The CDG often acts as residual subscriber of an issue and invests at least half its deposits on the stock market, where it subscribes anything between 20 and 47 per cent of gross new issues (Table 10) and on the secondary market, where it tries to smooth out the pressures of demand and supply <sup>35</sup>.

A complete list of bond investors must include also the banks and the *Société Nationale d'Investissement*, but the amounts involved are very small. The banks use their money predominantly for commercial credit, and the SNI, as we shall see, invests mostly in equities and only occasionally in bonds.

Something should be said, finally, about the overall volume of bond issues.

But available data refer only to gross issues (Table 2) and, without knowledge of the flow of repayments, it is impossible to come to any meaningful conclusions or, even less, to quantify the net amount of financial resources raised annually on the bond market. It can be pointed out, however, that in the period 1971-1977 new bond issues in nominal terms rose considerably, if discontinuously; overall they increased fourfold within six years and in 1976, when the Sahara Loan was floated, reached hitherto unknown heights. But the figures look a good deal less impressive if account is taken of inflation, which indeed almost halves them <sup>36</sup>. The final verdict remains: the market is small and un-diversified, and its growth prospects are limited.

Turning now to the equity section of the market, let us first look at the demand for funds and its composition. Overall, the amounts raised by share issues have been increasing quite consi-

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<sup>35</sup> On the purposes and methods of CDG intervention on the stock market, see Caisse de Dépôt et de Gestion, *Exercice 1973*, p. 41, *Exercice 1974*, pp. 33-37, *Exercice 1976*, pp. 40-48.

<sup>36</sup> According to International Monetary Fund Statistics, the Moroccan currency lost roughly 60 per cent of its purchasing power during the period under consideration.

TABLE 9 bis

Type of assets	1972	%	1973	%	1974	%	1975	%	1976	%
<b>A. Assets subject to no limitation</b>										
Long-term government stock . .	349	28.01	337	23.90	312	21.32	352	20.69	451	
<i>Bons d'équipement</i> and medium-term stock . . . . .	107	8.59	105	7.48	64	4.37	45	2.67	17	
Treasury Bills . . . . .	43	3.45	15	1.08	39	2.66	24	1.46	20	
Securities of public corporations and concessionary companies .	67	5.38	44	3.15	53	3.64	40	2.35	39	
Bonds of <i>Crédit Immobilier et Hôtelier</i> . . . . .	19	1.52	33	2.36	62	4.30	129	7.58	121	
Government-guaranteed bonds . .	27	2.17	66	4.69	131	8.95	131	7.69	161	
Miscellaneous securities . . . . .	—	—	—	—	(0.55)	(0.04)	—	—	—	
<i>Crédits to Société Centrale de Réassurance</i> . . . . .	74	5.94	80	6.32	107	7.29	160	9.94	145	
Others . . . . .	18	1.44	3	0.18	8	0.54	10	0.60	...	
Companies in liquidation . . . .	(a) 117	9.39	59	4.19	47	3.22	34	1.99	67	
Total (A) . . . . .	821	65.89	751	53.36	823	56.28	934	54.97	...	
<b>B. Assets subject to limitation</b>										
Buildings . . . . .	91	7.30	104	7.36	128	8.72	144	8.44	...	
Listed securities . . . . .	...	...	167	11.88	127	8.69	160	9.42	...	
Cash . . . . .	334	26.81	161	11.44	190	12.98	241	14.21	...	
Others . . . . .	...	...	180	12.81	160	10.91	175	10.26	...	
Companies in liquidation . . . .	...	...	44	3.16	35	2.42	46	2.70	...	
Total (B) . . . . .	425	34.11	650	46.64	640	43.72	766	45.03	...	
Grand total (A + B) . . . . .	1,246	100	1,407	100	1,463	100	1,700	100	...	

(a) Including corresponding assets in category B.

... = Not known.

Source: MINISTÈRE DES FINANCES, *Compte-rendu de l'activité des entreprises d'assurances et de réassurances*, various years (for the period 1970-1975), and direct information from the Finance Ministry (for 1967, 1968, 1969 and 1970).



derably, with a setback only in 1976 (see Table 2), when the Sahara Loan mopped up the bulk of investable funds<sup>37</sup>.

Roughly one third of share issues is connected with the foundation of new companies, the rest represents capital increases, in part — and sometimes in large part — by listed companies<sup>38</sup>. There is good reason to think that the establishment of the stock exchange did a good deal to stimulate the supply of new share issues, especially from 1973 on<sup>39</sup>. Even so, it is widely felt that there are still not enough equities to satisfy the market's absorptive capacity and to enlarge it<sup>40</sup>. It must be remembered that shares issued when new companies are constituted are usually taken up by the founders and that the greater part of capital increases come from unlisted companies or from family enterprises reluctant to admit new shareholders. In these circumstances only a small proportion of total new share issues is offered to the public.

This state of affairs has its origin in the very structure of the Moroccan economy, with its prevalence of small and medium-sized enterprises. The situation is hard to improve, therefore; the only thing that can be done is to encourage such companies as have the required qualifications to accept new shareholders and to seek a stock exchange listing.

But no adequate measures seem to have been taken to this effect. The only noteworthy response comes from the Société Nationale d'Investissement (SNI), a holding company in mixed public and private ownership set up in 1966 to manage state shareholdings and to transfer some of them to private hand, as

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<sup>37</sup> In real terms, the volume of share issues, like that of bond issues, is much smaller.

<sup>38</sup> Société Nationale d'Investissement, *Exercice 1974*, p. 4, *Exercice 1975*, p. 10, *Exercice 1976*, p. 11, *Exercice 1977*, p. 14.

<sup>39</sup> As a result mainly of the implementation of the five-year plan 1973-1977 and of the activities of the SNI (see *Bourse des Valeurs de Casablanca, Evolution du marché financier durant les années 1973-1977*, typescript, pp. 5-6).

<sup>40</sup> See *Bourse des Valeurs de Casablanca*, *op. cit.*, p. 19.

TABLE 10  
SECURITY TRANSACTIONS BY THE CAISSE DE DEPOT ET DE GESTION, 1971 TO 1977  
(million dirhams)

Transactions	1972	1973	1974	1975	1976	1977
1. Fixed-income securities						
Subscriptions:						
Government stock up to 15 years and Treasury Bills up to 5 years . . . . .	48.72	55.24	12.00	79.17	149.00	165.61
Semi-public sector bonds and bonds of <i>Crédit Immobilier et Hôtelier</i> and <i>Compagnie Générale Immobilière</i> up to 5 years . . . . .	13.85	40.91	97.28	100.50	140.17	181.72
Total subscriptions . . . . .	62.57	96.15	109.28	179.67	289.17	347.33
(per cent of gross issues) . . . . .	(26.6)	(30.8)	(28.5)	(36.2)	(19.9)	(46.7)
Purchases: Government stock . . . . .	0.03	0.38	0.10	0.02	—	...
Semi-public sector bonds . . . . .	0.01	0.01	3.73	—	0.31	...
Total purchases . . . . .	0.04	0.39	3.83	0.02	0.31	...
Sales: Government stock . . . . .	—	—	—	—	—	...
Semi-public sector bonds . . . . .	— 0.08	— 0.28	— 0.04	— 0.31	—	...
Net acquisitions . . . . .	62.53	96.26	113.07	179.38	289.48	...
2. Shares						
Subscriptions . . . . .	0.51	0.01	0.39	2.71	0.27	0.64
(per cent of total issues) . . . . .	(0.2)	(0.002)	(0.04)	(0.3)	(0.04)	(0.04)
Purchases . . . . .	0.58	0.66	1.58	2.00	0.01	...
Sales . . . . .	— 0.10	— 0.03	— 0.80	0.65	—	...
Net acquisition . . . . .	0.99	0.64	1.17	4.66	0.28	...
Total investment in medium-and long-term securities . . . . .	63.52	96.90	114.24	184.04	289.76	...

... = Not known.

Source: CAISSE DE DÉPOT ET DE GESTION, *Exercice 1976*, p. 48 (for the years 1972 to 1976), and direct information from the CGD (for 1977).

well as to invigorate and regularize the stock market<sup>41</sup>. The SNI is doing much to widen the circulation of shares and to lengthen the official list. It not only sells back shares to private investors, but takes steps to get the companies in which it holds a stake listed on the stock exchange, as and when they fulfil the required conditions<sup>42</sup>. This cannot be done, of course, for all the companies in the SNI's stable, especially when there are foreign shareholders who may not wish to sell any of their shares on the local stock exchange because there are restrictions on transferring the proceeds. Other difficulties arise when the sale of shares to private investors would cause the SNI to lose its controlling majority, to the detriment of the small investors whose interests it indirectly safeguards.

Both the above difficulties can be overcome by means of capital increases which existing shareholders agree not to take up; but this naturally depends upon the prospects and the rate

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<sup>41</sup> The reason why it was felt necessary to set up this company was that in the years immediately following independence the government had to intervene on a large scale in industry to make good the fall in private investment. The state in this way acquired so many participations that some of them had to be returned to private hands in order to create a sound base for an economic system of liberal type. In addition, the collapse of the OCVM left an institutional vacuum which had to be filled so as to give new life and sustenance to the stock market and to promote the mobilization of savings and their investment in stocks and shares.

This is how the SNI came to be set up in 1966, by a special law which also governs investment trusts. Its initial companies, banks and private investors also acquired shareholdings, which now amount to about 20 per cent of the capital. The SNI's activities have proved rather fruitful, especially in the following fields: (a) the creation and nursing along of medium-sized enterprises; (b) the acquisition, management and, in some cases, resale of equity holdings; (c) the public sale of stocks and shares, portfolio management and operations on the secondary market; (d) stock exchange intermediation via SOMACOVAM; (e) obtaining stock exchange listing for the companies in which the SNI holds a stake.

<sup>42</sup> As of the end of October 1977 the SNI had obtained a listing for seven companies, and had request it for another three.

of growth of the companies concerned, and results can be expected only in the medium or long run.

This is a problem which affects virtually the whole of industry, since there are very few companies large enough to make room for a lot of new shareholders, or indeed to fulfil the conditions for admission to quotation. And even among those few, hardly any apply for stock exchange listing on their own initiative, barring those prompted by the SNI to do so<sup>43</sup>. The reason seems to be, as was mentioned before, that companies do not like losing their family character and that they prefer to raise such funds as they need from other sources.

The conditions for stock exchange listing are by no means exacting, but companies may be deterred from applying by the requirement that at least 20 per cent of their shares must be in circulation, for that may mean they must either increase their capital or sell to the public part of their outstanding equity at a price agreed with the bourse authorities and usually lower than the shares' real value. This means an at least potential loss for existing shareholders, who are not always willing to incur it<sup>44</sup>.

The purpose of this system, it will be recalled<sup>45</sup>, is to spread share ownership among Moroccan private investors, who alone are entitled to subscribe up to a certain maximum per head. But it does not always seem to work out that way.

What happens in practice is that a public offer of shares usually generates strong demand and is successful. But within three or four months, when the share price rises as expected,

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<sup>43</sup> For the sake of the record, it should be mentioned that the stock exchange has, in very rare cases, received requests for listing from companies which do not fulfil the required conditions.

<sup>44</sup> This view was confirmed, among others, by a bank executive, on the basis of what was said to him by several businessmen among his clients, who might have been involved in such an operation. There are known cases of companies asking for a listing and then withdrawing their request because they found the stipulated offer price to the public unacceptable.

<sup>45</sup> See p. 10 above.

many of the subscribers sell their shares for purely speculative reasons (which in fact are encouraged); these shares then end up in the portfolio of institutional investors where they remain. Stocks in circulation diminish and the initial results are wiped out.

In the light of these experiences it would perhaps be well to discard this particular incentive and adopt others, such as tax relief for some categories of investors subject to their holding the shares for a specified minimum period.

Similar concessions might be made also to issuing companies, which now usually have to bear the cost of implementing a government policy which in any case yields scant results.

In addition to such measures steps should be taken to improve placing techniques<sup>46</sup> and to overhaul company law, especially as regard the rules governing the issue of various types of shares.

So much for the demand for venture capital. It remains to say something about its supply, a subject on which there are neither statistics nor indeed statistical estimates. The information that follows is based entirely on talks with bourse officials and with representatives of other interested bodies. They speak from past experience and all take broadly the same view of the changes of placing share issues, but the information must be taken with due reservations.

It would appear that the bulk of shares is in the hands of the issuing companies' owners and of a few institutional investors. The volume of equities in circulation and effectively disposable for stock exchange transactions is very small. My informants estimate that at least 40 per cent of existing shares are held by company partners, about 30 to 35 per cent by institutional investors and the rest by private and other corporate investors.

