

Global Financial Crisis : Alternative Responses of Africa

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AGENDA

1. **Economic Resilience and Development:
Asking the right questions**
2. **Impact of the 2008 Financial Crisis on Africa**
3. **Reactions of African authorities**
4. **Alternative Responses: Purchasing power
and Economic Prosperity**
5. **The Way Forward: Accountable for Agile
and Participative Pacts**

Alternative conception of « Development »

Poverty :

Deprivation of basic rights,
Participative process in
generating economic prosperity

Beyond
Accumulation of
wealth and growth
of GDP or income

Shared
leadership with
women

DEVELOPMENT AS AN INCLUSIVE PROCESS

(Economic, social, cultural and political)

• BEYOND MARKET AND STATE ROLES:

- ✓ Both failed in the past
 - Wealth creation (market)
 - Equity and distribution (State)

• BEYOND EFFICIENCY VERSUS EQUITY:

- ✓ Accountable to values and norms
- ✓ Legitimacy, democracy
- ✓ Solidarity and Collective efficiency

DEVELOPMENT AS A REGULATION PROCESS

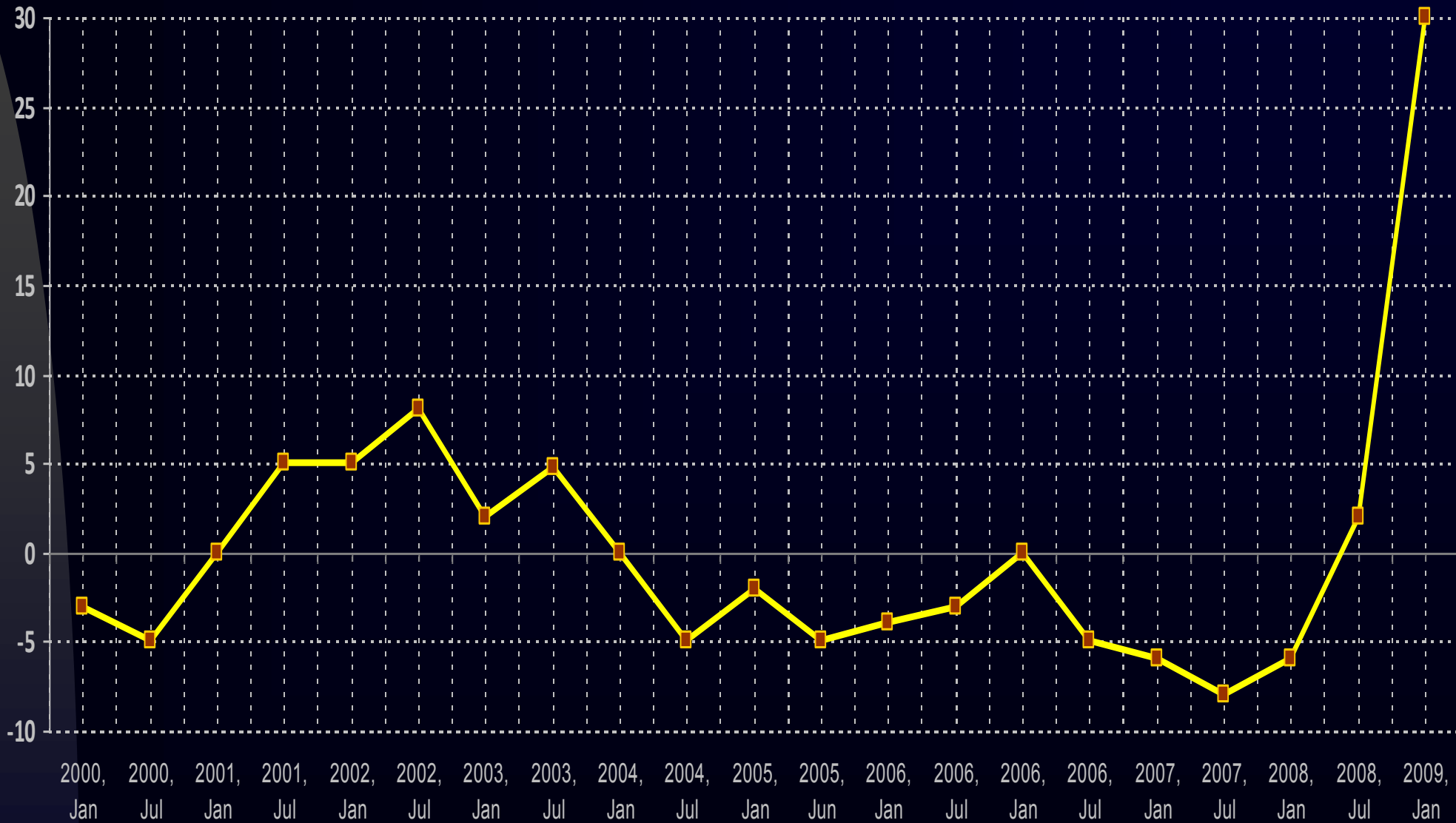
(Economic, social, cultural and political)

Concentration of Power over
Productive structures
without local re-investment

Unilateral diffusion of
a « dogmatic vision of
the markets » or the
« State » without
alternatives of reforms

