Report of the Proceedings of the 2016 MEFMI Governors' Forum

THEME: Implications of the Inclusion of the Chinese Yuan in the Special Drawing Rights Basket of Currencies

20 June 2016, Bank of Tanzania
Dar es Salaam, Tanzania

MEFMI

Macroeconomic and Financial Management
Institute of Eastern and Southern Africa

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Participants at the MEFMI Region Central Banks Governors' Forum
20 June 2016, Bank of Tanzania, Dar es Salaam

ACRONYMS

BIS	Bank for International Settlements
BOT	Bank of Tanzania
CBL	Central Bank of Lesotho
CCBG	Committee for Central Bank Governors
CID	Center for International Development
EAIF	Emerging Africa Infrastructure Fund
UNECA	United NationsEconomic Commission for Africa
FDI	Foreign Direct Investment
FOCAC	Forum for China-Africa Cooperation
GDP	Gross Domestic Product
IMF	International Monetary Fund
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
ODA	Official Development Assistance
PoBC	Peoples' Bank of China
RMB	Renminbi
SADC	Southern Africa Development Community
SDGs	Sustainable Development Goals
SDR	Special Drawing Rights
SEZ	Special Economic Zones
SWF	Sovereign Wealth Fund
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UNCTAD	United Nations Conference on Trade and Development

FOREWORD

Dr. Caleb Fundanga
Executive Director

The potential for Africa to become the fastest growing region in the world over the next decade has become a subject of immense discussions and research among scholars and analysts, with particular attention given to the role of China and India in shaping economic trends and progress in the continent. Recent economic literature has become fixated with the emergence of these two (2) countries as new growth centres. While seeking to sustain their robust economic trajectories, India and China have revitalised centuries-old maritime engagement with Africa. This has created, in Africa, a common geographical space of tremendous economic prospect and the region is increasingly seen as a continent of destiny in the 21st century.

The question for Africa, and the MEFMI region in particular, is how to position themselves to unlock the existing potential and take advantage of the emerging opportunities. Without appropriate policy responses, the positive spill-over effects arising from the economic renaissance of the Indian Ocean basin may elude the region. MEFMI and its partners are fully aware of this risk, hence the need to take a proactive approach in creating awareness on emerging opportunities and challenges arising from the ever changing global economic environment.

The Governors' Forum is one of the Executive Fora series on MEFMI's annual calendar of events meant to assist in developing and sustaining a crop of more informed policy makers in the region. After a long break, the Forum was revived in 2015, necessitated by the compelling need to keep central bank Governors abreast of emerging challenges and opportunities, and to share experiences and views from distinguished experts on how to respond to them. As part of this initiative, MEFMI held the 2016 Governors' Forum on 20 June 2016 with the theme: ***"Implications of the IMF Adoption of Chinese Yuan as Part of the Special Drawing Rights Basket of Currencies".*** The outcomes of the Forum, are presented in this report.

The Forum was hosted by the Bank of Tanzania (BOT). The event provided an opportunity for central bank Governors to deliberate on possible policy responses to the imminent inclusion of the Chinese Renminbi (RMB) to the Special Drawing Rights (SDR) basket of currencies with effect from 1 October 2016. The roundtable also deliberated on how the region could use its strategic geographic location to unlock potential benefits arising from the economic renaissance of the Indian Ocean Basin, anchored on the emergence of India and China as new growth centres of the world. The discussions were very timely for the central banking community as custodians of foreign exchange reserves and facilitators of international investment and trade settlements.

For MEFMI, the Forum provided a platform to strategise on how to ensure that the MEFMI region is well prepared for the RMB. This is one of the many strategies to be employed by the Institute in the endeavour to expand coverage of existing activities to include and create appropriate platforms for sharing knowledge on existing RMB-settlement arrangements and associated financial products and services that central banks could consider in managing official reserves.

MEFMI is grateful to Investec Investment Institute for the financial and technical support for the event. This is the second year that Investec has partnered with MEFMI for this event and we trust that they will support the Institute in the years to come.

It is our hope that the outcomes of the discussions, as captured in this report, will help the Institute to refine its approach in line with recommendations from plenary,

Caleb M. Fundanga
MEFMI Executive Director

EXECUTIVE SUMMARY

The past three decades have seen the emergence of China and India as new growth centres that have assumed a significant role in shaping trends of global economic progress. While seeking to sustain the pace of economic progress, China and India have revitalised centuries-old maritime engagement with Africa. This is reflected by the fact that the two (2) countries' bilateral trade has increased significantly in the last decade, while investment flows and development cooperation have increasingly emerged as vital elements for this engagement. The scale and pace of engagement have been unprecedented, presenting to Africa, a significant and rare opportunity for growth, job creation and poverty reduction.

One consequence of these developments is the likelihood that the Chinese RMB and Indian Rupee will become what may be termed "common currencies" in Africa. Already, the inclusion of RMB in the SDR basket of currencies is an important symbol of its ascendancy in global finance, having received IMF's approval as an official reserve currency. With China as the largest trading partner of over 130 countries, this recognition is likely to see the RMB playing a more prominent role in global finance.

Within the evolving geo-economic context, the main challenge for African countries is how to benefit from these new patterns of international commerce. With China and India poised to take the lead, Africa cannot afford to be left behind, especially as growth-enhancing opportunities for trade and investment with the West continue to be as limited as they have been. MEFMI cannot afford to watch the region lagging behind and not genuinely participate in, and most importantly, to benefit from the new patterns of international commerce.

The purpose of this report is not only to provide a summary of the Forum, but also highlight some key considerations that will inform the design of MEFMI's future capacity building activities.

A number of key outcomes emerged from the discussions and these include:

a) Awareness on RMB-denominated financial products and settlement arrangements

There was consensus among delegates that broad acceptance and adoption of RMB as settlement and reserve currency is generally constrained by lack of awareness on available RMB-denominated financial products and services, and the associated settlement arrangements. With a reasonable amount of awareness for central banks, governments and corporates, the demand for RMB will likely pickup, in line with its status as currency of the region's leading trading partner. In this regard, delegates requested MEFMI to consider creating appropriate platforms for raising awareness on:

i) Existing RMB-denominated financial products and services that central banks could consider to inform their reserves management decision-making process; and

ii) Necessary RMB settlement infrastructure and existing providers of settlement arrangements

MEFMI expressed readiness to spearhead the RMB awareness drive in the region, through organising retreats for heads of reserves and payment systems, where providers of RMB settlement arrangements and RMB-denominated financial products will be invited to share their experiences and knowledge. The BIS offered to collaborate with MEFMI in this regard. MEFMI also assured delegates that the Institute will ensure that as much information required by reserves managers in the region is made available in a more organised and accessible format, to inform the decision-making process.

Similarly, central bank governors committed to sensitise governments and private sector entities in their countries to negotiate deals with their Chinese counterparties in RMB. The advantage of using the RMB for both counterparties include improvement in pricing competitiveness through the elimination of currency exchange costs and risks involving a third currency; and shortened settlement cycle which allows more efficient business processes with less operational risk.

b) Managing Reserves in an evolving global financial market landscape

The 2007/8 global financial crisis posed a great challenge to official foreign exchange reserve managers. Most AAA-rated government bonds currently yield negative return, making it more difficult for central banks to preserve capital. Since China is the biggest trading and development partner for most countries in the MEFMI region, and considering that yields on AAA-rated government bonds are at their historical low, the RMB presents an opportunity for countries to further diversify their portfolios, as well maximise yields on official reserves. Central banks could also consider options and opportunities availed by the BIS to invest in RMB-denominated assets. Perhaps the region could also look at the RMB not only in the context of a reserve currency but also as a settlement currency for different transactions that the region conducts with China.

Central banks were also urged to consider reviewing their strategic reserve asset allocation policies (traditionally limited to AAA-rated assets) with a view to make provisions that allow countries to benefit from opportunities availed by RMB-denominated financial assets. Higher yields, along with appreciation expectations, makes the RMB even more attractive. However, embracing RMB-denominated investment products entails exposure to new types of risks and procedures, hence the need for MEFMI to build new and enhance existing human and institutional capacities. MEFMI was challenged to take a lead in transferring skills to member institutions' technical staff in specialised areas such as asset management, including systems and infrastructure needed for trading RMB-denominated financial products and settlement of trade transactions.

c) Renaissance of the Indian Ocean Basin and Implications for the region

Several studies, including by the Atlas of Economic Complexity by Harvard University's Center for International Development (CID, 2015), identified countries surrounding the Indian Ocean Basin as having the brightest prospects for sustaining robust economic growth rates in the next decade to 2024. Of the 10 countries at the top of the ranking on potential GDP growth, 8 are African, dominated by MEFMI member states, namely: Uganda (2), Kenya (3), Tanzania (4), Malawi (9) and Zambia (10)[1]. Anchoring and leading this prediction is the expected transmigration of manufacturing industries from increasingly high-cost China into lower cost Africa centred on eastern and southern African countries. The rapidly evolving global economy and emergence of new growth poles is unlocking major opportunities for industrialization in the region.

The question for African countries, particularly those in the MEFMI region, is how to position themselves to take advantage of the emerging opportunities arising from economic renaissance of the Indian Ocean basin. Without quick tailored-policy responses, there is risk that the region could be left behind. In this regard, several recommendations were made:

- African tourism still has vast untapped potential. When Africa fully exploits this potential, it could become the world's

[1]The figures in parenthesis are rankings on a scale of 1 to 10.

fastest growing market in the coming decades, with new source markets, particularly China and India, expected to underpin this growth. To fully realise this potential, countries must collectively focus on four key areas: expand investment in tourism infrastructure; improve connectivity and air liberalisation (open skies policy); common visas across multiple countries; and investment in human capital to build the capacity and skill set of the workforce;

- Agro-processing industry was mentioned as having a huge potential for driving Africa's structural transformation agenda. Africa hosts a huge spectrum of suitable agro-climatic conditions that allow a broad range of diverse agricultural production. In addition, the region is endowed with the largest stock of agriculturally suitable, yet unused land and its labour has scarcely been fully employed. Yet, Africa's agro-processing industry is tiny relative to the rest of the world, and its comparative advantage has not been exploited enough to expand export presence in the Chinese market. While this reflects structural inefficiencies and logistical constraints; however, China's relatively high tariffs on agricultural imports (15.1 percent in 2014, down from 18.1 percent in 2002) may have also contributed. Hence, central bank governors were challenged to proffer advice that improve terms of engagement between governments and China and other foreign investors. Agro-processing can play a critical role in jump-starting economic transformation and bring much-needed jobs and incomes;

- China has lately begun to experience rising wages as it moves up the ladder of economic development, motivating its firms to relocate some factories offshore, especially Africa, where low-wage labour still exists. According to Obiageli Ezekwesili, a vice-president of the World Bank, more than 80 million Chinese lower-end manufacturing job opportunities will move offshore over the medium to long term owing to wage pressures.[2] As mature, labour-intensive industries look to move abroad to relatively lower-cost regions, opportunities in these industries should be captured by competitive and forward-looking countries that are positioning themselves to attract such investment. Global demographic trends provide an opportunity for SSA countries to benefit from this transmigration, as the population of SSA countries reaching working age (15–64) is expected to exceed that of the rest of the world combined by 2035. If SSA governments can reduce infrastructure bottlenecks, improve the business climate, and diversify their economies and increase their integration into global value chains over the coming decades, they will have a historic opportunity to decisively boost growth and reduce poverty on the continent. A key question is whether Africa is prepared to seize the opportunity. While confirming the transmigration of manufacturing industries from China to Africa, experts expressed fear that jobs could easily be crowded out, as countless manufacturers in China are planning to transform their production processes using robotics and automation. In addition, India, as well as other non-African emerging economies, are equally interested in attracting jobs from China, creating strong competition for Africa;

