BANKING SERVICES IN AFRICA:
THE REGULATORY AND INSTITUTIONAL DIMENSION?
Consolidation, privatization, human resources and
good governance

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INTRODUCTION

The focus of this paper is on financial liberalization, which is the removal of restrictions or regulations in the financial system. Financial liberalization cannot be detached, in a developing economy, from the banking consolidation and privatization, the human resources challenges and the good governance.

The regulatory and institutional frameworks (RIFs) of financial services and particularly banking dimension is the key to real and financial development in Africa. Africa has committed more than a quarter of a century to the process of financial liberalization. The current crisis has confirmed the need to better control market mechanisms in order not to jeopardize economic growth, human development, and better manage risks.

Financial and banking regulation is vital to ensure sustainable economic development. It seeks systemic stability and a good functioning of financial system as an engine of real development. This goal can be achieved if some basic micro-economic conditions are met. These conditions concern mainly:

- consolidation and banking restructuring.
- banking privatization,
- upgrading of human resources, and
- good banking governance.

Financial and banking regulation should not be a simple piece of legislation and remain at the stage of good intentions. It must first be an economic strategy based on a multidimensional gradualism (see diagram below). It can only succeed if some basic conditions are met.

The financial RIF is a process whose success depends on the participation of local actors.
All African countries are not at the same stage in terms of banking RIFs. In the table below, we will give by way of illustration some examples of problems related to banking RIF by country.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Banking Strategy and Financial RIFs: Some Challenges</th>
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<tr>
<td>Tunisia</td>
<td>Status quo in privatization. Banking governance difficulties.</td>
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<td>Libya</td>
<td>The banking and financial liberalization has been more rapid than the upgrading of human resources in financial matters. Urgent needs in terms of bank management.</td>
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<td>Togo</td>
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</tr>
<tr>
<td>Nigeria</td>
<td>Strategy of M&amp;A banking &quot;cross border&quot; source of regional instability. Monetary instability.</td>
</tr>
</tbody>
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Source: Adapted from author.
The problems identified in the table above will be expressly examined. Specifically, in the sections that follows, the will address three aspects.

1. The evolution of banking and financial services in Africa: issues of financial liberalization as a key basis for real development.

2. Analysis of some national banking and financial experiences. The paper discuss the "success stories" but also consider the difficulties faced by some countries in regulating the process of liberalization.

3. Lessons from national experiences in regulating banking and finance. The idea is to provide some suggestions to local regulators on how to better develop the overall architecture of their domestic financial systems and better prepare them for the international opening with a global context where market volatility dominates.

1. FINANCIAL SERVICES IN AFRICA: FINANCIAL LIBERALIZATION AND REAL DEVELOPMENT

During the 1980’s and 90’s and with "subprime crisis", the increase in financial instability shook up the idyllic vision of the financial liberalization. The difficulties concern mainly the banking sector and they spread out in some countries in form of systemic crises.1

Financial liberalization aims at the passage from a regulated economy to a liberalized one 2. It reflects the effects of the financial sector on the economic growth. The liberalization of interest rate and the nominal interest rate rise lead to an increase of saving and investment, and finally economic growth. The end of “financial repression” and the adoption of a real positive interest rate would be favorable to savings. Financial repression makes reference to governmental restrictions established by the regulation of interest rates, the fixing of the obligatory reserve rate at a high level, the administrative orientation of the credit allocation and the limitation of banking competition.

This liberalization aims a structural change, banking integration and more financial deepening. From this point of view, the theory behind financial liberalization considers that governmental restrictions on the banking system reduce the quantity and the quality of investments. Interventions of the State on the financial system would induce a negative effect on the growth rate. Financial liberalization on the other hand is considered to

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1 Arestis and Demetriades (1997 b), specify that since 1980, more than a hundred developing countries have been affected by banking crises having as consequence the insolvency of banks and the loss of depositor confidence. The direct cost of these crises has been supported by the taxpayer. It represents a substantial amount: 50% of the GNP for Kuwait, 30% for Chile, 20% for Venezuela and more of 10% of GNP for Mexico, the Czech Republic and Hungary.

2 It has become common to attribute the paternity of financial liberalization to McKinnon (1973) and Shaw (1973) even if that can go back to A. Smith (1776).
encourage the liberalization of national banking sectors and foreign bank penetration aims to increase competition, transfers of know-how and financial operation transparency. This implies also the development of stock markets.

Several studies confirm the existence of a first order positive relationship between financial liberalization and economic growth\(^3\). They consider that the financial development level is a good indicator of the future rate of growth, capital accumulation and technical change. The financial system influences thus technological innovations, investments, and growth. However, with liberalization the expansion of the financial sector involves a lot of consequences on growth and some fundamental questions need to be examined.

**Characteristics of the African banking and financial services system**

African banks remain very small compared to global giants. Total assets of the top 200 African banks should reach about 1,000 billion dollars. Together, these 200 African banks are placed at 21\(^{st}\) rank of major global banks. The largest bank in Africa from South African, Stanbic Bank, is 24 times smaller than the first bank in the world. Moreover, the financial systems remain fragmented, heterogeneous but changing relatively fast.

The essential features of African banking and financial services system remain the following:

- Low coverage: The traditional banking sector meets only a marginal fraction of needs with maximum 5% rate of bancarization in sub-Saharan Africa, despite some progress in recent years and the willingness of Central Banks to reach 10% in 2010. It must however take into account penetration of MFIs (Microfinance Institutions), often more important.
- A great heterogeneity and rapid change today: The last 20 years there has been a deep clean. Today there are few banks in difficulties and most meet the requirements of bank charges. These mutations result by an unprecedented effort to modernize especially in information technology, privatization and diversity in ownership - there are only very few state banks and those that remain are usually in search of private shareholders today - in case Togo.

The obstacles to development however are more related to external causes, including: problems in energy supply, political instability, insecurity, bad governance, etc.

\(^3\) Levine (1997).
Financial liberalization: lessons from the literature and risks to avoid

The African banking system is currently being liberalized. The literature on financial liberalization should be reminded to avoid errors and risks of opening up too fast. It is important to take into account the social reality and the real economy.

Financial Liberalization and real Growth: the Order of the Causality issue

What is the source, what is the effect? Should we consider finance as a motor sector of economic growth or simply as a consequence of economic performance? Early in economic history, the banking sector was seen as an engine of growth. It represents one the most beautiful inventions ever made. But some skeptical authors wonder if finance really induces an impact on economic activity.

Schumpeter studied this subject matter for the first time in 1911. The author considers that financial services represent an essential element in the promotion of economic growth. The process of production requires credit. The idea is that one can become an entrepreneur only by first becoming a debtor. In the capitalistic firm, the entrepreneur first wants credit that is purchasing power. The banker is considered then as the intermediary contributing to the production of goods and as the pillar of a market economy. Later some empirical studies tried, in the tradition of the IMF, to verify that the more developed a financial system is, the more economic growth allows to develop finance.

Financial Liberalization and Savings: a weak Relationship

Empirical examinations of the relationship between the interest rate and the saving rate in countries with an early liberalized financial system have not led to the determination of a significant positive correlation between the two variables. Financial development does not directly stimulate savings progression.

This conclusion is the result of a "wealth effect" induced by the rise of the interest rate on deposits. This rise does not encourage some very poor agents to save more money. They leave the amount of their savings unchanged. Simultaneously they benefit from the same financial income amount because the interest rate rises. This wealth effect can be observed in most OECD countries despite the interest rate rise during the 80’s. The rate of savings decreased on average from 15.2 % in 1980 to 10.8 % in 1997. For African countries this rate decreased as well. The global internal savings rate in percentage of the GDP rose from 19.3 % in 1965-73 to 23.3 % between 1974-1980. Nevertheless, the tendency turned inside out because the savings falling to 18.5 % during the period 1981-87 and to 16.7 % between 1988-1996. Consequently, we may consider the existence of a decreasing function of savings in relation to the real interest rate?

Financial Liberalization and Financial Structures: Are Financial Systems well specified?

The weakness of some empirical results and especially the fragility induced by financial crises in emerging countries lead to thinking that financial systems have been taken into account theoretically and without the right specifications. The consequence has been a superficial connection of the financial intermediation to

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4 It is the case of Robinson (1952) even if his contribution in 1979 is clear and less hesitant concerning the creation of purchasing power by banking. Note that the second President of United States, John Adams, went as far as accusing banks of causing harm to the morality, to the tranquility and even to the wealth of nations.
6 Average savings rate of households as a percentage of the available income calculated from 6 countries: the United States, Japan, Germany, France, Italy, the United Kingdom and Canada.
7 Involving a group of 50 countries according to UNCTAD and World Investment Transfer, 1997.
8 Villieu (1997).
macroeconomic phenomena. The role of banks does not seem to have been taken into account appropriately and does not appear to be essential. In macro-economic approaches, the financial system is summarized in a simple equation of money demand completed by a negative relationship between the interest rate and the level of investment.

But the heterogeneity of financial systems is acknowledged today. There are important differences between countries. The traditional classification presents two types of financial systems: based on banks (bank-based) and based on the stock market (capital-based). The first system is characterized by an important participation of banks in industry. A small number of banks finance long term investments. Companies are controlled and managed by a small number of inside shareholders holding the largest number of shares. Banks intervene effectively into firms’ affairs and the management and supervision team. Firms are therefore linked to banks with credits that they raise rather than bonds that they issue on the Stock market. There are very few mergers and changes of control. Therefore, banks directly play a key role in the process of growth. In case of weak performances, the firm managing team is discharged thus avoiding costs induced by hostile control plugs. Such financial systems can be found in Japan, in Germany (2/3 of banking credits to the industry are long term credits) and in Southern Korea.

On the contrary, financial systems based on the stock market - as those of the United Kingdom and the United States - are characterized by a strongly developed stock market. The banking system does not contribute strongly to the resource allocation and to the financial asset acquisition. Stock Market intermediaries mobilize the essentials of the long term funds. This market appears as the best means for mergers and controls operations. Companies are owned by a large number of shareholders each holding a small number of shares, which therefore implies a strong capital dilution. Companies depend on external control. This strong external control is held by institutional investors as pension funds and insurance company funds.

