Association des Banques Centrales Africaines

Association of African Central Banks

Annex 1

ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB)

ORDINARY MEETING OF THE BUREAU

(Dakar, Senegal, February 26, 2014)

DRAFT REPORT ON THE SYMPOSIUM FOR YEAR 2013 ON THE THEME:

« FINANCIAL INCLUSION IN AFRICA: THE CHALLENGES OF FINANCIAL INNOVATIONS FOR MONETARY POLICY AND THE STABILITY OF FINANCIAL SYSTEM **»**

(Balaclava, Mauritius, August 22, 2013)

----

1. INTRODUCTION

1.1. The Association of African Central Banks (AACB) held its traditional Symposium on the 22nd August 2013 in Balaclava (Mauritius) on the theme « *Financial Inclusion in Africa: the Challenges of Financial Innovations for Monetary Policy and the Stability of Financial System* » as a prelude to the 37th Ordinary Meeting of the Assembly of Governors that took place on 23th August 2013.

2. OPENING CEREMONY

2.1. The highlights of the opening ceremony were the four addresses delivered respectively by Mr. Rundheersing Bheenick, Governor of the Bank of Mauritius (BOM) and Vice Chairman of the AACB, Mr. Mohammed Laksaci, Governor of the Banque d'Algérie and Chairman of the AACB, Dr. Anthony Maruping, Commissioner for Economic Affairs of the African Union Commission (AUC), and Dr. The Honourable Navinchandra Ramgoolam, Prime Minister of the Republic of Mauritius, who officially opened the proceedings.

2.2. Governor Bheenick welcomed the participants to the Symposium and the Assembly of Governors. He highlighted the large attendance at the meetings and the participation for the first time in AACB's Symposium of the General Manager of the Bank for International Settlements (BIS), the President of the African Development Bank (AfDB), and the Secretary-General of the Islamic Financial Services Board (IFSB). He also acknowledged the presence of as many as 32 Central Bank Governors and heads of delegations of Central Banks.

2.3. He underlined the pertinence of the theme of the symposium in view of the reforms to promote financial inclusion engaged in many countries worldwide, the slow recovery from the global crisis and the need to revisit growth strategies to positively impact the societies, particularly on the poor, and the excluded segments thereof. In the same vein, he mentioned fear of negative developments in African economies and stated that the objective of the Symposium was to deal with ways in which the African banking system can help address this issue. He highlighted some challenges in this regard, among which, the very limited access of people to financial services. He then referred to the wider agenda of Africa, namely economic integration and pointed out the challenge in complying with the economic convergence scheme. His advice was that the timetable and strategy of African monetary integration had to be adapted based on lessons learned from past experience.

2.4. He, however, pointed out positive changes across the African region, particularly with regard to innovation and reforms in banking discipline, security and probity, which are prerequisites to empowerment and growing inclusiveness. He advised that countries should keep up with innovation in trade and investment, and underlined the potential of financial inclusion to provide a more solid foundation for promoting sustainable, equitable, and inclusive growth in the region.

2.5. BOM's Governor also warmly welcomed experts invited to contribute to the proceedings of the meetings and made a special mention of some of them. These were the General Manager of the BIS, Mr. Jaime Caruana, the President of the AfDB, Dr. Donald Kaberuka, and the Secretary General of the Islamic Financial Services Board, Mr. Jaseem Ahmed. He also thanked the organisations who have partnered with BOM to organise the annual meetings.

2.6. Governor Bheenick informed participants about innovation and financial inclusion and financial access in Mauritius. He said the Bank of Mauritius managed schemes for promoting SMEs. With respect to innovation he mentioned the launch of the polymer bank notes by the Prime Minister as part of the opening ceremony of the Symposium, a happy coincidence, he said, that will make possible for AACB to be forever associated with polymer notes in Mauritius.

2.7. Finally, he reiterated his thanks to the AACB, the organising team at the Bank, the Office of the Prime Minister of Mauritius and the various agencies involved in the logistic arrangements for the meetings.

2.8. On behalf of the Chairperson of the African Union Commission, Her Excellency Dr. Nkosazana Dlamini Zuma, Dr. Maruping thanked the Chairman of the AACB for inviting the AUC to the Symposium. Further, he expressed his gratitude to the Government and the People of Mauritius, and the Governor of the Bank of Mauritius for their hospitality. He also conveyed to the Governors the apologies of the AUC's Chairperson who was not able to participate in the meeting.

2.9. Dr. Maruping then underlined the relevance of the theme of the Symposium in the light of several factors. He cited positive developments experienced by African countries in access to financial services in recent decades, the still under-development of the financial systems of the continent, and the challenge for monetary policy makers to strike the appropriate balance between supporting growth innovations and the implementation of prudent regulation and effective risk based supervision. The Commissioner stressed the need for policy reforms to increase the level of financial inclusion in Africa through financial innovations, despite its apparent impact on monetary policy and financial stability. He said in this regard that banking the unbanked people is one way of formalizing the economy.

2.10. Dr. Maruping also highlighted the poor development of the Stock Market in Africa as well as the benefits of this segment in terms of strengthening financial inclusion. He informed the Governors about a technical study on the establishment of a Pan African Stock Exchange undertaken by the AUC. He invited them to the Extra-ordinary Conference of African Union Ministers of Economy and Finance to be held from 21 to 25 October 2013 in Addis Ababa, Ethiopia, to consider the findings of this study.

2.11. Finally, Dr. Maruping thanked again the Government and People of Mauritius for their hospitality and courtesy and wished the meeting successful deliberations.

2.12. Governor Laksaci also hammered on the fact that the sluggish international economic environment was having a negative impact on the macroeconomic performance of African States as well as on the role of the banking system. Algeria, for example, was placing a heavy emphasis on maintaining a stable financial system by strengthening bank capital and intensifying banking supervision.

2.13. The AACB Chairman indicated also that Banque d'Algérie was pursuing vigorous efforts to promote access to banking services. It had, for example, revised banking conditions to suppress charges on certain transactions. These measures were contributing to increase the ratio of people using banking services and the share of loans to the private sector.

2.14. Finally, Governor Laksaci underlined the growing importance of financial inclusion in his country, especially in 2013. In his view, the symposium was an opportunity to share experience and accelerate the process of financial inclusion in African countries.

