UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL
ECONOMIC COMMISSION FOR AFRICA

Twenty-eighth meeting of the Committee of Experts

AFRICAN UNION
COMMISSION

Fourth meeting of the Committee of Experts

Meeting of the Committee of Experts of the 2nd Joint Annual Meetings of the AU Conference of Ministers of Economy and Finance and ECA Conference of Ministers of Finance, Planning and Economic Development

Cairo, Egypt
2-5 June 2009

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Distr.: General
E/ECA/COE/28/6
AU/CAMEF/EXP/6(IV)
Date: 13 May 2009

Original: English

The global financial crisis: impact, responses and way forward

I. Introduction

1. 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 dire 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.

2. The current crisis is also taking place at a time when the 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 reduce 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 taken by African Governments and regional organizations to cushion the effect of the crisis on economies in the region. Finally, the paper discusses policy measures and actions to be taken at the international level to ensure that the financial and economic crisis does not develop into a humanitarian crisis in Africa.

II. Impact of the crisis on Africa

3. In the first few months of the financial crisis, there was the widely held view that the impact on African countries would be minimal because of their low integration into the global economy. Furthermore, African countries tend to have very small inter-bank markets and several countries have restrictions on new financial products as well as market entry, which should shield them from the direct effects of the global financial crisis. Recent developments have, however, shown that the negative contagion effects of the crisis are already evident in the Africa region. For example, available evidence indicates that in 2009 the crisis will reduce economic growth in Africa by 2-4 percentage points depending on assumptions made about the availability of external finance to the region as well as the effectiveness of measures taken by the advanced countries to boost global demand. Given the heterogeneity of African countries, the crisis is certainly going to affect some countries much more than others. For example, the decline in economic growth expected in 2009 will be more severe in Angola, Botswana, South Africa, Equatorial Guinea and the Sudan, which are expected to lose more than 4 percentage points in growth. In Egypt, Kenya, Cape Verde, Nigeria, Ethiopia, Tunisia, Namibia, Mozambique, Sierra Leone, Lesotho, Ghana and the Democratic Republic of the Congo, growth is expected to decline by between 2 and 3 percentage points in 2009.

4. It is also interesting to note that the crisis is affecting all categories of countries in the region those considered to have good economic policies and governance; those with poor macroeconomic records; fragile States; small and large economies; oil- and non-oil exporting countries. A key implication of this assertion is that the real effects of the crisis in the region are not simply due to the nature of macroeconomic policies and governance in African countries.

Consequently, there is the need to provide assistance to countries in the region to enable them to withstand the global slowdown and protect vulnerable groups.

Stock markets, banks and exchange rates

5. The impact of the crisis on Africa comes from both direct and indirect channels. The direct effects have been felt mostly through the financial sector. For example, stock market volatility has increased since the onset of the crisis and wealth losses have been observed in the major stock exchanges. In Egypt and Nigeria, the stock market indices declined by about 67 per cent 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. For example, there is growing evidence that it has a negative effect on bank balance sheets and, if present trends continue, non-performing loans in the banking sector would likely increase, with dire consequences for financial stability in the region. In Ghana, the ratio of non-performing loans to gross loans increased from 7.9 per cent to 8.7 per cent between 2006 and the third quarter of 2008. In Lesotho, it increased from 2 per cent to 3.5 per cent over the same period (IMF 2009).

6. So far, bank failures have been rare in the region, largely because most African banks do not have any significant exposure to the sub-prime mortgage market and asset-backed securities. They are, however, vulnerable to contagion effects arising from the high rate of foreign ownership of banks in several countries in the region. To the extent that foreign-owned banks reduce their support of local banks or sell their assets, it will have serious negative consequences for the financial sector in Africa. The countries that are highly susceptible to contagion from this source include Botswana, Cape Verde, Central African Republic, Chad, Côte d'Ivoire, Equatorial Guinea, Lesotho and Zambia. In these countries foreign ownership of banks is quite high.

