Architecture of Equity Markets: The Abidjan Regional Bourse

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As world financial markets integrate, *where* equity transactions occur still matters. Place matters because equity markets have varying regulations concerning disclosure, custody, and liquidity, to name just a few examples. Moreover, while each national market values its equity securities similarly, vast differences persist among markets, making universal prices for similar assets difficult to determine. If we understand "globalization" to represent capital flows across borders, and "integration" to mean the ability to buy and sell shares of stock interchangeably across borders, global equity markets are not as deeply integrated as other types of capital markets.

Equity markets in developing countries are even less integrated than their counterparts in developed countries because of poor credit ratings, high and variable inflation, exchange-rate controls, and lack of rigorous regulatory and accounting frameworks.[1] The transnational holdings that do exist are overwhelmingly the direct investments of large firms to control facilities and service markets outside their home countries (that is, foreign direct investment, or FDI). These holdings are not necessarily traded publicly in the host country. Nonetheless, a rash of stock exchanges appeared in the developing world in the 1990s; ten of the eighteen exchanges in Africa alone have appeared since 1988. Although these exchanges emerged as part and parcel of broader financial liberalization projects, academic literature on the broader projects has tended to focus on preferential credit allocation and its concomitant liberalization, and has not investigated specifically the role

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1. Bekaert 1995.

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developing country governments play in equity market creation and share supply.[2] The element of ownership (and the possibility of control) makes equity investment fundamentally different from both capital market debt instruments and bank lending for countries in the periphery of the world economy.

I address this lacuna in the literature by asking two related questions. First, why would a firm choose to list its shares on a small, illiquid, peripheral stock exchange rather than on a highly capitalized, liquid, core exchange? I propose that state activity, rather than the costs of equity capital, primarily explains firms' listings on peripheral stock exchanges. Second, why would a state support the creation of a local stock exchange despite higher transaction costs that may lower the rate of return to individual investors and despite the reluctance of many transnational corporations to list shares? I propose that these new stock exchanges do not function in the same manner as their counterparts in more advanced economies.

John Zysman offers a typology of three distinct financial system structures—capital markets with resources allocated by prices established in competitive markets, credit-based markets with critical prices administered by governments, and credit-based markets dominated by financial institutions. Yet these new markets appear in financial systems whose resources are increasingly allocated by public-sector international lending agencies and foreign firms, at times together with and at times independent of the state.[3] Hence, these markets do not exactly fit Zysman's typology because a state creates a new stock exchange within this international structure not as a vehicle to raise capital but to reserve a role for local capital as the state disengages from active management of the firm. Thus the state and the market do not act in opposition to each other; rather, the state creates a local market to allow its citizens access to ownership of local firms despite the fact that control of many of these firms lies overseas.

To explore the issues attached to creating equity markets in developing countries, I consider evidence from the Bourse Regionale des Valeurs Mobilieres d'Afrique de l'Ouest (BRVM) in Abidjan, Cote d'Ivoire. The Abidjan Bourse is a particularly good case because it is a growing regional stock exchange, yet one where non-Ivoiriens (and non–West Africans) control an overwhelming percentage of the publicly listed firms. Moreover, it adds a case study of an African financial system to a body of literature lacking many examples from this region of the developing world.

While many studies of the political economy of global finance have questioned state authority vis-à-vis the recent surge in international capital mobility, this study considers the state and domestic stock markets as complements in resolving tensions

2. See Pauly 1988; Maxfield 1990; Loriaux 1991; Woo 1991; Haggard, Lee, and Maxfield 1993; Sobel 1994; Haggard and Lee 1995; Loriaux et al. 1997; and Perez 1998. Two important exceptions that deal with equity finance are Maxfield's consideration of the political consequences of the global rise in private capital flows for emerging market countries, and McCulloch and Petri's depiction of equity finance in East Asia. See Maxfield 1998; and McCulloch and Petri 1998.

3. Zysman 1983.

between smaller, more permeable states and forces outside these states.[4] Thus, the fault line does not lie between state and market but between the state with its domestic market and *external* political forces (such as donor states and international financial institutions) with their accompanying international markets.

The article proceeds in four sections. First, to establish why a government's creation of a local stock exchange is paradoxical in certain circumstances, I consider issues related to where firms list shares. Second, I draw from the literature on the political economy of international finance to analyze potential solutions to the paradox. Third, I offer evidence from the evolution of the BRVM to support my proposal. In the final section I explore generalizations that can be drawn from the case study.

States, Territories, and the Problem of Where to List Shares

The contemporary world economy gives firms a certain degree of choice about where to raise equity capital. A firm can list on the exchange in its home country, it can offer shares on an exchange elsewhere (cross-listings), or it can offer international depository receipts (IDRs) for its shares by placing its shares in a bank. The bank in turn issues receipts tradable on or off other world exchanges like the New York Stock Exchange or Nasdaq.[5] Firms make this decision within a bundle of other decisions about how to finance operations, and it is contingent on such variables as why the capital is being raised, what type of firm is raising the capital, the level of exchange risk in the operation, and the nature of the firm's corporate culture.

Therefore, before a firm decides *where* to list shares of equity securities, it must first decide *how* to raise capital. Overall, the choice of instrument depends on the cost of capital in different forms (for example, bank loans, bonds, and stocks), the preferences of the company's management for debt or equity, and an evaluation of the advisability of additional debt or equity, which affects the cost of capital in different forms. Firms generally issue shares when they sell equity on the market for the first time (an initial public offering, or IPO) or when they seek to finance expansion without taking on additional debt. These preliminary decisions are further complicated when the firm in question is located on the periphery of the world economy because the availability of financial instruments is not as diverse—in fact, long-term capital may simply not be available. In the past, when transnational corporations listed shares on peripheral exchanges, they generally sought to provide a quotation for the benefit of local employees and to gain appropriate recognition as

4. For theorists who argue that the surge in international capital mobility mitigates state authority, see Sassen 1991 and 1996; Strange 1996; and Germain 1997.

5. For an introduction to the regulatory environment for large international equity offerings in developed markets, see Brown and Paley 1994.

a transnational firm. Usually, though, such listings were expensive, and little trading occurred.[6]

In peripheral areas of the world economy, the state plays an important role when large firms, either local or foreign-owned, turn to a local stock market as a source of capital. In cases where a state attempts to "force" foreign-controlled companies to make a public offering of securities in a developing country to diversify ownership, management control generally remains with the foreign firm because local ownership tends to be diffuse and unorganized. Nonetheless, states seek wider ownership because it diminishes local criticism of foreign investment and allows them to more freely approve new, foreign-owned projects that will attract technology, management skills, and capital. Furthermore, because the proceeds of public offerings are almost always used locally, drain of local capital is usually not a problem.[7] Hence, capital remains in the country, but control of the capital is in foreign hands.

