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Maghreb Banks and Financial Markets

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For years, North African governments have made strenuous efforts to restructure their financial sectors and bring them into line with international standards, with the help in particular of the World Bank and the European Union. In 2003 Egypt adopted a new banking law aimed at stabilizing its financial sector by reinforcing the prudential ratios of banks, improving their standards of governance, and raising minimum capital requirements. The following year, a restructuring plan launched several reforms: debt forgiveness, withdrawal of the state from the banking sector, and privatization (open to foreign investors) of two of the four leading state banks.

Similar reforms are being enacted with varying degrees of speed and vigor elsewhere. Table 10.1 gives an overview of the top 15 North African banks. Tunisia is a laggard: With 20 credit institutions, 18 offshore banks, and 9 foreign banks with representative offices, Tunisia might seem to be oversupplied with banking services, but the sector remains dominated by state-owned banks, in particular Société Tunisienne de Banque and Banque de l'Habitat. Algeria is undeniably undersupplied in terms of branch networks, market share held by private banks, and methods of payment. There are hardly more bank branches in Algeria now than at the

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Table 10.1 Top 15 banks in North Africa, 2006

Bank	Rank in Africa	Country	Tier 1 capital (millions of dollars)	Assets (millions of dollars)	Profits (millions of dollars)	Return on equity (percent)	Return on assets (percent)
Groupe Banque Populaire	6	Morocco	1,711	16,002	409	24	1.8
Attijariwafa Bank	7	Morocco	1,538	19,573	363	23.6	1.9
National Bank of Egypt	9	Egypt	1,179	34,107	89	7.5	0.2
BMCE	12	Morocco	748	10,060	158	21.1	1.5
Banque Misr	14	Egypt	584	18,490	38	6.5	0.2
Commercial International Bank	15	Egypt	538	6,632	168	31.2	2.5
Banque du Caire	16	Egypt	510	7,943	22	4.3	0.3
Arab International Bank	18	Egypt	474	3,833	22	4.6	0.6
Crédit Populaire d'Algérie	22	Algeria	400	6,494	147	36.7	2.3
Société Tunisienne de Banque	24	Tunisia	338	3,620	17	5	0.5
Bank of Alexandria	25	Egypt	315	5,764	196	62.2	3.4
BIAT	21	Tunisia	276	3,186	20	7.2	0.6
SG Marocaine de Banque	33	Morocco	271	3,790	73	27	1.9
BNA	34	Tunisia	269	3,463	n.a.	n.a.	n.a.
AAIB	36	Egypt	258	4,918	77	30	1.5

n.a. = not available

Source: African Business/Africa Banker, October 2007.

time of independence in 1962, despite a threefold increase in the population. The seemingly never-ending privatization process of the Crédit Populaire illustrates how much progress needs to be made if international standards are to be met. The spotlight was turned on this process when Santander withdrew its takeover bid because the Spanish bank believed the dice were loaded. Recently, Algeria has also experienced two unfortunate private banking initiatives, both of which resulted in the spectacular collapse of newly founded private banks, El Khalifa and Banque Commerciale et Industrielle d'Algérie.

In 2005 the public sector accounted for 30 percent of bank loans in Morocco, 32 percent in Tunisia, and almost 88 percent in Algeria. Banks with foreign capital controlled 34 percent of the Tunisian market and 21 percent of the Moroccan market, but only 10 percent of the Algerian market. Despite this, the Algerian market today attracts the attention of the largest international institutions, in particular Gulf banks, which, for the moment, have not developed Islamic banking much beyond Egypt.

The Egyptian banking landscape remains in a state of transition. The first two objectives—consolidating institutions and opening internationally—have been partly achieved. The number of financial institutions decreased from 61 in 2004 to only 40 at the end of 2006. However, this number is still excessive because the objective was to retain only 26 institutions. Regarding international openness, the two leading Egyptian private banks, National Société Générale Bank and Bank of Alexandria, have come under French and Italian control, respectively; that said, these two banks only attract 10 percent of deposits despite their large branch networks. The two leading state-owned banks, which account for half the branches in the country, attract roughly half the deposits but supply less than 40 percent of the loans. Moreover, they are highly specialized by sectors: hydrocarbons for the National Bank of Egypt and textiles for Misr Bank.