2.15. The Prime Minister welcomed the participants and praised AACB for organising the 2013 Annual Meeting in Mauritius at a time when central bankers and their importance to the economy and to society have become very apparent in connection with the recent international economic crisis.

2.16. In this regard, he said that the good decade of growth experienced by Africa is due, among other things, to improvements in central banking. However, the importance of central banks goes beyond creating pro-growth environment. He stated that a stable financial system for allocating capital efficiently, a robust payment system and appropriate supply of cash were key outputs of a central bank. He mentioned in this regard the launch of Bank of Mauritius' first polymer bank notes, which he said would help produce a more reliable and stable payment system. He also called for the development of a stable and efficient banking and financial system that can help produce sustained economic growth in African countries through an effective allocation of funds.

2.17. He mentioned the challenges facing Africa were mainly associated with the possibility of an adverse external environment. These include increased volatility in global financial markets in response to improved conditions in developed countries. They also include volatility seen recently amongst many emerging markets which can negatively impact African economies. The Prime minister advised that financial stability and strong regulation were required to maintain and consolidate Africa's recent good performance.

2.18. Coming back to the theme of the Symposium, he congratulated the Governors for having chosen financial inclusion, which he said, is an overarching priority of the Government of Mauritius. He added that financial inclusion is a major challenge in Africa due to limited access to financial services across the continent. He then mentioned the initiatives implemented by Mauritius for the provision of funds at affordable costs. He also welcomed the creation of the Alliance for Financial Inclusion at the international level. He expressed his confidence that fruitful debates would take forward the financial inclusion agenda of the African continent.

2.19. He saluted the presence of Mr. Caruana, as speaker in the Symposium. He took that opportunity to underline that the African continent's peculiarities should be taken into account in the design of financial stability policies. He commended in this regard the creation by the Financial Stability Board of six Regional Consultative Groups, including one exclusively for Sub-Saharan Africa and one for Middle East and North Africa.

2.20. Finally, the Prime Minister wished all delegates stimulating discussions and opened the Symposium.

2.21. After his opening speech, the Prime Minister launched polymer notes of the Bank of Mauritius. Then, Mr. Caruana delivered a keynote address to the Symposium.

3. KEYNOTE ADDRESS BY Mr. CARUANA

3.1. Mr. Jaime Caruana expressed his appreciation to AACB's Chairman for having invited him to participate in the Symposium. He also commended BOM's Governor and the Authorities of Mauritius for their warm welcome.

3.2. Coming to the symposium, he underscored the pertinence of its theme and BIS' interest in financial inclusion. He said that, in the essence, financial stability goes hand-in-hand with financial inclusion whereas financial exclusion carries risks and costs for the economy. He also stated that financial innovation reduces barriers related to financial inclusion but can change the level and nature of risks. Therefore, the Basel Process, which mostly focuses on financial stability to address systemic issues, was also taking initiatives to incorporate financial inclusion.

3.3. Mr. Caruana said in this regard that the different working groups at the BIS are collaborating with the G-20 to advance the cause of financial inclusion. Further, the Basel Consultative Group set up a work stream on financial inclusion so as to gain a more in-depth understanding of the constraints and risks faced by supervisors as they pursue greater financial inclusion. The work stream is working on managing and identifying opportunities and challenges of financial inclusion, with particular focus on the emergence of any new risks.

3.4. Finally, Mr. Caruana said that financial inclusion calls for interaction between supervisory practices. He added that global standard-setting bodies were working towards embracing financial inclusion whilst respecting the mandates of their institutions.

4. <u>PLENARY SESSION ONE</u>

4.1. <u>Introduction</u>

4.1.1. This session was held under the chairmanship of Prof. Njuguna NDUNGU, Governor of the Central Bank of Kenya (CBK). The session discussants were Dr. Lounceny Nabe, Governor of the Banque Centrale de la République de Guinée, and M. Michael Gondwe, Governor of the Bank of Zambia. The proceedings covered the theme on "*Financial inclusion in Africa, Monetary policy and Financial stability: Country experiences*" presented by Mr. Atingi-Ego, Deputy-Director, African Department, International Monetary Fund (IMF).

4.2. <u>Summary of the presentation</u>

4.2.1. The highlights of the presentation by Mr. Atingi-Ego were definition of financial inclusion, lessons from cross-country comparison, implications of financial inclusion for monetary policy and IMF initiatives to stimulate financial inclusion.

4.2.2. To begin with, Mr. Atingi-Ego defined financial inclusion as the extent to which individuals, households and firms have access to appropriate financial services or products. Other basic concepts defined included Access Possibilities Frontier (APF) and Financial Possibilities Frontier (FPF). He stated that APF refers to the maximum potential client base that can be served by financial institutions prudently given the existing technological, macroeconomic and institutional framework. As to FPF, it has to do with the maximum sustainable level of financial system depth, given the existing level of income, population size, density, age etc. He said that the financial depth of a country is positively correlated to its economies of scale and that appropriate macroeconomic policies and institutional reforms as well as technological innovations were key to remove structural constraints and raise FPF.

4.2.3. Mr. Atingi-Ego presented the result of a cross country comparison involving Mozambique, Kenya and Uganda. It emerged from this comparison that Kenya and Uganda are the best performers owing to new products, and better regulation, especially legislation for microfinance and savings and credit cooperatives. It also showed that greater access needed to be balanced with rapid proliferation of unregulated entities and distortions created by government support. The presenter pointed out that there is potential for emerging technologies to facilitate further access in these two countries.

4.2.4. Turning to the implications for monetary policy, Mr. Atingi-Ego commented that the development of financial inclusion makes it difficult to use the traditional monetary analysis framework because it results in increased instability of velocity and money multipliers and weaker relationship between inflation and broad money growth. Thus, he advised that Central Banks move from frameworks centered on periodic quantitative targets for money aggregates towards more flexible operational targets and liquidity management. He also suggested that cash outside the banking system be reduced to improve the transmission mechanism in IT-like monetary policy regime.

4.2.5. Regarding IMF's initiatives to push the frontier outwards, they include focus on financial systems in Article IV Mission Consultations through, inter alia, peer comparison and informed policy advice. They also include actions aimed at reducing information gaps.

