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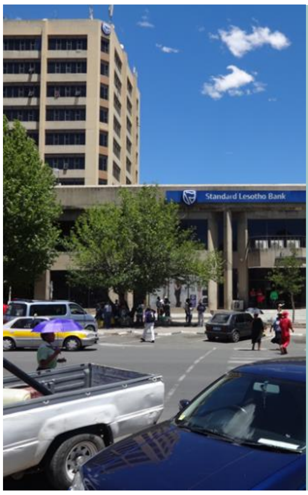

What financial regulation for stability and financial inclusion in Africa?

The views of regulators of Ethiopia, Kenya and Lesotho

Ricardo Gottschalk

Abstract

Regulators from Africa share the view that financial systems in the region are improving. But loan spreads are still extremely high, despite increased competition, the latter enhanced with the presence of foreign banks. Lending still largely insufficient and highly skewed towards the top end of the market, although recent progress has been made towards greater financial inclusion. Their financial systems are still characterized as a bank based. The ideal is to move towards a more diversified system, with different institutions, funding structures and roles. The regulatory and supervisory challenges are big, not least in the area of capacity, including that needed to implement financial standards designed internationally. The response has been gradual and selective adoption of standards, and continuous investment in capacity building. Regional college or supervisors has been regarded as an additional, extremely useful forum, to enhance capacity for a better and safer financial system.

Acknowledgements

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1 Introduction

The author of this Report was in Addis Ababa (Ethiopia), Maseru (Lesotho) and Nairobi (Kenya) between 2 and 6 February 2015, to meet senior financial regulators from the African region. These meetings took place as part of the ESRC-DFID project "Financial Regulation in LICS: Balancing Inclusive Growth with Financial Stability", which had a fieldwork component to canvass African regulators' views on capacity and other issues concerning financial regulation and supervision in the African LICS.

Why Ethiopia, Kenya and Lesotho?

These three countries have financial systems that are different from each other, each representing different financial systems from across the African continent. Ethiopia does not permit the presence of foreign banks. Therefore, all banks are national. Moreover, the country has a fairly closed capital account. There, portfolio inflows are not permitted, nor banks are allowed to borrow from abroad. These rules contribute to the development of a financial system that is fairly simple, devoid of the complexities that can be found in other financial systems around the world. For African standards, Kenya is at the other extreme of the spectrum. It has an open capital account and foreign banks are welcome to its financial system. They have a dynamic stock exchange and derivatives markets also exist, although the latter still are in their infancy. Finally, Lesotho is a small economy in terms of population and market sizes, with strong presence of foreign banks, which have a dominant presence in the economy. It therefore suffers from the issue of capacity, not so much because of its income per capita - it is a middle-income country, but because it is just very small. It thus captures the issues facing low-income countries - that is to say, countries with low availability of resources and power to have in place effective financial regulation.

The meetings were organized in the form of interviews and structured around three broad questions that the researcher had set to guide his work on the topic. These were:

1. How to adopt complex regulatory approaches designed for developed financial systems
2. How to address the challenges arising from the presence of foreign banks in a country's jurisdiction (if applicable)
3. How to adopt macro-prudential regulation and address in particular systemic risks arising from capital account liberalization (CAL)

Specific sub-questions relating to each of these broad questions were prepared in advance to guide the discussions. These sub-questions can be found in Annex 1 of this Report.

In addition, prior to the meetings, the researcher informed the meeting participants what aspects of financial regulation would be covered during the meeting, so that they could think and reflect on the issues beforehand. These were:

- A brief account from the Central Bank about recent progress on banking regulation and supervision - e.g., level of compliance with Basel core principles and Basel rules. What are still the gaps and the main challenges for effective regulation and supervision?
- What are the views of the bank on the challenges regarding implementation of complex standards designed internationally? What has been the bank's positioning and response to such challenges? How appropriate are those more complex standards to your country's needs (for example, the more complex approaches under Basel II)?
- Since the global financial crisis, more attention has been paid to the need of macro-prudential regulation. How much is being done at the Bank on that front? In the Bank's views, what are the main challenges to have in place effective macro-prudential regulation?
- How does the Bank see the regulatory and supervisory challenges relating to the presence of foreign banks in your country? What are your thoughts on what might be the best ways to deal with this sort of challenge? For instance, is there a sentiment that there is a need for more cooperation between home and host supervisors?
- Capacity issues: what are in the Bank's view the main (human, technical) capacity gaps that it currently faces? For instance, what are the challenges to conduct tasks in risk evaluation, stress tests or monitor systemic financial stability? Would regional regulatory bodies be a promising way forward to help address capacity issues?
- What challenges does your country face as a result of cross-border capital?

