South African Reserve Bank

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at the T-20 Africa Conference

Crowne Plaza Hotel, Johannesburg
1 February 2017

Africa and the G-20: some implications for the work of the T-20

1. Introduction

Good evening, distinguished guests, ladies and gentlemen.

I would like to thank the South African Institute of International Affairs (SAIIA) and the Germany co-chairs of the T-20[1], namely the German Development Institute and the Kiel Institute for the World Economy (IFW Kiel), for the kind invitation to address you this evening.

The Think Tank 20 was initiated during the Mexican presidency of the G-20[2] in 2012 as a collaborative network of premier think tanks from the G-20 economies and other high-level experts. The aim of the T-20 is to provide analytical depth to G-20 discussions so as to assist in developing concrete and sustainable research based policy measures.

Think tanks and academics from the G-20 countries have indeed made important contributions in the past to the G-20 dialogue via the T-20 forum. Events such as this conference serve to reinforce this view and showcase the work being undertaken by the T-20. Dennis Snower, President of the IFW Kiel, summarised the work of the T-20 for this year aptly when he said: “In 2017, the T-20 aims to

[1] The ‘T-20’ is the Think Tank 20, the ‘ideas bank’ of the Group of Twenty (G-20).
[2] Group of Twenty

support the German G-20 presidency in rising to the diverse but interconnected global challenges that the G-20 faces."

Judging by the impressive conference programme, you must have had a fruitful day. It is especially encouraging to see the involvement of experts from the African continent as well as from other emerging economies in this conference.

In my remarks this evening, I would like to first make a few general observations about Africa and the G-20 before making some specific comments on two of the issues that feature on the conference programme and which are topical in central banking circles at the moment.

2. Africa and the G-20

As a group, the G-20 consists of only 19 countries, which means that it is made up of only 10 per cent of world's nations. However, these 19 countries account for about 80 per cent of global trade and approximately 90 per cent of global GDP[3]. The G-20 is therefore representative, more so since it includes both major advanced economies and systemically important emerging market economies.

The G-20 has an impact on policies relevant to Africa's economic development, with the agenda focusing on issues ranging from financial inclusion through infrastructure investment to illicit financial flows. Africa too is important to the G-20, as the continent, while accounting for only 5 per cent of the world's GDP, makes up 17 per cent of the world's population.

As the only African member country of the G-20, South Africa seeks to advance both regional and continental interests when participating in G-20 deliberations, albeit without a formal mandate to do so. South Africa consults with a number of stakeholders and, regionally, the Committee of Ten African Countries[4] (C-10) was formed in 2009 in order to help solicit views from countries across the continent on

[3] gross domestic product
[4] The C-10 comprises Algeria, Botswana, Cameroon, Egypt, Kenya, Nigeria, South Africa, Tanzania, the Central Bank of Central African States and the Central Bank of West African States.

how the G-20 could address their concerns. The C-10 seeks to provide support and input to enable South Africa, or any other African country involved in deliberations related to international finance, to act more effectively in the interest of the continent as a whole. It has to be admitted, however, that the consultation process could be more effective, and that more needs to be done to strengthen these initiatives and to ensure that they work as intended. These efforts are also complemented by the chair of the African Union (AU) and a representative of the New Partnership for Africa's Development (NEPAD) being invited to attend G-20 meetings as observers. Unfortunately, due to the fact that the AU and NEPAD representatives are often rotated, there is insufficient continuity which, at times, adversely affects effectiveness and impact. Furthermore, the AU has only an observer status, in contrast to the European Commission, which is a fully fledged G-20 member.

