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P R O C E E D I N G S

DR. BRAINARD: So I hate to interrupt all these good conversations, but I also wanted to make sure that we took advantage of the time that we're together. We're really delighted to have all of you here today. Many of you we've been talking to about -- for months about our hopes to really build a serious research capacity to join the broader Washington research community on African issues and it's sort of Christmas plus at Brookings because we have some amazing people joining us here. We wanted to introduce them to you -- or for many of you it's really reacquaint you with them. We are starting what is called the Africa Growth Initiative, so a kind of policy research agenda that's very much focused on growth experiences and prospects in Africa -- very much in partnership with think tanks in the region. So it's very much a partnership kind of an approach and we are thrilled to be doing that with two widely respected academics with long histories of engagements on policy research in Africa. Ernest Aryeetey, who many of you know, is currently serving as Professor and Director of the Institute of Statistical, Social and Economic Research at the University of Ghana and has been very involved with AERC for many years. And we are also delighted to have with us today Mwangi Kimenyi who is -- who has been at the University of Connecticut, but prior to that founded the Kenya Institute for Public Policy Research and Analysis. And Ernest will be joining us kind of in stages, so he won't be resident here for the next few months, but will be actively engaged and Mwangi will be joining us in resident capacity as a Senior Fellow, I think, in May. And they will -- Ernest will be directing the Africa Growth Initiative and he also has some colleagues already at Brookings -- John Page, who all of you know from the World Bank and who has been here for the last few months really helping us construct this, and Richard Joseph, who is non-resident at Northwestern who introduced me to Africa 20 some odd years -- so many decades ago -- and who we are thrilled to have been able to bring on board in a non-resident capacity as well here at Brookings. So, I think you all know what the economic landscape looks like in Africa. There was, you know, quite strong growth for a period. Now, of course, the global financial crisis fall in commodity prices is casting doubt. There's always -- even during the period of strongest growth -- questions about institutions and governance and what the trajectory going forward is. What we wanted to do today is to talk about -- a little bit -- early stage -- how the financial crisis is likely to affect those new growth trajectories. And what I wanted to do is have Ernest start out by perhaps giving some reflections on this topic. Ngozi Okonjo-Iweala, who also many of you knew, who was here for two years as a Distinguished Fellow before joining the World Bank and helped inspire this initiative, is likely to join us, but we'll know that when we see her as is Ngozi's way -- so we'll look forward to that and she also, I think, will make some comments and then we'll also turn to John and to Richard and Mwangi to jump in following Ernest's discussion. So over to you, Ernest.

DR. ARYEETEY: Thank you very much, Lael. And I'm really very delighted to be with all of you -- many of you I know already and I'm sure with this interaction it will become easier for me to connect with the rest of you. I thank you very much for this opportunity. I think the issue of how the current crisis is hitting Africa is one that has been quite widely discussed -- one that clearly has considerable implication for the way the rest of the world looks at Africa. The main message that I would like to share with you in this regard is that the situation is quite bad, but could have been much worse than it is today. The main reason for making that point about being bad, but could have been worse, is driven by what I see as the response of the African governments to the current crisis. The response to this particular crisis has been much different from the way they responded to earlier crisis beginning from the 1970s. It is quite different and one sees in almost every African country how this new response has reflected on the performance of economies. We can talk about growth prospects and, in that regard, we can look at the way the boom years influenced, to a very large extent, rapid growth in many African economies -- to the extent that there are many -- more than 11 countries -- that saw more than 10 percent growth in the two years prior to the crisis. So many African countries -- particularly the commodity exporting -- the world's large commodity exporting ones -- saw considerable improvements in the growth situation. So it isn't surprising that with the crises that many of them began to suffer. There have been four channels that these African countries have experienced the changing situation. The first, which is probably the most significant for many of them, has been the impact on the current account. For many of these countries, largely as a result of changes in the export conditions, we've seen massive drops in the export (inaudible) of the economies. And it's not just to the oil exporting countries, but also the other primary commodity exporting countries, I've seen very sharp drops. And that's important for many of these economies. On the other hand, for many of them also importing oil, we've seen significant improvements in the import situation. But the net effect for most African economies has been quite negative. So the current economic situation has worsened for many of these economies. The other channel that I'd like to mention briefly is the one related to the financial flows themselves. As we know, in the last 15 years, foreign ownership of banks in Africa has increased considerably. What is interesting, however, is that thus far the improvements in the ownership structure to bring foreign ownership to many of these countries, integration into the global financial market has been quite slow. And so many will tend to see the slow integration as possibly being the savior for many of these countries. We had intended to be exactly that way in the sense that -- well, for many of those countries have seen ownership of banks change in the last 15 years. Many of them are beginning to see a slow down in the flow of capital to the banking system. What is good, however, in that kind of situation that the exposure of African banks to foreign capital markets, and so it has not been as deep as in other parts of the world -- let's say Asia, for example, or Europe, for example. So at last call, we haven't seen much. I spoke to a number of central bankers in Africa and many of them talk about exposure that is more than 15 percent of their assets and that is something that is quite remarkable. The one area where the most damage has been caused apart from the exports and imports side, has been in the area of remittances. Many African countries have in the last two decades, become quite dependent on remittances. It is reckoned that from what's done by the African Development Bank, that remittances will drop to every African country anywhere between 25 percent and 75 percent -- so sharp drops. And what this means is not yet the problem in terms of national economies not having access to foreign exchange, but the impact on livelihoods. In my own country, between two living standards surveys that we conducted, the areas where the sharpest drops in poverty occurred over a four year period were also the areas where remittances were most significant in household -- household portfolios. So, clearly, the sharp drop in remittances will have major impact on African economies when it comes to looking at poverty reduction. It also has significant implications in terms of reducing inequality in many of these economies. So that's one area, although I see many African governments get very, very confused. The fourth channel I'd like to mention is the area of aid. I've seen an a number of studies that suggest that aid may not go down drastically as a result of governments in Europe and America being more committed to aid than ever before. That may well be the case, but they are also areas in which we expect aid to slow down. One area that I'd like to talk about briefly is the area of private aid -- aid flew in from the philanthropists in the U.S. and in Europe. Clearly, the ability of many of these private sources to provide aid depends to a very large extent on their own profitability. And we expect a lot of that to go down in the coming years as long as the situation remains the way it is. But my main point in this short presentation is how are the African governments responding to these new difficulties. I've seen not less than 20 governments in the last three months revise their budgets. So unlike the situation in 1973 or the early '80s or the '90s, where there were various shocks, African governments have realized that they cannot go on with a business as usual approach. They have not gone around borrowing and they have not gone running down their reserves. Many of them have simply adjusted by cutting down budgets. And that's a very important point that I'd like to make. This clearly has a lot of implication for issues like social protection. It will have a lot of implication for the quality of investments. It has a lot of implication for the way the governments are going to manage the budgets in general. And I see a lot of efforts being made in various countries to get together -- governments sitting together with civil society groups discussing how best to use a reduced budget. To an extent, can they get a better quality out of their ideal expenditures? To what extent do we protect particular groups from being affected unduly? It's a kind of debate that in the past you would not have had in Africa. Today I see it taking place. And that for me signifies a new interest in Africa to deal with the situation. The most crucial option for many of them is how to move forward -- how to transform this -- what may be seen as a short to medium term collapse -- into one that allows them to take advantage of new opportunities that may arise. Many of them talk about the possibility of Africa becoming the new receptacle for surplus capital from Europe and from America where there tends -- or new investments probably may be highest. So how do you prepare your economy for that new flow of capital? That's the kind of engagement I see taking place in many African economies today and I do believe that with the work that we hope to do here in Brookings, and in other places, it should be possible for us to find solutions to these: how to turn short term gains into longer term benefits for the economy assuring that longer term growth is guaranteed and sustained -- one that allows countries to suffer far less from shocks in the future. Thank you very much.

DR. BRAINARD: Thank you. That was a lot -- a lot of kind of important points in a very concise presentation. So hopefully we'll be able to kind of unpack them as we continue the conversation. I am delighted that Ngozi has just joined us. I think all of you know her from her days as a reformist Finance Minister in Nigeria. We were lucky enough to have her with us for some period, and she has now got her hands full working with Bob Zoellick over at the World Bank and so, Ngozi, without having had the benefit of the introduction, we'd just love it if you could reflect a little bit on how prospects for Africa have changed, are changing and what the policy landscape looks like to deal with that.