The meetings took place in the following order:

First, on February the 2nd, Ricardo Gottschalk held meetings in Addis Ababa with the Head of Financial Institutions Supervision and then with the Chief Economist and Vice Governor, both of the National Bank of Ethiopia. Second, on February the 4th Gottschalk held a meeting in Maseru with the Director of Supervision, the Head of Insurance Supervision and the Head of Banking Supervision, all from the Central Bank of Lesotho. Finally, on February the 6th, he held a meeting in Nairobi with the Manager of Bank Supervision Department and staff from the Legal Department of the Central Bank of Kenya. The names and affiliations of the meeting participants are displayed in Annex 2 of this Report.

2 Ground covered and main findings

Discussions at the meetings covered the questions above and those specified in Annex 1, but naturally went beyond them so as to also cover issues that were indicated as relevant by the participants. In the end, the result was that the meetings covered a wide range of topics related to regulation and structure of financial systems in Africa, including: banking spreads, concentration and competitiveness in their banking systems, financial access and inclusion; the role of foreign banks including that of Pan-African banks in helping improve financial inclusion in Africa; subsidiaries versus branches; challenges facing African regulators to adopt internationally designed financial standards in their national jurisdictions; capacity issues for effective financial regulation and supervision; vulnerabilities associated with open capital accounts; and regional initiatives to enhance cooperation on financial regulation, such as regional college of supervisors and possible set up of regional banking regulatory bodies in East Africa. All these topics are of extreme relevance not only in what concerns the issue of capacity but for the entire project as well.

A number of important points were made in relation to each of the issues discussed. These are summarized below.

2.1 Bank spreads

All interviewees agreed with the strong evidence reported in the project case studies for Ghana, Nigeria, Kenya and Ethiopia that bank spreads in African countries are extremely high. This perception by regulators seems to be the case even of countries whose environment is characterized by strong competition between foreign and local banks. Kenya is a case in point. There, foreign banks compete with local ones, with the latter seemingly increasing market shares lately through the adoption of an aggressive lending strategy, with foreign banks following behind. In Lesotho, where three foreign banks coexist with one local bank, bank spreads are also considered very high. In contrast, the Ethiopian regulator affirms that bank spreads in Ethiopia are reasonable, despite the fact that the market is the reserve of national banks. Would foreign banks help reduce spreads even further? In the view of the Ethiopian regulator, the experience of countries that have opened their financial sectors to foreign banks shows that spreads have not narrowed. Instead, they showed widening. According to him, Ethiopia has a narrow spread, smaller than those countries with foreign banks.

Standard reasons are given to explain why spreads are so high in most countries despite competition including from foreign banks. These include high operational costs and lack of collaterals. How to address the problem of high spreads?

Kenyan regulators are planning to introduce a common base rate, and banks will have to explain everything that is above it. Also, they are taking initiatives to help reduce the costs so that lending can expand. What seems clear is that the presence of foreign banks and the benefits they bring with them such as higher efficiency and innovative practices and products seems not to have affected spreads, and the results have been only in the form of higher profits.

2.2 Concentration and competitiveness

There seems to be a fairly high level of banking concentration in Lesotho where the largest bank has about 64 per cent of the market, and the three foreign banks together hold 97 percent of total banking assets of the country. Lesotho is a small country with a small market and therefore has difficulty in attracting other banks. In Ethiopia, the largest commercial bank, which is state-owned, has 70 per cent of the country's market. Although it is still small, the market potential in Ethiopia is large, but foreign banks are not allowed and the sector is highly regulated. In Kenya, the banking system is considerably less concentrated. The country has 43 commercial banks, 14 of which are foreign. The six largest banks hold between 50-60 per cent of the total market. The share of the largest bank is a little above 10 per cent.

