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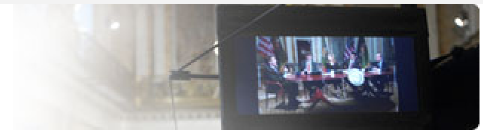

Acting Assistant Secretary Andrew Baukol Brookings Institution Panel:Beyond the Crisis: Sustaining Growth in Sub Saharan Africa

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Thanks to our moderator Mwangi Kimenyi and to our featured speaker Antoinette Sayeh. I'd also like to commend my fellow panelist, Stephen Hayes, President of the Corporate Council on Africa, for that organization's leadership on investing in Africa.

Ms. Sayeh has shared some sobering data on the financial and economic crisis impact in Sub-Saharan Africa. She has also pointed to the mitigating effects of reforms by many countries and she highlighted some promising prospects for future growth. It is to the credit of many African leaders that strong policies in recent years enabled African countries to put in place counter cyclical measures to lessen the impact of adverse global forces.

I want to talk briefly about the global economy's recovery and how it is likely to affect Sub-Saharan Africa: first, how the global economy is moving toward resumed growth; second, what Sub-Saharan African governments can do to take advantage of the new opportunities; and finally, how the U.S. is supporting greater growth in Sub-Saharan Africa.

Global Recovery

One year ago, the world's financial system faced the most severe financial crisis in generations. Global credit markets had frozen. Global trade was collapsing. As you know, the fallout from that crisis hit Africa hard. Ms. Sayeh has already spoken about the slowdown in growth across the continent, particularly among commodities exporters.

One year later, we see the signs of global recovery and incipient growth. One of the key reasons for these promising developments is that we approached the crisis with tremendous international cooperation and coordination, led by the G-20, bringing together developed and emerging nations representing over 80 percent of the global economy. Indeed, that is one of the most significant and positive outcomes of the past year.

When the G-20 leaders gathered in London last April, they agreed to a coordinated and powerful recovery program, which included: Spurring growth, stabilizing the financial system, restoring the flow of credit, mobilizing financial resources for emerging market economies and keeping markets open for trade and investment. By the time G-20 leaders gathered in Pittsburgh two months ago, we saw clear signs of an incipient recovery. Global economic growth has turned positive; international trade has recovered by ten percent; financial markets improved as interest rate spreads narrowed.

As part of this response, the international financial institutions deserve credit for rapidly organizing major financial stimulus packages to help restore global growth. Over the past year, the IMF, the World Bank, and the regional development banks -- including the African Development Bank --have played a vital role in cushioning the impact of this crisis on poor and middle income countries. Collectively, the development banks have increased their lending targets by over $100 billion above pre-crisis levels.

These efforts have had results. Ms. Sayeh has already spoken about the shift in IMF projections for African growth. Private capital inflows to Africa are forecasted to expand again next year. The value of exports from sub-Saharan Africa, which shrank by 38 percent this year, is expected to grow by 13 percent in 2010. These are positive initial signs but just as we are discussing on this panel, Africa faces particular challenges, particularly in light of the crisis. Let me now briefly outline what African governments can do to seize economic opportunities and foster growth.

Africa Must Lead the Way

There are four main areas where African governments have taken steps that are important to sustained economic growth that can help to reduce poverty. These are 1) business climate reforms to attract new investment, 2) improving infrastructure, 3) strengthening the financial sector, and 4) working to improve long term food security.

As described by Stephen Hayes, business climate issues are key to attracting private investment in Africa. Several African countries, including post-conflict countries, have taken tough actions to improve their business climates. Rwanda, for example, has made a remarkable recovery from its terrible conflict 15 years ago to become a leader in economic reform. This year, Rwanda was the first sub-Saharan African country to be named the World Bank's top reformer in the Doing Business indicators, improving from 143 rd place to 67 th place – the largest one year change ever in the history of the Doing Business index. Rwanda's practical steps include reforming the processes for starting businesses, registering property, protecting investors, trading across borders, and accessing credit.

On infrastructure, the World Bank estimates that Africa will need $93 billion per year for infrastructure, about one-third of which is for maintenance. Poor infrastructure, particularly in the power and transport sectors, remains a key growth constraint in most if not all sub-Saharan African countries. It keeps farmers from getting their goods to market; limits the growth of small enterprise; and leaves millions of children without access to clean, safe drinking water. Many African countries are investing more in infrastructure, but they will need support from donors, the international financial institutions and the private sector. The Africa Infrastructure Country Diagnostic has found that infrastructure has been responsible for more than half of Africa's recent improved growth performance and has the potential to contribute even more in the future.

Third, a well-functioning financial sector is essential for sustained economic growth. In many African countries, financial sectors are underdeveloped, and few people have access to financial services. African leaders are taking steps to address this weakness. The new Nigerian Central Bank Governor, for example, has taken actions to strengthen Nigeria's banking sector, a prime example of transformative African leadership. Governor Sanusi has also taken steps to strengthen banking regulation and supervision to prevent a recurrence of the problem. His vision extends beyond Nigeria – he has spoken of the need for better cross-border banking regulation in Africa as more African banks spread their operations across the continent.