7. The foreign exchange markets of African countries have been under enormous pressure since the onset of the crisis. In the first quarter of 2009, the Ghanaian cedi depreciated against the United States dollar by 14 per cent and the Nigerian naira declined by 10 per cent. The Zambian kwacha also lost 13 per cent of its value relative to the United States dollar over the same period. Table 1 presents data on expected changes in exchange rates for selected African countries in 2009. Significant depreciations are expected in Ghana (21 per cent), Uganda (22 per cent), Democratic Republic of the Congo (23 per cent), South Africa (27 per cent), Nigeria (27 per cent), Zambia (43 per cent), the Comoros (45 per cent), and Seychelles (84 per cent). Several of these countries have high foreign debt, such that the expected depreciation of their currencies against the dollar will impose serious debt-service burdens on the region. It will also increase the cost of imported intermediate inputs, with consequences for production, output and employment. Furthermore, 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 will increase domestic prices of consumer goods and reduce access to food by vulnerable groups. Exchange-rate depreciation will also increase exchange-rate risks faced by domestic firms and increase the likelihood that they will default on loans owed to domestic banks, thereby increasing the vulnerability of these banks.

Table 1: Exchange rate changes in Africa

Country	Currency	Expected depreciation of currency against United States dollar in 2009 (%)
Seychelles	Rupee	84.2
Comoros	Franc	45.2
Zambia	Kwacha	43.4
Nigeria	Naira	27.3
South Africa	Rand	27.1
Congo, Democratic Republic	Franc	23.7
Uganda	Shilling	22.4
Ghana	Cedi	21.1
Ethiopia	Birr	19.8
Mauritius	Rupee	19.5
Madagascar	Ariary	17.9
Tunisia	Dinar	17.1
Kenya	Shilling	16.5
Namibia	Dollar	15.0
Sierra Leone	Leone	14.7
Mauritania	Ouguiya	14.3
Cape Verde	Escudo	13.8
Botswana	Pula	13.5
Tanzania	Shilling	13.3
Guinea	Franc	13.1
Lesotho	Loti	12.8
Swaziland	Lilangeni	12.8
Morocco	Dirham	11.4
Mozambique	Metical	10.7

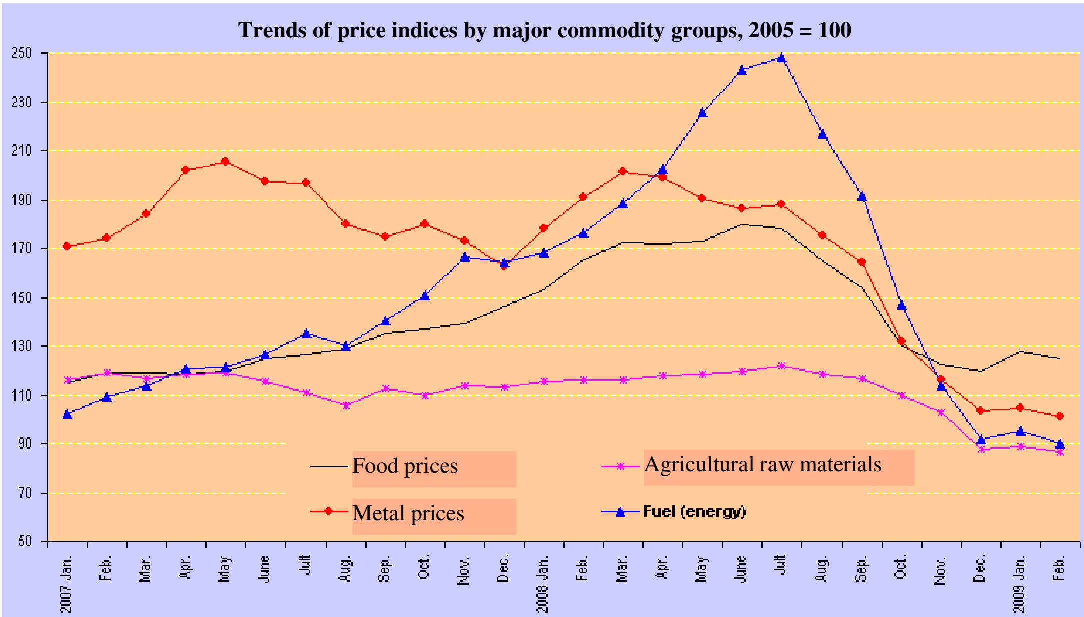
Note: Computed using data from the Economist Intelligence Unit (EIU).

8. The financial crisis has also increased the risk premiums that African countries have to pay in international capital markets. There is evidence that several countries in the region have difficulty obtaining funds from international capital markets. For example, Kenya, Nigeria, Tanzania and Uganda have cancelled plans to raise funds in these markets. The drying-up of this source of external finance is a serious setback for development in the region because the money raised would have been used to finance infrastructure development and boost growth. The private sector is also facing challenges in raising funds in international capital markets.