Market concentration poses the problem of systemic risk. To address this issue, in 2013 Kenya put in place a framework to assess domestically systemically important banks. In addition, on the related issue of loan concentration, it has in place limits on loans to a single borrower, in the form of a ceiling as a proportion of a bank's core capital. Lesotho has a similar single borrower restriction, but regulators can be flexible on that in order not to stop big, important projects such as road building, being executed.

2.3 Financial inclusion

In all countries, regulators acknowledge the issue of financial inclusion. Banks do not lend very much to the lower end of the market. It is the micro-finance institutions that serve these markets, but due to their lack of financial clout, large segments of the population are not banked. Competition in Kenya is driving local banks to reach the lower end of the market with reasonable success. They are being able to do so and make significant profits, while taking a calculated risk. Foreign banks seem to start following local ones by also setting plans to reach new markets. Notwithstanding recent progress towards financial inclusion, still 25 per cent of the population is excluded from banking services. The problem of financial inclusion seems more acute in Ethiopia and Lesotho, where their financial systems are less developed.

For Lesotho, financial inclusion is clearly an area of concern. There is not enough competition in the system. Transaction costs are seen as too heavy. Banks just collide. Spreads are extremely high. Microfinance fills part of the gap, but is not sufficient. They are not regulated, but plans are to have legislation to bring them under the regulatory sight. Although they do not see as the job of regulators to tell banks to lend, they try to encourage them. At the same time, they have to be cautious, since they do not want banks to start having non-performing loans. The Government has an agency, BEDCO, which is tasked with supporting the development of SMEs. They train young people to set up new businesses and put banks in the frame by informing them about it, so that they can consider supporting such new businesses.

The Lesotho experience and initiative suggests that what it seems needed are not just size but also creation of specific mechanisms to support financial inclusion. Moreover, a bigger financial system does not necessarily mean a better financial system. Access to banking services might be good, but is not sufficient, if financial inclusion is also to mean support to business, job creation and support to development more generally. In this sense, one could say that, in Ethiopia, although the system is small, there is a clear effort to ensure that long-term finance is made available to the country's priority sectors, which are infrastructure and manufacturing. The country has an active development bank that plays the specific role in providing finance to such sectors. Regulation is designed to ensure that funding is made available to the country's development bank.

So, the issue of financial inclusion intersects with that of what financial system structure might be the most desirable, to ensure not only access to finance by the unbanked but also provision of finance for job creation and long-term lending for development. There seems a consensus among regulators that a diversified system would be desirable. But what one understands by a diversified system differs among regulators. For Ethiopians, a more diversified financial system means different banks with different funding mechanisms and roles, in addition to the development of capital markets. It does not necessarily include in the picture foreign banks, at least not in the foreseeable future.

In fact, Ethiopians agree that foreign banks might bring the usual benefits mentioned in the literature: improvement in human capacity, transfer of technology, confidence building and increased competition. However, in their view the risks they bring are higher than the potential benefits.

In Kenya, a more diversified system means more foreign banks, more developed capital markets and the introduction of innovative instruments.

In countries where there are foreign banks - Kenya and Lesotho, it is acknowledged that there is a certain division of labor between such banks, with foreign ones concentrating their business in the top end of the market, and local ones in the mid- and lower segments. This seems clearly so in the case of Kenya, where there are many both foreign and local banks, although the latter also have a share of the top end of the market.

2.4 The role of pan-African banks in helping improve financial inclusion

A Lesotho supervisor has expressed a clear view on whether Pan-African banks or foreign banks from developed countries might be preferable, among other things, to enhance financial inclusion in Lesotho. In her view, foreign banks from developed countries would operate along similar lines as South African banks, which are the ones with presence in the country, with similar transaction costs.[1] In contrast, Pan-African banks could lend more, since their banking model is different, in terms of charges, banking strategy, and so on. They would lend more and at lower spreads - "just see how other markets are doing - Kenya, Tanzania, Uganda, Rwanda. Look at M-PESA. They are offering a lot of new products, which we even do not imagine using here".

