

## **Conference on**

### ***Enhancing Regional Financial Cooperation in Southern Africa***

### ***Against the Backdrop of the Global Financial Crisis***

## **Conference Room A**

**South African Reserve Bank, Church Street, Pretoria, on May 26 & 27, 2009**

### **Background**

Financial markets have undergone tremendous transformation within the last decade in a rapidly changing global environment involving widespread liberalisation of capital flows, the emergence of new market participants and the creation of highly sophisticated instruments. New innovative and complex financial instruments which imply the relocation of financial risks by banks from their balance sheets like asset-backed securities and credit risk transfer products have increasingly created vulnerable segments of domestic financial markets and pose serious challenges to the risk management of both national regulators and international financial institutions. The lack of collective mechanism to cope with these vulnerabilities in particular, and of global surveillance in general, has increasingly provoked the call for reforms.

With the Regional Indicative Strategic Development Plan (RISDP) and a memorandum of understanding on macroeconomic convergence between SADC Member States, an ambitious programme for regional integration towards a Free Trade Area, a customs union (2010), a common market (2015) and finally a monetary union (2016) and the introduction of a common currency (2018) has been initiated in Southern Africa. With the Protocol on Finance and Investment (August 2006) regional coordination of the financial sector with regard to banking institutions, non-banking financial institutions, stock exchanges and development finance institutions is also envisaged. Given the economic dominance in the region and the advanced financial market development, South Africa is a key player in both maintaining financial stability in the region and accelerating financial and monetary integration.

## **Conference Concept**

Against this backdrop, this conference focuses on financial sector issues with particular reference to regional financial integration and enhanced financial cooperation in Southern Africa. The conference seeks to bring together central bankers, policy makers and financial practitioners from Southern Africa with selected representatives from German organizations and international institutions for a dialogue on four related sets of questions. First, which financial institutions and market infrastructure are required to broaden and deepen regional financial markets? Second, is there a catalytic role for development banks and public entities in introducing innovative debt instruments (local currency bonds, GDP-indexed bonds) to support the development of regional financial markets and at the same time to provide adequate finance for infrastructure? Third, how to shape the appropriate regulatory framework for regional financial markets which should conform to international best practice *and* be tailored according to the specific needs of SADC Member States? And fourth, what are the most urgent policy responses to tackle pro-cyclicality and systemic crisis given the rising regional interdependence and increasing financial globalisation?

To address these questions, the conference will be organised around four substantive sessions as below.

### **Session 1: Integration of Regional Debt and Equity Markets: Obstacles and Impediments**

SADC countries display different levels of financial market development both across countries and across diverse segments of financial markets. South Africa has a highly developed financial market making it a leader among emerging markets; in terms of turnover recorded for bond trades the South African bond market is the fourth largest exchange in the world; the Johannesburg Stock Exchange in terms of market capitalization is the biggest in Africa and belongs to the top ten of stock exchanges in the world. At the same time financial markets of some other SADC countries are less advanced, still plagued with low liquidity and depth with trading restricted to small groups of issuers and investors. In addition, the banking sector dominates the financial systems in all Southern African countries, limiting risk diversification and the shock absorbing potential. Against this backdrop, the session will try to address the following questions:

- Which domestic and region-wide constraints hamper regional cross-border financial flows?
- What is an adequate strategy to develop regional bond markets given the lack of a complete yield curve and limited maturities?

- What policy measures could tackle market barriers restricting the access of non-financial corporations to the regional financial markets?
- Is there a need for SADC specific market institutions (e.g. regional rating agency)?

## **Session 2: Developing Regional Debt and Equity Markets: Local Currency Finance For Infrastructure**

SADC embarked on a macroeconomic convergence programme with one target being towards a GDP growth rate of 7 per cent per annum, reflecting an ambition to reach the Millennium Development Goals (MDGs) in parallel with faster integration. Regional bond markets are expected to offer the opportunity to mobilize finance in local currency for domestic and cross-border infrastructure facilities in particular in energy, transport, water and communication. However, many Southern African countries suffer from original sin, leaving them with the options to raise either local currency debt with high capital costs or to accumulate more foreign currency debt which exposes them to currency mismatch. On the other hand, infrastructure requires long-term finance; but maturity of local currency debt instruments is often low. Thus, only few SADC countries have debt and equity markets which are able to provide the finance for infrastructure projects in a consistent manner with the amount required and the necessary maturity. In this context, the session will address in particular the following questions:

- What are the obstacles to expand local currency finance for public infrastructure?
- What policy measures could help to increase maturities?
- What implications does the increasing use of innovative debt instruments have for risk-management systems of public entities?
- How could the access of municipalities to local and regional capital markets be facilitated?

## **Session 3: Regional Financial Cooperation: Addressing Regulatory Gaps**

On a regional level the implementation of common rules, regulations and standards are expected to facilitate cross-border flows and stabilize regional financial markets. In particular the establishment of a regional payment system could accelerate the integration of financial markets and minimize risks and cost in cross-country activities, e.g. transfers of remittances and in general in retail payments. Accordingly, a regional settlement system would facilitate trading and access to different markets in Southern Africa both for local and international investors. However, increasing financial integration entails, sometimes as an unintended consequence, capital account liberalization. While central banks, bond and stock exchanges

in general appreciate increased cross-border flows which expand the range of investment opportunities to investors, they are not so keen to see investors trading outside. And although they welcome enhanced financial cooperation, hesitations with regard to sovereignty and loss of regulation control prevail. This session would attempt to address the following key questions:

- Which would be the next steps in harmonising regulatory policies?
- What would be an optimal sequencing of enhanced regional financial integration and capital account liberalization given the diverse development of financial markets in the region?
- Which supervisory cooperation on a cross-section basis could be intensified?
- Which regional institutional capacities need to be developed further?

