How to develop an effective transparent banking and financial system for developing countries in Africa

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TOPIC:

HOW TO DEVELOP AN EFFECTIVE TRANSPARENT BANKING AND FINANCIAL SYSTEM FOR DEVELOPING COUNTRIES IN AFRICA

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ABSTRACT

The desire of the modern economies is to be well structured and planned to innovatively attract foreign direct investment, which is the prime interest of governance of developing economies. This underpins the choice of the conference theme, *"Building a resilient African economy through innovative financing, trade, and Investment for sustainable development of the continent"*, with the effort of this paper is to project a skeletal ex-post situation of Ghana's financial market which is synonymous to most quality performing financial market in developing countries on the continent of Africa with subjective recommendations for aspired progressive direction.

Keywords: *Banking & Finance, Financial Sector, Macroeconomics, Monetary Policy, Central Bank, Foreign Direct investment*

Questions and subject-issues for interrogation :-

1. How should a transparent Banking system look like in the context of Africa

2.What is the State of the Banking and Financial sector of Ghana as of today and the future aspired progression?

3.What is the Structural functioning of the financial sector of Ghana, its strength and weakness

4.What is the effective role of foreign Banks to the economic stability of Ghana and Africa at large

5. What is the quality of retail banking by micro-finance institutions, a product for foreign investment

6. What quality standard is required of a Financial market and it Institutions to attract foreign Investment

7.A proposed prescription for the autonomous operation of the Central Bank in developing countries for market effectiveness and efficiency.

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A. **HOW SHOULD A TRANSPARENT BANK LOOKS LIKE**;

It is mostly submitted in numerous public debates on the continent of Africa and specifically in Ghana enquiring for transparent banking and as a sound bank reformation mechanism. To me, I bet to differ because the extent of desire for transparency in Banking is directly dependent on the quality of regulatory laws enacted to govern the setup of Banking Institutions. As once argued by Salami (2010), Africa was previously absent from the International Financial market excluding South Africa due to weak financial regulation regimes and failure to implement international financial standards, but as at 2007, Nigeria, Ghana and Kenya became active and Ghana judge the best-performing capital market in the world in 2008 per Bloomberg. Which the empirical evidence available concludes, Africa as a continent currently could not be exempted from other continent having good legislation instrument governing their banking system, even if there are identified poor Banking regulatory orders it will not exceed 9% according to data report (Senzu, 2019). Rather the challenge in this sector across the continent has been the quality of supervision on the behavioral conditions of agents at play in the financial market. Which is very difficult to pre-empt other than observing critically to make note of any anomalies in early stages before it gets out of control like the case study of Ghana leading to the collapse of sixteen (16) Banks, twenty three (23) Savings & Loans companies and three hundred and forty-seven (347) microfinance companies in the financial industry of Ghana. (Bank of Ghana Report, 2019)