But if those banks bring benefits, what about the risks? "Benefits are way bigger than the risks!"

Kenya regulators, in their turn, have expressed no particular preference for a particular type of bank. The reality is that all banks are allowed to set up business in Kenya, whether Pan-African, European, from the US or Indian.

[1] I thank Stephany Griffith-Jones for suggesting exploring the question of whether there is a preference for Pan-African banks as opposed to foreign banks from developed countries.

Ethiopia has not thought about it, as they do not have foreign banks. But the regulator's personal view is that, if they were to allow foreign banks in Ethiopia, they would favor the presence of those from developed countries against Pan-African banks. The former are seen as stronger, better managed, and subject to better regulation and supervision. They often are larger and have more capital. If they came to Ethiopia, they would need to comply with capital requirements from Ethiopia, which would be easy for them to meet.

2.5 Subsidiaries versus branches

Between allowing subsidiaries or branches of foreign banks, Ethiopia would clearly choose subsidiaries, so that they could have complete control over them in terms of capital and regulatory side. In this way, they would have all the benefits of foreign banks while lowering the risks.

Given the strong presence and power of foreign banks, in Lesotho regulators prefer to have subsidiaries as opposed to branches, since they can have more control over the former - as they put it, "they are able to supervise subsidiaries smoothly", which means having access to information, documents.

In Kenya, regulators do not see much difference between branches or subsidiaries. In relation to branches, they impose capital requirements, make them comply with national regulation and to have a local management committee. So, there are a number of safeguards in place to make them safe. But from the Government and the political system more broadly, there is pressure to have subsidiaries. The result is that the country has only four branches.

2.6 Challenges to adopt internationally designed financial standards

All regulators see it a challenge to adopt financial standards designed internationally, first due to their complexity and second because of lack of sufficient capacity to do so. Their response has been, first, to adopt a gradual approach and be selective, going for the parts of regulation that are appropriate to their needs. Second, they are concomitantly investing in capacity on a continuous basis, and for that purpose allocating resources to support capacity building, so that their regulatory framework can be gradually improved to ensure a safe financial system.

All countries are striving to comply with the Basel Core Principles, although recent expansion in the number of principles and adoption of tighter and more demanding criteria and methodology to assess compliance are making the task of compliance more challenging. The response of regulators has been to invest in capacity and to amend legislation to be able to achieve full compliance. This has been the case particularly in Kenya.

Having said all that, Ethiopia may be singled out as a somewhat different case. Although it faces capacity limitations, for example in the area of human and knowledge capacity, and they have been helped by the World Bank to address these issues so that they can regulate their financial system adequately, the reality is that their financial system is under-developed, bank based. They essentially have traditional banking, of holding deposits and lending. There are no complex products, no derivatives markets, no complex capital markets, no shadow banking. For what they have, their regulatory capacity seems adequate.

In relation to the Basel rules, which admittedly is the part of banking regulation that is particularly complex (complexity that has just increased over the years), all countries are adopting a gradual approach.

Ethiopia is firmly under Basel I, and it believes that there should be a purpose to move from Basel I to II and III. Today, a number of African countries realize that there is no need to move from Basel I to II to III. Ethiopia holds that position right from the beginning.

Lesotho still is under Basel I, but is planning to move into Basel II in 2015. However, the three foreign banks in the country are already under Basel III. Locally, the recommendation will be for banks to adopt the standardized approach for credit risk under Basel II, although head offices of foreign banks are adopting the more complex approaches (IRB and A-IRB)[2]. Lesotho reconciles the fact that foreign banks are ahead of regulation by requiring that they comply fully with Basel I or whatever is in place, but then they are free to go beyond it.

Kenya fully complies with Basel I and with Pillar 1 on credit risk of Basel II, having the standardized approach in place. If banks want to use the advanced approaches (IRB or A-IRB), they can, but should comply with the one that is most binding, in terms of capital requirements. Kenya is doing well in terms of Pillars II and III as well. Kenya has, in addition, added 2.5 per cent of weighted capital - a capital buffer - to the 12 per cent already required. Moreover, it intends to introduce a leverage ratio by 2016. Furthermore, it has in place the Internal Capital Adequacy Assessment Process (ICAAP), which requires banks to assess potential risk and cover them.

