Rundheersing Bheenick: Improving corporate governance in the financial services industry – a regulator's view

Address by Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, at the Mauritius Institute of Directors' Breakfast Forum, Ebène, 22 March 2011.

*   *   *

I am a bit disappointed this morning with this breakfast event! I was looking forward to a hearty English breakfast – I believe this is the only breakfast that is worth inviting people to!

But, I am delighted to learn that I am the very first Mauritian that you have asked to join you at your breakfast meetings. I'll tell you why I was looking forward to this breakfast – my own first contact with the English breakfast was memorable. You might be interested to know that my very first encounter with the English breakfast was when I went up to Oxford as a Laureate and as a near-vegetarian. I immediately had to protest that the whole of the College menu was for me well-nigh inedible. I was forthwith summoned to the office of the Domestic Bursar, a very English gentleman, Rear-Admiral Denis Hetherington.

> "*You're from Mauritius, I believe?*" he asked.
>
> "*Yes, Sir*".
>
> "*Ah! Mauritius! I was in Mauritius with my ship in 1926; wonderful place for a brief stop-over for revictualling*".

I explained my revictualling problem and he resolved it forthwith; so, instead of the English breakfast staple of eggs and bacon, I had a diet of two fried eggs for breakfast …an omelet for lunch…and another omelet for dinner. I really went to work on eggs in my College days.

Those of you who, like me, have lived in England for a while, will have mixed views on the quality of English cuisine. That fine, though sadly now out of fashion, writer W Somerset Maugham, when confronted by a friend who said he hated English food, responded with telling irony:

> "*All you have to do is eat breakfast three times a day*".

So, I'm sorry that the start we have made today is not based on that sound English culinary principle:

> "*Go to work on an egg*".

I am, of course, just being facetious to make sure that everybody is wide and truly awake! I must say it is a real pleasure to be here and I am most grateful for your invitation to introduce a breakfast discussion, with or without my college diet of eggs. So let's get to work on the subject you have given me through your Chairman, my friend Georges Leung Shing:

> "*Improving Corporate Governance in the financial services industry in the World and, in particular, in Mauritius from the regulators' point of view*"

Not a narrow topic, I see. Each one of these elements might perhaps justify a lecture in its own right, if not a book!

Corporate Governance is far from being a narrow subject but going into the intricate details might, I fear, provoke some indigestion this morning. I thought that, in his introductory remarks, my friend Georges has done a good job of setting up the boundaries within which to conduct our discussions on Corporate Governance.

Among the previous guests that your Institute has invited at similar events in the past, I noted the names of Alex Berg and Prof Bob Garratt, who are well-known for their contribution in the area of corporate governance. I also see in the audience my good friend, Tim Taylor, who chaired a major committee locally on the subject. I understand some time ago

Mervyn King – not Governor King from the Bank of England, but Prof King from South Africa – also paid us a visit and talked to many of you about Corporate Governance. He has been taking a key role in his own country, South Africa, which has established a name for itself in the area of Corporate Governance, with the King I, King II and King III Reports.

What is corporate governance?

The modern focus on corporate governance traces its origin at least as far back as the Cadbury Report. Cadbury, with his own Quaker background, would obviously be concerned with issues of corporate governance, with its ethical and moral dimensions.

We don't need to discuss Corporate Governance in great detail here this morning. Your Institute has been paying considerable attention to the subject over the years and you all know what it is. You are all aware of the various issues that crop up in this particular area. But I would all the same like to remind ourselves of the half a dozen or so key elements in Corporate Governance, which cut across different forms of organisation and areas of economic activity. Those elements are: Efficiency, Openness, Participation, Accountability, Transparency, Probity, Effectiveness and Coherence. These key elements stand out in the different treatments of the subject in any Report on Corporate Governance that you may come across.

In addition to national reports such as the Cadbury Report of the UK in 1992, the US Sarbanes-Oxley Act of 2002, the three King Reports in South Africa, and here in Mauritius, the Taylor Committee report of 2003/4, the World Bank has also deliberated on the subject. It produced Standards and Codes of Conduct on Corporate Governance applicable to all countries, rich or poor, drawing largely on the principles outlined by the Organisation for Economic Cooperation and Development, a grouping of rich countries. These global takes on the subject have helped extend our vision of Corporate Governance beyond its erstwhile narrow focus on efficient internal management of a company to cover its impact on the economy, on society and on the environment. In other words, the scope and framework within which we have to judge Corporate Governance has been drastically changed. All these codes of conduct have special relevance for the banking and financial services sector – as well as for central banks and other financial sector regulators, which act as guardians of financial stability and promoters of economic growth.

