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ON THE CURRENT LINKS CAPITAL MARKETS AND INVESTMENT IN MENA COUNTRIES

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Abstract:

This paper considers the current status of some Middle Eastern markets (Arab countries excluding the Gulf countries). These markets have matured significantly over the last six years, and this helped the concurrent strong economic and investment growth. Evidence gathered here indicates the markets have become a minor source of corporate investment, mobilising both domestic and foreign investors. It allowed them to capture both part of the surge in intra-regional capital flows, and part of rising Foreign Direct Investment. A more enhanced economic impact is constrained by their nascent nature, their volatility and illiquidity, and by what remain poor governance structures. Moreover, these Arab stock markets are still the realm of very large corporations: they have only began to address the needs of smaller entreprises, with venture capital and private equity funds at an embryonic stage. They also support a limited number of economic sectors, while governments and top income elites continue to dominate shareholding. They cannot and should not be relied upon to fulfil all the financing needs of the private sector. This message has been reinforced by the current world crisis, which ended the euphoric but unrealistic expectations that regional capital markets will continue to expand as rapidly as they did between 2002 and 2008.

I. Introduction

The main aim of this paper is to investigate the current role of some Middle Eastern and North African (MENA) countries capital markets in creating, if at all, funding opportunities for local and foreign investors. In particular, it seeks to identify how and why these markets enabled some MENA[i] countries to capture the noted surge in Gulf Co-operation Council (GCC) capital flows to the rest of the Arab region. By the same token, fewer and less varied flows would have been mobilised by the less financially developed countries (Algeria, Libya, Syria).

As is well known, most MENA financial systems have financial intermediation levels that are below their potential and/or their needs. These systems are still largely bank-based, with MENA continuing to raise external finance mostly in the form of loans rather than bonds or equity. Yet, their stock markets are playing an increasingly significant economic role. While they lag behind Turkey and India in terms of maturity, sophistication or size, these markets have grown spectacularly in the last five years in terms of aspects like capitalisation and Initial Public Offerings (IPOs), despite major corrections in 2006 and the current global meltdown. The markets also experienced rapid regulatory changes, including allowing foreign ownership. A significant rise of private equity and venture capital funds, and a more diversified sectoral composition have also been noted.

Thus, the latest surge in regional capital flows and liquidity has coincided with the liberalisation and maturing of most Arab capital markets. This paper will argue that regional stock markets have acquired a significant role in the management and mobilisation of capital flows. Beyond merely absorbing savings or excess liquidity, they appear to be encouraging investments. The paper will also explore the limitations of this apparent transformation, which still excludes a large part of private businesses, and is yet to produce a significant equity investment culture.

This paper is organised in five sections. Section II looks at the small literature on stock markets, development and growth in MENA. Sections III and IV consider current patterns in investment and capital markets. The main section details the characteristics of MED stock markets, outlining regulatory aspects, sectoral composition, ownership structure. Section VI looks at capital raised in a more general context. Section VI I concludes the current assessment.

II. Stock markets and growth in the literature

As noted by Capasso (2006), the literature on the relationship betweens stock markets and growth is small compared to the wider discussion about finance and development. The empirical literature regarding stock markets in MENA is even smaller, and has been pre-occupied with technical aspects more often than with their role in growth or financial development. This section does not attempt any comprehensive review of the literature at hand. Rather it will outline key findings of the general and regional research so as to provide a framework within which the stylised facts of the next sections can be placed.

Beginning with the general literature, this is aptly summarised by Capasso (2006). He points out that there is little disagreement that stock market, financial development and growth are correlated. It is also established that as financial systems grow and economic systems become more sophisticated, more complex and articulated financial intermediation develop, within which stock markets emerge. As economies continue to grow, equity markets, banks, and other financial intermediaries develop further, pointing out to strategic complementarities between these avenues. The experience across countries and time periods in relying on these sources of finance is necessarily diverse.

Capasso (2006) usefully divides the stock markets and growth literature into two strands distinguished by the level at which they peg the analysis. The first, which he called the institutional approach, looks at the emergence of stock markets as a pure macroeconomic phenomenon, and relates modifications in financial systems for example, to the changing costs associated with different financial institutions.

The second "instrumental" strand analyses corporate financing decisions of individual firms. Here, stock markets can affect capital accumulation by improving risk diversification, or helping to reduce information asymmetries for investors.

However, the direction of the causality between stock markets and growth is far from established, and even the positive correlation is not always observed. A substantive body of literature also points out that stock markets may cause instability to financial systems as a whole. Specifically, high volatility of stock prices can impact negatively on investment and growth, be it through discouraging the supply of funds from risk- averse individuals, by incorrectly indicating returns on investments, etc.

Thus while it is established that advanced economies have similar financial structures with stock markets playing a central part, causation is something else. While most developing economies have established various forms of capital markets, how and when their markets will play a similarly positive role is another question. The ability of financial intermediaries to mobilise savings, promote investments, reduce transaction costs, or result in an efficient allocation of resources, is a desired but not guaranteed outcome. To attribute such an outcome to stock markets *per se* seems tenuous. Further, the financial crisis literature shows that finance can harm growth, because of factors such initial as faulty design, or improper sequencing of financial reform, etc.

The regional literature, though generally welcoming to financial sector reforms and liberalisation, offers rather weak evidence of any positive impact on growth. Hence, Darrat and Haj (2002) considered a few MENA countries from 1970 to 1999 to see if financial market developments exert long term dampening effect on macroeconomic volatility. They found this to be the case in Egypt and Jordan, but not Tunisia or Saudi Arabia. Similarly, Ben Naceur *et al* (2007) report Achy's (2005) results, whereby domestic financial liberalization was found to have negative impact on private investment and economic growth in Egypt, Jordan, Morocco, Tunisia and Turkey in the 1970-1998 period. An OECD paper (2005) restates the common impression of regional research that there is little evidence of finance leading growth in the region.

The sub-literature on stock markets and development, which consists of about a dozen papers, has produced similar findings. In Babiker and El Tony (2005), the development of good institutions turns out to have the most crucial influence on the operational efficiency of Arab capital markets. Ben Naceur *et* al (2007) argue that: from a theoretical point of view, it is an open question whether stock market liberalization contributes to equity market, investment or economic development. They add that empirical studies have yielded mixed results: investment and higher economic growth do increase in response to stock market liberalisation and deregulation, but these effects tend to happen following institutional reforms. Using a dynamic panel data model with annual data from 11 MENA countries over the 1979-2005 period, they show market capitalization and private sector credit improve if they come *after* liberalisation. Likewise, Beiji's (2007) test results lead him to conclude that to achieve financial development, the region should concentrate on improving its level of legal and institutional development level rather than openness. Damak (2008) considers the Saudi and Tunisian stock markets in the context of their financial systems. He argues that although the Saudi banking system is healthier, its stock market, like those of neighbouring countries, is volatile and dominated by individuals and speculators. In contrast, Tunisia's banking system has had a disappointing performance and is plagued by non-performing loans, while its stock market is an arena for strategic investors, albeit a small one.

