

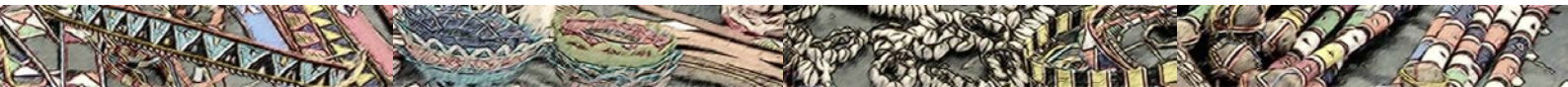
New Multilateralism



Issued prior to the G20 Summit in London, April 2009

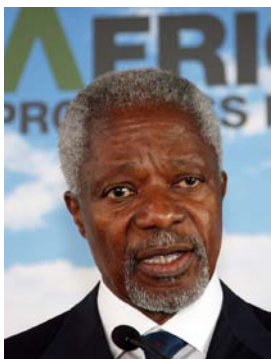
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Foreword

Africa is facing difficult times. The effects of the global economic recession and climate change have already begun to reverse the progress the continent has made over the last decade. Many countries are experiencing reduced trade and economic activity, withdrawal of investors and an acute scarcity of credit. Projects are being postponed or cancelled altogether. Financial inflows are dropping, including levels of international assistance and remittances.

The result is that the ability of African countries to support basic services, tackle their developmental challenges and achieve the Millennium Development Goals is being heavily impaired. The human, social and political consequences could be enormous.

Africa now needs urgent support to maintain economic activity and protect the vulnerable from the crisis. But while trillions of dollars are being found, at short notice, for stimulus plans and bail outs in the richer countries, the least developed countries find themselves lacking access to credit and faced with lending policies and practices that minimise their chances of receiving loans.

The evidence is that Africa is hit twice. Not only are poorer countries going to be most affected by the global crisis, but the very way in which the developed world has responded to the crisis continues to worsen their situation by encouraging capital to flee to perceived safety. Lacking the means to argue their case at the top tables in the global economic and financial architecture, Africa's countries are left to face the very real danger of malignant decoupling, derailment and abandonment.

This publication brings together eminent individuals who argue that a new and improved form of multilateralism is needed to allow the developing world, and Africa in particular, to overcome these bleak prospects. They argue that Africa cannot afford to watch from the sidelines as the global crisis unfolds. Instead, they call for its leaders to use this opportunity and push for substantial reforms of the world's

governance structure to make it more responsive, supportive and ultimately effective. I share both their sense of urgency as well as their main policy recommendations.

The Bretton Woods Institutions must be reformed at several levels to make them more inclusive. The World Bank's allocation of a third seat on its Executive Board to Sub-Saharan Africa is a step in the right direction, but others like it must follow to ensure a more equitable and fair distribution of voting power. At the same time, the ways in which the leadership and staff of these institutions are chosen should be revised.

Backroom deals should give way to transparency and full representation, whether in the Bretton Woods or other financial institutions such as the Financial Stability Forum and the Basel Committee on Banking Supervision. The bigger message is that until all parts of the world are included in critical deliberations, including on trade and climate change, these institutions lack the reach and legitimacy they need to provide truly global answers to today's challenges and the inclusiveness to make the most of tomorrow's opportunities.

In the short term, if the G20 is to become the premier forum for coordinating a global response, then the African Union should be systematically represented. In the longer term, multilateralism must be underpinned by institutions with universal reach such as the UN whose legitimacy is beyond question. The real challenge will be to ensure that legitimacy can be combined with purposeful capacity and effective decision-making.

These reforms are possible if there is sufficient political will to make them happen. That will require strong leadership including from those who might see their relative share of decision making power in the world's institutional architecture decrease.

At the same time, this crisis will not be overcome by institutional reform alone. Donors must renew their commitment to boost resource levels for the least developed countries, ease access to credit, review debt sustainability criteria and lessen aid conditionality. Africa must do its part too. If they are to profit from the new multilateralism outlined by the contributors in the following pages, the continent's states must heed their commitments regarding governance, accountability and transparency and find ways to act in a more coordinated and concerted fashion.

*Kofi A. Annan
Chair, Africa Progress Panel*



Linah Mohohlo

It is no exaggeration to say that Africa played no role in triggering the current crisis. Yet a prolonged global slowdown will have a serious impact on

economic development on the continent, with the attendant risk of aggravating poverty and other social problems.

