ASSOCIATION DES BANQUES CENTRALES AFRICAINES ASSOCIATION OF AFRICAN CENTRAL BANKS

CONTINENTAL SEMINAR OF THE ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB) ON THE THEME « THE ROLE OF CENTRAL BANKS IN PROMOTING SUSTAINABLE ECONOMIC GROWTH»

Maseru, May 6-8, 2013

CONCLUSIONS AND RECOMMENDATIONS

INTRODUCTION

The 2013 AACB continental seminar on the theme *"The Role of Central Banks in Promoting Sustainable Economic Growth in Africa"* took place from May 6-8, 2013 in Maseru, Lesotho. The meeting was attended by AACB member central banks, sub-regional, regional, African Union Commission and international bodies. Presentations were made on the following sub-themes:

1. Sustainable Economic Growth: Concepts and conditions for achieving it in Africa;
2. Instruments and conditions for efficient monetary policy making in support of economic growth;
3. International experiences of central banks in promoting sustainable economic growth: Lessons for African Central Banks.

PRESENTATIONS

The seminar worked on:

1. What Role can African Central Banks play in Developing Financial Innovation and the Financial Market?
2. Mobilising Domestic Savings to Finance Sustainable Economic Growth: What Role for Central Banks?
3. Accessing Banking and Financial Resources and Restraining the Cost of Credit: Role of Central Banks;
4. Limitations in the Action of Central Banks and the need to Strengthen Synergy in the Actions of Various Stakeholders (State, Central Banks, Development Banks, Private Sector, Financial Market, etc.)..

The seminar identified constraints and came up with some recommendations:

1. *What Role can African Central Banks Play in Developing Financial Innovation and the Financial Markets?*

The constraints to the financial innovation and the development of financial markets were identified to include:

- Insufficient provision of financial services to the real economy, especially the informal sector;
- Lack of capital for investment – foreign and domestic;
- Poor infrastructure;
- Weak financial competencies;
- Non conducive business environment;
- Underdeveloped payments systems;
- Underdeveloped or non-existent capital markets;
- Lack of Central Banks independence;
- Poor legal, supervision and regulatory framework;
- Low financial literacy;
- Insufficient competition.

The following recommendations were made:

- Develop and improve financial markets;
- Increase participation of microfinance and other non-bank sector;
- Encourage development of new and innovative financial instruments;
- Develop credit bureau;
- Promote good governance;
- Adopt International of Financial Reporting Standard (IFRS);
- Employ prudent mechanism to stem systemic risks;
- Enhance financial sector competition and other ways of reducing transaction costs;
- Create an enabling business environment;
- Reinforce the macro-economic frameworks to create stable and sound macroeconomic environment.

2. ***Mobilising Domestic Savings for Sustainable Economic Growth: What Role for Central Banks.***

Obstacles to Savings Mobilisation

- Low disposable incomes and high dependency ratios;
- High inflation;

- Low real interest rates;
- Poor infrastructure;
- Inadequate financial inclusion;
- Low level of competition in the financial sector;
- Lack of confidence in the banking system;
- Lack of deposit insurance;
- Lack of financial education;
- Underdeveloped or non-existent capital markets;
- Small and under-developed private sector coupled with low support to SMEs;
- High tax rates.

Recommendations

- Formulate and implement efficient monetary policy to ensure attainment and maintenance of price stability. This ensures positive real interest rates which promote savings;
- Ensure coordination between monetary & fiscal policies;
- Participate in financial literacy programs to promote a culture of savings and utilisation of financial services;
- Develop monetary policy tools that will ensure effective transmission of monetary policy decisions to the real sector;
- Promote financial inclusion to increase the number of participants and potential savers in the formal financial system. The commercial banks should be encouraged to spread financial services to regions where there are no branches/ agencies. Mobile banking services have successfully increased financial inclusion in some countries and are an option worth exploring by countries that do not have them;
- Enhance micro & macro prudential regulations to reduce risk that banks may be exposed to and enforce the regulatory requirements on the banking sector in line with international best practice. This is important for **financial stability** and for enhancing and maintaining investors 'confidence in the financial system;
- African central banks should progressively move away from compliance based to risk based supervision. Central Bank should develop efficient payments and settlement systems;
- Central banks should effectively play their role of **advisor to government, particularly in promoting** exchange rate stability and also with regard to development of the capital market.