Financial Liberalization and the traps of the Financial Sequencing Process

The bank-oriented financial system is often considered as an administered system. It is defined as a State-assisted or State-engendered system. On the contrary, the stock market-oriented financial system is defined as a liberalized system. This viewpoint is close to the financial repression thesis, which is often presented in an evolutionist perspective. The financial system would then evolve through a succession of stages moving from banks towards the market. One often refers elsewhere to the sequencing of liberalization. This typology is usually defined with two opposite cases, on one hand, administered or regulated financing and, on the other hand, deregulated or liberalized financing. To simplify matters drastically, this sequential process becomes grotesque and caricatural by comparing banks to administration and stock markets to liberalization.

This «unilinear» evolutionist vision has to be specified. It is more judicious to claim the heterogeneity of financial systems according to their specificities which result from the mutual relationship between industry and finance. The emphasis is put on financing sources. Thus the financial system’s configuration is determined by more or less important banking credit availability. If firms have easy access to credit then the stock market is low-developed and banks can even control it. The banking debt level then determines the control and supervision degree of firms by banks as well as their level of control by the stock market. A level of high banking debt leads to financial systems in which the role of banks is important and the presence of stock markets is weak. However, in the case of a weak level of banking debt, the sanction and the control of projects come from the financial market.

10 This distinction would date back to Gerschenkron (1962) quoted by several authors whose Goux (1993, p.210), Arestis and Demetriades (1997 a, p.4).
Things suitable for the North are not necessarily so for the South

The success of the financial liberalization depends on the local actors’ behaviors. These behaviors depend on informal local usages and practices. One of the main difficulty in the construction of an efficient financial system is the recognition of the role of the time which is necessary for the local actors’ adherence to the new institutions. This time is longer than the time required for the installation of the institutional reforms.

Indeed, actors do not adopt instantaneously financial product innovations and institutional change. They need time, which is necessary to evaluate changes through practice. Costs induced by this effort of evaluation are compared to existent benefits resulting from existent informal practices. This is the reason why the formal definition of new specific institutions from developed countries by developing countries is not an immediate and absolute guarantee of better performance and development. Weaknesses in the theoretical structure of financial liberalization have promoted the appearance and the amplification of financial crises in emerging countries.

2. NATIONAL EXPERIENCES IN THE FIELD OF BANKING AND FINANCIAL LIBERALIZATION

2.1 - WEAKNESSES IN EMERGING COUNTRIES REVEALED BY THE FINANCIAL CRISIS

The optimistic vision of financial liberalization is obscured by the increase of the financial instability of these last years. Some difficulties occurred by emerging banking sectors have transformed into systemic crises. It was the case of Chile in 1981 where banks faced the financial sector liberalization. This experience shows that the benefits of financial liberalization have to be considered and compared to the increase in costs induced by the financial weaknesses. Three main factors have promoted the emerging economies weakness: the lax attitude of central Banks, the absence of adequate competences concerning risk management, and effects of risk contagions induced by a too rapid economic opening of capital account.

The Central Bank Guarantee as a "Lender of Last Resort": is it essential?

Institutional imperfection problems go with the passage from a close economy to a liberalized one. They are generated by the implicit deposit guarantee that the Central Bank offers to banks. The opportunistic behavior of commercial banks, which guarantee the insurance to be helped in case of a lack of liquidities, has promoted their excessive risk commitment which is a source of inefficiency. With this implicit guarantee as a "lender of last resort" and in the absence of a «benign neglect» or a «constructive ambiguity» as for the Central Bank’s intervention, banks have multiplied their credits and have been committed on very risky activities. This situation of "moral hazard" has changed into a perverse effect that is an excessive banking credit allocation. The
«overborrowoing syndrome» is an expression of a credit boom. It constitutes a threat to the financial stability of developing countries.

In industrialized economies, the solution, which is commonly adopted to exit a financial crisis, is that the Central Bank plays the role of last resort moneylender and leads an expansive monetary policy. It seems that such a policy considered in emerging countries has promoted inflation. The depreciation of the national currency leads then to a rise of interest rate with all the consequences that one can imagine on the statements of banks as well as on the accounts of firms and households. The role of the Central Bank as a generous last resort moneylender has therefore to be envisaged in more prudently in emerging countries.

The Difficulties in managing Risks

The liberalization of interest rates increases their volatility. This new situation requires a more elaborate management of risks supported by the portfolio of banks. However bankers habituated to a regulated financial system not necessarily have neither the knowledge nor the experience to manage these risks. The risk project evaluation and their demand control competencies were not acquired during all the period where the credit system was regulated by the State. Such competencies are difficult to import from foreign countries. They are acquired gradually by the «learning by doing» process. This learning process must be based on appropriate training needs. It should allow better management of credit risks. The credit must be allocated according to economic criteria and not on relational criteria. The updating of human resources is therefore essential at all levels of the process of financial liberalization. It must allow technological and financial innovations sources of value creation.

Financial Liberalization and the gradually updating of Human Resources

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<tr>
<th>Financial Liberalization</th>
<th>Updating Human Resources to create new financial products</th>
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<tr>
<td>Financial Innovation</td>
<td>Updating Human Resources to manage new risks</td>
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<tr>
<td>Market Volatility</td>
<td>Updating Human Resources to create new industrial products</td>
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<td>Growth</td>
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Source: author.
Financial liberalization has changed in many countries with a diminution of the international capital movement control. The early liberalized financial systems were committed on a new type of risk: the exchange rate risk induced by the raising of funds on international capital markets and their transformation in credit risks drawn in currencies to local agents. This monetary disparity or « currency mismatch » transforms the risk of exchange into a risk of credit allowed by non protected debtor agents. It is not therefore surprising that exchange crises precede banking crises and contribute to the early liberalized financial system’s vulnerability.

The Tequila Effect: from the Currency Risk to Banking Bankruptcies

By a contagion effect the currency risk borne by borrowers transforms into credit risk for banks having granted credits drawn in foreign currencies. The choice of short term credit in currency allows avoiding the risk induced by inflation. Indeed, emerging countries suffer from high rates of inflation whose evolution is very volatile and uncontrolled. This is the reason why the strong uncertainties on the future value of the national currency make that an important quantity of the debt is drawn in foreign currencies. It was the case of Chile before the financial crisis of 1982 and in Mexico before the Tequila crisis of 1994. A depreciation (or a national currency devaluation) consecutive to speculative attack leads to a fast increase of debt costs for domestic firms. Their net value falls because of the rise in interest rates. The consecutive devaluation due to the currency crisis in emerging countries leads to an alteration of the exchange pegging rate immediately involving an increase in the anticipated inflation. The consequence is an increase of nominal interest rates and an immediate increase of the cost of the short term debt involving the reduction in the firms’ liquidity whose balance sheets are deteriorated. A currency crisis then transforms into an extensive financial crisis.

Firms having contracted credits in dollars and escaping the risk induced by the inflation of their national currency suffer from a severe degradation of the balance sheet because the value of their liabilities in foreign currencies increases considerably. Thereby, firms face difficulties in refunding their credits, which translated into a deterioration of the balance of the domestic banks and precipitate their bankruptcies. The erosion of the net value of domestic firms therefore affects the domestic stock market. Because this decline, the net firm value can no longer serve as collateral. Such a situation leads banks and moneylenders to being more reticent to lend to these firms. Thus we see a contraction of economic activity. This context can lead to a financial crisis and to a strong contraction of economic activity. The stock market faces difficulties and is no longer is able to insure efficiently the allocation of resources to most productive projects. The result is a productive investment decline.

11 Mishkin (1999) note that the exchange crisis that has undergone the United Kingdom in September 1992 has not induced the devastating effects that Mexico experienced during the depreciation of its currency in 1994-1995, the rise of interest rates not having had the same effects on growth.
2.2 – THE SITUATION OF FINANCIAL SERVICES IN AFRICA AND THE CHALLENGES OF THE GLOBAL FINANCIAL LIBERALIZATION

How the African banking industry is facing global financial liberalization today? Africa is affected by the crisis indirectly, including through: lower exports, lower FDI, lower support. This is view stated by Dominique Strauss-Kahn in March 2008: "I do not believe in the theory of decoupling. Nobody is immune. I speak rather of lag time ... declining growth prospects in emerging countries ... the transmission of the financial crisis to the real sector starts to be significant".

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Source: Worldbank

The GDP of Africa, according to calculations of the World Bank is declining in 2009.

The global banking crisis: has it affected African banks?

Banks no longer trust. They have lost confidence in the interbank market. Global stock markets continue to decline despite the injection of billions from the central banks and state. What exit scenarios can be envisaged? The question is therefore how to restore confidence? Some think it will pass by a new Bretton Woods but the world of the twenty-first century is not that of 1944. We are in a globalized world and there are no barriers to capital flows as before.

It is necessary to renew the contract of trust that binds Finance the business world and the real economy.

In banking major concerns now dominate. The crisis has called into question certain beliefs. Many doubts were expressed about what was unanimously accepted a few months ago. For example, the principle of "too Big to fail" has been weakened because Lehman Brothers is no more after 158 years of existence. Faced with this changing world where do the African banks stand today? Banks in African and Maghreb in particular seem protected against "toxic" investments. With a weak banking services or rate of bancarization, on average between 6% and 20% across countries, the African banking market is still promising (Le Noir and Saidane (2009 and 2010). How can the large African banks deploy an effective strategy for expansion in the turbulence of globalization? This question is now central to policy makers in African banks.

Source: Adapted from author.
With the global financial liberalization, some banks appear more dynamic. Those of South Africa are regarded as leaders. Those from Nigeria are characterized by dynamism and remarkable progress. Those of the Maghreb have known exceptional modernization with Moroccan banks becoming more aggressive outside their national territory. Some African banks are already in the strategy of consolidating their market and follow the logic "predator-prey". Such logic may pose risks.

