The Sahel

The Role of Private Sector in Regional Development and Integration

Malan Rietveld

Aniket Shah

September 2013

Key Stats

- The private sector contributes approximately 80% of Africa's GDP and over 90% of employment on the continent.[1]
- Total trade (exports and imports) on the continent has increased over 600% from 1990 to 2012, from approximately $200bn to $1.2 trillion.[2]
- The eight focus countries of the OECD West African Futures Project – Morocco, Tunisia, Algeria, Libya, Mauritania, Chad, Niger and Mali – make up 17% of the economic output of Africa, up from 9% twenty years ago.
- Approximately 70% of Africa's exports to China come from four countries: Angola, South Africa, Sudan, and the Democratic Republic of Congo. 60% of imports from China are destined to five countries: South Africa, Egypt, Nigeria, Algeria and Morocco.[3]

I. Introduction

The future development of the Saharo-Sahelian region of Africa will be a challenging process. For the purposes of this paper, we define the Saharo-Sahelian region to include the following countries: Morocco, Tunisia, Algeria, Libya, Mauritania, Chad, Niger and Mali.

First, the Saharo-Sahelian region of Africa is, in aggregate, at a very early stage of economic development, suffering from the inter-related challenges of high population growth, extreme poverty, environmental degradation and political instability. Although some nations such as Libya have relatively high GDP per capita (approx. $10,000) due to large resource endowments, on most human development indicators (caloric intake per capita, life expectancy, maternal mortality etc.), this region underperforms other African nations quite significantly.[4] In addition, Mauritania, Chad, Niger and Mali have consistently ranked as amongst the poorest nations on the continent, with very high incidents of political and military conflict. To break out of this poverty trap will require governments to undertake significant reform and targeted investments – two elements that have been broadly lacking in the region over the past two decades.

Secondly, many of the economies in this region – specifically Libya, Algeria, Mauritania and Niger - are highly-reliant on single commodities (namely oil) as the engine of their economic growth. As many scholars have written in the past, this "resource-curse" presents many challenges for economic diversification, employment, political stability and other societal conditions that are pre-requisites for growth.

Thirdly, the region has become a global breeding ground for terrorism which increases the threat of military action, both internally and externally. Unfortunately, countries as diverse as Nigeria, Mali, Tunisia, Chad, Algeria and more are suffering from an increasing level of civil conflict, driven by religious, ethnic and social

---

[1] African Development Bank. *Supporting the Transformation of the Private Sector in Africa: Private Sector Development Strategy, 2013-2017*

[2] Vinaye Ancharaz. "Trade, Jobs and Growth in Africa: An empirical investigation of the export-led jobless growth hypothesis." African Development Bank

[3] African Development Bank. *China and Africa: An Emerging Partnership for Development.*

[4] UN Human Development Reports International Human Development Indicators and World Bank data

divides. These conflicts have a strong international flavor to them which heightens the chance of conflict in the region.

However, despite the many challenges, there are many reasons to be hopeful for this region.

First, Africa as a continent is growing dramatically. From 2008-2012, the total economic output (GDP) of the African continent grew at approximately 5%, second only to Asia.[5] Below is a table of the growth rates of the eight focus countries of the Saharo-Sahelian region:

<u>Table 1: Economic Growth Rates for Focus Countries[6]</u>

	GDP Growth Rate 2009-2013 % (Local Currency, Constant)				
	2009	2010	2011	2012	2013
Algeria	1.7	3.6	2.6	3.3	3.1
Chad	4.2	13.6	0.1	8.9	3.9
Libya	-0.8	5.0	-62.1	104.5	-5.1
Mali	4.5	5.8	2.7	-1.2	4.8
Mauritania	-1.2	4.7	3.6	6.9	6.4
Morocco	4.8	3.6	5.0	2.7	5.1
Niger	-1.0	10.7	2.2	11.2	6.2
Tunisia	3.1	2.9	-1.9	3.6	3.0
Sub Saharan Africa	**2.6**	**5.6**	**5.5**	**4.9**	**5.0**

Though there is significant variability in growth rates throughout the continent, there will be major regional spillovers from fast growing economies such as Nigeria, Morocco and Libya if economic growth and business expansion can continue to progress. Secondly, domestic businesses are expanding. Africa has been home to some of the most successful entrepreneurs over the past two decades. Mo Ibrahim of Sudan is perhaps the most notable, particularly for the purposes of this paper given the origins of Celtel in Sudan. At the same time, growing African businesses are expanding beyond their borders to enter new markets. There are countless examples of entrepreneurs in the region that have created world-class businesses in some of the more troubled countries in the region.

Thirdly, major foreign economic powers - specifically the United States, China, and Brazil – have undergone major positive reforms in their engagement policies towards Africa, particularly West and North Africa. These policies are the result of a broader understanding of the long-term economic potential of this region.

This paper sets forth our contention that the Saharo-Sahelian region of Africa has a unique, long-term opportunity to catalyze business opportunities because of the confluence of two major megatrends on the continent: a highly constructive foreign investment interest in the region as well as the regionalization of African businesses and financial exchanges.

We believe that governments and businesses have the opportunity to set foundations for the development of successful enterprise. In order to do so, they must set up and reform regional structures to take advantage of these opportunities.

---

[5] IMF data
[6] IMF Data

The key to economic co-operation in in this region is the continuation of private sector development. Given the various political, ethnic and religious tensions in the region, commercial business and trade are the most likely avenues to force tighter regional integration. We believe that the regions have overlapping regional commercial interests, agricultural complementarities, improving transportation infrastructure and an expanding private sector. We also believe that a co-ordination between international investment in the region and the expansion of domestic business will have the greatest outcome for the region.

The paper is structured as follows: First, we will highlight various trade agreements and organizations, foreign and domestic, that are supporting private sector development in the region and what we believe are the keys to their future success. Second, we will highlight three case studies of businesses and regional exchanges that are pushing regional integration through business expansion. Lastly, we will conclude with a framework for future private sector engagement and regional integration.

II. International Trade Agreements and Private Sector Policies: What Is Happening in the Region?

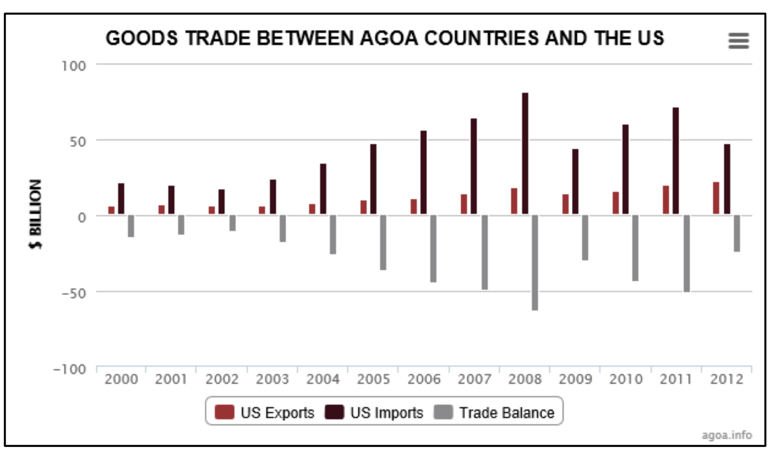
The Saharo-Sahelian regions have a variety of both international trade/investment agreements as well as private sector development policies. Businesses and entrepreneurs operating in the region must have a clear understanding of these policies and any judgment of their long-term feasibility. This section highlights some of the key initiatives taking place.

