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EMERGING FROM THE GLOBAL CRISIS:
GROWTH IN AFRICAN LOW-INCOME COUNTRIES

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P R O C E E D I N G S

MR. KIMENYI: I think we should commence the event, and if we could come closer maybe it will work better.

Okay, good morning. Thank you very much for braving the cold weather to attend this event. My name is Mwangi Kimenyi. I am the Director of the African Growth Initiative here at Brookings. So I'd like to welcome you to AGI and Brookings.

We have an exciting event. As you all know, following the recent global crisis there have been a lot of adjustments, but Africa, although it was one of the hardest hit regions by the crisis, actually did better than most people would have expected. It weathered the storm, but there are still many challenges that remain. And the focus today will be on the issues of growth and macroeconomic adjustments. Issues that still are challenges for the low-income countries.

The IMF has produced a broader paper called "Emerging from the Global Crisis: Macroeconomic Challenges Facing Low-Income Countries." And we will focus on low-income countries, but we would like to be more specific on what this means to African countries, particularly the lowest-income countries in Africa.

And to help us do that, we are privileged to have Hugh Bredenkamp, who is the Deputy Director in the IMF Strategy, Policy and Review Department, and head of the Low-Income Countries Strategy Unit. Since joining the IMF in 1988 from the U.K. Treasury, he has worked on countries in Western Europe, the former Soviet Union, Asia, and Africa, where he was mission chief in Ghana. So he knows pretty much about the low-income countries and issues in Africa. Hugh will start with a presentation for about 10 to 15 minutes, and then we will have two discussants, who will make brief comments.

The first one is Dr. Ezra Suruma, who is sitting in the middle. Dr.

Suruma is a distinguished ministerial fellow here at Brookings with the African Growth Initiative. He served as a minister for finance in Uganda, and has also worked at various levels in terms of the banking sector in Uganda. So he is also very well versed on this topic -- he had a start with issues of low-income countries, and he has dealt with them as a minister as well as in other capacities. Dr. Suruma is with AGI and is working on a book, where he is looking at the changes in Uganda since what we would call the transition from dictatorship to more democratic government. And so he is working on a book on that, and these are some of the issues that he is focusing on.

Our next discussant whom we are privileged to have is Ben Leo, who is one of our colleagues from the Center for Global Development. Ben's research includes debt sustainability in low-income countries, and you will see his brief bio where he has been working on several issues on capital markets in Africa, and so on. And of course, the focus of this discussion has a lot to do with macroeconomic challenges, so Leo is pretty well versed to discuss those issues.

So again, thank you very much for joining us, we are looking forward to a good discussion on these issues. We will have a very brief presentation and then we will open up for discussion because we would like to hear from the floor, both in terms of comments and also questions.

MR. BREDENKAMP: Thank you very much. Good morning, everybody. Let me first thank Brookings very much for hosting this event and for inviting us to participate.

The presentation I'm going to give you is by no means a full account, but a glimpse of the findings from this paper. This is the third in a series of papers that we've written since the global crisis started on the impact of the crisis on low-income countries.

And all of these papers you can find on the low-income countries web page of the IMF website.

When we wrote the first paper back in early 2009 when the crisis was just beginning to make itself felt on the low-income countries, the Fund was very concerned about the implications for low-income country growth and poverty reduction. The prospects at that time was for global stimulus effort in the advanced major emerging economies were still somewhat uncertain, both in term of whether it would implemented and also whether it would be effective in pulling the global economy out of recession.

The prospects for aid at that time were very bleak, given past experience with financial crises, which tended to cause donors to cut back hard on their aid budgets. There was evidence of already a downturn in foreign direct investment, remittances, and so on.

So there were a number of channels through which the crisis was beginning to make itself felt in a negative way in the low-income countries. And the past experience of low-income countries in global downturns was not good, as I'll illustrate in a minute.

So we were very concerned, and we were somewhat concerned also that the focus of the global community was very much at that time on the impact on advanced economies and to some extent emerging markets. The questions of whether emerging markets would de-couple from the advanced economies, and so on. There was very little debate or attention on what the fallout might be for the poorer countries. And so one of our big messages at that time was not only to call attention to the potential risks, but also to urge the donor community to -- far from cutting aid -- to actually step up their financial assistance to low-income countries.

So, a year and a half, almost two years on, I think the outlook, although far from benign, has not been as bad as we had feared, and there are a number of reasons for that. One is that the global stimulus effort was, in fact, implemented, and was largely effective, although of course we are not out of woods yet. But there is a global recovery now underway.

Aid budgets were not, in fact, cut. Indeed, aid increased in 2009 somewhat, by less than what was committed at Glen Eagles, but still it was a better outcome than we had feared.

And low-income countries were able to actually participate in this global stimulus effort, or at least to run their own countercyclical policies. I think this experience has important lessons for policies looking ahead, and this is really what I want to focus on in my remarks this morning.

So just to give you the pictures, here is a chart -- you can see that low-income country growth of course did slow sharply in 2009, but they actually saw a less severe effect than either the emerging market economies or, especially, the advanced economies, which we call "AMs" here. And on average, in two-thirds of low-income countries growth did remain positive during 2009, unlike in many other countries of the world.

And if you look at how this crisis experience compares with previous crises, we also see a strikingly different picture. In the past, whereas the rest of the world tended to follow a sort of V-shaped recovery -- the kind of V-shape recovery that we're seeing in this crisis -- low-income countries did not show that pattern. In fact, their growth tended to remain extremely depressed if not negative for some years after the crisis hit. Whereas this time, we see in the latest evidence -- a V-shaped recovery happening also in low-income countries. And this is, of course, crucial. It's not only that the depth of the recession was less severe, but the duration was less severe, and that has important implications for living standards and development in these economies.

This is just to show you that a similar story applies also if you just look at sub-Saharan Africa. A V-shaped recovery and the prospect this time was very different from what we saw in the three previous global crises.

Now, we attribute a good part of this story -- why things are different this time than in the past -- to the very different macroeconomic situation that these countries were in going into the crisis than they were in the face of previous crises. Which is a reflection of at least a decade and a half of really strong policy efforts in low-income countries to put their economies on sound footing.

Here you can see that in the pink bars show what these indicators look like going into this crisis, and you can see that on the variety of indicators: fiscal deficits, public debt, inflation, reserves, and current accounts. These countries were in significantly better shape than they were ahead of previous crises, as shown by the blue bars.

