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The Reflection of African Concerns in the G-20 Financial Regulation and Financial Development Agenda

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South African Institute of International Affairs

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ABSTRACT

This paper forms part of a project aimed at monitoring the responsiveness of the Group of Twenty (G-20) to African interests. It presents the findings of the project in respect of the G-20's financial regulation and financial development agenda, and its relevance for, responsiveness to, and impact on, Africa. This assessment is accomplished via a qualitative and quantitative review of G-20 output. A review of relevant G-20 declarations and action plans reveal few explicit references to Africa. However, the documents display a broad concern with developing country interests. Those references largely focus on adapting global financial regulatory efforts to the specific circumstances of developing countries. There are fewer references to efforts to increase the inclusion of those countries in G-20 decision-making processes, and fewer still to other areas of concern such as financial inclusion, or agricultural price volatility. Nevertheless, those concerns are increasingly addressed by the G-20's efforts to help develop the financial sectors of developing countries, specifically by improving small and medium enterprises (SME) and agricultural finance, developing local currency bond markets (LCBMs), and improving financial inclusion. Regulatory efforts by institutions such as the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (Basel Committee) focus on the reduced capacity for regulation of less developed African states and the challenges posed by cross-border regulation. While the recognition of developing world and African interests is positive, greater participation by African states is needed to ensure that the emerging global regulatory regime recognises their needs and interests. Active participation by individual countries and improved regional co-ordination will allow Africa to present a strong and more unified front in dealing with G-20 financial reform.

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ABBREVIATIONS AND ACRONYMS

AACB	Association of African Central Banks
AfDB	African Development Bank
AFMI	African Financial Market Initiative
APRM	agriculture price risk management
AU	African Union
Basel II	*Capital Measurement and Capital Standards: A Revised Framework*
Basel III	*A Regulatory Framework for International Banking*
Basel Committee	Basel Committee on Banking Supervision
BCP	Basel Core Principle for Effective Banking Supervision
BIS	Bank for International Settlements
C-10	Committee of Ten African Ministers of Finance and Central Bank Governors
CABS	Community of African Banking Supervisors
CBWAS	Central Bank of West African States
DWG	Development Working Group
EMDE	emerging market and developing economy
FSB	Financial Stability Board
G-20	Group of Twenty
GPFI	Global Partnership for Financial Inclusion
IFC	International Finance Corporation
IMF	International Monetary Fund
LCBM	local currency bond market
LIC	low-income country
MFW4A	Partnership for Making Finance Work for Africa
MoU	memorandum of understanding
NEPAD	New Partnership for Africa's Development
OECD	Organisation for Economic Co-operation and Development
RCG	Regional Consultative Group
RDB	Regional Development Bank
SME	small and medium enterprise
SSB	standard-setting body
UNCTAD	UN Conference on Trade and Development
WB	World Bank

INTRODUCTION

The South African Institute of International Affairs (SAIIA) is undertaking a Global Economic Governance project in collaboration with the International Development Law Unit at the University of Pretoria. Part of the project is a critical assessment of the degree to which Africa's interests and concerns are addressed in Group of Twenty (G-20) processes. Quantitative as well as qualitative methods are used. The quantitative method involves establishing the frequency of references to Africa in G-20 documents. The qualitative method involves an examination of G-20 documents to establish the degree to which they reflect African concerns and interests, the responsiveness of the G-20 to these concerns and interests, and the potential impact of G-20 activities on Africa. The assessment will be conducted every year over a period of several years, which will allow the project to establish whether the G-20 is becoming more or less responsive to Africa. This paper presents the preliminary findings of the first assessment of the G-20's financial regulation and financial development agenda.

Financial regulation and financial development comprise an important part of the G-20's activities. In the context of the ongoing global economic and financial crisis, maintaining or regaining global financial stability is a major priority. The G-20 is the pre-eminent global forum for setting new standards and making new rules for the global financial sector, aimed at achieving global financial stability and preventing financial crises from spilling across borders.

As regards financial regulation, the G-20's main goal is to restore global financial stability (via the Finance Track). To this end, the global standard-setting bodies (SSBs) and Financial Stability Board (FSB) are making major attempts to reform the international regulatory system. Not all these reforms are immediately relevant to Africa. Hence, there is a need to focus attention and resources on those elements that are important to Africa, and to sequence them in appropriate ways. The financial stability agenda of the G-20 is complemented by attempts to strengthen the financial sectors of developing countries (via the Sherpas' Track and Development Working Group (DWG)). This, it is assumed, will help to protect those countries against external financial shocks, and contribute to economic growth and poverty reduction.

A major issue in this regard is how non-members of the G-20, and African non-members in particular, engage with G-20 processes. As this analysis will show, there are several avenues for participation in regulatory reform and in financial development. In recent years, G-20 processes have become broader and deeper, and are no longer centred solely on annual leaders' summits. There are numerous thematic processes below leader level in which countries, including non-member countries, can participate. Hence, there is clearly more scope for participation and more systematic input by developing countries besides those that are members of the G-20.

This analysis of G-20 documents concentrates on initiatives under the French and Mexican G-20 presidencies in 2011 and 2012. In this combined period, numerous initiatives begun under earlier presidencies in London and Pittsburgh in 2009, and Toronto and Seoul in 2010, were continued. It is assumed that an analysis of documents from 2009 and 2010 would not yield substantially different results.

Conclusions from the assessment can be used to prioritise both regulatory and developmental issues relevant to Africa and develop a common African position on those issues, to be fed back into the G-20 process through African representatives in the G-20 processes (ie, South Africa, the African Union (AU) and the New Partnership for Africa's Development (NEPAD)) or institutions tailored for this purpose, notably the FSB and the Global Partnership for Financial Inclusion (GPFI).

METHODS

The quantitative assessment uses methods developed by the G-20 Research Group at the University of Toronto for determining the relevance of G-20 documents to Africa. An example of their work appears in Table 1. The thematic areas or contexts of these references are also identified, in order to allow the relevance of G-20 documents to Africa to be assessed in qualitative terms.