Finally, agriculture is a sector that desperately needs smart investment. We saw how the food crisis in 2008 was a setback for many African countries, particularly as it coincided with the rise in oil prices that increased shipping costs for food imports. Some African governments faced tough fiscal choices as they lowered tariffs and took other measures to mitigate the increase in food prices facing their people, especially the most vulnerable. With three quarters of sub-Saharan Africa's poor population living in rural areas, achieving higher rates of agricultural productivity is a key to broader economic growth and durable poverty reduction.

U.S. Actions Supporting Africa's Growth

In all of these areas, the United States is committed to supporting Africa's growth. As President Obama noted during his visit to Accra in July, the United States is committed to broadening and deepening our partnerships with the developing world – and with Africa in particular. Beyond the short-term assistance provided in response to the global financial crisis, the U.S. stands behind the pledge made at the 2005 G8 Summit in Gleneagles, Scotland, and we are on track to meet our target to double development assistance for Africa by 2010. Going forward, the Administration has stated its intent to double U.S. foreign assistance over the next several years.

We are particularly focused on those areas that we believe will do the most to promote strong, country-led, sustainable and inclusive growth. I want to mention some sectors of particular interest: infrastructure, agriculture and food security, and financial access.

On infrastructure, the U.S. is investing heavily through the Millennium Challenge Corporation, the Overseas Private Investment Corporation, the Export-Import Bank and the U.S. Agency for International Development.

The U.S. government's partnership efforts with Tanzania and Rwanda are two good examples of these investments at work. I recently had the opportunity to travel with Treasury Deputy Secretary Wolin to both countries so these examples are on top of my mind.

First, Tanzania. Tanzania continues to score exceptionally well relative to its peers in the U.S. Millennium Challenge Corporation's ratings. Recognizing the progress made in Tanzania, the U.S. is supporting the country's efforts to improve its infrastructure with a $698 million MCC grant, the largest in the world. These funds support Tanzania's investments in roads, energy, and water, which have been previous barriers to growth.

In Rwanda, on Lake Kivu, an American company has joined in a public-private partnership with the Rwandan government to develop a $325 million power generation facility to extract methane from the lake – scaling up a pilot project supported by the International Finance Corporation and the African Development Bank. The project will more than double the power generation capacity in a country where today only 6 percent of the population has access to electricity. And it will do so with minimal impact on the environment. This partnership reflects the fact that government resources alone are not enough to solve Africa's infrastructure gap. Partnerships--between governments, multilateral institutions and the private sector--will all be critical to achieving our objectives.

Regarding agriculture issues, the United States and other many of our partners see an urgent need to support African governments that are committed to improving agricultural productivity as a means to enhance food security. At the L'Aquila Summit in July, President Obama secured agreement from the other leaders to commit $20 billion over three years to increase agricultural investments in poor countries. The United States will contribute at least $3.5 billion to this effort, and we will work to support country-led agricultural development plans.

Additionally, at the G-20 meeting in Pittsburgh, leaders called on the World Bank to establish a new multi-donor trust fund to support innovative efforts to improve global nutrition and build sustainable agricultural systems, including programs like those developed through the Comprehensive African Agriculture Development Program, known as CAADP. The United States is now working with the World Bank and other potential donors on how best to implement this.

Sound financial sectors that serve the needs of businesses from mega- through micro- sized are vital for African nations seeking to promote the growth of the private sector. There is a special need to increase access to credit and other financial sector access for small businesses – including in the agriculture sector. The G-20 leaders recently directed the establishment of a Financial Inclusion Experts Group to support new modes of financial service delivery capable of reaching the poor and to scale up successful models of small and medium enterprise financing.

This group will be particularly important for Africa, where less than 20 percent of people have access to financial services.

Banking supervision and regulation is one of the areas where Treasury's Office of Technical Assistance provides technical assistance to build African governments' expertise. Since 2002, Treasury's program has provided resident and intermittent advisors to several central banks and finance ministries throughout Africa to help develop the financial sectors. Let me cite one example. In Zambia, Treasury resident advisers provided technical assistance in banking supervision and deposit insurance protection supporting the Bank of Zambia in the adoption and implementation of risk management guidelines, risk based supervision examination procedures, and procedures for the implementation of capital adequacy requirements.

In closing, I want to summarize our commitment to Africa's growth by quoting President Obama who said: America wants to partner with the people and nations of Africa, but we all know that the future of Africa is in the hands of Africa.

Today, I have highlighted just a few of the ways that the United States is acting to assist African nations in their development. We look to African leaders to take the necessary actions to position their countries to take advantage of the opportunities offered by the global recovery. This can mean making tough choices that may not be politically popular. But where the United States sees that African nations are working to strengthen governance and accountability, making it easier for their citizens to do business, and investing their own resources in development and growth, our government is poised to help.

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