And this, what we call these "policy buffers" -- relatively strong policy buffers -- is really a key factor in giving these countries the room for maneuver, to take countercyclical policy action when the crisis hit. And you can see here that not only was government spending protected as revenues declined during the crisis, but it actually increased as a share of GDP in 2009.

Of course, this meant larger fiscal deficits. Low-income countries in sub-Saharan Africa saw somewhat more muted increase in spending, but at least spending was not cut, and this is very much in contrast to the pattern in previous crises where as soon as revenues started to take a hit, these countries typically faced financing constraints -- and, in fact, often the financing situation deteriorated also. So they ended up having to cut spending in a recession, which is, of course, the opposite of what you want to do. So in this crisis they were able to take the right countercyclical measures-- the kinds of policy measures we would like them to take.

This chart is also interesting, and it shows -- again, emphasizes the point that those countries with the strongest buffers -- that is, the strongest policy position going into the crisis -- were those that were able to actually increase expenditures by the most. Although even those with the low buffers, a relatively weak situation, were also able to largely avoid cuts in spending.

Not only was the level of spending protected or increased, but also the composition actually moved in a somewhat favorable direction from the point of view of future development outcomes and growth prospects. Education and health expenditures, for example, actually accelerated in real terms, and capital spending in particular increased sharply as countries looked for ways to counter the effects of the recession. You can see that the same pattern holds for sub-Saharan Africa as it does for low-income countries in general.

Now, these deficits of course had to be financed. Some of this came, as I say, through additional aid flows. Many of the multilaterals scaled up their financing. The IMF increased its financial support quite dramatically. As you can see, record levels of financing for low-income countries: there was a sharp increase in the number of financing arrangements we had with low-income member countries in 2009. And you can see this is also true for Africa as well. Roughly five times the previous average levels of financial support.

So we are seeing this V-shaped recovery in prospect now in the low-income countries. It is, of course, somewhat different across different groups of low-income countries, depending in part on which region they are in and which countries are their main trading partners. You can see that the prospects for low-income countries in Asia are particularly strong because, of course, their trade links tend to be with the fast-growing Asian emerging economies. The prospects for low-income countries in Latin America and Caribbean, by contrast, are comparatively weak because they feed a lot of the U.S. economy, which is where the recovery is still going to be very muted.

And Africa is somewhere in between. Africa's trade links with emerging market economies have increased substantially in recent years. So they are getting some pay off from that, in this recovery.

And here you can see just another way of looking at the growth outlook for 2011 in Africa. There has been pretty strong growth, generally in the 3-1/2 to 7 percent range. And with a number of countries -- those marked in red -- actually in line for growth exceeding 7 percent next year.

Now the key then is what about the future? And of course the lesson we draw from this experience is that having these policy buffers was very positive in helping low-income countries defend themselves against the recent global crisis. So we would like to see these buffers, which have been obviously depleted somewhat during the crisis, to be gradually rebuilt. And this chart just shows that indeed in general we do expect them to gradually move back to relatively strong positions again over the next three years or so: current account deficits declining; fiscal balances recovering; and public debt continuing in an upward trend in the short term but resuming at a downward path over the medium term.

Now this rebuilding of policy buffers is -- if you like, fiscal consolidation -- is taking place in a very different context in these countries than it is in the advanced economies, where of course what fiscal consolidation means in many cases reigning in deficits -- in some cases severe austerity budgets. In low-income countries we are not envisaging, and we certainly would not advocate, austerity budgets. On the contrary, what we are projecting are continuing upward trend in real primary expenditures, even for those at the bottom end of distribution, as you see here, even for those in the bottom 25th percentile, there are still real spending increases in prospect.

Now this is not completely universal. Those countries with relatively high debt and relatively large fiscal deficits -- there are about six of these in our sample -- where some cuts in real spending are unfortunately unavoidable. But the vast majority of countries are able to participate in this continuing favorable scenario.

Of course there are downsides in the outlook, and this is precisely why we want to see countries rebuilding their buffers, because of the risks that lie ahead. In the paper we describe a scenario that's essentially a sort of global double-dip scenario. That is, where the recovery is not sustained in the global economy and we trace through the impact that this scenario would have on low-income countries. And here you can see what this would do. The dotted lines show what would be the implications for these key policy buffers. Reserves would be depleted, current accounts would worsen, debt would be higher, and so on.

And we show how countries in different situations will be able to cope with this kind of shock very differently. Again, this shows the value of having these policy buffers. If you just look at -- this chart has a number of different types of countries within the low-income country groups, but if you look at what we call the "high buffer" cases, these are the countries that currently still have the strong policy situation. They are able to fully offset in terms of fiscal response the impact of this hypothetical shock. Whereas those with the low buffers, if they were faced with this shock -- let's hope they're not -- but if they were, they would have to basically adjust fully in the face of that shock. They would have no room for maneuver.

So, just to finish, this story really illustrates to us the virtues of in good times running prudent macro policies to basically give yourself room for maneuver as a policymaker in bad times. And so our advice coming out of this study to countries is to now work on gradually rebuilding those policy buffers, while at the same time continuing to invest in their growth and development strategies. And we do think the two can be reconciled.

Exactly how countries will do this, the pace at which they do it, and which policies they need to focus on to restore a strong position will vary from country to country, as we say, and no one size fits all. We look in the paper at how different countries are positioned now in terms of these vulnerabilities, and this is going to feed into our policy advice in specific countries.

So while the precise policy implications will vary from one country to another, there are some common themes, so I will just highlight these here.

One is that in most countries a key part of the strategy for the next few years is going to be to strengthen their domestic fiscal revenue efforts. Low-income countries raise something like 4 or 5 percentage points of GDP less revenue than we believe they could if you benchmark them against middle-income countries and allow for different economic structures. Just by basically fixing the design of their tax systems, and in particular by fixing how tax administration is run in these countries they could increase their government revenue markedly. A 4 or 5 percent of GDP improvement in revenue will give them huge room for maneuver -- not only to strengthen their fiscal position, but to take some of that and invest it in closing infrastructure gaps and meeting social spending needs.

So we see the key to reconcile this gradual fiscal consolidation with continuing to put emphasis on the spending side on these pro-growth, pro-poor spending categories like social spending and infrastructure.

