

ASSOCIATION DES BANQUES CENTRALES AFRICAINES



ASSOCIATION OF AFRICAN CENTRAL BANKS

ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB)

**AACB CONTINENTAL SEMINAR FOR 2022 ON THE THEME:
«LEVERAGING TECHNOLOGY TO PROMOTE INVESTMENT
IN THE PAN-AFRICAN BANKING SECTOR IN ADVANCING
THE AFRICAN CONTINENTAL FREE TRADE AREA (AFCFTA):
THE ROLE OF CENTRAL BANKS»**

Organized virtually by: Banque Centrale de la République de Guinée
(May 16-18, 2022)

Terms of reference

INTRODUCTION

According to Article 3 of its Statutes, the Association of African Central Banks (AACB) organizes a Continental Seminar each year as part of the achievement of its objectives. The Continental Seminar provides a forum for discussions between Central Banks, international and continental institutions, as well as resource persons to promote exchanges of ideas and experiences related to monetary, banking and financial issues and cooperation in Africa.

At the 2019 African Union (AU) Summit in Niamey, the Heads of State and Government launched the African Continental Free Trade Area (AfCFTA), an agreement to establish a single liberalized continental market for goods and services. This initiative aims to rapidly increase intra-African trade to boost the continent's economies through the progressive elimination of tariff and non-tariff barriers to trade. Based on the African Development Bank (AfDB) report published in January 2021, intra-African trade represents roughly 16% of the continent's total trade in 2019 against more than 60% for the Asian and European continents. Thus, the AfCFTA should allow AU member countries to increase their Gross Domestic Product (GDP) from 1% to 3% and intra-African trade by 33% during the transition period (by 2030).

The free trade area is expected to cover 54 out of 55 African countries (excluding Eritrea), with a combined current GDP estimated at USD 2.5 trillion and a population of about 1.2 billion. As the global economy faces the turmoil of the COVID-19 pandemic, establishing this broad regional market provides an opportunity for African countries to diversify their exports, accelerate growth, and attract foreign direct investment.

However, implementing a free trade area within the continent requires adequate infrastructure and developed financial and payment systems to promote and facilitate physical and informational flows. Therefore, there is a need for greater regional financial integration at the continental level to push forward the free trade agreement.

This context led the 43rd ordinary meeting of the Assembly of Governors, hosted virtually by the Banque Centrale du Congo (BCC), on August 20, 2021, to select the following theme for the 2022 Continental Seminar: *"Leveraging Technology to Promote Investment in the Pan-African Banking Sector in Advancing the African Continental Free Trade Area (AfCFTA): The Role of Central Banks"*.

The present terms of reference specify the context and objectives of the AACB Continental Seminar, the main topics discussed and the organizational arrangement.

I. CONTEXT AND OBJECTIVES OF THE SEMINAR

Africa's share of world trade is still marginal. Indeed, trade flows from all African countries that are members of the African Union represented about 3%¹ of world merchandise trade in 2019, compared to 33.8% and 35.7% for Asia and Europe, respectively. Furthermore, trade on the continent is mainly with the rest of the world, with intra-African exports and imports standing at 12.6% and 19.7%, respectively, in 2019 compared to 59.0% and 61.0% for the European Union². Moreover, a decline in intra-African trade has been noted in recent years. The share of exports and imports averaged 13.6% and 20.7%, respectively, over 2013-2018 above their 2019 levels.

¹ / au.int/sites/default/files/documents/39607-doc-af-trade_yearbook2020_v4_comp-compresses_1.pdf : Statistiques du commerce international africain de l'Union Africaine

²/ <https://ec.europa.eu/eurostat/documents/2995521/10624809/6-25032020-AP-FR.pdf/02e7de9e-5868-dfda-488d-4fc46ee9a38b>

Given these statistics indicating the weakness of intra-African trade, the States have established the AfCFTA to stimulate and increase trade between African countries. Thus, this initiative should facilitate the movement of capital, people and investments across the continent. The second largest free trade area in terms of population to be created since the establishment of the World Trade Organization (WTO), after the Regional Economic Partnership in Asia and the Pacific, the AfCFTA became operational on January 1, 2021, since its ratification by 36 African countries on January 20, 2021.