Foreign investors have always played a major role on the African continent. Starting with colonial rule, Africa has been an economic and investment source of interest for sovereign nations around the world. Over the years, much has changed yet much remains the same. Africa remains a vibrant investment destination due its vast investment opportunities, rising middle class, enormous natural resources and land and more.

We believe that as major investors on the continent, it is imperative to understand the operating frameworks of foreign nations and their investment, trade and aid policies towards Africa. As we look at the roles of China, the United States and Brazil, we are very excited about the possibilities that are created for the Saharo-Sahelian region of the continent.

a) International Trade Regimes and Engagement in the Saharo-Sahelian Region

Figure 1: US Trade Agreements and Initiatives: AGOA and Power Africa

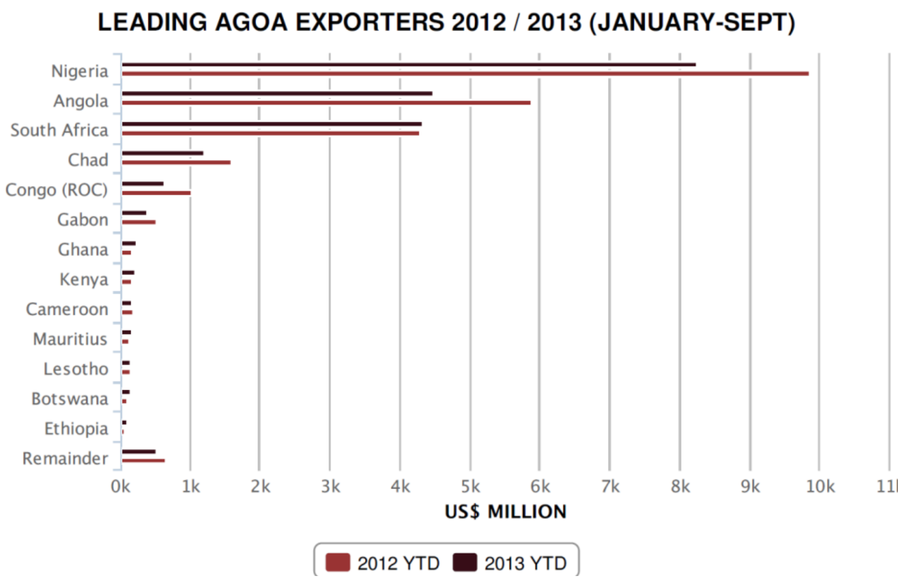


Source: AGOA, United States Government

The United States Government (USG) is in the process of dramatically upgrading its investment and trade policies in Africa. This will have significant benefits for the Saharo-Sahelian region.

Trade: The first major trade agreement between Africa and the United States was the Africa Growth and Opportunity Act (AGOA), which was signed in 2000. This legislation provided trade preferences for quota and duty-free entry for certain goods from countries that were on track to improving their political and human rights conditions. Initially, 34 countries were eligible for AGOA and this number has increased to 40, with countries entering and exiting the list every year. AGOA has been particularly beneficial to North and West Africa, which has seen a 4x increase in trade with the United States from 2000 in nominal terms (which in part can be explained by the increase in global oil prices). It is important that the next round of AGOA negotiations and passage (2015) have special consideration for the Saharo-Sahelian region given broader US interests in the region, given that currently Chad is the only country within the AGOA-designation that benefits considerably from this trade agreement.

Figure 2: Leading AGOA Exporters: 2012 and 2013 (January-Sept)



Trade between the US and Africa, at approximately $70 billion, is highly uneven by country and type of good.[7] Though this imbalance is not a positive for the overall continent, many countries of particular interest in the region – Nigeria, Gabon, Chad, Congo – are significant sources of US imports as can be seen below.

[7] United States Census Bureau Trade in Goods with Africa data

Figure 3: US and Africa Trade Data

Figure 2. U.S. Imports from sub-Saharan Africa by Country, 2011

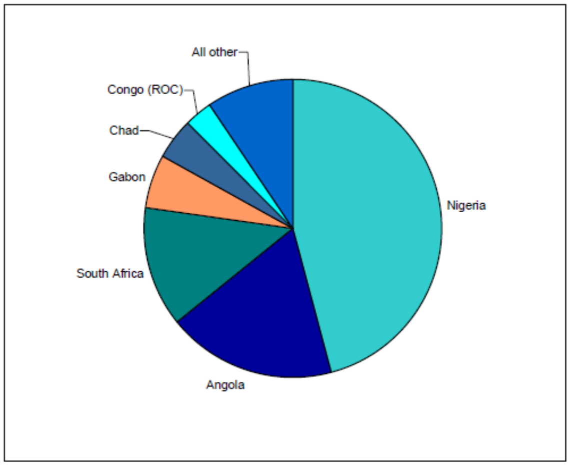
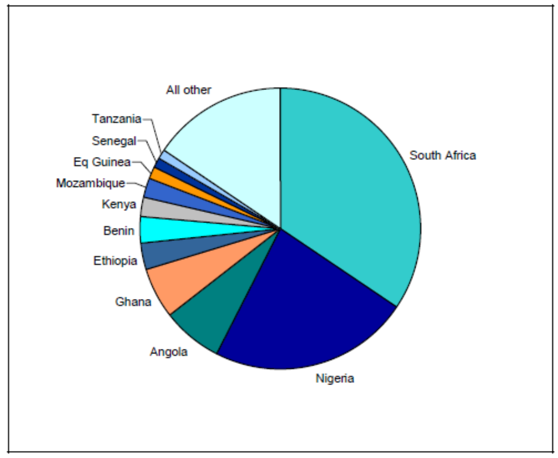


Figure 3. U.S. Exports to sub-Saharan Africa by Country, 2011



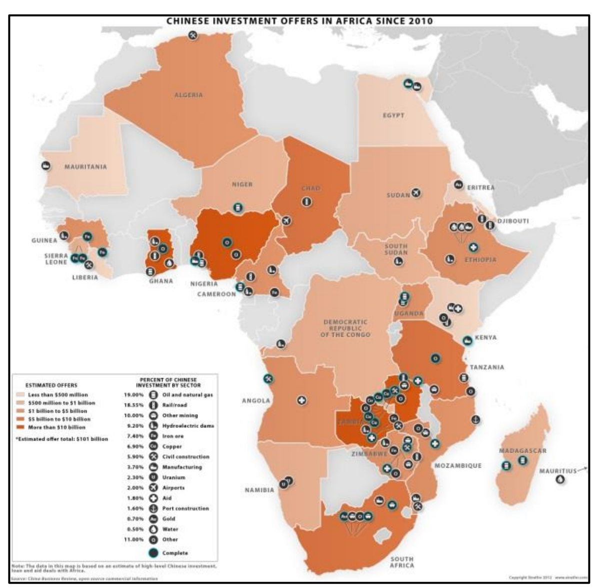
Source: Congressional Research Service

Below is a table with US import and export data for the focus countries of this paper for 2012:

Table 2: Focus Countries Trade Data with US

Country	US Exports to Country (% of Total US Exports to Africa)	US Imports from Country (% of Total US Imports from Africa)
Algeria	**$1,360 m (4.2%)**	**$9,990 m (15.0%)**
Chad	**$36 m (0.1%)**	**$2660 m (4.0%)**
Libya	**$549 m (1.7%)**	**$2493 m (3.7%)**
Mali	**$60m (0.2%)**	**$3.6 m (0.01%)**
Mauritania	**$292 m (0.9%)**	**$0.7 m (0.01%)**
Morocco	**$2175 m (6.6%)**	**$932 m (1.4%)**
Niger	**$37 m (0.1%)**	**$82 m (0.1%)**
Tunisia	**$619 m (1.9%)**	**$738 m (1.1%)**

Figure 4: Chinese Investments in Africa (Source: Stratfor)



Power: The second major investment announcement coming out of the USG recently has been the "Power Africa" initiative. Announced by President Obama on his July trip to Africa, the Power Africa initiative aims to coordinate US business and government investments into the Africa power sector, with commitments of approximately $7 billion to six countries including very importantly Ghana, Liberia and Nigeria.[8] This program is still in its very initial stages, but we expect it to have a significant impact on the business viability of North and West Africa given the severe infrastructure shortages in the region.

China

China's role in Africa has always been a source of tension and debate amongst those involved in African affairs. This section does not seek to rehash the debate but rather focus attention on a few key matters related to Chinese investment in the Saharo-Sahelian region.

Special Economic Zones: Based on the success of Special Economic Zones (SEZs) in China's rapid economic development, China has established four SEZs in Africa, with two of the largest in Nigeria. The establishment of China's SEZs in Africa has been quite sophisticated so far. Under the auspices of the Ministry of Commerce (MOFCOM), the Chinese government provided attractive incentives for both businesses and developers of SEZs, including: subsidies up to 30% of development costs, diplomatic support in working with host governments and ability to apply to the MOFCOM fund to receive a rebate on up to 100 percent of interest paid to Chinese bank loans. Though MOFCOM emphasized the need for investment in SEZ to be based on 'market conditions,' they still had a significant role to play in facilitating investments.[9]

Infrastructure: Chinese FDI towards Africa is a vital component of the two regions' economic relationship. FDI data however are notoriously poor – in both China and Africa. Numerous academic studies have sought to better understand the nature of Chinese FDI into Africa, but none have been able to provide clear data.

Despite the lack of clarity, we do know the following: a) FDI is increasing significantly as Chinese businesses are investing heavily into Africa, b) FDI is similarly concentrated as trade, and c) China is a major infrastructure investor, but not the only player in the infrastructure space. China is going through a transition from bi-lateral to regional infrastructure projects which will test the long-term efficacy of Chinese infrastructures investments in Africa. Though this transition is in its early stages, as China has historically been a provider of bi-lateral investment loans and guarantees to Africa, we are beginning to see the Chinese government play a larger role in regional integration infrastructure, particularly in SADC and ECOWAS regions. The recent announcement of China providing over $1 trillion of financing to Africa, mostly for infrastructure, over the next 12 years, is further evidence that they will be undertaking mega-regional infrastructure projects in the energy and hydropower sectors.[10][11]

The map above highlights some of the major infrastructure projects that the Chinese have initiated on the continent. It is very clear that the Saharo-Sahelian region is of significant strategic interest for the Chinese given the natural resource abundance of the region. The key for infrastructure development will be whether the Chinese government will be able to undertake the needed regional projects.[12]

---

[8] White House Fact Sheet "Power Africa"

[9] Thomas Farole. *Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience.* World Bank Publication 2011

[10] Toh Han Shih. "China to provide Africa with US $1tr financing." http://www.scmp.com/business/banking-finance/article/1358902/china-provide-africa-us1tr-financing

[11] Richard Schiere and Alex Rugamba. "China and regional integration as drivers of structural transformation in Africa." South Africa Foreign Policy Initiative. http://www.safpi.org/news/article/2013/china-and-regional-integration-drivers-structural-transformation-africa

[12] World Bank Group. *Chinese Investments in Special economic Zones in Africa: Progress, Challenges and Lessons Learned.* 2011

Trade: Trade between China and Africa has been increasing at an exponential rate since the 1990s. Chinese imports and exports have increased from approx $1 billion in 1995 to between $60 -$70 billion today.[13]

Despite this meteoric rise in trade between China and Africa, it is important to understand the constituents of this trade. Through this analysis we can begin to understand the true impact of Chinese engagement with Africa.

First, Sino-Africa trade is highly concentrated by country. Approximately sixty percent of Chinese exports are destined for only six countries in Africa: South Africa (21%), Egypt (12%), Nigeria (10%), Algeria (7%), Morocco (6%) and Benin (5%). (The percentages indicate what percentage of overall Chinese exports to Africa are constituted within these countries.) At the same time, seventy percent of Chinese imports originate from just four countries: Angola (34%), South Africa (20%), Sudan (11%) and Republic of Congo (8%).[14] Therefore, the notion that China 'is buying up Africa' is not necessarily true – there are specific regions and countries that have large Chinese economic interests, which are the main recipients of Chinese trade partnerships.

<u>Brazil</u>

Over the past decade, Brazil has made Africa a major pillar of its foreign policy – in trade, investment, aid and more. Former President of Brazil Lula made twelve official visits to Africa during his eight years in office, making him one of the most widely-travelled heads of state in Africa. Brazil's orientation towards Africa is best summed up by remarks given by President Lula in 2009:

> *"Brazil is not coming to Africa to expiate the guilt of a colonial past. We also don't see Africa as an extensive reserve of natural riches to be explored. Brazil wants to be a partner for projects of development. We want to share experiences and lessons, add efforts and unite capacities."*

Brazilian economic engagement with Africa has a markedly different dynamic than that of China or the United States. As a country, Brazil shares many characteristics with parts of Africa – language (for Portuguese-speaking region), large resource base, tropical agricultural issues, poverty and impacts of environment degradation and climate change. As a result, Brazil is a natural partner to African nations as they navigate these challenges.

<u>Figure 5: Brazilian Agriculture Projects in Africa (</u>Source: World Bank)

Figure 4: Brazilian agriculture projects in Africa

Source: Embrapa/Ministério da Agricultura, Pecuária e Abastecimento [Embrapa/Brazilian Ministry of Agriculture, Livestock and Supply] (2011), *Africa. Continent of Opportunities*, Brasília.

Through Brazil certainly has very strong commercial relationships with African nations, the stand-out characteristic of its engagement is its role as a knowledge partner. This cannot be under-stated, and is arguably at the center of Brazilian strategy in Africa. As Christina Stolte succinctly writes, **"**Brazil has positioned itself vis-à-vis Africa as a partner for development, rather than a business partner." There are three areas where Brazil is most closely working with Africa: tropical medicine, tropical agriculture and energy. The chart above shows the extent of Brazilian agricultural project in West and Northern Africa. Given the challenges of agricultural production in the region, this is very important for the development of the continent.