Commodity prices and trade

9. 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. Figure 1 presents trends in the prices of four major commodity groups of exports from Africa. It shows that there has been a downward trend in prices of these commodity groups since the second half of 2008. The most affected commodity has been crude oil, which experienced price declines of more than 50 per cent between February 2008 and February 2009. The prices of copper, coffee, cotton and sugar also declined by more than 20 per cent over the same period.

Figure 1: Trends in price indices of major commodity groups



Source: IMF online database.

10. The volume of exports by African countries has also declined because of the financial crisis. 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 per cent in 2007 to 3 per cent in 2008. Import growth fell from 14 per cent in 2007 to 13 per cent in 2008 (table 2). Although trade figures for 2009 are not yet available, forecasts by the World Trade Organization indicate that the volume of global trade is expected to decline by 9 per cent in 2009, which will have a negative effect on Africa's exports in 2009.

11. 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 per cent between October and November 2008. In Angola, export earnings are expected to decline from $67 billion in 2008 to $23 billion in 2009, while in Cape Verde, they are expected to fall from $90 million in 2008 to $84 million in 2009. In Côte d'Ivoire, earnings are expected to decline from $10.4 billion in 2008 to $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.

Table 2: Africa's merchandise trade (annual percentage change at constant prices)

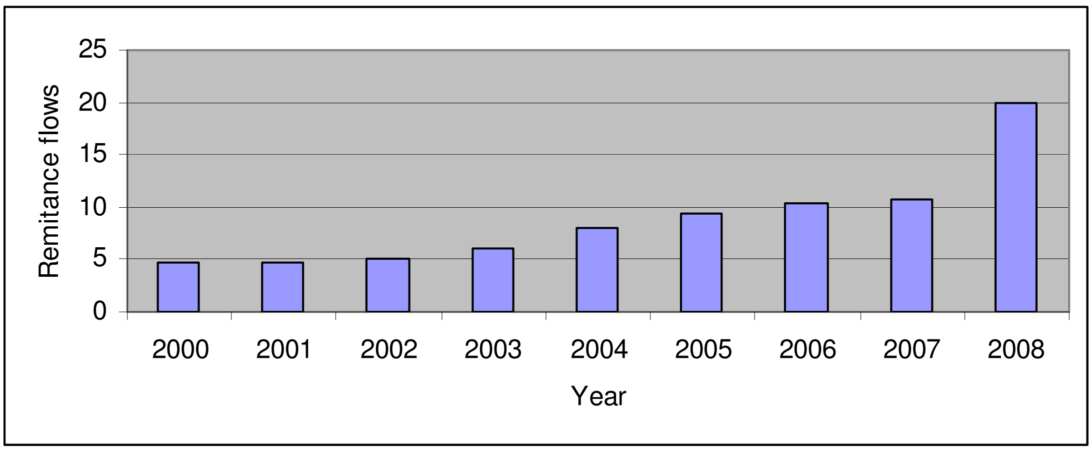
	Exports	**Imports**
2006	1.5	10.0
2007	4.5	14.0
2008	3.0	13.0

Source: WTO.

Workers' remittances

12. Workers' remittances have played an important role in development finance in Africa since the beginning of the new millennium. For example, figure 2 shows that remittance inflows to sub-Saharan Africa increased from $4.6 billion in 2000 to $20 billion in 2008. A large part of inflows to sub-Saharan Africa finances household consumption and hence has a direct effect on poverty. There is some concern in Africa that the global economic slowdown will reduce 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 will reduce remittance inflows to sub-Saharan Africa by between $1 billion and $2 billion dollars in 2009 relative to 2008. Liberia, Lesotho, the Gambia and Seychelles are highly vulnerable to reductions in workers' remittances because inflows represent more than 10 per cent of their gross domestic product (GDP). North African countries are also vulnerable because they receive a significant amount in remittances, although the inflows are small as a percentage of GDP.

