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The Impacts of Global Financial and Economic Crisis on African Economies: A Review

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Like many other developing countries around the world, the global financial and economic crisis posed serious challenges of economic development and stability for African countries. A debate has emerged over the causes and consequences of the crisis for different economies. This paper reviews the ongoing discussions in the context of African economies and presents an anatomy of the crisis along with an analysis of the challenges, opportunities, various policy measures and fundamental lessons from it. One of the major findings is that effects and measures against the global crisis are not the same but vary from one African country to another. In all cases, the crisis has swept away firms, jobs, revenues, and livelihoods in varying degrees. The paper highlights the need for coordinated and consistent efforts to assist individual countries in mitigating the risk over the longer term. It is argued that the African countries must urgently prepare their domestic policy responses to enable them to use appropriate fiscal and monetary policies to fight recession induced by the crisis.

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1. Introduction

The term financial crisis is applied broadly to a variety of situations in which some financial institutions or assets suddenly lose a large part of their value (Wikipedia, 2009). The recent crisis, though have its origin in the developed world has greatly affected developing countries around the world (Bilal et al., 2009). The current global financial and economic crisis has been described as the worst economic setback since the Great Depression of 1929-32 (McCarthy, 2009; Adamu, 2009). It has exposed weaknesses in the functioning of the global economy and led to calls for the reform of the international financial planning. The crisis is currently leading to sudden falls in industrial production, a rapid decrease in international

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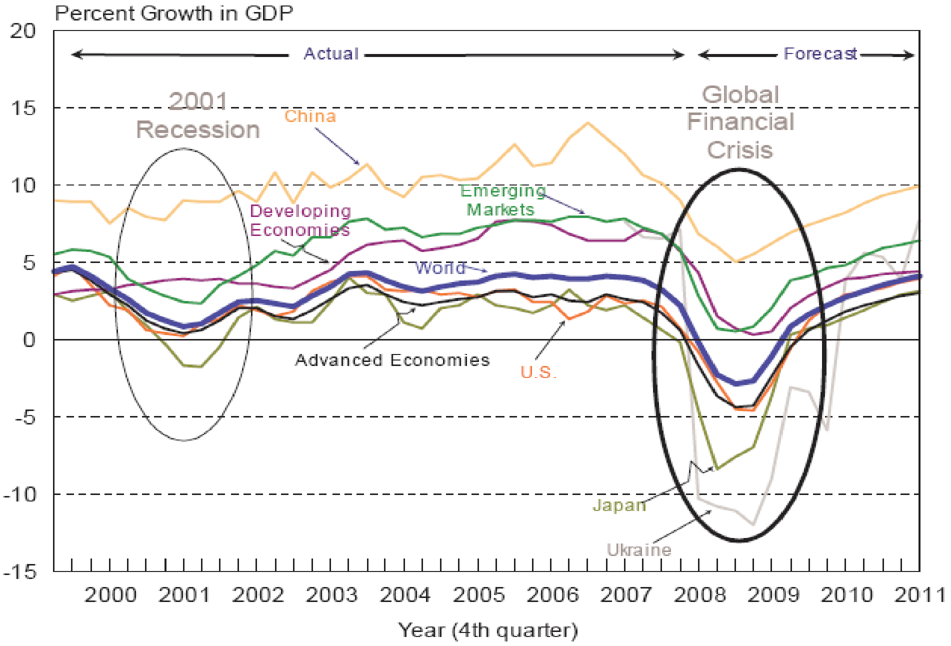
trade, and a reduced speed in the economic growth and development of both the developed and developing countries (Te Velde, 2008) (Figure 1), fall in foreign direct investments and potentially in development assistance (United Nation Conference on Trade and Development (UNCTAD), 2009a). The number of people who work but are still very poor keeps on increasing. To support this fact, a recent World Bank research shows that the global crisis has trapped up to 53 million more people in poverty in developing countries (Te Velde, 2008). Businesses are winding-up (Fosu and Naudé, 2009) with increase in unemployment rate. Countries with well-ordered and regulated economic and financial systems have also been thrown into turmoil as a result of the crisis (Shanghai Institutes for International Studies and Friedrich-Ebert-Stiftung, 2009).

Figure 1. Actual and forecasted economic growth



Adopted from Congressional Research Service with data from Global Insight (March 14, 2009, monthly forecast).

The crisis, therefore, presents significant economic and social development challenges for African countries (African Center for Gender and Social Development, 2009), governments, central banks and academic researchers worldwide. It is imperative therefore to understand fully the anatomy of the crisis. This paper will help in understanding how the crisis arose, factors responsible for the crisis and consequences. It will also analyze government responses locally and internationally, examine what are opportunities and threats from the crisis for African countries and review policies to prevent the effects from further reduction in African economic growth and development. Specifically the paper will be addressing the following questions.

- How did the crisis arise?
- How it affected African economies?
- What were the policy responses by domestic policy makers?
- How have the international financial institutions reacted? And
- What lessons can we learn from the crisis?

2. Origin of the global financial and economic crisis

It is now well documented that the resent crisis originated from the United States (Guillén, 2009), spread to Europe and has now become a global issue. It spilled from financial sector to the real economy in the last quarter of 2008. The crisis was observed to have been precipitated by the collapse of Lehman Brothers on 23 September 2008 and a continuous fall in housing prices leading to borrower's inability to refinance (defaults). The present financial crisis spread around the world through various channels. Some of these include pressures on financial institutions around the world to raise capital and withdraw funds to maintain liquidity. It has made it difficult if not impossible for many countries to refinance themselves in international financial markets. The current crisis spread from developed countries to developing and transition economies through shrinkage in global trade and a related collapse in primary commodity exports, on which many countries are dependent (Arieff, et al., 2010). It also spread through a sharp adjustment of the commodity prices which resulted into lower demand for raw materials; lower capital inflows; declining migrants´ remittances flows and worsening of external debt indicators (UNCTAD, 2009b).