In 2008, Brazil's national agricultural institute EMBRAPA opened its first office in Ghana. Since then, EMBRAPA's work has spread to over 15 countries on the continent and is providing free knowledge transfer in soil improvement, seed adaptation and more. This institution is also leading projects to replicate successes in the Brazilian savannah and improve agribusinesses in Africa. On such example is the Cotton Four Project, a model cotton farm that aims to increase productivity and quality in Benin, Burkina Faso, Chad and Mali.

The Cotton Four Countries – Benin, Burkina Faso, Chad and Mali – have been major recipients of Brazilian technology transfer to improve cotton farming techniques since 2008. The objective of this project is to implement nine Brazilian cotton varieties developed by EMBRAPA to organize a supply chain that is more profitable for the local economy. The first action was to refurbish an experimental station in Mali and implement a demonstration unit as a tool to support further research. Given the importance of improvement in agricultural productivity for African development, these types of projects and involvements from Brazil will be very important for the continent.

Given the high concentration of Brazil's projects in the Saharo-Sahelian region, this will be a boon for the longer-term development of the region.[15]

b) <u>Domestic Regimes and Involvement in the Saharo-Sahelian Region</u>

There are various initiatives on a country-by-country basis to improve the climate for business. One useful framework to think about the conditions for doing business is "soft infrastructure" vs "hard infrastructure." Soft infrastructure includes all of the legal and financial conditions a country must establish for businesses to thrive. This includes regulatory control, anti-corruption legislation, political stability, and very importantly access to finance. Hard infrastructure includes the physical infrastructure in place to ensure the smooth functioning of business – power, transport infrastructure, information technology systems and more. We believe that recent initiatives coming out of the African Development Bank in both hard and soft infrastructure have the biggest potential impact for the future of business in North and West Africa out of the various initiatives taking place on the continent.

<u>Africa Development Bank Private Sector Development Strategy 2013-2017 and Infrastructure Initiatives</u>

The African Development Bank has highlighted Private Sector Development as one of five key operational priorities in its 2013-2022 project. This major initiative we believe will be very important for the development of the Saharo-Sahelian private sector climate. There are two specific points that we believe could be catalytic for the region.

Infrastructure:

In July 2013, the African Development Bank announced the approval of the Africa50 Fund, by far the most innovative and bold infrastructure financing vehicle set forward by any development agency or bank

---

[15] World Bank Group. *Bridging the Atlantic: Brazil and Sub-Saharan Africa South-South Partnering for Growth*

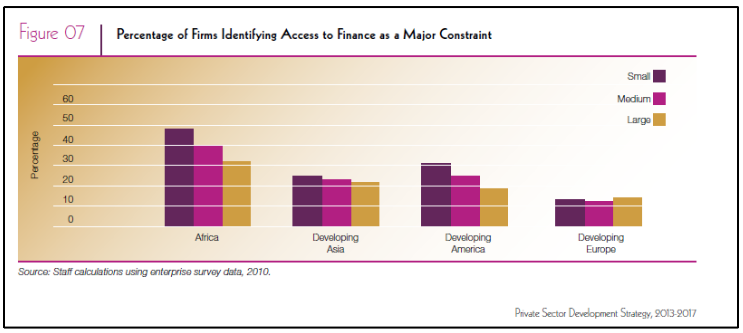
operating on the continent. To meet the approximately $100 billion a year infrastructure gap on the continent, this fund will seek to raise approximately $20 billion in equity and then issue single-A rated debt to finance coordinated, multi-country, regional infrastructure investments throughout the continent.[16] Though more specific plans have not been publicly released, there is significant hope that the Africa50Fund will address some of the key infrastructure shortages of the Saharo-Sahelian region.

Access to Financing:

North Africa and West Africa rank very poorly on the World Bank's Doing Business Surveys, with the Middle East North Africa (MENA) region's average ranking at 93 and the Economic Community of West African States (ECOWAS) at 149 out of a total 183 countries.[17] One of the key challenges highlighted in the 2012 Annual Reports for both regions is the "access to financing" for small and medium sized businesses, which make over 30-40% of employment and output in the region.

As part of the African Development Bank's "Private Sector Development Strategy 2013-2017," the Bank has outlined key operational priorities around improving access to financing for businesses throughout the continent. Having spoken with many entrepreneurs in the Saharo-Sahelian region, this will be of utmost importance to them as well.[18]

<u>Figure 6: Financing Constraints for Africa</u>



Source: African Development Bank

III. <u>Regional private sector development: finance, telecommunication and capital markets</u>

Policies to promote and enable economic development in the Saharo-Sahelian region should focus primarily on promoting agriculture, education and building largely absent public infrastructure (particularly in Sahel). These economic imperatives call for urgent public policy initiatives and reforms that place the primary burden of responsibility on the state and national governments.

---

16 African Development Bank. "Africa50 Infrastructure Fund Background." http://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/africa50-infrastructure-fund/background/

17 World Bank. *Doing Business Regional Profile: Economic Community of West African States (ECOWAS) 2012.* And World Bank. *Doing Business Regional Profile: Middle East and North Africa (MENA) 2012.*

18 African Development Bank. *Supporting the Transformation of the Private Sector in Africa: Private Sector Development Strategy, 2013-2017*

However, the massive task confronting public policymakers should not obscure the powerful role private sector agents can play in the region's economic development. Most promisingly, the Sahel and the broader Saharo-Sahelian region are well positioned to benefit from strong private-sector commercial developments taking root on its periphery. In particular, thriving businesses from the Maghreb and Francophone West Africa have in recent years shown great interest in expanding and innovating beyond their home markets into neighbouring markets within the Saharo-Sahelian region. Some of the earliest private sector movers on this path have tasted success in these efforts, with commercial expansion proving to be a boon for growth and corporate earnings at a time of anemic growth and high saturation levels in their home markets.

In this section, we profile the experiences and strategies of firms that have expanded their scope beyond their home markets and seen success in countries of the Saharo-Sahelian region. The examples focus on two modern service sectors, namely financial services and telecommunications, where established businesses have enjoyed success by entering regional markets with comparatively low penetration rates. In the area of financial services, we will consider the case of Attijariwafa, a Moroccan banking and financial services group, as well as the potential of the burgeoning Bourse Régionale des Valeurs Mobilières, the regional stock exchange for the West African Economic and Monetary Union, to facilitate business development across the region. With regard to telecommunications, we will consider Sonatel, a telecommunications group from Senegal.