- Africa should promote intra-regional trade as this could play a significant role in accelerating economic growth and poverty reduction. Intra-regional trade will allow countries to maximise the potential from

[2]Manufacturing in Africa: An awakening giant, Economist, Feb. 8, 2014

both domestic and regional sources of growth even in the face of unstable global economic prospects;

- There is some degree of frustration in Africa as reforms introduced thus far have seemingly not brought the expected structural transformation to countries' economies. However, contrary to popular perceptions, Africa has done much better over the last decade and half than it ever did in the 1980s but this fact has not been communicated well. In this regard, central bank governors were urged to convey this message widely, and emphasize the need for governments to deepen reforms as the continent prepares itself for the future. If this message is not effectively communicated, frustrations arising from unappreciated accomplishments could easily reverse gains achieved from policy reforms implemented so far, as countries contemplate rolling back anti-competitive and efficiency-reducing regulations and practices;

- Another point raised was that while China has a declared strategy for Africa, Africa does not seem to have a peer strategy for its envisaged engagement with China. Hence, the continent seems to be a passive respondent to China's initiatives. It was noted that perhaps China's outsized dominance suggests that Africa is not yet making the most out of its rich range of trade and investment partnership with the emerging economic powerhouse. The recommendation was that a coherent policy position be developed towards China which will ensure that African interests become decisive factors in the championed win-win cooperation. For Africa to mount effective commercial engagement with China, a clearly delineated African strategic approach must be put in place, outlining how countries can collaborate and sharpen their competitive edge.

d) Fight against corruption in Africa

Proceeds of corruption are often laundered through formal financial sector channels, a sector within the supervisory purview of central banks. As corruption proceeds are often useless unless integrated into the financial network in a manner that does not raise suspicion, there are opportunities for synergy between anti-money laundering and anti-corruption agendas. Central Banks can play a vital role by ensuring the integrity of anti-money laundering systems to protect them from corruption. An effectively implemented anti-money laundering framework limits the channels through which corruption proceeds can be laundered, thus reducing incentives for corrupt activities.

1

Chapter one

Opening and Welcome Remarks

1. OPENING AND WELCOME REMARKS

1.1 REMARKS BY DR. FUNDANGA, EXECUTIVE DIRECTOR, MEFMI

Dr. Caleb M. Fundanga, MEFMI Executive Director welcomed the delegates to the 2016 MEFMI Central Bank Governors' Forum. He commended the Bank of Tanzania (BOT) for allowing the Institute to hold the Forum at the back of the Bank's 50th Anniversary celebrations and the Southern Africa Development Community's Committee for Central Bank Governors (SADC-CCBG) meeting. Reflecting on the successes and challenges the Bank faced leading up to the 50th Anniversary, Dr Fundanga said that MEFMI was honoured to be part of the Bank's celebrations.

Dr. Fundanga also expressed gratitude to the Investec Investment Institute for supporting the Forum for the second year running. He informed delegates that Investec's keen interest to support MEFMI's high level activities has strengthened the Institute's resolve to include the Governors' Forum in the annual calendar of events. After a long break, the Forum was revived in 2015, necessitated by the compelling need to keep Central Bank Governors abreast of emerging challenges and opportunities, and share experiences and views from distinguished experts on how to respond to them. The collaborative arrangement has enriched the Governors' Forum in many ways without financially burdening the Institute. He expressed hope that the two (2) institutions will continue with this partnership as they contemplate new and wider areas for future collaboration.

The Executive Director informed delegates that the MEFMI Central Banks Governors' Forum is one of the Executive Fora series on MEFMI's annual calendar of events aimed at developing and sustaining a crop of more informed policy makers in the region. He advised delegates that the format of the 2016 Forum was informed by comments made during the 2015 event, where delegates felt the need to stimulate discussions and prompt contributions by everyone.

Dr. Fundanga stated that the theme for the year: *"Implications of the IMF Adoption of Chinese Yuan as Part of the Special Drawing Rights Basket of Currencies",* was very timely for the central banking community as custodians of foreign exchange reserves and facilitators of international trade settlements. Hence, MEFMI invited two (2) distinguished experts to share their perspectives around the central theme and these were: Dr. Michael Power, Strategist at Investec Asset Management – who discussed the "Economic Renaissance of the Indian Ocean Economy"; and Dr. Peter Zöllner, Head of Banking Department, Bank of International Settlement (BIS), who led the discussion on "The Renminbi in the SDR basket and its future role in the international financial system".

In addition to the two (2) key speakers, Dr. Fundanga introduced Ms Hariet Robina Gimbo, Director of Programs at ActionAid Uganda, to raise awareness on corruption. He informed delegates that MEFMI is positioning itself as one of the key players contributing towards the fight against corruption in the region, through raising awareness on the debilitating and corrosive effects of the vice. This determination has seen the Institute mainstreaming anti-corruption in its capacity building activities, as well as partnering with anti-corruption agencies in the region to facilitate sharing of information and good practices. This is also part of MEFMI's effort to assist member states to realise their shared vision under the 2030 Agenda for sustainable development, to "substantially reduce corruption and bribery in all their forms". He noted that MEFMI believes platforms such as the Governors' Forum offer opportune moments to raise awareness on anti-corruption, as most corrupt proceeds are laundered through the formal banking channels. He said that MEFMI was aware of the strategic role that central banks could play in fighting corruption, by working hard to stop proceeds of such activities from finding their way into the formal banking systems.

Concluding his remarks, Dr. Fundanga quoted a phrase about China, dating back two (2) centuries ago, and attributed to Napoleon, which says: "*Here lies a sleeping giant, let him sleep, for when he wakes, he will shake up the world.*" This, according to Dr. Fundanga, was prescient, as China's influence in the global economy has been nothing short of extraordinary.

1.2 REMARKS BY DR. VICTORIA BARBARY, DIRECTOR, INVESTEC

In her remarks, Dr. Victoria Barbary acknowledged that Investec was privileged to have been accorded an opportunity to support the 2016 MEFMI region central banks Governors' Forum. She underscored the need for delegates to engage in stimulating dialogue, delving into major opportunities and challenges countries in the region continue to face as the world economy evolves and increasingly becomes interconnected into a multipolar system. She noted that the discussion around the inclusion of RMB in the SDR is one testimony of the great influence Asia has assumed on the global scale. She underscored the need to build strong institutions capable of effectively delivering their mandate in a globalised world and expected discussions lined-up for the day to explore ways in which this could be achieved.

She informed delegates that Investec believes that the long-standing relationship with MEFMI is one of the viable ways of facilitating dialogue and dissemination of information to experts in the region. She stated that Investec Institute was created in 2012 as a strategic insights and engagement platform of Investec Asset Management, providing a forum where the institution shares distinctive insights with clients and bring influential stakeholders together for frank exchange of ideas. Over the past four (4) years, this engagement proved to be useful as the world increasingly becomes inter-connected, complex and uncertain.

Dr. Barbary informed delegates that in the first six (6) months of 2016, Investec Institute had managed to bring together clients for a question and answer session with Governors of the Bank of England and the South African Reserve Bank. In November 2016, the Institute is scheduled to host business leaders to discuss imperatives of financing sustainable development for long-term growth.

She informed delegates that Investec will be celebrating 25 years of existence. She indicated that the Investec journey since 1991 has seen the company's business evolve, to become one of the first asset management firms to build a global franchise from emerging market origins, offering Africa-specific investment strategies. As Investec develops its global footprints, it nevertheless, maintained an active role in African markets. In May 2016, for instance, Investec was appointed to manage a US$670 million Emerging Africa Infrastructure Fund (EAIF), a public-private partnership funded by governments of UK, Netherlands, Sweden and Switzerland, private sector banks and development finance partners. The Fund aims, among other objectives, to catalyse African infrastructure projects through providing long-term loans and mezzanine finance on commercial terms tailored to country needs. In this mandate, Investec will manage the entire process for EAIF, from soliciting project proposals, evaluating loan applications, carrying out due diligence and managing the administration of transactions. It will also market the Fund internationally and monitor the loan portfolio.

Dr. Barbary commended MEFMI for bringing together an esteemed team of central bank

governors, and the BOT for hosting the Forum. She informed delegates that Investec was proud to be associated with the Forum and the MEFMI brand.

1.3 OFFICIAL OPENING: PROF. BENNO NDULU, GOVERNOR, BANK OF TANZANIA

The Forum was officially opened by Prof. Benno Ndulu, Governor of BOT. He commended MEFMI for choosing Dar es Salaam to be the venue for the event, as it gave additional meaning to BOT's 50th Anniversary celebrations. He welcomed guests and thanked them for finding time to attend the Forum.

Prof. Ndulu commended MEFMI for the resolve to reintroduce the Governors' Forum after a long break. He assured the Secretariat that central bank Governors appreciate the event as it provides a platform for raising awareness and reaching a common understanding on emerging economic issues as the global economic environment evolves.

Prof. Ndulu commended MEFMI's efforts to raise awareness on emerging opportunities and risks ahead of time, as this allows policymakers to take necessary measures to appropriately respond to them. He noted that Governors have found the Fora discussions to be forward-looking and practical as they focus on policies and strategies needed to confront emerging issues. In this regard, he proposed that invitations for similar events in future be extended to other central banks Governors outside the MEFMI region to allow for synergy and cross pollination of ideas.

Turning to the theme of the Forum, Prof. Ndulu advised guests that the context for much of the day's deliberations would be based on the decisions made by the IMF Board on 30 November 2015 to include the Chinese Yuan (Renminbi) into the SDR basket. The decision reflects a major shift in the global economy, and is a recognition of China's progress over the last few decades in moving towards a more open and market-based economy. Prof. Ndulu noted that for Africa, the decision was only a reminder that the region should start giving the RMB due consideration as both reserve, investment and settlement currency, given China's deepening engagement with the continent.

Prof. Ndulu informed delegates that China's relations with Africa has grown considerably over the past decade, politically and economically through increased bilateral trade flows, investment projects and development assistance. The Forum for China-Africa Cooperation (FOCAC), established in 2000 and culminated in the release of China's African Policy Paper in 2006, reflects China's level of commitment in engaging Africa at all levels. It is against this background that he commended MEFMI for choosing a relevant theme for the Forum. He said that the Forum was an opportunity for the central bank Governors to discuss strategies on how to manage exchange rates and reallocate reserves to match more closely the currencies that make up the SDR basket.

Prof. Ndulu noted that greater RMB usage in bilateral transactions will provide further impetus for trade and investment links between China and the region. As the process of RMB internationalization progresses, the rapidly expanding offshore RMB market and greater access to the onshore Chinese market will also provide opportunities for central banks to diversify and enhance their reserve portfolio earnings.