Records have shown a lot of both banking and financial crises since the great depression of 1929; most of the crises including the present one shared some common features. They all started with a hasty process of financial sector reforms (Olivie, 2009). The present crisis however differs from the previous in that, it broke out at the very epicentre of global capitalism and its effect spread very quickly to the entire globe than other crises. It is also characterized by a range of policy errors notably the financial sector governance (Bilal et al., 2009). Contrary to the previous crises, where economies recovered quickly with a lot of employment in response to continued demand, the present crisis crisis is marked by collapse in global demand making it difficult for industries to survive (Alberdi, 2009). In addition, the present global financial crisis follows the footsteps of the food and energy crises and of the challenges posed by the impact of climate change where hundreds of millions of people all over the world are finding it difficult to survive (Alberdi, 2009).

The Asian financial crisis of 1997–98, which followed the Russian debt default in August 1998 differ from the present crisis in that, the first two crises centred on emerging market economies, while the current one was as a results of the problem in US banking system (Truman, 2009). Increases in interconnectedness of the global economy also made the present financial crisis to be of greater challenges than ever before.

Identifying the causes of the crisis is a necessary precondition to learning the appropriate lessons from the crisis to avert a reoccurrence. Various factors that are responsible for the present crisis have widely been analyzed and dissected by researchers. One basic fact that remains is that, the GFEC is caused by a complex mixture of interrelated factors (Morris, 2008; Felton and Reinhart, 2008; Eichengreen et al., 2009 and Taylor, 2009).

It was essentially caused by the failure of economic, financial, regulatory, and supervisory policies in the United States and other countries (Truman, 2009). The present crisis is characterized by lack of transparency and financial integrity which have resulted in excessive risk-taking; unsustainably high asset prices, irresponsible leveraging, and high levels of consumption that is fuelled by easy credit and inflated asset prices (Mshana, 2009). Added to these, in many African countries the cause of the crisis have been traced to structural problems in the fields of environment, energy, food, and water; systemic factors such as the concentration of income and wealth as well as excessive market cycle volatility.

The overreliance on market self regulation, the pursuit of unsustainable profit, and insufficient emphasis on ethical and equitable human development have also been identified as factors leading to crisis in the global financial and economic planning (United Nations, 2009a).

3. Consequences of the crisis on African economies

The recent global and financial crisis has serious effects on the developing countries including African countries based on their levels of integration into the global economy and position in the international division of labour (Ikome, 2008). The effects are more pronounced in the various segments of the economy like the financial sector, banking sector as well as on real economy.

Effects on growth and inflation

Economic growth is necessary for development even if it is not a perfect indicator of progress (Fosu and Naudé, 2009). In the early stage of the financial crisis, there was a widely held view that the impact on African countries would be minimal probably because of their low integration into the global economy. But at present, there is enough evidence of the negative effects of the crisis in the continent. The crisis is posing a serious setback for Africa because it is taking place at a time when the region is making progress in economic performance and management. The impacts of the global financial crisis come on the heels of the food and fuel price shocks of 2007-08. The growth of the global economy that was average 4.1 percent drastically dropped after the inception of the crisis in 2008 (Truman, 2009).

The sudden drop in African economic growth rate is threatening the prospect of the region to meet one of the Millennium Development Goal of halving the number of people living on less than one dollar a day. African countries need economic growth of around 7 percent per annum in order to meet this goal but none of African countries has its economy growing at this rate. The percentage change of gross domestic product per capita became worsen in 2009 (Fosu and Naudé, 2009) (Figure 2). The inflation estimate for 2008 (10.4 percent) was higher than 2007 (7.4 percent), due particularly to the sharp increase in oil prices and food during the first half of 2008. The 10.4 percent inflation in 2008 was also 3 percentage points above projections made prior to the financial crisis (Table 1). This is an indication of the negative effect of the crisis on African economies. The fall in economic growth rate has been attributed to direct outcome of falling export demand and tourism receipts, declining commodity prices, reductions in the availability of credit and trade finance, less inflows of remittances, private portfolio flows and foreign direct investment (Ratha and Xu (2007), higher unemployment and poverty, increases in infant mortality, and adverse coping with long-lasting impacts such as higher school drop-out rates, reductions in healthcare, environmental degradation, and political instability (Naude and Fosu, 2009).

The global economic slowdown is reducing the flow of remittances to the region as African migrant workers in Europe, North America and the Gulf States are laid off and return home. Recent data released by the World Bank indicate that the financial crisis has reduced remittance inflows to sub-Saharan Africa by close to between \$1 billion and \$2 billion dollars in 2009 relative to 2008 (Table 2 and Annexure 1). Liberia, Lesotho, the Gambia and Seychelles are highly vulnerable to reductions in workers' remittances because inflows represent more than 10 percent of their gross domestic product. North African countries are also vulnerable because they too receive a significant amount in remittances.

