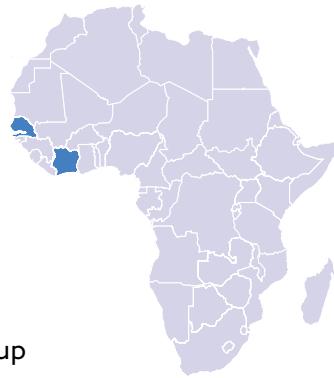


WEST AFRICA: FOCUS ON CÔTE D'IVOIRE AND SENEGAL

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Key Data Points

(as at end-December 2023, unless otherwise stated, covering the whole West African region)

| | |
|---|------------------------------|
| Total population | 154,011,056 |
| National currency | West African CFA franc (XOF) |
| Currency exchange rate | XOF655.957 per EUR1 |
| GDP | EUR182.8 billion |
| GDP growth rate (recent) | 5.2% |
| Annual average inflation | 4.6% |
| Unemployment rate | 2.6% |
| Public debt to GDP ratio | 59.8% |
| Total government debt outstanding | EUR109.3 billion |
| Primary stock exchange | BRVM |
| Number of publicly listed companies | 46 |
| Equity market capitalisation | EUR12.1 billion |
| Equity market capitalisation % of GDP | 6.6% |
| Number of marketable corporate debt issuers | 10 |

Sources: BRVM (2023); World Bank.

1. Introduction and Context

The main objective of the West African Economic and Monetary Union (WAEMU), founded in 1994, is to create a harmonised and integrated economic zone where people, goods, and factors of production can freely circulate and where nationals from member countries can freely establish and exercise their professions everywhere within the economic union.

This union consists of eight countries: Côte d'Ivoire, Senegal, Mali, Burkina Faso, Togo, Benin, Niger, and Guinea-Bissau. This mix of coastal and landlocked countries shares a common currency; a common central bank, the Central Bank of West African States (Banque Centrale des Etats de l'Afrique de l'Ouest, or BCEAO); and common economic policies and regulatory bodies. See **Exhibit 54** for a detailed economic breakdown.

In addition to sharing a common currency, the West African CFA franc (XOF), WAEMU countries also share a common language (French); a colonial legacy; and similar cultural traditions. WAEMU covers 3,506,126 square kilometres and has a total population of more than 145 million people. See **Exhibit 55** for details.

WAEMU's total GDP was estimated at USD198.7 billion as of 2023, according to the World Bank.⁶⁹ The region accounts for about 9% of the GDP of

Exhibit 54. Detailed Breakdown of WAEMU Economic Statistics

| Country | Population | GDP (2023 USD bn) | GDP per capita (2023 USD) | Real GDP Growth | Inflation (Annual Average, Q2 2024) |
|---------------|--------------------|-------------------|---------------------------|-----------------|-------------------------------------|
| Côte d'Ivoire | 28,873,034 | 78.8 | 2728.8 | 6.5% | 4.20% |
| Senegal | 17,763,163 | 31 | 1746.00 | 4.6% | 1.90% |
| Burkina Faso | 23,251,485 | 20.3 | 874.1 | 3.6% | 3.20% |
| Mali | 23,293,698 | 20.9 | 897.4 | 4.7% | 2.10% |
| Togo | 9,053,799 | 9.2 | 1013.00 | 6.4% | 3.60% |
| Benin | 13,712,828 | 19.7 | 1434.7 | 6.4% | 3.20% |
| Niger | 27,202,843 | 16.8 | 618.3 | 2.5% | 13.20% |
| Guinea-Bissau | 2,150,842 | 2 | 914.3 | 5.2% | 2.90% |
| Total | 145,301,692 | 198.7 | 1,367.5 | 5.3% | 4.10% |

Note: Data are as of 2023 except for inflation.

Sources: World Bank data for population, GDP, and GDP per capita; BCEAO (2024) for real GDP growth and inflation.

⁶⁹<https://data.worldbank.org/?locations=BF-CI-GW-ML-NE-SN-TG-BJ>.

Exhibit 55. Economic Overview and Statistics of WAEMU

| | |
|------------------------------|---|
| Members | Côte d'Ivoire, Senegal, Benin, Burkina Faso, Guinea-Bissau, Mali, Niger, Togo |
| Creation date | 10 January 1994 |
| Official language | French |
| Surface area | 3,506,126 km ² |
| Population size | 145 million |
| Population density | 41.37 per km ² |
| Currency | West African CFA franc (XOF) |
| GDP (in 2023 USD) | 198.70 bn |
| GDP per capita (in 2023 USD) | 1,367.50 |

Sources: WAEMU official website for surface area; World Bank data for population size and GDP.

sub-Saharan Africa and is one of the world's fastest-growing economies: Average GDP growth over the 10-year period from 2012 to 2021 was 6.9% per annum, positioning WAEMU as the fastest-growing economic zone in Africa (UNCTAD 2024a). The union's largest economies are Côte d'Ivoire and Senegal, which represent 39% and 15% of the regional GDP, respectively.

WAEMU has proved to be resilient amid significant adverse shocks, maintaining strong growth GDP of 5.1% in 2023 and estimated at 5.9% in September 2024. Inflation in WAEMU fell rapidly from its 2022 peak of 7.4%, down to 3.7% in 2023; as of Q2 2024, it was 4.1% (BCEAO 2024). Growth is projected to rise to about 6.8% in 2024–2025, because of the start of new hydrocarbon production, and to hover near 6% in the longer term (IMF 2024).

Despite this positive economic trajectory, the region faces significant challenges in capital formation. This chapter will explore the dynamics of raising funds in public markets, where local governments often struggle to secure adequate financing for infrastructure and development projects. We will also examine the role of private market financing.

Building on these discussions, this chapter offers policy recommendations for market participants and regulators. These recommendations aim to enhance access to SME financing, cultivate a more robust regulatory environment, and stimulate greater participation from the private sector. By addressing these key issues, we can better position WAEMU for sustainable economic growth and development.

Overview of Market Participants

The major participants in the financial sector are as follows:

- *The central bank (Dakar, Senegal):* The common central bank of WAEMU, the BCEAO, was created in 1962, about two years after independence from France for most of the WAEMU countries. The central bank is headquartered in Dakar, Senegal, with country offices in each member country. Its main missions are to (1) define and implement monetary policies and (2) maintain regional inflation within a range of 1%–3%.
- *The regional exchange (Abidjan, Côte d'Ivoire):* The Bourse Régionale des Valeurs Mobilières (BRVM) is the WAEMU regional bourse that lists and trades bonds and equity issued by local governments and corporations. The bourse is located in Abidjan, Côte d'Ivoire, with country offices in the other seven member countries.
- *The regulator (Abidjan, Côte d'Ivoire):* L'Autorité des Marchés Financiers de l'Union Monétaire Ouest Africaine (AMF-UMOA, formerly known as CREPMF) is the financial regulator of WAEMU and was founded in 1996. Located in Abidjan, Côte d'Ivoire, the AMF-UMOA is the capital market authority, with a mandate to protect public savings by granting/renewing/ withdrawing licences to brokers and asset managers. It approves public listings and issuances of bonds and stocks (IPOs).
- *Banks:* The banking sector in WAEMU is very dynamic, with 155 banks and microfinance institutions. These companies have a total balance sheet size of more than EUR84 billion, collecting EUR59.9 billion of deposits and granting more than EUR42 billion of credit.
- *Broker/dealers:* In WAEMU, the Sociétés de Gestion et d'Intermédiation (SGI) play the role of broker/dealer and act as the main distribution agent of the securities (bonds and stocks) listed on BRVM. Thirty-five SGIs deal in both primary and secondary markets across WAEMU.
- *Investors:* The buy side of the market consists of both retail and institutional organisations, such as banks, insurance companies, and pension funds, that access the market through SGI-licensed broker/dealers. Although most investors are local, the public market of WAEMU attracts more and more international investor interest.

2. Raising Funds in the Public Markets

The BRVM, the regional exchange, is the issuance and listing venue for all public equity and bonds. From 1998 to 2023, XOF20.2 trillion (EUR31.01 billion) was raised on the BRVM (AMF-UMOA 2024).

Public Equity Market on the BRVM

Corporates can raise public equity through the BRVM. To do so, they need to partner up with a licensed broker for the issuance and submit a filing to the securities markets regulator, the AMF-UMOA. The regulator has defined a set of rules to allow any specific stocks to be distributed to the public.

These rules include, for instance, a minimum level of shared capital, a minimum targeted market capital, a minimum number of years of existence, and a viable business plan over the next three years. **Exhibit 56** shows the detailed conditions for the large (and mature), medium, and small companies listed on the BRVM.

