Financial Integration in Africa – BMCE Group Strategy

Africa has enormous potential, with a population of nearly one billion, an aggregate GDP of some USD 1,035 billion and its highly diversified geographical landscape with an abundance of natural resources. But the continent faces major challenges.

The economic reforms undertaken by several countries with varying degrees of speed and intensity have, in general, had a positive impact on the continent’s macro-economic development and ensured a high level of growth in some countries. The impact of such growth remains modest however by comparison with other emerging economies as measured by real GDP per capita growth for example.

An economic assessment of the continent also conceals major disparities and divergence between countries. Those countries which have been the most conscientious in embracing structural reform have reaped the greatest rewards. The challenge of raising and standardising rates of growth by significantly increasing productive investment remains formidable. Since the budgetary margins of a large number of countries remain inadequate, the bulk of investment must be financed by private capital. This requires a more dynamic private sector and a more efficient financial intermediation system.

The financial sector’s role is therefore to promote investment by raising and allocating capital. It is crucial for strong and stable growth over the long-term, particularly in a context in which the process of international financial market integration has already begun. This process poses a new challenge, which is the continent’s regional financial integration, which will give further momentum to reform of local financial systems and help our countries confront more intense competition on a global scale.

We, at the BMCE Group, are convinced that this challenge can be effectively met by the private sector working alongside the public authorities. The latter’s responsibility is certainly decisive, particularly in terms of providing an appropriate legal and regulatory framework as well as financial system supervision. But private sector initiatives should also prove decisive. BMCE Bank’s own successful track record in sub-Saharan Africa underlines this rationale. In Mali, BMCE Bank actually provided support consisting of capital and technology to the Development Bank of Mali at the end of the ’80s which enabled the latter to become the undisputed market leader in domestic and regional banking. The experience was repeated in the Democratic Republic of Congo where BMCE Bank acquired a majority stake in La Congolaise de Banque (formerly CAIC) in 2003, which it rehabilitated and repositioned as leader in its sector.

The BMCE Group was also one of the first to appreciate the continent’s enormous potential and the virtues of South-South cooperation. From its Moroccan vantage point, it is now focused on regional financial integration, benefiting from the successful modernisation of the local financial system.

The Moroccan market, in fact, is an example of a genuine success story. Its modernisation process was spread over a period of time to provide all participants with adequate time to assess and assimilate the changes. A series of reforms began at the beginning of the ’90s aimed at:

- Strengthening the financial position of the banking system – successive reforms were completed in 2008 with the implementation of the Basel II Accords;
- Stimulating sector competition by privatisations and encouraging the entry of foreign banks into the market;
Emerging Markets Forum

- Broadening the scope of financial markets by establishing a vast pool of liquidity, open to different categories of participant and comprising several segments including asset management, securities brokerage, fixed income activity, foreign exchange and derivatives and corporate debt;
- Strengthening the supervision of financial establishments (in 2006, there were amendments to legislation governing the Central Bank);
- Updating the financial system’s infrastructure including improving audit practices, governance and transparency.

The Moroccan financial system currently enjoys the status of being the most developed and diversified system in both North and sub-Saharan Africa. The banks play a central role in terms of their size, scope and diversified activities.

BMCE Bank has fully played its part as a leading player in this modernisation process by diversifying its business to encompass other types of financial activity since its privatisation in 1995.

BMCE Capital, our investment bank, has in particular played a pioneering role in capital markets. By adopting a position of forerunner, it is now a leading player in Morocco’s fixed income and foreign exchange markets (launched the first fixed income and foreign exchange derivatives), in structured products (launched the first equity options), in asset management (with more than USD 2 billion under management at the end of 2007), in securities brokerage (with a share of more than 16% of the equity market) and in corporate debt and private equity (launched the first real estate and tourism fund and was a pioneer in private equity with the first LBO and OBO transactions).