DR. OKONJO-IWEALA: Thank you, Lael. I'm delighted to be here and to welcome Ernest and say that it's kind of a dream to see this program take off. And based on my previous stay here, we had worked with Lael and dreamt of having something like this around Africa. So the fact that it has finally materialized is exciting and I said I must be here today for the very first seminar. So, I just wanted to say that. Congratulations. Well, I caught maybe the back end of what Ernest was saying and I agree with the analysis. Well, I want to start from -- maybe put a couple more points on the table. Today we heard that the greatest threat to the United States -- security threat -- is no longer Al Quaida or the Taliban. But it is the global economic crisis -- the global financial crisis. That was the assessment that was given and I found that by the new Director for Intelligence. And, you know, I found that quite profound and interesting in many ways. They went on to say that part of this was that the U.S. should pay attention to what may be happening in other countries where this may lead to political unrest, in conflict affected countries, what might happen to the populations. They mentioned Africa in particular. And I thought that you can -- this was really, really interesting because maybe it gives us a handle in terms of looking at this from another angle of what the world or the developed countries might do as they think of what this global financial crisis means for developing countries -- particularly in Africa. So, I just -- that is a starting point for me. We've always thought that. If that is the case, because we've done -- the analysis we've done has shown that with the food crisis -- I mean, my point of departure is that the continent, as Ernest has said, has been doing quite well -- and I don't need to go into the numbers because you all know it -- but, was hit by a first shock -- external shock of the food -- the rise in food prices, and was struggling with that with inflationary impact, the budgetary impact in many countries -- not to talk of the poverty impact. We estimated that over 100 million more people were pushed into poverty among the developing countries worldwide as a result of this shock. And so, if the countries trying to cope with this increase in poverty -- not in Africa alone, but I'm saying worldwide -- have to deal with the issue of the impact on their budgets, some of them having had to remove tariffs -- import tariffs -- in order to allow the prices of food to decrease, some of them dealing with high inflation rates like Ethiopia with an inflation rate of 60 something -- 62 percent. I think it's now declined to about 55. Not yet having fully dealt with this, because even though the price of several commodities have come down -- I think the price of maize has come down by about 32 percent worldwide -- prices of wheat and of rice. However, if you look at what is happening within our countries in Africa, you find that we do not have exactly the same kind of decline. I met with 15 ministers of agriculture just last -- two weeks ago in Madrid. You know, we have evidence, for example, that in Kenya the price of maize has only gone down by about 12 percent -- not the 32 percent you experience. And even within Kenya, you have differences with Mombasa experiencing one percent and the rest of the country something else. So, it's proven sticky to get these prices down. Now if you take that and you load on it the financial crisis, then you're dealing with two sets of shocks. And so I think the idea that many more people will be thrown into poverty, many more will be hungry, that some of the keys issues like infant mortality, given the circumstances, may increase death on the continent, maternal mortality. I don't want to sound alarmist. Unemployment -- you have cases in which mines in DRC are closing out of -- to 48 mines. In Zambia, the same thing -- copper mines. It has had an impact on their budget. You have investments that were going to be made. In Zambia, again, there was a $500 and -- $500 million project that was going to be made that has had to be postponed or has faded away. The same in Guinea. And one could multiply the examples. So this leads the situation where you say if we do not find ways and do not find the proper policy responses from these countries and the proper assistance from those who can give it, then it could lead to the type of situation where the dislocation politically and at the household and economy-wide level could be significant. So, I just want to buttress the points that are being said now. The issue is so what are these countries doing? I think there's been a recognition -- I think in the beginning there was this feeling that this would not hit us. We are not part -- we are not engaged through our banking systems. But very quickly, the indirect impacts are being felt in the ways that I've just described. And I think what is happening now -- I notice that a lot of ministers that I talked to either in the conference in Madrid or even in Davos, were struggling with what are the correct policy responses. You know -- what should we do? Particularly in light of the fact that they've seen some of the -- what we had been advising them as "not the right ways to respond" -- seeing the retracing of steps here in the developed countries. In light of the fact that many of them may not have the fiscal space for a fiscal stimulus, so the big question now is what is the right policy package? And

I think that's something that we should discuss and debate here -- not for me to say. But the second thing is how can we -- they have to do their own internal adjustments and to respond, but we can help mitigate that by helping create the room with the responses that we, for example, at the World Bank and at the Fund can give to help these countries manage the situation. And at the World Bank, what we've been trying to do for the African countries is look at our own resources. We've got $42 billion of IDA that was put together by the donor countries for the next three years. So it's a closed envelope. We can't -- we've just had the replenishment. So, if we take that, the issue is how -- what do we do with that? And one of the things we've been struggling with is how to balance the longer term agenda in these countries with the short term. We've tried to -- we put forward a facility whereby we can fast track this money -- the IDA fast track facility -- for up to two billion and then we can go more if that is required and necessary to try and help the countries respond now to some of the external shocks that they are dealing with. But in terms of increasing that envelope, we've been thinking of other ideas. We have some countries that may be -- African countries that may be credit worthy enough to also borrow from the harder loan arm of the World Bank group. And we have a facility that could allow them, you know, an (inaudible) financing facility from which some of them may have access. Now you have to be a bit careful, because you also don't want -- you have to think forward. You don't want this to become, you know, an occasion where they're back with a debt -- unsustainable debt burden -- when they've just gone through this whole exercise of getting rid of this debt. But there's certainly that possibility. In addition, and I'll try to hurry -- we have also -- we have had a very successful facility for response to the food crisis of $1.2 billion of which $200 million was grant. The global price -- food price rise response facility and we've successfully -- we've almost committed all of it -- about 1.1 billon -- and we've disbursed, actually disbursed half a billion within the past seven, eight months or so. So this has been very successful. This has gone for very specific things that the countries have wanted like seeds, fertilizer, safety net programs, school feeding programs and we worked with other U.N. agencies to implement this. So we have a platform that enables us to be able to load on additional resources. So what has actually happened has taken this IDA fast response facility that Africa -- the beneficiaries out of the 40 countries, you know, that have benefited -- the bulk of them are, of course, African countries. So, we've done -- and virtually all of the 200 million in grants has gone to African countries. So the issue is if we take that food response facility -- we take the IDA fast response, we begin to have, you know, sort of a vulnerability framework within which we can help countries respond to the financial crises. And what Bob Zoellick, the President of the World Bank, has done is take this construct and say how can we use this, perhaps, to look for additional resources that could go to these countries and he has proposed I think an interesting idea of developed countries looking at contributing 0.7 percent of their fiscal stimulus packages to help the response of the poorer countries -- particularly in Africa. And the theory behind this is that of developing this vulnerability facility with different windows. We've also got the private sector arm of the bank -- the IFC -- having come up with an infrastructure facility of trade finance facility and recap -- banking recapitalization and an SME microfinance. All of these things form part of the vulnerability framework with the idea that donors may not be interested in if they decide to commit some of their resources and putting it into a pool like IDA, but maybe interested in infrastructure and, for example, the Germans have indicated as part of their stimulus -- they're doing a lot of infrastructure that they've been willing to give $100 million, you know, towards this idea of helping the poorer countries. On microfinance, they've been willing to commit 500. So you find donors intrigued by the idea of supporting a specific action, but not maybe a general pool. And this could be a device if the 0.7 works not just to raise additional resources for African countries and other developing, but also other multilateral development institutions, you know, could benefit from this. Money could be channelled to them. So it's not exclusive to the World Bank. The idea is if you want to commit some of this, it could go to the African Development Bank, Asian Development Bank, the World Bank and other institutions that can channel them towards developing countries. So, we are going from our own specific response trying to craft something that looks at vulnerable countries and vulnerable people within these countries and trying to use that as a bigger response that I think could help these countries. Let me also end by saying that in addition we have to think of the private sector. How can we bring them to help during this time? You know, how do you enhance the capacity of some of our countries to deliver? You know, Homi Kharas had -- I don't know if Homi is here. He had a very interesting paper in which he suggested that we have $33 billion already in our pipeline of undisbursed -- undisbursed amounts -- much of it is IDA -- and so if we want to also response faster to these countries, one way would be to speed up disbursements. I think it's something we -- that has some merit to it. The only caveat there is that some of these are investment loans are meant for longer term activities and therefore you know the governments are also afraid. They don't want to completely neglect those and fast tract everything. And you have to think of, you know, the capacity to implement and this is where the private sector comes in -- whether we can somehow crowd them into helping with the delivery of services in some of these countries and the expansion of the capacity of the state to act. So, these are just a few ideas to put on the table.