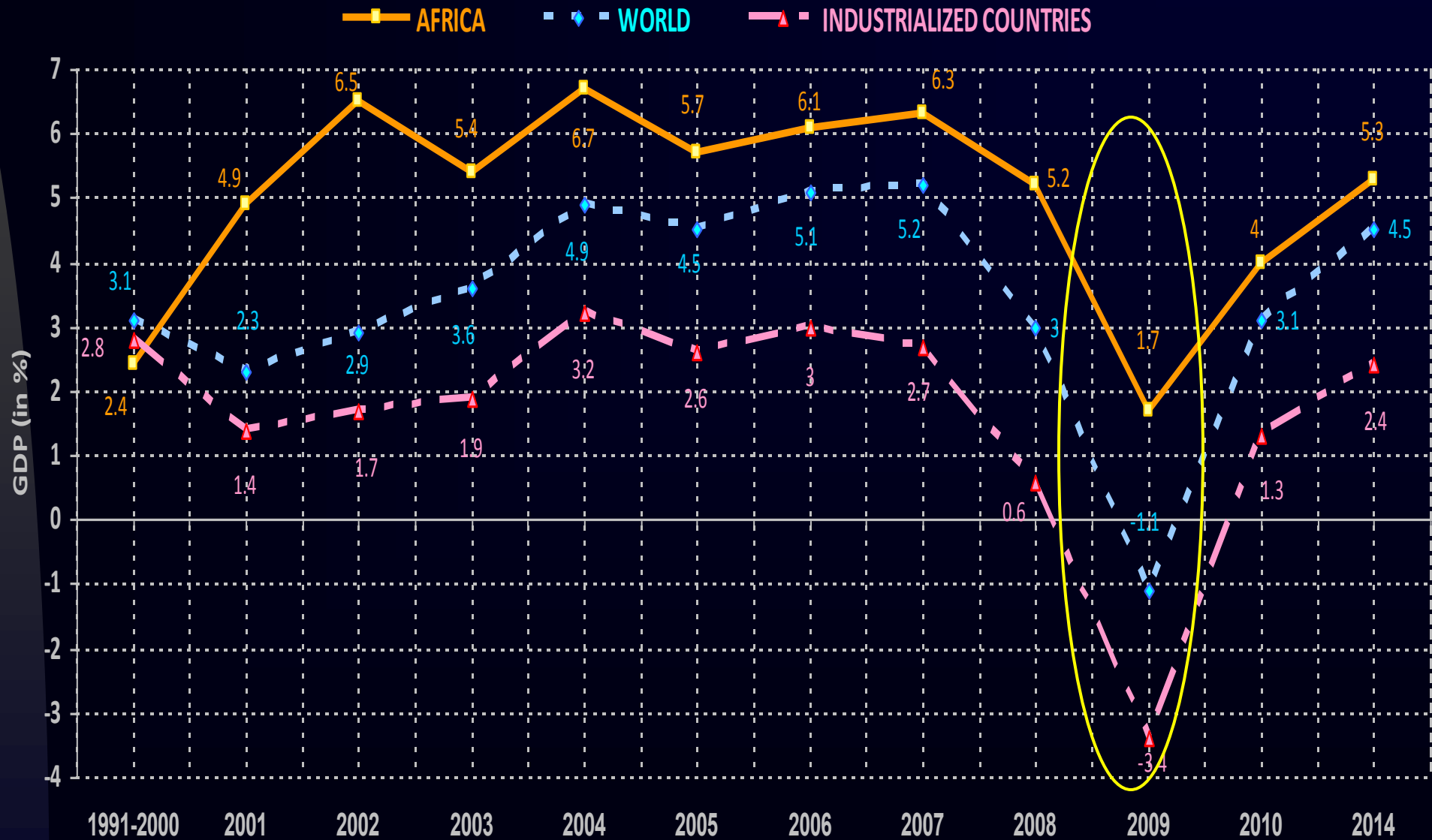
Undermine the promotion of values

JOBLESS PEOPLE AT GLOBAL LEVEL (Change in %) 2000-2009 (twice a year)



Source: IMF, "Protecting People, Promoting Jobs, September 2009, p. 6 (Data are estimations from G20 and 34 countries (when statistics available)).

AFRICA SUPPORTS THE GLOBAL ECONOMIC GROWTH, 1991-2014, (Real GDP annual change, in %)



1. Economic Resilience and développement:

Asking the right questions

AFRICA AND THE 2008 FINANCIAL CRISIS :

Strategic Awareness, Reformulation of Objectives and Policy Differentiation

□ Recurrent crises on the continent :

- Energy
- Food
- Structure of the economy (shared wealth creation)

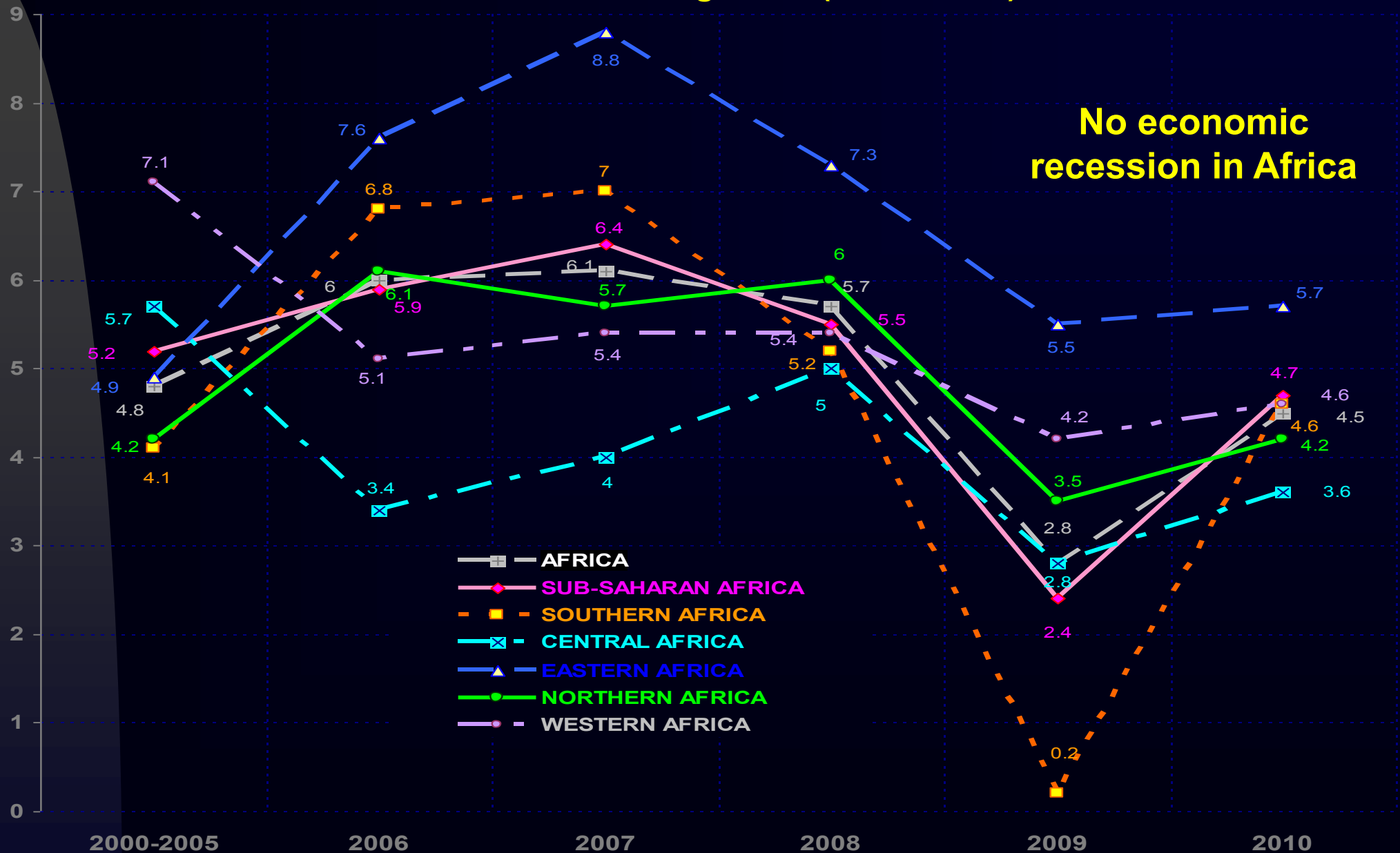
□ Is Africa unable to plan its future ?

