



The G-20 and Financial Regulation in Africa

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RECOMMENDATIONS

- The G-20 regulatory processes have to take into account the specific circumstances of African countries for financial development and adopting international financial regulations.
- African countries, with the help of the FSB and other institutions, should establish joint monitoring processes to assess the impact of the new G-20 regulatory framework on African economies.
- An institutional framework for developing and putting forward African positions related to financial stability and financial systems reform is in place, but needs to be strengthened through greater inclusiveness and active participation of members in order to have a substantial impact on G-20 processes.

EXECUTIVE SUMMARY

In light of the recent global financial and economic crisis, financial stability is an overarching goal for the world economy. The Group of Twenty (G-20) is the primary global forum for co-ordinating international activities in setting new standards and rules for the global financial sector to promote global financial stability and avoid cross-border spillovers of the financial crisis. A major issue in this regard is the question of how non-members of the G-20 are engaged in the G-20 processes. Currently South Africa is the only African member of the G-20. The policy brief explores this issue in relation to Africa, and discusses how effectively Africa's interests and concerns are directly or indirectly addressed in the G-20 processes.

FINANCIAL REGULATION AND FINANCIAL DEVELOPMENT IN THE G-20 AGENDA

There are five major initiatives of the G-20 in the areas of financial regulation and financial development. Each of these initiatives has specific objectives that are related to emerging markets and developing economies, and are thus relevant for African economies.

Financial stability and international financial standards: Key objectives here are applying international financial standards in the developing-country context and facilitating, in return, the expression of the voice of the developing world; promoting cross-border supervisory co-operation; expanding the regulatory and supervisory perimeter; and managing foreign-exchange risk.

Financial inclusion: Key objectives here are implementing the 'nine principles for innovative financial inclusion' formulated by the G-20's Financial Inclusion Experts Group (FIEG)²; contributing to financial inclusion-related work of the main standards-setting bodies; developing a small and medium enterprise (SME) finance policy framework; and improving the availability of financial inclusion data.

Development of Local Currency Bond Markets (LCBM): Key objectives here are creating a supply of instruments and competitive market-based placement mechanisms; creating the conditions for stable domestic demand for local

currency bonds; creating an enabling environment for secondary market trading; and sterilising capital inflows with operational arrangements that are supportive of LCBM development.

Agricultural finance/Food price volatility: Key objectives here are reducing the main risks and costs that inhibit access to financial services in the agricultural sector in developing countries; creating counter-cyclical instruments or mechanisms for vulnerable countries in the event of external shocks; creating innovative risk-management tools for governments and firms in developing countries; and integrating risk-management approaches into loans and credits.

Trade finance: Key objectives here are tracking trends and monitoring gaps faced by low-income countries (LICs), including in times of crisis; reducing capital requirements related to LICs in the context of trade finance transactions; and making access to trade finance instruments easier and less expensive for LICs.

These initiatives and their objectives are not only relevant for emerging economies but also for Africa as a whole. Financial stability and financial regulation issues – particularly the implementation of new regulatory standards (Basel II/III) – are a major concern for African countries, especially for those with a more advanced financial sector. For most African countries, the question of sequencing the adoption of these international standards to align them to local circumstances and to reconcile them with developmental goals, such as financial inclusion and economic growth, is a major policy issue.

REFLECTION OF AFRICAN CONCERNS IN G-20 FINANCE-RELATED DOCUMENTS

There are few references to specific African concerns in G-20 documents on financial issues. However, at the leader's level and in certain G-20 working groups, issues related to financial regulation and financial development in developing countries in general are addressed and partly translated into concrete actions to be subsequently implemented by specialised institutions – including examples of implementation in Africa.

The question of greater participation of developing

countries in the G-20 decision-making process is not addressed systematically in G-20 documents. The representation of African non-member countries of the G-20 is mentioned only with regard to the Global Partnership for Financial Inclusion (GPGFI). In other financial policy areas, consultation processes that include non-members of the G-20 are at an early stage.