2 Chapter two

Forum Presentations and Discussions

2. FORUM PRESENTATIONS AND DISCUSSIONS

This section of the report is on the proceedings and discussions during the following sessions:

2.1 SESSION 1: THE FIGHT AGAINST CORRUPTION IN AFRICA

Presenter: Ms. Harriet Robinah Gimbo, Director Programs, ActionAid, Uganda

The first presentation of the Forum gave participants an opportunity to receive an update about the fight against corruption in Africa. The presentation, titled: *Winning Some Battles but Losing the War: The Fight against Corruption in Africa,* was delivered by Ms Harriet Robinah Gimbo, Director of Programs, ActionAid, Uganda. The decision to introduce this session was based on MEFMI's determination to contribute towards the fight against corruption, through raising awareness amongst key policymakers about the causes, consequences as well as highlighting some of the challenges and successes of anti-corruption efforts. This determination has seen MEFMI mainstreaming anti-corruption in all its capacity building activities through partnering with anti-corruption agencies to facilitate sharing of information and best practices. This is in line with MEFMI's effort to assist member states realise their shared commitment under the African Union (AU) Agenda 2030 for sustainable development to **"substantially reduce corruption and bribery in all their forms".**

2.1.1 Defining Corruption

In her introductory remarks, Ms Gimbo noted that there was still no universally accepted definition of corruption, partly due to the dynamic nature and complexity surrounding the vice. She pointed out that officials of the United Nations Convention Against Corruption experienced difficulties when they attempted to give a definition to corruption. The Convention resolved that they would not include a definition of corruption, as this is a polyvalent and changeable term that means different things to different people, and above all because it is an evolving concept.[3] She noted, however, that ambiguity in the definition does not in any way belittle the depth and magnitude of the socioeconomic devastation caused by corrupt acts and practices.

Despite lack of a universally accepted definition, Ms Gimbo noted that corruption is commonly understood to mean abuse of authority for private benefit, or simply, the use of official position, rank or status by an office bearer for personal benefit. However, she noted two (2) misconceptions could arise from using this definition. First, it is too inward looking and narrow as it focuses on the idea that someone must be in public office to be corrupt. This does not present a balanced view as it considers the problem from the receiving or demand side of the transaction. The consequence of using this definition is that anti-corruption campaigns will generally be directed towards demand-side corruption, although the supply-side is equally important. In reality, corrupt deals can easily be initiated from the supply side, with private sector actors, particularly big local business firms and large multinational corporations making proposals which public officials would often find hard to resist. Second, the definition gives an impression that corruption is an act that is driven by private interests, when in fact it could be oiling wider interests. In several cases, the abuse of public power is not necessarily for private benefit but also for the benefit of one's party, class, tribe, friends and family.

[3]Antonio Argandoña (2006): "The United Nations Convention Against Corruption and Its Impact On International Companies", IESE Business School – University of Navarra

2.1.2 Causes of Corruption in Africa

Ms Gimbo noted that identifying causes of corruption was the first step towards implementing preventive actions and deterring the phenomenon. While corruption is a worldwide phenomenon, she noted that the vice is more widespread in low income countries where governance institutions are weak and government policies encourage rent-seeking behaviour.

A key principle is that corruption occurs where rents exist, typically as a result of government regulation, and public officials having discretion in allocating them. Excessive government intervention and discretion in economic activity, including excessive regulation of private entities and adoption of preferential schemes offer tempting opportunities for officials to use whatever discretion they have to elicit bribes or kickbacks from those who would benefit from preferential treatment.

Individual conditions have also been identified as contributing to corrupt behaviour. Corruption is more likely to occur when employees, especially civil servants, are paid very low wages, as they will often resort to collecting bribes in order to feed their families. In addition, civil servants in Africa often have obligations to support their kinfolk, and this responsibility places significant pressure on them, sometimes driving them to engage in corrupt practices. They would exploit their public positions to generate benefits for themselves, their families, and their social cleavage.

Ms Gimbo described corruption as a phenomenon that is closely linked to poor governance. She noted that many African countries continue to operate within the realms of inadequate institutional structures and processes, which trigger and enable corruption to thrive. The lack of good governance commonly implies weak institutions, ineffective checks and balances, inadequate regulatory and legal frameworks, and poor enforcement mechanisms – which are all factors that incite corruption. Hence, an institutional perspective is critical for fighting corruption in Africa.

2.1.3 Myths about Corruption

Ms Gimbo mentioned the following four (4) myths about corruption that society has lived with, but must be dispelled to sustain the momentum of the anti-corruption crusade;

i. Corruption is part of people's lifestyle

Many people have argued that corruption is not just a political enterprise or patronage, but a social institution that internally reproduces in society. For instance, gift giving is a formal valued aspect of African tradition, serving as an informal symbol of gratitude for benevolence received or expected to be received. In such cases, gifts generate implicit obligations from receivers, who are expected to reciprocate by providing some form of favour. According to this narrative, it is impossible to eradicate corruption, and society should simply adapt to this reality. However, she described this view as self-defeating and deceptive, because demands for gratitude (linked to performance of official duties) have no bearing with traditional culture, and indeed constitute a major basis of corrupt practices of today.

ii. Everyone is corrupt

No one has the moral authority to question the other person because everyone is sucked into the vice of corruption. This view was described as defeatist because it arraigns everyone in the victim bucket and propagates a doctrine that creates a comfort zone for both the corrupt and those fighting it. She noted that this view is often raised as a diversionary tactic, a weapon by the corrupt or those benefiting from it.

iii.Corruption oils the development trajectory of economies

The justification for this rests on the *"grease the wheel"* hypothesis which argues that corruption facilitates trade that may not have otherwise happened, and promotes efficiency by allowing agents (private and public sectors) to circumvent cumbersome regulations. An inefficient establishment slows down the development trajectory, hence some "grease" money may act as a catalyst. This view, however, ignores the fact that

the greasing effect of corruption is only necessary as a second best option because of the distortions caused by ill-functioning institutions. Hence, in order to properly evaluate the effects of corruption, there is need to recognise its indigeneity with respect to institutions.

iv. Technocrats are the most corrupt

Most corruption activities are done by technocrats and that is where the focus should be, rather than politicising the issue. While there may be evidence to this assertion, Ms. Gimbo noted that it is only part of the story. The environment created for corruption to flourish is as critical as the act itself. In several cases, technocrats are only conduits and share the proceeds with their overseers. This myth tends to exonerate the leadership while shifting the blame to technocrats.

2.1.4 Consequences of Corruption

Ms Gimbo noted that corruption still remains one of the major impediments to Africa's quest for structural economic transformation. Corruption poses significant economic costs to countries, including the subversion of development plans and programmes, and the diversion of resources that could have been invested more efficiently. According to the African Governance Report II[4] of 2009, corruption remains the single most important challenge to the eradication of poverty and the creation of predictable and favourable investment climate. Corruption has also been found to lower productivity and net inflows of capital. A decline in the investment rate reduces the rate of growth, which has a negative effect on structural transformation.

The World Bank Group considers corruption a major impediment to ending extreme poverty by 2030 while the 2015 World Economic Forum estimates corruption to increase the cost of doing business by an average of up to 10 percent. In addition to the financial burden it imposes, corruption also leads to other inefficiencies by making potential investors engage in time-consuming and economically unproductive interactions with the public sector. Similarly, an IMF study has shown that investment in countries perceived as more corrupt is almost 5 percent lower than in those with low corruption perception levels. Where investors perceive corruption, they typically perceive greater risks of doing business because of unpredictable changes in policies and laws, more insecure property rights, more unreliable justice system, and ineffective bureaucracies.

She also noted that the social costs of corruption are deleterious as they deepen income inequality, poverty and erode moral values in society. The siphoning of public resources for private gain divert resources for anti-poverty programmes, while the demand for bribes makes public goods and services inaccessible to vulnerable people groups in society.

The 2013 World Economic Outlook shows that the cost of corruption equals more than 5 percent of global output, with over US$1 trillion paid in bribes each year. The 2002 African Union report estimates shows that at least 25 percent of Africa's output is lost to corruption each year. A joint 2015 African Union Commission/United Nations Economic Commission report shows that Africa could be losing more than US$50 billion annually through illicit financial flows, while more than 400 million of its population continue to live on less than US$1.25 a day. These figures clearly dwarf the annual value of all development assistance received by the continent. Its continued existence perpetuates Africa's dependence on other regions and undermines the capacity of governments to articulate and implement sustainable development strategies.

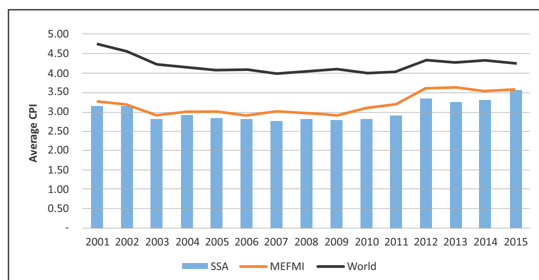
[4]African Governance Report II 2009 - United Nations Economic Commission for Africa

2.1.5 Corruption Perception for countries in the MEFMI Region

The definitional ambiguity surrounding corruption poses some challenges for measuring it. The most widely used approach has been to rank countries by how corrupt they are perceived to be, using various statistical proxies, such as the Corruption Perceptions Index (Transparency International) and the Worldwide Governance Indicators (the World Bank). While such ratings are, by definition, subjective, there are compelling reasons to be interested in the patterns they reveal. Whatever the objective characteristics of a country's political and social system, subjective evaluations of corruption do themselves appear to influence investment decisions, aid allocation, country risk analysis and consequently growth.

In several independent corruption perception surveys, a number of MEFMI member states are still perceived more corrupt than their counterparts in other regions. According to Transparency International Corruption Perception Indices published annually, only three (3) of the 14 MEFMI member states were assessed to achieved progress in reducing corruption perception between 2014 and 2015, while five (5) deteriorated. All hope is not lost though, as the overall corruption picture for the MEFMI region reflected by long-term trends in perception indices is rather one of progress, although modest. **Figure 1** below shows the average trend in corruption perception since 2001.

Figure 1: Recent trends in Corruption Perception



Source: Transparency International……………

The trend shows that progress is being made across the region as in the past decade as several of countries in the region have expressed their resolve to combat corruption. This will be done through adoption of global and continental initiatives such as the United Nations Convention against Corruption and the African Union Convention on Preventing and Combating Corruption. Anti-corruption agencies have been institutionalised while corporate governance is receiving attention in a number of countries, with the aim of pressing for some generally accepted code of good business ethics that meet international standards of good practice.

2.1.6 Fighting Corruption: Some Success Stories

Ms. Gimbo stated that some countries such as Rwanda, Botswana and Tanzania have been identified as having achieved remarkable progress in the fight against corruption over the last few years. For example, the government of Rwanda's firm and sustained commitment to fight corruption brought the country a reputation for having less corruption as compared to its peers in the region. Key to success in tackling corruption in Rwanda has been a will to address the issue from the political leadership. The leadership has been a strong advocate for zero tolerance approach to corruption, and this message was backed up by affirmative action when called upon to do so. To support this, the government put in place a number of specific measures and made a number of public pledges aimed at tackling corruption. Most notably, Rwanda has ratified the United Nations Convention against Corruption and the African Union Convention on Preventing and Combating Corruption. At the national level, the creation of an Ombudsman Office in 2004, which monitors the transparency and compliance of government sectors, has been a key enforcement tool. While other African countries have put similar mechanisms in place, they lack the power to act on what they find, or to investigate those associated with the incumbent regime.

2.1.7 The Role of Central Banks in the Fight Against Corruption

Proceeds of corruption are often laundered through formal financial sector channels, a sector within the supervisory purview of central banks. At the same time, central banks are often designated authorities for monitoring and supervising financial institutions' compliance with anti-money laundering laws. Corruption and money laundering are linked in two (2) main ways, each of which has key implications for policies to fight corruption through anti-money laundering efforts. Corruption and money laundering are symbiotic in that they tend to co-occur, and the presence of one tends to create and reciprocally reinforce the incidence of the other. At the same time, corruption can compromise the working of anti-money laundering systems. As operators of payments systems, financial institutions are principal channels for onshore and offshore transfer of funds. The devious ways in which money is laundered worldwide makes banks unwitting, though not entirely innocent, vehicles for laundering corruption proceeds. As corruption proceeds are often useless unless integrated into the financial network, there are opportunities for synergy between anti-money laundering and anti-corruption agendas. Central Banks can play a vital role by ensuring the integrity of anti-money laundering systems to protect them from corruption. An effectively implemented anti-money laundering framework limits the channels through which corruption proceeds can be laundered, hence reducing incentives for corrupt activities.