4.3. Summary of Discussions

4.3.1. Dr. Lounceny Nabe, one of the session's discussants stressed the need to significantly improve access of African population to financial services. He stated that advancement in technology, notably the explosion in the field of mobile phones, offers an opportunity to do so. He added that the experiences of Kenya, Uganda and South Africa showed that African countries can realize financial inclusion. He also shared the experiences of some West African countries. He mentioned particularly Ghana where a system of money transfer had been set up, and Gambia and Sierra Leone, which were setting up systems to give a new impetus to financial inclusion and micro-finance institutions. He also mentioned Guinea where BCRG was facilitating the opening of accounts by households and enterprises and is attempting to include more women and young people in the system. The Governor of BCRG highlighted challenges arising from the proliferation of microfinance enterprises for monetary policy and for the regulation and supervision of the sector.

4.3.2. Mr. Michael M. Gondwe also stressed on the importance of financial inclusion. He shared his country's experience in this field. His statement on this issue showed that Zambia's objective is to raise the ratio of the population that has access to financial services to 50% by 2015. This required a simplification of banking procedures in rural areas. Another means for promoting financial inclusion is education, in cooperation with external partners such as Child and Youth Finance International.

4.3.3. Mr. Gondwe also underlined the risks associated with financial inclusion and said that the Bank of Zambia is endeavouring to mitigate these risks through a series of actions. These include increased surveillance to protect consumers against cyber-crime, money laundering, among other things, and enhancement of mechanisms for managing distressed financial institutions. He also mentioned the need to streamline monetary data computation.

4.3.4. The debates that followed the presentation and the statements by the discussants focused on surveillance and supervision of micro-finance institutions, assessing risks associated with financial inclusion, as well as institutional and funding issues.

4.3.5. With respect to surveillance and supervision of micro-finance institutions, participants underscored the need for setting up specific regulation and standard for these institutions. They suggested in this regard the use of existing structures such as the Alliance for Financial Inclusion, the customisation of Basel pillars and the direct involvement of African Central Banks. Some participants cautioned about the deterring impact of raising standards on banks' scope to develop financial inclusion.

4.3.6. As regard risks assessment, participants observed that despite its benefits financial inclusion might bring about unsecured lending and distortions of monetary aggregates such as the velocity of money circulation and the money multiplier. They also signalled the tendency of some rating agencies to downgrade countries in view of micro-finance in those countries. Therefore, they advised for a sound evaluation of the risks associated with financial inclusion.

4.3.7. Concerning institutional issues, the Governors observed that financial inclusion implies having to deal with non-bank firms, but whose activities impact on monetary policy. They, therefore, raised the issue of the regulating institution.

4.3.8. Finally some participants asked about the body that should bear the costs of developing financial inclusion given that banks are essentially profit-making institutions.

4.3.9. Addressing the questions raised by the Governors, Mr. Atingi-Ego observed that the objective of financial inclusion was poverty reduction. Thus, it is the responsibility of the Government to implement the necessary reforms, including setting up regulatory and supervisory frameworks that help preserve financial stability without jeopardising financial inclusion.

4.3.10. Regarding benchmarking, he advised that setting up specific standard for micro-finance institutions should be done on the basis of country peculiarities and not according to institutions.

4.3.11. He also cautioned about overestimating the negative impact of financial inclusion on the effectiveness of monetary policy. He said in this regard that financial inclusion is not only concerned with micro-finance, but also includes increased intermediation by commercial banks and greater access to foreign exchange markets. Thus, it should bring about both enhanced developments in the multiplier and velocity as well as inclusion in various financial services.

4.3.12. For his part, Mr. Jaime Caruana said that BIS is making sure that the standards that currently exist do not stand in the way of innovation. He added that standard setters need to understand the implications of financial inclusion and adapt standards to the realities of each country.

4.3.13. Concluding the session, Prof. Ndung'u said that the promotion of financial inclusion is the responsibility of Government because it is one of the solutions to fight poverty. He underlined the need for institutions and products consistent with African market setting segments as well as delivery channels for the effectiveness of financial inclusion. He also highlighted the potential of IT like innovations such as mobile phones platforms to speed up financial inclusion through resolving binding constraints namely costs, levels and regularity of income, as well as physical distances to markets. He, therefore, called upon Central Banks to adapt their monetary policy frameworks to the evolving African financial system landscape.

5. PLENARY SESSION TWO

5.1. Introduction

5.1.1. This session was held under the chairmanship of Mr. Tiémoko Meyliet Koné, Governor of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO). The session discussants were Mr. Sid'Ahmed Ould Raiss, Governor of the Banque Centrale de Mauritanie, and Mr. Millison Kwadwo Narh, Deputy Governor of the Bank of Ghana (BOG). The proceedings focused on the theme "*Financial Inclusion and Sustainable Development: the Role of Micro-Finance Institutions and other Non-banking Financial Institutions*" presented by Mr. Stefan Nalletamby, Project Coordinator, Making Finance Work for Africa (MFW4A) and by Mr. Daniel Scauso, Manager, Child and Youth Finance International (CYFI).

5.2. Summary of the presentation

5.2.1. The presentation by Mr. Nalletamby focused on the characteristics of financial inclusion in Africa and on ways in which financial inclusion could be harnessed to lead to development.

5.2.2. It emerged from the first point that financial inclusion in Africa is less deep than in the rest of the world irrespective of the measurement indicator used. Further, there are differences in the rates of penetration of financial services across the continent, West Africa having the highest rates as far as micro-finance is concerned. However, financial inclusion is developing rapidly in Africa on account of non-banking financial institutions such as micro-finance institutions and remittance agencies, as well as new products, notably mobile financial services. Africa has also experienced significant improvements on the legislative front.

5.2.3. The major challenge is to harness the full potential of financial inclusion to support the continent's development. To this end, African countries should put financial inclusion at the core of their development strategy. It is also necessary to move from the bank accounts approach to distribution channels approach. Furthermore, besides micro-finance sector Africa needs to promote non-bank financial institutions, namely insurance and pension's funds. These institutions, especially pensions funds, have a huge potential because their resources are very long term assets. Central Bankers should play an important in the promotion of longer term capital markets alongside the inclusiveness in terms of individuals' access to financial services.