Banking reforms today have been most successful at the eastern and southern ends of the Mediterranean rim. Moroccan and Turkish banks are very profitable and their performance indicators often outshine their European counterparts. In 2006 the Turkish banks had an average return on equity (RoE) of 19 percent, an operating ratio of 46 percent, and a ratio of reserves against nonperforming loans of 89 percent. The same year, in Morocco, the average RoE of banks was 16 percent, although Attijariwafa Bank reached almost 20 percent and Banque Centrale Populaire 24 percent, both with operating ratios of 49 percent. The average reserve ratio for Moroccan banks was 74 percent. By comparison, the RoE of Santander, the most profitable bank in Europe today, is 17 percent.

Morocco's banking sector is thus characterized by the strength of its banks, which it wants to turn into national champions. The three leaders—Attijariwafa Bank, Groupe Banque Populaire (which is majority state-owned at the holding level), and Banque Marocaine du Commerce Extérieur (BMCE)—account for 64 percent of loans and almost all deposits,

of which 60 percent are from emigrant remittances for Groupe Banque Populaire. Attijariwafa Bank and Groupe Banque Populaire own more than half of all bank branches. The progress of the Moroccan banks is particularly visible in regulation and new activities. In 2007 they adopted part of the Basel II directive with respect to capital ratios. Attijariwafa and Banque Centrale Populaire have begun to record modest yet significant gains in capital markets.

Leading Moroccan institutions are developing an international presence, mostly southward on the African continent. Attijariwafa opened several branches in Senegal and could expand into Burkina Faso, Gabon, and Equatorial Guinea. Banque Centrale Populaire is considering a move into Mauritania. The BMCE has a presence as a commercial bank in Senegal (BMCE Capital). Attijariwafa has a presence in Tunisia (Banque du Sud) and, like the BMCE, has applied for a license in Algeria. Finally, with its Spanish shareholder Santander, Attijariwafa is developing partnerships to deal with flows of emigrant remittances.

In both Turkey and Morocco, international expansion is driven by the saturation of the domestic banking sector, as gaining local market share has become increasingly difficult. Turkey has 49 banks, of which 3 are state owned, 15 are foreign banks, and 13 are commercial and development banks. The five leading institutions attract 83 percent of deposits, but account for only 62 percent of total bank assets and extend only 57 percent of loans.

Market saturation in Turkey and Morocco is paradoxical, as by Western standards neither has a particularly developed banking system. No more than 37 percent of the Moroccan population uses banking services, compared with 98 percent in France. There is one bank branch for every 7,300 inhabitants in Morocco compared with one branch for every 2,400 people in France. Morocco has the highest ratio in the region, but a third of the branches are concentrated in and around Casablanca. The profitability of Turkish and Moroccan banks can best be explained by the relatively restricted development of these two banking markets.

In Morocco, banks finance themselves in large part through short-term deposits. In 2006 interest paid was 3.43 percent for six months, on average. The funds are then reinvested in treasury bills and bonds, with rates ranging from 2.57 percent for 13 weeks to 4.63 percent for 20 years, and in loans, with an average rate of return of 7.08 percent (11.53 percent for consumer credits).[1] The margins on loans appear to be so wide because access

1. See Bank al Maghrib (2006). These figures are not unusual for emerging countries. Chilean banks, the best performing among emerging countries from a banking standpoint, were making loans at 4 percent interest in 2004.

Table 10.2 Market capitalization to GNP ratio for selected countries, 2006 (percent)

Country	Ratio
Algeria	n.a.
Brazil	0.56
Egypt	0.73
India	0.75
Israel	1.31
Jordan	1.89
Lebanon	0.34
Libya	n.a.
Malaysia	1.43
Morocco	0.68
Romania	0.29
South Korea	1.07
Syria	n.a.
Tunisia	0.13
Turkey	0.34

n.a. = not available

Source: Central Intelligence Agency (CIA) *World Factbook*.

to credit remains a privilege; at the same time, the margins raise doubt over the intensity of competition in the banking sector.

