Rundheersing Bheenick: The triumph of hope?

Opening address by Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, at the 7th Meeting of Governors of the Eastern African Chapter of the Association of African Central Banks, Port Louis, 15 July 2008.

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A very good evening to all of you. And a very warm welcome to my fellow Governors, former Governors, central bankers, other overseas visitors, and the representatives of the fourth estate, who are with us this evening.

We are here to share our experience on monetary matters and to anticipate our convergence into a closer union as we together pursue the road map agreed for the African Monetary Programme. Happy as I am to see such a gathering of those involved in central banks in the sub-region, I am sure I speak for you all, when I say, we look forward to the day when we are joined by our friends from those other parts of our sub-region, who are not with us tonight. We are missing tonight governors from the Horn of Africa and from the Seychelles.

If we are to travel together we need to integrate the hopes and the experience of all the countries in our region, not just those that have made it here today, or who are thriving best.

I feel very privileged and honoured to say just a few words of greeting and to provide some preliminary observations at the start of this 7th meeting of Governors of the Eastern Africa chapter of the Association of African Central Banks.

For my colleagues and I at the Bank of Mauritius, this meeting assumes even greater significance, as we are celebrating this year the fortieth anniversary of the Independence of the State of Mauritius. Whilst the Bank of Mauritius is one year older than the Independent State, the Independence of our Monetary Policy Committee remains in its infancy. Though I am bound to ask if it is early showing signs of emerging as an enfant terrible! Our Millennium Development Goal target figure for Infant Mortality is well down into single digits; I am determined that our MPC will not be lost in its infancy. Hopefully cutting infant mortality rate can be twinned by cutting our inflation rate, hovering as it is here just below the double digit mark. I see from the country reports on our convergence programme that Mauritius has sadly not the lowest inflation rate in this company. But mercifully none here has moved into the dizzy levels of the regional astronomical inflation record. Some may see the control of inflation as a fiercely complex technical matter. But I continually wonder if there much room for wildly differing opinions on monetary policy and its management. Do we need really need to take a vote on whether the world is flat or on the proof of Pythagoras' theorem?

The menu

Not wishing to disturb your digestion, I shall pass lightly over the menu for the coming days. I trust you will find this more light and enjoyable, than the heavy diet of national Budget speeches and debates that have been challenging your gastric juices over recent weeks. For those who have found these too troubling, I use the word loosely, I can reassure you, that your Finance Acts themselves will be a relief when passed; there is nothing more binding than an Act of Parliament!

We have chosen for our conference menu, three extra delightful dishes:

- Monetary policy challenges in the region,
- Financial sector stability and development, and finally
- Exchange rate management with capital flows problems.

The latter is the dish we have chosen in Mauritius, for our contribution to this banking culinary festival. These dishes have been added to our normal menu after extensive consultations with my fellow Governor from Kenya, Professor N'Dugu, who sadly is not able to be with us tonight, due to a last minute hitch. But that is the menu ahead. It is not really for this evening. So to whet your appetites, I thought I might, in way of an appetizer, explore a special "*smorgasbord"* concerned with that old conundrum:

"Sed quis custodiet ipsos Custodes?"

I hesitate to raise the spectre of Juvenal, who satirically posed, some 2000 years ago, the very question. A question that may haunt us yet, as we take one further step on that long road to convergence on economic and monetary union. If I may freely translate, for those whose Latin escapes them tonight, and for those of the fourth estate, who never encountered it; Juvenal was asking:

"But who will govern the governors?"

Governance for governors

Many of you will know that the IMF itself has boldly announced that it is reforming its forms of governance, to provide more accountability and more power to the people, who are its constituents. I have been reflecting on this, within the context of the choices in governance that are open to central banks at national level and the prospects and choices that are ahead for the region.

At our last meeting, you may recall, we planted a tree (to be precise a Dombeya Friedmani tree); located at Verange Sur Morne. Le Morne itself I am delighted to say is now a UNESCO National Heritage site, celebrating that period in our history, when the slaves, from continental Africa, fought for their freedom. Dombeya Freidmani, is an apt name for our tree, for it is both a reminder of one of the giants of the monetary revolution, Milton Freidman, and the name marks our hopes for future regional banking independence! Our tree of Independence is doing well, nurtured by our experts. But like us, it has yet to mature, and we can only dream of its potential fruits.