On Basel III, the East African Community (EAC) has picked up aspects of it that suit the countries' needs. So, the countries comprising the Community have adopted them collectively. Specifically in the area of counter-cyclicality, Kenya is planning to have an appropriate capital counter-cyclical buffer by 2018. These measures are being adopted gradually to give banks time to raise capital.

But are capital based rules sufficient or the most appropriate for Kenya? Other supervisory measures include to not allow banks to continue expanding to dangerous levels.

2.7 Capacity issues for effective financial regulation and supervision

In order to be able to keep up with the regulatory developments and to have effective regulation and supervision in place, Lesotho knows that it needs different skills. To this end, it has recently hired personnel with different backgrounds to fill important skill gaps: they have hired statisticians, lawyers and economists, to add to the accountants they already had. These new employees are now being trained to be able to deal with their supervisory tasks, such as data treatment, modeling and stress testing. It should be said that the new employees are all Lesotho nationals - some graduated in Lesotho, others abroad (e.g. South Africa). However, Central Bank employees often leave the bank for the private sector after a while. Therefore, the need for hiring and training is constant. This drain of resources is not necessarily seen as a bad thing, since staff they lose, although moving to the private sector, remains in the country, which is seen as positive.

[2] The IRB and the A-IRB approaches stands for the Internal Ratings-Based and Advanced Internal-Ratings Based approaches, respectively.

The need for new skills, data and modeling has to do with the fact that they follow risk based supervision. Thus, the staff is being trained to be able to identify new risks. At the same time, they, the regulators, prefer not to move into complex things, as they feel they are not capacity ready. Also, the Lesotho banking system is simple, and they do not want to make it more complex. However, they do not want to stay behind, either. They do not want to be perceived as holding back advances in the system.

In terms of adopting or not more complex approaches in supervision, they feel pressure from outside. This pressure comes from the banking system, which is foreign dominated, but it also is a peer pressure. They participate in regional cooperation meetings, and pressure comes from other countries, too.

Kenya invests on capacity on a continuous basis. They send officers to train at Basel and at the Kenya School of Monetary Study, which includes courses on regulatory issues. The Central Bank is well resourced in terms of number of supervisors, including those doing on-site supervision. Like Lesotho, they adopt a risk-based supervision. They have five teams inspecting banks on a regular basis.

2.8 Vulnerabilities associated with open capital accounts

Any areas of vulnerabilities, for example in terms of currency exposures, likely due to an open capital account?

Kenya has in place precautionary measures to deal with it. They adopt a foreign exchange limit of 10 per cent of core capital of the bank. Previously the limit was 20 per cent, but reduced to 10 per cent as banks expanded core capital - in which case foreign risk would correspond to a substantial proportion of banks' balance sheets. So the reduction was precautionary, intended to reduce risk.

Lesotho is an open economy as well, attracting FDI, loans, grants, and therefore it faces currency risks as well. They address this type of risk by imposing limits on currency exposure: 10 per cent for several currencies and 20 per cent limit overall, in relation to a bank's capital.

2.9 Regional initiatives to enhance cooperation on financial regulation

This topic was brought into the discussions when regulators were asked about their relationship with home supervisors.

Lesotho regulators affirm that they cooperate quite a lot with home supervisors, and that their relationship is very good. This is partly made possible by the College of Supervisors run by South Africa. The latter invites everyone where they have banks. This initiative is regarded as very useful. It is a platform or forum in which they can share information. They can also understand how banks want to move strategically.

Another very important forum of cooperation among supervisors at the regional level is the MEFMI.[3] It is an institute on macroeconomic and financial management, based in Zimbabwe. It includes 13 countries from southern and eastern Africa. It is a grouping owned by the Central Banks of the 13 countries, but also benefiting from the sponsorship of other institutions. At MEFMI, the banking supervisor who participates in their meetings has a mentor, who may be someone from one of the 13

[3] MEFMI stands for Macroeconomic and Financial Management Institute of Eastern and Southern Africa.

countries or from somewhere else. Both the meetings and the mentors are regarded as extremely helpful.

