



**Some Thoughts on Development Finance and C-A/A-C
Cooperation and Development of the financial services
sector:
Impact on economic growth in Africa**

**Presentation at the
Development Finance and China-African Economic Cooperation
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This brief presentation focuses on the following:

- 1. Introduction - Key Point for Sustainable A-C/ C-A Cooperation**
- 2. Quick overview of trends of Africa AND China financial services sector landscape**
- 3. What should DFI do to enhance A-C/C-A DFI cooperation in Africa's financial services sector ?**
- 4. In practice how should C-A DFI role players collaborate? Key DFI Role Players**
- 5. Key DFI role players in this ?-**
- 6. In Practice, how could role players collaborate ? An example.**
- 7. What do governments on both sides still need to do to enhance collaboration ?**
- 8. Expected effects of increased A-C /C-A DFI cooperation**
- 9. Summary and some policy recommendations**

1. Key Point for Sustainable A-C/ C-A Cooperation

- A-C / C-A Cooperation is critical !
- 1. AC- CA is a symbiotic relationship
- 2. Will only be sustainable on this basis
- 3. Expected to have a major impact on the financial services sector in various ways.
- A key role of the DFIs and financial sector is to reduce costs of conducting business and enhance efficiency and increase economic growth rates.

2. Trends and quick overview of Africa financial services sector landscape

- ❑ African financial sector is already becoming very sophisticated. This is likely to increase as :
- ❑ Banking sector –becomes less of a ‘pillar’ as Capital (Debt and Equity) markets develop
- ❑ But increased entry by more international banks groups is still likely - what are the implications? These are varied –but on the whole -GOOD!
- ❑ For example, greater competition – reduced margins, greater innovation
- ❑ This will place increased challenge for regulators- but this is a good thing as African institutions will also benchmark internationally.

4. TRENDS AND QUICK OVERVIEW OF AFRICA financial services sector landscape - continued

- ❑ The JSE is the 17th largest stock exchange in the world. All round performance of Africa capital markets sound both in in term of liquidity AND returns.
- ❑ Industrial and manufacturing sector development dependent on the DFIs for long-term infrastructure support- central to economic growth.
- ❑ In most countries Banking sector still highly concentrated and not carrying out long-term lending for infrastructure and to the SMME sector This is key for economic growth in Africa

2. Trends and Quick Overview of financial services sector in China

Focus on the Banking sector:

Robust asset growth underpinned by the now famous rates of economic growth of the last 15 years evident.

High level of Capitalization - capital in particular equity markets boom as well. 37 % up in the first 4 months of 2007 !

- Despite criticism in some quarters this is backed by highest national amount of reserves. At nominal levels never been seen by any nation!

Overall level of retail and wholesale product innovation in China is very dynamic. This is being filtered to DFI System via a range of structures.

- China Development Bank at the Apex of DFI system in China active in a range of sectors and has sound project deal track record and expertise. Particularly in large scale infrastructure.

3. What should DFI do to enhance A-C/C-A DFI cooperation in Africa's financial services sector ?

AC- CA is a symbiotic relationship which via the DFI system is expected to have a major impact in various ways:

There will be a need for AC - DFIs to focus on :

- ❑ Large scale infrastructure development - particularly at a regional level
- ❑ Increased participation in PPP in Infrastructure
- ❑ Private sector support via Enabling infrastructure
- ❑ Increase SMM E development
- ❑ Increased access to financial services
- ❑ Increased SMME financing
- ❑ Human resource development – training

3. What should DFI do to enhance A-C/C-A DFI cooperation in Africa's financial services sector ?

Continued

Cooperation among A-C DFI also involves a business process re-engineering of staff, consumers, stakeholders and *MINDSETS* to:

- ❑ Reduce the still large number of un-banked in Africa – used to be the case in China –but I hear this is changing
- ❑ Shortage of financial market specialists and expertise Provide services relevant to the financial service needs of consumers
- ❑ Increase competition in the financial services sector
- ❑ Increased use of technology in providing financial services such as mobile and internet banking.

4. In practice how should C-A DFI role players collaborate? Key DFI Role Players

- ❑ Clearly target infrastructure sectors areas as noted above
- ❑ Where are projects going to be most viable? At the transnational/ regional level.
- ❑ National but more effectively- regional – to harness economies of scale - Biggest buck for bang ! - But with national and local input.
- ❑ How can they be structured ?
- ❑ Apart from AfDB – key regional need DFIs to play a part. Also IDC, and AFC to participate

5. Key DFI Role Players in This ?

- ❑ Clearly AfDB – CBD
- ❑ Regional DFI in east north, southern and west Africa
- ❑ There is a need to more effectively create an African DFI 'network'. It would be interesting to compare the China DFI network with that of Africa.
- ❑ Bring private sector financiers –more actively into the DFI network.



6. In practice how could role players collaborate? An Example.

- ❑ ENABLING INFRASTRUCTURE DEAL SUPPORT. WE see the following often-
- ❑ Energy deposit. But no enabling infrastructure. So most times the deal dies. This is a key opportunity for DFIs
- ❑ Contract with Private sector PPP.
- ❑ Guaranteed Off-take
- ❑ How can A-C DFIs cooperate? Details in each deal-but there several current deals of this type.

7. What do governments on both sides still need to do enhance collaboration?

- ❑ Support via USEFUL Legislation –
- ❑ Ensure Stability – avoidance of systemic risk / shocks
- ❑ Relaxation of all controls that deter non- criminal international investments and transactions

8. Summary- expected effects of A-C / C-A Cooperation on the financial sector

- ❑ Increase competition and reduced costs
- ❑ Increased variety of product innovation and DFI structuring particularly for large scale infrastructure - an area in which China has great experience.
- ❑ Enhance delivery of the objectives of financial services firms
- ❑ Increase market efficiency and output
- ❑ An increased understanding of the market environment particularly for low income households

8. Summary continued

- ❑ **Africa's financial services sector is central to domestic growth**
- ❑ **C-A /A- C DFI Cooperation Can Enhance this growth**
- ❑ **Properly planned C- A cooperation will increase infrastructure development and output.**
- ❑ **There is a need for more cooperation in the financial sector to increase competition in different sub-markets**

8. Summary

- ❑ **Effective monitoring of the implementation of formulated cooperation agreements**
- ❑ IN THE END A Key question?
- ❑ What is the acid test of development finance??? Efficient and sustainable evidence of poverty alleviation
- ❑ A-C / C-A Cooperation is critical for both parties.
- ❑ I am not sure whether Kong Fuzi – Popularly known as Confucius said this- but in AC- CA DFI cooperation is critical because :
- ❑ “Man with one Chopstick go hungry!”
- ❑ Thank You !