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AFRICA AND THE GLOBAL FINANCIAL AND ECONOMIC CRISIS

Responses of Global and Africa's
Regional Institutions

Africa Trade Network

G20 April, 2009

- Endorse the stimulus measures adopted in the OECD
- Strengthen financial regulation and transparency; improve global governance in global finance institutions
 - FSB, tax havens, etc; IMF quota, appointment of heads of IFIs on merit, etc
- \$1.1trn 'global' stimulus package.
 - Resources via global financial institutions for counter-cyclical spending, bank recapitalisation, infrastructure, trade finance, BOP support, debt roll over, social support in in developing countries
 - Actually only \$850bn or even \$750bn??
 - \$100bn to the multilateral development banks (??)
 - \$250bn through trade finance (through export credit agencies..)
 - IMF: \$750bn or \$500bn
 - \$250bn resource from existing members; to be expanded to \$500bn in a 'more flexible ' New Arrangement to Borrow
 - 250bn special issue of SDRs
 - » Distribution by normal quota. Developing countries as a whole will get \$80bn. African countries even less

Stiglitz Recommendations

- **Two broad types of measures**
 - ‘The crisis must be met with rapid and effective measures, but must also lay the basis for long term reforms...
- **Immediate measures**
 - Ten measures for ‘global recovery’
- **Systemic Reform**
 - Deeper systemic reform to the international system... if recovery is to be sustainable

Immediate Measures

- Strong coordinated and effective action by all developed countries to stimulate their economies
- Additional funding for developing countries
- Additional development funds through the creation of new credit facility
- More policy space for developing countries
- Coherence between policies governing trade and finance
- Crisis response must avoid protectionism
- Advanced country markets must be open to developing country exports
- Regulatory Reforms
- Coordination of domestic and global impact of governments policies
- Improved coordination of global economic policies

Systemic Measures

- New global reserve system
- Reform of the governance of international finance institutions
- Global economic coordination council
- Reform of central bank policies to promote development
- Enhanced financial risk mitigation
- Establish mechanisms for sovereign debt restructuring and cross-border investment disputes
- Completion of a truly development-oriented trade round
- More stable and sustainable development finance

UN Conference of Global Crisis and Development, 24-26 June

- Summary of Elements of Outcome Document

Main Agenda Elements of Conference

- Affirmation of need for policy space for developing countries to respond to crisis
- Immediate policy actions by international community in support of developing countries
- Identify short-comings of global financial system and architecture for follow-up action
 - (NB. Agenda mainly pushed by G77)

Main Outcomes

- Policy Space
- Recognition of
 - Right of developing countries facing severe shortage of foreign reserves as a fall-out of the crisis to use legitimate trade measures (in accordance with the WTO provisions)
 - Right to impose temporary restrictions over capital outflows
 - Debt servicing –negotiations for voluntary standstills
 - (Quite short of developing country demands for debt moratorium and sovereign debt restructuring)

Main Outcomes (2)

- International support measures
- Here disappointing failure to agree on the range of measures proposed by the G77, including:
 - Unconditional and adequate liquidity
 - SDR allocation for developing on the basis of need not quota; \$100bn for LICs and reversible \$800bn for other developing countries
 - Moratorium on official debt and mechanism for sovereign debt restructuring
 - However, there is recognition of principles at basis of proposals; follow-up work could be crucial

Main Outcomes (3)

- Systemic Issues. Here key issues and problems identified, but solutions left to the follow-up process. Include:
 - Coherence in global economic governance and the role of the United Nations
 - Urgent reform of the international financial institutions
 - Reforms of the existing reserves system, including consideration of a greater role for SDR, and related regional initiatives
 - More sustainable forms of addressing debt and threat of greater indebtedness
 - Follow-up process: establishment of an Ad Hoc Working Group to report to UN General Assembly

Responses of Africa's Regional Institutions and Governance and the Global Crisis

“Committee of Ten” (1)

- Meeting convened by AfDB in Tunis – 12 November 2008:
 - Finance Ministers
 - Central Bank Governors
 - African Development Bank (AfDB)
 - UN Economic Commission for Africa (UNECA)
 - African Union (AU)
- Created “Committee of 10” (C10), consisting of Finance Ministers from South Africa, Nigeria, Egypt, Cameroon and Tanzania, as well as Central Bank Governors representing Botswana, Kenya, Algeria, West African States and Central African States.
- Emphasize that to achieve MDGs, Africa would need \$117b in 2009, \$130b in 2010.