I am told by our Minister of Finance in Mauritius, that it is harvest time for the economy. I can only reply that we have yet early seedlings in our regional banking estate. Their continual growth is less certain than that of inflation in the price we must pay to nurture them. We thus must remain cautious about the futures market for the flowering and fruition of our regional banking union.

So in banking what should good Governance mean for us? What are the key decisions that need to be made in providing the framework for our governance? What is independence and what forms can it take? There may be no one prescription; my point is to highlight some of the issues. I note that the Commonwealth Secretariat[1], at their recent heads of government meeting, urged members to review three broad options for the revision of the Bretton Woods Institutions. Difficulties are engaging the FED, Jean Claude Trichet in the Euro-zone, Sweden and further afield at the Reserve Bank of India. Across the continents of the world, at international, regional and national level, there is growing debate on banking and its governance. Even the UK's iconic 1997 model of separation of powers, is coming under review. The current global monetary and fiscal difficulties are fuelling the fire.[2] Rising oil, food

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[1] Professor N Woods (2008) A Commonwealth Initiative to Support Reform of the IMF and World Bank, paper presented at Commonwealth Heads of Government meeting, June. Also see related Marlborough House Statement 10 June 2008.

[2] Credibility at Stake The Economist 14 June 2008, p 39-40; also see BBC business news Inflation in Eurozone at new high, www.bbc.co.uk/1/hi/business 7/4/2008.

and commodity prices and the speculative impact of futures trading, are adding to the heat and the rising inflationary pressures. Major commercial banks are tottering and other financial institutions are going to the wall.

Issues for debate

So now in our national and sub-regional debate about arrangements for the future, let us touch on some issues that are now being seen in a new light, not so much of principle, but in terms of the performance and results that ensue. We are fast moving from management arrangements based on the theory of banking, to results-based governance.

In our own Bank of Mauritius Act 2004, members of the MPC have a statutory duty not to be subject to the direction or control of any other person or authority, in the discharge of their duties. But what are the sanctions to enforce this duty if they should be tempted or persuaded to take a line fed to them by business or the Government itself. How can we govern to achieve evidence based results if jobbery prevails?

Questions for governance

Let now us explore a little some of the hot questions on governance of central and regional banks.

- **Who should decide interest rates?** *Should a Central Bank be truly independent on these technical matters or its assessments continually second-guessed by political placemen appointed by the government?*
- **Who should supervise commercial and other banks and other financial institutions?** *Is this the proper field for the central bank or as in the UK should that role be displaced to a financial services authority?*
- **What is the meaning of "policy" and "strategy" reserved for the Boards of Banks and how does it differ from "policy objectives" enshrined in the Bank constitution?** *Should "policy" be allowed to stray into the field of "operational management", where this is entrusted to the Governors and their staff? Should the Board have its fingers in the appointment of staff, the organisation of staff and decisions on the detailed deployment of the budget of the central bank?*
- **Who should hire and fire the governors and on what grounds?** *What are the implications for governance in the choice of options, whether by direct appointment by the Board of the Central Bank; or direct appointment by the Minister of Finance; or direct appointment by the PM or the Head of State?*
- **Who should appoint the Board of the Central Bank?** *If, as is often the case, the only shareholder is the government, and for other reasons the Bank must have operational autonomy, how do we ensure an effective separation of powers?*
- **How should voting be regulated on the Board of a central Bank, whether on a national or on the regional bank we are contemplating?** What *matters should be decided by unanimity, what by a simple majority? Should we consider proportional representation, consensus, or, for the regional matters, touching on discrete national interests, should we have a requirement for even double-majority voting, that is, after an agreement by the Bank, a reference back to each nation for ratification ?*
- **What should be the tenure of office for Boards and Governors?** *Should they have fixed, or open tenure like some judges dependent on "good behaviour"; should these jobs be open to competition on merit, and with freer movement of labour, should the choices for employment with national and regional banks be limited on grounds of nationality? This issue is hotly debated now with the World Bank and the*

IMF, where, at least for the Fund, the next Managing Director will be appointed in a different manner than has been the case since its creation.