However, this African Union initiative, which brings hope to local economies, presents many challenges for African countries. Indeed, trade in Africa is still encountered numerous tariff and non-tariff barriers that could limit the AfCFTA progress. According to the 2019 Regional Economic Outlook on Sub-Saharan Africa by the International Monetary Fund (IMF), improved trade logistics and infrastructure could be four times more effective than lower tariffs in boosting trade. Indeed, trade transactions are carried out and facilitated only through payments, which require a more developed financial infrastructure and a sufficiently liquid pan-African banking system able to make payments and settlements to promote trade and other economic activities between countries.

With such challenges to progress on the AfCFTA, it is crucial to focus on promoting investment in the pan-African banking sector, particularly in financial infrastructure, to integrate national and regional payment systems and other financial services providers. There is also a need to harmonize regional payment systems to facilitate cross-border payments, create cross-credit facilities between Central Banks, and establish a continental multi-currency clearinghouse to reduce trading risks in different currencies.

Furthermore, the banking system should also take measures to expand the access conditions to loans for agricultural financing in compliance with environmental standards. Indeed, based on the Intergovernmental Panel on Climate Change (IPCC) report published in August 2021, the transition to carbon neutrality is imperative. However, its uncontrolled management could be also a source of possible financial risks.

In this context, technological advances over the last few decades, particularly in the area of New Information and Communication Technologies (NICTs), have contributed to financial innovation growth, which has significantly transformed the activity of financial intermediation (Sobreira, 2004)³. In this regard, they could provide an opportunity to promote investment in the pan-African banking sector to meet the challenges of advancing the AfCFTA. Therefore, the role of FinTech in developing financial activities and transforming market structures is well documented. Artificial Intelligence (AI) and Machine Learning (ML) allow for the accumulation and processing of large information databases.

In addition, new financial technologies offer the possibility of building expert systems (robots) to analyze extensive information to formulate solutions according to predefined criteria. Technological developments combining Application Programming Interface (API)⁴, AI and blockchain to automate and secure transactions provide opportunities to promote investment in the African banking sector. Moreover, the banking sector could also take advantage of FinTech based on the constitution of "distributed registers" using blockchain technology, the

³ / [Rogério Sobreira \(2004\) : « Innovation financière et investissement : le cas de la titrisation », in Innovations 2004/1 \(n° 19\), pages 115 à 129.](#)

⁴ / An API allows making available data or functionalities of an existing application so that other applications can use them. It allows two applications to communicate with each other.

direct co-traders connection through networks and platforms (peer-to-peer (P2P)) to ensure the promotion of investments in this sector.

However, the FinTech and digital transformation and cyber threats may pose risks to the stability of the financial system. They could contribute to changing the nature of the risks in the continent's capital markets. In addition, the deepening of the pan-African banking sector due to financial innovations could expand financing and investment opportunities for households and firms. These changes could also affect the pace and degree to which monetary policy decisions are transmitted in African economies, likely impacting the transmission of monetary policy channels.

In the light of the above, Central Banks have a vital role in the AfCFTA implementation by ensuring macroeconomic and financial stability, formulating and implementing suitable exchange rate policies to support trade activities. To this end, they should consider strategies, including exchange rate regulations and appropriate regional payment channels for intra-African transactions to increase trade in the AfCFTA region.

In this regard, the following main objectives are assigned to the 2022 Continental Seminar:

- Identify investments to be made in the pan-African banking sector to promote the AfCFTA;
- Contribute to a better understanding of the Central Banks' role in strengthening trade integration in Africa through promoting FinTech and developing pan-African banking systems and cross-border payments;
- Identify new policy challenges related to the use of FinTech in the banking sector;
- Highlight the role that technological innovations can play in capital mobilization strategies and the implications for policy transmission mechanisms and financial stability in promoting the AfCFTA;
- Spotlight the channels for leveraging technology to support the greening of the financial system.

II. ARTICULATION OF THE SEMINAR

The Seminar could be organized around the following sequences:

- Presentations on the challenges of moving the AfCFTA forward and the investments that need to be promoted for developing the pan-African banking system and cross-border payments;
- Presentations on the role of Central Banks in strengthening trade integration in Africa;
- Presentations on the capital mobilization strategies and their impact on the monetary policy transmission mechanisms and the financial stability;
- Reflections on the role of technological innovations in the capital mobilization strategies for promoting the AfCFTA;
- Presentations on leveraging technology for greening the African financial system to advance the AfCFTA.