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<sup>46</sup> At present, subscriptions are handled by the issuing company's bank, which sometimes also takes care of the request for stock exchange listing



With the Moroccanization of economic activities individual investors<sup>47</sup> now hold a bigger proportion of the total than they used to, but still probably not more than 10 per cent. This category of shareholders is made up of very many individuals, mostly small middle-class savers<sup>48</sup> living in the largest towns (Rabat and Casablanca).

Outstanding among institutional investors are insurance companies and the *Caisse de Dépôt et Gestion*, which is of far from negligible importance, even though it is less active in the equity than in the bond market. The market's growth is sustained, too, by the SNI and by the private investment trusts which sprang up in the early seventies<sup>49</sup>. Some of these have already obtained a bourse listing and are fairly active in their respective fields of investment<sup>50</sup>.

Altogether, then, the primary market in equities is smaller than it potentially could be. Its growth is hampered by a number of bottlenecks, the worst of which occur in the supply of new shares. There simply are not enough new issues to feed into the secondary market.

Distorsion on the side of the supply of funds are less of a hindrance at present, but are bound to become glaringly obvious just as the volume of new issues increases. There is every reason to think that so long as the supply of funds remains as undiversified as it is now and the number of individual investors so

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<sup>47</sup> That is, persons holding shares for purposes of portfolio investment.

<sup>48</sup> The wealthier classes are distinguished by their absence. The rich on the whole seem to think the local stock exchange offers too little choice and prefer to put their money into real estate or other types of assets.

<sup>49</sup> To wit, *Société Epargne Croissance*, *Société d'Epargne Mobilière* and *Société Epargne Rendement* set up in 1973 on the initiative of the SNI in association with some banks and insurance companies, as well as *Maroc Investissement*, established in 1974 by the *Banque Marocaine pour le Commerce et l'Industrie*.

<sup>50</sup> Details of the holding of the *Société Epargne Croissance* and the *Société d'Epargne Mobilière SEM Magreb* can be found in P. Decroux, *op. cit.*, pp. 306-309.

small, there will remain also a strict limit to the growth of the primary market, to any intensification of trading, and to the expansion of stock exchange business as a whole. A case in point is the setback suffered by the equity section of the market following the launching of the Sahara loan.

Possible remedial measures will be suggested later, but it can be stated right away that some of them will be difficult to apply and cannot be expected to yield quick results.

## 2.8. THE SECONDARY MARKET

Transactions on the stock exchange may be discussed in terms either of the category of securities traded, or of the manner in which deals are struck. As regards the first aspect, the secondary market in Morocco is concerned almost exclusively with equities, which account on average, for 97 to 99 per cent of annual turnover. In the bond market, demand is so highly institutionalized that stock hardly ever changes hand, and indeed in the last few years the value of bond deals has been down to between 0,2 and 0,4 per cent. of the total (Table 11).

These figures confirm the validity of what was said earlier about the bond market. It is in fact not a genuine market at all, but a closed and, in part, compulsory financial circuit. For this reason the discussion which follows deals only with the equity section of the secondary market; there is only a negligible margin of error in referring to it such aggregate figures as are available. These figures (Table 12) concern the separate market compartments in which dealings take place, to wit, the *marché hors tout*, the *marché hors cote*, the *marché des cessions directes* and the *marché à la criée*<sup>51</sup>.

Beginning with the *marché hors tout*, the annual number of deals is very small and the total amounts involved altogether

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<sup>51</sup> On the structure of the secondary market see par. 5 above.

TABLE II  
VOLUME AND COMPOSITION OF TRANSACTIONS IN FIXED-INCOME  
AND VARIABLE-INCOME SECURITIES, 1967 TO 1976  
(value in million dirhams)

Year	Income		Fixed-income securities		Total securities traded	
	Number	Value (per cent)	Number	Value (per cent)	Number	Value (per cent)
1967 . . . .	...	20.2 (96.6%)	...	0.7 (3.4%)	...	20.9 (100%)
1968 . . . .	...	29.2 (97.0%)	...	0.9 (3.0%)	...	30.1 (100%)
1969 . . . .	...	50.1 (96.7%)	...	1.7 (3.3%)	...	51.8 (100%)
1970 . . . .	...	42.2 (86.3%)	...	6.7 (3.7%)	...	48.9 (100%)
1971 . . . .	192,840 (97.2%)	45.5 (72.7%)	5,470 (2.8%)	17.1 (7.3%)	198,310 (100%)	62.6 (100%)
1972 . . . .	645,033 (98.7%)	105.5 (99.5%)	8,327 (1.3%)	0.5 (0.5%)	653,360 (100%)	106.0 (100%)
1973 . . . .	700,979 (99.6%)	115.5 (99.6%)	2,743 (0.4%)	0.5 (0.4%)	703,722 (100%)	116.0 (100%)
1974 . . . .	915,466 (99.5%)	180.5 (97.0%)	4,720 (0.5%)	5.6 (0.3%)	920,126 (100%)	186.1 (100%)
1975 . . . .	961,210 (97.1%)	209.6 (99.8%)	28,315 (2.9%)	0.5 (0.2%)	989,525 (100%)	210.1 (100%)
1976 . . . .	672,416 (99.8%)	179.3 (99.6%)	984 (0.2%)	0.7 (0.4%)	673,400 (100%)	180.0 (100%)

... = Not known.

Source: As for Table 6.

TABLE 12  
SECURITY TRANSACTIONS BY MARKET COMPARTMENTS, 1967 TO 1977  
(values in million dirhams)

Year	Marché hors-tout		Marché hors-cote		Direct deals		Fixed-inc. securities		Shares		Total transactions	
	No. of security	Value	No. of security	Value	No. of security	Value	No. of security	Value	No. of security	Value	No. of security	Value
1967											279,414 (*)	20,911,404
1968											243,804	30,194,147
1969					75,370	16,816,000	...	...	...	...	300,775	51,797,450
1970					64,259	14,048,600	28,207,114	...	6,670,700	190,850	34,877,814	48,926,414
1971					244,210	14,311,489	192,480	31,196,148	5,470	17,056,262	197,950	48,252,410
1972			958	50,000	272,364	35,435,398	...	70,000,000	...	498,252	465,484	70,498,252
1973			2,888	520,000	212,440	36,525,111	...	...	...	...	481,225	76,000,000
1974	69,413	6,288,000	9,115	245,000	234,565	50,160,000	...	...	...	...	676,442	136,550,000
1975	117	2,000	6,142	905,000	241,952	55,856,000	...	...	...	...	735,462	151,216,000
1976	506	55,000	11,407	4,560,000	187,111	55,817,349	...	...	...	...	474,379	119,444,000
1977	...	...	...	...	...	62,641,000	...	...	...	...	323,128	111,453,000
											...	...
											...	...

(\*) Of which 70,023 option rights.

... = Not known.

Source: Authors' compilation from *Statistiques internes de la Bourse des Valeurs* (for the years 1967 to 1973), and *Clef de la Bourse des Valeurs de Casablanca*, various years (for the years 1973 to 1976).



derisory. This market provides facilities for trading in shares which neither an official nor an unofficial listing; the reason why it is so small is that there are very few companies whose shares are regularly traded otherwise than by direct deals. This circumstance is bound to have restrictive effects until the industrial system is sufficiently mature to make room for larger companies more open to outside capital.

In a relatively young stock exchange, like the Casablanca bourse, the exiguity of this market should not cause undue concern at present, given its residual function<sup>52</sup>. The same cannot be said of the *marché hors cote*, which has the important function of nursing along less mature shares pending their subsequent full official listing, or in other words, to foster the expansion of the official list. To judge by this market's performance so far, it cannot be expected to fulfil these purposes. It has been working in a discontinuous way, on a very small scale and certainly not in a lively fashion. Few companies are on the unofficial list, and as a rule more than three quarters of annual business is accounted for by only one single company's equity<sup>53</sup>.

For reasons similar to those discussed in connection with the *marché hors tout*, these features of the *marché hors cote* have indeed worsened in recent years and it seems most unlikely that this trend may be reversed. It seems fair to conclude that even in the less than immediate future the *marché hors cote* will do nothing much to help the bourse develop.

The growth of stock exchange business is hampered, in addition, by the *marché des cessions directes*, where controlling blocks of shares are bought and sold. Such direct deals amount on the average to some 50 per cent of boursebusiness, and actually compete with the latter in so far as many of the direct

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<sup>52</sup> Residual in the sense that the *marché hors tout* is meant to help the circulation of shares in companies neither on the official nor the unofficial list.

<sup>53</sup> See *Clef de la bourse des valeurs de Casablanca, année 1974*, p. 9, *année 1975*, p. 8, and *année 1976*, p. 9.



deals occur in shares included in the official list. In an effort to discourage this practice and direct more business to the bourse as such, the authorities in 1975 doubled the commissions on direct deals<sup>54</sup>. Nevertheless these continued to increase, and to do so at a time when stock exchange business as a whole was slackening. This goes to show how important an element in share transactions it is to gain control of companies. Certainly, no improvement can be expected from a further increase in registration commissions. Such a move has been suggested again recently<sup>55</sup>, but unless it is accompanied by other provisions, such as a new set of rules for public offers and subscriptions, the result may simply be to impoverish the direct deals market without significant benefit to the official one. Nor does there seem to be any point in prohibiting direct deals in listed shares, as in Tunisia, for such a ban would be impossible to enforce and its effects would be nugatory. In any event, none of these measures would remove the fundamental obstructions which, as was pointed out more than once, are of structural origin.

After these brief remarks on the various compartments of the market, it remains to deal with the *marché à la crie*, the official market. I propose to do so at greater length. In discussing the trend of its development, it will be convenient to divide the decade since the creation of the stock exchange into three sub-periods, namely, 1967-1972, 1973-1975 and 1976-1978.

During the first of these bourse business in all its aspects expanded to such good purpose that it quickly came to exceed both the quite considerable volume and the degree of liveliness of the OCVM at its peak.

The expansionary trends of these years (1967-1972) became even stronger from 1973, on following a series of measures

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<sup>54</sup> *Clef de la bourse des valeurs de Casablanca, année 1975*, p. 8, and *Arrêté du ministre des finances nn. 31-75 du 17 janvier 1975*.

<sup>55</sup> *Bourse des Valeurs de Casablanca, Evolution du marché financier durant les années 1973-1977, op. cit.*, p. 9.

designed to enlarge and invigorate the capital market. Outstanding among these were (a) reorganization of (the functions and structure of the stock exchange<sup>56</sup>; (b) reinforcement of its institutional efficiency and powers; (c) intervention by the SNI either directly or via the brokerage company SOMACOVAM and the investment trusts set up by the SNI; (d) Moroccanization of the economic system; and (e) some other provisions embodied in the five-year plan 1973-1977. Overall, these measures were fairly successful and certainly did much to stimulate the development of the securities market.

But these gratifying effects did not last long. For reasons which will be discussed presently, there was a sharp setback in 1976. This indeed was the beginning of a severe and lasting crisis.

In discussing the main aspect of bourse activity with reference to the three successive periods, we begin with the composition of the official stock exchange list. As regards bonds, the list includes 47 loans<sup>57</sup>, of which 27 floated by the government and 20 by companies and public corporations<sup>58</sup>. However, the comparatively large number of fixed-income securities quoted is really meaningless, since, as was explained above, there exist no genuine secondary market for them, barring a few transactions among institutional investors.

Things are quite different in the equity section of the market. Within ten years the number of companies quoted, which was already high when the bourse opened, increased from 55 to as much as 85<sup>59</sup>. Allowing for cancellations, the largest increase

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<sup>56</sup> Among others, steps were taken to publicize bourse activities, to strengthen contacts with bourses abroad and with some international financial institutions, to increase and improve information on listed companies and on stock exchange transaction, and to up-grade the quality of listed securities. See *Bourse Valeurs de Casablanca, Evolution du marché financier durant les années 1973-1977*, *op. cit.*, pp. 1-6.

<sup>57</sup> As of 5 August 1978.

<sup>58</sup> See section 3.1 above.

<sup>59</sup> As of December 1978.

occurred in the years 1973-1976, when, thanks to the SNI's encouraging companies in which it has a stake to seek a listing, 19 new quotations were added to the list, compared with 11 during the preceding period 1967-1972.

From this point of view the stock market is definitely larger in Morocco than it is in other French-speaking African countries. It is also more representative and more diversified, in so far as listed companies are distributed more evenly throughout different economic sectors.

However, it must be added that the impetus soon spent itself. For the first time in 1977 no new entry was added to the official list<sup>60</sup>, and, except for a few companies either with state participation<sup>61</sup> or amenable to the SNI's persuasion, it seems unlikely at present that any spontaneous new application for listing will be submitted to the bourse, given the reluctance to do so even on the part of the few companies which have the necessary qualifications. This state of affairs accentuates the existing imbalance between demand and supply in the equity market, and makes it impossible to offset the progressive death of shares in circulation and its restrictive effect on the volume of official dealings.