5.2.4. Another area to focus on is remittances activity which should have a broad development agenda built around technology, financial literacy and micro-enterprise. There is a need to reduce transaction costs, increase competition and devise products which help to leverage remittances for savings and investment. Mobile Banking is an extremely good tool, enabling faster and cheaper remittances.

5.2.5. Fundamentally, through the regulations, there have been considerable innovations in Africa. African countries' focus should now be on distribution channels, product development and the appropriate regulation of the new activities to maintain the stability of the financial system. Central Banks should play a major role in this regard.

5.2.6. The presentation by Mr. Scauso focused on CYFI's objectives and functioning. According to this presentation, CYFI's vision is to empower the youth in all countries of the world and particularly the marginalized and vulnerable ones.

5.2.7. The approach of CYFI to widening financial inclusion focuses on financial access, financial education, and consumer education. CYFI aims to reach 100 million children/youth in 100 countries by 2015. So far, through its partner organizations 80 million children have been reached and the organisation is in constant dialogue in 125 countries.

5.2.8. CYFI organizes events to engage the broad variety of stakeholders including the Government, the financial sector and NGOs. For CYFI, MFIs are key actors in the implementation of financial inclusion strategy. In this regard, CFYI has recently published a book which contains recommendations aimed at reinforcing the role of MFIs. These recommendations underline, among other things, the need for ensuring that MFIs work to include youth as a proper segment of their clients.

5.2.9. Besides, the UNICEF through the CYFI network has set up 8 global principles on products that MFIs can develop for the youth. Central banks and relevant platforms should take part in the process by setting similar guidelines for their countries. CYFI will be also submitting to AUC an integrated approach to child and youth financing at international level.

5.2.10. At the end of the presentation, Mr. Scauso extended an invitation to CYFI's second Regional Meeting to be held in Zambia.

5.3. <u>Summary of Discussions</u>

5.3.1. The statement made by Mr. Narh, one of the discussants, following the presentations, focused on the role played by BOG with respect to financial inclusion in Ghana, the economy of which is based on agriculture.

5.3.2. It emerged from this statement that for BOG, financial inclusion is a public policy issue. It established an Agricultural Development Bank before promoting rural and community banks owned by the farmers. It also passed a law to provide a framework for other non-bank financial institutions which contributed to the diversification of financial institutions. BOG also set up micro-finance institutions to fill the gap still remaining at the lower level of the financial pyramid.

5.3.3. As a result of the emergence of new institutions, BOG reviewed its supervisory and regulatory framework. It has, in association with the Ministry of Finance, embarked on an annual financial literacy program. The two institutions have also been working to address issues of infrastructural bottlenecks. The BOG has also improved the payments systems. The diverse initiatives have brought about changes to the financial landscape in a very short time. The BOG is in the process of consolidating these initiatives into one vehicle so as to focus on small and medium enterprises.

5.3.4. In his statement, Mr. Sid'Ahmed Ould Raiss underlined the importance of a performing and effective financial system for economic growth and development. He pointed out the low level of banked population in Africa and the need for exploring alternate avenues, including micro-finance, postal services, insurances, pension funds and financial market.

5.3.5. With respect to micro-finance institutions, he underlined their poor development due to their limited lending capacity. As solution to this issue, he suggested the adaptation of the regulation governing micro-finance institutions capitalization. Concerning postal services, he said they can provide financial services but their capacity to do so have been impaired by, among other things, mismanagement. As to insurance, Governor Sid'Ahmed Ould Raiss underscored the need to spur the demand and supply of the product of this industry. As far as social security organisations are concerned, he said that to contribute to resources mobilisation, these bodies need to optimize their operations. Lastly Governor Sid'Ahmed Ould Raiss stressed the need to develop financial markets by being more innovative in terms of products.

5.3.6. The ensuing general discussions focused on necessary conditions for the effectiveness of financial inclusion. In this regard, Governors discussed the role of MFIs and reviewed other alternative financing.

5.3.7. On MFIs, some participants observed that most of the micro-finance banks are hardly provided with long-term liquidity and, therefore, rely on short term high interest money which is not the appropriate funding for development. In this regard, it was suggested, on the basis of the experience of BOG, that the regulation governing the ownership of community's MFIs can be relaxed with the view to opening the ownership of these institutions to other stakeholders, namely commercial banks. Some participants also underlined the need of capacity building.

5.3.8. Alternative financing reviewed by the Governors included Post Office Banks (POBs), pension funds, stock exchange and insurance. Governors also underlined the need for cooperation.

5.3.9. With respect to post office, participants were informed about the significant role of this institution in Algeria where its wide network and outreach are extended to remote areas. Post office manages a substantial number of accounts and discussions are undergoing with the view to extending its mandate to the provision of credit. However, some Governors observed that in most cases, POBs have departed from their stated purpose, i e, financial inclusion. They underscored, therefore, the need for appropriate legal frameworks which delineate clearly the traditional function of the post office and its financial role as a bank. They also raised the issues related to the body accountable when a problem arises, the legal relationship between the holding company and the post office and the business activities a POB can undertake.

5.3.10. Regarding pension funds, it was observed that in some countries, namely Nigeria and Ghana, they have not invested in long term capital projects. Some Governors linked this to difficulties to recover debts due to cumbersome legal procedures, and structural budget deficits which tend to increase the treasury bills rate. It was pointed out that the measures to address this shortcoming included macro-economic equilibrium, laws governing the setting up of pension funds, and economic policy coordination.

5.3.11. With respect to insurance, it was stated that access to deposit insurance provides a measure of protection to savers and thus promotes financial inclusion as well as financial stability.

5.3.12. Regarding stock exchange the experience of Ghana showed that product designed specifically for SME could make it possible for this sector to mobilise funds on this market.

5.3.13. Lastly, the need for collaboration between central banks and other stakeholders was underlined. The areas of cooperation pointed out included, among other things, pensions fund and micro-finance effectiveness, IT-infrastructure, and regulation. It was particularly proposed that Central Banks go beyond their mandate and that line ministries market the products of the micro-finance activity.

5.3.14. In his concluding remarks, Governor Koné stated that the discussions underscored the importance of micro-finance and other non-bank financial institutions in enhancing financial inclusion and gave an insight into the diversity of institutions and organisations forming part of financial inclusion. He said that financial inclusion has the potential to promote growth and development as well as poverty reduction because of its purposes. Therefore, on-going and emerging difficulties need to be resolved for financial stability.

