Conclusions and Recommendations

Session 1

AfDB Regional Financial Integration Strategy

In this session, the focus is on presenting how integration is performed cross the continent.

The main aim of financial integration is to act as a support (financial, infrastructure, etc.). Financial needs are around 130 billion dollars. The money is coming from: government, donors but also domestic bond markets.

For example to finance infrastructure we need about 65 billion USD for the next five years, which represents about 10% of AUM in the region.

The regional integration strategy are around high five AfDB pillars.

Strategy targets various financing options:

- Access to finance
- DFIs
- Capital Markets

The remittances for example have increased to 60 billion USD per year, which represents an opportunity to increase financial integration. We have to work to improve payment systems (mobile payments, blockchain technology, etc.) to reduce transaction costs.
Pan African Banks who took over many international banks after the 2008 financial crisis, have a good leverage to facilitate financial integration.

How to regionalize payment systems ? AfDB got involved in WAMZ and try to link the WAEMU with the other 4 countries to standardize payment systems.

In conclusion, as we look at the financial landscape, we see a very small and fragmented financial market . **The challenge is how to develop these fragmented markets**. The prerquisites for progress are to :

- Promote a stable macroeconomic environment
- Modernize infrastructure and increase automation
- Establish sound regulation and supervision
- Encourage foreign participation
- Build institutional capacity

Session 2

Panel 1 : African Capital Markets Initiatives

- The discussion was around how to develop bond secondary markets. There is a need of creating brokers, interdealer brokers, trusts, etc.
- what kind of benchmark can be used for corporate bond issuance. In the past Libor was used as a benchmark for lending by the AfDB. This is under study now to have more local benchmarks for lending.
- Many issues are not permitting the secondary market development but primarily is market fragmentation. For example, you have some countries where there are several systems trading bonds (Central bank, stock exchange, etc.). There is a recommendation of using a single system and trade bonds through stock exchanges.
- Having said, the debate whether to trade through the exchange or OTC is till on, as OTC transactions are preferred by banks but the lack of transparency can come at a cost.

The recommendation is to go to a hybrid model (exchange and OTC) where OTC is organized (for example 15 min after the trade, it has to be reported to the exchange).

Panel 2 : African Bond Markets Transparency

In this panel, we addressed the issue of market transparency and its impact on market development. The panelists raised the issue of the importance of fair pricing, yield curve construction to enhance market development.

Trading in OTC is not an issue itself as long there is a transparency in pricing reporting.

Project bonds could be a solution to lengthen yield curve maturity.

Session 3

We had two presentations essentially:

- Albin presented the data collection tool and platform as well as the AFMI Bond index.
- Abhi from MCB presented the performance of the Bond ETF performance

Session 4

In this session, the panelists discussed **the link between the credit rating and the strength of financial markets and its transparency**.

Investors look to the ratings closely and hence the latter influences markets liquidity.

On the other way around, transparency is very important to improve credit rating. The work of AFMI is crucial to make sure the data is reliable.

There were two defaults (Mozambique, Democratic Republic of Congo) in the region with a risk of contagion. This makes rating even more important.

The debt/gdp ratio is around 40% (a ratio that is challenged by some people) which is lower that what it was in the 80s. Having said that, several points to look at :

- The increasing weight of China
- There is a global credit tightening

Regarding corporate, the key challenge is the growth of local currency local bond market which presently represents only 2% of the GDP.

Recommendations:

- Deepening of local currency markets
- Increasing the lending to SME financing
- Launching new instruments : infrastructure bonds, sukuk bonds
- Reduce public deficit