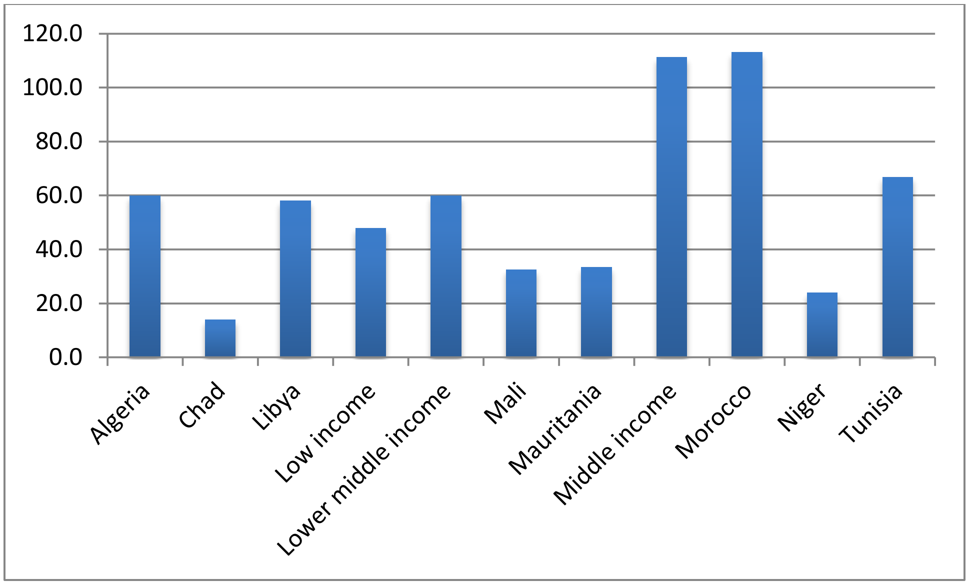
Financial services: the regional expansion of Attijariwafa

The financial services sector in the process of dramatic overhaul and restructuring in all four corners of the African continent. Mergers, acquisitions and policy reforms are changing the African banking industry, in particular, at a bewildering pace. Historically, this space has been inhabited by a small number of local banks and selected global financial giants who maintained the foothold gained in the aftermath of colonialism and through linguistic-cultural ties – consider, for example, the strong historical position of French banks in Francophone Africa and British banks in the likes of Kenya, Ghana and Nigeria. This pattern started to change in the 1980s with the arrival of American and Swiss financial services firms on the African financial scene.

In recent years, international expansion in African financial services has received a renewed boost from major Arab, and particularly North African, businesses seizing opportunities to their immediate South; and from aggressive forays by South African banks into the rest of continent. The former trend has important implications for financial services development in the Saharo-Sahelian region. North Africa remained largely untouched by the trends that have characterized the Sub-Saharan banking system over the last decade: sweeping regulatory reform, recapitalization, the consolidation and concentration of domestic industry, and the increased interest and presence of foreign players. However, change is certainly underway, as established North African and Middle Eastern banks look to expand beyond their home markets, often in cooperative way.

As the data in Figure 7 shows, on one the most commonly used indicators of financial sector development – the ratio of broad money to GDP – the North African countries are at a level commensurate with that of the average lower-middle-income country, while the most financially developed country in the region, Morocco, is even slightly above that of the average middle-income country. In sharp contrast, we see that the Sahelian countries to the south – Chad, Mali, Niger and Mauritania – are all below that of the average low-income country.

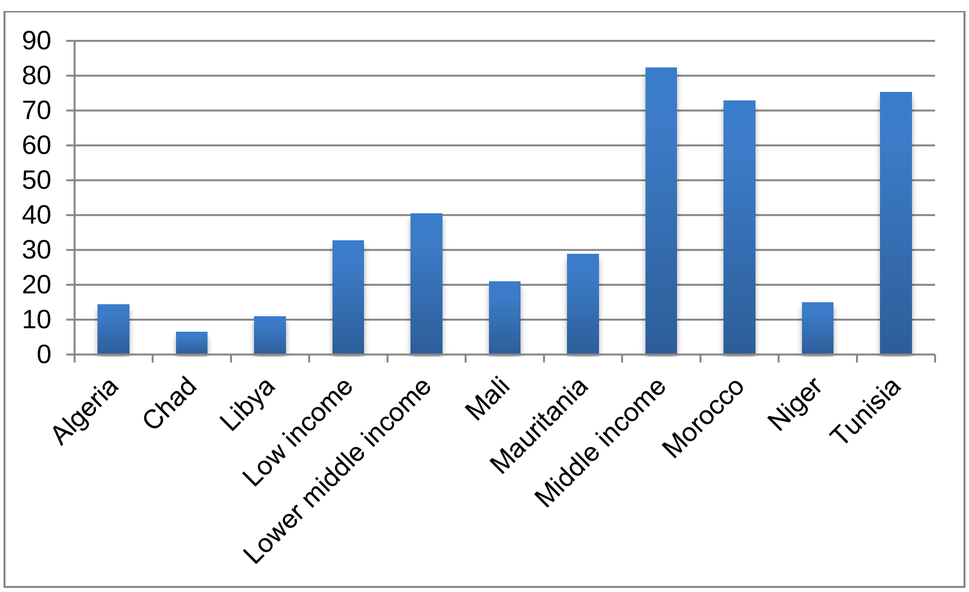
Figure 7: Comparative indicators of financial sector development *(Broad Money/GDP)*



Source: World Bank, *World Development Indicators*. All data are for 2012, except for Libya where 2009 is the latest available data point.

Figure 7 above underlines the lack of financial sector development in countries in the Sahelian region, compared to that of their North African neighbours. The lack of financial sector development presents a significant development challenge for Sahelian countries, particularly to broader private-sector development in these countries. Figure XX shows the similarly under-developed state of lending to the private sector in the Sahel region, compared to North Africa and other low- and low-middle-income countries worldwide. But it also simultaneously offers some scope and opportunities for a southward expansion into relatively "unbanked" and "under-financed" Sahelian countries by financial services businesses from North Africa, particularly Morocco, which is relatively well developed financially.

Figure 8: Comparative indicators of lending to the private sector *(Domestic credit to private sector as % of GDP)*



Source: World Bank, *World Development Indicators*. All data are for 2012, except for Libya where 2009 is the latest available data point.

There are a number of reasons why established North African banks are likely to thrive in an environment European incumbents have found difficult to navigate. The transformation in legislative and regulatory environments can generate uncertainty and risk for foreign players, whereas local banks are closer to regulators and better understand their objectives and strategies. Second, expansion across the Maghreb and into the Sahel (and even in some instances into the largely Islamic northern regions of countries below the Sahara) requires expertise and experience in Islamic finance. In both these areas, banks from the Middle East and North Africa have an advantage over their Western (and sub-Saharan) competitors.

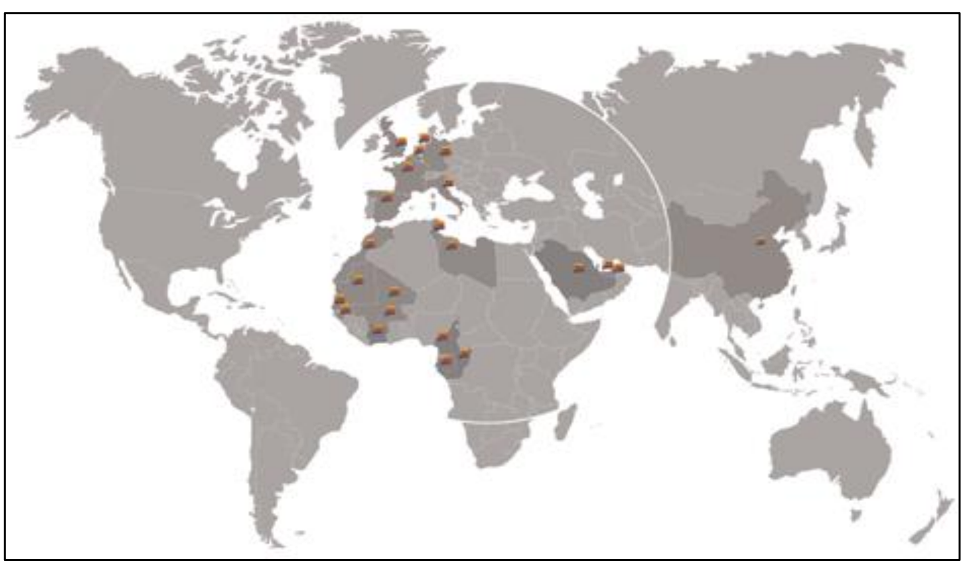
The ongoing regional expansion strategy of Attijariwafa, a leading Moroccan bank, neatly encapsulates the above-mentioned trends. Attijariwafa Bank is the largest banking and financial group of the Maghreb and the West African Economic and Monetary Union. In addition to banking, the group operates through specialized subsidiaries in a range of other financial businesses, including insurance, mortgage lending, consumer credit, asset management and securities brokerage. Attijariwafa is headquartered in Morocco and operates in 22 countries, including Tunisia, Senegal, Guinea Bissau, Mali and Mauritania.