- ✓ Sustainably dependent on Development Aid?
- ✓ Hostage of the market?
- ✓ No collective interest in economic sovereignty?
- ✓ No interest in improving African people's daily and future well-being?
- ✓ No collective discipline in responding to the 2008 financial crisis and to structural crises?

2. Impact of the 2008 Financial Crisis on Africa

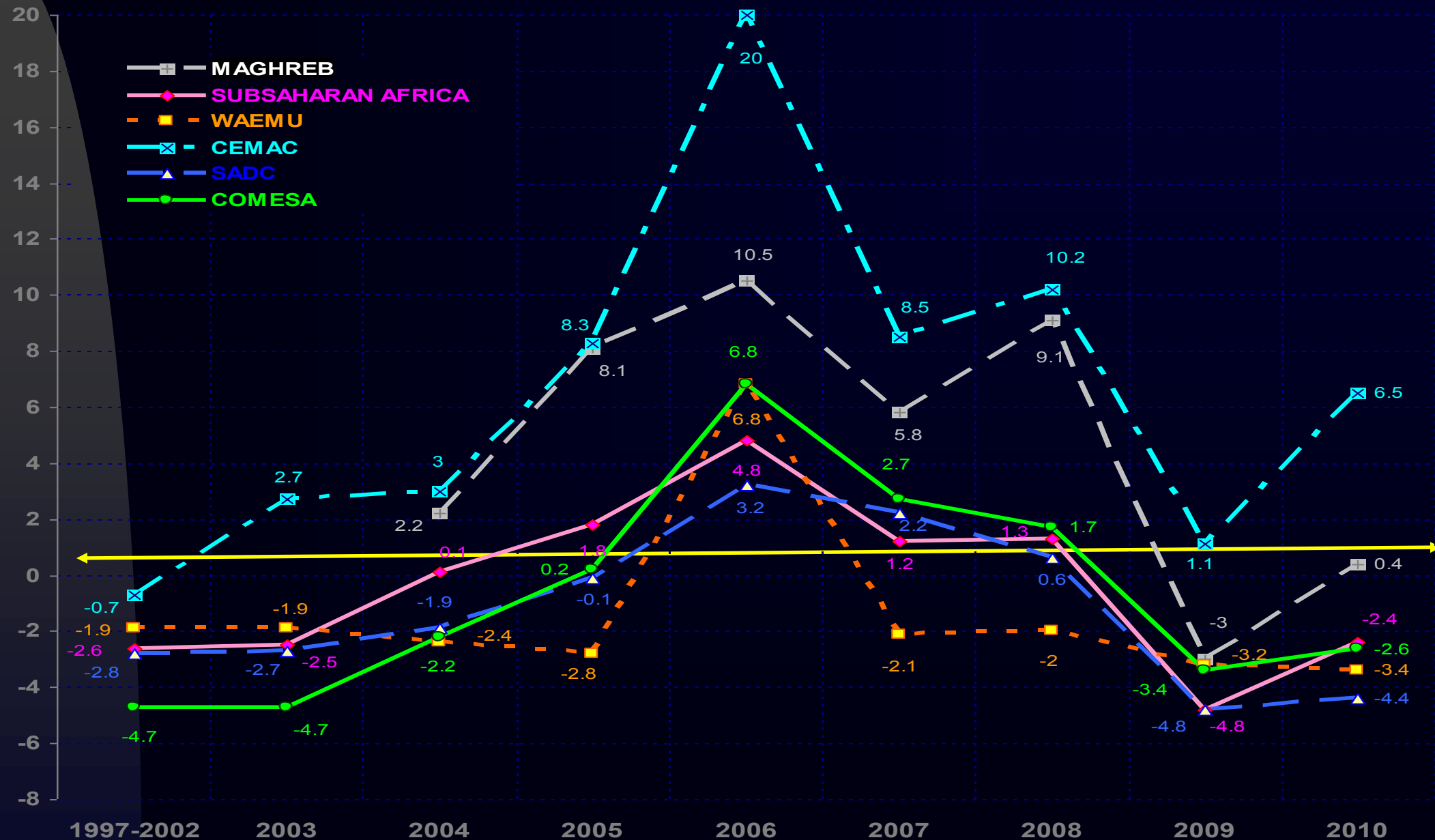
AFRICA : GDP GROWTH PER REGIONS, 2000-2010

Annual change in % (ADB/OECD)



