

## Securities Week

15 November 2006

### **Remarks by Mats Karlsson**

World Bank Country Director Burkina Faso, Ghana, Guinea, Liberia and Sierra Leone

Ladies and Gentlemen,

I am very pleased to have the opportunity to speak here at this important forum in support of the Securities Week arranged by the Securities Exchange Commission in collaboration with the Ghana Stock Exchange and the Ghana Securities Industry Association, this is in part because, together with our partners at DFID, we are supporting the Government in the financing of these activities through our Economic Management Capacity Building Project, which includes the Government's far reaching financial sector reform programme amongst its activities.

The main reason that I am very pleased to be provided the opportunity to deliver this address is because we, the Development Partners, are extremely supportive of the importance that the Government has attached to its financial sector reform programme. For Ghana to progress towards Middle Income status it will be important to develop a strong financial sector infrastructure and professional capacity which will facilitate the establishment of Ghana as a regional services hub and which will support the evolution of a higher value added manufacturing and trading economy.

Perhaps most significantly, the development of efficient and competitive financial markets in Ghana will help us in addressing two crucial areas which are of the highest priority: stemming the seemingly inexorable tide towards greater informality in the Ghanaian economy and substantively increasing the investment in infrastructure which will be the backbone for Ghana's development. A great deal of work carried out by

Government and the Development Partners illustrates the importance of encouraging workers into the formal economy, that is increasing the numbers engaged in occupations which pay tax and make social insurance contributions, whether as employees or self-employed. Surveys show that the formal sector means better conditions of employment, better pay and, most important, a stable tax base. To make this happen we have to decrease the cost and increase the attraction of entering the formal economy. Working with Government, we are addressing how regulations can be streamlined so that the red tape and bureaucratic burden can be diminished. In terms of increasing the attraction, the carrot for participation in the formal economy, an increasing body of evidence would point to access to credit, to financial services which are affordable and reliable, is the most important incentive for small enterprises to register. This is one of the reasons why development of a competitive financial market will be important for all Ghanaians, not just for those who own companies and make investments, but for everyone, especially for those who live at the margins and for whom a proper job, with a contract and benefits, will be the means to lift their family out of poverty.

The last decade has been one of tremendous change across this continent. Without in any way diminishing the significance of the challenges that remain, recent years have provided us with increased opportunities for optimism for Africa. The role of the World Bank, however, is always to remind of what more can be done, to congratulate Ghana for its achievements but also to raise expectations as to the greater prize that lies just over the horizon. In this context, we have been the very first to congratulate Ghana for being amongst the best reforming countries in the recent "Doing Business" survey, and being identified as one of the leading candidates amongst emerging market economies for Information Technology Enabled Services (what I always used to know as business process outsourcing but apparently is better referred to as ITES).

The changing economic prospects of Africa are addressed in two very recent World Bank publications one of them "Africa's Silk Road" highlights the important opportunities represented by Africa's increased trade with the two titans of the East, China and India. We will be launching this book tomorrow, so perhaps I should take advantage of this opportunity to make a quick advertisement. Tomorrow, at 2.30 p.m. at the Coconut Grove Regency Hotel, together with CEPA we will be discussion the important messages of this publication, including the Ambassadors of China and India. This book has already received a lot of very favourable coverage and I would highly recommend it for its treatment of the tremendous opportunities we see now for South-South trade and investment.

The other publication we shall be launching soon is more directly related to the topic of this evening's presentation and this is a book called "Making Finance Work for Africa", like "Africa's Silk Road" this is a Bank publication which recognizes the rapidly evolving economic and social environment in Africa and makes a series of observations and recommendations which I think you will find very insightful. It is a comprehensive study and I will discuss now some of its findings relevant to the securities markets in Ghana. I certainly am not going to cover everything that is discussed in this book, and so please do not think that having heard this speech that there is no need to read the book. I do know, however, that the experience of the capital markets here in Ghana was an important source for the section of the book relating to securities markets.

Strengthened by reforms of recent years, African financial systems have begun to diversify their activities, deepen their lending and increase their reach with new products and new technologies. Here in Ghana, as elsewhere across the region, the practice of directed credit is much diminished and there has been extensive privatization of state owned banks paralleled by an influx of market participants from overseas and, more recently, from within the region. Through its Financial Sector Reform programme the Government now has the opportunity to foster this new energy to help ensure that modern technology, organizational innovation and internationalization are exploited to the maximum to help ensure that investable funds are well allocated to underpin growth and to protect against risks.