In the BRVM equity market, the number of IPOs varies significantly from one year to the next, primarily driven by the rarer pipeline of companies. The year 2022 was an outlier, with XOF141 billion (USD215 million) raised in the IPO of

Exhibit 56. BRVM Equity Listing Requirements

| Criteria | Market Segment | | |
|--|--|--|--|
| | Prestige (large) | Main (medium) | Growth (small) |
| Legal Form | Société Anonyme (public limited company) | Société Anonyme (public limited company) | Société Anonyme (public limited company) |
| Minimum Share Capital | XOF100 million | XOF100 million | XOF10 million |
| Minimum Market Capitalisation | XOF100 billion | XOF10 billion | Not required |
| Minimum Operating History | 10 years | 3 years | 2 years |
| Audited Financial Statements | 10 years | 3 years | 2 years |
| Net Margin Requirement | Positive over the last 3 years | Not required | Not required |
| Minimum Distribution of Share Capital | 20% and a minimum of 4 million shares and 200 shareholders | 15% and a minimum of 2 million shares and 100 shareholders | 10% and a minimum of 500,000 shares |
| Periodic Disclosure Obligations | Corporate Actions; annual, semi-annual, quarterly | Corporate Actions; annual, semi-annual, quarterly | Corporate Actions; annual, semi-annual |
| Market Making Agreement | Required | Required | Not required |
| 3-Year Business Plan | Required | Required | Required |
| Listing Sponsor | Not required | Not required | Required |

Sources: Adapted from the AMF-UMOA and the BRVM.

Orange Côte d'Ivoire, the legacy mobile and telecommunication company, on the back of the strong political will of the government of Côte d'Ivoire to sell its stake via IPO and help grow the public equity market (Reuters 2022). In 2023, only a meagre XOF300 million (approximately USD0.5 million) was raised. As of June 2024, of the 46 listed companies, 35 companies, accounting for about 60% of the total equity market capitalisation, are based in Côte d'Ivoire and 3 companies, accounting for more than 20% of the market capitalisation, are based in Senegal (BRVM 2024).

Companies willing to raise equity in public markets face several challenges, however (see **Exhibit 57**).

Public Bond Market on the BRVM

The BRVM primary market is dominated by bond issuances, mostly from the WAEMU governments.⁷⁰ The types of debt instruments are government bonds and sukuk⁷¹ (Islamic bonds) issued by the sovereigns; regional and multilateral institution bonds; and corporate bonds. These instruments are either public listings or private placements.

As of June 2024, there were 155 listed bonds on BRVM: 125 are government issuances, with 74 by the government of Côte d'Ivoire; 2 are government sukuk; 12 are regional and multilateral institution bonds; and 16 are corporate bonds

Exhibit 57. Challenges Faced by Companies Raising Equity in Public Markets

| | |
|-----------------------|--|
| Regulatory hurdles | Many SMEs struggle to meet regulatory requirements for an IPO, such as minimum shared capital and financial reporting standards. |
| Dilution of ownership | Business owners often fear losing full control of their companies once they go public. For example, short-term investor pressure for immediate returns might conflict with long-term strategic goals. |
| Cultural barriers | Cultural attitudes towards transparency can pose challenges. Business owners, in particular family-owned businesses, may be reluctant to publicly disclose their operations and financial performance. |
| Dividend pressure | The market expects companies to distribute dividends and hence tends to punish companies with low dividend yields or high retained earnings. |
| Transaction costs | Public offerings often incur substantial issuance and transaction costs, including fees for syndicates managing fundraising and IPO processes, as well as listing fees. |

⁷⁰There are two markets for debt instruments: One is the syndicated debt market ("marché par syndication") on the BRVM, with broker/dealers marketing and syndicating the fundraising; and the other is the auction-based market ("marché par adjudication") operated by the central bank.

⁷¹A sukuk is an Islamic financial certificate, similar to a bond in Western finance, that complies with Islamic religious law, commonly known as shari'a. Because the traditional Western interest-paying bond structure is not permissible, the issuer of a sukuk essentially sells an investor group a certificate and then uses the proceeds to purchase an asset in which the investor group has direct partial ownership interest. The issuer must also make a contractual promise to buy back the bond at a future date at par value.

(BRVM 2024). Nine of the 16 corporate bonds are receivables securitisation vehicles (*fonds commun de titrisation de créances*), 1 from a government agency and 2 from large utility companies. Very little issuance activity took place for medium or small companies.

In **Exhibit 58**, we can see that bond issuances dwarf equity issuances: for example, XOF2.08 trillion (EUR3.18 billion) for bond issuances versus XOF308 billion for equity in 2023. Primary market bond issuance is dominated by government bonds: 86% issued by governments, mostly the government of Côte d'Ivoire given that the market is increasingly used by sovereigns to meet their funding needs; 9% by regional and multilateral institutions; and the remainder by corporates. Debt issuance fell 36% from 2022 to 2023, with governments and corporates issuing less.

The outstanding amount of WAEMU governments' listed bonds on BRVM was XOF9,353.3 billion, with Côte d'Ivoire accounting for XOF5,455.9 billion (58%) and Senegal accounting for only XOF388.1 billion (4%; BCEAO 2024). Most of these bonds are long dated and fixed rate; however, an inaugural floating-rate note was issued in 2022. Maturities of preference in the last three years are skewed toward the long end and include 7 years, 10 years, 15 years, and even 20-years.

Exhibit 58. BRVM Equity and Bond Primary Market Issuance, 2018–2023 (XOF billions)

| Resources | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| Bond Market (a) | 944,174 | 1,568,496 | 1,937,040 | 1,804,404 | 3,255,011 | 2,079,111 |
| Sovereign debt | 811,974 | 1,493,496 | 1,745,040 | 1,716,474 | 3,072,271 | 1,796,040 |
| Regional and international organisations | 30,200 | 45,000 | 0 | 50,000 | 140,000 | 178,944 |
| Private sector | 63,750 | 10,000 | 192,000 | 73,930 | 427,400 | 104,127 |
| State-owned enterprises (SOEs) | 38,250 | 20,000 | 0 | 0 | 0 | 0 |
| Stock Market (b) | 56,920 | 51,718 | 8,605 | 5,272 | 141,852 | 308 |
| Public offerings | 56,920 | 51,134 | 8,199 | 3,278 | 140,982 | 308 |
| Foreign investments | 0 | 583 | 406 | 1,915 | 871 | 0 |
| Other capital operations | 0 | 0 | 0 | 0 | 0 | 0 |
| Savings and Collective Investment Schemes (c) | 83,550 | 0 | 72,800 | 105,000 | 370,000 | 208,500 |
| Total (a) + (b) + (c) | 1,084,644 | 1,620,214 | 2,018,445 | 1,950,677 | 3,766,863 | 2,287,919 |

Source: AMF-UMOA (2024).

Development of a Sukuk Segment in the Bond Market

Islamic financial products, or sukuk, have gotten a lot of traction in the region. Since March 2010, a cumulative amount of XOF1,145.9 billion (EUR1.76 billion) was raised through sukuk, under the regulatory framework of securitized funds. Senegal has the largest issuance to date, raising XOF330 billion in a sukuk in 2022, with three tranches maturing in 7, 10, and 15 years. With its Muslim-majority population, Senegal has an extensive history of issuing shari'a-compliant bonds during the last decade.

With the success of the sukuk issuances from member states (Côte d'Ivoire, Senegal, Mali, and Togo), AMF-UMOA has undertaken to provide a specific regulatory framework for the Islamic capital market. The framework for the Islamic capital market within WAEMU was approved by the Council of Ministers of the Union held on 30 September 2022.

Funding for Infrastructure

As in most other developing countries in the world, infrastructure is developed and funded by the central government because such projects are capital intensive and require large and long-dated financing instruments. In WAEMU, only local governments have the balance sheet capacity to effectively raise financing of such nature in public markets to fund infrastructure projects. There are currently no dedicated infrastructure bonds or project finance bonds issued; instead, capital is raised by local governments on the public market to fund their general needs, which, to some extent, also includes financing for development projects and infrastructure.

The absence of specialised financial instruments for infrastructure limits the ability of local governments to tap into broader investment opportunities specifically designed for long-term development. The capacity of central governments in the region to mobilize the necessary funds is often limited. Consequently, funding for large infrastructure projects is usually secured via bilateral loans, loans from multilateral development organisations, loans from commercial lenders (local and international banks), or eurobonds (issued on global markets).

A diversified approach to financing—incorporating a mix of local and international sources—will be essential to address the pressing infrastructure needs in WAEMU and facilitate more sustainable economic growth.

