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International Financial Reform and Africa: What is to be Done?



Daniel Bradlow | November 20, 2008

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Africa, the poorest and least robust part of the global economy, could be the region most severely affected by the financial crisis that began in the rich countries and is now metastasizing into a global economic crisis. Its export earnings are being hit by the recent decline in commodity prices (some prices have dropped by more than 50% since July). Its access to international finance, never exactly robust, is receding: economists estimate that private [financial flows](#) to developing countries will be 30-50% lower next year and it's not yet clear if aid and other official flows will fill the [gap](#). In addition, the World Bank [expects](#) remittances from emigrants, which represent about 2% of GDP for all sub-Saharan African countries to decline, and that will directly impact millions of individual households. Growth rates in 2009 will be lower than 2008 rates, and inflation rates will be higher. These developments will set back African efforts to meet the Millennium Development goals and lead to an increased number of extremely poor people in Africa. And already 320 million out of a total population of about 500 million live on less than \$1 per day.

It's very difficult to get a sense of the scale of human suffering that this financial crisis is unleashing in Africa from the final [declaration](#) of the recent G20 Summit. This isn't surprising. Neither the poorest countries nor the poorest citizens had a voice at the Summit. To its credit, South Africa, the only African country included at the Summit, attempted to ascertain the views of African Ministers of Finance beforehand. However, the [statement](#) (doc) issued after this meeting contains a plea to maintain aid levels but offers no specific suggestions on how the G20 should address issues of concern to Africa. This is a great pity because the current situation, in which the world is reconsidering key aspects of the global financial system, offers Africa an important opportunity for making the governance and operation of this system more responsive to its needs.

What Should Africa Do?

First, Africa should assume that, while international financial and economic issues of interest to Africa will be discussed in many forums, the G20 will be the focal point for these deliberations. Consequently, Africa must inform the participants in the G20 and its working groups about the African position on issues of concern to the continent.

Second, African governments and civil society should focus their efforts on the following four sets of issues:

1. *Protect the innocent:* African governments and civil society should remind the G20 that many people and countries in Africa are suffering from a crisis they didn't create, and they need the support that was previously promised to them. Moreover, providing this support is consistent with current efforts to stimulate the global economy. Financial assistance to Africa creates demand for goods and services from the rest of the world, which redounds to the benefit of the rich countries. By living up to previous promises of support, the rich economies are also demonstrating that they understand the need to incorporate the poor into the new international financial order. Consequently, Africa should insist that rich countries meet their

existing commitments regarding aid and debt reduction, and their promises to make the Doha round of trade negotiations a "development round."

2. *Ensure that the current crisis doesn't undermine efforts to address the food, energy, and climate crises.* The financial crisis should not divert our attention away from the other crises affecting the international community. This means that Africa needs, and should seek G20 support for, funding that supports infrastructure projects that provide underserved communities with sustainable access to energy, water, transport, and telecommunications, and are based on responsible social and environmental policies and practices. In this regard, it's sobering to note that the G20 Summit statement makes no mention of the upcoming Financing for Development meeting in Doha or the climate change negotiations in Poznań, Poland, both of which offer opportunities to promote sustainable and responsible infrastructure projects in Africa and export opportunities for the rest of the world.
3. *Allow poor countries to engage in the regulatory reform process:* The G20 has developed an extensive list of items to be addressed as part of their efforts to create a more effective and coherent system of global financial regulation. While the list is impressive and relevant to Africa, the G20 agenda does not include all issues of interest to poor countries and communities. For example, it would be useful for global financial regulators to create a global community reinvestment process, which acknowledges financial institutions that operate globally are recipients of capital flight from Africa and should share the benefit of these flows with the countries from which they come. Thus, they should be required to reinvest a stipulated portion of their lending portfolio in Africa. Similarly, the groups working on regulatory reform should look at the creative efforts of countries like South Africa and microfinance institutions around the world to expand poor people's access to banking and financial services. At a minimum, these groups should ensure their regulatory reforms encourage efforts to provide financial services to the poor that comply with international best practices in making financial services available to the poor.
4. *Enable African countries to engage in the institutional reform process:* There's general agreement that the institutions of global financial governance, including the IMF, World Bank, and the Financial Stability Forum, need to be reformed. However, less attention is being paid to making the reform process itself transparent and participatory. Given the G20's central role in this process, it needs decision-making procedures that are responsive to the concerns of non-G20 stakeholders in its decisions. Thus, Africa should advocate for the creation of formal channels through which they can submit position papers and voice their concerns to the participants in the G20. They should also call for the G20 to establish a "notice and comment" period prior to all actions and decisions that are likely to have a substantial impact on the poor. This will ensure the views of all interested stakeholders on the proposed action or decision are considered in the G20 decision-making process. In addition, Africa should create regional institutions that focus more specifically on African concerns, and can interact with global institutions and other regional institutions to promote African interests. The African Union's efforts to create an African Monetary Fund and an African Investment Bank are noteworthy in this regard.

Finally, Africa must recognize that responding creatively and effectively to the current historical moment isn't only the responsibility of African governments. It requires the participation of all existing African human resources. Consequently, governments need to cooperate with civil society. In addition, both governments and civil society should work with African think tanks and universities to develop background papers and options assessments on global financial issues for African policymakers and other key actors. These universities and think tanks can also convene meetings at which experts, government officials, and representatives of all elements of civil society can meet to discuss these issues. They can also help educate the public, because without an educated and supportive public Africa will not be an effective participant in these negotiations.

The current crisis offers an important and rare opportunity for Africa to advance its interests in global affairs. It needs to make sure that it fully exploits this opportunity. Doing so requires pragmatism,

creativity, and assertiveness — all of which exist in abundance in Africa.

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