Table 4: Attijariwafa – a Moroccan bank with regional reach

Employees	14686
Branches in Morocco	1791
Branches in the Maghreb	181
Branches in West Africa	279 43
Branches in Central Africa	43
Representative offices in Europe and the Middle East	58

Source: Attiwarijafa Group

Figure 9: Attijariwafa's regional and global presence



Source: Attiwarijafa Group

One of the potential stumbling blocks for North African banks seeking to expand their foothold across the Saharo-Sahelian region (and potentially beyond it) is overly conservative (and often protective) regulatory frameworks and requirements. High capital requirements imposed by the home regulator, for example, can make it very difficult for a strong national bank to consider expansion beyond its own borders and home market. Indeed, high capital requirements imposed by the Moroccan central bank has been seen as an impediment to regional expansion in the case for Attiwarijafa.

The lack of domestic savings pools and the relative absence of deep capital markets make the raising of capital to finance such expansion prohibitively expensive. Regulators need to consider relaxing regulatory, particularly capital, requirements in some North African market in order to allow and enable geographic expansion (while, of course, maintaining a sufficient degree of prudence to promote domestic financial stability). In addition, deeper local and regional capital markets will, over time, make it easier to raise capital to finance such expansion. However, these developments will take a number of years to materialize, and in interim there are signs of increasingly deeper ties between well-positioned and regionally focused North African banks and deep-pocketed providers of capital in the Middle East. Attiwarijafa has, for example, been in discussion and partnership with the sovereign wealth funds of Qatar, Kuwait and Abu Dhabi. Middle Eastern sovereign wealth funds are able to provide stable long-term capital by taking direct stakes in businesses they favour, without placing the same premium on stock market liquidity and turnover that other institutional investors, such as first-world pension funds, do. The link between North African businesses looking to expand into neighbouring markets in the regional and long-term sovereign-backed investors from the Middle East will be an important feature of private-sector led developing in North African and the Sahel in the coming years, as capital markets develop and deepen over the medium- to long-term.

Expansion into the Sahel, the Maghreb and selected Sub-Saharan markets are not so much an indicator of boldness as a long-term strategic imperative for the likes of Attijariwafa, which is reaching a point of saturation and slow-down in its domestic market. As with other Moroccan banks, Attijariwafa's expansion into the Sahel, the Maghreb and Sub-Saharan markets are increasingly viewed as a major strategic advantage. Recent financial results for Attijariwafa Bank and Banque Marocaine du Commerce Exterieur underlined the positive effects of this policy: in 2012, for example, their respective consolidated balance sheets showed that the positive contribution of regional markets on revenue and profitability.

Not surprisingly, Attijariwafa's current three-year strategic plan (2012 – 2015), focuses in particular on "the acceleration of regional development [and] establishing Attijariwafa bank as a pan-African benchmark", which will contribute to "regional integration against a backdrop of slowing economies and profound political and social changes."[19]

Sonatel: growth on the Saharo-Sahelian doorstep

As noted above, the expansion of North African businesses, with strengthening ties throughout the Arab world, hold significant promise for investment, development and growth in the Saharo-Sahelian region. In addition to this, there are similarly encouraging signs of expansion into Sahelian countries by established West African businesses from south and west of the Sahara – most notably, from Senegal and Ivory Coast, and the

[19] Attijariwafa Annual Reports

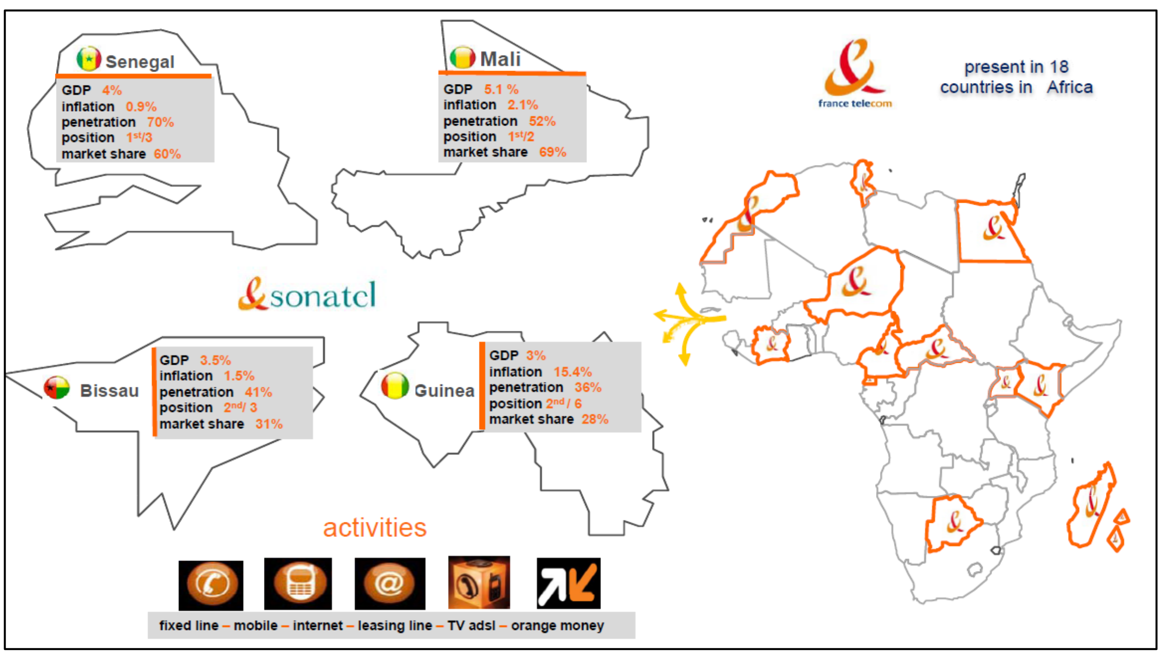
wider West African Economic and Monetary Union (which includes the Sahelian countries of Mali and Niger).

A striking example of this dynamic is Sonatel, a Senegalese telecommunications company that has established itself as the leading operator in Mali and is looking to expand further in the region. Sonatel is listed on the Bourse Régionale des Valeurs Mobilières, the regional stock exchange for the West African Economic and Monetary Union, which underlines the potential for capital market and wider trade and financial integration in West Africa. As the example of Sonatel demonstrates, while the countries of the Sahel region may have their strongest historical, economic and cultural links with countries to the north of the Sahara, it would be a mistake to underestimate the potential for private-sector led growth and development emanating from other high-growth economies on its doorstep in West Africa.