The role of both the AU and NEPAD could be strengthened to allow them to play a more meaningful part in coordinating the preparation of African positions. As SAIIA has noted in one of its policy briefs, what is required is a concrete, sustainable mechanism through which Africa's participation can be coordinated.[5] It has been suggested that this could include a designated secretariat or a coordinating unit within the AU Commission that would conduct outreach, consult with a range of stakeholders, and put forward African positions at the G-20.[6] SAIIA has provided some recommendations on how the capacity constraints on the continent could be addressed, which would entail, among others, the following:

- collecting information about relevant issues on the G-20 agenda and preparing clear African positions in line with the continent's overall development objectives, possibly also coordinating African delegations participating in G-20 events, as was done at the time of the Cannes Summit in 2011;

[5] E Nnadozie and C G Makokera, *Development: ensuring greater African participation*, Policy Briefing 117, Economic Diplomacy Programme, November 2014.
[6] P Fabricius, Institute for Security Studies, *Africa should take advantage of the opportunities presented by its seat at the G-20 table,* 9 April 2015.

- supporting African representatives during the negotiating processes of the G-20 in order to promote their greater involvement in agenda-setting and therefore greater influence on the final outcomes in areas of priority interest; and

- continuously monitoring the implementation of key G-20 commitments directly relevant to Africa in order to ensure that their impact is assessed and to maintain pressure to achieve tangible results.

However, while these recommendations are laudable, they require dedicated resources, which may be difficult to mobilise.

I would now like to turn to the opportunities for Africa under Germany's presidency of the G-20. Let me first note that we welcome Germany's focus on Africa, which builds on efforts by the Chinese presidency last year. We believe that this is a step in the right direction in both highlighting and confronting the challenges that the continent faces. As you know, the German Federal Ministry for Economic Cooperation and Development released a document titled *The Marshall plan for Africa* two weeks ago, which proposes a partnership between Europe and Africa to find solutions to the challenges the continent confronts. *The Marshall plan for Africa* acknowledges that 'in the long term and as neighbours, we can either prosper together or suffer together'. I will not say too much about *The Marshall plan for Africa* at this stage given that it still requires consultation. Indeed, it has been met with great optimism in some quarters but also with scepticism in others.

Let me rather take this opportunity to focus on one of the components of *The Marshall plan for Africa*, namely the G-20 Compact with Africa, an initiative in which South Africa, through the G-20, is more closely involved. The idea of a Compact with Africa should be welcomed based on what it could achieve given its focus on encouraging private-sector investment, including in infrastructure. By so doing, it is hoped that employment will increase and that sustainable, inclusive growth and development on the continent can be fostered. As we know, the investment financing gap in Africa is huge, and closing this gap is a top priority in order to put the continent on a path of higher and more sustainable growth and development. Under this initiative, African countries are being encouraged to discuss and agree on individual compacts, and to match commitments from G-20 countries with commitments of their own in respect of concrete actions to enhance investment opportunities, such as further enhancing governance standards and creating investor-friendly environments.

The G-20 is taking the initiative very seriously and we should expect it to gain momentum in the coming months and beyond. However, we also have to stress that the Compact should take cognisance of existing initiatives by Pan-African organisations such as the AU and NEPAD, as much of the groundwork has already been laid and there is a need to ensure economies of scale by bringing all these initiatives together, fill the existing gaps, and drive implementation in such a way that there is concrete action and tangible results. It is therefore encouraging that both *The Marshall plan for Africa* and the Compact acknowledge that the starting point will be the AU's Agenda 2063 and its key pillars around industrialisation, infrastructure development, intra-African trade and combatting illicit flows.

Given that the Compact is still in its infancy, that it will take some time for it to become entrenched and for there to be visible outcomes, it will be important that the Compact does not end with the German presidency. We hope that the Compact will be carried forward into Argentina's presidency in 2018 and beyond, into future G-20 presidencies. We will therefore need to develop mechanisms for hold each other accountable for the commitments we make.

3. Some observations on the T-20 topics under discussion

Allow me to now make some comments on two issues that are in the domain of central banking but relate quite closely to some of the topics that you are discussing at this conference. I would like to focus on the issue of de-risking as it relates to correspondent banking and, secondly, on some developments in the digital economy.