North African banks are too liquid, as is often the case in emerging markets. They do not use all the funds they collect in lending activity. Weakness in credit extension resembles other emerging countries. The ratio of domestic credit to GDP is 66 percent in Morocco, 65 percent in Tunisia, and around 13 percent in Algeria. By comparison, the ratio reaches 123 percent in the United States and 167 percent in the European Union; the figure for South Korea is 76 percent, and for Brazil only 41 percent.

As table 10.2 shows, capital markets remain poorly developed, even nonexistent in Algeria and Libya, although the stock exchange in Morocco has an emerging profile that attracts foreign investors, who account for 30 percent of Moroccan stock market capitalization. Morocco's emerging profile includes the presence of speculation, visible in the remarkable appreciation of the Moroccan All Shares Index (MASI) on the Casablanca stock exchange, which rose by 71 percent in 2006 against an increase of 21 percent for Tunisia's Tunindex in 2006.

By contrast with Morocco's stock market, the bond and traded debt markets are apathetic. In 2006 only 4.1 billion Moroccan dirhams in bonds

Table 10.3 Public debt to GNP ratio for selected countries, 2007 (percent)

Country	Ratio
Algeria	10
Brazil	44
Egypt	105
India	59
Israel	83
Jordan	67
Lebanon	188
Libya	5
Malaysia	41
Morocco	64
Romania	19
South Korea	33
Syria	37
Tunisia	55
Turkey	58

n.a. = not available

Source: Central Intelligence Agency (CIA) *World Factbook*.

were issued in Morocco, which originated from two issuers. In the same year, 1.3 billion dirhams of treasury notes were issued. Outstanding treasury debt was 10.3 billion dirhams.

The weakness of financial markets in the region can be linked to the limited role of institutional investors, in particular the feeble development of insurance companies, not so much in number as in size. Egypt has 21 insurance companies, of which three, together with one reinsurance company, control 70 percent of the market. But the market accounts for only 2 percent of GDP. In Algeria the insurance market accounted for a paltry 0.6 percent of GDP in 2005, despite the existence of 16 companies, of which 7 are state-owned. In such conditions governments have no choice but to finance their debt through banks and therefore deposits. Apart from Algeria and Libya, Maghreb countries have high levels of public debt (table 10.3).

In sum, there is a stranglehold on the extension of credit. First, financial markets lack depth. Second, company accounts are generally opaque, due to the wide use of double accounting that allows the flight of profits and a corresponding reduction of equity capital. This is both the cause and the consequence of restricted access to credit. Many small and medium-sized companies have learned to manage without bank loans and thus are not in-

clined to increase transparency; various legal measures have been introduced in response. The Tunisian Financial Security Law of October 2005 mandates auditing for joint-stock companies. The World Bank recommendations of credit ratings and establishing a credit bureau are being pursued.

In the meantime, nonperforming loans remain high, at 11 percent in Morocco and 19 percent in Tunisia compared with fewer than 4 percent in France. In reaction, banks require prohibitive guarantee levels. The estimated average for the Middle East and North Africa region is 230 percent of the extended loan, one of the highest in the world. Banks demand that guarantees be in the form of personal assets, for the most part real estate or, for foreign currency transactions, a cash equivalent. Many private individuals and business are thus excluded from the credit market because they cannot meet the guarantee requirements. This system penalizes the development of the economy as a whole and hobbles the growth of banks, as banks often have to content themselves with sharing the mortgage on speculative real estate, such as apartment buildings or tourist infrastructure.

The above practices are hardly conducive to developing a true credit culture. Banks tend to base their decisions on the face value of the personal assets offered as guarantees rather than on evaluations of the projects and their attendant risks. This effectively turns banks into simple holders of security. As a result, they do not develop the technical expertise to evaluate business risks or engage in financial engineering that would meet the needs of the business community. Lack of transparency in the balance sheets of firms means that the true cost of risk is barely reflected in bank lending rates.