6. PLENARY SESSION THREE

6.1. Introduction

6.1.1. This session was presided over by Mr. Charles Chuka, Governor of the Reserve Bank of Malawi (RBM). The session discussants were Mr. John Rwangombwa, Governor of the National Bank of Rwanda (NBR), and Mr. Michael Muteke, Assistant Governor of the Bank of Namibia. The proceedings focused on the theme "*Enhancing Financial Inclusion through Information and Communication Technology: Opportunities and Challenges for Monetary Policy*" presented by Mr. Goolam Ballim, Group Chief Economist, Standard Bank.

6.2. Summary of the presentation

6.2.1. Mr. Ballim started his presentation by stating that the African Renaissance needs to be different from the way in which the western and emerging markets grew. Its pillars should be the fast growing of the continent's population, urbanisation, better quality of governance, and financial services and technology. He observed in this regard the rapid development of mobile phones services in Africa.

6.2.2. However, he underlined the challenges and risks to monetary policy associated with financial inclusion and IT-related innovations. These include the effectiveness of the transmission mechanism of monetary policy signals, information gaps by people who are excluded from the banking system and the difficulty to assess their creditworthiness. The presenter also mentioned the impact of technology on the channels of collection of funds by banks and subsequently on their capacity to provide loans. He also pointed out the negative impact of interest rate caps which tend to prevent the entry of some participants in micro-finance market.

6.2.3. In consideration of the above-mentioned, the presenter underlined the need for innovative solutions. For the effectiveness of monetary policy the presenter advised for recalibration of the transmission mechanisms, and the need to come up with appropriate solutions to judge the credit worthiness of people who do not have access to traditional banking services.

6.2.4. With respect to the promotion of the micro-finance sector he advised against interest rates ceiling. As to the inclusion of low-income consumers, he underlined the need for measures that help to better control the environment, including interventions, regulation, transparency, monitoring of lending practices, as well as better insight and oversight of the collections mechanism. He also buttressed the substantial and systemic role of Central Banks and said that their mandate should go beyond price stability to include employment, financial inclusion and prosperity.

6.3. Summary of Discussions

6.3.1. It emerged from the statement by Mr. John Rwangombwa that the ICT has brought forth services that have transformed the financial landscape across the world. It has contributed to increasing competition among financial institutions and has played crucial role in stimulating financial innovation.

6.3.2. In Rwanda, the use of electronic financial services is recent. But, it has intensified with a rapid expansion of e-banking and the micro-finance industry across the country bringing about a significant reduction of the proportion of the adult population financially excluded.

6.3.3. With regard to monetary policy implementation, it is worth noting that in monetary targeting regime, implemented electronic financial services lead to a reduction of the level of the cash in circulation, thus contributing to facilitating the regulation of central bank liquidity. Furthermore, in developing countries where inflationary pressures come from the supply side, inclusive financial services help to achieve price stability through promoting investment and production. From economic financing point of view, electronic financial services allow banks to have more liquidity with which productive activities can be supported. Also, they can potentially and considerably reduce transaction costs and allow for the expansion and diversification of financial services.

6.3.4. Mr. Charles Chuka said that financial inclusion should be seen less as a challenge to monetary policy than an opportunity to stimulate growth and equality, and reduce poverty. He called on Central Banks to focus on financial inclusion.

6.3.5. Recalling the case of the US economy, he dispelled Central bankers' worries about the loss of seignorage and reserves. He observed that no country in the world has a challenge of conducting monetary policy as a result of financial inclusion. Thus, he encouraged African Central banks to continue promoting financial inclusion and to be prepared to meet the challenges associated with the changing environment. In this regard, he suggested that Central Banks ensure convertibility of electronic money and increase, when necessary, reserve requirements or adopt appropriate regulation.

6.3.6. The highlights of the general discussions which ensued the presentation and the discussants' statements are as follows.

- Monetary policy should be defined more broadly than it is defined in central banking. The term 'traditional' is always changing in the central banking context. A central bank's role depends on the needs of the economy. Central Banks should have in this regard multiple objectives / instruments;

- Financial inclusion and fixing the transmission mechanism channel should be a core function of central banking in markets where the channel has not been developed. The experiences of South-East Asian banks which used their balance sheets in a prudent manner to promote development are meaningful;

- Promoting financial inclusion would make it possible for Africa to leap-frog and develop faster;

- The transactions of the segments of the population that are being financially included are relatively small. Therefore, the risks associated with financial inclusion are limited.

6.3.7. In his concluding remarks, the Chairman of the session said that banks have started using innovation including those for mass payments. He also stated that ICT has, to a certain extent, helped overcome severe barriers to the access to financial services.

6.3.8. He underlined challenges for monetary policy associated with the new risks driven by technology. He mentioned a possible unstable relationship between money aggregates and the real sector as well as a possible negative impact of electronic banking on the transmission mechanism.

6.3.9. He observed that Central banks are agents of market development. He said in this regard that they should design a new framework, the focus of which would be not on money aggregates, but on larger aggregates such as employment. Regarding the challenges mentioned above he advised pre-emptive actions by central banks. In particular, they should look at interest rates for risk-free assets and compare with what the market is trading and question the structural constraints. The session's Chair also underlined the accruing role of central banks in the security surveillance of payments, and the need for a close collaboration between these institutions and ICT regulators.

7. PLENARY SESSION FOUR: AACB SUB-REGIONS' EXPERIENCES

7.1. Introduction

7.1.1. This session was chaired by Mr. Sanusi Lamido Sanusi, Governor of the Central Bank of Nigeria (CBN). The session dicussants were Mr. Charles Chuka, Governor of the Reserve Bank of Malawi, and Mr. Sheku Sessay, Governor of the Bank of Sierra Leone (BSL). As far as Central Banks' experiences are concerned, ten presentations were given by the Central Bank of Egypt (CBE), the Banque Centrale de Tunisie (BCT), the BOG, the Banque Centrale de République de Guinée (BCRG) the Banque des Etats de l'Afrique Centrale (BEAC), the Banque Centrale du Congo (BCC), the South African Reserve Bank (SARB), the Bank of Zambia (BOZ), the Central Bank of Kenya (CBK) and the Bank of Uganda (BOU). These presentations were preceded by that on Islamic Finance made by Mr. Jaseem Ahmed, Secretary General of the Islamic Financial Services Board.