We do see room for many countries to pursue borrowing strategies, provided they are cautious, in order to close the infrastructure gap and meet some of the other development needs. But these borrowing strategies, as well as being cautious in themselves, need to be supported by other efforts to mobilize domestic savings through reforms of domestic financial systems -- expanding access to financial services to a broader population in low-income countries, and mobilizing savings that way.

And of course a pro-growth strategy also requires continued reforms in the business environment, as well as in basic infrastructure. In trade we see a lot of potential in the trade reform area to unlock new sources of growth, both regional trade among LICs, especially in Africa, as well as trade between low-income countries and the rest of the world.

So let me stop there. Thanks very much.

MR. KIMENYI: Thank you very much. Okay, Ezra.

DR. SURUMA: Thank you very much, Mr. Chairman. Thank you Hugh for your presentation.

I will speak from our experience in Uganda. That's what I know. And see how the components of this paper are borne out by our experience.

First, by way of background, when the signs of the crisis started, we were considerably confused. We didn't know what was happening. And Parliament kept demanding that I give a statement to tell them what was happening. Of course, I couldn't tell them that I didn't know. Eventually, my bureaucrats wrote some statement and I went and presented it. Bureaucrats have a way of doing things that nobody understands what they are saying (laughter), and that helps pass the time, I suppose.

Within the Government and with the Executive, we were divided about what was happening. There was a school of thought that thought that the crisis would lead to a realignment of the world economy, a world economic order. And so it was mainly about the emerging power of China and India and Brazil and so on. And that this was what was happening.

Others thought that, indeed, it was merely an indication of the impact of the financial crisis in the West, and the loose credit practices. We couldn't quite agree on who was right, and I still think we don't. But this is how we looked at it. Our main concern really at that time was how our banks were going to be affected. We have many banks that are owned by foreign banks. Barclay's Bank, for example, Standard Chartered Bank that are large in the financial sector, and our own banks in London and elsewhere. And we are concerned that they might collapse, because of their relationship with their mother banks in the West.

So we took some steps to watch them more carefully and more closely and to see what they were doing. Particularly we were worried that they might move some capital, some funds, to their troubled mother countries. There was some capital movement that upset the market and the Shilling depreciated very strongly. And this worried us. But it didn't continue. It just happened and then sort of stopped. We were not sure how to deal with it. Some wanted to get into the market -- foreign exchange market -- and carry out some interventions. But there was a strong feeling that our history of not interfering strongly in the foreign exchange markets should be continued. And we were worried that we might run down our reserves if we attempted to intervene in the foreign exchange markets. So we left the Shilling to depreciate, and it has continued to depreciate. And there doesn't seem to be too much concern; we feel this is the right thing to do.

We noticed foreign remittances. We get substantial remittances from the United States and some other Western countries. We noticed quite quickly that these had fallen, and this was part of the problem we were having in the foreign exchange market.

Our exports, we're a non-oil-exporting country, so far. We hope to be oil exporting in the future, but up to now we are not exporting oil, so the only commodity that was very badly hit was flowers. Flowers were a recent export, going mostly to Europe, to The Netherlands, and I think people in that sector have suffered very greatly.

But the other sectors, like coffee, which is our biggest export, did not seem to suffer any worse than they had suffered in the past in terms of fluctuation. In fact, we recovered quite quickly.

So we agree with Hugh -- our experience agrees with what was said in the paper in terms of remittances. And FDI also fell, and there was some capital movement but not a great deal. It was short lived.

Now, in terms of trade, I think that for us regional trade seems to have compensated for what we might have suffered if we were only exporting to Europe. There has been a rapid growth in East African trade, and this seems to have helped us a great deal in weathering the impact of the crisis.

Now, it's true that we have been pursuing good macroeconomic policies, and they have paid off for us extremely well in terms of having a high rapid growth rate of about 6 percent over the past 15 to 20 years. So, in this sense I suppose we would agree with the paper, that good policies do pay. I'm not sure we were doing this in order to prepare for the crisis. I think we, of course, get good advice from IMF, and we think it is wise to follow the IMF's counsel. And we've been doing so. And we are glad that in the process we have been able to achieve higher growth and also not to suffer unduly, or too heavy, from the crisis.

Now, concerning the recommendations for the future, I am not sure that the IMF is prescribing something different from what they've done in the past. We've been struggling to increase revenues. It's a very difficult area. We've had some successes. I think we've gone from about 5 percent in the '80s to about 14 percent of GDP. We know there is room for increase, even by African standards. We should be about 18 percent. But it's a very difficult thing to do.

We are part of East African Community, and now any changes in taxes have to be agreed by the entire community. We have to discuss every year before we redo our budgets, we meet -- the finance ministers -- and agree on what changes we are going to make. I'm not saying that this stops us from increasing taxes. But I think that the process is a very difficult one.

Deepening the financial sector, we've been trying to do this for a while now, trying to extend financial services to the rural populations that don't have access to these services. We've been trying to do this, and I'm glad to hear the IMF talking about it. I think it means that they are going to work with us. In the past, I thought they were very conservative, saying that the big banks should be the ones to take services to the rural areas. And yet, our experience is that the big banks don't want to go there, because it's not profitable to go there. And we've tried to find other ways of taking the services there. So I hope the IMF will be more receptive of some of the measures we are taking to introduce banks/financial services to rural areas.

Strengthening banks supervision, increasing domestic savings, these are policies that we agree with and have been attempting to implement. So I think that the IMF is, at least from our point of view, certainly right to say that their advice has resulted in our not suffering too much from the crisis.

There is one area though that I think perhaps needs additional mention. And that is the area of poverty reduction. The paper does indicate that from their estimates that the number of people living below the poverty line might increase by about 64 million by the end of this year. And when I looked at the "African Economic Outlook," a publication of the African Development Bank, they also quoted estimates of increases of 50 million people -- an increase of 50 million people below $1.25 per day in 2009, and an additional 30 million people in 2010, as a result of the crisis.

So this means that although we have not suffered as much as we could have, in terms of growth in real per capital income, still there is a problem because the number of people are suffering from extreme poverty has increased, and probably increased as a result of the crisis. So it's important to remember that. After all, sometimes when we say low-income countries, it makes it sound nice. We are talking about poor countries, very poor ones. Where the standard of living is very low and where the situation was not good in the first place.