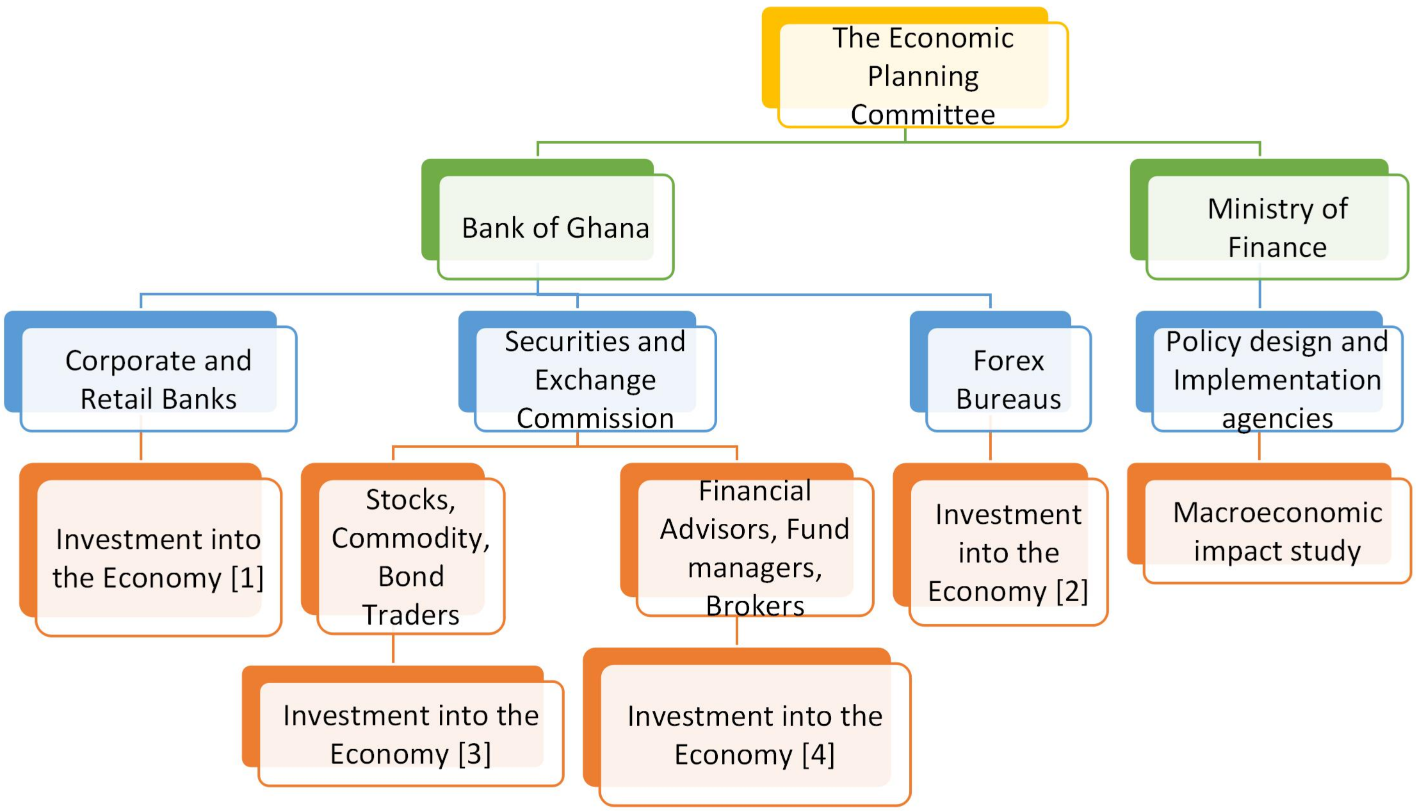
A1. Exiting model of Central Bank supervisory role and recommendation

The paper suggest that the current existing accounting-based data used by the Central Bank as the Commercial or retail Banking reports for risk and sensitivity text analysis may not be sufficient for supervisory standards, there is the need to establish a detail internal data model between the Banks and the Central Bank on the extent of short term domestic project investment in SMEs sector as a microeconomics boost programme, which should be an assessment recommendation criteria for Ghanaian Banks performance and innovations for reward, acknowledging the kind of Economic market run by Ghana and most developing countries in Africa.

Even though Commercial or Retail Bank credit, reporting to Central Bank, especially on SMEs Investment, is not an entirely new model in the Ghanaian Banking system. However the focused on this submission as a proposal, is the Central Bank taken a keen interest and priority in such reports to reward such innovatively performing banks, in a strive to solve SMEs investment challenge at a low capital cost in 'short term financing,' such will trigger the competitiveness in Banks investment innovations to the SMEs sector because the ecosystem of the Ghanaian formal economy is domestically driven by SMEs and externally by Corporate enterprises largely foreign investment. Which only requires government chosen rules of regulation to be free and fair as well as equitable to the market, not the recent received report of biased nature of rules in favour of government Banks against the private sector in some of the developing countries on the continent of Africa without excluding Ghana.