Large firms indigenous to the semi-industrial areas of the world are somewhat different from their counterparts in the core. In terms of industrial structure, indigenous firms tend to be conglomerates that arise regardless of cultural or institutional contexts. For example, such widely diversified groups comprise the leading firms in India, the Republic of Korea, Mexico, Brazil, and Argentina. Of the thirty-one largest private industrial enterprises in semi-industrial countries in 1987, families controlled twenty-seven.[8] Such firms are generally reluctant to raise capital by issuing equities because they fear the accompanying loss of managerial control and disclosure requirements.[9] Moreover, their growth has resulted not from takeover activity, as is the case for conglomerates in the United States, but rather from organic growth in unrelated fields. When firms in developed countries go to the stock market, their intent is generally to acquire an existing corporation and its assets. When firms in developing countries go to the stock market, it is generally to finance new investments.

The state, therefore, plays a role in the decision to offer shares on an emerging exchange in all three categories of sources of shares: large indigenous firms financing new investments, the subsidiaries of foreign corporations either seeking capital or diversifying ownership, and government privatizations. For example, as early as 1972 the Korean government selected certain Korean firms and forced them to go public using several measures, including a corporate tax-rate hike and tightening the audit and supervision of bank credit for all nonlisted firms. Other such measures followed throughout the 1970s.[10] Robert B. Dickie's study of the Jakarta Stock Exchange similarly points to the role of the state in share supply for both local

6. Smith and Walter 1997, 327.
7. Dickie 1981, 179.
8. Incidentally, many large firms in the United States remain under the control of the founding family. See Singh 1995.
9. See Glen and Pinto 1994; Singh 1995; and Carter, Barger, and Kuczynski 1996.
10. Woo 1991, 174.

and foreign firms.[11] He points out that in the 1970s, many developing country governments attempted to develop stock markets not just to mobilize capital for industrialization by large local firms, but to further the political goal of diversifying ownership of foreign companies.

Although comparing the prices of similar securities in different markets would be difficult because accounting and valuation standards vary so widely, evidence does exist that transaction costs for equity issues in developing markets are significantly higher.[12] Moreover, disparities in clearance systems and procedures (to ensure participants in the transaction that they have a deal) result in over 40 percent of all international trades failing to settle by the designated date (that is, the money is not exchanged as planned). This failure rate far exceeds the rate for intra-national trades, albeit most international trades end up settling at a later date.[13] To compensate for this risk, participants will choose to deal in their own markets, cutting arbitrage pressure to ensure that similar assets bear the same price. Hence, international equity markets fail what Van Zandt terms the "test of one price," wherein a borrower or its underwriters could approach all potential investors regardless of their residence, and a truly *integrated* market for equity securities would exist.[14]

Despite this evidence of the difficulty of issuing shares in peripheral equity markets, the preferability of developed exchanges, and the higher costs associated with developing exchanges, the number of "emerging stock markets" increased dramatically in the 1980s. In 1970 few developing countries had securities markets. Only thirty-two had stock exchanges, few of which actually functioned. Only two had embryonic securities commissions. By early 1992 the situation had changed dramatically. Over fifty developing countries had securities markets and twenty-one had securities commissions.[15] By late 1993 44 percent of all listed companies in the world were listed on emerging stock exchanges. The trend has been reinforced by technological improvements in television, fax machines, and computer-based analytical and data communications, which facilitate securities market and economic efficiency.[16] Therefore, the new pattern of foreign finance emphasizes direct funding of developing country firms rather than sovereign borrowing, which had been the dominant approach for many years.

Nonetheless, while many developing states have established stock exchanges since the mid-1980s, large volumes of capital inflow through these exchanges have eluded many parts of the developing world. Although annual net private capital inflows from 1990 to 1997 were larger than those preceding the 1982 debt crisis, they were also more heavily concentrated. Five countries received more than 50 percent of total inflows, and a dozen countries received 75 percent. Of the 166

11. Dickie 1981.
12. Bekaert 1995.
13. Van Zandt 1991, 68. Van Zandt cites Humphreys' statistics. See Humphreys 1989.
14. Van Zandt 1991.
15. Gill 1993, 47.
16. Ibid.

developing states, 140 states collectively received less than 5 percent of total inflows.[17] The increasing number of stock exchanges since the mid-1980s presents an important question for international relations scholars attempting to explain and predict state behavior: Why would a state promote a local exchange when the transaction costs lower the rate of return to investors, firms are reluctant to list shares, and international net private capital flows across many of these exchanges are so low?

Why Create a Local Stock Exchange?

A transfer of a significant number of state-owned assets to the private sector has been coterminous with the growth of bourses around the world since the 1980s, regardless of the level of economic development or the political philosophy of the state in question. The motivations for these privatizations are as varied as the states themselves. Similarly varied are the methods used to allocate the assets previously owned by the state; for example, the state can sell the assets to management and employees, to domestic investors, or to foreign investors or firms; or it can distribute vouchers for shares equally among citizens.[18]

Countries in the periphery of the world economy are subject to a different kind of pressure to privatize state assets than their more developed counterparts. Many make public spending decisions with the involvement of public-sector international financial institutions, particularly when the private sector is unwilling to extend funds. Public lending from the International Monetary Fund (IMF) and the World Bank generally includes conditionality requirements wherein privatization of state-owned assets figures prominently. Lending from other sources generally involves cross-conditionality with the World Bank and the IMF.

Analysts in the literature on Africa have characterized a state's acceptance of these conditionality requirements as evidence of either the public-sector institution reinforcing the state's previous disposition to reform, as the public-sector institution imposing its will on the state, or as the public-sector institution "buying" reforms with the price of a loan.[19] Analysts generally concur, however, that outside pressures to reform play an important role in African liberalization and privatization projects.

Given this overall external pressure to privatize state-owned firms, small developing states must choose how to enact the necessary reforms. The context of the world market for equity securities certainly shapes which choices are available.

17. The twelve recipients of the largest net private capital flows from 1990 to 1997, in descending order, were China, Brazil, Mexico, Thailand, Indonesia, Korea, Argentina, Malaysia, India, Turkey, Hungary, and Russia. Lopez-Mejia 1999, 28.

18. For a discussion of various privatization strategies employed in Eastern Europe, see World Bank 1996.

19. Gordon 1993.

Nonetheless, domestic political dynamics prompt peripheral states to choose to create local stock markets even when other modes of privatization might be more economically efficient.

Market Access and Domestic Politics

Once a state has decided to sell an asset publicly, it confronts an emergent two-tiered market structure for shares. The participants in the first-tier market are large, credit-worthy multinational borrowers from all countries and sophisticated institutional investors. The second tier comprises highly regulated local or national markets with significant pools of capital wherein investors will rely on the implicit insurance provided by national regulations. While the cost of shares in such second-tier markets is higher, it is offset by the protection that regulation provides and by the higher expected returns that less credit-worthy issuers must offer. [20]

This market shapes actors' preferences, because in such a world market for equities, market access is by no means equivalent for all investors and issuers. In terms of market regulatory barriers, states formulate and apply rules to promote a plethora of goals that reflect government judgments about the social dangers or costs of the operation of unfettered securities markets. Countries generally aim to insulate their citizens from the international transactions that occur on their soil.[21] The lack of integration means that explanations for the growth of emerging market exchanges must consider the reality that a state that creates and encourages an equity market, even while losing control of the capital raised there, provides *access* to equity markets on behalf of its citizens that would otherwise not exist, given the broader institutional structure.