Funding for SMEs

The growth segment of the BRVM is meant to help SMEs source capital through the public equity market. This initiative holds great promise for SMEs seeking to elevate their financing options—particularly for those that have already been

shortlisted. Its launch has been delayed, however, to give SMEs ample time to prepare their entries and ensure they can fully meet the listing requirements of the stock exchange, which include the following:

- Adopting a specific legal structure as public limited companies
- Demonstrating a track record of operational history
- Producing audited financial statements on both a semi-annual and an annual basis

Although in theory SMEs could issue public bonds for financing, the reality is that most of them currently rely on heavily collateralised term loans and debt financing, predominantly extended by local banks to fund their activities. This type of financing often comes with extremely high costs, which can significantly constrain their growth and operational flexibility. Better access to and understanding of the capital market as a viable alternative could help reduce their costs of financing and help them gain access to longer-term financing than banks would be comfortable providing.

The Role of Foreign Direct Investment in Fundraising

WAEMU is among the fastest-growing regions in Africa and in the world. Indeed, despite challenges posed by COVID-19 and the ongoing conflict in Ukraine, WAEMU countries have set up policies to attract foreign direct investment. These policies have led to a significant surge in FDI flows, with figures more than tripling since 2007 and nearly doubling since 2013, totalling USD5.5 billion in 2022. A significant portion of this FDI is directed towards the extractive industries, which include such sectors as mining and oil extraction. This focus highlights the region's rich natural resources and the potential for economic growth, yet it also reveals disparities in FDI distribution. In 2022, four countries—Côte d'Ivoire, Mali, Niger, and Senegal—accounted for 85% of the total FDI stock (UNCTAD 2024b). Nevertheless, it is noteworthy that the BRVM regional exchange has been unable to attract much of these FDI flows because they tend to be directed straight to target ventures and private companies, bypassing the public markets. See **Exhibit 59**.

An additional reason for this remarkable increase in FDI is the stability of the currency. Indeed, the local currency (the West African CFA franc) is pegged to the euro, mitigating the risk associated with strong depreciation over time. Local public markets still face challenges, however, in increasing their visibility and credibility in the eyes of international investors. For many foreign investors, the perceived risks associated with repatriating funds after the investment period can be a deterrent. WAEMU has to continue to prioritize transparency and implement robust mechanisms accordingly.

Exhibit 59. Foreign Direct Investment in WAEMU

| Country | Average Inward Flows of Foreign Direct Investment | | | | | | Stock of Foreign Direct Investment | | | | |
|---------------|---|-----------|------------------|-----------|---------------------|-----------|--|-----------|--------------------------|------------------|-------------------|
| | Millions of USD | | Per Capita (USD) | | Per USD1,000 of GDP | | Percentage of Gross Fixed Capital Expenditures | | Total in Millions of USD | Per Capita (USD) | Percentage of GDP |
| | 2013-2017 | 2018-2022 | 2013-2017 | 2018-2022 | 2013-2017 | 2018-2022 | 2013-2017 | 2018-2022 | | | |
| Benin | 250 | 240 | 23 | 19 | 20 | 15 | 9 | 6 | 3,044 | 228 | 18 |
| Burkina Faso | 294 | 74 | 16 | 4 | 22 | 5 | 11 | 2 | 2,441 | 108 | 12 |
| Côte d'Ivoire | 579 | 1,046 | 24 | 39 | 12 | 16 | 6 | 7 | 13,675 | 486 | 20 |
| Guinea-Bissau | 21 | 31 | 12 | 15 | 19 | 22 | 32 | 31 | 315 | 150 | 26 |
| Mali | 329 | 524 | 18 | 25 | 23 | 29 | 13 | 15 | 6,272 | 278 | 34 |
| Niger | 542 | 544 | 27 | 22 | 52 | 40 | 17 | 14 | 8,238 | 314 | 57 |
| Senegal | 437 | 1,787 | 30 | 107 | 23 | 69 | 10 | 22 | 12,837 | 677 | 43 |
| Togo | 108 | -52 | 15 | -6 | 18 | -6 | 4 | -2 | 1,331 | 150 | 17 |
| WAEMU | 561 | 4,193 | 22 | 31 | 21 | 26 | 10 | 10 | 48,152 | 341 | 28 |
| ECOWAS | 11,059 | 8,973 | 31 | 22 | 15 | 12 | 10 | 5 | 199,231 | 470 | 25 |
| CEMAC | 4,649 | 5,903 | 91 | 103 | 50 | 59 | 20 | 33 | 82,043 | 1,339 | 73 |
| PMAs | 26,746 | 23,116 | 28 | 22 | 26 | 19 | 10 | 7 | 408,431 | 383 | 32 |
| PMAs: Africa | 18,913 | 13,559 | 31 | 19 | 32 | 22 | 12 | 9 | 280,722 | 404 | 44 |

Source: UNCTAD (2024a).

3. Debt

Domestic Government Debt Market

Organisation and Structure

In addition to the listed debt instruments at the BRVM (*marché obligataire*), the auction-based market (*marché par adjudication*) is the other main debt market for sovereign issuers and private sectors.⁷² The auction-based market segment is regulated and operated by the regional central bank, BCEAO (Banque Centrale des États de l'Afrique de l'Ouest), with assistance from UMOA-Titres, a dedicated agency created by BCEAO, to manage the issuance process of government debt securities and assist WAEMU governments in tapping the capital markets.

BCEAO acts as the central depository/settlement bank and handles the clearing, settlement, and delivery of transactions between participants holding an account in its books. The direct/authorized participants in this market are entities with a settlement account at BCEAO, usually banks, regional financial institutions, and brokerage firms (SGI).⁷³ The secondary market for these securities is over the counter among these direct/authorized participants. Local and international investors can invest by bidding through the authorized participants.

The two main types of government debt securities issued on the money market are shown in **Exhibit 60**.⁷⁴

Issuance and Outstanding Debt

Côte d'Ivoire is a major participant in this market, regularly issuing securities. As of June 2024, WAEMU's total new issuance for 2024 was XOF3.79 trillion, with Côte d'Ivoire raising XOF1.34 trillion and Senegal raising XOF343 billion. The outstanding auction-based debt for all the WAEMU countries was XOF15.79 trillion (UMOA-Titres 2024a, 2024b):

- XOF14.12 trillion or 89% is held by authorized participants, mostly banks for their own account, and only 11% is held for their clients and other investors.
- XOF4.08 trillion for Côte d'Ivoire (25.8% of WAEMU), including 73% in fungible treasury bonds.
- XOF2.83 trillion for Senegal (17.9% of WAEMU), with 94% in fungible treasury bonds.

⁷²Except for the few listed bonds on the BRVM, quasi-governmental and government agencies or local authorities seldom raise capital from financial markets. Their financing needs are mostly served through loans from banking, bilateral, or multilateral organisations.

⁷³Securities issued on the BCEAO auction-based markets have several advantages compared with BRVM listed government debt securities: They are cheaper to issue (because they do not have syndication costs or listing fees) and easier to use as eligible collateral for central bank open market and refinancing operations, a feature that is highly desirable for banks. BRVM listed government bonds are also eligible collateral for central bank operations, but they require an administrative process between the central bank and the central depository/settlement bank at BRVM.

⁷⁴There is a third type of security, called *obligations synthétiques* (synthetic bonds). These are structured products consisting of several underlying securities (fungible treasury bills and fungible treasury bonds).

Exhibit 60. Key Features of BATs and OATs (government debt securities)

| | BATs: <i>Bons Assimilables du Trésor</i> (fungible treasury bills) | OATs: <i>Obligations Assimilables du Trésor</i> (fungible treasury bonds) |
|-------------|---|---|
| Description | Short-term debt instruments, used for governments' cash management needs They are issued by public tender at a discount rate. | Medium- to long-term instruments for governments' borrowing needs and budget financing They are issued by public tender at a fixed rate. |
| Bid amount | Multiples of XOF1 m | Multiples of XOF10,000 and minimum amount of XOF1 m |
| Issuance | Discount rate, auctioned on multiple rates | Fixed rate, auctioned on multiple prices |
| Tenor | 7 days, 28 days, 91 days, 182 days, 364 days, 728 days | 3 years, 5 years, 7 years, 10 years, 15 years, or longer |
| Auction | Open tender: Competitive auction open to all authorized participants Targeted tender: Only primary dealers can participate in the auction. | |
| Liquidity | Secondary market is over the counter through primary dealers and other authorized participants; for synthetic bonds, each underlying security is detachable and can trade over the counter. | |

Source: UMOA-Titres (www.umoatitres.org/en/a-propos-des-titres-publics/le-marche/).