And so, when we say that they do not suffer as much as they could have suffered, it might look as if the situation is okay. But the situation is not okay. It was not okay in the first place. The speed of the rate of growth has declined, which means we are not recovering as much we could. But the number of people suffering from extreme poverty, unfortunately, is continuing to be high. So one should not get the impression that the problem of poverty has been solved.

So, Mr. Chairman, with that note, I would like to end my comments. Thank you very much.

MR. KIMENYI: Thank you. Thank you very much, Ezra, for very good comments. (Applause)

Mr. Leo? He will use the podium for 10 minutes.

MR. LEO: So I pulled together just a couple of slides just to illustrate a couple of things, and then I'll sit back down.

So, it's a pleasure to be here. Thank you for the kind invitation, and to Hugh and the Fund team. As I've mentioned before, I really enjoyed the paper, along with some of the other analysis that your team has been writing over the last couple of years. The paper was very insightful and very policy relevant, which makes it very refreshing.

Whenever you try and take a look at these kinds of issues and providing analysis across aggregates of countries, it's always a significant challenge when you're looking across regions or even within regions or income groups. If you look at Africa and the low-income countries, you're ranging from, for example, Central African Republic who is very, fairly resource poor, landlocked, and weak institutions, compared to a Ghana, which is the opposite of those variables to some degree.

So it's very challenging, but even with those challenges, I think the Fund team did a fabulous job in terms of pulling out some of the key trends, some of the results, and also some of the policy lessons. So I enjoyed it very thoroughly.

In terms of my brief remarks today, I'm going to hit on a couple of issues. First, is putting the African low-income countries' response and coping mechanisms with the crisis into a little bit more of a historical perspective. The paper does a very good job in terms of comparing the situation to previous crises, but only in terms of a year or two before the crises.

So I want to pull out just a little bit of additional information that I think helps to enlighten why this last crisis was just so different. Hugh mentioned some of those details, but I'll pull out just a couple of more. In that context, providing just a little more of information in terms of what the key factors were in terms of building up these larger buffers than have existed in the past.

And lastly, highlighting a couple of things that I thought were very interesting in the paper, and here I'm going to go into a little more detail than the other speakers in terms of things that I think are particularly policy relevant and could merit some additional analysis. I'm sure the Fund has already been thinking about this. It wasn't in the paper, but would look forward to see additional analysis from the Fund and others going forward.

So first, just a little bit of information in terms of putting the 2000s into historical perspective. If you look across a range of macro indicators, the 2000s -- even when you include the fallout in 2008, 2009, so including the full 2000s -- were truly remarkable years. My other distinguished speaker up here very rightly puts into realistic terms of, yes, performance was very strong, but there are challenges, and not enough in terms of poverty levels and other issues.

But if you compare it across decades, it was quite remarkable. If you look at Chart 1 -- and here, all of this information is just the African LICs that are included in the Fund analysis. Across institutions there are some definitional issues of which countries should be included and which ones shouldn't, but nonetheless I pulled the same countries for comparison purposes.

So you look at growth, for example -- GDP per capita growth -- up by about 2 percent across these countries during the 2000s. As the other panelists mentioned, lower than what we would all like to see. We would like to see much higher than that. But you compare that to previous decades and it's the best, except for the honeymoon period in the '60s right after independence for many of these countries.

If you break it down by the oil exporting countries, it's higher. It's about 5 percent. But even the oil-importing countries were still about a percentage and a half, which is good. Inflation was at all time lows. And here you go all the way back, again, and you'd have to go back into the '60s to see lower levels. So, on the median level for these countries would be below 7 percent. Fiscal deficits were lower as well.

And here I think the paper does a good job in terms of pulling out what those contributing factors were in terms of facilitating that. So this chart is in terms of the government reforms or institutional capacity. So this little line chart here says it's about the World Bank's Country Policy and Institutional Assessment, or CPIA, average score for these 35 African low-income countries. So you definitely see a steady trend going up over time in terms of their capacity. A little bit of a drop in 2006 and 2007. If I had 2008 and 2009 information in here you'd see it kick back up again a little bit. But overall the trend was very positive.

Also in terms of the external sectors and the follow-through or the flowthrough in terms of the macro sectors, commodities were clearly a big factor in this. And you look across the main commodity sectors that are of importance to African countries, and you see a steady trend over time going up. You know, I have copper here in the upper right, which is an outlier in terms of the run-up, but for many of the others you do have the volatility as you would expect in the commodity sectors, but the trend again is very positive.

All right, so, that concludes the slides, so I'll step back down and speak from here, just to keep consistency across the speakers.

One of the other things that I think is very important in terms of the context is the resolution of conflicts. So, if you look back into previous decades, over half of the African low-income countries were hit by conflict, either internal or regional conflict, in the last 20, 25 years. When you look in terms of going into this last crisis, basically, none of them had open, active conflicts.

Sudan is outside the Fund's database, or data set, in this particular case, so they would clearly be an exception. There's a couple that still are plagued by sporadic violence or some unrest across the different regions, like DRC or now hopefully we won't see a return to conflict in Côte d'Ivoire, but going forward, but obviously there's a fair amount of fragility there. But clearly, the resolution of the conflicts, the building up again of the government capacity, and then the benign macroeconomic -- or global macroeconomic environment played incredibly important roles in this context.

I think the paper very aptly points out that the impact of recent crisis on low-income African countries was different from past crises where you'd see terms of trade, interest rates, and some of those other issues deteriorate very quickly. The impact of the recent crisis seemed to be a little bit more limited to exports, FDI, and remittances.

And I think there's a couple of things that the paper pulls out, but I'd like to pull out in even more detail in terms of explanatory factors in that context.

If you look at the composition of the external financing for these countries – it is very different from what you saw 20 to 25 years ago, and the push towards greater concessionality of the financing from the donors, from the international financial institutions, concessional loans, grants, and less in terms of private borrowing and non-concessional borrowing, we're seeing more of that in a number of countries. But still, if you look historically, much lower in the past. So you bring the longer maturities and significantly lower interest rates -- reduce those risks significantly.

The other thing that the paper brings out, that I'd like to touch on, is I don't think we can underestimate the impact of HIPC and the multilateral debt relief initiative, in terms of bringing down the ratios and creating some space for the countries to be able to respond. Particularly when you are looking at the African low-income countries. So, of these 35, there are only 4 that are not included in the HIPC initiative: Nigeria, Lesotho, Kenya, and Cape Verde.