Figure 2. Percentage chnage in GDP after the crisis of 2008-09

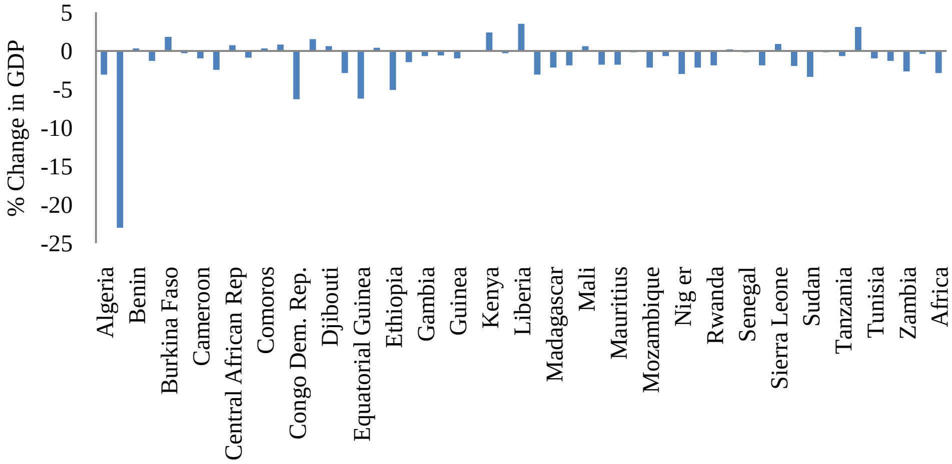


Table 1. Real GDP growth and inflation: before, during and after the crisis

(percent)	Inflation			Real GDP growth		
	Before	**During**	**After**	**Before**	**During**	**After**
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
Africa	7.37	10.37	8.69	6.07	5.75	3.18
North Africa	6.93	8.22	8.15	5.52	6.03	4.04
Sub-Saharan Africa	7.67	11.91	9.07	6.45	5.55	2.58
By oil production						
Oil-exporting	7.11	9.64	9.33	6.64	6.71	2.94
Oil importing	7.66	11.20	7.94	5.42	4.64	3.46
By income						
Middle-income	6.81	11.82	9.87	4.98	4.43	3.03
Low-income	6.95	11.36	7.86	6.51	6.09	5.06
Fragile Countries	9.04	13.33	9.22	4.00	3.90	4.50
By region						
Central Africa	2.89	7.67	6.11	3.99	5.45	3.82
Northern Africa	6.84	8.11	8.30	5.32	5.78	3.67
Southern Africa	9.29	12.35	9.80	7.05	5.28	0.38
Western Africa	5.35	10.58	8.62	5.36	5.40	4.29

Sources: AfDB (2009a) and African Economic Outlook 2009

Table 2. Remittance flows to Africa: before, during and after the crisis

(million US$)	2007	2008	Base case forecast			Low case forecast		
	Before	**During**	**2009**	**2010**	**2011**	**2009**	**2010**	**2011**
Central Africa	193	193	190	1999	213	186	191	200
East Africa	4,681	4,875	4,620	4,733	5,024	4,467	4,447	4,597
North Africa	18,240	20,356	19,415	19,207	19,551	19,415	19,207	19,551
Southern Africa	1,919	1,943	1,785	1,846	2,018	1,746	1,769	1,898
West Africa	11,817	12,767	12,320	12,791	13,631	11,812	11,801	12,147
Africa	36,850	40,134	38,331	38,777	40,438	37,627	37,415	38,393

Source: Nagarajan (2009) and AfDB, Development Research Brief; No 4, May 2009

Effects on financial sector

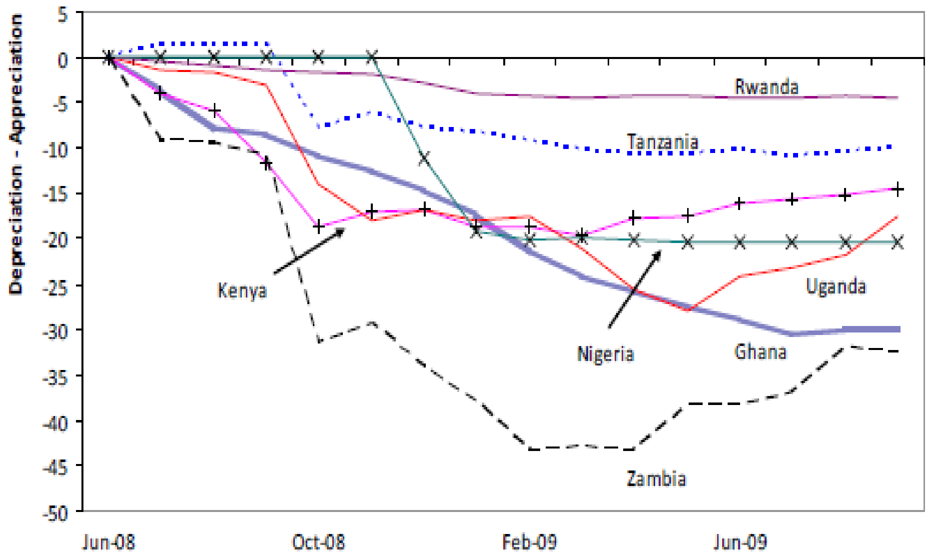
The direct effects of the crisis on Africa are felt mostly through the financial sector. For example, stock market volatility has increased since the beginning of the crisis and losses have been observed in the major stock exchanges. In Egypt and Nigeria, the stock market indices declined by about 67 percent between March 2008 and March 2009. Significant losses have also been observed in Kenya, Mauritius, Zambia and Botswana. The turmoil in African stock markets is beginning to have significant negative effects on the financial sector and on aggregate demand. There is also growing evidence that the crisis has a negative effect on bank balance sheets and this is capable of causing financial instability in the region. In Ghana, the ratio of non-performing loans to gross loans increased from 7.9 percent to 8.7 percent between 2006 and the third quarter of 2008. In Lesotho, it increased from 2 percent to 3.5 percent over the same period (IMF 2009a).

Another major finding is that, the rate of bank failures so far have not been much reported in many Africa countries. This may largely be as a result of lack of significant contact of most African banks to the sub-prime mortgage market and asset-backed securities. For instance, South African conduits are not permitted to invest outside of South Africa and therefore have no exposure to the US subprime market (Kiyota, 2009). But countries like Botswana, Côte d'Ivoire, Malawi, Mozambique, Swaziland and Zambia are highly susceptible to the effects of the crisis because of the quite high presence of foreign-owned banks in these countries. Foreign-owned banks in some of these countries after the crisis reduced their support of local banks and some have sold their assets; which have serious negative consequences for the financial sector in the continent.

Exchange rate movements of African currencies during the global financial crisis were also found to be unusual. When some of the African currencies were compared to the US dollar, sharp depreciation was observed in currencies of African countries like Ghana, Kenya, Nigeria, Uganda, and Zambia (Ben et al., 2009; Kohler, 2010). Ghanaian cedi depreciated against the United States dollar by 14 percent and the Nigerian naira declined by 10 percent. The Zambian kwacha also lost 13 percent of its value relative to the United States dollar over the same period (Figure 3). Several of these countries have high foreign debt, such that the expected depreciation of their currencies against the dollar is imposing serious debt-service burdens on the region.

