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1. Introduction

As part of the Global Economic Governance project undertaken by the South African Institute of International Affairs (SAIIA) in collaboration with the International Development Law Unit at the University of Pretoria, a critical assessment is being made to evaluate how effectively Africa's interests and concerns are directly and indirectly addressed in the G20 processes. The methodology for the critical assessment includes both a quantitative element and a qualitative element. The quantitative dimension looks at the number of times that Africa is referred to explicitly or implicitly in the G20 documents. The qualitative assessment addresses the relevance of the G20 documents to African concerns and interests, the responsiveness of the G20 to these concerns and interests, and the potential impact of the G20 on Africa. The idea is that the critical assessment will be conducted on a year by year basis, so that over time it will be possible to conclude whether Africa’s interests are more or less effectively addressed within the G20 processes. The paper will present the preliminary findings of the first year’s critical assessment for food security and finance and will offer preliminary conclusions on what it means for Africa.

Food security was elevated as an international concern following the 2008 food price crisis. The G20 first addressed global food security and commodity price volatility at its Pittsburgh summit in 2009. It has since prioritised food security and has made significant commitments towards improving global food security and reducing commodity price volatility, including measures to be taken relating to risk management, increased agricultural production, research, investment and sustainability. While food security is a major concern to African countries, the dimensions to which the G20 has committed, are not all of equal importance in an African context. It is therefore necessary to prioritise the food security needs of African countries and to assess the extent to which the G20 process aligns itself to these needs.

In the finance area the core agenda of the G20 is about restoring global financial sector stability (Minister of Finance process). Major effort is carried out within the ‘Global Standard Setting Bodies’ (SSB) and the ‘Financial Stability Board’ (FSB) to reform the international regulatory agenda. Not all of the regulatory reforms are of immediate importance to Africa. Hence, there is a need to focus attention and resources on those elements that are of prior importance for Africa and to aim for the right sequencing and prioritizing in the implementation of international standards according to the needs of African countries.

In the second chapter, the methodology for the critical assessment is presented. In chapters 3 and 4 the methodology is applied and tested to both the food security and finance domains. Conclusions from the assessment can be used for prioritizing issues in both areas which are of high relevance for Africa and for developing a common African position around those issues, to be fed back into the G20 process through the African representatives in the G20 (South Africa, African Union, NEPAD).
2. Methodological framework

A. Quantitative Assessment

This part of the assessment follows the methodology of the G20 Research Group at the University of Toronto which is using quantitative criteria for determining the relevance of G20 documents for Africa (see box below).

The analysis should also identify in which thematic areas/contexts Africa is mentioned in the documents in order to be able to assess the relevance of G20 documents for Africa not only in purely quantitative but also in qualitative terms.

B. Assessment of specific topics
The assessment is guided by three distinct analytical steps:

- Relevance for Africa
- Alignment/responsiveness to African policy processes
- Potential impact on Africa/steps for implementation

**Relevance**

An analysis of G20 documents with regard to decisions/commitments/conclusions in the topical areas chosen is carried out in order to find out to what extent Africa is explicitly mentioned or Africa will be directly or indirectly affected by the decisions.

In order to assess the relevance of specific policy issues and G20 decisions for Africa an informed qualitative judgement is necessary. This requires knowledge of the respective sectors, policy issues and policy processes in Africa.

In an informed judgement of sector experts the relevance of G20 decisions for Africa will be determined for each major issue mentioned in the G20 documents (in the topical areas chosen).

**Alignment/responsiveness**

An analysis of the G20 documents and G20 processes with regard to their reference to institutions, policy processes and position papers in Africa as well as the participation of African institutions, experts or policymakers in the process is carried out. If possible, a judgment should be made as to what extent African positions or concerns have been taken into account in the process.

In the analysis of G20 documents, or in interviews with participants of specific working groups, it should be determined:

- to what extent African institutions, experts or policymakers have been involved in the process;
- whether this participation has been ad hoc or on a regular basis, e.g. through membership of African countries/institutions in relevant institutions, or through systematic consultative activities of relevant institutions (e.g. FSB) or through the outreach activities of G20 members (South Africa);
- to what extent policy papers from specialized institutions (e.g. AfDB, FAO, IFAD etc.) related to G20 processes include the perspective of African countries or institutions (e.g. NEPAD) in their analyses and recommendations.

