

**RESPONSES BY AFRICAN GOVERNMENTS TO
THE FINANCIAL CRISIS AND LESSONS**

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**ON RETHINKING ECONOMIC POLICY IN LIGHT OF THE
GLOBAL ECONOMIC AND FINANCIAL CRISIS
CONFERENCE**

Abbreviations

IFIs	International Financial Institutions
FDIs	Foreign direct Investments
MDGs	Millennium development Goals
SAPs	Structural Adjustment Programmes
IMF	International Monetary Fund
GDP	Gross Domestic Product
OECD	Organization for Economic Cooperation and Development
LPA	Lagos Plan of Action
AAF-SAPs	The African Alternative Framework to SAPs
UNCTAD	United Nations Conference on Trade and Development
MDRI	Multilateral ‘debt relief’ initiative

Abstract

The global financial and economic crisis presents significant challenges for African countries. It has also exposed weaknesses in the functioning of the global economy and led to calls for the reform of the international financial architecture. Although the crisis was triggered by events in the United States housing market, it has spread to all regions of the world with terrible consequences for global trade, investment and growth.

The crisis represents a serious setback for Africa because it is taking place at a time when the region is making progress in economic performance and management. Since 2000, the Africa region has had an average growth rate of real output above 5 per cent and inflation has declined to single digits.

There have also been significant improvements in governance and a reduction in armed conflicts, making the region more attractive for private capital flows. Net private capital flows to Africa increased from \$17.1 billion dollars in 2002 to \$81 billion dollars in 2007 (ECA and APF, 2008). The global financial and economic crisis threatens to reverse these gains in economic performance and management.

The current crisis is also taking place at a time when the African region is slowly recovering from the negative effects of the fuel and food crisis. Against this background, the key challenge facing African countries is how to manage the current crisis to ensure that it does not reverse progress made since the beginning of the new millennium and thus reducing the prospects of achieving the Millennium Development Goals (MDGs).

This paper identifies the key channels of transmission of the financial crisis to Africa as well as its quantitative impact on the region. It also examines recent policy measures and responses that can be taken by African Governments and regional organizations to cushion the effect of the crisis on economies in the region.

Introduction

As the international financial crisis points to the collapse of laissez faire economics and discredits market fundamentalism, Africa should break free from failed neoliberal policies and the institutions that have promoted them and define their own paths to development.

The markets do not have self-correcting mechanisms, and that market failures are not less costly than state failures. "The collapse of the neoliberal system of belief is a major blow to the international financial institutions. What is even more devastating to them is the reversal of most of the policies they had advocated for decades in Africa and in other 'poor' countries under the now discredited SAPs (structural adjustment programmes). The IMF and the World Bank are supporting fiscal stimulus – expansionary fiscal policies – in the United States, Europe and Asia."

Therefore Africa and Africans should forget neoliberal capitalism and explore new paths to 'an endogenous development for and by its people', this should include restoring capital controls and rejection of unfavorable trade liberalization policies, as well as reversing the privatization of key sectors and natural resources. Likewise, for African governments to restore the role of the state in the development process, should reclaim the debate on African development while learning from the experiences of other countries in Europe, and to build an alternative means for financing development including South–South co-operation and the integration of diaspora remittances into a coherent strategy.

Response by African Governments

The message from the lessons experienced is unambiguous; this is an opportune time for Africa to free itself from the shackles of neoliberal capitalism and explore new paths to an endogenous development by and for its people. Everywhere, in the rest of the world, countries and regions are moving away from the discredited neoliberal paradigm. Africa has been the main victim of ruthless neoliberal policies imposed by the IMF and World Bank for nearly three decades, with catastrophic economic, social and political consequences that the African people are still witnessing.

Remaining within that paradigm and continuing to listen to the IFIs will only worsen the situation in Africa. Therefore, it is time for African countries to make bold and decisive moves towards an alternative development paradigm. Political will is the key to such moves. Without a leadership willing and able to explore alternative development policies, little will happen. So, the fundamental question is whether African leaders have learned enough of the current debacle of neoliberal capitalism. The other question is whether they are ready to break with it and explore an alternative development paradigm.