THE CRISIS ERODES FISCAL AND BUDGET SPACES

Overall Fiscal Balance including Grants, 1997-2010, en % of GDP

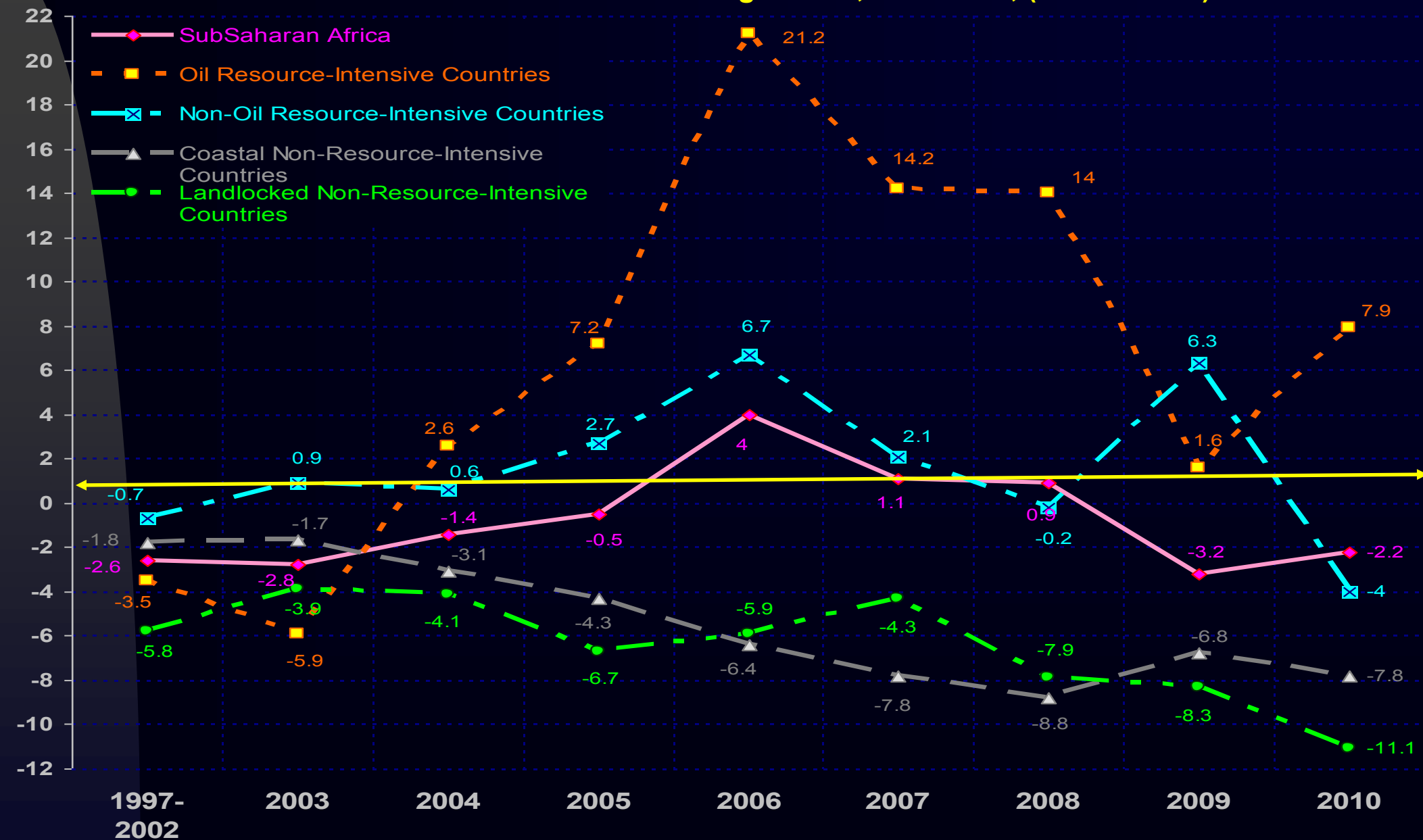


* Maghreb: For 2004: average of Central Government Fiscal Balance: 2000 to 2004

Source: IMF, *REO, SSA: Weathering The Storm*, Oct. 2009, p. 69. and IMF, *REO, ME & CA*, Oct. 2009, p. 50.

THE CRISIS HITS DEPENDING ON THE ECONOMIC STRUCTURE

External Current Account including Grants, 1997-2010, (in % of GDP)