There is little doubt that the time has come to revise the global financial architecture. The problem is, if you ask three economists what the priorities should be, you are likely to get (at least) three different answers.

Competing advice, agendas and discussion fora are steadily emerging. The G20 meeting in November 2008 was widely billed as the beginning of the reform of the Bretton Woods Institutions (BWIs), although this was clearly too ambitious for a five-hour meeting where participants did little more than present opening statements.

The first formal meeting of the UN Commission of Experts on Reforms of the International Monetary and Financial System was held in early January 2009 and resulted in eleven recommendations for immediate action. On January 15 the World Economic Forum (WEF) launched its own report on the future of the global financial system, while on the same day, the finance minister of Italy, a country which currently chairs the G7, unveiled plans for a global 'legal standard' of far-reaching rules to govern the future of globalisation. Add in the numerous offerings from academics and columnists and clearly the space is getting crowded. These various opinions are going to be difficult to reconcile as what is essential in one view, may be impractical or peripheral in another.

At this stage I would point to two factors that reforms must address, and to two areas which should be handled very carefully:

“There is little doubt that the time has come to revise the global financial architecture.”

A key characteristic of a new order is that it must be a reflection of the existing balance of economic power, not a legacy from a bygone era. Following recent data revisions, China is now the world's third largest economy by Gross Domestic Product, and will take only a few more years to move into second place. But it has a voting strength at the International Monetary Fund (IMF) on a par with Belgium; and nor is it a member of the G8. That is ridiculous, not so much as a matter of fairness but of practical necessity: is it any wonder that China is at times reluctant to engage fully with the international economy when, at the same time, it is denied a seat at the top table?

Also, there is a need for structures that foster genuine policy coordination. What we have seen so far is more a case of countries briefing one another on what they have already decided to do. However, true coordination is when you agree to take measures collectively that you would not necessarily pursue on an individual basis.

As for what should be avoided, reforms to the global architecture should not focus too closely on preventing a recurrence of the current crisis. Financial crises recur all too frequently and this will not be the last one. But their origins and detailed characteristics invariably differ. Therefore, reforms should focus on recognising the realities of the modern global economy, which is increasingly and irretrievably interconnected at all levels, and the monitoring of and management of risk in that context.

A related issue is that an inevitable result of the fallout from this crisis will be a major increase in the extent of regulatory oversight. This is appropriate: it is clear both that 'light touch' regulation has not been sufficient and that, given the complex interconnections of the financial system, it is not just the banks that should be regulated. There is also a need for improved cross-border cooperation and, maybe, even super-national supervision. However, there is also a danger of taking this process too far. We must not seek to stifle beneficial innovation (for example, if properly managed, securitised lending is not necessarily a recipe for creating toxic assets); conversely, we must not encourage innovation that is geared to avoiding regulations, as this is both wasteful and potentially destabilising. Finally, while the end result is likely to entail

some rolling back of the extent of financial globalisation, this should not be allowed to extend to other areas of globalisation, notably trade in goods and services.

For Africa, one thing we must emphasise to our partners is that it is not in their interests for development and governance in Africa to stumble again. When demand recovers in the global economy, our resources will once more be in demand. So it will do the prospects of recovery no good if Africa is allowed to regress in the meantime. Africa should be viewed increasingly as an asset that must continue to be nurtured through hard times, rather than as an undiminishing burden.

As indicated by the US Secretary of State, Hillary Clinton, demonstrating an undimmed commitment to continued progress on governance issues is likely to be particularly important in this regard. Africa, on its part, should do more to encourage productivity on the continent, while maintaining sound macroeconomic policies. The most visible resource that countries such as Botswana have, apart from minerals, is its people. Boosting productivity will go a long way in attracting investment and enhancing the process of diversification of African economies.

Linah Mohohlo is the Governor of the Bank of Botswana and a member of the Africa Progress Panel



Gilbert Houngbo

No debate has animated policy makers and academics since the severity of the economic downturn became clear than the need for a new global standard to regulate the international finance system.

A multitude of proposals have been presented, but an attractive model exists in the European Union's Stability and Growth Pact.

The rules adopted by the Eurozone in 1997 aim to promote financial discipline within the bloc while setting out sanctions for member states which breach guidelines on deficits and other key benchmarks.

A similar model could be adopted to govern the international finance system with a broader reach than the EU pact, which covers only public finances.

“For Africa, the challenge is to emphasise that sharp cutbacks in development assistance will imperil most of the gains made in the last few years.”