The most pressing needs for finance in Ghana today are to increase the availability and lower the cost of credit to productive enterprises and to extend the reach of basic savings, payment, credit and insurance services for low income people and for the smallholder farms and micro enterprises which provide their livelihood. Ghana can also benefit from a wider range of longer term facilities (including mortgage finance), greater possibilities for risk management and diversification, including more transparent price discovery, and improved marketability of tradable securities such as debt and corporate equity.

Ghana has already adopted extensive policy reforms, with the result that the financial scene is now populated with dynamic financial sector institutions, competing with each other to attract customers with new products and improved technology. Despite this, however, the financial sector is still relatively small and inefficient in terms of what will be required for Middle Income country status. The economies of East Asia have shown how putting national

savings to work in productivity-increasing investment can sustain rapid growth over a generation.

By bridging the gap between savers and entrepreneurs, financial systems not only reduce the risks on both sides, but also open up new opportunities. Finance can reduce the barriers to entry for entrepreneurs, allowing the economy at large to benefit in terms of employment, price and quality of services. Farmers can move to a higher level of productivity and output, given access to the necessary finance. Savers too can share in the returns on an expanded flow of investment. Housing, insurance and pension arrangements can be lifted onto a new plane. Supportive policy for financial sector development is increasingly widely acknowledged by scholars to be a key component of national development policy. Indeed, careful comparative analysis of the growth rates of different countries over a thirty year period has produced convincing evidence that having a deeper financial system contributes to growth (and is not merely a reflection of prosperity). Countries with deep financial systems also seem to have a lower incidence of poverty than others at the same level of national income. At the firm level, growth also responds to access to credit and to the conditions that favor such access. By allocating and re-allocating resources on a more objective basis of creditworthiness and prospective returns, a finance-rich economy should also be more conducive to a wider distribution of economic power and influence, which in turn should feed back onto improved national economic performance on many dimensions.

The evidence pointing to a positive causal association between better developed financial systems and faster economic development is based on analysis of a wide range of country-level, industry-level, firm level and within-country data. Research carried out on a global scale shows that, financial development's positive effect on GDP per capita growth comes through improving the efficiency of resource allocation and thereby productivity, rather than through its effect of investment volumes.

The report, "Making Finance Work for Africa" suggests a two-pronged approach to financial sector reform:

- Economic growth is the surest way to a substantial and sustained reduction in poverty in Africa; policy for long-term growth requires focusing on the larger and more formal parts of the financial system.

- Even while growth-enhancing policies are beginning to have their effect, improving the access of low-income households and micro entrepreneurs to financial services should become an additional central focus of financial sector policy.

Building and preserving an enabling environment for domestic finance to flourish is a goal on which all will agree; effective financial intermediation depends on tools to reduce the information asymmetries between provider and borrower that can restrict intermediation because of the associated adverse selection and moral hazard. Transparent financial statements are crucial for reducing screening and monitoring costs for lenders and thereby increasing the efficiency of resource allocation. Credit bureaux that give easy and reliable access to clients' credit history and both negative and positive information make borrower quality much more transparent, making it safe for lenders to lend to a wider range of customers with a satisfactory credit history. Policy reforms in Ghana to date have gone a considerable distance towards stabilizing the macro economy and removing incoherent administrative controls on wholesale interest rates. Among many other reforms which have been emphasized, a lot has been done to improve the regulatory and supervisory framework for banking. Other reforms are underway, including rationalization and clarification of laws, streamlining of court procedures, establishment of credit bureaux and movable collateral registries, training of financial professionals. What should follow?

Two distinct but complementary perspectives to the strengthening of African financial systems prevail in current policy discussion. Making Finance Work for Africa summarises these as the Modernist and the Activist perspectives. Both accept the importance of the overall enabling environment, but seek to look beyond these basics. Both perspectives have validity and an appropriate range of application. Misunderstandings and policy debates can often be interpreted in terms of a clash over which perspective is more relevant, more likely to be effective in meeting different dimensions of country needs.