The depreciation of currency as a result of the crisis has also been observed to have increased the cost of imported intermediate inputs. In addition, since several countries in the region are net importers of food, which is a major component of the consumer price index, the expected depreciation of currencies in the region is now increasing the domestic prices of consumer goods and reducing access to food by vulnerable groups (High-Level Task Force, 2008). The exchange-rate depreciation is also increasing exchange-rate risks faced by domestic firms and increasing the likelihood of default on loans owed to domestic banks, thereby making most African banks more vulnerable.

Figure 3. Exchange rate movements (local currency/ US$)
June 2008 = 0



Source: IMF (2009b): International Financial Statistics.

Effect on commodity prices and trade
The financial crisis is also having a negative effect on trade for African countries. In particular, there has been a significant decline in the prices of key commodities exported by African countries since the second half of 2008. This paper observed that although commodity prices have exhibited an overshooting behavior before the crisis, the current global crisis could not bring the prices to equilibrium level. Findings have shown a downward trend in prices of commodity groups (food, fuel, agricultural materials and metal) since the second half of 2008. The most affected commodity has been crude oil, which experienced price declines of more than 50 percent between February 2008 and February 2009. Some of the African oil exporting countries mostly affected includes Nigeria, Angola, Gabon, Congo, and Equatorial Guinea. Prices of copper, coffee, cotton and sugar have also been observed to have declined by more than 20 percent over the same period. The volume of exports by African countries has also declined because of the financial crisis. The declines in commodity prices and export volumes have led to a decrease in export revenues in African countries. For example, in Burundi, coffee earnings fell by 36 percent between October and November 2008. In Angola, export earnings declined from $67 billion in 2008 to about $23 billion in 2009, while in Cape Verde, export earnings fell from $90 million in 2008 to about $84 million in 2009 (United Nations, 2009b). In Côte d'Ivoire, earnings declined from $10.4 billion in 2008 to about $7.7 billion in 2009. The reduction in expected export earnings will constrain the ability of governments to finance imported inputs necessary for production. It would also limit the ability of governments to cushion the negative effects of the crisis on the economy.

The slowdown in economic growth in three key export markets (Europe, the United States and China) has affected the demand for exports from Africa. The growth of Africa's exports in real terms fell from 4.5 percent in 2007 to 3 percent in 2008. Import growth also fell from 14 percent in 2007 to 13 percent in 2008 and a further declined to about 9 percent in 2009.

4. Domestic policy responses

The current macro-economic and social challenges posed by the global financial crisis require a much better understanding of appropriate policy responses. This section presents an analysis of policy responses by domestic policy makers to the crisis.

Some African countries have set up special monitoring units to identify the level of the crisis and to formulate targeted responses. For instance, Nigeria, Kenya, Morocco, and South Africa have introduced a range of policy measures including interest rate reductions, recapitalization of financial institutions, revision of budget expenditures, bond financing of public expenditure (in Cape Verde, Kenya), targeted assistance on key sectors (in Nigeria, Uganda), strengthening of the regulation of the banking sector and financial markets, foreign exchange controls to protect the exchange rate, increasing liquidity to banks and firms, fiscal stimulus packages (in Mauritius, South Africa), new regulations in the banking sectors, trade policy changes, and regulatory reforms and expansionary monetary policies (in Botswana, Namibia, South Africa) as reported by Africa Progress Panel (2009) and in some instances wage increases to stimulate the aggregate demand (AfDB, 2010).

Fiscal stimulus packages

In some African countries, the severity of the crisis has forced the governments to retrench and undertake a contractionary fiscal policy. In line with the steps that have been taken by the developed and emerging economies, some African governments have also implemented fiscal stimulus plans like increase in public investment expenditures as well as tax reductions. In Senegal, the government had lowered budgetary expenditure by 4 percent of GDP and priority expenditure by 0.6 percent of the GDP. Similar actions were taken in Cape Verde, Sudan and Uganda (Babatunde and Busari, 2009). On the other hand, in Tunisia, the 2009 budget includes a significant increase in public investments in line with its plan to increase external competitiveness and employment and strengthen social protection. Similarly, in South Africa, the government increased funding for public investment projects with allocation of R 690 billion (about USD 80 billion) over the next three years (Committee of African Finance Ministers and Central Bank Governors, 2009).

In Mauritius, the government announced in January 2009 a stimulus package that worth 10.4 billion of Mauritian Rupees (USD 0.3 billion), or approximately 3 percent of Mauritius GDP to boost domestic demand and increase job creation. In Nigeria, the government employed about USD 52 billion of its external reserves to shore up the economy out of recession through a stimulus package. The Liberian government had also undertaken a comprehensive revision of its Revenue Code, proposing a 10 percent reduction in corporate and income tax rates in a bid to stimulate private sector activity (AfDB, 2009b). The Liberian government in addition is planning to cut regional trade tariffs by one quarter of a percentage point with a view of fostering trade within Economic Community of West Africa States. The South African government has also proposed an adjustments to personal income tax that should provide middle and lower income earners with

R13.6 billion (USD 1.35 billion) in tax relief (Committee of African Finance Ministers and Central Bank Governors, 2009 and Babatunde and Busari, 2009).

Targeted assistance to key sectors

Many African countries have implemented targeted sectoral assistance plans to support sectors that are considered as key growth drivers. These measures are intended to reduce job destruction and the loss of sector specific capital and know-how. Nigeria government for instance, injected N70 billion into the severely weakened textile industry in 2009. The Rwandan government also announced plans to reduce the quantity of its tea sold through auctioning at Mombasa and improve direct sales to reach a target of USD 54 million tea sales in 2009. In Uganda, the government provided assistance to the transportation sector by writing off public loans to companies.

Banking regulation and capital controls

Careful capital controls in most African banking systems have helped to minimize contagion effects on African banks. These controls also reduced capital outflows during the crisis. Some African governments have introduced deposit insurance schemes to cushion the adverse effects of the crisis. For example in Tanzania, profit repatriation has been regulated to minimize the crisis upshots, as bank subsidiaries cannot automatically transfer funds to compensate for losses in parent banks. The Egyptian government has established a deposit insurance fund to boost public confidence in banking sector.

