

ASSOCIATION DES BANQUES CENTRALES AFRICAINES



ASSOCIATION OF AFRICAN CENTRAL BANKS

**CONTINENTAL SEMINAR OF THE ASSOCIATION
OF AFRICAN CENTRAL BANKS (AACB) ON
THE THEME: “*FINANCING DEVELOPMENT IN AFRICA: WHAT ROLE
FOR CENTRAL BANKS?*”.**

(Kigali, May 30 - June 1st, 2011)

Executive Summary Report

1. INTRODUCTION

- 1.1. At its 34th ordinary meeting held on August 12, 2010 in Dakar, Senegal, the Assembly of Governors of the Association of African Central Banks (AACB) approved the organization in 2011 of a continental seminar on the subject "*Financing development in Africa: what role for Central Banks ?*".
- 1.2. The seminar was held in Kigali, from May 30th to 1st June 2011. Sixty (60) delegates from twenty one (21) out of the thirty nine (39) member central banks of the AACB, and from African International Institutions attended the forum.

2. THE PROCEEDING OF THE SEMINAR

- 2.1. In setting the stage for the continental seminar, three speakers pointed out both the challenges and opportunities of financing development in Africa.
- 2.2. Dr. Samuel Adu-Duodu, from the West African Monetary Agency (WAMA), introduced the theme in his presentation "**The Challenges of Development Financing in Africa**". The key challenges include: (1) large informal sector, (2) low revenue generation capacity, (3) difficulties in mobilizing international financial resources, and (4) poor export performance.
- 2.3. Dr. Thorsten Beck, from Tillburg University, focused on the financial sector and its characteristics in his presentation "**The African Financial System and Financing Development**". The presentation focussed on three areas, expanding access to financial services, lengthening contracts and safeguarding financial systems. The presenter identified: (1) fostering competition, (2) addressing demand side constraints and (3) looking beyond traditional institutions as the main policy recommendations.
- 2.4. Prof. Paul Collier, from Oxford University, examined "**The International Experience on Central Bank Financing for Development: Lessons to be Learned by African Central Banks**". He pointed out the opportunities that African economies face: (1) augmenting national resources by increasing gross national liabilities and (2) Developing the mortgage market and the market for distressed corporate debt.
- 2.5. Following presentations in plenary sessions on the problems of financing development using resources generated within the continent, and particularly from financial markets, and the experiences of the various AACB sub-regional committees, the delegates brainstormed on the following topics:
 - Central Banks, Financial Sector Deepening and Financial Inclusion;
 - Mobilizing Domestic Savings for Development: What Role for Central Banks?

- Strengthening the Synergy between all Stakeholders (the State, Development Banks, Private Sector, International Institutions, Financial Market).

3. PRESENTATION BY THE PARTICIPATING CENTRAL BANKS

Various AACB Sub-regional Committees made presentations on their respective experiences. Overall, the common positions were that the central banks could undertake developmental functions through:

- Traditional role of central banks of price and financial stability;
- Facilitating of setting up of financial institutions to promote the deepening of the financial system and development institutions;
- Direct intervention in specific problem areas to promote development in the real sector.

4. RECOMMENDATIONS

4.1 Following discussions on the theme “Central Banks, Financial Sector Deepening and Financial Inclusion”, participants noted that the main factors behind the low deepening of African financial market include: Lack of integrated financial markets, information asymmetry high transaction costs and undeveloped financial markets due to entry barriers. The following major recommendations for central banks were made:

- Facilitate setting up of specialized schemes such as Deposit insurance scheme, Agriculture insurance scheme, small and medium enterprises (SME) guarantee scheme and provision of direct credit facilities for SMEs;
- Design well defined procedures for foreclosures and realization of assets;
- Facilitate development of sound financial markets;
- Establish and strengthen credit reference bureau (CRBs);
- Facilitate the setting up of a collateral registry.

4.2. After consideration of the theme “Mobilization Domestic Savings for Development: What Role for Central Banks?”, participants underscored that the low savings in Africa can be attributed to both demand and supply side constraints. These include low incomes, high unemployment, lack of appropriate institutions and instruments, missing markets, restrictive entry requirements, weak savings culture, weak banking culture, inflation, weak public sector management and financial illiteracy.

Participants identified opportunities through which additional savings can be mobilized, and on this basis, made the following recommendations:

- Central banks together with other stakeholders should promote and develop microfinance institutions based on Savings and Credit Cooperatives (SACCOs) owned by the population;
- Facilitate the development of agency banking, mobile banking, Islamic banking;
- Develop missing markets:
 - Secondary markets for long term instruments (yield curve development);
 - Mortgage;
 - Remittances (reduce cost of transfers, focus investment opportunities);
- Strengthen collaboration with other financial sector regulators within the Financial Regulators forum, in countries where the Financial Sector is regulated by different bodies;
- Cross border regulation, especially within regional integration groups;
- Central banks should support financial education programs.

4.3 On the issue regarding “Strengthening the Synergy Between all Stakeholders (the State, Development Banks, Private Sector, International Institutions, Financial Market)” participants identified weaknesses of African economies that are likely to affect the efficiency of central banks’ actions. These include, poor governance, low levels of international reserves amongst African central banks, political and economic instability, and lack of adequate consultation on economic issues between the government and central banks. The following recommendations were made:

- Strengthen legal and institutional frameworks to provide safe and sound financial systems;
- Revisit Central Bank Acts to include developmental dimension in countries where it is not explicit;
- Assist the Government in:
 - Commercial borrowing, especially in bonds issuance on international markets;
 - Sustainable management of revenue from natural resources particularly those that generate foreign exchange reserves;
 - Providing focused financing facilities to address specific developmental issues.
- Strengthening/Establishing appropriate committees to coordinate monetary and fiscal policy.

5. CONCLUSIONS

Participants noted the importance of the development of our economies and conclude that, central banks should facilitate the promotion of financial markets, institutions and products to deepen the financial system in order to achieve, effectively, the traditional function of price and financial stability. Given our underdeveloped economies, participants agreed that central banks should play the roles of facilitating the establishment of development banks/institutions and intervening directly in specific areas to develop the real sector.

Done at Kigali, 1st June, 2011