DR. BRAINARD: That's great. I want to turn to Mwangi Kimenyi to talk a little bit about -- perhaps a little bit in response, but just how you're looking at some of the private capital flows issues and some of the growth issues and then, you know, maybe John -- I don't know -- if I can put you on the spot, but there's a lot of good ideas that Ngozi has put on the table and as a former World Banker who is now unleashed or unchained, I'd be interested in hearing your thoughts about how best to use the balance sheet of the bank in this crisis and also the challenges that these governments are facing. I think Homi’s analysis also suggested, somewhat to our dismay, that of all the lowest income countries, none of them are able to actually run fiscal deficits right now, whereas of course all the richest countries are -- have the space to do that and it's a very lopsided kind of reality of this financial crisis. But first up -- Mwangi.

Dr. KIMENYI: Thank you very much. First, I would like to thank Lael and the entire Brookings for this program. I'm very excited and looking forward to coming here. And I would like to thank my colleague, Ernest, who a few months ago actually had given me an assignment. He had told me he would like us to do a book -- I and some other professor. And he wanted us to write that the (inaudible) trade on what we consider to be the most important problem in Africa. That was about six months ago and we didn't know anything about this, so I'm happy that I'll be working with Ernest on this project and other colleagues -- other staff at Brookings who have been communicating with us. I was not really prepared on this issue, but I can just make -- first of all -- I really like the analysis that Ernest has provided. I've been reviewing some work by the African Development Bank I think for the African Development Report, and the main thing for this coming report -- one of the big issues is on the impact on the financial crisis. We have a section on IT as one of the issues, but they have asked the others to evaluate the impact of the financial crisis and all those reports that I have read for -- the country reports -- in reviewing them, I do see -- well, one there is a quite a bit heterogeneity across the African countries in terms of the impact, how deep this crisis is affecting them.

But generally they are all feeling the impact and the response is also varied. Some are a bit more proactive. Some are taking it more seriously. So I think they are very good lessons there. But, from my perspective, a few years ago -- maybe even about two years ago -- one of the issues that we were focusing again with such forums was helping Africa manage commodity booms. That was -- I think we had several forums on how do you manage these commodity booms. And now we have this situation where we are saying all of a sudden is what do you do with this crisis -- particularly if you are, you know, this natural resource. I just listened to the former minister talking about the closure of mines and so on, but also the prices of natural resources for which we are very dependent on. And I think it raises a couple of issues -- again some of the issues that we have mentioned before with Ernest -- about, you know, dealing with this natural resource question. How do you deal with natural resources in this type of crises and I remember Ernest writing to me to me to -- that's an issue he was concerned about. But I think the other problem -- or at least for this particular program -- is the real problem that we have is a developmental problem which is diversification. I think it will be nice to look at how different countries are being impacted by the crisis depending on the degree of their diversification because still we have very limited diversification -- you know, in terms of production and so on. So, in a sense, I think we will learn a lot about the crisis and the responses, but also I think one of the issues that is really dealing with the diversification of economies which is very important -- whether it's the private sector initiatives, whether it's process -- you know, going beyond the natural resources, fewer exports and so on. I think the other lesson that I see -- again we had some forum where we had governors of central banks and they were responding on what they are doing about the crisis -- different central banks, you know, from Africa. And one of the things that I found quite different -- I mean different from several years back

-- was that we have a different crop of governors. We have a different group of people in these organizations who are -- well, quite independent, but at least independent from the government, but also with very good ideas about how to deal with this crisis. So I think the human capital -- all of the capacity side of it, I think, is very important even for this type of program and that's why I feel like we will be doing quite a bit of, you know, improving policy through these interactions that the program seeks to deal with. Thank you.

DR. BRAINARD: Thank you, Mwangi. John, you can choose to talk about something completely different if you like, but welcome either way.

DR. PAGE: Well, since I am off the leash, but very close to Ngozi, let me --

SPEAKER: Elbows.

DR. PAGE: -- you know, let me sort of expand this to some challenges I think coming out of this crisis for the international community more broadly, including for Antoinette [Monsio-Sayeh] and for my friends in the African Bank and others. You've heard most of the diagnosis and I agree with it. I would make a point. Both -- I think the consensus of scholarly research and certainly preoccupation of African policymakers, was that before the crisis hit, people had come to a view that Africa's growth turnaround from 1995 to recent days was certainly a cause for congratulation, but not for complacency. And, in fact, there's a very substantial literature to suggest that that turnaround is quite fragile. To be very blunt, consisted of two things -- a natural resource boom and learning how to avoid catastrophic economic mistakes. And let me give some kudos to the international community. I think the fund and the bank among others were very, very useful. One often times doesn't hear this about the adjustment period, but much of what African governments learned coming through the bitter realities of the adjustment period, was how to avoid the macroeconomic mistakes that had given rise to growth collapses in the past. Again, to just give you a sense of the figures, between 1975 and

2005, the average African economy was growing at three and a half percent per year about 25 percent of the time. It was declining at about 2.8 percent per year about 25 percent of the time. And it was growing on trend at about seven tenths of one percent the rest of the time. So the booms were followed by busts. And much of the turnaround is that there were fewer busts following 1995, but a (inaudible) questioning I think on the part of more thoughtful African policymakers and analysts -- where do we go from here? And so I'd really like to focus on the where do we go from here. We've heard the issues that have to do with the short run management of the crisis, but let me make five points that I think are related to the question of how these economies might emerge more robust from this crisis than they otherwise would. The first is -- and we've heard this from Mwangi already -- in a period of declining natural resource crisis, but increasing discoveries, the issue of the appropriate management of natural resources becomes absolutely critical. How much governments get from the resource, the division of rents between extractors and governments, how they're used and how effectively public expenditures are used to diversify economies and fight poverty become even more important than they were during the good times. There is a huge role here for the international community. I would put the first burden actually on the African institutions. I think in the first instance, the African Union and the African Development Bank to pick up the challenge that people like Paul Collier, Tony Venables and Mike Spence have put on the table -- can we have some rules and standards and good practices in natural resource management to which African governments would adhere. It would strengthen the hands of reformers. I think it's very important. Second, manufacturing. Let me give you the bad news for African manufacturing. What little of it there is depends fundamentally on AGOA. So what will happen to Africa's manufacturing export sector, will depend fundamentally on how well the U.S. economy recovers. The reason for that is that the Europeans, who ought to be providing effective preferences for African products, are not. So I would urge them to have a look at AGOA and see what it is that they can do to fix “everything but arms”. But beyond that -- and this a truly a piece of bad news I think -- the manufacturing sector in Africa today is smaller, less sophisticated, exports fewer products than it was during the first crisis in 1973. The world revolution in manufacturing trade -- PR announcement, have a look next week for the new (inaudible) Industrial Development Report, written by Paul Collier and me on this -- has simply left Africa behind. A major question of where will the sources of good jobs and productivity growth come from in these economies in those circumstances -- I think a challenge and now I'll put it to the World Bank. You've got to get beyond Doing Business. There's more to the business of industrial development and more to the business of creating modern sector than reducing the number of days it takes to open an enterprise. It's important, but it's not sufficient. I don't think we know enough about what is sufficient in the context of Africa. There are lot of good examples to learn from including some new economies in East Asia. More work is needed. Tourism. I was with the Governor of the Central Bank of Tanzania two weeks ago. He was very depressed because tourism receipts will fall by about 20 percent this year. The only good news was that tourism receipts in Kenya will fall by even more. It does, however, represent an opportunity which I think links some of our environmental concerns and sustainability concerns with tourism strategy. This might be an opportunity to rethink mass tourism versus high value, more focused tourism and more ecologically sustainable tourism. World Bank, African Bank haven't done much on tourism in recent years. We sort of figured the private sector could do that, but I think there are sufficient externalities in tourism that is worth another look from the point of view of the bank as to what they might wish to do -- an area where the Fund, I think, will have to play a major role together with their colleagues in the Bank. Everywhere I go -- and it's recently Ghana, Ethiopia, Tanzania -- there's a concern with "preserving growth oriented fiscal expenditures in a constricting fiscal environment." The bad news -- with the exception of South African and Botswana, almost no African country does cost benefit analysis of investment projects. In the days when aid was abundant and when we thought that all we needed was a real goal -- read the MDGs -- it was probably appropriate not to do cost benefit analysis. But when you actually have to make a decision -- will you build a feeder road? Will you build a trunk highway? Will you rehabilitate the poor? Or will you send more kids to secondary school and university, we begin to need better applied welfare economics of expenditure decisions. How else will we prioritize? And finally, I think, some areas we're improving competitiveness. Learning to compete is important. Some of them have come back onto the radar screen of the international community, but I'd argue some of them still deserve further attention. Infrastructure. We know of a huge infrastructure gap in Africa. How can the international financial institutions help to preserve the momentum of redressing that gap during this period of fiscal restraint? I think it's extraordinarily important. Skills. The good news of the MDGs is almost every child in Africa is now in primary school. The bad news of the MDGs is too few children are in secondary school at university and in technical training programs. How can you compete when you don't have the human skills to do so? And finally, the business environment. Having said it's more than the Doing Business indicators, nevertheless reform of the business environment is a low cost innovation in a period of fiscal restraint. Quite clearly, I'm not urging that the Bank, the Fund and others abandon their attention to this. In fact, probably redouble their efforts to fix that. I'm only arguing that people should do more. So, I think coming back to this notion that this is an opportunity as well as a challenge. The real question is can the international community come together to try to address some of these fragilities that certainly every policymaker in Africa that I talked to perceives as having been present both before and after the financial crisis.