Secondary Market

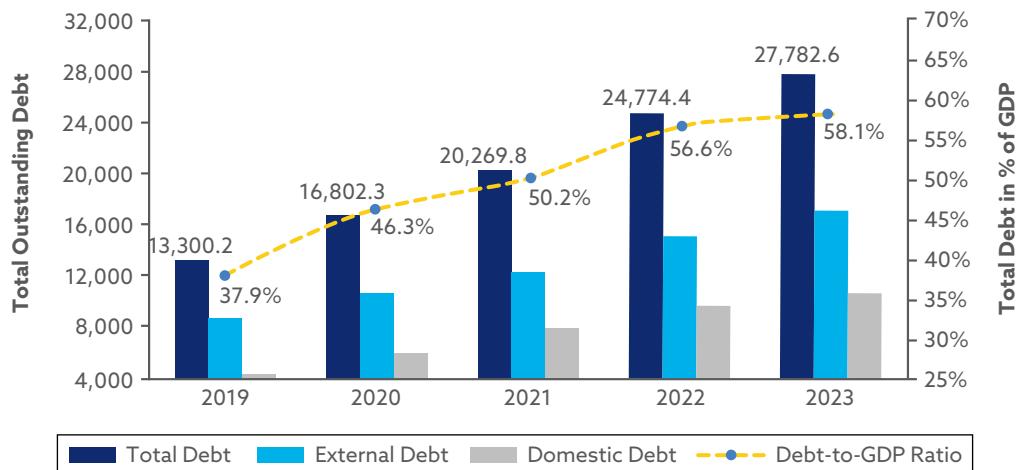
Secondary market trading in WAEMU is still very shallow by transaction volume and by number of transactions or market participants. During the first half of 2024, the trading volume on the secondary market was XOF1,542.86 billion, 40% of which was Côte d'Ivoire government securities and 17% was for Senegal (UMOA-Titres 2024b). The average monthly volume traded of XOF257 billion is roughly 1.6% of the outstanding WAEMU government debt (of XOF15,793 at Q2 2024). During Q2 2024, the top 10 most traded securities had a total of 108 secondary market transactions, or on average less than 4 transactions per month per security.

Côte d'Ivoire: External Debt and the Overall Government Debt

As of December 2023, outstanding debt was estimated at XOF27,782.6 billion (roughly USD46.18 billion), with external debt accounting for 61.75% of the outstanding amount.⁷⁵ The debt-to-GDP ratio rose to 58.1%, a significant increase from 37.9% in 2019. During the same period, total outstanding debt grew by 109%, with domestic debt increasing by 140% and external debt by 93%. The increase in public debt reflects the financing needs of the extensive

⁷⁵For this section, the latest numbers are as of December 2023, based on the latest (at the time of writing) released data by the Ministry of Finance (2023).

Exhibit 61. Government of Côte d'Ivoire Domestic and External Debt Developments (XOF billions and %)



Source: Ministry of Finance and Budget, Côte d'Ivoire (2023), "Public Debt Statistical Bulletin as of 31 December 2023," www.dgf.gouv.ci/images/app/contenu/167/public-debt-statistical-bulletin-q4-2023.pdf.

public investment programs outlined in the National Development Plans for 2016–2020 and 2021–2025. See **Exhibits 61 and 62** for details.

Domestic Debt

At the end of 2023, the domestic debt stock totalled XOF10,626.3 billion, with 87% in government debt securities (52% in BRVM listed government bonds by syndication, 28% in fungible treasury bonds, and 7% in shorter-term fungible treasury bills) and the balance in other forms of borrowing (see **Exhibit 63**).

External Debt

The external debt of Côte d'Ivoire amounted to XOF17,156.3 billion at the end of 2023 (see **Exhibit 64**). External private creditors accounted for 49.9% of outstanding external debt, with XOF5,184.9 billion in eurobonds and XOF3,377.8 billion from other private creditors. Debt owed to multilateral creditors, mainly loans from the IMF and the World Bank, totalled XOF5,655 billion (33%).

At the end of December 2023, 71% of the external debt was denominated in euros (the euro has a fixed parity with the West African CFA franc), 12% in US dollars, and 11% in West African CFA francs. Côte d'Ivoire proactively uses swaps to hedge the debt service denominated in US dollars into euros as a way to further reduce currency risk. So, although currency risk is actively managed, the key risk will be a devaluation of the domestic currency (the West African CFA franc) or a loss of the peg to euro.

Exhibit 62. Outstanding Debt Amounts, Drawings/Issuance, and Debt Service

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | USD (millions) | XOF (billions) | USD (millions) | XOF (billions) | USD (millions) |
| Total Debt | 22,701.0 | 13,300.2 | 29,234.7 | 16,802.3 | 34,929.9 |
| External debt | 15,135.2 | 8,867.5 | 18,718.8 | 10,756.7 | 21,214.2 |
| o/w arrears | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic debt | 7,565.9 | 4,432.7 | 10,518.9 | 6,045.6 | 13,715.7 |
| o/w arrears | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total drawings/ issuances | 6,386.8 | 3,742.0 | 9,428.2 | 5,596.4 | 8,208.7 |
| External debt | 4,037.6 | 2,365.6 | 4,302.0 | 2,650.2 | 3,319.5 |
| Domestic debt | 2,349.2 | 1,376.4 | 5,126.2 | 2,946.2 | 4,889.2 |
| | | | | | |
| | | | | | |

Source: Ministry of Finance and Budget, Côte d'Ivoire (2023).

Exhibit 63. Government of Côte d'Ivoire Outstanding Domestic Debt (XOF billions)

| | Outstanding as of End-Dec 2022 | Drawings/ Issuances as of Year-End 2023 | Principal Transactions as of Year-End 2023 | Outstanding as of Year-End 2023 | Percentage of Total Outstanding as of Year-End 2023 |
|---------------------------------|--------------------------------|---|--|---------------------------------|---|
| Treasury bills | 240.7 | 742.6 | 240.7 | 742.6 | 7.0% |
| Treasury bonds (by auction) | 2,431.9 | 1,054.3 | 487.8 | 2,998.3 | 28.2% |
| Treasury bonds (by syndication) | 5,595.2 | 611.3 | 689.6 | 5,516.9 | 51.9% |
| Bond certificates | 523.8 | 50.0 | 114.2 | 459.7 | 4.3% |
| Other borrowings | 913.7 | - | 5.0 | 908.7 | 8.6% |
| Total | 9,705.3 | 2,458.2 | 1,537.3 | 10,626.3 | 100.0% |

Source: Ministry of Finance and Budget, Côte d'Ivoire (2023).

Exhibit 64. Outstanding External Debt by Type of Creditor (XOF billions)

| | 2019 | 2020 | 2021 | 2022 | Year-End 2023 | Percentage of Total, Year-End 2023 |
|------------------------|----------------|-----------------|-----------------|-----------------|-----------------|------------------------------------|
| Bilateral creditors | 1,604.0 | 1,872.9 | 2,032.6 | 2,526.9 | 2,938.6 | 17.1% |
| Multilateral creditors | 2,258.8 | 3,386.4 | 3,700.2 | 4,452.1 | 5,655.0 | 33.0% |
| Bondholders | 4,435.0 | 4,572.8 | 5,208.1 | 5,296.2 | 5,184.9 | 30.2% |
| Other creditors | 569.8 | 924.6 | 1,369.7 | 2,793.8 | 3,377.8 | 19.7% |
| Total | 8,867.5 | 10,756.7 | 12,310.6 | 15,069.1 | 17,156.3 | 100.0% |

Source: Ministry of Finance and Budget, Côte d'Ivoire (2023).

Debt Profile and Servicing

The credit ratings, maturity profile, and debt service profile of Côte d'Ivoire are as follows:

- *Credit ratings:* Côte d'Ivoire was upgraded to Ba2 by Moody's in March 2024 and is rated BB- by Fitch and S&P.
- *Maturity profile:* Côte d'Ivoire's debt is primarily from long-term borrowing, with an average time to maturity of 7.1 years on its overall debt (8.8 years and 4.3 years on the external and domestic debt, respectively). This indicator shows that the government prefers longer-dated borrowing, more suitable to finance the investments needed in the National Development Plan.

- *Debt service profile:* Debt service has increased significantly since 2019, from XOF2,764.6 billion to XOF3,879.2 billion in 2023, largely driven by the domestic debt service that went up by 80% to reach XOF2,123.6 billion in 2023. Local currency debt is more expensive (weighted average interest rate of 5.3% versus 4.4% for external debt) and has a shorter average life to maturity.