Inadequate legal systems—poorly protected property rights, lapses in land registry entries, opaque lease arrangements—often make it difficult for banks to enforce the loan guarantees. Banks thus accumulate many unpaid debts, but the legal procedures to resolve disputes are long and expensive, and their outcome is often uncertain. Faced with such constraints, it is hardly surprising that banks limit the offer of credit in quantity (many businesses do not qualify), quality (few long-term arrangements), and terms (mandatory personal asset guarantees and cash collateral for international trade transactions).

For the moment, despite considerable efforts to modernize the system and a few successes, banks are not in a position to promote economic development in North Africa. This was the situation of French banks at the end of the 19th century; one response was the rise of popular savings institutions independent of established banks (e.g., Caisse d'Epargne, a savings bank). Today, the situation of Moroccan banks suggests parallels. Though the majority of the country's population is rural, only 6 percent of loans were directed to the farming sector in 2006. Industry received 28 percent of loans and the service sector 66 percent.

Moreover, across the entire region, the tendency is toward forms of pure usury where consumer credit and microcredit are concerned. With

interest rates that easily reach 50 percent annually, repayment is extremely fast. The popularity of microcredit assumes results that are not confirmed by available data, notably regarding job creation. In Morocco, 12 microcredit associations have 1 million clients (they estimate their market at 3.2 million clients), of which 66 percent are women, but they create less than 5,000 jobs per year (Bank al Maghrib 2006). Yet Morocco has one of the most developed microcredit markets in the world. The microcredit emanates essentially from private foundations, unlike in other countries, where it is supported by semipublic initiatives. In Tunisia, the Banque Tunisienne de Solidarité gives assistance at preferential rates of 5 percent a year using the network of post office branches. Tunisia distinguishes itself from other countries in the region because most microcredit borrowers have completed high school or have university degrees.

Mortgage financing has grown fastest in Morocco, where real estate speculation is significant in large towns. The level of outstanding debt increased by 24 percent in 2005 and 28 percent in 2006, and the share of variable-rate indebtedness among individuals reached 42 percent of total indebtedness in 2006.

The entrepreneurial profiles of North African countries are characterized by a large proportion of small and medium-sized enterprises (SMEs) and especially very small businesses. Family firms dominate the agricultural and service sectors. Several lending organizations such as the European Investment Bank (EIB) are beginning to develop loan refinancing for SMEs.

A goal of the Mediterranean banks is to make banking services more widely available. Until recently the lack of efficient methods for depositing and withdrawing funds has been a considerable obstacle to extending credit to both firms and individuals. Banking activity in the region is first and foremost characterized by long queues at counters. Cash still dominates debit and credit cards, checks, and above all, wire transfers; however, this creates a profitable environment for banks, as it makes their clients captive and limits the market share that any new entrant can hope to gain.

North African banks should seek to extend loans. In Morocco, short-term credits, consisting of debit accounts and cash credits, still exceed capital goods financing and account for 54 percent of credit. Banking services are essentially short term, especially for private banks. The World Bank (2006) has underlined that three-quarters of investment in the region is self-financed and 12 percent is supported by bank loans, the lowest level in the world.

To mitigate the lack of long-term finance, development banks were created in many countries, but have now either been converted into universal and privatized banks—such as the Banque Tuniso-Koweïtienne, which was acquired by a French savings banks—or still struggle to find their place. The fundamental problem stems from difficulties in attracting and transforming savings. This is relevant to both national and international savings remitted by emigrants.

Emigrant Remittances

In quantitative terms, remittance flows in the Mediterranean remain difficult to assess precisely, be it in sending or receiving countries. In Algeria no proper structure has been put in place to collect these funds.