Another important grouping is the SADC,[4] which used to have meetings and now is expected to come up with new initiatives.

In terms of their relationship with home supervisors, Kenyans have a number of memorandum of understanding (MoU) with East African countries, both with those where they are host and home supervisors - South Africa (host); Zambia and Malawi (home).

In terms of college of supervisors, they share Lesotho's view that it is very active at the regional level; the South African initiative is also considered very useful.

What about supervisors from developed countries? They exchange information on an informal, bilateral basis.

What about a regional supervisory body? They are working towards that, as part of the idea of creating an East African Central Bank, linked to a project on monetary union.

Finally, for Ethiopia, a college of supervisors is not seen as so relevant, given their lack of financial integration. But they do have experience with sharing type through the AFRITAC, the IMF Regional Technical Assistance Center, based in Dar es Salaam, Tanzania. It is true, however, that this type of technical support is more focused on macro issues (e.g., tax, public finance, monetary policy, payments system) than regulatory ones.

[4] SADC stands for the Southern Africa Development Community.

Annex 1

Questions for SSA Regulators and Supervisors
The questions below relate to regulatory and supervisory capacity to deal with the following three issues:

1) How to adopt complex regulatory approaches designed for developed financial systems
2) How to address the challenges arising from the presence of foreign banks in your country's jurisdiction (if applicable)
3) How to adopt macro-prudential regulation and address in particular systemic risks arising from capital account liberalization (CAL)

General questions:

- What sort of regulatory approach do you adopt - institutional, functional, hybrid, twin peaks?
- What challenges do you face to adopt international banking regulation and supervision of best practice in your country? What areas are the most challenging - banking regulation in general, regulation concerning capital adequacy, macro-prudential regulation?
- In terms of capacity to put in place effective financial regulation and supervision, which are the biggest constraints?
- What critical capacity gaps do you face? Low number of staff in the CB and regulatory agencies? Qualified staff (well trained and experienced) to perform their regulatory and supervisory powers satisfactorily?
- With low number of staff, what supervisory tasks are compromised? On-site supervision, others?
- What specific gaps do you face? Among capacity gaps identified in IMF-WB FSAPs: Skilled and trained accountants? Actuaries and others with expertise in finance? IT capacity? Analytical capacity to conduct supervisory tasks in risk evaluation? Capacity for reviewing data, detect data inconsistencies and conduct stress tests? Capacity to monitor systemic financial stability, and training Basel II implementation?
- What initiatives have you taken to fill your capacity gaps? Strengthening regulation and supervisory guidelines? Expanding staff skills, risk management capacity?
- What approaches have been deemed successful for effective regulation and supervision, what have failed? What country experiences have been seen as successful and therefore taken as a model to follow?
- What role regulatory initiatives at the regional level can play in helping overcome capacity constraints, and how successful have these initiatives been?

On implementing new (Basel-like) regulation:

- Where does your country stand in terms of Basel capital rules?

- Do you adopt Basel I? What about Basel II? If you are under Basel II, what approach do you adopt (standardized, IRB, other)?
- If you are not under Basel II but considering adopting it or in the process of doing so, what is your time frame for full implementation, and for what approach?
- How do you see adoption of the more complex approaches (i.e. those based on internal models to assess risk)?
- In case you have considered adopting internal risk models for capital requirements, what types of constraints do you believe you might face? Trying to validate complex models, monitor them? What constraints would be the most binding?
- In case you are moving towards adopting internal risk models, how far have you gone, for instance in preparing database for running models?
- What specific technical capacity constraints do you face? What initiatives have been taken to overcome them? What about: lack of large and/or reliable data bases, better methods of retrieval; processing and storing of data; capacity to review and detect data inconsistencies (expertise needed on risk assessment)?
- To what extent have your views on what capital adequacy framework to adopt changed, in light of the global financial crisis? Have your initial plans been reassessed and adapted? How?