7.2. Presentation by Mr. Jaseem Ahmed

7.2.1. It emerged from this presentation that Islamic Finance is a growing phenomenon which has showed greater resiliency to the crisis because the avoidance of certain types of risky, speculative investments in toxic securities and the very high quality capital held by Islamic banks.

7.2.2. Broadly, there are four main aspects to the global experience of Islamic Finance:

- Use of Islamic finance as an alternative financing source for development purposes, in particular for public infrastructure;
- Promotion of financial inclusion through participation in risk-sharing models;
- Integration of Islamic finance in public spending through issuance of sovereign securities which are acting as benchmarks for corporate securities;
- Introduction of a very vibrant segment of the global financial sector and new asset class.

7.2.3. Different countries in Asia and Europe are participating in different aspects of that experience. Islamic finance approaches finance from a different perspective to conventional finance. It is an instrument towards promoting real sector activities and achieving more inclusive, stable society in which prosperity is shared. It contributes to economic development and financial inclusion in three different ways, namely the financing of physical and social infrastructure, serving poor and vulnerable segments of the population, and contributing to the distribution mechanism through a set of re-distribution institutions.

7.2.4. The fundamental principles underlying Islamic finance are being implemented by a wide range of institutions, particularly the Islamic Development Bank.

7.3. Summary of presentations by the Central Banks

7.3.1. The experience of the Central Bank of Egypt (CBE)

7.3.1.1. The presentation was made by Deputy Governor Tarek El-Kholy who said that Egypt undertook over the period 2004-2011, a two-phase complete structural reform of the financial sector.

7.3.1.2. Phase I (2004-2008) concerned the banking sector which comprised 60 banks. The presenter recalled some challenges that had been facing the banking sector before the reform. These included the very weak level of total net assets due to important Non Performing Loans (NPL) coupled with a large provision gap. In this regard, CBE privatised and consolidated in 2004 most of the banking sector starting with state-owned banks and initiated measures to address the NPLs issue. It reorganised its Banking Supervision and introduced Basel I in 2006. At the same time, it commenced reforms of its Reserve management by creating a unique internal market between the banks supervised by the central bank.

7.3.1.3. Phase 2 of the reforms (2009-2011) focused on implementation of Basel II accords by the banking sector, review and enforcement of the implementation of corporate governance rules in the banking sector and promotion of the banking services with particular focus on SMEs. With respect to supervision, CBE moved from compliance to risk-based supervision. Further, it established a Regulation Unit which has the pulse of banking sector.

7.3.1.4. On account of this reform the banking sector has been resilient during the last two and half years of social and political turmoil. This is reflected, among other things, by the improvement of reserves and a significant decrease of NPLs. Efforts are being made to address the remaining challenges, the most important of those being with respect to funding SMEs. In this regard, besides exemptions which are already in place CBE aims to further stimulate SME financing by creating a Guarantee Insurance stand-alone body. With respect to supervision, CBE will fully implement the three Pillars of Basel II by December 2016.

7.3.2. <u>The experience of the Banque Centrale de Tunisie (CBT)</u>

7.3.2.1. CBT's experience was presented by Mr. Mohamed Rekik, Deputy Governor of this Central Bank. The Deputy Governor of CBT highlighted, the rapid development in his country, corroborated by, inter alia, the relatively high number of bank agencies and accounts, as well as micro-finance institutions. But he indicated that this positive development was not contributing to economic inclusion. That was why it was decided, after the political turmoil in 2011, to restructure the three main sectors: micro-finance, Islamic banking and mobile payments in order to strengthen economic inclusion.

7.3.2.2. One of the steps taken was the establishment of a new independent authority that supervises the micro-finance sector. The authorities have given one Islamic bank the authorization to do business. In the area of mobile phone payment services, the CBT is going to liaise with operators in the sector to establish an appropriate regulatory framework.

7.3.2.3. To conclude, the Deputy Governor of CBT affirmed that there was need to identify resource niches outside the banking system, and to design measures that can channel them into the formal system for the financing of pro-growth activities.

7.3.3. <u>The experience of the Bank of Ghana (BOG)</u>

7.3.3.1. BOG's experience was presented by Deputy Governor Millison Nahr. This presentation highlighted the initiatives undertaken by Ghana to promote financial inclusion. It also pointed out the challenges that remain to be addressed. But beforehand M. Nahr defined the concept of financial inclusion as the access of vulnerable people to financial services. He underlined the reasons of financial exclusion, including social and economic factors. He also pointed out the consequences of financial exclusion mainly on households. He also reviewed the benefits of financial inclusion for individuals as well as for the whole economy.

7.3.3.2. Coming to Ghana's experience, Mr. Nahr said that BOG has initiated several institutional developments, including issuance of operating rules and guidelines for MFIs, setting up collateral registry for these institutions, licensing credit bureau, and establishing central securities depository for the proper functioning of payment system. Moreover, BOG has also issued guidelines setting out conditions for mobile banking services. Besides, MoUs have been established with the telecommunication operators' regulators. Mr. Nahr said that the National Switch is spurring financial inclusion through the propagation of points of sales across the country. He also said that the laws are being reviewed in line with developments in the banking system.

7.3.3.3. With respect to challenges, Mr. Nahr underlined, among other issues, a disconnection between money aggregates. As a result, Ghana moved from monetary targeting to inflation targeting.

7.3.4. The experience of the Banque Centrale de la République de Guinée (BCRG)

7.3.4.1. Governor Nabe presented BCRG's experience. The presentation showed that Guinea has developed a coherent strategy for promoting inclusive financing. This began with the two diagnostic studies, which were done respectively on the supply and demand of financial services and on ways to improve regulation.

7.3.4.2. The studies suggested that Guinea's financial sector lacked diversity and was accessible to only a small proportion of the population. The rural areas, for example, had very poor access particularly to financial products. Because of the huge potential in demand for financial products, the Government of Guinea identified micro-finance as one of its priorities for promoting economic development and fighting against poverty. In the meantime, the sector continued to face difficulties that could be addressed only by improving and adapting the regulatory framework, and by establishing effective supervision mechanisms.