Despite the interest that emigrant remittances attract today, notably from large international lenders such as the EIB or the African Development Bank (AfDB), the most available and reliable figures are those of Morocco, surely one of the best organized countries in the world in this respect. Nearly 4 billion euros have been transferred to Morocco every year for the past five years, half of this amount from France. Out of the total 4.3 billion euros received in 2006, 3 billion euros went through banks.[2] Total remittance flows represent 22 percent of current revenues reported in the Moroccan balance of payments. These flows are more than 50 percent of export revenues, exceeding revenues from either tourism or phosphates.[3]

Total annual remittance flows from Europe to Algeria, Morocco, and Tunisia are estimated at 10 billion euros. Flows from Europe to the larger Mediterranean area stand at around 20 billion euros. In parallel, new remitting countries are emerging, such as Canada, and others are playing a larger role, such as the Gulf states. In France, at least 41 percent of emigrants transfer money back to their home countries, sending, on average, between 15 and 25 percent of their income in roughly eight transfers a year. Recipient households receive on average 2,470 euros per year.

Despite their size, remittance flows have attracted little interest in the Maghreb. It was originally assumed that the transfers would progressively dry up as families regrouped abroad and most emigrants gave up on the idea of returning home. Yet, for the past six years, the amounts transferred have been growing significantly, at a rate of 15 percent per year. In Morocco, over the past seven years, only 2002 recorded a decrease, a fall of 12 percent. This same phenomenon can be observed elsewhere. Money is no longer sent back simply to support the family. It is saved and invested as emigrants attempt to profit from differentials in purchasing power between the two shores.

All of the above calls for a fresh look at the behavior of migrant populations, in particular those born in Europe, who may not aspire to integrate fully in either their country of origin or their country of adoption,

2. Office des Changes du Maroc, Transfers, 2007, available at www.oc.gov.ma (accessed May 20, 2007).

3. Nevertheless these transfers would appear to be very inferior to the revenues generated by the Moroccan production of cannabis, estimated at 12 billion euros per year. Generated by trafficking routes in Europe, it remains difficult to assess what proportion of these revenues is remitted back to Morocco and what percentage of transfers they represent. According to the United Nations Office on Drugs and Crime (UNODC 2005), Moroccan farmers earned $214 million in 2004 from cultivating cannabis.

but rather seek to straddle the two. Instead of reducing transfers, economic development in North African countries may increase them.

On the other hand, there is a considerable mass of capital originating in North African countries—estimated roughly at around 7 billion euros per year—that has been invested in Europe or the United States for lack of adequate investment targets locally. Thus, although emigrant remittances are the prime source of foreign exchange, domestic savings flee the Maghreb region for lack of opportunities and any confidence in local markets. This phenomenon constitutes another structural brake on development.

The dominant reason for emigrant remittances remains family support, demonstrated by the fact that in Morocco remittance fluctuations follow harvest fortunes. The direct beneficiaries of the transfers still use the money mainly for daily consumption expenses (51 percent). Nevertheless, the share allotted to investment is increasing and is estimated to account for 20 percent of the transfers. According to the AfDB (2007), 40 to 70 percent of emigrants over the age of 35 invest some of the remittances they send. Funds used for investment purposes are invested in real estate (83 percent), commerce (12 percent), industry (3 percent), and agriculture (2 percent). However, the productive use of remittance funds is doubly compromised. First, the majority of the funds disappear from the banking circuit. Second, there are few useful investment instruments in North African economies apart from real estate.

No formula has been worked out that allows transferred funds to be deployed directly for productive investment. One can only point to the disappointing results of the institutions created for this purpose, such as Desiyab in Turkey (1976), the Syrian Expatriate Fund, and Bank al Amal in Morocco (1989). Many of the conditions necessary for success—guaranteed convertibility, fiscal advantages, state support for investments—appear to be in place, yet these institutions largely fail to meet the needs of emigrants. It is erroneous to believe that large numbers of emigrants can engage directly in productive investment: Banks are crucial to intermediation. International lenders make the same mistake when they suggest channeling funds using microfinance institutions or communities as recipients.