The Debt Strategy Going Forward

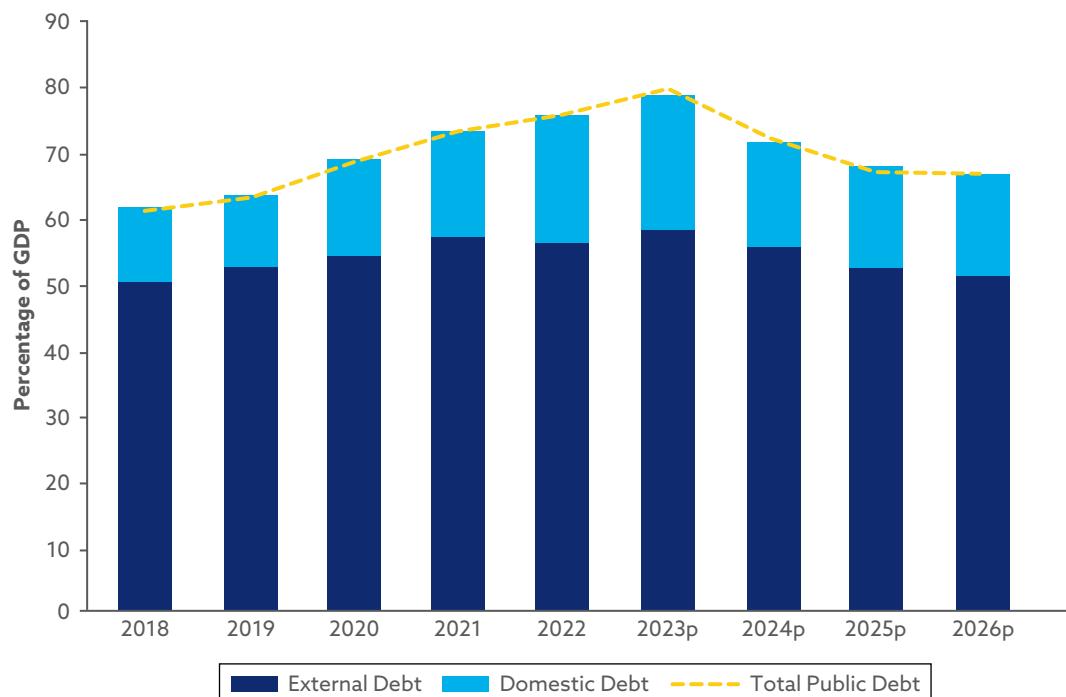
According to the government's Medium-Term Debt Management Strategy (SDMT, or *Stratégie de Gestion de la Dette à Moyen Terme*) for the period 2019–2023, the government has been trying to diversify investors and seize new financing opportunities across the international financial market, Islamic loans, and the regional public securities market. The goal is to secure more favourable financing terms that would extend the maturity profile of the outstanding debt and prioritize external financing for large-scale projects. In the 2023–2025 SDMT, Côte d'Ivoire intends to further reorient its market financing focus towards the regional market because of tighter financing conditions in the international bond market given decade-high monetary interest rates in advanced economies. Since 2011, the institutional framework for public debt management has undergone reform. In 2021, the government created a General Directorate for Financing (*Direction Générale des Financements*) within the Ministry of Economy and Finance, which is now the main body in charge of coordinating and implementing the national debt strategy, negotiating financings, and monitoring the debt of the government and state-owned enterprises.

A vibrant domestic debt market is crucial for the country's future financial strategies because it will enable access to local resources to meet domestic needs and enhance resilience against external debt dependency. To stimulate this market, UMOA-Titres, in collaboration with BCEAO, has undertaken reforms, notably the introduction of primary dealers. These measures are designed to facilitate the issuance of larger government bonds, thereby deepening the domestic debt market.

Senegal: External Debt and the Overall Government Debt

As of December 2023, the outstanding debt of the Senegalese central administration was estimated at XOF13.8 trillion, with external debt accounting for 66% of the outstanding amount; the debt-to-GDP ratio of the overall public sector (central administration and parapublic sector) amounted to 79.9%, versus 47% of GDP in 2016. During the same period, the total outstanding debt grew, largely from the external debt.

Exhibit 65. Senegal's Total, Domestic, and External Public Debt as a Percentage of GDP, 2018–2026 (projected)



Source: World Bank Group (2024).

According to a 2023 Debt Sustainability Analysis report published by the IMF in 2023, Senegal's debt is considered sustainable, with a moderate risk of debt distress for both its external and overall public debt, but with limited room for absorption of new shocks in the near term.⁷⁶ The ratio should gradually decrease in the coming years as investments in the gas and oil sector start bearing fruit.

Exhibit 65 illustrates a projected decrease in the public debt to GDP ratio.

Domestic Debt

On 31 December 2023, Senegal's domestic debt stock was XOF4,681 billion. The stock of government securities was XOF3,258 billion, or 70% of the outstanding domestic debt, almost entirely in treasury bonds (XOF3,146 billion). The balance of XOF1,423 billion was mostly loans from the IMF through BCEAO (XOF1,246.7 billion) and the WAEMU Development Bank (BOAD, or Banque Ouest Africaine de Développement; XOF164 billion). See **Exhibit 66** for details.

⁷⁶IMF, "Senegal: Requests for an Extended Arrangement Under the Extended Fund Facility, an Arrangement Under the Extended Credit Facility, and an Arrangement Under the Resilience and Sustainability Facility—Debt Sustainability Analysis" (2023), www.elibrary.imf.org/view/journals/002/2023/250/article-A002-en.xml.

Exhibit 66. Government of Senegal Domestic and External Debt Developments (XOF billions)

| | Q4 2023 | Total | 2022 | Variation |
|---|------------------|-------------|---------------|------------|
| Total Public Debt | 13,772.86 | 100% | 11,783 | 17% |
| <i>Domestic Debt</i> | 4,680.55 | 34% | 3,541 | 32% |
| Treasury bills | 112 | 1% | 109 | 3% |
| Treasury bonds | 3,146 | 23% | 2,361 | 33% |
| By public entities, including sukuks | 502.62 | 4% | 204 | 146% |
| By auction | 2,643.19 | 19% | 2,156 | 23% |
| Bank loans | 13 | 0.1% | 24 | -48% |
| BCEAO (IMF) | 1,246.7 | 9% | 860 | 45% |
| Standardized insurance, retirement, and guarantee schemes | 0 | 0% | 0 | |
| Other debts (BOAD) | 164 | 1% | 187 | -13% |
| <i>External Debt</i> | 9,092.31 | 66% | 8,242 | 10% |
| Multilateral (excluding IMF and BOAD) | 3,601.91 | 26% | 3,263 | 11% |
| Bilateral | 1,706 | 12% | 1,713 | 0% |
| Export credits | 425 | 3% | 432 | -1% |
| Commercial | 3,359 | 24% | 2,861 | 17% |
| Eurobonds | 2,546 | 18% | 2,506 | 2% |

Source: Ministry of Finance and Budget, Senegal (2023).

External Debt

As of December 2023, external debt totalled XOF9,092.31 billion, broken down as follows:

- External private creditors amounted to XOF3,784 billion (41.6% of outstanding), with XOF3,359 billion in commercial debt (including XOF2,546 billion in outstanding eurobonds) and the balance (XOF425 billion) in export credits.
- Multilateral debt totalled XOF3,601.9 billion (39.6% of outstanding). The lenders are the World Bank, the African Development Bank (AfDB), and the Islamic Development Bank, among others. Indeed, the multilateral organisations are key pillars of the financing strategy of Plan Senegal Emergent, the flagship country development plan.
- Bilateral debt amounted to XOF1,706 billion (18.8% of outstanding), with China (China Eximbank) as the biggest bilateral lender, followed by Agence Française de Développement (XOF563 billion).

Exhibit 67. Outstanding Debt Amounts per Currency (XOF billions)

| | Q4 2023 | Total | 2022 | Variation |
|--------------------------|------------------|-------------|---------------|------------|
| Total Public Debt | 13,772.90 | 100% | 11,783 | 17% |
| Domestic Debt | 4,680.55 | 34% | 3,541 | 32% |
| External Debt | 9,092.31 | 66% | 8,242 | 10% |
| EUR | 4,712 | 34% | 3,810 | 24% |
| USD | 3,306 | 24% | 3,377 | -2% |
| CNY | 411 | 3% | 429 | -4% |
| XOF (BIDC + CITI) | 101 | 1% | 71 | 42% |
| Others (including JPY) | 562 | 4% | 555 | 1% |

Source: Ministry of Finance and Budget, Senegal (2023).

As of December 2023, 46% of the external debt was in euros (the West African CFA franc has a fixed peg with the euro), 41% in US dollars, and 5% in Chinese yuan. Senegal has entered currency hedging on some eurobond transactions but still carries currency risk largely from its US dollar exposures. See **Exhibit 67** for details.

Debt Profile and Servicing

In this section, we discuss the credit ratings, maturity profile, and debt service profile of Senegal.

- *Credit ratings:* Senegal is rated Ba3 by Moody's and B+ by S&P.⁷⁷
- *Maturity profile:* Senegal's debt is medium- to long-term borrowing. Debt of more than one-year accounts for 97% and 100% of domestic and external debt, respectively. See **Exhibit 68** for details.
- *Debt service profile:* Debt service has increased significantly since 2016, from XOF593 billion to XOF2,117 billion in 2023. External debt servicing soared from XOF205.5 billion to XOF1,092.33 billion, as a result of eurobond loans servicing. It is a new regime with higher servicing costs, which raises questions around debt sustainability (see the earlier analysis). This high debt service is because of large investments by the government in infrastructure; the impact of these projects on GDP growth will determine the sustainability of the debt. See **Exhibit 69** for details.