Below are some of the suggested responses by the African Governments in regard to the results of the global Financial and economic crisis being experienced worldwide today.

1) Discard failed and discredited neoliberal policies

The first step in that direction is to challenge and reject all the failed policies advocated and imposed by the IFIs and which have cost so much to Africa. During its first meeting, the Stieglitz Commission stressed that ‘developing countries should have expanded scope for establishing policies and institutions appropriate for their conditions.

This includes developing frameworks that help insulate themselves from regulatory and macroeconomic failures in systematically significant countries.’ Everywhere, countries and regions are just doing that. In Asia and Latin America, they are taking monetary, fiscal and other measures to mitigate the impact of the financial turmoil on their economies. African governments should also heed this call and take any measures deemed necessary to protect their economies from external shocks. In this regard, African countries should move to restore capital controls and reverse liberalization of the capital account. These policies opened the door to speculative capital flows, tax evasion and increased capital flight, thus contributing to lowering Africa’s domestic savings while increasing its dependence.

African countries should also discard fiscal and monetary austerity as prescribed by the IMF, because these policies tend to choke off economic growth by limiting public investments in key sectors and by drastically reducing social spending. The stimulus policies, adopted by the United States, Europe and other OECD countries, show that in times of crisis, fiscal restraint has no economic logic. So why should African countries accept fiscal austerity when their countries are in an even worse shape than the developed countries?

Another imperative is the rejection of trade liberalization and the restoration of protection for

domestic markets. In the name of ‘free trade’ and ‘comparative advantage’ African countries were forced to accept sweeping trade liberalization that has been very costly in economic and social terms. Trade liberalization has increased Africa’s external dependence, destroyed domestic industries, accelerated deindustrialization and led to the deterioration of its terms of trade. While African countries were being told about the virtues of ‘free trade’, OECD countries were provided huge agricultural subsidies erecting disguised or open protectionist policies.

Still in the name of ‘comparative advantage’, African countries were forced to give priority to cash crops at the expense of food production. The food crisis and Africa’s great dependence on food imports illustrate once again that the IFIs have misled African countries into adopting policies that are detrimental to their fundamental interests. The IMF and World Bank, which bear a great responsibility in the food crisis in Africa, are now all too happy to ‘assist’ African countries in proposing them ‘emergency loans’ to buy food from Western countries.

The same IFIs are behind the attacks against the state that translated into the destruction of the public sector to the benefit of foreign capital. They imposed the privatization of state-owned enterprises in the name of ‘private sector development’ and ‘efficiency’. And private sector development required engaging in a race to the bottom in order to attract foreign direct investment (FDI). To that end, African countries raced to sell off state-owned enterprises, mining industries and natural resources. In several countries, there were even ‘ministries of privatization’ whose main mission was to sell off some of the most profitable public assets.

On the contrary, privatization translated into massive job losses and social exclusion. It may be argued that there is some correlation between the aggravation of poverty and the growing foreign control of resources and assets, because this control is associated with repatriation of huge profits and tax evasion. In a sense, privatization can be assimilated to a robbery of national patrimony – including strategic sectors – through the transfer to foreign control of assets built throughout years of sacrifices by the people.

Therefore, reversing privatization is necessary in order to restore people’s sovereignty over a nation’s resources. It is time for African countries to put back into public and collective hands

the control of key sectors and natural resources. No genuine endogenous development is possible without control of a nation's wealth. So Africa should learn from the lessons being given by capitalist countries, including the United States, which are nationalizing their banks and financial institutions. But more importantly, African countries should learn from the examples of other southern countries, like those of South America and Asia, where governments are taking back what was sold off to multinational corporations.

2) Restore the role of the state in the development process.

Reversing privatization and regaining control of key sectors and natural resources requires a strong and active intervention of the state. Proponents of such intervention have been vindicated by the conspicuous failure of laissez-faire policies and the resurgence of state intervention in developed countries. In Africa, there has been a correlation between state retrenchment, poverty and social exclusion.