To judge by the uninterrupted growth of capitalization values (Table 13), one might be tempted to think that the market is still healthy enough. But a closer look at the reasons for this continuing increase leads to exactly the opposite conclusion. It has lately been due, first, to capital increases by listed companies, though not in sufficient quantity to enlarge the circulation of shares to the extent needed, and secondly, to a steady and strong rise in share prices<sup>62</sup> (Table 14).

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<sup>60</sup> Société Nationale d'Investissement, *Exercice 1977*, p. 16.

<sup>61</sup> Société Nationale d'Investissement, *La S.N.I.*, 27 October 1977 (typescript), p. 11.

<sup>62</sup> A third reason, of course, is the admission to quotation of new companies, but during the last two years this has had little or no effect.

TABLE 13

VALUE OF BOURSE CAPITALIZATION,  
NUMBER OF LISTED COMPANIES AND SECURITIES, 1966 TO 1977

Year	Bourse capitalization (million dirhams) (1)	Number of listed companies	Number of listed securities
1966 . . . . .	361,807,730	55	9,504,228
1967 . . . . .	434,039,220		
1968 . . . . .	521,819,449		
1969 . . . . .	592,833,000		
1970 . . . . .	653,328,000		
1971 . . . . .	663,886,000		
1972 . . . . .	854,733,000		
1973 . . . . .	879,092,000		
1974 . . . . .	1,037,791,300		
1975 . . . . .	1,618,356,930		
1976 . . . . .	1,806,304,973		
1977 . . . . .	2,060,000,000	85	16,627,573

(1) Calculated on annual average prices of listed securities.

Sources: *Statistiques internes de la Bourse des Valeurs* (for the years 1966 to 1973); *Clef de la Bourse des Valeurs de Casablanca*, various years (for the years 1974 to 1976); S.N.I., *Exercice 1977*, p. 17 (for 1977); *Bourse des Valeurs de Casablanca, 1967-1977*, p. 13 (for the number of listed companies and securities).

This price rise is largely a reflection of the chronic excess of demand for shares over their supply and actually causes some concern, because it not only makes market prices less meaningful, but may become a disincentive to equity investment by lowering average yields, which indeed have dropped slightly in recent years for this very reason<sup>63</sup> (Table 14).

With a view to keeping down the rise in share prices, the bourse authorities have been thinking of narrowing the permissible margin of price fluctuation between one session and the

<sup>63</sup> An interesting point is that the total amount of dividends distributed by all the listed companies together remains high and has been growing virtually without interruption (*Bourse des Valeurs de Casablanca, 1967-1977, op. cit.*, p. 16).

next from 5 to 3 per cent<sup>64</sup>. But this margin is of doubtful value in any case<sup>65</sup>, and to tighten it would almost certainly fail to produce the desired results. Since such a move would not act upon the underlying causes of the price rise, it could at best slow it down, or rather spread it over a slightly longer period. What is more, there is always, whenever the offer price exceeds the permissible margin.

TABLE 14

PRICE INDICES OF LISTED SECURITIES AND AVERAGE ANNUAL YIELD OF LISTED SHARES, 1966 TO 1976

Year	Annual average yield	Partial annual average yield (r)	Price index (1967 = 100)
1966 . . . . .	10.00%	12.00%	
1967 . . . . .	8.23%	9.59%	100.00
1968 . . . . .	6.13%	6.79%	133.48 (*)
1969 . . . . .	6.15%	6.65%	165.75 (*)
1970 . . . . .	6.14%	6.61%	202.56
1971 . . . . .	6.88%	7.10%	211.77
1972 . . . . .	5.53%	5.51%	231.53
1973 . . . . .	6.28%	6.60%	234.55
1974 . . . . .	6.87%	6.69%	314.49
1975 . . . . .	6.21%	6.49%	350.97
1976 . . . . .	6.51%	6.57%	414.00

(\*) Author's estimate.

(r) Referring only to companies which distributed a dividend.

Sources: *Statistiques internes de la Bourse des Valeurs* (for the years 1966 to 1973); *Clef de la Bourse des Valeurs de Casablanca*, various years (for the years 1974 to 1976).

Turning now to the volume of business on the stock exchange, it will be seen<sup>66</sup> that in the years immediately following the establishment of the *marché à la criée*, the value of its

<sup>64</sup> Bourse des Valeurs de Casablanca, *Evolution du marché financier durant les années 1973-1977*, op. cit., p. 16.

<sup>65</sup> See Section 2.2 above.

<sup>66</sup> Table 6, col. 12.



turnover rose steadily, though, because of the systematic shortage of offers for sale, not as much as it might have done.

After this shortage was eased to some extent by the measures taken in 1973 to invigorate the stock market, the volume of business no less than doubled within a year, from 1973 to 1974. This upward trend continued until early in 1976, thanks to new companies being admitted to quotation and also to capital increases by those already listed, which gave a fillip to share circulation.

From 1976 on, however, things changed radically. The volume of business fell steadily to pre-1974 levels, and was still falling in 1977-78. The decline of the secondary market thus appears to be structural and would seem to be due to the interaction of the following factors.

First of all, the enormous gains that could be reaped from property speculation kept away from the stock exchange many savers who habitually used to invest part of their wealth in securities. Similar disincentive effects followed from the rise in short-term interest rates, which the authorities brought about early in 1978 with a view to encouraging saving and offsetting the attractions of real estate investment in competition with financial assets. As a result there was a negative differential compared with the average yield of quoted shares<sup>67</sup> and people found they could get better returns by putting their money in bank and non-bank deposits.

Share investment suffered, too, from the absorption of liquidity in consequence of the Sahara loan and of a restrictive credit policy designed to combat soaring inflation. At the same time the volume of shares in circulation dropped, because, once equities have been acquired by some insurance company they hardly ever find their way back onto the market. This particular situation worsened a good deal during the last two years, in so far as

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<sup>67</sup> Average share yields were 6½ per cent, compared with 7½ per cent on time deposits.

no new shares have been admitted to quotation since the end of 1976<sup>68</sup>.

Finally, there were the far from negligible effects of a change in the tax provisions regarding equity investment. The new regulation were meant to get rid of the high incidence of tax evasion, and, although the withholding tax was actually reduced<sup>69</sup>, investors regarded the new régime with the utmost displeasure, because it closed the ways of tax evasion.

The combination of all these factors, and of others mentioned earlier, virtually paralysed the stock exchange. Official transactions suffered most of all, given the continuous growth of direct dealings<sup>70</sup>.

## CONCLUSION

We have seen that Morocco was well ahead of all other French-speaking African countries<sup>71</sup> in having a stock market organized in one form or another. But the long experience of the colonial period was of little help in developing a bourse in the years following independence, since at that time business was done almost exclusively by foreigners to the all but complete exclusion of the indigenous population. At best, past experience can be regarded as an inducement to the Moroccan government to

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<sup>68</sup> On this point see Banque du Maroc, *Exercice 1977, Rapport présenté à Sa Majesté le Roi*, pp. 117-120.

<sup>69</sup> A single rate of withholding tax was introduced for all taxpayers, to replace the three previous rates of 25 per cent for individuals, 48 per cent for corporations and 25 per cent for non-residents. Instead of this flat rate withholding tax, every taxpayer has the option of declaring his dividends and other income for personal, progressive taxation. In that case the tax deducted at source is regarded as a payment on account; the taxpayer may receive a refund or else be required to pay more, depending on his income tax returns.

<sup>70</sup> See Table 6, col. 6.

<sup>71</sup> Actually, this means Tunisia and the Ivory Coast, the only countries in French-speaking Africa to have a stock exchange at all.

reorganize the existing institutions to fit the new economic and social context, especially in view of covering the enormous capital needs of the nascent nation.

From this point of view it is probably right to think that, apart from some formal or organizational differences, Morocco's stock market experiences were not really dissimilar from those of Tunisia. The same applies to some extent also to the structural aspects of the two markets and to their development. At first higher from the outset and kept growing fairly steadily; the Tunisian one: in the bond section, the amount of new issues was higher from the outset and kept growing fairly steadily; the number of listed companies and securities is higher; the value of stock exchange capitalizations has been growing uninterruptedly and so did, until 1976, the volume of transactions. But on closer look even these differences, while certainly present, are less than might appear.

So far as the bond market is concerned, we had occasion to point out that it must really be regarded as a closed and compulsory financial circuit. Bonds are issued by the state and by a few public corporations, and held institutional investors who, in most cases, subscribe either in compliance with the rules which govern the use of their assets (insurance companies) or because it is one of their functions to act as residual investors (*Caisse de Dépôt et de Gestion*). Private companies and individual savers hardly make an appearance on the bond market at all, nor is anything done to encourage them to do so<sup>72</sup>. In this respect Casablanca differs in no way from the other capital markets in French-speaking Africa, including the Ivory Coast which alone had initially fostered bond investment at the time when preparations were made to set up a stock exchange.

Just how little interest the Moroccan authorities take in the bond market is only too obvious. Bonds are simply placed with institutional investors; nothing is done to promote wider bond

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<sup>72</sup> With the exception of the Sahara Loan (see Section 3.1 above).

ownership; rates of return are too low and other technical and economic characteristics of fixed-interest securities generally are inadequate; no steps are taken to persuade companies to issue bonds, or indeed to make it easier for them to do so; official regulations are lacking; and so on and so forth. It would be well to improve the situation in all these respects, with a view to creating a genuine bond market. This would help to make security investment more popular even among those who either do not know enough about it or are for other reasons disinclined to become partners in a company and assume the risks of venture capital, and it would at the same time lead savers to take progressively more interest in the equity section of the market as well, much to the letter's advantage.

With reference to the equity market itself, we have seen that in the ten years following the establishment of the stock exchange (1967-1976) it expanded vigorously, though less so than it might have done because of a chronic shortage both of new share issues and of offer for sale. Only a part of new share issues is offered to the public, given that companies are most often family enterprises and as such reluctant to take in new shareholders. There simply are not enough new share issues to feed into the secondary market.

To make matters worse, the volume of shares in circulation keeps shrinking as the public rush to sell their shares (to institutional investors, for permanent holding) just as soon as prices rise enough to produce a capital gain. This happens regularly when people buy shares issued or offered for public sale by companies seeking a stock exchange listing, because in these cases it is usual to attract subscriptions by setting the placing price at a lower level than would correspond to the shares' real asset value.

Although, therefore, the volume of new share issues is on a rising trend, the market remains small, structure of demand for funds and of their supply is scarcely diversified, and what matters most to investors is to gain control of the companies in which



they invest their money. Private savers take little part in the market and even then often for speculative reasons, in the sense that they regard equity investment as a temporary employment of their funds in the hope of reaping capital gains as and when share prices go up.

All these circumstances naturally affect business in the secondary market. This did indeed expand considerably until the beginning of 1976, thanks to the bourse authorities' determined effort to add to the list of quoted companies. But overall official dealings never reached levels which can be regarded as really high in comparison with the value of bourse capitalizations. They certainly are not lively, and turnover in listed shares is low, and in addition official transactions suffer strong competition from direct deals which are continuously on the increase — proof once more of how important the purposes of control are in share dealings.

The tenuous state of the secondary market became only too obvious in 1976, when, owing to special circumstances described above, it entered into a severe and lasting crisis. In the last analysis, it is a crisis of structural origin; behind it are an underdeveloped industrial system, concentration of economic activity in a small number of firms, these firms' reluctance to raise funds by admitting new partners, the extremely low level of domestic saving, the uneven distribution of wealth, the low degree of monetization in the economy, and so on and so forth.

The constraints deriving from all these factors are so severe that one cannot but take a pessimistic view of the prospects of overcoming the present crisis. It is only when these obstacles are removed that Morocco can hope to have a more diversified and more efficient stock market.

This being so, a whole series of measures will have to be taken to improve the present situation.

First and foremost the government, which so far has taken interest in the stock market, will need to pay more attention to it and to take active steps to support it. Among other things, the



banks will have to be persuaded not to obstruct security investment, as they often seem to be doing now, but on the contrary, to encourage it and to help in placing stock among the public. If necessary, the Central Bank may have to apply preasure on the banks to obtain from them the same sort of collaboration as in the Ivory Coast.

Secondly, there are fiscal measures that could usefully be applied in order to induce companies to issue securities and take in more shareholders<sup>73</sup>. At the same time it would be well to abandon the practice, now common whenever a company is granted a stock exchange listing, of setting the placing price of shares below their real asset value. Instead, there should be a system of tax incentives conditional upon subscribers holding their shares for a specified minimum period and so devised as to make sure that share ownership is in effect widely distributed among the public. As regards the actual tax treatment of security holding, the 1978 tax reform probably made conditions much more stringent than they used to be, because tax evasion has now become quite impossible. It would have been better to introduce the reform gradually and more cautiously. It might be well to take a new look at this matter, and possibly to revise the tax rules on some points.