Two sets of researchers have conducted more directly relevant investigations for our purposes. In the first set, Ben Naceur, Ghazouani, and Omran (2005) looked at macroeconomic determinants of stock market development in MENA, which turn out to be: the savings rate (the ratio of gross fixed capital to gross disposable income), the ratio of credit to private sector, stock market liquidity (value traded to GDP); and an indicator of macroeconomic stability. They conclude that financial intermediaries and stock markets are complements in the growth process. This is further confirmed in Ben Naceur and Ghazouani (2005), where the relationship between stock market development and growth in MENA turns out to be negative and significant when controlling for bank development. This is attributable to:

the prevalence of financial repression; poor and unbalanced growth performances; and the nascent nature of regional capital markets. It seems these markets have not reached the threshold beyond which they contribute to growth. The idea of threshold is also present in Adjasi and Biekpe (2006), who find that stock markets in Africa have a significant role for development and growth, but only in upper middle income countries with fairly advanced stock markets. Investment was the most significant determinant of market development indicators.

The second set are the two papers by Omran and Bolbol in 2003 and 2005. In the former, it is argued that financial development is one of the key capabilities that need to be developed for an economy to reap the benefits of Foreign Direct Investment (FDI). Specifically for Egypt, Jordan and Morocco, stock market based indicators Granger cause FDI, so that stock market activity invites more FDI. But it stressed that it is best first to encourage domestic investment and reforms, so that new capital inflows are channelled more efficiently. The 2005 paper is a rare study of evidence of Arab firms' (five markets, 83 firms) use of stock markets for investment. It suggests that sales and debt growth are significant determinants of choosing equity finance, in contrast to the pecking order theory of finance which predicts that in developing countries, internal cash flows are a preferred source of finance for investment. In Arab economies as elsewhere, managers are often the owners, and equity is not used significantly to finance investments in order not to dilute control or ownership. But once listed, the firms tend to have a low retention of cash, partly because investors like receiving periodic income, and partly as a positive signal to the market of a strong position to raise reasonably priced debt. In contrast low payout firms tend to rely more on debt, suggesting a complementarity between the two sources.

Lastly, another strand of the literature seems to be oblivious of any evolutionary aspects of Arab stock markets. They ask, for example, if these markets are a good option in the portfolio of international investors, even when these were closed to foreigners or were illiquid. These papers tend to find these markets inefficient, and not entirely correlated among each other or with other markets. [ii] Nonetheless, these papers can highlight the consequences of the current characteristics such as their volatility. In the case of Jordan, Rawashdeh and Squalli (2005) finds that Amman's stock market suffers from frequent market corrections, with an over-inflation of asset prices and trading influenced by fad and speculation. In Egypt, Billmeier and Massa (2007) find mixed evidence of the link between the stock index and its underlying fundamentals, with some indicators pointing to some overvaluation and to an asset bubble in early 2006.

III. Main characteristics of investments.

In the last few years – up to the current world crisis-, investment had been enjoying a revival in most Arab economies. After a lacklustre performance in the 1990s, gross domestic capital formation has been growing faster than GDP for most countries,[iii] with the World Bank (2008) indicating that for all MENA, gross domestic investment has exceeded private consumption as a source of GDP growth since 2000, and in particular since 2005. In 2006, Gross Domestic Investment accounted for 3.6% out of the 5.8% GDP growth witnessed by the region (World Bank 2008, p.8). In terms of GDP growth, the rally witnessed is slightly faster than Latin American or Sub-Saharan African levels, but below the average for all developing countries.

This buoyancy of investment resulted from the confluence of three developments. Firstly, as the World Bank (2008) and the Inter-Arab Investment and Export Credit Guarantee Company (IAIGC) (2007) suggest, investment has benefited from on-going reforms in terms of the ease of doing business, access to credit, lower taxation, etc, in most of the region. Algeria, Syria, and Libya are the latest reformers, with Libya and Syria at last establishing an Investment Authority in 2007.[iv] So far, the results of Syrian reforms (allowing foreign ownership, reduction of corporate and land tax rates) are impressive: investment commitments more than doubled to US$9.2 billion between 2004 and 2006, 20% of which being FDI (IMF 2007, p.5).

Secondly, higher domestic investment levels have been paralleled by historically high levels of FDI. 2007 FDI accounted for 12% of regional capital formation compared to 7.8% for all developing

countries. This boom was not restricted to oil exporters. Hence Syria's FDI to GDP ratio rose from 7.6% to 10.3% between 2005 and 2007. Likewise, acording to the *World Investment Report* 2008, North Africa received $22 billion from a pool of foreign investors (Arab, European, and emerging markets), going to a range of sectors (car parts, chemicals, metalwork, tourism, infrastructure). Some of these inflows resulted from privatization,[v] with the rest consisting of new projects.
(Table 1)

Importantly, FDI has also strengthened due to intra-Arab investments. These flows have been rising steadily, from $8.8 billion between 1985-1995, to nearly $17 billion in 1995-2002, to $14 billion in 2007 alone.[vi] In North Africa, its share of FDI rose from 16% to 30% from 2003 to 2007 (*The Economist*, 10 July 2008). In fact, for many recipients, particularly Lebanon and Jordan, Arab investments has been the main source FDI, and it tended to account for over half of Gross Capital Formation. Similarly, because of mega-projects in tourism and real estate, FDI from Gulf countries to Syria have dominated FDI levels in the last two years. The rise of intra-Arab investments has signalled an increased ability of the region to retain its investors: the region received 11% or US$60 billion of Arab capital outflows between 2002-2006 (World Bank 2008), with wealthy individuals investing 25% of their wealth regionally vs. 15% in 2002 (Al Qudsi et al, 2008, p. 32).

Thirdly, favourable macro-economic fundamentals in terms of better public finances and record-high oil revenues have boosted governments' capital expenditures. However, as pointed out by *The Economist* (10 July 2008), even in the poorer Morocco, the government had taken an interest in big projects and infrastructural investment. Growth in real private fixed investment in Maghreb and Mashrek countries were at 8.5% and 13% in 2006, which are similar to the 8% and 11% in 2000-2004 (World Bank 2008, p.127). With no significant improvement in credit allocated to the private sector[vii], it seems that the public sector has been leading the rally in investments.

A good part of intra-regional investments have taken the form of equity acquisitions. While these used to only concern more liberalised economies, they are now occurring in the recently opened up markets of Algeria and Libya. Hence, Orascom Egypt took over two cement plants in the former, while Libya has recorded Mergers and Acquisitions in the banking and in oil sectors.[viii] Otherwise, joint ventures have been the main form of greenfield investments. Intra-Arab investments have also tended to have a sectoral emphasis. While in the first half of this decade they focused on telecoms, in the last couple of years, they have favoured real estate, services, and tourism (IAIGC, 2007).

These current regional trends are in line with recent findings for other regions. Ndikumana and Verick (2008) find increased FDI in 15 out of the 38 African countries examined, where FDI typically crowded in investment. In fact, FDI tends to be higher where both domestic public and private investments are strong, because the former signals high returns to capital while the latter reduces the cost of doing business. Likewise, Mileva (2008) finds that for FDI has tended to crowd in capital formation in transition economies between 1995-2005. The results are particularly true for countries with more developed financial markets and institutions, and in the case of loans rather than portfolio.