We, at the Central Bank, have issued many guidelines on different issues relating to Corporate Governance. One of direct relevance is, appropriately enough, our Guideline on Corporate Governance. All these guidelines have been reviewed in line with the Banking Act of 2004, the Companies Act of 2001 and The Report on Corporate Governance for Mauritius mentioned earlier. They give special attention to the composition of the Boards of banks and their operation, the limitations on tenure of office, the importance of independent directors, the qualifications of Board members, the responsibilities of the Board and its various committees, and the operation of the audit function. These are all factors that we, at the Bank, use in our monitoring and surveillance of the banking sector. That is basically the framework within which I am going to approach Corporate Governance in the banking and financial services sector.

Let me now turn to the second leg of my remit this morning.

What is the financial services industry?

I am closer to home here, coming from the Central Bank and I think that some working definitions are helpful. Financial services is an omnibus term covering the wide range of services provided by a gamut of financial institutions of which banks are only one part and an increasingly smaller part as they are commercial banks increasingly overshadowed by nimble, but often undercapitalised and less regulated, entities driven by the pressure of financial engineering. We have foreign exchange bureaus, loan facilities providers, credit unions, private banks, investment banks, investment advisers, building societies and other mortgage providers, savings units, insurance companies, stock exchanges, financial call-centres, etc. – we could extend that to include credit rating agencies, suppliers of professional and technology services to the rest of the industry, and so forth.

Financial institutions, such as these, have become an integral part of a modern economy: they have become a key element in the process of economic transformation from basic subsistence agriculture to the modern state where industrial production of goods and services, and financial services themselves, constitute the bulk of economic activity. Banks, along with the joint stock company, might be seen as the *sine qua non* of economic transition. All these institutions have to operate within a framework of commercial law and within codes of conduct and regulation to overcome what economists call "market failure". In recent years, as the global economy got engulfed in an unprecedented peace-time crisis, the finger of blame has been pointing at the banking and finance sector as being the cause of it all. Loose regulation, poor supervision, inadequate enforcement, perverse incentives, and other practices bordering on the criminal have all been identified as the main culprits. It all adds up to a massive failure of governance – both within the sector itself and at the level of the regulators and supervisors.

In 2009, when the crisis was in full swing, the Bank for International Settlements (BIS) issued a report proposing guidelines for designing effective governance arrangements for each of the major functions of central banks. The BIS-based Basel Committee on Banking Supervision (BCBS) has been working towards establishing a code of conduct for banks across the board in response to the crisis. But Basel II, as we all know, failed to forestall the crisis that we are living through, or even to forewarn of any impending crisis. Work on Basel III is at an advanced stage. It will take on board some of the lessons of the crisis and seek to minimize the frequency and severity of future crises. The Bank of Mauritius (BOM) itself is governed by the Bank of Mauritius Act of 2004, and those of you who follow *les actualités* in Mauritius, know that we had our own problems of corporate governance. It was widely publicised and had to be ultimately resolved by resort to the Supreme Court. So, on the local scene, we have the Bank of Mauritius Act and the Banking Act from which we draw our supervisory remit. In addition, the Mauritius Bankers' Association (MBA) has adopted since 2007 a Code of Banking Practice, which encapsulates international best practice, for the guidance of all commercial banks in the country.

On the international front, we are bound by the financial and commercial policies and practices of the major international players in the global financial system. A determining role in this is played by the so-called "Unholy Trinity", that is the International Monetary Fund, the World Bank and the World Trade Organisation, which have all come under close scrutiny for various reasons in recent years, and many people think that all of them are ripe for radical reform and must fix their own governance and legitimacy problems in the first place before they can, once again, aspire to play a leadership role in these areas.

What are financial regulators?