2.1.8 Outstanding Challenges in Fighting Corruption

Ms. Gimbo highlighted the difficulties of reducing corruption in Africa:

- Corruption is transnational, making it difficult to address. Illicit financial flows and money laundering are rarely curtailed because of jurisdictional and sovereignty issues.
- The belief that leaders in government positions are beyond reproach because of their elevated status in society limits accountability. There is also fear of reprimand by citizens who speak out and corruption flourishes in secrecy;
- Implementation of formal anti-corruption prescriptions in most countries is affected by persistence of corruption at the highest political level. The consequence is inadequate political support for anti-corruption agencies and unequal enforcement of laws;
- Implementation is also made difficult due to lack of sound legal framework and/or the institutional framework for enforcement is not effective;

2.1.9 Way Forward

- Countries must build resilience to fight corruption as they do for any other emergency;
- Building citizen activism to speak out and demand accountability from leaders;
- Encourage whistleblowing at all levels and find ways of protecting whistle-blowers;
- Strengthen coordination amongst anti-corruption agencies, institutions and activists for collective action against corruption;
- Strengthening capacities of accountability and oversight institutions (parliaments, audit institutions, ombudspersons, judiciaries), as part of wider governance reforms; and
- Creating nation-wide campaigns such as the black Monday campaign which ActionAid is using world-wide to show zero tolerance to corruption.

2.1.10 Discussions

The general sentiments from delegates was that while it is important to review how African countries have performed against perception-based measures of corruption to understand the implications for policy development and institutional building, perception may change far more rapidly than the actual levels of corruption. Equally, a country could be taking very credible and holistic approach to fighting corruption, but these efforts are not acknowledged or reflected in the perception-based measures. In this regard, caution must be taken to avoid the futile exercise of naming and shaming countries on the basis of the given perception of the levels of corruption. Rather, there is need to move the debate beyond the existing perception-based corruption indicators and assess corruption in a broader African governance context.

The central bank Governors acknowledged that they had a clear understanding of how they could play a role in fighting corruption, particularly through minimising misuse of financial systems for corrupt ends. Governors were challenged to form a Governors' movement against corruption in the region in order to amplify their collective voice against corruption.

2.2 SESSION 2: THE RENAISSANCE OF THE INDIAN OCEAN ECONOMY

Presenter: Dr. Michael Power, Senior Economist and Strategist, Investec Asset Management

Moderator: Dr. Sehliselo Mpofu, Director, Macroeconomic Management Programme, MEFMI

This session discussed the potential for Africa to become the fastest growing region in the world over the next decade, driven by the economic renaissance of the Indian Ocean Basin. The past three (3) decades have seen the emergence of China and India as new global growth centres which have assumed a significant role in shaping trends of economic progress worldwide. The centrifugal forces released by this ascendancy are expected to usher in phenomenal changes that span the whole Indian Ocean Basin, due to proximity to centre of economic activities, favourable demographics, competitively priced labour and best productivity growth prospects. The main challenge for MEFMI region is how to unlock the sizable potential spill-over effects from the economic renaissance of the Indian Ocean Basin. In the absence of certain policy responses, the positive spill-over effects may not be fully utilised.

2.2.1 The Indian Ocean Basin: A Historical Perspective

Dr. Power gave a historical perspective of the Indian Ocean Basin. He stated that the Indian Ocean, which connects the Middle East, Africa and East Asia by way of the Indian subcontinent, has been home to shippers and traders for millennia. The climatic regime of alternating monsoons particularly suited regular and reliable sailing voyages. The monsoons of the Indian Ocean reverse direction in a predictable way each year (Figure 2). From November to February, during the northeast monsoon, the dominant winds blow from the northeast towards the southwest. From April to September, during the southwest monsoon, the pattern reverses, and the winds blow out of the southwest towards the northeast. Sailors could always sail with the wind behind them, needing only to wait until the right time of the year brought them the wind they needed.

As a result, the Indian Ocean has been a zone of human interaction for several millennia, boasting a 1,500-year history of active high-seas trade, linking Afro-Eurasian trade system before the arrival of Europeans around 1498. It featured

significant maritime voyages and mercantile driven expansion of China and India spreading their influence and domain to Africa, and India to Southeast Asia. The Indian subcontinent, due to its geographic location, logically became a hub for trade in the Indian Ocean basin. China, even before the arrival of the Europeans, long understood the importance of having a meaningful presence in the Indian Ocean.

The Chinese presence in the region can also be traced centuries back, particularly with voyages that took place from 1407 to1433 during the Ming dynasty, when the naval expeditions of the Admiral Zheng. He explored the Arabian coast from Hormuz, reaching as far south as Malindi in Kenya in 1414 where he was famously given a giraffe by the Sultan as a gift for the Chinese Emperor. Throughout this period, the region was seen by the Chinese as a source of luxuries: gold, iron, ivory, ambergris, tortoise shells, cloth, animal skins and exotic woods.

Figure 2: Alternating Monsoons in the Indian Ocean

Source:achin Parashar (2014)

2.2.2 The Present Day Indian Ocean Basin

Today, the Indian Ocean Basin is defined as comprising 34 key states and 21 peripheral states which are adjacent to or influenced by events in the region, as shown in Figure 3.

Figure 3: Key and Peripheral States in the Indian Ocean Basin

Source : C. Bouchard (2004)

The 75 countries that constitute its littoral and peripheral region is estimated to contain more than two-thirds of the world's known oil reserves, 35 percent of the world's gas reserves, 60 percent of uranium, 40 percent of gold, 80 percent of all diamond deposits and a large variety of other mineral substances. Today, the Indian Ocean is one of the busiest waterways in the world for the commercial exchange of commodities, capital, manufacturers and services. Most notably, more than 60 percent of the world's seaborne trade transits through the Indian Ocean annually. In addition, half of the world's containerised cargo and one-third of its bulk cargo pass through the ocean's sea lanes annually. China and India are also increasingly reliant on oil transiting the region. For example, more than 89 percent of China's hydrocarbon imports come via the Indian Ocean, while Gulf oil is expected to account for 90 percent of India's imports in the near future.

2.2.3 The Potential within the Indian Ocean Basin

Dr. Power indicated that the Indian Ocean has over the decades become a chessboard of strategic manoeuvrings of world powers, and played a central role in facilitating world trade and economic growth. He identified the following major factors that have propelled the Indian Ocean Basin into an area of crucial geostrategic importance:

- **Abundant Natural Resources** - The Indian Ocean basin contains substantial quantities of energy resources. This is particularly so in the case of oil, coal and natural gas. Today, the Indian Ocean Basin has risen to the forefront of world geopolitics, propelled by the world's continuing reliance on Persian Gulf hydrocarbon resources.
- **Geographic location** - the geographic location of the Indian Ocean makes it an incredibly vibrant and varied basin, connecting the powerful economies of the Indian subcontinent and the Far East with the oil-rich Gulf area. Crucially, it is also a transit zone for much of the world's energy resources. In a world increasingly dependent on trade and maritime sector to facilitate global economic growth, the Indian Ocean will continue to be thrust into the spotlight.
- **Political Interests** - developments in the Indian Ocean basin now reverberate far beyond its shores, as the region now features more prominently in the geopolitical interests and commercial calculations of extra-regional powers such as the United States of America (USA) and the European Union.
- **Demographic Dividend** - The Indian Ocean Region contains some of the world's fastest growing populations. In the coming decades, while advanced economies will witness a decrease in workforce, the India Ocean Basin is expected to have an increase. Europe is well past its demographic window, USA entered its own in 1970 and lasted until 2015, China entered in 1990 and will last until 2025, while India entered its window in 2010 and is expected to last until 2050. Africa is expected to maintain the youngest demographic profile, with the window expected to extend up to the 2070s. This provides an enormous market for trade and consumerism. In addition, the region has a larger proportion of its population in the working age group of 15 to 64 than any other region in the world, giving it what may be termed as a demographic dividend.

2.2.4 Implications for Africa

As the world's strategic centre of gravity shifts from the Euro-Atlantic region to the Indian Ocean Basin, Africa is increasingly seen as a region of destiny in the 21st century. In particular, the rise of China and India in global geo-economics has created in Africa, a common geographical space of tremendous economic prospect and the focus of the emerging world order. Dr. Power summarised opportunities that lie on the shores of the Indian Ocean as follows;

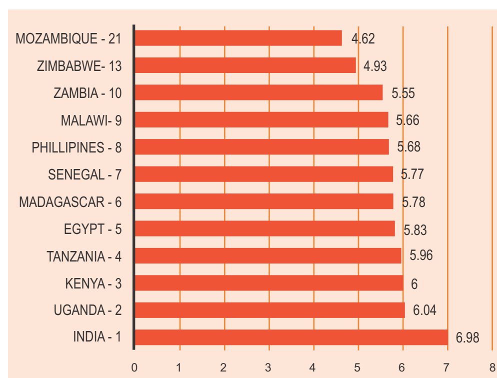
- **Re-engagement with China and India** - While seeking to sustain their robust economic trajectories, China and India have revitalised centuries-old maritime engagement with Africa. These partnerships involve a wide range of activities, including trade and Foreign Direct Investment (FDI) in various sectors of several economies, particularly natural resource exploitation, manufacturing, agriculture and construction. Today, the scale and pace of China and India's trade and investment flows with Africa are wholly unprecedented. The partnerships have also evolved to include development cooperation in the form of aid, loans and grants. For instance, China is underwriting much of the infrastructure development needed by the region, such as building ports in Bagamoyo (Tanzania) and Lamu (Kenya), and then connecting railway and pipelines to these ports. By providing large loans on generous repayment terms, investing in major infrastructure projects

such as roads, ports and power plants, China has secured considerable goodwill and influence among countries in the region. Despite being driven by economic interest, the approach of mutual cooperation and collaboration initiated by these countries has revived Africa's hope of achieving what seemed an elusive vision of a prosperous continent.

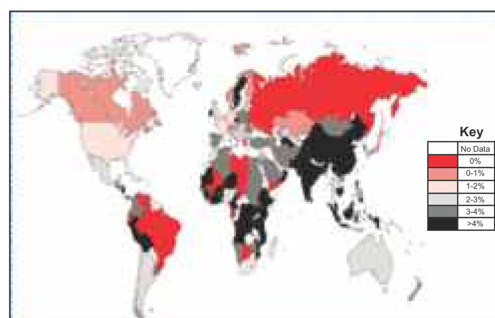
For its part, India has recently woken up to the region's potential, and is rebooting its links to Africa. Tata and Mahindra are brand names increasingly recognised throughout Africa. In its ground breaking publication entitled: ***"Africa and India - facts and figures 2015",*** Economic Commission for Africa (ECA) has shown that the continent benefited from US$2 billion worth of India's development partnership in 2014, offered lines of credit worth US$7.4 billion with the biggest recipients being power and engineering sectors. Though China has recently been a dominant force in trade and investment on the African continent, India is fast becoming a serious challenger. According to fdimarkets.com, a worldwide database monitoring cross-border Greenfield investments, India surpassed China in terms of Greenfield investment in Africa during the 2003 to 2012 period, with US$52 billion worth of announced projects, versus US$45 billion for China. India's dominance over China not only concerns the quantity of investment, but also the range of investment. The top sectors for India's investment in Africa include fossil energies, chemicals, metals and food, and also the automotive, telecommunications and renewable energy sectors. Furthermore, Indian initiatives are not state-led, but are driven by individual private companies looking to expand their markets. The best-known corporate name is Tata Group, whose interests range from agro-processing and energy, including renewables, to consumer goods and financial services.