Fig. A2. Structural Model of Finance-Economic and Investment Sector Management of Ghana

Model -1-



E. T. Senzu, 2019; Model-1-and Chart designed

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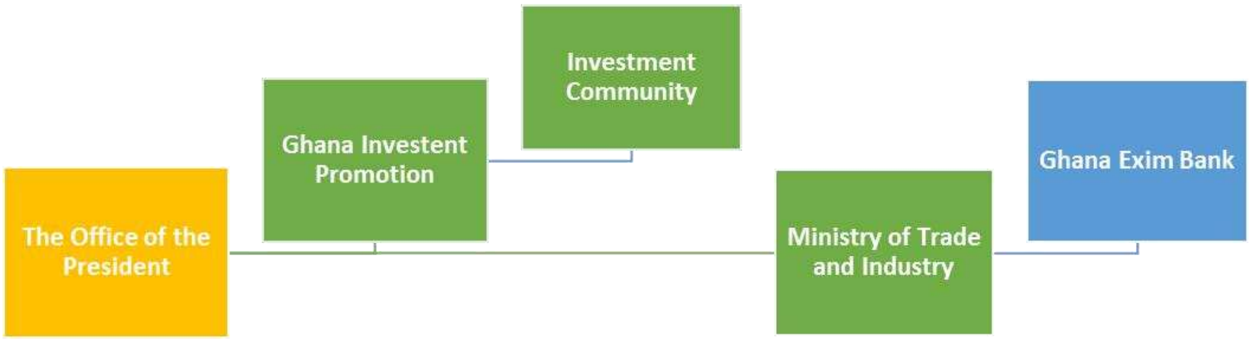
*Model 1 and 2 as exhibited project how the finance economy of Ghana and its investment market operate intertwined with mandatory agencies.

Model-2-



E.T. Senzu, 2019; Model-2 and Chart designed

I. The Analysis of the Strength of Model 1 & 2

The Strength of such a model structure of 1 & 2 is that all formalize transactions will need a bank account as a conduit for transactions hence easy to monitor the market volume and velocity of exchange, a means to approximately measure the health of the economy in a Financial index.

II.The Analysis of the Weakness of Model 1 & 2

- The model 1&2 fails to declare exact sectors of the economy experiencing a high flow of currency, whether private or government enterprises and why?

- This model, pay no attention to the harmonization of the significant output effects of various sectors of the economy to appreciate the true state of domestic economic growth.

- This model upholds a conception that, if there are an inter-ministerial and agency meetings, it establishes a harmonized execution at the Ministerial / Agency level within the economy and that is false.

B. THE FUNCTIONAL STRUCTURE OF THE ECONOMIC MARKET OF GHANA, IT STRENGTH AND WEAKNESS

The paper submit that in the interest of tremendous changes and complexity involved in the modern international trade and its related competition as succinctly argued by Shiozawa & Fujimoto (2018), cohort of age structure of current economy, diversified nature of economic structure of constituent countries and many more of complex factors driving the fiscal space of modern economy has instructed contemporary monetary theory to promote the functional separation of the Central Bank from the political governance of a State. Such an autonomous request of the Central Bank operation gives it an independent introspection to the health of the economy as a check balance to fiscal management. Unfortunately in Ghana as well as many developing countries, the Central Bank may have a legal framework of autonomous in function but in practice is a subservient to political administration. Hence the consequence is foreign investors never consider this kind of economy and it endogenous market by the merits of performance rather makes the decision based on the trustworthy level of government authorities of such developing and underdeveloped countries to determine the state of market risk in favour of investment.