Table 1: Summary of conclusions on Africa in G-20 leaders' documents

Year	No. of words	% of total words	No. of paragraphs	% of total paragraphs	No. of documents	% of total documents	No. of dedicated documents
2008 Washington	0	0.0	0	0.0	0	0.0	0
2009 London*	131	2.1	2	2.2	2	66.7	0
2009 Pittsburgh	227	2.5	3	2.8	1	100.0	0
1010 Toronto*	324	2.9	6	4.2	1	50.0	0
2010 Seoul	631	4.0	10	4.6	3	60.0	0
Average	**262.6**	**2.3**	**4.2**	**2.8**	**1.4**	**55.3**	**0**

Notes

Data are drawn from all official English-language documents released by G-20 leaders as a group. Charts are excluded.

'**No. of words**' is the number of Africa-related subjects for the year specified, excluding document titles and references. Words are calculated by paragraph because the paragraph is the unit of analysis.
'**% of total words**' refers to the total number of words in all documents for the year specified.
'**No. of paragraphs**' is the number of paragraphs containing references to Africa for the year specified. Each point is recorded as a separate paragraph.
'**% of total paragraphs**' refers to the total number of paragraphs in all documents for the year specified.

'**No. of documents**' is the number of documents containing Africa subjects, and excludes dedicated documents.
'**% of total documents**' refers to the total number of documents for the year specified.
'**No. of dedicated documents**' is the number of documents for the year that contains an Africa-related subject in the title.
* Meeting in addition to scheduled annual meeting.
Africa includes all direct references to the geographic continent and its component regions, countries and international organisations.

Source: Shaw Z & SJ Vassallo, *G-20 Leaders' Conclusions on Africa, 2008–2010*. Toronto: G-20 Research Group, University of Toronto, 8 August 2011, http://www.g20.utoronto.ca/analysis/conclusions/africa-l.pdf

The entire assessment comprises three elements, namely (1) establishing the relevance of G-20 documents to Africa; (2) establishing their alignment with, or responsiveness to, African policy processes; and (3) assessing their potential impact on Africa.

Relevance

Relevance is determined using both quantitative and qualitative methods. First, G-20 documents are analysed quantitatively in order to establish to what extent Africa is explicitly mentioned or will be directly or indirectly affected by decisions. Second, sector experts perform an informed qualitative judgement of the relevance of G-20 decisions to Africa in respect of each major issue noted in the G-20 documents.

Alignment or responsiveness

This assessment also starts with a quantitative analysis to establish the frequency of references to African institutions, policy processes, position papers and the participation of African institutions, experts or policymakers in G-20 decision-making processes. If possible, qualitative judgments are made about the extent to which African positions or concerns have been taken into account in these processes.

The analysis of G-20 documents, or interviews with participants in specific working groups, is aimed at determining:

- to what extent African institutions, experts or policymakers have been involved in G-20 decision-making processes;
- whether their participation has been ad hoc or regular, for example, via the participation of African countries or institutions in relevant institutions, systematic consultations by relevant institutions (such as the FSB), or the outreach activities of G-20 members (such as South Africa); and
- to what extent policy papers by specialised institutions (eg, the African Development Bank (AfDB), the UN Food and Agriculture Organization, and the International Fund for Agricultural Development) related to G-20 processes include the perspectives of African countries or institutions (eg, NEPAD) in their analyses and recommendations.

Potential impact

The actual or potential effect of specific G-20 decisions on Africa is established by consulting role players and experts. Opinions vary, depending on their background. Additional research on the consequences of specific policy decisions may be useful. Scenarios based on different hypotheses on the impact of specific G-20 decisions could be prepared and debated in group discussions with experts.

G-20 INITIATIVES FOR DEVELOPING ECONOMIES

Major G-20 initiatives in the areas of financial regulation and financial development, and their objectives for emerging markets and developing economies – and key goals under each – are as follows:

Financial stability and international financial standards

- Applying international financial standards in developing countries, and facilitating the expression of the voice of the developing world.
- Promoting cross-border supervisory co-operation.
- Expanding the regulatory and supervisory perimeter.
- Managing foreign exchange risk.
- Developing domestic capital markets.
- Incorporating principles for financial inclusion in international financial standards.

Financial inclusion

- Implementing the nine principles for innovative financial inclusion,[1] contributing to the work of the main SSBs and developing an SME finance policy framework.
- Performing a gap analysis in respect of financial inclusion data, implementing key indicators, developing a general framework for data measurement and developing recommendations for national financial inclusion targets.

Development of local currency bond markets

- Creating a range of instruments and competitive market-based placement mechanisms.
- Creating the preconditions for stable domestic demand for local currency bonds.
- Creating an enabling environment for secondary market trading.
- Sterilising capital inflows with operational arrangements that support the development of local currency bond markets (LCBMs).

Agricultural finance and food price volatility

- Reducing the main risks and costs that inhibit access to financial services in the agricultural sector in developing countries.

- Developing countercyclical instruments or mechanisms for cushioning vulnerable countries against external shocks.
- Developing innovative risk management tools for governments and firms in developing countries.
- Integrating risk management approaches into loans and credits.

Trade finance

- Tracking trends and monitoring gaps faced by least-indebted countries, including in times of crisis.
- Reducing the capital requirements of low-income countries (LICs) in the context of trade finance transactions.
- Providing least-indebted countries with easier and cheaper access to trade finance instruments.

Relevance to Africa

All these issues are clearly relevant to Africa. Financial stability and financial regulation – particularly the implementation of new regulatory standards (ie, the *Capital Measurement and Capital Standards: A Revised Framework* (Basel II) and *International Regulatory Framework for Banks* (Basel III)) – are major concerns for African countries with more advanced financial sectors. Sequencing their adaptation to these international standards is a major policy issue for many of these countries.

Financial inclusion is an important issue throughout Africa, and other initiatives besides those of the G-20 have been undertaken. New technologies, such as mobile banking, are greatly improving access to finance.

Regulatory issues and questions of financial literacy are being debated in numerous African countries. LCBMs are growing in several African countries and numerous initiatives to establish an infrastructure for bond markets are under way.

Given major initiatives to improve agricultural production and food security, agricultural finance is clearly a priority for African countries. Trade finance is mainly relevant to the import of investment and intermediary goods to Africa. Thus, all the policy areas noted above are relevant to Africa and the question can be asked to what extent African concerns are reflected in the G-20 processes.