**Potential Impact/implementation steps**

For the assessment of the actual or potential impact of specific G20 decisions and their implementation on Africa it will be necessary to consult with experts from different countries and institutional background (policymakers, academia, think tanks, business) in order to get a fair valuation of possible impacts in different circumstances. Opinions on impact will vary,
depending on the background of stakeholders. Additional research on the impact of specific policy decisions might be useful in this context.

Scenarios with different hypotheses on the impact of specific G20 decisions can be prepared and debated in group discussions with experts.

3. Food security

3.1 Food security in the G20 agenda

The issue of global hunger was first addressed at international level in 1996 with the Rome Declaration on World Food Security and the Plan of Action of the World Food Summit. States committed to halving global hunger by 2015. This commitment was reaffirmed four years later under the United Nations Millennium Declaration. However, by 2008 rising food prices led to the global crisis which drove nearly a billion people into hunger. The ensuing political and social unrest drew renewed attention to the underlying food security crisis and reaffirmed global hunger as an international concern. Building on recognition of the need for global governance of food security, the G20 first addressed global food security at its Pittsburgh summit in 2009. It has since prioritised food security within the G20 agenda and has made significant commitments towards improving global food security and reducing commodity price volatility, including measures to be taken relating to risk management, increased agricultural production, research, investment and sustainability.

During the Pittsburgh summit, the G20 group of countries endorsed the L’Aquila Agricultural Food Security Initiative (AFSI) and created the Global Agriculture and Food Security program (GAFSP). The G20 focus on food security intensified during 2010 as a direct result of renewed commodity price volatility. At the 2010 Seoul summit, food security was identified as one of 9 pillars of sustainable development in the Multi-Year Action Plan on Development. During the French Presidency of 2011, the food security pillar of the Seoul Development Consensus was prioritised and an ambitious Action Plan on Food Price Volatility and Agriculture presented by the G20 Agricultural ministers. The Action plan, which included specific measures relating to research, information, risk management, investment, sustainability and training, was adopted at the Cannes Summit in November 2011. In 2012 the Mexican presidency prioritised food security and commodity price volatility for both the Presidency and the Development Working Group. To date, work on food security under the Mexican Presidency has focussed on ensuring compliance with the commitments set out in the Cannes Declaration (2011), the Action Plan on Food Price Volatility and Agriculture (2011) and the Seoul Multi-Year Action Plan (2010). The Mexican Presidency has also focused on generating consensus on specific initiatives that can help increase world agricultural productivity, with particular emphasis on small holders.

Food security cluster commitments

Through the processes outlined above, the G20 Members have been making a growing commitment to the global food security agenda. These commitments are found across the range of G20 communiqués and official documentation including the ministerial declarations. The commitments are broad in scope and deal with issues related to the different dimensions of food security and food price volatility. Food security as understood in terms of these
commitments are three dimensional, seen not only as including an increase in production, but also the availability of, and access to, food. The commitments are in keeping also with the understanding that food security is caused by a complex set of interrelated factors.

In addition to undertaking to support the five Rome Principles for Sustainable Global Food Security\(^1\) presented at the World Summit on Food Security and to fully implement the L'Aquila Initiative and the application of its principles, the main thrusts of the G20 commitments on food security can be summarised as:

**ADDRESSING FOOD PRICE VOLATILITY**
The G20 views food price volatility as one of the lead contributing factors to an increase in global poverty. The emphasis in terms of this commitment has been on better regulating markets, improving market transparency preventing and managing the effects of price instability (through for example inventories and insurance) and developing appropriate risk-management instruments for governments, firms and farmers to build capacity to manage and mitigate risks associated with food price volatility. Particular emphasis has been on recognising the need to appropriately regulate agricultural financial markets which is considered key for both well-functioning physical markets and risk management.

**INCREASING AGRICULTURAL PRODUCTIVITY AND FOOD AVAILABILITY**
This is both a short and long term goal. The G20 member countries have committed to promoting responsible agricultural investment, fostering smallholder agriculture, advancing trade liberalisation and investing in and coordinating research on agricultural productivity and innovation. The International Research Initiative for Wheat Improvement (IRIWI) has been an important initiative in this respect. With private sector investment increasingly viewed as key to improved agricultural productivity, the G20 Members have also undertaken to explore innovative, results-based mechanisms to harness the private sector for agricultural innovation. The importance of dealing with the challenge of climate change and growing concerns over access to farm land has also been prioritised in the G20 as an important dimension of increased productivity. The commitment is worded as “finding an appropriate response(s)” to these issues.

