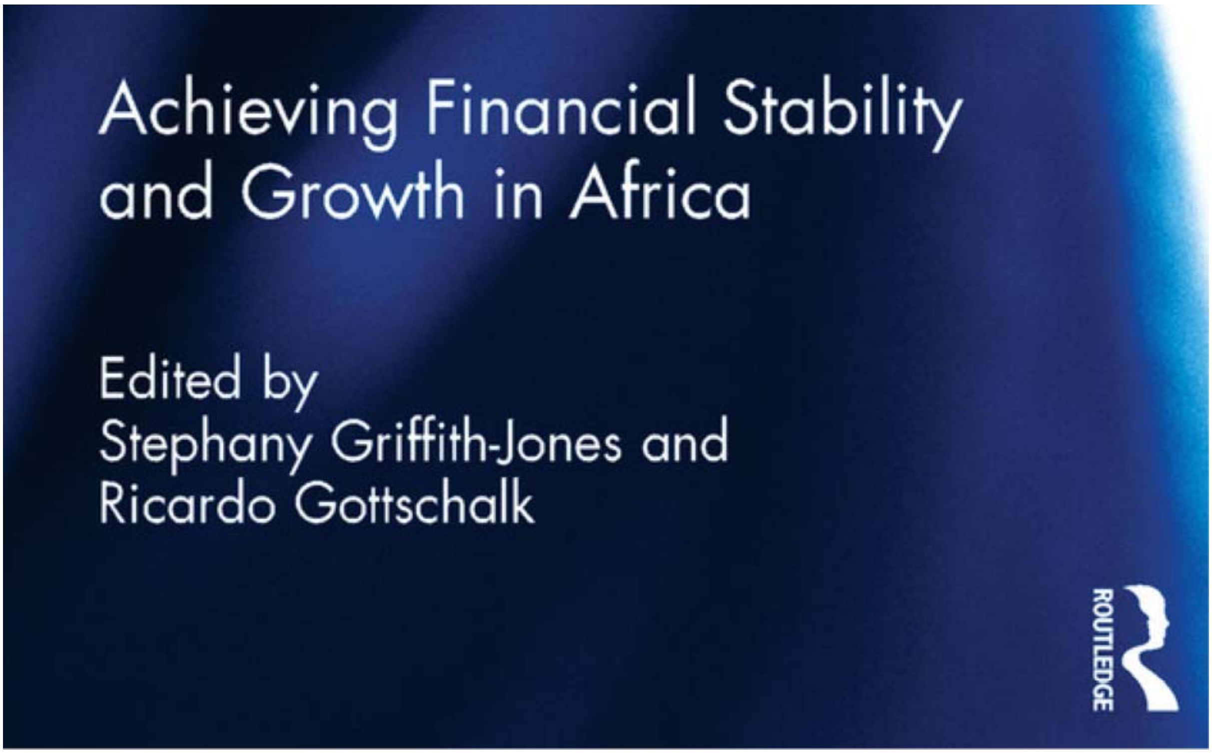
Book notes: Achieving financial stability and growth in Africa, edited by Stephany Griffith-Jones and Ricardo Gottschalk

John Chown praises this comprehensive review that studies the possibility of achieving 'the impossible' in low-income Africa – both growth and financial stability



John Chown

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Stephany Griffith-Jones and Ricardo Gottschalk (eds.), **Achieving financial stability and growth in Africa**, Routledge, 2016, 186 pages

This interesting book has both superb qualities and surprising omissions, discussing an important and highly topical subject: how can African low-income countries achieve the two conflicting objectives of the title? The approach – nine chapters with different authors – offers a comprehensive review of previous academic literature, and is based on a three-year international project. It packs a lot into 186 pages, is essential reading for specialists and an excellent source of reference that should be on every central bank library shelf.

Those with more general responsibilities might wish to read it selectively, beginning with the conclusions (chapter nine) and going on to chapter two, which gives a very balanced overall account of the questions, before consulting the index. The four country chapters – good on their countries – all also include some useful comparative material.

Writing in the aftermath of the financial crisis, Stephen Spratt, author of chapter two, points out that the avoidance of crises is a necessary, but not sufficient, condition for productive economic activity. Spratt says regulation needs to aim "to maintain financial stability and to promote inclusive economic growth" – the practices of major financial centres not being a model to follow at this stage. He gives a detailed, but critical, analysis of actual events, pointing out that there is a different, optimum size for a financial sector at any stage of development and discussing the relative roles of different types of bank. Central banks are "the most respected financial institutions" with the necessary expertise and capacity to play a central role and ensure that regulation should "encourage innovative business models" that support development. There is a good discussion of the "rules" versus "principles-based" issue.

Here – and, indeed, throughout the book – there is a wealth of information on access to banking and other financial services, and the roles of various categories of banks and how they make their money. There is less on venture capital, entrepreneurship and micro-finance, although the Ethiopia chapter has some interesting perspectives on the latter.

Missed opportunities

Now to the gaps, and how they can be filled. There is very little on stock exchanges, a subject on which I have myself done many assignments in former Communist countries and Asia, but not – yet – in Africa. Chapter two gives the only real coverage – a page and a half – including a table of 2011 market capitalisations as a percentage of GDP, eg Uganda (46%), Kenya (30%) and Nigeria (16%). Up-to-date statistics (readily available online) confirm that these and some other African countries are comparable with those of transitional and emerging countries within my own experience where I have worked, where we found enormous value in helping formal stock markets to develop. Such markets have a positive correlation with growth rates, and bring together domestic entrepreneurs and foreign investors.

A major part of our recommendations involved tax and pensions. Neither word appears in the index – and nor does "corruption". Not everyone, fortunately, ignores tax. The UK's

Institute for Fiscal Studies has this year been given a substantial grant to advise on tax policy in Africa, initially concentrating on Ghana and Ethiopia.

Many *CentralBanking.com* readers will share my (guarded) enthusiasm for the positive role of effective and innovative financial markets. And, as such, we could also look at works such as ***The convergence of nations: why Africa's time is now***, which gives a more pro-market point of view approach to Africa's future.

Is their approach appropriate for Africa? Those of us whose experience is in very different countries should temper their enthusiasm by studying the lessons of *Achieving financial stability and growth in Africa*, which contains many useful warnings. It explains why overhasty financial sector development can have a negative impact on growth, and points out that if financial institutions can obtain good returns lending to governments at high risk-free rates, this will crowd out the private sector. They qualify what may seem a 'regulatory' bias by quoting Bank of England chief economist Andy Haldane, who has "persuasively argued that excessive complexity of regulation seems undesirable".