Furthermore, in order to respond to the large depreciation of the national currencies, some African governments have undertaken a variety of measures to defend their currency or to boost competitiveness. Some have attempted to defend a managed exchange rate. In some countries with fixed exchange rate regimes, governments have devaluated their currencies to boost competitiveness. The Nigerian Central Bank for example, had aggressively intervened in the foreign exchange markets to stem the slide of the Naira that went up immediately after the global financial and economic crisis.

Liquidity injections

Findings have shown that, some African countries have taken actions to increase liquidity in the banking system and to domestic firms to avert the effects of the crisis. In Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger and Togo for instance, the common central bank (BCEAO) injected liquidity on a weekly basis in the regional money market. In Cameroon and Liberia, a support or guarantee fund has also been created for firms. The central bank of Tunisia has set up new deposit and credit facilities to improve flow of credit and increase liquidity in the banking system, all in effort at reducing the effects of the crisis.

Expansionary monetary policy

Since the onset of the present crisis in 2008, 18 of the Africa countries for which information were available have reduced their interest rate in response to the crisis. For example, in Botswana, the central bank reduced interest rates from 50 to 15 percent in December 2008. This was followed by a percentage point reduction on 27 February, 2009. Similarly, in Egypt, the central bank cut its overnight and lending rates by 50 percent on 26 March 2009. The Central Bank of Nigeria also cut its interest rate from 10.25 percent to 9.25 percent. The Namibia's Central Bank and the South African Reserve Bank also reduced their repurchase rate to stimulate borrowing and boost private investment and consumption. Other countries that reduced interest rates include Kenya, Mauritius, Swaziland and Tunisia. It is interesting to note that while most countries responded to the crisis by reducing interest rates, the Democratic Republic of the Congo responded by raising its policy rate. In fact, the central bank has raised its policy rate four times since December 2008 in an attempt to fight inflation. Nigeria government as part of their response to the crisis announced a reduction of the monetary policy rate from 10.25 to 9.75 percent, of the cash reserve requirement and the liquidity ratio from 40 to 30 percent (Ajakaiye and Fakiyesi, 2009).

Bond financing of public expenditure

Some African countries have also been observed to finance counter-cycle expenditures via the emission of treasury bills and bonds. In Nigeria, the CBN issued directive to banks that they have the option to restructure margin loans up to 2009, rules on share buy-back was released, with a limit of 15 percent. In Cape Verde, the Central Bank introduced Treasury bills to encourage private saving to remain in the national financial system. The Kenyan government issued an infrastructure bond that amounted to 18.5 billion shilling (USD 232.6 million) with 12-year maturity in February 2009. The bond was oversubscribed, a testimony to the existence of a substantial untapped domestic saving capacity. The specific policy goal is the restoration of the credit system in which banks are the principal actors.

Trade policy measures

Boosting economic growth through trade has been an important component of the response plans in several countries. For example, Cameroon has reduced or waived import taxes on equipment, tools and goods required for research and oil exploration. Liberia government has also announced plans to reduce trade tariffs as well as the trade levy of the Economic Community of West African States.

Tunisia increased allotments for export business travels and Mali has introduced measures to refund to gold mining companies the value added tax and import duty. In Madagascar, the central bank has devalued the local currency to restore export competitiveness. The government has also launched a drive to boost exports.

Recapitalization of banks and regulatory changes
Some countries have also taken specific measures to recapitalize domestic banks. In Mali, the government has decided to recapitalize the Banque de l'Habitat du Mali in order to increase and improve finance for housing. The Tunisia central bank had also doubled the capital for the financing of small and medium-sized enterprises so as to boost domestic investments. The Algerian Credit and Monetary Council have also issued instructions to commercial banks to increase their capital from 2.5 billion Algerian dinars to a minimum of 10 billion Algerian dinars ($142 million) within 12 months. The council has also put in place a series of banking reforms to strengthen the financial system. The Government of Kenya has also enacted legislation that would increase the minimum capital requirement for banks from 250 million shillings to 1 billion shillings by 2012. In Nigeria, the central bank has reacted to the crisis through expansion of lending facilities to banks up to 360 days, introduction of expanded discount window facility and closure of Liquidity Mopping-up since September 2008.

5. Regional intervention measures

African governments have jointly taken a number of initiatives to mitigate the impact of the crisis in the continent. Although Africa limited resources compared to the developed countries are still very inadequate in relation to the scale of the impact. As part of regional response to the crisis, African ministers of finance and planning and governors of central banks met in Tunis, on 12 November 2008 to discuss the implications of the financial crisis for Africa and identified the following policy recommendations to cushion its impact in the region.

- That African countries need to undertake a comprehensive review of their regulatory and supervisory regimes with the view of identifying areas for further improvement. In particular, all sectors of the financial industry are expected to be subjected to proper regulation and oversight, to avoid excessive risk-taking by financial institutions.
- That macroeconomic policy and structural reforms implemented in Africa over the last two decades have served African countries well. But, there is a need to deepen economic reforms further. This would help minimize the

effects of the crisis and lay the foundation for sustainable growth in the region.
- While measures aimed at restoring growth and financial stability are important, they must be accompanied by measures to minimize the potential negative social impact of the crisis in poor countries. Giving priority to social protection and pro-poor expenditure is important in this regard.
- Official development assistance can also play an important role in augmenting shrinking domestic resource bases arising from falling exports, remittances and tourist receipts. In this regard, donors are expected to increase aid to Africa in accordance with their Monterrey and G-8 Summit commitments.
- Strengthening developing countries' voice and representation by reforming the governance of international financial institutions is also very important. This according to the report has become imperative especially in the light of the increasing globalization of financial markets.

As part of the African governments initiative at the Tunis meeting, African ministers and governors of central banks also set up the Committee of Ten Ministers and Governors of Central Banks to monitor developments, provide regular follow-up, advice ministers and governors on proposals, and contribute to the international discourse in relation to the economic impact of the financial crisis and mitigating measures.

6. Reaction of international institutions

This section presents the international financial intervention policies / programmes initiative aimed at reducing the scotch of the GFEC on African countries.