Whatever system is adopted will nevertheless have little chance of success if clear rules of enforcement are not set out and rigorously applied.

On this score, the weaknesses of the EU stability pact are salutary. Major member states of the Eurozone have repeatedly flouted the rule on deficits, for example, and have not paid the hefty fine set out in the pact as punishment for this.

And in an apt metaphor of the problems that currently afflict multilateral organisations' treatment of member states, smaller nations such as Portugal and Austria have seen the rules on deficits applied far more stringently on them than on bigger nations. This is a key weakness that any changes to the global financial architecture must address.

The G20 meeting in London represents an important opportunity to discuss ideas of how best to deal with the crisis. In the short term, political leaders must acknowledge the need for a more cooperative response. It is regrettable that the initial reaction of many nations in the West was unilateral, although that approach is beginning to change. In the medium term, focus should be trained on structural reform to prevent the failure of regulatory policy that has had such a far-reaching effect.

For Africa, the challenge is to emphasise that sharp cutbacks in development assistance will imperil most of the gains made

in the last few years. A good number of development partners have not lived up to commitments made at the G8 summit in Gleneagles in 2005, and the temptation in the current economic climate will be for further reduction in development assistance. That would be a mistake.

At the same time, African political leaders have a responsibility to ensure they stick to the path of fiscal responsibility that has yielded the gains witnessed so far. They must also resist the temptation to enhance the role of the state in business. The global financial crisis notwithstanding, it remains a fact the best way for the continent to achieve its vast potential is for the state to play an aggressive role in facilitating a good environment for business while letting the private sector drive growth.

Gilbert Houngbo is the Prime Minister of Togo



Trevor Manuel

The last decade witnessed the dawn of hope on the African continent. We had achieved the fastest growth rates since independence. Our efforts to

build institutions and strengthen governance were beginning to pay off. Many African countries were building credibility and sticking to prudent macroeconomic policies. Belief in a brighter future was spurred by global agreement on the Millennium Development Goals.

The current global financial crisis has changed that rosy outlook. One of the most perverse consequences of the slowdown,

which originated in rich countries, has been a sudden and sharp increase in borrowing costs. For many, capital markets are effectively closed, as investors flee to the perceived safety of advanced economies. Strangely, they are fleeing towards the geographic source of the problem, spurred by the promise of government guarantees and massive bail-outs.

In 2008, we debated whether developing countries could avoid the worst effects of the crisis and realise a beneficial ‘decoupling’ from global growth. Clearly they could not - and this year, as capital markets falter and trade flows wither, Africa faces the real danger of malignant decoupling, derailment and abandonment.

“Africa’s approach should not be limited to lobbying for seats at the table. We must also act to ensure that Africa is able to make strong and critical contributions.”

This is one of the reasons why - from an African point of view - a well-considered and globally coordinated response is vital. The challenge is to craft national responses that complement each other and sustain global growth and development.

This includes maintaining access to capital markets, improving trade balances and securing sufficient and effective donor aid. There is a need to ensure that the African Development Bank and other international financial institutions have the resources, instruments and will to support a strong counter-cyclical response on the continent. This will shield African infrastructure investment and social safety nets from becoming the ultimate victims of greed and excess in the North.

The G-20 is well placed to coordinate such responses, and build the political will that is required to implement them. We know that its membership is not universal. South Africa is the only African country at the G-20 table. This must be urgently corrected, including through representation of the African Union in the process.

However, Africa’s approach should not be limited to lobbying for seats at the table. We must also act to ensure that Africa is

able to make strong and critical contributions. In this context, we should think creatively about how economic and financial institutions on the continent can work to build a common Africa platform.

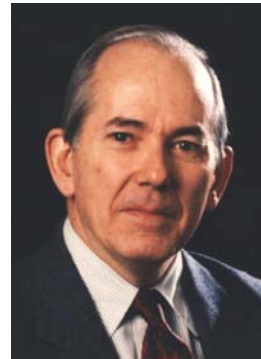
In the long term, the solution to the current crisis means building institutions that can enable concerted action and enhance global governance in order to facilitate balanced growth and development.

At its most recent annual meeting, the World Bank took the significant step of allocating a third chair for Sub-Saharan Africa on its Executive Board. Currently, Africa's representation at the Bank is constituted into Franco-phone and Anglo-phone blocs, with some significant countries (for instance Ghana) not participating in any African constituency. Clearly there is much room for improvement, and the allocation of a third chair is an opportunity to realise greater voice for the continent if we are able to effectively re-organise ourselves.