2.2.1 - THE SITUATION OF FINANCIAL SERVICES IN AFRICA

**South Africa:** 6% of African banks of the Continent: 45% of total African banking balance sheet, 32% of net African bank revenue. The rate of bancarization is above 50%. A leading financial place in Africa and the world. 5 of the 6 largest banks on the continent, 18th global stock market capitalization.-A highly concentrated banking system: some 75 institutions representing nearly 40% of the total banking system. The Standard Bank is the first bank. It is double of ABSA the second bank with Islamic banking solutions - subsidiary of Barclays. The profitability of banks draws foreign banks. In 2007 20% stake in Standard Bank is now owned by the Chinese bank ICBC. Note also the partnership agreement between Nedbank and Ecobank.


In **Morocco** the banking system is concentrated: 16 banks today against 20 in 2000 but heavily upgraded with new ambitions in Sub-Saharan Africa for two of them – BMCE and Attijariwafa - and a stronger presence in Europe. We note the recent creation of MEDICAPITAL, merchant bank of BMCE with headquarters in the City of London. BMCE announces plans to expand in Europe and Africa. Moroccan banks are highly concentrated in three banks Crédit Populaire, BMCE, Attijariwafa. The later is the first with 27% market share and 64% of total assets.

In **Tunisia** there are many banks: 20 banks. The 2 most important are still public. They are fragile because of the importance of bad loans including a few large companies. However, there are interesting experiments in the field of institutions specific funding for Small Business (Banque Tunisienne de Solidarité - BTSand BFP-PME), as well as venture capital that is often used reference on the Continent.

In **Algeria**, the banking sector is dominated by the state. The privatization is difficult in Algeria and Libya. The 6 state banks in Algeria still carry 90% of the national banking. The incident of Khalifa Bank blocked the process of modernization and liberalization of banking in Algeria.

**Libyan** banks are interested in facilities in sub-Saharan Africa. It is the case of the Libyan Arab Foreign Bank and the BSIC group. The latter wants to settle in thirty African countries of the Community of Sahel-Saharan States (CEN-SAD) by acquiring
subsidiaries in Burkina, Niger, Mali, Togo, Mauritania and Chad. There will modernize
the banking sector, including call abroad (BNPParibas, Arab Bank). We note excellent
performance as the doubling of total assets in one year.

Some banking cross border Mergers & Acquisition are developed between Morocco and
Tunisia. For example, the Tunisian Banque du Sud was purchased by Attijariwafabank.
The rates of banking services or “bancarization” and variously high: 37% in Morocco,
42% in Tunisia, less than 20% in Algeria and higher in the rest of Africa. The number of
agencies or branches is higher in North Africa: 1 for 7300 people in Morocco, 1 for
10,000 in Tunisia, 1 for 26,000 in Algeria compared to 1 for 2400 in France and 1 for
99,000 in West African Economic and Monetary Union (UEMOA).

**Mauritania** presents another special case. Its banking system has been completely
restructured since 1990. There are now 11 banks that share the 125,000 accounts. There
are many applications for approval to the Central Bank of Mauritania from other North
African countries like Tunisia and Morocco from Gulf countries and even Malaysia.

**Nigeria:** 9% of African banks, 11% % of total African banking balance sheet, 13% of net
African bank revenue. Big changes in the banking system in 2004: considerable
revaluation minima on equity (minimum in 2004 multiplied by 125). Result: reduction to
25 the number of banks from 89 before. This strengthens the financial structure and
liquidity risks, but political and legal levels. Strong dependence to oil sector and
predominance of state on the credit market. 12 banks among the top world's 1000, the 1st
is 355th with 4,000 branches and 15th at the African level: United Bank for Africa -
UBA. This bank employs 150,000 employees with 560 branches. It has a market share of
17%. 8 Nigerian banks are in the top 50 of the continent. Domination of local ownership
and a weak opening to foreign capital. The Guaranty Trust Bank was the first African
bank listed on the London Stock Exchange. UBA has opened a subsidiary in London
investment bank - UBA Capital - which will build a portfolio of investments in Africa. A
new Nigerian bank offensive is considered to UEMOA, CEMAC (The Economic
Community of Central African States).

**The rest of the English-Speaking Africa:** 13% of total African Banks and 3% of total
balance sheet and 5% of banking total revenue. A strong presence of British banks as
Barclays Bank which is present in 13 countries and U.S. banks and South Africa banks
but also domestic private capital. Banking systems are very competitive: 45 banks in
Kenya, including 22 in the "top 50" in Africa, 34 in Tanzania. A high prudential
requirements. A rate of banking services (bancarization) greater than in French-speaking
area: 11% in Tanzania, 19% in Kenya, 13% in Uganda.

**The French-speaking Africa:** 17% of African banks, 3% of total balance sheets and 6%
of total banking revenue. A level of banking services still insignificant: less than 5% of
the population are unbanked. Banks remained under the influence of former colonial
power for long time. The number of banks became too important in West Africa: 20 in
Côte d'Ivoire, 17 in Senegal, 13 in Mali, 12 in Burkina Faso and Benin (with a population
of only 8.4 million).
The very marked differences remain between the two currency areas: At the WAEMU (UEMOA) the emergence 20 years ago of regional banks as BOA (Bank of Africa) and Ecobank and recently Bank Atlantic leads to an overshooting or overcapacity in banking services with 120 financial institutions and 47% more banks than 5 years ago. The number of French-owned banks has declined considerably with less than 30% of the market today, against 80% 25 years ago. The number of branches increases considerably in the last 2 years to reach about 1000 branches.

At the CEMAC zone the number of banks remains the same than five years ago in WAEMU zone (UEMOA): 12 in Cameroon (same number as the Benin but with twice the population). 6 in Gabon, 4 in Congo.

2.2.2 - FINANCIAL LIBERALIZATION, BANKING RESTRUCTURATIONS AND FINANCIAL SERVICES IMPROVEMENT: THE MAGHREBIAN EXPERIENCE

The weight of the Arabic Maghreb banking system (Egypt, Libya, Tunisia, Algeria, Morocco and Mauritania) in Africa is important. Of the top 50 banks in Africa, in terms of balance sheet in 2009, there are 25 banks from North Africa with an amount of 350 billion U.S. dollars, or 80% of the total. In this classification, Egypt ranks first with total assets of around 120 billion dollars (with 22 banks), Morocco is ranked second with total assets of around 96 billion dollars (with 7 banks), and Algeria with a total of 62 billion dollars (with 7 banks), and Libya with a total of 44 billion dollars (with 4 banks) and finally Tunisia with a total of 27 billion dollars (with 9 banks).

The North African banking systems have undergone profound changes. Several financial reforms were aimed at the consolidation of banks' capital and strengthening the stability of their activities.

Since the 1990s, the central Maghreb countries, Algeria, Morocco and Tunisia, undertook extensive financial reforms to strengthen their banking systems and strengthen their stabilities through mergers between financial institutions. These consolidations meet requirements in terms of capital suggested by the international rules of Basel.

The process of nationalization after independence

In Morocco, Bank Al-Maghrib (BAM) has been entrusted by the Dahir No. 1-59-233 of June 30, 1959, issue of the currency and the task of ensuring its stability and its convertibility and ensure the proper functioning of the banking system (supplemented by Act of July 6, 1993, regarding the performance of the business of credit). In 1959 are created Caisse des Dépôts et de Gestion (CDG), the Fonds d'Equipement Communal (FEC), Caisse d'Epargne Nationale (CEN), the Banque Nationale pour le Développement Economique (BNDE) and the Banque Marocaine du Commerce Extérieur (BMCE). In
Morocco, the nationalization of the sector was characterized by reducing the number of banks. It was reduced from 69 to 26 between 1954 and 1961 and from 26 to 16 between 1961 and 1966, due to movements of mergers and disappearances of some institutions.

Algeria, with the law n° 62-144 of December 13, 1962 established the statutes of the Central Bank of Algeria. It has established a national banking system. The first step has allowed the creation of two funds the Caisse Algérienne de Développement (CAD) and Caisse Nationale d'Epargne et de Prévoyance (PSC). From 1966, it was nationalized foreign private banks: Banque Nationale d’Algérie (BNA, 1966), Crédit Populaire d’Algérie (CPA, 1966) and Banque Extérieure d’Algérie (BEA, 1967).

Tunisia by the law n° 58-90 of September 19, 1958 created and organized the Central Bank of Tunisia (BCT). The BCT’s overall mission to preserve price stability. It created the Societe Tunisienne des Banques (STB, 1957), Societe Nationale d'Investissement (SNI, 1958) and the Banque Nationale Agricole (BNA, 1959). The application of Law No. 2001-65 of July 10, 2001 has ensured a more liberal environment for the exercise of banking business.

Current architecture of the Maghrebian banking system

Morocco
The Moroccan banking system is largely privatized. It is characterized by a high concentration. In 2005, the share of 3 largest banks by assets (Attijariwafa Bank, Credit Populaire of Morocco (CPM) and Moroccan Bank of External Trade (BMCE)) on a total of 16 banks is 64.1%. These banks controlled 66.8% of the deposit market and 54.1% of the credit market.

In 2006, besides the 32 financial companies and 6 offshore banks, the banking system in Morocco is composed of 16 banks (Arab Bank Plc, Attijariwafa Bank, Bank Al-Amal, Crédit Populaire du Maroc (CPM)\(^\text{13}\), Banque Marocaine du Commerce extérieur (BMCE Bank), Banque Marocaine pour le Commerce et l’Industrie (BMCI), Casablanca Finance Markets (CFM), CDG capital, Citibank Maghreb, Crédit Agricole du Maroc (CAM), Crédit du Maroc (CDM), Crédit Immobilier et Hôtelier (CIH), Fond d’Équipement Communale (FEC), MEDIAFINANCE, société générale Marocaine de Banques (SGMB), Union Marocaine de banques (UMB)). The number of establishments has declined since 2001 following the movements of merger and rationalization of the sector.

Algeria
The financial sector in Algeria is trying to deregulate from 1998. But it is dominated by public banks, which represent 91.4% of total bank assets in the sector. At the end of 2005, they were collecting deposits of 93.3% and 92.6% of distributed funds. Until June 2006, the Algerian banking system consisted of 19 banks and 7 financial institutions.

