Rundheersing Bheenick: Commitment to regional cooperation in Africa – COMESA

Address by Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, at the Opening Ceremony of the 14th Meeting of the COMESA Committee of Governors of Central Banks, Balaclava, 29 October 2009.

* * *

In the past year in this region of Africa we have been the **innocent bystanders** in the maelstrom following a major upheaval in the western economic system. I said **innocent bystanders**, but it is perhaps more appropriate to say **intelligent bystanders** in the face of this western debacle.

Whilst the count of banking failures in the USA now reads like the death toll in Afghanistan, we in COMESA have had no banking failures, no collapse of confidence, no credit crunch, no gross excesses in risk taking, no gigantic bailouts and no government take-over of vast swathes of the financial services, creating an unprecedented moral hazard for the whole finance sector. In truth, banking in COMESA is safe in our hands, fellow-Governors, in this sane corner of a financial world, elsewhere gone mad.

We have set an example to the West in thrift, in probity, in sound management, in transparency and in prudent regulation. There are of course some states in the wider region of Africa which, it is alleged, often confuse Swiss banking accounts with their own central bank reserves. But broadly speaking, in this bleakest of times, Africa has come out rather well. So I am delighted that we are here together to spend some hours basking in the glories of our recent past and looking ahead to review our prospects for, what I believe is, an even brighter future for our region.

Some financial commentators in the west are heralding 2010 as the time for getting back to normal: others are more cautious. They are talking, not about "business as usual", but rather about getting on to a **"new normal"**. Let me then reflect on how I see this **"new normal"** from the perspective of our banking business in COMESA and our opportunities for promoting greater economic and social prosperity in the region.

But, first of all, let me say on behalf of the Bank of Mauritius, what a pleasure it is to welcome you all here this morning on the occasion of this opening ceremony. I wish to extend a very special welcome to my fellow-Governors, central bankers and representatives of regional and international organizations who have joined us this morning. I welcome Dr Mkwezalamba, the Commissioner for Economic Affairs at the Africa Union Commission and Mr Ghosh, Mission Chief of the IMF. I also recognize in the audience our special guest, Mr. Bingham, Secretary-General of the Central Bank Governance Forum of the Bank for International Settlements.

This 14th Meeting of the COMESA Committee of Governors underlines our commitment to regional cooperation. As COMESA pursues its "variable geometry" approach and consolidates the Free Trade Area, the Customs Union and the Common Investment Area, we gather here to chart the way forward in the specific area of monetary cooperation, on the pathway towards closer economic integration.

Some have previously talked of a target date of 2012: that is getting awfully close. So we should remember that the fuller Union in the United States after the War of Independence, the joining together of North and South in peaceful co-operation, took more than half a century; closer to us the EU which started in 1956 with the Treaty of Rome – and some say even earlier with the Coal and Steel community – the EU is still unsure, more than half a century later, about the passage of the Treaty of Lisbon, to achieve full integration across its wider region. So we should not be too hasty, but we must move forward step by measured step. Central Bankers are cautious by nature and can be relied upon not to rush things. In these fraught times, we may be forgiven for being somewhat over-cautious.

I believe this is a propitious moment of real opportunity for COMESA. For whilst we may have watched in the past year, with growing alarm, the assets of the western banking system melting away, and its leadership status in tatters, we can with advantage learn from this discomfiture. For the gigantic western financial liabilities remain, as the balance sheet recession is not so much about flows but about stocks. The big issue for us all is not about the future of capitalism but about the future of capital management. The media may keep banging on that the western crisis is all about a burst bubble in house prices. Not at all! The real challenge is not about revaluing houses but about stimulating the potential of the real economy, stupid!

The crisis in the USA and the European Union has moved in three distinct phases: we had, first, the collapse of finance; then there was the collapse in consumption and manufacturing; and now we are witnessing the demise of the labour market as jobs evaporate. But for us, in emerging markets and developing countries, the situation is quite different. We remain as before relatively solid in each of these three areas. Indeed, for us in COMESA, the real economic problem is not so much about those matters which are plaguing the developed world but more about how best to make use of our basic natural assets of land and other natural resources, the much neglected third pillar of all economic systems.

The paradox here is that our underlying assets of natural resources are threatened, not from western financial mismanagement and their bloated bubble valuations of doubtful assets, but from our *under*valuation, rather than *over*valuation, of them.

So we must now focus more on how finance can better release the potential locked up in the real economy. At the same time, we must beware of those – whether from the West, or from the East, – bringing gifts tied with strings to promote post-colonial re-colonisation and expropriation of our land, our natural resources and our cultures. The old Roman adage "*Timeo Danaos atque dona ferentes*" bears repeating for we forget its timeless lessons at our grave risk and peril!

