Financial Regulation in Emerging Economies in Africa – Taking a Leaf from Financial Regulation in Advanced Economies or not?

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Introduction

This presentation covers the following:

- Brief assessment of the integration of Africa in the global financial market
- The effect of the recent financial crisis on African Emerging Markets
- The case for a regional approach to regulation using the New EU Financial Regulatory Framework
- Concluding remarks
The Integration of Africa in the Global Financial Market

Africa was previously absent from the international financial market (excluding South Africa)

- Weak financial regulatory regimes
- Failure to implement international financial standards
- Poor institutions and laws
- Poor enforcement mechanisms
- Weak economies / bad governance

Changes

- **South Africa**
  
  Has been a great player in the international financial market for years. The JSE has about 90 percent of the combined market capitalization of the entire continent.

- **Nigeria**
  
  In 2007 Nigeria became very active in the international financial market

- **Ghana**
  
  Also became active in 2007. The best performing capital market in the world in 2008 per Bloomberg.

- **Kenya**
  
  Fairly nascent capital markets but increase in foreign portfolio investments in the stock market from foreign financial institutions before the crisis.
Reason for changes

- High rate of return relative to mature markets
- Opportunities for risk diversification
- Opportunities to partake in country prospects and seek out undervaluation in specific sectors
- Increased growth prospects
- Growth trends are not synchronized with advanced economies

The Effect of the Recent Financial Crisis

- Frenetic capital flights (South Africa and Nigeria)
- Falling equity markets and capital flow reversals (South Africa and Nigeria)
- Scarce external financing for corporations and banks (South Africa and Nigeria)
- Postpone planned borrowing from the international financial market (Ghana and Kenya)
Weak Regulatory Frameworks worsened the Impact of the Crisis

Common Challenges

- Weak supervisory frameworks
- Weak enforcement of banking and securities regulation
- Poor corporate governance (banks and in companies)
- Poor disclosure

Strengthened regulatory regime would boost investor confidence and return into the market in the aftermath of the crisis

The Case for a Regional Approach to Regulation using EU Financial Regulatory Framework

Case for regional approach as countries have been unable to implement international standards

All countries belong to a REC
- South Africa (SADC)
- Nigeria (ECOWAS – WAMZ)
- Ghana (ECOWAS – WAMZ)
- Kenya (EAC, COMESA)
- African integration inspired by European integration framework
  - Free Trade Agreement
  - Customs Union
  - Common markets
  - Monetary Union

- Most African RECs adopt the EU Treaty Framework – WAEMU, ECOWAS, COMESA, EAC, SADC

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**New EU Financial Regulatory Framework**

**European Systemic Risk Board (ESRB) (highest level)**
- ECB Governor chair

**European System of Financial Supervisors (ESFS) (middle level) (comprise of the 3 ESAs)**
- European Banking Authority
- European Insurance and Occupational Pensions Authority
- European Securities and Markets Authority

**National Supervisory Authorities (the lower level)**
- National Banking Supervisors
- National Insurance Supervisors
- National Securities Supervisors
  (overseen by the European System of Financial Supervisors (ESFS))
EU financial regulatory framework requires:

- Strong adherence to regional treaties and instruments
- Effective coordination among national supervisors
- Strong domestic financial regulatory authorities
- Strong domestic financial regulation

Not likely that the framework would be adequate to current stage of development in regulatory framework.

Varied framework for financial regulation among RECs

- RECS with monetary Unions or MU agendas
  WAEMU, CEMAC, ECOWAS-WAMZ
- RECs without ongoing Monetary Union agenda
  EAC, SADC, COMESA

- No organised African-wide coordinated effort
- A 2010 AfDB report sets out stages for achieving financial integration within RECs
Concluding remarks: Pragmatic approaches to regional financial regulation in Africa

- Strengthening the regional framework
  - The general REC legal and institutional framework
  - Framework for economic integration
  - Framework for financial integration

- Strengthening domestic framework
  Strengthening domestic legal framework
  Strengthening domestic financial regulation
  - Including enforcement
  - Corporate governance
  - Disclosure standards

For further study see