Global Financial Crisis: Alternative Responses of Africa

Conference organized by The Coalition for Dialogue for Africa (CoDA)

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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 Reponses: 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

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

Undermine the promotion of values

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

Source: IMF, WEO, October 2009, p. 169
1. Economic Resilience and Development: 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)

No economic recession in Africa

THE CRISIS ERODES FISCAL AND BUDGET SPACES
Overall Fiscal Balance including Grants, 1997-2010, en % of GDP

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 Réactivity

Anticipation and Resilience

External Resources

Internal Resources
3. Reactions of African Authorities
SUB-SAHARAN AFRICA VERSUS MAGHREB REGIONS
(Real GDP Growth, annual change in %)

2005 2006 2007 2008 2009 2010

**Maghreb region more resilient than Sub-Saharan Africa**

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

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
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)
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%

Source: IMF, REO, SSA Oct 09, p. 62 and MECA, Oct 09, p. 44
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 Committee
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 communauty
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…)
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/Descreasing 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
CRISIS OF THE SUSTAINABILITY OF PRODUCTIVE STRUCTURES

Over production Crisis

Ad hoc or Short-term Approaches

Pressure of the environnement

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

Strategic and systemic Approaches

Opportunities from the environnement

Production Crisis

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

10 years of GDP per capita: above average
2009 = -0.9 % GDP per cap.
Losses: 4 % of GDP per capita growth
Direct increase of Poverty

Source: A partir de IMF, REO, Subsaharan Africa. Weathering the Storm, October 2009, p. 64
EROSION OF SOCIAL CAPITAL

AFRICA SHOULD DEFINE ITS OWN STRATEGY

ECONOMIC GROWTH WITHOUT JOB CREATION

DE-INDUSTRIALISATION CANNOT BE THE ANSWER
### PROACTIVE SECTOR: UNESCAPABLE SECTOR FOR PROSPERITY

<table>
<thead>
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- **Economic variable of Adjustment in the global Market**
  - Countries with No Policy Room (Budget constraints)
  - Social Safety Nets
  - Non-Debt Generating Resources
  - Economic Growth with Job Creation

**PRODUCTIVE SECTOR:** **UNESCAPABLE SECTOR FOR PROSPERITY**

- **Debt Generating Resources**
  - Economic Growth with Job destruction/No Job Creation

**Productive sector**

- **Economic Growth with Job Creation**
  - Countries with Policy Room (budget initiatives)

**Unescapable Sector for Prosperity**

- **Economic Growth with Job Creation**
  - Non-Debt Generating Resources
  - Economic Growth with Job Creation
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
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)
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

UGENT 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)
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From FRAGILITY

- Diffusion of Technology Content + Social safety nets
- Dynamic Productive Structure
- Competitive Business environment
- Development of Capacities & Capabilities (institutions & accountability)
- Government Commitment

To AGILITY

- Industrialized Economies
- Dynamic Productive Structure
- Competitive Business environment
- Development of Capacities & Capabilities (institutions & accountability)
- Government Commitment
- Diffusion of Technology Content + Social safety nets
Discussions?

Thank you!