To put it another way, when a state privatizes a parastatal and lists shares publicly, it usually does not have a choice between offering shares in the first tier or the second. Participants in first-tier markets (such as Nestlé or Shell) do not offer shares of both the firm and its subsidiaries on world exchanges. A state can either sell all of its shares to a multinational, in which case the former parastatal would then trade as a percentage of the firm in the first-tier market (a different security altogether), or it can sell a controlling bloc of shares of the local concern and list a percentage of the remainder locally (that is, in the second tier). However, to list the shares locally the state must promote a stock exchange and thus create lower-tier market access for its citizens, if such an exchange does not already exist. Hence the global market for equity securities creates an incentive for individual states to create and promote local exchanges, despite the problems associated with them, because many equity securities created from government privatizations would not exist without local exchanges.

Attempting to resolve the contradiction between structural and domestic forces, Andrew C. Sobel groups explanations for convergence in security market liberal-

20. Van Zandt 1991.
21. Dickie 1981.

ization into two categories: "outside-in" and "inside-out."[22] Outside-in explanations attribute change to systemic conditions that influence all states, such as new technologies, communications, and data processing; a variant of this approach stresses foreign policy preferences wherein one government's officials exert influence to pressure another government to liberalize market access. Sobel himself concludes that the process is best explained by inside-out, or domestic, considerations because such strong evidence exists of persistent national distinctions and incomplete convergence.

In fact, much of the literature on the political economy of international finance reasserts a strong role for the state and domestic politics in determining outcomes like market liberalization. Louis W. Pauly argues that banking politics remain an essentially domestic political concern; Paul N. Doremus, William W. Keller, Louis W. Pauly, and Simon Reich likewise argue that transnational corporations retain distinctive national traits.[23] Stephen Haggard and Sylvia Maxfield, in their study of credit markets in developing countries, argue that economic crises are an important component of reform, as domestic groups that stand to benefit from market liberalization press for change.[24] Even theorists who attempt to combine internal and external sources of liberalization, such as Eric Helleiner, who views financial globalization as the result of structural and ideational factors,[25] and Michael Loriaux, who views French liberalization as the result of the structural collapse of Bretton Woods,[26] stress the central role of government policies in the process.

While much of this literature focuses on the importance of domestic policy dilemmas and distributional debates to explain developments in the securities markets, it is heavily concentrated on states such as Britain, Japan, and the United States that are relatively less permeable to global influences than developing states. Nonetheless, domestic political explanations complete the picture with an explanation for *what is sold* on the local exchanges, that is, share supply. Indeed, the world market may create incentives for states to develop local exchanges; however, share supply from government privatizations in countries complying with the conditionality requirements of international financial institutions differs from share supply from privatizations associated with the collapse of communism in Eastern Europe, and from share supply associated with government liberalization of access to existing securities markets in some Latin American and Asian countries. Therefore, the very mix of outside-in and inside-out factors varies, depending on the state in question and its relationship with international lending authorities.

22. Sobel 1994. Cohen points out that Sobel uses Waltz's terms "outside-in" and "inside-out" yet fails to acknowledge the approach pioneered in Waltz's *Theory of World Politics*. See Cohen 1996, fn. 6; and Waltz 1979, 63.
23. See Pauly 1988; Pauly and Reich 1997; and Doremus et al. 1998.
24. Haggard and Maxfield 1993.
25. Helleiner 1994.
26. Loriaux 1991.

The Argument

The argument offered here proposes that structural institutional characteristics (the two-tiered structure of the world market for equity securities) create interests for states that do not have local stock exchanges in developing such exchanges. However, the financial products offered for sale result from the domestic political economy of the state in question. In some cases, outside actors such as international financial institutions play a direct role in these domestic political processes through their structural-adjustment lending activities. In the African cases, this role has prompted some analysts to conclude that international financial institutions have been the main conduit for the diffusion of ideas about economic liberalism.[27] However, even in cases where the donor community took the leading role in setting the agenda for liberalization, other factors have motivated economic reform in conjunction with international financial institutions. Chief among these is the fact that economic decline has weakened the political payoffs of what Thomas Callaghy terms "crony statism," leading to agreement among African elites on the need for reform, albeit not full consensus on its content.[28]

When share supply results from reform, it thus results from a bitterly contested terrain of public policy.[29] Securities offered for sale on new or previously dormant exchanges overwhelmingly result from the initial public offering of previously state-owned enterprises. The decision to privatize a firm results from domestic political processes associated with a privatization committee. Depending on the state in question, outside actors may play an influential role on these committees, but their role is not generalizable. Moreover, the committee may decide to offer a noncontrolling bloc of shares on a local exchange, which creates a degree of liquidity but does not qualify the overall financial structure as resembling any kind of institution Zysman depicts.[30]

Although the picture of institutional design preferences results from more sociological-structural considerations, the picture of what is for sale results from the aggregation of microlevel behaviors or interests. What interests do actors have in offering shares on local stock exchanges? In working to create a domestic equity market, a state retains seigniorage over the currency used to conduct transactions, opens the possibility for future long-term capital markets, retains its ability to set exchange regulations in IPOs and later transactions, and creates market access for its citizens (many times, elites) who will subsequently participate in the stream of income from shares.[31]

27. Gordon 1993, 106.
28. Callaghy 1990.
29. Gordon 1993, 104.
30. Zysman 1983.
31. Cohen 1998. Seigniorage is defined as the excess of the nominal value of a currency over its cost of production. It is thus an alternate source of revenue for the state. Needless to say, membership in a currency alliance like the West African Monetary Alliance dilutes seigniorage and makes members less

The argument that the emerging market state promotes a local stock market to carve out financial market access for its own citizens in the face of privatizations does not imply that the state *replaces* direct controls over firms (either through tight regulations on multinational corporations or through direct ownership of firms through parastatals) with stock exchange regulations. The argument is only meant to apply to states whose financial situations and arrangements with international lending authorities have already ruled out continued ownership or stringent regulations as a course of action. This is the case in, for example, many African states whose arrears on foreign obligations would categorize them as in a "crisis."[32]

In the following section I show that the Ivoiren state originally created the Abidjan Bourse as a means to disperse ownership of large firms in Cote d'Ivoire. However, the dramatic increase of share supply in the 1990s involved elites, foreign capital, and international financial institutions pursuing their interests in the face of an economic crisis. The manner of state disengagement from economic activity does not signal a switch from credit-based financial institutions to capital market-based ones; rather, the arrangement in the region is entirely separate. The state, and its corresponding capitalist elites (who in this case were highly intertwined), created a market not as a rival to the state, but as a complement to its power. The broader financial institutional structure in the region and the world completes the picture of state and domestic market as complements. These broader institutions set the agenda for the regional market and for the concomitant transformation of the Abidjan Bourse.

The Case of the Bourse Regionale des Valeurs Mobilieres d'Afrique de l'Ouest

Background

Cote d'Ivoire and the other French colonies that later formed the West African Monetary Union did not issue individual colonial or national currencies. Rather, note issuance in the West African Federation was transferred from a commercial bank to a public institution in 1955. In 1959 this institution, located in Paris, was named the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO); in 1962 it took on the wider functions of a common central bank serving several African countries. The notes issued by the BCEAO, the CFA (Communaute Financiere Africaine) franc, have fixed parity with the French franc (and currently the euro),

insulated from each other. However, for the alliance as a whole, membership reduces exposure to foreign influence.

