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Aide-Mémoire

Discussion Note

Africa's Alternative Response to the Global Financial Crisis

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One of the four-fold priorities of CoDA:

"Africa's Response to the Global Financial crisis" _____



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ABSTRACT

The Coalition for Dialogue on Africa (CoDA) offers an alternative perspective on the responses to the consequences of the 2008 financial crisis in Africa. The paradigm of economic and financial dependency can no longer adequately explain the complexity of a systemic crisis facing African Nations. The under-mentioned prerequisites must be met: break with the palliative economy, reject the conception of Africa as the variable adjustment for post-industrial economies, be ever alert to the trap embedded in the “*poverty reduction*” concept which is by no means synonymous with shared wealth creation, neutralize straight-jacket solutions considered as “*universal solutions*”, etc.

What can be done to cope with the advanced dislocation of the African economy which is struggling to organize its monetary unity as a means of regaining its monetary sovereignty?

The proposed flexible responses are based on checks and balances and pre-suppose the establishment of an African Pact to bolster purchasing power and create economic prosperity. Africa must once more find the anticipation mechanisms necessary to check strategic decisions that undermine its own interests.

RESUME

La *Coalition pour le Dialogue sur l’Afrique (CoDA)* propose une lecture alternative des réponses à apporter aux conséquences en Afrique de la crise financière de 2008. Le paradigme de dépendance économique et financière ne suffit plus pour expliquer la complexité d’une crise systémique touchant les nations africaines. Rupture avec l’économie palliative, rejet d’une Afrique conçue comme la variable d’ajustement pour les économies postindustrielles, vigilance à l’égard du piège contenu dans le concept de « *réduction de la pauvreté* » qui n’est pas du tout synonyme de création de richesse partagée, neutralisation des solutions toutes faites ou dites « *universelles* », etc. Tels sont les préalables.

Mais que proposer face à la désarticulation avancée de l’économie africaine qui peine à organiser son unité monétaire, voie privilégiée pour retrouver sa souveraineté monétaire ?

Les réponses suggérées sont modulables, reposent sur des contre-pouvoirs et passent par un pacte africain de soutien au pouvoir d’achat et à la création de la prospérité économique. L’Afrique doit retrouver les mécanismes d’anticipation afin de limiter les arbitrages stratégiques allant à l’encontre de ses propres intérêts.

KEY MESSAGES

Africa is suffering from the direct consequences of an exogenous crisis linked to excess deregulation and organization of wealth creation disconnected from production and the real economy. Through its prudent macro-economic management and the weakness of its financial infrastructure, Africa very scarcely operates on the virtual marketplace, much less dabble in speculation. As such, Africa is neither guilty nor responsible for the 2008 financial crisis, even though it bears the brunt of the collateral effects of economic externalities.

In that connection, the African continent should propose responses which are not necessarily similar to those of rich industrialized countries. The *Coalition for Dialogue on Africa (CoDA)* offers an alternative perspective to the dominant economy by giving pride of place to the point of view held by Africans on alternative responses to the consequences of the 2008 financial crisis in Africa. The paradigm of economic and financial dependency underlying economic operations, financial transactions and strategic decision-making processes in Africa no longer meets the concerns of African economic operators, if at all it ever did.

Consequently, it is imperative to define the ramifications of a salutary break with the palliative economy in Africa and cause the rich industrialized economies, resolutely geared towards a post-industrial civilization, to no longer consider Africa as a variable adjustment. Post-industrial societies have the propensity to consider their own solutions as universal solutions to wealth-creation problems which regularly lead to shortcuts unacceptable to Africa, such as the universalism of de-industrialization. In addition, the financial crisis should not conceal the systemic crisis besetting Africa despite deep-seated short-comings in terms of unity on major strategic issues pertaining to currency, finance and the economy. Therefore, it is against such a backdrop characterized by the quest for consensus that the major impacts of the 2008 financial crisis will be highlighted, with the objective of breaking the vicious cycle of unimplemented precepts, without being ensnared by “*poverty reduction*” which is not synonymous with shared wealth creation.

Hence, far beyond straight-jacket solutions, African leaders should resort to a pre-existing methodology that has been successfully implemented and tested in Africa by their African predecessors prior to the dislocation of the colonial economy and the transfer of African resources to the West. There is need to reinvent *contractual solidarism* in economics so as to better manage the aftermath of the 2008 crisis, ensuring monitoring and salutary anticipations. No solution will be sustainable if its prior objective is not to help Africa regain its economic sovereignty.

Africa is not in a recession in 2009. It should be able to resume its pre-crisis level of economic growth in 2010, and pursue its slow growth. The main lesson drawn from the 2008 financial crisis is that the market is in no way a “*good*” or the “*better*” regulator of financial or economic crises. The market is not reputed for reducing inequalities, whereas a responsible and regulatory State can do so and thereby justify the crisis exit strategy, depending on the various regions of Africa. It is the responsibility of Africa to organize this renewed function of the State.

In fact, the financial and economic vulnerability of Africa depends more on strategic decisions. This financial crisis, coming on the heels of two other crises, namely the food and energy crises, has weakened, among other things, the global fiscal balance, the external current balance and reserves, industrial bases and, of course, has globally eroded the export surpluses. The 2008 financial crisis considerably reduced the budgetary margin for manoeuvre of African States.

In a globalized world, transfers of financial resources are indirectly linked to the economic supply of industrialized and emerging countries. This is obvious in the slump in remittances from the Diaspora, foreign direct investments, portfolio investments, development aid and world demand for African products. Such a reversal should not prevent laying the foundation for an economy built on local demand and structured around an economy of proximity, if indeed the social sector, most especially social security, is to be taken into account. Considered on a collective basis, it is the continent's lack of financial and monetary sovereignty coupled with the weakness of productive structures that limit the possibilities of preventing and controlling a new financial crisis. Africa is invited to seek the paths to economic resilience while speeding up the advent of its own single currency.

With a modest contribution to global economic growth, Africa is duty-bound to reinvent the paradigm of "contractual solidarity" in economics. It is recommended that Africa evolve towards economic and financial resilience underpinned by "*a multifaceted booster of purchasing power, wealth creation and economic prosperity*", which should be part of a new intelligent partnership between leaders and the organized African civil society. The idea here is to use the 2008 financial crisis as a lever to buttress and promote alternatives centred on the improved standard of living of the African peoples.

Furthermore, the marginalization of Africa in multilateral decisions has led the major industrialized countries to believe that decreeing the universalism of solutions is a de facto response to African problems. Indeed, the over-simplification of the complexity of economic modus operandi on the ground is the root cause of strategic decision-making and economic governance errors. Unfortunately, with respect to local decisions, African economic operators, taxpayers, consumers and electors, considered an emerging purchasing power market, are completely denied transparency in the dissemination of information and participation in the decision-making process.

Hence, there is need to reinvent the ancestral strengths of an economy founded on contractual solidarity wherein regulation, control and transparency regain their rightful place. Such an Afro-centric economy can only be championed by Africans themselves. Most of the African civil society and the private sector cannot be left out, despite numerous constraints hindering the emergence of democracy in the economy. It is suggested that an Agile African Pact to boost purchasing power, wealth creation and economic prosperity be instituted at the regional, sub-regional, sectoral or bilateral levels with democratic checks and balances comprising social partners from civil society and the private sector. This Common Pact will serve as "*common benchmarks*" to map out alternatives in economy and finance to weigh the choices and decisions



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that will guide the future of Africa and African tax-paying citizens in the short, medium and long term.

Consequently, Africa cannot subscribe to a future tax on international financial transactions if it will only help to absorb toxic assets and bad debt, instead of bailing its future Pact to boost purchasing power, wealth creation and economic prosperity (Pact). The objective here is to enable the African economy to be classified among middle-income economies.

Three major classifications have been suggested to serve as a framework proposal limited to a specific geographical location. They involve emergency and short-term measures (1 to 3 years), medium- and long-term measures (3-7 years and 10-25 years) and anti-palliative measures (or counter-pitfall measures pertaining to poverty). Economic operators were divided into seven major groups, as follows: (1) African Authorities (AA); (2) Public Donors (PD); (3) Foreign Direct Investors (FDI); (4) African Private Sector (APS); (5) African Diaspora (D); (6) African Civil Society (ACS); and (7) International Civil Society (ICS). The proposed measures should, as of necessity, not be used as antidotes for palliative approaches which at times make the African operator unaware of being perpetuated as an adjustment variable.

As far as possible, there is need to systematically propose operational implementation modalities, without lapsing into “*all that needs to be done is only to*”. In addition, proposals on plausible and alternative sources of financing will be assessed without resorting to the so-called “*international community*”, nor systematically to the State, except the latter plays a role in regulating, accompanying and disseminating knowledge, skills, technologies and technical expertise.

TABLE OF CONTENTS

	Page
Abstract	2
Résumé	3
Key Messages	4
Table of Contents	6
1. Introduction: What Economy for Africa in the Aftermath of the 2008 Crisis?	7
2. Origins and Consequences of the Crisis on Africa	7
3. The Crisis Affects Various Regions and Countries in Africa Differently	10
4. Collapse of the Regulatory Market	12
5. Trade and Speculation Without Redistribution	15
6. Lack of Support for the African Private Sector: Absence of Credit Lever?	18
7. “Afrocentricity” of African Economic Prosperity	23
8. Towards Middle-Income Economies	28
9. Major Consequences of the Financial Crisis on Africa	29
10. Africa: 3.5 % Shortfall in Economic Growth in 2009	32
11.1 Emergency and Short-Term Measures	36
11.2 Medium- and Long-Term Measures	37
11.3 Anti-palliative Measures	38
11. Bibliographical References	40

1. INTRODUCTION: WHAT ECONOMY FOR AFRICA IN THE AFTERMATH OF THE 2008 CRISIS?

The 2008 financial crisis revived long-standing debates as to what priority should be given to the individual and to the community. Whenever the concept of “*sustainable development*” is involved in a medium- and long-term approach, the balance between personal interest and the common good is through regulation. For at least four decades, regulation has been challenged by blind dogmatism rooted in faith in a market that would automatically self-regulate. Such belief was formally debunked by the sheer magnitude and rapid spread of the financial crisis, which helped to recall the beneficial role of State intervention – a role not new to the State. The governments of the 20 richest countries (G 20) committed exorbitant amounts of money to salvage financial institutions and production enterprises which had given priority to their private interest in the reckless pursuit of profit without regard for the real economy, thereby plunging the entire financial architecture and the global economy into difficulty. Ancestral links with the production economy and the lack of monetary and financial infrastructure contributed finally to saving Africa by preventing it from returning to financial and economic turbulent zones. The social consequences of the crisis are still surfacing, with a succession of waste at the human level.

The general policy paper summons the African people by providing alternative and constructive methods of operational implementation in synergy. Africa’s economic future deserves such alternative, given that it involves remodelling the African economy in the aftermath of the 2008 crisis.

2. Origins and Consequences of the Crisis on Africa

Within the wider purview of financial market deregulation, lax control and State interventionism for over more than a decade, there has been a gradual creation of increasingly sophisticated but less secure financial products, which have absolutely no link with the real economy and production. It is paradoxically in these developments between 2005 and 2008 that, on the United States real estate loan market, financial brokers were able to exploit the established legal void consisting in shifting their responsibility as financial brokers to clients. Such erosion of accountability in the chain of responsibility for the granting of loans was amplified by the possibilities of exceptional bonuses for financial brokers, given that the risks were borne entirely by the borrower. Hence, in utter violation of bank rules which stipulate that a client may not be indebted on average above 33% of his/her income, and in the face of a rapidly growing real estate market triggering off hopes of extraordinary profits in the not-so-distant future, numerous operators representing financial brokers granted loans on the mortgage market to insolvent clients. In addition, the financial broker was given the possibility to grant loans at extremely low interest rates with at times grace periods spanning a few years, followed thereafter by extremely high

reimbursement rates, whereas salaries were not commensurate therewith. The ensuing default of households spread rapidly, thereby impeding the possibility of paying mortgages. When there was a reversal of trends and economic operators, including households, turned out to be insolvent, defaults on payment multiplied and quickly led to a confidence crisis between financial brokers who sought to unload on their neighbours doubtful loans gone bad.