**DEVELOPING HUMANITARIAN EMERGENCY TOOLS**
Driven by the humanitarian crisis in the horn of Africa, this commitment includes the commitment to develop a targeted emergency humanitarian food reserves system to supplement current regional and national food reserves.

**REMOVING FOOD EXPORT RESTRICTIONS**
The G20 has committed to removing food export restrictions or extraordinary taxes for food purchased for non-commercial humanitarian purposes by the World Food Program and have agreed not to impose them in the future. A WTO declaration to this effect has been encouraged.

**IMPROVING INTERNATIONAL POLICY COORDINATION**
A commitment has been made to improving international policy coordination so as to enhance confidence in international markets and to develop common responses in time of market crises. Important work in this respect has included the launch of the Rapid Response Forum.

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\(^1\) These five commitments include country ownership, strategic coordination, adopting a comprehensive approach, multilateral support and improvement, sustained financial commitment.
3.2 Institutional dimension – Channels for African contributions to the G20 process

Institutionally, the work of the G20 is divided across two work streams namely the Finance track and the Sherpas track. Food security is mainly addressed within the Sherpas track both as a dedicated focus area but also within the framework of the Multi Year Action plan dealt with under the Development Working Group’s activities. Within the Finance track, the Energy and Commodity Markets Group and, Commodity market subgroup in particular, deals with G20 activities related to commodity markets, including commodity price volatility.

3.3 African concerns and G20 policies in food security

This part of the paper turns to Africa and presents some initial thoughts on food security in the African context, including in particular a discussion on what could potentially be considered Africa’s main food security concerns. In saying this, sight is not lost of the diversity of the African continent and its people. During the expert workshop which was held in May, comments received from the participants highlighted that the major challenge for such an assessment will be defining what the African interest is. This becomes particularly relevant in defining the focal points for the critical analysis i.e. the dimensions of food security which will specifically be focused on in the initial round of the analysis. This is significantly complicated given the diversity of issues affecting food security across the continent and which have been differently prioritised across African countries. The discussion presented here is therefore by necessity based on a degree of homogenisation and generalisation.
Conducting this analysis on a more country or at least region specific basis is included in the list of recommendations for improvement in the analysis, presented below.

**Food security as an African concern**

While food insecurity is an issue that affects both developed and developing nations, its impact is generally more severe, and a larger portion of the population affected, in developing countries. Despite hunger and malnutrition having been prioritised on the international development agenda, little advance has been made in reducing food insecurity in Africa. As a continent, Africa has the highest proportion (one third) of the world’s chronically hungry. The latest figures indicate that 22.9% of the African population is undernourished\(^2\) and that this figure rises in Sub-Saharan Africa to 26.8% (FAO, 2012)\(^3\). Poverty as both an inducer and indicator of food insecurity remains prevalent on the African continent with 298 million people, or 40% of all Africans, living on less than $1 a day. Food insecurity is also to a large extent a rural phenomenon and is predicted to remain so for the next three decades (Prnstrup-Andersen and Cohen). With 70% of the African population still living in rural areas, a large portion of Africans are still directly and indirectly dependent on agriculture both as consumers and in many instances also as producers. The need to stimulate agriculture and rural development has therefore emerged as a priority concern on the forefront of African agendas. Through the African Union, African countries have prioritised food security through implementation of the Comprehensive African Agriculture Development Plan (CAADP).

**African policy initiatives**

Some countries possess national food security stocks or strategic grain reserves, food, cash or employment-based safety nets, and early warning systems. The AU has developed a draft long-term strategy to address food and nutrition crises, putting CAADP at the centre of achieving long-term food security. It has also established a roadmap to integrate risk management into CAADP national and regional investment plans. The AU is developing, in conjunction with the World Food Programme (WFP) the pan-African Risk Capacity Project to cope with extreme weather conditions. At the regional level, ECOWAS and its member countries have developed a pilot project for a regional emergency humanitarian food reserve system to complement existing national food reserves. ECOWAS has defined principles to guide the regional reserves. In response to the crisis in the Horn of Africa the AU ‘pledging conference’ in August 2011 mobilised US$380 million in cash and kind.

**Food price volatility**

As mentioned, the period following 2007 was characterised by significant food price volatility which saw a rapid increase in the price of major agricultural commodities. The Food and Agriculture Organisation’s international food price index increased by 55.3% between September 2007 and September 2011 (Macedo and Ramos, 2012). The recent rise in food prices took place in two waves. During 2007-2008, the price of rice rose by 224%, maize by 77% and sugar by 37.5% (High Panel Report, 2011). After receding slightly, a second sharp rise in the price of food took place towards the end of 2010.