Financial regulators, by and large, tend to be generally publicly-established institutions that go under different names in different jurisdictions, such as central bank, monetary authority, reserve bank, *commission bancaire, autorité de supervision*, financial services commission, etc, which have oversight, regulatory, and supervisory authority over the entire sector, or specific parts of it. All these regulators are there to enforce laws, issue regulations, and set standards and rules for the conduct of financial business. The financial regulations may cover, for example, the statutory registration of companies, the licensing of banks and the functions of the central bank. Other non-statutory rules may cover the extent and nature of reserves, liquidity, solvency, interest rates, foreign exchange dealings and holdings etc. The institutional framework for such regulatory control varies enormously across countries and is the subject of continuing debate. As you may be aware, many changes have been made or announced in the US and the UK for example, where Dodd-Frank and the Vickers Committee can best be described as work in progress. But change cannot be brusque in such a critical area as banking. For regional or international financial centres, change cannot ignore any potential regulatory arbitrage or its likely impact. There are many pending issues, here in Mauritius as well. In Mauritius, we often tend to pattern our institutions on what seems to be working elsewhere. But, in the banking and finance sector, practice varies from country to country. We must therefore be very careful when we are comparing to ensure we compare like with like. And even more careful when we reformulate supervisory mandates and redesign institutions to guard against importing models engineered to address an entirely different set of problems in an altogether different operating environment.

Let's go back to the economic crisis for a moment – I saw that in his presentation, my friend Georges had a slide telling us that the crisis can also be seen as a failure of regulation. In the case of the country where it began, the US, it was most certainly a failure of regulation. There was a confusing array of regulators, some with overlapping jurisdictions. There was undue reliance on self-regulation in broad swathes of the industry. There was considerable laxity in implementing those regulations that did exist! And there was, most certainly, a generalised failure of governance to ensure that incentives were properly aligned in the financial services industry. Banking and finance, and all sub-sectors within, are therefore all prime candidates not only for proper regulation but also for proper oversight by some overarching authority going beyond the sector being regulated. As things stand, there is a mixed bag of regulatory approaches which emphasizes the need to have greater coordination on regulatory reform and some international agreement. The BCBS has been doing some rethinking on what central banks should be doing and how financial services should be regulated globally. These are issues that have implications for Mauritius as an offshore financial centre and we must watch developments very closely.

Self-regulation v/s overregulation

Statutory regulation needs to be supplemented by self-regulation in well-defined areas within strict parameters, which should themselves be subject to oversight. A whole range of professional activities, such as accountants, actuaries and company secretaries, unit trust operators, life-insurance companies and independent financial advisors – all of them have, at different times, opted to be self-regulated to the extent possible, thus escaping financial regulation, – sometimes with disastrous consequences, like in the ENRON saga. Financial regulation covers many non-contentious areas. Examples would be the registration of companies, their licensing for different activities, the forms of company accounts, the frequency of their publication, the process of external auditing, the regulation of deregistration of companies, bankruptcy processes, and the control of fraud and malpractice.

The crisis has heightened the long-running debate on the extent of regulation. As you know, until the crisis hit us, most of us were opting more for light-touch regulation, and wherever possible for self-regulation. And the debate was whether there was need for any regulation at all, and whether we should not simply put our trust in well-functioning markets and allow them to be self-regulated. The crisis has shown how wrong we were in thinking that those institutions could be left to regulate themselves. The proper role and function of regulatory bodies has come back to the forefront and, after the recent recession, it seems that the case for re-regulation is becoming very strong. Other issues have come into sharper focus as well, remuneration of financial services staff and boards, the influence of bonuses on risk-taking, as well as the role of credit rating agencies. All these are crying out for some regulation.

When banks and financial institutions fail, it's the public that ends up with the bill for cleaning up the mess. The criteria for bailouts need to be more explicit. The size and power of certain financial institutions has also become an issue of critical significance. We can surely sympathize with Mervyn King, Governor of the Bank of England, when he asked: "If it is too big to fail, is it not just too big?" The question is not just academic – it has many implications on the future of mega-banks. Do you start breaking them up to make them more manageable, to make them easier to supervise, and to make them easier to bail out in case they need bailouts? And when do you proceed with this break-up, assuming it's the only way to combat moral hazard? At the peak of a crisis, when you have other pressing concerns to grapple with? Or in good times – when the TBTF institution is quite likely to up sticks and move to a more accommodating jurisdiction?