The majority of transfers remain outside the banking system because access to banking services is restricted and no single banking institution has sufficient networks on both sides of the Mediterranean to organize the collection and distribution of funds on a large scale. In these circumstances, most transfers are handled by money transfer companies such as Western Union, which have agreements with local banks and post offices on both sides of the Mediterranean. The fees charged are often accused of being prohibitive. Fees for transfers to Algeria or Tunisia are around 8 percent and can reach 16 percent of the sum transferred. According to the AfDB (2007), 70 percent of emigrants and 90 percent of recipients were unaware of these costs. Some transfers are in cash or use informal channels, and are thus expensive and risky. However, informal channels can be advanta-

geous when there is a significant disparity between the official exchange rate and that of the free market; disparities of around 10 percent can be observed in Morocco. This is another reason why currency convertibility should be adopted.

Banks on both sides of the Mediterranean could remedy the situation by agreeing to connect their networks on an account-to-account basis. This would considerably reduce the cost of transfers while allowing funds to remain within the banking system. Such systems have already been set up between several institutions—notably between Spain and Morocco and between Portugal and France—but a consortium approach has yet to be developed on a scale appropriate to the Mediterranean. Mediterranean cooperation is observable in other sectors, however, such as telecommunications: In response to the needs of emigrant populations, two Moroccan telecommunications companies, Maroc Telecom and the Moroccan Sahan group, formed the Mobisud consortium with SFR, a French company.

An account-to-account linkage is the only formula that would permit the large-scale mobilization of emigrant savings. It responds well to the targeted needs of emigrants, particularly for real estate projects. At least a part of remitted funds might be used to create a market for long-term financial instruments, a market now lacking in the Maghreb. In turn, this market could become a source of long-term financing of infrastructure, among other uses. A genuine Euro-Mediterranean financial arena could eventually emerge from this foundation.

A Bank of the Mediterranean?

The idea of creating a Bank of the Mediterranean, modeled on the European Bank for Reconstruction and Development, which works with East European countries, has often been raised, but the Ecofin Council rejected it in 2003. This decision reflected diverging priorities among EU countries as well as budgetary constraints. The current inclination is to create a Mediterranean financial agency that would administer a fund to develop business and a fund dedicated to infrastructure. Those instruments would partly replace the EIB's Neighborhood Investment Facility.

Creating a financial agency could revive private investment in the Mediterranean partner countries and support SME financing. It also would centralize various initiatives involving European public aid. A multilateral management strategy could be developed by opening up the agency's capital to outside actors, such as individual countries of the European Union and the Mediterranean, and investors from the Gulf states. If created, the agency should develop innovative financing strategies and get involved in emigrant transfers, as discussed. A partnership between the agency and banking institutions on both shores would gather funds in amounts that far exceed those advanced by the European Union.

The agency would certainly be able to improve administration of financing for projects and infrastructure. However, the financing needs for foreseeable large-scale projects, such as the Horizon 2020 project for pollution control in the Mediterranean, far exceed the funds that the agency might have at its disposal. It would therefore be necessary to mobilize government borrowings by various Mediterranean states for major undertakings.

Following the example of the Association of Southeast Asian Nations Plus Three (ASEAN+3), the agency should help to develop bond and stock markets in the Mediterranean partner countries. This would provide an alternative to bank intermediation and address the need for long-term financing and capital-intensive projects. Such markets would allow international investors to use local currency in their financing. Moreover, the market would facilitate the creation of specialized savings products in terms of objective and maturity—liquid savings, real estate savings, health and retirement savings—that require the management of assets in forms that yield higher returns than are currently available.

Beyond this, it is possible to imagine the creation of a Maghreb version of France's Continuous Assisted Quotation (CAC 40) stock market index. In October 2007, the Subsahara Africa 50 Index was launched, grouping the 50 strongest stock market capitalizations of 11 countries, headed by Nigeria (40 percent) and Kenya (20 percent). The capitalization of those stock markets has greatly increased over the last years, from $15 billion in 2002 to $100 billion in 2007, but for the most part they remain far below the size of the Maghreb stock markets.