It is encouraging that the G-20 Leaders have agreed to further advance the reform of the Bretton Woods Institutions in order to give greater voice to developing countries. Once again this calls for greater attention - not only to the size of Africa's voice - but also to the way we organise ourselves and the policy content that our voice articulates. Africa has a direct interest in strengthening the institutions at the centre of economic multilateralism. We should argue that global institutions be strengthened on the principles of mutual accountability, inclusiveness and ensuring that the imperative of legitimacy is balanced with the need for effective action.

If we allow the centrifugal force of economic nationalisms to triumph, the crisis will inevitably result in greater fragmentation. In the long run we will all lose. In the short run, the greatest burden will be borne by the poor and marginalised, particularly in Africa. On the other hand, if the crisis becomes an opportunity to reinvent global governance, so that balance growth and development can be realised, Africans have the world to gain.

Trevor Manuel is South Africa's Minister of Finance



Michel Camdessus

There is little doubt that the poor pay a disproportionately high price for every disruption of the international system. This fact underlines the need to carry out significant reforms to yield solid, effective and sustainable world financial governance that can act as a decisive instrument to shelter the poorest and assist in their recovery and development.

Time is of the essence, and it is imperative that world financial authorities agree on the basic elements of a new financial architecture expeditiously. The basic elements of reformed international financial institutions should entail the immediate implementation of the decisions adopted unanimously in Hong Kong in September 1997 by the Interim Committee of the International Monetary Fund (IMF) extending the mandate and jurisdiction of the IMF to all financial transactions beyond its present mandate for current account transactions and monetary issues.

The roots of the current slowdown, like its forerunners in the Mexican and Asian crisis, lie in disorderly developments in the financial sphere. The moment has come to expand the role of the IMF to supervision of this area.

“The important question of the “voice” of the poorest in the Boards of the IMF and the World Bank should be imaginatively and boldly reopened to make sure that their concerns are decisively taken care of.”

The enactment of this agreement will provide the IMF with the needed mandate and jurisdiction to play a central role in global surveillance of financial developments. Under such an arrangement, the IMF would initiate and coordinate the adoption of necessary regulations. If these changes are not

implemented, we would run the risk of a recurrence of the unacceptable abuses of recent years. In contrast, adoption of these reforms would help to regulate financial transactions, making them to better contribute to stable and sustainable world growth.

The magnitude of the responsibilities mentioned above would require that the IMF is reformed to ensure it is more inclusive. Two steps are needed for that. The important question of the “voice” of the poorest in the Boards of the IMF and the World Bank should be imaginatively and boldly reopened to make sure that their concerns are decisively taken care of. It is vital also that we put in place the supreme decision-making body envisioned in the Jamaica amendment of the IMF Article of Agreements. This reform would transfer to a newly created “Council” the major strategic decisions presently in the hands of the Board.

This Council’s composition will be at the highest political level - ministers or governors - meaning it would confer all the needed authority to the decisions adopted. The Council would among other things replace the current IMF Committee which only plays a consultative role. This would lend the actions of the IMF the strongest possible political clout, provided ministers and governors accept the corresponding obligation to involve themselves as deeply as is necessary in the life of the institution.

Finally, to ensure that all the countries are represented fully in global decision making, it would be highly desirable that on the occasion of its annual meetings, the G8 be broadened to include the heads of States or governments of the other countries represented in the governing bodies of the Bretton Woods institutions, together with the Secretary General of the United Nations and the heads of the other relevant multilateral organisations. This would be an effective way to put in place a “global governance council” that would not only allow greater sharing of responsibilities but would confer to the new global financial architecture the highest credibility, legitimacy and influence.

Michel Camdessus is the former Managing Director of the International Monetary Fund and a member of the Africa Progress Panel



Simon Maxwell

Africa is not watching from the sidelines as the global crisis unfolds. Export volumes and prices are down. Tourist bookings are evaporating. Remittances are falling. Foreign direct investment is fleeing. Aid is at risk. Comparing growth estimates made at the beginning of last year with those made at the end, Africa is set to lose about \$US40bn in GDP in 2009: that is equivalent to nearly two weeks’ worth of income lost for every single one of Africa’s 900 million women, men and children. And growth estimates are still falling as the crisis deepens.