7.3.4.3. To make this happen, the authorities set up three structures at the end of the studies. These structures were assigned with supporting the micro-finance sector through stakeholder capacity building, regulation and supervision. A National Strategy for Financial Inclusion was also developed. When the strategy gets fully implemented, the authorities expect to see improvements in the penetration rate of financial services, the number of beneficiaries, and overall balances.

7.3.4.4. BCRG has been contributing to promote Financial Inclusion in several ways. It has introduced more flexible conditions for approving and establishing financial institutions, as well as for monitoring compliance with, and enforcement of prudential standards in order to safeguard the interests of small savers and borrowers. BCRG has also encouraged the use of banking services in the rural areas by issuing licenses to two electronic payment companies. Furthermore, BCRG has initiated studies to better understand how these changes would affect the conduct of monetary policy.

7.3.5. The experience of the Banque des Etats de l'Afrique Centrale (BEAC)

7.3.5.1. BEAC's experience was presented by Governor Lucas Abaga Nchama. The presentation covered four points, including a concise presentation of the Central African Economic and Monetary Community (CEMAC), the state of Financial Inclusion in CEMAC, the promotion of access to financial services and financial stability in this zone, and the Governor's concluding remarks.

7.3.5.2. It emerged from the presentation that CEMAC has six member countries and two institutional pillars, namely the Economic Union of Central African States (UEAC) and the Central African Monetary Union (UMAC). Five of the six Member States are oil producers, but all of them have a common currency, the CFA franc, which is pegged to the Euro at a fixed exchange rate. At the macroeconomic level, CEMAC has experienced a growth rate of approximately 4.4% over the last ten years.

7.3.5.3. As regards the state of Financial Inclusion, the banking system is weak, there is poor use of automated teller machines (ATM) and bank cards, and banking services are underused in the economy. This is due to several constraints including poverty, lack of financial education, underdeveloped communications infrastructure, rigid banking regulation, the exorbitant cost of banking services and the lack of appropriate financial structures.

7.3.5.4. To overcome these constraints, BEAC has taken measures to develop micro-finance and e-payment activities. It established a regulatory framework that spells out the conditions for issuing electronic currency. Pursuant to the laws in force in CEMAC, only banks are allowed to issue electronic currency to limit the prudential risks that may arise from creating new payment instruments. The zone is witnessing fast growth in the use of banking services via mobile phones and mobile payment services.

7.3.5.5. Discussions are underway to set up a mechanism for protecting consumers, improving infrastructure for payments, and systemizing basic banking services to lower the cost of owning a bank account.

7.3.6. <u>The experience of the Banque Centrale du Congo (BCC)</u>

7.3.6.1. The BCC Governor's representative, Mr. Kayembe Wa Kayembe, General Manager in charge of Monetary Policy and Banking Operations at Banque Centrale du Congo (BCC), presented the experience of this Institution. He said that the Government and Central Bank of Congo had taken several measures to improve Financial Inclusion. In the process of doing this, BCC focuses on developing micro-credit and mobile financial services, while the Government has been taking steps to effect the payment of civil servants through bank accounts.

7.3.6.2. With specific regard to micro-credit, BCC has taken measures to encourage the establishment of micro-finance institutions. It has also set up a unit to supervise activities in this sector. New mobile banking regulations have been developed to improve control over activities in the sector. These measures have considerably increased the number of people who have access to the various financial services provided.

7.3.6.3. In the light of recent developments in the Democratic Republic of Congo's financial landscape, the monetary authorities are giving priority to changes in monetary aggregates to avoid creating excessive amounts of electronic currency.

7.3.7. The experience of the South African Reserve Bank (SARB)

7.3.7.1. The presentation on SARB's experience was made by Mrs Gill Marcus, Governor of this institution. It appears from this presentation that despite an increase in formal financial inclusion in South Africa from 68% in 2011 to 72% in 2012. More than 12 million South Africans do not have a basic bank account yet. South Africa's approach to overcoming financial exclusion is based on three pillars namely, promoting structural change, expanding access to product and services and empowering consumers.

7.3.7.2. To promote structural changes, South African authorities have identified the Postbank as the best suited financial institution to serve rural and poor communities. They have also stimulated the development of cooperative banks and micro-finance institutions. They are also discussing on dedicated banks with lower capital requirement than the current minimum capital requirement of banks which present a significant barrier to entry.

7.3.7.3. To expand access to products and services the Government created exemptions regarding know your customer requirements to launch simple, low-cost, transactional accounts available to the poor. For the financing of Small Micro and Medium Entreprises (SMMEs), a consolidated agency, composed of governing entities and programmes engaged in the promotion SMMEs has been created. Also the South African authorities have contributed to the promotion of retail and mobile banking by, inter alia, facilitating non-face-to-face account opening. Consumer empowerment is addressed through the promotion of financial literacy.

7.3.7.4. The main challenge facing SARB in the promotion of financial inclusion is ensuring that increased access to financial services does not result in increased systemic risk.

7.3.7.5. To conclude, Governor Marcus suggested to the AACB to organize a roundtable where countries can share experience on enhancing financial inclusion.

7.3.8. The experience of the Bank of Zambia (BOZ)

7.3.8.1. The experience of Bank of Zambia was presented by Dr. Michael Gondwe, Governor of BOZ. It was articulated around two main ideas, namely the state of financial innovation and inclusion in Zambia, and the contribution of BOZ and of the Government to the improvement witnessed recently.

7.3.8.2. The presentation showed that for a long time, Zambia has been characterised by low financial intermediation. However, unprecedented ITC-related innovations have contributed to the improvement of the provision of financial services. These innovations include banking agency model, mobile banking, and prepaid cards. They came with increased risks to financial system stability and monetary policy operations.

7.3.8.3. Bank of Zambia has taken some initiatives to accelerate the pace of financial inclusion. It has eased for certain segments of the population the requirement with respect to identification. It is also engaged in the National

Strategy for Financial Education and is working with the Child and Youth Finance International Partnership to promote financial inclusion for children. The BOZ's Governor took the opportunity to invite Governors to participate at the second CYFI Africa Region Meeting from 19 to 20 September 2013 in Zambia.