- 7 state-owned banks, Banques Extérieure d’Algérie (BEA), Banque Nationale d’Algérie (BNA), Crédit Populaire d’Algérie (CPA), Banque de Développement Local (BDL), Banque de l’agriculture et du développement rural (BADR), Banque algérienne de développement (BAD), Caisse Nationale d’Epargne et de Prévoyance (CNEP).
- 1 Mutual Bank (Caisse Nationale de Mutualité Agricole (CNMA))
- 11 foreign private banks, CitiBank, Arab Banking Corporation (ABC), Natexis Algérie, Société Générale Algérie (SG Algérie), Arab Bank PLC Algérie, BNPParibas El Djazaïr, Trust Bank Algeria, Housing Bank

\(^{13}\) The CMP includes the Banque Centrale Populaire and 11 regional banks.
for Trade & Finance-Algeria, Algeria Gulf Bank, Calyon Algérie (filiale du Crédit agricole) et Al Salam Bank, Al Baraka-Algérie.

- 7 financial institutions including three privately owned by Algerians (Sofinance, Société de refinancement hypothécaire (SRH), Salem (société de crédit bail), Financière algéro-européenne de partenariat (Finalep), Arab Leasing Corporation (ALC), Cetelem France et Maghreb Leasing Algérie)

**Tunisia**

There are 20 banks with 5 national banks and 8 offshore banks.

**State banks:**
- Banque Nationale Agricole (BNA), Société Tunisienne des Banques (STB), Banque de l’Habitat (BH), Banque Tunisienne de Solidarité (BTS), Banque des Financement des Petites et Moyenne Entreprises (BFPME)

**Private Banks:**
- Attijari bank, Banque Internationale Arabe de Tunisie (BIAT), Union Bancaire pour le Commerce et l’Industrie (UBCI), Union Internationale des Banques (UIB), Banque de Tunisie (BT), Arab Tunisian Bank (ATB), Amen Banque (AB), Arab banking Corporation (ABC), Tunisian Qatari Bank (TQB), Banque Tuniso-Koweitienne (BTK), Banque de Tunisie et des Emirates (BTE), Citibank, Banque Tuniso-Libyenne (BTL), STUSID BANK, Banque Franco-Tunisienne (BFT).

Within this system, commercial banks are the dominant player, although the Tunisian banking landscape is changing from a regulated sector specialist to the concept of universal banking. The first five banks in terms of assets are: STB, BNA, BIAT, BH and Attijari bank. They control more than 50% market share of deposits and loans, and nearly 45% of net banking sector. The biggest problem which the Tunisian banks face is that of disputed claims (17.9% for private banks, 24.1% for state banks as the international standard is 6% (Source IMF).

Among the regulatory initiatives aimed at finding the optimal size, we can cite the example of the Tunisian Law of July 10, 2001 which provides a new framework for the banking system. It abandons the distinction between deposit banks, development banks, offshore banks and investment banks. It adopts the concept of "universal bank". This law opens the way for the consolidation and diversification by seeking economies of variety. This was the case in 2000 from the merger STB, BDET and the BNDT.

Source: Adapted from author.

**The banking services in the Maghreb: The rate of bancarization**

The rate of bancarization expresses the level of banking services and is measured by the percentage of households having at least one account at a bank. Tunisia has a relatively comprehensive and sophisticated banking system. The rate of bancarization is among the highest in Africa (60%). For comparison, in France the rate is near 99.9%. In Morocco the rate of bancarization is still modest, about 25%. While in Algeria's rate is lower, less than 20%.

**The Maghrebian banking market: new horizons to explore**

In the Maghreb, Moroccan institutions have been particularly aggressive or conquerors. After Maghreb Titrisation which stalled in June 2005 a warrant of arrangement and management of BIAT securitization transactions, Attijariwafa Bank has partnered with its shareholder Banco Santander to buy 53.5% stake in Banque du Sud in October 2005. The investment bank BMCE Capital bought in 2000, 50% stake in Axis, Tunisian company specialized in the business of financial advisory, asset management and financial intermediation. This gave birth to a new Tunisian-Moroccan Investment Bank "AXIS Capital".
The Tunisian side, "Maghreb Leasing Algeria", Offshore leasing company, was established in Algiers by the group "Tunisie Leasing" in partnership with Amen Bank, the third private bank in Tunisia. The new entity will give priority to become a privileged partner of SMEs and corporates in financing their equipment and materials necessary for their activities.

Besides these Maghrebian Financial Mergers, it is foreseen the creation of a new institution, "Banque Maghrébine d’Investissement et de Commerce Extérieur" (BMIC), which will operate across the whole Maghreb Union and with the objective the establishment of a Maghreb economy linked and integrated. This is the Maghreb financial starts up.

The close historical, geographical and cultural situations allowed french banks to be more active in the Maghreb. The Maghrebian banking markets is a source of growth for the major French banking groups. The rate of bancarization (banking services) is relatively low. The Maghrebian market represents significant potential. The strategies of French banks on the North Africa market can be summarized in two alternatives:

- Purchase a minority interest in a local bank without takeover (Calyon, Natexis Banque Populaire, Crédit Mutuel-CIC and Caisses d'Epargne),
- Purchase a majority in total or an entity acquired or created (BNP Paribas, Societe Generale).

However, it seems that the first alternative is a transitional phase to the second. In the table below, we note the major holdings in the French capital from banks in the Maghreb.

<table>
<thead>
<tr>
<th>French participation in Maghrebian banks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tunisia</strong></td>
</tr>
<tr>
<td>50% UBCI</td>
</tr>
<tr>
<td>52% UIB</td>
</tr>
<tr>
<td>Representative office</td>
</tr>
<tr>
<td>Minority interest in « Assurance BIAT »</td>
</tr>
<tr>
<td>20% of BT and Representative office</td>
</tr>
<tr>
<td>-</td>
</tr>
</tbody>
</table>

Sources : Standard & Poor’s, Jeune Afrique – Hors série n°13 (2006)

Given the needs of customers in financial services, foreign banks still have a potential to exploit in the Maghreb. In Tunisia and Morocco, not only the legal and regulatory architecture is very rich and very favorable, but these countries have a modern infrastructure for the distribution of banking products through various channels. Foreign banks wishing to invest in these countries and bring modern technology could probably find partnership opportunities with banks instead.
The program of privatization and modernization of the financial sector in Maghreb provides other sources of growth for foreign banks in financial engineering, the financial arrangements for major projects and advice and assistance in management of treasury and mergers acquisitions.

These changes should lead to greater bancarization and financial services with particularly modernization of the financial sector. But in Tunisia the restructuring is somewhat hampered by the bad loans of some banks and a lack of will to continue modernization. For Algeria, it still expects a realization of reforms especially in the modernization of payment methods and the launch of the privatization process (including the CPA would be followed by that of the BDL).

Reform of financial sectors in the 1990s

The reform of financial sectors start only in the 1990s, far later than their comparator countries such as East Asian and Latin American countries, initiated as early as in the 1970s and 1980s. Before financial sector liberalization, many within-regional countries except Morocco tended to have state-dominated and excessively domestic regulated financial systems, especially in Algeria (see Table).

### Ownership of Commercial banks in Maghreb

<table>
<thead>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>(State-owned)</td>
<td></td>
</tr>
<tr>
<td>Algeria</td>
<td>0</td>
<td>7</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Morocco</td>
<td>2</td>
<td>13</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Tunisia</td>
<td>2</td>
<td>14</td>
<td>4</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: adapted from Lee (2002) from BankScope Database.
Over the last two decades Maghrebian countries like much of the developing countries have experienced a wave of liberalization of their financial sectors. Since mid 1980s, a gradual liberalization of financial system has taken place. Interest rates subsidies to priority sectors have been reduced or eliminated. The monetary authorities started to manage liquidity through a more active use of reserve requirements and a more market-based allocation of refinancing (Achy, 2003). Stock markets legislation has been updated. New banking law increased autonomy of the central bank and introduced prudential regulation in line with international standards. Finally, measures to increase competition by opening banks' capital to foreign participation have been designed.

<table>
<thead>
<tr>
<th>Box – Maghrebian countries and financial liberalization: some events</th>
</tr>
</thead>
<tbody>
<tr>
<td>Since the early 1990s, Morocco has been undertaking a gradual liberalization of its financial system with the aim of putting in place a modern financial market that promotes healthy mobilization of savings and optimal allocation of financial resources. The reforms have mainly focused on modernization of the monetary policy instruments and overhauling the financial system's legal and regulatory framework (Kacemi and Zouhar, 2008). Key elements of the reform process were eliminating quantitative ceilings on credit, liberalizing interest rates, introducing market-based instruments of monetary policy and developing capital markets. As a consequence, the financial sector grew significantly in depth and breadth. The M3/GDP ratio rose from 52% in 1989 to 103.7% in 2005. The stock market started to develop with market capitalization rising from less than 3% of GDP in 1989 to 55% in 2005. In 1993, Morocco achieved current account convertibility and in 1996, a foreign exchange market was established ending the Central Bank's monopoly on holding and managing foreign currencies. More recently in 2001, commercial banks were allowed to make investments abroad. The removal of foreign exchange controls on non-residents and the deregulation of financial markets have substantially changed the environment in which the monetary policy operates.</td>
</tr>
</tbody>
</table>

In Tunisia, has liberalized interest rates and credit allocation decision by commercial banks. Interest rates were liberalized in 1987 and were allowed to be set freely within a spread of three percentage points of the money. By 1996, deposit and lending rates have been liberalized. Limited controls on some deposit rates remained. We introduced a new indirect monetary policy. Treasury bills were redesigned in order to make them more liquid and attractive to investors. In parallel, the legal framework for new private investments such as certificates of deposit, commercial papers, mutual funds and corporate bonds was reinforced. Although many of these instruments are scarcely used since 1992, the average lending rate for each bank has been limited to the money market rate (TMM) plus 3 percentage points. Term deposits are remunerated at about 0.5 percent below TMM, and sight deposits at 2 percents. Comfortable interest margins have allowed banks to achieve adequate levels of profitability.