The pain will not be spread equally in Africa. Zambia, for example, is struggling with a 40 per cent fall in copper prices. Kenya has seen both

“Africa must also make sure its voice is heard internationally. It will not be enough to deliver aid pledges made at the G8, the European Council, the MDG Call to Action or the Financing for Development Conference.”

visitor numbers decline by 30 per cent and remittances by 40 per cent. The most vulnerable countries are those with the greatest exposure to these transmission belts, but also with weak Balance of Payments and budget positions. Globalisation has been a rising tide which has lifted many boats - but when the tsunami comes, only the most seaworthy will survive.

What is true for countries is also true for people. Many Africans were hit hard in 2008 by rising food and fuel prices. With diets already stretched, and resources eroded, the numbers below the poverty line will increase, with long-term consequences. Remember, hunger is corrosive of long-term life chances: it undermines the ability to grow, to learn, to stay healthy and to earn. Nearly one third of Africa’s children are malnourished.

African countries and people are used to weathering shocks. Drought is all too familiar. This shock will be different, however, and the politics too. The first to suffer this time will not be rural people, far from the capital city, losing crops and animals, and often children, to the lack of rain. Instead, jobs will be lost in towns, amongst the vocal and educated. There were food riots in Africa last year. Tension is rising around the world. Will there be job riots in Africa in 2009?

Wise leaders will prepare. Their populations will need to stand together. Minimum living standards will need to be guaranteed. Key investments in health and education will need to be protected. New conversations will be needed between leaders and their peoples, and new budgets, new policies written.

Africa must also make sure its voice is heard internationally. It will not be enough to deliver aid pledges made at the G8, the European Council, the MDG Call to Action or the Financing for Development Conference. That is already a challenge, with donors collectively falling \$US30bn behind the target set for 2010. More money will be needed to manage the recession. No doubt, a trade deal would be useful, too, not least to help hold the line against further protectionism as pressure mounts to support failing factories across the developed world. The G20 promised a trade deal by Christmas, but failed to deliver. It will have to do better when it meets in April in London. But will Africa have sufficient leverage at the G20 with only South Africa at the table?

A final thought. Can Africa be part of the solution, a growth centre and a stimulus to the world economy? More money for infrastructure will create jobs in Africa, but also markets for developed countries. Investment in cost-effective and environmentally sustainable biofuels in Africa will reduce dependence on oil and pressure on climate. Africa can be a haven for investment funds in well-regulated and profitable emerging markets. Africa is not watching from the sidelines. It can be leading on the field of play.

Simon Maxwell is the former Director of the Overseas Development Institute



Festus Mogae



The numbers are out and they make for painful reading: growth in Africa is likely to slow by nearly half in 2009 due to the spreading global financial crisis.

It would be a grave error to read the International Monetary Fund (IMF) figures projecting that expansion of African economies will fall from 6 per cent to 3.5 per cent as cold statistics.

Rather, every percentage fall in growth means reduction in budget allocations which will keep millions of children out of school, deny health care to those who most need it and hold up infrastructure projects that are so vital to the continent's economic future.

World Bank research which indicates that the dramatic contraction of the global economy is trapping up to 53 million more people in poverty is instructive.

Perhaps the only positive to be gleaned out of the slowdown is that it might serve as a wake-up call for both developed nations and Africa.

There is broad consensus that the crisis is the result of a failure of regulation, particularly in the US. It is to be hoped the severity of the problem will see leaders in developed economies exercise greater responsibility because failure at home has global consequences.

“Perhaps the only positive to be gleaned out of the slowdown is that it might serve as a wake-up call for both developed nations and Africa.”

Africa, too, must learn from this episode and find ways of insulating its domestic markets from the most severe effects of a sudden drop in demand for primary commodities abroad.

One way forward is closer regional integration. As we have learnt in Botswana, investors from wealthier nations are principally attracted to large domestic markets on the continent. Although we lowered taxes, reformed our laws and got attractive credit ratings, we still mostly received greater investment in extractive industries, not quite the diversified capital inflow we hoped for. Speedier integration in most parts of the continent would change that.

Greater coherence in the governance of regional bodies and more open communication channels would also be beneficial. The situation where you have food deficit on one part of the continent and surplus in another illustrates the untapped economic synergies that can spur growth.

This is not to understate the importance of reforms to the international financial architecture. Indeed, there should be a greater sense of urgency on this score. Engagement between the IMF and Africa must no longer be a one-way street. Because the continent receives development assistance - and because of the fact the IMF holds greatest sway over countries in debt or those receiving aid - governments on the continent are subjected to inordinate pressure while their representation in the governance structure of the body is regrettably low. It is to be hoped the UN High Level Task Force on the Financial System will factor this into their final recommendations.