DR. BRAINARD: Let me turn last -- before opening up to a broader conversation -- to Richard. A lot of this discussion has touched on -- but not really dealt with -- what are the implications for the governing institutions and what's the interaction between the strength of those institutions and how well vulnerable populations are likely to fare during this period and, in fact, states are likely to fare during this period.

DR. JOSEPH: Alright. Thank you, Lael. And I repeat what everybody has said so far -- congratulating everyone who's been involved in bringing this project to this point. We have had a number of brainstorming sessions -- one at the African Studies Association meeting and one here at Brookings in December -- and in association with this Africa Growth Initiative in really thinking of “smart growth”. And thinking about smart growth has really been an outcome -- at least from my perspective -- of a project here. You know, there's this book that we have-- called Smart Aid for African Development. I have one the contributing authors here. And Smart Aid was really a response to the Blair Commission Report in Africa of 2005. Those of you familiar with it, there was a key observation saying that governance failings in Africa were hindering growth and development. But yet the major recommendation was the massively increased aid to Africa. And we were sort of caught up with this contradiction and Smart Aid is very much directed to that. Now, the objective of Smart Growth would be obvious to everyone in terms of growth that is sustainable, in terms of productivity increases create jobs -- what a number of my colleagues have said already. On the financial crisis itself, I'm not going to add anything to what, you know, has been already been put on the table. And so I'm going to move my attention to thinking about the longer term. When I say the longer term, I'm really thinking in the next, you know, three to five year phases. I see, in fact, an opportunity coming out of countries ability to deal with this crisis, I mean, since I'm a very strong believer in the importance of issues of governance, institutions and so on. And, in fact, I've just come back from a trip to Nigeria and an OP-ED has been sent around to you all where you'll get some of my thoughts on that -- (inaudible) a notion of development governance came to me. At the meeting in December 12 that some of you were here -- Dani Kaufmann, who is also at Brookings, urged us to be bold in our approach -- to be innovative -- and I strongly agree with him. President Barack Obama, when he has spoken about Africa -- he hasn't had much to say about Africa. During the campaign, it didn't come up very often. But you all will be familiar with his comments, for example, in Kenya in 2006 and where he has really identified the systemic governance failings in Africa. And he talks about, you know, when you have to pay a bribe to get a telephone and so on. We could multiply that many times. Another term that came to me during this trip to Africa is what I would call a toll gate culture -- that whatever job people have, they turn it into toll gates. And this really clogs up the arteries of economic life in Africa in many ways. One of the things I did on this trip to Africa was to spend a little time examining the remarkable progress being made in Lagos State. Anybody familiar with Lagos would think that's the last place in which you would get progress. But, there is progress taking place under the current governor -- Babatunde Fashola. And I was able to meet with Fashola and to talk with him because at our December 12th meeting, when we talked about possible smart growth projects and identify about six different cases in Africa, I had put on the table, you know, what's happening in Lagos State, and thinking of other states in the country. Now what are the three elements in terms of what's going on in Lagos? Efficient and transparent government, the provision of public services and an expanded tax revenue base. We have Deborah Brautigham here, who has written very cogently on that topic. So, in thinking forward in terms of smart growth in Africa, I would say it's important to return to the notion of 30 years ago -- something we used to call self-reliance, which means in terms of developing in the resources, developing institutions and getting away from what I see as the debilitating aid dependency syndrome. So the current global crisis present challenges, but I believe they also represent opportunities. And I'll just mention just a couple of the policy implications of this thinking. Those of you familiar, of course, I'm assuming everybody here has read Paul Collier's Bottom Billion -- and when he talks about providing strategic support for heroes -- for development heroes -- identifying heroes. And who are the heroes? They are people in different public, civic or business sectors who are actually crafting new models for producing outcomes -- development outcomes. Now, I'm also drawing on my own specific occasions, because, you know, I think and write about this, but as you all would know I'm also involved in projects in Africa and I have a project, a major project there -- funded also by Gates at the University of Ibadan. We've been working for three years and the problem of how do you actually build a model that can produce outcomes in those very difficult circumstances. The other policy implication is collaborative growth promoting strategies. And, in fact, they overlap somewhat with what John Page has said. And some of the things he identified, I have also listed here. And those collaborative growth strategies -- by the way, I'm not going to go into it, but they echo, you know, China. I mean, you know, in dealing with China, you know, with Africa, China is ever present and in many ways, China is, you know, is really, you know, in advance on so many of these areas in dealing with Africa now -- infrastructure, as you mentioned, power, water, environment. I mention those four as very critical needs and areas in terms of it. And then in terms of investments -- agriculture. I mean on this trip in Nigeria, I was just struck by going through miles and miles and miles of really very underused land. I means there's just so much underused land (inaudible) going on. Manufacturing zones -- you know, Governor Fashola is talking about the importance of creating manufacturing zones, with all of the elements and so on to do it. And fisheries is another one I would mention in terms of Africa's coastlines. And you know Africa suffers a great deal by its fisheries, in fact, being very much exploited from outside in very destructive ways. So, to conclude my point, my perspective is yes there is an immediate crisis, but I really come of it from the standpoint of the decades of how we got here and then looking forward to the decades of coming and then being able to look within Africa now as to where we see models emerging that can really give some traction on these important areas. And I think that's going to be the thinking behind these smart growth projects. Thank you.

DR. BRAINARD: Alright. Let me open it up to all of you and John, why don't you start?

SPEAKER: I'd like to focus a little bit more on governance issues specifically. It seems to me that we pretty much know around this table what we think governance consists in. But I think what we maybe have not addressed specifically here yet is how specifically governance objectives are going to be challenged by the current economic crisis. And beyond that, the question then may be -- I can think of some ways in which -- the better years have created governance challenges as well as opportunities. But perhaps the same goes the other way. Perhaps there are opportunities in the context of economic crisis in Africa where we can make some progress on governance issues. And so looking at those opportunities and concerns, I think, is a central issue. It joins these two dimensions of governance and growth.

DR. BRAINARD: Should we take a few comments and the respond to them? Ernest, this is sort of -- okay. Jennifer?