CONSEQUENCES OF 2008 FINANCIAL CRISIS SHIFTED AND REDUCING AFRICA'S POLICY AND FISCAL SPACES

**Vulnerability
and
Réactivité**

**Anticipation
and
Resilience**

**External
Resources**

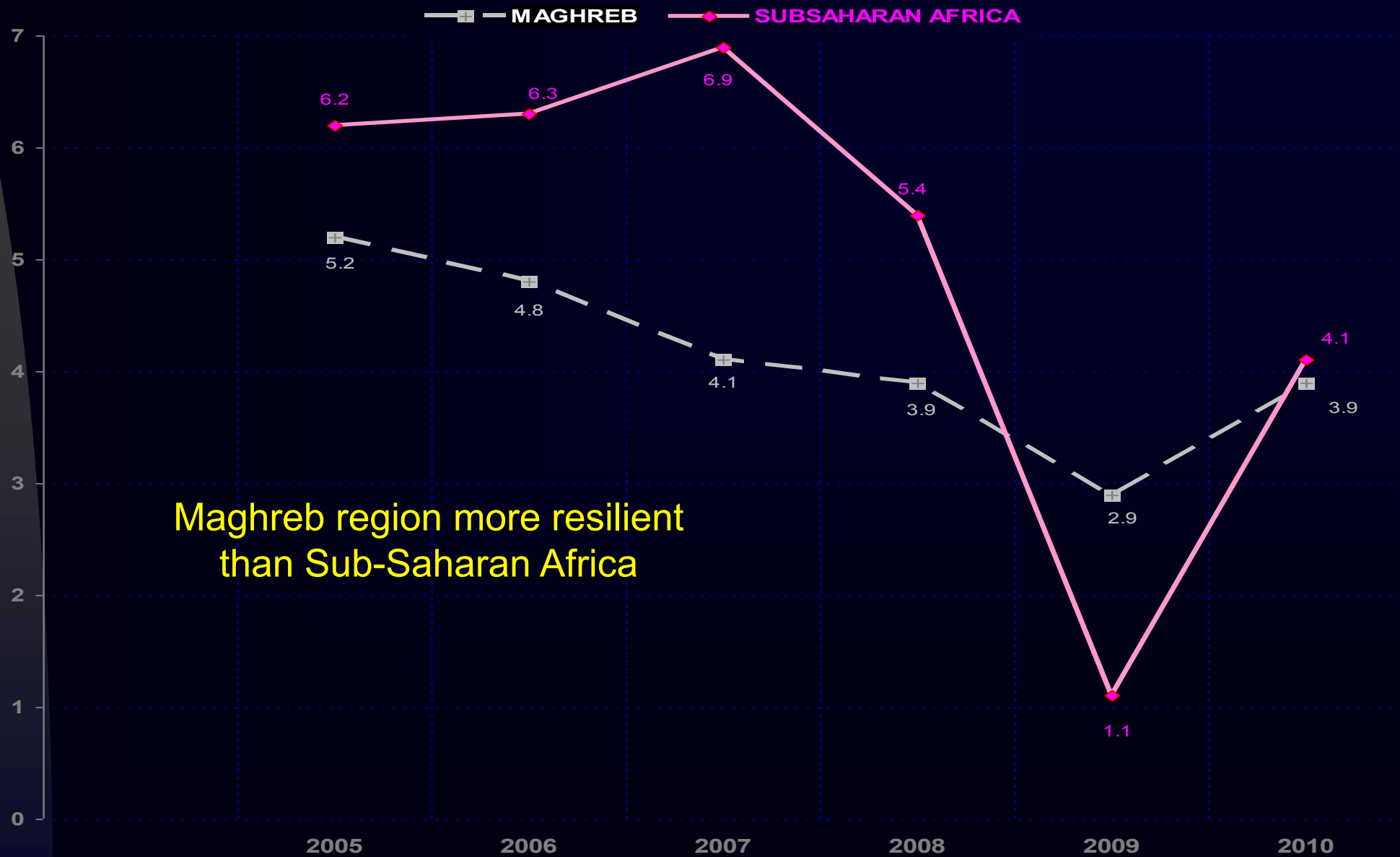
**Internal
Resources**



3. Reactions of African Authorities

SUB-SAHARAN AFRICA VERSUS MAGHREB REGIONS

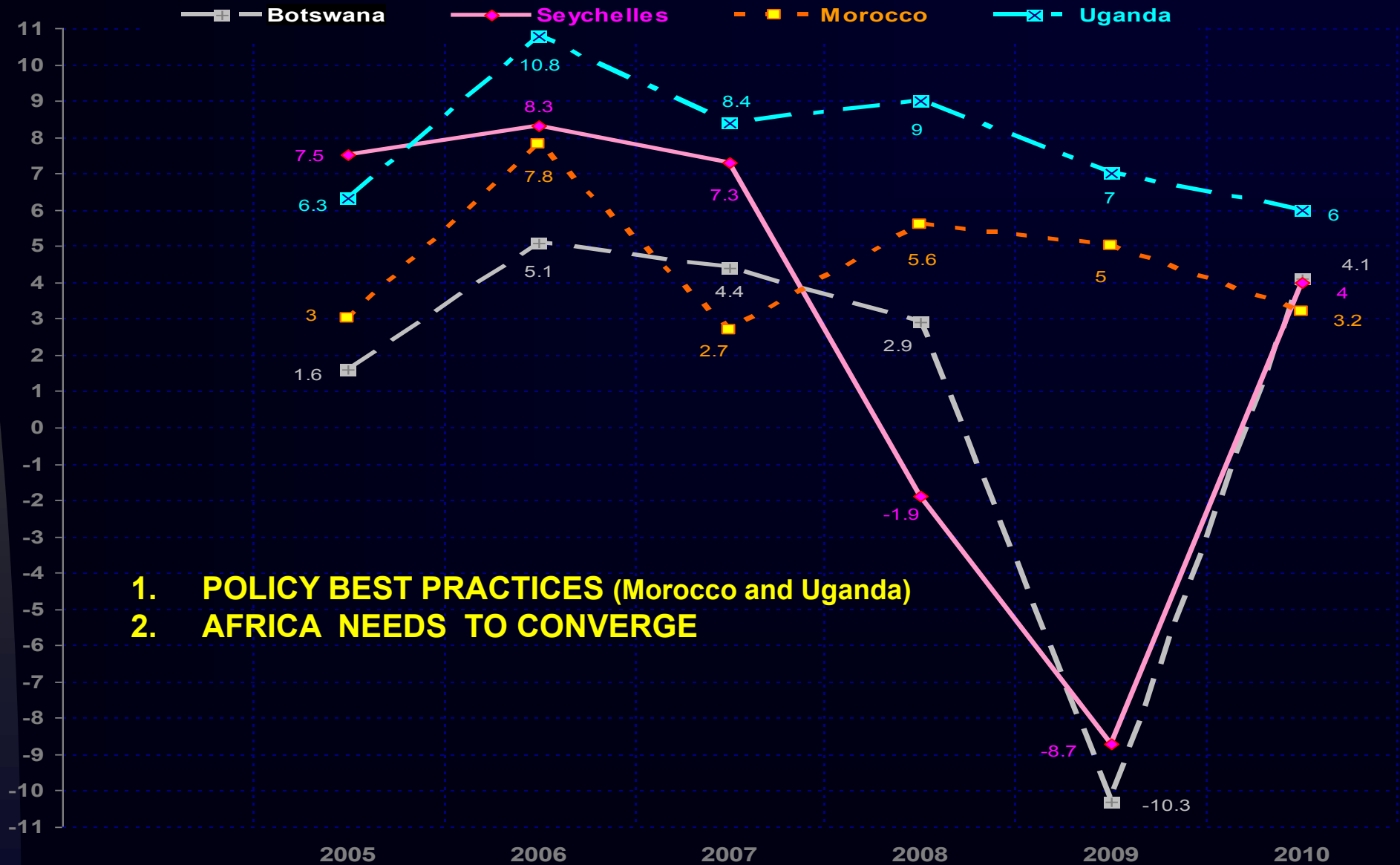
(Real GDP Growth, annual change in %)



Maghreb region more resilient
 than Sub-Saharan Africa

*Source: IMF, REO, SSA: *Weathering The Storm*, Oct. 2009, p. 62. and IMF, REO, ME & CA, Oct. 2009, p. 44.

BOTSWANA and SEYCHELLES (most hit) VERSUS UGANDA and MOROCCO (Less hit)
 (Real GDP Growth, annual change in %)



1. **POLICY BEST PRACTICES (Morocco and Uganda)**
2. **AFRICA NEEDS TO CONVERGE**

*Source: IMF, REO, SSA: *Weathering The Storm*, Oct. 2009, p. 62. and IMF, REO, ME & CA, Oct. 2009, p. 44.

CONVERGENCE AND MACROECONOMIC STABILITY

POLICY SPACE:

Stability first, recovery later

1. Growth of GDP per capita > 2,25 %
2. Inflation < 6 %
3. Volatility of exchange rates < 6 %
4. Balance surplus
 - 4.1 Fiscal balance
 - 4.2 Trade Balance
 - 4.3 External Current Account
5. External Debt < 60 % PIB
6. Debt service and grace period
7. Additional concessional loans
8. Limit to Capital flights
9. International reserves
10. Domestic Debt paid
11. Focused/Targeted subsidies
12. Regulation of the banking sector
13. Diversification of strategic partners
14. Taking advantages of global recovery (terms of trade, global trade, commodities prices, capital flight, financial resources...)

PRIOR TO RECOVERY

1. Recovery of global trade
2. High Fiscal and budgetary deficit must be reoriented into Productive structures
3. Support of the Monetary policy
4. Effectiveness of policy responses including stimulus packages in support to Purchasing power
5. Confidence and Trust among Banks and financial institutions
6. Stability of Commodities' prices
7. Specific measures for vulnerable people
8. Rejecting a Tax on financial transactions if used to cover Toxics financial assets
9. Organizing a new Watch system on future crises (in reference to 1970, 1975, 1982, 1991... Crises)
10. Establishing a mechanism and process of Accountability
11. Regulation and redistribution principles with a renewed State based on Public-private partnership (Bottom-up approach)

4. Alternative Responses: Purchasing Power and Economic Prosperity

RESILIENT ECONOMIES IN AFRICA IN 2009 (Real GDP, annual % change)

- ❑ All Africa Economies are Resilient to the 2008 Financial Crisis
- ❑ Except 9 countries
 1. Botswana (Diamond, GDP: -10.3 % - **GDP/cap -11,4 %**)
 2. Equatorial Guinea (Volatility of oil price, GDP: -5.4% - **GDP/cap: -8.1%**)
 3. Gabon (Oil prices and electoral campaign, GDP: -1% - **GDP/cap: -2.4%**)
 4. Lesotho (Lack of diversification, GDP:-1% - **GDP/cap: -2.8%**)
 5. Madagascar (Political crisis, GDP: -0.4% - **GDP/cap: -3%**)
 6. Namibia (Lack of diversification, GDP: -0.7% - **GDP/cap: -1.6%**)
 7. Seychelles (Contraction of Tourism, GDP: -8.7% - **GDP/cap: -8.9%**)
 8. South Africa (Food shortage and too much linked to global market, increasing inequality and violence, GDP: -2.2% - **GDP/cap: -3.2%**)
- ❑ **Zimbabwe not on the List, GDP: 3.7% - GDP/cap: 3.7%**

RESPONSES AND NON-RESPONSES OF AFRICAN AUTHORITIES

The “Triple A”: Anticipation, Agility et After-crisis

ANTICIPATION :