IMF initiatives
Providing solution to the effects of the current crisis had gone beyond the conduct of monetary policy and regulation of the financial sector. The IMF therefore had come up to assist the low-income countries during and after the crisis. For instance, on April 23, 2009, the IMF announced a doubling of borrowing limits of the poorest countries under its concessional Poverty Reduction and Growth Facility and Exogenous Shocks Facility. In Africa, new IMF lending commitments from January to mid-July 2009 were $2.7 billion, an increase from $1.1 billion in 2008 (IMF 2009c). Cote D'Ivoire ($581 million) and Zambia ($342 million) were found to have the largest loan programs in the region (Congressional Research Service, 2009). As part of effort at minimizing the effects of crisis on Africans, the

IMF's Executive Board has also begun discussions on options for raising additional resources for concessional lending to allow the Fund to scale up its capacity to assist low-income countries over the medium term.

The African Development Bank initiatives

The African Development Bank (AfDB) has also devised a set of initiatives to mitigate the impact of the global financial crisis. These measures are contained in a policy document entitled 'Bank Response to the Economic Impact of the Financial Crisis'. The four new crisis-response initiatives announced in March 2009 by AfDB include: a $1.5 billion Emergency Liquidity Facility; a $1 billion Trade Finance Initiative; a framework for accelerated transfer of African Development Fund resources to eligible countries; and enhanced policy advisory support (AfDB, 2009c). The newly created ELF aims to provide financing to eligible African beneficiaries to support a broad range of obligations, including underpinning a fiscal stimulus and supporting public-private partnerships at risk. The ELF has a fast-tracked application process, with proposals considered by the AfDB Board within 10 working days (AfDB, 2009c). The TFI launched a new line of credit of $500 million designed to enable commercial banks and development institutions in Africa to use Bank resources to support trade financing. Accelerated African Development Fund transfers (concessional loans and grants) are expected to provide budget support and infrastructure financing (AfDB 2009d), macroeconomic policy, skills development, humanitarian relief, and other areas.

The AfDB has also approved several loans in recent times primarily to offset the impact of the global economic crisis. AfDB has reportedly doubled its lending to nearly $11 billion between mid-2008 and mid-2009, with funds going largely to budgetary support, trade finance, and infrastructure projects (notably ports and airports in Tunisia, Senegal, and Djibouti). In June 2009, AfDB gave about $82 billion loan to Botswana to help at addressing a budget deficit estimated at 13.5 percent of their GDP, the first of such loan to Botswana from the AfDB in 17 years and a $97.18 million grant to the Democratic Republic of Congo to finance the country's Emergency Program to mitigate the impacts of the international financial crisis.

The World Bank intervention policy

The World Bank has also initiated several policies aimed at mitigating the impacts of the crisis on Africa. Some of their intervention policies / programmes include scaling up its lending and policy advice with a focus on poverty reducing activities, safety nets, infrastructure support, and budget support to compensate for the loss in private capital flows (Mozbusiness, 2009). Beneficiary countries of targeted lending include South Africa, Mauritius, the Democratic Republic of Congo, Comoros, Ghana, Kenya, and Zambia.

About 15 African countries were found to have benefitted from front-loading of International Development Association (IDA) resources (Arieff et al, 2010). The World Bank's new Infrastructure Crisis Facility (IFC) is also making $300 million available to provide top-up financing for viable, privately funded infrastructure projects that are experiencing financial distress, or are no longer able to reach financial closure. The World Bank is also stepping up knowledge assistance to help many African countries to prepare contingency plans for responding to the crisis. This package of assistance supplements the Bank with about $1.2 billion.

Other international bodies' interventions
International bodies such as the Financial Stability Forum and the Basel Committee on Banking Supervision have also worked hard in finding solutions towards reverting to a stable financial environment and for the credit markets to resume lending after the crisis. These bodies are focusing on the improvement of the existing regulatory and supervisory approaches. Their main objective is to refine and strengthen further liquidity and capital adequacy regulations, thereby adjusting them to new products and developments in the financial system (Hildebrand, 2008). It is however observed that the current regulation such as revisions in Basle II have not adequately addressed the relevance of the regulatory instruments of banks in Africa. The focus should therefore be on the provision of risk management kits to African financial system that are tailored to the financial services provided by banks in Africa.

7. Challenges ahead and lessons learnt

The effects of the crisis are not yet over thereby making it difficult to develop a full list of the lessons from the crisis, either in general or for developing countries in particular. However, there are still some fundamental lessons for African countries to learn from the crisis since its occurrence in 2008. It is important to learn from the past errors in order to correct the future with good economic and financial regulations. In every crisis there is bound to be opportunities and threats. While the current crisis has undermined the progress most countries have made in raising the standards of living, it has also led to some fundamental changes both in economic and financial regulations as well as in skills development in different African countries at national, local and individual levels.

One interesting thing to learn from the crisis is that, the crisis affected all categories of countries in the region including those considered to have good economic policies and governance; those with poor macroeconomic records; fragile states; small and large economies; and oil and non-oil exporting countries. The decline in economic growth is not limited to the advanced economies where the crisis originated but to the developing countries as well (Truman, 2009). This implies that, the real causes of the crisis in the region are not simply due to the nature of macroeconomic policies and governance but other factors too.

Another broader lesson of this crisis is that as a result of globalization, any crisis that affects a major country or group of countries in the global economy or financial system will have some adverse effects on all other countries of the world. So markets do not have self-correcting mechanisms. If the largest economy in the world, whose currency and institutions are at the core of the global financial system stops functioning, the resulting crisis is bound to become global. Again, it is not unusual for a crisis to begin in the financial sector, spread to the real economy, cycle back to further weaken the financial sector, and thereby further weaken the real economy. What we have learned is that deleveraging is a process that does not discriminate even among economies and financial systems that are less leveraged than others. Similarly, at the start of the crisis, trade links were stronger than they had been for a century with US economy driving much of the recent expansion in trade with its external deficits (Truman, 2009).