A similar phenomenon was observed on derivatives markets, except for the fact that the economic operators involved were no longer households but financial institutions, enterprises, speculators and institutional investors (pension fund, insurance, State, etc.). Hence, in the face of reversing economic fortune, States like Iceland¹ went bankrupt, likewise many corporations. In the United States, the Federal Government came to the rescue by pledging to honour commitments so as to prevent the collapse of the entire financial system in the third quarter of 2008. In fact, the G20 countries have in particular accepted to discard a certain number of toxic assets by bailing out the financial system with Federal guarantees and commitments, in a bid to halt the ensuing generalized loss of confidence among financial institutions. Hence, there was a concerted nationalization with a simultaneous reduction in the interest rates of major central banks (United States Federal Reserve and the European Central Bank). In the face of the credit crunch, the consequences of the financial crisis on the economy were laid bare speedily. Moreover, job losses without corresponding job creation, the dramatic, breath-taking squeeze of the productive sector and the slump in international demand by rich industrialized countries are some of the induced, indirect impacts of the crisis whose adverse externalities over time seem to be the daily lot of the African continent.

It is worth noting that with an increase in the industrial production of emerging and developing countries which stood at almost 12 % on average every quarter of 2000, with a 15% ceiling during the first quarter of 2004, this indicator, in 2008, trended negatively in quick successions for three quarters running and stood at -12% in the third quarter of 2008 (IMF, 2009c: 2).

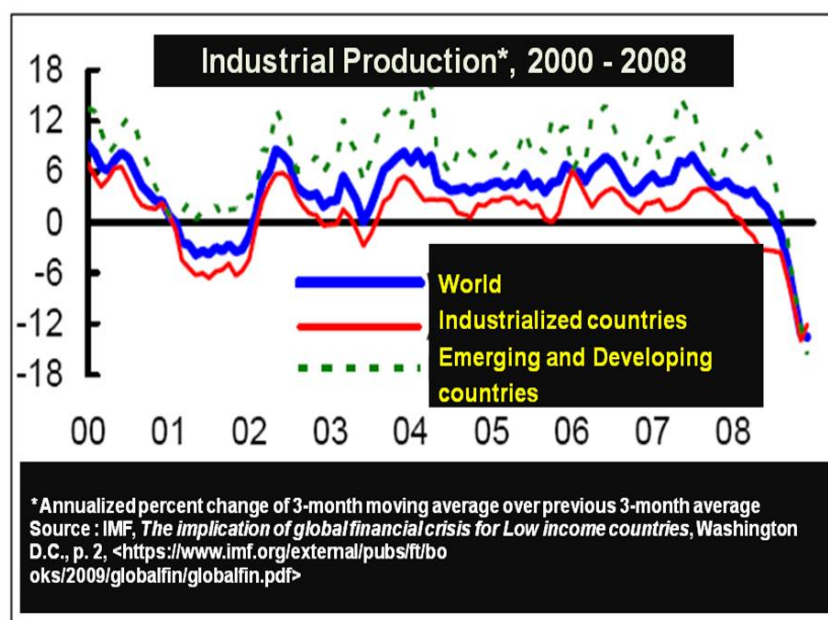
¹ The Iceland financial crisis, (FR.) La crise financière online, see <http://www.crise-financiere.com/crise-europe/crise-en-islande.htm>

It should be recalled that industrialized countries had registered an industrial production growth of about 6% in 2000, lower than the world average (almost 8%). The 2008 financial crisis brought down industrialized countries as well as emerging and developing countries. During the third quarter of 2008, the world average plummeted to -12% of industrial production (Graph 2). Consequently, it is fundamental that Africa's productive structures be enhanced, with respect to both capacity (business support climate and institutions) and capability (value added, technology and knowledge). Job creation is not intended to replace jobs lost as a result of the financial crisis.

In the absence of a diversified, wealth-creating industrial sector, Africa's economic growth between 2000 and 2007 stems from a towering demand for its unprocessed commodities, most especially oil and ores, which are particularly sought by industrialized countries and increasingly

by such emerging nations as China² and India (Arief, Weiss & Jones, 2009: p. 3). Similarly, the net flow of private capital quadrupled between 2000 and 2008, whereas between 1960 and 2000, such flows stagnated³.

Asia and numerous Gulf countries have recorded very high levels of savings, which, as a result, indirectly boosted consumption in industrialized countries and in the United States in particular. It was perceived then that purchase of assets in dollars was guaranteed by the United States and was deemed less



risky and more liquid. The crisis and the loss of confidence in inter-bank trading and the high level of the United State's budget indebtedness ushered in the prospects of a possible massive withdrawal of capital from the United States, irrespective of possible unilateral decisions to devalue the U.S. Dollar. However, the crisis did not evolve along these lines. It was mainly the complex structures of derivatives built on a virtual economy which caused panic relating to

² It is worth noting that the shift in China's position through its Prime Minister, Wen Jiabao, who recalled that China's presence in Africa is not determined solely by a rampant quest for commodities, should rather help to build the intrinsic capacity of Africans to assume full responsibility for the development of their continent. Trade between Africa and China in 2008 stood at more than \$US 100 billion. This was further concretized during the 4th forum on China-Africa cooperation (FOCAC) on 8 November 2009 in Charm El-Cheikh in Egypt, by new commitments on the increase of investments in Africa, the increase in Chinese aid to Africa, debt reduction and the targeted opening of the Chinese market to unprocessed African products.

³ Oxford Analytica (2008), "Africa: Economic growth is strong but constrained", May 15.

default in payment. To sum up, the significant imbalance between Asia and the industrialized countries has reduced the margin for manoeuvre for the latter. Hence, the industrialized nations had to scale down their demand, given the renewed surge in credit cost. It was at this moment that real estate market prices and mortgage value plummeted with a string of repercussions. In response, the States intervened through the massive bail-out of financial, insurance and production sector institutions estimated at about 30% of the Gross World Product⁴. There is, therefore, no assurance yet as to the return of interbank mistrust, should the management of toxic assets be resumed at any given time in the course of economic revival. The protectionist tendency of many States did not contribute to boosting economic recovery especially for low-industrialized countries, given that such tendency has little economic influence (United Nations, 2009a).

3. The Crisis Affects Various Regions and Countries in Africa Differently

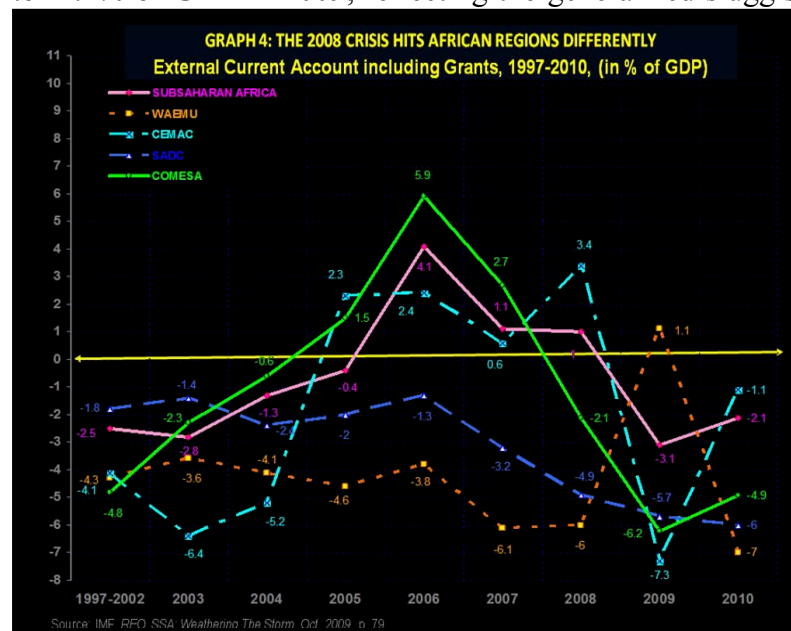
It is no longer possible to apply standardized solutions in response to the consequences of the financial crisis in Africa. Indeed, regional differentiation is obvious. The economic and financial attributes underlying the economic sovereignty of States lead to targeted positioning. While it is true that targeted positioning may be of interest to hydrocarbons-exporting countries, it should also be acknowledged that it should not hinder Africans from identifying the common benchmarks on which medium-term strategies may be built and emergency solutions provided to the directly affected population. The crisis more seriously affected women and the youth, and no specially targeted measures seem to have been taken to deal with such obvious differentiation among economic operators considered individually.

⁴ United Nations (2009), *World Economic Situation and Prospects 2009*, Monthly Briefing No. 7, April 2, from www.un.org/esa/policy/publications/wespmbn/sgnote_77.pdf; These estimates comprise financial bail out funds including States' guarantees and an initial debt estimate pertaining to toxic assets (bad debts) as well as the injection of liquidity into the financial system so as to put an end to interbank mistrust.

This financial crisis is peculiar in the sense that it directly affected, at varying intervals, countries which are the most mainstreamed into the global economy, through the agency of dependence on the global system at the financial, trade and miscellaneous transfer levels. This too makes the application of standardized responses and solutions difficult. As for African countries,

the consequences are multifaceted, ranging from trade surpluses, private capital flows including remittances from the Diaspora, loss of earnings linked to the deteriorating taxation system stemming from bankrupt enterprises or the squeeze on the credit market.

In fact, the crisis “strikes” depending on the structure of the economy. Hence, with respect to the current external balance including grants, the situation of Sub-Saharan Africa deteriorated to -2.1% of GDP in 2009, reflecting the generalized sluggishness of the economy in this region,



The situation does not appear to be any better when analysed at the regional level (see Graph 4). Whereas the period 1997-2002 recorded some consensus on average, there were

increasingly widening gaps among the African sub-regions during the pre-crisis period (2007). With the 2008 crisis, no region has so far shown any signs of resilience. As regards economic structure, only oil economies seem to be resistant despite significant volatility in the world market price for hydrocarbon products.

The 2008 financial crisis, for which Africa is not responsible, has caused the continent to record mediocre performances and risks undermining governance and economic accountability efforts made in recent years. Hence, there is need to condemn sermonizers on the propensity for market-regulated economy, especially when safeguards were sacrificed on the altar of deregulation.

4. Collapse of the Regulatory Market

Africa is the region in the world where significant progress to achieve the United Nations Millennium Development Goals (MDG) have been the slowest (Arieff, Weiss & Jones, 2009: 4), if not insignificant (Easterly, William, 2009) or palliative (Reinert, 2008) particularly with respect to productive capacity building. Africa's economic growth, expressed in terms of yearly increase in real GDP prior to the crisis, stood at 6% on average between 2005 and 2007 (IMF, 2009b: 169), whereas growth in manufacturing value added did not exceed 3.4 % over the same period (UNIDO, 2009: 45). In addition to growth deficit, it is the failure by the United Nations to give the rightful place to productive capacity in the MDG and the lack of interest in industrialization by African States that have been the problem. It is very unlikely to think in terms of economic regulation if the production sector is not placed once again at the centre of the Agenda for Development, or at least that of Africa's development.

The notion of regulation in Africa is often attached to the role of the State. However, the fact is that each stage of the production method is marked by new regulation methods, i.e. a specific form of tax, accumulation and distribution among economic operators. Such a regulation method does not change by coincidence. It is rather the outcome of a dynamic process of adapting production, economic and social demand, as well as economic and social adjustments to counterweights that have been institutionalized or not in social relationships and, last but not the least, social behaviours and mentalities. Hence, the issue here is to return to a changing state of equilibrium, given the unpredictable and changing context. Competition among economic operators tends to be advantageous to the more influential operators to the extent that some of them may, through the agency of an organization and pressure group, influence the method of regulation.

At the economic level, the method of regulation in Africa tends to depend mainly on the State and its related economic forces. Economic operators are hardly involved in the process of fostering regulations wherein adherence is the common right. In addition, the intensity of competition at the local and regional levels, salary fixing and relevant trends, price fixing, currency fixing, the level of concentration of productive structures, the type of international

division of labour and the entry point chosen for participation in global economic integration are often imposed on African States and all the more so on the population. According to the major precepts of neo-liberal economy and the “invisible hand”, the competitive form of regulation is preferred with great flexibility on prices and currency as well as very little State intervention. However, the severe crisis of 1929 put a total end to such faith in automatic market regulation. Hence, through this same phenomenon, the 2008 crisis tends to serve as a reminder to proponents of the neo-liberal economy.