IV. Main characteristics of capital markets

The general characteristics of Arab capital markets, up to the last two years, is aptly summarised by the OECD (September 2005) and Abed and Soueid (2005). Firstly, financial systems of MENA countries are more bank-oriented than those of other developing regions: according to IMF data for 2004, bank assets accounted for 85% of financial assets in the MENA countries, compared to 48% in emerging Asia, 41% in Emerging Europe and 35% in Latin America. Secondly and consequently, the region had one of least advanced capital markets in the world, including displaying the lowest share of fixed income assets in GDP (at 4% of GDP in MENA, against 6% in Asia, and 16% Latin America). The region has very weak and underdeveloped corporate debt market. Bond financing is dominated by government debt. Fourth, while virtually all countries have now opened their doors to commercial and private banks, state banks retain a dominant role, with public banks accounting for 50% or more of

total banking assets. Other structural problems noted by Abed and Soueid (2005) include bank concentration (largest three banks dominate assets), and high bank lending rates: at twice US levels, 2003 MENA levels indicate inefficient intermediation.

This inherited financial structure reflects the relatively late onset of financial reforms in MENA. However, recent data indicate that sustained efforts and liberalisation are starting to make a real difference. The financial sectors of Algeria, Syria and Libya have seen the most significant shake up compared to the beginning of the decade, though they remain at the bottom of the regional ranking in terms of development and openness. In Algeria, it is still the case that only 30% of the potential market has bank accounts (*Euromoney Magazine*, 3 December 2008), and credit to the private sector remains at 20% of the total (Sensenbrenner and Loko, 2008, p7). Syria now counts nine commercial banks compared to none few years ago. Yet its 2007 ratios of bank assets and customers' deposits to GDP were at 78% and 45% respectively, compared to 104% and 67% for MENA (Abdulhamid, 2008). The IMF notes tangible progress in consolidating the assets of banks and improving supervision Libya, but financial intermediation remains very low (IMF, September 2008, p.7).

As for the other economies, IMF data for 2006 (*Global Financial Stability Report 2008)* indicate the region's capital market structure is shifting away from traditional bank-based systems to more diversified financial intermediation. The shares of banks and stock markets in total financial assets were at 57% and 37%. Much less progress has been recorded for debt securities, which are still at about 5% compared to 19% of emerging markets' capital market structure.

This structure is probably associated with economies like Egypt whose stock market (CASE) capitalisation is now at or over 100% GDP, and hence excludes Algeria, Syria or Libya. It is also true that it is mostly the richer Arab Gulf countries which have made the greatest stride in terms of volume of private finance mobilised domestically and internationally. Funds raised internationally did increase to $75 billions in 2007 from under $9 billion in 2002, but for our countries of interest, the corresponding amounts were merely $10.8 and $2.6 billion.

Table 2 details the composition of external financing mobilised by these countries. The table shows progress is noticeable but modest. Except in Lebanon, loan syndication is still dominant, with bond issuance and equity still minute. However, Lebanon's bond issuance is virtually limited to what Riachi (2007) described as an "oversized" Eurobonds markets: there are simply no corporate bonds. He further argues that Lebanon has missed out on financial innovations, offering little in terms of new instruments such as structured products, private equity funds, etc.

BIS data on international debt securities confirms the dearth of corporate issues from MENA economies. The typical structure in the region is thus still dominated by more or less well established government securities markets. The African Development Bank fact sheets state that government securities constituted 80%, 95%, and 90% of the securities markets of Egypt, Morocco and Tunisia. There are currently 25 Egyptian corporate bonds valued at LE3.5 billion (US$632 million) compared to a well developed market of 157 government bonds worth of LE78 billion (US$14 billion) (Mondevisone, 9/2/2009, Capital Markets Authority 2009). 87% of Tunisia's issues are due to banks or leasing companies. Algeria saw 9 corporate bond issues in 2004, 7 of which were for state-owned companies: Algeria first and only private corporate bond was issued in 2006. A similar picture emerges from the more advanced markets. According to the World Federation of Exchanges, bonds issued by the private sector accounted for 3% and 10% of new capital raised by stock markets of Egypt and Jordan in 2006 and 2007, with most funds raised consisting of equity. Similarly, despite improvements, 2007 annual report data from Casablanca show that bonds constituted 28% of the Moroccan Dinar (MD) 19 billion raised by IPOs.

However rare the new corporate issues are, bonds and fixed-income securities have contributed to the deepening of the regional financial sectors, offering a crucial saving instruments for individuals and institutional investors. In the Algerian case, the IMF reports that for large corporations, bonds larger thanUS$30-$50 million have become a cheaper way of raising capital than borrowing from banks

(Sensenbrenner and Loko, January 2008, p.12). Though no similar analysis has been found for other countries, it can be sensed that the securities markets have helped to diversify the region's financial systems, complementing and competing with the dominant banking sector.

V. Stock markets:

A. Main characteristics

The main characteristics of the region's stock markets are summarised in **Table 3**. Most of these markets were established in the mid to late 1990s. Syria is still in the process of establishing a stock exchange, while Libya and Algeria's markets merely consist of two and seven firms respectively.[ix] The Palestinian stock exchange – to put it mildly- has been stagnant in terms of capitalisation, value traded, and listed firms. Iraq's stock exchange is only one year old, and although boasting 95 companies and buoyant public interest, is still in its infancy.[x] As such, the rest of the discussion will not refer to these marginal stock exchanges.

In terms of international positions, of the five main markets, those of Egypt (Cairo & Alexandria Stock Exchanges or CASE), Jordan, and Morocco have been included in global indices since 1984 and 1997. Those three are also currently part of Standard and Poor's (S&P) Emerging Countries Index.[xi] Lebanon and Tunis are only included in the S&P's Frontier Index for smaller and less traded markets. In terms of regional share, the five countries account for 100 companies out of the 340 companies constituting the S&P Pan-Arab Index, and for of 19% of their value. Similarly, due to sizes of the markets of United Arab Emirates and Saudi Arabia, the five market's share of total Arab stock markets capitalisation shrank from 34% in 2000 to about 20% in 2007.

Nonetheless, Table 3[xii] confirms the considerable overall growth and progress in all aspects of these markets' operations, whether in comparison with 2000 or the previous decade. Moreover, most of the improvements happened since the middle of the decade. It seems sustained regulatory work is finally allowing markets to move from embryonic stage to infancy, or from a frontier to an emerging market. Hence, Table 3 shows an overall trend of rising market capitalisation, although this growth has in no way been smooth. Large fluctuations are common, such as the "correction" of 2006, or the falls of 2002.

All exchanges have witnessed gains, the least one being a doubling of capitalisation in Tunis, and the largest an eight-fold increase in Amman. For all five markets, capitalisation increased five-fold, most of it being realised since 2003. These increases have led to major gains in the importance of these markets in terms of the domestic economies as measured by GDP. By 2007, Jordan and Egypt had some of the highest ratios of capitalisation to GDP in the developing world, i.e. well over 100%. At 65% of GDP, Beirut has a medium level of depth, with Tunis remaining shallow. Unfortunately, the current world crisis has slashed Egyptian levels back to those of 2005, with falls elsewhere being less severe. Summary statistics for 2008 are found in Appendix Table 1.