Putting in place the infrastructures necessary for effective financial sector functioning requires a protracted period of modernization. Government has a central role in creating the enabling environment. Yet the modernist agenda must not over-reach itself through ill-conceived transplantation of overambitious structures from the advanced economies. And while

modernization is maturing, policymakers also need to be actively engaged in encouraging the numerous initiatives already being taken by financial market participants to reach a wider market. We must not forget the lessons of the past which would suggest that, in order to avoid counterproductive interventions resulting from weak governance, Government should support, but not take the lead in, implementing the activist agenda.

The modernist perspective concerns itself mainly with large scale finance--deepening the resource mobilization of the banking system, ensuring that banks want to and can safely onlend these resources; enabling productive formal sector firms to find the mix of equity and debt finance they need to grow, as well as sophisticated tools for risk management. The policy agenda associated with the modernist perspective focuses on the macroeconomic, contractual and information framework with the objective of reducing information asymmetries, improving legal certainty and lengthening investors' planning horizon. This agenda includes updating of law governing financial contracts and ensuring their proper and reliable enforcement through judicial reforms in order to ensure that property rights are clearly defined and enforceable, both in general terms and as they apply to specific modern financial instruments. It also focuses on defining and updating accounting rules and procedures to ensure that enterprise accounts are a reliable basis for investment and other financial relationships, as well as on improving systems of credit information sharing to allow borrowers to use their reputation as collateral. Increasing the predictability and stability of government policies as they affect the overall macroeconomic environment is also an important desideratum for the modernist, as systemic risk impedes the functioning of finance - even if integration with global finance can mitigate this problem.

Transplanting best practice is acknowledged as likely to take time, but any move in that direction is inclined to be seen as progress by the modernist. This is where the modernist may over-reach, and we would raise this as a useful area for reflection so as to ensure we avoid that outcome here in Ghana. Modernists sometimes neglect real world constraints. Modernization may seem low risk, but it can cause problems if introduced in an unfavorable environment. To take one example, often cited for developing economies not limited to Africa, emerging market stock markets, influenced by what was seen as best practice in advanced economies, may, through costs and pre-requisites, have created barriers to listed equity finance for many African firms that could have obtained it, if a more context-sensitive regulatory design had been chosen. Applied with a realistic attention to national context, though, the modernist agenda does help to build the foundations of an effective financial system for the long run. What the modernist perspective offers directly is modernization more than economic growth; but growth

comes with and as a result of successful modernization.

In contrast, the activist perspective focuses upon the need for special interventions to help correct the market failures. This approach encompasses restrictive legislation and the establishment of competent and politically independent prudential regulators to guard against weak, reckless or corrupt management of financial intermediaries which could cause their collapse. Protection of the consumer from predatory practices is also high on the activist agenda. Restrictive legislation on bank behavior and the establishment of competent and politically independent prudential regulators to guard against weak, reckless or corrupt management of financial intermediaries which could cause their collapse is part of the standard policy package in both advanced and developing economies these days, but it can easily be seen as part of the activist agenda. Indeed, as markets become more integrated and sophisticated, the modernist view among scholars has begun to emphasize market discipline in preference to regulatory discretion in bank regulation.

Finance at the large scale is provided in general by large and influential financial firms banks, insurance companies, pension funds, securities market specialists and so forth. If the provision of mainstream financial services in Ghana is to improve as to quantity and quality there needs to be healthy competition and the presence of strong, profitable financial firms. That certainly means that policy should create a favorable environment for doing financial business. But it does not mean that what is good for existing financial firms is necessarily good for the economy as a whole. In a well-balanced economy, it is the financial sector that serves the rest of the economy and not the other way around. This observation is crucial for policy design, as the political and economic power of major financial sector players may tend to tip the balance into policies that make financiers wealthy (regardless of their effectiveness) as distinct from policies that favour financial sector efficiency. A recent example of a major policy initiative designed to improve sector performance rather than please incumbent suppliers is the consolidation of the Nigerian banking system resulting from the increase in minimum capital. This ownership shake-up may not have been welcomed by many incumbents, and there is the risk that the high entry barrier represented by the new minimum capital could reduce competition. It is too early to pass judgment, but if the end result is reduced rent-seeking and greater professionalism by the elimination of numerous small banks it will have been a good idea. It is an interesting corollary that the impact of this policy reform is now being felt in Ghana as larger, well capitalized Nigerian banks extend their horizons and I think there is a consensus that the arrival of Nigerian banks in Ghana has increased competition in the

financial sector. In Ghana, as across Africa, there is a lack of long-term investable resources. The lack of long-term finance is partly a reflection of the long-term risks present in the economy and partly an endogenous response to the need for monitoring and recontracting. While pension funds and life assurance are natural providers of such funds, there is still a lot to be done to encourage the development of these sectors and for them to be more active in seeking out long-term uses for these funds. However, good governance of these funds needs to be assured, and that will be facilitated if there are active securities exchanges on which their investments can be priced.