At the production level, we have the “fordism” model based on intensive accumulation, mass production, standardization of production chains with the objective of achieving economies of scale, redistribution of the profits of productivity to bolster the purchasing power of salary earners, mass consumption, State intervention for greater social transfers towards social security, and trade union intervention for greater purchasing power. This system presupposes equilibrium and willingness for regulation which is detrimental to some economic operators but advantageous to others, as well as a State which does not choose to support the more influential economic operators. Hence, in the wake of the 1929 crisis and the 2nd World War, years of stability gave the impression that the principle of regulation had been adopted definitively. However, between 1970 and 2000, the principle of “*deregulation*” was gradually promoted, and has caused numerous financial crises occurring in quick successions and involving an ever greater number of countries. (Reinhart & Rogoff, 2008). The absence of regulation and anticipation is costly.

Finance systemic crises are costly. Irrespective of undocumented bad loans, these crises caused Côte d’Ivoire the loss of more than 24 % of GDP between 1998 and 1991 and more than 54 % for Indonesia between 1997 and 2002 (Caprio & Klingebiel, 2003). Another effect of deregulation hardly felt in Africa is the increase from 1 to 9 on average of the market value of derivatives between 2000 and 2008 with the surge in virtual contracts not based on production but linked to interest rate variations⁵. According to the United States Department of Commerce, average pre-tax profit between 2000 and 2006 stood at 29 % on average (World Bank, 2009b: p. 8).

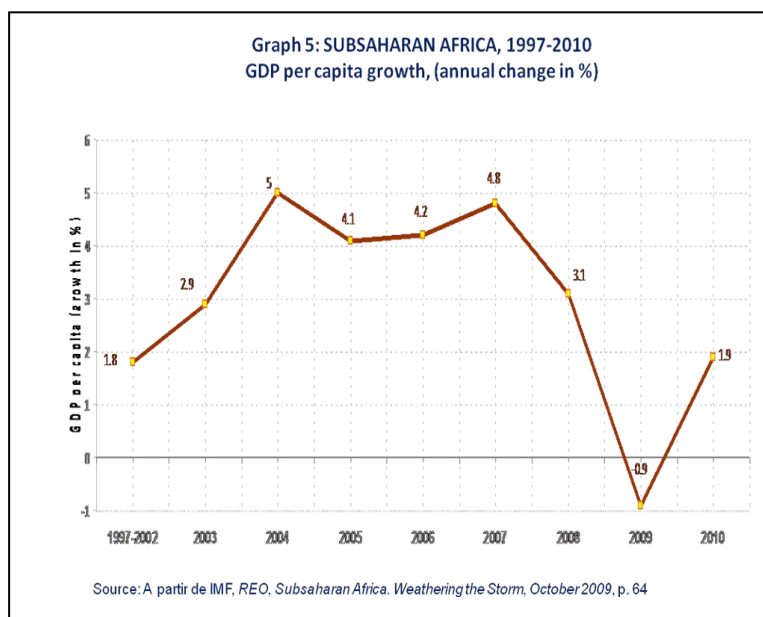
American banks, which were not subjected to the same stringent accounting prudential rules, were thus able to finance risky and non-liquid long-term commitments through short-term commitments based on insolvent financial instruments. Without surety and insurance coverage, investment banks did not anticipate the crisis, whereas investors had gradually lost confidence in financial products often secured with a precarious mortgage market. Unable to scale down risks, to offset the dismal weaknesses and failure of credit rating agencies the largest of which continued awarding AAA-type scores, whereas many financial institutions were obviously insolvent, deregulation thwarted control and anticipation, and thereby created a confidence, liquidity and solvency crisis⁶.

⁵ Interest rate contracts

⁶ Blankfein, Lloyd (2009) “Do not destroy the essential Catalyst of risk”, in *Financial Times*, February 9, p. 7.

This systemic crisis did have some unconventional effects on the demand for African goods. It now became obvious that a State, albeit the most powerful, could no longer regulate a financial system with essentially global stakeholders. Hence, Africa must learn a lesson from the foregoing, given its ongoing attempts at resolving Africa's financial problems including financial crisis at the national level.

The market needs a competition and a system of checks and balances to be efficient. Regulation without the State or with a weak or weakened State is an economic error. Its consequences are economic horrors as testified by Sub-Saharan Africa's GDP per capita growth which, for the first time in more than 20 years, fell below zero and stood at -0.9 in 2009 (IMF, 2009a: p. 64, (see Graph 5)). In Africa, market-driven regulation tends to foster a patrimonial system which promotes trade and speculation without redistribution, and completely neutralizes the continent's productive structures and thereby the reality of sustainable creation of shared wealth and corresponding decent jobs.



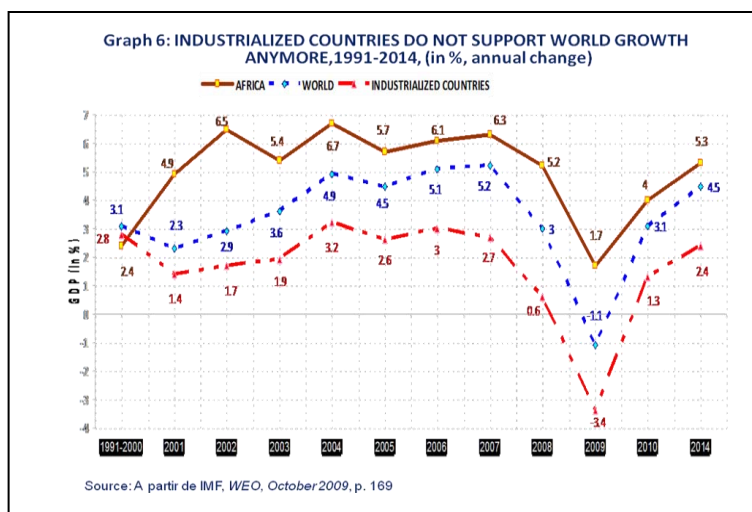
Urgent measures are indispensable both in Africa and at the international level. The objective here is to provide stable and predictable financing totally disconnected from the virtual system which has no linkage with the real economy. Such control of the macro-economic volatility of the market is only justified by the willingness to move towards its social dimension. Consequently, there are no other alternatives than the regulation of financial markets, which presupposes stringent measures for monetary control authorities, regulation of speculative funds and most especially the network of private investment funds, new rules to verify the "assertions" of credit rating agencies, stringent measures to put an end to tax havens in Africa, the home of tax evasion and money laundering, new recapitalization standards for financial institutions without penalizing large-scale operators and the overhaul of the bonus and remuneration system which should give pride of place to Medium- and long-term performances in conjunction with the real economy.

As regards the State, there is also the need to better protect consumers from usury loans and abusive sale of financial products, especially if the risk is not shared by the credit vendor. Basically, it is a matter of making sure that burden of the cost of readjusting the global financial market is borne actually by those who contributed to this crisis. Democratization of the system becomes a categorical imperative with openings so that social dialogue and the involvement of the

representatives of economic operators who suffered the externalities of consequences of the financial crisis may be taken into account. The principle of taxing financial transactions in Africa cannot be eluded, and greater penalties should be imposed on collusions between financial corporations and credit rating agencies.

5. Trade and Speculation Without Redistribution

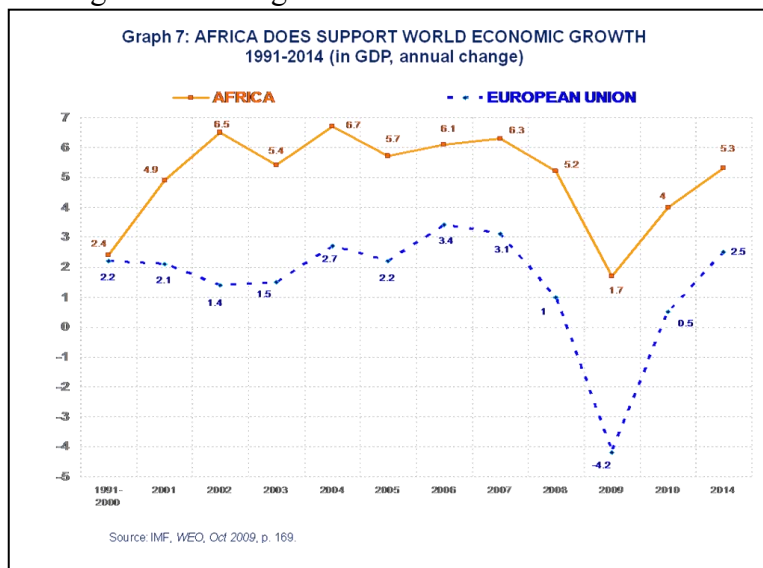
A close consideration of the structure of Africa's exports and imports with reference to goods and services traded with the world lays bare an asymmetry which should be corrected in order to lay the groundwork of a policy for balanced creation of economic wealth. The bulk of the continent's trade is with North America, accounting for 21.7 % of its total exports in 2007, 39.5 % with (Western) Europe, 19.1 % with Asia and only 9.1 % with Africa (WTO, 2008a: 9). In addition, Africa massively imports manufactured products, but is not collectively organized to produce same. On the whole, Africa's goods exports growth in 2008 increased only by 3 %, whereas imports surged by 13 % (WTO, 2009: 6). Such growth deficit is not linked directly to the crisis, given that it has been trending downwards since 2006. As regards the share of world merchandise trade in 2008, Africa's trade value does not exceed 3.55 % of world trade value, whereas that of South and Central America rose to 3.81 %, Middle-East to 6.64 %, Asia to 27.6 %, North America to 12.98 % and the European Union to 37.48 % (WTO, 2009: 13). By contrast, Central and South America substantially scaled up its intraregional trade by 24.4 % in 2007 as against 9.5 % for Africa (WTO, 2008: 10). Hence, in addition to the classical problems of trade limitation linked to transaction costs, Africa has a real problem of capacity and capabilities in the higher-value goods production sector. Consequently, the crisis should not serve as an excuse for economic choices and decisions which have neglected the development of productive structures in Africa.



It is paradoxical that the need for unprocessed commodities has given the illusion of development without shared prosperity in Africa with GDP growth rates which did not reflect the reality of the problem in terms of sustainable wealth creation capacity. Despite the low growth registered by industrialized countries and now the 2008 financial crisis which seems to close the cycle of deregulation as a method of creating economic prosperity, it should be

confirmed that emerging countries and developing countries including Africa have been sustaining the world since the „90s (IMF, 2009b, see Graph 6). Africa is evolving from the status

of adjustment variable to that of a vulnerable (but indispensable) partner. Since the 1990s, Africa has been sustaining world growth without taking due advantage of it in terms of influence on the international scene. (Graph 7). Therefore, the economic orientations and the strategic decisions taken in the aftermath of the 2008 crisis will determine the improvement or not of Africa's economic autonomy in the years ahead. What must be avoided is total or partial control on the development policies of African countries by submitting to the conditionalities of loans often granted to illegitimate regimes. One can boldly talk of "pitfalls of international financial institutions" (Mbaye, 2009: 30).



Industrialized countries have elected to create wealth through a deregulation system which has promised speculation and growth without job creation, or, in the case of delocalisation, many precarious jobs thereby destroying all the advantages acquired on a stable, decent job in the course of a professional career. Hence, Africa's future economic decisions will be crafted with a view to avoiding such pitfalls.

These choices will no longer be made behind closed doors or remote-controlled in reference to injunctions from influential countries through bilateral or multilateral channels. The said choices will be made with institutionalized forms of participation of economic operators and adhere to new concepts inherited from ancestral practices which give absolute priority to the human person and social cohesion. The idea here is to invent and adapt the concept of contractual solidarity (Grynbaum & Nicod, 2004). Moreover, a self-criticism should be made concerning the guilty neutrality of African authorities (Amaïzo, 2008) who have also been over-zealous and over-careful in striving to hold inflation at its lowest ebb. They decided, willingly or inadvertently or yet again by sheer want of real sovereignty over their economic and monetary policy, not to support the private sector by limiting access to financing for local enterprises.