3. ***Accessing Banking and Financial Resources and Restraining The Cost of Credit: Role of Central Banks***

Constraints (cost of credit)

- The high cost of finance occasioned by commercial bank inefficiencies, information asymmetries which lead to high levels of perceived risk, high legal costs and inadequate legal and regulatory frameworks;
- High fiscal deficits which tend to increase the discount rates for government securities, which banks usually use to benchmark their interest rates;
- Monetary policy transmission asymmetry which manifests in the low responsiveness of the financial sector to policy signals.

Recommendations (cost of credit)

- Promote competition in the financial sector to support growth of microfinance & agent banking services, market innovation and guard against collusion;
- Encourage the government to improve legal system, including court processes to facilitate debt recovery through establishment of financial courts and mediation systems;
- Maintain price stability and policy coordination with government;
- Encourage and facilitate establishment of **credit reference bureaus** so that banks can access the necessary information for assessing credit worthiness of borrowers. By reducing the risk of default and the costs of doing business to the banking system, this has the potential to increase access to credit and reduce the lending rates.

Constraints (access to banking services)

- Concentration of banking infrastructure in urban areas;
- Lack of appropriate banking products;
- Lack of collateral;
- Stringent Know Your Customer (KYC) Rules;
- Prudential regulations;
- Lack of long term finance.

Recommendations (access to banking services)

- supporting the development of agent banking and mobile money services;
- engaging government to ensure provision of infrastructure that supports financial services;
- promoting establishment of microfinance services and working with government on the regulation and supervision of these services;
- Supporting use of group guarantee schemes to access credit and provision of asset title or land title;

- Promoting innovative financing as a source of mobilisation of savings.

4. *Limitations In The Action Of Central Banks And The Need To Strengthen Synergy In The Actions Of Various Stakeholders (State, Commercial Banks, Development Banks, Private Sector, Financial Market, Etc).*

Constraints

- Insufficient coordination between fiscal and monetary authorities;
- Political interference with the initiatives of central banks;
- Lack of well-developed banking /financial systems;
- Lack of credibility and transparency of monetary policy;
- Ineffective Communication Strategies;
- Poor quality of macroeconomic data.

Recommendation

Strengthen coordination in the areas of:

- Technical assistance and capacity building to members of the AACB by regional / international bodies;
- Capacity building in data collection and compilation;
- Networking amongst member states to facilitate enrichment of experiences;
- Communication strategies;
- Consumer financial education programs;
- Regional and continental peer review mechanism.

CONCLUSION

The pursuit of price and financial stability together with overall macroeconomic stability is not sufficient. African central banks need to go beyond that by identifying the missing links between these objectives and sustained economic growth. It was suggested that the mandate of central banks could be extended to include promoting economic growth and development. Nevertheless there was debate on balancing the developmental role in view of the traditional role.

Strong and efficient regulation of the financial system should be pursued while ensuring that it does not inhibit financial innovation.

In being innovative, the financial system should use what Africa already has, for example, livestock could be used as collateral for accessing loans for agricultural production. The challenges are there but there are ways to get around them.

The seminar noted that the traditional mandate of the central banks is price and financial stability without losing sight of the developmental roles. In particular, central banks should continue to promote financial inclusion, development of financial markets and financial innovation. These will help promote financing of economic growth and development. However, a wider mandate could be adopted where feasible.

It was concluded that while a central bank should play a critical role in developing financial markets, they cannot do it alone. To ensure clear transmission mechanisms, there is need for collaboration between the central bank, the government and the private sector.