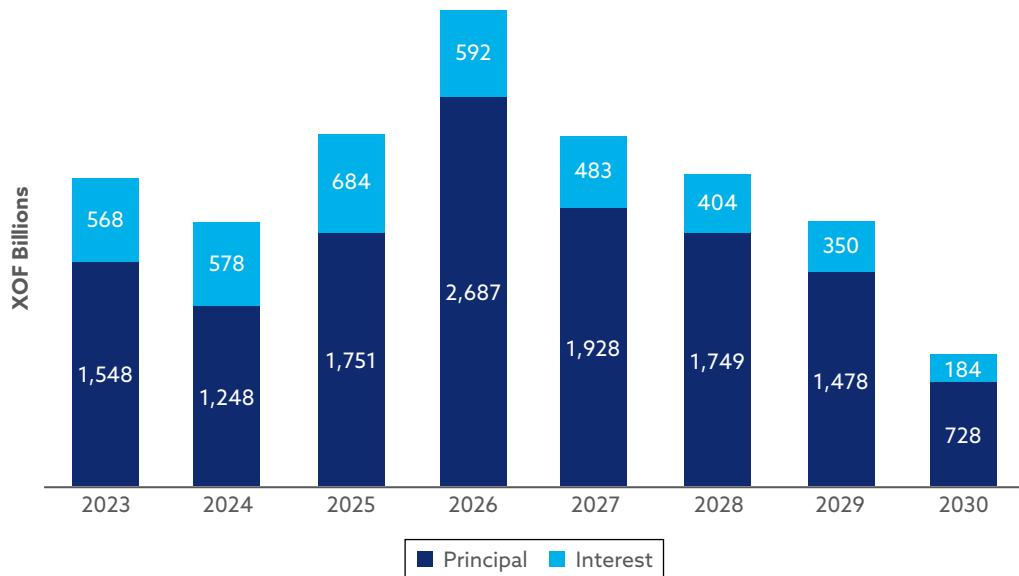
⁷⁷<https://tradingeconomics.com/senegal/rating>.

Exhibit 68. Government of Senegal Debt Maturity Profile (XOF billions)

| | Q4 2023 | Total | 2022 | Variation |
|--------------------------|------------------|-------------|---------------|------------|
| Total Public Debt | 13,772.86 | 100% | 11,783 | 17% |
| <i>Domestic Debt</i> | 4,680.55 | 34% | 3,541 | 32% |
| Short term (<1 year) | 112 | 1% | 109 | 3% |
| Long term (>1 year) | 4,569 | 33% | 3,432 | 33% |
| <i>External Debt</i> | 9,092.31 | 66% | 8,242 | 10% |
| Short term (<1 year) | 0 | 0% | 253 | -100% |
| Long term (>1 year) | 9,092 | 66% | 7,990 | 14% |

Source: Ministry of Finance and Budget, Senegal (2023).

Exhibit 69. Debt Service Profile, 2023–2030 (XOF billions)



Source: Ministry of Finance and Budget, Senegal (2023).

The Debt Strategy Going Forward

As in the case of Côte d'Ivoire, Senegal's public debt is essentially external. The country has greater currency risk because of its US dollar-denominated debt, however, exposing the country to external movements in exchange rates that could increase the debt service in West African CFA francs. In the meantime, exchange rate risk should be actively managed by the government.

Senegal's total public debt is expected to reach 79.91% of GDP by the end of 2023, impacted by multiple shocks, additional borrowing by state-owned

enterprises, and the appreciation of the US dollar. It is essential for the country to place public debt on a resolutely downward trajectory to rebuild some operating margin.

In 2023, public debt was a vulnerability for the country. To reduce debt-related vulnerabilities, the authorities have initiated debt management operations aimed at mitigating risks related to the external debt profile. The recent strengthening of public debt surveillance by the National Public Debt Committee is a step in the right direction. Implementation of the authorities' action plan to follow up on the recent debt audit is progressing, but additional resources are needed to improve the quality and regularity of debt data provided by public enterprises.

The Senegalese government has begun to turn to the regional bond market and seek concessional and semiconcessional loans from multilateral and bilateral partners to finance budget deficits.

Private Sector Debt Market

Although the Central Bank-regulated over-the-counter market offers an alternative to issuing debt on the BRVM, it has not gained significant traction among private companies. The private debt market, which allows for insurance of negotiable debt securities (*titres de créances négociables*), such as commercial paper, certificates of deposit, and notes, appears promising in theory: Companies can issue these instruments relatively easily once they receive program approval by the central bank. This market, however, never took off (Dingui 2020). Between 1996 and 2019, there were only 69 issuances totalling XOF1.3 trillion raised, a striking 65% of which came from a single issuer, BOAD, through regional financial institution bonds. This small number of issuances highlights a lack of activity and private sector participation in the market.

4. Raising Funds in the Private Markets

Overview of Private Markets in the Region

Despite being the primary destination for private capital deals in WAEMU, Côte d'Ivoire and Senegal still represent a very small market.

From 2016 to 2021, Côte d'Ivoire was the primary destination for private capital deals in WAEMU. See **Exhibit 70**.

On average, Côte d'Ivoire sees less than seven deals and only USD160 million invested every year, highlighting how small the industry is at this stage. Both Côte d'Ivoire and Senegal lag the regional powerhouses, Nigeria and Ghana.

Exhibit 70. Number of Transactions and Deal Value for Côte d'Ivoire and Senegal, 2016-2021

| | Number of Transactions | Percentage of West Africa's Total Deals | Deal Value (millions) | Percentage of West Africa's Total Deal Value |
|---------------|------------------------|---|-----------------------|--|
| Côte d'Ivoire | 33 | 8% | USD792 | 11% |
| Senegal | 25 | 6% | USD432 | 6% |

How Private Markets Work

The private equity funds are domiciled offshore, usually in Mauritius. In 2021, AMF-UMOA published new rules allowing for Alternative Investment Funds (AIF) as a fund regime (Droit des Marchés Financiers 2022), alongside the legacy fund regime that only allowed for investments in liquid securities (a UCITS-like regime). In 2022, AMF-UMOA approved the first AIF, a partnership between an insurance group and a local asset manager.⁷⁸ The AIF will manage exclusively assets from the insurance company's subsidiaries in the region and can invest between 70% and 100% of its assets in SME debt, quasi-equity, and equity. This could pave the way for insurance companies to diversify their investments in private assets and invest in alternative funds.

Challenges

Most business owners harbour reservations about private equity funds in their shareholding. The common reservations that business leaders have are as follows (Té-Léssia Assoko 2017):

- *Discomfort with external shareholding:* Many business owners, especially those running family businesses, struggle to accept or integrate external influences on their operations and decision-making processes.
- *Scepticism about value addition:* There is a prevalent belief that private equity funds may not provide significant value beyond capital. Many owners are uncertain about the strategic benefits and operational improvements that PE partnerships can offer.
- *Mismatch in expectations and communication:* A frequent challenge is the disconnect between private equity funds and target companies regarding objectives, often driven by a lack of familiarity with the PE investing process, including valuation negotiations, deal structuring, and exit strategies.

Deal size is an issue for large PE funds, given the scale of the economies and the pool of potential targets. From 2016 to 2021, the median deal size in West Africa

⁷⁸See http://www.brvm.org/sites/default/files/decision_ndegpamf-umoa-2022-268_-_enregistrement_du_fonds_commun_de_placement_a_risque_fcpr_allianz_africa_en_qualite_fonds_dinvestissement_alternatif_fia_sur_le_mfr_de_lumoa.pdf.

was only USD3.8 million, highlighting the limitations that funds face in pursuing larger investments in the region.

Additionally, unlike Ghana or Nigeria, in Côte d'Ivoire and Senegal, interest rates on bank loans are comparatively low. Low interest rates mean that local businesses with access to bank financing can take on more debt—before reaching the point where debt service could be an issue—allowing them to explore various financing options without immediately resorting to equity financing. As such, compared with their counterparts in Ghana or Nigeria, companies in WAEMU have fewer potential deals for PE firms to consider, putting them in a stronger negotiating position.

Who Are the Main Actors?

Private markets in the region are still nascent and relatively small. They are dominated by development finance institutions (DFIs), although private equity funds are increasingly visible and capturing a growing market share.