Furthermore, the State gave in too easily to the lure of the Bretton Woods institutions including that of the World Trade Organization, European Union or the United States⁷ which tolerated subventions for industrialized countries with economic influence, whereas it was simply prohibited for African countries. Such a practice caused the failure of the first term of office of Pascal Lamy who was unable to conclude the Doha Agenda for Development⁸, given that it was

⁷ Klapper, Bradley S. (2009), « US Fined over 295 millions \$US over illegal subsidies to Cotton Growers », in *The Huffington Post*, August 31, 2009 and posted October 26, 2009 on http://www.huffingtonpost.com/2009/08/31/us-fined-295-million-over_n_272844.html >

⁸ WTO, *Doha Ministerial Declaration*, WT/MIN(01)/DEC/1, Nov. 20, 2001.

more of an issue of accepting the principle of compensation for highly influential countries which, despite protests by WTO conflict resolution organs, may decide on their own to adopt monetary compensations and unilaterally put an end to bilaterally concluded commercial exchanges. The United States-Brazil cotton subsidy dispute should serve as a reference⁹, in as much as Africans did not dare to support Brazil publicly in its initiative, for fear of reprisals in various areas of development aid, market access facilities, untimely and unwelcome interferences, just to name a few.

It is therefore clear that the primary objective of the WTO-promoted international trade rules is to thwart the protection and emergence of nascent industries in Africa under the cover of the signing of international agreements on trade, within the purview of an asymmetrical balance of power. In such a system, it is absolutely impossible for low-industrialized and economically weak countries to make their voices heard without a collective approach. Even in the case of collective approach, the exorbitant resources with which to table cases before the disputes settlement organs are prohibitive, the timeframes relatively long, the chances for a case to be efficiently and properly assessed are slim, and finally, the possibilities of the payment being made in accordance with the decisions handed down are almost nil., due to the asymmetrical balance of power between countries. Under these circumstances, Africa is bound first of all to organize its intra-regional market, create an internal demand by reviewing its conception of the economy, of entrepreneurship, the role and importance of redistribution of purchasing power through productive structures and the possibilities of advancing towards shared economic prosperity within the framework of a new concept of solidarism, an endogenous concept.

The concept of "solidarism" was hinted at in the foundations of most political discourse advocating new visions for Africa in the era of independence, most particularly in the case of Kwame N'Krumah. However, Cheik Anta Diop indirectly saw in this concept the restoration of Black Consciousness. Hence, at the economic level, there is need to seek operational conditions for making "solidarism" effective as an African alternative to the systemic crisis of economic prosperity. This will be achieved by refocusing on the well-being of most of the population through strategic approaches to State regulation and the accountability of economic operators, wealth creators, with a view to maintaining purchasing power and organizing proximity markets.

Joseph Ki-Zerbo, a historian, summarized this approach as follows: «*Regionalization is the only perfect way to eradicate poverty, ignorance and structural non--industrialization, etc.*¹⁰ »

⁹ Schnepf, Randy (2005), *Background on the U.S.-Brazil WTO Cotton Subsidy Dispute*, CRS Report for Congress, Code RL32571, July, 11, see : < <http://fpc.state.gov/documents/organization/57876.pdf>>.

¹⁰ Joseph Ki-Zerbo, Preface to the book Yves Ekoué Amaïzo (coordinated by), *L'Afrique est-elle incapable de s'unir ? Lever l'intangibilité des frontières et opter pour un passeport commun*, prefaced by late Prof. Joseph Ki-Zerbo, collection "interdépendance africaine", éditions L'Harmattan, Paris, 2002, p. 36.

6. Lack of Support for the African Private Sector: Absence of Credit Leverage?

While it is true that regionalization has failed to function in Africa, it should also be acknowledged that it is due to the principle of financing the economy, and most particularly the private sector and businesses through financial brokers, that failed to function properly. The issue much at stake here is both the role of international development financial institutions which did not support Africa's industrial development, as well as that of the State which often forgot to pay its internal debts owed to contractors and businessmen, thereby causing a chain loss of purchasing power. In addition, the local banks were too busy doing brisk and less risky business and were *de facto* concentrated on commercial transactions without creating value added. It should be recalled that the number of countries whose internal debt accounts for more than 15 % of GDP has increased considerably (Christensen, 2004).

However, it may also be the monetary policy especially as regards the granting of loans, the refinancing of secondary banks and, above all, the fixing of high interest rates not consistent with actual, realistic opportunity costs for industrializing corporation, which contributed to delaying awareness of the ratchet and reduction role of the productive sector in Africa.

There are multiple and apportioned responsibilities to the extent where the loan policies of central banks, obsessed with economic convergence criteria laid down at times in reference to non African economies, fostered inflation control as the prerequisite condition for structuring financial brokers in Africa. As a result, most African financial institutions not only failed to support the development of productive structures in Africa, but also hindered it *de facto*, either by excessive prudence, or by ignorance of the importance of the productive sector in the economy, or through injunctions from elsewhere. In any case, it is the inability to define one's own strategy to boost local businesses that has led, among other things, to a form of premature deindustrialization of Africa. To cope with the absence of relevant studies that could bear out the rationale for transnational corporations with regard to the creation of decent jobs in Africa with multiplier effects on the entire economic fabric, it is worth noting that most of the financing was geared preferably towards public corporations, which are great budget consumers but less efficient, or towards multinational corporations foreign to Africa, which are often granted numerous tax exemptions under the investment code and the labour code, to the extent that foreign direct investments (FDI) are increasingly considered as debt-generating resources or additional obligations which hardly improve the wellbeing of the population.

Therefore, when, as a result of management difficulties faced by public corporations not without the responsibilities of the States through untimely and unwelcome interventions, one helplessly witnesses the privatization, as part of the conditionalities of the Bretton Woods international financing institutions, of whole sections of a country's economy, without an improvement in the services provided to the population such as infrastructure, energy and even in the productive sector, one begins to wonder if there no hidden, unwritten agenda to dispossess Africa of its productive capacity. Privatizations, as a technique to improve the productivity of a

productive structure, are not, in principle, called to question. It is rather the fact that in reality they involve property transfers at prices that smack of “economic dumping” after several years of untimely and unwelcome interventions and interferences by the State in utter contravention of the most rudimentary rules of management.

Hence it should be recalled that this is an economic behaviour linked to the conception of a patrimonial State. By the same token, support to a local small- and medium-sized enterprise or industry will not help to generate “rapid returns” for those who hold some power of transfer, orientation and monopolization of profits. Corruption, which must be mentioned, has now become indispensable in granting and financing loans or in guaranteeing the procurement and management of a business in Africa. It is not surprising that the most controlled institutions have developed a form of excessive caution in respect of any business files involving huge risks.

Hence, as a result of Africa forgetting to make a strategic choice to support the development of endogenous productive structures, its industrial sector has been dominated by external contributions, the primary objective of which was to repatriate the capital, extract the maximum of Africa’s wealth and create value added in their countries of origin or wherever political and social risks are low. This is the area where Africa was off its guard by collectively allowing, and without accountability, most of its value added to be created outside the continent. . It is therefore no surprise that privatizations, delocalization in free-trade zones, concessions of management entities both for services and production and finance are finally not profitable to Africa in priority. Finance renovation (Aglietta & Rigot, 2009) can only be a euphemism of which Africa should be cautious when adducing responses at the international level. Unwritten collusions, quite elusive in the economic field per se, have compounded this situation to the extent that, at times, if not quite often, some Africans are strategically positioned in decision-making spheres in Africa to work for what Jean Ping calls imperialism of yesteryears ¹¹ (Ping, 2009 : 293) which is linked to the westernization-universalization of the world to the point where the modus operandi of Africa’s economy should be able to function as it did during the colonial days, except for the fact that colonization does not need to be operated by former slave masters. Indeed, skilful relays and followers can be found in Africa and baited into dropping their guard and accountability ¹² (Amaïzo, 2002: 18).

All these constraints have plunged a whole segment of the African economy into the informal sector which is not insignificant in the productive proximity sector and into job creation, whereas its modus operandi basically eludes the financing circuit. Coercing the formal sector into returning to the informal sector with threats of an ill-adapted taxation is not the solution.

¹¹ Jean Ping defines them as « *a restricted circle of a few privileged nations, great powers, always winning and arrogant, always above morals and laws, taking decisions alone and unilaterally imposing their will on the rest of the world and singularly on Africa without bothering the least, neither for its interests, nor for its problems, realities, specificity, nor for the aspirations of its populations* ».

¹² With reference to Montesquieu’s famous sentence « *Servitude always begins with sleep* », Yves Ekoué Amaïzo recalls in this book how « *mediocrity and injustice are then upgraded to the founding principles of a State in deep slumber with the intent of completely chloroforming real development actions, which are then lodged in the part of the African’s brains in charge of amnesia* », p. 18 (Amaïzo, 2002).

Economic operators of the informal sector have opted for direct financing, adapted to their economic and social environment with a predilection for liquidity. Classical bank circuits have refused to get involved in this market considered too risky, too original and which needs attendance and sociability. That notwithstanding, this financing circuit exists, is developing without being properly institutionalized, has an informal legal framework, and is linked to proximity ethics.

This model of banking intermediation has for too long been considered by both foreigners and Africans themselves as archaic, reminiscent of traditional Africa. Considering the dominant model as standard and thereby squeezing a huge segment of the African population out of the mainstream banking circuits, is an error of judgement which should be corrected, given that informal finance seems to be a tolerated form of deregulation wherein innovations are legion and financial risk is dealt with in a competitive manner. Therefore, regulation is mandatory in the African informal financial sector so as to provide economic operators with financing at preferential rates based on the weight of existing social structures, whereas the official market does not meet the needs of this segment of the African population.

The classical banking system is non-competitive with respect to bank loans, given its inability to assess and accompany risk-taking. Conversely, buoyant microfinance structures are succeeding in this area, even though it still remains complex. Hence, it is crucial to deal with risk in a given environment in a bid to reduce loan access cost. It goes without saying that the immobilization of jobs does not allow for real surety to be taken, and the absence of accounting standards makes any financial assessment hazardous. The uncertainty surrounding a project promoter and his/her environment in an informally financed or micro-financed project is replaced by a personal bond or a group that enables loan providers to bring moral and social pressure to bear on the contractor or project owner, which is considered a risk-reducing factor and may even help to raise more capital. Hence, it is a moral obligation that serves as surety. This is a classic example of contractual solidarity.

From this point, the design of novel and innovative forms of associations, savings and investment cooperatives is no longer a purely hypothetical case, given that several African countries are successfully experimenting this type of financial institutions underpinned by communal solidarity. Indeed, this management philosophy ties in with the optimization of cash flow and hence in the short run. Once development is conceived on a longer-term basis, banking intermediation in the informal sector will no longer be appropriate. However, it is not proven that the informal sector “maintains underdevelopment” as asserted by numerous non-African economists¹³.

At another level, solidarity may be exercised within continental or intercontinental structures such as the Bank of the South which is a real awareness of the urgency of the monetary, financial and economic solidarity and sovereignty of Latin American countries.

¹³ Bloy E & Dupuy C. (1990), « Adapting to management rules, to informal financing constraints: reflection within the African framework », in *L., Entrepreneuriat en Afrique francophone*, Ed. AUPELF-UREF - John Libbey Eurotext, Paris, pp. 65 -75, accessible on < <http://www.bibliotheque.refer.org/livre14/11405.pdf> >

In fact, a Bank of the South in Africa is just a solidarity bank, which may opt for development financing especially for infrastructure or again be involved in covering deficit balance of payments without the African State resorting to capital from outside Africa. Few African States are ready to make contributions at the moment without requesting for counterpart in the form of conditionalities or allegiance. Given that no State would like to depend on another in Africa, most of them will then lose their monetary sovereignty abroad, quite often to the IMF or non-African financial institutions which take advantage of it directly, due to the lack of confidence among African decision makers.

Consequently, the process should begin with a few volunteer African States which have a positive account balance in terms of international reserves, current account and balance of payments, etc. There are at least 11 African countries which can fulfil such criteria.

With respect to the IMF, an African Monetary Fund should, in the long run, provide support to the balance of payments of countries. If financing can be obtained at the regional or continental levels, then African countries will resort to the IMF only in extreme cases. The IMF will then resume its genuine role and should only intervene as a last resort, and not in an untimely and unwelcome manner, in all African economies, without being able to actually anticipate financial crises.

Consequently, any additional financial institution on Africa's economic and financial landscape should be construed as a new form of competition which can only be established with serious and willing governments determined to serve their people and prepare the future in order to perfect their economic and financial independence. It is hoped that the same seriousness, the same commitment and the same strength in terms of willingness will gain ground in Africa by contagion.