The documents show an awareness of the need to align the financial regulatory agenda with the specific circumstances of developing countries. There are references to standard-setting bodies and acknowledging the necessity of adapting financial regulation to financial systems circumstances and goals in developing countries. Documents produced by the Financial Stability Board (FSB)³ and the Basel Committee on Banking Supervision (BCBS)⁴ contain only a few references to Africa, although South Africa is mentioned frequently with regard to specific challenges in its comparatively complex financial system. African countries are mentioned merely with regard to relatively weak supervisory capacities and related challenges, and challenges of cross-border supervision.

There are a number of ongoing G-20-initiatives in Africa regarding financial inclusion, SME and agricultural finance (including risk mitigation), and the development of LCBM. Most programmes are still in the early stages of development. A more thorough qualitative assessment would have to take into account the effectiveness of their implementation. In general, however, the G-20 has recognised the specific needs of developing countries with regard to financial sector development. This is particularly evident in its efforts to address financial inclusion issues in Standard Setting Bodies (SSBs), which are responsible for negotiating and setting the international standards for the financial sectors.

CHANNELS FOR AFRICAN CONTRIBUTIONS TO THE G-20 PROCESS IN THE AREA OF FINANCIAL REGULATION

A positive example of an integrated view of financial regulation and financial sector development is the collaboration of the G-20 GPGFI with the SSBs. A number of African non-G-20 member countries

are engaged in the GPFI, namely Ethiopia, Kenya, Malawi, Nigeria, Rwanda, Tanzania, Uganda and Zambia. This gives them an opportunity to contribute to and benefit from the peer-learning processes in the GPFI and participate in the SSB discussions.

The G-20 general policy guidelines for financial regulation are implemented on the international level by the SSBs. The co-ordinating institution for the SSBs is the FSB, which is mandated directly by the G-20 and functions as a platform for engaging with non-G-20 member countries, particularly in the developing world. In 2012 six regional consultative groups were established by the FSB. The FSB Regional Consultative Group (RCG) for sub-Saharan Africa comprises Angola, Botswana, Ghana, Kenya, Mauritius, Namibia, Nigeria, South Africa, Tanzania and the Central Bank of West African States (CBWAS).

The BCBS provides a forum for regular co-operation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues and to improve the quality of banking supervision worldwide. It seeks to do so by exchanging information on national supervisory issues, approaches and techniques, with a view to promoting common understanding. South Africa is the only African member country of the BCBS. However, the BCBS has extended its outreach to developing countries through the SSBs and the GPFI.

The Association of African Central Banks (AACB) is one of the major pan-African institutions to discuss regulatory and developmental issues and to formulate common African positions. In April 2011 the AACB suggested an action plan for joint work on regulatory issues to promote the 'collective voice' of African regulators.⁵

The Committee of Ten African Ministers of Finance and Central Bank Governors (C-10) was created during a meeting of ministers and governors in Tunis in November 2008. The members of the C-10 are the following countries and institutions: Algeria, Botswana, Cameroon, Egypt, Kenya, Nigeria, South Africa, Tanzania, the CBWAS, and the Central Bank of Central African States. The Tunis meeting was convened to assess the potential impacts of the looming global financial and economic crisis on Africa, and deliberate on effective responses while 'identifying strategic economic priorities for

Africa and developing a clear strategy for Africa's engagement with the G-20'.⁶

G-20 SUPPORT TO LOCAL CURRENCY BOND MARKETS IN AFRICA

In conjunction with the G-20 Action Plan to Support the Development of LCBM, the African Development Bank launched the African Financial Market Initiative in 2008. The objectives of this initiative are to contribute to the development of local currency debt markets in Africa; reduce African countries' dependency on foreign currency denominated debt; help enlarge the investor base in African domestic debt markets; improve availability and transparency of African fixed income markets related data; provide alternative sources of long-term funding for borrowers in African currencies; and to create a permanent forum for the discussion and provision of technical assistance on domestic bond market issues.