III. ORGANIZATIONAL FRAMEWORK

3.1. Participants

Participants from the following institutions are expected:

- AACB member Central Banks;
- European Central Bank (ECB);
- African Union Commission (AUC);
- United Nations Economic Commission for Africa (UNECA);
- Common Market for Eastern and Southern Africa (COMESA);
- Southern African Development Community (SADC);
- Central Africa Economic and Monetary Community (CAEMC);
- Economic Community of Central African States (ECCAS);
- Economic Community of West African States (ECOWAS);
- Maghreb Arab Union(MAU);
- West African Economic and Monetary Union (WAMU);
- Eastern African Community (EAC);
- West African Monetary Agency (WAMA);
- West African Monetary Institute (WAMI);
- International Monetary Fund (IMF);
- World Bank;
- African Development Bank (AfDB);
- Federal Reserve Bank of New York (FRBNY);
- Make Finance Work for Africa (MFW4A);
- GIZ.

3.2. Seminar program

According to the following schedule, the Seminar could be organized virtually over three (3) days, in the form of plenary sessions and workshop discussions.

First day - morning

On the first day morning, presentations will be made on the following three sub-themes:

- *«Promotion of FinTech and Development of Pan-African Banking Systems and Cross-Border Payments for the Strengthening of Trade Integration in Africa: The Role of Central Banks».*

This sub-theme would analyze, in particular, how banking systems and cross-border payments in Africa could benefit from the promotion of FinTech to grow. The discussions could focus on appropriate payment channels and foreign exchange policies to support and enhance business activities in the AfCFTA. Emphasis will also be placed on the role of Central Banks in this regard.

- *«Capital Mobilization Strategies, Monetary Policy Transmission Mechanisms and Financial Stability for the Promotion of the AfCFTA: The Role of Technological Innovations».*

This sub-theme would analyze the role played by technological innovations in capital mobilization strategies induced by technological innovations and their impact on monetary policy transmission mechanisms to promote the AfCFTA. It will also highlight the emergence of risks and vulnerabilities that could be induced by the development of technological innovations in the African financial sphere.

- *«Leveraging Technology to Support the Greening of the African Financial System».*

This sub-theme aims to highlight financial sector lending and investment for agriculture and climate change mitigation, climate adaptation and resilience, and other environmental goals. Furthermore, it could provide an opportunity to discuss the risk of weakening the financial sector if sufficient response is not found to better manage the acceleration of the transition to a carbon-neutral economy. Finally, it would also analyze how technological innovations help financial institutions, including Central Banks, better collect, verify, and analyze the data to understand the impact of their lending decisions and investments on environmental outcomes.

First day – afternoon

The afternoon will be devoted to experiences presented by the Central Banks of the AACB Sub-regions concerning the main theme of the Seminar:

- North Africa (Banque Centrale de Mauritanie);
- West Africa (Banque Centrale des Etats de l’Afrique de l’Ouest);
- East Africa (National Bank of Rwanda);
- Central Africa (Banco Central de São Tome e Principe);
- Southern Africa (Banco Nacional de Angola).

Second day - morning

Three (3) simultaneous group sessions will be held in the plenary in the morning. Participants will be divided into three (3) groups to discuss specific sub-topics and make recommendations:

- Group Session 1: the proposed sub-theme is *«African Continental Free Trade Area (AfCFTA): Macroeconomic Implications and the Role of Central Banks»;*
- Group Session 2: the proposed sub-theme is *«The Role of Payment Systems Infrastructure in Accelerating the Growth of Pan-African Banking Systems»;*
- Group Session 3: the proposed sub-theme is *«FinTech and African Trade Finance in the African Continental Free Trade Area (AfCFTA)».*

Second day – afternoon and third day

The second day afternoon and the third day will be devoted to the restitution of the Group Sessions’ work, the development and adoption of the conclusions and recommendations of the Continental Seminar.

3.3. Date and place of the Seminar

At the end of its first virtual meeting held on February 17, 2022, the AACB Bureau requested the West African Sub-region to designate the Central Bank that will host the 2022 Continental Seminar of the Association. In this regard, the Banque Centrale de la République de Guinée (BCRG) has been designated to virtually host the event on May 16-18, 2022.

IV. COST OF THE SEMINAR

Following the budget of the Association for 2022 approved by the Assembly of Governors during its virtual meeting held on August 20, 2021, the cost of the Seminar shall be covered by the institution hosting the event.

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