In Tunisia, bank governance is well advanced (Law Act in May 2006 and December 2007 on strengthening the policy of transparency and improving the quality of information). However, it must agree to the new "Business Model" which is the universal bank (Banking Act of July 10, 2001).

2.2.3 – LIBERALIZATION OF THE BANKING INDUSTRY IN TOGO: THE NECESSARY PRIVATIZATION TO IMPROVE THE QUALITY OF FINANCIAL SERVICES

There are fewer than thirty years the Togolese banking system could rightly claim to be a true "financial Switzerland" of Africa. A sufficiently comprehensive financial structure was introduced. It allowed funding all economic sectors. Commercial banks were generally sound and enjoy the challenges of neighboring Benin whose financial system was fully nationalized. All this justifies the appellation flattering. In addition Togo has succeeded in stimulating a nucleus of financial sector through the tax system of its free zone has attracted many groups holding bank and financial institutions: Ecobank, Banque Atlantique, Financial Bank, Banque Ouest Africaine de Développement, de CAURIS Investissement, Fonds GARI, EBID (Banque d'investissement et de développement de la CEDEAO).

The major challenges to modernize banking services

Unfortunately with repeated political and social events, the Togolese banking sector has transformed in recent years in a nebula with financial actors with a poor performance (see table) (bad debts by 30%, bad banking practices: overstaffing, overcapacity, conflict of interests with public companies (e.g. SOCOTO) ...). These banks are currently the financial arm of the State. The result is a big management problem factor which has alienated in recent years, the flagship of the Togolese banking industry (BTCI, UTB) from the benchmark. Besides the French core shareholders (Credit Lyonnais and BNP) have "given up" sometimes brutally, after twenty years.
### The Togolese banking sector: an inefficient financial nebula

<table>
<thead>
<tr>
<th>Remarks</th>
<th>Capital structure</th>
<th>Ratio costs/Revenue in %</th>
<th>Profit Margin in %</th>
<th>Staff</th>
<th>Total Revenue millions$</th>
<th>Total assets in millions$</th>
</tr>
</thead>
<tbody>
<tr>
<td>27 countries, 640 branches</td>
<td>Private</td>
<td>69,5</td>
<td>20,5</td>
<td>6,000</td>
<td>792</td>
<td>8,306</td>
</tr>
<tr>
<td>7 guichets/ex-BNP-Paribas/Associée à BNP-Paris</td>
<td>Private</td>
<td>56</td>
<td>58,2</td>
<td>292</td>
<td>13</td>
<td>155</td>
</tr>
<tr>
<td>43,3%; BCEAO : 20%, BOAD : 13,4%, CNSS : 8,5%, AFD : 3,2%, BIA Togo : 1,6%</td>
<td>Private</td>
<td>62,9</td>
<td>42,3</td>
<td>203</td>
<td>10</td>
<td>103</td>
</tr>
<tr>
<td>6 branches, ex-Crédit Lyonnais.</td>
<td>State : 100%</td>
<td>84,7</td>
<td>2,1</td>
<td>257</td>
<td>9</td>
<td>155</td>
</tr>
<tr>
<td>2 branches, See Banque d'investissement et de développement de la CEDEAO</td>
<td>67% State members of CDEAO and 33% institutional</td>
<td>137,8</td>
<td>2,6</td>
<td>7</td>
<td>275</td>
<td></td>
</tr>
<tr>
<td>cf. Atlantic Financial Group</td>
<td>89,8</td>
<td>4,2</td>
<td>80</td>
<td>5</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>Belgolaise sold in 2008 its 57.54% stake to the state of Togo.</td>
<td>75,4</td>
<td>5,8</td>
<td>5</td>
<td>75</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private 100%</td>
<td>154,3</td>
<td>-55,4</td>
<td>0</td>
<td>21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 branch at Lome</td>
<td>Togolese State : 50 % Libyan Arab Foreign Bank : 50 %</td>
<td>44</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>One of the 8 banking subsidiary of Holding Groupe BRS.</td>
<td>87% Institutions of l'UEMOA, 12.5% others institutions, 0,5% People share.</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: from Mint Global, Bureau van Dijk Electronic Publishing, September, 2009, adapted from author.

Togolese banks have serious challenges in the next five to ten years: dealing with foreign banks motivated by a shareholder logic value, local resistance to change facing windfall profits, impact on employment, social management of the transition, effective communication and a lot of teaching at all levels of administration.

The restructuring of the banking industry of Togo is a project which is part of the "Big Projects" that a Nation can experience during its existence. This is a strategy of institutional reform for the "heart of the economy" i.e. banks. The shockwaves of the financial crisis of 2007 confirms that the causality runs from banks to the real economy. Therefore the FSGO (Financial Sector and Governance Project) adopted with the World Bank in Togo in April 2009 was historic (see below).
The development objective of the Financial Sector and Governance Project for Togo is to improve financial sector stability by supporting the Government financial sector reform program. Financial sector restructuring will lead to more efficient resource allocation towards poverty reducing and growth inducing sectors. The project will provide technical assistance to various stakeholders to support the financial sector reform program of the Government of Togo. There are four components to the project. The first component of the project is banking sector restructuring. This component will support the Government's banking restructuring strategy and will provide technical assistance to ensure that the financial and institutional restructuring of three public banks (BTCI, BIA, and UTB) is completed. This will involve identifying strategic banking investors for Togolese state owned banks: Banque Togolaise pour le Commerce et l'Industrie (BTCI), Banque Internationale pour l’Afrique (BIA), Union Togolaise de Banque (UTB) as well as Banque Togolaise de Developpement (BTD), which is not under restructuring. The second component of the project is strengthening of microfinance sector. This component will focus on strengthening the stability of the microfinance sector through improved external supervision and strengthened internal controls within microfinance institutions (with a focus on increasing the capacity of network institutions to supervise their member institutions). Microfinance is a huge market. He struggles against lack of banking services. This form of intermediation tries to control the informal sector. It responds properly to the needs of the population especially the poor. Many players of varying size: small local NGOs to "multinational" microfinance sometimes exceeding the size of some banks. In total he would only 712 in the WAEMU (UEMOA) with 4240 points of representation and 7.3 million customers. In late 2007 there were 439 MFIs in Cameroon managing 162 billion CFA in credits i.e. 4 times more than in 2001 with 850,000 customers. Number of clients was multiplied by 7 on 6 years but with the volume of resources still marginal compared to banks: less than 7% in 2007, but a rise in bad loans (currently 6.5% while the acceptable limit is 5%). The third component of the project is reforming the pension sector. This component will focus on reforming the pension arm of the two social security institutions (Caisse de Retraite du Togo (CRT), and Caisse Nationale de Securite Sociale (CNSS)) to restore their financial viability. The fourth component of the project is support to the implementation of reforms in the financial and private sectors. This component will provide technical assistance to the Reform Secretariat and the Economy Directorate within the Ministry of Economy and Finance to strengthen their capacity to formulate policies in the financial and private sectors. This component will also aim at improving public private sector dialogue.

Source: from author and Worldbank, March 2009.

It is therefore urgent to develop strategies for effective privatization. It is important to determine the best ownership structure for banks in Togo. In light of the lessons that should be learned from recent international financial crises, should we not go through a banking domestic consolidation before considering the international dimension? To ensure success, strategies for privatization of banks should take into account the needs and the local entrepreneurial culture.

One thing is sure; the competition on African banking market will be very high for the next years. Some Moroccan banks, as Attijariwafa and BMCE are very dynamic. Similarly, some Nigerian banks including United Bank for Africa (UBA) and Diamond Bank already have their plan for potential acquisitions in Togo as for BTCI. We can add some Asian banking strategies as the Industrial and Commercial Bank of China (ICBC) for which Africa is a new market. Therefore we must be cautious. We must avoid the logic of shareholder value and forget the funding of the real economy and development. We can approve the entry of African banking groups like Bank of Africa and BGFI BANK whose openings could be effective in 2010.
Banking business model: which model we choose?

It is urgent to propose a configuration of the banking market and business models for development. The model of "universal banking" (UB) is it desirable? If yes, what specific model of UB in Togo should be defined?

Beyond privatization, what is important is the restructuring of the banking sector in Togo and its upgrade, including training, compared to international standards. This change is necessary to give Togolese banks their true role as a driver of growth and development.

<table>
<thead>
<tr>
<th>STRATEGY OF BANK PRIVATIZATION IN TOGO: SOME PROPOSITIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>This strategy is part of the process of disengagement of the state from the Togolese banking sector. It might include the following six points.</td>
</tr>
</tbody>
</table>

1 - Analysis of strengths and weaknesses of the banking system of Togo
The banking sector has experienced through the 1980s, a flourishing condition. It was the major player in financing the national economy.
The withdrawal of private partners for the benefit of the State compounded the difficulties due to the increased interference of politicians in the management of banks that found themselves with large bad debts on the state companies. This situation has prompted the state to inject substantial funds to save some banks reached the situation of bankruptcy. The current banking system finances partially the needs of the real economy, especially SMEs, agriculture, and housing.

2 – The architecture of Togolese Banking System
Currently because of the lack of adequate legal tools the banks do not have a specific vocation. Therefore, each moves and finances different sectors. It is necessary to define the architecture of the banking sector according to the orientation of the development policy of the Government of Togo.
This is not to create new banks, but to reorganize the financial system of Togo in particular taking into account the real needs of the economy in priority some sectors namely, housing, agriculture, SMEs, and trade.
In this context, we must consider a financial institution dedicated to SMEs, a bank of social housing which could be one of the existing banks to privatize and an agricultural bank that would use existing networks of micro-finance

3 - The privatization of the banking sector in Togo
Privatization is valid and the process is running in Togo. But what privatize? When privatize? How privatize?
What privatize? It is not necessary to privatize the four banks involved;
When privatized? The privatization process should be completed in 2010;
How to privatize? Privatization by calling to the public saving and shareholders households. Regarding the call to foreign shareholders it is important to have special attention to the qualities that should be required: financial solvency, adaptation to cultural and social environment and especially the needs of domestic economy.