Senzu (2019) posits that there are three (3) categorical industries operating within Ghana economic ecosystem, constituting its active business market, which are;

I.The Corporate Sector - 12%

II.The MSMEs Sector- 36%

III.The Informal Sector- 52%

With the 12% forming the corporate sector, made-up of governmental agencies holding 7% out of the 12% in Ghana’s economy according to the study. Which such agencies of government are naturally set up as non-profitable agencies in their Enterprise mandate, and observed such responsibility is mostly abused in it operations as a disadvantage to the State in terms of debt creation and the 5% are the multinationals with most involve in complex illicit financial flow as in capital flight and tax heavens in abetting with some of the indigenous politicians and lawyers. However, one must acknowledge that in the presence of advanced technology for exposure after the Panama papers (2016) such an act is in a declining trend in the context of the Ghanaian economy.

MSME's sector holds 36% of the volume of market transactions, which has been poorly exploited due to the poor performance of the financial institution in the past. Because the setting-up of the local Banks in Ghana has been an arena innovatively exploited by majority of financial opportunist as a cartel grounds, where stakeholders gather their resource to create the Banks, not because of it integral function to the economy as a whole but a means to acquire the depositors funds to run self-serving project of a parochial interest, which has hurt the economy over a decade because most of these agenda were run intertwine with political interest ignoring the consequence to the economic market as a whole.

The Informal Sector, which hold 52% of the volume of market transaction and observed to be the foundation of sustainable economic development to Ghana has been ignored because as earlier stated most of the promoters of indigenous financial houses had a different objective in setting up the institution in respect to what the Banks were expected to solve as a problem in the economic market in return for a reward as an investor cum entrepreneur. Hence the cleaning-up exercise of the financial sector by the Bank of Ghana to bring sanity, to me, was a positive call but only questioned the mode of operational execution as a financial market clean-up exercise.

This anticipated outcome of this clean-up exercise by the Central Bank is to inspire the market with quality and qualified financial institutions to address the actual challenge of the Industrial sectors for sustainable economic growth.

C. THE EFFECTIVE ROLE OF FOREIGN BANKS TO THE ECONOMIC STABILITY OF GHANA AND AFRICA AT LARGE

A 12% corporate market in Ghana for just less than five (5) International Banks to exploit, is grossly unprofitable investment benefit to stakeholders of such Banks in terms of monetary volume of trading transactions. So to have more than five International Banks in Ghana is a confirmation that, they have the confidence to exploit beyond the 12% category of the corporate market to the 36% MSME's market. As Senzu (2019b) asserts, "Success in Banking is attained not by avoiding risk but effectively selecting and managing risk." It then brings us to the question of the method of execution to achieve such an objective?

This paper suggests that, due to poor literature reports of the evolutionary dynamics of MSME's in the economy of Ghana, it is perceived as a high-risk investment zone by the International Banks, however, the indigenous financial houses with experience of the market, understand the tradition and the behaviourial character of this market better for decision making hence risk perceptional analysis is very less in this group. Therefore the best way to address this issue is a special marriage of the International Bank with the local financial house to enter into the MSME's market under a structural innovative finance product design by transferring the risk objective to the mediator defined herein as local financial houses under a policy framework and profit-sharing ratio.

While these indigenous local financial houses enjoy the international-local Bank relation as upstream opportunity as a leverage in the access to low-cost capital, it also an avenue to critically develop an innovative financial product to tap deeply into the informal sector economy, which contains the greater transactional volume of liquid cash at the blind spot of the formal economy.

It is in this proposed model framework that economic stability and sustainable growth of Ghana's economy will be realized.

D. THE QUALITY OF RETAIL BANKING BY MICRO-FINANCE INSTITUTIONS, A PRODUCTS FOR FOREIGN INVESTMENT

I have already proposed the model very effective to address the retail banking sector for the MSME market from the previous paragraph. However, I raised an issue of quality product development to attract investment support, which most local financial institution lacks. Any retail banking product to qualify for international funding for this market should examine the current SMEs Banking product if it addresses the following questions.

Q1. Do your financial product document as a domestic Financial house project a descending order in the type of SMEs businesses highly profitable in the economic market of Ghana?

Q2. What is the Incubation period for the [Q1]-SMEs as a Start-up or existing business to attain a reliable profit circle?