While food price volatility is as old as the trade in food itself, the volatility witnessed over the 2007-2011 period was significant both in terms of the degree of volatility but also due to the large number of countries affected by it. A number of studies have explored the drivers of the volatility witnessed during this period (see for example Von Braun, 2012; High Level Panel Report, 2011). The findings of these studies indicate that price formation is increasingly

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\(^2\) With the figure being 13.9% in Asia and 7.7% for Latin America (FAO, 2012).

\(^3\) The figures also indicate however that the situation differs vastly between countries such as South Africa where the undernourished represents 5% of the population to Zambia where it is estimated to be at 47.4% (FAO, 2012).
complex and that it is influenced by different factors over the short, medium and long term and at international versus domestic level. The major causes of food price volatility can be summarised however as increased demand due to a rise in purchasing power in emerging economies and biofuel production, fluctuations in supply related to extreme weather conditions and market factors in the form of speculation in commodity futures (Von Braun, 2012; AU-NEPAD, 2008).

The role of speculation in food price volatility has been widely debated, most recently during an FAO high level debate in which it was stated that commodity speculation is “having a tremendous human impact” (FAO, 2012b). Some studies have gone as far as finding that speculation is, at least in the short term, the largest contributing factor to food price spikes (Von Braun, 2012). A further systemic factor has been the lack of agricultural investment which is explained in terms of persistent low prices which leads to a lack of agricultural investment followed by a food crisis and price spike. The improved returns then in turn lead to renewed investment in agriculture (High Panel Report, 2011). In terms of this postulation “high food prices is the solution for high food prices” (Von Braun, 2012).

While rising food prices benefit producers, studies indicate that its adverse impact on consumers outweigh producer benefits so that a loss of household welfare and an increase in poverty is observed (Von Braun, 2012). This is confirmed in the Sub-Saharan context by Wodon and Zaman (2009) which finds that rising food prices increase poverty in the region as the consumer loss outweighs the producer benefit. The fact that numerous and diverse African countries, including Cameroon, Côte d’Ivoire, Egypt, Mauritania, Morocco, Mozambique and Senegal, witnessed riots following the food price spike of 2007-2008, is indicative of the impact of food price volatility on African societies. With a large percentage of Africans spending the bulk of their incomes on basic commodities, and with the price of staples in particular having been affected by the food price crisis; the impact has been significant. This is in line with finding that the poorest households are the most severely affected by food price increases (Zezzo et al. 2008) and that rural populations are more vulnerable than those in urban areas (Von Braun, 2012). Households in rural Ethiopia for example show a greater loss in calorie intake following the 2008 price spike, due in part at least to differences in responsiveness to income and price adjustments (Von Braun, 2012). The liberalisation of African markets over the past few decades have made African countries more susceptible to international food price fluctuations. Also, a large number of African countries, in particular in Northern Africa, are reliant on staple imports, importing more than 50% of cereals for example. This significantly increases these countries’ vulnerability to international food price volatility. Even countries such as Ethiopia, for which imports represent only 10 of total supply, import more than a million tons of maize each year.

Increasing agricultural productivity and food availability
One of the dimensions to food insecurity in Africa is inadequate food supply (NEPAD, 2009). Low existing productivity levels, together with the world’s highest population growth rate, has led to Africa being the only region in the world where per capita food production has decreased over the past four decades. Yields for cereal crops have remained unchanged at less than a ton a hectare. Agricultural output per worker has also stagnated and is the recorded lowest for all regions of the world. These low levels of productivity result in low household incomes, lack of purchasing power and in turn a lack of incentive to invest in measures that could increase productivity levels.

Studies show that policy changes in have in recent years led to an increase in total factor productivity in African countries like Cameroon, Congo, Kenya, Mali, Benin and Sierra
Leone (Yu and Nin-Pratt, 2011). Other studies indicate that where there has been a growth in agricultural output, this has mostly been due to an expansion in surface area under production rather than improved land productivity (Asenso-Okyere and Jemaneh, 2012). In a context where sustainability has become a concern, increasing the land surface under production is not seen as a solution to increased agricultural output. Instead there is growing recognition within Africa of the need to increase land productivity, particularly in Sub-Saharan Africa which is lagging behind progress in other African countries (Yu and Nin-Pratt, 2011).