In terms of number of listed firms, Amman and Casablanca have seen the most additions. Cairo has been busy weeding out companies, through stricter listing requirements, disclosure and governance rules, and membership fees. The drastic reduction in the number of firms in Egypt has brought the total number of listed firms in the region to 892 **(Table 4)**.[xiii] This compares to 851, 1330, and 3537 firms listed in Poland, India and Spain.[xiv]

Wild fluctuations in capitalisation and value traded underline a key feature of Arab capital markets, namely their volatility, which tends to be most significant for the most active markets of Egypt and Jordan. The volatility in turn reflects another structural feature: their narrowness and shallowness. Not only is the number of firms listed smaller than other emerging markets, but few of them are actively traded: in December 2008, just over half of the firms were typically traded. Of those traded, only a fraction of their shares and value changes hand. The same applies for bonds: many bonds are placed privately. Trade in bonds remain a small part of total value traded, being for example 7% and 14% of the value traded in Amman and Casablanca in 2007.

While listing requirements ask that 10-30% of a listed company's shares are freely floated and therefore tradable, this tends to be the maximum observed in these markets. Most companies only have minority listings, with only a few listing the majority of their capital. Consequently, shareholders are much less active and powerful than in more mature markets, and the markets see few mergers and acquisitions. Just before the current crisis, there were signs that this was improving in Egypt, which saw a record 28 deals of acquisitions totalling over LE105 billion, this being dominated by Lafarge taking over Orascom Construction and Orasom Hotels for LE88 billion (*Egypt Stock Market Annual Report* 2008).

Together with typical restrictions on trading hours and time taken to clear deals, this renders Arab markets rather illiquid. Consequently, we find that the turnover ratio improved from 27% in 2000 to below 50% in 2007, but remains at a mere 11% in Tunis. The number of operations handled has also improved across the board, but only nears emerging markets levels in Egypt and Jordan. A major factor behind the low turnover is that many investors, particularly institutional ones, tend to acquire shares in order to hold them as saving instruments. By the same token, speculators have disproportionate influence on the market. In these circumstances, the share prices suffer from larger fluctuations then they would in deeper markets. It is also easy to see how quickly whatever little comes to market can be dumped or snapped up.

Analysts accept that market rises have been driven lately by strong economic growth and corporate profits. There is also little doubt that the keenness of subscribers reflects the scarcity value of new shares or bonds: the possibility of participating in a new and promising investment vehicle has been a welcome alternative to holding a bank deposit. However, over-valuation has also been driven by herd behaviour and unrealistic expectations: it is commonly accepted by market observers that these have underpinned the excessive over-subscription to IPOs witnessed throughout the region.

Another feature of Arab stock markets is the dominance of a few large firms in terms of market capitalisation and value traded. In view of this reality, most markets have a separate index for the most traded companies. Thus, in Egypt, a year after its launch the CASE 30 index of the top 30 firms (with at least 15% freely floating shares), accounted for 57% of market capitalisation (*Egypt Stock Market Annual Report 2008)*. In Jordan, in 2007, the top 10 traded companies account for 68% of market capitalisation (*Ninth Annual Report 2007,* p.79). In Lebanon, Solidere – a giant real estate company- accounted for 53% of market capitalisation in 2003, retreating to 35% in 2007.[xv] In Tunis, the top 10 firms account for 66.3% of market capitalisation.[xvi]

The fact that Arab capital markets are highly concentrated means that despite progress, these markets remain essentially a realm of large-sized corporations. In fact, in the Egyptian case the average firm value of listed companies has risen from LE172 million to LE 1,766 million between 2003 and 2007. Furthermore, it seems capital markets have attracted only part of the large corporations of the region:[xvii] many large companies are family or privately owned, and like in most developing countries, would not contemplate losing control to markets.

More significantly, these markets also exclude a large part of the private sector, namely the part which does not consist of large corporations. The OECD (September 2005) reminds us that 98% of firms in the Middle East are Small and Medium Enterprises (SMEs), while a 2008 survey states that family businesses constitute 85% of non-listed companies (Pierce, 2008). Most countries have recently acted in recognition of this problem. Egypt launched NILEX, a stock exchange dedicated to firms whose capital does not exceed LE25 million. The timing of the launch, namely the fall 2008, has been unfortunate: only three firms are currently listed. TUNIS has just established an Alternative Market, with less stringent listing requirements. Similarly, Casablanca has both a development and a growth markets for smaller firms with market capitalisations of MD25 million and MD 10 million respectively, compared to MD 75 million on the main markets.

B. Regulatory aspects

According to a survey by the *Arab Bank* Review (2007/08), virtually all markets have now opened up to foreign investors, though restrictions remain for a few sectors and on full ownership. The listing requirements require listed firms to have 2-3 years of activity, and to have 5%-20% of freely floating capital. The markets also specify either a minimum number of shareholders (50 in Beirut and 200 in Tunis) or a minimum number of shares, the top case being 2 million in Egypt.

All MENA markets have by now established an independent regulatory and supervisory authority, except Lebanon, whose regulating Committee belongs to the Ministry of Finance. Many also have separated institutions in charge of supervising and organising the main functions, such as listing, settling, or trading. Egypt and Jordan have a more sophisticated construct, and is one of the factors allowing them to be members of the World Federation of Exchanges.

In terms of corporate governance, all markets are moving towards either by issuing such a code or by improving disclosure requirements for firms, shareholders, and other market participants. Egypt was the first to introduce a Corporate Governance Code in 2005. Jordan issued compatible guidelines in 2006. unisia is developing its code, with Lebanon establishing one for SMEs in 2006. Algeria, Syria, Libya and Iraq do not have such a code (Peirce 2008, p.12).

Morocco embarked on that process since 2004: the competencies and of the authority of the Conseil Deotonlogique des Valeurs Mobilieres (CDVM) were broadened, whereas traders, brokerage firms, etc, were to be regulated by Association Professional des Societes des Bourse. Yet, many regulatory weaknesses remain: in particular, the legal framework is incomplete in terms of disciplinary procedures and financial sanctions (Elalamy 2004). The Moroccan corporate governance code was published in March 2008.[xviii] However, Rigar and Solhi (2008) draw a dark picture of the reality of how listed firms operate: on paper, the judicial code and regulations are compatible with good governance, but in practice, there is a lot of corruption. Specifically, there is almost a fraudulent culture, with creative accounting used to publish company information and results that are misleading or unreliable.

In other words, constructing the regulatory and institutional frameworks is a continuous and evolving process in MENA. Despite clear progress and on-going legislative changes, there is still a need for the consolidation of core standards of operation, prudential regulation and stringent listing conditions. Further, it will take even more time for listed firms to comply with codes and internalise good practices. Detailed issues continue to emerge, such as the needs to: guarantee and protect small investors as well as minority shareholders, establish standards and norms for investment funds, or separate brokers money from clients' money (AMF 2008). Repeated crises and correction continue to reveal weakness, as do the fairly frequent scandals. Having had to face high-speed selling by board directors in the 2006 correction, CASE had to deal with share manipulation by brokers in 2008.[xix] Despite stringent listing requirements, Jordan failed to regulate brokerage firms: hundreds of unlicensed ones collapsed in 2008, exposing major co-ordination problems between the central Bank, the stock market, and the foreign exchange regulation (*Jordan Times*, 13 January 2009).