Sonatel is a particularly interesting case to examine, as it combines a number of additional themes that are shaping business and commercial development in West Africa: namely, the company was born out of the privatization of a former state-owned enterprise; and it retains significant state ownership, as well as a European majority shareholder (Orange S.A.). These themes are prevalent across Africa and are particularly common in the continent's rapidly evolving telephony and telecommunications sector.

Sonatel provides a wide range of telecommunication services including fixed, mobile, internet, television and data services. The group is the dominant provider in Senegal and has been active in Mali since 2003, where it is now the market leader, and in Guinea and Guinea Bissau since 2007. As of June 2012, the company served some 15.9 million subscribers. France Telecom/Orange has been the main shareholder in the business since its privatization in 1997. The company's shareholding structure has not changed significantly since then: France Telecom/Orange holds roughly 42% of the company shares, followed by the State of Senegal (27%), the staff (6%), while the remaining 25% is held by public investors through its listing on the Bourse Régionale des Valeurs Mobilières (where it is the most liquid and actively traded stock).

Figure 10: The Sonatel and France Telecom/Orange footprint in Africa



Source: Sonatel

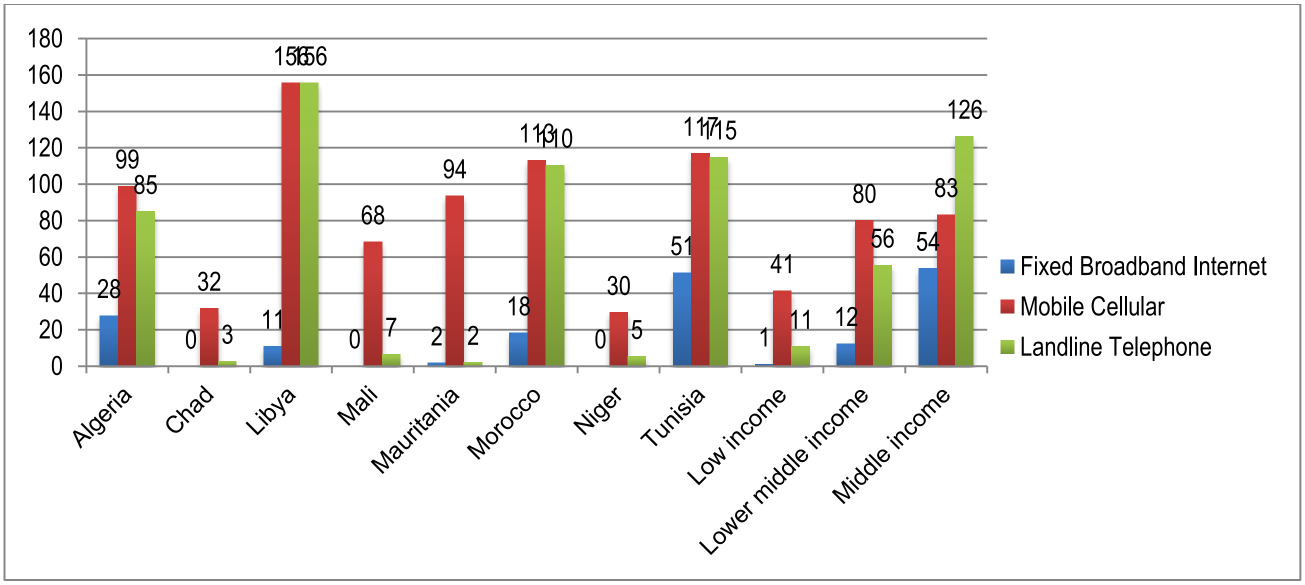
While the biggest contribution to Sonatel's bottom line still come from its home market in Senegal, it operation in Mali in particular have become an essential driver to new business growth and profitability. Compared to Senegal, its operations in Mali are very profitable given the lack of competition it faces (for the time being) and the comparatively lower penetration rate. As of 2012, some 62% of the group's revenues come from Senegal, versus 29% from Mali, while the former accounts for 58% of net income versus 35% from Mali. Its historical market is still by far the greatest contributor to Sonatel's results, but Mali is now its most profitable market with a net margin of 31.3% versus 24.2% in Senegal. As is the case with Attijariwafa, discussed above, Sonatel is seeking out new markets in the region in order to sustain growth as its home market reaches saturation and its profitably declines due to its dominant existing market share. Sonatel has enjoyed a highly successful first decade in Mali, building up to a 64% market share and a client base of 9.5 million in the country, and in so doing brought an attractive and important innovation to the Malian population and economy.

Sonatel's regional expansion strategy is likely to evolve over the coming decade. In Mali, it now faces increasing competition – currently, its only rival is Sotelma, but a third entrant is imminent after the government of Mali awarded a third mobile license to Planor-Monaco Telecom, a Burkinabe and French consortium (who beat rival tenders from India's Bharti Airtel and Vietnam's Viettel Global Investment). In Mali, Sonatel's strategy requires maintaining market share for mobile phone usage, while expanding internet usage. The introduction of basic mobile data services (3G), as well as ADSL and WiMAX, has started to accelerate, but Mali's landlocked location has historically maked it dependent on neighboring countries for international fibre optic bandwidth, which has kept prices high. This is set to change with the recent arrival of several new competitive international fibre optic cables in the region, many of which Sonatel was actively involved with developing.

The second pillar of its growth strategy is likely to include further regional expansion. Sonatel is likely to benefit from France Telecom/Orange's existing presence in an additional 14 African countries – a list that analysts expect to grow through possible acquisitions or entries in countries such as Mauritania, Gambia, Libya and Algeria.[20] As shown in Figure XX above, the combined Sonatel-France Telecom footprint in West and North Africa is already significant – it is highly likely that the group will see expansion into growing markets of the Sahel region, as well as "filling in the blank spots" in its North African presence (Libya and Algeria) as a major medium-term strategic priority.

Figure 11: Telecommunications access in the Sahara-Sahelian region

[20] All data in this section from Sonatel Annual reports



Source: World Bank, *World Development Indicators*. All data are for 2011. Internet and landline data is fpr the number of individuals out of 1000 with access; while mobile phone data is for the number of individuals out of 100 with access.

More generally, the Sahel region is likely to see significant interest from established telecommunications companies from neighbouring countries in West and North Africa, as well as potentially those from other parts of Africa, Europe, the Middle East and Asia. Global mobile telephony giants, such as Vodafone and Orange are capable of entering new markets such of those in the Sahel through existing or prospective local subsidiaries; while emerging-market companies, notably Zain (Kuwait), MTN (South Africa), Maroc Telecom (Morocco) and Bharti Airtel (India), already has very significant footholds in markets on the periphery of the Sahel.

As shown in Figure 11, subscription rates (a key indicator of market penetration and maturity) across broadband internet, fixed and mobile telephones lag behind those of North Africa and global low-, lower-middle and middle-income country groupings. This is particularly true for internet and fixed landline telephone access; while in the case of Mali and Mauritania, there has been some increase (above the typical low-income average) in mobile phone penetration. In both of the latter two cases, the use of mobile phones has leapfrogged that of landlines (which remains very limited), indicating the strategic commercial advantage in mobile telephony, which does not have to rely on an existing or "legacy" national infrastructure.