The Comprehensive African Agricultural Development Plan (CAADP) for instance recognises inadequate food supply as a major concern for food security in Africa (NEPAD, 2009). The CAADP is a continent wide initiative, endorsed by African heads of State and Governments, which seeks to revive agriculture on the continent through a framework consisting of four pillars namely:

- Pillar I: Extending the area under sustainable land management and reliable water control systems
- Pillar II: Improving rural infrastructure and trade-related capacities for market access
- Pillar III: Increasing food supply, reducing hunger and improving responses to food emergency crises
- Pillar IV: Improving agricultural research, technology dissemination and adoption.

Increasing agricultural productivity to reach a 6% annually agricultural growth rate has been set as a key objective under the CAADP. Agricultural productivity is a concern for Africa both from a consumer and producer perspective. From a consumer perspective it can improve availability and access to food and for producers it can improve household incomes. With the majority of African people still dependant on the land for a living, they are affected as both consumers and producers. While all four CAADP Pillars speak to raised agricultural productivity, Pillar 3 of the CAADP framework emphasises the need to increase food supply and reduce hunger across the region by raising in particular smallholder productivity. While this pillar recognises that agricultural production will not improve food security for all households, it emphasises that increased agricultural growth will have widespread indirect benefits for African societies.

A lack of investment in African agriculture has been a major factor contributing to low productivity levels. Public investment in African agriculture currently averages at less than 7%. The impact of this is compounded by development aid to agriculture falling below 3.8% and limited commercial bank lending to agriculture – in Sub –Sahara Africa this is under 10% (G20, 2011). Under the CAADP framework, governments have committed to increasing public sector investment in agriculture to 10% of national budgets. To date only six African countries have met the 10% target (Benin et al., 2011).

3.4 Critical assessment – application of the methodology

**Quantitative assessment**

The first phase of the research sought to analyse the number of times and manner in which the G20 documentation makes reference in the context of food security, to categories of peoples and countries which could be construed as a reference to Africa and its populations. This has been approached by first building a database of all relevant G20 documentation. These documents were then searched for all references to Africa in the context of food security. This
included explicit references but also more indirect references which by implication refer to Africa (by reference for example to developing countries). Key words were selected based on this wide interpretation of “Africa”. Where the same keyword appeared more than once in a paragraph, only one count was made. Where two different keywords appeared in the same paragraph, it was counted as two references.

The analysis shows that while the G20’s focus on food security dates back to 2009 during the Pittsburgh summit, G20 documents for the years 2009 and 2010 make no reference to Africa in nomine. This changed under the French Presidency, with 12 direct references to Africa, African countries and/or African organisations in G20 documents dating from 2011. Until date for 2012, 12 direct references to Africa, African countries and/or African organisations can be found in G20 documents published under the Mexican presidency. However, the use of the following key words indicates that Africa is at least indirectly referred to in numerous paragraphs in G20 documents over the years 2009 – 2012.

**Qualitative assessment**

**Food Price Volatility**

During 2011, two important documents resulting from the G20 processes and dealing with food price volatility were released. The first was the Action Plan on Food Price Volatility and Agriculture”, presented at the G-20 Agriculture Ministers’ meeting, Paris, 22-23 June 2011 and later accepted at G20 ministerial level at the Cannes Summit, November 2011. This publication lists priority actions for dealing with food price volatility including reducing the competition between food and fuel, promoting free and open trade to stabilise food markets, and supporting regional humanitarian food reserves to address food emergencies. A joint policy report entitled “Price volatility in food and agriculture markets: policy responses” was also commissioned by the G20 and drafted by a group of international organisations.

Progress on the G20’s commitments relating to improved market information and transparency includes the creation of the Agricultural Market Information System (AMIS), including the Excessive Food Price Variability Warning System developed by IFPRI and the Rapid Response Forum (RRF). The information obtained through the use of these systems serves to alert policymakers to excessive food price fluctuations so that appropriate country-level food security responses can be developed. This is particularly useful for policymakers in developing countries, including much of Africa, as it will mitigate in particular the impact of food price volatility on the poorest of the poor. Improvement in and coordination of global agricultural monitoring and the accuracy of crop forecasts in different regions of the world is further being pursued under the “Global Agricultural Geo-monitoring Initiative”.

Less progress has been made on the development of risk management tools. The Agricultural Price Risk Management (APRM) and Platform on Agricultural Risk Management (PARM) have been launched as part of an Agricultural and Food Security Risk Management Toolbox. These instruments still need to be validated.