Then, there needs to be more information and tighter control on the market and on listed companies, and the bourse itself needs more powers and more efficient institutional arrangements. Suggestions towards this end have long been put forward by the bourse authorities themselves<sup>74</sup>.

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<sup>73</sup> Detailed proposals of this kind have been put forward by the SNI (see SNI, *op. cit.*, pp. 12-13).

<sup>74</sup> Bourse des Valeurs Mobilières de Casablanca, *Evolution du marché financier durant les années 1973-1977*, *op. cit.*, p. 22 f.



### 3. THE STOCK EXCHANGE AND THE SECURITIES MARKET IN TUNISIA

#### 3.1. THE PREDECESSORS OF THE TUNIS STOCK EXCHANGE

The stock exchange of Tunis was set up in 1969 by Law No. 69-13, of 28 February 1969, which still governs its activities and the conduct of its affairs.

Prior to that date a secondary market in securities was organized on a clearing house basis by the so-called *chambres de compensation* (1937-1945), which were later replaced by the *Office Tunisien de Cotation des Valeurs Mobilières* (1945-1970).

It will be useful to recall the history of these two institutions during the years of their respective operation, in order to better understand why the Tunisian government eventually set up a stock exchange and established its rules and functions in the way it did. It will also help to explain the difficulties which had, and still have, to be surmounted before the new stock exchange can become really effective. In any event, the experiences of the predecessors of the Tunis Stock Exchange are of interest also because they are to some extent typical of those of other African countries such as Morocco.

##### 3.1.1. *The « Caisse Foncière » loan issue and the origin of the « chambres de compensation » 1937-1945.*

So far as is known, the first major issue of securities floated on the domestic market by a private Tunisian company can be dated to 1939. This was a large bond issue by the *Caisse Foncière*, a mortgage bank operating in real estate and building.

This loan issue was important for two reasons. In the first place, it was the first departure, albeit a partial one on a modest scale, from the colonial practice of placing virtually all security issues abroad. In the case of Tunisia, where the bulk of economic activities was in French hands, the related stocks and bonds were owned and traded in France. The obvious consequence was to impede the emergence of a local market in securities or indeed of any relevant financial tradition.

The second, and most important, aspect of the *Caisse Foncière* loan issue is that it marked the beginning in Tunisia of at least a rudimentary secondary market. There was little organization or formality about it. The *Caisse Foncière*, anxious to promote the circulation of its bonds, simply set up a new department to act as a clearing-house; this *chambre de compensation* was to provide a meeting ground for would-be buyers and sellers of the bank's own loan issue.

Given the total absence of any alternative arrangements and the precarious nature of the securities market as such, this novel scheme turned out to be rather successful — so much so that it was soon imitated by other companies. In the years between 1937 and 1945 there was a mushroom growth of *chambres de compensation*, each of which dealt, or cleared dealings, exclusively in the issuing company's own securities.

All this was no doubt very useful in so far as it created a basis for the establishment of an official market and led the authorities to take an interest in doing so. But the system also had its drawbacks, some of which proved long-lived.

First of all, the owners of stocks and bonds were almost exclusively foreigners, and it was to their interests, therefore, that the *chambres de compensation* catered. What they did in no way involved the local business community, taught the population nothing, and helped neither to create, let alone develop, any local tradition in financial matters. This state of affairs persisted until Tunisia became independent, however much the system itself changed in the mean time.

Secondly, the *chambres de compensation* represented nothing like a unitary market for securities, but on the contrary divided the market into all but non-communicating compartments. A contributing factor here was that investors were above all interested in control and participation to the almost total exclusion of portfolio holdings. This latter circumstance, too, had long-lasting and dominant effects on subsequent developments.

Finally, the *chambres de compensation* not only lacked any sort of official status and were subject to no uniform regulations, but published neither prices nor the volume of transactions, and were unable to control and check dealings. This meant that they were totally ineffective, too, in the matter of protecting savers.

### 3.1.2. *The Office Tunisien de Cotation des Valeurs Mobilières (1945-1970).*

In an effort to make good these deficiencies and to impart a degree of organized unity to the securities market, the government in 1945 abolished the *chambres de compensation* and replaced them by the *Office Tunisien de Cotation des Valeurs Mobilières* (OTCVM).

This institution, which had its counterparts in Morocco and Algeria, actually owed most to wartime developments in France. As of February 1941, bearer stocks were abolished; owners and purchasers of securities were required to register them and to deposit them with an authorized agent, that is, a bank or a stockbroker. Soon thereafter, in June 1941, the *Caisse Centrale des Dépôts et Virement de Titres* was set up for the purpose of centralizing security deposits, and transactions through an intermediary had henceforth to be settled by giro transfer.

The results achieved by these new regulations made it seem advisable to introduce a similar system in colonial territories. The Tunisian decree of 23 April 1945 and the simultaneous establishment of the OTCVM both reflect some of the purposes



of the French laws of 1941 and to some extent copied their content.

The new regulations and the OTCVM itself were chiefly intended to serve the interests of the French settlers. Nevertheless, they undoubtedly represented a major step forward in comparison with the previous system and organization of the secondary market in securities.

It will be useful to take a brief look at the salient features of the reform, to wit, centralization of dealings at the OTCVM, the latter's organization and working, and the sections of the secondary market.

Centralization was achieved by requiring transactions to take place at the OTCVM or at least, in case of direct deals, to be registered there via an authorized intermediary. Contraventions were liable to a fine in the amount of five times the value of the deal.

The *Office* was a private institution, or rather, an association of intermediaries authorized by the Finance Department to deal in securities<sup>1</sup>, and its activities were governed by the articles of association. Management and administration were the task of a committee consisting of five members elected by the General Assembly, plus a government commissioner. Sessions took place twice a week — Tuesday and Friday, as still happens on the stock exchange now — with bargains done by auction, subject to the rule that prices must not vary by more than 10 per cent from one session to the next. In addition to the official market, consisting of listed bonds and shares of well-established companies, there was an unofficial market (*marché hors cote*) for stocks of new and smaller companies.

From 1945 on, therefore, the Tunisian stock market was subject to official regulations and operated in three distinct

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<sup>1</sup> Except for the *Société Financière et de Gestion*, all the other nine or so intermediaries were banks.

sections: the official market, the unofficial market, and direct deals. However, all this was a matter of form only, and even in the long run signified no major improvement over the previous situation. There was still nothing to attract savers, local businessmen were barely involved, the number of listed securities was small, and the volume of transactions at the OTCVM negligible.

The *Oce* served less as a centre for actual dealings than as a registration office. The overwhelming bulk of business consisted regularly of direct deals, which, except for a few years, accounted for some 90 per cent of the total. Another characteristic of the market is the discontinuity and high variability of the overall volume of business.

These characteristics became even more marked when Tunisia acceded to independence in 1956. The decline of foreign interest in the Tunisian economy led, among other things, to a massive outflow of French capital<sup>2</sup>, part of which had been the lifeblood of the stock market. From the middle fifties on Tunisia had to face the difficult problems of economic development in a situation in which the country was economically and financially ill equipped and suffered from a structural deficiency of savings<sup>3</sup>. At this critical juncture the OTCVM proved totally incapable of doing anything to promote and mobilize financial savings; it became more and more obvious how useless it was, and how unadaptable to the Tunisian system.

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<sup>2</sup> For information about the Tunisian economy from the nineteen-fifties on, see, i.a., R. Bistolfi, *Structure économique et indépendance monétaire*, Paris, 1967; M.A. Buisson, « Chronique économique - Tunisie », *Annuaire de l'Afrique du Nord* 1966, Paris, 1967; Economic Commission for Africa, *Summaries of Economic Data: Tunisia*, February 1975; J.G. Kleve, *The Financing of Investments in Tunisia, 1961-1971*, typescript, U.N.D.P., Paris, 1971; P. Mottura, *The Banking System of Tunisia, 1956-1970*, Milan, 1972, pp. 2-19; and G.A. Pariente, « Emission monétaire, équilibre financier et développement économique », *Servir*, January 1968, No. 3, pp. 35-42; J. Poncet, « L'économie tunisienne depuis l'indépendance », *Les économies maghrébiennes*, Paris, 1971.

<sup>3</sup> For a good analysis, see especially P. MOTTURA, *op. cit.*, pp. 2-19.

No wonder, then, that in the process of institutional reform the OTCVM too was reorganized. First, a number of studies were undertaken in 1963 and 1964 with the help of foreign experts<sup>4</sup>, and these were followed in 1967 by a National Seminar on Saving<sup>5</sup>. Proposal advanced in the light of an analysis of the Tunisian economic and financial system included one for the creation of a stock exchange to replace the OTCVM.

Among the characteristics of the Tunisian economy highlighted by the studies, the following are particularly relevant in the present context.

(a) National saving while on the increase, was still far short of overall capital needs, which had to be covered by foreign borrowing to an extent normally exceeding domestic saving.

(b) Domestic saving fluctuated greatly from year to year and its composition by sources was somewhat anomalous (see Table 15). While public administration (always heavily in deficit) contributed on the average 27 per cent of the total, the combination of very low earnings, rapidly rising consumption and high liquidity preference kept the share of household saving down to the extremely low level of 12 per cent. Corporate saving accounted for a large proportion of the total, but fell short of corporate financial needs. Moreover, the rate of self-financing was low and volatile.

(c) Among certain groups of the population hoarding and investment in land and houses continued to take precedence over financial saving.

(d) The volume of negotiable securities in circulation would have been sufficient to keep an active market going pro-

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<sup>4</sup> For a good account of these, see A.J. D'AILLY, *Rapport sur le marché des capitaux et la bourse de valeurs*, typescript, Tunis, March 1964, and H. VIAUX, *Rapport sur l'organisation du marché financier en Tunisie*, Tunis, June 1963.

<sup>5</sup> The proceedings were published under the title « Séminaire National sur l'épargne, Tunis, les 8, 9, 10 juin 1967 », in *Cahiers du Centre des Recherches et d'Etudes Administratives*, Tunis 1969, No. 2.

vided that companies departed from the prevailing pattern of family enterprise and that the state and public agencies liquidated some of their portfolio holdings<sup>6</sup>. But these were unrealistic assumptions and the experts seem to have taken an over-optimistic view on this point<sup>7</sup>.

TABLE 15

NATIONAL SAVING BY SOURCES, 1960-1976  
(million dinars)

Year	Public Administration	Non-financial Enterprises	Banks	Households	Total
1960 . . . . .	12.4	7.6		4.1	24.1
1961 . . . . .	6.9	33.2		3.7	43.8
1962 . . . . .	6.6	18.6		3.1	28.3
1963 . . . . .	7.5	27.8		2.1	37.4
1964 . . . . .	16.5	24.8		8.1	49.4
		26.3	1.0		
1965 . . . . .	19.4	37.0	2.5	7.5	54.2
1966 . . . . .	15.2	41.7	2.0	7.5	62.2
1967 . . . . .	14.2	61.9	3.9	8.6	66.5
1968 . . . . .	3.8	45.4	6.2	10.4	80.0
1969 . . . . .	24.6	40.0	5.6	20.7	96.4
1970 . . . . .	26.5	91.3	4.1	29.7	101.8
1971 . . . . .	28.4	117.6	3.1	37.8	161.8
1972 . . . . .	38.6			54.2	213.5
1973 . . . . .	55.5	61.2		70.2	187.1
1974 . . . . .	110.8	151.7		87.2	349.7
1975 . . . . .	121.6	168.7		154.7	445.0
1976 . . . . .	124.8	167.3		132.9	425.0

Source: *Séminaire national sur l'épargne*, cit. (1960-1967); BANQUE CENTRALE DE TUNISIE, *Rapport Annuel 1969* (1968), *Rapport Annuel 1972* (1969-72) et *Rapport Annuel 1976* (1973-76).

(e) Investment was expanding fast and at a rate high enough to meet the targets of current economic development plans. But financing this investment expansion had generated

<sup>6</sup> « Séminaire National sur l'épargne », *op. cit.*, pp. 69-71.

<sup>7</sup> See below, footnote 29.



heavy pressures on the general level of prices and on the exchange rate of the currency.

(f) The psychological climate of saving was clouded by the memory of various devices of forced saving adopted in the years following independence for the purpose of financing investment and government expenditure; these included levies on wages and on the sales proceeds of certain agricultural products, like tomatoes, in counterpart of government stock and sometimes of shares in national companies<sup>8</sup>. Even investors who had voluntarily subscribed shares in order to support development programmes, had often been disappointed by the poor performance of the companies concerned. In consequence, the general attitude to security investment was one of aloofness, if not aversion, and the financially less sophisticated sometimes even went so far as to sell their holdings at prices far below their real asset value. The market was thus thrown into chaos and became dominated by speculative buying.

Nor was any encouragement to be derived from general economic and social conditions, such as the level of employment, the rate of income growth, concentration of wealth, the degree of industrialization, and soon and so forth. Altogether, in looking at the Tunisian situation in the years 1957 to 1967 one may legitimately ask oneself whether there existed even the minimum pre-requisites which would have enabled the proposed stock exchange to get off the ground and develop.