Figure 2: Remittance inflows to sub-Saharan Africa (billion dollars)

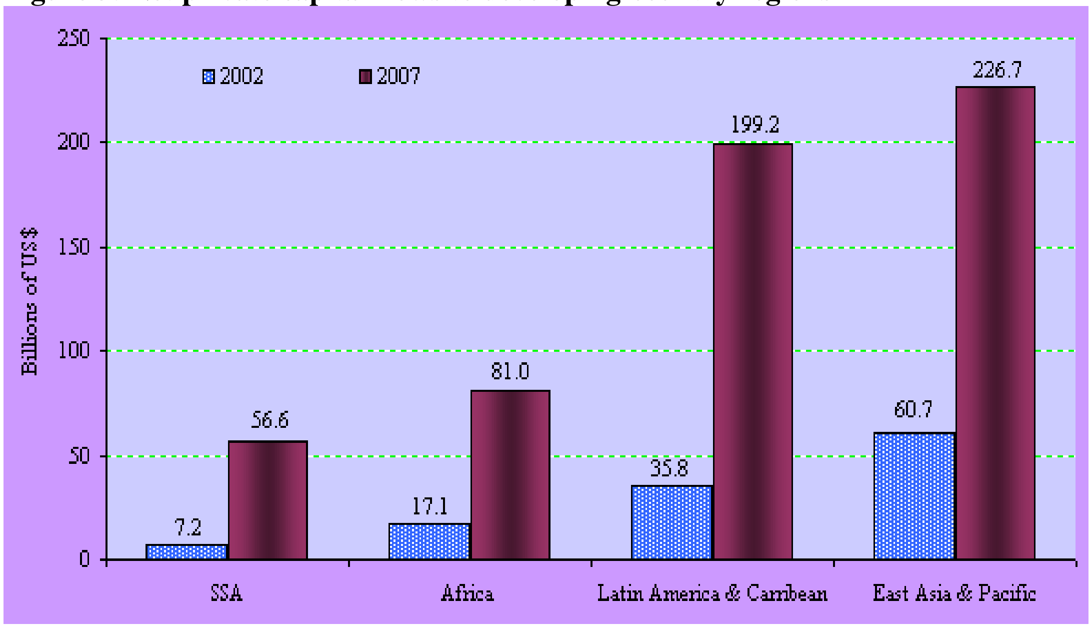


Source: Ratha and Zu (2007) and World Bank database.

Private capital flows

13. The financial crisis has diminished prospects for private capital flows to the region. In recent years, there has been a significant increase in private capital flows to the region (figure 3). Foreign direct investment (FDI) flows were $53 billion in 2007 and $61.9 billion in 2008. However, there are indications that FDI flows to the region would decline in 2009 because of the global economic slowdown. FDI often responds to growth with a lag and so it is not surprising that the full impact of the crisis on flows to Africa will be felt more in 2009 and beyond. Other forms of private capital flows have also been affected by the crisis. Prior to the crisis, countries such as Ghana and Gabon successfully issued bonds in international capital markets. As a result of the crisis, this source of external finance has dried up and several African countries (for example, Nigeria and Kenya) are facing difficulties issuing bonds in international capital markets. Firms in Burkina Faso have delayed mining ventures because of difficulties in obtaining finance. In the Democratic Republic of the Congo, BHP Billiton, a major foreign investor, has suspended nickel prospecting because of low mineral prices. The drying up of these sources of external finance has constrained growth and development in the region.

Figure 3: Net private capital flows to developing-country regions



Source: Economic Commission for Africa.

Official development assistance

14. Several African countries depend on official development assistance (ODA) for the financing of government programmes. There has been an increase in ODA flows to Africa since the Monterrey Consensus was adopted in 2002, increasing from $21 billion in 2002 to $38.7 billion in 2007. However, there is the expectation that donors will reduce ODA flows to the region in response to the financial crisis. While there is no evidence yet that donors plan to reduce flows, history and econometric evidence suggest that ODA flows tend to be pro-cyclical and so it is reasonable to expect a decline. Furthermore, pressures to recapitalize the banking sector and provide support for ailing industries may force developed countries to cut down on ODA flows to Africa. Table 3 shows the 23 countries that are highly vulnerable to reductions in ODA flows. In these countries, ODA represented more than 10 per cent of gross national income over the period 2000-2007. Liberia, Burundi, Guinea-Bissau, Sierra Leone and Eritrea are particularly vulnerable with extremely high ratios of ODA to gross national income.