Questions relating to presence of foreign banks:
Particularly regarding Basel rules:

- What main challenges are you facing regarding the regulatory approaches being adopted by foreign banks? How are these being addressed? What if any have been the implications for the national banks?
- Do you see any divergence or conflict between the sort of regulatory approach you find suitable for adoption in your country and what foreign banks are adopting (or wish to adopt)? What power do you have to impose your preferred regulatory approach on foreign banks?
- Is there a lack of interaction with home supervisors to identify and assess home country risks and how home country supervisors practice consolidated supervision?
- How do you see a possible role for cooperation between home and host supervisors in helping build regulatory and supervisory capacity in your country?
- How much cooperation do you have in your own case? What has limited cooperation?
- What can be done to enhance cooperation between home and host supervisors?
- How do you see the role of college of supervisors as a form to exchange information between home and host supervisors?
- Do you see regional regulatory bodies as a promising way forward among other things to address capacity issues?

On Macro-prudential regulation (and risks associated with CAL):

- On macro-prudential regulation, bearing in mind the links between the financial system and the macro-economy, what macro risks do you face? Exchange rate risks? Why? Concentration of assets in a few banks?

- What sort of macro risks do you face that can affect the stability of your financial system? What sort of tools do you have or intend to have in place to address such risks?
- What about macro risks arising from external shocks that may affect macro-economically important sectors with large banking liabilities? What such sectors?
- What sort of specific macro-economic indicators are needed for the types of risks your banking system face? Are these different from the indicators used by developed country regulators?
- How developed is your macro-prudential framework? What challenges do you face for its further development? If you face shortcomings in this area, what are the main constraints? Financial resources? Technical capacity?
- How best to detect risks arising from macro-financial links?
- What are the challenges of moving from macro-prudential analysis to macro-prudential policy making? Lack of political power? What other constraints - data availability, needed for measurement? To what extent can regional initiatives help reduce these constraints?
- What do you need most to overcome such constraints and what have been done so far?
- How fast have you been or far have you gone in transitioning from micro-prudential towards macro-prudential regulation?
- How much do you already have in place and is what you already have sufficient to meet your needs in the area of macro-prudential regulation?
- How do you see the role of quantitative restrictions (as opposed to capital adequacy regulation) to address macro-prudential risks?
- In regards to risks arising from inflows of foreign capital, particularly those related to possible currency mismatches in banks' balance sheets, do you have in place a supervisory framework for monitoring adequately the size of these mismatches and how they evolve over time?
- What mismatches do you look at? Those within banks or also those between banks and their customers? What is the main challenge? Having a real time based surveillance? Is surveillance sufficient, or is there a need to have rules that prevent mismatches going out of control in the first place? Are such rules seen as too restrictive, anti-growth and thus not in place? Is there too much resistance from banks and the business community for their adoption?
- Do you assess foreign exchange position of banks as part of assessment of systemic risk?
- In a context of CAL, do you see risk of creation of new financial instruments and higher levels of inter-connectedness in your financial system as well as internationally? Is it easy, hard to follow these risks and to have the resources to monitor them?
- Are certain kinds of capacity such as in risk management really important to have?
- What are your views on Basel III proposals, such as introduction of counter-cyclical tools to address systemic risk?
- Are you implementing, or intending to implement, Basel III?

Annex 2

Names and Affiliation of Meeting Participants

Names	Affiliation
Mr. Getahun Nana Jenber	Vice Governor, Financial Institutions Supervision, National Bank of Ethiopia
Mr. Yohannes Ayalew Birru	Chief Economist and Vice-Governor, National Bank of Ethiopia
Mr. Nokotjo Mphaka	Director of Supervision, Central Bank of Lesotho
Ms. Nomonde Sixishe	Head of Banking Supervision, Central Bank of Lesotho
Mr.Qhobosheane Tsoafo	Head of Insurance Supervision, Central Bank of Lesotho
Mr. Reuben Chepng'ar	Manager, Bank Supervision Department, Central Bank of Kenya
Mr. Isaac M. Okwin	Legal Officer, Legal Policy Division

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