UNITED NATIONS
ECONOMIC COMMISSION FOR AFRICA

A BACKGROUND PAPER FOR THE APRIL 2, 2009 G20 SUMMIT IN LONDON

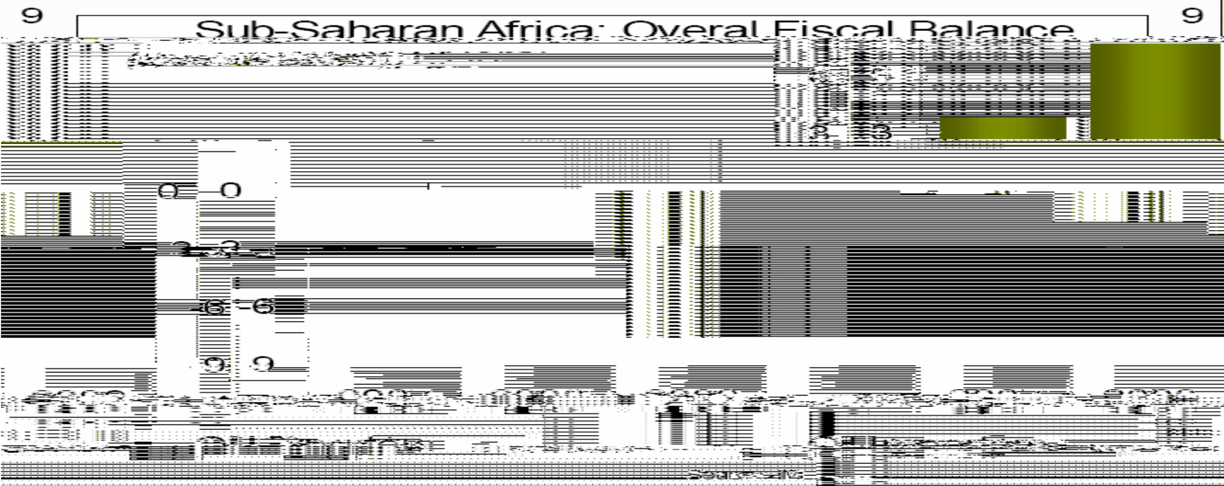
or virtually all of their gains since the beginning of 2008 and a number of initial public offerings which had characterized earlier periods had disappeared[1] (see table 1).

Performance of Selected Sub-saharan stock market indices

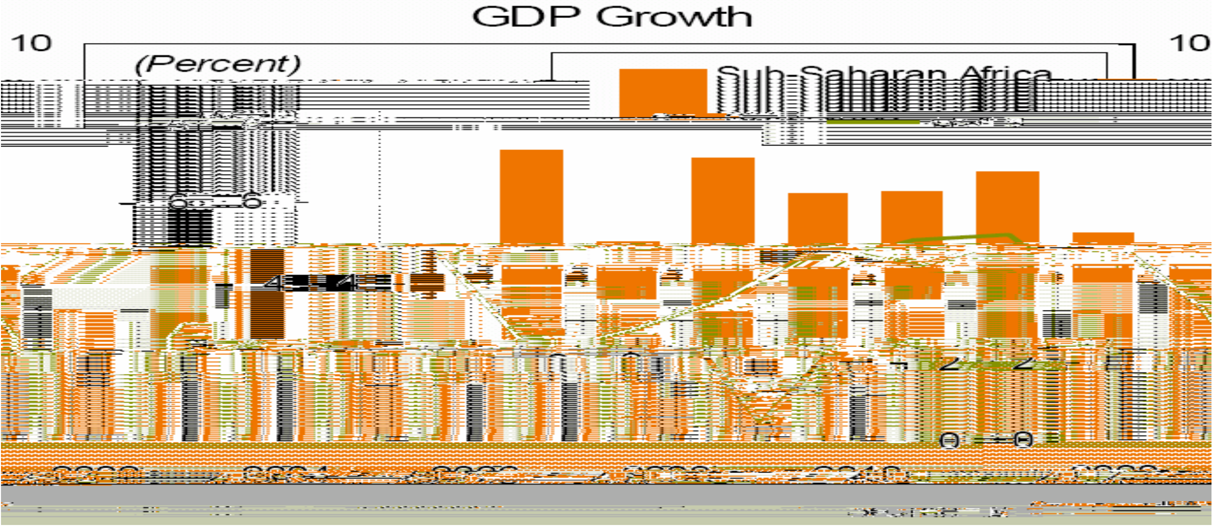
	Index 18 Dec 08	% change between Dec 07 - Dec 08: One Day	in local currency	in $ terms	% change between Dec 08 - 16 Feb 09: in local currency	in $ terms
Kenya (NASI)	71.2	+8	-28.8	-41.1	-17.1	-19.7
Malawi (Domestic)	4,319.4	+1	+26.4	+27.7	-10.2	-10.0
Mauritius (SEMDEX)	4,704.9	-2.8	-36.6	-44.1	-15.1	-18.7
Tanzania (DSE Index)	26,423.6	0.0	+21.3	+7.5	-0.2	-0.9
Uganda (All share)	4,324.3	+2.9	-21.1	-31.8	-16.3	-18.6
Zambia (All share)	547.1	+1.1	-28.6	-49.2	-7.1	-19.4
GSE (All share)	10,431.6	0.0	+58.1	+25.9	-4.7	-11.4