It seems right to conclude, therefore, that the reasons for the establishment of a stock exchange had more to do, unconsciously, with a wish to imitate foreign models, or better, with a desire at least to equip the financial system with a modern capitalistic institution in the hope that it might prove its worth at a later stage. This hope was perhaps more realistic than one might

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<sup>8</sup> See A.J. D'AILLY, *op. cit.*, pp. 4-5; H. VIAUX, *Note sur l'organisation de la Bourse de valeurs de Tunis*, Tunis, February 1970, p. 3, and *Le Marché financier dans un pays en développement*, typescript, Tunis, 24 March 1970.



think, for development planning caused investment to expand fast, as was mentioned earlier, and it appeared necessary therefore to make institutional arrangements for financing it.

Finally, something had to be done in any case to restore order on the securities market and to reorganize an existing institution, the OTCVM, which had proved ill-adapted to the requirements of the Tunisian economy.

### 3.2. THE CREATION OF THE TUNIS STOCK EXCHANGE AND ITS FUNCTIONS

In the light of the results of the expert studies and of the proposals made by the 1967 National Seminar on Saving, the government set up the Stock Exchange of Tunis in February 1969. Its constituent law defines its functions as follows:

- (i) to organize and manage the securities market;
- (ii) to make arrangements for quick and regular trading in securities;
- (iii) to facilitate new fund-raising by companies;
- (iv) to promote and encourage the mobilization of savings and their investment in securities.

The last-named three functions are proper to any stock exchange. Not so the first. Moreover, the law conferred upon the new Tunis Stock Exchange only one faculty which might have helped it to discharge such a function, namely, the right to be notified by issuers of their new security issues. Not surprisingly, the bourse has done nothing along this line in the seven years of its existence.

Clearly, the organization and management of the securities market, especially the primary market, are tasks incumbent, rather, on the monetary authorities, who are better equipped for them and who, above all, can enforce uniform principles in the management of the capital market.

By contrast, the law made full provision to enable the stock exchange to arrange for securities to be traded both quickly and regularly. Barring specified exceptions, all security dealings must be made at the stock exchange and through stockbrokers. This rule of centralization was intended not only to invigorate the stock exchange, but also to restore order to the secondary market where speculation had been rife, to the detriment of less sagacious investors. However, in practice this rule cannot easily be enforced since there is no way of checking whether it is observed and in any event there is no provision for penalties in case of contravention<sup>9</sup>.

A final point worth noting is that, contrary to other bourses in African countries, the Tunis Stock exchange is not required by law to do anything to strengthen the native element in the conduct of economic affairs.

### 3.2.1. *The status and organization of the Stock Exchange*

The Tunis Stock Exchange is a corporation under public law, with its own juridical personality and financial autonomy.

Its supervision and control are the responsibility of the Minister of Finance. He appoints and/or proposes the appointment of most of the members of the *Comité de la Bourse*, the Bourse Committee, and the latter's decisions on matters pertaining to expenditure, brokers' commissions and the status and salaries of personnel are subject to the Minister's approval. He also appoints a Government Commissioner, who takes part in the Committee's meetings as well as in trading sessions, and has a watchdog function in that he has to make sure that transactions are according to rule and that the decisions of the responsible Ministry are carried out.

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<sup>9</sup> Although direct deals are prohibited, they do occur frequently, especially as regards the stocks and shares of smaller companies (see *Le Marché boursier tunisien*, Tunis, La Presse, 12 November 1975).

The management of the stock exchange and the conduct of its affairs are in the hands of the Bourse Committee and its Chairman. The Committee also has advisory functions and, after due examination of requests for listing, decides what securities are to be admitted to quotation.

Finally, there are the stockbrokers. They have a monopoly position as the only intermediaries authorized to deal on the stock exchange. They must not operate on their own account, but only as agents for others. They are jointly and severally responsible for the legality and settlement of the transactions they arrange, are prohibited from making-up bargains, and are required to furnish appropriate financial guarantees as well as to take out a policy with an insurance company for coverage of all the risks connected with the exercise of their profession. Finally, they must keep regular accounts and belong to the Stockbrokers' Association.

Although the law does not preclude individuals being stockbrokers, the Association has at present only corporate members — all of them banks except for one financial establishment. This is the same situation as in Morocco and the Ivory Coast, and it has two reasons. First, there are few private businessmen with the necessary financial resources and expertise, and secondly the volume of business is so small that a stockbroker must expect to earn little or nothing.

It is just because the banks do have a sound financial basis and trained staff that they certainly are best able to act as stockbrokers. But they may occasionally find themselves caught in a conflict of interests, notably when it comes to choose between attracting and keeping deposits or selling securities; they may well give preference to the first. Furthermore, banks also buy and sell on their own account, and may be tempted to look better after their own interests than after those of clients whose orders they execute on the stock exchange. There is a strong case, therefore, for taking urgent steps to encourage private indivi-

duals to become stockbrokers; given that they are required, by law, to rely for their living entirely on commissions earned, they would surely enliven the market by bringing to it a new element of competition. However, this will only happen if and when the volume of business expands very considerably, or if stockbrokers are allowed to engage also in other activities not directly competing with what they do on the bourse.

### 3.2.2. *Trading arrangements.*

Like the *Office Tunisien de Cotation des Valeurs Mobilières* before it, the Tunis Stock Exchange holds two weekly sessions, on Tuesday and Friday, and bargains are done by auction. Only cash transactions are allowed, and prices are subject to the rule that they must not vary by more than 5 per cent<sup>10</sup> from one session to the next. The intention of this rule obviously is to counteract speculation and to maintain orderly price movements.

But it may have restrictive side-effect both on the volume of transactions and on the liquidity of securities. If, for example, the effective value of a security changes by more than 5 per cent as a result, say, of interest rate changes or of poor prospects regarding the issuing company's profits, investors cannot sell (buy) at the desired price and must either postpone the transaction or accept less (pay more) than the security's new value. If that happened, stock exchange prices would become less representative, since they would reflect changes only after some delay.

The Tunis Stock Exchange differs from its counterparts elsewhere in the structure of the secondary market. Direct deals being prohibited, there is only an official market, but this is divided into two sections:

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<sup>10</sup> The five-per cent rule applies only to listed securities; unlisted ones are subject to no restrictions as regards price fluctuations.

(1) the *marché permanent* for securities admitted to quotation on conditions to be discussed presently, and

(2) the *marché occasionnel* for unlisted securities traded from time to time.

Securities listed for trading on the permanent market are (a) government stocks (which are admitted to quotation by right), (b) some corporate bond issues, and (c) shares as well as (d) right issues of companies admitted to quotation by decision of the Bourse Committee.

To be so admitted, a company must fulfil the following conditions:

(1) its authorized capital must not be less than 50,000 dinars;

(2) it must present balance sheets for the last three financial years;

(3) it must have distributed at least one dividend.

To make it easier for new companies to obtain a listing, these conditions may be waived provided the dividend is guaranteed by a bank or by the state. Once admitted to quotation, companies are required to publish annual accounts and furnish the stock exchange with specified information and documents. Unlisted companies whose securities are traded on the occasional market are not obliged by law to furnish any information, but the stock exchange requires them to submit their articles of association as well as their last three balance sheets. Since many companies are reluctant to disclose this kind of information, the stock exchange encounters some difficulties in this respect.

### 3.3. THE SECURITIES MARKET SINCE THE ESTABLISHMENT OF THE TUNIS STOCK EXCHANGE (1970-1977)

Having described the origins, the organization and the working of the Tunis Stock Exchange, it remains to discuss its acti-



vities since its inception. In order to gain a complete picture of the stock market, we shall now consider not only the secondary market, but also the primary, or new issue, market.

### 3.3.1. *The new issue market.*

Qualitatively speaking, the new issue market in Tunisia may be described as follows.

(a) There is neither systematic legislation to govern the functioning of the market, nor any authority with powers of co-ordination and control.

(b) Information is scarce.

(c) There are no organizations actively concerned with placing securities among the public.

(d) Institutional demand and supply predominate in the new issue market for fixed-interest securities.

(e) Equity issues for sale to the public are minute.

(f) Issues are highly concentrated geographically.

(g) The definition and differentiation of securities in terms of their economic and technical characteristics are inadequate.

As regards the organization and control of the new issue market, Tunisian law is silent except for the one provision that all new issues must be notified to the Stock Exchange, which, as will be recalled, is responsible for the organization and management of the whole securities market<sup>11</sup>. Generally speaking, le-

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<sup>11</sup> Only convertible bonds of companies with state participation are subject to prior approval of the issuing conditions by the Minister of Finance and Trade and the Minister of Planning and the National Economy (Law No. 59-54 of 29 May 1959, Art. 2). No such provision is contained either in the legislation governing joint-stock companies (*Code de Commerce*, updated and commented by Mahmoud Ben Cheikh, Tunis 1975, p. 17-49), or in the laws establishing the Central Bank of Tunisia and the National Credit Council (Law no. 58-90 of 19 September 1958 and Law No. 67-50 of 7 December 1967), or yet in the Bank Act (Law No. 67-51 of 7 December 1967).

gislation is rather vague and empty of substance. It attributes no specific powers to anyone, and provides for no means of intervention with a view to controlling and co-ordinating the flow of funds through the capital market. For example, new issues require no advance authorization and are not subject to any approved time-table, which would make it possible to regulate the claims made on the market by issuers and to influence the terms and conditions of securities issued (the issue price, yield, maturity, face value, etc.).

The new issue market, therefore, lacks even the rudiments of official regulation and active management — which, it bears repeating, should be incumbent upon the monetary authorities and not upon the stock exchange.

These deficiencies naturally have adverse effects on the problems of information for investors and protection, so much so that it is hard to find any solution<sup>12</sup>.

Growth of the volume of new issues is hampered by the lack of modern issuing techniques and mechanisms. Issuers generally prefer to take care themselves of the sale of their securities to the public. This is certainly true of nearly all companies, and is probably explained by the predominant pattern of family enterprise, which means that new shares are mostly taken up by existing partners.

Only a few issuers are interested in raising funds from a wider circle of savers, and these turn to the banks for help. Banks generally act alone in such cases, and do no more than furnish the financial services requested. Issue syndicates are rare, and so are arrangements involving consultancy and/or price support immediately following the first placing<sup>13</sup>.

This state of affairs is due both to the reluctance of issuers to call in outside help for placing their security issues, and to

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<sup>12</sup> On the state of market information, see *La Presse, les entreprises et l'information*, Séminaire organisé par la Bourse des Valeurs Mobilières de Tunis-Afrique-Presse, Tunis 29 and 30 July 1974 (typescript).

<sup>13</sup> This actually never seems to have happened in Tunisia.

the banks' failure to publicize their services in this respect. But in these conditions it is obviously impossible to spread security ownership more widely and to make full use of the market's absorptive capacity. To make matters worse, a very high proportion of new issues is concentrated in the Tunis-Nord Region, so that other parts of the country are difficult of access anyway<sup>14</sup>.

The structure of capital supply and demand is another adverse factor in the issue market. Bond issues are floated exclusively by the state, by two public corporations and by three financial intermediaries with majority holdings in the hands of the state (one deposit bank, one investment company and one investment bank)<sup>15</sup>. There are no debentures of industrial enterprises and private-sector companies, which prefer bank loans and indirect medium- and long-term borrowing.

The situation is well illustrated by Table 16. Bond issues fluctuate sharply from year to year, and some 90 per cent or so consist of *bons d'équipement*. Without the latter, the new issue bond market would have been totally inactive in some years.

Nor is the situation any better on the side of the supply of funds. Table 5 shows how much of bond issues was subscribed by whom in the years 1970 to 1977, but the figures relate only to three out of ten tranches of *bons d'équipement* and to five out of eight debenture issues. While not complete enough to in-

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<sup>14</sup> No less than 87 per cent of all equity issues during the period 1970-1976 originated in the Tunis-Nord Region (BOURSE DES VALEURS MOBILIÈRES DE TUNIS, *Rapport quinquennal 1971-1975*, *op. cit.*, p. 40. Table 19, and *Rapport d'activité 1976*, *op. cit.*, Tables 6 and 9.

<sup>15</sup> The following is a list of fixed-interest issues 1964-1978:

- a) two national loans (5% 1974 and 5% 1967);
- b) eleven tranches of *bons d'équipement* (one each year from 1968 to 1978);
- c) ten debenture loans of which three issued by the *Banque pour le Développement Economique de la Tunisie* (1973, 1974 and 1975), four by the *Société Tunisienne de Banque* (in 1965, 1967 and 1975), two by the *Compagnie Financière et Touristique* (in 1975 and 1976), and one by the *Société Tunisienne d'Electricité et de Gaz* (1975).

dicating current trends, the figures are sufficiently representative to make it clear that individual savers took up only a marginal share, of not more than 6 per cent, of total fixed-interest security issues. The bulk of them was subscribed by institutional investors of the classical type, that is, insurance companies and banks, largely in compliance with legal provisions requiring insurance companies to invest part of their technical reserves and banks to maintain an « overall development-finance ratio »<sup>16</sup>.