Stability First

1. Integration in the budget (2009): Re-Launch the economy based on the consumption
 - ✓ Preserving Purchasing Power
 - ✓ Increasing revenues for economic agents
 - ✓ Fiscal stimulus
2. Increasing Public Investment (infrastructure and Construction works)
3. Acceleration of the pace of disbursement of public expenditure (National and international projects and programs)
4. Identification of main losses of resources (financial)

AGILITY :

Preserving Productive Structures

1. Public-Private Strategic Watch Comittee
2. Market and Value chain analysis Studies on sectors directly hit by the crisis
3. Support/Stimulus Plan for Productive enterprises with the objective to preserve jobs
4. Alternative Markets Studies and Strategic diversification of partners
5. Support to the Banking sector in order to retrieve Trust and confidence in the financial community
6. Specific/Target Measures for vulnerables people
7. Selected Tax holidays

AFTER-CRISIS

Re-Launch the Economy on alternative basis

1. Change of economic paradigm (Shared economic growth, economic prosperity and contractual solidarism)
2. Keeping economic fundamentals under control
3. Insuring financing of SME and Micro-economic activities
4. Increasing public investment (infrastructure and regional integration)
5. Plan MLT for most hit sectors
6. Increasing Purchasing Power and salaries
7. Institutionalization of coordination and negotiation with private sector and civil society organizations (more participative approaches)

EFFECTS AND IMPACT OF THE 2008 FINANCIAL CRISIS

RESILIENCE

1. Limited dependency on demand volatility (commodities)
2. Not/less hit by previous crises (energy/oil, food)
3. Macro-economic fundamentals in green and stables (GDP, Inflation, Budget deficit, trade surplus, surplus of external current account, increasing reserves, debt service limited to country's affordability...)
4. 4th trimester 2008: Economy growth falling, significant decline and deficit of external revenues, tax revenues and external resources (FDI, IP, ALA (African leaving abroad, Diaspora), Grants, Technical Assistance), Negative Trade balance, domestic debt not paid, job destruction...)
5. Resilience en 2009/2010: smooth recovery
6. Buffer Initiatives in support of purchasing power
7. Increasing role of State regulation and redistribution

NON-RESILIENCE

1. Fall of Global Trade (-11,3 %) and contraction of global demand
2. Fall of selected commodities' prices usually exported by Africa
3. Fall of fiscal income/ Decreasing earnings
4. Scarcity of Non-debt generating resources and increasing aggressive conditionalities resources (limited capital flow)
5. Drying of the easy access to credit
6. Fall of remittances of African leaving Abroad (ALA)
7. Deterioration of main macro-economic indicators
8. Weak level of productive structures, of financial institutions and support institutions including on transactions
9. Accountability process inexistent
10. Regulation and redistribution principle of the State not transparent, nor efficient
11. Lost of both Policy and budget space with relevant fiscal space and economic sovereignty

Over production Crisis

Ad hoc or Short-term
Approaches

Strategic and systemic
Approaches

Pressure of the
environnement

**CRISIS OF THE SUSTAINABILITY OF
PRODUCTIVE STRUCTURES**

Opportunities from
the environnement

Too much time devoted to:
"managing" the State and its
services, repairing externalities
associated with a non-
conducive environment

Frequent accidents in the
life cycle of products,
services and of productive
structures in Africa

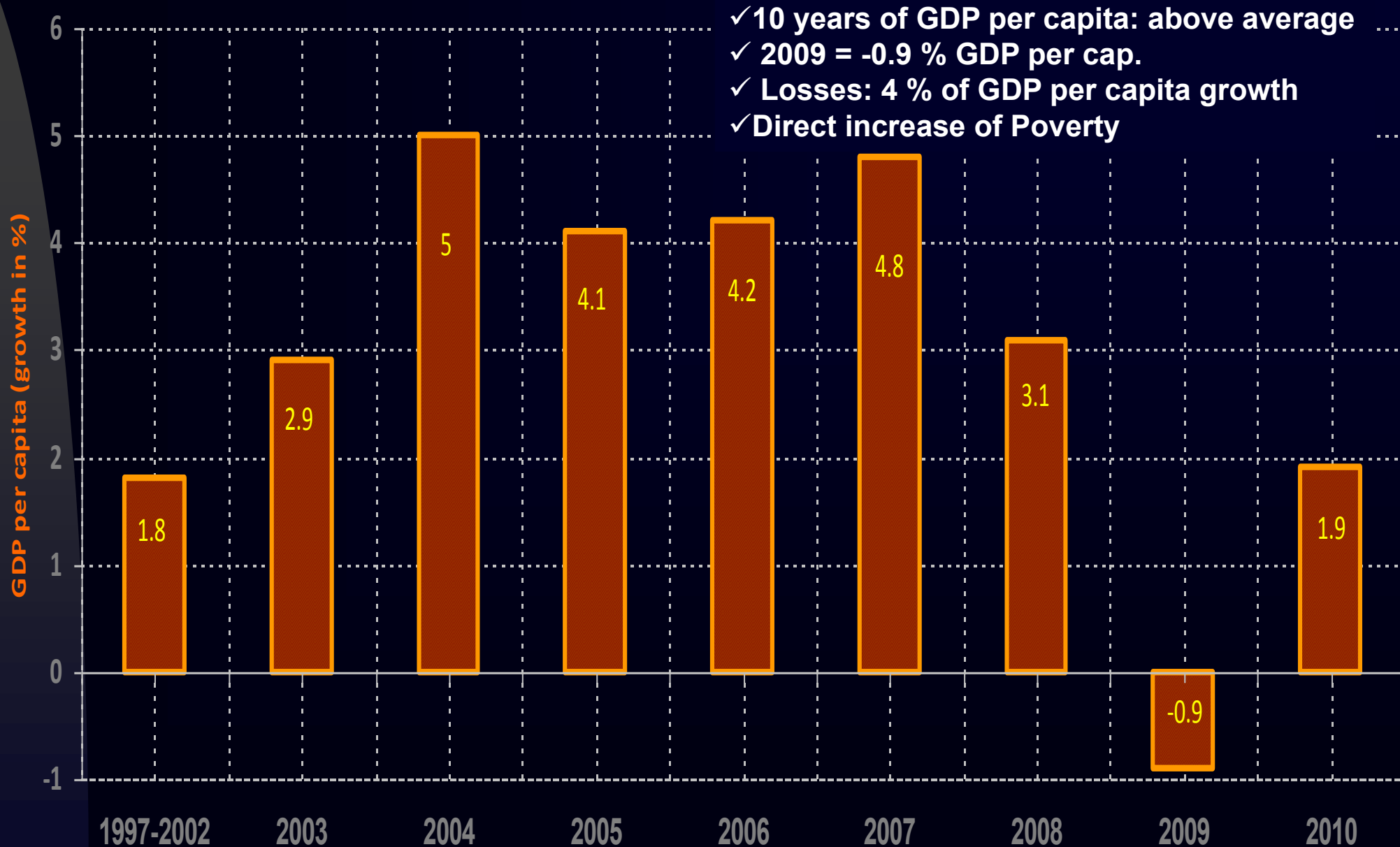
Production Crisis

CUMULATIVE VULNERABILITIES: FIXING FRAGILITIES

1. Purchasing power
2. Productive capacity
3. Technology content
4. Transaction and logistics
5. Regulation and business environment
6. Ownership enforcement and protection of “traditional land ownership”
7. Administrative constraints and corruption
8. Access to finance (weak MLT Finance) and access to market (non-tariff barriers and lack of quality infrastructure)
9. Domestic Debt balance at the expenses of the private sector
10. Benchmarking/Positioning with appropriate measurements criteria (regional average)