In a sense, market failure is worse than state failure. The national security of a country requires a strong and active state. In fragile nations, state intervention is indispensable to the process of nation-building. African countries should defend public ownership and state-owned enterprises without stifling the private sector. This is one of the key lessons of the failed neoliberal policies and of the current financial crisis.

3) Reclaim the debate on Africa's development.

Africa and Africans should reclaim the debate on their development. They should never accept again that others speak in Africa's name. Genuine development is an endogenous process. No external force can bring development to another country. So, Africans should restore their self-confidence, trust African expertise and promote the use of African endogenous knowledge and technology. Since development should be viewed as a multidimensional and complex process of transformation, there can be no genuine development without an active state. However, the state is no longer the only player. It has to contend with civil society, which has become a key player in the debate of Africa's development.

In the search for an alternative paradigm, Africa should revisit key documents, such as the Lagos Plan of Action (LPA), the African Alternative Framework to SAPs (AAF-SAPs), the Arusha Declaration on popular participation, and the Abuja Treaty, among others. An update of these documents and the integration of contributions made by the struggles of civil society organizations in the areas of gender equality, trade, finance, food sovereignty, human and social rights should help Africa come up with its own development paradigm.

It is necessary to stress again that Africa's regional and continental integration is a key to its survival and long-term development. Thus only a collective and concerted effort can help Africa overcome the multiple obstacles that lie on the road to an endogenous, people-centered, democratic and sustainable development. So Africa should learn from the experiences of other regions of the global South. The Chiang Mai Initiative in Asia has been strengthened and a new step has been taken to make it a full-fledged monetary fund. In Latin America, the Bolivarian Alternatives of the Americas (ALBA) and the South Bank are strengthening the solidarity of the region through closer economic, financial and political ties. These instruments help these countries to resist in a stronger position. Africa has wasted so much time in the process of integration. The crisis should once for all open the eyes of African leaders and citizens that the only way for Africa to survive is to move towards a genuine integration of states and peoples.

4) Financing Africa's development

The external debt crisis and the low level of FDIs, all this shows that Africa cannot count on external sources to finance its development. Reclaiming its sovereign right to design its own policies goes with vigorous efforts to raise resources internally and shoulder a greater part of the resources needed to finance its development. The African Development Bank rightly claims that ‘The continent needs to boost domestic resource mobilization – through financial and fiscal instruments – to support growth and investment. Addressing these issues require strategic interventions at various levels.

So, the priority should be domestic resource mobilization. African countries should adopt new monetary and fiscal policies aimed at increasing domestic savings. And the potential is huge indeed, if African countries give themselves the means to achieve this objective. In a study about Christian Aid indicates that African countries are losing billions of dollars in tax revenues for lack of enforcement of agreements with foreign companies investing in various sectors, especially in the mining industry. Confronted with weak and ineffective states, these companies resort to various means to avoid paying taxes or pay lower taxes. It is estimated that African countries are losing close to US\$160 billion each year, as a result of tax avoidance and tax exemptions.

Therefore, to compel foreign companies to fulfill their obligations and expand the tax base, African countries need to reorganize their states and make them genuine instruments of development. In other words, they need effective states able to enforce agreements and mobilize resources for development. This is a key recommendation made by the United Nations Conference on Trade and Development (UNCTAD) in its report on Africa. It argues that it is time to build developmental states and put them at the centre of the development process in order for African countries to recover the policy space lost to neoliberal institutions over the last three decades. The report says that such states should help African governments improve tax collection, formalize the sprawling informal sector, stop capital flight, make more productive use of remittances from African expatriates and adopt effective measures to repatriate resources held abroad.