Much of the work in the G-20 has focussed on improving the resilience of the financial system. The global financial system is stronger and safer now than before the Global Financial Crisis, and regulatory reforms to future-proof the financial system are well under way. However, we have to admit that some of the reforms have had unintended consequences and have led to a number of global systemically important financial institutions reassessing the sustainability of their business models following the Global Financial Crisis; de-risking has consequently taken the form of reducing or withdrawing entirely from certain activities in some emerging market and developing economies.

A case in point is the decline in correspondent banking services on the African continent. Research conducted by the BIS[7] Committee on Payments and Market Infrastructures (CPMI) Working Group on Correspondent Banking in 2016 highlighted the pronounced declines in correspondent banking relationships in Northern Africa and partly in Southern Africa.[8] The International Monetary Fund has similarly pointed out a decline in correspondent banking relationships in banks' operations in countries such as Angola, Guinea and Liberia where some international banks have either restricted or exited correspondent banking relations.[9] Continued efforts by regulators, national authorities and institutions such as the T-20 are crucial in identifying solutions and encouraging concrete and swift actions to mitigate financial exclusion in affected countries while still prioritising efforts to ensure compliance with anti-money laundering and combating the financing of terrorism regulations.

Markets in all jurisdictions must have access to a well-functioning global financial system in order to develop and prosper. De-risking and deglobalisation contribute to global financial market fragmentation and uncertainty, and could fatally compromise the open and integrated structure we are all striving for. On the other hand, this trend poses an opportunity for Pan-African banks to fill the gap in services left by European and US[10] banks subject to having appropriate access to reserve currencies.

[7] Bank for International Settlements
[8] BIS CPMI, *Correspondent Banking*, July 2016. Available at http://www.bis.org/cpmi/publ/d147.htm
[9] Erbenová, M., Y. Liu, N. Kyriakos-Saad, A. López-Mejía, G. Gasha, E. Mathias, M. Norat, F. Fernando and Y. Almeida, "*The Wishdrawal of Correspondent Banking Relationships: A Case for Policy Action*", June 2016, IMF Staff Discussion Note series, SDN/16/06. Available at http://www.imf.org/external/pubs/ft/sdn/2016/sdn1606.pdf
[10] United States (of America)

The second issue I would like to touch on has to do with innovations in the digital economy. Africa in particular shows enormous potential in this area as the broader population gains increasingly more access to the Internet. Developments such as mobile money and e-wallets, P2P lending, alternative credit scoring, cross-border remittances as well as payment technologies leveraging digital platforms support real economic activity and contribute towards the common goal of financial inclusion.

Quite rightly, the T-20 Summit in Beijing last year highlighted the importance of innovation as a key driver of sustained economic growth. The G-20 has emphasised the potential role of digital finance in promoting financial inclusion in the *G-20 high-level principles for digital financial inclusion,* released in September 2016. There is widespread recognition that the Fourth Industrial Revolution is evolving at an exponential pace, touching almost every fabric of society, with potentially significant implications for almost every sector and industry. This Fourth Industrial Revolution and developments in digital finance hold huge potential for job creation and the promotion of small business development in emerging market and developing economies. According to the *Global Information Technology Report 2016*, the future of countries, businesses and indeed individuals will depend more than ever on digital technologies. This would apply equally to African countries and businesses, with the added challenge that many of those who stand to gain the most are not yet connected to the web. If we consider that Africa is expected to have a population of 2 billion by 2050, with a significant proportion being young people who will need employment, it is important that we reap the economic and social benefits that the digital economy can provide.[11]

The latest Networked Readiness Index, which assesses countries' preparedness to reap the benefits of emerging technologies and to capitalise thereon, reports that seven countries stand out in terms of economic and digital innovation impact: Finland, Israel, the Netherlands, Singapore, Sweden, Switzerland and the United States. Compared to 2015, South Africa's digital economy has jumped ten places to 65th out of 139 countries surveyed. This makes South Africa one of the ten most-

[11] Baller, S., S. Dutta and B. Lavin (Eds.) (2016),*Global Information Technology Report 2016: Innovating in the Digital Economy*. Geneva: World Economic Forum

improved countries, alongside Italy and Slovakia. But South Africa is not the only African country to improve in the last year; Ethiopia and the Ivory Coast also made significant jumps in the rankings.