However, as long as African leaders give the impression that the solution to Africa's problems will come from elsewhere, and forget that the IMF and the World Bank have a Board of Directors whose primary objective is to make profits, and protect the interests of a majority countries on the Board, then Africa is not yet ready to champion such a cause. It is therefore hardly surprising that huge delays have been registered and that the role of African governors on the Board has been to opt for excessive prudence, without seeking any other options than the status quo. Such behaviour can no longer be attributed to forms of exogenous exploitation, but rather to ignorance or irresponsibility. In addition, this debate should be welcome, given that the ambient self-satisfaction gives the impression that all central bank governors necessarily defend the interests of their respective countries, geographic zones or of Africa.

The challenge faced is multifaceted, and reflects the complexity of the African society as well as its monetary and banking practices. It is important ensure that excessive prudence in the financing of local productive structures does not gradually transformed into a system that perpetuates the continent's stagnation, limits or neutralizes innovative actions for development financing, or transforms such financing into usury to the extent of developing a preference for speculation and arbitrariness in the access to loans, etc. The attendant role of the State, the banks, development support should be reviewed as part of specialization of institutions. As regards the

ultimate payer, that is, in principle the central bank, one should wonder if the time is not ripe for the composition of its Board of Governors to be reviewed so as to reflect that of the United States Federal Reserve Bank (Fed), which allows for the entry of private economic operators, without the management of the said structure being twisted to the advantage of such private operators. The outcome is that this central bank is more in touch with the economy, tends to accompany changes rather than preventing them, and is independent from political institutions. This is also the neutralization of development through inadequate development financing.

It is rather astonishing that the President of the Fed, Ben S. Bernanke, in a speech on 23 October 2009, recalled that *“A fundamental element of effective financial regulation is protecting consumers from unfair and deceptive practices. The recent crisis clearly illustrated the links between consumer protection and the safety and soundness of financial institutions”*¹⁴. He further suggested: *“Strengthening consolidated supervision, setting up a mechanism (such as a systemic oversight council) to identify and monitor risks to financial stability, and creating a framework that allows for the safe unwinding of failing, systemically critical firms are among the essential ingredients of a new system that will reduce the probability of future crises and greatly mitigate the severity of any that occur”*.

Africa cannot continue to operate without an economic, financial and industrial monitoring institution, which will enable economic operators in Africa to stay close to the real economy and systematically meet their expectations. The role of the State is implicit throughout this speech which recalled that the bulk of the work will be done in conjunction with the United States Congress, a real agent of State intervention in the American context. Given that the role of African parliaments is relatively less significant in the process of State intervention, there is need to be innovative so as to associate the representatives of economic operators with the future orientations of the roles played by African central banks. In Africa, there should be no confusion between the excessive prudence of financial institutions and the improvement of supervision and regulation policies. This approach will be able to restore a new development support role to the loan policy, interest rates, attendance of productive structures in a renewed interest in development financing.

For Sub-Saharan Africa, the IMF (IMF, 2009a: 27) recommends as follows:

- Improve the supervision of major banks and financial institutions in order to ensure early detection of increased loan risks, potential insolvencies and liquidity problems;

¹⁴ Bernanke, Ben S. (2009), « Financial Regulation and Supervision after the Crisis: The Role of the Federal Reserve », *Speech* of Chairman Ben S. Bernanke, At the Federal Reserve Bank of Boston 54th Economic Conference, Chatham, Massachusetts, October 23, on: <http://www.federalreserve.gov/newsevents/speech/bernanke20091023a.htm>; *“A fundamental element of effective financial regulation is protecting consumers from unfair and deceptive practices. The recent crisis clearly illustrated the links between consumer protection and the safety and soundness of financial institutions”*. He further suggested: *“Strengthening consolidated supervision, setting up a mechanism (such as a systemic oversight council) to identify and monitor risks to financial stability, and creating a framework that allows for the safe unwinding of failing, systemically critical firms are among the essential ingredients of a new system that will reduce the probability of future crises and greatly mitigate the severity of any that occur”*.

- Revive the resilience of the financial sector;
- Formulate emergency plans underpinned by mechanisms that will help to define and apply corrective measures depending on the countries and regions, with the objective of ensuring that liquidity and capital be injected without excessive delays.

Indeed, the idea here is the concept of financial solidarity that an African Monetary Fund will embark on in order to avoid thwarting or neutralizing the development process of productive structures and of the economy, by confusing adjustment with stabilization, as well as financing with leverage, with the aim of ensuring in the long run the monetary sovereignty of African economies considered both collectively and individually.

Furthermore, huge efforts should be made in taxation and the structural orientation of economies. However, caution should be exercised in the use of data produced elsewhere for purposes that do not necessarily tie in with Africa's best interests.

7. "Afrocentricity" of African Economic Prosperity

There is need for at least two observations: economic prosperity is absent and alternatives based on past economic policies that essentially mimic neo-liberalism in Africa cannot form the foundation of the future economy. It is necessary to rethink endogenous strategies and visions especially as crises tend to affect more women than men in terms of unemployment (UN, 2009b: 22), whereas salary cuts affect women as much as men (ILO, 2009). Afrocentricity could serve as a framework for defining new economic prosperity¹⁵. In this regard, the 2009 classification of countries reflecting a vision of prosperity recalls that despite the multi-criteria approaches, the notion of wellbeing or wellness remains very subjective. Africa would benefit from identifying intrinsic criteria which could better exploit its capacity for resilience to systemic crises accumulated for centuries.

The impact of the financial crisis of 2008 cannot be dissociated from the previous energy and food crises which Sub-Saharan Africa experienced and, in general, the skewed behaviour and practices inherited from the post-independence era.

A non-exhaustive list has been proposed to facilitate the understanding of the complexity of the phenomenon. The real novelty is the loss of trust and the disillusionment of Africans, including those who supported Western interests in Africa. The rich countries, especially the G20 which excludes poor countries despite the token representation of Africa by the African Union, were quick to rush to the rescue of the very banks and stock markets that had triggered the financial crisis.

¹⁵ See *The 2009 Legatum Prosperity Index*, the criteria include: the fundamentals of economics, entrepreneurship and innovation, democratic institutions, education, health, la security and civil peace, governance, individual freedoms and social capital; www.properity.com.

How can you rush to the rescue of economic operators who chose to prioritize the virtual economy that has no links with the real economy? How can we choose to focus on the payment of bonuses even after taxpayers' money has been used to stabilize the financial crisis, whereas massive injection of money into the productive and social sectors would have certainly changed the world and the impact of the crisis on Africa? Prioritizing the protection of the global financial system without having succeeded in clearing the quarantined toxic assets shows disregard for employment and, by extension, disregard for the people.

Table 4: Impact of the 2008 crisis on Africa. A few highlights of 2009 and beyond	
1	Accelerated reduction in the demand for African products
2	Increased difficulty in obtaining direct international financing, including an demand for additional guarantees
3	Drastic contraction of economic activities due to the contraction of world trade
4	Surge in unemployment, unstable employment, hunger and poverty
5	Diminished possibilities of attaining the Millennium Development Goals in 2015
6	Reduction in non-loan-based financial flows, including direct foreign investment, equity investment, remittances from the Diaspora, trade surpluses, tax revenue, donations, technical assistance, etc.
7	Increased budget deficits due to the fall in tax revenue
8	Increased volatility of commodity prices sometime accompanied by a fall in prices
9	Fall in trade balance and balance of payments and possibly in reserves
10	Loss of purchasing power aggravated by the loss in the terms of trade and the fluctuation in foreign exchange rates
11	Increased interest rates for local entrepreneurs and difficulty of settling the domestic debt
12	Drastic fall in tourist revenue
13	Scaling down and postponement of social security programmes and various social services
14	Generalized loss of confidence in the neo-liberal economy and the doctrine of the invisible hand
15	Resurgence of the increased and intelligent role of the State ???

There is every reason to believe that the 15 kinds of impact of the 2008 financial crisis on Africa during 2009 and beyond are merely pointers to future collateral crises and negative externalities against which the continent should protect itself by means of anticipation (see Table 4). The arrogance born of absolute confidence in market regulation, the lack of transparency and financial ethics, irresponsible and behaviour and impunity led to reckless risk-taking with short-term speculation, with the proceeds being used to artificially inflate the value of assets - where these were not simply fake assets - euphemistically referred to as toxic assets.

The other great lesson is the failure by major international institutions such as the IMF to anticipate and foresee, whereas these institutions are well endowed in terms of technical expertise. So there may be a hidden agenda whereby the consequences of the financial crisis were known but not made public. The direct consequence is the obligation to return to the "nationalization" of productive structures. Regulation has therefore been brought back in order to balance and reconcile the public interest with the interests of market agents (UN, 2009c: 3-4). The reality is that the lofty promises to carry out an in-depth reform of the international financial system have not been fulfilled and it is not the modest efforts of a few emerging countries (China and India) on the Board of Directors of the Bretton Woods financial institutions that will dramatically change the situation.

There is therefore need to focus on measures that Africans may take internally with a view to forging their unity and monetary sovereignty in the long term. The strength of the euro against the US dollar is only one of many examples illustrating the advantage of the strategy of putting unity before individual interests.

For African countries, the financial crisis put an abrupt end to the gradual return of fiscal sovereignty capacity after several years of steady economic growth in Sub-Saharan Africa and in other parts of the continent. The impact on the overall government fiscal balance with or without grants (average for Sub-Saharan Africa realized from tax revenue) has been severe. This balance, which was

positive in 2008, dropped to -4.8% of GDP, which clearly

means that the leeway for implementing endogenous policies has returned to zero. Since this figure was not recorded for over 10 years, one may wonder if this is not a return to the conditionalities of the Bretton Woods institutions, which after debt reduction virtually restored the borrowing capacity of African countries. Increasing the borrowing capacity of the State with grace periods lasting several years is tantamount to increasing the degree of dependence of States on the Bretton Woods institutions and indirectly on bilateral donors. Moreover, we simply need to analyze the trend of the overall fiscal balance of Sub-Saharan African countries excluding grants and compare it with the balance of including the grants to realize that Africa needs international

Table 5: Sub-Saharan Africa: Overall fiscal balance, 1997-2010									
Percent of GDP (average annual change)									
	1997-2002	2003	2004	2005	2006	2007	2008	2009	2010
Including grants	-2.6	-2.5	0.1	1.8	4.8	1.2	1.3	-4.8	-2.4
Excluding grants	-3.8	-3.8	-1.2	0.7	1.6	-0.1	0.3	-6.4	-4

Source: IMF (2009). *Regional Economic Outlook, October 2009: Weathering the Storm*, pp. 69 & 70.

Table 6: Overall fiscal balance of the three countries hardest hit by the crisis 2008 vs. 2009										
1997-2010, percent of GDP (average annual change)										
		1997-2002	2003	2004	2005	2006	2007	2008	2009	2010
Guinea-Bissau	Incl. grants	-10.4	-11.6	-13.8	-11.7	-8.3	-10.8	-7	-3.2	-2.1
	Excl. grants	-20.1	-21.4	-30.1	-24.4	-19.8	-25.6	-21.9	-42.6	-39.2
Sao Tomé & Príncipe	Incl. grants	-16.2	-10.5	-15.8	37.1	-13.7	120.3	14.7	12.6	-13.3
	Excl. grants	-36.8	-30.1	-35	20	-29.6	0.2	-15.3	-34.9	-29
Burundi	Incl. grants	-4.2	-6.2	-4.9	-5.1	-1.4	1	-1.3	60.1	-5
	Excl. grants	-6.9	-13.8	-19.7	-16.8	-19.3	-19.8	-25.2	-24.4	-26.1

Source: IMF (2009). *Regional Economic Outlook, October 2009: Weathering the Storm*, pp. 69 & 70.

input (Table 5). Dambisa Moyo's flights of lyricism in *Dead Aid* (Moyo, 2009) purporting that Africa does not need aid may be quite interesting in principle, but cannot be supported in view of the reality of the current situation of dependency of State budgets, collectively or individually, as can be seen from the fiscal balance of the three African countries hardest hit by the 2008 crisis (Table 6).

It is important to base the analysis on the situation exclusive of grants so as to measure the dependence of the government of the country in question on grants from the international community. Furthermore, it is also important to compare the situation of African countries that are least affected by the crisis and which have witnessed an increase in their fiscal balance (Table 7).

