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Opening Remarks, at the African Central Bank Governors' Roundtable on Cross-Border Banking in Africa, at the World Bank Spring Meetings, Saturday, April 12, 2014, 3:00pm – 5:00pm, MC13-301

PRIVATE SECTOR RECOMMENDATIONS ON PRACTICAL STEPS TO INCREASE AND SUPPORT CROSS-BORDER BANKING IN AFRICA

- A warm welcome on behalf of Africa investor to this Roundtable on Cross-border Banking in Africa
- This is a particularly important agenda to the private sector, as it cuts across all finance, trade and investment on the continent, and therefore we applaud the Association of African Central Banks, Making Finance Work for Africa, and the World Bank Africa Region Financial and Private Sector Development for this governors' initiative, to partner Africa investor and the private sector in this on-going and important agenda, that focuses on strategies to improve cross-border banking in Africa.
- I've had the opportunity to discuss this agenda, with our partners from the leading and largest pan-African banks and international banks operating across the continent, who all also applaud your focus and work in this area, and would very much like to support and work with you, through us, as a collective on this important agenda going forward.
- In terms of the agenda being focused on strategies to improve cross-border banking, our group of commercial banking leaders have seven concrete proposals/recommended areas of focus, for on-going work and collaboration. They have collectively asked us to share these views AND suggestions, on issues that they look forward to discussing and implementing with you to improve the prospects for cross-border banking **in Africa.**

1. THE FIRST RELATING TO: THE CREATION OF OPTIMAL CURRENCY AREAS

- It's proposed, there could be more work by Central Banks and African authorities – in partnership with African commercial banks – to create optimal currency areas. It's recognized that to some extent, this is already happening on the ground – with the Rand and Meticais are already used interchangeably, along that border, for instance. Moreover, more formal progress is also being made, in terms of progress towards a common East African currency, which is pretty advanced. Of course, the authorities need to find institutional arrangements, which maximise currency stability and openness to trade, without losing control of monetary policy and the ability to lean against imported inflation in particular. So there's careful technical work to be done – central banks and commercial banks are well placed to do this work in partnership and we offer our partnership to pursue this.
- In addition, banks should advocate policies to achieve **direct convertibility of African currencies** and thereby minimise risk exposure of banks.

2. The second suggestion is on IMPROVING TRADE FACILITATION, where it's recognized that more work should be done on obtaining the low-hanging fruit of trade facilitation for intra-regional trade: in particular, more efficient border processes, for instance. But in the financial context, trade facilitation means more efficient, more regionally standardised (and probably in general reduced) exchange control rules and procedures.

- Within the context of improving trade facilitation, the view is central banks have the opportunity to focus more on ensuring, that the banks they regulate, have the capacity to provide **cross-border trade financing**. In addition to reducing red tape, often this would mean, trying to ensure that they have enough USD. It's suggested that one way to do this might be for central banks, to consider placing a small fraction of their reserves, on deposit with African commercial banks.

- The third point within trade facilitation is that African central banks should be supported to review the likely effects of new capital adequacy regulations on trade finance. As we would all agree, it would be counterproductive to make trade finance more expensive, as we seek to improve regional trade from the current 12%.

- The final point under trade facilitation being offered is the need for **more coordination** between the private sector and development and Exim banks, which is viewed as being very valuable in this effort.

3. The **third proposal** from our banking group, is in relation to support for an **AFRICAN RATINGS AGENCY**

- Africa should aim to have a more coordinated approach to explaining risk, to the global investment community. Central banks have a useful role to play in that.

- It's suggested that central banks (and perhaps the World Bank and the IMF) might consider encouraging the institutionalisation of an authoritative African ratings agency, to in the words of the group, help 'unskew' the ratings of African banks – many of which, are at least as sound as banks based in developed-world countries, but that are rated higher than their African equivalents by the existing agencies.

- We are working on such a project, which is being supported by a number of commercial banks. We would welcome engagement with the Association of African Central Banks in relation to this ratings initiative.

4. The fourth concrete recommended area of focus is on FINANCIAL INCLUSIVENESS, where it is suggested, there is a need for the decision makers, to focus on more inclusive banking. This goes beyond agency banking, i.e. the use of non-bank agents, such as stores and filling stations, but also changing the rules, so that the average African is able to provide alternatives to utility bills for KYC (know your client) and AML (anti-money laundering) purposes.

5. The fifth point is on THE FINANCING OF ECONOMIC DEVELOPMENT, where it is felt regulators, should work to create bigger banks.

- In the US, the biggest banks are American. In the UK, the biggest banks are British, in China, Chinese; in Italy, Italian; in Germany, German; in France, French, etc. This is bound to happen in Africa, but it is suggested that regulators should help the process along. Africa certainly needs to catch up, with the point being that, only big banks can finance economic development. No country has ever developed through microfinance.

- It is proposed that governors, also encourage the syndication of large ticket loans, thereby increasing the number of participants and avoiding over-concentration in individual banks.

6. The sixth recommendation for an area of focus is THE FREE MOVEMENT OF CAPITAL AND SKILLS, where the recommendation is that regulators should **ease capital controls,** in order to facilitate the flow of funds between African countries.

- African governments and central banks should therefore encourage free movement of capital in the region, through the removal, of exchange controls and regional convertibility, i.e. free convertibility within economic blocs, such as the AU, ECOWAS, SADC, etc. without the need to create a common currency, or to comply with strict convergence criteria. It is felt that exchange controls do not work, but yet we continue with it in Africa.

- It is also suggested that removing exchange controls, will also encourage African countries, such as Nigeria, South Africa, Egypt and Morocco, for example, that have significant pools of capital, to invest more in other African countries, and we know that we currently have an intra-African investment rate of approximately 5%, compared to an intra-European investment rate of 82%.

- In relation to skills, a high priority called for, is the encouragement of the transfer of banking employees across countries to boost knowledge transfer and to fill the skills gap.

7. The final recommendation that I've been asked to share with you, is in respect to **REGULATION OVERALL,** starting off with the **need for regulators to take the opportunity, to pursue macro-economic policies**, which **support price and exchange rate stability.**

- The second point relates to banking licences, where it is felt regulators should be supported and encouraged to offer a range of banking licenses, with a broader range of capital requirements, as a means to reduce barriers to entry.

- Then, there is a need to reduce regulatory bottlenecks that elongate the period of time to obtain banking licenses.

- On a broader perspective, it is hoped that regulators pursue and adopt global regulatory best practices, and standards, in order to harmonise regulatory environments across countries.

Thank you for your attention and consideration of these proposals, and we look forward to a productive discussion here today, and working with you on these private sector proposals going forward.

Thank you.