REFLECTION OF AFRICAN CONCERNS IN G-20 DOCUMENTS

General G-20 documents in the period under review contain few references to Africa. However, they also do not often refer to developing countries in other world regions. As there is no G-20 outreach process specific to Africa (similar to the G-8 Heiligendamm Process), the G-20 cannot be expected to focus on specific African concerns in its general documents. However, these documents do contain many references to emerging and developing economies, particularly since the Toronto Summit in 2009, where the development agenda of the G-20 was shaped, followed by the Multi-year Action Plan on Development adopted at the Seoul Summit in 2010.

Africa is not specifically mentioned in the *Final Declaration and Action Plan for Growth and Jobs* (4 November 2011) generated under the French presidency. However, these documents contain 12 references to developing countries, including:

- 'trade facilitation, trade finance and aid-for-trade programmes to enhance their trade capacity';[2]
- 'call international bodies to take into account emerging market and developing economies' specific considerations and concerns in designing new international financial standards and policies where appropriate';[3]
- 'the upcoming changes to the FSB steering committee should include the executive branch of governments of the G-20 Chair and the larger financial systems as well as the geographic regions and financial centres not currently represented, in a balanced manner consistent with the FSB Charter';[4]
- 'appropriately regulated and transparent agricultural financial markets are a key for well-functioning physical markets and risk management';[5]
- 'risk-management instruments, such as commodity hedging instruments, weather index insurances and contingent financing tools, to protect the most vulnerable against excessive price volatility, including the expansion of the Agricultural Price Risk-Management Product developed by the World Bank Group International Finance Corporation (IFC)';[6] and
- 'the ongoing work by the GPFI to foster the development of SME finance and to include financial inclusion principles in international financial standards'.[7]

The *Los Cabos Leader's Declaration* and *Los Cabos Growth and Jobs Action Plan* (19 June 2012) under the Mexican presidency contain 15 references to developing countries, but no specific references to Africa. References to financial regulation and financial development issues in developing countries include:

- 'joint annual progress report to support the development of LCBMs to be prepared by the World Bank, Regional Development Banks [RDBs], [International Monetary Fund] (IMF), [Organisation for Economic Co-operation and Development] (OECD) and the Bank [for] International Settlements (BIS)';[8] and
- 'an FSB study to identify potential unintended consequences of the agreed financial regulatory reforms for Emerging Markets and Developing Economies (EMDEs)'.[9]

Given that the French presidency had identified volatile food prices as a priority, there were several references to developing countries and one reference to Africa in the *Action Plan on Food Price Volatility and Agriculture* (23 June 2011), including the following:

- 'agricultural insurance and contracts between farmers and buyers or suppliers of agricultural inputs can improve risk management of price volatility and provide better predictability in the agricultural value chain'.[10]
- 'counter-cyclical instruments or mechanisms for vulnerable countries in the event of external shocks, including food price surges and collapses and, in connection with the private sector, weather index insurance and guarantee mechanisms to support contract farming'.[11]

- 'the International Finance Corporation's new Agriculture Price Risk Management (APRM) product will allow producers and consumers to hedge against downside or upside price risk on a pilot basis. ... The G-20 Agriculture Ministers welcome IFC efforts to roll out the APRM product with two other financial intermediaries focused on lower income countries in Sub-Saharan Africa as well as North Africa.'[12]

The *Report of the Agriculture Vice Ministers/Deputies Meeting* under the Mexican presidency (18 May 2012) did not add much to the initiatives undertaken a year earlier. References to the Action Plan on Food Price Volatility and Agriculture included:

- 'reducing the effects of price volatility for the most vulnerable';[13]
- 'several tools to help developing countries to cope with the adverse impacts of excessive price volatility for agricultural commodities';[14] and
- 'the Agricultural Price Risk Management (APRM) concept [which] is being implemented by the International Finance Corporation (IFC) in Sub-Saharan [sic] Africa'.[15]

As regards food price volatility, the *Progress Report of the DWG* under the Mexican presidency merely repeats that 'in the context of food security, there is a need to develop and coordinate tools, instruments and strategies to mitigate risks, prevent shocks and offer better protection to the most vulnerable populations'.[16]

The *Los Cabos Leader's Declaration* only refers to the

- 'important contribution of greater transparency to reducing food price volatility';
- 'progress made in the implementation of the Agricultural Market Information System (AMIS)';[17] and the
- 'importance of well-functioning and transparent physical and financial commodities markets and reduced excessive price volatility to achieve food security'.[18]

Obviously, no consensus had been reached, as sought by the French presidency, on measures to regulate financial markets in advanced countries in order to mitigate the volatility of agricultural commodity prices.

The *Action Plan to Support the Development of Local Currency Bond Markets* (4 November 2011) refers mainly to developing countries on the basis that a shortage of sound and liquid financial instruments in emerging markets and developing economies may have contributed to the build-up of global imbalances. According to the document, 'the liquidity and efficiency of LCBMs is often inadequate, and corporate bond markets remain underdeveloped or nearly non-existent in most emerging market economies and developing economies'.[19] Major initiatives mentioned in this context are as follows.

- 'The FSB, IMF, [World Bank Group] (WBG), in close cooperation with RDBs and UNCTAD, are asked to support countries in *strengthening financial regulation and supervision* together with efforts to *deepen and broaden domestic capital markets*, and to provide recommendations on the most urgently needed steps to strengthen the regulatory framework in EMDEs in light of the financial crisis. … RDBs that provide private sector financing are encouraged to pay special regard to supporting the development of the domestic investor base such as pension funds, mutual funds and insurance industry.'[20]

- '[I]mplementation programmes addressing *low-income countries' specific features*: small size, undiversified financial sector, and limited implementation capacity. A LIC-specific framework and guidelines will be developed'.[21]

As regards Africa, the report specifically mentions the Centre for African Public Debt Management and Bond Markets (sponsored by the OECD and South Africa), the AfDB's Africa Financial Markets Initiative (AFMI), the Partnership for Making Finance Work for Africa (MFW4A), and the IMF as sources of technical assistance for providing relevant knowledge and building related institutional infrastructure in Africa, also on a regional level.[22]