Table 3: Net official development assistance disbursements to key African recipients
(percentage of gross national income)

Country	2000	2001	2002	2003	2004	2005	2006	2007	(2000-07)
Liberia	17.4	9.6	11.4	30.4	57.1	55.5	56.2	120.4	44.7
Burundi	12.9	21.4	28.0	39.4	55.5	46.9	47.8	49.5	37.7
Guinea-Bissau	39.5	32.8	30.8	64.6	29.5	22.8	27.6	35.4	35.4
Sierra Leone	29.4	42.9	42.3	35.0	36.1	29.6	24.8	32.7	34.1
Eritrea	27.7	42.0	36.8	55.0	42.4	36.8	11.9	13.0	33.2
Congo, Dem. Rep.	4.5	5.7	22.4	98.8	29.1	26.4	25.2	14.1	28.3
Mozambique	22.5	25.5	55.1	23.5	23.2	21.2	26.1	26.3	27.9
Sao Tome and Principe	...	...	...	...	...	29.3	18.0	25.0	24.1
Rwanda	18.7	18.4	22.1	19.2	25.3	24.4	20.5	21.5	21.3
Malawi	26.1	24.1	14.4	21.6	19.5	20.6	21.9	20.8	21.1
Zambia	25.8	15.9	22.3	17.8	22.0	17.3	14.4	9.7	18.1
Mauritania	19.8	25.0	27.8	18.6	11.7	9.6	6.9	12.5	16.5
Uganda	14.5	14.8	12.8	16.3	18.2	14.0	16.7	15.7	15.4
Cape Verde	18.1	14.2	15.2	18.3	15.8	16.7	12.2	11.9	15.3
Gambia	12.4	13.2	17.4	18.0	14.5	13.7	16.1	12.1	14.7
Ethiopia	8.5	13.5	16.8	18.8	18.1	15.6	12.9	12.5	14.6
Niger	11.7	13.1	13.9	17.0	18.0	15.3	13.9	12.8	14.5
Mali	15.0	14.5	15.3	13.2	12.4	13.8	14.9	15.4	14.3
Tanzania	11.6	13.6	13.1	17.0	15.8	10.6	12.9	17.4	14.0
Madagascar	8.4	8.2	8.6	10.1	29.2	18.4	13.8	12.3	13.6
Burkina Faso	13.0	14.0	14.5	12.2	12.6	12.9	15.1	13.9	13.5
Ghana	12.4	12.3	10.9	13.0	16.2	10.9	9.3	7.5	11.6
Djibouti	12.6	9.6	12.8	11.7	8.8	9.8	13.7	12.3	11.4

Source: OECD (for ODA) and World Bank, African Development Indicators (for GNI).

Social development and the Millennium Development Goals

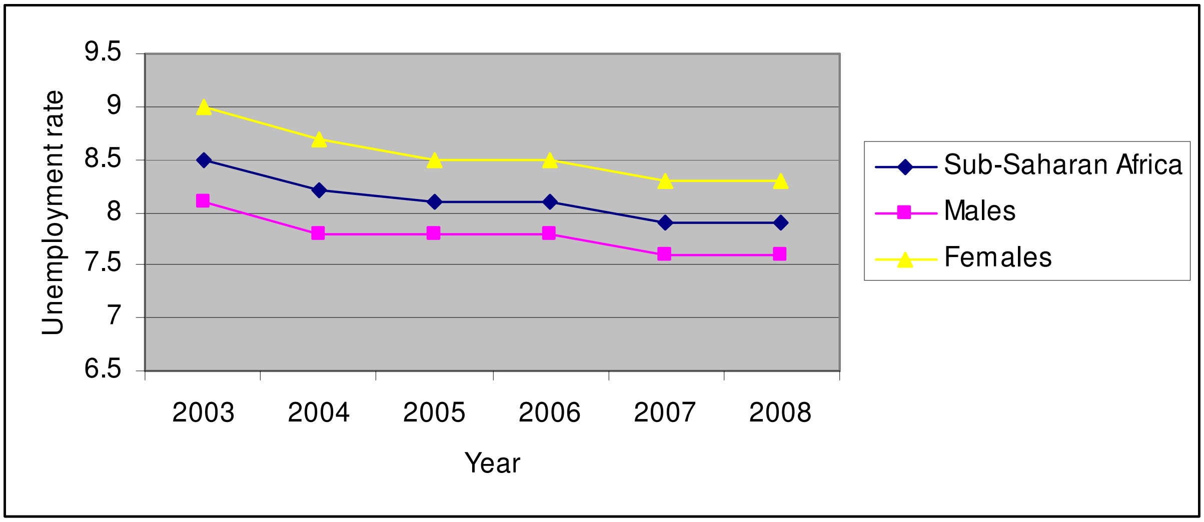
15. There is no doubt that one of the important consequences of the financial crisis for Africa is the reduction of both internal and external finance. The drying up of important sources of development finance diminishes the ability of African countries to boost growth and achieve the MDGs. Although data on the key MDG indicators for 2009 are not available for most countries in the region, it is reasonable to expect the decline in fiscal space due to the drying up of traditional sources of development finance to make it more difficult for African countries to fund health, education, infrastructure and nutrition programmes.