So we might want to call for more regulation – and internationally-coordinated regulation, at that – but the evidence on the impact and cost of regulation remains incomplete. Instinctively, many of us believe that there is a strong case for self-regulation, although we know that there are limits to be drawn somewhere, beyond which self-regulation fails. We may invent new levers of control, but will they be effective? Or will they turn out to be counter-productive? Will regulation be able to catch the market-players that have previously dodged regulation, such as the US shadow-banking system around the infamous sub-prime mortgages? Or will the regulator trail behind resourceful operators perpetually seeking ways around rules and regulations? Credit ratings by the credit agencies tweaked market signals to the point that they failed to give early warning of the impending collapse. Worse, they were the product of a conspiracy as the credit agencies were being paid by people who were asking them for good ratings, and they all made good money out of it on the way to the blow-up. The field is a very complex one, and therefore, we must look for ways and means of trying to make practical reforms in Corporate Governance to prevent such catastrophic outcomes.

Improvement in corporate governance

This brings us to the third leg – what is deemed to be an improvement in Corporate Governance? From whose point of view is it an improvement? By and large, if you are an operator, you would want to have light-touch regulation; you would want to have maximum freedom to operate the way you want. If you are the World Bank, you would probably want greater "Ease of Doing Business", which means fewer regulations. If you are one of the persons who have been ripped off by Mr Madoff, Grand Master of the Ponzi scheme, you might be asking what were the regulators doing when he was making off with your money? Taxpayers who have been bailing out western banks could also be asking for guarantees of greater regulation in the future – hence the pertinence of the question of Mr Mervyn King!

There is a risk that we may now overreact and go to the other extreme of overregulation, which, in my view, would be a bad thing. For all its defects, light-touch regulation did stimulate financial engineering and brought financial innovation which led to reductions in transaction costs and facilated capital allocation to sectors that were looking for it. We would be doing ourselves a grave disservice if we start over-regulating. What we need is to find a middle way. In Mauritius, we have gradually developed our own way of doing it although we are quite happy to be guided by the work of the BCBS, the IMF and the World Bank. All these institutions have dedicated teams which are busy working out the contours of future regulation in different areas relating to banking and financial services.

We have to distinguish here between perception and reality. Generally, politics is about perception; but business is about reality. We at the central bank straddle the divide between politics and business; and we have to be aware of both the perception side of the equation, and the reality on the ground. So, while politicians are busy watching the opinion polls and the press, you as economic operators have to check your books and your cash-flows. We, at the central bank, find ourselves at the intersection of these two worlds, pulled in both directions and predictably unable to satisfy both constituencies for long. We have to make sure you are improving your bottom line, but not at the expense of anybody else or of the country at large – that is our mandate: price stability in the context of balanced and orderly economic development.

If we just read the world press, and inhale – a practice which is not recommended on health grounds – Mauritius looks to be doing rather well. But this should be a wake-up call for skeptics. Well done, all you Directors here. All of you in your own separate ways, in companies, big and small, have all become part of that world-famous Mauritius success story! On this subject, I have been reminded by a colleague of the wise words of Adam Smith, the grandfather of free-market economics, when he observed:

> *"People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices"*

For "prices", read directors' pay or CEO's remuneration, or share issues to the Board and the management. To complete his observation on the cupidity of the world, Adam Smith added this cool assessment of the prospects for regulation:

> *"It is impossible indeed to prevent such meetings (of people in a common trade) by any law which either could be executed, or would be consistent with liberty and justice."*

Such, indeed, is the dilemma that we, regulators, face in searching to improve our systems of international, regional and national management of the financial industry and how best to regulate and supervise a deeply-flawed market which is falling into moral hazard.

Yet, Mauritius seems to have done rather well. The financial sector has largely escaped from the fallout from the great crisis and is expected to remain solid, resilient, profitable and financially stable. I see many of our CEO's from banks here and I'd like to congratulate them for a job well-done. But that does not mean that they managed it on their own. We at the Bank did our best to keep them on the straight and narrow path. As I hinted earlier, if you have only self-regulation, you can be easily tempted to stray from that in the search of greater profits and greater returns for your shareholders. We believe that our banks have done very well, by and large. Their performance is absolutely remarkable when viewed against the backdrop of the ongoing crisis which has impacted both the domestic and offshore segments of their activity. In fact, a couple of months ago, the chairman of the Mauritius Bankers' Association was stung to the quick when, in the course of an address to economic operators, I had the cheek to draw attention to the profits that our banks were raking in on a daily basis! It's good that our banks make profits as it shows they are running their affairs well. But if they make excessive profits, then it could reflect badly on the regulator. It would mean we are not doing our job.