The *DWG Report* under the French presidency (28 October 2011) states at the outset: 'The G-20's action to strengthen global economic governance and financial regulation impacts directly on developing countries, including Low Income Countries (LICs).'[23] In this context, it goes on to state that the availability of trade finance continues to be problematic for many countries and that a significant number of countries have not thus far received any trade finance support from the MDBs. As a result, it recommends the establishment of a trade finance facility at the AfDB.[24]

It also recommends the implementation and scaling up of countercyclical instruments and mechanisms such as contingent credit lines, catastrophe risk financing instruments, weather index insurance and risk management schemes such as the African Risk Capacity Project developed by the AU.[25]

The *Progress Report of the DWG* of 19 June 2012 takes up the Mexican presidency's focus on 'green growth' and its financial implications for developing countries by stating: 'The DWG takes note of the findings of the stocktaking review conducted by the International Finance Corporation (IFC) on existing mechanisms to mobilise private capital for inclusive green investments in developing countries.'[26]

The DWG also focuses on the issue of financial inclusion. A separate *GPFI Report to Leaders* (5 November 2011) states the following.

- 'Because financial inclusion supports balanced economic growth, the G-20 Leaders decided in Pittsburgh to set in motion the G-20's commitment to financial inclusion in developing countries ... [by] implementing the Financial Inclusion Action Plan.'[27]
- The report highlights the need 'to apply the international standards on financial sector regulation in the developing country context and to facilitate in return the expression of the voice of the developing world in the dialogue'.[28]
- It also calls for ' enhanced coordination and dialogue across regulatory authorities, and a space to share developing countries' compliance approaches and experiences'.[29]

With reference to Africa, the report notes the following.

- 'A case study [was conducted], involving a detailed review of the experiences of the developing countries in question (Brazil, Kenya, Mexico, the Philippines and South

Africa) in implementing international standards and guidance on financial sector regulation, examining their impact on financial inclusion.'[30]

- 'A stocktaking exercise was conducted on about 60 case studies and an outreach process was initiated, especially with African partner countries, supported by the Partnership 'Making Finance Work for Africa.'[31]
- 'The GPFI was designed with a view to enhance collaboration and knowledge sharing among a broad set of Partners. In this spirit, the Partnership actively engaged, and throughout the year worked with numerous actors; among them 9 non-G-20 countries: Kenya, Malaysia, Netherlands, Nigeria, Peru, Philippines, Spain, Sweden, and Thailand.'[32]

The financial inclusion agenda was reinforced under the Mexican presidency. The *Communiqué of the Meeting of Finance Ministers and Central Bank Governors* (26 February 2012), undertakes to 'follow through on the five recommendations of the 2011 Global Partnership for Financial Inclusion report and *take the financial inclusion agenda forward towards concrete results*'.[33]

The *Leader's Declaration* states the following.

- 'The Leaders welcome the progress made by the GPFI on implementing the five recommendations set out in its 2011 report and call on the GPFI to continue working towards their full implementation.'[34]
- It acknowledges 'the efforts of those G-20 and non-G-20 countries committed to national coordination platforms and strategies for financial inclusion under the G-20 Financial Inclusion Peer Learning Program', and encourages 'similar efforts to advance effective implementation of the G-20 Principles for Innovative Financial Inclusion'.[35]
- It also welcomes the 'Mexico Financial Inclusion Challenge: Innovative Solutions for Unlocking Access, a call for innovations that address barriers to financial inclusion through the creation of valuable, affordable, secure, and comprehensive financial services'.[36]

The *DWG* also refers to:

- 'the significant progress with the G-20 process achieved in the implementation of the five recommendations approved by the Leaders at the Cannes Summit on financial inclusion, particularly that the sub-group on Principles and Standard Setting Bodies (SSBs) has promoted financial inclusion commitments and action plans that are in line with the G-20 Principles for Innovative Financial Inclusion'.[37]

Findings

These documents do not often refer to specific African concerns. However, they do address issues surrounding financial regulation and financial development in developing countries, which are partly translated into concrete plans of action to be implemented by specialised institutions, including African institutions.

The question of greater participation by developing countries in G-20 decision-making processes is not addressed systematically. In the area of financial inclusion, the documents only mention the representation of two African non-member countries (Kenya and Nigeria) in the GPFI.

The documents recognise the need to align the *international financial regulatory agenda* with the specific circumstances of developing countries. They refer to SSBs, thus acknowledging the need to adapt financial regulation to circumstances and goals in developing countries. They do not reflect any commitment to curb agricultural price volatility by way of regulation, but speak of several initiatives to mitigate risks for farmers and consumers.

As regards *financial sector development*, there are a number of ongoing initiatives in Africa in respect of financial inclusion, SME and agricultural finance (including risk mitigation), and the development of LCBMs. Most programmes are still in their infancy and their efficacy would need to be assessed at a later stage. In general, however, the G-20 has recognised the needs of developing countries in respect of financial sector development, particularly by undertaking to raise financial inclusion issues with SSBs.

EXTENDING FINANCIAL REGULATION TO AFRICA

Documents of the FSB and the Basel Committee on Banking Supervision (Basel Committee) seldom refer to Africa, but often refer to emerging and developing economies. Apart from South Africa, Africa is only mentioned in one FSB document, in respect of the specific challenges presented by African financial systems.[38] However, the document also notes that 'EMDEs that were less financially integrated, such as in sub-Saharan Africa, have generally been less affected by the [global financial] crisis'.[39]

It comments as follows on *inadequate regulatory capacity* in African countries.