16. The expected decline in ODA flows will have a devastating effect on aid-dependent economies in the region. In several countries, ODA accounts for more than 30 per cent of government revenue or budgets. Since African countries are heavily dependent on aid-funded social protection programmes, any reduction in aid could affect the poor considerably and thus increase their vulnerability. In this regard, there is the need for donors to honour existing commitments on aid flows to Africa so that Governments in the region can protect their vulnerable citizens and prevent more people from falling into poverty.

17. The financial crisis will also have an indirect effect on poverty through its impact on unemployment. Figure 4 shows that unemployment rates in sub-Saharan Africa were on a downward path before the crisis. This is true for both males and females, although the rate is generally higher for females. The unemployment rate fell from 8.5 per cent in 2003 to 7.9 per

cent in 2008. There are concerns, however, that the crisis will increase the unemployment rate in 2009, as firms reduce production or shut down factories. Preliminary forecasts by the International Labour Organization suggest that in the worst-case scenario, the 2009 unemployment rate for sub-Saharan Africa will increase by about 0.6 percentage points relative to the 2008 rate. This implies an increase of 3 million in the number of unemployed people between 2007 and 2009.

Figure 4: Unemployment rates in sub-Saharan Africa, 2003-2008 (percentage)



Source: ILO.

III. Policy responses to the crisis

Country-specific responses

18. African countries have taken several steps to mitigate the impact of the financial crisis on their economies, including interest rate reductions, recapitalization of financial institutions, increasing liquidity to banks and firms, fiscal stimulus packages, trade policy changes, and regulatory reforms. The measures adopted differ from country to country, depending on available fiscal space as well as the degree of vulnerability to the crisis. For example, oil-exporting countries in the region have more fiscal space to conduct counter-cyclical policies because they accumulated huge foreign reserves during the recent oil price hikes. In the non-oil economies, however, the ability to adopt counter-cyclical policies is severely limited and so the use of fiscal stimulus measures is not widespread in these economies. In addition to the above measures, some countries have set up task forces or committees to monitor the financial crisis and advise the Government on how to respond. Rwanda, Kenya, Nigeria and the Democratic Republic of the Congo are examples of countries that have adopted this approach.

<u>Interest rate changes</u>

19. Since the onset of the crisis, 18 countries in the region for which information was available, have made interest rate changes in response to the crisis. For example, in Botswana, the central bank reduced interest rates by 50 basis points in December 2008. This was followed by a percentage point reduction on 27 February 2009. In Egypt, the central bank cut its overnight and lending rates by 50 basis points on 26 March 2009. The Central Bank of Nigeria also cut its

interest rate from 10.25 per cent to 9.25 per cent. Other countries that reduced interest rates include Kenya, Mauritius, countries that fall under the ambit of the Bank of Central African States, Namibia, South Africa, 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.

Liquidity injections

20. Some countries have taken actions to increase liquidity in the banking system and to domestic firms. For example, in Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, the Niger and Togo, the common central bank (BCEAO) injects liquidity on a weekly basis in the regional money market. In Cameroon and Liberia, a support or guarantee fund has been created for firms. In Tunisia, the central bank has set up new deposit and credit facilities to improve flow of credit and increase liquidity in the banking system.

Recapitalization of banks and regulatory changes

21. Some countries have 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. In Tunisia, the central bank doubled the capital for the financing of small and medium-sized enterprises in order to boost domestic investments. The Algerian Credit and Monetary Council has 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.