Africa offers enormous potential for e-commerce growth given that online shopping is in its infancy on the continent. It was mentioned at the e-commerce Africa Confex that, in 2016, e-commerce sales globally would reach almost US$2 trillion, of which Africa's stake in the pie would be just 2 per cent. However, despite infrastructure challenges across the continent, e-commerce in Africa is expected to see 40 per cent annual growth for the next ten years. Internet penetration jumped from very low levels in 2009 to 16 per cent of individuals in 2013 and over 20 per cent in 2015. But the proportion of people online is still far behind the global average of 50,1 per cent[12] – only 17,4 per cent of Africans have access to mobile broadband, while fixed broadband connections remain very low.[13]

Nonetheless, the prospects for Africa look promising, with 50 per cent of the continent expected to have access to the Internet by 2025 compared to the current 28,7 per cent[14] while online shopping could account for as much as 10 per cent of retail sales, or US$75 billion, according to a 2013 McKinsey report.[15] With the magnified impact of mobile phones in emerging economies and broader Internet penetration, McKinsey project that the Internet could contribute as much as 10 per cent of GDP to the African economy by 2025, from levels of around 1 per cent currently. For these projections to be realised, there needs to be increased investment in infrastructure, such as expanded access to mobile broadband, fibre-optic cable connections to households, and power-supply expansion. Infrastructure challenges are wider than just 'bricks and mortar' – for example, the lack of a formal delivery address complicates the logistics and is costly for online retailers.

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[12] http://www.internetworldstats.com/stats.htm
[13] https://www.itu.int/en/ITU-D/Statistics/Documents/facts/ICTFactsFigures2015.pdf
[14] http://www.internetworldstats.com/stats.htm
[15] Manyika, J., A. Cabral, L. Moodley, S. Moraje, S. Yeboah-Amankwah, M. Chui and J. Anthonyrajah, Lions go digital: The Internet's transformative potential in Africa, November 2013. McKinsey Global Institute. Available at http://www.mckinsey.com/industries/high-tech/our-insights/lions-go-digital-the-internets-transformative-potential-in-africa

Although digital opportunities are encouraging, especially in the financial sector, numerous regulatory challenges need to be addressed, relating specifically to the development of an innovative and enabling policy environment for financial technology while at the same time managing the risks to consumers and the financial systems. These regulatory challenges would include keeping pace with innovations while crafting smart and appropriate regulations that meet the overarching objectives of financial stability, prudential soundness, consumer protection and competition. Furthermore, we need harmonised rules and consistency among regulators and central banks, both domestically and internationally, and a level playing field between existing regulated entities and new financial technology firms competing for the same business. The emphasis placed by the G-20 and other international standard-setting bodies on sharing cross-border experiences on the regulation of innovative financial technologies is very much supported by South Africa.

4. Conclusion

Globalisation, innovation and for that matter increasing vulnerabilities force us to appreciate our interconnectedness and the need for strengthening cooperative relations. In this regard, the T-20 can make a meaningful contribution towards addressing the key challenges on the G-20 agenda, of both the Sherpa and the Finance tracks. I am convinced that, in the coming years, we will collectively make further strides towards the accomplishment of the global objective of strong, sustainable and balanced growth. In doing so, the T-20 can reach out on a continuous basis to non-G-20 think tanks to ensure a more inclusive approach to the initiatives we pursue.

Let me conclude by wishing you all the very best in your deliberations on developing recommendations on how African voices could be better integrated into the G-20 agenda and, in so doing, how they could positively contribute towards the ‘Africa rising’ narrative.

Allow me to close with a quote from our other T-20 co-chair, Dirk Messner from the German Development Institute: “The world urgently needs a G-20 solving global problems and investing in a global culture of cooperation. ‘Our country first’ movements are threatening stability, wealth and peace in our interdependent world.”

Thank you.