- 'In a number of countries, particularly in Africa, bank supervisors lack an adequate range of tools to implement timely corrective actions.'[40]
- 'A few notable differences across the EMDE regions exist with respect to certain strengths and weaknesses in the countries' supervisory systems. For example, one of the major weaknesses observed in the African region relates to the framework supervisors have established to pursue corrective and remedial actions against banks. In some cases, the shortcomings in the African region relate to absence of proper legal powers, but for others, the powers are provided for, but are not being used effectively and supervisors are not proactive and forceful in taking timely measures against a delinquent bank.'[41]

As regards *cross-border banking issues* in Africa, the document notes that:

- '[s]maller regional banks from EMDEs have been expanding in other EMDEs more recently such as, for example, South African and Nigerian banks in sub-Saharan Africa';[42] and
- 'some African countries have agreed on a regional Memorandum of Understanding (MoU) among financial supervisors'.[43]

South Africa is frequently mentioned in these documents, particularly with regard to:

- risky exposures to specific financial instruments and the relevant actions of supervisory institutions;
- over-the-counter derivatives markets and the relevant supervisory activities as suggested by the FSB;
- compensation practices in the financial industry and the relevant rules as suggested by the FSB;
- the adoption of a deposit insurance system; and
- issues related to the introduction of a liquidity ratio for banks under the Basel III framework.

This reflects a perception that, unlike most other African countries (except perhaps Mauritius), South Africa has a complex financial system whose risks and supervisory challenges differ from those of most other African countries.

Documents of the Basel Committee do not specifically refer to Africa or to South Africa. However, they do refer to EMDEs with regard to the role of global systemically important banks in emerging economies,[44] the Basel Core Principles for Effective Banking Supervision (BCPs) and the role of supervisors in developing countries,[45] trade finance in developing countries and the related G-20 process.

On the last-named issue, it notes:[46]

> Following consultations with the [World Bank] (WB), the [World Trade Organisation] (WTO) and the ICC, the BCBS [Basel Committee] has evaluated the impact of Basel II and III on trade finance in the context of low-income countries', including related suggestions for financial support of developing countries as well as specific regulatory safeguards in developing countries in order to avoid a shortage of trade credit as well as difficulties for developing country banks in adhering to Basel II and III capital and liquidity standards.

Findings

These FSB and Basel Committee documents reflect an effort to take the specific circumstances of developing countries into account. South Africa is frequently mentioned with regard to specific challenges to its comparatively complex financial system. African countries are mentioned with regard to relatively weak supervisory capacities and related challenges, and challenges to cross-border supervision.

CHANNELS FOR AFRICAN CONTRIBUTIONS TO THE G-20 PROCESS

There are several work streams or channels within the G-20 process that present countries with an opportunity to voice their particular concerns or interests.

Financial inclusion, including SME and agricultural finance, and financial regulation are dealt with in the Finance Track. However, apart from some financial issues in the infrastructure pillar of the Seoul Multi-Year Action Plan for Development, financial issues are not dealt with by the DWG. This can be regarded as an advantage, since financial regulation and financial sector development can be dealt with in an integrated way.

A positive example of an integrated view of financial regulation and financial sector development is the collaboration of the GPFI with the SSBs responsible for negotiating and setting standards for the international financial sector.

A number of African non-G-20 member countries (ie, Nigeria, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, Uganda and Zambia) participate in the GPFI.[47] This gives them an opportunity to contribute to, and benefit from, peer learning processes, and participate in discussions with the SSBs. Participants in a joint seminar in Basel in March 2012 discussed a co-ordinated approach among the SSBs, and other international institutions and agencies active in financial inclusion. Given the disparate capacities and levels of development among developing countries, the SSBs have explicitly recognised the principle of proportionality in the implementation of financial regulations. The First Annual GPFI Conference and Technical Meeting on Standard-Setting Bodies and Financial Inclusion took place at the BIS in Basel in October 2012.[48]

The SSBs implement the G-20's general policy guidelines for financial regulation at the international level. Their co-ordinating institution is the FSB, which is mandated directly by the G-20. The FSB has been established to co-ordinate the work of national financial authorities and international SSBs, and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies. Its membership comprises G-20 member countries and some non-G-20 countries with important financial sectors (eg, Singapore and Switzerland). South Africa is the only African member country of the FSB. However, in 2012 the FSB established six regional consultative groups which are meant to provide a platform for engaging with non-G-20 member countries, particularly in the developing world. The FSB Consultative Group for sub-Saharan Africa, which met in February and October 2012, and in February 2013, comprises Angola, Botswana, Ghana, Kenya, Mauritius, Namibia, Nigeria, South Africa, Tanzania and the Central Bank of West African States (CBWAS).

Its first three meetings have been aimed at shaping its agenda. Developing common positions in this area remains a challenge for African countries, as the level of financial sector development of South Africa, emerging markets and least-indebted countries vary considerably.

The media release issued after the first meeting described the challenges and medium-term work plan as follows:[49]

> The Sub-Saharan [sic] African region has particular characteristics and challenges that will form the basis of the future work plan of the Regional Consultative Group (RCG) for Sub-Saharan [sic] Africa and, more broadly, policy solutions for the region. These can be summarised in the following broad themes: the growing complexity of the banking system; managing the growing risk of cross-border financial sector spillover effects and mitigating contagion and regulatory arbitrage; risks from global, regional and domestic Systemically Important Financial Institutions (SIFIs); strengthening capital markets in the region; and the need to enhance financial inclusion. The RCG for Sub-Saharan [sic] Africa is expected to play a pivotal role in exploring these challenges and proposing through the FSB solutions to policy implementation that consider the characteristics of the region.

The second meeting, held in Cape Town on 25 September 2012, discussed the topics below.

- The FSB's policy priorities and work plan.
- The sequencing of Basel II and Basel III capital standards.
- The development and implementation of a global legal entity identifier, or single global system for the identification of parties to financial transactions, an initiative endorsed by G-20 leaders at the summits in 2011 and 2012.
- Vulnerabilities and regional financial stability issues, for example, the concentration of the banking system in most African countries, growing levels of unsecured lending, and stress tests that are currently used for information only and do not lead to a change in practices.
- The outcomes of the FSB report on the unintended consequences of regulatory reforms on emerging markets and developing economies.
- Cross-border co-operation in the resolution of financial institutions.
- Key financial sector reforms for sub-Saharan Africa, such as the strengthening of the supervisory regimes, the development of markets, and the harmonisation of regulatory frameworks across jurisdictions.