Morocco has also chosen to open up its economy to the rest of the world. This can be easily measured in terms of the weight of foreign equity – more than 26% – in the domestic banking system. Such liberalisation can also be seen in the context of the free-trade agreements which the Kingdom has entered into, particularly with the United States, the European Union and the group comprising Tunisia, Egypt and Jordan. The set of principles on which this liberalisation process is based cannot fail to accelerate the process of financial integration at a regional level.

Fully aware of the inevitable changes which will occur, our Group has decided to act accordingly. Our successful experience in Mali and in the Congo, as well as the success of BMCE Capital in Senegal since 2003, has convinced us that it makes sense to export this business model to other African countries.

Such reasoning lies at the heart of our new international business strategy which should be, in actual practice over and above the development of our Group, a catalyst for regional integration and development.

BMCE Bank has therefore decided to assume a position as a leading financial player in Africa by extending its coverage to a large part of the African continent by 2015. Such ambition is underpinned by three major objectives:

1. **Strengthen our Geographical Presence in North Africa in Particular and in Africa in General**

A series of important and ambitious initiatives have been taken in this regard. The most recent involves the acquisition of 35% of the Bank of Africa network which now gives us access to more than a dozen new countries in Western, Eastern and Southern Africa.

In addition to this initiative is the presence established in Tunis by Axis Capital, a subsidiary of our investment bank, active in financial advisory services, asset management and securities
brokerage, as well as a presence in Mali, in the Congo (Brazzaville), in Senegal and soon, in Cameroon.

Our investment in the BOA Group is also a key component of our international business strategy as it helps us develop our presence in Africa in terms of network, which is likely to grow further over the next two years, encompassing Algeria, Mauritania, the Ivory Coast, the Gabon, the Congo and Angola.

2. **Establish a Strong Presence in International Financial Markets**

We think that the success of our positioning as a regional player is dependent on our ability to access international financial markets. To ensure the success of our continental growth strategy, we believe that it is necessary to establish a bridgehead between local financial systems and international capital markets, best represented by London’s financial markets. Hence the creation of MediCapital Bank (MCB) which offers a broad range of corporate and investment banking-related products and services; this vehicle should not only enable us to offer our customers the best possible terms for accessing international capital markets but also provide assistance to the largest financial and industrial institutions regarding their investment projects in Africa.

MCB will draw its strength from an extensive origination network in Africa (BOA) which it will endeavour to develop by creating investment banking entities in those African countries with strong potential in partnership with BOA Group.

3. **Create a Powerful Private Equity Platform Across the Continent**

Building a private equity pole remains the final component of this African strategy by taking advantage of our investment bank’s prestigious track record in Morocco in fund management and its reputation amongst international investors. This pole will be provided with the appropriate shareholders’ funds to enable it to attract the capital required to finance large infrastructure and energy-related projects across the continent as well as tourism and real estate projects.

The resources required to ensure the successful implementation of this strategy will be made available. Until now, more than USD 400 million represent funds being managed in Morocco (and which will rise to USD 1 billion with the imminent launch of our Infrastructure Fund) in addition to investment in our highly-skilled human capital. We are convinced that such ambitions, for whose purpose these resources have been allocated, are likely to generate incalculable rewards for our Group, for our economies and for Africa in the years ahead.
The Emerging Markets Forum is a not-for-profit initiative that brings together high level government and corporate leaders from around the world for dialogue on the key economic, financial and social issues facing emerging market countries – a dialogue that concludes with consensus and commitment to actionable outcomes.

The Forum is focused on some 50 emerging market economies in Asia, Europe, Latin America, Middle East and Africa that share prospects of superior economic performance, already have or seek to create a conducive business environment and are of near term interest to private investors, both domestic and international.

The dialogue at the EMF Global and Regional Meetings is based on a Series of papers written by world-renowned authorities exclusively for these meetings.

For more information about the Emerging Markets Forum, please visit our website,

http://www.emergingmarketsforum.org
or email us at:
info@emergingmarketsforum.org