Q3. What is the required level of experience for the [Q1]-SMEs promoters or professionals to be efficient in delivery to minimize the risk impact factor to the lowest degree?

Q4. The average investment required to promote [Q1]-SMEs business to meet the expected economic rate of return (ERR), even in bad economic weather?

Q5. During the exposure of [Q1]-SMEs business to an external high-risk atmosphere of the located market, will the business internal rate of return (IRR) exceed 0.5

Q6. As a financial house, how practicable and innovative is your monitoring, evaluation, and risk management model towards a successful credit recovery.

[NB]* Quality documentation of the above requirement and more to meet investment pitching appetite of investors will easily get such fundraiser access to funding.

E. FINANCIAL INSTITUTIONS AND FORIEGN INVESTORS

In all countries across the world, one of its most trusted industry which easily attracts investors interest is the financial sector due to the nature of its market structure and comprehensive legal regulatory system. However, not all companies in the financial industry easily attract such opportunities within the financial sector because of the questionable competency of some of the promoters who may go through the licensing process politically to influence the system. These cronyism styles in influencing the financial market have discredited the reputation of the financial market of some of these developing and underdeveloped economies of Africa. However, when an International investor seeks to invest in a particular market, there are two categories of factors considered, which are;

[I]External Factors

[II]Internal Factors

External Factors:

The major external factor considered and analyzed is the report of the sovereign credit rating of the country, the desired business to invest is operating from, to peg, the base interest rate on the fund as the cost of capital to be invested.

Internal Factors:

At this level, the investor begins to use corporate finance analytical tools to examine the risk-level of the documentation pitch of the Venture capitalist, in setting-out an additional interest rate as a premium per the risk level on the investment products either high or low depending on the estimated costed risk. With the rule that the higher the sensitive test of the business to reality towards its profitability, the lesser the risk level.

F. A RECOMMENDATION TOWARDS AUTONOMOUS OPERATION OF THE CENTRAL BANK IN DEVELOPING ECONOMIES

In any well-structured economy, the Central Bank activities either directly or indirectly affect the following actors of the economy;

- The Banking Sector

- The Financial House, which in this paper will mix all the micro-finance Institutions, rural development banks in Ghana and related investment agencies as fund managers, brokers, traders and financial advisers as in financial securities all in a single basket

- All Industries excluding the financial sector

- The informal sector (if any)

Instead of the Governor and board appointment of the Central Bank influenced politically, the following is a proposed procedure outlined below in favour of developing countries for a transparent banking and financial system.

Using Ghana as a case study, an instituted electoral college has to be formed to appoint a competent governor of the Central Bank in every 4yrs as a term subject to renewal. And the electoral college formation must follow this procedure

1.Association of Bankers appointing 5 officials of their industry to represent their interest within the college

2. The Micro-finance Institutions do the same

3. The Economics-Finance Network of Private Universities and Colleges also do the same

4. Then the Economics-Finance Network of Government Universities and Colleges also do the same

5. Then various defined and formalize industries under unionized body, meaning if it a commerce industry all unions in commerce both government and private agree of five (5) competent delegates on their behalf appointed per their own formula to join the electoral college.

6.The Informal Economic sector under the supervision of the Ministry of Local Government (MLG)

Then the second stage will be a well structured documented criteria to guide in the choice of a suitable, competent and innovative candidates for governorship office of the Central Bank by the council of State for the electoral college election for the 6yrs of office as a term subjected to renewal on performance. The paper, therefore, submits the governorship office should be open to only two terms per candidate depending on the performance and competency. With its election held by the electoral college expected not to exceed fifty (50) in numbers as qualified applicants who understand economics-finance and central banking management skill.

When the governor is elected, then in consensus with the economic planning committee of the government, he proceeds to appoints his deputies and board of directors through the Central Banks staffs and the electoral college as deem-fit towards the success of its office of 6yrs terms, subject to (2) terms of office depending on quality of performance.

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