African governments should also learn that, one attempt by the developed countries in their fight against the global financial and economic crisis is the reversal of most of the policies developed countries had advocated for decades in Africa and in other ‘poor’ countries under the now discredited SAPs (Structural Adjustment Programmes). Africa governments are not to put their trust on the IMF and World Bank who are now supporting fiscal stimulus (expansionary fiscal policies) in the United States, Europe and Asia (Dembele, 2009). 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.

African governments should learn from South Korea not to run after large holdings of foreign exchange reserves to provide an expensive buffer against a global financial crisis (Truman, 2009). This according to Truman is capable of making government and economic agents into a false sense of security while potentially distorting the functioning of the global economy and financial system. For instance, South Korea in February 2008 had its foreign exchange reserves as $264 billion, the fifth largest holdings in the world. Korea added $96 billion to its reserves in 2004 to 2007 indicating that Korea had a current account surplus in each of those years that totaled $54 billion. Net capital inflows accounted for the rest of the increase in reserves. But these developments were insufficient to protect the Korean economy from a sharp growth slowdown in 2008 to an IMF-estimated of 2 percent, a recession in 2009 of minus 4 percent, and the prospect of little growth in 2010 (a cumulative shortfall from 2007 growth of 15.6 percent) (Truman, 2009). The lesson learnt from this therefore, is that the gross financial flows are more relevant than net financial flows.

The present crisis compared to the one that prevailed in 1929 also teaches us invaluable lessons about economic management like prudent government spending, social safety nets, the need by government to support banks at all costs, and free trade (Dembele, 2009).

The crisis provides us with an opportunity to reflect on the kind of nation we want to build (Dembele, 2009). Recent technological advances and globalization implies that international economies are more interconnected than ever before. The international co-operation on macroeconomic policies, trade and financial regulations present at a period of crisis provide an opportunity for various countries to take the first step towards addressing the far deeper global problems.

The welfare of developed and developing countries is mutually interdependent in an increasingly integrated world economy (United Nations, 2009c). There are dangers that some measures that have been taken against the crisis by developed countries may have adverse effects if African countries are to take the same measures. For example, developed countries' agriculture subsidies used to be the main distortion in world trade but developing countries lack funds to match these subsidies. In situation like this the developing countries should be allowed to take measures to prevent subsidized service providers like banks and subsidized goods from overwhelming their domestic markets. In the area of tariffs, developing countries should be allowed to exercise their right to use the policy space to raise their applied tariff if it is below the bound tariff. A moratorium against raising applied tariffs would be imbalanced because there is little difference between the applied and bound rates in developed countries, unlike the developing countries.

It is observed that many development agencies do not have Africa’s best interests at heart, citing failures to cancel debt and to dedicate 0.7 percent of GDP to official development assistance budgets, along with restricting the access of African exports to Western markets. In contrast, US$4 trillion was made available to tackle the international financial crisis, 45 times the total aid budget of the European Union and the USA for 2007 (Dembele, 2009). The African governments should therefore learn on restoring capital controls and reject unfavorable trade liberalization policies, as well as reversing the privatization of key sectors and natural resources. Lack of knowledge about the inter linkages between individual, regional and global financial system is observed as a problem leading to the widespread of the crisis. There is the need for African governments to restore the role of the state in the development process, reclaim the debate on African development while learning from the experiences of other countries in the global South. Africa should learn to build an alternative means for financing development including South–South co-operation and the integration of diaspora remittances into a coherent strategy.

8. Conclusion and recommendations

The global financial and economic crisis is currently having a significant impact on Africa, although studies have shown that Africa's growth outlook is still better compared to industrialized countries. The impacts of the crisis are extensive, and it presents significant challenges for policymakers due to its complexity, its interrelated effects as well as the uncertainty of its duration. The rapid spread of financial crisis from a small number of developed countries to engulf the global economy is an outcome of the failures in macroeconomic policies, financial supervision and regulation. This implies that, the international trade and financial system needs to be profoundly reformed to meet the needs and changes of the 21st century. It is possible to have a soft economic depression without an associated financial crisis. It is also possible to have a financial disruption without an associated economic downturn. What is rare, but not impossible, is a significant economic downturn without a severe financial crisis, affecting a broad set of asset prices and credit markets, or vice versa. One major problem while the crisis persists is that, policymakers were slow to learn that they were dealing with dual severe crises on a global scale. The current crisis is having unequal adverse impact on the poor, who are least able to bear these costs and that can have consequences long after the crisis is over.

One of the fundamental lessons from the crisis for African countries is that markets alone must not be relied on to deliver systemic economic stability since African financial markets do not even have self-correcting mechanisms. A new balance between the economic and the political sphere must be established to provide African countries with financial stability.

In a globalized economy, the actions of any one country have effects on others. But too often, these externalities are not taken into account in national policy decisions. Developed countries in particular need to be aware of the adverse consequences of these externalities, and developing countries need frameworks to help protect themselves from regulatory and macro-economic failures.

One major surprise is that, despites the responses made so far by some African countries to mitigate the impact of the financial crisis on their economies, the effect still remains. This is however traced to financial constraints that limit the range of policy measures the region could adopt in response to the crisis. The major challenge is to mobilize African rich resources to finance growth, development, investment in infrastructure and poverty reduction programs rather than misappropriation. There is the need for strong solidarity and cooperation by African countries to develop a comprehensive and effective global response. The international community needs to provide appropriate assistance to the region to prevent the financial crisis from turning into a regional humanitarian crisis. This global response should emphasize the restoration of consumer and producer confidence by creating job opportunities and ensuring provision of financial resources for the businesses in trouble.

There is the need for up-to-date monitoring of the impact of the crisis, restoring confidence in banks, and expanding trade and trade finance. In doing this, African countries need support now more than ever to build up their capacity to monitor the global economic situation.

Another major area which needs serious consideration is the suppression of the social and human costs of the crisis in Africa. As most of the developing countries have serious fiscal and financial constraints to deal with increasing hunger, poverty and unemployment, more trade and investment opportunities should be created for these countries through the provision of social protection schemes such as conditional cash transfer programmes that are targeted to the poor for sustainable development.