The Ghanaian financial system could prospectively play a significant role in financing of infrastructure, whether by investing in infrastructure-related bonds, or by participating in the financing of public-private partnerships in infrastructure. Given their high capital intensity, long time to cost recovery and relatively predictable cash flows, infrastructure projects provide a natural investment opportunity for long-term savings. By financing infrastructure local institutional investors can help avoid reverse maturity transformation and improve the risk-return profile of their portfolio. Cedi financing of infrastructure may also be a better match for the flow of benefits or service charges resulting in reduced risk for the lender and a more predictable servicing burden for the provider or user of the infrastructure. Depending on the tariff regime, lower financing costs can ultimately translate into lower user fees. If a private-owned utility or PPP is involved, unsecured corporate bond issues and initial public share offerings by existing utilities can provide local currency financing for their domestic costs while equally developing capital markets through new investment opportunities. In addition, securitization of existing utilities' revenues could provide an alternative source of funding in capital markets with a robust legal framework. Investor confidence could be strengthened by an enhanced approach to the planning of public investment spending including: (i) a rigorous and transparent approach to macroeconomic trade-off between social expenditure and capital investment in infrastructure, (ii) systematic economic and financial cost-benefit analysis as a basis for project selection and prioritization for investment, (iii) targeting public investment to areas which cannot be financed by the private sector, (iv) institutional structures and capacity to analyze, structure and negotiate options for private participation and (v) a transparent and fiscally prudent approach to potential government support in PPPs, such as direct subsidies or guarantees. In addition, further progress in regulatory reforms is required to reduce regulatory risk and move towards long-term financial sustainability of infrastructure sectors. Another important area in which we might expect to see significant changes in the allocation of term capital is in the housing finance

sector. Even within Africa, Ghana lags well behind the leaders in terms of the provision of housing finance, which accounts for some 20% of GDP in Namibia and South Africa but less than 1 % of GDP here in Ghana. This is one more example of how innovation and change in financial markets can have tangible effects on the lives of ordinary Ghanaians. Studies we have carried out in other countries have shown that the availability of long term finance for house purchase can substantively increase access. Now there are many factors which influence the pricing of housing here in Ghana and so I will not venture to suggest exactly how important the effect will be, but we will look forward to a more developed capital market in Ghana providing long term finance in Cedis to enable Ghanaians, living and working here in Ghana, to purchase their own home. Full securitization may be difficult or at least premature in most African countries. Remittances play an important role in financing housing developments in Ghana. Linking remittances with functioning mortgage markets by leveraging them as equity in support of mortgage loans could play an important role in kick-starting housing finance in recipient communities. It should not go unmentioned that the extension of modern market-based land ownership structures in comparison with tribal or other conventional land tenure systems would benefit not only the residential mortgage market but also facilitate credit to the crucial SME sector.

Turning to this access of enterprises to financial services, if there is a single survey statistic which justifies an African development focus on finance it is the finding that more African enterprises report access to and cost of finance as a major constraint to operation and growth of their firms than do entrepreneurs in other regions of the world firms in Africa finance less investment with equity finance than firms in any other region

- most likely reflecting the underdevelopment of capital markets - and less investment with trade finance than firms in any other region

Across Africa, securities markets are largely primary markets with relatively little secondary activity. Ghana is among only eight exchanges in Africa with market capitalization in excess of 10 per cent of GDP, even though market capitalization has been increasing in recent years. At the same time, African stock markets, including Ghana, have been unable to retain the primary listings of their major companies. The largest company listed on the Ghana exchange, AngloGold Ashanti, has its primary listing in Johannesburg and is listed in six other exchanges; most of the trading in AngloGold Ashanti occurs on the New York Stock Exchange. Even Johannesburg is not a big enough market to retain the primary listings of

several of South Africa's largest companies, including the mining conglomerate Anglo American, the brewing company SABMiller, and the insurance giant Old Mutual, all of which have their primary listings in London. This shows that the context in which African securities markets are operating is one in which the larger companies will be looking abroad as well as to the home market. Perhaps an over-elaborate model of regulation has been adopted for these markets (the modernist model over-reaching itself), effectively precluding small issuers, yet failing to achieve substantial liquidity for larger issuers.