Table 7: Overall fiscal balance of the three countries <u>least affected</u> by the crisis from 2008 to 2009										
1997-2010, percent of GDP, (average annual change)										
		1997-2002	2003	2004	2005	2006	2007	2008	2009	2010
Congo (Rep.)	Incl. grants	-4.6	0.4	3.6	14.6	16.5	10.3	25.9	7.3	24
	Excl. grants	-4.9	-0.1	3.3	14.5	16.4	9.9	25.5	6.7	23.3
Gabon	Incl. grants	1.2	7.4	7.6	8.6	9.2	8.5	11.4	3.7	4.9
	Excl. grants	1.2	7.4	7.5	8.6	9.2	8.5	11.4	3.6	4.9
Equatorial Guinea	Incl. grants	4	11.8	12.3	20.6	23.5	17.8	15.3	2.6	7
	Excl. grants	3.7	11.8	12.3	20.6	23.5	17.8	15.3	2.6	7

Source: IMF (2009). *Regional Economic Outlook, October 2009: Weathering the Storm*, pp. 69 & 70.

It should be noted that the three African countries least affected by the crisis of 2008 are oil exporters. The countries most affected are, of course, among the most fragile and are more vulnerable than the low-income countries of the continent. It is worth noting that neither Congo nor the Equatorial Guinea receives grants, while Gabon receives some subsidies from donor countries. In the face of this situation, it is also not surprising that only the Central African region has been resilient (by including the grants) at 1.1%, while all other regions are negative, including the CFA zone with -1.2% (IMF, 2009a: 69 & 70).

It is therefore easy to understand that while most countries that had a budget margin could launch an immediate recovery plan while most African countries had to rely on African solidarity and possibly assistance from friends or on their own resources. The role of China during this difficult period should be appreciated despite the criticism that the Chinese do not take into account the internal governance, democracy and human rights situation.

Indeed, assistance from emerging markets such as China, Brazil and India was instrumental in alleviating the dire impact of the 2008 financial crisis on Africa. Trade between Africa and China tripled in three years to nearly US\$108.7 billion in 2008, and helped reduce the continent's economic dependence on traditional partners without increasing the conditionality mortgaging Africa's fiscal leeway. Also, the decline in Africa's imports from the European Union and the attendant diversification with emerging countries are now putting the concept of "south-south" cooperation in action.

But the real issue raised is *"that while some emerging economies have an African strategy, Africa has no strategy for emerging economies"*¹⁶. However, the growth of trade with emerging countries has not gone in tandem with development of productive structures and an increase in the spread of technology. Consequently, the structure of African trade continues to be dominated by trade in unprocessed products, especially oil, minerals and agricultural commodities. Although the

¹⁶ Roy Laishley, "Afrique: jouer fin pour tirer son épingle du jeu dans les échanges avec l'Asie », in *Afrique Renouveau*, ONU, www.un.org/AR, p. 1, available at:
<<http://www.un.org/french/ecosocdev/geninfo/afrec/newrelfr/economies-emergentes-09.html>>

number of African countries supplying emerging markets is limited to about 10 out of 54 African countries, the new practice of "securing" supplies of commodities in Africa is also problematic. "Natural space or resources" agreements are signed in exchange for infrastructure under a long term contract (50 years or more, renewable) and credit facilities and state guarantees are put in place benefitting primarily emerging enterprises and involving a one-way transfer of human resources to the detriment of African workers. Taking the example of trade between China and Africa, for example, many criticisms have been levelled against the Chinese, concerning, inter alia:

- Absence of transparency in the trade, investment and financial transfer processes;
- Violation of the fundamental rules regarding working, security and decent employment conditions;
- Obstruction of industrialization take-off and the spread of technological know-how;
- Silence on human rights violations and renewal of the approach of based on person-to-person relations which gives room for corruption and tax evasion;
- Africa's dependence on its unprocessed products;
- The extremely limited number or the absence of decent jobs, given that virtually everything is taken up by their workers flocking into the country;
- The refusal to reveal their technology and provide plans enabling the spread of know-how and technology

The new "easy" debt facility taking shape pushes over the debt burden to future generations and is reminiscent of the loss of endogenous sovereignty to exogenous sovereignty during the colonial and post-colonial eras. This practice could rapidly curtail the alternative opportunities which Africa has to develop itself since the new form of financial dependency that does not translate into sustainable development will end up being merely a new burden and the measures proposed from abroad no more than stopgaps, promoted by Africans themselves.

8. Towards Middle-income Economies

It is therefore imperative to break with the approach of the palliative economy, regardless of whether it is conscious or unconscious because the cost and the shortfalls for African economies and Africans themselves are too great. In fact, the 21st century may be essentially the century of "Asians" and not of Africans, and in 50 to 100 years - the duration of the infrastructure contracts that some African leaders are signing today – Africans may be stripped of their soil and subsoil. A financial crisis and its consequences can therefore no longer be analyzed in terms of the current economic activity alone, but rather in terms of the systemic linkages that tend to diversify the vulnerability and economic insecurity of Africa.

The responses should not necessarily be at the technical level any more, nor perhaps even at the level of ideas, since Africa has produced solutions, but does not implement them, let alone democratically. The economic future of Africa, its vision and strategies must necessarily be based on concepts of Afrocentricity. The lure of the mimicry, alignment and universalism – all solutions imported without being broken down and remodelled with the active participation of African economic actors - may be no more than an illusion, holding back the awareness of the continent. Deregulation, coupled with the struggle with the poorly mastered concepts of unfettered neo-liberalism, is currently laying the groundwork for economic anarchy. The situation in Somalia, Eastern DRC or some parts of Sudan is simply hallmarks of a world that continues to believe that Africa is expendable.

Thus to rethink a return to the strategies of monetary, financial, fiscal and economic sovereignty, it is necessary to break collectively, in conduct and practices, with the principle of "profit maximization" as the basis for building wealth in Africa. Rather, a new taxonomy on "economic prosperity" should be the yardstick for measuring the welfare of Africans. This economic prosperity cannot be achieved without some form of intelligent interventionism of the State, that is, a State whose functioning is anchored on ethics. The objective of the State and economic in Africa is clear. It is important to move towards middle-income economies and thus facilitate the emergence of the middle classes (Ravallion, 2009).

Democratizing the regulation should help prevent taxation from neutralizing the progress of a majority of African citizens towards the middle class. It is necessary to steer clear of such obsolete concepts as "the reduction of extreme poverty" and embrace the new concepts of wealth creation and promotion of economic prosperity, and learn how to measure the progress of incomes and thus of the purchasing towards attainable objectives. Asia has chosen to organize its economic sovereignty internally and succeeded in maintaining a resilient economic performance in times of crisis. This stage of collective political will cannot be taken for granted in Africa. It underlies all genuine and determined resolve to search for economic security on the continent. The asymmetries in trade approaches, development funding and the participation of all operators cannot be segmented at a time when collective efficiency is being sought. The structural change calls for profound awareness and for fewer complaints, even if more or less sincere, aimed at seeking scapegoats outside Africa.

Since it will be a question of commitment, only volunteer economic operators including the States may take part in the movement to seek and implement Africa's the economic and monetary sovereignty. It is the refusal to accept the principle of volunteerism and the preference for the loose consensus based on the lowest common denominator that contributes to the extreme stagnation hampering the release of the fresh energy which the continent needs for its take-off. This structural change requires a new legal form of economy, namely "contractual solidarism" aimed at identifying and holding accountable those who voluntarily express readiness to promote the economic the "commonwealth" of Africa.

9. Main Consequences of the Financial Crisis on Africa

Due to the volatility of development resources, it is necessary to institutionalize check and balances in the economy and finance in order to recover the equilibriums in the arbitration on the allocation of resources and priorities.

Neither the rich industrialized countries nor Africa anticipated the financial crisis of 2008. Africa has not been directly affected by the resultant banking crisis, even if financial development resources have become scarce. Although inflation has been largely controlled on the continent, the medium-term objectives of Africa need to be reconsidered or carried forward. Africa's inflation rate, which was around 24.5% between 1991 and 2000, gradually fell to 6% in 2007 before swinging up to 10.3% in 2008 and then down to 9% in 2009 (IMF, 2009b: 177). In comparison, the EU inflation estimates stood at 3.7% in 2008 and fell to 0.9% in 2009. There are, of course, major cross-country disparities.

From a cursory analysis of the major macroeconomic aggregates officially recorded, it may be concluded that Africa will not experience the recession which rocked industrialized rich countries in 2009, but that the continent's progress in the development sector will be considerably slowed. The effect of the long-awaited bank contagion did not happen due to absence of a modern and integrated financial infrastructure.

Most African countries took advantage of the favourable commodity prices between 2007 and 2008 to establish or strengthen sovereign wealth funds. These are mainly investment funds held by a State whose transparency of remains hypothetical. These funds are not placed in hedge funds but are often invested preferably on the continent, carefully avoiding the productive sector. [These funds - officially existing in Libya, Algeria, Nigeria, Botswana, Gabon, Sudan, Sao Tome and Principe - were estimated at US\$124.42 billion in mid-2008 and represented only 4.1% of Africa's share in the global holding (Kasekende, Ndikumana & Rajhi, 2009: 4). On the other hand, countries such as Tunisia¹⁷ have experienced problems of confidence in the financial market, leading to a considerable increase in interest rates during their attempts to mobilize direct financing from the international market. This has led them to turn to the local African market, which is an approach that could be encouraged.

Moreover, many private banks in Africa are held mostly by foreign banks, sometimes at over 100% like in Mozambique, Madagascar and Swaziland. The direct impact of the crisis on the parent banks has not spread to the decentralized structures, but has dried up local credit, particularly for the productive sector which was already a poor relation of credits outstanding.

The volatility of exchange rates of many African currencies against the Euro and US dollar, the main counterpart currencies for Africa, and the losses on certain commodities have led to the depreciation of international reserves. Between 31 July 2007 and 13 February 2009, fluctuations

¹⁷ According the ADB, Tunisia, Egypte, Kenya, Uganda and Tanzania were obliged to revise their offers upward (between 25 and 200 basis points) to attract investors when these countries were seeking to obtain loans from the financial market (Kasekende, Ndikumana & Rajhi, 2009: 5).

in African currencies ranged from -99.1% for Zimbabwe (Zimbabwean dollar), -52.4% for the Seychelles (Seychellois rupee), -38% for the Congo (Congoese franc) to -33.5% for Zambia (Zambian kwacha), for the highest depreciations.

Appreciations were more modest at 0.8% for Sao Tome and Principe (Sao Tome and Principe dobra), 0.2% for Malawi (Malawian kwacha) and paradoxically the same for Somalia (Somali shilling) (Kasekende, Ndikumana & Rajhi, 2009: 6).

Table 8 : Commodity prices, 2000- 2010, estimates						
In percent (annual change)						
Annual change percent	2000-2005	2006	2007	2008	2009	2010
Energie (oil, gas, coal)	13.5	17.3	10.8	45.1	-25	0.9
Non-oil	8.3	29.1	17	22,4	-23.2	-4.3
Foodstuffs	6	10	25.6	35,2	-23.4	-0.3
Mineral and metals	12.3	56.9	12	5	25.5	5.5
Source: World Bank, <i>Global Economic Prospects 2009, Commodity markets at the Crossroads</i> , Washington D. C.						

Also worthy of note are the huge fluctuations in the prices of commodities, excluding metals and minerals, between 2000 and 2010. We simply have to remember the case of Botswana and Zambia - both heavily dependent on diamonds and copper respectively - to understand the negative impact of shortfalls due to volatility and the unfavourable terms of trade on the reserves and fiscal balance of countries. The same applies to countries dependent on energy products (oil, gas and coal), non-oil products, particularly foodstuffs, as well as metals and mineral products, just to cite a few (see Table 8).

The fall of copper from 0.6% in 2008 to -32.2% in 2009 contributed directly to Zambia's negative fiscal balance excluding grants in 2008, which dropped from -5.2% to -6, 4% of GDP in 2009, reflecting the slump of the trade balance for the same period from 2.7% to 1.8% of GDP, compared with 11.2% and 7.9% of GDP in 2006 and 2007 respectively (IMF, 2009b: 78).

In terms of trade in goods and services, Africa bears the brunt of the dramatic fall in world trade in 2009, estimated at around 11% - the sharpest drop since 1940 (IMF, 2009). The trade balance of Sub-Saharan Africa, which was in surplus since 1997 and accounted for 8.6% of GDP in 2008, dropped to 1.6% in 2009 (IMF, 2009a: 78). Even the 3.9% projection for 2010 is simply the level for the period 1997-2002. At the sub-regional level, Central Africa (CEMAC) has been most resilient with 19.7% of GDP in 2009, compared to 33.5% of GDP in 2008. Francophone West African (UEMOA) is lagging in comparison with -3% of GDP in 2009 (see Table 9). Generally, an increase in protectionist measures should be expected.