- **How is accountability to be ensured?** *Is that a matter solely for the Board, or the shareholders; at national level should there be a cross-party Parliamentary committee of scrutiny; and what do we envisage for our regional bank to safeguard probity and avoid even the suspicion of loose practice?*
- **What is transparency?** *Should documents be open to examination by the Board, or by Parliament or indeed by the people, under freedom of information? How far should voting behavior be reported; should it be just the overall outcome or the detailed voting by individual members, as in many Parliaments?*
- **Who should be the shareholders?** *Should this be limited to the states or opened to the private sector and to others; and, with the rise in shareholder interest in management in many companies, what should be the shareholder rights and powers in central and regional banks?*
- **Are central banks for the Governments, or for the people?** *How should this choice be reflected in the forms of governance?*

Architecture and performance

These are some of the issues emerging, haltingly, on the agenda at national, regional and international levels. The mere fact of raising the questions suggests some answers, or some possible avenues for searching for them. In the final statement from the Commonwealth meeting in June, this year, reflecting on the performance of the Bretton Woods institutions, the judgment was unequivocal:

> *"…such institutions do not have adequate capacity, governance structures, or built-in responsiveness either to anticipate or to address global needs in a timely fashion…"*

This critique is essentially about the functioning of the financial architecture not the architecture itself. It is the proof of the pudding test! It is not merely what is on the menu, nor just what is in the recipe itself, but how it affects the palate! The design standards may be seen as providing a necessary framework for the rocket; but does it get take-off and does it reach its target? Those are the ultimate requirements in rocket science: it is necessary to have a viable design but the ultimate test is in the performance itself. Or as Marchamont Nedham put it, in 1657, in his Letters from Utopia[3]:

> *"There is no everlasting Principle in Government, as to any one particular Form…;…it…must be alterable according to the variety of emergent Circumstances and Accidents; so that no certain Form can be prescribed at all times, seeing that which may be commendable at one time, may be most condemnable at another."*

Or as Alexander Pope put it, perhaps, more succinctly in verse:

> *"For forms of Government let fools contest;*
> *What e're is best administered is best."*[4]

Thus, in designing systems for the governance of Banks, we should be concerned with what delivers the goods, the very outcomes. The task before us is to explore, in the variety of

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[3] Worden B (2007) Literature and Politics in Cromwellian England, Oxford.

[4] Pope A (1734) Essay on Man, Epistle 4.

experience available, what works best, looking at developed and less developed countries, looking from the North to the South, from the East to the West. We may recall that for example in West Africa they have had an economic and monetary Union since 1994. There was a Rand monetary area. There was a French franc area, the CFA. All these examples can enrich our debate, even if they do not provide the specific building blocks we need.

We should explore in all this experience the association between Forms and Outcomes. Then we can better see what are the necessary and the sufficient conditions for getting the results we seek. The issue, it seems to me, is not so much in the architecture, but in the durable capacity of the systems for delivering results. We must build for resilience of the systems. They must be secure in the face of accidents and unforeseen circumstances. We need to recognize the importance of biological models and their capacity for adaptation. Or perhaps we need more pointedly to acknowledge both the binding power of statutory law and the more subtle capacities of Common Law that survive, resilient, through the manifold tests of time.