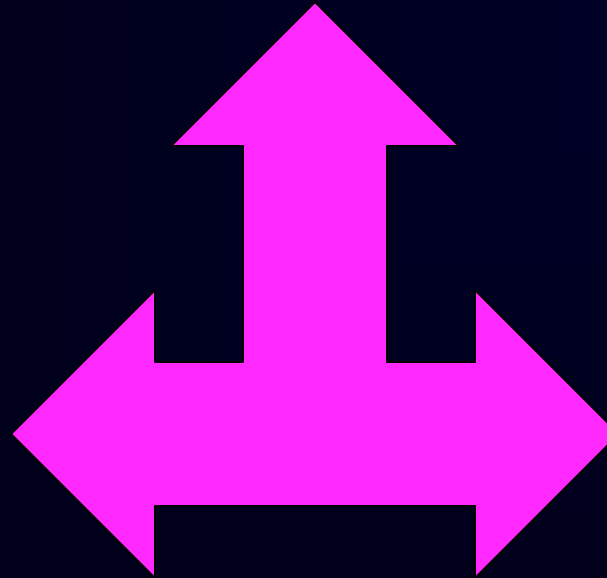
SUB-SAHARAN AFRICA, 1997-2010

Growth of GDP per capita, (annual change in %)



**EROSION OF
SOCIAL CAPITAL**

**ECONOMIC GROWTH
WITHOUT
JOB CREATION**



**DE-
INDUSTRIALISATION
CANNOT BE THE
ANSWER**

**AFRICA SHOULD DEFINE
ITS OWN STRATEGY**

PRODUCTIVE SECTOR: UNESCAPABLE SECTOR FOR PROSPERITY

<p>Economic variable of Adjustment in the global Market</p>	<p>Countries with No Policy Room (Budget constraints)</p>	<p>Social Safety Nets</p>
<p>Debt Generating Resources</p>	<p>Productive sector</p>	<p>Non-Debt Generating Resources</p>
<p>Economic Growth with Job destruction/No Job Creation</p>	<p>Countries with Policy Room (budget initiatives)</p>	<p>Economic Growth with Job Creation</p>

BUILDING POLICY AND BUDGET SPACES:

**Focusing on productive structures and
looking for economic resilience**

TOWARDS AN AGILE AFRICA

- ❑ Macro-economic policy in support to productive and commercial structures and capacities
- ❑ Standing apart from policies moving against the interests of African peoples
- ❑ Re-orienting resources towards economic sovereignty, convergence and regional integration
- ❑ Diversifying strategic partners

5. The Way Forward: Accountable for Agile and Participative Pacts

Revisit the Development paradigm: Economic Transformation and sustainability

**Providing Collective
Responses to Climate
Change**

**Attracting countries
with savings surplus
towards regional
investment**

**Development of Productive
Structures and Decent Job Creation**
(capacities, capabilities and smart partnership)

AFTER 2009 : CONTRACTUAL SOLIDARISM

Institutionalizing Public-Private Partnership including civil society

- ❑ **AFRICA: Losses of 3,5 % of Economic growth in 2009**
- ❑ **Afrocentricity: Moving towards an African economic prosperity paradigm**
- ❑ **Favoring a responsible and coherent fiscal policy**
- ❑ **Pact to support purchasing power, shared wealth creation and economic prosperity in Africa**
 - **At all levels: intra-national, national, sectoral, sub-regional, regional and continental**
 - ✓ **Urgent and Short-term measures/initiatives (1-3 years)**
 - ✓ **Medium and Long-term measures (3-7 et 10-25 ans)**
 - ✓ **Anti-palliatives Mesures (anti-poverty trap)**

ALTERNATIVE PROPOSALS

2008 financial crisis as an opportunity to change

URGENT AND SHORT-TERM MEASURES

1. Adopt a new role of State as regulator
2. Limit debt service to 7% of national budget in order to gain some Policy space
3. Pay Domestic Debt as a priority as a support to SME/SMIs
4. Reduce transaction costs and main factors costs
5. Implement the African Productive Capacity initiative approved by all African Heads of States and NEPAD in 2004
6. Accelerate the convergence, the harmonization and the monetary discipline sub-regional

MEDIUM AND LONG-TERM MEASURES

1. Include the Pact of Purchasing Power in the on-going national budget
2. Direct African sovereign toward investment in productive structures and infrastructure
3. Operationalize the African Monetary Fund, the African investment Bank, the African Central Bank and the African common currency (decentralized areas)
4. Prepare market studies for alternative and strategic diversification of partners
5. Establish the Diaspora Bank
6. Re-launch African Economy using specific measures on raising the consumption as part of the proximity economy approach

ANTI-PALLIATIVES MEASURES

1. Request changes of the Objectives of the Millennium Development Goals: from poverty reduction to shared wealth creation and decent jobs
2. Request that all international and African institutions provide statistics on the whole Africa as a continent
3. Create counter-power institutions on strategic watch
4. Increasing transparency on information related to profits generated in Africa
5. Create an Dispute settlement structure related to « contractual solidarism »
6. Boosting the agglomeration of competencies in Africa

Recovering economic sovereignty space: Financing African economy with new priorities