Transparency

This is the reason that we, at the Central Bank, are keen to have an extra dose of competition in the banking sector. We are busy welcoming new players – in fact, I see one of them in the room here this morning and he happens to represent the first of a new breed, our very first full-fledged Islamic bank. More players mean more competition – which can only be good for the consumer of banking services. We have changed applicable guidelines and introduced new measures to bring more transparency. We now require all banks in Mauritius to publish on ***our*** website, and according to a set template, the whole structure of fees, commissions and charges which they apply on various transactions and services, to enable the consumer to shop around. Obviously, there are still difficulties in moving business from one bank to one another. But we are making small, incremental, contributions to make that happen and we intend to persevere. We have recently moved into what I believe is entirely new territory for any central bank – a world first!

Credit rating agencies, as you all know, have come under severe attack for their role in the crisis. Some of you may recall that I openly berated a leading rating agency for its threatened de-rating of a leading local bank – and I was one of the first central bank Governors to do so ***before*** the role of these agencies emerged as a legitimate source of concern for regulators. I considered the de-rating action unjustified and mistimed. The lesson which I drew from that spat with the rating agency is that we should share our information more widely to prevent any potential financial instability arising from ill-considered rating action by rating agencies. Most of our local banks are not rated by these agencies. We have thus avoided blind adherence to their ratings. These agencies do not have the database that we at the Central Bank have on each and every bank operating here. Indeed, we have our finger on the pulse of each and every bank, big or small, and we believe that we have a much better reading of the situation than anyone else. Starting in April this year, we begin publishing the ratings of all our banks on the Bank's website. This is yet another major step in the same direction of greater transparency that we embarked upon when we began publishing all the fees and charges applied by banks.

Earlier this year, we had the usual IMF Article IV Consultation Mission which pored over all figures relating to our fiscal, monetary, banking and financial affairs. The IMF and the World Bank also conduct a diagnosis of our economy every two years under the Financial Sector Assessment Program (FSAP). The IMF and the World Bank are of course not regulators of any country's economy but they do set standards in many areas, lend for development activities, act as lender of last resort, and conduct regular reviews of all economies. A pat on the shoulder is not to be scoffed at! The IMF Mission was favourably impressed by our initiative to publish our own bank ratings – the so-called CAMEL Ratings.

The acronym CAMEL is straightforward: C stands for Capital Adequacy, A for Asset Quality, M for Management, E for Earnings and L for Liquidity. The CAMEL framework is a much better grid for the analysis of banks from a comparative perspective. We have submitted all our banks to this assessment systematically, while refining the parameters and minimising the subjective element. About 18 months ago, when we first told our bank CEO's, with whom we have regular meetings at the level of the Banking Committee, which I chair, and which brings together senior Bank staff and all the members of the MBA, that we intended to publish the CAMEL ratings, they almost fell off their seats! Until then, individual CAMEL ratings were discussed and shared only with the bank concerned. We embarked on a long process of discussion and clarification and reassured them that publication would lead to a better-informed consumer, which would redound to the benefit of all banks. We begin publishing on April 5th, not the first of April for fear that you might think I am playing a prank on you.

This initiative, as I said, is a *world première*. Mr Stiglitz did not come to hear about it yet when he was here two weeks ago. He gave us very good marks for many things which we have been doing here for donkey's years. Our tropical cyclone alert system, like our extensive social welfare system, and the provision of free education and health-care could serve as a model for the US, he opined. My absence at his lectures has been the subject of some negative comment in the local press – especially when Mr Stiglitz apparently had a go at central bank governors who were applying the wrong traditional remedies to counter the current inflationary surge. I did receive an invitation to attend, but it was an unusual sort of invitation as it came with a hefty bill! Mr Stiglitz thought we had a miracle here in Mauritius. Those of us, who have been working here for the last 30 to 40 years, know that there is no such thing as a miracle. It is all the result of patient, slow, hard work. The only miracle in my book is how the organisers managed to get many CEO's to pay Rs23,000 (US$825, approximately) to come and listen to Mr Stiglitz when you could get most of what he said for free on the internet or from his books.