- **Growth Spill-over** - In their latest Atlas of Economic Complexity, Harvard University's CID identified countries surrounding the Indian Ocean Basin as having the brightest prospects for sustaining robust economic growth rates in the next decade to 2024. Of the ten (10) countries at the top of the ranking on potential GDP growth, nine (9) are from Africa, predominantly from the MEFMI region, namely: Uganda (2), Kenya (3), Tanzania (4), Malawi (9) and Zambia (10).

Figure 4: Projections of GDP Growth to 2024



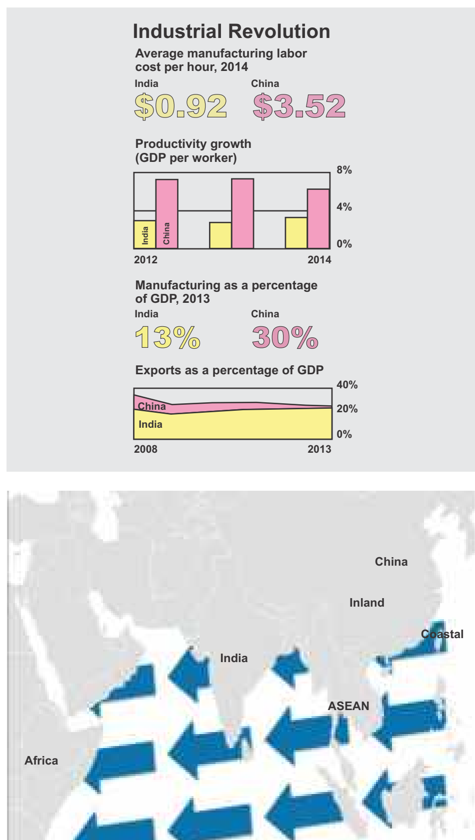
Source: Harvard Center for International Development



2016 HSBC's Heat Map of economic growth

The CID study covers 128 countries and is designed to measure productive knowledge by assessing the range of goods and services exported with diversity pointing to an ability to make products of increasing economic complexity with a workforce able to transfer its skills from one industry to another. Anchoring and leading this prediction is the migration of the “Factory” from increasingly high-cost East Asia centred on China into lower cost South East Asia centred on India and on to eastern and southern Africa. According to Boston Consulting Group, the hourly labour cost in India for manufacturing averages US$0.92, compared with China's US$3.52.

Figure 5: Where Low Cost Manufacturing is heading



Source: Boston Consulting Group

Manufacturers, the world over, are realising that the last two pools of underused low-cost labour reside in the Indian sub-continent and Africa, with Kenya already benefiting from this transmigration. Puma, Wal-Mart, JC Penny, and H & M source some of their garments from Kenyan Export Processing Zones, which now employ over 66,000 people. From these hubs, business is radiating out into adjacent areas. China´s higher unit labour cost has eroded its external competitiveness in low-end manufactures, hence the expected move to expand its current presence in Africa's special economic zones, or encourage the creation of new ones is not unrealistic. Such positive growth effects from FDI would increase as countries in the region reduce bottlenecks in infrastructure and energy supply. Declining commodity prices, especially oil, is shifting Africa's centre of economic gravity from west to the eastern and southern region. Investment finance is also following, reinforced by the peripheral outreach of China's *One Belt One Road Initiative*, which includes east Africa for infrastructure finance. China's new Silk Road Fund is targeting economies along Africa's east coast, suggesting a shift in focus away from securing natural resources towards more manufacturing hubs in the region.

2.2.5 Discussions

Dr. Fundanga, requested Dr. Power to give an opinion on how the region could use its strategic geographic location to unlock potential benefits arising from the economic renaissance of the Indian Ocean Basin. He stated that the opportunities could simply elude the region if countries are not quick to respond appropriately by putting credible and sustainable strategies. He pointed out that travelling within the African continent is not always seamless, and it is more difficult and expensive to travel across Africa than to get to Europe, America or the Middle East. Africa still has weak links within the continent (country-to-country) or connectivity, sometimes making journey-time long, air fares relatively high and hence compromising business productivity.

Dr. Power pointed out that while Africa has not yet reached its optimum with regards to airlines network and connectivity, at least there are two (2) emerging airlines, as potential hubs to fill these network gaps (Kenya Airways and Ethiopian Airways). A trickle-down effect would follow, as demand grows and connectivity options increase, leading to a more diverse network of new regional destinations coming on-stream.

However, he noted that greater benefits would be derived if countries adopt the Singapore-type open skies policy, which has improved business focused connectivity, making it a more attractive country with which to trade and invest. He identified Rwanda as one country in the region trending towards this policy. In addition to opening the skies, the country went ahead to create a conducive environment for both foreign direct and portfolio investment that is already paying huge dividends. While the open skies policy is an important step towards attaining cohesiveness, it may not be sufficient to overcome obstacles to attracting more inward FDI. This may be more dependent on an open investment policy. With an open investment policy, Dr. Power gave assurance that Africa would not be left behind.

Deputy Governor of the Reserve Bank of Zimbabwe asked about the potential for competition and conflict in the Indian Ocean Basin, given that India and China are vying for the same resources in the region. He noted that developments in the Indian Ocean Basin now reverberate far beyond the shores, as the region now features more prominently in the geopolitical interests and commercial calculations of extra-regional powers such as the USA, the European Union and Japan.

In his response, Dr. Power noted that there is currently a power vacuum in the Indian Ocean Basin as there is no global superpowers bordering the area. This creates an amphitheatre which allows even small and medium sized countries, room to manoeuvre. Currently, India and China are using their historical maritime engagements in the region as a mark of their symbolic presence and legacy over the oceanic exchange network. Western players have military facilities in the region: US and UK on Diego Garcia; USA in Australia's Darwin and Singapore; France in Reunion, Djibouti and Mayotte. The USA and UK also have access to ports and airfields throughout Greater Arabia. India is the regional superpower in the making and has been linking with countries such as Mauritius, the Seychelles, Madagascar and Iran. Notwithstanding this, the Indian Ocean is by far the most open of the big three (3) ocean basins of the world – not just militarily but commercially too – much more so than the Atlantic or the Pacific.

While China is emerging with a potential to transform the entire region's power dynamics, it is viewed as much less aggressive except in cases where its own national interests are threatened. Hence, the peaceful coexistence will continue and the risk of a conflict in the region does not seem to appear imminent. One positive development is India's willingness to collaborate in containing piracy in the shores of Somalia. It is going to be very important for Indian Ocean littoral African states to realise that they too could benefit by collectively maintaining the peaceful status quo within the Indian Ocean Basin.

The Governor of Banco Nacional de Angola and Deputy Governor of the Reserve Bank of Malawi wanted to know how the region should respond to the imminent rise of the Indian Rupee. They pointed out that there are strong indications that the Indian Rupee is heading towards attaining a reserve currency status in the next few years. This being the case, the governors wanted to how central banks should respond to these

developments to ensure that mistakes of the past, where countries in the region continued to use third-party currencies to transact with China, will not be repeated. Using third party currencies proved burdensome as it entailed exposure to foreign exchange risk and bank charges, in the process, making countries loss resources which could have been used to finance some development priorities. There was also a question on whether countries in the region should wait for IMF's endorsement of the Indian Rupee as a reserve currency to start adopting it, or proceed to embrace it as both reserve and settlement currency.

In his response, Dr. Power advised that as India is moving towards the position of China, central banks should take the lead to embrace the Rupee rather than wait for IMF's endorsement. The rationale is that India is the third largest trading partner of Africa, with the region accounting for 11% of India's exports and 9 percent of its imports in 2014. India's development partnership with Africa, largely in the form of capacity building and training, grant assistance and concessional credit or lines of credit has been increasing since 2010. Hence, embracing the Rupee will ensure the region eliminates foreign exchange exposure in transactions involving India.

The Governor of Banco de Mozambique noted that while Africa has been reforming for the past two and half decades, there is little to show as the continent on the whole is still stuck with the low level of FDI and high poverty. He wanted to know more on what Africa should do this time to benefit from the economic renaissance of the Indian Ocean Basin.

Dr. Power pointed out that much of the recent rise of Africa has been a result of the largely commercial engagement the continent has had with Asia. These engagements, anchored on commercial terms, are much stronger and long-lasting than the yesteryear relationships with western countries that were anchored on aid. Apart from trade, development cooperation and foreign direct investment, Dr. Power noted that Africa is set to be the world's fastest growing tourism market in the next ten (10) years. This presents extraordinary opportunities for new investment in the continent's tourism industry, a sector with tremendous potential to create jobs, boost inclusive economic growth across the continent, and reduce poverty. He stated that the tourism industry worldwide is in a period of unprecedented expansion, with China and India in the forefront of a massive shift in global travel. What African countries need is to align their tourism and investment policies so that they speak to these new trends. Countries need to address existing barriers to tourism sector development such as lack of dedicated incentive policies, the need for closer regional cooperation, weaknesses in infrastructure and security problems.

Dr. Power stated that African tourism still has vast untapped potential – which if exploited, could ignite rapid economic growth. He advised countries to collectively focus on four (4) key areas to fully realise the expanded potential:

- Expanded investment in tourism infrastructure;
- Improved connectivity and air liberalisation – a move towards a fairer African open skies policy;
- Common visas across multiple countries; and
- Investment in human capital to build the capacity and skill set of the workforce.

The Governor of Bank of Namibia requested Dr. Power to give an opinion on whether Africa is ready to accommodate the much anticipated relocation of manufacturing jobs from increasingly high-cost East Asia centred on China into lower cost Africa.

He also wanted to know if there are other sectors in Africa, apart from tourism, where the continent has a comparative advantage, so that when opportunities do arise they can be effectively exploited. He also wanted to know how African countries can organise themselves better to get the best out of the positive spill-over effects of the renaissance of the Indian Ocean Basin.

While confirming the migration of the manufacturing factory from China to Africa, Dr. Power had reservations on whether Africa will benefit in terms of job creation. He noted that jobs which could potentially have been created are in danger of being squeezed out, as countless manufacturers in China are planning to transform their production processes using robotics and automation. With regards to sectors that Africa has comparative advantage over, Dr. Power mentioned the agro-processing industry as having a huge potential for being the fastest growing sectors in Africa, given that the region is endowed with abundant land, labour and very conducive weather patterns for agriculture to flourish. He informed delegates that Africa is currently not fully exploiting its comparative advantage in agriculture to expand its export presence in the Chinese market. While these trends likely reflect structural inefficiencies and logistical constraints in Africa; China's relatively high tariffs on agricultural imports (15.1 percent in 2014, down from 18.1 percent in 2002) may have also contributed.

On how Africa should organise themselves, Dr. Power emphasised the need for Africa to promote intra-regional trade as this presents opportunities for sustained growth and development. It has the potential to reduce vulnerability to global shocks, contribute to economic diversification, enhance export competitiveness and create employment. While African Governments have made several efforts to exploit the potential of trade for development, Dr. Power advised delegates that regional trade performance in Africa has been weak because the approach to regional integration has focused more on eliminating trade barriers and less on the development of the productive capacities necessary for trade. While the elimination of trade barriers is important, it will not have the desired effect if it is not complemented by appropriate policy measures to boost supply capacities. He argued that for African countries to reap developmental gains from intra-African trade and regional integration, they will need to place the building of productive capacities at the heart of the policy agenda. Hence, Africa should live beyond resources and endeavour to industrialise. He cited the case of Kenya, which expressed commitment to transform the country into an industrial hub by renaming its ministry of industry to ministry of industrialisation and enterprise development.

