

# SUSTAINING AFRICA'S ECONOMIC RECOVERY

## EXPECTATIONS OF THE SEOUL G-20 SUMMIT

MWANGI S. KIMENYI AND EZRA SURUMA

### Framing the Issue

The global economic recession brought to a halt one of the longest periods of economic expansion in Africa during which annual growth rates averaged over 6 percent before the crisis to just about 2.5 percent during the crisis. Recent reports show that overall economic growth in Sub-Saharan Africa declined sharply from 5.4 percent in 2008 to 1.2 in 2009. The primary channels through which the crisis was transmitted to Africa include the collapse of commodity prices and a decrease in foreign direct investment and remittances. The countries heavily dependent on commodity exports such as oil and diamonds, and agricultural commodities such as coffee, were affected much more drastically as the prices of these commodities experienced sharp drops. Poorly diversified economies like oil-rich Angola and Equatorial Guinea experienced double-digit declines in their growth rates. Nevertheless, most African economies have been fairly resilient during the recession as compared to many other economies with the exception of the fast-growing nations such as China, Brazil and

India. Many of the economies have started to recover, and 27 of the 52 African countries are projected to have higher growth in 2011 compared to their pre-crisis trend.

### Policy Considerations

Africa expects the international community to minimize the possible occurrence of another global economic crisis. It also expects them to take concerted and coordinated efforts to consolidate the gains made and to sustain economic growth in their countries. In this connection, African ministers of finance and central bank governors have held a number of forums from which several issues that they consider crucial have emerged. At the policy level, these efforts have been complemented by the African Development Bank (AfDB), the African Economic Research Consortium (AERC) and the African Growth Initiative (AGI) at the Brookings Institution highlighting some of the issues that are considered to be of major concern to Africa and which the G-20 countries should consid-

er at the Seoul Summit. Four areas of consideration include: greater African representation in the G-20; fulfilling prior commitments and improving transparency; private sector involvement and public-private partnerships; and increased vigilance against illicit resource flows.

## Action Items for the G-20

### An African Voice in Global Governance

The first and foremost priority is the issue of Africa's voice in global economic governance. As President Zuma of South Africa has emphasized on numerous occasions, major decisions on global governance such as those pertaining to the World Trade Organization, the global financial crisis, climate change, etc. should not be undertaken without consulting the developing world.

With a population of nearly one billion, people Africa has only one nation that is participating as a member in the discussions that will go so far in shaping the economic future of the world. Now that the G-20 Summit is to be held in a newly-industrialized country (NIC) for the first time, there is some expectation that the problems of the poor countries might receive more sympathy this time around. Indeed, South Korea has promised to make a strong case for attention to sustainable economic growth. But that goal will be competing with the developed nations' own challenges of deep unemployment and slow recovery back home. The best way to help the poor countries of Africa is to give them a chance to speak for themselves.

If the decisions of the G-20 are to become rules for everyone to act on, then it is high time its legitimacy were more properly defined and clarified so that all countries of the world can participate as full members of the global community. In the absence of such definition and representation, the imbalance between the rich and poor will very likely become worse.

### Honor Prior Commitments and Improve Transparency

Africa faces a huge development finance gap that has grown even larger on account of dwindling revenues due to the economic recession. Furthermore, the crisis has substantially eroded economic security of many Africans, resulting in a risk that human development gains made over the past decade could be eroded. Thus, the support from the advanced economies is even more critical as these countries emerge from the recession. Although the industrialized countries have made good efforts in honoring prior commitments to developing countries, there have been substantial shortfalls. The 2010 Africa Progress Report chaired by Kofi Annan shows that some G8 countries have fallen far short of their commitments. While many of the advanced countries continue to face pressure from their citizens, there is a concern that some of these nations will delay in fulfilling their commitments to Africa. This could greatly undermine the progress made so far and the gains from previous assistance. Africans, therefore, hope that with regard to Africa, the G-20 Seoul Summit will focus on the additionality of aid as well as aid effectiveness and transparency.

The expansion of G8 to G-20 is encouraging to Africa and the developing world. There are high expecta-

tions that the enlarged club will be more receptive to the inclusion of Africa's voice and to the issues that are of concern to the continent and other parts of the developing world.

### Private Sector Investment and Public-Private Partnerships

Economic recovery and long-term sustainable growth must involve more vibrant private sectors in the African economies. To this end, African countries have indeed made tremendous progress in improving the investment climate. It is much easier to do business in Africa today than it was just a few years ago. Unfortunately, one of the casualties of the economic crisis has been a substantial decline in foreign direct investment to Africa. With its huge infrastructure financing gap, we see FDI and especially public-private partnerships as viable options for infusing investments and supporting sustainable recovery. Africa hopes that the Seoul Summit will consider strategies for increased public-private partnerships.

### More Vigilance Against Illicit Flows of Resources

The development financing gap that African countries face could be greatly narrowed through increased transparency in resource exploitation and revenue allocation. Africa is extremely wealthy and is blessed with many valuable natural resources. Unfortunately, a significant proportion of these resources ends up in developed countries as illicit flows. The Global Financial Integrity (2010) estimates that total illicit flows from the continent over the last 39 years could be as high as \$1.8 trillion! The report conservatively estimated that between 1970 and 2008, illicit financial flows from Africa were approximately \$854 billion. In evaluating strategies to meet the financing gap, focus must be on curtailing these illicit flows; and Africa needs the collaboration of the G-20 to do so. In addition, the advanced countries should take decisive initiatives to assist in capital flight repatriation.