Of those four, we all know that Nigeria had a landmark buy-back deal in 2005. Now their external debt ratios are basically zero. So the debt relief initiatives, I think, were pretty key.

One of the other things, and this isn't necessarily in contrast to the fellow speaker's point, but I think it bears mentioning, as well, is that despite the presence of some of the foreign banks in sub-Saharan African countries, still the integration in terms of the global financial markets is relatively low. So that in this context help them in terms of reducing the potential for contagion and spillover effects. Clearly looking forward, that trend is going to change in terms of integration, so there's going to be increased complexities that are going to have to be managed.

One of the other things that Hugh mentioned, and is very striking for me, is the resilience of the aid budgets as well. Clearly, in terms of the budgetary time lags, you wouldn't have expected to see a dramatic decrease in '08, '09. But even when you look at 2010 levels and budget levels for 2011, they're still quite strong. You don't see the robust growth that we've seen during the 2000s. But still a fair amount of stability. For example, if you look at the African Development Fund replenishment that was concluded earlier this summer -- not the massive growth that you've seen in the past, but again, it's fairly stable and what IDA just concluded this week, is much stronger than I would have expected. We'll see if they can get the money from the parliaments over the next couple of years. But still, at least the pledging levels were fairly high.

Now, in terms of this paper itself and the analysis, there are a couple of things that I want to focus on in particular that I found very intriguing. And in this context, I'll pose some questions to Hugh and his team, whether it's for today or going forward.

I was very interested to see that -- well, actually, not particularly surprised, but I thought it was intriguing the fact that a number of the "low-buffer low-income countries," or countries with a lower buffer, didn't expand their fiscal spending in a countercyclical way. The paper cites, or has a statistic, that 65 percent of the low-buffers did compared to almost 90 percent for the medium- and high-buffer countries.

And immediately in terms of policy relevance, that raises the question of why. Besides just the buffer levels, what are some of the commonalities across these countries that did not partake in countercyclical fiscal policies? Is it a capacity issue in terms of the institutions? Were these countries more often than not post conflict, which had greater fragility, obviously tied to institutional capacity? Is there a connection with the resource richness of the country? Landlocked? Which is obviously also going to have an impact in terms of the exports and integration. National disaster vulnerability or other vulnerabilities? And then also potentially the political side of it. How did this tie in with their domestic political cycles, and was that a limitation as well?

I think in terms of learning the lessons from this crisis and applying them going forward, I think diving into the details -- a little more detail could be particularly illuminating.

One of the other things that struck me is in terms of the countries that did take countercyclical fiscal policies, that 50 percent of it was domestically financed. And across the domestic debt, Central Bank financing, as well as drawing down government deposits, I think there can be some additional lessons here as well, and some greater disaggregation across those components could be informative in terms of the efficacy, the risk, and the ability to use those same mechanisms going forward.

I'll skip some of the others in the interest of time.

But in that composition, it would be particularly interesting for me, in the context of the Fund, in terms of how much of that was Central Bank financing. And in particular, what the role of the SDR allocation was in terms of allowing the Central Banks the space to do this. If you look at the data, we have seen that some of the African low-income countries have monetized their SDR allocation, but I think that some additional analysis on that as a policy lever and as a transmission channel could be interesting.

And then lastly in terms of issues to pull out -- in terms of the perspective analysis -- I thought it was very striking that the Fund is projecting that those low-income countries that had low buffers coming into this crisis are going to build those buffers up much faster than the other countries. Perhaps I missed something, but I think that's very striking, and I'll be very curious to know why and how and what the practical policy lessons will be across all the countries.

So overall, I found this analysis very thoughtful and very practical and important for shedding light for policymakers and those of us on the outside as well, and I look forward to seeing additional analysis from the Fund and others going forward.

MR. KIMENYI: Thank you very much, Mr. Leo. (Applause)

I'm sorry that I had to cut you off, although you have very good points.

MR. LEO: It happens to me very often.

MR. KIMENYI: I do hope that during question and answer section some of the issues that you have wanted to discuss will come up. So, I'll open up to the discussion and I would like to take at least two rounds of questions. And anyone here can answer, and you can make comments, but please make it brief and if I say "you," don't be offended. It's just that I don't know the names. So, thank you very much.

I'll start with the gentleman just in front.

MR. GORDON: One factor which you see a good deal in the press and other publications about the growth trend in Africa, particularly, was that commodity prices in the last seven or eight or ten years have been much higher for commodities that Africa does produce, particularly because of the demand from China, most of all, and partly from other emerging countries as well. And that really wasn't mentioned as a factor in the kind of high growth rate that preceded the crisis and the ability of these countries to increase their buffers.

MR. KIMENYI: Could you please give your name and affiliation?

MR. GORDON: My name is Edgar Gordon.

MR. KIMENYI: Please when you start why don't you give your name and affiliation? –Next question/comment.

MR. STEWART: Patrick Stewart with the U.S. Treasury. A question for Mr. Bredenkamp.

In the forward-looking, sort of, policy recommendations, do you sense a strong consensus with other institutions? Just because several of the issues that you outlined, such as public expenditure reform, financial sector deepening, some of the anti-poverty measures, are things that, while the Fund may make recommendations, are often more in the lane of the World Bank and other organizations for actual implementation. Thank you.

MR. KIMENYI: Thank you very much. Let me take a question at the back and then move to the middle of the room.

MR. DENNAMORE: Dennamore from Johns Hopkins SAIS. One question for Dr. Suruma is I have been to Uganda, Rwanda, and Ethiopia a few months ago. I had the impression of a booming economy in some of these places, and I would like ask you to be a bit more specific-- to explain a bit more about the experiments with East African Community that you are building in this area, because I have the impression that people really took it very seriously, and outside this area, almost no one knows what's the plan that you have about this.

MR. KIMENYI: Okay, very good, so he wants a comment about the East African Community. The gentleman from JICA.

MR. NAKAZA: Thank you. I am Kajan Nakaza from JICA, Japan International Cooperation Agency. My question relates to the first question.

I wonder how the panelists evaluate the kind of spillover effect of the Asian economic boom to sub-Saharan African countries, in terms of accumulating buffers before the crisis and also at the time of crisis.

Thank you.

MR. KIMENYI: Okay, I will ask the panelists to respond, but briefly, so that we can have another round of questions. .