Since collapse in confidence in the financial system is widely recognized as central in the economic crisis; restoration of confidence will be central in the recovery. But it will be hard to restore confidence without changing the incentives and constraints facing the financial sector. It is therefore imperative that the regulatory reforms be real and substantive, and goes beyond the financial sector to address underlying problems in corporate governance and competition policy, and in tax structures, giving preferential treatment to capital gains, that may provide incentives for excessive leverage.

Central Bank of each African country should aim to ensure price stability in the context of delivering long-term sustainable growth, while being sensitive to the risks to financial stability, capital flows and exchange rates. Central banks also need to give consideration to financial market and asset price developments through the use of wider range of instruments, including prudential financial instruments.

Care should be taken to maintain and improve good governance, which is essential for African countries to avoid introducing various 'anti-growth policy syndromes' into their economies through introduction of further boom-bust cycles; another debt crisis; re-introducing crippling government controls so as to attain political goals; and entrenchment of inequities and inefficiencies in the global financial and aid planning.

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Annexure 1. Crisis mitigation strategies in selected African countries

Countries	Strategies
Botswana	The Central Bank cut its rate by 50 basis points to 15 percent in December 2008. In the face of uncertainty as to the duration of the global economic slowdown, the cushion provided by the foreign exchange reserves may not be sufficient; some increase in borrowing is expected. Reductions in spending targeting not only the development budget, but also some recurrent expenditure items, such as personnel emoluments and the cost of travel
Cape Verde	Dialogue with the IMF which adjusted the criteria of performance of the PSI Careful management of the interest rates and the budget Development of the Treasury bills to encourage the saving to remain in the national financial system.
Egypt	Ministry of Trade & Industry EGP7 billion to boost exports and local production Crisis package for tourism sector, including tax-exemption for charter flights, offering of free nights in hotels, etc. Establishing deposit insurance fund (to boost confidence in banking sector) Parliament approved legislation on integrated supervision of non-bank financial sector (i.e., capital market, insurance, mortgage finance, financial leasing, and factoring) in January 2009 2nd phase of the Financial Sector Reform Program, with expected joint ABD-World Bank financing, discussed between the Prime Minister, the Minister of Investment, and the Governor of the Central Bank in January 2009. Program at strengthening role of the financial sector by expanding the volume of bank lending, and enhancing SME's access to credit. Egyptian Central Bank cut its benchmark interest rate for the first time since April 2006. The overnight deposit rate was lowered by 100 basis points to 10.5 percent, while the lending rate was cut by the same amount to 12.5 percent.
Kenya	The Central Bank reduced the threshold for investments in Treasury Bills in the primary market from the current Kshs 1 million to Kshs 0.1 million from January 2009 to induce small investors. The Kenyan government issued infrastructure bond that amounted to 18.5 billion shilling (USD 232.6 million) with 12-year maturity in February 2009
Mauritius	Government announced in January 2009 a stimulus package to bolster economic growth, increase jobs and boost purchasing power as a response to the global financial crisis. The package will provide Mauritian Rupees 10.4 billion, equivalent to about 3 percent of GDP.
Morocco	In a bid to stimulate trade, the Moroccan government has taken a series of measures to re-energize the markets: Allowing companies to buy back their own shares without a minimum set price in the event that their share prices drop below a certain level.

Countries	Strategies
	The possibility for insurance companies to hold up to 60 percent of their listed shares to cover their liabilities, as opposed to the previous ceiling 50 percent
Nigeria	The 2.8 trillion naira (22.6 billion dollar) 2009 budget submitted to the National Assembly is noticeably heavy on recurrent expenditure and light on capital spending and investment. The government is now mulling to use its USD 52 billion foreign exchange reserves to shore up the economy through a stimulus package. Launch of a Presidential Steering Committee on the Global Economic Crisis in January 2009. The Committee is responsible for developing a framework to respond to the global crisis. Government announced plan to suspend the 5 percent excise duty on some goods manufactured such as juices, instant noodles and nonalcoholic drinks, aiming to support its stressed industry and avert job losses. Government decided to inject N70 billion into the textile industry through guarantees in February 2009 Nigerian government imposed foreign exchange controls to stem off the slide in the Naira. These measures include: All foreign exchange purchases from the central bank window are only to be used for customers, and not on the interbank foreign exchange market. The net open foreign exchange position of banks reduced to 1 percent of shareholders' funds, down from 20 percent in mid-December 2008.
South Africa	The recent Presidential State of the Nation address (6th February, 2009) has taken note of the impact of the ongoing financial crisis to the economy. The government has flagged measures underway to avert the crisis that include: Increased funding for public investment projects with allocation of R 690 billion (about USD 80 billion) over the next three years; Intensification of public sector employment programs; Adoption of industrial financing and incentive instruments to assist firms in distress, and lastly; Sustained and expansion of government social expenditure. Financing of these measures includes support from development finance institutions as well as partnership with the private sector Proposed tax adjustments to personal income tax providing middle and lower income earners with R13.6 billion in tax relief. The South African Reserve Bank cut the repurchase rate, its benchmark interest rate, by 100 basis points to 10.5 percent, the biggest reduction in more than five years.
Sudan	The Regional Government of Southern Sudan has ordered a 10 percent salary cut for all senior government officials and a clampdown on the payment of hotel costs for officials who do not have their own housing.
Tunisia	A Commission to ensure crisis surveillance has been established 2009 budget includes a significant increase in public investments along with

Countries	Strategies
	measures to increase external competitiveness and employment and strengthen social protection Central Bank relaxing monetary policy stance, with Dinar money market rate falling from about 5.2 percent in December to 4.65 percent in January 2009 Central Bank reduced its key interest rate by 75 basis points, from 5.25 percent to 4.50 percent in February 2009.
Uganda	Government has assisted the troubled Uganda Transport Operators and Drivers Association (Utoda) by writing off nearly half of the accumulated Shs1.7 billion debt that it owes Kampala City Council (KCC).

Adopted from *Impact of the Crisis on African Economies – Sustaining Growth and Poverty Reduction;* a report from the Committee of African Finance Ministers and Central Bank Governors, March 2009.