The issue of regulating financial markets has also not been significantly advanced. Activities in this respect include work by the Finance Ministers, Central Bank Governors and securities and derivatives regulators on the regulation and supervision of commodities’ derivatives markets including agricultural commodities’ derivatives markets. More detail on this is provided under the finance cluster’s work.

**Increasing agricultural productivity and food availability**
In order to be able to feed 9 billion people in 2050, world agricultural production would have to increase by 70%. In the past 20 years, it only rose by 1.5% annually. Raising agricultural productivity has therefore been a major focus of the Mexican presidency, which has placed particular emphasis on the role of small holders. It has in this respect commissioned a report jointly prepared by a group of international organisations entitled “Sustainable Agricultural Productivity Growth and Bridging The Gap For Small-Family Farms”. This report recognises the role of developing countries and Africa in particular in increasing global food production. The emphasis placed in this report on the role of the small holder in increasing agricultural productivity is strongly aligned with African positions under the CAADP framework Pillar 3. Repeated reference throughout the document to the African continent, signals recognition of the challenges and constraints to raised productivity in African agriculture.

However, the capacity of the poorer developing countries to fill the investment gap is limited. The share of public spending on agriculture has fallen to an average of around 7% in developing countries, even less in Africa, and the share of official development assistance going to agriculture has fallen to as little as 3.8%. Commercial bank lending to agriculture in developing countries is also small – less than 10% in sub-Saharan Africa. Private investment funds targeting African agriculture are an interesting recent development but current investments are still small.

4. Financial regulation

4.1 Financial regulation in the G20 agenda

Within the G20 international reform agenda financial regulatory reform has become a priority in advanced and in developing countries. The G20 financial stability agenda has reinforced efforts to push for the adoption of renewed international regulatory standards worldwide. Besides the topic of financial stability the G20 has also been focusing on financial access and financial market development. The major G20 initiatives and their objectives in those areas can be summarized as follows:

Financial Stability/ Intl. Financial Standards

Key issues:
(1) Application of international financial standards in the developing country context and facilitating in return the expression of the voice of the developing world (2) Promoting cross-border supervisory cooperation (3) Expanding the regulatory and supervisory perimeter (4) Management of foreign exchange risk (5) Developing domestic capital markets (6) Incorporation of financial inclusion principles in international financial standards

Global Partnership for Financial Inclusion (GPFI)

Key issues:
Implementation of the nine Principles for innovative financial inclusion (2) Contribution to financial inclusion related work of the main standards-setting bodies (3) Small and medium enterprise (SME) Finance Policy Framework (4) Gap analysis regarding financial inclusion data, the implementation of key indicators and the general framework for data measurement and the recommendations toward the establishment of national financial inclusion targets

Development of Local Bond Markets
Key issues:
Creating a supply of instruments and competitive market-based placement mechanisms (2)
Creating the conditions for stable domestic demand for local currency bonds (3)
Creating an enabling environment for secondary market trading (4)
Sterilizing capital inflows with operational arrangements that are supportive of LCBM development

Agricultural Finance

Key issues:
(1) Reduce the main risks and costs that inhibit access to financial services in the agricultural sector in developing countries (2) Counter-cyclical instruments or mechanisms for vulnerable countries in the event of external shocks (3) Innovative risk management tools for governments and firms in developing countries (4) Integrate risk management approaches into loans and credits

Trade Finance

Key issues:
(1) Tracking of trends and monitoring of gaps faced by LICs, including in times of crisis (2) Reduce capital requirements related to low income countries in the context of trade finance transactions (3) Make access to trade finance instruments easier and less expensive for low income countries

4.2 Institutional dimension – Channels for African contributions to the G20 process

As has been mentioned in chapter 3.2 there are several work streams or channels within the G20 process where countries can participate and voice their concerns or their particular interests. Financial inclusion, including SME and agricultural finance, as well as financial regulation are dealt with in the Finance track while in the Development Working Group finance does not occur prominently, besides financial issues in the “infrastructure” pillar of the “Seoul Multi Year Action Plan for Development”. This can be regarded as an advantage, since the issues of financial regulation and financial sector development can be dealt with from an integrated perspective. A positive example for an integrated view of financial regulation and financial sector development is the close collaboration of the G20 Global Partnership for Financial Inclusion (GPFI) with the Standard Setting Bodies (SSB), responsible for negotiating and setting the international standards for the financial sectors.