MR. BREDENKAMP: Just quickly, on the commodity prices, I agree with Ben, that this was part of the benign global environment for most of the 2000s, was the general uptick in commodity prices. Of course not all LICs are commodity exporters, at least not dominantly so, and some of the increase in commodity prices also led to increases in import costs. So, it depends on the mix of trade of the particular low-income country. And we saw this most dramatically during the 2007, 2008 food and fuel crisis, where there was this boom in oil prices and a boom in many food commodity prices.

Some countries benefitted from that. Oil producers certainly did. The net food exporters did. But some countries saw actually a deterioration in their terms of trade, so I wouldn't overstate it. I do think, however, that the prospects for commodity prices looking ahead are probably fairly good, if you are a commodity exporting country, thanks to the very strong continuing growth prospects in the emerging market economies. So I wouldn't see this as being a factor that was positive in the 2000s and not going to be a contributing factor in the future. I think it will continue to play a role.

Whether the Fund's recommendations would be shared by others? I think the answer is yes. In fact, we more or less captured the same policy recommendations that other multinational institutions are recommending. In fact, the policy recommendations in this paper are in line with a joint paper we did with the World Bank for the last development committee meeting, and it got broad endorsement there, too.

What struck me, though, is that when we presented these findings in other forums like this, that many of the CSOs who have in the past been quite critical of the Fund also basically share the same diagnosis and policy prescription. You know, there's a question maybe about degree and pace of adjustment, and so on, but the notion that policy buffers are good, enabling countries to sort of stand on their own feet and be able to address shocks and difficult periods with their own resources, is, I think, a widely shared view.

And finally, quickly, on emerging markets spillovers, let me just say that we actually are working on a paper on this topic, too, particularly focusing on the BRICs and the implications of their links with low-income countries for low-income country growth. So that will come out early next year.

The basic message is that those linkages have been increasing quite rapidly. In most LICs, advanced economies are still the major trading partner by volume. But the emerging market partners are growing very rapidly in terms of contribution, and that has certainly helped contribute to growth, contribute to improved balance of payments, positions, and so on. In that sense I think it has been a positive factor in the buffers.

MR. KIMENYI: Thank you. Ezra?

DR. SURUMA: Yes, the East African Community in three or four points. One is that, indeed, there is a treaty between Kenya, Uganda, and Tanzania under which we have established a customs union, which started in 2004 and now -- allows for tariff-free exports within the region.

Secondly, Rwanda and Burundi have joined this community, so now you have about 130 million people within this community.

Third, a common market has come into effect this year for the free movement of people.

So there is a strong feeling that this region is one trading area, integrated trading area, and there is consistent harmonization of policies on infrastructure, on power, and on telecommunications. And I think all this is helping to expand trade. And the growth in regional trade is much faster than the trade with the outside world.

So I think all these factors have helped to make East Africa the fastest-growing region in Africa.

MR. KIMENYI: Thank you. Mr. Leo?

MR. LEO: Yes, maybe just one or two things on the commodity issue. I had meant to mention previously that one of the things that I think is going to be important in terms of this recovery is how quickly the commodity prices have recovered. They dropped in the immediate aftermath of the crisis, but many of the different commodity sectors have rebounded quickly and are way back up again.

As Hugh rightly points out, the terms of trade issue is going to be challenging for many countries, particularly as the oil prices are not feeding through into food costs. Hopefully we don't see a repeat of 2008, but if you look at the food price indices, they're alarming in many contexts. I didn't want to give the false impression that the 2000s were an anomaly and that going forward commodities are not going to play an important role as well. I think there are many commonalities going forward compared to where we have been the last ten years.

MR. KIMENYI: Thank you. Maybe as an East African, I could also add that the issue of East African Community is very important. As you probably know, we had a very strong union in East Africa-- even before the European Union we had a very strong East African community. We had East African Airways, East African Railways, East African Harbors, and East African Post and Telecommunications which initially thrived. However, the first East African Community broke down in the late 1970s. We hope that the current efforts at regional integration will be much more successful.

DR. SURUMA: I think the first EAC fell apart in 1977.

MR. KIMENYI: Yes. So it progressed a lot, and so there is a sort of natural affinity among East Africans. And, of course, a big problem with Africa is the very high cost of bringing business across boundaries. So this integration is very important for growth, and it's one of the ways of dealing with the low intra-Africa trade, which we think is a problem. Yes?

MR. CARROLL: Tony Carroll. I'm with Manchester Trade, and I lecture at SAIS.

First of all, Hugh, I was wondering if you could give us a break down of the capital expenditure in Africa. What is the character of those capital expenditures? I'm increasingly interested in what proportion of those expenditures has been toward infrastructure. If you recall Paul Collier in his book, maybe the best thing you can do to grow your economy is invest in your neighbor's infrastructure, and I was wondering whether supply-chain investments are, in effect, really linked to either some of the reduced impact of the global crises, or maybe the acceleration of growth.

And then just let me say on this issue of poverty, which Ezra talks about, that these countries are still poor. Let us not forget that this economic crisis that we've recovered from in Africa has not necessarily also contributed to political stability. I think we're seeing in the crises in the Côte d'Ivoire, the unending crisis of Madagascar, and the political circus of many of the major countries, including those that you attribute as being high-growth countries next year, give me pause to say that we really haven't accomplished much on the political front as we should.

MR. KIMENYI: Thank you very much.

Maybe right there, and the gentleman in front, then I will go to the back.

SPEAKER: My name is (unintelligible). I'm a grad student at SAIS and one of Mr. Carroll's students.

I was just wondering, you explained very well why this crisis was different from previous crises and why Africa or low-income countries did better. But you didn't elaborate on why you think low-income countries in Africa did actually better than advanced markets, industrialized countries. I just wondered if you could explain why you think that was -- if it was just because of the lesser degree of integration into the financial markets, or if there were other reasons.

MR. KIMENYI: The gentleman in the front.

MR. LADD: Yes, thank you very much. I'm Shawn Ladd from the African Department at the IMF, and I'd like to thank the panelists.

I want to follow up on Mr. Suruma's remarks about the Fund's lack of enthusiasm for extension of financial services, and Mr. Leo's curiosity about the composition of domestic financing. There is a sense in some quarters that LICs in general were not hit as severely by the recent crisis due to their lack of financial sector integration.