Remittances from the African Diaspora have become a growing source of financing. In 2007, they were estimated at US\$27.8 billion. They represent 3.9 per cent of GDP for North African

countries and about 2 per cent for the rest of the continent. But for some countries, remittances account for up to nearly a third (30 per cent) of GDP. In many countries, remittances are higher than ODA and FDIs. In addition, they constitute a more secure source of financing for development, almost cost-free, while both ODA and FDIs are associated with political, economic and financial costs that are much higher than their potential ‘benefits’. So, integrating remittances into a coherent development strategy would reduce external dependence and make expatriates contribute more to Africa’s development.

Another channel through which Africa can find non-traditional financing is South–South cooperation. With the rise of new powers sitting on top of huge cash reserves and willing to build a new type of cooperation with African countries, it is an opportunity that should be used wisely. Already, several African countries are turning more and more to these powers, like China, India, Iran, Venezuela and Gulf countries, for loans, direct investments and joint ventures. South–South trade has increased from US\$577 billion to US\$1,700 billion between 1995 and 2005 and it keeps rising. In 2008, trade between Africa and China was estimated at US\$107 billion, with a favorable balance for Africa. By developing its economic and financial ties with the rest of the South, Africa will strengthen the policy space it needs to weaken the influence of ‘traditional partners’.

African countries should pursue more forcefully the call for the unconditional cancellation of the continent’s illegitimate debt. The multilateral ‘debt relief’ initiative (MDRI) is not an adequate response to Africa’s demand. Only a few countries are included and they have to comply with crippling conditions dictated by the IFIs. If Western countries and institutions do not heed the demand for debt cancellation, African countries should have the right to take unilateral actions to stop debt payments because they violate the basic human and social rights of their citizens. Along with debt cancellation, African leaders and institutions should join civil society organizations in calling for reparations for centuries of slavery, colonialism, domination, exploitation and plunder of the continent’s resources. This is a protracted struggle, but one which can be won if Africa is willing to sustain that struggle for as long as it takes.

Likewise, Africa should launch another major struggle for the repatriation of the wealth stolen from the African people and illegally kept abroad with the complicity of Western states and

financial institutions. Tax evasions, capital flight and transfer pricing have deprived African countries of billions of dollars that should be returned to serve the continent's development. Therefore, Africa, through its regional and continental institutions, should launch a campaign for the repatriation of that wealth and seek the help of the United Nations institutions, the solidarity of the global South and the support of progressive public opinion in the North.

Fundamental Lessons of the Financial Crisis to Africa

The crisis has shattered all the myths associated with the neoliberal paradigm. It has provided

fundamental lessons for Africa and other developing countries. These lessons should lead to one simple conclusion: a rejection of failed and discredited neoliberal policies and the institutions that promoted them over the last three decades, namely the IMF and the World Bank.

Below are the lessons experienced by African countries and the Africa continent as a whole as result of the financial and economic crisis.

1) The Collapse of the market fundamentalism.

The first important lesson is the collapse of market fundamentalism. Market fundamentalists claim that markets should be left to their own devices because whatever happens, they have self-correcting mechanisms and that market failures are less costly than state failures. But the reality shows otherwise. The devastations caused by the financial crisis are staggering, as evidenced by the trillions of dollars needed to clean up the mess they spread to the entire globe. And these costs will be ultimately borne by the taxpayer, that is, the state.

Even the most zealous market fundamentalists must have lost their illusions about the ability of markets to discipline themselves and correct their own mistakes. Markets are not impersonal forces, believed to be all powerful and placed above human beings. They are man-made forces whose decisions are ultimately influenced by selfish vested interests.

With the collapse of market fundamentalism, it is the legitimacy of the entire neoliberal system that is being questioned. Even some of its most keen ideologues are now in disarray. Some of its most sacred myths and dogmas are falling apart. Things that were unthinkable just a few months ago have become a daily reality. Nationalizations of banks and financial institutions, rescue plans for industrial companies, strong state intervention everywhere and attacks against ‘unbridled capitalism’; all this is being observed.

2) Further discredit of the IMF and World Bank.