The meeting concluded that Africa was experiencing rapid structural changes in banking systems, with multinational and regional banks becoming increasingly prominent, and financial systems and economies becoming more interconnected and vulnerable to external shocks. Against this background, the media release stated, Africa needed to manage the process of adopting new regulatory standards carefully.[50]

The *Basel Committee* provides a forum for co-operation on banking supervisory matters. Its objective is to promote a common understanding of key supervisory issues and improve the quality of banking supervision worldwide. It seeks to do so by exchanging information on national supervisory issues, approaches and techniques, and developing guidelines and supervisory standards. It is best known for its international standards on capital adequacy; BCPs; and Concordat on cross-border banking supervision. South Africa is the only African member country of the Basel Committee. However, the committee has extended its outreach to developing countries in the framework of the dialogue with SSBs and the GPFI.

The *Association of African Central Banks* (AACB) discusses regulatory and developmental issues, and formulates common African positions on those issues. At a policy workshop on 'The African Approach to the Implementation of International Standards for Banking Supervision and the Basel Capital Framework', held in April 2011,[51] the AACB suggested an action plan for joint work on regulatory issues partly related to G-20 processes, including promoting the 'collective voice' of African regulators (see Box 1). The action plan also refers to the *Committee of Ten African Ministers of Finance and Central Bank Governors* (C-10), which seeks to 'identify strategic economic priorities for Africa, and develop a clear strategy for Africa's engagement with the G-20' (see Box 2). The C-10 participates in the annual meetings of the IMF and World Bank, and issues communiqués on African financial and economic issues on these occasions.

Box 1: Proposed action plan for implementing international banking standards in Africa

Setting up a Community of African Banking Supervisors (CABS1)

- Endorsement by AACB Assembly of Governors.
- Elaboration of the terms of references of the CABS.

Creating a collective voice

- CABS to inform C-10's work.
- CABS to inform FSB Regional Consultative Group for sub-Saharan Africa.
- (Leverage the relationship between South African National Treasury and World Bank).
- Seek clarification from international standards setters ([Basel committee]/FSB/IMF/WB) as to their expectations regarding the applicability in low-income countries.

Building capacity

- Determine demand for capacity-building among central banks.
- Establish priorities and areas of similar demand across countries and consider scope for regional activities.
- Lodge appropriate requests with IMF/World Bank/FIRST Initiative/AfDB/ Africa Regional Technical Assistance Centres/EADIs.

Strengthening cross-border supervisory co-operation

- Leverage the experience of regulatory authorities in other parts of the world with regard to the establishment of supervisory colleges.
- Encourage formalised co-operation between supervisors, for example, MoUs and harmonisation of regulations.
- Work through existing regional economic communities that already involve collaboration between banking regulators.

Leveraging Basel II experiences

- Encourage South Africa and Morocco to share their experiences with the adoption of Basel II/III, the introduction of risk-based supervision, macro-prudential regulation, and so on. Organisation of regional workshops.

Diagnostics, prioritisation and regulatory road maps

- Design diagnostic instruments that assist policymakers in prioritising and sequencing reforms and develop road maps of reform.
- Draw up country-specific regulatory road maps for regulatory and supervisory reforms.

Financial Sector Assessment Program and BCP compliance

- Encourage countries to have updated Financial Sector Assessment Programs and assessments of BCP compliance and readiness
- Lodge appropriate requests with IMF or World Bank

Source: MFW4A (Partnership for Making Finance Work for Africa), *Making Finance Work for Africa*, Final Report, Workshop on the African Approach to the Implementation of International Standards for Banking Supervision and the Basel Capital Framework, Kampala, Uganda, 28–29 April 2011, p. 13

Box 2: Committee of Ten (C-10)

'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 (CBCAS). The Tunis meeting was convened to assess the potential impact of the looming global financial and economic crisis on Africa, and deliberate on effective responses. It was sponsored and organised by the African Development Bank (AfDB), the United Nations Economic Commission for Africa (UNECA) and the African Union Commission.

'Its objectives are to monitor the impact of the global financial and economic crisis on Africa, and discuss options for policy responses; advocate enhanced African participation in governance of international financial institutions (IFIs); identify strategic economic priorities for Africa; and develop a clear strategy for Africa's engagement with the G-20. The C-10 meets periodically to deliberate on these issues and on prospects for recovery and sustaining long-term growth.'

Source: African Development Bank Group, 'Committee of Ten'. Tunis-Belvedère: African Development Bank Group, http://www.afdb.org/en/topics-and-sectors/topics/financial-crisis/committee-of-ten/

Findings

African countries and stakeholders do have channels for participating in the global discussions on financial regulation, including financial inclusion and financial sector development. As yet the degree of participation rests mainly on the initiative of individual countries, but pan-African institutions are also involved. A systematic process for developing common African positions in this area is still in its infancy.

CONCERNS ABOUT AFRICAN FINANCIAL REGULATION AND FINANCIAL DEVELOPMENT

Following the AACB conference in 2011, major concerns about the stability and development of African financial systems can be summarised as follows.[52]

- Most African banking systems have shown remarkable resilience to the global crisis. Most African banks maintain high capital ratios, strong profit margins and high levels of liquidity.
- Some risks to the banking systems have arisen from cross-border contagion. In some countries, credit risk is due to a high concentration of lending to specific sectors.
- Many African countries are not yet complying fully with international standards for banking supervision. Supervisory capacity has not kept pace with changing

risk patterns, and shortcomings have been identified in supervisory and resolution processes.