32. When the Non-aligned Movement compiled its figures in 1992, average African arrears were 84.5 percent, well above the 20 percent being used as a benchmark for "crisis" status. See Non-Aligned Movement 1994.

and their convertibility is guaranteed by an arrangement between the French Treasury and the Central Bank of West Africa.[33]

Keeping close financial ties to France through the monetary system, these states likewise did not develop local securities markets. Some colonial and postcolonial firms did, however, list shares on a "second board" of the Paris Bourse. Transnational corporations were active in West Africa despite the lack of local stock markets. For example, the French Nestlé Company signed an agreement with the newly independent government of Cote d'Ivoire to build a factory in Cote d'Ivoire in 1962.[34] Highly successful, the plant has expanded several times since then, and Nestlé Cote d'Ivoire currently operates two factories and a research and development center in Abidjan. Nestlé also operates a wholly owned subsidiary in Senegal.[35]

Among the states in the monetary union, only Cote d'Ivoire eventually developed a national stock exchange. Thus the eventual regional exchange differs from other examples of financial market integration in two important respects. First, the states involved (except Cote d'Ivoire) agreed to create a regional market without having created national markets. Second, economic integration followed the monetary union, which was the opposite of the trajectory from the European Common Market (integration) to the euro (monetary union). Since Cote d'Ivoire developed the only securities exchange in the region, I first address the issue of share supply in Abidjan; I then turn to the issue of institutional creation of a regional market in 1998. Finally, I consider evidence that supports the thesis that share supply through privatizations benefits Ivoirien elites who gain access to securities they would otherwise not have, yet the state's interest in the institutional structure originates in the two-tiered world market for equity securities. Therefore, the states involved use domestic markets as complements, and not as rivals.

The Abidjan Bourse: Share Supply

The Ivoirien government opened the original Bourse des Valeurs d'Abidjan (BVA) in 1976, making it one of the older exchanges on the continent. As with many other exchanges created in the 1970s in the developing world, the government opened the stock exchange to encourage foreign companies to sell shares to Ivoiriens. Public officials and employees accounted for 60 percent of the buyers, and private businesspeople accounted for only 20 percent. Within a couple of years of the

33. The two regional central banks in the zone maintain operations accounts at the French Treasury where each deposits two-thirds of its foreign exchange reserves. Thus, while France is not a member of the CFA franc zone, it holds considerable influence within it.

34. "French Nestlé Company" refers to the French subsidiary of Nestlé, a transnational corporation headquartered in Vevey, Switzerland. Incidentally, most multinational corporations in Cote d'Ivoire are managed by subsidiaries in Europe (or France), regardless of where the multinational itself is headquartered.

35. See Nestlé 1998; and Bourse des Valeurs d'Abidjan 1996.

exchange's opening, 6,000 Ivoiriens had purchased shares.[36] Cote d'Ivoire's history complicates precise distinctions between "foreign" and "domestic" capital because many French capitalist families have been living there for generations. These "French Ivoiriens," unlike other foreigners, are less likely to repatriate profits or divest during economic hard times. Many joint ventures are between these French Ivoiriens and indigenous Ivoiriens.[37]

The exchange's contribution to the growth of Ivoirien capitalism was limited, however, since capital raised there went mostly to foreign firms. Ivoirien-owned firms sold their shares outside the exchange, giving the bourse a distinctly "foreign" character, even though it was created to indigenize capital. None of the foreign-owned corporations listing there offered enough shares to transfer majority control into the hands of Ivoiriens. In fact, neither the bourse nor private banks played much of a role in the state capitalist economy. Instead, the state dominated the financial sector by generating revenue from taxation, contributions to the national employment insurance fund, and surplus from the country's marketing board that boomed during the 1970s; in turn the state lent this money to the Ivoirien bourgeoisie.[38]

Despite the foreign character of the bourse, it fit well within the broader Ivoirien development strategy. At the end of its colonial period Cote d'Ivoire, unlike other African states, had a small bourgeoisie. Nonetheless, the economy was never autonomous or internally generated. In many instances from 1960 well into the 1980s, the Ivoirien bourgeoisie who came to power hired French administrators to serve in the government. Moreover, throughout its history, Cote d'Ivoire has been connected to its neighbors through its exports, labor migration, and the franc zone.[39]

Prior to independence, the Ivoirien industrial sector consisted of only a few small firms engaged in transforming local products. From 1960 to 1970 industrialization began with the creation of industries oriented toward producing goods to satisfy internal markets. After 1970, this import-substituting development strategy gave way to an export-led growth strategy focused on agri-industries. A form of "state capitalism" emerged wherein Ivoiriens accommodated foreign capital. Although Cote d'Ivoire followed a liberal approach to economic development, the government was deeply involved in almost every aspect of the economy, as in the French *dirigiste* tradition. Hence, the government constructed a major parastatal sector.

The financial sector followed such French *dirigiste* traditions of heavy state involvement. The state promoted economic development through three main institutions: the Fonds National d'Investissement (FNI), the Societe Nationale de Financement (SONAFI), and the Caisse Autonome d'Ammortissement (CAA). FNI is a public agency under the jurisdiction of the Ministry of the Economy and

36. See Rapley 1993, 104; and Calamanti 1983. Although this article only discusses the stock market, bonds are also listed on the BRVM, as they were on the BVA.

37. Rapley 1993, 84–87. For purposes of this study, however, French Ivoiriens are considered "foreign" according to their classification by the BVA/BRVM.

38. Ibid., 106.

39. Ibid.

Finance. It was funded from 1963 to 1976 by an annual surtax of 10 percent on certain direct taxes. In return, each contributor to the fund received nontransferable, nonnegotiable registered certificates that could be used to make investments governed by a special set of rules and approved by the Comite d'Agrement du Fonds. Certificates not used were converted into forty-year government bonds at a 2.5 percent interest rate. The coercive nature of the surtaxes mobilized savings; from 1971 to 1976 direct investments from FNI amounted to 12.7 percent of gross capital formation. Nonetheless, the low return and liquidity of available securities failed to attract investors to securities markets.[40]

SONAFI, a state-owned institution, was created in 1963 to promote economic development, indigenize production systems, and spread securities investments. It uses its financial means to purchase shares and to sell them to national businesspeople. The CAA performs two functions. It accepts public-sector deposits and their investment in short- and long-term credit, and it manages the public debt by floating and servicing bond issues and converting FNI certificates. As mentioned earlier, private banks contributed very little to the Ivoirien financial boom in the 1970s; however, corporations with some foreign ownership could sometimes turn to foreign banks for loans.[41]

The Ivoirien bourgeoisie, comprising only about 1 percent of the population, was nonetheless a formidable influence on the state apparatus. Many of the ministers in the national cabinet (25–40 percent) have either been prominent capitalists or come from prominent capitalist families. Until 1980 almost one-third of the country's mayoralties were held by members of these same families. Almost 40 percent of the country's major Ivoirien-owned corporations had some form of direct access to the upper echelons of the state.[42] Given this degree of interpenetration, it is not surprising that 60 percent of the initial purchases of shares on the BVA were public-sector officials and employees.