I would note here that while obviously the Ghana Stock Exchange should move with the times, and we at the World Bank are very pleased to be able to support its modernization and automation through the Financial Sector Reform programme of the Economic Management Capacity Building project, it is noticeable that the turnover on the GSE has been higher than that of the BVRM in Abidjan, which is automated. So hats off to the Ghanaian financial sector, but a worthy reminder that technology is useful, but not an end in itself.

On the topic of the BVRM, I should also flag that it remains something of a mystery how one company, Ecobank, listed in Abidjan, Accra and Lagos, can have three quite distinct prices. Perhaps the higher price for this stock in the Ghanaian market is a reflection of the unfulfilled demands of investors here, in which case this would be a signal to markets of the competitive challenge that will come with greater freedom to move capital across borders.

It is instructive in this context to see the extent to which consolidation of the larger European securities markets is being driven more by private than government initiative: mergers and takeovers between existing firms operating exchanges and related services have dramatically changed the nature of exchange based trading across the continent. The number of exchanges in Europe has halved as that in Africa has doubled. Now rationalisation between Europe and the major financial markets in the US and Japan seems to be on the cards. There is intergovernmental action in the EU to harmonize and coordinate regulation of these markets, but with exchange controls long-since removed, government action has tended to follow rather than lead market integration in this sphere.

Recent technological advances have made linking the operations of securities markets easier and it might be that by forming multi-country regional markets, existing exchanges could expand their volume of business and the number of market participants. The theoretical attractions are clear: larger markets are more likely to gain from the vertical and

horizontal integration of services and products. Regional securities markets could provide larger economies of scale and increase firms' access to debt and equity. From an investor's perspective, regionalization would theoretically offer opportunities to diversify risk by allowing investment in a wider range of instruments and debt and equity issuers. The development of larger markets would encourage the entry of emerging market funds, which provide access to a global pool of savings for equity issuers. There is no doubt that cross-border cooperation and technology transfer can be helpful, especially if this helps contain operating and regulatory costs. On the other hand, the inescapable fixed costs of establishing a simple, small trading platform are no longer very high. And cross-listing such as the recent Ecobank offering can allow issuers to access a wider pool of investors. Therefore the main operating advantage of integrating the functioning of securities markets is to improve liquidity on a hour-to-hour and day-to-day basis. But it is not clear how much would be gained in absolute terms along this dimension even by pooling all of the smaller African securities markets together: the result would still be a small and illiquid market. Without detracting from the reform efforts conducted elsewhere in the region, it is generally held that the success of the BRVM regional exchange headquartered in Abidjan has been modest so far. Cross-border investment using the market has been growing, but volumes are still small.

The Ghana stock exchange has seen a respectable number of new issues, 4 or 5 a year in recent years (although some years have been better than others and we have also seen some delistings) and we now have 31 companies listed; also we are also seeing some activity in the form of rights issues. But I have been looking a little at our records of the development of the GSE and I notice that ten years ago, in 1996, there were already 21 companies listed, so we have gained only one listing per year, on average, over the last ten years. Also I took a look at the trading volume on the GSE over recent days, and I saw that the volume in the last week has been about Cedis 500 million per day. Maybe this is a quiet time of year and not so representative, but looking back in the records I notice that in 1997 the average daily trading volume was over Cedis 600 million per day, and, back then, there were only Cedis 2,000 to the Dollar.

I would also note that when we carried out an assessment of stock exchanges across Africa, we found that Ghana is definitely amongst the top half dozen exchanges, the older exchanges which have been in existence for 15 years or more, which easily rank above the dozen or so exchanges which have been established more recently, some of

which are yet to see any trading. At the same time, however, we found that amongst those top 6 exchanges, Ghana ranked lowest in terms of "zero return weeks" which measures the percentage of weeks in which companies showed no movement in their stock price which is taken as an estimate of liquidity. This data suggested that on average, 70% of company share prices did not move in any given week. The paucity of securities and the lack of trading activity limits the markets' ability to provide a platform for price discovery and benchmarking other securities which means that prices on the exchange are unlikely to represent a reliable indicator of the true value of a block holding of the shares. Besides, most of the shares are effectively locked-up in controlling or strategic stakes and not available for sale.