7.3.8.4. As to Zambian Government, it has developed a Rural Finance Programme to enhance access to finance for the rural poor and women, and a Financial Sector Development Plan (FSDP). It has also established the Citizens' Economic Empowerment Commission and has created a microfinance company for civil servants.

7.3.9. The experience of the Central Bank of Kenya (CBK)

7.3.9.1. The experience of CBK was presented by Pr. Njuguna Ndung'u, Governor of this Central Bank. The highlights of this presentation were the agenda of financial inclusion, financial innovation for financial inclusion, monetary policy and financial stability challenges, and lessons learnt from Eastern Africa.

7.3.9.2. It appears from the presentation that financial inclusion remains low in developing countries, and particularly Sub-Saharan Africa ones. In East Africa, financial access is characterized, among other things, by predominant access to informal services, large unbanked population, particularly women in rural areas.

7.3.9.3. Financial innovations instruments, including delivery channels and support infrastructure, have the potential to enhance financial inclusion. Delivery channels comprise, among other things, mobile phone services, deposit taking institutions and micro-finance institutions. The main elements of support infrastructure are credit reference bureaus, deposit and consumer protection tools, and financial education.

7.3.9.4. On account of these innovations, financial inclusion has significantly improved in Kenya. Thus, the ratio of banked population in Kenya in 2008 was among the highest in East Africa. This development is largely attributable to reduced costs of maintaining micro accounts and better financial markets access and increased branch outlets. The improved access to financial services has led to reduction in currency outside the banking sector.

7.3.9.5. Financial innovation increases the efficiency of the financial systems but has implications for monetary policy transmission mechanism. Monetary policy frameworks must develop to cope with the changing financial development agenda. Further, regulation and supervision must continuously evolve to keep pace with innovations in the market place. A close collaboration between regulators and market actors is needed to achieve this goal.

7.3.10. <u>The experience of the Bank of Uganda (BOU)</u>

7.3.10.1. The presentation on the experience of BOU was made by Pr. Emmanuel Tumusiime-Mutebile, Governor of this institution. The presentation showed that financial inclusion has been improved in Uganda on account of a set of financial innovative instruments including mobile phone financial services and MFIs.

7.3.10.2. Since its introduction in Uganda in 2009, mobile banking has a dramatic impact on population's access to financial services. Mobile banking currently offers only payments and money transfer services but has a potential to offer a platform for other services.

7.3.10.3. The prudential risk to customers of mobile money services is limited. Besides, there is virtually no risk posed to the stability of the wider financial system because of the nature of money services. Accordingly, the BOU has adopted light touch regulations to mobile banking transactions. However, it is preparing to adopt a more comprehensive capable of addressing the problems associated with the future development of mobile banking.

7.3.10.4. Micro-finance was introduced in Uganda in 1990. Not involved in deposit taking at the beginning, MFIs were allowed in 2003 to do so with the view to building sustainable resources in the long term. The expected outcome was not achieved due to the predominance of small Saving and Credit Cooperatives (SACCOs). In view of the growth of the unregulated financial sector, BOU is currently amending the Act to regulate the largest SACCOs.

7.3.10.5. In consideration of the implications of financial inclusion for monetary policy, including the breakdown between monetary aggregates and the ultimate targets of money, BOU moved away from monetary targeting to inflation targeting which has so far been effective.

7.3.10.6. The promotion of financial inclusion should in the long term contribute to addressing one of the challenge to monetary policy in most African countries, namely the weak transmission mechanism. However, in the case of Uganda, the boost given to financial deepening has thus far been marginal.

7.4. <u>Summary of the Discussions</u>

7.4.1. Governor Sheku Sessay, one of the session's discussants observed the varying pace of the developments in African countries and the need for sharing experience. He endorsed in this regard the proposal by SARB about setting up a matrix of actions taken by different countries that would allow for comparisons to be drawn. He also underlined the necessity to have appropriate regulations for non-bank financial institutions.

7.4.2. Governor Sesay mentioned the various initiatives BSL has embarked or is envisaging to embark on. These include, among other things, development of a framework for collecting financial inclusion data and revamping the payments system. With respect to the challenges to monetary policy, he stated that the central bank has taken a very tight monetary policy which has paid dividends. He also said that relevant laws/regulations are being reviewed to keep abreast of developments in the sector.

7.4.3. As far as Governor Charles Chuka is concerned, he underlined the need to address the flaws in the legal framework to increase access to finance. He observed that financial innovation changes the structure of monetary policy. Referring to the promotion of Islamic banking in Malawi, he said that this initiative aims at attracting investments for monetary policy rather than for financial inclusion agenda. Finally he endorsed Governor Marcus above-mentioned proposal.

7.4.4. The general discussion that followed was marked by Governor Bheenick's statement on the experience of Mauritius. It appears that Mauritius, currently the leading country in Africa in terms of financial access indicators, has addressed financial inclusion through implementing measures geared to eradicating poverty, solving skewed land ownership and promoting economic diversification. The country started a programme of inclusive growth in the 1950s to tackle the sharp rise in unemployment.

7.4.5. Several instruments have been used over time. These include: the first mobile banking on wheels which has now evolved to electronic means, a Development Bank, a Housing Corporation and a co-operative society which set up its own bank. Further, state-supported programmes were set up to provide free education and health care. The banking system was involved in funding these programmes.

7.4.6. Despite its leading position with respect to financial inclusion, Mauritius has still some elements of financial exclusion. Some segments of the population are not yet banked. Also, some sectors are not adequately funded due to a tremendous concentration of bank credit to a few sectors.

7.4.7. The current challenges with respect to ICT innovation for the central bank are related to the competition the ICT revolution is providing to banks, and risks of frauds. Concerning financial inclusion, the main challenge is the reduction of cost of financial access. In this regard, a Task Force has been set up to analyse the reasonableness of banks fees, charges and commissions and to make appropriate recommendations. BOM is also studying how to reduce unfair terms in contracts.

8. CONCLUSION

8.1. In his concluding remark on the symposium Governor Laksaci said that the questions that have been raised reflect the complex nature regarding the issue of financial inclusion. It is therefore important that financial inclusion be dealt with in a harmonious manner so that all social groups benefit from it as the latter are the vectors of social and economic development.