C. Sectoral composition

The size and shareholding requirements of participating in stock markets have both been a consequence and a cause of the dominance of Arab capital markets by a handful of sectors, the first and foremost being financial services and banking. The corporate structures of banks and financial institutions have been the most amenable to be floated, and so are typically the first to enter the markets.[xx] On the whole, the financial sector has a larger share of market capitalisation in the Middle East than in any other region. Hence, financial services represented 51% of S&P Pan-Arab Index, compared to 36% for Africa and 16% for Latin America. A similar pattern exists in terms of the capitalisation of the stock exchanges of Amman, Tunis, and Beirut. For Cairo and Casablanca, the sectors are the largest, but are at under 20% and 26% of capitalisation respectively.

The second most important sector is telecommunication, a pattern that reflects both the strong growth of this sector, but also, the liberalisation and privatisation policies in the region. This sector has seen much consolidation within the region. As a result, the market is now dominated by a few regional giants, such as Egypt's Orascom. The consolidation process has largely been played out on the region's stock exchanges through equity transfers and acquisitions (World Bank 2008).

Yet, it is also the case of Morocco and Egypt in particular, the sectoral distribution of market capitalisation is fairly diverse. Hence, financial sector companies accounted for 25% of capitalisation in 2007 compared to 60% or more elsewhere (see Appendix Table 2). In more diversified economies, stock markets have been a useful platform for industries, the most common presence being that of pharmaceuticals and chemicals. On the whole, these are old and well established companies that access the markets to increase their capital.

On the other hand, many are also privatised entities. Kaufman and Wegner (2007) confirm that 28% of Egyptian privatisation went through the market, while 53% of Casablanca's capitalisation in 2005 was due to privatised companies. In fact, it can be argued that there is a direct link between the sectoral composition of MENA stock markets and the pattern and speed of divestiture of the state from local economies. Hence, the rises in market capitalisation and foreign participation in Egypt between 2001 and 2005 were helped by the sale of public shares in Egypt Telecom and three oil and petrochemical companies. Privatisation has also been the way in which national air carriers have been disposed of, such as in the case of Tunis Air or Royal Jordanian Airlines, with shares in the latter offered in 2007. This pattern, observed in Eastern Europe and now common to other developing regions, is seen as a way of deepening capital markets. This trend has been examined by Ben Naceur (2008). He finds that because so much privatisation in the region has been through private sales, benefits have been restricted to improvements in market size, but not market liquidity.

Beyond this inherited structured, three newly emerging trends are worth noting, and can be detected in Appendix Table 2. These trends are directly linked to the recent surge in investment. The first trend is the emergence of investment funds, be it to capture domestic savings as in the Moroccan case[xxi] or to capture Arab investments as in some holding firms in Egypt. These funds are a direct result of financial deepening, and of reforming capital account regulations, bringing the region in line with other emerging markets. The second noticeable addition to the markets' sector composition is real estate. While the Lebanese case of Solidere paved the way for mobilising private funds for major reconstruction and development, real estate companies formed around large tourist or housing projects are now commonly established via capital markets. In North Africa, they have been a significant way through which private flows from Arab Gulf countries are mobilised. Thirdly, regional markets have seen the introduction of many high growth companies of non-traditional economic sectors, particularly in Media and Information Technology. In Egypt, their share together with telecoms has risen from 10 percent of the CASE 30 Index in 2002 to 30 percent in 2006 (Billmeier and Massa, 2007).

D. Ownership composition

Attracting foreign investors is a stated aim of all markets considered. All share a strategic outlook of aiming to attract more foreign investments, and that wants them to be attractive stars of the emerging market world. Hence, all have been opening up and facilitating procedures and transactions to bring them in line with international standards, particularly in terms of on-line access to information. Unfortunately, full information about the composition of investors by nationality is only available for three of the exchanges. Of these, Jordan has systematically had the highest share of capitalisation held by foreigners, which in fact rose from 39% in 2003 to 49% in 2007. Arabs accounted for two thirds of this amount, with others holding 13% of market capitalisation. Foreign ownership also rose in Egypt and Tunis. In the latter, foreign ownership improved from 25% in 2003 to 28% in 2007. In Egypt, foreign participation rose from 20% to 30% over the same period, with non-Arabs investors accounting for 19% of trading operation in 2007. Casablanca and Beirut do not provide comparable data, but the former indicated a small rise in non-Moroccan individuals trading to 9%-10% of the total.

All markets note that they have benefited from increased holdings by Arab Gulf investors since 2005. Unlike the previous oil revenue surge, this surge came at time where the region offered good opportunities for portfolio diversification: Arab oil economies participated in their region's markets just as they took interest in other emerging regions. However, Billmeier and Massa (2007) note that in Egypt, Gulf investors liquidated some holdings in 2006 in response to the major market corrections in their home markets. The current crisis seem to have triggered a similar withdrawal of all foreign investors, this being more severe in the case of Egypt than in the case of Jordan. Nonetheless the *Egypt Stock Market Annual Report 2008,* states that even after losses, foreign investments in the market in the last three years to reach LE17 billion.

As for the type of investors, information is only available for Egypt. CASE monitors the type of market participants on a daily basis. Its trading is dominated by individuals, who accounted for two thirds of activity few years ago, registering 75% in January 2009. In contrast, Tunis and Morocco are dominated by institutional investors, whose market share is estimated to be at 30% (Damak 2008). The cases of Jordan and Lebanon are unclear, though the former is known to have an active institutional sector. Observers argue that rising number of individuals participating in Egypt's market are one of the factors that underpin its volatility and its vulnerability to speculative pressures and herd behaviour. Other markets probably have escaped these pressures by virtue of their smallness, the dominance of block shareholders, and lack of liquidity, rather than by the wisdom of their participants.

What about public participation? Being in middle income countries with significant poverty and high inequality of income distribution, the five stock markets do not in attract as wide public participation as in some OECD countries. There is a dearth of solid investigation of ownership patterns, and only one unpublished paper addressing the issue in MENA was identified. *Ownership Structures in MENA Countries (OECD 2005)* points out that much of the region largest and wealthiest firms are still family owned, and tend not to enter stock markets. As for shareholders, the two dominant blocks are ruling families and richer income quintiles, and the government. The two groups tend to exercise their control through holding companies. Hence the government of Jordan owns 24 percent of the shares of the "large" listed companies in 2005, the ratio being higher elsewhere. Interestingly, the study finds that when listed companies have the government as a major shareholder, other shareholders tend to be institutional. More recently, Rigar and Solhi (2008) argued that a large part of listed Moroccan companies are controlled by block shareholders: usually another company, large wealthy families, or holding companies.

The nature of ownership in Arab stock markets can be gauged from the fact that most these markets have or are organising publicity and educational campaign to improve the level of participation of retail investors. Morocco recently earmarked a small part of shares floated for individuals in an effort to diversify the shareholders base, though often these individuals turn out to be members of the same family (*Maroc Bourse*, 4 November 2007). An impression can also be obtained from company reports available on the markets' websites or related news. A recent article mentions: the acquisition by a bank of an investment fund in Morocco whose key shareholders are the founders (68%), Arab partners (10%), and the royal family.