In advanced financial systems, most of a pension fund's assets can be marked-to-market thereby providing interim evaluation of the quality of investment decisions. That is not possible with unlisted equities in a less-developed market. Perhaps that is why real estate, which is visible and easier to value than private equity or indeed large loans to unlisted companies, let alone more complex instruments such as asset-backed securities, has historically played such a major role in the investment portfolios of pension funds in Africa (including SSNIT, although it must be duly noted that SSNIT has decreased its investments in property from 31 % in 2000 to 11 % now). This is where organized securities markets can help anchor and benchmark investment strategies and contribute to the evaluation and maintenance of quality governance. It is easy to understand why a large investor such as SSNIT is reluctant to venture to far into a market which lacks depth, however, without leadership from major investors, the market institutions can not develop, nor the professional expertise that will promote product development, enhance governance and extend the pool of investors active in Ghana.

While I am confident that our friends present here today from the regulators and policymakers will ensure that this never happens in Ghana, care must be taken to ensure that too much emphasis is not placed on building costly regulatory regimes designed to ensure a high level of protection for the retail customer in the secondary market. Regulation represents a substantial upfront investment, partly in systems and infrastructure but mostly in processes, legislation, regulation and supervision. While the technology costs of a basic trading platform have fallen, the more substantial costs and administrative challenge of establishing a conducive operating

environment for an exchange have, if anything increased. These fixed costs make sense in a market with heavy volumes, but are not so easy to justify for a start up market. They lead to high costs which in turn limit volumes even further. Compliance costs are also potentially high.

Successful regulation requires a high degree of efficiency in regulation and governance. In the absence of a dependable environment (including accounting standards, supervision and enforcement) the investment in legislation, regulation and processes is stranded. The regulatory and judicial regime must be capable of identifying and punishing offenders, otherwise compliance is in fact low, regardless of the elegance of the regulatory framework. Furthermore, in practice, the main actual and prospective investors in equities and bonds in Ghana are likely to be relatively sophisticated and may not need or benefit much from such protection as the regulatory system can truly provide.

Market architecture for Ghana must be chosen on the basis of local needs and capacities. It may well be that many Ghanaian firms could be adequately served by a lighter regulatory approach along the lines of "second boards" in advanced economies. The emphasis would be on increasing primary market issuance more than on high-frequency trading efficiency. A lighter regulatory approach, one step beyond the private equity and "over-the-counter" markets, can work to an extent on the basis of *caveat emptor* with the sophistication of analysis resting with the investor. There would, of course, be regulations (for filing, disclosure, and corporate governance) but they would be designed with a light touch, and chosen in such a way as to be relatively easy to enforce. Some regulators, such as the British FSA, are already mandated to conduct a benefit-to-cost assessment of all new regulations and we have recently seen an initiative in the UK to halve the size of the financial market regulations through a focus on principles, which address sources of risk, rather than rules. We can also point to the significant success of the AIM market in the UK in attracting emerging market listings to London, particularly in the energy and mining sectors. It will be an important challenge for regulators in Ghana, and elsewhere in Africa, to remain competitive in an increasingly connected world, particularly as constraints on the international movement of capital are removed. The key is to adapt rules on corporate governance and disclosure in a "pragmatic and appropriate" manner, and to remove regulations that are unenforceable in the local environment. For larger companies able and willing to genuinely establish high governance and transparency standards, in order to be able to benefit from a lower cost of capital and to reach a wider international investor clientele, listing on advanced markets such as Johannesburg or London represents a

viable alternative. In an increasingly connected world we are now beginning to see the migration of second tier firms to the larger securities market hubs. As such, it will be important to offer most firms a low-cost market at home. Their offerings on such a market, albeit more lightly regulated, would still appeal to local institutional investors who will expect a return commensurate with the risks that are being taken. This is undoubtedly a topic which will require careful consideration; it is not that the tougher requirements are useless - indeed, tighter listing requirements and regulations can increase market liquidity and prices, as has been shown for larger markets. But they result in a compliance cost barrier which shuts out too many African firms that could benefit from outside equity.

