



United Nations
Economic Commission for Africa



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Central Bank Introduction Workshop Concept Note

Organizers: UNECA, TCX, TDB and FSDA with the support of Bill & Melinda Gates Foundation

Date: 12-14 June 2024

Subject: Local currency and capital market development for Central Bankers

1. Background and Purpose

Access to finance has been identified as a key challenge to achieve the Sustainable Development Goals (SDGs) and fostering Africa's economic development. While access to international capital markets remains difficult due to increased interest rates, it is essential for African countries to deepen their domestic financial markets. In particular, local currency financing and capital market development could significantly mitigate the impact of financial crises on the domestic economy and facilitate capital flow absorption.

By providing domestic channels for the deployment of large untapped savings in emerging markets, efficient local currency capital markets (LCCM) can smooth the absorption of large and volatile capital flows and facilitate global rebalancing. Recent financial crises, including those caused by the Coronavirus pandemic, have demonstrated that efficient LCCMs can strengthen financial resilience by mitigating currency risk, which is often a source of financial distress for emerging and developing economies. In particular, local currency bond markets (LCBMs) are integral to the development of a broader capital market, which allows risk to be priced appropriately, enables investors to better manage their portfolios and facilitates monetary policy transmission. These factors therefore contribute to countries' long-term economic growth.

Monetary authorities play a key role in financial markets, as they set risk-free rate of return, which has a large impact on financial assets, including bonds. In fact, monetary policy transmission mechanisms include not only traditional interest-rate and the real exchange rate channels, but also stock prices that affect investment through the cost of capital. Therefore, any effort aimed at developing local currency financing mechanisms and capital markets in Africa should target central bankers and strengthen their capacity.

The purpose of this workshop jointly organized by TCX and the Economic Commission for Africa (ECA), is to raise central bankers' awareness about currency risk management and solutions and its fundamental impact on capital market development, as well as to discuss the exchanges on the importance of Central Banks in this ecosystem and their requirements.

Through this introduction presentation, we aim to (i) present solutions offered by TCX and partners, (ii) initiate discussions around risk management, particularly currency risk management as well as available hedging solutions, (iii) initiate discussions on barriers to capital markets development, including in respect of appropriate enabling environments



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(i.e., securities and investor protection laws, regulatory bodies, listing requirements, etc.), (iv) highlight the importance and interactions of the financial ecosystem, (v) agree on a roadmap to build domestic currency capital markets, , and (vi) key bond issuance considerations.

After the first day of sessions, the following day(s) will be devoted to panel discussions and practical case studies. The closing session will be a call to action and general guidance on the next steps.

2. Outline

The workshop will cover an overview of FX risk management and capital markets development. The training will also include sessions from ISDA and other partners' presentations ranging from hedging, money markets, bonds to policy, framework as well as case studies and panels on market creation activities, and finally, an exchange about the best way to collaborate in order to build the best ecosystem.

The proposed outline of the workshop's themes are as the following: 3 days

- I. UNECA, TCX, TDB and FSDA Intro
- II. Current situation: EM vs Frontier Capital markets and debt sustainability (data)
 - a. Debt levels: absolute and relative
 - b. LCY share vs hard currency
- III. The leading role of Central Banks
- IV. Risk management and key elements of capital markets development
- V. Importance of domestic markets and summary
 - a. Why and what capital markets?
 - b. Capital control and FX reserve
 - c. Derivatives, money markets,
 - d. ISDA and other legal points
 - e. Debt: onshore vs offshore, bond (vanilla and sustainable) issuances
- VI. Pathway to capital markets development
 - a. Is there a pathway? What steps? Which Stakeholders involved?
 - b. Ecosystem and Barrier to entry
- VII. Call to Action: How to execute first steps
- VIII. Conclusion

3. About the organizers:

About UNECA

The Economic Commission for Africa (ECA) was established by the Economic and Social Council (ECOSOC) of the United Nations (UN) in 1958 as one of the UN's five regional commissions. ECA's mandate is to promote the economic and social development of its member States, foster intra-regional integration, and promote international cooperation for



Africa's development. ECA's mission is to deliver ideas and actions for an empowered and transformed Africa, informed by the 2030 Agenda and Agenda 2063. The mission is guided by ECA's strategic directions which include designing and implementing innovative financing models for infrastructure, and for human, physical and social assets for a transforming Africa.

About TCX

The Currency Exchange Fund N.V. ("TCX") is a development finance initiative that offers currency and interest rate derivatives in financial markets where such products are not provided by commercial banks or are hard to access for the parties who need them. TCX does not compete with commercial banks.

TCX's investor base consists of the Dutch, German, UK and Swiss governments and a wide range of development finance institutions and other impact investors active in emerging and frontier markets. The principal objective of the fund is to eliminate currency risk associated with loans from international lenders to borrowers based in emerging and frontier markets.

TCX products, cross-currency swaps and FX forwards, have no tenor limits, allowing TCX to support cross-border local currency financing of any required tenor. TCX covers around 100 currencies worldwide and more than 110 countries. Since starting operations, it has hedged over USD 15 billion of local currency loans and issued billions in local currency bonds. TCX is rated single A by S&P and A1 by Moody's.

About TDB

Established in 1985, the Eastern and Southern African Trade and Development Bank (TDB) is an African development finance institution, with investment grade ratings and assets of USD 8.4bn. TDB serves 25 member states in its region, with the mandate to finance and foster trade, regional economic integration and sustainable development, through trade finance and project and infrastructure finance.

The Bank provides bespoke bilateral and syndicated short and long-term financial solutions in numerous sectors to sovereign, financial institution, and corporate clients, including SMEs, from the region. This includes direct financing via senior and mezzanine debt, equity, guarantees, export credit financing as well as a range of non-financial products such as advisory, asset management and agency services.

TDB has an innovative equity capital structure with 47 sovereign and institutional shareholders, including pension funds, insurance companies, sovereign wealth funds and development finance institutions. The Bank mobilizes debt funding from multilateral and bilateral banks, commercial banks, and investors from across the globe – through capital market issuances, long and short-term lines of credit, risk-sharing agreements, co-financing arrangements, and export credit financing.



About FSDA

FSD Africa is a specialist development agency working to make finance work for Africa's future. FSD Africa is incorporated as a non-profit company limited by guarantee in Kenya. It is funded by UK aid from the UK government.

Its programming is designed to address systemic challenges within Africa's financial markets, with the aim of sparking large-scale and long-term change. FSD Africa is part of a family of 10 financial sector deepening, or FSD programmes, operating across sub-Saharan Africa, known as the FSD Network. Together, the network provides over £50m a year in financial support to high-potential financial market development programmes, and employs over 150 financial sector experts, based in local offices across Africa.

As the FSD Network's regional programme, FSD Africa works to strengthen the impact of individual FSDs and the network as a whole. We regularly convene the community, provide capacity building support, and foster opportunities for collaboration.

About Bill & Melinda Gates Foundation

Guided by the belief that every life has equal value, the Bill & Melinda Gates Foundation works to help all people lead healthy, productive lives. In developing countries, it focuses on improving people's health and giving them the chance to lift themselves out of hunger and extreme poverty. In the United States, it seeks to ensure that all people—especially those with the fewest resources—have access to the opportunities they need to succeed in school and life. Based in Seattle, Washington, the foundation is led by CEO Mark Suzman, under the direction of co-chairs Bill Gates and Melinda French Gates and the board of trustees.

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