VI. Stock markets and investment:

The previous sections have shown that the booming capitalisation and trading in MENA capital markets is associated and almost certainly contributed recent rises of both gross capital formation and FDI. Although they serve only a part of the private sector, namely some of the larger corporations, stock markets have become a clearly significant, albeit not dominant, avenue of raising funds and financing investments. They have allowed established firms to tap both domestic and foreign capital. Evidence of the latter is the active acquisition market and the overall increase in foreign participation. However, equity and portfolio investments are usually a minor part of FDI, which tend to be dominated by greenfield investments. In fact, the smaller markets of Tunisia and Lebanon made negligible contributions to the rise of FDI: In Tunisia, portfolio investments almost tripled to US$68

million, but only equalled 4% of greenfield FDI.[xxii] Lebanon's real estate attracted record amounts of Arab capital, without this involving it narrow stock market.

According to the World Federation of Exchanges, new capital raised by stock markets in Egypt and Jordan over US$3.3billion in 2006, which for the former, equalled 16% of Gross Fixed Capital Formation (GFCF). As such, stock market investments have probably helped push GFCF levels, which rose from 16% to 19% of GDP in Egypt and 20% to 27% in Jordan between 2003 and 2006. According to the Moroccan investment authority, new capital raised in 2007 doubled from a year earlier to 5% of investments (Pfeiffer, 2008). As such, these numbers are not unsurpassed, but compare well with the 3% registered in Istanbul or of 2% in Bombay.

As can be seen in **Table 5,** 2006 and 2007 were good years for raising fresh capital on the stock markets of MENA. Nearly US$7 billion and US$8 billion were raised respectively, the great majority of which were in equity. Egypt and Jordan dominated the activity in terms of value. Of the 18 IPOs in Jordan, the privatisation of the Royal Jordanian Airlines was the largest deal, accounting for 19% of new capital raised in this way. In Morocco, 2007 saw the first and significant addition of 10 companies to listed firms, with IPOs raising a total of US$524 million. Tunis only saw two IPOs, with capital raised in Beirut limited to secondary offerings.

Despite the absence of comparable data, it is also clear from market reports that stock markets are an important avenue for capital expansion. Across the region, markets have regularly seen a significant and slowly increasing number of deals involving the expansion of capital through secondary offerings, splitting shares, etc. This continued to be the case in Egypt in 2008: 44 companies expanded their capital by a total of LE7.5 billion in SPOs, with 4 IPOs at LE4.2 billion. Tunis and Morocco typically see a handful to a dozen companies (i.e. about one in 7 or one in 5) expand their capital every year.

This trend is clearly in line with the results of the Bolbol and Omran study (2005), so that it seems that equity is an important financing strategy for listed companies in the region. Recalling the previous section's emphasis on majority shareholding, it seems that the limited use of such a strategy is partly explained by their desire not to dilute control and ownership. As Achy and Omani (2008) indicate, this desire is a clear determinant of financing structure of non-listed firms. In the Moroccan case, these continue to rely on a mixture of own capital and debt, often costly and short term.

Finally, capital markets can spur investment and support corporate growth through private equity and venture capital funds, the latter being particularly important for business start-ups and for the early phases of company growth. But even in mature markets, such funds are a small part of finance raised. In the Arab region, private equity and venture capital, in a nutshell, have grown spectacularly from almost nothing to an embryonic stage. There are no consistent data, but a sense of the growth can be gauged: from $300 million in 1998 to $13 billion under management now, most of which were raised since 2005.[xxiii] It is estimated that some 100 funds are operating, compared to 30 in 2005. In terms of geographical distribution and number, the concentration is undoubtedly on the Gulf countries: in 2005, only 5 of the 30 established focused on Egypt, Lebanon, Jordan (EFG Hermes, 2005). The leading recipient, Egypt, attracted US$683 million or 28% of private equity investments in MENA between 1998-2006 (Kolderstova 2007, p.7). Furthermore, few of the funds concentrate on venture capital and start up vehicles. Lastly, current magnitudes are small compared to the $32 billion raised in Asia in 2007 (*Arab News,* 5 May 2007), or the 180 funds focusing on Israel (*The Economist,* July 2008).

The progress in terms of creating venture capital culture and established a significant pool of related skilled human resources remains limited. The weakness of venture capital and associated financial structures is key barrier for the growth of many sectors. The UNDP (2003) indicated this being in the case of the poor implementation of Clean Development Mechanism in the region. Kaladeh (2007) documents the poverty of Research and Development, and of investment in technology in the Arab world. He contrasts the absence of success stories in the region with the launch of companies like Hotmail and Skype by investment funds.

This does not mean stock markets are expected to fulfill that role. Even in Europe, banks still provide SMEs with 79% of their financing, followed in importance by leasing and renting companies at 24%. Private investors, private financing and venture capital financing altogether only account for 11% (Kolderstova, 2007). Rather, it means that a vital part of the financial structure remain way below local needs, and has not grown *in tandem* with the main capital markets. The inadequacy of such financial support has serious implications for the content and sustainability of economic growth. As the OECD (April 2006) argues, addressing these needs requires policies that are different from those required to support stock markets, and include the creation of technology incubators and of venture capital subsidiaries.

VII. Summary and Conclusions

To sum up, this paper has found the literature on stock markets assigns an overall a positive role for capital markets in development and growth, but one that is conditional on the maturing of the real economy and on institutional development. Current wisdom with respect to developing countries suggest strategic complementarities between banking and capital markets, and stress circumstances and features (such as high volatility) when such markets can harm growth. The regional literature has produced similar findings. It emphasises the nascent and immature nature of these markets, and the need to strengthen regulatory and institutional frameworks. An important determinant identified by research is the ratio of investment to GDP.

The current picture of the MENA stock markets considered in this paper is in line with this context. These have made enormous progress in the level, depth and diversity of their operations. Their growth remains erratic because of speculative pressures, governance failures, and many structural weaknesses, namely volatility, narrowness and illiquidity. But thanks to ongoing reforms, these markets have responded well to openness to foreign participation, although it is the broader investment reforms that are largely responsible for dramatic rises in investment levels. Beyond moping up liquidity, IPOs and capital raised have also coincided with economic buoyancy, providing listed firms with an additional avenue of financing. Thus, capital markets have attracted additional domestic and foreign investors, and have clearly added to capital formation. In particular, regional stock markets had matured enough to become an important destination of Arab capital outflows. Given the lack of u-turns in this trend, it seems Arab equity investments will remain a key category in the portfolio of regional investors. The current global meltdown may strengthen this tendency by highlighting the need for geographic diversification.

However, this contribution remains a minor component of total investments, and bank credit remains a dominant source of finance. Moreover, being mainly the domain for large corporations, stock markets are still irrelevant for family-owned companies and SMEs. As is the case the world over, these non-listed firms need different financing support. Similarly, the markets' sectoral diversification has improved, indicating that the markets are serving a wider range of economic activities. However, progress in consolidating a venture capital and growth sector is less impressive. Given the very different nature of the regional private sector when compared to the corporate structures of OECD economies, it will be sometime before stock markets are more widely relevant. This seems to hold particularly true for the smaller economies of Lebanon and Tunisia. In fact, the natural growth of MNA stock markets in terms of number of firms and capitalisation would have been slower had it not been for the sustained privatizations throughout the region.