TABLE 16

BOND ISSUES, 1970-1976  
(dinars)

Year	Bons d'Équipement	Debentures	Total amount subscribed	Bond issues
				Total security issues %
1970 . . . . .	13,338,050	100,195	13,438,245	44.21
1971 . . . . .	10,612,750	—	10,612,750	29.03
1972 . . . . .	19,552,550	—	19,552,550	48.50
1973 . . . . .	27,852,070	3,000,000	30,852,070	63.10
1974 . . . . .	15,489,880	1,000,000	16,489,880	41.55
1975 . . . . .	24,799,640	7,000,000	31,799,640	49.86
1976 . . . . .	48,228,320	1,500,000	49,728,320	44.40

Source: BOURSE DES VALEURS MOBILIERES, *Rapport d'Activité 1976*, tab. 6 p. 28.

The public's indifference to fixed-interest investment is due to some extent simply to their knowing little about financial matters, but mostly to the not always attractive terms and conditions of issues.

Since issuers can rely on their bonded liabilities by firm arrangements with a few financial intermediaries, they have inducement to offer more attractive terms or to differentiate the

<sup>16</sup> Tunisian banks are required to invest 43 per cent of their resources as follows: 20 per cent in *bons d'équipement*, 5 per cent in Caisse Nationale d'Épargne Logement bonds, and 18 per cent in medium-term private bills.



characteristics of the securities. It may be pointed out, for instance, that effective yields obtainable by investors remained more or less unchanged over the years and often were by no means competitive with alternative uses of funds<sup>17</sup>. In addition, there is in practice no choice, since on average no more than one or two issues are floated in any one year.

The problems of the equity market are different, but no less serious. The chief difficulties here derive from the structure of the Tunisian economic system, with its prevalence of small and medium-sized family enterprises<sup>18</sup>. These meet their requirements of own funds chiefly by self-financing and, if necessary, by calling on existing partners for additional capital. They hardly ever offer new shares to the public at large. Indeed, to guard against the risk of any entry of new shareholders, the overwhelming majority of companies stipulate that their own shares may be sold only subject to approval by the board of directors (*clause d'agrément*) or reserve themselves a priority right in share purchase (*clause de préemption*).

Any undue fragmentation of equity holdings is, moreover, often forestalled by issuing shares of high nominal value<sup>19</sup>.

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<sup>17</sup> Compare, for instance, the yields of government stocks in 1975 and 1976 (BOURSE DES VALEURS MOBILIÈRES DE TUNIS, *Rapport quinquennal 1971-1975*, *op. cit.*, p. 76, Table 47, and *Rapport d'activité 1976*, *op. cit.*, p. 76, Table 21 with interest paid in the same years by banks on fixed deposits and on fixed-term notes (BANQUE CENTRALE DE TUNISIE, *Statistiques financières*, No. 48, May 1978, p. 52, Table VII-6).

<sup>18</sup> A recent survey by the research unit of the stock exchange (BOURSE DE VALEURS MOBILIÈRES DE TUNIS, *Rapport d'activité 1976*, *op. cit.*, pp. 95-107) shows that of a sample of 160 companies representative of various economic sectors, 63 per cent of Tunisian companies have no more than 20 shareholders (40 per cent have no more than ten) and only 18 per cent have more than 100.

<sup>19</sup> The law on joint-stock companies lays down that shares must have a nominal value of at least 5 dinars (Art. 49 C.C.), but says nothing about their maximum value. Nor does it specify any lower limit of capital for the establishment of a joint-stock company, with the result that there are many quite ludicrously small companies.



In consequence of these practices, many companies pursue the policy of retaining profits rather than distributing much of them in dividends. This is encouraged by tax concessions favouring capital increases by means of capitalization of reserves. Hence dividends are generally small and irregular, and shareholders often have to be content with bonus issues of shares or a distribution of capital gains<sup>20</sup>. This is one reason why small and medium-scale investors keep out of the market, for they usually prefer immediate returns in cash to capital growth. Other reasons are the high nominal value of many shares and the lack of transparency in the relations between shareholders and companies. Finally, the tax system is unhelpful, for in spite of proposals for change put forward already in the studies preceding the creation of the stock exchange, taxes still weigh more heavily on equity investment than on other financial assets<sup>21</sup>.

A number of external factors likewise militate against the equity investment of savings, such as the low level of *per capita* incomes and of household savings, the middle and upper classes' high propensity to consume luxury goods and to put their money into buildings and trade, and the absence of institutional investors specializing in the fiduciary management of security portfolios<sup>22</sup>.

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<sup>20</sup> The point is confirmed by the returns on shares quoted on the permanent market. During the years 1970-1975, these consisted of 36 per cent dividends and 64 per cent distributions of capital gains (BOURSE DES VALEURS MOBILIÈRES DE TUNIS, *Rapport quinquennal 1971-1975*, *op. cit.*, pp. 78 and 79, Tables 48 and 49).

<sup>21</sup> Dividends are taxed three times: by the tax on company profits, the tax on investment incomes, and the personal state tax. There are, to be sure, some tax reliefs, e.g. a 50 per cent exemption for personal state tax payable on up to 30 per cent of income by individuals investing in certain securities specified by a decree of the Finance Minister (Law No. 68-41 of 31 December 1968), but they are subject to the unduly restrictive condition that the securities concerned must be held for five years.

<sup>22</sup> As of September 1978, the only operative investment company in Tunisia was the *Société Financière et de Gestion* (SOFIGES); two others, the *Union Fiduciaire* and the *Tunisie Placement*, were in course of being set up.

Nor is any help forthcoming from the commercial banks. They may, by law, invest in shares up to 10 per cent of their own resources, subject to not holding more than 30 per cent of the equity of any one company; but in practice they do not seem to be spending much for such purposes<sup>23</sup>.

To sum up, the new issue market for shares is small and rather inefficient. Issues are very unevenly distributed in time, and are made mostly by fairly small companies; some 30 per cent of them occur on the occasion of the foundation of new companies, and 10 per cent are in the form of capital increases by distribution of bonus shares (see Table 17 col. 4,5 and 6).

A large proportion of new share issues finds its way into the stable ownership of controlling groups, leaving only a fraction available for portfolio investment and for trading on the secondary market.

As regards the suppliers of risk capital, there is no first-hand information, but some indications of the structure of share ownership may be derived from sample surveys conducted by the Stock-Exchange<sup>24</sup> and an investment company<sup>25</sup>. In the light of the capital structure of the companies in the sample, it is reasonable to conclude that shares are acquired chiefly for purposes of control and that corporate ownership war outweighs holdings by individual investors.

The surveys covered a fairly representative sample of Tunisian companies, and they show that 86 per cent of their capital is in the hands of corporate shareholders, leaving 14 per cent held by individuals. Moreover, 31 per cent of the combined ca-

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<sup>23</sup> However, this does not apply to the Central Bank which, in 1976-1977, added significantly to its equity portfolio (amounting to 16.188.000 dinars in 1977), mostly through taking a stake in several public corporations or increasing its holdings in companies part of whose capital was already in public hands. See Banque Centrale de Tunisie, *Rapport Annuel 1977*, pp. 184-185 and 212-213.

<sup>24</sup> BOURSE DES VALEURS MOBILIÈRES DE TUNIS, *Rapport d'activité 1976*, *op. cit.*, pp. 95-103.

<sup>25</sup> COMMISSION AD HOC BOURSE, *op. cit.*, pp. 4-9.

TABLE 17

EQUITY ISSUES BY PURPOSE  
(dinars)

Year	Foundation of comp. (A)	Capital increases		Amount of equity Total	Equity issues	
		Capitalization of reserves	Conversion of debts		issues (A + B)	Total security issues %
1970 . . . . .	2,353,200	(1,603,285)	(72,140)	14,607,045	16,960,245	55.79
1971 . . . . .	4,438,615	(1,901,670)	(15,280)	21,506,870	25,945,485	70.97
1972 . . . . .	3,849,889	(2,645,520)	(605,400)	16,920,040	20,769,929	51.50
1973 . . . . .	7,986,715	(1,786,918)	(237,610)	10,055,465	18,042,180	36.99
1974 . . . . .	6,805,860	(498,150)	(1,002,600)	16,400,275	23,206,135	58.45
1975 . . . . .	11,228,910	(2,711,200)	(130,000)	20,757,678	31,986,588	50.14
1976 . . . . .	22,580,470	(3,445,635)	(580,000)	39,712,685	62,293,155	55.00

Source: BOURSE DES VALEURS MOBILIÈRES, *Rapport d'Activité 1976*, tab. 3, 4 e 5, pp. 23, 25 e 28.

pital of these companies belongs to foreigners, and only 12 per cent to Tunisian private holders<sup>26</sup>.

Individual Tunisian shareholders, the surveys show, are of middle age (44 years), are educated persons and belong to middle social and occupational groups<sup>27</sup>. They are perfectly capable of an active management of their security portfolio. They are mainly interested in its liquidity and capital growth, and only secondarily in dividends income. Unfortunately, they represent only a tiny fraction of potential investors, the great bulk of whom do not invest in shares or, for that matter, in any securities at all — partly because they have not enough information and knowledge to do so, and partly because they prefer other financial assets.

All in all, then, the new issue market in Tunisia is small and not well organized, it gets its funds mostly from institutional investors, and is short both of issuers and of specialists in placing securities and managing a portfolio. It does virtually nothing to mobilize household savings. Similarly, it contributes little to financing investment, though this is not quite so serious a matter. An attempt to qualify the extent of investment coverage through the new issue market is made in Table 18, which might also be useful for purposes of comparison with other African countries where there is a stock exchange<sup>28</sup>.

The ratio of total security issues to investment is not only far below those usual in developed countries, it also fluctuates

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<sup>26</sup> The same data also show that share ownership is rather concentrated: 10 per cent of share holders own 86 per cent of the equity of the companies in the sample.

<sup>27</sup> See COMMISSION AD HOC BOURSE, *op. cit.*, pp. 5-9. It appears that 67 per cent of the shareholding public are chemists, doctors, traders and industrial entrepreneurs, 15 per cent are wage earners and 3 per cent farmers (p. 9).

<sup>28</sup> Not too much should be read into such comparisons, both because the data available are somewhat unreliable and because the structural characteristics of the economies concerned differ greatly. But, however limited the significance of such comparisons may be, they do furnish some indications not otherwise obtainable.

TABLE 18

SHARE OF NEW ISSUE MARKET IN THE COVERAGE OF INVESTMENT, 1970-1976  
(Amounts in dinars)

Year	Amount of		Investment	Proportion (%) of invest. covered	
	Total issues	Share issues		Total issues	Bond issues
1970 . . . . .	30,398,490	16,960,245	154,300,000	19.7	11.0
1971 . . . . .	36,558,235	25,945,485	181,500,000	20.1	14.3
1972 . . . . .	40,322,479	20,769,929	228,600,000	17.6	9.1
1973 . . . . .	48,894,250	18,042,180	233,300,000	20.9	7.7
1974 . . . . .	39,606,015	23,206,135	332,000,000	11.9	7.0
1975 . . . . .	63,786,228	31,986,588	453,000,000	14.1	7.1
1976 . . . . .	112,021,475	62,293,155	580,000,000	19.3	10.7

Source: Compiled from BOURSE DES VALEURS MOBILIÈRES, *Rapport d'Activité*, p. 21, 23 and 28, Tables 2, 3 and 6.



rather sharply from one year to the next and, over the whole period since the creation of the stock exchange, has not risen at all. Looking at equity issues alone, it will be seen that after a rise from 11 per cent in 1970 to 14.3 per cent in 1971, the investment coverage ratio went into a continuous decline to a minimum of 7.0 per cent in 1974, followed in 1976 by a rise to 10.7 per cent. The corresponding figures for bond issues are even smaller, and they too fluctuate a good deal. Here is renewed proof of the smallness and discontinuity of the new issue market in Tunisia.

### 3.3.2. *The secondary market in securities.*

So much for the general features of the Tunisian securities market. It remains to fill in some details and to describe the activities of the secondary market.

First, let us look at the structure of what is called the permanent market. When the Tunis Stock Exchange opened its doors for business in May 1970, altogether 24 securities were listed — 12 of them bearing fixed interest, and 12 with variable yield<sup>29</sup>. Eight years later, after the listing of additional companies and the transfer of the *bons d'équipement* from the occasional to the permanent market, the total had risen to 48, of which 25 bearing fixed interest and 33 with variable yield (See Table 19)<sup>30</sup>.