Table 9: Trade Balance by Sub-region, 1997-2010,									
In percent of GDP									
In percent of GDP	1997-2002	2003	2004	2005	2006	2007	2008	2009	2010
CFA Franc zone	8.9	9.3	11.8	15.5	17.2	15	15.9	7.9	10.7
WAEMU	2.3	1.5	0.3	-0.9	0.1	-3.5	-3.9	-3	-3.5
CEMAC	1.4	19.1	24.6	31.7	33.3	32.5	33.5	19.7	24.9
EAC-5 countries	-7.4	-7.6	-8.8	-9.9	-12.9	-14.2	-1.9	-14.5	-13
COMESA	-0.8	-1	1.7	5.8	9.4	10.9	11	-0.1	2.7
SADC	2.7	2.2	1.6	3.2	3.9	4.9	6	0.7	1.3
Source: IMF, <i>Regional Economic Outlook 2009: Sub-Saharan Africa, Weathering the Storm</i> , p. 78									

In terms of capital flows to Africa, a number of major categories stand out: foreign direct investment, investment portfolio, remittances from the Diaspora and development aid, and private grants. All these flows increased steadily from US\$8.9 million in 2000 to US\$54.8 million in 2007, that is, more than 6.5 times the official development assistance, estimated at US\$8.5 million (Arieff, Weiss & Jones, 2009: 10).

After rising by 16.8% between 2007 and 2008 from US\$53 billion to US\$61.9 billion in Africa (UN, 2009d), foreign direct investments (FDI) should fall by 26.7% between 2008 and 2009. Inter-African loans may decrease by nearly 50%, compared with other emerging regions where the downswing stands at only 20%. Portfolio investments were on the decline between 2006 and 2008 respectively from US\$18.7 billion to US\$16.7 billion. In actual fact, portfolio investors fled African stock markets to places they considered safer and more liquid (IMF, 2009a). Between 2004 and 2007, the bulk of the investment portfolio was concentrated in South Africa with 72.8%. This investment stood at 5.6% for Nigeria, 2.2% for Ghana, 2 % for Angola, 1.7% for Kenya and 15.7% for the rest of Africa (Arieff, Weiss & Jones, 2009: 11). It seems that during the second half of 2009, Africa could attract new portfolio investments in (Brambila & Massa, 2009). Nevertheless, the amounts are relatively modest compared to other parts of the world.

Remittances from the Diaspora seem to be more stable and thus more predictable in terms management on the ground. These funds have also “morphed” into direct assistance for poverty reduction since they are seldom used for medium-term funding. The sum of US\$18.59 billion was officially recorded in 2007, representing on average 3.7% of GDP in Africa. Lesotho’s performance is noteworthy with remittances accounting for 29% of GDP. However, the downswing due to the crisis is estimated at around 5-8% in 2009 from US\$305 billion in 2008. Even so, it is unemployment and the exorbitant rates charged by specialized money transfer agencies that account for the shortfall suffered by African populations (Arieff, Weiss & Jones, 2009: 12). For transfers from the Diaspora living in Africa to other African countries, the difficulties of the mining sector contribute to reducing the amounts – a situation which directly impacts the level of food coverage, education, health and the basic needs of the recipient populations.

The crisis has contributed to a substantial drop in bilateral aid, triggering a decline in overall assistance. Countries such as France, Italy and Iceland, despite their pronouncements, have slashed their development assistance – prioritizing long term projects and including various activities which tend to make the definition of aid too elastic and sometimes without actually transferring the funds. Indeed, development assistance is used to reduce debt by paying off the interest and has never had any direct impact on the populations on the ground. It is not surprising that, though the conditionalities have not been slackened, some economists believe that aid is an obstacle to Africa’s development (Moyo, 2009). It is on the basis of these broad and opened-ended definitions that statistics are provided showing that grants, considered as official assistance

to Sub-Saharan Africa, have surged from 0.9% of GDP in 2008 to 1.6% of GDP in 2009 (IMF, 2009a: 81).

Consequently, it is not surprising that despite the somewhat stable or slightly increasing reserves of African countries, the crisis has impacted especially the external current accounts, including grants which have mostly remained in deficit for Sub-Saharan Africa, shrinking from 1% in 2008 to -3.1% in 2009. At country level, it should be noted that in 2009, Liberia should record the worst performance in Sub-Saharan Africa, dropping to -41.8%, while Côte d'Ivoire should have the best performance with 24.6% of GDP (IMF, 2009a: 79). By sub-region, UEMOA rises from -6% in 2008 to 1.1%, thanks to the performance of Côte d'Ivoire, while all other African sub-regions are shrinking.

Overall, Africa is expected to swing from a budget surplus of 2.3% of GDP in 2008 to a deficit of 5.5% in 2009, while its current account surplus of 3.5% GDP in 2008 will be wiped out, leaving a deficit of -3.8% of GDP in 2009. North Africa will maintain a surplus of about 3% of GDP with outstanding performance for Morocco (10.7%) and Algeria (5.6%) (Kasekende, Ndikumana & Rajhi, 2009: 12). The asymmetry is palpable for imports which increased compared to the declining exports. This reflects the onset of asymmetry and the emergence of structural deficit that may undermine the medium-term objectives of the countries. It is most important to take this trend into account, especially as inflation remains high and the money supply in a broad sense is on the upswing from 48.6% of GDP in 2008 for Sub-Saharan Africa to 52.5% in 2009 (IMF, 2009a: 73).

10. Africa: 3.5 % Shortfall in Economic Growth in 2009

Sub-Saharan Africa in general recorded a shortfall of about 4.4 % in economic growth resulting from the financial crisis, dropping from 5.1% in 2008 to 1.1% in 2009 (IMF, 2009a: 62). For Africa as a whole, the shortfall in growth remains high at 3.5 %, from 5.2 % in 2008 to 1.7 % in 2009 (IMF, 2009b: 169). Tourism, mining, textiles and clothing, and obviously the production sector where many enterprises closed down were the sectors most affected. Transaction costs are extremely high, while business costs in Africa are prohibitive, without reckoning with collateral losses in terms of employment destruction and the cumbersome legal systems despite attempts to harmonize, which are unevenly implemented.

Africa necessarily has to review its ability to generate a prosperous and strong economy. It should above all be self-reliant, strengthen its production structures and mobilize financial resources entailing less debt and conditionalities. Improving physical, communication and information infrastructure as well as active factors of production and the private sector in general will enhance competitiveness in Africa. But satisfying grassroots markets should be prioritized through a more even distribution of purchasing power. For this to be achieved, although data on the domestic debt are lacking, priority should be given to the payment of debts owed to local

enterprises rather than to the settlement of the external debt service. Sectoral support should be granted only under a sectoral plan in which the first three levels of processing in the value chain take place in Africa. Obviously, the new intelligent partnerships should involve economic operators in the whole process of rebuilding prosperity, which constitutes a means of broadening the tax basis, and hence State revenue in the medium term. Taxation is another important aspect of the capacity and sovereignty of a State, and needs to be reorganized. To facilitate thorough reforms, there is the need to introduce, in advance, within the scope of a pact to enhance purchasing power, new concepts such as “contractual interdependence” to free up expertise, talents and know-how for the benefit of African citizens.

Such approach cannot be based on the mere renewal of processes and old-time practices, which are sometimes remotely controlled from outside. Africa should be able to recall that it is neither responsible, nor at fault, in the current financial crisis of 2008, yet it has rights and duties towards its citizens. It is therefore necessary to review concepts and above all to adopt a short term rolling programme whose vision is anchored on a new approach to economic prosperity based on the introduction of technology and the spread of knowledge involving economic actors and a process of accountability. The fragility of markets is such that the analyses and structuring of State budgets can no longer be based on hypothetical financing from development assistance. Africa is not in recession and should be able to find ways and means of enhancing its productivity. All said and done, Africa’s shortfall has been directly reflected in economic flows, financial flows including the mobilization of resources for Africa in State budgets, the lack of adequate investment, increased marginalization of the production sector and obviously capital flight, corruption and the inability to redistribute social nets.

11. Towards accountable, adapted taxation

We cannot deal with economic sovereignty in Africa without raising the issue of taxation and its role in the redistribution of the fruits of economic growth. Tax revenue collected by the central governments of African States in 2007 ranged from 6% of GDP for Congo (Brazzaville) to 56.8% for Lesotho, although many countries did not provide any statistics in this respect (World Bank, 2009c). The private sector, and particularly enterprises, has often complained of constraints, among which three main ones can be highlighted in June 2008 for Sub-Saharan Africa:

- There are more than 38 types of payments in the settlement of State tax obligations in Africa, whereas it takes only 16 hours in industrialized countries;
- It takes about 312 hours to be in order with the taxation services, whereas only 181 hours are needed in the industrialized countries;

- The tax burden on enterprises in terms of profit tax is high at 66.9% in Sub-Saharan Africa¹⁸ as against 40.3 % in the industrialized countries and 39.9 % in Asia (East and Pacific region), or 48.6 % in Latin America and the Caribbean (World Bank, 2009c: 292).

African States are not known to promote the private sector. It is not unfounded that the problem of predator and arbitrary exaction on the private sector stem from a serious misunderstanding of the concept of creation of wealth and economic prosperity in Africa. Sub-Saharan Africa's fiscal balance excluding grants in 2008 was 0.3 %¹⁹ of GDP, and 1.3 % of GDP with grants. However, the consequences of the crisis are reflected in the substantial decrease in the fiscal balance excluding grants in 2008, at -6.4 %²⁰ of GDP and -4.8 % of GDP including grants (IMF, 2009a: 69 and 70).

Besides figures, the tax basis enabling good collection is relatively weak in Africa and depends largely on taxes on trade. With the principle of total liberalization of markets, the tax yield will increasingly reduce although no other alternative has been found. Export taxes tend to discriminate between production structures, particularly industrialization. Import taxes, discriminatory as they are, which could make it possible to select goods for import, often lead to abuses for lack of control, and will likely be eliminated with the gradual liberalization of African economies. It is important for African economies to apply rational taxation policies to promote and upgrade local industries before the total liberalization of economies, notably if African States implement the WTO recommendations. Uniform taxes are not recommended since the lack of discrimination in favour of the agricultural and industrial sectors will work against Africa's interest. It is intelligent discrimination that will make it possible not only to attract ethical companies but also to foster productivity and the spread of technological know-how. A certain degree of progressiveness, discussed with the economic actors concerned, should make it possible not only to lend support to entire sectors but also to organize transfers which will boost the sector itself, like for example, in research and development or training.

The real problem arises when the deficit in the mobilization of local taxes may lead to substitution with external assistance, which all affect State sovereignty and lead to external political interference. Moreover, through irresponsibility, some governments no longer deem it necessary to make an effort to organize the collection and mobilization of taxes and systematically solicit budgetary aid from abroad. Besides the possible interference of such aid on the management of State affairs, the real issue is the forecasting and reliability of the availability of such funds. The coordination, planning, specialization and respect of African programmes are questionable issues that do not present this solution as a lasting one. Strong State budgets with or without foreign contribution are real challenges to African States. This is all the more complicated since the principle prevailing in the mentality of most of the governing class, irrespective of democracy, is that the winner, or declared winner, of elections is also the one to make all decisions.

¹⁸ The overall profit tax on companies in Sub-Saharan Africa stood at 71.2 % ; see World bank (2007), *World Development Indicators 2007*, Washington, D. C., USA.

¹⁹ The figure stands at 0.2 % of GDP when Zimbabwe is included.

²⁰ The figure stands at -6.3 % of GDP when Zimbabwe is included.

The issue is to find institutional counterbalances through which tax allocations and arbitration can be redistributed for intelligent equalization purposes among the various economic actors and local regions. The reality is that often, it is powerful elites who control budgetary allocations and arbitration (Di John, 2009: 29). If not only African Parliaments, but also judicial systems and more independent constitutional courts play a more active role, notably in the conformity of budget execution, there will be greater transparency in the arbitration process. This will reduce the risk of appropriation by tribal or military factions inherent in a system of patronage where budgetary income derived from taxation is not used in the most judicious manner in the interest of African economic actors.

