

Barclays grows out of Africa

Emerging markets are looming larger in the imagination of fund managers than at any time since the mid-1990s. Securities services chiefs at Barclays, long confined to sub-Saharan sub-custody, are responding energetically to the change of sentiment



From left to right: Augustine Kwakye-Agyekum, regional relationship and sales manager; Chris Wooldridge, head of Barclays Securities Services Emerging Markets; and John Odhiambo, head of Barclays Securities Services, Kenya

If Barclays Securities Administration (BSA) was ever a Cinderella business, it certainly is not now. In April Barclays folded the Johannesburg-based sub-custody network into a new Emerging Markets Regional Office based in Dubai, which will now offer custody services on a selective basis in Asia and the Middle East as well as Africa. Barclays' strategy is to enter markets where they have a client demand and or feel that their presence would add value to institutional investors.

Chris Wooldridge, formerly regional head of BSA in South Africa, has already moved to Dubai as head of Securities Services, Barclays Emerging Markets. His deputy, Augustine Kwakye-Agyekum, has moved from Johannesburg to the Barclays' regional hub in Mauritius to lead regional sales and relationship management. The BSA regional risk management function in Nairobi, headed by Silas Mutuku, is unaffected. "Johannesburg was considered as the base for the emerging markets custody product headquarters, but Dubai was finally chosen on geographical grounds because it is central to Europe, India, the Middle East and Africa," explains Wooldridge, who arrived in Dubai at the end of July. "The impact on our custody services is extremely positive. We are no longer limited to operating just in Africa and our business is seen as a core emerging markets product for the bank."

Though the Johannesburg regional office is closing as a result of the organizational changes, the acquisition by Barclays of Absa in South Africa means that the British bank is already reinvigorating the Absa sub-custody offering. It will become part of an expanded Barclays sub-custody network in Africa, which Wooldridge is now leading from Dubai. Expansion in Africa was already under way when the Emerging Markets Regional Office was established, in response to a rising interest in Africa from global custodians, whose fund management clients are now active in 18 markets across the continent. As Africa has attracted more fund managers, a trend apparent in the rest of the world for many years—namely, regional or, more often, multi-market custody—has taken hold.

Until this year, the Barclays' sub-custody service covered Botswana, Ghana, Kenya, Mauritius, Uganda, Zambia and Zimbabwe only. But the bank recently secured the approval of the central bank to provide sub-custody services in Tanzania. The Tanzanian government debt market is still closed to foreign investors, but the eight stocks listed on the Dar-Es Salaam stock exchange have found their way into the regional indices. Further north in Egypt, a sub-custody service was added to the offerings of the British bank late this summer. It marks the entry of Barclays into one of the larger, but also more competitive markets in Africa, with Citi, HSBC and the National Bank of Egypt already providing a service in Cairo. "It was not 'natural' territory for us when we were operating in sub-Saharan Africa only, but it is a large market, we have a large internal client base to build on, and it is close to our new regional base in Dubai," says Wooldridge.

Nigeria, another large market with a booming stock market, was always natural territory for BSA. But the bank has no plans as yet to tackle the sub-custody market in the giant West African state, instead preferring to work with a local bank to provide coverage. It was until recently monopolized by longstanding Barclays rival Stanbic, but new capitalization requirements imposed by the central bank to force the pace of consolidation in the banking sector almost prompted the South African bank to exit the market and led to abortive merger discussions with Oceanic Bank. Meanwhile, a formidable new competitor has emerged in the shape of First Bank of Nigeria (FBN). The newcomer, which has the twin advantages of a large local retail network and a nascent domestic pension fund clientele to draw upon, is now set to compete for foreign business with a new Nigerian banking alliance between Stanbic Nigeria and IBTC, which are agreeing a merger (see

story on page 14). BSA is itself using FBN in Nigeria, as it uses third-party providers in Namibia (FNB), and North Africa (Citi) outside Egypt. Barclays is also using a third party in Malawi, where it helped persuade its supplier National Bank of Malawi to purchase the same custody system as it uses: the Sectech platform, which is fast becoming the African industry standard (see Sectech story, page 22).

If foreign interest in Malawi is picking up, the wealth of expatriate Kenyans lies behind a massive increase in trading activity (if not market values) on the Nairobi stock exchange. IPOs, such as those of Kenya Electricity and Safaricom, are fueling liquidity. Other helpful factors include the automated trading system introduced by the Nairobi stock exchange last year and a new CSD, which have made trading, clearing and settlement cheaper and more reliable. This has in turn galvanized the local savings industry, with Kenyan banks developing mutual funds for sale to their retail clients. Barclays has secured several domestic mandates as fund accountant to Kenyan mutual funds. The bank has also benefited from new laws obliging pension as well as mutual funds to appoint third-party custodians. But the main influence over the Kenyan capital market is the economy, which is now growing at a healthy 5-6% a year. The government, which has embarked on an infrastructural investment programme as well as the perennial anti-corruption drive, is aiming at an Asian standard of living by 2030.

Thanks partly to regionally minded investors, the idea of a single east African capital market continues to advance. The East African Stock Exchange Association (EASEA) and the East Africa Securities Regulators Associations (EASRA) have facilitated the cross-listing of three stocks listed on the Nairobi, Dar-Es Salaam and Uganda exchanges. The International Fi-

nance Corporation (IFC) has encouraged all three markets to skip the cost of duplicating market infrastructure by sharing facilities. The new CSD in Kenya, which has succeeded in immobilizing a third of outstanding shares and aims eventually to absorb the government bond market as well, is a case in point. Half-owned by listed companies, its management has also distributed stakes to the Kenyan (20%), Tanzanian (2.0%) and Ugandan stock exchanges (2.5%) as well as stock brokers (18%) and regulators (7.5%). Even the benighted states of Rwanda and Burundi are exploring the possibility of joining the east African securities fraternity.

Wooldridge is also bullish about Ghana, where a sympathetic finance minister (Kwadwo Baah Wiredu) cut withholding tax to 8% from January this year, and abolished the limit on foreign shareholdings in companies listed on the stock exchange in Accra. The CSD established by the Ghanaian central bank has yet to extend its remit beyond government securities, but it is based on the same (Sri Lankan) technology as its Kenyan equivalent, and equities are within its eventual scope. The Ghana Stock Exchange is up this year and the government is looking to sell its stakes in the local banking industry. In fact, BSA rivals Stanbic of South Africa are understood to be interested in buying Agriculture Development Bank. Wooldridge sees even this as a positive sign. "We have to go back to the 1990s to find the equivalent of the current level of interest in Africa," he says. "Foreign-owned assets are up from 22% to 33% of our assets in custody in the last twelve months. In sterling terms, the value of all assets in custody with us is up 74%, so the value of both domestic and foreign assets in custody with us is going up. These are exciting times in the African capital markets."—DSH