SPEAKER: First, thanks very much for all of the presentations which I thought were great and congratulations on the center and to Ernest. I guess a couple of things I thought -- you can divide the countries, I think, in a number of ways. I mean, there's the oil producers and the very commodity dependent that you mentioned. And then there's the very fragile on the one hand, which I think that's probably the most uncertain. And then there's the middle category -- countries that are fairly robust, doing fairly well. I would class Kenya, for example, and South Africa and a couple of others in there. But then there's another -- another division you can make and those are between those that have relatively competent planning and financial infrastructure and those that don't. And I guess going to your point, there are opportunities, but for the well-governed, I think, and the problem here is that the incentives for corruption, I think, will grow on those countries where -- that are less well-governed. I think there's a competency question and then there's a willingness question. And those countries that are already experiencing corruption and so forth, the incentives there will go much higher. I think they'll handle the crisis more difficultly -- less well -- and at the end of this, whenever it does end, you're going to come out with even greater divisions between African states I think. So you'll come out with those that have dealt with it reasonably well and come out fairly robust and when commodity prices rebound and so forth, they'll be doing okay. But then you'll come out with, I think, the division between the two will be much greater. And on the opportunity side though -- and I wonder what your thinking is and perhaps Ngozi's on the pressures for good governance. A lot of countries -- we've lost a lot of leverage, I think, on corrupt governments and so forth simply because they've been awash in commodity revenues and so forth. Does this offer new opportunity to put pressures of some kind -- perhaps not '80s and '90s kind of conditionalities, but new pressures on -- in terms of accountability, transparency and confidence?

DR. BRAINARD: Why don't we take one more (inaudible) and then we'll go back (inaudible)?

SPEAKER: Thanks. I have two questions or comments. One is about the debt sustainability framework. And I wonder -- I don't know -- I would have asked Ngozi this if she was still here, but I know there's been a lot of attention to this from the Chinese perspective and they argue for something that's much more dynamic. They argued that the debt sustainability framework was very static. It doesn't take into account possibilities for future revenues that could sustain a larger quantity of debt than the static framework that exists today. So I wonder if there's been any rethinking of that by the IFIs? And the other question is about industrialization in Africa and this is for John. You mentioned that you see what's happened there as predominantly AGOA stimulated. And you're a great expert on industrialization and I've admired your work for a long time, and particularly the work that you did more than a decade ago on East Asia. And I wonder now that you're free from the constraints of our neighbor down the street, what you think about a relook at import substitution and some of the policies that did stimulate industrialization in Asia? To what extent can we revisit those, you know, along the lines of (inaudible) or some of these efforts to rethink how industry could be stimulated in a way that doesn't lead to the kinds of pitfalls that happened in the past? And along those lines, I just want to mention -- and I don't know if this will be in your new UNIDA report, but from what I see there is a lot of interest by Chinese in manufacturing in Africa -- not for AGOA kinds of opportunities. That's already past. But for domestic market -- Africa market. So, there's interest in moving the low end out of China. A lot of that is going into other parts of Asia, but there is interest in going into Africa and there right now are seven, possibly eight, of these zones that the Chinese are setting up for offshore manufacturing in Africa. So I think that's something that needs to be part of the mix.

DR. BRAINARD: Ernest, (inaudible).

DR. ARYEETEY: Yes, sure. Let me deal with the questions on governance and -- I agree with you entirely on that there will be new governors challenges and, indeed, we see many of these errupting all over the place. Governments, as they discover new resources -- whether it's oil or anything else -- began to acquire a certain confidence in what the future was going to bring. For many of these countries, the issue of corruption became much more observable than before. What is interesting and I lay that to your question here -- what is interesting is that in many of these countries, what I observe is at the millions of a new crop of civil society organizations that put a little pressure on governments to behave well. So, the pressure for good governance is not coming from outside. It's more coming from within. In my own country, the radio stations have become the biggest weapon for dealing with difficult government and when I listen to the debates that take place in many African countries -- whether it's in Uganda or in Tanzania -- it's much more sophisticated than anything that happened 10 years before that. So, a growing sense of confidence among civil society organizations, a growing awareness within the governments that they are being watched not just from outside, but also from within, is making it more and more difficult for governments to behave badly. That's why I don't -- Jennifer, I look at the point you make that there's going to be a distinction between those that are doing well and those that don't do so well. I agree. But the point is that the governments that are behaving well are far more than what you'd have seen 10 years ago. So, today, in my presentation, I talked about the fact that the government's response has been much more impressive than before. They are not being -- they are not pursing good policy simply because the World Bank says so. I mean it's good that the bank has taught them that, but they are aware that there's a group -- or there are groups in their countries that will not tolerate any poor behavior, you know. So, that's one of the -- for me -- most positive developments in Africa in the last 10 years. The growth of civil society and governments are aware now that a civil society can bring about changes and being therefore responsive to that new development. I think it's one of the biggest developments that we've seen in that part of the world. And that's what is going to make it possible for these same governments to go through the current difficulty with much less turbulence, you know. In the past, with that kind of situation, you'd have been expecting the military to be preparing to take over and today I -- it would take probably the least organized countries for the military to come in the way they used to do in the '70s and the '80s. It's a much difficult -- a much different environment today and it is from both the outside and from within. But the pressures from within probably are the biggest change that has taken place in this part of the world. I think Shanta would deal with it -- the DSF issue. He is a much more conversant to the issues involved there. I can't speak for the Bank actually. On the issue of whether an import substitution approach would be recommended for today, clearly there's hardly any country in Africa that is not thinking about how best to compete with the rest of the world. The interest is much more in being able to compete with China, with

India, with Europe, you know, for the markets all over the world. So it's not simply about getting your imports cheaply, but also being able to sell competitively with the rest of the world. There are many, many countries today are convinced that the way forward is to export. So, if imports -- being able to substitute for imports is going to allow you to export, then they'll do it -- they will do it. And all of these countries are looking for ways and means of doing that. So the key word is competitiveness, you know. And for those countries that don't have the kind of resources that would allow them to domestically process it, they are going to export -- they do not have much choice, but to link up with other -- I'm looking at Lesotho. Lesotho (inaudible) is becoming a major player in the textile industry. I mean that for me is a clear example of countries that are beginning to say look what are the world’s needs and how can we position ourselves. Regardless of the (inaudible), we are not a major player when it comes to quantity production. So Lesotho has money to make itself a key player there, by looking at how it can harness resources from all over the world in order to do this -- using capital from different parts of the world, using labor from other parts of the world, etc., etc. And they're doing quite well. It's for me an example of what other African countries can learn. You don't need to be a major producer of a particular commodity in order to become a major exporter of something linked to that commodity. That's the way I look at it and I think it's something that quite reasonably is looked at by many other African governments. The Chinese issue is a very important one. For many of our countries, the problem has been one of how to contain Chinese interest -- in particular sectors of the economy and leave other sectors open to the local people. That's (inaudible) easy. The resources that come with it are quite exciting for many of the countries that we have. The costs probably hasn't been calculated and it's important that in many African countries we begin to think about what does it take to bring in Chinese expertise, Chinese capital, Chinese products? What does it take? What will it cost us? Many countries haven't done that calculation, but they are beginning to. I watched in (inaudible) 25 Chinese firms leave within one week because of difficulties in getting subsidies from their own government to operate in Niger. Clearly the current crisis is going to influence or affect negatively the Chinese presence in Africa. But, the question for me is are the governments ready to deal with the new vacuum that's going to be created by that withdrawal from the economies. And I think that's where some more work needs to be done by us and by the governments.

DR. PAGE: There we go. Another nice thing about being liberated from the World Bank is that I can now speak two words that before I had to look over my shoulder and cringe -- industrial policy. Yes, Africa needs industrial policy. But, to take Richard's phrase, it needs smart industrial policy. And 21st century industrial policy is not the 20th century industrial policy of Japan, Korea or Malaysia.