“Committee of Ten” (2)

- Role: “To monitor the impact of the financial crisis on African economies and related developments, and to develop proposals on how best to contribute to the international deliberations in the context of the G20”
- Paper on crisis impacts & recommendations to G20 finished in March; members travel to London to meet UK Prime Minister Brown in advance of G20 London Summit.
 - Many standard recommendations (increased, reliable aid; review AfDB capital; more concessional funds for IMF; conclude Doha round; etc.)
 - 0.7% of stimulus packages to dvg countries.
 - More policy space
 - Review debt sustainability criteria
 - Reform voice/quota issues at IFIs
 - Recovery of stolen wealth & reform of tax havens
- July meeting in Abuja starts developing African agenda for G20 Pittsburgh Summit (to be held Sept. 24-25).
 - Support for domestic resource mobilization
 - Greater African participation (not just presence) at G20 and at IFIs

African Development Bank (AfDB)

In March, Board approved 4-pronged response:

- Emergency Liquidity Facility (ELF) - \$1.5 billion
 - To “meet short term, urgent and unexpected funding requirements resulting from the global financial crisis”
 - Available to sovereign/non-sovereign in AfDB countries; non-sovereigns in AfDF
 - IMF approval required
- Trade Finance Initiative - \$1 billion in two phases
 - Phase 1 - \$500m channelled through African banks to support trade finance
 - Phase 2 - \$500m contribution to IFC-led multi-agency Global Trade Liquidity Program (GTLP) (anticipated total available to Africa = \$15b)
- Framework for “accelerated resource transfer” - Approx. \$2b
 - Re-allocation; re-circulation of cancellable project funds; front-loading; trust funds; 2008 surplus income directed to AfDF
- Policy advocacy
 - Analysis, information-gathering; cooperation with other MDBs; media

AfDB (2)

- March – Dar es Salaam: Kaberuka says AfDB has sufficient capital to double lending to \$11b per year for next 5 years
- Kaberuka & C10 call for early replenishments of AfDB and IDA
- April – In Washington, Kaberuka calls for IMF gold sales for LICs
- May – AfDB annual meeting in Dakar on theme of Agenda for Action on Financial Crisis. Kaberuka calls for early replenishment of AfDf
- Overall – “an unprecedented increase in requests” – “total AfDB Group financing is expected to be \$15bn in 2009, about three times the pre-crisis projection”
- “Requests for borrowing in 2010 to the amount of \$7.7bn, more than double the projections”

AfDB (3)

Few Financial Crisis loans listed on web, but two that are highlighted present a contrast:

- Botswana: \$1.5b for budget support – largest such AfDB loan & first loan to Botswana in 17 years.

- DRC: \$97m – balance of payments support, designed “to maintain economic stability as well as social peace and order”
 - Shore up Central Bank reserves
 - Facilitate import of essential commodities
 - Assist in reaching HIPC completion point by end-2009
 - Fund crisis plan for railways
 - “More regular payment” of salaries to teachers
 - “More regular payment of water/electricity bills by public agencies

AU / UNECA

Regular meetings of Finance Ministers – most recently in Cairo in June:

- Commitments to “deepen economic reforms, strengthen regulation of financial institutions, harmonise fiscal and monetary policies, improve governance and accountability, diversify export structures, make more judicious use of public revenue and improve debt management.”
- Observers note a shift towards a less orthodox, neo-classical economic perspective on African development, plus a seeming ideological shift in UN-ECA approach to African development.
- Note: Egyptian Finance Minister, Yousef Boutros-Ghali, is IMFC chair and relatively progressive

What are Governments Doing?

- A few can afford stimulus packages (e.g. Mauritius - \$300m; Nigeria considering).
- South Africa: income tax relief; new funding for public investment projects.
- Interest rate cuts to stimulate consumption in Botswana, Namibia, South Africa, Egypt.
- Uganda: writes off transport sector public loans.
- Nigeria: N70b to support textile sector.
- Liberia: 10% reduction in corporate & income tax to stimulate private sector; cut regional tariffs by 0.25% to stimulate ECOWAS trade.
- Senegal: lowered budgetary expenditure by 4% of GDP & priority spending by 0.6%. Similar steps in Cape Verde, Sudan, Uganda.
- Tanzania: regulation of profit repatriation.
- Kenya, Cape Verde: Bond sales to support counter-cyclical spending.

Running to the IMF

New PRGFs:

- Congo-B (December)
- Côte d'Ivoire (March)
- São Tomé & Príncipe (March)
- Ghana (July)

PRGF augmentations:

- Sierra Leone (December & June)
- Gambia (February)
- Zambia (April)
- CAR (June)
- Benin (June)

New ESF:

- Malawi (November)
- Senegal (December – augmented June)
- Comoros (December)
- Ethiopia (January)
- DRC (March)
- Kenya (May)
- Tanzania (May)
- Mozambique (May)
- Cameroon (May)

New Staff Monitored-Programs:

- Sudan (June)
- Chad (June)