4 – Good governance of Banks
The privatization of banks is one tool among many for a smooth financing of the economy. Indeed, there are private institutions, which may be in difficulty for lack of good governance. Therefore, an effective privatization of banks in Togo must necessarily be accompanied by the establishment of bodies and texts to create an adequate framework for good governance. It will place special emphasis on the quality of human resources.

Source: Adapted from author.
2.2.4 - LIBYA: IMPROVING FINANCIAL SERVICES BY UPGRADING HUMAN RESOURCES

A great economic potential

Libya represents 6 million people. It is engaged in structural reforms in preparation for its accession to the WTO. The steps are part of the prospect of economic liberalization and partial privatization of the public sector. The income per capita is U.S. $13,100 to slightly higher than that of Argentina or Mexico. The growth rate in 2008 stood at 7.3%. The weight of oil is significant in the economy (75% of budget revenue). Libya is the second largest oil exporter in Africa behind Nigeria, but oil reserves are the largest in the continent (40% of African reserves), to Nigeria and Algeria. It also offers great potential for development of gas reserves not yet developed.

The country has begun negotiations with the European Commission to conclude a framework agreement EU-Libya. The partial privatization of the economy engaged with the participation of sovereign funds (fund economic and social development with 8 billion dollars and Libyan Investment Authority has 70 billion dollars) has contributed to the rise of the Tripoli Stock Exchange created in 2006.

An ongoing financial liberalization

There are 15,000 banking employees. The reform of the banking sector is in its infancy. In 2007 BNP Paribas has taken 19% stake in Sahara Bank with an option of 51% within 5 years. Arab Bank entered the capital of Wahda Bank. In 2008 the merger was acted between Joumhouriya Bank (6,000 employees) and Umma Bank. The First Gulf Bank recently opened a new commercial bank and Attijariwafa Bank has opened a representative office in the upcoming privatization. In this context, the prospect of closer ties with Tunisia ahead with the establishment of a consortium with Tunisian-Libyan Tunisian side: the BTL, and the NAIB ALUBAF.

Ongoing investment in Libya is driving expansion of banking assets: 36% year-on-year in April 2009. The banking sector is dominated by the Libyan Foreign Bank (LFB) and four state owned or controlled commercial banks (85% of assets).Banking Law of 2005 established the Central Bank of Libya’s (CBL) independence and role as regulator. At present, the CBL is cautiously reforming the banking sector.

Libya’s financial services industry remains highly protected. Shares in some of the state banks have been offered to Libyan citizens, and private banks are permitted, but the banking sector has not been opened to foreign institutions; Islamic finance is largely absent from the market. The most significant reforms in the service sector over the past decade have occurred in banking and finance. Banking Law No.1 of 2005, along with the Anti-Money Laundering Law No.2 of 2005, are aimed at creating a new legal framework for the banking system in Libya. The country’s five public banks were recapitalized and its four private banks licensed. The Bank of Commerce and Development is the most substantial of the four private banks and has led the way in the modernization of Libya’s
banking sector by introducing modern services such as ATMs and credit cards. Twenty-one regional banks have been merged, banking supervision reinforced, interest rates and foreign exchange partially liberalized, and the exchange rate unified.

The year 2007 saw the start of a strategy announced by the Central Bank in 2004, to develop and modernize the banking system to meet international standards. Minority stakes of two Libyan banks were sold to foreign investors. The first step was to sell off a minority stake in Sahara Bank, the second largest commercial bank with total assets of around $3.6 billion. BNP Paribas SA won a bid for the privatization of Libya's Sahara Bank with 19% of the shares, for about €145 million with the option to raise their participation up to 51% in three to five years.

The Wahda Bank sale was structured in the same way as the previous deal, with the offer of an initial 19% stake. As the EU report says, liberalization of financial services offers potentially significant economic benefits along with high risks. Significant short term adjustment impacts are likely to be experienced as the domestic industry contracts in response to increased competition, and careful phasing will be needed to minimize these. Strong regulation and supervision will remain essential, to avoid a significant increase in the risk of financial instability and potential for major adverse economic and social impacts.

State-owned and private commercial banks offer a similar product range. Retail services include current and savings accounts, loans and money transfer. Corporate customers are offered trade finance and cash management services. Banks may open I/cs and guarantees for foreign corporates operating in the country.

The CBL has been working with the IMF to create a structured capital market and the first sovereign bond issue is expected in 1-2 years, according to observers. There has been a gradual improvement of banking supervision with centralizing data and improving processes.

Historically, Libya has lacked a credit culture: banks sat on liquidity and the limited lending activity that existed was to the public sector, and was poorly controlled. In response, the CBL has been working on a central Credit Bureau for the last year. The database has been in operation from April 2009 and 25% of individuals and corporates have been assessed. The Credit Bureau will improve comprehension of lending risks, but also seeks to encourage lending; stimulation of economic growth and enhancing banks’ profitability. The project is supported by a team of international specialists and a 38% increase in lending is expected in 2009. The CBL has been seeking to upgrade technology supported by international experts. A project currently coming to fruition is the National Payment System; previously, payments were slow and unreliable, sometimes even made through another country.

Order 19 (of May 2009) allows local banks to form strategic partnerships. Up to 49% ownership by a foreign entity is permitted. Foreign branches and representative offices are now allowed. In 2008, a number of foreign commercial banks won approval to open
their representative offices, including two UAE banks: Abu Dhabi’s First Gulf Bank (FBG.AD) partly owned by the Economic and Social Fund of Libya and National Bank of Abu Dhabi (NBAD), one bank from Qatar Masraf al rayan, interested in the strategic geographical location of Libya as well as Egyptian investment bank Beltone Financial, also in partnership with Economic and Social Fund of Libya. In addition, seven other foreign banks currently operate representative offices in Libya: Bank of Valletta (Malta), UBI (France), Bawag (Austria), BACB (UK), the Housing Bank for Trade and Finance (Jordan), Suez Canal Bank (Egypt) and ABC (Bahrain). In March 2005 a new law allowed the opening of branches of foreign banks for the first time, with minimum capital of $50 million. Foreign banks have expressed interest, and HSBC and Qatar National Bank have opened branches. BACB has started discussions about the acquisition of a stake in the Bank of Commerce and Development. Others reported to be interested are Standard Chartered, Crédit Industriel et Commercial and Citigroup.

Overall, despite progress, the country’s banking system remains highly centralized. Libya has looked to a number of sources of foreign advice in pursuing reform. In October 2008, a cooperation agreement was signed between the Libyan Stock Exchange Market and London Stock Exchange, providing for training teams from the Libyan Stock Exchange in Tripoli and London to enable them to run stock market operations. Limited liberalization of the insurance market began in 1999 with the creation of the United Insurance Company as a joint public/private venture, and approval has been given for two private sector insurance companies.

**Banking services underdeveloped by the lack of human resources modernization**

In this movement to modernize the economy, the problem is the human factor. The use of know-how and foreign labor is essential. Investment in human capital represents a major challenge especially as the population is young. In this context, senior executives of different nationalities Maghreb (Morocco, Tunisia) and other Arab countries like Egypt and Jordan are increasingly solicited by the Libyan banking system.

**Issues and some questions**

- How to develop bank training programs in Arabic to meet the training needs of employees of the Libyan banks? What training materials bank in kit form in Arabic language teaching, co-signed by the partners?
  - What approaches and retention criteria in the selection of priority? To ensure the succession of the vocational training system, which target priorities in training trainers for Libyan support progressive training and learning materials?
- What controls and certification training to issue diplomas recognized by the profession and entered into international standards?
- How to anticipate future developments of the Libyan banking sector and how to prepare teaching materials capable of meeting the skill needs expressed by the Libyan banking sector?
The Institute (IBFS) has created in 2006 under the authority of the Central Bank of Libya. Its board is chaired by the Vice Governor. The aim of the Institute is to focus on the importance of training, education and the upgrading human technical, professional and scientific levels. According to economic decisions, to upgrade economic and financial system which aim economic development of human sources and economic growth.

The IBFS which belong to the Libyan Central Bank (LCB) has been developed to upgrade the education and training. The decision of the LCB n°122 year 2006, starts the creation of the IBFS. This new structure is a financial entity different from the personal entity. It has the task of upgrading the banking and financial sectors in Libya.

The Institute is responsible for:
- The execution of courses and training programs in the field of financial and banking.
- The execution of seminars, meetings, and conferences which discusses topics related to financial and banking, locally or internationally.
- The researches and studies that helps to develop the sector of banking and financial it is also acts as a consultant to take the right decisions an policies.
- The issue of reports and papers in the field of the science of banking and financial.

Important links are established with the Central Bank of Tunisia, Egypt, Jordan, Bahrain, Dubai. The Libyan banking regulation is largely inspired by Tunisian law and the two Central Banks of Tunisia and Libya enjoy excellent relations.

The Institute is well positioned (link Central Bank) but lack of architecture programs allowing banks to offer a structured development of skills of their staff.


2.2.5 - NIGERIAN BANKING SYSTEM: FAST LIBERALIZATION BUT MORE SYSTEMIC RISK

Nigeria is sub-Saharan Africa’s second-biggest economy after South Africa’s and the world’s eighth-largest oil exporter, yet the continent’s most populous country (with 140m-plus citizens) has yet to fulfil its economic potential.

Nigeria became politically independent in October 1960, agriculture was the dominant sector of the economy, contributing about 70 per cent of the Gross Domestic Product (GDP), employing, and accounting for about 90 per cent of foreign earnings and Federal Government revenue. Nigeria is an oil-rich country and yet its people live in poverty.

Banking takes off

The financial liberalization in Nigeria that started in 1987 and the associated financial innovations have generated an unprecedented degree of competition in the banking industry. The Liberalization initially pivoted powerful incentives for the expansion of both size and number of banking and non-banking institutions. The consequent phenomenal increase in the number of banking and non-banking institutions providing financial services led to increased competition amongst various banking institutions, and between banks and non-banking financial intermediaries.
Following consolidation in 2005, the Nigerian banking sector took off very quickly becoming the largest sub-Saharan African banking sector outside South Africa. Nigerian banks become aggressive expanding, both in Africa and even into developed markets such as the UK. Nigerian banking sector is supported by fundamentals – oil wealth, solid growth forecasts and a large population (the biggest in Africa) with minimal access to financial services.