An ambitious extension of the financial agency concept might entail a regional financial institution with supranational powers. It would have three aims: to transform unused liquidity into long-term financial instruments that could contribute in all three countries to the modernization of the financial system; to turn the inevitable privatization of the Algerian banking system into an opportunity to create two regional banks with shareholdings in the three countries, the prime task of which would be to encourage and engineer mergers and acquisitions across North Africa; and to ensure full currency convertibility.

Recommendations and Conclusion

Excepting Mauritania and Libya, where everything remains a work in progress, the three other North African countries have overhauled their financial systems. Today, each of these countries has modernized systems of payment and all are progressively aligning their standards for monitoring bank risk to international norms. At one extreme, the Moroccan banking system has been thoroughly modernized and banks offer a quality of service equivalent to that of European or US banks. At the other ex-

treme, the banking system in Algeria, as it operates in 2008, has regressed beyond the standards of the 1960s.

All in all, the reforms to date have not substantially modified the banking landscape. They have failed to significantly increase access to loans for businesses and individuals. The reforms must be continued, and even accelerated, in the case of Tunisia and Algeria.

The three banking systems display common features. The share of bank credit devoted to the public sector is high and the percentage of people holding bank accounts is low. The flow of capital escaping the region is higher than the combined total of workers' remittances and foreign direct investment (FDI). High net-worth individuals, including entrepreneurs, have little trust in the systems in which they operate. Yet entrepreneurs who are close to the ruling elites benefit from modern services and low interest rates.

North African banks are traditionally too liquid. But seeing this feature in isolation can be misleading. The moment these banks try to expand, they rapidly use up their resources. This is precisely the case today. FDI is flowing into the region and the investing firms often apply for loans in local currency. As a consequence, since the fourth quarter of 2007, Moroccan banks have experienced very real cash flow problems (Bank al Maghrib 2008). In sharp contrast to the nonbank financial markets in the region, which are shallow and reflect the weakness of institutional investors, North African banks are flourishing. But despite the efforts of recent decades, banks do not play the role they could in developing the economies of North Africa.

Two recommendations can be made concerning the development of financial systems in North Africa. First, countries should loosen the conditions for access to credit. Second, they should encourage the accumulation of banking resources in the form of household savings. In this respect, two initiatives should be launched in the context of Mediterranean economic integration.

First, a Euro-Mediterranean finance agency should be created that would be dedicated to supporting SMEs and guaranteeing risk to facilitate bank refinancing and lines of credit. The procedures could be inspired by models such as the US Small Business Administration or French Oséo and established on a Euro-Mediterranean scale. Second, the largest private European and North African banks should agree to connect their networks and thus form a consortium to bring emigrant money into the banking system and encourage savings. This unprecedented approach would use the accumulated resources in concert with multilateral public lenders to develop investment vehicles and guarantee funds. The modalities of such a public-private partnership would need to be precisely defined.

Apart from the banks, two recommendations relate to other financial markets in the region, which remain underdeveloped. The insurance sec-

tor is in great need of reform, particularly regarding rationalization of policies, privatization, and consolidation of many small players. It is particularly important to encourage the emergence of substantial insurance companies to add depth to financial markets.

Stock and bond markets need to be developed. Reforms should concentrate on building bridges to European and Gulf stock markets to encourage the double or triple quotation of local businesses, revising quotation conditions to encourage the entry of foreign investors in local markets, creating bonds and public-private stock funds on the model of those developed by ASEAN+3, and establishing a North African Dow Jones index.

Operations should be consolidated for microfinance institutions, allowing them to enhance their productivity and the security of their operations. Joint back offices could be created. Stronger links should be put in place with both national and international banking networks, especially for emigrant money.

Finally, at a microeconomic level, two measures are essential, in line with numerous recommendations made by the World Bank and others, namely, creating credit bureaus and overhauling the instruments of risk quotation. Each country should concentrate on broad-brush measures to reduce nonperforming loans. These include buying some of the debt from banks at a steep discount, securitizing some of the debt with the support of specialized international banks, and engaging international factoring professionals to sort out many of the present difficulties.

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