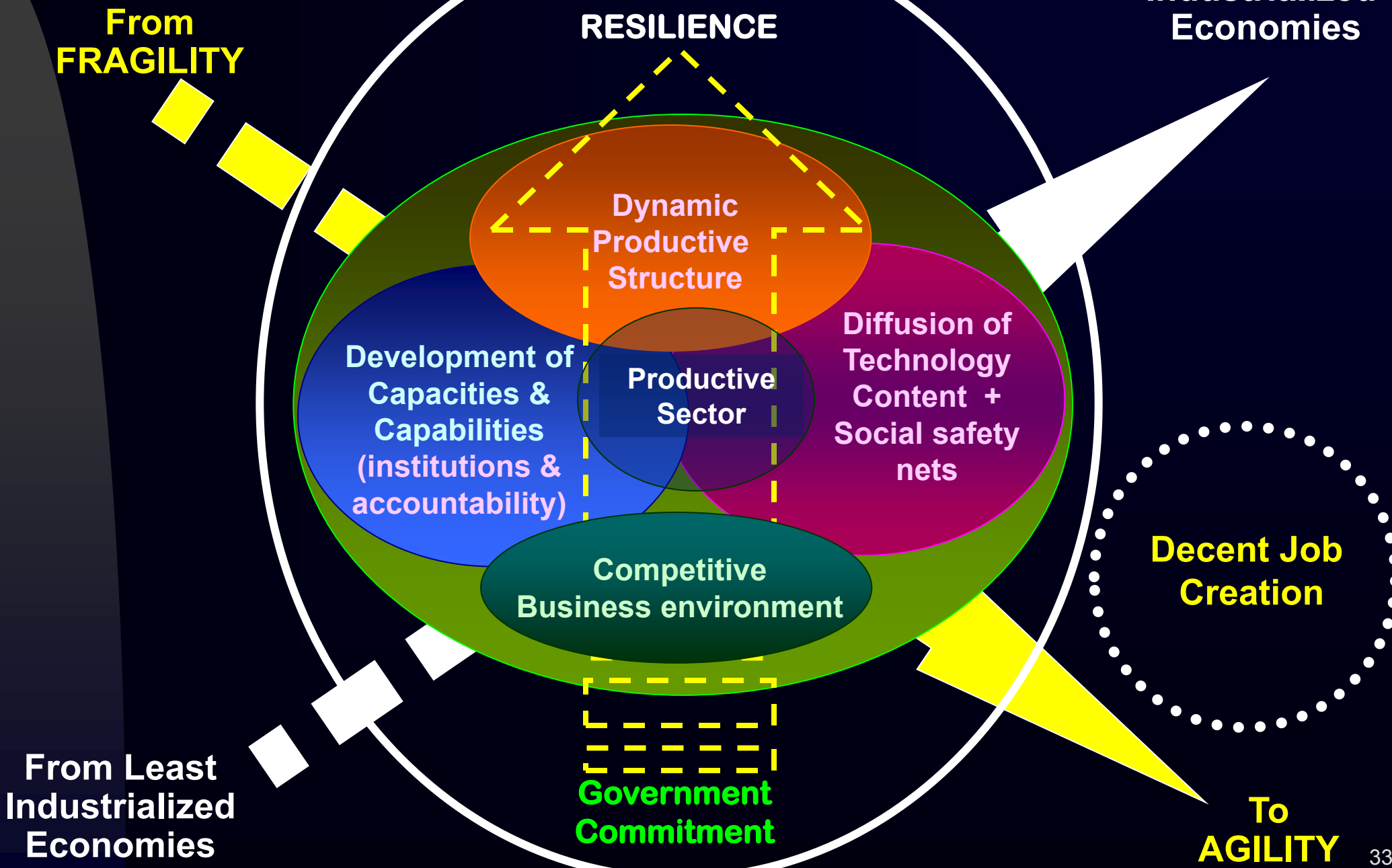
NON-DEBT GENERATING RESOURCES

(Trade surplus, Remittances of
Diaspora, Grant, Diversified
Technical Assistance)

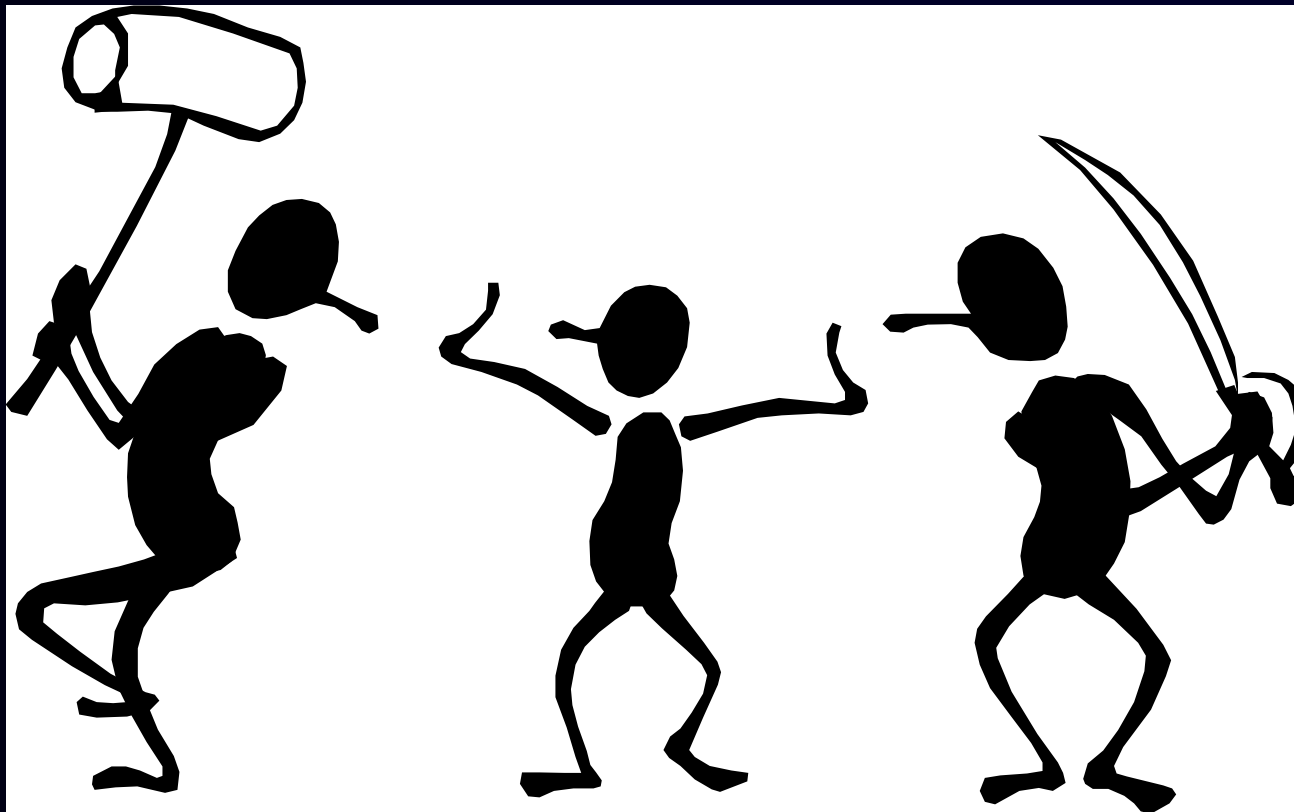
NON-EXCESSIVE CONDITIONALITIES RESOURCES

(Foreign Direct Investment, Portfolio
Investment, Domestic Debt be honored
in real Time)

**Fiscal revenues based on Government
accountability and Responsibility
before African People (Tax payers)**



Discussions ?



Thank you !