I'd be curious to hear your view on where you feel financial sector development is a major constraint on growth, and what you think would be the most promising avenues that are currently being discussed in order to relieve that constraint. Thank you very much.

MR. KIMENYI: The gentleman at the back.

MR. SHIMAN: Thank you. My name is Shiman from Carnegie Endowment.

My first question is related to the role of agriculture. As you know, Africa largely remains an agricultural continent, especially in the non-resource rich economies. So what was the role of agriculture during the crisis? Did it contribute to Africa's resilience? That's my first question.

The second question is if you look at the contribution of different sectors in Africa to growth, you see a move from agriculture toward the service sector, especially in the non-resource rich economies. Do you see that as a good thing? I'm concerned by the lack of investment and growth in the productive sector, especially manufacturing. The contribution of manufacturing is declining in Africa. I mean, is the move from agriculture towards services is the good thing? How do you see that?

MR. KIMENYI: One more. I'll take my good friend from Côte d'Ivoire. You can probably say something about the current political crisis in that country.

MR. Tein: Thank you, Mr. Chairman. My name is Tein from DIWDC.

I have two questions. One is this optimistic review about the recovery, but is it really a recovery with job creation? I've been missing that point in the discussion. The point is about job creating growth in Africa.

And the second point is about the remittances because often I've been wondering. Remittances have fallen somewhat because of the crisis, so what would is the outlook for remittances to low income countries? What should be the strategy for these countries to address this problem? Thank you.

MR. KIMENYI: Okay. Let's get a response. If we can get two quick responses, we can do another round of questions. I'll start with Hugh.

MR. BREDENKAMP: On the capital spending question, I wish I could answer that question. Unfortunately, I mean, even the data on aggregate capital spending we have is quite shaky. To get the decomposition would be great. I think on infrastructure I agree with the kind of implicit message in your question on the importance of infrastructure. I would only emphasize that it's not only the volume but the quality of one's expenditure-- investment spending may or may not translate into productive public assets. And this is an area where we are doing some research to try and measure the institutional capacity that countries have to invest in productive public capital. So that's I think an important avenue.

The question about why advanced economies in particular saw a much sharper recession, low-income countries a more shallow one. I think it is partly that the advanced economies, of course, were the epicenter of the crisis. That's where the big shock started, and it was initially a financial sector crisis and a collapse in confidence in the financial system, a collapse in credit growth. And this triggered large wealth-effects through asset price declines, which were mainly of relevance to advanced economies where you've got households with large amounts of investment in financial assets, and so on.

The other factor, I think, was that advanced economies had less growth momentum going into the crisis than low-income crisis. Low-income countries were just growing at a much faster pace. So even though there was a decline, of course, they were still able to maintain positive growth.

And then finally on job creation, again, I wish we could say more. This is one of the frustrating things about working in this area is we known almost nothing about how labor markets are functioning in these countries. We don't have employment data, let alone unemployment data. But I think our sense is that if we focus on growth, and if we can be fairly confident that growth resumes and is strong and sustainable, that whatever job process is going on underlying that will be also a positive one.

MR. KIMENYI: Thank you. Ezra?

DR. SURUMA: Yes. Let me comment a little bit on Tony's question on account of expenditures from our point of view. And here I want to commend the IMF, which I don't usually do. (Laughter)

I was a bit surprised that when I proposed to find some additional money for roads, because our roads had deteriorated. And we had some promises from some donors, which were not coming out quickly. So, I wanted to borrow it. We'd find some money to increase the deficit, actually. And much to my surprise, the IMF was enthusiastic. When we went to the President he said what is happening? Usually the IMF doesn't want you to increase the deficit. He said this is upsetting everything. But we were happy to increase the deficit and spend money on roads. And so that was good news, and of course our economy has done well, and there was no appreciable impact on inflation. In fact, inflation went down.

Now on political stability, I entirely agree with you that to me this is the underlying, real problem of African economies. In the case of Uganda, we see the economy deteriorating throughout the '70s and '80s, and because we had serious, severe political problems. And after recovery we had consistent good growth. And then I believe many other countries would benefit from growth, if only governance could improve.

And so I agree that probably the crisis won't help, but at least it is not as severe as it could have been. But it is definitely an issue of improving governance and stability in our region.

On financial services, I think we believe that access to financial services is important; for one thing it makes life easier for the rural populations. Teachers, for example, in primary school who are salaried who have to travel, take a day off in order to go and draw their salaries, and use a fairly substantial amount of their small salaries to pay for the transportation. This kind of inconvenience is bad.

If we had financial institutions in rural areas, then of course savings could be made in more trusted institutional arrangements, rather than burying money in the ground or elsewhere where it is not safe. This would in turn boost domestic savings. And of course credit, access to credit, we believe would also assist, particularly in the agricultural sector.

I think there was a question on agriculture that I didn't quite get, but one of the big problems in agriculture is low productivity. And for many of our economies, we have really struggled to increase productivity in agriculture, and yet it's an area where so many of us -- such a great proportion of the population is engaged. And this is a real problem.

On unemployment, I think for me youth and employment is one of the most critical areas. The youth in many of our countries are more than half the population, and yet I don't see real arrangements whereby they would be absorbed into the labor market. And this would tend to increase the instability -- social instability if we do not take care of youth unemployment this will be a major source of instability in Africa.

MR. KIMENYI: Okay. Very good. I can take one maybe two questions. I'll take this one here. Thank you.

SPEAKER: Could you expand a bit on which commodities are growing, besides oil, and I think you also mentioned copper. Are there others? And is a lot of that trade going to the Asian advanced countries?

MR. KIMENYI: The gentleman here and you, sir, at the back.

MR. MIDDENSECK: My name is Middenseck. I am assistant professor of economics at Northern Virginia Community College.

I just wanted to come again to the Chinese in Africa. I think the 2000s were really characterized by the new partnership between China and Africa. What they do there is very new in terms of partnering. They don't just make money and leave. They make money and stay and spend it there, and create some kind of work for the people. And I don't see that in this report. Neither is there a discussion about how China has helped to support growth in Africa and the sustainability of that growth.

The second point would be for the financial system. I think the low-tech solution is the future for Africa at this time, in terms of banking systems. We see these poor people with their cell phones arrange a lot of financial transactions. And think that's where we need to look. We do not need to integrate into the global financial market, because it is not really a good way for us to proceed since we've seen how the global financial market can be destabilizing to an economy. Every 10 years or so we see shocks in global financial markets that might lead to the conclusion that these markets are not really well regulated.