By the late 1970s, all of the top industrial firms in Cote d'Ivoire were owned by the state or by foreign capital; Ivoiriens owned minority interests in many foreign firms. This situation changed when the commodity price boom ended in the late 1970s, and coffee, cocoa, cotton, and petroleum prices plunged. At the same time, the French franc appreciated strongly against the currencies of the other major trading partners in the CFA franc zone, further weakening Ivoirien (and the rest of the zone's) competitiveness. High labor costs and large domestic and external payments arrears rendered Cote d'Ivoire unattractive to foreign investment despite the advantage of stable prices and exchange rates.

The Ivoirien government had borrowed to invest in state enterprises, and these companies failed. By the early 1980s the government was forced to continue borrowing to sustain spending levels; Cote d'Ivoire was one of the first states to receive a structural adjustment loan from the World Bank in late 1981. Nonetheless,

40. Calamanti 1983, 98.
41. Rapley 1993, 106.
42. Ibid., 53–54.

by 1987 a significant liquidity crisis resulted. In 1989 the government cut the price paid to coffee and cocoa producers and introduced other austerity programs. The government also slashed public-sector positions and reduced salaries. Thus, a group of young Ivoiriens whose interests had been divided between business and politics gradually turned to business full time and purchased shares of firms with the intention of taking managerial control. Ivoiriens acquired majority ownership of most of the corporations they bought into. However, the larger the firm's size, the lower the likelihood that Ivoiriens held the majority of shares.

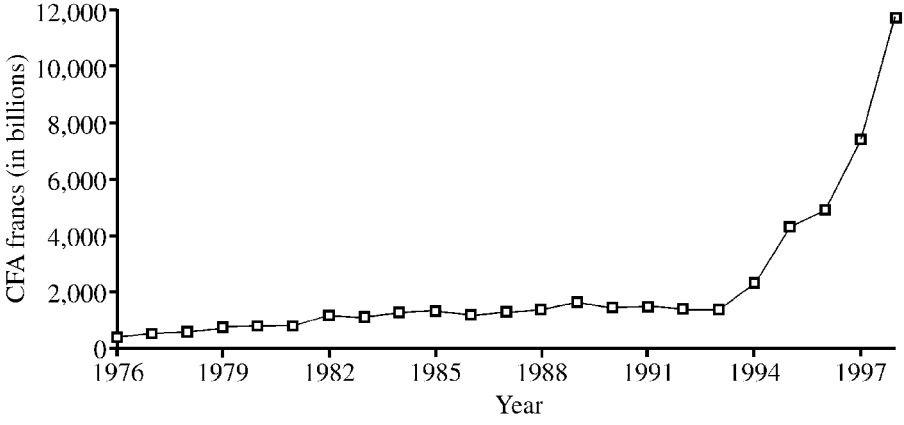
Given the country's economic problems, lending was highly restricted and loan rates were extremely high (18 percent). In 1994 the central bank devalued the CFA franc by 50 percent. Some flight capital returned, and liquidity within the system increased substantially. However, interest rates remain high, and in general medium- to long-term public-sector projects are financed by multilateral lending institutions such as the World Bank and the African Development Bank or by European foreign aid programs.[43]

In response to the economic crisis and earlier than other states in the zone, the Ivoirien government announced an ambitious privatization program in 1991. It identified sixty-six enterprises, of which fifteen were privatized between 1991 and 1994, prior to the devaluation of the CFA franc. The stock market's role changed in the 1990s. It became an important vehicle of the privatization program, allowing the government to relinquish control of parastatals to foreign capital while continuing the tradition of Ivoirien minority participation. When the state (through a privatization committee) targets a company for privatization, it first selects a "partner of reference" who buys a controlling block of shares. The state (through the Ministry of Finance) determines the percentage of shares that will be offered to the public on the Abidjan Bourse, generally 20 percent. When IPOs are listed on the bourse, zone members receive priority; however, there are no restrictions on foreign ownership in the secondary market.

The privatization program supplied a rapid influx of shares onto a stock exchange that had been largely dormant. Of the thirty-five companies listed in Abidjan as of July 1999, sixteen had appeared since the privatization program was announced in 1991. More are slated for offerings at a later date. Of the three main sources of shares on stock exchanges (privatizations, transnational corporations seeking local capital, and firms raising capital), 61 percent of the capitalization of the Abidjan Bourse has been from new issues since 1991. When Sonatel was privatized in October 1991, market capitalization grew 26 percent in one day (see Figure 1).[44]

Multinationals purchasing the state's shares of firms slated for privatization were reluctant to offer shares in Abidjan. For example, when the government sold its shares of the joint ventures Shell Oil and Elf Oil, created in 1974 and 1972, respectively, the firms privately offered to pay the government directly to avoid

43. U.S. Department of Commerce 1995.
44. See Mestrallet 1999; and Union Monetaire Ouest Africaine 1999.



Sources: Bourse Regionale des Valeurs Mobilieres 1999; and Hudson Finance 1999.

FIGURE 1. *Growth of market capitalization of the Abidjan Bourse*

being listed on the Abidjan Bourse, or to buy all the shares outright. The government refused, and Shell and Elf were listed in 1995. The government continues to require privatized companies of a certain size to be listed on the bourse.[45]

Although precise data on individuals purchasing shares on the bourse is not available, what evidence does exist points to purchases by the same Ivoirien capitalist class that had purchased shares previously and is closely intertwined with the state. Many of those listed in BRVM reports as presidents of firms or as major shareholders are members of the Cote d'Ivoire's leading capitalist families. Many of the privatization transactions themselves were handled by an investment firm in Abidjan whose representative is the son of Henri Konan Bedie, at the time president of Cote d'Ivoire.[46]

In sum, this picture of share supply on the Abidjan Bourse shows a financial institution structure that is far removed from common understandings of the ways business and the state interact to resolve the political and economic problems of growth. Recall that for Zysman, financial systems can be based on capital markets, on credit with the government administering prices, and on credit dominated by financial institutions. For Alexander Gerschenkron, late developers tend toward credit-based institutions. For Albert O. Hirschman, Latin American late-late devel-

45. Author interviews with employees of Citibank, Abidjan, and Bank of Africa, Abidjan, July 1999.

46. For an approximate listing of the leading capitalist families, see Rapley 1993, 100. Of these families, Kacou (CEDA), Zadi Kessi (SODECI), Coulibaly (SGBCI), and Billon (SIVOM) are listed as presidents of BRVM firms. Moreover, Billon owns 83 percent of the shares of SIVOM. Bedie's son is an employee of Hudson Finance, which handled the Shell Oil, BICCI, and Nestlé deals. Author interviews at Hudson Finance and the Bank of Africa (July 1995) concur that those purchasing shares since the privatizations are the same market participants as before.

opers tend toward direct foreign investment or foreign lending.[47] However, the financial system in Cote d'Ivoire does not represent a shift from bank-oriented to capital market institutions as much as it does a shift from a state capitalist economy accommodating foreign capital to one where the state disengages, foreign firms dominate the "commanding heights" of industry, and multilateral lending institutions finance medium- to long-term public-sector projects.