Next, we examine the main players:

- DFIs, the traditional source of private capital in WAEMU, remain the largest source.
 - *International DFIs*: A report by the International Finance Corporation (IFC) on DFI financing trends in four African countries⁷⁹ from 2008 to 2016 found the following (IFC 2018): (1) Loans are the most frequently used financial instruments (89% in loan commitments vs. 1% for equity), and (2) in Côte d'Ivoire, the commitments totalled more than USD1.0 billion, with IFC as the largest DFI investor, followed by AfDB and Proparco (a French DFI), and about 60% of commitments were to the infrastructure and natural resources sectors, showing their key role in project and infrastructure financing.
 - *BOAD*: The WAEMU Development Bank is also very active in the region, with XOF7,227.3 billion (BOAD 2023) in outstanding exposure to the region as of December 2022 (94.8% in loans, 2.4% in equity). Côte d'Ivoire accounted for XOF1,442.9 billion (20% of the total), with XOF621 billion for the private sector, and Senegal accounted for XOF1,255.4 billion (17.4% of the total), with XOF359.7 billion for the private sector.
- Private equity funds consist of two main groups:
 - *Large pan-African funds*: Emerging Capital Partners, AfricInvest, DPI, Amethis Finance
 - *Local or regional funds*: Investisseurs & Partenaires, Cauris Invest, Phoenix Capital Partners, Adenia Partners. Interestingly, many of these private equity funds have DFIs as their anchor limited partners (AfDB,

⁷⁹The four countries are Côte d'Ivoire, the Democratic Republic of the Congo, Liberia, and Sudan.

Proparco, BIO, EIB, and IFC are backing Cauris Management, and AfDB, AFD are backing Investisseurs & Partenaires), meaning that a significant portion of private equity funding is coming from DFIs rather than private institutional capital.

- Impact investors have deep roots and have been on the ground for decades. They invest in equity and debt. Two of the most active are OikoCredit, a global social impact investor, and Aga Khan Development Network.
- Pension funds and sovereign wealth funds (SWFs) are becoming more active in private capital investments. They tend to invest in equity and debt.
 - Côte d'Ivoire—CNPS (Caisse Nationale de Prévoyance Sociale): The private sector pension fund has co-invested with PE firms AfricInvest and Amethis Finance and taken stakes in Eranove, a subsidiary of PE fund Emerging Capital Partners, in Ivorian banking groups BICICI and NSIA and in local oil product distribution company Petro Ivoire (providing exit liquidity to Amethis Finance).
 - Senegal—FONSIS (Fonds Souverain d'Investissements Stratégiques): The SWF launched in 2013 has invested in 30 deals (FONSIS 2021). It invests directly in certain priority sectors, seed or start funds, and investment vehicles (10 such deals so far, including an agriculture fund and a women's economic empowerment fund). FONSIS plans to invest XOF250 billion from 2022 to 2026, which is roughly the same as the USD431 million in total private capital investments in Senegal from 2016 to 2021.
- Private institutional investors, such as insurance companies, especially with the new alternative investment funds regime, and family offices, started by successful local entrepreneurs, are increasingly active. They invest in funds or directly in companies.

5. The Challenges to Capital Market Formation

The capital markets in WAEMU face several interconnected challenges related to market structure, maturity, liquidity, level of savings, and investor literacy, to name a few. These issues not only limit the growth potential of the markets but also hinder broader economic development. The following are the core challenges:

- Market structure and maturity
 - Strict listing requirements: The stringent criteria for listing on exchanges inhibit the growth of listed companies, limiting investment opportunities.
 - Low free float and weak governance: It was not until 2015 that BRVM mandated a minimum free float of a mere 20%. Consequently, many companies are closely held and ownership is highly concentrated, which undermines protections for minority shareholders. This lack of

transparency, coupled with limited reporting, results in stale prices and poor price discovery.

- Dominance of local governments: The regional debt capital market is primarily dominated by local governments, limiting the presence of nonsovereign issuance activities. Although governments have successfully extended the maturity of sovereign debt to 20 years, the longest bond issuance for private companies is only seven years. Additionally, these governments have historically relied on external debt for longer-dated borrowings, instead of the local market. This reliance hinders the development of a robust local capital market.
- Underutilisation of state-owned enterprises (SOEs): SOEs are some of the largest and most mature institutions in WAEMU. Nevertheless, there is a notable absence of bond issuance from state-owned companies and their agencies, which could otherwise serve as significant issuers and provide a balanced risk/return profile between sovereign and private companies bonds. Indeed, some of these entities are large enough to tap the international capital markets.
- Crowding out the private sector: Governments are the biggest issuers in the bond market, potentially crowding out private sector participation. As of 2022, outstanding private sector bonds totalled XOF320 billion, compared with XOF21,000 billion in government securities, which benefit from favourable regulatory and tax treatment.
- Market liquidity and efficiency
 - Weak secondary market: The secondary market for listed securities remains underdeveloped, characterized by low postissuance liquidity and weak investor participation, except for a select few. This is primarily because of low liquidity in the secondary market caused by limited organic inflows and outflows from investors, higher transaction costs, and a lack of market-making activity from brokers and dealers. This weakness is a major concern for sophisticated institutional investors that do not operate under a buy-and-hold strategy and that calibrate their positions based on liquidity considerations. Improving secondary market liquidity could unlock potential investment in the market. The regional debt capital market is largely dominated by the local governments, with very limited nonsovereign issuance activities.
 - Market fragmentation: There are two separate government debt securities markets—one on the BRVM, as listed bonds traded through brokers, and another operated by the central bank, as an over-the-counter market traded through banks and primary dealers. The different sets of rules and infrastructure create unnecessary complexity and fragmentation, hindering market efficiency.
- Market attractiveness and participation
 - Underdeveloped equity market: The WAEMU equity market is small in proportion to the economy and hardly captures the breadth and

depth of it. Senegal has only 3 listed companies, while Côte d'Ivoire has 35. According to Sika Finance (2020), of the top 10 non-government-owned companies in Côte d'Ivoire, only 4 are listed on the BRVM (CIE, Orange, Total, Vivo Energy/Shell). In addition, the largest private sector conglomerate, SIFCA, has not returned to the market since its bond matured in 2021. To be compelling to the public, the market ought to adequately reflect the size of the economy.

- Limited high-growth SMEs: SMEs need the most access to long-term capital for growth, and the capital market could fill the gap. But these issuers face significant hurdles, including a lack of understanding about capital markets at the management level, exclusive focus on bank financing, onerous issuance processes, and a mismatch between the company's governance and market requirements. The SMEs and growth companies often require substantial support and handholding to navigate the capital markets effectively.
- Financial literacy and capacity
 - Lack of financial education: A widespread lack of financial literacy and appreciation among company executives in WAEMU countries suggests that they may often view bank loans or DFI financing as their only options. This lack of awareness limits the potential for capital market participation.
 - Capacity concerns: Private companies face higher transparency and corporate governance standards relative to banks and DFI financing. In addition to these explicit costs, many companies are hesitant about the increased financial disclosures required for a public listing.
 - Challenges for retail investors: A key challenge for WAEMU countries is the lack of financial and investment education among retail investors, many of whom seek short-term gains. Additionally, accessing the market through brokers can be expensive and opaque. A customer-centric approach, including improved digital investing platforms and experience, could enhance retail participation.
- Mobilising local investors and savings
 - Low investment in corporate debt: IFC (2020) captures the conundrum:

Institutional investors in Côte d'Ivoire invest little in corporate debt securities and equities; their portfolios are dominated by sovereign debt securities, short-term liquid investments (bank term deposits, short-term securities) and the more speculative land and real estate assets. Their asset allocation partly reflects the restrictive rules imposed by regulators, but also a lack of expertise in capital markets and risk management techniques.⁸⁰

⁸⁰IFC (2020, p. 58).

The largest institutional investors in Côte d'Ivoire are the private sector and the government employee retirement funds. A new pool of long-term assets for capital markets could be created by improving (diversifying) institutional investors' asset allocation while increasing the level of expertise of regulators on broader and more sophisticated forms of investment.

- Small and unsophisticated fund management industry: The total AUM in the WAEMU fund management industry amount to approximately XOF1,300 billion (≈EUR2 billion), representing only about 7% of the BRVM market capitalisation (XOF17,600 billion) and about 9% of the total outstanding T-bills and T-bonds (XOF14,351 billion). Restrictive regulations and a lack of product innovation and capabilities from local fund managers are key concerns. A more innovative fund management industry could better tap into local savings, from both institutional and retail investors.
- **Unlocking foreign capital**
 - Market risks for foreign investors: Foreign investors are particularly concerned about devaluation risk (i.e., the risk of a de-pegging between the local currency and the euro) and liquidity risks stemming from underdeveloped secondary markets. The lack of hedging products against such outcomes exacerbates these concerns.
 - Quality of financial information: Investors often cite issues with the quality and timeliness of financial information; inadequate fundamental research capabilities from local brokerage firms, especially given language barriers; high trading and custody fees; and the complexities involved in repatriating proceeds.

