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Theme: "*Industrialization for inclusiveness and Transformative Development in Africa***"**

Caucus Meeting of African Central Banks' Governors

Statement

by

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Dr. Sarah Alade, Acting Governor of the Central Bank of Nigeria
Your Excellency Dr. Nkosazana Dlamini Zuma, Chairperson of the African Union Commission,
Honourable Governors
Distinguish Representative of international financial institutions
Distinguished Delegates,
Ladies and Gentlemen

Allow me to first thank and commend the Central Bank of Nigeria for hosting this important Caucus which discusses the centrality of African Central Banks in fostering industrialization. ECA is pleased to be associated with this event and I wish to extend to you all a warm welcome to Abuja.

I also extend a special welcome to Dr. Dlamini-Zuma, with whom I share the privilege of attending this outstanding gathering.

Excellencies,
Honourable Governors
Ladies and Gentlemen,

Africa collectively needs to create over 5 million jobs per year for its growing young population if it is to reap a potential demographic dividend and transform its economies into vibrant industrial growth poles.

Notwithstanding the robust and impressive growth rates achieved in the last decade the current structure and drivers of growth in Africa do not provide a basis for rapid job growth.

Admittedly, the structure of the economies of most African states has changed over time, with the services sector assuming a rising share of GDP relative to agriculture and a declining role for the manufacturing sector. However, the services sector has failed to generate the required number of decent jobs. As a result, a large part of the continent remains trapped in economic poverty, facing high levels of unemployment, inequality, precarious jobs and a large informal sector.

These trends have led to the recognition amongst Africans that structural transformation of the continent's economy is a must. And that structural transformation must be underpinned by industrial development. This is the pathway we need to choose to translate recent impressive growth rates into decent jobs creation.

African countries need to mobilize sufficient resources to finance public investments that are crucial for industrial development including investments in infrastructure, education, and technology. Achieving this goal will require an enabling macro-economic environment that crowds in domestic and foreign investment through improved access to credit, price stability and a competitive exchange rate regime.

Excellencies,
Honourable Governors
Ladies and Gentlemen

Many if not all will agree with me that in most African economies, a significant gap exists between the demand for investments and the availability of investible funds.

This situation is due in part to low levels of savings, large spreads between the lending and savings rate, weak financial intermediation, shallow capital markets and limited competition among banks.

Invariably, governments have sought to fill the investment gap through borrowing from the central bank, and or the sale of securities. The former has led to inflationary spikes while the latter has increased interest rates and deprived the private sector of much needed credit.

Coupled with rising cost of energy and weak entrepreneurial skills, lack of financial access has further constrained the growth of small and medium scale businesses in Africa. Yet these are the very groups that can contribute significantly to job creation and inclusive growth in Africa.

An inclusive industrial development agenda will therefore require the active participation of small and medium scale enterprises in the manufacturing value chain, if Africa is to absorb the majority of the continent’s growing labor force. Access to financial resources will therefore be vital. But for this to happen, financial systems in Africa must be more inclusive.

This brings us to today’s debate on the centrality of your institutions in promoting Africa’s economic transformation. The main issue here is how African central banks could stimulate economic activity, without compromising on their core mandate of price and financial stability. One starting point could be to look into positive examples of financial inclusion in developing and emerging economies. An interesting example is Kenya where recent innovations in financial transactions through mobile telephony have increased financial access for people without bank accounts. The introduction of biometric national identification cards in Uganda has also enhanced access to debit and credit facilities, mobile banking and electronic transfer facilities which would be almost impossible for a large population that lives in rural areas, often with no fixed address. The mandatory use of banks for processing public sector wages in DR Cong completely changed the country.

In the Philippines, the Central Bank ensured financial inclusion by doubling the number of access points for its citizens in just over 10 years. Nigeria has achieved a 7% reduction in the number of people excluded from the banking system by instituting a package of measures including development of extensive agent banking and mobile payment systems.

In Kenya, mobile payments are already replacing traditional systems of transactions, supported by the enabling regulatory approach of the Central Bank. A similar experience is being initiated in Tanzania which has seen 45% of its adult population using mobile financial services. In promoting fair market prices, Bank Negara of Malaysia has taken an active role in promoting financial education among consumers as well as ensuring fair treatment by financial institutions.

Driving this new focus is the recognition of the critical role of central banks in strengthening financial stability and economic activity, the emergence of digital financial services and the need to promote responsible financial services. Collectively these developments have contributed to the evolution of ‘new mandates’ of central banks.

The recent financial crisis has however taught us that in the absence of adequate regulation, unbridled financial inclusion could undermine financial stability. Hence, central banks need to pursue a balance between economic stimulus and financial stability.

Excellencies,
Honourable Governors
Ladies and Gentlemen

Allow me to conclude with some perspectives on how African central banks can support industrialization and transformation.

First, central banks should not only pay attention to urban formal financial markets but also to the rural/micro financial markets. This will enhance financial intermediation and help address disparities in rural urban incomes and development.

Second, the experiences of China show that exchange rate management can be used to influence competitiveness of goods and services on international markets. In this context, managing exchange rate volatility including those arising from commodity price increases and portfolio investments is an issue of importance for central banks.

Third, strengthening financial intermediation for domestic resource mobilization is another way for central banks to support the much needed finances for industrialization.

Fourth, in view of the proliferation of informal financial institutions or “shadow banks” in many African countries, central banks should find ways and means of bringing them under formal regulation and supervision, while at the same time providing support for their effective and efficient operation.

Fifth, central banks must ensure more productive use of Africa’s reserves. It is troubling that unlike other developing regions of the world, African countries hold in aggregate more deposits in Bank for International Settlements (BIS) reporting banks than they receive in loans from them.

This trend suggests that the bulk of revenues from exports of African oil and commodities are not intermediated by local banks. Instead, they remain in overseas banks which recycle about 60% of these deposits as cross-border loans back to African banks and the non-bank sector. I am sure many of you will agree that this situation is totally unacceptable. We also need to enter into a discussion on how reserves can be considered by the IMF, while making them work for Africa’s development and not just through deposits in developing countries’ financial vehicles.

Finally, central banks can play a critical role in promoting the establishment and sustainability of regional capital markets through harmonization and coordination across countries and providing well-resourced regulatory instruments and agencies that can encourage the growth and integrity of financial institutions and limit money laundering.

In conclusion, rapid innovations in financial services offer exciting opportunities for monetary policy to play an even more important role in promoting inclusive industrial development. But monetary policy must be consistent with Africa's structural transformation agenda. In some situations this may require trade-offs between the central banks' core mandate of price stability and the objective of financial access and economic stimulus for industrial development.