This collaboration has enabled African economies to participate in the G-20 initiative for capital market development via African institutions and African stakeholders. Knowledge on specific characteristics of African bond markets and experiences of implementing specific measures in Africa can be created systematically in this initiative, thereby creating the potential to give an African voice to the global G-20 process.

G-20 FINANCIAL REGULATORY REFORM AND AFRICA

South Africa committed itself at the 2012 G-20 summit in Mexico to 'explicitly [focus] on financial stability and systemic crisis resolution according to FSB principles [... and] to implementing Basel III, Solvency 2 and Treat Customer Fairly (TCF) for banks, insurers and financial service providers within committed timelines'.⁷ Most other African countries have only recently begun the process of implementing, or are still considering the implementation of, internationally agreed financial regulatory reforms.

Studies conducted by the FSB in October 2011 and June 2012 addressed the potential effects of the regulatory reforms on developing countries. The first FSB report notes that in 'EMDEs with limited

human and financial resources, the adoption of such [international] standards would need to proceed at a pace consistent with countries' supervisory capacity and level of financial system development'.⁸ Nevertheless, as African financial systems grow and integrate more with the global financial system, countries are considering the adoption of at least parts of the new regulatory framework.

The G-20 has committed to improving the policy environment for SME financing and financial market development in general. It is uncertain whether the emerging regulatory environment will be supportive or detrimental to financial systems development in Africa, particularly as developing countries face a more constrained financial environment in the post-crisis period compared with the pre-crisis boom. The current process of consolidation in high-income banking and household sectors and regulatory reform should yield a more stable and ultimately more robust global financial environment. However, it is also likely to be one characterised by less liquid and more expensive financial conditions, with important real-side implications for developing countries.

CONCLUSION

The emerging regulatory framework following the global financial crisis is clearly relevant for Africa, as more African countries integrate into the global economy and for institutional learning. Thus the G-20 regulatory processes have to take into account the specific circumstances of African countries, and African countries have to make choices as to the proper sequence – or the appropriate building blocks – for adopting the international regulations.

It is imperative that African countries, with the help of the FSB and other institutions, establish joint monitoring processes to assess the impact of the new regulatory framework on African economies. The institutional framework for developing and putting forward African positions related to financial stability and financial systems reform are in place (the AACB, C-10 and the FSB RCG for sub-Saharan

Africa), but have not yet been exhausted. The framework has to be strengthened through active participation of the members of these groups and greater inclusiveness in order to have a substantial impact on international policy discussions and the G-20 processes in particular. In this sense, the African voice starts from the country level, to be aggregated through well-organised regional consultation processes.

ENDNOTES

- 1 Dr Peter Wolff is an economist with the German Development Institute (D.I.E) where he heads the department of World Economy and Development Financing.
- 2 Access through Innovation Sub-Group, *Innovative Financial Inclusion*, 25 May 2010, http://microfinancegateway.org/gm/document-1.9.44743/Innovative_Financial_Inclusion.pdf.
- 3 FSB, *Financial Stability Issues in Emerging Market and Developing Economies*. Basel: FSB, 2011; FSB, *Identifying the Effects of Regulatory Reforms on Emerging Market and Developing Economies: A Review of Potential Unintended Consequences*. Basel: FSB, 2012.
- 4 BCBS, *Treatment of Trade Finance Under the Basel Capital Framework*, October 2011 <http://www.bis.org/publ/bcbs205.pdf>.
- 5 Making Finance Work for Africa, 'Workshop: The African approach to the implementation of international standards for banking supervision and the Basel Capital Framework, Kampala, 28–29 April 2011, <http://www.mfw4a.org/events/event-details/543/workshop-the-african-approach-to-the-implementation-of-international-standards-for-banking-supervision-and-the-basel-capital-framework.html>.
- 6 African Development Bank Group, 'Committee of Ten', <http://www.afdb.org/en/topics-and-sectors/topics/financial-crisis/committee-of-ten>.
- 7 G-20, Los Cabos Summit, Policy Commitments by G-20 Members, 19 June 2012.
- 8 FSB, 2011, *op. cit.*, p. 42.

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