The unfortunate reality for Africa is that before the crisis eases, policymakers in developed countries will necessarily focus on the needs of their domestic constituencies. This means leaders on the continent must shoulder the dual burden of emphasising the importance of maintaining growth while simultaneously speeding up the pace of reform to ensure the progress achieved over the last few years is not lost.

Festus Mogae is the former President of Botswana



Todd Moss



Africa has an opportunity, with a little creativity and foresight, to turn the current global economic slowdown into substantial reforms that could have lasting beneficial impact.

Recent acceleration in the expansion of African economies - which reached an impressive average growth rate of 6 per cent in 2007 - largely came on the back of increased capital inflows and a benign international environment. With both of those conditions under serious threat, now is the time for aggressive action. In particular, fixing the investment climate on the continent can ensure the growth momentum of the last few years is not lost and that Africa is well placed to thrive during the next cyclical upswing. If the continent is to attain middle income status, it must make it easier for local enterprises to do business and become more competitive in attracting foreign investment.

Infrastructure development is absolutely critical. Growing evidence points to electricity as the number one constraint on private sector growth. Policymakers must seize upon the slowdown as a window of opportunity to find inventive ways to bring public and private investment to generate, transmit, and deliver much more electricity. Transportation is another vital area for improvement, not only by focusing on building new roads but also creating sustainable ways to maintain existing ones.

Regulatory reform is a second major challenge. There are simply too many barriers to entrepreneurs starting, operating, and growing businesses in Africa. Many of these regulations are outdated and unnecessary - or deliberate obstacles aimed at protecting privileged interests.

Lastly, Africa needs to find cooperative ways to overcome the structural challenge of small market size. Sub-Sahara's total economy is equivalent to that of metropolitan Chicago,

but spread over a vast area and segmented into 48 separate countries. This is hugely inefficient and prevents scale. Investors will always be most interested in large markets, making regional integration more important than ever.

Fortunately, there is good news on many of these fronts.

Private capital inflows are already slowing down, but many investors in Africa are taking a long-term view. Much of the money raised for private equity in recent years has not yet been placed, so while new capital-raising is likely to be put on hold, funds should still continue to flow into bankable projects. Hopefully, this existing pipeline will be long enough that the upswing will begin before it runs dry.

Donors do not appear set to abandon Africa either - at least not yet. American aid to the continent is unlikely to see an immediate fall because of the length of the budgeting process in Washington. Current commitments in the pipeline are likely to push US flows higher at least into 2010. What happens after that will of course depend on the political choices made by the new US administration.

“Africa has an opportunity, with a little creativity and foresight, to turn the current global economic slowdown into substantial reforms that could have lasting beneficial impact.”

The World Bank is also in a fairly strong position. It recently received a record replenishment of its International Development Association (IDA) arm, which provides grants and loans to the world’s poorest countries. Its middle-income window, the International Bank for Reconstruction and Development (IBRD), is also in a relatively strong fiscal position. This means the Bank’s importance as a multilateral lender will only grow in the next few years.

This is also an opportunity for Africa to help the World Bank do its job better. The current focus of the Bank is on country programmes. But many of the challenges for Africa require more of a global or regional approach to tackling shared challenges. A new window to channel resources towards addressing regional and global public goods - regional

infrastructure, global health, climate change, and energy technology - would be a powerful complement to individual country programs.

The global financial crisis is already affecting Africa and creating new challenges, many of which are out of the continent’s control. But the real task ahead for Africa is to get serious about laying the foundation for the next wave of economic growth.

Todd Moss is a Senior Fellow and Director of The Emerging Africa Project at the Center for Global Development



Benno Ndulu

The impact of the global financial crisis has been largely muted in many African countries. That is thanks in no small part to the prudent management of these economies in recent years.

The fundamentals of the economy in Tanzania, for example, remain sound. Banks are well capitalised and although interest rates have edged up marginally, we have not seen the dramatic disruptions witnessed in developed countries.

Yet the effects of the downturn in the West - faltering demand for primary commodities, pressure on capital flows and a drop in tourism arrivals - will inevitably mean slower growth on the continent.

This is particularly unfortunate because it comes at a time when multiple sub-Saharan African nations are enjoying the most sustained period of growth since independence.

It is essential that world leaders seize this moment of crisis to reform the global financial architecture to set out a regime

of effective surveillance and enforceable sanctions that would cushion the international finance system against similar failures of regulatory policy.