We must therefore now use our monetary strengths to focus more on our natural riches, for therein lies our unrealised potential. The time is prime for the region to play a major part in global affairs. The time has come for Africa.

Some commentators continue to assert that growth in Africa continues to depend critically on provision of adequate external financing. But in truth we should now be setting goals to release ourselves from the financial and cultural strings of aid. What we need is **more trade,** not more aid. This is the big challenge for us since it is closely aligned with our successful pursuit of the COMESA Macroeconomic Convergence criteria. This is on our Agenda this week and I believe the solution to this dilemma is very much in our own hands. We are now working closer together in this region to promote our own internal market and to attend to the grave issues of poverty and social need.

The foundation for our internal market lies in the development of effective regional institutions that facilitate trade. And the keystone for the overarching institutional structure, is the Regional Payment and Settlement System (REPSS) which is now being put in place. This home-grown payment system, will reduce the cost of payments in intra-regional transactions by more than 50 per cent. Over half of the COMESA members are in the process of opening accounts. The Live-Mode pilot earlier this month (October) has proved a success. And I trust, before the year is out, all our Central Banks will have signed up as full participating members. For REPSS is not only the springboard for further liberating trade within the region, but also the point from which we can make that final leap from convergence to Monetary Union. It is an essential point for the take-off for us to emulate in Africa the economic and commercial achievements of our partners in Europe, whose proven experience is a continuing source of inspiration to us.

This process of institutional capacity-building is essential for promoting overall regional development. This was indeed the foundation of the prosperity of the European Common Market, as it picked itself up in the 1950's, and provided regional support to the poorest countries so that they could also step up as local partners and develop the wider market.

Post-war Europe and our neck out of the woods have this much in common. Regional integration under COMESA offers a valid way through some of the global challenges that confront us. Who can deny the enormous synergy packed in a regional group like COMESA, with its combined market access of more than 415 million people? The larger economic space is already encouraging increased *inter*- and *intra*-regional trade. In 2008, intra-regional trade within COMESA stood at over US$15 billion; it has more than doubled since 2003, and quadrupled during the decade. Moreover, with REPSS, we not only offer faster settlement of payments but we also cut the transaction costs by more than a half, thus giving a further boost to trade.

With REPSS in place, each member-state will have cheaper access to bigger markets and with the Common Investment Area, it will stimulate foreign direct investment in our region. It will help to diversify our productive export base. This must go hand in hand with progress towards the achievement of the Millennium Development Goals on poverty, education, gender challenges, better health, a sustainable environment and more effective partnership for sustainable development.

Exploiting the economies of regional scale is already strengthening our national resilience to exogenous shocks, reducing the prevalence of conflicts, enhancing our voice in international fora, and improving our terms of trade with other regions, on top of expanding intra-regional trade.

In this process, the Monetary Cooperation Programme, ultimately to achieve the goal of Monetary Union, is absolutely essential. Monetary cooperation will foster belief in the wider policy goals and reduce the risk of policy reversals. Here we can learn much, not just from European experience, but also from experience elsewhere in Africa such as the Western African Economic and Monetary Union which has made significant progress in this area.

I am glad to note that we shall also be examining the framework for financial sector development and financial stability during our meeting. Financial Stability has come to the fore as a subject of vital interest to all of us. Soon after I took office in early 2007 I set about restructuring the Bank to enable it to respond in a dynamic manner to the new and emerging financial sector issues that I could see on the horizon. One of the changes that I brought about was the establishment of a Financial Stability Unit in October 2007, with a clear cross-cutting mandate to identify and assess financial stability issues. But as the sky was then a spotless blue and the financial crisis not even a distant prospect, this initiative hit a wall of incomprehension and ignited a raging turf war. I did not do myself any favours either by talking of a financial stability czar, with an oversight of work across various divisions of the Bank and indeed beyond the Bank. Since then, the Bank has published three Financial Stability Reports at six-monthly intervals. We are now in consultation with the Financial Stability Institute for the Bank to host a regional seminar on financial stability next year. I therefore welcome the proposal to set up Financial Stability Units in COMESA central banks and we stand ready to exchange our own experience with COMESA member-states.

At this meeting, here in Mauritius, we shall also be looking at some of the missing elements as we seek to create the conditions and institutions to achieve convergence. We expect to get on with the job of creating the COMESA Monetary Institute which we have been talking about for quite some time now. We know the critical role that the European Monetary Institute has played in paving the way for the advent of the Euro. We believe that the COMESA Monetary Institute is vital for undertaking the preparatory work for the COMESA Monetary Union.