Ombudsperson for banks

Greater competition in the banking sector, enhanced transparency, and giving the consumer a fair deal are so many yardsticks for the regulator to gauge banking sector performance over and above banking sector profitability. A major weakness is our failure to establish the office of the Ombudsperson for Banks, which is provided for in the law. This office can provide a useful service for citizens to turn to if they have been subjected to unfair treatment and abusive practices in lieu of, or before, the more expensive and time-consuming recourse to the courts. The establishment of the office has become embroiled in the grey area between the Financial Services Commission, the Bank of Mauritius and the office of the Commissioner for the Protection of Borrowers, set up subsequently. Both the FSC and BoM have got core functions, each in its particular area, but I have taken the view that, for a small country like ours, there should be only ***one*** Ombudsman for ***all*** financial services, instead of having one Ombudsman for the financial services and for the institutions supervised by the FSC and another for the banking sector. The Minister of Finance actually announced a move in that direction in his budget speech in 2009 but, sadly, we have made no progress so far. Until the issue is de-blocked at the legislative level, there is little that the Central Bank can do.

Review of the Monetary Policy Committee

Another improvement in governance that we are working on is the review of our Monetary Policy Committee. The MPC, as you know, has been in business since April 2007. We have had 19 meetings to-date and it became clear quite early, since about the 8th or 9th meeting, that there were some major changes required in the way that the MPC conducts its business. There is a crying need for greater individual responsibility and more transparency which can be satisfied by making the individual voting patterns public. At the same time, we have proposed that the minutes of MPC meetings should also be published. A third area where we are proposing to bring modifications is the requirement that we can only reckon the votes of members who are physically present. Our MPC is rather unusual, at least by emerging economy standards, as we have two foreigners, based outside Mauritius, as full members. We propose to remove the physical presence constraint and allow participation by teleconference.

To conduct this review, we are drawing on the services of Sir Alan Budd who has worn many hats in the world of academia and finance – at the London School of Economics, the University of Oxford, the Bank of England, the British Treasury, etc. With these proposed changes, the MPC will be able to meet the requirements of the Mauritian economy in a much better manner, while communicating better with the public. It would also render the MPC less prone to the charge of policy zigzagging. We have often been accused of “zigzagging”, but I can assure you that the Governor has not zigged or zagged. If there is zigzagging, the public has a right to know the identity, and motivation or rationale, of those responsible. The composition of the MPC and the profile of the people who sit on it, also figure in the remit of Sir Alan Budd. In a fully-monetized economy like ours, with our very heavy reliance on bank finance, the operations and decisions of the MPC exert considerable influence on the life of the average citizen as on the activities of all economic operators. The governance of the MPC itself is key to the smooth operation of the economic machine.

Regional integration

In this world of globalised finance, the perspective of the regulator can hardly be circumscribed by national frontiers. As Mauritian enterprises turn increasingly to the region and beyond, it is only natural that our banks accompany their customers overseas. We are encouraging many of our banks to go regional. But we also call for a dose of realism: countries in the region are not Mauritius writ large. They have their own specificities which must be taken into account. Whether you want to locate an enterprise in Madagascar or Bangladesh, or run a bank in Tanzania or India, there is a tremendous adjustment to be made. The regulator can facilitate this adjustment by having a framework for cooperation in place. Instead of trying to address the issues that are likely to arise on a bilateral country-to-country basis, it is preferable to address them at the regional level. This is the objective which we are pursuing in such fora as COMESA and SADC. At the level of SADC, we have come up with a SADC draft Central Bank model law, which seeks to harmonise our approach to central banking to develop a fairly uniform framework for the region. Within COMESA, we have set up a regional clearing house, with a regional payment and settlements system so that our economic operators, exporters and importers, do not face a multiplicity of regimes and settlements systems when trying to tap regional trade opportunities. The Bank of Mauritius is the regional payment and settlement agent for the whole of COMESA for this operation. We are finalizing the operational details and should open for business quite soon. On the regional front therefore, we are playing a very active role as the banking sector regulator to ensure that most of the difficulties that one can normally expect to encounter in going regional – at least, those within our area of competence – are gradually ironed out.