#### **Session 4: International Financial Market Regulation: The Unfinished Agenda**

A stable macroeconomic environment, sound financial institutions and prudent regulation are pre-requisites for broadening and deepening local and regional financial markets. Regulations should conform with international best practice and key benchmarks, e.g. accounting standards and capital adequacy ratios. However, with the current financial melt-down in mature countries these perceived best practices are questioned, in particular the high pro-cyclicality which they entail. For other topics, e.g. credit agencies or hedge funds, no international best practice is established yet. On the other hand given the multiple international initiatives there is a chance to come to major changes and unprecedented collective action in the near future. In particular the G20 process and the UN Financial Reform Commission in which both South Africa and Germany play a major role, put far-reaching proposals on the agenda and call for closer international cooperation in terms of crisis resolution, macroeconomic policies and reform of international financial institutions. In this context, the following questions appear to be of particular relevance:

- Which are the most urgent policy measures to restore confidence in the financial system?
- How could international cooperation between supervisory authorities and regulators be improved?
- Should the envisaged international cooperation also cover exchange rate policy?

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**PROGRAMME**

**26 May 2009 (Tuesday)**

08:30-09:00	Registration
09:00-09:30	<b>Inaugural Session</b>
09:00-09:10	Words of welcome by <b>Peter Draper</b> , Project Head, Development through Trade, SAIIA
09:10-09:20	Special address by <b>Ingo Herbert</b> , Minister Counsellor, Deputy Head of Mission, Embassy of the Federal Republic of Germany
09:20-09:30	Overview of the conference by <b>Thilo Thormeyer</b> , Director InWEnt SADC Regional Office
09:30-10:15	Key note address by <b>André Bezuidenhout</b> , Head Financial Stability Department, South African Reserve Bank
10:15-13:00	<b>Session 1: Integration of Regional Debt and Equity Markets: Obstacles and Impediments</b>
Chair:	<b>Hiran Mendis</b> , CEO Botswana Stock Exchange
10:15-10:35	<b>Yogandan Sharma Mahabirsingh</b> , Chairman Interconnectivity Project Steering Committee, Committee of SADC Stock Exchanges (CoSSE)
10:35-10:55	<b>Maureen Dlamini</b> , Executive Head Africa, Africa Board, JSE Limited
10:55-11:15	<b>Garth Greubel</b> , CEO Bond Exchange of South Africa
11:15-11:45	Tea /coffee break
11:45-13:00	Discussion, question and answer
13:00-14:00	Lunch break

14:00-17:00	<b>Session 2: Developing Regional Capital Markets: Local Currency Finance For Infrastructure</b>
Chair:	<b>Peter Wolff</b> , Head, World Economy and Development Financing, German Development Institute (DIE)
14:00-14:20	<b>Lungisa Fuzile</b> , Chief Director, Asset and Liability Management Division, National Treasury of South Africa
14:20-14:40	<b>Sam Muradzikwa</b> , Chief Economist, International Division, Development Bank of Southern Africa
14:40-15:00	<b>Stefan Nallétamby</b> , Partnership Coordinator Making Finance Work for Africa, African Development Bank
15:00-15:30	Tea / coffee break
15:30-17:00	Discussion, question and answer
<b>19:00</b>	<b>Conference Dinner</b>

### **27 May 2009 (Wednesday)**

09:30-12:30	<b>Session 3: Regional Financial Cooperation: Addressing Regulatory Gaps</b>
Chair:	<b>Martina Metzger</b> , Director Berlin Institute for Financial Market Research/ Consultant to InWEnt
09:30-09:50	<b>Keith Jefferies</b> , Managing Director Econsult , former Deputy Governor Bank of Botswana, Author of Mapping Study on Bond Market Development in SADC and COMESA
09:50-10:10	<b>Francis Selialia</b> , Head, Macroprudential Analysis Division, Financial Stability Department, South African Reserve Bank
10:10-10:30	<b>Jochen Robert Elsen</b> , Senior Advisor International Policy, Federal Financial Supervisory Authority
10:30-10:50	<b>Ulrich Volz</b> , Senior Economist, German Development Institute (DIE)
10:50-11:15	Tea /coffee break
11:15-12:30	Discussion, question and answer

12:30-14:00	Lunch break
14:00-17:00	<b>Session 4: International Financial Market Regulation: The Unfinished Agenda</b>
Chair:	<b>Michael Sachs</b> , Chief Director, International Finance and Development, National Treasury of South Africa
14:00-14:20	<b>Nkosana Mashiya</b> , Chief Director Financial Sector Policy, National Treasury of South Africa, Member of G20 Working Group 3 Reforming the IMF
14:20-14:40	<b>Klaus-Dieter Geisler</b> , Deputy Director, International Financial System Division, Deutsche Bundesbank
14:30-15:00	<b>Jörg Mayer</b> , Senior Economic Affairs Officer, Division of Globalisation and Development Strategies, Member of Taskforce on Systemic Issues and Economic Cooperation, UNCTAD
15:00-16:00	Discussion, question and answer
16:00-16:30	Tea / coffee break
16:30-16:45	Summary of discussions and main points to follow up by <b>Peter Draper</b> , Project Head, Development through Trade, SAIIA
16:45	End of conference with a vote of thanks by <b>Ina Dettmann-Busch</b> , Senior Project Manager, Division Economic Policy / Good Governance, InWEnt

For further information on InWEnt Capacity Building International, the DIE (German Development Institute), and the South African Institute for International Affairs, please refer to: <http://www.inwent.org>, [www.die-gdi.de/](http://www.die-gdi.de/), and [www.saiia.org.za](http://www.saiia.org.za).