In the GPFI there are a number of African non-G20 member countries engaged (Nigeria, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, Uganda, Zambia). This gives them an opportunity to contribute to and benefit from the peer learning processes in the GPFI and participate in the discussion with the SSBs.

The G20s general policy guidelines for financial regulation are implemented on the international level by the SSBs.

The most prominent standard setting body is the Financial Stability Board, which is mandated directly by the G20. The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector
policies. The FSBs membership comprises the G20 member countries as well as some additional non-G20 countries with a systemically important financial sector (e.g. Singapore, Switzerland). South Africa is the only African member country. However, in 2012 six regional consultative groups have been established by the FSB which are a platform for engaging with non-G20 member countries, particularly in the developing world. The regional consultative group for Sub-Saharan Africa, which has met in February and October 2012, comprises Angola, Botswana, Ghana, Kenya, Mauritius, Namibia, Nigeria, South Africa, Tanzania and the Central Bank of West African States.

The Basel Committee on Banking Supervision (BCBS) provides a forum for regular cooperation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. It seeks to do so by exchanging information on national supervisory issues, approaches and techniques, with a view to promoting common understanding. At times, the Committee uses this common understanding to develop guidelines and supervisory standards in areas where they are considered desirable. In this regard, the Committee is best known for its international standards on capital adequacy; the Core Principles for Effective Banking Supervision; and the Concordat on cross-border banking supervision. South Africa is the only African member country of the BCBS. However, the BCBS has extended its outreach to developing countries in the framework of the dialogue with SSBs and the GPFI. In a joint seminar in Basel in March 2012 participants discussed a coordinated approach among the SSBs and international institutions and other agencies active in financial inclusion. Due to the disparity of capacity and level of development among countries, the principle of “proportionality” in the implementation of financial regulation has been explicitly recognized by the SSBs.

Thus, there are channels for African countries to participate in the global discussion on financial regulation and particularly its interconnectedness with financial inclusion and financial sector development. As yet the engagement rests mainly on the initiative of individual countries, with Kenya being the most active participant in several for a for non-G20 member countries. A process for developing common African positions in this area has not yet been established.

### 4.3 African concerns and G20 policies in financial regulation

South Africa has committed itself at the G20 summit in Mexico to fully implement new regulations: “South Africa explicitly focuses on financial stability and systemic crisis resolution according to FSB principles. It commits to implementing Basel III, Solvency 2 and Treat Customer Fairly (TCF) for banks, insurers and financial service providers within committed timelines”. (Policy Commitments by G20 Members, 19.06.2012)

Most other African countries have only recently begun the process of implementing, or considering the implementation of, internationally agreed financial regulatory reforms. In two studies of November 2011 and June 2012 the FSB has addressed the question of the potential effects of the regulatory reforms on developing countries: “The Leaders welcome the FSB study to identify potential unintended consequences of the agreed financial regulatory reforms for Emerging Markets and Developing Economies (EMDEs)” (Los Cabos Summit Declaration, 19.06.2012).

The first FSB-Report notes: “In EMDEs with limited human and financial resources, the adoption of such [international] standards would need to proceed at a pace consistent with countries’ supervisory capacity and level of financial system development”. The report also
states that “The more financially-integrated EMDEs - especially those that belong to the G20/FSB and participated in the development of this framework - should adopt the [Basel II/III] framework according to the agreed timetable. Other countries, with less internationally integrated financial systems and/or with substantial supervisory capacity constraints, focus on reforms to ensure compliance with the Basel Core Principles”. Nevertheless, as African financial systems grow and integrate more with the global financial system, countries are considering the adoption of at least parts of the new regulatory framework.

At the same time, the G20 Development Working Group has committed to improve the policy environment for SME financing: “The DWG welcomes that the SME Finance sub-group continues the work successfully delivered in 2011 to improve the policy environment and identify and scale up successful models of SME financing.” (Progress Report of the Development Working Group, 19.06.2012). Additionally, there are ongoing G20 processes in the areas of financial inclusion (G20 Global Partnership for Financial Inclusion) and financial system development (infrastructure financing, strengthening financial intermediaries, local currency bond markets). This leads to the question whether the emerging regulatory environment will be supportive or detrimental to financial system development in Africa.

This is of particular relevance since developing countries face a more constrained financial environment in the post crisis period than they did during the pre-crisis boom. The current process of consolidation in high-income banking and household sectors and regulatory reform should yield a more stable and ultimately more robust global financial environment. However, it is also likely to be one characterized by less liquid and more expensive financial conditions, with important real-side implications for developing countries.