We are also engaged in a vast programme of monetary, financial, and macroeconomic convergence, with the distant objective of a single currency, at the pan-African level with the Association of African Central Banks where COMESA and SADC are just two of the building blocs. The current problems in the Eurozone periphery have admittedly thrown some cold water on our prospects of moving in that direction although the plans are to move there by 2018–2020 or thereabouts. Before we can seriously envisage that, we have to ensure that the necessary conditions are in place. Hence, the programme of monetary and macroeconomic convergence. At the level of COMESA, we have just set up the COMESA Monetary Institute which is based in Nairobi. This is basically patterned on the European Monetary Institute which, as some of you would remember, was the key driver of European monetary cooperation which led to the birth of the Euro. The problems in the Eurozone have thrown up some issues that were not sufficiently addressed in the construction of the Eurozone. We are aware of the challenges ahead: bringing so many disparate economies as the 53 economies in Africa, into one composite economic bloc is a tall order. Although the single African currency like the single African Central Bank, are not likely to see the light of day any time soon, we continue working on it with our peers in other countries.

International financial institutions

The last point I want to raise is that a large part of the blame for the current crisis lies at the door of the international financial institutions which play a leadership, monitoring, or supervisory role. Many institutions come in for criticism, much of it justified. Among them, one could mention the BIS, which is often called the central bank of central banks; the World Bank, which is supposed to look at the real sector on a global basis, and, especially, the IMF, which is supposed to monitor the monetary and financial sector of every country annually – the famous Article IV Consultation which I alluded to earlier – and ensure global surveillance. I mentioned earlier how, we in Mauritius adopted Basel II and were subjected to FSAP's by the World Bank and the IMF. Would you believe that it was only last year that the IMF conducted an FSAP for the US? Leaving aside the fact that the Basel II approach turned out to be flawed, the US had made little effort to tighten its regulation and supervision in accordance with its precepts. The largest economy in the world got away with it, and brought the world economy to the brink of collapse. The US also got its way in bringing modifications to the report which the BIS was producing on the US sub-prime crisis. Uncle Sam has been throwing his weight around. If you are big, you can call the shots and you can change the rules and bend them to suit your own convenience. Just too bad if it causes inconvenience to the rest of the world!

The international financial architecture that we now have, is, by and large, the one that emerged from the immediate post-Second World War period. And it was the victors of the Second World War who shaped it to suit their particular interests. We have been talking a long time now about voice and representation, and changing the voting structure in the governance of the World Bank and the IMF. In the throes of this crisis, some tentative changes have finally been agreed and are beginning to happen. So, for the first time ever, some of the glaring inequities in the voting structure have been corrected and we hope that this process will carry on. The current system is built on the convention that the CEO's of the

IMF and World Bank are respectively European or American. The WTO has also been headed by a European since its creation. To look at the governance of this unholy trinity, you would not know that the centre of gravity of the world has changed to China and India. There is a need now to recognise the new reality of the world. The next Managing Director of the Fund is most unlikely to be a European.

There are other changes that are happening, in terms of the actual remit of the Fund to ensure global surveillance, global financial stability, and address problems posed by countries running large and persistent balance of payments surpluses. A fundamental weakness of the IMF – apart from being weak-kneed vis-à-vis the US – was the built-in asymmetry in its approach: a roaring tiger where deficit countries were concerned but a soft-purring kitten when faced with surplus economies. As you know, the global cry at the level of the G20 is for rebalancing economies. We have to watch how this global re-balancing is going to happen, who is going to have the power to achieve it, and perhaps what shape the new emerging international financial architecture is finally going to take. There will not be any cut-and-dried solutions. Instead, it's likely to be a long drawn-out process. The fear is that the receding crisis, itself a highly-desired outcome, may have the unintended consequence of abating the pressure for reform. In any event, the world as we know it is likely to change – at least in terms of the currencies in which most transactions are conducted. Whether the hegemony of the dollar is going to continue or not is an open question. All of you may have your own views on it. Is the euro going to survive? Will the EU find a lasting solution to the sovereign debt problem of its periphery? Or will the Yuan or Renminbi, or why not the Rand and others, emerge as quasi-reserve currencies?

To sum up, what I have tried to do in this wide-ranging talk is to reassure you, CEO's and operators at the cutting edge of business, that your regulators are very much on the job and fully-engaged. Unlike some of our counterparts in the US or the UK, we can hardly be accused of sleeping at the wheel. We are trying to anticipate problems that may lie ahead. We are trying to ensure that you get a good deal, and – more than that – that our population, and not just business, gets a good deal! They deserve no less! And I believe I deserve a real breakfast, now!