We have recently seen the listing of Government Bonds on the GSE, and we congratulate Government, the GSE and the Bank of Ghana for this initiative and the technical achievement that this represents. But where are the corporate bond issues? In fact the number of corporate bonds listed on the GSE has steadily decreased so that now we only have one corporate bond outstanding, and that was issued two years ago. I have been told that more are in the pipeline, and we have seen private placements to SSNIT, but without in any way detracting from the achievements made to date by Government, the SEC and GSE, it will be important to maintain the objective focus of capital markets development, that of mobilizing capital for private sector growth.

In this consideration, it is impossible to ignore the pivotal role of the pensions saving sector in Ghana. SSNIT has become far and away the largest financial institution in Ghana, some 60% larger than the largest bank, with assets now in the region of Cedis 10 trillion, SSNIT is something around 10% of GDP. There have been great improvements in the management of SSNIT in recent years and there has been more appreciative observer of this improvement than the World Bank. In terms of what is "real" in financial markets, the pension sector occupies a very important role. Not only is SSNIT large, but it is at present almost the only source of long term "risk" capital in Cedis. Banks can lend, but SSNIT can invest. The rate of return obtained by banks, the success of their investment strategy, is primarily realized by the banks shareholders (SSNIT among them), the interest rate received by savers from their bank deposits is largely determined by monetary policy; the ability of SSNIT to pay pensions, without calling on Government support, is determined by the success of its investment strategy.

While I am not suggesting that everyone in this room should lie awake at night worrying what

SSNIT is doing with its investments, this issue is perhaps more acute for that smaller number of people looking to raise term capital for their ventures. In our institution we are repeatedly reminded of the value of diversity of opinion, while in Ghana we think of the twin pillars of capital markets, capital represented by SSNIT and markets, represented by everyone else.

Government has recently released its White Paper on pension sector reform, which envisages substantive changes for the allocation of capital to the markets and undoubtedly you will all have plenty of opportunity to discuss and debate those proposals in the near future. At the same time as we congratulate SSNIT for the substantive improvements made in recent years, we applaud Government for its focus on the value of pension reform in Ghana.

As well as directly investing, pension funds and others with long-term resources should be willing purchasers of packages of mortgages or mortgage-backed bonds or other long-term instruments arranged by or through other intermediaries who do not themselves have long-term resources such as commercial banks or investment banks. Indeed, the scope for the investment banking skills needed to bridge the gap between pension funds and ultimate borrowers is considerable.

The conclusion arrived at by Making Finance Work for Africa is that it is a pragmatic and context-sensitive combination of *both* modernism and activism is required. Activism is most effective when it achieves its effects by realigning the incentives of the relevant market participants. It should be attempted only by entities which have adequate governance. In terms of policy outcomes, we would point to the desirability, and attainability, of a financial sector delivering a more appropriate, affordable and sustainable package of the services needed by all levels of Ghanaian society. This means more financial intermediaries, backed by solid and reputable owners and with skilled management, and competing energetically and imaginatively for business on the basis of strict attention to cost-control and knowledge of local market and conditions. It also means that the environment relevant to sound finance - the supporting infrastructures, legal and informational, for property rights that can support financial contracts.

Making Finance Work for Africa is something like 180 pages; here I have only attempted to capture a small portion of its wisdom and its messages. In closing I would like to summarise some of its major messages for capital market development and add a simple thought of my

own.

First, the importance of the ability to be innovative and to design policies that are relevant to national needs without frightening away investors and market participants from overseas.

Second, the value of a vibrant domestic securities market (this was also one of the material lessons of the Asian Financial Crisis), capital markets are much more than the spare wheel on a car, they are an important vehicle for capital allocation and the management and mitigation of risk.

Third, the value of an active public debate among financial sector specialists and the policy-aware public. It is for this reason that we and the other Development Partners are very pleased to be able to support Securities Week through the Government's Financial Sector Reform programme.

Lastly, my own recommendation for all of you gathered here today who will be the people responsible for the successful implementation of this exciting reform programme: keep it real and keep it relevant. Keep it real by making sure that reforms and investments in the development of the market are well structured and planned, nothing will slow the broad pace of reform faster than ill-conceived and expensive experiments which fail to produce results. Most important, keep it relevant. In my discussion here this evening I have tried to emphasise the important connection between the work that you all do and the future prosperity of the average Ghanaian. A successful securities market is one that benefits every Ghanaian.

Thank you for your attention.