Source: African Morning monitor, page 7. GSE data from the Ghana Stock Exchange and author computations

to increase social spending and safety nets and to provide the fiscal stimulus required to mitigate the worst consequences of the financial crisis.



The plunge in exports demand from the developed countries and an absence of new capital sources (e.g. from sovereign bond issues) will impinge on growth in Africa like the other regions. At the same time, sharply tighter credit conditions and weaker growth are likely to cut into government revenues and governments' ability to invest to meet education, health and gender goals, which are necessary for attaining the MDGs.



Sub-Saharan Africa: Financial Inflows

In recent years, many African countries as a group have benefited from increasing private flows (particularly FDI and remittances). H

kwacha fell 24 per cent against the dollar between August and October. Such depreciations make it obviously much harder to service foreign debt (Prizzon, 2008).

In the last eight years, African countries have made significant progress in the areas of economic performance and good governance. There is a determination to sustain economic reforms, better manage its economies, show and be committed to transparency, accountability and comprehensiveness in the conduct of government business as well as a determined effort to fight corruption. The boom in commodity prices provided the needed revenue to sustain reforms and enhance the growth process. Africa has been able to, among others,

- Improve on macroeconomic management exemplified by robust monetary and fiscal policy; most of the economic fundamentals are moving in the right direction hence the existence of macroeconomic stability
- Liberalize markets and trade
- Widen the space for private sector activity
- Increased FDI in most countries
- Emergence of stock markets
- Investing in people in order to accelerate poverty reduction
- Utilizing aid to reduce poverty
- Improving governance

The remarkable success recorded in several African countries particularly as regards better macroeconomic management, united efforts at selq)Wpmbu/kW/:x)pf/Wz(p bu/8z8pmb/k/

demand is due to a large decrease in real financial wealth, an increase in precautionary saving on the part of consumers, a wait and see attitude on the part of both consumers and firms in the face of uncertainty, and increasing difficulties in obtaining credit.

The Governments of the developed countries (the United States, United Kingdom and other European countries for example) have responded to the slowdown in their economies by resorting to fiscal stimulus to increase aggregate demand. Monetary policy has reached its limits with interest rates close to zero in many countries. Indeed many advanced countries find themselves in a situation akin to the Keynesian liquidity trap, leaving room only for fiscal stimulus to boost demand. The developed countries like the United States are more easily able to finance the fiscal stimulus from government borrowing and the Congress has just passed President Obama's $787 billion stimulus package to jump start US recovery.

The international dimension of the crisis requires

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countries. The President of the World Bank, Richard Zoellick has proposed the setting up of a " Vulnerability Fund" whereby the advanced economies contribute 0.7% of their respective stimulus packages (about $15 billion) which can then be made available to the poorest countries as ODA.

- Second, developing countries should invest in social protection and human development to avoid the financial crisis being converted into a humanitarian crisis with permanent declines in the welfare of poorer households. However, not all developing country governments would have the fiscal space, healthy reserves, current account surpluses, or access to capital markets to be able to undertake such fiscal stimulus. Many African countries in particular are challenged in this regard and therefore present a case for donor support. There is therefore the need for Africa to be fully integrated into the coordinated effort to increase global aggregate demand. This would require swift action by the international community to provide the necessary concessional financing to preserve hard-won gains in growth, governance, protection of the socially vulnerable, poverty reduction, and macroeconomic stability.

Meeting existing aid commitments

In an examination of the impact of the financial crisis on aid flows to developing countries, Development Initiatives (2009) note that the financial crisis is a potential "quadruple whammy" for financing for developing countries

First, The value of the existing aid commitments has fallen. The value to developing countries of the EU target of 0.56% GNI in 2010 has fallen by nearly $12bn a year since 2007 as a result in downward revisions to estimates of national income following the financial crisis.