It is important to envisage establishing an accountable taxation system by reviewing concepts and methods of mobilizing domestic resources in Africa without always and systematically considering business operators, the private sector in general and wage earners as the prime target. State credibility is also based on transferring tax-derived resources to concrete achievements that are useful to economic actors. In this respect, the wholesome “globalization” approach adopted by some States seems to be at odds with the real needs and vulnerability of African economies (Keen & Mansour, 2008). Actually, it is all this confusion that has led certain African leaders to believe that the State has the absolute right to raise taxes and use the proceeds unchecked. This is the famous Tax State of which the economist Schumpeter talks (Schumpeter, 1954). A State that uses taxes not as a means of regulating economic activity but solely as a means of draining national and international production is an economic anomaly. A remedy is needed at both the national level and in decentralized areas where local taxation operates.

But broadening the tax base by paying greater attention to tax evasion in all its forms, the most common of which are the flight of African capital and financial resources, remains the real challenge.

12. Recommendations: Towards a Pact to Enhance Purchasing Power and Economic Prosperity

Recommendations should emanate from the economic actors associated in this brainstorming on the foundations of “another Africa”, those who establish coherence between being and having, and marginalize “seeming”, an economic panacea through which the advent of a shared economic prosperity has been delayed.

However, it is necessary to make sure that all proposed actions or recommendations are accompanied by the identification, however summary, of the authorities primarily responsible for the implementation. This will make it possible to avoid just making a list of pious wishes. The originality of this alternative approach is based on the fact that right from the start, through a “bottom to top” method, it brings on board the following economic actors and groups of development stakeholders.

African authorities (AA), public donors (PD), foreign direct investors (FDI), African civil society (ACS), African private sector (APS), the Diaspora (D), international civil society (ICS), etc. Proposed measures must fall within a specific framework and, where possible, be linked to a geographic area; they should not serve as antidotes for palliative approaches which sometimes render the African an unwitting actor perpetuating his status as an adjustment variable. The following three classifications have been proposed:

- Emergency and short-term measures (1- 3 years within a geographic area);
- Medium and long-term measures (3-7 years and 10-25 years within a geographic area);
- Anti-palliative measures (or measures to combat the poverty trap).

As much as possible, it is necessary to systematically propose the implementation modus operandi without constantly resorting to “Just let go”. Accordingly, proposals on plausible and alternative funding sources would be commendable if they do not necessarily resort to the so-called “international community”, or systematically to the State, except where the latter is playing the role of regulator, guide or disseminator of knowledge, skills, technology and know-how.

The political and economic objective is to render African countries intermediate economies by 2025 and use the new role of the State as regulator and of the private sector as a socially responsible actor in the pact to enhance purchasing power, the creation of wealth and the fostering of economic prosperity.

The following measures (the list is not exhaustive) have been proposed to launch the debate:

12.1 Emergency and Short-term Measures:

- Limit debt service payments to an amount about 7 % of the national budget to make the debt more bearable
[X] AA [X] PD FDI [] [] D [] ACS [] ICS [] APS
- Prioritize the payment of the domestic debt over that of the external debt; settle the domestic debt within a short period, especially entrepreneurs’ credits on the State so that the domestic debt can become an economic lever for business
[X] AA [] PD FDI [] [] D [] ACS [] ICS [X] APS
- Reduce transaction costs by improving business environment indicators, notably by easing the reduction of factor costs at regional level (such as costs relating to trade, transport, customs, etc.)
[X] AA [] PD FDI [] [] D [] ACS [] ICS [X] APS
- Implement the African Productive Capacity Initiative adopted in 2004 by African Union Heads of State, NEPAD and Regional Economic Communities. The initiative has become NEPAD’s industrial strategic programme
[X] AA [] PD FDI [] [X] D [X] ACS [] ICS [X] APS
- Facilitate the establishment of community financing institutions in the microfinance sector, with geographical limitations and control mechanisms
[X] AA [] PD FDI [] [X] D [X] ACS [] ICS [] APS
- Remove taxes on technological transfers/imports, especially by the Diaspora, from taxation. This should also apply to the importation of equipment enabling the improvement of technological content, know-how

- and local productivity
☒ AA ☐ PD FDI ☒ ☐ D ☐ ACS ☐ ICS ☒ APS
- Stop economic discrimination by authorizing free transfers by (IBAN) between the euro zone and the CFAF zone
☒ AA ☐ PD FDI ☐ ☒ D ☒ ACS ☐ ICS ☒ APS
 - Reintroduce the development of production structures and technological content in the African Millennium Development Goals
☒ AA ☐ PD FDI ☐ ☐ D ☒ ACS ☐ ICS ☐ APS
 - Diversify the export basis by incorporating it in the local products processing chain in order to improve the trade balance and the balance of payments
☒ AA ☐ PD FDI ☐ ☒ D ☒ ACS ☐ ICS ☐ APS
 - Renegotiate grace periods with public and private creditors in order to ease pressure on the balance of payments
☒ AA ☐ PD FDI ☐ ☒ D ☒ ACS ☐ ICS ☒ APS
 - Establish the African Monetary Fund with 12-20 countries having short and long-term room to manoeuvre (solidarity in times of crises or financial shocks, support for balance of payments and an anticipation fund)
☒ AA ☐ PD FDI ☐ ☒ D ☒ ACS ☐ ICS ☒ APS

12.2 Medium- and Long-term Measures

- Integrate the Pact in a rolling strategic programme based on a grassroots economy
☒ AA ☒ PD FDI ☐ ☒ D ☒ ACS ☐ ICS ☒ APS
- Increase the number of African citizens having access to financial institutions and credit (currently about 2 % as against 26 % for Latin America and the Caribbean)
☒ AA ☐ PD FDI ☐ ☒ D ☒ ACS ☐ ICS ☒ APS
- Request African sovereign funds to invest in productive capacity in Africa
☒ AA ☒ PD FDI ☒ ☒ D ☒ ACS ☒ ICS ☒ APS
- Establish the African Monetary Fund (AMF), the African Central Bank (ACB), the African Investment Bank (AIB), the Diaspora Bank (DB), and the African common currency (regionalized) as well as introduce regulation to facilitate the establishment of intermediary institutions adapted to needs
☒ AA ☒ PD FDI ☐ ☒ D ☒ ACS ☐ ICS ☒ APS
- Prevention and interdependent coverage of systemic risks through the establishment of decentralized institutions with the role to watch, anticipate crises and structure major African production
☒ AA ☒ PD FDI ☒ ☒ D ☒ ACS ☒ ICS ☒ APS
- Earmark posts for the Diaspora to ensure the effective participation of Africa's 6th region
☒ AA ☐ PD FDI ☐ ☒ D ☐ ACS ☐ ICS ☐ APS
- Ensure that environmental conservation is included in the development of productive capacity, and anticipate climate change constraints
☒ AA ☒ PD FDI ☒ ☒ D ☒ ACS ☒ ICS ☒ APS
- Participate in the reform of the Bretton Woods institutions based on a regional approach, and increase Africa's political influence within the international financial system (particularly within institutions such as the IMF, the World Bank Group, the World Trade Organization, the United Nations and its specialized agencies, the African Development Bank Group, etc.)
☒ AA ☒ PD FDI ☐ ☒ D ☒ ACS ☐ ICS ☐ APS
- The institutions that poorly advised African Governments, notably on the debt and strategies that failed to generate shared wealth should be made accountable

- [X] AA [] PD FDI [] [] D [X] ACS [] ICS [] APS
- Regulate the market, drawing inspiration from certain Islamic financial practices to foster well-being in Africa
[X] AA [] PD FDI [] [] D [] ACS [] ICS [] APS
 - Encourage persons investing in tax havens in Africa to reinvest in the continent
[X] AA [X] PD FDI [X] [X] D [X] ACS [X] ICS [X] APS

12.3 Anti-Palliative Measures

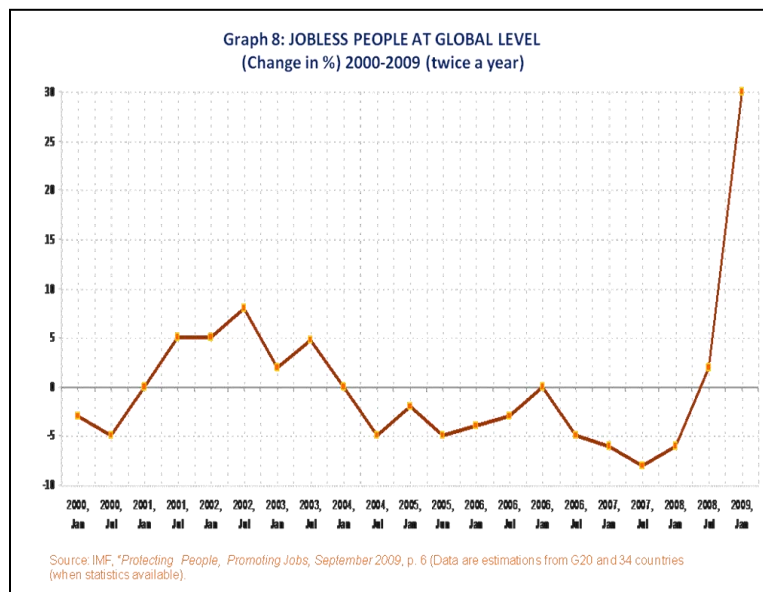
- Call for amendments in the Millennium Development Goals and its spin-off such as “poverty reduction” through the “generation of shared prosperity”, and reintroduce, for Africa, the strengthening of production structures, the creation of decent jobs and the protection of purchasing power
[X] AA [X] PD FDI [] [X] D [X] ACS [] ICS [] APS
- Require all international institutions to systematically present statistics on Africa as a continent before producing regional data
[X] AA [X] PD FDI [] [X] D [X] ACS [] ICS [] APS
- Involve representatives of African economic actors (private sector, organized civil society, taxpayers-consumers, etc) in the decision-making process
[X] AA [X] PD FDI [] [X] D [X] ACS [] ICS [] APS
- Establish skill pools and groupings of economic actors organized in sectoral networks (commodities, etc.)
[X] AA [] PD FDI [X] [X] D [X] ACS [] ICS [X] APS
- Enhance information transparency and create counterbalances
[X] AA [] PD FDI [] [] D [X] ACS [] ICS [] APS
- Establish a disputes settlement body based on contractual interdependence
[X] AA [] PD FDI [] [] D [X] ACS [] ICS [X] APS

African authorities can no longer hide behind the veil of "national sovereignty" to influence the economy and finance. The ever increasing role of trans-national companies sometimes backed by industrialized or emerging Nations causes African governments to opt for silence in order to arbitrate to the detriment of their respective populations. Resistance, watchfulness and anticipation can only take root in an atmosphere of transparency and financial and monetary precaution. Regional integration as well as monetary and financial harmonization in the continent are no longer alternatives but rather survival strategies.

The responses proposed can be modulated and constitute sub pacts which should be based on counterbalances. For all these actions to be coherent, they need to be integrated in an ***African Pact to enhance purchasing power and the generation of economic prosperity*** (Amaïzo, 2009: 35). This is a rolling strategic program that can be adapted to the short, medium and long-term.

With more than 241 million unemployed persons in the world in 2009²¹ considering measures taken by the G20 which saved about 11 million jobs (Graph 8), the task is titanic and requires total reform of African production methods and economic vision. Where possible, there should be no contradiction between taxpaying citizens and the leadership. Were “unemployment” in the poorly catalogued African informal sector to be included, the new African economic paradigms should not mimic approaches bent on spurring growth without generating employment and productive occupations.

Africa needs to find anticipation mechanisms in order to limit strategic arbitration that is detrimental to its own interests. The constant rise of strong, resistant economic growth that does not trigger the creation of decent jobs in Africa gives an impression of more cooperative and coordinated approaches. Boosting purchasing power will be aimed at increasing the expenditure of economic actors, notably households in the community. That, probably, is the prime role of any economy, be it traditional or alternative.



²¹ ILO (2009), *Presse release*, 18 septembre 2009, No ILO/09/45, voir http://www.ilo.org/global/About_the_ILO/Media_and_public_information/Press_releases/lang-en/WCMS_113989/index.htm >. voir aussi ILO (2009), *Protecting People, Protecting jobs*, ILO, Geneva, Switzerland, September 2009, see <http://www.ilo.org/public/libdoc/jobcrisis/download/protecting_people_promoting_jobs.pdf> as well as the final report of ministers of finance and central bankers of the world's leading twenty economies meeting in Saint Andrews, Scotland, on 6 November 2009.

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