

Presentation

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THE CASE OF AN AFRICAN MONETARY FUND

Structure of Presentation

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I. The Emerging Investment Climate in Africa

(A) Political Reforms

- Democratization
- Increased freedom of media
- New institutions
 - Continental
 - Regional parliaments?

(B) Economic Reforms

- Currency reforms
 - Interest rates
 - Foreign Exchange
- Privatizations
- Move to market-based economies
- Growing importance of private sector
- Retirement benefits industry
- Regional Economic groupings
- Land Reforms
 - Introduction of mobile phones

(C) Social Reforms

- Free primary education
- Health: Focus on HIV/AIDS pandemic
- Water
- Others

(D) Governance

- Independence of Central banks

(E) Civil Wars

(F) There is HOPE

II. Still to be tackled

- (A) Guarantee of property rights
 - Zimbabwe??
- (B) Effective Legal systems
 - Ensure the Rule of Law
- (C) Reform Bureaucracies that
 - Foster rather than Obstruct Enterprise and Investments
- (D) Reform the Harsh/Complex Regulatory Environment
 - Bureaucratic Red tape
 - Corruption
 - Poor infrastructure
 - Unproductive labour force
 - Hostility towards both private sector & foreigners
- (E) CORRUPTION

III. Unpredictability of Foreign Investments in Africa

- (A) Slow inflow of F.D.I. due to
 - Slow privatizations
 - Lack of projects with high R.O.I.
 - Short termish outlook by investors
- (B) Under development of Corporate Bond Market
- (C) Low Foreign Portfolio investments
 - Illiquid capital markets
 - Underdeveloped
- (D) Need for I.M.F. Certificate of good E. Health
 - Essential to boost investor confidence but
 - Heavy and difficult to implement conditionalities
- (E) Aid or Donor Fatigue
- (F) Look to Eastern Europe, China, Japan and India
 - Better returns on capital
 - Fast growing economies
 - Huge Domestic markets

IV. The Limitations of I.M.F. in Africa

(A) Lending limitations

- Limited funds available to I.M.F.
- Crisis driven approach
- 70% of funds to Turkey, Argentina, Brazil
- Strict conditionalities
 - Standard reforms (prescriptions)
- Limited balance of payments problems

(B) Needs of Africa vs.. Advice given

- Transforming vs. management of the economy
- Creation vs. management of wealth
- Adoption vs. management of ideas/technology
- Entrepreneurship vs. management

(C) Inappropriate intellectual drive

- 21st Century Institutions vs. 19th Century Institutions
(capital markets) (universal banking)
- Free markets vs. positive intervention in markets
- Limited role of Government vs.. Extensive role of Government .

(D) Failure to encourage Development of Bond Markets in Africa

- great indictment

V. New Developments in Africa

(A) Importance of Domestic Savings

(i) Traditional Sources

- Retained Earnings
Corporate's (Retained earnings) - but High payout dividend policies
- Households - but high propensity to consume
- Governments - but running huge budget deficits

(ii) New Sources

- Contractual Savings
- Retirement benefits industry
- Life Assurance industry
- Vibrant co-operative Sacco

(iii) Eventual key sources

- Government budget surplus
- Religious groups

(iv) Now most important

- Universal banking system

(v) Development of Bond market

(vi) Relevance of Capital markets

- Regional capital market/Integration

(vii) The Importance of Proper Regulation

- Financial Intermediaries

(B) The Growing Importance of Domestic Investments

- (i) Domestic Investments is key in Africa
 - South Africa
 - Malaysia

- (ii) The integrated Business Group Concept
 - Entrepreneurship
 - Internal Capital market
 - Management (business school type)

- (iii) Cross-border investments

- (iv) Regional economic integration and its impact
 - Importance of South Africa
 - Source of new investments
 - Entry point of international investors

(C) Drive for Central Banks Independence

(i) Sources of drive

- Traditional roles
- Control of inflation vs.. engineer economic growth
- Deepen financial system/infrastructure

New Roles

- Engineer economic growth
- Development and participation in new institutions (Malaysian style)
- Develop the Bond market

(ii) Momentum for Central Banks independence

- IMF/WB Certificate of Good Health
- Work with African initiatives (NEPAD) to award performers/penalize failures

(iii) Who will regulate the independent Central Banks?

- Establish Rating Agencies??
- IMF/WB Role as a global economic/Financial Agency

VI. Possible Role of an African Monetary Fund

- (A) Regional Lender of last resort
- (B) Provision of services to smaller countries
- (C) Give African countries a voice in international financial institutions
- (D) Help African countries negotiate with Bretton Wood institutions
- (E) Supervision of the increasingly independent Central Banks
- (F) Promote policies for private sector development
- (G) Promote a continental bond market
- (H) Facilitate extension of maturitization of deposits among commercial banks
- (I) Provide Africa specific or relevant economic reform policies
- (J) Develop financial institutions to provide long-term funds
- (K) Promote finance as a Development Strategy
- (L) Endorse Reforms Programme in Africa
 - Trusted voice in Africa
 - Understand the environment
- (M) Promote trade, investment and monetary integration

VII. Potential Arguments against an AMF

- Risk of moral hazard
 - Fear of financial support without any conditions
- Lack of co-ordination
 - Politically mature countries can enforce authority
- Potential conflict with IMF
 - A role to supplement IMF would reduce conflicting interests
- Lack of RESOURCES
 - Debt service relief for the highly indebted poor countries
- Members have no surplus funds to place with AMF
- Lack authority to impose discipline in member countries

BUT CHALLENGES SURMOUNTABLE

VIII. Road Map to Creation of AMF

Phase I

Establish an investment banking type of institution

- Advisory services to countries

Phase II

- Capacity building among Central banks
- Train African economists and leaders
- Policy formulation and advice

Phase III

- Capitalize AMF
- Capital from African countries and other sources
- Cede of 10% of reserves of each country to AMF
 - (Reinsurance industry model)
- Issue Global bonds

Phase IV

- Disburse Funds to African countries on realistic conditionalities
- **Develop an internationally respected institution**

IX. Conclusion

- Chinese saying
“A journey of a thousand mile starts with the first step.”