A word about the prospects for the continent. The IMF expects a growth rate of 1.2 per cent in 2009 for Sub-Saharan Africa, compared with an estimated 5.5 per cent in 2008. If government policies remain supportive, and global economic growth recovers, as currently expected, Sub-Saharan African growth should pick up to around 4.1 per cent in 2010. By comparison, the prospect for the USA in 2009 is that it remains in recession throughout this year, along with the rest of the developed world. Africa thus stands out with the promise of substantial positive growth this year along with China, Australia, India, Indonesia and a few others. Our prospects for 2010 are thus up with the leaders in the world.

In Mauritius, there are abundant signs of continuing economic improvement – growth remains positive, inflation is down, we have an overall surplus in our balance of payments, net international reserves are at a historical high – all indicators showing a genuine capacity for resilience in the face of unprecedented external shocks. Most of all, the crisis has been grasped by Mauritians as an opportunity to open new dimensions in development, not least confronted as we are with the impact of climate change. The Vice Prime Minister and Minister of Finance and Economic Empowerment, whom we are pleased to have with us this morning, will be presenting the nation's budget later next month and he has already announced that "Shaping The Recovery" will be his main thrust. This is all in the spirit of the national strategy of "*Maurice Ile Durable*", the policy for securing sustainable development, announced last year by our Prime Minister at the United Nations General Assembly. Mauritius, with many friends from Africa, will be asserting our case at the Copenhagen meeting on climate change.

Allow me, fellow-Governors, to place on record our gratitude to the Bureau of the COMESA Committee of Governors of Central Banks and to the Secretary-General of COMESA for their support to Mauritius as we offered to host one of the two new African Technical Assistance Centres which the IMF is establishing in Africa. As we know, Mauritius has now been chosen as the location for AFRITAC (South) and the Bank of Mauritius must now make up for lost time and refurbish its former offices to accommodate this Centre to make it operational as rapidly as possible. So, fellow-Governors, thank you very much for trusting us with this important assignment.

We welcome the decision from the Tripartite Summit of COMESA, in Kampala in October, that the three African Regional Economic Communities should work together towards a single Free Trade Area, with fast-tracking the attainment of the African Economic Community, as first envisaged in the Treaty of Abuja in 1991.

Institutions that we have set up in years past – some of which go back to pre-COMESA days – are busy advancing this agenda. In monetary co-operation in COMESA, we have the PTA Bank, the PTA Reinsurance Company, the African Trade Insurance Agency and the African Commerce Exchange which are all very much involved.

Among the new institutions, I am pleased to see that the COMESA Fund will soon be up and running with its two windows, the Adjustment Facility and the COMESA Infrastructure Fund, based here in Mauritius. The first window addresses the problems related to liberalization of the economies of member-states while the second window addresses infrastructural problems of the region. Out of the EU allocation of €78 million, a sum of €5 million has already been disbursed. The pilot Aid-for-Trade programme for the North/South Corridor has mobilized nearly US$3 billion, with a further programme planned for the rest of the COMESA region. We have every reason to believe that the COMESA Fund will hit the ground running!

So, with all this ferment of activity, it is difficult <u>not</u> to get excited about the continent. Africa is moving on, so move over in front, you are blocking the way, we are now in the fast track.

For our meeting this morning we have before us a wide-ranging and important Agenda. Let me just single out six key points that I believe will provide a focus for our discussions and give a real added boost in our exciting journey towards economic integration.

We shall

- First, review the choice of Monetary Policy Regimes and we shall be guided by the Distinguished Governor of the Central Bank of Kenya, Prof Ndung'u.

- Second, listen to a presentation by the international expert Gavin Bingham of the Bank for International Settlements on issues in the Governance of Central banks, to be enlightened on emerging best practices and improve on our current performance.
- Third, receive country reports on progress towards macro-economic convergence – which is the acid test of how well-prepared we are for closer union.
- Fourth, hear of progress in the establishment of Financial Stability Units and the production of Financial Stability reports by Central Banks, to enhance our surveillance and increase our resilience.
- Fifth, consider the Draft Charter of the COMESA Monetary Institute towards strengthening our regulatory and supervisory framework.
- And finally, agree on the choice of a host Central Bank to house the COMESA Monetary Institute.

That is quite an agenda.

I have underlined what I believe are some of the crucial issues for us, and the opportunities before us, for further solid progress. And let us not forget that, whilst the West debates the merits and demerits of the Anglo-Saxon, the Swedish and the Japanese finance models, to get them out of the current disaster zone, we here in Africa are refining our own African model. Our model has served us well to avoid our economies being sucked into the maelstrom of the western self-made crisis. So, as we are getting well on the way to our own Economic Union, and things are looking up, we can truly boast: **Now Africa is going places!**

Let us keep moving. And enjoy the ride. Thank you very much for your attention.