Given the decreasing role of the state in the financial sector, and with high interest rates, the Ivoirien capitalist class seeks to build a domestic financial institution that will give it access to markets otherwise unavailable. It also seeks to continue playing a role in the economy as it disengages from the state. Since so much of the market activity results from IPOs, the fact that the Ivoirien Ministry of Finance reserves the right to give preferential access to its own citizens (and then West Africans) in share allocation ensures a continuing role for the Ivoirien capitalist class. At present, however, most are minority shareholders in the largest firms. As such, they cannot use share price as an external check on management's power in any activity akin to the "Wall Street rule" on U.S. and British stock exchanges.[48] They can only participate as *rentier* capitalists.

The West African Monetary Union and the BRVM: Monetary Union to Regional Equity Market Creation

The transformation of the BVA from a local exchange into a regional exchange was one component of a much broader economic integration package. Nonetheless, the use of the exchange as a vehicle to disperse ownership and reserve a role for the citizens of the state, or region, in question is replicated in the other states of the West African Monetary Union. The key difference is that the other states agreed to forgo the creation of domestic stock markets and privatize their industries on a regional exchange yet retain the right to offer shares to their own citizens first in IPOs. Therefore, the historical roots of the regional stock exchange lie specifically in the 14 November 1973 treaty creating the West African Monetary Union among Benin, Burkina Faso, Cote d'Ivoire, Mali, Niger, Senegal, Togo, and later Guinea Bissau. They also lie in the evolving relationships among France, its former colonies, international financial organizations, and the rest of the world.

The central bank of West African states (BCEAO) was formally established in 1962, and under its statutes it was a passive "cofinancier" of members' demands for credit at relatively low interest rates. Given the strong connection to France, the French Treasury was able to control monetary policy and thus allocate resources as

47. See Gerschenkron 1962; Hirschmann 1968; and Zysman 1983.

48. The "Wall Street rule" refers to the selling of shares by investors unsatisfied with management's performance. This activity exerts external pressure on management because, in theory, a sell-off decreases the share price, leaving management vulnerable to a takeover. Management in Cote d'Ivoire is not vulnerable to a takeover since a controlling bloc of shares is not available for purchase, regardless of price.

it desired. Shortly after concluding the treaty for monetary union in 1973, member states revised the central bank's statutes and moved its headquarters from Paris to Dakar. Taken together, these moves sought to transfer a certain degree of authority from France to West Africa and in so doing used monetary policy to promote the economic development of member economies while encouraging their economic integration.[49] The concept of a regional securities market was part of this package (incidentally prior to the creation of the BVA).

Several changes in the political and economic context of the West African Monetary Union prompted the moves in 1973. In 1962 about 60 percent of monetary union exports went to France—a large share under preferential agreements. Moreover, about two-thirds of monetary union imports were from France, and France was an important source of official capital. By 1973, monetary union states had joined the IMF and World Bank, and they became associate members of the European Community. France had ceased to provide preferences for monetary union exports (except through the European Community), and the proportion of French imports and capital into the union had fallen significantly. Therefore, although France retained its important position in the economies of member countries in the West African Monetary Union, they were opened to outside economic influences. Significantly, member states sought financial and technical assistance from the World Bank and IMF. Countries that experienced rapid economic growth also experienced growing financial intermediation. Thus, the relationship between the BCEAO and other banks and financial institutions changed as national authorities pursued independent economic policies, chiefly budgetary policies, necessitating integration of monetary and other policies for the union to persist.[50]

Despite the idea in the 1973 treaty for a regional stock market, one failed to materialize during the boom in the 1970s. When economic conditions deteriorated in the late 1980s, however, capital flight became a major problem.[51] In response to these circumstances and the concomitant lack of short-term, long-term, equity, or debt financial market access, the BCEAO monetary authorities recommenced consideration of a regional bourse. Hence, the idea for a regional exchange resurfaced along with the same economic crisis that prompted the austerity programs in Cote d'Ivoire. In December 1992 the Council of Ministers of the Union mandated the BCEAO to undertake the project.

This project and several other related economic integration initiatives underway at the time ultimately received a boost from a 50-percent devaluation of the CFA franc in January 1994. Participants in the devaluation—the World Bank, French representatives, and BCEAO member states—reasoned that the currency area would not be viable in the long run unless it were grounded in an equivalent economic area

49. Bhatia 1985.
50. Ibid., 5.
51. Clement 1996, 1.

with goods and factor mobility, and a high degree of convergence of economic and policy performance.[52]

Shortly after the currency devaluation member states again revised the West African Monetary Union treaty, enlarging its scope to include economic integration and defining new institutions and their activities. In 1995 the organization was renamed Union Economique et Monetaire Ouest Africaine (UEMOA). A seven-member commission was created to serve as the executive authority, and a court of justice was created to serve as the judiciary authority. Work commenced on creating a common external tariff and tax harmonization. Accounting and insurance codes have since been standardized in the broader region of the franc zone. Among these varied developments, members of the BCEAO reached an agreement on a regional stock market on 18 December 1996.

The market opened on 16 September 1998 and became a truly *regional* market with the introduction of the Senegalese telecommunications firm Sonatel on 2 October 1998 (a government privatization). The Canadian International Development Agency (CIDA) provided technical assistance and funding. Rather than each state creating its own market, each state instituted procedures to centralize transmission of orders, assure diffusion of information, and organize local promotion of the regional market.[53]

The BRVM has an electronic trading and competitive settlement system. Share prices cannot increase or decrease by more than 7.5 percent in a session. Trading is in CFA francs and takes place three days a week (Monday, Wednesday, and Friday) from 9:30 to 10:30 A.M. Although no investment limits have been officially established with respect to foreign ownership, member states retain the right (through their ministries of finance) to set purchase limits that favor local ownership during IPOs, as Cote d'Ivoire had done before the exchange became regional.[54]

When the BRVM opened, the BVA ceased to exist. However, all of the securities listed on the BRVM except Sonatel had been quoted on the BVA. A public-sector oversight mechanism (Conseil Regional de l'Epargne Publique et des Marches Financiers, CREPMF) was established to prevent fraud and malpractice, and Leon Naka, who had been the president of the BVA, became its president.[55]

The birth of the regional exchange was thus linked to the same economic crisis that prompted the privatization program in Cote d'Ivoire, yet it was also part of a larger historical process. It represents a widening divide between France and its former colonies as they tighten links among themselves and reorient themselves to the European and world economies. The roles of the World Bank and CIDA in this region are telling because they demonstrate the nonexclusive role of the French in the current situation.

52. Ibid., 25.
53. Bourse Regionale des Valeurs Mobilieres 1998. See also Bourse des Valeurs d'Abidjan 1996.
54. Hudson Finance 1999.
55. The CREPMF performs a role similar to the U.S. Securities and Exchange Commission.

Taking a shorter historical view, the regional bourse represents states' attempts to create an institutional structure to deal with the economic crisis and the lack of local long-term capital markets. As was the case with Cote d'Ivoire, member states seek to use the BRVM as a vehicle for completing their structural adjustment programs. States also seek to more deeply integrate with each other and to mobilize the internal savings to reduce the costs of financial intermediation. For example, in 1999 commercial bank lending rates ranged from 12 to 18 percent, whereas the interest paid to savers ranged from 3 to 5 percent. A regional market gives borrowers and savers access to financial markets with lower costs for long-term capital and higher interest rates paid on investments.[56] Therefore, on both the level of share supply on the Abidjan Bourse for the Ivoirien capitalist class and on the level of the ministers of the West African Monetary Union for internal savings, local market access is clearly a goal of the BRVM.