Although there have been suggestions for the creation of new multilateral agencies, it might be more effective to reform existing ones.

A significant flaw of the current order is that multilateral organisations tasked with warning against macro-economic imbalances apply rigorous oversight on least developed countries and

“Although there have been suggestions for the creation of new multilateral agencies, it might be more effective to reform existing ones.”

emerging economies, without a corresponding level of pressure on developed countries. The current slump, which originated in the west, has shown this approach to be wrong.

A reformed International Monetary Fund (IMF) must display symmetry of treatment to all economies - whether big or small. The proposed global standard to regulate the international finance system will be an effective tool in preventing future crises only if sanctions are well spelt out and enforced.

African policymakers, on their part, should avoid making panic decisions that could adversely affect growth. The temptation in times of weakening fiscal positions is to slash allocation of funds for infrastructure development. It is critically important that African economies continue to invest in infrastructure - which holds the key to improving the investment climate and boosting regional connectivity.

There should also be sustained effort to create an environment for diversification. The current crisis has proved the risk of relying too much on primary commodities. It is time that we channelled greater energy to value addition. Ideas such as facilitating joint acquisition of finance between large scale and small holder producers to boost agriculture; processing of minerals before export and other such should be vigorously pursued. Greater regional integration which will expand

markets and drive the quest for diversification of economies also ranks as a priority.

Perhaps the most critical agenda for African leaders is to organise their message. The voice of the continent - on the need for a fairer trade regime and the dangers of a sharp fall in Overseas Development Assistance - must be clear. There should be more initiatives such as the meeting co-hosted by President Jakaya Kikwete and the IMF in Dar es Salaam in March to press for reforms to the global financial architecture and discuss the continent's growth prospects.

Africa has a comparative advantage in terms of natural resources and a surplus of labour. With prudent decision making, smart reforms and stronger engagement with development partners, it can emerge from this crisis stronger rather than weaker.

Benno Ndulu is the Governor of the Central Bank of Tanzania



Ngairé Woods

The global financial crisis has opened up an important opportunity for African Ministers of Finance and Central Bank Governors to push for more responsive and supportive multilateral institutions.

The wind of change is already blowing. The G8 has been swept aside in the debate on a new global financial architecture and replaced by a G20 which has shown self to be action-oriented. Alongside demands for industrialised countries to live up to their current aid commitments and keep their trade markets open, this crisis presents an opportunity for African officials to press for substantive reforms at the International Monetary Fund (IMF) and the World Bank.

Africa needs at least four things from the IMF and World Bank at present: they should receive unconditional assistance to deal with emergencies related to food security or political and security crises (This would require a more rapid and flexible World Bank capacity to react).

As the downturn spills over to affect countries' liquidity, emergency IMF lending should also be more easily available, meaning a better-resourced IMF which works with governments to put in place fewer but better corrective measures: more financing and less adjustment.

A stronger African Development Bank which is supported by, rather than dominated by the World Bank is essential to counter-balance lower levels of assistance from bilateral donors and the drying up (over-correction) in capital markets. Practical advice on short-term and long-term strategies treasuries and Central Banks can use in managing the immediate crisis and setting longer-term strategies would also be useful.

Looking to the future, African Finance Ministers and Central Bank Governors should consider pushing for a number of key changes in the way key international financial institutions are run. There should certainly be more African staff at the IMF and World Bank.

The current levels are shockingly low yet greater numbers of staff would boost the cause of capacity-building for African countries while also increasing the capacity of the IMF and World Bank to understand the political and social constraints and possibilities within countries in which they work.

African officials should additionally agitate for a World Bank Governing Board which can take risks.

The existing Board structure is one which places a premium on minimising risks to the institution. The costs of this approach are borne mostly by borrowers (who face slower and more costly loans) and by the world's most at-risk and vulnerable populations whose hopes of assistance in a crisis or conflict are postponed. This is not to argue that the rules should be

ripped up and the Bank encouraged to plough into risk-taking. Rather, all would benefit from a process of decision-making which better distributes risks.

An example of how the governments sitting on the Board can deliver public goods by giving the institution political cover to permit the Bank to act rapidly in uncharted terrain can be found in the role of the G7 Finance Deputies in the IMF. In their heyday, the G7 Finance Ministers (and Deputies) group acted as a strategic directorate for the IMF, communicating regularly, coordinating policies among key governments and taking information from the IMF.