He also encouraged Africa to consider implementing Special Economic Zones (SEZ) to achieve economic transformation. SEZs are geographically designated trade areas that enjoy special financial, fiscal, investment, and trade privileges, to attract FDI and boost industrialisation. Although SEZs first appeared in places like Puerto Rico (1951), Ireland's Shannon Airport (1959) and Taichung, Taiwan (1965), mainland China is the world's foremost success story in using SEZs to build industrial capacity. In 1979, four (4) zones - Shenzhen, Zhuhai, Shantou and Xiamen - were set up as experiments in the management of market liberalisation, and as magnets for foreign investment. After being successful, the zone program and relevant reforms were gradually rolled out through-out the country in more diversified forms. Despite a slow start, these SEZs proved to be incubators for significant structural transformation. Together with the numerous industrial clusters, the SEZs have contributed significantly to national GDP, employment and attracting FDI. The lessons from China's experiences indicate that SEZs can be an effective instrument to promote industrialisation if implemented in the right context.

The Deputy Governor, Bank of Uganda, noted that there was some degree of frustration as the reforms introduced thus far, have hardly changed the underlying structural economic orientation, from commodity dependence while youth unemployment remains prevalent. He advised delegates that contrary to popular perceptions, Africa has done much better over the last decade and half than it ever did in the 1980s. Whatever was done in the past decade and half needs to be appreciated and deepened as the continent prepares itself for the future. He warned that if this message is not communicated effectively, the frustrations arising from unappreciated accomplishments could easily reverse gains achieved from policy reforms implemented so far, as countries contemplate rolling back anti-competitive and efficiency-reducing regulations and practices. He challenged his fellow Governors to effectively communicate this message, and encourage authorities to strengthen policies for far-reaching transformation. Issues of sustainability define an unequivocal need for a continuous process of economic reform.

The Governor further recommended that Africa should increase its pace towards regional economic integration as this plays a major role in enhancing structural transformation and inclusive growth across the continent. Deeper regional integration means larger markets and industrialisation and productivity, as part of value chains. Another pertinent point he raised is while China has a declared strategy for Africa, Africa does not seem to have a peer strategy for its envisaged engagement with China and other emerging partners such as India. Hence, the continent seems to be a passive respondent to China's initiatives. Perhaps China's outsized dominance suggests that Africa is not yet making the most of out its rich range of trade and investment partnership with China. He recommended that a coherent policy position be presented to China which will ensure that African interests become decisive factors in the championed win-win cooperation. For Africa to mount effective commercial engagement with China, a clearly delineated African strategic approach must be put in place, outlining how countries can collaborate and sharpen their competitive edge.

The Deputy Governor of the Bank of Zambia challenged the central banking community to proffer advice that improves terms of engagement that governments have particularly with foreign investors. She noted that the outcomes of some investments that Africa has attracted have to some extent not been optimal, with corruption being a key restraint. She challenged her fellow Governors to reflect on what they could do to help governments negotiate investment terms with beneficial trickle-down effects for best outcomes.

2.3 SESSION 3: RENMINBI IN THE SPECIAL DRAWING RIGHTS BASKET AND ITS FUTURE ROLE IN THE INTERNATIONAL FINANCIAL SYSTEM

Presenter: Dr. Peter Zöllner, Head of Banking Department, Bank of International Settlement

Moderator: Mr. Raphael Otieno, Director of the Debt Management Programme, MEFMI

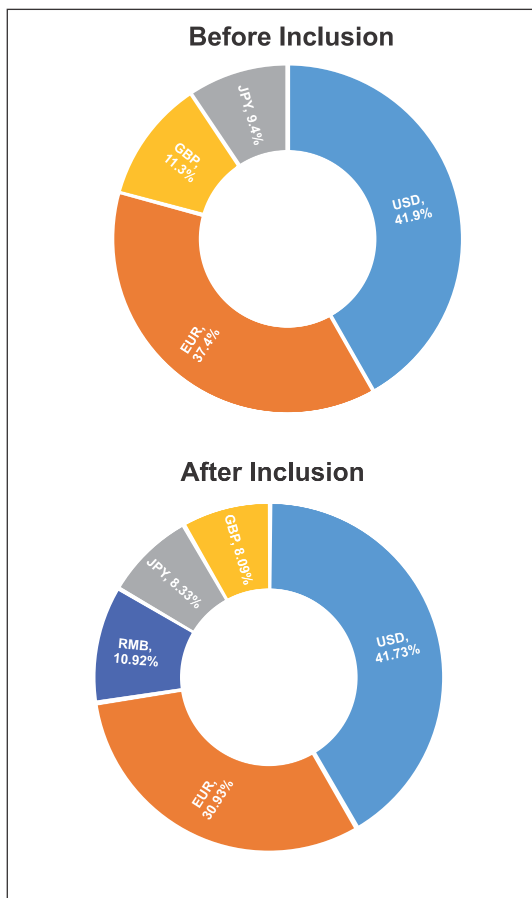
China has achieved remarkable growth in the past two (2) decades and its trade and investment linkages with the world have greatly increased. It is now the second largest economy and the largest trading nation in the world. As China's economy becomes increasingly integrated with the rest of the world, the RMB has become more widely used in trade and investment activities. On 30 November 2015, the Executive Board of the International Monetary Fund approved a staff

recommendation to include the RMB in the basket of currencies that compose the SDR, with a weight of 10.92 percent. The decision elevates the RMB to the ranks of the most important international currencies. Against this background, this session of the Forum discussed the future role of the RMB in the international financial system. The discussion was led by Dr. Peter Zöllner, Head of Banking Department, BIS, and was moderated by Mr. Raphael Otieno, MEFMI Director of the Debt Management Programme.

2.3.1 Special Drawing Rights: A Historical Background

In his introduction, Dr. Zöllner stated that the SDR is a synthetic currency that was created in 1969 by the IMF. Its value was initially expressed in terms of gold, as it was conceived in a monetary system where the link between currencies and gold set limits on how far the growing demand for reserves could be met. With the end of the Bretton Woods system in 1971, the SDR's composition changed to include the currencies of countries with the largest shares of exports of goods and services. From 1974, it comprised 16 currencies (with the US dollar's weighting already at 33 percent). However, in 1981 the synthetic currency was downsized to include just the group of five (5) currencies, being the US Dollar, Japanese Yen, Deutsche Mark, Pound Sterling and French Franc. The weights and composition of the currencies comprising the SDR are revised every five (5) years by the IMF's Executive Board. These reviews determine the relative weights of each currency in the basket and establish which financial instruments should be used to calculate the SDR interest rate. In 1999, the Euro replaced the former European currencies, and the SDR became a four-currency basket. As of 1 October 2016, the basket will be enlarged to include the RMB as the fifth currency, along with the US Dollar, the Euro, the Japanese Yen and the British Pound. Figure 6 below shows the weights and composition of currencies in the SDR basket before and after the inclusion of the RMB.

Figure 6: Weights of SDR Basket Currencies – Before and After RMB Inclusion



Source: IMF

The decision to include the RMB was based on the fulfilment of two (2) broad criteria set by the IMF: The first "gateway" criterion affirms that only the currencies issued by (member) countries or monetary unions with the largest value of exports over a period of five (5) years can be considered. This criterion responds to a need to ensure that only currencies that play a significant role in the global economy can be considered for inclusion in the SDR. The second criterion requires that the potential currency is freely usable defined as being widely used for international transactions and widely traded in principal foreign exchange markets.

2.3.2 The Renminbi's road to the SDR basket

Dr. Zöllner highlighted that the first aspect to consider when looking at the RMB's path towards the SDR basket is China's remarkable economic growth over the past 30 years. Since 1979, China's real gross domestic product (GDP) grew at an annual average rate of nearly 10 percent. This means that, on average, China has been able to double the size of its economy in real terms after every eight years. By 2014, China emerged as the world's second largest economy by GDP at market exchange rates, about 60 percent the size of the US economy. On the basis of purchasing power parity, China surpassed the United States as the world's largest economy, contributing 17.1 percent to global GDP compared to the United States' 15.8 percent.

Dr. Zöllner highlighted that the rapid and sustained growth was prompted by market-oriented reforms initiated in 1979, supported by large-scale capital investment (financed by large domestic savings and foreign investment) and rapid growth in productivity. Since reforms were initiated in 1979 until 2014, domestic savings as a ratio of GDP averaged around 32 percent, allowing China to substantially boost domestic investment. In fact, China's gross domestic savings levels far exceeded its domestic investment levels, which made the country a large net global lender. The improvements to productivity largely emanated from the reallocation of resources to more productive uses, especially in sectors that were formerly heavily controlled by the central government, such as agriculture, trade, and services. This led to the rise of non-state enterprises, which tended to pursue more productive activities than the centrally controlled State Owned Enterprises. Local and provincial governments were allowed to establish and operate various enterprises without interference from central government. In addition, FDI in China brought with it new technology and processes that boosted efficiency.

Alongside the economic expansion is a meteoric rise of China to become the leading global trading nation, accounting for 15.5 percent of world total trade in 2014. China has also become the largest trading partner for 130 countries. Until recently, merchandise trade surpluses, large-scale FDI inflows, and large purchases of foreign currencies to maintain its exchange rate with the US dollar and other currencies, were major contributors to China's accumulation of foreign exchange reserves, which stood at US$3.56 trillion as of August 2015. Even though China's growth is currently slowing, as a new equilibrium is sought, there is very good reason to believe that the scale and the fundamentals of its economy make a strong case for the rise of the RMB as an international reserve currency.

The second aspect that pushed the RMB towards the SDR is the active role played by the Chinese government and central bank to promote the internationalisation of its currency. Dr. Zöllner noted that there is no other currency that has been pushed so actively by its authorities as a means of global exchange than the RMB. Despite its underdeveloped financial markets, China created a new playbook for its currency that allowed for controlled and calibrated opening of the capital account to both inflows and outflows. Since 2009, China has not only relaxed its restrictions on the use of the RMB for settling trade, but has also carefully and gradually eased some of its controls on the use of the currency for capital account transactions.

a) Initiatives for public sector investors

As early as 2000, China had established US dollar-RMB swap lines with many Asian central banks under which China would provide US dollars in exchange for the local currency of the counterparty

economy. In other words, the foreign exchange reserves of China often served as an additional credit facility if the counterparty economy were to face a liquidity crisis.

Beginning 2009, the Peoples' Bank of China (PBoC) moved aggressively to establish bilateral swap arrangements with other central banks in order to facilitate and expand the use of the RMB in international trade and financial transactions. The exchange of swap lines is primarily for the purpose of promoting bilateral financial cooperation, facilitating bilateral trade and investment, and safeguarding regional financial stability. A crucial difference between earlier swap arrangements and those entered into after 2009 is that the later swaps are in terms of local currencies - that is, the PBoC commits to exchange other central banks' currencies for RMB. By September 2015, 34 central banks had signed these swap agreements, with a total value of roughly half a trillion dollars (US$495.8 billion or RMB 3.16 trillion). In Africa, only the South African Reserve Bank (SARB) has entered into such an arrangement, valued at US$4.7 billion (or RMB 30 billion). The modest amounts notwithstanding, the PBoC is clearly making an active effort to make the central banks of a broad group of economies comfortable and familiar with RMB-denominated instruments and financial facilities.