The Abidjan Bourse: Domestic and Global Market Access

There is strong evidence that the bourse gives West Africans access to securities they would otherwise not have. Much of the market is still focused, however, on the political economy of Cote d'Ivoire. Of the thirty-five companies listed in 1999, twenty-four are controlled by foreign investors, and the largest shareholder in three others is not Ivoirien. Ivoiriens own a majority of shares (or constitute the largest shareholder) in only seven firms, one of which (SAGECO) was suspended from trading in July 1999, and the Senegalese state owns 49.01 percent of the shares of Sonatel. Because Ivoiriens own 49.4 percent of total market capitalization, a case can be made that the bourse opens up market access to Ivoiriens (and, ultimately, West Africans). Therefore, while Ivoiriens do not have management control of most of the firms listed on the bourse, they do own a significant percentage of the stock when market capitalization is considered. If the analysis is broadened to include shares owned by the Senegalese state, West Africans own at least 49.3 percent of market capitalization, and this figure may in fact be higher (see Table 1).[57]

The evidence shows that Ivoiriens and West Africans have retained a degree of equity market ownership through the regional bourse, despite their lack of management control and the lack of restrictions on foreign ownership in the secondary market. Ownership retention derives from IPO allocation, lack of liquidity, and regulations. A comparison of the price of these shares in different markets is not possible since none is cross-listed outside the franc zone.

Therefore, West Africans have market access to a very specific market and to the specific subsidiaries of those transnational corporations that list there. It could be argued that wealthy West Africans would have access to regional firms listing in the higher tier of equity trading (that is, large multinational borrowers and sophisticated

56. Bourse Regionale des Valeurs Mobilieres 1999.
57. Data is not available on non-Ivoirien West Africans who own shares of BRVM firms.

TABLE 1. *Ownership of Bourse Regionale des Valeurs Mobilieres*

Company	*Date introduced on the BRVM*	*Capitalization (in billions of CFA francs)*	*Shares owned by Ivoiriens*	*Shares owned by non-Ivoiriens*	*Largest shareholder*	
BICICI	7 Jul 1976	10.0	47.46%	52.54%	Societé Financiere pour les pays d'Outre-Mer (28%)	Foreign
BERNABE	16 Nov 1977	1.656	35%	65%	Decaber (31%)	Foreign
CEDA	28 Jun 1996	0.461	51%	49%	HATIER (40%)	Foreign
CIE	24 Dec 1992	14.0	24%	76%	SISP (51%)	Foreign
FILTISAC	24 Feb 1994	2.644	34.41%	65.59%	AKFED (35.81%)	Foreign
PEYRISSAC	14 Apr 1976	0.80	24.93%	75.07%	OPTORG (72.61%)	Foreign
SAEC ASTRAL	26 Jul 1994	1.005	29%	71%	UB France S.A. (63%)	Foreign
SAFCA	7 Apr 1976	1.0	74.04%	25.96%	CFAO (19.21%)	Foreign
SAPH	4 Mar 1997	16.149	91.18%	8.82%	Octide Finances (69.96%)	Ivoirien
SDV	16 Feb 1977	4.890	30.44%	69.56%	SDV-Holding (69.56%)	Foreign
SGBCI	7 Apr 1976	15.333	40.10%	59.90%	Societé Generale France (39.14%)	Foreign
SICABLE	8 Dec 1994	0.740	49%	51%	Cables Pirelli S.A. (51%)	Foreign
SICM	26 Mar 1980	0.507	20%	80%	HOLDERCIM France (80%)	Foreign
SICOR	13 Sep 1994	1.500	86%	14%	Jean Abile Gal (18%)	Ivoirien
SITAB	7 Apr 1978	4.489	40%	60%	Coralma Inter (59.91%)	Foreign
SMB	15 Feb 1996	1.218	100%	0	SIR (53.30%)	Ivoirien
SOCIMAT	21 Feb 1979	0.400	22%	78%	Holdercim Societé (78%)	Foreign
SODECI	13 Dec 1978	4.000	53%	47%	Societé Amenagement Urbain et Rural (46%)	Foreign
SOGB	23 Nov 1995	21.602	100%	0	Bereby Finances (65.17%)	Ivoirien
SOLIBRA	1 Feb 1978	4.110	9.25%	90.75%	BGI (75.18%)	Foreign
SONATEL	16 Sep 1999	50.000	N.A.	N.A.	Senegalese State (49.01%)	Senegalese
TOTAL	27 Feb 1982	1.915	22.8%	77.2%	Total Outre Mer (77.2%)	Foreign
CFAO	7 Apr 1976	5.563	5%	95%	CFAO (95%)	Foreign
SARI	8 Mar 1978	1.355	10.20%	89.80%	CFAO (89.80%)	Foreign
SHELL	7 Sep 1995	1.800	36%	64%	Shell Petrol Ltd. (64%)	Foreign
ELF OIL	16 Feb 1995	0.511	36%	64%	Elf Oil Africa (64%)	Foreign
SAGA	6 Oct 1982	3.998	12.19%	87.81%	SAGA SA (72.63%)	Foreign
SIVOM	27 Dec 1996	2.000	100%	0	Pierre Billon (83%)	Ivoirien
BLOHORN	18 Aug 1976	8.053	10%	90%	Unilever Commonwealth Holding Ltd. (90%)	Foreign
NESTLÉ	12 Mar 1980	5.518	19.14%	80.86%	Nestlé S.A. (73.92%)	Foreign
SAGECO	17 Sep 1992	0.570	89.67%	10.33%	Mohamed Saidi (73.37%)	Ivoirien
TRITURAF	31 Jul 1997	2.600	25.92%	74.08%	Unilever (49.23%)	Foreign
UNIWAX	8 Jun 1977	1.750	83%	17%	Frageci (65%)	Ivoirien
SIEM	5 Jun 1997	1.889	15.24%	84.76%	Carnaud Metalbox S.A. (84.76%)	Foreign
SETAO	30 Mar 1977	0.672	21.38%	78.62%	Bouygues S.A. (78.61%)	Foreign

Source: Data complied from BRVM, July 1999.

TABLE 2. *Examples of largest shareholders cross-listed in New York, London, and Paris*

Parent company	*BRVM firm (ownership by parent)*	*Parent company listings*
Societé Generale (France)	SGBCI (39.14%)	Paris Bourse, U.S. over-the-counter
Total Fina S.A.	Total Cote d'Ivoire (77.2%)	Paris Bourse, LSE, NYSE (ADR[a])
Elf Aquitaine S.A.	Elf Cote d'Ivoire (64%)	Paris Bourse, NYSE (ADR)
Shell Transport and Trading Co. PLC and Royal Dutch Petroleum Co.[b]	Shell Cote d'Ivoire (64%)	Paris Bourse (Shell Transport and Trading), LSE, NYSE (both traded as ADR)
Unilever PLC	Blohorn (90%)	Paris Bourse, LSE, NYSE (ADR)
Nestlé S.A.	Nestlé Cote d'Ivoire (73.92%)	Paris Bourse, U.S. over-the-counter
Bouygues S.A.	SETAO (78.61%)	Paris Bourse, NYSE (ADR)

Source: Bloomberg Financial Services, London Stock Exchange, Paris Bourse.