So, I think those are the two points that people would be watching. And the job creation itself -- what kind of growth do we have? You know is it a growth that is based on economic activity because people have more capital stock in their hand and they can use it. Or are we just trading through our commodities. This will be the real difference to change poverty levels. Because if we have growth without any kind of economic activity, I don't think population will have income in order to change their lives.

MR. KIMENYI: Thank you. We'll take the last question. The gentleman right behind you.

MR. MANROLA: Jerry Manrola from USAID.

I actually was in Uganda. The question relates to trade, trade can be a trigger for growth in the medium term, say 7 to 10 years. It's one of them. There are, of course, others. I'm particularly interested in the non-oil, non-mineral trade, which would largely be manufacturing and agriculture. What are the prospects for the trade overseas versus regional?

Now in the East African Community, apparently regional trade within that community is booming. But it's only five countries, so what is their potential to trade with the rest of Africa versus the potential to trade in these non-resource commodities with the rest of the world.

MR. KIMENYI: Thank you very much. I think we have to get to the final comments, very brief. And I'll also make a few comments.

MR. BREDENKAMP: Then I'll just pick on a couple of points, if I may. Just on China, the role of China, as I say this is going to be the focus of a different paper that we're writing right now. One of the interesting findings of that paper, which is relevant to the last question that was just asked, is that if we look forward as the global rebalancing effort that China will, we hope, be involved in, it should entail a shift in China's production up the value chain as labor costs rise in China, and will, in a sense, create an opening lower down in the value chain, but still in the labor intensive manufacturing sector, for African producers to step in, potentially.

And so one of the key messages in that paper, I think, is going to be that Africa needs to be prepared to seize that opportunity, by making sure that it has labor with the right skills, the right infrastructure to develop the manufacturing, and so on. So that I think is a crucial point for the future.

Just one other issue to pick up on this point also that you made about cell phone banking I think is very important, and I think it also holds out some hope for the problem that Dr. Suruma mentioned, about the difficulty of raising tax revenues in these economies. The more that cell phone banking and other kinds of innovative financial instruments can be used, the more you can bring economic activity and money transfers and savings into the formal sector. And the more that you can formalize these economies, the easier it will be for the tax administration to bring them also into the tax net. It may not be what the cell phone users want when they do this, but I think that will be a collateral effect from this trend.

MR. KIMENYI: Thank you. One minute.

DR. SURUMA: Yes. I think it's good that technology in banking is helping, but I don't think it will take the place of having a place where you can put your money and be able to withdraw it. I think also we need for actual banks in rural areas. I don't think the phones will completely take over. They are helping, and we are doing everything we can to take advantage of the new technologies, but I think we still need some real services in rural areas.

To address the question about regional trade beyond East Africa, actually, I think our fastest growing trade partnership is now Sudan, believe it or not. It used to be U.K., then Kenya, now it is Sudan and Eastern Congo. These are some of our major, fasted growing partners. So we hope that this trend will continue.

Thank you.

MR. LEO: Two quick points on some of the questions. First, if you look at the commodity prices, almost all of them across the board are going up at this point in time. Particularly the ones that are relevant for African economies. And that's both in terms of the mineral sector, the other extractives, as well as the agricultural side. On the agricultural side it's somewhat of a mixed blessing in some of the commodities.

If you look at the growth of these exports, though, it's overwhelmingly in the extractive side. Some countries like Uganda have done very well with exports such as cut flowers and coffee and growing those sectors. But overall, it's still remains a very modest portion overall.

MR. KIMENYI: Thank you very much. I think this has been very informative and I think we have covered a lot of ground.

Here at AGI/Brookings, agriculture is one of our priorities. We are focusing particularly this year on issues of agricultural transformation, technology adoptions, and such. It is very important that we transform agriculture, because although other sectors are doing well, 70 percent of the population is still in the rural areas. So we have to do something about agriculture.

Now in terms of the quality of growth, I think its also very important that we look into that. We do see this growth, but as the gentleman talked about what type of jobs are we creating, we do have a lot of jobless growth, in a way. In other words, it's not proportionate in terms of the growth process and employment. And the result of this has been increasing inequalities. I am actually pleased that the IMF is even talking about concessions. At one time, when I was at a think tank in Kenya, the IMF didn't want to talk about increasing spending, particularly in social services, and so on. So there is a shift actually. But to this issue, particularly of jobs and the youth it appears that we've a failure to achieve demographic transition. So we are having this big group of youth that we must deal with. And these are some of the areas that we are really focusing on, because it will be a real problem in terms of dealing with the youth.

I see a lot of hope in terms of technology, more borrowed money, and so on. I think, as Dr. Suruma says, we still need financial intermediation. People have to borrow. Mobile money helps you to make transactions, and so on. But still, we need -- we've been conducting a survey and we are asking ourselves, why is it that mobile banking has been so successful in Kenya but not in many other African countries? And one reason is that many countries don't even have a national system of registration. You have to have a good system of national registration. So if we want to push mobile banking to be more effective you need to have a national system of registration. You need identities. You need to be able to track who is getting the money, whose particular numbers.

Finally from my view, I think the role of China in Africa is tricky for us. It is something that we have to deal with. I am not sure that -- someone said that they come to stay, and so on, like they are good NGOs. I am not quite sure that China is like an NGO, I think that China is being very strategic in its dealings with Africa. They provide Kenya with a highway, with probably 20 years of repairs and maintenance and they probably also get access to the country’s natural resources. And they are doing that in Congo, they are doing that Sudan, and so on.

Indeed, China’s standards when it comes to the environment and such issues are more relaxed than other countries. So we have to be very careful about what China is doing. It is not very concerned about whether a government is corrupt or not.

We don't know much about the type of contracts they are signing with the DRC and Sudan, and so on. So I think there is an issue there that we need to be careful as we deal with them. But, of course, we like the highways in Kenya and elsewhere in Africa. China is helping to build highways across Africa and this is a good thing. However, Africa is going to have to also be strategic about that partnership to ensure that it is mutually beneficial.

But overall, I think this has been very informative and thank you very much to the panelists, and thank you very much for all of you. And we hope to see you here again. Thank you very much. (Applause)

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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