**Liberalization, competition, innovation, monetary instability and precarious financial environment for banks**

However, given the rapid deterioration of the global economy, notably the collapse in oil, there is risk that the sector could undergo a series of bankruptcies, bailouts and consolidations over the next two years. Apart from the competition with the range of financial activities, banks have also faced problems associated with a persistent slowdown in economic activities, severe political instability, virulent inflation, worsening economic financial conditions of their corporate borrowers and increasing incidence of fraud and embezzlement of funds.

Another major problem banks have had to contend with is the inconsistency in monetary and regulatory policies. The surveillance and regulatory measures of the Central Bank of Nigeria have unfortunately been unable to keep the pace with the rapidity of the charges in the financial system. All these factors – Liberalization, competition, innovation, economic recession, political instability, escalating inflation, and frequent reversal in monetary policy have combined to create a challenging and precarious financial environment for banks. Consequence of the new financial environment has been rapidly declining profitability of the traditional banking activities. Thus, in a bid to survive and maintain adequate profit level in this highly competitive environment, banks have tended to take excessive risks. But, then the increasing tendency for greater risk taking has resulted in insolvency and failure of a large number of the banks.

The continuing deterioration in the financial health of the banks and increasing incidence of bank failure since Liberalization have raised question about the nature of the Nigerian banking sector.

**Consolidation and best banking practices: some solutions**

Consolidation is simply another way of saying survival of the fittest that is to say a bigger, more efficient, better-capitalized, more skilled industry. Consolidation is part of the natural evolution of industries. It is primary driven by business motives and/or market forces (economies of scale and economies of scope, efficiency…) and regulatory interventions (Liberalization).

Consolidation is a term used by the central bank of Nigeria (CBN) to describe the coming together of some banks within the country to become one bank and be able to meet CBN’s requirement for capitalization to a minimum of N25 billion, when this happen, it is expected to improve services rendered by the bank.
Perhaps most importantly, Nigerian banks are facing a home-grown credit crunch due to excessive margin lending, whereby investors borrowed from banks to invest in Nigeria’s stock market. The dangers this could pose to the wider banking system, in turn, could be exacerbated by large amounts of interbank lending (or the sudden lack of, that is). Nigerian banks allegedly borrow large sums on the interbank market to shore up their balance sheets when reporting, a practice which is tenable since banks report at different times through the year. This problem was tacitly acknowledged by the central bank in 2008, when it instituted a requirement that all banks report their end-of-year figures in December, as simultaneous reporting would make it impossible for banks to bolster their balance sheets by borrowing from each other without detection by the authorities.

A high degree of opaque interbank lending means that the insolvency of a small number of banks could pose widespread risks to the banking system as a whole. In such a scenario, an insolvent bank may default on its obligations to other banks which, in turn face liquidity or even solvency problems of their own.

Some of the problems identified are:

1. Lack of transparency. The example of UBA which was fined over $15m by the US banking regulations is cited.
2. Weak regulations.
3. Shady bank practices – banks lending money to investors to buy shares from the banks which result in the rise in their stock prices.

The top seven Nigerian banks, with a combined market value of almost $40 billion, are overvalued by as much as 56%, according to a report published in May by JPMorgan. Part of the problem is that banks have used their own money to push up their stock prices by engaging in risky lending to corporations and individuals who invest in the banks’ own shares.

A robust banking sector that everyone can have confidence in is essential; the country’s reformers and regulators have to examine this important question.

**2.2.6 - THE ISLAMIC FINANCE CAN IT IMPROVE THE FINANCIAL SERVICES?**

In several African countries such as Djibouti, Senegal, Niger, Nigeria and Sudan was developed Islamic finance. For example, the evolution of the banking system of Sudan has led to a banking system consisting of 26 banks which 7 are purely Islamic. In Sudan, the Islamic bank has grown from 1984 (prohibition of payment and receipt of interest). In 1978 the first Islamic bank, Faisal Islamic Bank, was born in Sudan and has been licensed by a special law. Then, other Islamic banks have begun to settle, as Tadamon Islamic Bank, Sudanese Islamic Bank, Cooperative Islamic Bank of Development and Albaraka. In September 1983, the Islamic Sharia law was applied leading to a program of
However the Sudanese Islamic banks continue to maintain relations with the international banking system. The Sudanese Islamic banks do not include interest received conventional international banks in their accounts. Interest receipts are the subject of donations for social work in the country. Close links also exist with the international Islamic banks, including Bahrain, Malaysia, Jordan and Gulf countries. The banking system of Sudan complies with Islamic banking standards those of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the requirements of Basel I and II.

The weak development of Islamic Finance in the Maghreb countries seems somewhat surprising. Yet the potential customers exist. In fact the population is very sensitive to the religious argument on savings and financing. In addition the population is still under unbanked. The rate of bancarization is only 25% in Morocco, 20% in Algeria and about 33% in Tunisia. In Morocco, the concept of Islamic banking is emerging very low despite the rule change made by Bank Al Maghrib (Central Bank of Morocco). Bank Al Maghrib after long refusing Islamic banking products, it authorized in March 20, 2007 the so-called “alternative products”: Ijara (leasing), Murabaha (purchase and resale of a property with a premium), and mousharaka (equity financing). Moroccan banks have officially able to market these products. Attijari Wafa Bank, BMCE Bank and Banque Populaire have launched banking products that meet the specifications and rules of Shariah. Their success seems low at this time.

In Tunisia and Algeria, Islamic finance is limited to Bank Et-Tamweel Al-Tunisi Al-Saudi (Best Bank) and Zitouna Bank in Tunisia and Al Baraka bank in Algeria. In Algeria, it was in 1991 that the Central Bank has authorized the offering Islamic products to individuals. Thus was born the Al Baraka Bank's main shareholder with a Saudi group. It attracts a clientele that wants to comply with Shariah. The product works best is the car loan. Since 2001, 47 500 vehicles were purchased in Algeria with an Islamic finance, including 17 500 in 2006.

Al Salam Bank Algeria began its activity as a second Islamic bank in Algeria in October 2008. The bank is financing companies, individuals and different sectors such as agriculture. The bank has a capital of 100 million dollars. She has two agencies that employ 60 staff including Algerian executives from other banks. Libya is also starting to open up to Islamic finance. The movement is very recent. The Libyan central bank begins to adopt the first legislation.

The implementation of Islamic finance in the Maghreb should be very gradual. Its development will be probably very slow and moderate (Saidane (2009)). The banking authorities will not allow an influx of Islamic banks. They must find a balance between a important social demand for this type of Islamic – Halal services and competition from entrants such territory already occupied by local banks uncompetitive. Islamic finance is promising but not yet popular in Africa due to a lack of information.
LESSONS FROM NATIONAL EXPERIENCES: HOW SUCCESSFUL THE FINANCIAL LIBERALIZATION

3.1 - A MICRO-ECONOMIC RE-EXAMINATION OF BANKING DEVELOPMENT

In the process of growth, banks are often forgotten for a too large vision of financial intermediation process\(^{14}\). The analytical and theoretical contributions deal with a macro-economic level. Thus the weak integration of the role of banks among the other financial intermediaries leads to an amplification of the financial crisis. Banks were considered as a booster of financial crises\(^{15}\). In developing countries, banks exist while Stock market often is an embryonic structure. In average and weak income countries the value of bank assets does approximately about 55% of the GDP, the no-banks institutions represent about 14% and the value of financial market transactions is about 5,5%. Have the financial developing countries systems to follow an «unilinear» evolutionist process in which financial developing countries system would evolve through a succession of stages, leading them to move from banks to the financial market? Has one favor the development of stock markets with risks of instability that they induce on fragile countries? It is indispensable to identify the role of banks as creative of currencies in the financial system. It is also essential to examine their interactions with the productive machine in the framework of a mutual training process of industry and finance.

The Banking Approach of the Liberalization has to be a Bank-Based Approach

The schumpeterian Bank-Based approach of the financial intermediation stipulates that innovative activities cannot find a place without the banks’ collusion that provides to the entrepreneur the necessary financial means. As a rule, first the businessman is debtor beside the bank to become creditor then. First he borrows and after he puts his money in a bank deposit. The function of financing is a prerogative of banks and banking credit plays an essential role. It contributes to the mobilization of the capital as financial fund to the service of entrepreneurs and the capital is more efficient as it allows an increase of the real product.

Schumpeter notices that the essential [the three-quarters] of what one calls commonly «banks» corresponds to institutions that insure the financing by credits by creating \textit{ad hoc} means of payment qualified by the author of «abnormal credit». It proceeds from the creation of an \textit{ex nihilo} purchasing power leading to the creation of goods. The credit creates a new currency allowing the expense to be as the motor of the economy. Banks take then the risk to bet on the future. They allow projects to be financed without the \textit{ex post} saving constraint. It means that the projects are not limited by the existing savings quantity in the economy. Schumpeter sets this abnormal credit against the normal credit considering that the normal credit exists at the same time with collateral serving as a

\(^{15}\) Mishkin (1999), p.1525.
counterpart. Furthermore, the monetary velocity does not increase in normal credit case contrarily to abnormal credit.

For Schumpeter, what we call commonly «monetary creation» is only the mobilization of resources already existent. The bank makes more than that. It contributes effectively to the creation «to a purchasing power» before the creation of a goods. This credit banking type is essential to finance the innovation. Schumpeter notes that the essential role played by banks in the economic development consists in choosing firms that will be able to benefit from the public savings. The banking sector performs on the economic expansion path through the saving allocation. Hence, the finance and development schumpeterian approach is an excellent explanation of the banks’ economic role and function in the productivity growth and the technological change process. The Schumpeter idea is that the accumulation of the capital is the key of the economic growth. In this framework, banks have to contribute there by the monetary creation as well as by the mobilization and the allocation of the savings.

