Towards Regional Financial Integration in the COMESA Region: The Roadmap for Achieving Regional Financial Integration In the COMESA Region

PRESENTATION PREPARED BY IBRAHIM A. ZEIDY
DIRECTOR, COMESA MONETARY INSTITUTE
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1. Introduction

- RFI refers to a process, market driven or institutionalized, that broaden and deepen financial links within the region
- It involves eliminating barriers, to cross border investments.
- RFI takes the form of harmonizing national policies, laws, and institutions
- Overtime, cohesion of regulatory frameworks, operational structures and information systems and convergence of prices and risk assessment mean that national financial markets within the region effectively function as one.
- RFIs have a certain minimum set of prerequisites , namely currency convertibility, payment system integration to reduce settlement delays, information and communication infrastructure and removal of legal and regulatory barriers.
- Typically enhancing trade integration requires a high degree of financial integration , in order to boost growth, employment, financial inclusion and poverty reduction
- The objective of this presentation is to provide requirements for promoting RFI in the COMESA Region and the Roadmap for Regional Financial Integration for COMESA.

Benefits of RFI

- Quantifying and valuing the benefits specific to RFI can be extremely difficult
- However, several existing RFI initiatives around the world, provide direct evidence that such integration can help unleash certain direct and indirect benefits.

Direct Benefits

- Lower user costs for individuals, businesses etc,
- Lower transaction costs for financial firms who are participating in RFI
- Improve cross border access and reach to all market participants to financial services.
- Improve risk management , greater risk reduction, and stronger financial stability resulting from wide spread utilization of consistent and up to date international policy, legal and technical standards as well as best practice risk management design and procedures
- Spur the development of the financial sector

----Benefits of RFI

Indirect Benefits

- Expansion of trade and investment flows among market participants in the region to enable deeper regional economic and financial integration;
- Attraction of external investment capital to the region, which deepens and broadens regional financial and capital markets;
- Impose greater discipline on governments, banks, and non-bank institutions and make the economy more resilient to shocks

Barriers, Risks and Other Challenges for the Success of RFIs

- Barriers relate to differences or incompatibilities across the various countries that want to participate in the common regional arrangements.
- The barriers will need to be addressed as prerequisite of RFI. The key barriers include the following:
- Differences in national legal, regulatory and oversight regimes among member countries. This results in competitive distortions and encourage regulatory arbitrage;
- Inadequate harmonisation of national financial integration operating schemes, rules, and technical standards etc.
- The need to have a clear grasp of the potential contagion and spill over risks brought on by integrated financial markets.

Some Experiences of Financial Integration in Africa

- Pan-African Banks(PABS) are the most defining features of Regional Financial Integration over the past decade in Africa
- There have been a rapid expansion of PABs in recent years, with seven major PABs having presence in at least ten African countries. Three of these are head quartered in Morocco, two in Togo.
- Banks from Kenya, Nigeria, and South Africa have a regional presence in a number of African countries. These banks have been active in syndicated loans, specially in the financing of infrastructure.
- The increase in PABs give rise to greater economies of scales. In addition they have been filling the recent gap left by the European banks and are becoming the lead arranger of syndicated loans.
- Apart from the success of PABs, the Agence UMOA-Titres (AUT) has played an interesting role, in developing the regional sovereign bond market in the WAEMU region. It provided governments in the region with a wider market for their securities
- In WAEMU , since 1998, the Bourse Regionale des Valeurs Mobilieres has served as a regional exchange for trade on stocks and bonds.

Some Lessons From the European Experience

- EU provides most advanced example of RFI. However, given the stark difference between European and African economies , great care must be taken in trying to apply lessons from EU to Africa
- The following are some of the lessons that could be drawn from successful experience of EU.
- Achieving RFI requires strong political commitment and need to be supported by sound institutional legislative frameworks, which include among others the following:
- The minimum regulatory requirement for entry;
- Permissible banking activities which are consistent with current stage of member countries development and growth objectives;
- Regional arrangements for effective cross border banking supervision and regulation ;
- To have a regional approach to ensure financial stability
- The need for regional macro-financial surveillance mechanism.

Roadmap for Achieving Regional Financial Integration in COMESA

According to AfDB publication on Financial Sector Integration in three regions of Africa including COMESA, Roadmap for RFI have the following five stages:

a) **Stage I- Preparatory stage**: In this stage countries need to fulfil certain preconditions which include, macroeconomic stability and financial system soundness; modernizing domestic financial system, especially the payment system. At the same time there is need for expansion of trade through Free Trade Area arrangement.

b) **Stage II- Harmonisation Stage:** At this stage, modernization of the financial sector in individual countries would be further extended by the introduction of and compliance with various international standards and practices in the financial sector to ensure regional harmonization. Intra regional exchange controls would need to be abolished. Member countries, which already have stock exchange need to strengthen them. Those which does not have need to introduce them. Free Trade Area Arrangement should be effective to enable private financial sector to expand their activities cross border.

----Roadmap for Achieving Regional Financial Integration in COMESA

Stage III- Cooperation Stage: *The achievement of harmonization in areas of financial institutions rules and regulations would lay the foundation for this stage of integration. At this stage implementing agreed convergence criteria need to be closely monitored and evaluated by a regional Convergence Council. Member countries would need to complete the full harmonization process relating to regulatory, supervisory, and accounting procedures which began under stage II, and would cooperate in cross border regulations and supervision activities. Arrangements would also be made to link domestic securities markets. Building on the effectiveness of FTA, countries would enter into an agreement to establish a customs union. Legal systems would be reformed to enable cross-border enforceability of contracts. This stage would see enhanced cooperation in the areas of monetary and exchange rates policies.*

Stage IV- Integration Stage*: This stage would be characterized by an operational customs union, effective integration of various financial institutions and the exercise of regulatory and supervisory function, including single bank licensing, a single regulatory agency, increased cross border presence of financial institutions originating in member countries. It also includes establishment of regional bond markets, and the possibility of a unified regional stock exchange*

Stage V- Unification/ Monetary Union Stage: This stage would see the introduction of a common currency and a common central bank on the financial side, and the possibility of launching of an Economic Community on the real side. The operationalization of this stage, especially entails the establishment of concrete institutional arrangements to facilitate the transition from national currencies, exchange rates, and central banks to the unified monetary system. Achievement of this stage is not easy –it demands strong political will at the highest level of commitment.

Thank you very much for your attention