This increase notwithstanding, the official list remains very short and unrepresentative<sup>31</sup>. There is little scope for widening the market, given the small number of large enough firms and

<sup>29</sup> In the studies prior to the creation of the stock exchange it was estimated, perhaps with undue optimism, that at least 63 companies would qualify for admission to quotation; in the event, their number was initially only 12. (See « Séminaire national sur l'épargne », *op. cit.*, pp. 69-71 and Annexes VIII, IX and X, pp. 96-101).

<sup>30</sup> During 1970 5 more corporations were listed.

<sup>31</sup> The most representative section is that of banks, since seven out of the existing twelve banks are listed.

the unwillingness of management to depart from the family-enterprise pattern.

TABLE 19

## EXAMPLES OF THE STRUCTURE OF BOND SUBSCRIPTIONS

A) *Debentures* (\*)

Category of subscribers	Number of subscribers	Issues	
		Amount (dinars)	per cent
Insurance companies . . . . .	39	2,771,340	46.20
Semi-government companies . . . . .	14	1,590,000	26.50
Private companies . . . . .	73	1,278,470	21.30
Individuals . . . . .	152	360,190	6.00
Total . . . . .	278	6,000,000	100.00

(\*) The issues considered are the debenture loans of the *Banque pour le Développement Economique de la Tunisie*, 1973, 1974 and 1975, of the *Société Tunisienne de Banque*, 1975, and of the *Compagnie Financière et Touristique*, 1975.

B) *Bons d'équipement* (9th, 10th and 11th tranche)

Category of subscribers	Amount (dinars)	per cent
Banks . . . . .	21,054,030	30.90
Insurance companies . . . . .	9,767,894	14.34
Provident societies . . . . .	8,022,000	11.78
National Social insurance Fund . . . . .	9,000,000	13.20
National Pension Fund . . . . .	6,000,000	8.80
Miscellaneous . . . . .	1,928,030	2.82
(Conversion of Treasury bonds) . . . . .	12,369,000	18.16
Total . . . . .	68,140,954	100.00

Source: BOURSE DES VALEURS MOBILIÈRES DE TUNIS, *Rapport quinquennal 1971-1975*, p. 37, 38, Tables 17 and 18.

All this, together with the conditions of the new issue market as described, combines to restrict the volume of stock exchange transactions. Looking at overall figures for the permanent market, as shown in Table 6, the volume of transactions is seen to have varied greatly from one year to another. While it did increase fivefold from 1971 to 1977, a proportion ranging from

TABLE 20

ANNUAL VOLUME OF TRANSACTIONS ON THE TUNIS STOCK EXCHANGE, 1971-1976  
(amounts in dinars)

	1971		1972		1973		1974		1975		1976		1977	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>1) Volume of transactions</b>														
Stock exchange as a whole														
Permanent market . . . .	901,940	34.1	1,252,611	37.7	1,184,143	22.4	1,005,617	9.8	1,582,891	21.9	3,180,941	23.2	4,887,399	42.5
Occasional market . . . .	1,920,360	65.9	2,073,445	62.3	4,093,471	77.6	9,320,288	90.2	5,036,624	78.1	10,320,954	76.8	6,626,782	57.5
Total . . . . .	2,912,300	100.0	3,326,056	100.0	5,277,614	100.0	10,325,905	100.0	7,219,515	100.0	13,701,895	100.0	11,508,181	100.0
<b>2) Composition by types of securities</b>														
<b>2.1. Permanent market</b>														
Fixed interest . . . . .	778,337	78.1	781,816	62.6	587,792	49.6	373,390	37.2	423,211	26.7	371,783	11.7	2,171,406	44.4
Variable yield . . . . .	213,603	21.6	467,795	37.4	596,351	50.4	632,227	62.8	1,159,680	73.3	2,809,158	88.3	2,715,993	55.6
Total . . . . .	991,940	100.0	1,252,611	100.0	1,184,143	100.0	1,005,617	100.0	1,582,891	100.0	3,180,941	100.0	4,887,399	100.0
<b>2.2. Occasional market</b>														
Fixed interest . . . . .	35,813	1.8	79,060	3.8	179,026	4.4	2,356,716	25.3	332,956	4.1	281,732	2.7	184,932	2.8
Variable yield . . . . .	1,884,517	98.2	1,994,385	96.2	3,913,345	95.6	6,963,573	74.7	5,403,668	95.9	10,230,222	97.3	6,435,850	97.2
Total . . . . .	1,920,360	100.0	2,073,445	100.0	4,093,471	100.0	9,320,288	100.0	5,736,624	100.0	10,511,954	100.0	6,626,782	100.0
<b>2.3. Stock exchange as a whole</b>														
Fixed interest . . . . .	814,150	28.0	863,876	26.0	767,718	14.0	2,730,106	26.0	656,167	9.0	653,515	5.0	2,356,338	20.0
Variable yield . . . . .	2,098,150	72.0	2,462,180	74.0	4,509,896	86.0	7,595,799	74.0	6,563,348	91.0	13,048,380	95.0	9,151,843	80.0
Total . . . . .	2,912,300	100.0	3,326,056	100.0	5,277,614	100.0	10,325,905	100.0	7,219,515	100.0	13,701,895	100.0	11,508,181	100.0
<b>3) Composition by nationality of issuers</b>														
Tunisian . . . . .	1,867,039	97.2	2,071,735	97.3	4,061,781	99.2	9,219,460	98.9	5,435,466	96.4	10,460,094	99.7	6,611,014	99.8
Foreign . . . . .	53,321	2.8	55,660	2.7	31,600	0.8	100,828	1.1	201,158	3.6	31,860	0.3	9,768	0.2
Total . . . . .	1,920,360	100.0	2,073,445	100.0	4,093,471	100.0	9,320,288	100.0	5,636,624	100.0	10,511,954	100.0	6,626,782	100.0

Source: BOURSE DES VALEURS MOBILIÈRES DE TUNIS - Département Etudes et Analyses, *Brochure Statistique* (Figures Section 2.3 compiled by the author).

50 to 75 per cent of the total consisted of what is known as special deals, that is, involving more than 50,000 dinars per transaction<sup>32</sup>; generally speaking, these are block sales of portfolio or majority holdings, and testify to the high degree of concentration in security ownership and to the investors' prevalent purpose of obtaining control of companies. Without these special deals the volume of business on the secondary market is all but negligible.

This is confirmed by the fact that more than 70 per cent (on the average of the years 1971-1977) of stock exchange transactions was in non-listed securities traded on the occasional market, leaving less than 30 per cent for the permanent market (Table 21, 2.1) with its fluctuating annual volume and low turnover rates. Some stocks are traded only at long intervals<sup>33</sup>, and for any 100 outstanding only one or two on average change hands within any one year<sup>34</sup>. In most sections the annual num-

<sup>32</sup> BOURSE DES VALEURS MOBILIÈRES DE TUNIS, DÉPARTEMENT ETUDES ET ANALYSES, *Brochure Statistique*, March 1978. The percentages indicated in the text were calculated by comparing the annual volume of « special deals » in unit amounts of over 50,000 dinars (pp. 6-10) with the annual volume of total transactions (pp. 41-42).

<sup>33</sup> For example, there was no transaction at all in *Morel et Livet* and *Mine Usine* either in 1975 or in 1976, and in 1975 there was none in *Esso Standard Tunisie* and CTN; even in banks, usually the most active section of the market, there was no transaction in *Union Bancaire pour le Commerce et l'Industrie* in 1974.

<sup>34</sup> Average annual turnover rates (stocks traded/existing stocks) of shares quoted on the official market are shown in the tabulation below (per cent):

	Year	1971	1972	1973	1974	1975	1976
Average turnover rate . . .		1	1.9	1.7	2.2	1.1	1.6

Source: BOURSE DES VALEURS MOBILIÈRES DE TUNIS, *Rapport quinquennal 1971-1975*, op. cit., p. 59, and *Rapport d'activité 1976*, op. cit., p. 65.

Turnover rates for fixed-interest securities are equally low, witness *Rapport quinquennal*, p. 61, Table 33, and *Rapport 1976*, p. 66, Table 14.



ber of transactions in any one stock is in most cases less than 18-20, and at best does not exceed 103<sup>35</sup>.

In these circumstances it is often difficult, if not impossible, to find a buyer for any intended sale and vice versa, and one may have to wait a very long time to effect a deal. Nor can prices be at all representative with such erratic dealings. If a stock is traded, say, 20 times in 104 sessions, its price is really meaningless. It seems reasonable to conclude that the Tunis Stock Exchange is not yet in a position to guarantee the liquidity of security holdings or anything like indicative price formation.

One last interesting point is that dealings in variable-yield securities far outweigh those in fixed-interest ones: they accounted for anything between 72 per cent (in 1972) and 95 per cent (in 1976 of the total value of transactions (Table 6, section 2.3). However, the two markets differ somewhat in this respect.

On the occasional market up to some 97 per cent of the value of annual transactions is concentrated in the equity section, but fixed-interest securities are usually the more active ones on the permanent market (e.g. 78 per cent of the total in 1971, 62 per cent in 1972 and 50 per cent in 1973) (Table 6, sections 2.1 and 2.2). The reasons are that nearly all fixed-interests securities are listed and that the permanent market in equities is so very narrow in any case.

Neither the Central Bank, nor issuers or anyone else normally intervenes in the market to support prices or active dealings.

All in all, the Tunis Stock Exchange is not a very lively place. Mobility of capital is sluggish and the volume of business small. The latter's growth in the years 1971-1977 was less than

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<sup>35</sup> This was the case of the *Banque pour le Développement Economique de la Tunisie*; some other bank stocks registered similar figures. The maximum annual number of transactions in fixed-interest securities was 380 (BOURSE DES VALEURS MOBILIÈRES DE TUNIS, *Rapport quinquennal 1971-1975*, op. cit., pp. 62-63, Tables 34-35, and *Rapport d'activité 1976*, op. cit., pp. 66-67, Tables 14 and 15).



spectacular, having been held back by factors which are unlikely to alter much in the short run — such as the very low level of household saving, the general disinclination to invest in securities, the limited supply and inadequate differentiation of securities, and the small scale and family character of many firms.

## CONCLUSIONS

In surveying the earliest Tunisian experiences in organizing and running a secondary market in securities, we had occasion, among other things, to discuss why the government decided to set up a stock exchange on its own initiative, without being prompted by the businesses community. Three reasons stand out as most likely: the need to put in order a chaotic market, the desire to get rid of a colonial legacy ill-adjusted to the Tunisian economy, and the wish to equip the financial system with a modern institution for raising long-term capital and ensuring its mobility.

But conditions were unpropitious for a stock exchange to get off the ground and develop. First of all, national saving was very low and households contributed little to it, so that the chief problem was not so much to transform as to promote saving. Secondly, Tunisian industry and the economy as a whole lacked companies and intermediaries willing and able to put at the disposal of the public an ample supply of sufficiently diversified securities. Other obstacles were the public's high liquidity preference, large-scale hoarding, disenchantment with security investment, lack of entrepreneurship, and others.

Eight years after the creation of the Tunis Stock Exchange an attempt may be made to look back on its development and to assess the results achieved so far.

The volume of new issues has grown over recent years, but not very much. Even so the number of issuers remains small and the market gets its supply of capital mainly from institutional

investors so far as bonds are concerned, and, in the equity section, from restricted groups of controlling interests. The market's organization is precarious, in so far as there are no specialists in placing securities among the public and, above all, because no-one has effective powers of co-ordination and intervention. In all, the new issue market still contributes little to the mobilization of savings and to the financing of investment, and has proved unable so far to broaden stock exchange business.

Thanks to direct deals being prohibited by law, the volume of stock exchange transactions has been growing. But it has done so most irregularly, and moreover much of the increment consists of so-called special deals, involving rather high unit amounts and so accentuating the already market discontinuity of trading. The secondary market, therefore, is short both of stocks and of buyers and sellers, and can neither guarantee the liquidity of the capital invested nor attract small and medium-scale savers. Despite the initial efforts of the Tunisian authorities and the subsequent endeavours of the Bourse Committee, the secondary market has expanded very little and its performance has fallen short of desired results.

So much for the past and present. Looking to the future, a number of suggestions for improvement may be put forward.

First of all, the law needs revisions with respect to the composition and responsibilities of the Bourse Committee. The latter needs to be given well-defined powers, as well as clear guidance on the interpretation of some points of law, e.g. Article 3 on the prohibition of direct deals. Among other things, there is a case for abolishing the 5 per cent limit on price changes; as an alternative, the Bourse Committee could be authorized to suspend dealings in any stocks displaying strong speculative price movements.

A second very necessary innovation is a set of systematic regulations for the new issue market. The monetary authorities themselves ought to be made responsible for its supervision and

control, if need be by direct and active intervention even on the secondary market.