The World Bank has never had an effective directorate. Its Board of Governors and Development Committee have highly formalised annual meetings. At the other end of the spectrum, its Executive Board operates at a bureaucratic level, sitting full-time in Washington DC, overwhelmed with information and documentation, attempting to oversee all of the Bank's policies, operations, evaluations, quality controls, and audits.

The Bank now needs a board which is small enough to be a directorate, yet representative enough to be effective.

There is also a case for enhancing the power of African countries on the IMF Board. The structure of the Board of each organisation is crucial because it determines who sets the priorities of the IMF and World Bank. At present African countries have insufficient voting power to give them appropriate incentives to engage meaningfully in deliberations and decisions to give others an incentive to listen to them when they do.

The proposed reforms to enhance the voice and capacity of developing countries in the institution are inadequate.

A slate of changes that would offer incentive for powerful countries to consult African members and for African members to use their voice to push for change would include increases in voting power combined with a double-majority voting system which requires a majority of countries as well as a majority of voting power for any decision to be made. This would create a

“The proposed reforms to enhance the voice and capacity of developing countries in the institution are inadequate.”

clear incentive for powerful countries to consult smaller but more numerous African countries.

Finally, African countries should press for a constituency structure in the emerging G20 to ensure that this body is informed and responsive to countries on the continent.

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and conduct in-depth financial sector assessments with the dual purpose of providing early warnings on possible risks in the financial system and advising on fiscal policy that would maintain macro-economic stability.

In addition, surveillance should involve peer review within the IMF to ensure that members, whether in industrialised countries or least developed economies, feel the need to pursue responsible policies. For Africa, the downturn may well spell a reduction in overseas development assistance. Governments in developed economies are already feeling the pressure to cut public expenditure and it stands to reason that development aid will not be spared the cutbacks.

But this approach would deal a terrible blow to developing countries and millions of the world's poor population. It will mean developing countries will have falling revenues and will inevitably fail to maintain the high rates of economic growth that have been experienced in recent years. This makes any moves to increase the capacity of lenders such as the IMF to boost aid highly necessary. This should include the reactivation of Special Drawing Rights (freely usable currencies at the disposal of the IMF) or indeed any other new credit facilities at the IMF and the World Bank.

In this context, it is essential that African leaders have their voices heard in the debate on possible reforms to the global financial architecture. While it is noteworthy that the British Prime Minister has invited notable African leaders to discuss issues that are of interest to the continent, it would be appropriate that Africa should be more adequately represented in the G20. The current situation where only South Africa represents the continent is less than appropriate.

More importantly, it should be understood that fairer global trade regimes would be more useful to Africa than aid. Not only is the African farmer threatened by the fall in commodity prices, particularly agricultural products, but he is also threatened by the producer subsidies that are being introduced in developed countries, especially in the USA and Europe. These subsidies price the African producer out of the global market, exacerbating poverty as a result.



Goodall Gondwe

There is little doubt that the current global financial crisis was triggered by the failure of regulatory authorities to arrest the systemic risk posed by the use of derivatives and

other such innovations in the US subprime housing sector. The consequences of the downturn, as is already becoming clear in many countries across the world, are profound. But it is crucial that lessons be drawn from this slump to make a recurrence less likely.

A key outcome of reforms to the global financial architecture should be the expansion of the regulatory authority of multilateral organisations such as the International Monetary Fund (IMF).

It is essential that the Financial Sector Assessment Programme, for example, should be extended to economies across the world. This would enable regulators to go into countries

Africa's trading partners could therefore help by instituting measures that will promote the growth of the market for African products at a price that will sustain production. In addition, a fund could be set aside to compensate the African producer for losses arising from declining terms of trade. Eligibility could be based on evidence-based research justifying the need for additional help from developing countries.

The last decade has seen impressive levels of economic expansion in most of

Sub-Saharan Africa.

Malawi, for example, has seen growth rates increased from a meager 2 percent to 8 percent within a few years.

“...it is essential that African leaders have their voices heard in the debate on possible reforms to the global financial architecture.”

African policymakers should ensure that the prudent macro-economic policies that have yielded accelerated growth are maintained, despite the downturn. In particular, there is need to maintain or increase expenditure on infrastructure development, education and health. The reduction in global oil and fertiliser prices should provide Africa with fiscal space for additional investment in development enhancing activities such as expenditure on education, health and infrastructure development.

On their part, developed countries could help Africa by ensuring that development aid continues to flow despite the challenges being faced in their respective economies as a result of the crisis.

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