**The Banking Approach of the Liberalization has to integrate a Social Dimension**

The bancarization and the improvement of the accessibility to banking services increase the financial deepening. As reminds Fry (1995, p.453) it is the proximity of the system more than the level of deposit rate that has contributed grandly to the increase of domestic rural ratio savings from 1 to 5% over a period 20 years in six developing Asian countries. According to Sarr (2000), the behavior of bank price can be influenced by the state of the economic development of a country. In the initial development phase where income levels are weak, savers and depositors are less sensitive to levels of deposit rate. They are more sensitive to the different bank services through the proximity and to the density of branches as well as to the quality of the service of saving management.

We suggest here a banking micro-economic re-examination of the financial liberalization process. It consists in identification of the role of the financial banking intermediate in the financial deepening. The importance of banks in the development is not only to achieve a transformation of the existent savings in credits. Banks have to make more than that function. They have to analyze projects and risks that are associated them, to accompany them by the advice and to finance them by taking the risk to make bets measured on the future. They also manage the appreciation of the influence of the liberalization on their behavior, their statement and their accounts. Thus banking industry in developing countries did not require the Liberalization imposed by the McKinnon and Shaw financial sequencing. For developing countries, an appropriate regulation of banking industry is necessary. A deregulation of depositor rate accordingly to McKinnon and Shaw does not constitute the panacea. The existence of a banking market power on the market of deposits and the maintenance of a regulation of creditor rate are not in contradiction with financial deepening.

The banking regulation is not a homogeneous and compact judicial block. The regulation is indispensable if it is guaranteed a collective wealth in poor people countries. The Liberalization can be useful if it does not dangerous to the social equity.
3.2 - THE GOOD GOUVERNANCE AND THE INSTITUTIONAL CORRECTIONS

The good governance defines how to establish an efficient institutional framework reducing imperfections of the liberalization.

The Governance: some objectives

The problem of the governance in developing countries has been pointed out for the first time in the World Bank report of 1993. In substance, governance aims to restore an efficient institutional framework. It means:

- Fight against the corruption and the ineffective bureaucracy,
- Security of depositors and the respect of the shareholders and creditor right,
- Accounting norms allowing a good management of firms,
- Rigorous application of contracts.

The quality of the governance deals at least with three aspects of the financial and economic activity in developing countries.

The efficiency of economic policies and industrial structures. Two countries presenting similar financial systems and committing a similar economic policy can exert a different effect and a different causality between financial development and economic growth. This is due to the difference of the quality of their governance linked to the efficiency of institutions that exert it. As a rule, the industrial dynamism is more important for countries subject to a highest level of financial development, a best judicial shareholder and creditor protection and an efficient mechanism of application of contracts.

The financial system performance. The quality of the governance explains differences in the financial systems efficiency. The banking sector stimulates more or less the growth according to the institutional framework. The quality of the governance as exogenous component acts on the performance of the banking system which would exert a significant and positive influence on the growth of the GDP, on the accumulation of the physical capital and on the growth of the productivity.

The probability of banking crisis appearance. The weakness of the institutional environment increases the probability of crises due to the financial liberalization. That is the case in countries where applications of rules of the law are weak, the corruption and the ineffective bureaucracy extended and low respect of contract mechanism application. In this context, the financial liberalization increases the probability of banking crisis appearance. Weaknesses of the institutional environment can then translate into the two amplification types of risks: the risk of credit and the risk of changes.
The Banking Governance: some recommendations for a strong supervision-regulation

An efficient banking governance requires a strong supervision-regulation that can be define with five ways:\[16\]:

- First the existence of a supervision and banking regulation agency. The structure needs adequate resources to achieve its monitoring mission allowing banks to avoid being committed in risked activities of hazardous manner. Such a structure allows banks to match the risk on the basis of an expertise and a rigorous control. It leads banks to have sufficient funds with the result that the moral risk of the clientele does not entail to excessive risk commitments,

- The installation of steady procedures based on accounting rules allowing a greatest financial institution transparency. They would offer to the supervisor appropriate information allowing it to detect excessive risk commitments and to control them adequately. These measures guarantee a healthy banking system environment,

- The recourse to rapid corrective actions to the initiative of the banking supervisor allowing to stop undesirable banking activities. Its actions would have not only to end the activities of banks whose net value is insufficient but also to insure that shareholders and managers of these banks are well punished,

- The independence of the banking supervision/regulation agency from the political power. It is not good that the agency is under the tutelage of the central Bank because that risks altering the independence of the agency,

- The transparency of actions of the banking supervision/regulation agency. These actions have to be available to the public, what do guarantee more autonomy from the political power and from some groups of influence.

If the financial liberalization is adopted while the supervision and regulation structure is not installed then the capacity of bank expertise will not be efficient concerning the credit allocation and this will not be made prudently. In a context of boom of credit lied to a financial deepening characterized by an increase of financial flows, such a situation behaved to a weakening of the quality of the banking portfolio.

It became apparent that the liberalization and the financial deepening have a positive effect on the economy in the long-run. However, in the short-run, the boom of credit can outstrip resources in necessary information for the future stability of the banking system. Banking crises has elsewhere often followed this boom. It is the case, for example, for Mexican banks whose deterioration of the balance sheet proceeded by an explosion of credits.

\[16\] Mishkin (1999).
3.3 – SOME LESSONS TO IMPROVE EFFICIENCY

The consolidation strategy is a prerequisite to restructuring of banking systems in the Africa. This is a set of conditions necessary to move towards a stronger banking system based on improved governance.

**The upgrading of production structures and costs**

The consolidation of the African banking system through the upgrade of production process, inputs and costs.

- **Upgrading the production process** is first to clean up the loan portfolio and reduce the cost of bad debts through a consolidation of bank capital. Then there is the modernization of payment system to increase the speed of check cashing and the spread of electronic banking facilities (ATM, images/checks,...). The manual processes and numerous checks based on paper documents significantly increase costs and processing times. It is also to fight against over-capacity for better efficiency factor (branches, ATMs, ATM, unification of computer systems).

- **Upgrading methods of managing human resources.** Managing human resources according to international standards and adapt knowledge and skills to effective know how. This requires training for a better allocation of human resources and strengthening of business functions (customer relations) and those of risk management (back office and front office).

- **Upgrading costs** by the adoption of rules accounting and transparent methods that highlight the actual productivity of each profit center within the bank. This is fostered by modernization and sharing of information system and development of databases to better track risks.

**Discipline and strengthening of bank capital**

Banks in the world operate with a set of prudential rules called Cooke ratio. These rules have been adapted to the banking and financial markets. The new rules, called Basel II, allows banks to protect against three types of risk: credit risk (default of the debtor), the market risk (market volatility), operational risks (related to management and economic environment). The African Central Banks are preparing their banks in implementing Basel II standards. This passage is essential.

**The dynamic of the market by the State**

The State shall promote a form of healthy competition between banks and their customers. The strategy of the collective optimum or "win-win" can succeed only if the banks out of their status quo. Collusion creates a situation that weakens market forces.

Similarly, a significant number of banks can lead to destructive competition and eroding margins. The role of the state is to prevent collusion and destructive competition. The idea is that the state promotes the consolidation that creates value so that the new entities resulting from mergers are more efficient than the previously separate entities.
Towards universal banking

The search for an optimal size for business - Retail Banking and Wholesale Banking - aims to improve performance. The African banks are still "Small Shop" compared to "One Stop Shops" American and European world. They are still too small to meet the new challenges of the twenty-first century required the new bank. This requires new bank investments: resources and human skills in information systems, in communications, in marketing and design new products and services. Many economies of scale are still unexploited in the various banking Business Lines.

3.4 - HOW AFRICAN COUNTRIES SHOULD REACT FACE THE CRISIS?

In the current context, in terms of solution to the crisis, no expert can be omniscient. The current crisis is systemic and global. It is also very complex because it contains a strong element of psychological blocks both the supply side and demand.

Privatization and banking resilience

African countries should continue their cautious strategy of financial liberalization as it is the matter with South Korea in the 1980s.

The African bank liberalization and privatization should continue. This is not because Europe and America nationalize its banks (Table below) that Africa must stop its privatization process.

**Recapitalization, massive aid, assistance in capital... nationalization of banks 2008 - 2009**

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<th>Netherlands</th>
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<td>Fortis (100%)</td>
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<td>ABN Amro/Fortis (100%)</td>
<td>Royal Bank of Scotland (70%)</td>
<td>Hypo Real Estate (aide massive)</td>
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<td>Caisse d’épargne/Banque populaire/ Natixis (20%)</td>
<td>Lloyds Banking Group (43%)</td>
<td>Barclays (en cours)</td>
<td>Bank of America (en cours)</td>
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Source: Adapted from the author.

Therefore African bank privatization should continue so calm but swift. This is no time for doubts or hesitation. The current crisis should not be a challenge to the capitalist system. It is now too late “to throw out the baby with the bathwater” and to challenge the system. Go back would cost much more.
The winds of liberalism and deregulation breathe since the 1980s. We always go to more Market. This is the sense of history. This is not because some bankers have done badly their work in the United States that we penalize the entire global system. It is clear that we need a force of regulation of financial activity. We have to remain the good rules of monetary creation. More than all, it is necessary to renew the contract of trust that binds the finance world and the real economy world.

It is legitimate for the state to intervene when it concerns currency as a public good. Banks that manage our money are not like other companies. The State is in its most legitimate right to intervene and regulate and impose market discipline.

**African Banks must remain useful for development, growth and the real economy**

They must continue their mission of consulting and financing the real economy. They should not succumb to the lure of excessive industrialization of the production process and continue to serve the real growth. One of the mistakes of banks in rich countries in recent years is industrialization and outsourcing of an essential function which is the risk management. In other words, bankers are not entrepreneurs like the others. They provide an essential function that has been delegated by the monetary authorities: the creation and monetary management. By the principle of "too big to fail" they face a production function which is not trivial. This production function is both microeconomic and macroeconomic. It is a function that calls the economic system as a whole by the "domino effect".

These principles need to be reminded to avoid the worst. They must be reminded in restructuring African banking system.