- African financial sectors are becoming increasingly integrated with global markets, and are developing increasingly sophisticated financial products. The importance of non-bank financial services is accelerating. As a result, banks are likely to be subject to more volatile capital flows, and credit and liquidity risks.
- Access to finance remains a challenge on much of the continent, presenting regulators with the classic dilemma of how to support innovation that can help improve financial sector efficiency and extend access to low-income groups, on the one hand, while managing emerging risks, on the other. The emergence of technical solutions and new business models is helping to extend access, but poses new regulatory challenges, including the growing need to manage operational risk, the entry of non-banks (such as telecommunications), and the blurring of traditional distinctions between payments and banking activities.
- Developing an appropriate regulatory response, including appropriate anti-money laundering regulations, in a fast-changing environment is a challenge faced by all regulators across the continent.
- An important trend in banking regulation in some parts of Africa is the regional harmonisation of regulatory frameworks. This may involve moving towards a single financial market by adopting similar or identical legislation across countries or allowing passporting (ie, a single licence and cross-border branching); introducing procedures for cross-border financial institutions; and introducing regional depositor protection. One example of regional harmonisation in these areas is the East African Community, which has introduced cross-border supervisory MoUs, the joint examination of regional financial institutions, and the upgrading and harmonisation of prudential regulations.
- Another important trend is the emergence of African large and complex financial institutions. Regulation and supervision have not kept pace with cross-border and cross-sector expansion, resulting in supervisory gaps, regulatory inconsistencies and crisis management.
- Studies of African central banks reveal a mixture of common and diverging experiences. Most central banks have not had to deal with banking sector crises, but are nevertheless grappling with the challenges of upgrading their supervisory frameworks. This includes implementing Basel II, or planning for it. Some central banks, however, are giving priority to improving their compliance with the BCPs rather than the rapid adoption of Basel II itself.
- The benefits of implementing Basel II need to be assessed carefully against the costs of implementation. In many African jurisdictions, Basel II will probably not be a priority.
- Central banks are also dealing with systemic financial sector stability issues. Key challenges include establishing systems for macroprudential supervision, and preparing contingency plans for financial sector distress and crisis resolution.

G-20 support for local currency bond markets in Africa

In conjunction with the G-20 Action Plan to Support the Development of Local Currency Bond Markets, the AfDB has launched AFMI, aimed at boosting domestic African capital markets. Its specific objectives are to:

- contribute to the development of local currency debt markets in Africa;
- reduce the dependency of African countries on foreign loans;
- help enlarge the investor base in African domestic debt markets;
- improve the availability and transparency of African fixed-income markets-related data;
- provide alternative sources of long-term funding for borrowers in African currencies; and
- create a permanent forum for discussing and providing technical assistance on domestic bond market issues.[53]

A draft action plan on bond market development has been developed within this framework. At a stakeholder workshop held in October 2012, the following priority areas of development were identified.[54]

- Debt management and the development of the primary market.
- Development of secondary market and increase of liquidity.
- Diversifying the investor base.
- Supporting infrastructure for securities settlement.
- Tax, legal and regulatory framework and accounting standards.
- Data collection and dissemination.
- Sovereign credit ratings.

This initiative has provided African stakeholders with a real opportunity to participate in capital market development. If it succeeds in expanding knowledge of the specific characteristics of African bond markets and experiences of implementing specific measures in Africa, it will contribute an African voice to the global G-20 process.

G-20 regulatory reform and Africa

At the G-20 summit in Mexico in 2012, South Africa committed itself to fully implementing numerous new financial regulations. As the policy commitment noted: 'South Africa explicitly focuses on financial stability and systemic crisis resolution according to FSB principles. It commits to implementing Basel III, Solvency 2 and Treat Customer Fairly (TCF) for banks, insurers and financial service providers within committed timelines.'[55]

Most other African countries have only recently begun to implement, or thought about implementing, internationally agreed financial regulatory reforms. In two studies, published in October 2011 and June 2012 respectively, the FSB addressed the question of the potential effects of the regulatory reforms on developing countries.[56]

Moreover, the Los Cabos Summit Declaration stated that G-20 leaders 'welcome the FSB study to identify potential unintended consequences of the agreed financial regulatory reforms for Emerging Markets and Developing Economies (EMDEs)'.[57]

The first FSB Report notes: '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'.

It also states that:

> The more financially integrated EMDEs – especially those that belong to the G-20/FSB and participated in the development of this framework – should adopt the [Basel II/III] framework according to the agreed timetable. Other countries, with less internationally integrated financial systems and/or with substantial supervisory capacity constraints, focus on reforms to ensure compliance with the Basel Core Principles.

Nevertheless, as African financial systems grow and increasingly integrate with the global financial system, countries are considering the adoption of at least parts of the new regulatory framework.

At the same time, the G-20 has committed itself to improving the policy environment for SME financing and financial market development in general. As noted earlier, there are ongoing G-20 processes in the areas of financial inclusion (eg, G-20 GPFI) and financial system development (eg, infrastructure financing, strengthening financial intermediaries and LCBMs). This leads to the key question of whether the emerging regulatory environment will help or hinder the development of financial systems in Africa.

This is particularly relevant since developing countries face a more constrained financial environment post the 2008 financial crisis than during 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, finance will probably also be more constrained and more expensive, with important implications for developing countries.

Kasekende, Bagyenda and Brownbridge[58] provide the following critical perspective on the appropriateness of Basel III for the conditions of the financial sectors in Africa:

> Basel III places too much emphasis on capital adequacy requirements as a regulatory tool to ensure the resilience of banks. Capital is important, but in banking systems in which asset values are very volatile, capital requirements cannot realistically shoulder all the burden of prudential regulation. Instead it is necessary to regulate the asset side of the bank's balance sheet, to control excessive risk taking and improve the quality and accurate valuation of bank assets and the associated provisioning for losses.
>
> From the standard of microprudential regulation in Africa, the most serious lacunae in Basel III is the omission of global standards to regulate bank assets. Many African countries already impose a range of regulations to curb risk in bank asset portfolios, such as loan concentration limits and limits on foreign currency exposures. These regulations should remain in place, but they need to be amended and updated to keep pace with the evolving nature of banking in Africa. Bank regulation also needs to be backed up by stronger, more intrusive bank supervision: hence strengthening supervisory capacities and supervisory methodologies should be accorded priority by African regulators. Stronger supervision will probably contribute more to safeguarding bank soundness in Africa than strengthening the bank regulations.

CONCLUSION

The emerging international regulatory framework following the global financial crisis of 2008 is clearly relevant to Africa, as more African countries integrate with the global economy. Thus the G-20 regulatory processes have to take into account the specific circumstances of African countries and African countries have to decide how to sequence their adoption of international regulations.

It is vital for African countries – assisted by the FSB and other institutions – to establish processes for monitoring the impact of the new regulatory framework on African economies. The institutional framework for developing and putting forward African positions on financial stability and financial systems reform are in place (AACB, G-10, FSB RCG), but have not yet been exhausted. They need to be strengthened through the active participation of members if they are to have a substantial impact on international policy discussions, and G-20 processes in particular. The African voice should start at the country level, and be aggregated through well-organised regional consultation processes.