4.4 Critical assessment – application of the methodology

Quantitative assessment
In the general G20 documents there are only a few references to Africa. However, it has to be recognized that there are also not many references to other continents. As there is no specific outreach process of the G20 to Africa (as for example the “Heiligendamm Process” in the G8), it cannot be expected that the G20 would focus on the specific concerns of Africa in its general documents. There is reference, however, to emerging and developing economies quite frequently in the documents, particularly since the Toronto Summit in 2009 where the development agenda of the G20 has been shaped for the first time, to be put into an “action plan” in the Seoul summit of 2012.

Under the French presidency 2011 there were altogether four references to Africa in the general documents related to financial regulation and financial development:

- in the action plan on food price volatility
- in the action plan on the development of local currency bond markets
- in the Development Working Group report on trade finance and on “weather index insurance and risk management schemes, such as African Risk Capacity Project developed by the AU”
- in the GPFI report on specific measures for financial inclusion.

Under the Mexican presidency 2012 there are as well four references to financial regulation/financial development in Africa in the documents:
In the Agricultural Ministers Report: “One of the regions in which the Agricultural Price Risk Management (APRM) concept is being implemented by the International Finance Corporation (IFC) is Sub-Saharan Africa”.

In the Development Working Group Report: (1) “Developing countries face a significant infrastructure gap with limited access to investment finance. The situation is accentuated for LICs, and particularly, whilst not exclusively, those in Sub-Saharan Africa”. (2) “The DWG welcomes the progress of the Pilot Projects field-testing the Principles for Responsible Agricultural Investment (PRAIs) in some African countries”. (3) “The DWG will continue to support AfDB efforts to enhance the availability of trade finance in Africa, in particular the on-going work to establish a trade finance facility”.

In the FSB and BCBS documents there are no references to Africa, however, there are frequent references to emerging and developing economies. Only in one FSB-document Africa is specifically related to, with particular reference to specific challenges in the African financial systems (Financial Stability Issues in Emerging Market and Developing Economies, October 2011).

**Qualitative assessment**

**Financial stability/Financial regulation**

The major forum for discussing the implementation of the G20 financial stability agenda is the FSB consultative group on Sub-Saharan Africa. There, the agenda for discussion has just been shaped in the two first meetings in 2012. It remains a challenge for Africa to develop common positions in this area since the level of financial sector development is varies considerably between South Africa, the emerging market countries of Africa and the African LICs.

The Press Release of the first meeting of the FSB RCG for SSA characterizes the challenges and the medium-term work plan as follows: “The Sub-Saharan African region has particular characteristics as well as challenges that will form the basis of the future work plan of the RCG for Sub-Saharan Africa and more broadly, policy solutions for the region. These can be summarised in the following broad themes: the growing complexity of the banking system; managing the growing risk of cross-border financial sector spillover effects and mitigating contagion and regulatory arbitrage; risks from global, regional and domestic Systemically Important Financial Institutions (SIFIs); strengthening capital markets in the region; and the need to enhance financial inclusion. The RCG for Sub-Saharan Africa is expected to play a pivotal role in exploring these challenges and proposing through the FSB solutions to policy implementation that consider the characteristics of the region.”

**Financial Sector Development/Financial inclusion**

In this area there are a number of ongoing initiatives in Africa with regard to financial inclusion, SME and agricultural finance (including risk mitigation) and the development of local currency bond markets. Most programs are still in an early stage. A more thorough qualitative assessment would have to take into account the effectiveness of their implementation. In general however, it can be said that the G20 has recognized the specific needs of developing countries with regard to financial sector development, particularly with its strive to bring financial inclusion issues to the table of the Standard Setting Bodies.
5. Conclusions

This first attempt to systematically explore the reflection of African concerns in G20 processes and decisions has been necessarily incomplete and preliminary. It has been shown that in the areas of food security and finance there are quite a number of issues in the G20 process which are of high relevance for Africa. It has also been shown that there are channels of influence which can be used by African stakeholders to voice their concerns in the G20 process. However, there are only a few platforms where African positions can be discussed and channelled to the G20 process. This points to the need for further discussions on how to better develop such platforms.

This first research effort has provided a baseline for future research on the reflection of African positions in the G20. The research group of the Global Economic Governance project undertaken by the South African Institute of International Affairs (SAIIA) in collaboration with the International Development Law Unit at the University of Pretoria will present annual reports on the topics of food security and finance in the years to come.