Performance criteria

The Commonwealth Heads of Government at their meeting in June this year formally addressed the governance of international banks that:

> *"global crises require truly global and universal response…"*

And they called on these institutions to exhibit:

> *more legitimacy, fairer representation, more responsiveness, flexibility, transparency, accountability and effectiveness…*

They made a commitment to pursue these matters with the UN and in other international fora, as a matter of urgency. But for us now, this very critique of governance of international banks can provide the tests for our future plans. Are we giving enough weight in our plans for regional union to these seven critical tests:

> ***legitimacy, representation, responsiveness, flexibility, transparency, accountability and, above all, effectiveness?***

How do we score on these test at national level? Tough talk from the Commonwealth; tough tests for us! Yet are these not the very pertinent principles we should adopt for governing the Governors? As we look forward to our regional banking and our closer monetary engagement, what import do these performance criteria have for any future contract of marriage? What do these principles imply, indeed, for the governance of central banks at national level? Will they help to provide a new more relevant architecture, to ensure the resilience we shall need, to confront the looming crises of confidence and sustainability in our region and beyond? For as A P Herbert, that wit and lawyer of yester-year, once remarked:

> *"The critical period in matrimony is breakfast-time"*

The cyber-state

Financial services and their ICT dependent back-up are rapidly becoming the over-riding powers in our economies. Our leaders here refer to our "cyber" city. Now that word "cyber", derives from the Greek, meaning "steersman". It has become a metaphor for guiding the ship of state. But after breakfast when we go ahead in regional banking, if the governments are at the helm; the private sector, the engine, are the central banks to be confined to be merely the brakes?

The trouble with the IMF and the World Bank is not in their lack of capacity for applying or releasing the brakes, but they ran off the road when they tried their hand at navigation and driving. This sorry tale has lessons for us at national level at the interface of the governance of banking, finance and political government. The lessons are even more pertinent as we move towards the new vision of the regional and global banking roles for the future.

The continental financial plates have been undergoing an intractable process of geophysical shifts. The fulcrum has migrated from Washington to Dubai and Beijing. It is not just the Washington consensus that has collapsed, under the rising tide of globalization. We are now engulfed in a climate change in economic and financial affairs. Superseding Authority and History, we now have the evidence based test of performance. We now have the call for essential legitimacy, relevance and effectiveness.

Complaints on the Bretton Woods Institutions are not new. But the difference is that these protests have at last reached the ears and conscience of those running the Bretton Woods Institutions themselves! The charges are manifold but in the midst of the current crises in global finance, the worst charge against any bank is that it has become

> *"a fire brigade that is too far away."*

Emerging economies and developing countries have become so disenchanted with the existing global financial architecture, not least countries in this region, that there is emerging what Professor Woods has termed

> *"Anger in Africa"*

towards those ageing financial global dinosaurs. No wonder at it, so locked in the past are they seen to have become, so inflexible and prescriptive, so inept at responding to a changing world.

A long engagement

As we look at our tasks ahead, we might do so in the light of that common family experience of preparing for the marriage of a daughter or son. Joy tempered with Realism. So I guess we are in for a rather long engagement in sub-regional banking. This is our seventh encounter and at present we are just about holding hands. The prospect of formal registration and the very act of consummation is, have no fear, yet a long way off.

But as George Meredith ironically declared:

> *"Kissing don't last: cookery do!"*

Thus if we are to progress from flirtation to commitment, we must enter the kitchen, roll up our sleeves and encounter the heat, global warming and all!

Beyond the looking glass

For this our 7th meeting here in Mauritius we have a clear agenda on important current aspects of monetary and financial matters. At this time when banking has become a rather hot issue of geopolitics, we might wish to heed the grinding of the underlying geopolitical plates. It is, I believe, an opportune moment.

Let us, then, over these days, give some thought to the implications of the structural issues of governance, I have touched on tonight. Let us reflect on the guiding principles which should govern the longer-term strategy of our central banks. For we are moving step by step, from merely holding hands, towards that undiscovered country, the terrors and delights of a regional monetary and economic matrimonial bed!

As we peer then, beyond that looking glass, to glimpse the reality of that distant event, we should endeavour to ensure that our future marriage becomes more than a mere

".. triumph of hope over experience"[5]

For as we navigate through today's troubled waters, we should reflect on Harold Nicholson's prescription for surviving such matrimony when he once opined:

> *"The great secret of a successful marriage is to treat all disasters as incidents and none of the incidents as disasters"*

Let us now together rise; I call on you to raise your glasses to our long, fruitful, disaster-free engagement, and to our absent friends.

[5] Dr Samuel Johnson.