What do we think we know about manufacturing today? We think that it's characterized broadly by economies of scale. There are powerful agglomeration effects that take place when firms locate next to each other. That firms may learn and actually convey knowledge to others by exporting -- although there's much more controversy about that than one would think appropriate after nearly 30 years of arguing about that in East Asia. And that the markets in Africa are probably too small for each individual country to make import substitution a viable alternative. That leads me to a different sort of industrial strategy which is really an export push strategy. And the significant question that one has -- and it comes back to the point about governance and state capacity is -- when you look, for example, at Cambodia and Laos, which are two countries that have on the face of them structural characteristics that look very like mini African countries -- Tanzania, Uganda, Kenya. They now have 25 percent of their GDP in manufacturing. They have large industrial agglomerations. They have become the next generation of Asia's evolving manufactured exporters. We don't see that anywhere in Africa. One of the things we need to understand better is why? What's happened? Where are the failures -- which are not simply economic failures, but also failures of institutions and governance, I think -- that fit there? What can one do about it? I think the first thing one can do about it is ask questions of Africans themselves. Why are there so few export processing zones that work in Africa? What is it about getting the coherence between various parts of government to work toward exports as an objective that doesn't seem to work? Where is the infrastructure that's devoted to improving competitiveness? That -- you have to come to the donors, too, as well. We've only rediscovered that growth is okay in the last five years in the donor communities, so we're a little bit behind the times, but maybe we can get there. And finally, I think, preferences are important. While AGOA may "be a thing of the past," EBA is not a thing of the past and certainly preferences in East Asia are not a thing of the past. East Asia is the most dynamic and growing market for Africa's exports. Let's put to the Chinese. Why don't you allow a certain amount of time bound preferences for the admission of manufactured products from Africa into China? The great thing about this is it's still subject to a market test. You have to be efficient and competitive in order to export. Given the level of duties today worldwide, the subsidy, if you will, is relatively small and the agreement would be that it has a time bound characteristic. Now this is not original with me. This is Paul and Tony Venables who originally cooked this thing up. There is a piece in World Economy I recommend if people haven't seen it. But the thing is, that you can turn, if you will, industrial policy of the 21st century on its head and come up with some smart industrial policies for the 21st century. But again, just to take a pot shot at Shanta, it's not about Doing Business.

DR. BRAINARD: Well, I'm really tempted to invite Shanta to speak now, but instead I'm going to ask Antoinette to kind of maybe intervene and then Shanta give you a chance -- and you don't have to respond to John at all -- and then we'll come back to Witney and to Julie who had questions.

DR. SAYEH: Thank you very much. No, this is a very, very welcome discussion for us at the Fund. We've been struggling I think as all of us to make sure we are in a position to help African countries respond in a way that protects the considerable gains that have been made. We talked about growth over the last decade or so averaging some five to six percent. That helped a lot of African countries start to -- on the very long road of reducing poverty. We've now revised our growth projections for this year to as little as three -- 3.2 percent. I mean that may still seem significant when you look at what's happening, of course, in developed countries where growth rates are negative this year. But for Africa, I mean that's half of what had been achieved over the past decade and a half or so. And so that's a scary fact frankly. It means that there will be many countries below that rate of course -- below the population growth rates -- negative, I mean, declines in per capita income growth. Very serious. On top of all of what happened last year, as Ngozi was saying, on the food and fuel prices with inflation falling very slowing -- beginning to fall, but falling very slowly in these countries. And so already still trying to struggle from that shock and now needing to face this one. So it's a very bleak, bleak year. We think a very difficult year for Africa. Of course, the reduced demand for African exports -- I mean all the channels that Professor Aryeetey talked about – are very important. Africa's exports, the EU, the U.S. and East Asia account for some three quarters of African exports. All of those areas will be reducing their demand for imports, so significant declines in volumes, but significant declines in prices as well. It's not just oil exporters, but it's -- as Ngozi again was saying -- copper. Copper prices have fallen by some 65 percent relative to their peak last year. Cotton prices are also on the way down. So, across many countries in Africa, declines in export earnings and, of course, those impacting budgets significantly. I mean, it is a -- the case that many African countries remain very dependent on their export sectors for government revenues. So budgets are under significant stress. Oil exporters that had generated considerable surpluses on their budgets are -- many of them in deficit this year. And so it's a -- it's a very difficult set of events. We, of course, are very concerned about the talk about protectionism in the industrial countries, which is not something we should be supporting at a time when, of course, African countries need as much space to export and to -- to export and to do what they can to protect the gains that they've made. So what can the international community do? What has the Fund been doing? And, well, maybe to say a bit more about the policy response in the African countries themselves. Maybe we haven't talked enough about some of it. It is the case, we think, that for some African countries, there is some room to try to implement a fiscal stimulus.

We need to be careful about what we -- what we mean by a fiscal stimulus, of course. In some cases, it may mean that they can afford to run larger deficits -- deficits to adjust to the declining revenues that they are experiencing and not necessarily implementing huge projects, you know, as a fiscal stimulus. So we have to make sure we know what we're talking about. But there are countries that have consolidated on the fiscal front -- reduced their debt burdens and can therefore use some room to respond without unnecessarily igniting inflation. And so where that's the case, we certainly want to encourage countries to try to mitigate the impact on their domestic economies from the decline in foreign demand through that way. And for that, of course, financing is helpful and is necessary. And that financing, I mean, to the extent that the international community continues to make available what they've promised, that is a very important issue for us. We know that when we take away the impact of debt relief over the last decade or so, eight have been flat at best and in some cases declining. And so we need to continue to pass the message that developed countries need to respect the engagements made at Gleneagles to increase aid to Africa. It may be falling on deaf ears, but it's an important point that needs to be made because it's a combination of adjustment and financing that will help African countries adjust through this period. In the case of the Fund, of course, last year in response to the food and fuel prices, we made considerable financing available to some African countries -- the ones most affected by -- some 14 countries that needed additional financing to help. We've also been taking a look at the instruments we have to respond to low income country -- our low income country members and there we've reformed one of the facilities put in place a couple of years ago that had not been used -- an Exogenous Shocks Facility to help countries address exogenous shocks and that facility is already provided financing for some four countries -- the latest of which is Ethiopia and we're discussing several ESF packages for other countries. There's also a need to look at perhaps whether there's a need for a short term instrument that helps countries respond to financing needs not emerging from exogenous shocks, but from domestic policy slippages and, you know, capital flight and other things that may -- so those we're looking at in the context of a broader review of our low income country facilities that our board will be discussing in the course of the next couple of months. So, there's a lot in the way of just asking ourselves whether we have the right instruments in place to respond. There are questions of access, under fund facilities, limited access and the conditions under which those resources are provided. So we're looking at conditionality across all of our member -- our instruments and our member countries, looking at how we can reform conditionality to be able to respond more flexibly and quickly. And that's one of the accomplishments of this new Exogenous Shocks Facility is that it can make resources available in a much faster way to countries with streamlined conditionality. So, those are some of the things we're doing. Of course, the Fund continues to provide significant technical assistance and this bears on the issue of strengthening institutions and being able to respond to African countries demand for short term policy advice and technical assistance in a way that is helpful and responsive. On the ground, we have two technical assistance centers -- the so-called Afritax we're trying to put in place. We have three, sorry. We're trying to put in place an additional two new centers that are located on the continent and that can respond quickly. Of course, we continue to provide policy advice to all of our member countries. We are planning and looking forward to convening an important conference in about a months time in Tanzania that will be co- -- co-lead by our managing director and President Kikwete of Tanzania to do three broad things. One, to look at some of the more successful cases of reform in Africa such as Tanzania -- this whole experience we've talked about across the continent where we've seen significant progress over -- across a group of countries and what can we learn from those experiences that can form how we -- how we, the international community, work with Africa to continue to support robust growth? So that's one issue that I think this conference will look at. The second, of course, given where we are is the crisis and how -- how best to ensure that Africa emerges from the crisis stronger, better positioned to continue to make progress on its poverty challenges. And then finally, of course, you know, how the international community can help with all of this and what are some of the changes that need to be made and how the relationship the Fund has with its African members can be improved? So those are some of the things we're doing and we very much look forward to this type of opportunity to talk about how to enhance our policy advice. This question of whether we see pressures around the policy advice we've been giving and how is that evolving in response to an evolving economic landscape across the world is an important one. It's important, I think, that we continue to help African countries maintain the consensus around reform that can come under significant strain at a time like this and it's important to make sure that we encourage African countries to appreciate the considerable progress they've made and that it is important that that progress is protected. In that context, I wanted to say maybe a little bit about the debt sustainability question that Debbie asked -- an important one. It's a question that we've been discussing quite a bit with our -- as Shanta knows -- with our African member countries and doing a lot of work on. So we are looking at the debt sustainability framework. There are a number of issues there in terms of how it incorporates the impact on growth of investments in infrastructure, for example, that we think that some improvements can be made there. There are issues that have been raised, with the Fund in particular, about the limits on nonconcessional borrowing in our programs that we're also looking at and we have a paper that will be coming to our board later on on those issues. So there's a lot of work ongoing around the debt sustainability framework and issues. It is the case that debt sustainability is fragile in many countries as we know. I mean the current economic context makes it even more fragile. And so I think we're all agreed that we don't want to see African countries get back into the situation of unsustainable debt and that's what they themselves have said to us -- that they want to protect that -- so how to do that at the same time making sure that African countries make use of all the financing that is available to them as much as possible. The Fund is not itself -- cannot be a large source of financing. We are, after all, we provide relatively expensive financing for African countries. So we can certainly be a source of encouragement for others and provide some short term financing to help with adjustment, but it's not the case that the Fund itself can be a major source of financing. So, just to -- sorry I went on for a bit longer than I meant to. Thank you.