The current crisis will have inflicted much damage to future prospects, crippling the ability of these markets to transform themselves from minor to major sources of corporate investment. Their stellar growth since 2005, which was hardly sustainable, turned out to be short-lived. However, policies to retain the gains made need to be sustained. Markets need to continue to improve their regulatory frameworks, governance rules, judicial underpinnings, and operational capacity. They need to strengthen cross-listing and regional co-operation as way of overcoming their smallness, and to further develop their growth and SME markets in order to broaden their membership. Such measures will help them close the gaps between them and more mature emerging markets.

Table 1: FDI as a share of fixed investment (in percent)

	1996-99	2000-04	2005	2006	2007e
MENA (ex.Iraq)	4.4	6.2	11.9	17	12.1
Egypt,	4.8	5	33.5	49.9	28.6
Jordan	8	21.7	51.8	88.9	40.2
Lebanon	32.9	37.4	62.5	85.9	45.8
Morocco	7.2	5.7	9.2	14.4	17.9
Tunisia	8.5	11.4	11.3	48	45.5
Algeria	3.1	5.8	4.7	6.8	7.6
Syria	4.2	4.2	7.4	10.3	10.2
Libya	0	0	0	0	0
All developing countries	*10.2*	*10.7*	*11.1*	*9.3*	*7.8*

Source: World Bank 2008

Table 2. MENA External Financing by Type (US$, million)

		2002	2003	2004	2005	2006	2007
Loans	Algeria	150.0	40.0	307.9	489.3	…	411.0
	Morocco	…	9.8	2.6	1.9	25.4	…
	Tunisia	100.0	128.2	30.0	91.2	24.7	150.0
	Egypt	670.0	155.0	1,324.0	1,489.3	3,895.9	3,076.1
	Jordan	…	…	54.4	…	60.0	725.0
	Lebanon	…	…	…	…	50.0	120.0
	Libya	…	…	…	…	…	38.0
	Sub-total	*920.0*	*333.0*	*1,718.9*	*2,071.7*	*4,056.0*	*4,520.1*
	All region	*5,688.7*	*6,254.2*	*10,492.7*	*32,022.8*	*52,354.9*	*48,318.4*
Equity	Algeria	…	…	…	…	2	…
	Morocco	…	…	…	…	153	538.5
	Egypt	…	…	141	812.2	257.8	761.8
	Lebanon	…	…	…	…	248.4	…
	Sub-total	…	…	*141.0*	*812.2*	*661.2*	*1300.3*
	All region	…	…	*505.3*	*9288.3*	*2783.6*	*5595.2*
Bond	Morocco	…	464.9	…	…	…	670.7
	Tunisia	650	357	544.5	490.9	…	251.9
	Egypt	…	…	…	1,250.00	…	1,805.10
	Jordan	80.9	…	145	…	…	…
	Kuwait	750	200	500	500	534.7	475
	Lebanon	990	160	5,383.00	1,780.00	5,519.70	2,300.00
	Sub-total	2470.9	…	*6028.0*	*3530.0*	*6054.4*	*4580.1*
	All region	*3,283.5*	*2,778.5*	*9,179.5*	*13,993.0*	*26,116.9*	*20,595.4*
All Financing	Algeria	150	40	307.9	489.3	2	411
	Morocco	…	474.7	2.6	1.9	178.4	1,209.30
	Tunisia	750	485.2	574.5	582.1	24.7	401.9
	Egypt	670	155	1,465.00	3,551.50	4,153.70	5,643.10
	Jordan	80.9	…	199.4	…	60	725
	Lebanon	990	160	5,383.00	1,780.00	5,818.10	2,420.00
	Libya	…	…	…	…	…	38
	Sub-total	*2,640.9*	*1,314.9*	*7,932.4*	*6,404.8*	*10,236.9*	*10,848.3*
	All region	*8,972.2*	*9,032.7*	*20,208.5*	*55,304.1*	*81,410.5*	*75,047.8*
MENA/ Developing countries		*5.5%*	*4.0%*	*6.1%*	*12.0%*	*14.7%*	*11.3%*

Source: *Global Financial Stability Report (October* 2008)

Table 3: Characteristics of MENA stock markets

A. Market Capitalisation (US$, million)

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	***2007***
Amman	4,943	6,314	7,087	10,963	18,383	37,639	29,729	*41,298*
Cairo	30,791	24,309	26,339	27,847	38,077	79,508	93,496	*134,904*
Casablanca	10,876	9,031	8,564	13,050	25,175	27,274	49,415	*75,495*
Tunis	2,809	2,230	2,126	2,440	2,574	2,821	4,222	*4,993*
Beirut	1,583	1,248	1,395	1,503	2,331	4,917	8,304	*16,093*
MENA	***51,002***	***43,132***	***45,511***	***55,803***	***86,540***	***152,159***	***185,166***	***272,782***

Source: World Bank (2008), except for 2007, from the AMF website (Yearly Peformance and Monthly Performance of Arab Capital Markets). Morocco 2007 is from World Development Indicators

B. Market Capitalisation in percent of GDP

	2000	2001	2002	2003	2004	2005	2006	2007
Amman	58.4	70.3	73.9	107.5	161.1	298.4	210.8	261.4
Cairo	28.8	24.9	29.7	32.6	48.9	88.8	87.0	105.4
Casablanca	29.4	24.1	21.2	26.4	44.4	46.2	75.5	100.5
Tunis	14.5	11.5	10.1	9.9	9.4	10.0	14.7	14.3
Beirut	9.4	7.2	7.5	7.6	10.8	22.9	36.4	65.4

Source: World Development Indicators (April 2008)

C. Value Traded (US$, million)

	2000	2001	2002	2003	2004	2005	2006	2007
Amman	406	934	1,335	2,607	5,327	23,806	21,616	17,109
Cairo	11,799	5,913	6,444	4,349	6,835	27,720	48,954	49,388
Casablanca	1,211	841	1,440	2,443	3,757	7,859	9,110	20,918
Tunis	687	342	246	189	257	529	563	558
Beirut	118	53	115	131	198	923	2,032	4,590
MENA	***14221***	***8083***	***9580***	***9719***	***16374***	***60837***	***82275***	***92563***

Source: World Bank (2008), except for 2007, from the AMF website (Yearly Peformance of Arab Capital Markets)

D. Turnover ratio

	2000	2001	2002	2003	2004	2005	2006	2007
Amman	8.2%	14.8%	18.8%	23.8%	29.0%	63.2%	72.7%	41.4%
Cairo	38.3%	24.3%	24.5%	15.6%	18.0%	34.9%	52.4%	36.6%
Casablanca	11.1%	9.3%	16.8%	18.7%	14.9%	28.8%	18.4%	27.7%
Tunis	24.5%	15.3%	11.6%	7.7%	10.0%	18.8%	13.3%	11.2%
Beirut	7.5%	4.2%	8.2%	8.7%	8.5%	18.8%	24.5%	28.5%
MENA	***27.9%***	***18.7%***	***21.0%***	***17.4%***	***18.9%***	***40.0%***	***44.4%***	***33.9%***

Note: The turnover ratio is calculated as value traded as a percentage of market capitalisation.

