

UNECA-TWN Africa Colloquium
The CFTA: Internal Challenges & External Threats

**GLOBAL FINANCE AND THE CHALLENGES OF FINANCING INTEGRATION
& DOMESTIC RESOURCE MOBILISATION IN AFRICA**

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Highlights of Evolving Interface between Global Finance & Economic Trends in Africa

- Accelerating Integration of African economic activities & agents in Global Financial markets. By mid-noughties, IMF was hailing Africa as the 'new frontier of Global Finance'; on the basis of trends e.g.
 - De-regulation & Liberalisation of Financial Sector & Financial Flows: Rising FDI, Portfolio Investments, SWFs, Sovereign Bonds, Foreign Bank and NBFIs TNCs Presence, and Trade Finance
 - Growing Systemic power of Finance: Diffusion/Strengthening of linkages between international flows and domestic credit, savings, consumption & reproduction associated with above cum remittances/household reproduction/domestic consumption circuit, Finance-led narratives of development, all the way down to micro-credit & rural development/financial inclusion
 - But Structural Transformation hasn't happened yet. Or has it??

The Finance- Transformation Nexus: key issues for Africa

- Structural Transformation? Sectoral Re-distribution - : Rising share of FIRE in SSA economies – re-basing National Economies, Golden age of MICs & CRAs. FT Study of Banking in Africa
- Finance & Financial Intermediation viz Real Output Sector, Households, Trade Finance etc Domestic/Regional markets as sources of growth?
- Transforming CDDCs - Diversification:
- Export-led Growth & Trade Dependency – 27% in 1990, 60% in 2010 (Unctad)

Commodity export dependence: grown 7% pa. Since 2009 94% of SSA economies now CDDCs.

Commodity TOT changing, TNC dominance increasing, roll back of integrated national commodity regimes, collapse of ICAs, re-distribution along commodity supply chains/GVCs. TNCs captured benefits of super-cycle, BITs paralysed re-negotiation & reforms, windfall taxes etc – all this part of the sound policy fundamentals

Financialisation and Global Financial Integration

- Financialisation of Commodities and Global Integration
- Vent – for – surpluses or Financial Value Capture/net resource transfer: The case of Trade Finance:

2009 Crash, European bank de-leverage: syndicated loans – minus 83%,

Pre-export loans – minus 71%, short term facilities – minus 23%. Or re-positioning? ECA up 78%. Still dominant as MLAs, maintained or increased market share in commissions, fees etc e.g. Repos, asset-backed commodity credit, Forfaiting (sell to FI & buy back at a premium at a later date before sale to final buyer), more short term than ever 90-180 day facilities now more than 80%

. In actual financing – US and Asia on the rise (more liquidity & sectoral specialization, but big ticket TF now dominant, even more so for Africa's regional banks getting in on the game. 17% of bank revenues in Africa from TF. Big tickets – Vitol in Chad, Sonangol, Cocobod in Ghana etc

And Domestic Linkages?

- Narrow domestic investment opportunities- beyond commodities and international sector – speculation, asset bubbles, arbitrage/bog adverts?
- AfDB and Trade Finance – IFC, Citi - 3 facilities –

-Risk Participation Agreements, TFLOC, SCFF

Subsidising TNCs? TNC FIs e.g. SC dominant, Cocobod Ghana case

- Restructuring IPE of Africa Trade – Structural deficits, Financial dependency, domestic deflation, price-led, finance-led, not PC-led
- CFTA as response?

FINANCING INTEGRATION: The new turning point?

- CFTA recognition of importance of Finance & Credit for boosting BIAT & diversification
- For Public Finance, SMEs and livelihoods
- For Trade Adjustment and Inclusive Integration
- Yet no answer to Tariff Liberalisation (leads to right import/input mix raw materials, intermediate goods, capital goods, cheapens production & reduces inflation, crowds in jobs, FDI etc etc). UNCTAD more comprehensive approach customs revenue/public finance and economic structures/trade dependency. Xtaxes debacle in EPAs- see Asia since 2009. Yet, ,lower tariffs compensated for by increased trade prices and earnings (TOT, volatility, Africa back to C19th)

Or Turning Over

- CFTA conclusion: Flat statement- CFTA requires massive financing, Africa not in a position to undertake this.

FDI -DRM – new complementarities. FfD 3, SDGs, PIDA-PPPs

Sources of DRM in Africa: Fiscal Resources, Pensions, Remittances,

Diversifying Sources of Growth – Domestic & Regional C & I. Indications – Capacity Utilisation, Excess Liquidity, IFF, Public Investment & Financial Widening

Trade Protection & Finance Controls

Re-Linking Financial Integration & Africa's Structural Transformation