

## Financial Market Integration in Central Africa

The issue of long-term funding arose in Central Africa as in other developing regions. The African banking sector, which shows promising signs, certainly has a significant role to play in the development of local companies as it is still the main liquidity provider. But the provision of funding by this sector remains insufficient. The provision of long-term capital and equities that is missing in the subregion companies should be undertaken by the stock exchange. The issue of an integrated financial market in the CEMAC zone has proven to be less simple to resolve than expected, particularly in face of Cameroon's determination to maintain its leadership and economic power within the zone.

### Two financial centres for such a small market...

To understand the difficulties of the financial market in Central Africa, one must go back to the 1990s and to the two great crises that rocked the economies of the CEMAC zone. At that time it became obvious, on one hand, that the banks were incapable of financing the productive sector in a sustainable way with resources constituted essentially of short-term deposits, and on the other hand, that it was necessary to complete the bank financing with long-term funding tools. It is in this context that the CEMAC's political authorities assigned to the Central Bank the project of supervising a feasibility study of the creation of a regional financial market. In 1999, this study concluded that the project of the creation of a financial market in Central Africa was viable. Subsequently the establishment of this financial market has been carried out progressively, particularly from the year 2000 with the establishment of the head office of the Central Africa stock exchange (BVMAC) in Libreville (Gabon), followed in 2001 by the creation of the Supervisory Commission of the Central Africa Financial Market (COSUMAF) the head office of which is also based in Libreville.

However, as deplored by the COSUMAF in its report of September 2009, the establishment of a regional financial market was carried out in defiance of the general position set out in the feasibility study. Instead of an integrated market, as recommended by the study, a fragmented financial market has been established in which two stock exchanges coexist. Indeed, alongside the creation of the BVMAC, Cameroon also founded a financial market in 1999, managed by the Douala Stock Exchange (DSX).

### Mixed results

The results of the activities of the BVMAC and DSX are clearly mitigated. Regarding the BVMAC, the market capitalisation of the bonds compartment to December 31, 2012 was approximately 219 billion FCFA and the equities section has remained inactive to date, other than the recent case of SIAT Gabon in this market<sup>1</sup>. Such a fundraising seems insignificant given companies' financing needs and the budget surplus of the states of the CEMAC zone, which could create opportunities for increasing financial resources. As to the DSX, the market capitalisation of the six companies which are quoted is approximately 118 billion FCFA, for three registered operations on the equities compartment.

The insufficient depth of this market and the weak market culture of the zone represent some of the main challenges to overcome, in addition to what remains to be done in terms of the market's infrastructures. Financial and accounting information remains the Achilles' heel of most local companies. For example in Cameroon, the general inventory published in 2013 by the National Statistical Institute revealed that 57.7% of the 93,963 Cameroonian companies do not keep written accounts. Among the minority of companies which do keep written accounts, only 31.1% (approximately 13% of the overall companies) practise formal accounting which enables them to submit a statistical and tax declaration. Nevertheless, in order for their securities to be quoted on the DSX, the issuers should in particular provide DSX with a statistical and tax declaration as well as certified accounts for the last three fiscal years... As a Cameroonian journalist said "at this point we will still be waiting a long time to see companies knocking down the doors of the DSX". The companies must therefore understand that in any financial market the reliability of the information provided by them is crucial for investors. They should be capable of complying with the required standards of information in order to gain access to the financial market of the sub-region, and consequently, to give that market depth. These companies already benefit from a unified normative framework related to corporate law and accounting standards, to the extent that the member States of the CEMAC are also parties to the OHADA treaty.

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First published in [Jeune Afrique](#) on 23 July 2013

<sup>1</sup> This very much demonstrates the whole absurdity which can result from the competition between Douala and Libreville on this issue. However, it seems that SIAT Gabon will be in position to quote 5.5% of its shares by 3 September 2013.

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### **The "Coming together" or the "Merger" of the two financial centres?**

We could indeed be surprised that the head office of the BVMAC is situated in Libreville, since Cameroon is unquestionably the economic leader of the CEMAC zone. Beyond what could resemble an ego war, attention should be paid to the difficulty encountered by a company in succeeding in its listing on the stock exchange raising important funds in the subregion without the involvement of Cameroonian institutional investors. The recent example of SIAT Gabon might illustrate this point (see JA 2013 n° 2739). But there is also the fact that the two financial markets are coexisting, and that all that is needed now is to find a way to make them more efficient, either by harmonising their functioning and the standards to which they are subject or by merging them. A former Finance Minister of Cameroon noted in this respect that "coming together" had nothing to do with "merger"...Of course! Clearly this situation creates disadvantages in terms of attractiveness and efficiency, particularly due to the superposition of standards and of regulatory authorities, the lack of economies of scale and the duplication of costs, which appears to be absurd for a market of this size.

In order to overcome these obstacles, multiple solutions exist. The first one has been very well described by the COSUMAF in its 2009 report. It is a question of harmonisation which should lead to unification of the regulatory framework and of the regulator. In concrete terms, this will start by the harmonisation of the regulatory framework of the two markets, followed by the development of a cooperation framework between the two regulatory authorities, then of the establishment of a "CEMAC passport" that will constitute in fact a common model of a prospectus for any initial public offering within the zone. Finally, the cooperation between the regulatory authorities would make it possible to harmonise the market rules and requirements for admission to the list established by the market companies. This work of harmonisation and unification should be taken into account in relation to other central structures of markets, central depository and settlement banks. Even with achieving the merger in the long-term, this does not guarantee the end of the dissension, as it is possible that Cameroon will require that the BVMAC or the regulatory authority be located in its territory.

### **The process of specialisation**

The political authorities of the CEMAC could also more seriously consider engaging one of the two financial centres in a process of specialisation. In Western Africa for example, on the fringe of the Regional Stock Exchange of the Economic and Monetary Union of West Africa, Ivory Coast has managed to develop a coffee-cocoa stock exchange to put in place a mechanism of guaranteed income and remunerative price for the producers, as well as the promotion of Ivorian cocoa in the international market. In light of the huge agricultural potential of Cameroon and the challenges faced by its producers, it appears to be the royal road that could use the Douala Stock Exchange, for example, in favour of the banana industry...

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