Table 4: Number of Listed Firms on MENA Stock Markets

	2000	2001	2002	2003	2004	2005	2006	2007	Traded/ Listed Firms (Dec. 2008)
Algiers	-	-	-	3	3	3	2	2	n/a
Palestine				47	-	28	33	n/a	n/a
Amman	163	161	158	161	192	201	227	240	181/252
Cairo	1,071	1,110	1,150	967	792	744	603	515	84/255
Casablanca	54	55	55	52	53	54	63	69	63/77
Tunis	44	45	46	45	44	45	48	50	37/56
Beirut	13	14	13	14	16	15	16	16	4/15
MENA	***1,345***	***1,385***	***1,422***	***1,289***	***1,100***	***1,090***	***992***	***892***	***369/655***

Source: World Bank (2008) and AMF (2008), Traded/Listed Firms: from http://www.zawya.com/equities/ -

Table 5: New capital raised (US$ million) 2006-07

A) BY SHARES	2007			2006		
	IPOs	Secondary Offerings	Total	IPOS	Secondary Offerings	Total
Beirut	0	407.8	407.8	0	32.5	32.5
Casablanca SE	524.3	0	524.3	63.3	0	63.3
Amman	606.9	643.1	1,250.0	655.7	2,743.8	3,399.5
Cairo	866.8	2,364.8	3,231.6	316.4	2,936.5	3,252.9
Total	*1998*	*3415.7*	*5,413.7*	*1035.4*	*5712.8*	*6,748.1*
B) BY BONDS	**2007**			**2006**		
	Private sector	Public sector	Total	Private sector	Public sector	Total
Amman	238.1	1,677.3	1,915.4	79.7	1,189.7	1,269.4
Cairo	437.8	2,486.0	2,923.8	130.8	2,613.8	2,744.7
Total	*675.9*	*4,163.3*	*4,839.2*	*210.5*	*3,803.5*	*4,014.1*

Source: http://world-exchanges.org/files/statistics/excel/OTHER%20MARKET507.xls, /EQUITY1007.XLS, and /BOND707.XLS

Appendix Table 1: Yearly Summary 2008

Market	ValueTraded (Million U.S. $)	SharesTraded (Million)	Turnover (%)	Capitalization (Million U.S. $)	Capitalization 2007/2008
Amman	27,079.0	5111.9	75.3	35,984	87%
Cairo	65,166.9	21,071.8	78.3	83,185	62%
Casablanca	14,231.2	222.2	22.4	63,421	84%
Tunis	1,425.4	147.8	22.3	6,382	128%
Beirut	1,515.0	70.0	10.2	14,789	92%
Sub-total	109,417.5	26,623.8	41.7	203,760.9	75%
All Arab	**892,000**	**280,373.7**	**110.7**	**805,562**	58%

Source: http://www.amf.org.ae/pages/Page.aspx?Type=8&id=430&forceLanguage=en (20 Feb 2009)

Appendix Table 2: Sectoral Distribution of market capitalisation
(in percent)

Amman	**2007**
Banks/finance	65
Services	14
Industry	21
Casablanca	**2007**
Banks/finance	25.8
Telecoms	21.9
Real estate	15.4
Construction	12.5
Investment funds	8
Oil and gas	3.3
Agriculture	2.2
Others	8.3
Tunisia	**2007**
Banks/finance	63.2
Telecoms	2.6
Consumer services	11
Consumption goods	11
Industry	4.5
Oil and gas	1.6
Basic material	3.5
Health	2.6
Beirut	**2007**
Banks/finance	60.7
Development and Construction	35
Investment funds	1
Industry	4
Trading	0.1

Source: *Annual reports of the stock exchanges*

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Lebanon- http://www.bse.com.lb/
Libya – http://www.libyastockmarket.com/Index_En.asp
Tunisia - http://www.bvmt.com.tn/

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[i] Throughout this paper MENA will refer to Arab countries less the Arab Gulf, namely: Morocco, Algeria, Tunisia, Libya, Egypt, Lebanon, Syria, Palestine, Iraq and Jordan. Further, in the context of discussions about stocks markets, MENA will refer to sub-group of five economies with sizeable stock markets: Morocco, Tunisia, Egypt, Lebanon and Jordan.
[ii] See Haque et al (2004); Neaime (2005); Squalli (2005); Saadi-Sedik, T., and M. Petri,(2006); Khallouli (2008); Hammoudeh *et al* (2008).
[iii] See individual countries' data in the World Bank's *Country at a Glance* .
[iv] See the IMF's *Country Report* of September 2008 and *Staff Report 2007.*
[v] In Algeria, the Credit Populaire d'Algerie was privatized, while in Morocco's national shipping company was sold to a French firm for $256 million (*World Investment Report 2008*, p.40)
[vi] Data are from various annual reports of the IAIGC.
[vii] See World Development Indicators, April 2008
[viii] See *Euromoney* Magazine (December 2008) and the IMF (September 2008, p.7). Also Oil Invest Group sold a 65% stake in Tamoil for $5.4 billion (*World Investment Report 2008,* p.40)
[ix] The World Bank (2008) reports the market capitalisation of the former at US$96. Listed Libyan firms can be seen on the website of Libyan stock exchange on http://www.lsm.gov.ly. The IMF estimates Libyan stock market capitalisation at 1.4% of GDP (September 2008, p.7).
[x] See for example, *The Guardian*, Saturday October 11 2008, p.9
[xi] Companies included in the S&P Index have a minimum average investable market capitalisation of US$100 million, with at least $25 million actively traded for 1 year prior to their inclusion.
[xii] Arab Monetary Fund data are not always accurately tabulated, which is why other sources are used in places. For example, the 2008 capitalisation is $18.5 billion in "Historical Summary" and US$63.4 billion in the "Most Recent Year Market Performance".
[xiii] Numbers of listed firms on CASE according to its *Annual Reports* was much lower at 595 for 2006 and 435 for 2007. Likewise discrepancies exist between World Bank and AMF data, although they are meant to be the same. I have emailed an enquiry about the matter to the World Bank to no avail.
[xiv] See http://www.world-exchanges.org/member-exchanges.
[xv] See historical data files for 2003 and 2007 on the Beirut Stock Exchange website.
[xvi] BVMT is an unweighted price index for the most frequently quoted stocks. By contrast the main market index, TUNINDEX, is a market capitalization weighted price index open to all established listed companies securities.
[xvii] In Jordan, 17 of the 20 largest companies are listed (OECD 2005).
[xviii] See the National Commission for Corporate Governance, *The Moroccan Code of Good Corporate Governance Practices*, March 2008.
[xix] *Arabian Business* 30 Sept 2008.
[xx] Indeed, this pattern is repeated in Libya, the youngest of these markets, where the market consists of four banks and three insurance companies
[xxi] Local investment funds are now channelling a good amount of capital inflows, particularly remittances (Pfeiffer, 2008).
[xxii] See "Flux des investissments etrangers", http://www.investintunisia.tn/site/fr/article.php?id_article=164
[xxiii] See *Middle East Economic Survey* (31 July 2006) and Kolderstova (2007, p.6), and *The Financial Times*, 15 October 2008.