

Linah K Mohohlo: The financial crisis – impact on Africa

Remarks by Ms Linah K Mohohlo, Governor of the Bank of Botswana and a member of the African Progress Panel (APP), on behalf of the APP Chairman at the meeting on “The financial crisis: impact on Africa”, Tunis, Tunisia, 12 November 2008.

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I wish to begin by tendering profound apologies from the Chairman of the Africa Progress Panel, Mr Kofi Annan, who is unable to be a part of this meeting due to overlapping commitments. He is particularly disappointed by his inability to attend as today’s meeting is taking place partly as a result of conversations between him and the President of the African Development Bank (ADB), Dr Kaberuka. I have, therefore, been asked and accepted to speak on his behalf and on behalf of the other members of the Africa Progress Panel.¹

For those who may not know, the Africa Progress Panel exists to monitor, encourage and support African countries and their development partners in taking specific steps to advance social, economic and political progress in Africa. In this context, this meeting is both significant and timely, and President Kaberuka deserves commendation for taking the initiative to get us together. The Africa Progress Panel welcomes, in particular, the collaborative approach being taken by the ADB, the African Union and the Economic Commission for Africa. This will underpin the meeting’s capacity to provide input for upcoming critical events, such as the G20 meeting that is tenable in Washington DC on November 15, and the Doha meeting on International Finance scheduled for the end of November. To that end, the Africa Progress Panel would be delighted if this meeting resulted in a “Tunis Communiqué” which would provide guidance on how the global financial crisis can be managed in a manner supportive of progress in Africa and its achievement of the Millennium Development Goals.

It is to be hoped that such a communiqué would recognise the Africa Progress Panel’s main concerns. First, it is worth noting that when crises of the nature currently unfolding occur, it is always the least responsible that are usually the worst affected and the least able to cope. In other words, it is the poor who end up paying the heaviest price for the mess they had no hand in creating. Hence we must encourage a stronger and shared understanding, in both Africa and in global fora, of how the financial meltdown might affect our continent. At the same time, we must recognise that the impact will vary according to the specific circumstances of each region and country. One thing for sure is that the current financial crisis is unprecedented in modern times for its scale and catastrophic dimensions, and its full impact has yet to unfold. Another defining feature of the crisis has been the pace and dynamism of its development, often in unexpected directions. It is less than two months since the collapse of Lehman Brothers on September 15, 2008, but it is not much of an exaggeration to say that this seems like a life time away. Africa had initially appeared relatively insulated, both for its financial system and economic development more widely. But the continent can no longer be lulled by any sense of security that this is a crisis only for the developed world, and its banks in particular.

Globalisation has many benefits, but there are associated risks and, as the International Monetary Fund has repeatedly come up with lower forecasts for global economic growth, it is increasingly clear that developing economies will feel the chill of the looming recession. The commodities boom has come to an abrupt halt, and this is of particular concern to many African economies given the negative impact of reduced trade on Balance of Payments.

¹ Panel Members: Mr Kofi Annan (Chair), Mr Tony Blair, Mr Michel Camdessus, Mr Peter Eigen, Mr Bob Geldof, Ms Graça Machel, Ms Linah Mohohlo, Gen Olusegun Obasanjo, Mr Robert Rubin, Mr Tidjane Thiam, Prof Muhammad Yunus, Mr Michael Keating (Director).

Slowing world demand also undermines African countries' efforts towards diversifying economies away from primary sectors. As we are witnessing in Botswana, even when investors wish to proceed with new developments, they are increasingly constrained by lack of access to credit. The so-called "flight to quality" where risk averse investors concentrate their investments in the short end of the yield curve, can destabilise financial flows. In the face of global financial markets, Africa's banking practices as well as related regulatory and oversight regimes cannot continue to remain local and, in many instances, ineffective. Needless to add, investing foreign exchange reserves in volatile markets is an additional challenge which requires the establishment of prudent investment policies and guidelines, depending on whether the reserves are the minimum necessary for short-term import cover, or represent an accumulated stock of national savings (e.g. Sovereign Wealth Funds).

It is also important to ensure that Africa's interests and priorities are represented in the review or design of any new global financial architecture relating to, for example, the role of the Bretton Wood Institutions. We must also ensure that the financial crisis is not used as a pretext for relaxing or abandoning the hard-won commitments by Africa and its development partners, at least in four main areas:

- sustainable economic growth, including food security, climate change, infrastructure and/or trade;
- social development, notably health, education and the more important gender issues;
- good governance, and its associated financial and political accountability; and
- financing for development, including levels of development aid.

The Africa Progress Panel believes that the growing sense of mutual accountability between Africa and its partners, whether traditional or new, needs to be encouraged and supported. While it would be unwise to make any predictions, the election of Mr Barack Obama bodes well for not only the maintenance but also, it is to be hoped, the further evolution of commitments to Africa by the United States of America. However, we should be aware that both Africa's traditional and new partners are under enormous pressure to cut expenditure, and this makes aid levels highly vulnerable. Therefore, we should do everything possible to encourage them to live up to their commitments by, among others, reaffirming our side of the bargain. Notably, this involves committing to the maintenance of fiscal and broad macroeconomic discipline, investing domestic resources with a view to achieving specific human development objectives, and strengthening political accountability at national and regional levels. To this end, the Chairman and members of the Africa Progress Panel would like to support, in any way we can, the ADB President, Dr Kaberuka, the Chairman of the African Union Commission and the Executive Secretary of the Economic Commission for Africa as they ensure that Africa's interests are well understood and represented in critical discussions, some of which will take place in the next few months. African leaders are encouraged to network among themselves to forge a common position on these issues, in the best interests of the continent and its populace.

On behalf of Chairman Kofi Annan and other members of the Africa Progress Panel, I thank you for your attention.