DR. BRAINARD: Thank you. Shanta?

DR. DEVARAJAN: Well, just very quickly, on the debt sustainability question. I mean I think it's been characterized sometimes as an ideological issue and I really want to make the point that it's not. It's an empirical question. There is a debt sustainability framework, as Antoinette just said, which has a particular growth rate envisioned in it. And the point is when the Chinese come in say with a nonconcessional loan to build infrastructure, the question really is do you change that overall growth rate of the economy based on that one particular project or not? And I think it is an empirical question, because if you don't change it -- if you don't think that the overall growth rate of the economy is going to change that significantly from this one railroad project in Senegal, then it is the case that that's -- that might damage the debt sustainability of this -- of this country if they're taking on nonconcessional aid -- nonconcessional loans to build it. On the other hand, if this is going to be the -- the big project that's going to make or -- make the big difference to the growth rate, then maybe we should adjust the debt sustainability framework.

But I think there you're going to come back to the point that Ernest and others have made which is why do we think that this investment project is going to generate all those great growth -- growth benefits when in the past, we know, there have been lots of investment projects that have not and we really do need to make sure that we're doing things the right way in order to get the benefits from growth.

DR. BRAINARD: Let's go to Witney and Julie.

MR. SCHNEIDMAN: Thank you, Lael, and congratulations to Brookings for getting this vital initiative underway. I just have two points. One, I want to go to John Page and your -- what I sense was a question mark about where business fits into this. And just, number one, point out a paper that the Brenthurst Foundation recently published in South Africa, where they make the argument that there should be a new MDG for competitiveness. Now I'm not sure, you know, it's where we want to go, but it's worth looking at that at their argument. I think another article that came out this week in the Christian

Science Monitor, President Kikwete makes argument for enterprise led development. And I think we have to look at business broadly defined. It's not just about how many days it takes to open a business, but it's, you know, are people being educated to employ themselves or go into business. The whole issue of credit -- you know, is there credit available? So those who do have the skills and have the appetite, are they able to access this credit to start a business? Regional integration is critical to this. We tend to look just to imports and exports from Africa, but the whole issue of creating regional markets has to be, I think, front and center. And infrastructure and energy are elemental to that. And finally, where we sort of started -- accountability, corruption and transparency. So enterprise led development from that perspective, I think, is very germane. One other point -- Antoinette, I agree with you completely about the commitments that the G8 made in 2005 at Gleneagles. One of the things that Barack Obama did say during the campaign -- you know, there was a pledge to double U.S. development assistance. But once the financial crisis broke, he said we're not backing away from this. It's going to take longer. We're not going to be able to do it in the same timeframe. But we don't really know what the timeframe is. But I think the G8 needs a similar exercise to acknowledge they won't be able to meet those targets, but also not to walk away from them and to figure out what those new targets are.

DR. BRAINARD: Julie.

MS. HOWARD: Thanks. I also wanted to ask the panelists to talk a little bit about regional economic integration and how you see the prospects for that, because I, you know, frankly, listening to John Page -- I'm a little worried that the prospects for manufacturing in Africa rest on the back of AGOA because I think many of us are concerned that that really hasn't been much of a success for manufacturing in Africa at all, especially given the skewing toward textiles. So I think -- I mean -- it really matters a lot -- you know, the frame that we're seeing and how much confidence we want to put in the African Union's own push toward regional economic integration. That feeds back to the priority we give to what infrastructure projects. It feeds back into prospects for regional development corridors -- perhaps natural resource based, spanning several countries, diversification on that. And most of all I think it really goes back to how we advise the donors. I mean because if you look at the U.S., I mean, we are so heavily weighted towards bilateral assistance right now -- and the World Bank, the African Development Bank also. So if we are serious about saying well, is it export push growth that we're after? Export push beyond the continent? Or is it, as Witney is saying, you know, export push, but perhaps in your same region? It matters a lot our thinking about that.

DR. BRAINARD: Mwangi, did you want to respond to any of these? And Ernest or Richard, John?

DR. KIMENYI: I had several points, but I think our forecast -- I think that this issue of China is quite important. The project aid is something that we need to evaluate, but I know that China is, in a way, quite strategic -- the way they are coming in, you know, say we are going to build a road, but there is quite a bit that they are getting and we have not really evaluated that. I know that this happening a lot in Kenya now. The Chinese have said, you know, we're going to build all these roads, but they also have quite a bit of leverage in several areas. So I think that is something that we need to look at in terms of the long term. I agree a lot about this issue of -- what really is -- I would say that if you compare issues of corruption in governance a total of ten years back and now, we have come from very far. But it's not necessarily again the conditionalities. In fact, a lot of countries just ignored the conditionalities. I think it's the pressure from inside and this issue of information is very important. Actually the radio itself is -- you know, right now there's a crisis in Kenya about people who have supposedly sold maize illegally and the talk radio is almost, I think, some people have to design or something. But it's not even the outside pressure. It's just people talking and a lot of members of Parliament lost the previous election. And again it was through communication. It was internal pressure. So I think building civil society is quite important. I just want to mention one thing about this regional integration and market access issues. I think market access is critical, and even to study. It does look like the -- the AGOA and the economic partnership, you know -- all those -- the European, the former (inaudible) convention agreements -- they have done a bit. But you don't find a lot of spillover to others and I think that's important. So you don't find a lot of spillover to other industries or to other sectors and so it's really -- it's limited so you get textile swapping, but you don't get other things happening. Integration -- again, I'm just doing a big review of a lot of studies of integration in Africa -- and it's true there is increased trade across these -- across countries. It's easier to move goods and services, but you -- I mean -- the countries are also not diversified. I mean, so it's not very clear that you have a lot of trade creation because of this. And the bottom line is that until you get to be competitive and lower the overall costs of production, you are not able to do much. So I think the success of integration is dependent on how well the competitive aspects and diversifying.

DR. JOSEPH: Sure. Two comments. First, I'm very much taken by what Witney said about President Kikwete and enterprise led development and seeing how far we have come that in this Tanzania -- and enterprise led development. And in fact, that is how I came in in my conversations with Lael several months ago when I was talking about the creation of -- accelerating the creation of enterprise societies. So I look forward, Witney, to getting the details about that article. With regard to the regional integration, at a meeting some years ago at Northwestern, Celestin Monga, who is also at the World Bank, he made a statement that has really, you know, stayed with me -- when he said, you know, you know, there's been too much talk about regional integration and we should talk some more about, you know, actual countries moving forward. And he used the example of Croatia, for some reason that stayed with me. And in regard to Nigeria, is -- you know, when I think about, you know, the amount of time and effort and money has gone on to talking about regional integration and all the frameworks and everything else. But in fact there's another process of regionalization and that is the emergence of enterprising that has a regional reach. And we've already seen that in Nigeria. You're seeing in terms of banking. You're seeing in terms of airlines. Where -- I was staying at a hotel in Yaba -- a small hotel -- and at seven a.m. every morning they blare out all the buses going to different places including Accra and these huge, massive busses. So I'll add transport to it. And, of course, manufacturing. So I think, you know, yes, regional integration -- important and so on, but I wonder whether or not a lot of the gains are going to come from the emergence of enterprising that start moving beyond borders and having a regional, subregional reach.