ENDNOTES

Note: All G-20 documents can be accessed via the websites of the respective presidencies (such as G-20mexico.org), or the website of the G-20 Information Center of the University of Toronto, at http://www.G-20.utoronto.ca/.

1 GPFI (Global Partnership for Financial Inclusion), *G-20 Principles for Innovative Financial Inclusion*, 2010, http://www.gpfi.org/sites/default/files/documents/.

2 G-20 France 2011, *Cannes Action Plan for Growth and Jobs*, 4 November 2011, para. 6 (a). The italics in this and the following extracts have been added by the author.

3 G-20 France 2011, *Cannes Summit Final Declaration*, 4 November 2011, para. 34.

4 *Ibid.*, para. 38.

5 *Ibid.*, para. 45.

6 *Ibid.*, para. 72.

7 *Ibid*, para. 78.

8 G-20 Mexico 2012, *G-20 Leaders Declaration*, Los Cabos, Mexico, 19 June 2012, para. 35.

9 *Ibid.*, para. 45.

10 G-20 France 2011, *Ministerial Declaration, Action Plan on Food Price Volatility and Agriculture, Meeting of G-20 Agriculture Ministers*, Paris, 22 and 23 June, 2011, para. 42.

11 *Ibid.*, para. 45.

12 *Ibid.*, Annexure 5.

13 G-20 Mexico 2012, *Agriculture Vice Ministers/Deputies Meeting Report*, Mexico City, 18 May 2012, p. 1.

14 *Ibid.*, p. 4

15 *Ibid.*, p. 4

16 G-20 Mexico 2012, *Progress Report of the Development Working Group*, 19 June 2012, para. 32.

17 G-20 Mexico 2012, *Leaders Declaration*, Los Cabos, Mexico, 19 June 2012, para. 57.

18 *Ibid.*, para. 6.1

19 G-20, *Action Plan to Support the Development of Local Currency Bond Markets*, 15 October 2011, para. 4.

20 *Ibid*., para. 9.

21 *Ibid*., Annexure 2.

22 *Ibid*, Annexure 5.

23 G-20 France 2011, *Progress Report of the Development Working Group*, 28 October 2011, p. 1.

24 *Ibid*, p. 4.

25 *Ibid*, pp. 9–10.

26 G-20 Mexico 2012, *Progress Report of the Development Working Group*, 19 June 2012, para. 13.

27 G-20 France 2011, *op. cit*., p. 12.

28 GPFI, *Report to the Leaders*, November 2011, p. 6.

29 *Ibid*., p. 7.

30 *Ibid*., p. 6.

31 *Ibid*, p. 8.

32 *Ibid*, p. 10.

33 G-20 Mexico 2012, Communiqué, Meeting of Finance Ministers and Central Bank Governors, Mexico City, 25–26 February 2012, para. 8.

34 G-20 Mexico 2012, *Leaders Declaration*, Los Cabos, Mexico, 19 June 2012, para. 50.

35 *Ibid*., para. 51.

36 *Ibid*., para. 54.

37 G-20 Mexico 2012, *Progress Report of the Development Working Group*, 19 June 2012, para. 59.

38 FSB (Financial Stability Board), *Financial Stability Issues in Emerging Market and Developing Economies*. Basel: FSB, October 2011.

39 *Ibid*., p. 43 (Annexure I).

40 *Ibid*., p. 11.

41 *Ibid*., p. 54 (Annexure).

42 *Ibid*., p. 15.

43 *Ibid*., pp. 17/18.

44 Basel Committee (Basel Committee on Banking Supervision), *Assessment of the Macroeconomic Impact of Higher Loss Absorbency for Global Systemically Important Banks*. Basel: Basel Committee, 10 October 2011, p. 21.

45 'The first Core Principle sets out the promotion of safety and soundness of banks and the banking system as the primary objective for banking supervision; However, Jurisdictions may assign other responsibilities to the banking supervisor [...], e.g. responsibilities for financial inclusion'. *Ibid*., p. 5. http://www.bis.org/publ/bcbs213.htm.

46 Basel Committee, *Treatment of Trade Finance Under the Basel Capital Framework*. Basel: Basel Committee, October 2011, http://www.bis.org/publ/bcbs205.pdf.

47 See the GPFI website at http://www.gpfi.org/.

48 See the conference report at http://www.gpfi.org: Participants included senior policy makers, regulators and supervisors from both G-20 and non-G-20 countries as well as representatives from five SSBs: the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the Financial Action Task Force, the International Association of Deposit Insurers, and the International Association of Insurance Supervisors. Under the theme 'Promoting Financial Inclusion Through Proportionate Standards and Guidance', participants discussed the progress and challenges faced by the global standard-setting bodies (SSBs) in engaging on financial inclusion. The Conference was also an opportunity to confirm consensus

on high level messages on standard setting and financial inclusion to be proposed for inclusion in the communiqué of the G-20 finance ministers and central bank governors' meeting in early November 2012.

49 http://www.financialstabilityboard.org/press/pr_120203.pdf.

50 http://www.financialstabilityboard.org/press/pr_120925.pdf.

51 MFW4A (Making Finance Work for Africa), Workshop on 'The African Approach to the Implementation of International Standards for Banking Supervision and the Basel Capital Framework', Kampala, Uganda, April 2011.

52 *Ibid*.

53 http://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/african-financial-markets-initiative-afmi/.

54 AFMI (African Financial Markets Initiative), Pan-African Stakeholder Workshop on Local Currency Bond Market Development, Tunis, 22–24 October 2012.

55 G-20 Mexico 2012, Policy Commitments by G20 Members, Los Cabos, Mexico, 19 June 2012, http://G-20mexico.org/images/stories/docs/G-20/conclu/Policy_Commitments_By_G-20_Members.pdf.

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57 G-20 Mexico 2012, *G-20 Leaders Declaration*, Los Cabos, Mexico, 19 June 2012.

58 Kasekende L, Bagyenda J & M Brownbridge, 'Basel III and the global reform of financial regulation: How should Africa respond? A bank regulator's perspective'. Mimeo, p. 26.

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