The collapse of the neoliberal system of belief is a major blow to the international financial institutions. What is even more devastating to them is the reversal of most of the policies they had advocated for decades in Africa and in other 'poor' countries under the now discredited SAPs (structural adjustment programmes). The IMF and the World Bank are supporting fiscal stimulus – expansionary fiscal policies – in the United States, Europe and Asia. They are supporting rescue plans, including nationalization of private banks and other financial institutions. The priority of the day is no longer inflation but jobs and economic recovery.

Since the 1980s, all these policies were denied African countries in the name of market fundamentalism. Does this mean that what is good and acceptable for Western countries is not for African countries? Whatever the case, one thing is clear: neoliberal policies advocated by the IMF and the World Bank have never been built on 'scientific' arguments but on purely ideological grounds in order to protect and promote the interests of global capitalism. All the neoliberal stuff peddled by these institutions in the South is crumbling with their own benediction.

There is no doubt that the financial crisis and the other crises are a major blow to the credibility of these institutions and will deepen their crisis of legitimacy, even if they are attempting to use these crises to make a comeback, like the IMF. But whatever happens, things will never be the same again.

All these qualifications were intended to discredit the state as an agent of economic and social development and the experience of state-led development that took place in the post-independence period up to the late 1970s. Despite the remarkable achievements of that period, the IMF and World Bank used every possible negative example to blame the state for all Africa's crises. They told African leaders that the state was the main, if not the unique, cause of the economic and social crisis in Africa. Accordingly, the solutions they advocated included withering away the state by eliminating or limiting its intervention in the economic sphere.

Hence the imposition of fiscal austerity programs, the downsizing of the civil service and the dismantling of the public sector with the privatization of state-owned companies. But the

financial crisis shows that the state is an indispensable and indisputable agent of development and part of the solution to the current global crises.

3) The state as the central player in the development process.

Another major illustration of the crisis of legitimacy of the neoliberal system is the strong recognition that the state is a central player in solving the crises brought about by unfettered markets, and it will remain a key factor in the development process, whether in developed or developing countries. Some may recall former US President Ronald Reagan's assertion in the 1980s that the state was 'part of the problem, not of the solution'. This signaled the era of massive deregulation and the assault on the state and public service and ownership. It opened the door to some of the most sweeping and devastating structural adjustment policies in Africa. African states came under cruel attacks as 'predatory', 'wasteful', 'rent-seeking', 'corrupt' and 'inept'.

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4) Africa cannot count on so-called 'development partners'.

For years, Western countries and IFIs failed to heed calls to cancel the illegitimate debt of African countries. Debt that has been paid many times over and this debt were exacting much suffering on millions of people by virtue of a massive transfer of wealth from 'poor' to wealthy countries. For over 35 years, Western countries have failed to dedicate 0.7 per cent of their GDP to official development assistance (ODA). Over the last several years, ODA figures have been declining, or stagnating at best, despite repeated claims that commitments would be met. On top of that, it is now a fact that most African countries will not achieve the Millennium Development Goals (MDGs), in large part due to lower external funding and declining export revenues as a result of restricted access of African exports to Western countries' markets.

The failure to fulfill commitments towards Africa and other countries is in sharp contrast to Western countries' mobilization of more than US\$4 trillion to bail out or nationalize their banks and financial institutions and rescue their companies in order to save jobs and mitigate the impact of the crisis on their population. And all this money was mobilized in just a few weeks! This massive bailout was 45 times the US\$91 billion promised by the European Union and the United States for foreign 'aid' in 2007. The bailout of AIG alone (US\$152 billion) is even higher than this 'aid'.

Conclusion

The financial crisis has accelerated the discrediting of the international financial institutions and deepened the crisis of legitimacy of the neoliberal system. This offers Africa a unique opportunity to free itself from the influence of the neoliberal ideology and the control of these institutions. African countries should have the courage and political will to break with failed and discredited policies. Never before did they have such an opportunity and strong reasons to explore alternative policies. It is time for Africa to reclaim the debate on its development and take responsibility for it. Examples from other regions of the global South provide important lessons that African countries could learn from and use to their benefit.

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