Bourse Régionale des Valeurs Mobilières: a blooming frontier stock market

As noted above, Sonatel is the largest and most actively traded stock on the Bourse Régionale des Valeurs Mobilières, the Abidjan-based joint stock market for the countries of the West African Economic and Monetary Union: Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, Togo and Guinea-Bissau. The example of Sonatel underlines the potential for companies from the West African Economic and Monetary Union that are looking expand into the Sahero-Sahalian region to raise capital to fund such initiatives on the regional exchange.

It will be of great benefit to the region and the companies operating in it if the Bourse Régionale des Valeurs Mobilières can continue to grow, deepen and expand through new listing, more active trading and enhanced liquidity. The link between capital market development, private sector growth and economic prosperity is widely acknowledged by development economists, even if some academic debate remains around the direction of causality.[21] The development and growth of a West African regional stock exchange will enable companies to raise capital to finance regional growth and expansion – reducing their reliance on bank lending and capital.

Currently, Sonatel alone accounts for a staggering two-thirds of trading volume on the exchange, with the remaining one-third largely occupied by Ivorian and other agricultural firms. The latter group, which includes fertilizer, seed, commercial farming and agro-processing businesses, can play a pivotal role in economic development, employment and sustainable poverty reduction in the Saharo-Sahelian region. By attracting foreign investors and emerging local savings pools, the Bourse Régionale des Valeurs Mobilières will be able to develop further and play a constructive role in financing private-sector business development. The exchange and the leading countries involved in it have clear "frontier market" that are increasingly attracting the attention of long-term investors. As of September 2011, Standard & Poor's classified the 36 countries as frontier markets, including nine African countries: Botswana, Ghana, Kenya, Mauritius, Namibia, Nigeria, Tunisia, Zambia and Cote d'Ivoire (home to 33 out of 39 companies listed on the Bourse Régionale des Valeurs Mobilières).[22]

The continued emergence of the Bourse Régionale des Valeurs Mobilières needs to be understood within the context of its position as a quintessential "frontier equity market" – a less-developed, less-explored sub-category within the broader emerging market classification. Frontier markets have attracted significant global investor interest in recent years. The appeal of frontier markets, which do have the downside of being illiquid, small and expensive to access, is that their expected returns are: (i) high over the long run, despite periods of volatility, and (ii) uncorrelated with the fluctuations in the global financial markets (to a much larger extent than the traditional emerging markets, which tend to accentuate global fluctuations).

The Bourse Régionale des Valeurs Mobilières has the potential to demonstrate these characteristics and attract more foreign investor interest if the market can continue to grow and deepen. At this stage, the lack of listings, and especially the lack of liquidity (outside of the dominant Sonatel) remains a hindrance to greater foreign investment in the market. However, the vibrant economic growth in West and North Africa, coupled with closer regional economic integration that provides the requisite scale and breath for regional companies, provide the ideal backdrop for the deepening and expansion of this truly frontier equity market.

In summary, there are significant developments taking place in terms of private-sector-lead economic development in North Africa and on the West African doorstep of the Saharo-Sahelian region. We have profiled the examples of a Moroccan-based financial services firm and a Senegalese telecommunications company that have made highly successful forays out of their home markets into the wider Saharo-Sahelian region. In addition, the potential contribution of a deeper and more liquid regional stock exchange in driving investment and business growth across the region is very significant. A growing regional stock exchange will establish an alternative to direct, bank-driven lending and financing, diversify the capital base and funding sources of West and North African private corporations.

---

[21] Demirguc-Kunt, A., Feyen, E. and Levine, R. (2011). "The evolving importance of banks and securities markets," Policy Research Working Paper Series 5805, The World Bank, Washington, D.C.

[22] See Standard & Poor's Frontier BMI (Broad Market Index).

Naturally and appropriately, government economic policies for the Saharo-Sahelian region should focus on poverty relief, nascent agricultural development, and social and infrastructure needs. However, ignoring the current and anticipated future role of the private sector in the economic fortunes of the region would be a major oversight.

IV. A Framework for Future Engagement of Private Sector

This paper has provided our perspective on some of the dynamics facing the Saharo-Sahelian region of Africa vis a vis global investment and domestic enterprise expansion. We believe that this region of Africa in particular could significantly benefit from a long-term, regional development strategy that takes into account many of the dynamics that we have listed above: highly constructive and varied international investment approach (from United States, China, Brazil and other countries), regional-and-continent wide development initiatives coming out of the African Development Bank, organic enterprise expansion from businesses emanating from regional economic players (Morocco, Nigeria, Ghana etc.), and finally the development of regional stock exchanges that can help provide capital-raising mechanisms for the growing number of enterprises on the continent.

To that end, we believe that ECOWAS and CEN SAD (Community of Sahel-Saharan States, official Regional Economic Community established in 1998 by the African Union) should announce the creation of a "Saharo-Sahelian Regional Development Strategy" in 2014. This Development Strategy should be written in consultation with Heads of State and Ministers of Finance of all countries in the region, local business leaders and major international investors and sovereigns.

Below we set out what we think should be the five major tenets of this development strategy:

I. Regional Infrastructure Development

Using both global investment channels (ODA, China, World Bank) as well as the African Development Bank's recently announced Africa 50 Fund, the region should put forward high value add infrastructure projects in transportation and electrification. These will be financed by a combination of public and private money and break through regional bottlenecks for development.

One very important element of the regional infrastructure agenda will be the aviation industry. Currently, the aviation sector in the focus countries – outside Morocco and Tunisia - is severely under-developed. Though the African continent is undergoing a rapid development in this sector, the Sahel is lagging due to a broader under-development. This is a topic that should be further analyzed in a future paper.

II. Regional Entrepreneurship Fund

With financing from major regional financial institutions specifically from Nigeria and Ghana, an Entrepreneurship Fund should be established with approximately $500 million of initial capital. This will help spur small and medium enterprises in targeted sectors based off of the Economic Complexity framework listed above.

III. Global Enterprise for the Sahel Coordination Group

The Development Strategy would include a specific initiative to bring global enterprises to solve two major issues: 1) Provide best practice knowledge to local business leaders on regional expansion throughout the Sahel and 2) Increase employment opportunities for local educated workforce. This Coordination Group would focus on issues of regional expansion and work with government and trade ministers to improve business climate.

IV. Develop Cross Listings Between Major Stock Exchanges on the Continent

The creation of the Bourse Régionale des Valeurs Mobilières is an important first step in developing a more sophisticated and regional financial services infrastructure. The next step will be to allow the largest companies from this exchange to be listed on major African exchanges in Nigeria, South Africa, Egypt, Ghana and Kenya – the five largest exchanges on the continent. This will help businesses diversify their investor base and help spread some of the success stories of the region.

V. Target Overseas Development Assistance Towards Health and Education

The Saharo-Sahelian region suffers from some of the lowest health and education levels on the continent. These are two sectors that are not prime to be fixed by private sector engagement. As a result, the Development Strategy should look at targeted investments in the health and education sector using models pioneered over the past two decades including the Millennium Villages Project by United Nations and The Earth Institute.