Second, donors may be less likely to meet their commitments. Analysis by the Center for Global Development in Washington DC shows that after each previous financial crisis in a donor country since 1970, the country's aid has declined. For example,

Germany, Italy and France undertook to reach 0.51% ODA/GNI in 2010, and the UK undertook to reach 0.56% ODA/GNI.

The World Bank notes that "aid-dependent countries are particularly vulnerable to disbursement shortfalls and perhaps changing donor priorities". Despite recent commitments to improve aid predictability and to scale up official development assistance, progress has been slow and challenges to sustaining these commitments in the current environment are expected to increase. IDA should assume an increased role in assisting countries deal with the impact of the global financial crisis. IDA15 replenishment (of US$ 25.1 billion for the World Bank to help overcome poverty in the world's poorest countries) should significantly boost IDA's ability in this regard.

Africa should therefore insist at the G20 summit that rich countries meet their existing commitments on aid and debt reduction.

Accelerating Disbursements and Improving Access to existing Facilities

The nature of the financial crisis is such that cou

Khoras (2009) argues that accelerating disbursements –the flow of money to already approved projects- is the surest way of helping poor countries. Apparently about $60 billion is already in the pipeline but procedural requirements have stalled delivery. It is suggested that some of these funds be reprogrammed as budget support because of the emergency nature of the crisis.

In addition, aid agencies can relax the amount of counterpart or matching funds that poor countries are supposed to provide. Furthermore, emergency procedures can be used for some countries that have sound policies and programs in place- as in the case of the response of aid agencies to major calamities.

Leveraging Multilateral Banks Capital

The capital of multilateral banks such as the World Bank, Asian Development Bank, and African Development Bank, could be leveraged to the extent that their outstanding loans do not exceed their paid or callable capital. In this regard an early general capital increase for the African Development Bank is needed to enable it further scale up its interventions in support of countries in Africa.

Sale of IMF Gold reserves.

At its founding, the IMF acquired gold under its Articles of Agreement as the basis for reserves for the Fund. The world operated on the 'gold standard" where currencies of member countries were tied to the value of gold under a regime of fixed exchange rates (The Bretton Woods System). With the collapse of the "gold standard" in 1971, the IMF kept the gold as a "rainy day fund" (Birdsall and Williamson, 2005). The IMF's gold reserves are the third largest in the World after the United States tehaltdu/kW/:x)pdbuzkqx888:p bu

countries. In 1999 the IMF Board also approved gold sales to finance IMF participation in the Highly Indebted Poor Country (HIPC) Initiative.

There has been considerable discussion in recent years about the sale of IMF gold reserves in the context of providing debt relief and more recently to shore up the administrative budget of the Fund itself. The Fund needs near universal support (85 percent majority voting power) from the IMF Executive Board to engage in the use of its gold reserves. The US holds 17 percent of the votes so its agreement is necessary. The IMF is also required under U.S. Law to gain support from Congress before selling any

SDR issue. Birdsall (2009) notes that this amount can be allocated following a 90-day period of prior consultation with the US Congress by the US Treasury.

The international financial system, at the core of which are the Bretton Woods institutions (the IMF and World Bank established in 1945) has proven totally inadequate in anticipating as well as dealing with the financial crisis. It is against this background that the forthcoming G20 meeting is taking place in London on April 2, 2009.

The G20 agenda is expected to address a number of issues including:

- Sound regulation and strengthening transparency
- International cooperation and strengthening financial market integrity
- Reform of the IMF and
- Reform of the World Bank and multilateral development banks.

The British Prime Minister, Gordon Brown has spoken of a " Grand Bargain" to be struck between advanced economies and emerging market economies where emerging market economies would get expanded access to IMF resources with less conditionality, governance reforms that would see the voting shares of developing countries increased significantly, as well as an increase in the representation of the emerging economies in the governance of Fund, World Bank, Financial Stability Forum and Basel Committee on Banking Supervision.

How does Africa fit in this "Grand Bargain" to be struck at the G20 summit? The issues of concern to Africa relate to inter alia Aid Delivery Modalities, the Debt Sustainability Framework, Trade, Voice and participation, Financial Inclusion, and Regional Cooperative Arrangements.

important that the "Outcome" used for assessment of country performance be negotiated on a country by country basis and reflec

• Third, since the debt ratio is highly aggregated—short-term, long-term, foreign and local currency debt are usually lumped together—and released on low frequency, it does not properly account for the impact of changes in the maturity structure or currency composition of debt on debt sustainability.