[a] American Depository Receipts (ADR) are similar to International Depository Receipts (IDR) in that they are receipts issued by a bank and tradable on the NYSE.

[b] As parent companies, the Royal Dutch Petroleum Company and the Shell Transport and Trading Company PLC do not themselves directly engage in operational activities. They are public companies, one domiciled in the Netherlands (Royal Dutch Petroleum) and the other in the United Kingdom (Shell Transport and Trading).

institutional investors) even if the regional exchange did not exist. Since transaction costs are higher locally, they would probably realize a higher rate of return buying shares listed in, for example, New York or Paris. Although none of the firms listed on the BRVM cross-list on other exchanges, the largest shareholders or parents of seven companies clearly possess the ability to raise equity capital in several world markets through cross-listings (see Table 2). Were Ivoirien investors denied access to securities on the BRVM (because it did not exist), an investor could simply purchase shares of the parent company in a cross-border transaction; that is, an investor purchasing a share of Societé General over the counter in the United States is indirectly purchasing a portion of ownership of SGBCI in Cote d'Ivoire. The same indirect access exists when international equity funds purchase shares of the parent corporation.

There is some evidence that West Africans do *not* own sizeable blocs of shares of parent companies that cross-list on other exchanges, albeit this evidence does not rule out ownership through intermediaries. Table 3 shows the estimated geographic distribution of shares as reported by parent companies in their annual reports. Not surprisingly, given the relatively small size of the West African bourgeoisie, African ownership is not reported; for example, the estimated geographic distribution of combined Royal Dutch Petroleum and Shell Transport shares outside of the United Kingdom, Netherlands, United States, Switzerland, France, Belgium, and Germany was less than 1 percent. Therefore, even if West Africans held *all* of these shares

TABLE 3. *Distribution of share ownership cross-listed in New York, London, and Paris, 1998*

Company cross-listed	*Measure used in annual report*	*Geographic distribution of shares*
Societé Generale (France)	"Societé Generale shareholder base"	Treasury stock 2.2%, employees 8.2%, general public and others 13.9%, French industrial corporations 8.4%, French institutional investors 19.2%, foreign investors 48.1%
Total Fina S.A.	"Principal sharesholders of total"	AGF 1%, COGEMA 5.5%, Societé Generale 1.8%, Paribas 0.5%, employees of the group 2.9%, other registered shareholders 0.9%, total company's holdings 2.7%, other bearer shareholders 84.7% (among which are U.S. depository share shareholders 11.5%)
Elf Aquitaine S.A.	"Elf Aquitaine estimated share ownership"	European institutional investors 57%, non-European institutional investors 26%, individuals 12%, employees 5%
Shell Transport and Trading Co. PLC and Royal Dutch Petroleum Co.	"Combined Royal Dutch Petroleum and Shell Transport"	United Kingdom 39%, Netherlands 27%, U.S. 25%, Switzerland 5%, France 2%, Germany 1%, Belgium 1%, others $< 1\%$
Unilever PLC	"Combined distribution of shares Unilever"	United Kingdom 41%, Netherlands 19%, U.S. 19%, Switzerland 9%, others 12%
Nestlé S.A.	"Nestlé percentage of shareholders by country"	Switzerland 53%, U.S. 12%, France 13%, Germany 8%, United Kingdom 6%, other 8%
Bouygues S.A.	—	Not reported

Source: 1998 annual reports of Societé Generale, Total, Elf, Shell, Unilever, Nestlé, and Bouygues.

they would still hold less than 1 percent; and though individual West Africans could hold shares through French or other intermediaries that would not appear in these statistics, the numbers are still likely to be small.

In sum, the Abidjan bourse allows West Africans access to shares of the subsidiaries of multinational corporations and privatized parastatals that they would not otherwise have. Some of these firms participate in the top tier of internationally traded equities, but cross-listed shares are not offered in the same form as those in the regional market. Thus the promotion and growth of the BRVM provides a degree

of access to equity securities denominated in CFA francs, paying dividends in CFA francs that West Africans would not otherwise possess because the securities themselves would not exist. Of the securities that would exist (such as shares of the parent corporation), little evidence can be found that Africans own them.

Conclusion

West African states' interests in creating and promoting a regional stock exchange originate outside the states and region in question. As states privatize industries, a local exchange (or second-tier market) is a necessity for retaining some local participation in companies because first-tier markets are available only to large, multinational firms and sophisticated institutional investors. Yet the structure of equity markets does not explain why, when privatization takes place, some firms are listed on an exchange and others are not; nor does it explain the specifics of the securities offered. For example, a firm could be sold in its entirety without a listing, a percentage of shares reserved for local purchase in the IPO, or exchange restrictions placed on the security. To understand the local market, an analyst must look to the domestic political economy and its corresponding financial institutions. In this case, the BRVM continues a long-standing Ivoirien tradition of state involvement and participation by local elites in major enterprises. As the state sells off industries, elites continue to participate as *rentier* capitalists.

Generalizing from this case study to market integration in other regions is difficult because French West Africa has some unique monetary arrangements. The most immediate of these are West Africa's arrangement with France to peg the CFA franc to the euro and the existence of a common currency among the seven states. These factors minimize the exchange risk inherent in other emerging markets and enhance regional integration lacking in other emerging markets.

Nonetheless, the case examined here points to many issues related to the political economy of international finance that are more generalizable. The Abidjan Bourse (and many other micromarkets that have sprouted up since the late 1980s) is not a vehicle for raising capital to finance Ivoirien or West African capitalism, nor does it exert pressure on management. It could hardly qualify as a replacement for traditional bank lending or public-sector loans, which still predominate in major projects. Rather, the bourse is a vehicle for privatization and creation of market access when the state disengages from its economy. Shares that appear on the bourse do not appear on other exchanges, yet the bourse makes it possible for Ivoiriens to own shares of local subsidiaries of transnational firms, denominated in CFA francs. When participating in trades, Ivoirien and West African citizens promote the growth of what public officials term a *culture boursiere,* which could one day recycle the local savings of citizens in one country of the zone to fund the activities of firms in

another country of the zone.[58] At that stage, perhaps the market could finance capitalist growth. That day, however, is not here.

Nonetheless, given a two-tier structure of the world market for equities, a role remains for local markets. Citizens who participate in the growing *culture boursiere* may not have the same influence on management as their counterparts in some deeper markets, but they do have access to securities as a store of wealth denominated in their local currency and a stream of earnings the enterprises distribute. Thus the state creates some markets to cope with international political and economic pressures (that is, the demands of international financial institutions and the structure of *global* financial markets). When West African states privatize industries, they are in a process of disengaging from direct economic activities. Nonetheless, the manner of disengagement is not to compete with all markets for authority but to create markets to broaden the possibilities for West Africans to participate in ways that did not exist before.

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