6. Possible Solutions to Accelerate Capital Market Formation and Policy Recommendations

The following is a series of policy recommendations and developments that could be adopted to alleviate the current barriers and challenges to capital formation we have discussed in this chapter.

- **Develop a government mandate to deepen the local bond market by creating a long-term yield curve and a secondary bond market.**

Creating a long-term yield curve will increase government ability to borrow local long-term funds among WAEMU markets and minimise exposure to external debt and foreign currency risk.

One approach that could foster a more liquid government bond market is for governments to issue fewer securities and in larger size. For instance, instead of coming to market five times in a single year to float different 10-year bonds, it could issue a single 10-year benchmark bond and re-tap the same issuance throughout the year every time it needs to raise funds in the 10-year tenor. That approach would help anchor the secondary markets'

trading levels, with concentrated liquidity and price discovery on bigger and fewer bond issuance sizes.

Implementing this approach will require a more active primary dealer network to support the provision of liquidity and price discovery. As a matter of public policy, governments could first incentivize well-capitalised banks with sufficient balance sheet capacity to become more active in robust market making. Secondly, governments could support smaller and more entrepreneurial brokerage firms dedicated to the capital markets, particularly those with expertise in bonds and money markets. This support could involve favourable rules, especially concerning liquidity and capital requirements during their initial growth stages, recognizing that larger bank-affiliated brokers may face internal constraints.

- **A robust and deep government bond market will create a benchmark and be the key building block for quasi-sovereign and corporate debt markets to develop.**

However, there is a need to build capacity and demand on the issuer side to consider the bond market as an alternative for their funding needs, especially for longer-term needs where bank financing is harder to find. Starting with specific sectors (government-owned enterprises, government agencies, and quasi-sovereigns given their better risk profile, implicit government backing, and adequate internal human capital to help them navigate the capital markets), infrastructure financing or securitisation instruments with clear revenue sources or enhanced credit ratings could help build this market in the initial years.

- **Develop and mobilize local long-term capital by unlocking local institutional investors and mobilising local pools of long-term capital.**
 - One key action is to further leverage local institutional investors (local pension funds and sovereign wealth funds) as anchor and long-term investors in the capital markets because they can serve as smart money and provide a stamp of approval. This will require educating these investors and helping them broaden their asset allocation frameworks.
 - Additionally, there is a need to foster a more vibrant fund management and private pension fund industry (workplace retirement schemes). Through product innovation, financial education, and local distribution capabilities, these fund managers can mobilize new pools of local capital currently on the sidelines or in banking channels (bank deposits, savings accounts), thereby increasing demand for capital markets securities and helping develop the secondary bond and equity markets. As the local fund management industry develops and builds a track record, it could also become a compelling alternative for international investors or the diaspora to invest in the local capital markets.
- **Encourage regulatory innovation.**
 - Enable and encourage local asset owners, pension funds, and insurance companies to invest in public and private assets, through changes in

eligible assets and capital charges regimes for regulated entities. This can also be done through education and capacity building (1) to help investors assess the value of allocation to new sectors in private or public assets in the context of their overall portfolio and asset allocation (improved diversification, modern portfolio structuring techniques) and (2) to build operational capabilities guiding the governance of investing in these new assets.

- Create a private placement regime for debt and equity issuance, targeting qualified investors only. Given their target investor base, these securities will be less onerous to issue and list for companies (simpler requirements, cheaper) and will help increase the number of companies accessing the market, including primary markets. This will also correspond to a gradual step up for companies, progressively helping them build their knowledge and expertise regarding the multitude of financing techniques available through capital markets.

How can we develop private markets without breaking public markets? There is a range of policy recommendations and development activities that could boost the private markets, in terms of SME participation and also investors' ability to access private markets assets. As private markets become more vibrant, they will provide a robust pipeline to the public markets.

- **Create a stronger pipeline in private debt and equity markets through business and investor education.**
 - Business education: One of the recurrent issues from the business side is a lack of awareness of private market processes and how to work with the funds and institutional investors. The first step would be to create a comprehensive education program for business owners to help them (1) understand and navigate a debt or equity fundraising process, (2) understand how to work with private market investors and their requirements for transparency and financial information, and (3) appreciate the benefits and how they compare to other alternatives.
 - Investor education: Especially for local institutional investors, family offices, and high-net-worth individuals—who could invest in the private markets—education is also crucial. Such education programmes could focus on the role of private assets in portfolios, the diversification and return benefits, valuation considerations, and working with or investing in private market funds.
- **Support emerging local alternative fund managers that focus on SME financing, agriculture, infrastructure, and other priority sectors for the country.**

Dedicated managers can build the unique skill set needed to operate these funds and over time build the credibility and track record necessary to convince institutional and retail investors to allocate. Such managers or funds could benefit from support from the government, sovereign wealth

funds, retirement funds, and development organisations as anchor investors or limited partners.

- **Leverage technology to fast-track private market development.**

In particular, an alternative listing venue that could manage the whole issuance and investing workflow would be a major game changer in democratising access to private assets, in a simpler and potentially cheaper setup. On the one hand, companies could issue equity and debt, share relevant financial statements and legal documents, and launch fundraising; on the other hand, investors could get vetted and prequalified and bid competitively on the deal on offers. Additionally, the platform could help manage the entire life cycle of the transaction with repayments and/or updates.

- **Expand the market with publicly listed alternative funds (for example, REITs, private debt funds, or funds investing in agriculture, SMEs, or receivables).**

Indeed, these underlying asset classes have large funding needs but cannot be easily accessed or understood by most investors; these listed funds would help connect the savings with these opportunities.

- **Regulatory innovation could also help on several fronts.**

- Allow funds with exposure to private assets to fundraise from qualified retail investors, with the wealth and the sophistication required to hold assets with such a risk profile. The funds would also need to meet the relevant risk and suitability criteria for their target investors.
- Create a regulatory regime for crowdfunding to give investors and companies more clarity, protection, and guidelines in raising equity and debt through crowdfunding.
- Support the effective implementation of the Alternative Investment Fund regime. AIFs allow funds to directly invest in private debt and SMEs. It is a meaningful step in unlocking capital for private markets and SMEs, and it will be important for the regulator and fund managers to make it grow, as the fund wrapper of choice for alternative and private market assets.

What role can the private sector or investment professionals play in shaping a framework that will facilitate capital raising in the region?

- **Build capacity for institutional investors and fund managers, and expand the pool of qualified professionals.**

- Train the industry on new asset classes to help build capabilities in managing these more complex portfolios (investing in equity, private, and alternative assets), and help make internal governance systems comfortable with them.
- Increase the number of investment professionals proficient in valuation, portfolio, and risk management tools for private and alternative assets.

- Share best practices for brokerage firms in the areas of fundamental research and information dissemination, investor protection, and client engagement and experience.
- **Conduct advocacy efforts with stakeholders.**
 - Work with local institutional investors, especially the public sector and private sector pension funds that are the largest capital owners in the region, to update or broaden their investment mandates and adopt strategic asset allocation models that allow them to invest in public and private assets, while strengthening standards of quality and care.
 - Work with regulators—in particular, AMF-UMOA, la Conférence Interafricaine des Marchés d'Assurances (CIMA), and la Conférence Interafricaine de la Prévoyance Sociale (CIPRES)—governments, and industry associations to promote a more active role for local institutional asset owners (pension funds, insurance companies, SWFs) as anchor investors in local fund managers and in the local capital markets.
 - Engage regulatory bodies to review eligible asset rules and capital charges for pension funds and insurance companies' balance sheet assets to enable them to invest in broader asset classes.
 - Work with the stock exchange, regulators, and market participants to develop financial literacy and financial education content, targeting both companies and investors.
- **Build a strong and capable fund management industry in order to enhance its contribution to the local economy and its financing.**
 - A vibrant local fund management industry, through product innovation, can boost collective investment schemes' assets under management and offer a compelling alternative to banks in financing the economy.
 - A savvy industrial policy by the government would go a long way in setting the asset management industry up for success—in particular, by providing seed capital and support to emerging fund managers (especially geared towards innovative and private market strategies), by enabling third countries fund managers (i.e., based or domiciled in countries outside of the primary country) from reputable jurisdictions to launch on a fast track, or by providing regulatory sandboxes to try new tech-enabled solutions or fund vehicles.
- **Leverage technology to digitize the client journey and experience for the existing offerings of investment products or to launch fully digital offerings (e-brokers or digital advisers/robo-advisers).**

Technology can lower costs of and barriers to entry for investors and can change the way clients are educated, onboarded, serviced, and engaged. The following are potential use cases:

- Enable investors to invest small amounts, purchase assets through fractional investing, settle their investments, or top up their brokerage account from a mobile money wallet.

- Leverage the ubiquitous mobile money accounts, and enable retail investors to invest in government bonds or to participate in crowdfunding.
- Increase the dissemination of financial education, and enable investors to receive financial advice remotely.

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