• Fourth, the approach does not fully take into account the level and changes in the assets and liabilities of the public sector which affect debt sustainability. It frequently fails to incorporate some important public sector assets which are relevant to the ability to pay debt, such as natural resources, foreign currency reserves of the monetary authorities and seignorage revenues.

Africa at the G20 summit should argue for a redesign of the DSA framework to take into account the shortcomings of the methodology and remove eliminate the judgmental element of what constitutes good policies and institutions.

Regulatory Reforms and Financial Inclusion

The G20 has a number of items to be addressed as part of the effort to create a more effective and coherent system of global financial regulation. Bradlow (2008) argues that Africa should insist that the groups working on regulatory reform should look at the creative efforts of countries like South Africa and Ghana and microfinance institutions around the world to expand poor people's access to banking and financial services. At a minimum the new regulatory reforms should encourage efforts to provide financial services to the poor that comply with international best practices.

Voice and Participation

An increase in the share of basic votes for African countries in the governance of the IFIs is desirable to allow meaningful representation for smaller economies as was

Malawi. Countries with low aid dependence include mineral rich countries like Nigeria, Gabon and South Africa.

There is often the old debate as to whether trade or aid is more important. Both sides of the argument have convincing points. However, the reality of today and the current crisis in particular suggest that the answer is not one or the other. Africa needs to trade and has been trading with the rest of the world. Whether she has maximized the benefits of trade is another matter. In fact, most African countries have liberalized trade. Africa accounts for about 2 per cent of world trade and its share of world manufactured exports is almost zero. Africa for the most part depends on its traditional primary goods. The challenge for Africa is to manufacture for exports and the G20 countries have to relax certain conditions to enable African exporters penetrate their markets.

As the United Nations seeks increased financial assistance from donor countries to help meet the flagging Millennium Development Goals (MDGs), the inadequacy of international aid and fairer trade agreements has never been so clear. In 2007 alone, aid to developing countries fell by 8.4%, leaving huge challenges ahead to meet the Gleneagles G-8 target of doubling aid to Africa by 2010. In July 2008, the Doha round of trade talks collapsed again for the third time.

The current global economic crisis should not result in the reduction of aid; rather increased aid should be focused on investment in infrastructure as part of the stimulus menu available to countries in Africa. Africa should demand that developed countries live up to their promises on making the Doha Round the "Development Round".

Following the Global financial crisis and accompanying global recession, G20 leaders are meeting in London to find answers to these problems. It is important that Africa take the opportunity presented by the crisis to make its voice heard and have its concerns addressed at the G20 Summit.

As noted earlier, in the last eight years, Africa has made significant strides in the areas of economic and political governance. Africa has been able to inter alia, improve on macroeconomic management, liberalize markets and trade, widen the space for private sector activity, increased democratic governance, and investing in people in order to accelerate poverty reduction. However, the global financial and economic crisis threatens to reverse the trend of satisfactory economic performance in the African continent. Given the enormity of the problem facing Africa, The "Bargain" to be struck in London should not only be "Grand" but should also be "Just". For Africa this means that:

- As the developed countries implement various fiscal stimulus packages, there is the need for Africa to be fully integrated into the coordinated effort to increase global aggregate demand. The developed countries' fiscal stimulus will be a lot less effective if not accompanied by similar fiscal stimulus in the developing world.
- Africa should insist at the G20 summit that rich countries meet their existing commitments on aid and debt reduction.

- G20 should urge and support the IMF to put in place a new facility to support African economies during this crisis; this should be a special facility with relaxed conditions to be based on outcomes.

- Accelerating disbursements is the surest way of helping poor countries. There is the need for donors and international financial institutions to accelerate disbursement of funds to Africa to maximize the impact of these resources. Some of these funds should be reprogrammed as budget support because of the emergency nature of the crisis.

- In addition, aid agencies can relax the amount of counterpart or matching funds that poor countries are supposed to provide.

- An early general capital increase for the African Development Bank is needed to enable it further scale up its interventions in support of countries in Africa.

- Some $13 billion should be raised through the sale of some 15% of IMF gold reserves to help developing countries deal with the financial crisis.

- Africa should propose a new $250 billion new SDR issue by the IMF.

- Africa should demand a redesign of the modality of Country Policy and Institutional Assessment (CPIA) to include a category significantly weighted towards country specific outcomes and to use APRM g

- **Africa should ask for representation in the Financial Stability Forum and increased representation on the IMF and World Bank Boards. Also, the G20 should create formal channels through which they can submit position papers**

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