Following these steps, access to the Chinese onshore interbank bond markets was further liberalised. For example, on 14 July 2015, the PBoC announced that foreign central banks, sovereign wealth funds and international financial institutions could now access the onshore interbank markets for bond, repo and other permitted products after registering with the PBoC. Many of these institutions have previously accessed Chinese markets through programmes such as China's Interbank Bond Market with an approved quota. This step removed the quota system and requires only prior registration. Investors are also free to decide how much they want to invest. This will likely help broaden market access and improve participation onshore, marking another step toward capital account convertibility.

In a further effort to fully liberalise access by public sector investors to the onshore Chinese foreign exchange market, the PBoC announced full liberalisation of foreign exchange trading in China's interbank foreign exchange market in September 2015. This means that public sector investors can access the interbank foreign exchange market through three channels, namely (i) using the PBoC itself as their agent, or (ii) by using interbank foreign exchange market members as their agent(s), or (iii) directly participating in the interbank foreign exchange market as foreign members. Additionally, a couple of new procedures related to accessing both China's interbank bond market and China's foreign exchange market were issued by the PBoC in April 2016.

b) Initiatives for private sector investors

The Qualified Foreign Institutional Investor (QFII) Scheme was launched in 2002 to allow qualified foreign institutions to convert foreign currency into RMB and invest in Chinese equities (both A shares and B shares) and a range of other RMB-denominated financial instruments. Qualified institutional investors are defined as financial institutions such as commercial banks, insurance companies, securities companies, fund and asset managers (and investment products issued by them), as well as pension funds and charity funds that (i) are incorporated outside China and in compliance with relevant regional laws; (ii) have not been subject to major penalties related to bond investments in the past three years; and (iii) have appropriate risk management controls. As of October 2015, a total quota of US$78.9 billion had been granted to 277 foreign institutions, including 8

central banks and 10 sovereign wealth funds. On 24 February 2016, the PBoC announced the opening of the onshore interbank bond market to foreign qualified institutional investors. More importantly, the investments of these medium- and long-term investors on the interbank bond market will no longer be subject to quota limits, and the PBoC will supervise investment activity via macro-prudential measures.

Based on the foregoing, Dr. Zöllner noted the Chinese authorities chose to open their financial markets gradually, initially encouraging public sector investors to gain access and then letting the private sector in. Given China's sheer size and its rising shares of global GDP and trade, these steps are gaining traction and portend a rising role for the RMB in global trade and finance.

2.3.3 The Renminbi's future role in the international financial system

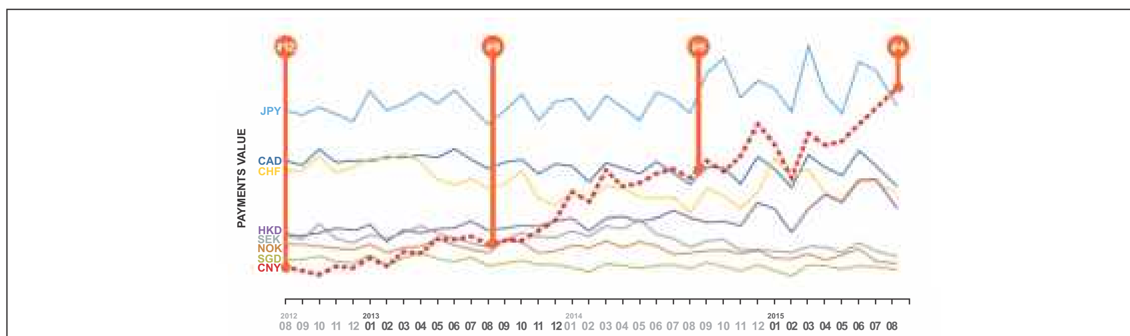
In 2013, the RMB was the ninth most traded foreign currency in the world and by August 2015, RMB entered the top four of world payment currencies, overtaking the Japanese Yen by value.

Figure 7: RMB as World Payments Currency: Messages exchanged on SWIFT based on value

Source: SWIFT Watch

Just three years ago, in August 2012, the RMB was ranked at number 12 with a share of 0.84 percent. In August 2015, the RMB reached a record high share of 2.79 percent in global payments by value and overtook seven currencies during the last three years.

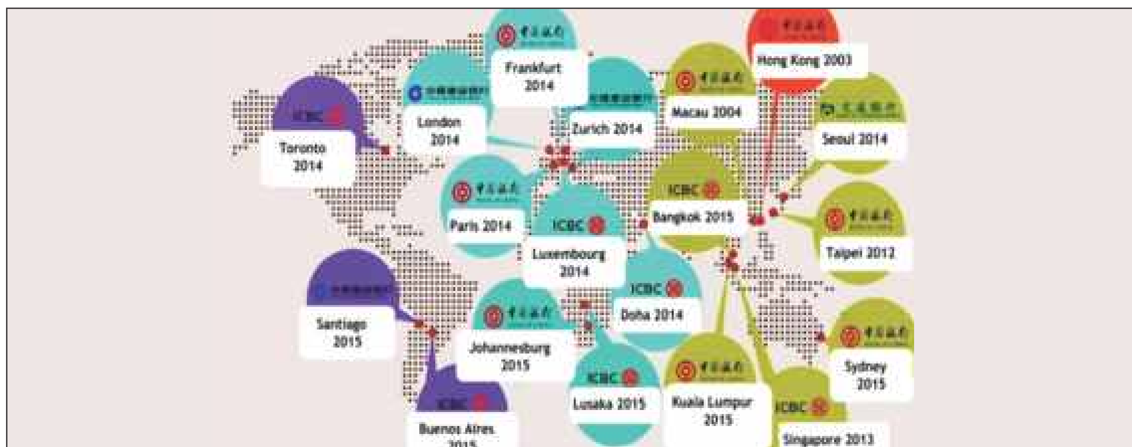
Figure 8: International RMB Payments Sent and Received by Value



Source: SWIFT

In 2015, five new clearing centres have been appointed, including Kuala Lumpur, Bangkok, Sydney, Chile and recently South Africa.

Figure 9: Official RMB Clearing Banks Appointed by PoBC - Geographic Distribution and Timeline



Source: SWIFT (2016)

With regards to RMB's share in reserve managers' portfolios, Dr. Zöllner noted that it is still difficult to determine due to lack of data. The BIS 2015 Annual Report guesstimated the share of foreign exchange reserves in RMB at 1 percent, while IMF reported an even higher number of 1.1 percent in 2014, up from 0.7 percent in 2013. This puts the RMB in the seventh spot in terms of the identified composition of official foreign currency assets.

For 2016, most surveys expect this share to continue rising, to about 2 percent by year-end. This shows that the RMB is already beginning to play a modest role in central banks' reserve portfolios. Chile, Malaysia, and Nigeria are widely believed to have pioneered this trend, starting in 2011. Dr. Zöllner informed delegates that official statements and other accounts suggest that other central banks are also considering adding RMB assets to their reserve portfolios. In addition to the three countries mentioned above, the list includes Austria, Australia, Pakistan, Rwanda, South Africa, Switzerland, Tanzania, Russia, Angola, Ghana, Kenya, and the United Kingdom. While these moves are modest in size, they are symbolically important in signalling the shift in perception about the RMB's stability and its future role in the international monetary system. The speed of that growth remains uncertain but will be determined by a combination of domestic and international factors. While IMF's imprimatur will help, it is the availability of sufficient high-quality RMB-denominated financial assets and the ease of moving financial capital into and out of China that will ultimately determine the RMB's trajectory as a reserve currency.

Most of the countries that are acquiring RMB for their reserve portfolios or whose central banks have signed bilateral local currency swap arrangements with the PoBC tend to have strong trading relationships with China. Hence, for these countries, access to RMB liquidity may be useful in facilitating trade transactions in addition to providing the benefit of portfolio diversification.

Put into a broader context, Dr. Zöllner highlighted that the inclusion of RMB in the SDR basket could be seen as an important milestone in the process of China's global financial integration as well as recognizing and reinforcing the country's continuing reform progress. As this integration continues and further deepens, and is paralleled in other emerging market economies like India, Dr. Zöllner indicated this could bring about a more robust international monetary and financial system, which in turn would support the growth and stability of the global economy. The RMB's inclusion will also enhance the attractiveness of the SDR as an international reserve asset, as it diversifies the basket and makes its composition more representative of the world's major currencies.

2.3.4 The BIS and the SDR

In conclusion, Dr. Zöllner discussed the role of the SDR for the BIS, and the Bank's involvement in the RMB market. He said that the SDR has been the unit of account for BIS since 2003 when it replaced the gold franc. Furthermore, he noted that other official institutions rely on BIS to provide banking products and services in SDR as well as in all its basket currencies. It is against this background that the BIS is undertaking significant efforts to prepare for a smooth switchover to the new SDR basket. It has, for example, acquired direct access to the Chinese Yuan foreign exchange market by installing a trading terminal in 2016, and is updating its systems, reviewing procedures and extending product range.

For a number of years, BIS has been investing in RMB onshore and offshore markets, and has provided customer services in the currency. In 2004, BIS started engaging in the Chinese fixed income market as the administrator of the Asian Bond Fund 2, an investment fund launched by the Executives' Meeting of East Asia Pacific Central Banks which invests in the domestic currency bonds of eight Asia-Pacific markets, including China. In 2012, the BIS acquired a quota for the onshore RMB market and started proprietary investments in the RMB. BIS' first RMB product was a BIS Investment Fund invested in RMB government securities, which was launched in March 2014 at the specific request of a number of central banks. As of mid-2016, 23 institutions from the Americas, Asia-Pacific, Europe and Africa invested in the fund. He advised that BIS sees the rising importance of the RMB for reserves managers worldwide reflected in the strength of customer demand for RMB-denominated products.

2.3.5 Discussions

Mr Raphael Otieno, MEFMI Director of the Debt Management Programme sought Mr Zollner's perspective on whether the planned inclusion of the RMB in the SDR basket of currencies will entail risks that central bank Governors in the region should be aware of as they prepare for a switchover to the new SDR basket.

Dr. Zöllner pointed out that the decision to include the RMB in the SDR basket probably took too long, and this could have been a deliberate strategy to give China more time to reform its financial system and reduce capital account restrictions. This also gave China an opportunity to ensure that the development of its domestic financial markets is anchored on a sustainable path. Hence, the risk is very limited. Rather, its inclusion opens up one more currency backed by one of the biggest global economies and the readiness of the Chinese authorities to take up this responsibility is a positive development.

2.4 SESSION 4: STRATEGIES CENTRAL BANKS IN THE MEFMI REGION SHOULD ADOPT AS THEY PREPARE FOR RMB AS RESERVE CURRENCY

Presenter: Mr. John Rwangombwa, National Bank of Rwanda

Discussant: Professor Benno Ndulu, Bank of Tanzania

2.4.1 Panel Discussions

Governor of the National Bank of Rwanda, Mr. John Rwangombwa commended Dr. Zöllner for giving a very enlightening presentation and raising issues pertinent to central bankers as custodians of countries' reserves. His remarks touched on three issues:

(i). The context in which central banks are managing their reserves and the implications of the inclusion of RMB in the SDRs;
(ii). What central banks are required to do as managers of countries' reserves; and
(iii). Challenges and opportunities faced in managing official reserves.

On reserves management practices, Mr. Rwangombwa noted that traditional asset allocation of reserves follows the well-known paradigm of safety, liquidity and return. Traditionally, there was a clear solution to capital preservation, as central banks would place their reserves with AAA-rated counterparties, particularly treasury securities issued by highly-rated governments. However, with changing financial markets landscape since the onset of the global financial crisis in 2007/8, capital preservation is no longer an outcome that can easily be achieved, as most AAA-rated government bonds currently yield negative return. With the Chinese RMB in the picture, perhaps the region could look at it not only in the context of a reserve currency but also as a settlement currency for different transactions that the region undertakes with China.