Still on points of legislation, the law governing joint-stock companies needs to be strengthened by additional provisions regarding the issue of new types of securities<sup>36</sup>, the disclosure of information to shareholders and to the public, minimum capital requirements, standards for assessing the value of capital assets, etc. At the same time steps should be taken to encourage companies to cover part of their financial requirements on the stock market rather than by bank borrowing, and to issue a diversified range of securities responding to investors' requirements<sup>37</sup>.

Institutionally, the government should promote, and perhaps initially even help to finance, the establishment of companies specialized in placing securities among the public and in managing a joint portfolio<sup>38</sup>.

Then there is a case for individual stockbrokers gradually taking over from the banks, leaving the latter to act as commission agents on the stock exchange and to stimulate the market. This function could likewise be discharged by the Central Bank, with a view to the orderly growth of the securities market and to control of long-term interest rates.

Two last problems that must be dealt with in any event are information and tax reform with a view to more uniform treatment of different financial assets.

However, all these proposed measures can, by themselves, bring only limited improvements, of form more than of substance. Unless the basic obstacles are removed, the Tunisian stock market is unlikely to break out of its present situation.

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<sup>36</sup> At present, the law contains provisions only for the issue of convertible debentures. It says nothing at all about ordinary bond issues.

<sup>37</sup> Tax provisions might be harnessed to this end, provided they do not accentuate existing distortions or create new ones.

<sup>38</sup> There does exist legislation on open-end and closed-end investment companies (Law No. 68-11 of 7 May 1968), but their establishment kept being postponed over and over again, if only because there was little scope for them in so restricted a market.

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## INDEX OF THE TABLES

### PART TWO

	<i>pag.</i>
Table 1. Savings and investments in Ivory Coast . . . . .	102
Table 2. Annual and cumulative issues and uses of F.N.I. certificates for the period 1963-1976 . . . . .	104
Table 3. Gross issues of C.A.A. Bonds . . . . .	110
Table 4. Gross issues and subscriptions of Sonafi Bonds . . . . .	119
Table 5. Some data about Sonafi transactions . . . . .	126
Table 6. Evolution of outstanding Share Prices . . . . .	129
Table 7. Annual volume of security transactions of the OCVM, 1941-1958 . . . . .	136
Table 8. Gross security issues, 1971-1977 . . . . .	139
Table 9. Investment of insurance companies' Technical Reserves and its composition, 1967-1976 . . . . .	152
Table 9 bis. . . . .	154
Table 10. Security transactions by the Caisse de depot et de gestion, 1971-1977 . . . . .	156
Table 11. Volume and compositions of transactions in fixed-income and variable-income securities, 1967-1976 . . . . .	162
Table 12. Security transactions by market compartments, 1967-1977 .	163
Table 13. Value of bourse capitalization, number of listed companies and securities, 1966-1977 . . . . .	168
Table 14. Price indices of listed securities and Average Annual Yield of listed shares, 1966-1976 . . . . .	169
Table 15. National saving by sources, 1960-1976 . . . . .	183
Table 16. Bond issues, 1970-1976 . . . . .	193

	<i>pag.</i>
Table 17. Equity issues by purpose . . . . .	197
Table 18. Share of new issues market in the coverage of investment, 1970-1976 . . . . .	199
Table 19. Examples of the structure of bond subscriptions . . .	201
Table 20. Annual volume of transactions on the Tunis stock exchange, 1971-1976 . . . . .	202

## INDEX

	<i>pag.</i>
<i>Foreword</i> . . . . .	2

### PART ONE

#### ✓ SECURITIES MARKETS AND ECONOMIC DEVELOPMENT

<i>Introduction</i> . . . . .	13
1. <i>The role of securities markets in less developed countries: a) The promotion of economic development</i> . . . . .	17
1.1. Effects on aggregate volume of savings . . . . .	18
1.2. The effects in terms of more efficient allocation of the initial stock of real wealth and increased financial savings . . . . .	33
1.3. The effects on the aggregate volume of investment and the allocation of savings . . . . .	41
2. <i>The role of securities markets in less developed countries: b) other functions and AIMS</i> . . . . .	47
2.1. Contribution to economies of scale . . . . .	47
2.2. The effects of securities markets in terms of concentrating economic power, income and wealth . . . . .	49
2.3. The effects of a securities market on corporate management and as a stimulus to entrepreneurial capacity . . . . .	51
2.4. The contribution of a securities market to indigenisation and/or privatisation of productive activities . . . . .	52
2.5. The effects of a securities market on the conducts of monetary policy . . . . .	54
3. <i>The prerequisites for the creation of a securities market</i> . . . . .	57
3.1. Adequacy of local businesses in terms of quality and size . . . . .	58

	<i>pag.</i>
3.2. The level and distribution of domestic savings and the skill of people in charge of selecting investments . . . . .	59
3.3. The level and structure of yields on financial investments . . . . .	61
3.4. Other political, social and legal factors . . . . .	62
4. <i>Measures aimed at encouraging the growth of securities markets</i> . . . . .	65
4.1. Measures aimed at influencing the supply of securities . . . . .	66
4.2. Measures aimed at increasing the demand for securities . . . . .	73
5. <i>The costs and risks involved in establishing a securities market in an LDC</i> . . . . .	77
5.1. Structure, operating and access costs . . . . .	80
5.2. The risk of jeopardising, the growth and stability of the financial structure and economic system . . . . .	82
<i>Conclusions</i> . . . . .	89

## PART TWO

## SECURITIES MARKETS IN FRENCH-SPEAKING AFRICAN COUNTRIES

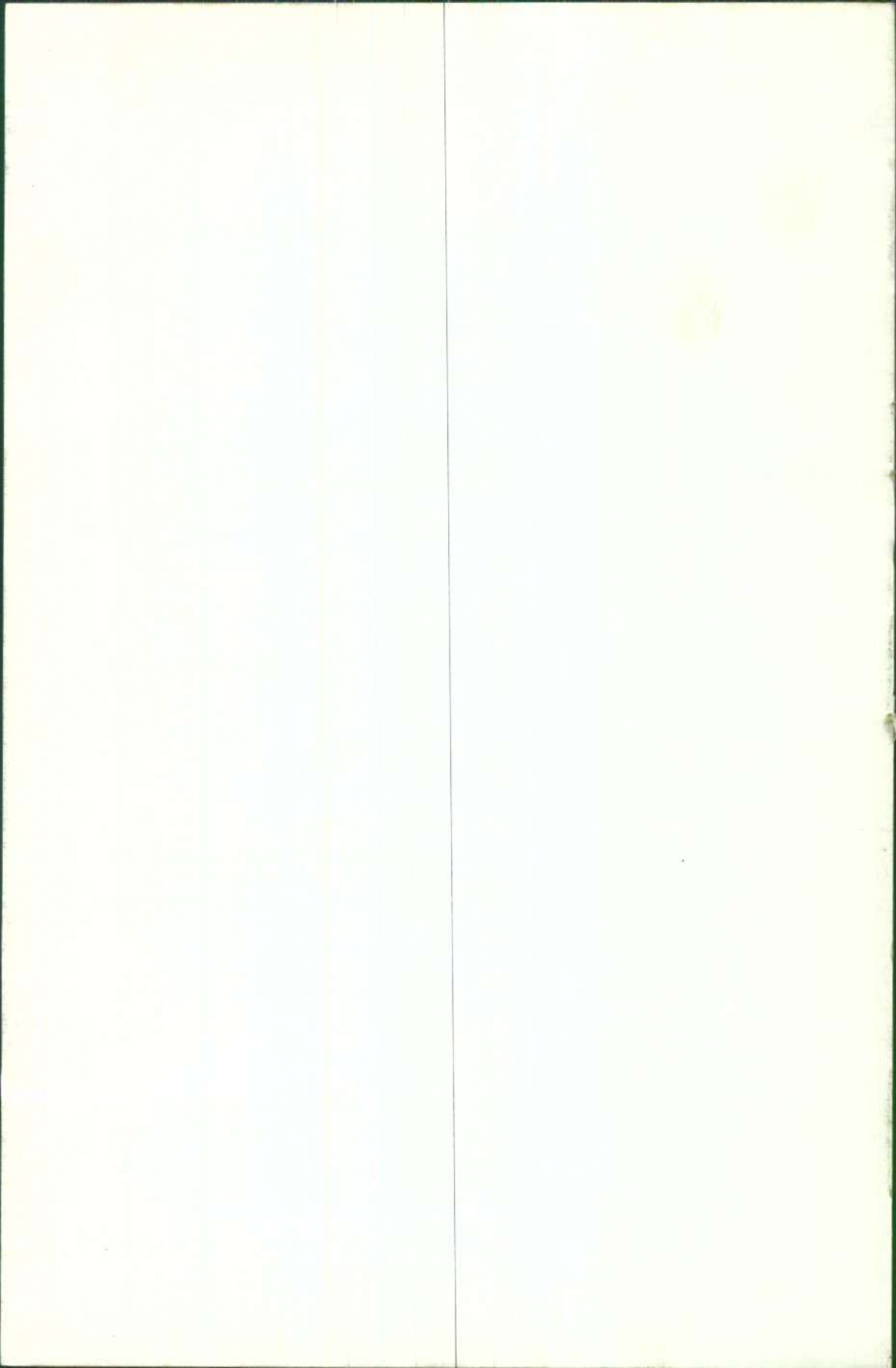
<i>Introduction</i> . . . . .	93
1. <i>The stock exchange and the securities market in Ivory Coast</i> . . . . .	97
1.1. Features of the Ivory Coast's socio-economic system . . . . .	97
1.2. Domestic institutions for promoting economic development . . . . .	101
1.3. The experiences preceeding and preparatory to the creation of the Abidjan Stock Exchange . . . . .	108
1.4. The birth of the stock exchange and its functions . . . . .	113
1.5. The structure and organization of the Abidjan Stock Exchange . . . . .	115
1.6. The functioning of the Abidjan Stock Exchange . . . . .	116
1.7. The Ivory Coast securities market after the creation of the Stock Exchange . . . . .	118
1.7.1. The primary market . . . . .	118
1.7.2. The secondary market . . . . .	124

	<i>pag.</i>
<i>Conclusion</i> . . . . .	128
2. <i>The stock exchange and the securities market in Morocco</i> . . . .	133
<i>Introduction</i> . . . . .	133
2.1. The Office de compensation des valeurs mobilières (1929-1947)	133
2.2. The Office de cotation des valeurs mobilières (1947-1964) .	135
2.3. The creation of the Casablanca stock exchange . . . . .	137
2.4. The status and organization of the stock exchange . . . . .	141
2.5. Trading arrangements . . . . .	143
2.6. The securities market in Morocco since the establishment of the Casablanca stock exchange . . . . .	147
2.7. The new issue market . . . . .	148
2.8. The secondary market . . . . .	161
<i>Conclusion</i> . . . . .	171
3. <i>The stock exchange and the securities market in Tunisia</i> . . . .	177
3.1. The predecessor or the Tunis stock exchange . . . . .	177
3.1.1. The « Caisse foncière » loan issue and the origin of the « Chambres de compensation » 1937-1945 . . . . .	177
3.1.2. The Office Tunisien de Cotation des Valeurs Mobilières (1945-1970) . . . . .	179
3.2. The creation of the Tunis Stock Exchange and its functions .	185
3.2.1. The status and organization of the Stock Exchange . . .	186
3.2.2. Trading arrangements . . . . .	188
3.3. The securities market since the establishment of the Tunis Stock Exchange (1970-1977) . . . . .	189
3.3.1. The new issue market . . . . .	190
3.3.2. The secondary market in securities . . . . .	200
<i>Conclusions</i> . . . . .	205
Bibliography . . . . .	209
Index of the tables . . . . .	217









## Summary

A. Calamanti's study aims at assessing the contribution organized financial markets may make to a country's economic development, especially in the pre-industrialization stage. In the volume first part, he tackles the general problems connected with the establishment and operation of capital markets in backward economies in an attempt to view the subject in the broader framework of the phenomena characterizing any development process and how they affect real economic facts.

He reviews the possible effects deriving from the creation of an organized financial market on the aggregate volume of savings and investments, on resource allocation, on various aspects of business administration, on income, wealth and economic power concentration, on the process of Africanization and shift from public to private management in economic activities as well as on the behaviour of Government monetary policies. After outlining the role of a financial market in these areas, the Author identifies the pre-requisites necessary for the creation of a financial market and its operation and the measures which should be taken to support and develop it. He then analyses the costs and risks connected with the creation and operation of such markets, and namely the risk to jeopardize the development and stability of the country's financial structure and economic development. Finally, on the basis of these theoretical references, the Author reviews the experiences of some African countries in this connection, and namely the experiences of the Ivory Coast, Morocco and Tunisia. On the basis of the data he collected on the spot, he describes the origins, evolution and organization of these countries' financial markets and makes some considerations on the objectives, results and future perspectives.