DR. ARYEETEY: Thank you very much. I think on the subject of integration, a lot has been said over the years now. Not much really achieved. And that's really where everybody comes in -- that's where the concern still is expressed. You have two lines of integration taking place -- the very loud political level, where every then and again the presidents will meet and express a strong commitment to integration. Then you have the economic level where the movement is not that rapid despite all the intentions that have been expressed over the years. Today, in (inaudible) and trade, it's less six percent of all trade within the region. That's a source of worry. If you link it to the strong desire in many countries to industrialize, the question often becomes where will the market be? I mean the market cannot be within your own borders. You have to export. But when you have neighbors that you can't export to because of a closed border, or when you have a situation where there's hardly any transport routes between your cities, that's when it becomes extremely difficult. So the -- what Richard just mentioned about the growing regionalism, that more or less excludes the formal agreements in place for reintegration. And something has been observed. Today, I see many more Nigerians doing business all over West Africa than was the case in the past without the support of their government -- without even the support of the West African governments. Banking from Nigeria has spread all over West Africa without any serious thinking formally about how this is going to be organized or regulated. So you find that different regulations of the different countries, more or less, gets -- becomes what carries the whole process forward. The challenge for us is to think much more strategically about how to bring together the political and the economic processes. I haven't seen much of that happening, likely because the interest groups behind these things are quite different. Those who are pushing more for the having the things like political integration are quite different from those interested in the having the monetary union. So it's a very kind of interaction that is taking place. What I do hope we can do is provide concrete research that suggests -- or indeed provides the way forward in terms of how to reduce costs and be able to use these arguments to advance the argument before governments in pushing for infrastructure development to facilitate a trade, having countries share common resources, etc., etc. These are things, you know, in terms of water, energy, transportation that can be done in order to be sure that goods move from one country to the next. I live in Accra and I see informally people move across the borders to the neighboring countries to go and sell and come back. I see them carry money across borders and come back. And I know that the amount of money that flows between Afloa in Ghana, and Loma in Togo -- it's probably much more than will ever be transferred between commercial banks in these two countries. What we need is a system that makes it easier and cheaper for people to use the former agreements than to resort to the informal and sometimes illegal ways of doing business. There's a lot of room there and there's hope for trade within Africa to increase considerably. I mean South African trade with other parts of Africa is a good example of how this can be done, but the costs of doing that are huge, and because of the infrastructure bottlenecks. One of the things I proposed in the past will be a situation where the aid that goes to Africa is much more specialized so that you have different types of donors doing -- providing aid that supports countries and then you have another group of donors that will look at regional infrastructure, regional projects, etc., etc. I know that the African Development Bank is much more into the regional things than others, but their means are not that large and therefore a strong limitation on what can be done in this particular area. Thank you.

DR. BRAINARD: Alright.

Mr. HEUTY: Two quick points on natural resource management. The first one is that reacting to John's point -- the Revenue Watch with Michael

Spence, Paul Collier and others have come up with a set of 12 precepts that looks at good governance of natural resources and that resource charter is now on-line. It's at www.resourcecharter.org and it's a live document, so obviously, I mean, given the distinguished panel and audience, we are looking to collect comments on these because we think that it can be helpful in this time of crisis. The second is to highlight the opportunities for transparency in the extractive sector in this period. In a paper that for the Extractive Industry Transparency Initiative that will happen next week in Doha, we are arguing that there is now obviously a premium put on reliable and timely information and therefore in a scarce -- in a world of scarce capital, governments and investors, I mean, should we invest a lot of effort in implementing the ITI and making more information available to different partners. So, so I think that this crisis can -- I mean out of this crisis can really come a few good things on the transparency agenda for natural resource management. Thanks.

DR. BRAINARD: Alright, let me go in reverse order just start with John and both respond to either or both of the comments and any additional thoughts.

DR. PAGE: Everyone's had a word on regional integration, so I will, too. Two facts always keep me focused on this. And let me say I'm a big believer in regional integration. The first one is that the economic size of Africa south of the Sahara is approximately that of Belgium. The second one is that 40 percent of Africans live in countries without affective access to the sea, compared with four percent of people globally. You put those two things together and it seems to me that regional integration needs to be phrased in terms of the question of how do we think locally to compete globally? What do we need in terms of regional integration that helps us to be globally competitive? And also to some extent that makes it equally possible for somebody from Nigeria, Burkina Faso to be globally competitive as for someone from Ghana or Tanzania? Ernest is absolutely right. What we've had is a top down approach in which political authorities conclude agreements and nothing very much happens. What's starting to happen is it's bubbling up from the bottom. Enterprises are beginning to move across borders. Infrastructures beginning to move, but I think the international community can do a lot more to help that -- both in the structure of aid, in the willingness to engage with regional partners, in pressing the Africans in perhaps a more constructive way than the Europeans have with the EPAs, to think seriously about what regional groupings they need and to clarify and streamline that. But, you have to eventually have regional integration and some of our friends -- Paul Collier among them -- would argue it has to go very deep in Africa -- including the ability of people to move across borders, because he and Tony have come up with a new proposition which I find absolutely intriguing. I'm not sure if they're right, but they've concluded that Africa cities are and will remain too small to be globally competitive. And the reason why is because countries are too small, and therefore cannot support a mega city of the size that we see in Asia that really has been part of the agglomeration economies that have driven Asia's industrial development. So, it's absolutely necessary, but one has to think of it always, I think, in terms of how do we think globally -- locally to become competitive globally? I'm thinking about Africa's growth longer term and coming back to a question that someone else asked. You know, are we going to see increasing divisions between African countries in terms of growth performance? Is that something we should worry about? I think the answer to the first question is yes, we will. And I remain optimistic that we're going to see a group of African leopards -- we can't call them tigers because they're not indigenous to Africa -- that will emerge as growth leaders. I happen to think that's a very good thing, because part of my reading of the dynamic in East Asia of the so-called flying geese, is precisely that the success of neighbors, creates a political dynamic in the countries that are not succeeding to ask their leadership well if our near neighbor is doing it, how come we aren't? And it's been too easy for African leaders to say we're all kind of levelled down in the same mess. You know? It's not really something that we can aspire to -- to be a leopard. But I think we're starting to see it and the private sector is going to be a huge part of that equation. The question is really what kind of intelligent policies can African governments put in place to support the private sector? And I would argue particularly an African private sector. That's very important. But also how do you get effective and cordial and constructive problem solving between the private sector and the state in the legacy of mutual suspicion and to some extent distrust among those two parties. I see it all the time in terms of people saying we talk to each other, but we don't actually listen to each other and we never actually come to a conclusion which is frustrating, I think, for both parties. But, the leopards will be the countries that solve that problem first.

DR. ARYEETEY: Thank you. I'm not sure there's any other issue that I need to address. I simply want to restate that I'm very happy to be joining Brookings at this time and I've really enjoyed this particular interaction with all of you. And I look forward, as I take on this responsibility, to being able to continue it on a more regular basis. I do hope it's something that is going to continue and that I can count on all of you to share with us whatever ideas you have on how to move growth in Africa forward faster and I'm quite sure that this will also be the starting point of a link with other researchers in Africa who will be working with us in the course of the next few years. And I'm thankful to you for turning up. Thanks.

DR. JOSEPH: Yes. My final comment is really about the importance of paying attention to what is actually happening in Africa. The -- you know, Ernest had mentioned the impact of voice and accountability in particular countries via radio. I will point to the freeing up of Africa and entrepreneurship at all levels. Look at what has happened with cell phones in the space of a decade or more. Most recently, Nigeria -- there are now ATMs. Now, it's very counterintuitive to me that ATMs would actually operate in the context of Nigeria for a whole number of reasons. But finally, to show you in terms of us looking at what is actually happening in Africa -- and this will be my final point -- is what Julie has had to say about China. Because every time you go, you see different aspects of it. But one of the things that really came to me from this last visit into Nigeria was the extent to which it's not just China is doing this and China flooding the markets and China sending people, but in fact the way in which Africans are themselves, for example, the sourcing of goods from China, you know, so that you have, you know, Nigerian entrepreneurs who are sourcing goods from China to come and resell as a very powerful aspect. And hence when you look at China is now -- it's just been announced, it's now the second trading nation with Subsaharan Africa. Before 2010, it's going to be the number one trading nation with Africa. And part of that is also Africans themselves responding to opportunities that (inaudible) the China represents.

DR. BRAINARD: Mwangi, last word.

DR. KIMENYI: Just very briefly -- I -- there seems to be a trend in Africa right now to develop some visions. I think almost all the countries are developing some vision 2030, 20 -- and we had a forum recently actually in Ghana looking at what strategies and a lot of the issues that are coming here -- whether it's regional integration, competitiveness -- seems to be the dominating decision. So it's good to also look at what their countries are doing and evaluate this strategy. So this is a very good opportunity to actually enter the debate. Thank you.

DR. BRAINARD: That's fantastic for me. This really has been a long time in the making. So it's -- but it's really the beginning of a conversation with all of you. So thank you very much for making the time today and Happy Valentine's Day.

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