With regards to the RMB as a settlement currency, the Governor noted that China is the biggest trading and development partner for most countries in the MEFMI region. As the volume of trade and debt-denominated in RMB has intensified, the need for central banks to consider RMB as part of their reserve assets became inevitable. In addition, as yields of assets that traditionally were the mainstay of reserve portfolios of central banks are currently negative, the RMB presents an opportunity for countries to further diversify their portfolios, as well maximise yields on invested reserves. He challenged fellow governors to think through how they could benefit from the different options and opportunities availed by BIS to invest in RMB-denominated assets, now that the currency has become an official reserve currency.

One option is for central banks to revise their strategic asset allocation policies (which traditionally focus on investing in AAA-rated products) with a view to benefit from opportunities availed by RMB-denominated products. Mr. Rwangombwa, however, noted that embracing RMB-denominated investment products entail exposing countries' official reserve portfolios to new types of risks and different payment format, requirements and standards, hence the need to build new and enhance existing human and institutional capacities in readiness for a smooth switchover to the new SDR basket. He challenged MEFMI to take the lead in sharing experiences and transferring skills to member institutions' technical staff in specialised areas such as asset management, including trading systems that will be used to trade RMB-denominated financial products.

He indicated that while some countries such as Angola have surplus trade balances with China, these balances are largely skewed in China's favour for a number of other MEFMI member states, particularly members of the East African Community. Hence, countries need to look at their context in relation to their trading position with China and the western economies when deciding on the kind of investments they would make in the evolving global financial markets landscape. Mr. Rwangombwa urged Governors to sensitise governments and the private sector to negotiate deals with Chinese counterparties in RMB, so that settlement is done directly in that currency to avoid exchange rate risk exposure and cost associated with transacting in third-party currencies.

Prof. Ndulu's intervention was structured around two points

- The need to identify alternative providers of RMB settlement infrastructures; and
- The need to create awareness on available RMB-denominated investment opportunities.

He informed delegates that there are banks offering RMB settlement arrangements but there was no awareness in relevant institutions on the existence of the same. Prof. Ndulu informed delegates that there are at least 16 RMB-denominated financial products rated by S&P and Moodys', 8 of which were rated A and AA-, with yield to maturity ranging between 2.38 and 2.85 percent. Such high yields could never be found anywhere else in the prevailing environment. Against the background that the cost of capital preservation has risen, it is important that such information is promptly availed to reserves managers in a more organised and accessible format to inform investment decisions.

He also requested MEFMI to assist in identifying and engaging experts who have knowledge and experience in dealing with RMB-denominated financial products to raise awareness on these products, now that China mainland has opened up its domestic financial markets to foreign investors. He identified Standard Bank as one of the institutions that MEFMI could consider approaching, given that Chinese investors have a major stake in the bank.

MEFMI Executive Director advised guests that the Institute, in 2015, organised a retreat for reserves managers in the region, where some private banks were represented during discussions. Since this has become a topical issue, Dr. Fundanga gave assurance that MEFMI will organise a similar event where relevant private sector stakeholders such as BNP Paribas and those from Hong Kong would be invited to create awareness on existing RMB-denominated investment opportunities, how they could be accessed and the associated settlement arrangements. He also assured delegates that the Institute would do as much as possible to ensure as much information required by reserves managers is made available to inform the decision-making process.

Prof. Ndulu noted that while China is the biggest trading partner for most MEFMI member states, it is unfortunate that trade settlements are still done in third party currencies, which cause efficiency losses. Potential demand for RMB abound, but until efficiency problems are addressed, this demand may not be realised. In order for central banks to embrace the RMB, they should be aware of the financial market infrastructure that supports cross-border flow. In this regard, it is crucial to identify institutions that provide efficient, interoperable and internationally accessible clearing and settlement infrastructure. Prof. Ndulu concluded by requesting MEFMI to give a perspective on whether the Institute would be able to create appropriate platforms for sharing knowledge on existing alternative RMB-settlement arrangements and RMB-denominated financial assets that central banks could consider to inform asset allocation decisions. He reiterated the importance of having a primer to provide updates and insights on RMB, including clearing and settlements, trade and investment opportunities.

3

Chapter three

Luncheon and Concluding Remarks

3. LUNCHEON AND CONCLUDING REMARKS

The luncheon addresses were given by the Executive Director of MEFMI, Dr. Caleb Fundanga and Dr. Victoria Barbary, Director, Investec Investment Institute.

3.1.1 Dr. Caleb Fundanga

Dr. Fundanga commended delegates for their constructive contributions towards discussions during the Forum, which made the event one of the most successful and informative dialogues that the Institute has organised during the year. He reminded the audience that the context for much of the discussions during the day was based on the decision made by the IMF Board on 30 November 2015, to include the Chinese RMB into the SDR basket, a first such decision in over 15 years that altered the composition of currencies comprising the SDR. While the inclusion will take effect on 1 October 2016, Dr. Fundanga pointed out that the day's deliberations provided fruitful exchange of views and ideas that will probably shape the region's responses to the RMB's envisaged role in line with its status as the currency of the world's largest exporter and region's largest trading partner.

On behalf of the MEFMI Secretariat, the Executive Director expressed his deepest gratitude to the Bank of Tanzania for allowing the Institute to piggyback the 2016 Central Bank Governors' Forum on their 50th Anniversary and the SADC-CCBG meeting. He commended the Bank for availing an excellent venue and experienced staff to assist MEFMI in organising the event, and acknowledged that without the support of BOT, the event would not have turned out to be as successful as it was. He congratulated the Governor of BOT on the Bank's Golden Jubilee, and noted that MEFMI was honoured to share the moment of celebration, as people of Tanzania paused to look back at the fifty-year journey, reflecting on how the Bank has been working towards its vision.

Dr. Fundanga expressed gratitude to Investec Asset Management for supporting the Forum for the second year running. He noted that the continued financial support from Investec is testimony to the value they place in MEFMI's Central Bank Governors' Forum. He informed delegates that MEFMI would continue to nurture the Forum to foster good governance within central banks, as important public policy institutions. He paid tribute to ActionAid, Investec and BIS for delivering insightful presentations. He commended Governor Rwangombwa for ably leading the panel discussions and Governor Ndulu for facilitating the panel discussion.

In conclusion, Dr. Fundanga informed delegates that BIS has offered to collaborate with MEFMI to organise a joint retreat for Heads of Reserves and Payment Systems to discuss issues raised during the panel discussion, particularly the need for raising awareness on RMB-denominated investment products and associated settlement arrangements. He indicated that BIS would invite Chinese and other global banks that are active in trading RMB-denominated financial products and services to share their experiences and knowledge with heads of reserves management and payment systems. In this regard, he commended BIS for being responsive and willing to collaborate with MEFMI in its endeavour to build sustainable capacity in the region.

3.1.2 Dr. Victoria Barbary

In her closing remarks, Dr. Victoria Barbary noted that the discussions were very vibrant and interesting as they raised pertinent issues relevant not only to the region but to Africa at large. She shared with delegates some of her take-away messages from the forum discussions, particularly that there are key connections between MEFMI region and some Asian countries, most notably China and India. She noted some degree of frustration caused by logistical knowledge gap,

but confident governors' resolve will triumph. As a way forward, she urged countries to start moving towards adopting RMB and Indian Rupee rather than waiting for endorsement by the rest of the world. She commended the Governor of Bank of Tanzania for raising an insightful point during plenary, that adoption of RMB as a reserve currency needs to be complimented by increased use of the currency for trade settlement. Hence, the need for the central banking community to encourage governments and private sector to negotiate deals that would be settled in RMB.

In conclusion, she thanked MEFMI for bringing together esteemed governors from the region, the BOT for successfully hosting the event and the central bank governors for actively participating in the discussions.

4

Chapter four

Forum Programme

4. FORUM PROGRAMME

MEFMI
Macroeconomic and Financial Management Institute of Eastern and Southern Africa

MEFMI REGION CENTRAL BANK GOVERNORS' FORUM
MONDAY, 20 JUNE 2016, BANK OF TANZANIA, DAR ES SALAAM

Theme: Implications of IMF Adoption of Chinese Yuan as Part of IMF Special Drawing Rights Basket of Currencies

TIME	EVENT	SPEAKER/PRESENTER	MODERATOR
08:30– 09:00	**Registration**		**MEFMI**
OFFICIAL OPENING	***Welcome Remarks***	***Dr. Caleb M. Fundanga Executive Director, MEFMI***	
09:00 – 09:30	***Keynote Address*** ***The Fight Against Corruption in Africa***	***Ms. Harriet Gimbo, Director Programmes, Action Aid Uganda***	
09:30 – 10:00	***Renaissance of the Indian Ocean Economy*** ***The Economic Renaissance of the Indian Ocean Basin***	**Mr. Michael Power,** *Senior Economist & Strategist, Investec Asset Management*	***Dr. Sehliselo Mpofu, MEFMI***
10:00 – 10:30	***Discussion***	**All**	
10:30 – 10:55	**HEALTH BREAK & GROUP PHOTOGRAPHS**		
10:55 – 11:25	***Renminbi In The Special Drawing Rights Basket and Its Future Role In International Financial System*** ***The implication of IMF adoption of Chinese Yuan as part of the SDR***	**Mr. Peter Zoellner,** *Head of the Banking Department, BIS*	***Mr Raphael Otieno, MEFMI***
11:25 – 11:45	**Panel Discussion:**	**All**	***Prof Benno Ndulu, Governor, Bank of Tanzania***
	Strategies Central Banks in The MEFMI Region Should Adopt As They Prepare For RMB As Reserve Currency	*Mr. John Rwangobwa, Governor, National Bank of Rwanda*	
11:45 – 12:45	***Discussion***	**All**	
13:00 – 14:30	**LUNCH**		
	Welcome Remarks – Dr Victoria Barbary, Investec Investment Institute ***Vote of Thanks – Dr Caleb Fundanga, MEFMI Executive Director***		

Director of Ceremonies – Mr Patrick Mutimba, MEFMI

5

Chapter five

List of Forum Delegates

5. LIST OF FORUM DELEGATES MEFMI MEMBER STATES

NO.	NAME	POSITION	CONTACT ADDRESS	TELEPHONE / FAX / EMAIL
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9.	Mr. Mfan'fikile Dlamini	Assistant Governor	Central Bank of Swaziland P.O. Box 546 Mbabane **Swaziland**	Tel: 268-40-82000 Fax: 268-40-40013 Email: MfanfikileDl@centralbank.org.sz
10.	Prof. Benno Ndulu	Governor	Bank of Tanzania P O Box 2939 Dar es Salaam **Tanzania**	Tel: 255-22-2112879 Mobile: 255-784-950-080 Fax: 255-22-2112671 Email: bjndulu@bot.org
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13.	Dr. Kupukile Mlambo	Deputy Governor	Reserve Bank of Zimbabwe P O Box 1283 Harare **Zimbabwe**	Tel: 263-4-703000 Fax: 263-4-705890 Email: kmlambo@rbz.co.zw

NON-MEFMI MEMBER STATES

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Our Values:

Accountability

Teamwork

Responsiveness

Integrity

Professionalism

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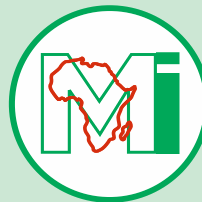

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