Fiscal policy measures

22. Fiscal stimulus packages have also been unveiled in a number of countries with a view to cushioning the effects of the crisis and boosting growth. In Cape Verde, the 2009 budget projects a 17 per cent rise in public spending to provide fiscal stimulus to the economy. In Egypt, a fiscal stimulus package of 15 billion Egyptian pounds was announced by the Government. Gabon, Morocco, Namibia, Nigeria, Sao Tome and Principe, South Africa and Tunisia have also adopted fiscal stimulus measures. In most of these packages, infrastructure development has been emphasized. It is interesting to note that unlike the other countries, Namibia has adopted fiscal measures that involve a 24 per cent public-sector pay raise. The South African stimulus plan, announced in February 2009, is quite broad and has four aspects: a $69.4 million three-year public investment programme; expansion of public sector employment opportunities; increase in social spending; and assistance to the private sector. The stimulus plan adopted by Morocco includes measures to improve access to credit, tax incentives, vocational training for workers, and reducing red tape and corruption.

23. Fiscal restraint has also been exercised by several African countries in response to the crisis. For example, the Government of Kenya plans to cut expenditure to the tune of 25 billion shillings. In Benin, the Government plans to cut subsidies on food and oil imports to free up financial resources. In Botswana, restrictions have been imposed on travel budgets, vehicle

purchases and the creation of new posts. In Angola, the Government plans to revise its budget downward to take account of the anticipated decline in oil revenue.

Trade policy measures

24. Boosting economic growth through trade has been an important component of the response plans in several countries. Cameroon has reduced or waived import taxes on equipment, tools and goods required for research and oil exploration. In Liberia, the President has announced plans to reduce trade tariffs as well as the trade levy of the Economic Community of West African States. Tunisia has increased allotments for export business travels and Mali has introduced measures to refund to gold mining companies the value added tax and import duty due on their 2006/2007 operations. In Madagascar, the central bank has devalued the local currency to restore export competitiveness. The Government has also launched a drive to boost exports.

Improving domestic resource mobilization

25. Some African countries have used the current crisis as an opportunity to introduce reforms aimed at boosting domestic resource mobilization. In Burkina Faso, the Government intends to undertake a comprehensive reform of its tax policy in 2009 so as to increase the tax base and boost revenue collection. Cape Verde, Senegal and South Africa have also taken measures to boost tax revenue. The Government of Kenya intends to privatize some State-owned firms. It has also launched an 18.5 billion shillings infrastructure bond in the local capital market.

Regional responses

Coordination and consensus-building

26. African ministers of finance and planning and governors of central banks met in Tunis, Tunisia, on 12 November 2008 to discuss the implications of the financial crisis for Africa and to identify appropriate policy responses to cushion its impact in the region. The meeting was jointly organized by the Economic Commission for Africa, the African Development Bank, and the African Union Commission. The communiqué issued at the end of the meeting emphasized the need for bold and decisive actions to mitigate the effect of the crisis on African economies. The following are some key policy responses that were stressed by African policymakers at the meeting:

- 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 should be subjected to proper regulation and oversight, to avoid excessive risk-taking by financial institutions.

- Macroeconomic policy and structural reforms implemented in Africa over the last two decades have served African countries well. However, 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 must 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 crucially important. This has become imperative especially in the light of the increasing globalization of financial markets.

27. These recommendations were presented and discussed by African Heads of State and Government at their Summit in Addis Ababa in January 2009. At their 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, advise ministers and governors on proposals, and contribute to the international discourse in relation to the economic impact of the financial crisis and mitigating measures. The committee held its first coordination meeting in Cape Town, South Africa on 16 January 2009 and its second meeting in Dar es Salaam, Tanzania, on 11 March 2009. These meetings have helped to build an African consensus on the crisis and on how the international community could assist countries in the region to respond to it.

Research support

28. Identifying the potential impact of the crisis and the transmission channels is critical to designing and implementing effective policy responses. In this regard, the Economic Commission for Africa (ECA) has been providing technical and research support to African countries since the onset of the crisis. ECA has also played a key role in facilitating an African consensus on the crisis by organizing high-level meetings for African countries. For example, ECA organized the ministerial meeting in Tunis in collaboration with the African Development Bank (AfDB) and the African Union Commission (AUC). ECA, AfDB and AUC are also providing support to the Committee of Ten Ministers and Governors of Central Banks. These technical assistance support and advisory services have played a crucial role in ensuring that African views and concerns are adequately presented to the international community, particularly the G-20.

Liquidity support

29. African countries are facing difficulties accessing international financial markets due to the drying up of credit and rising risk premiums. AfDB has taken several measures to improve access to long-term finance for countries in the region, particularly for essential economic infrastructure. For example, the bank has established a $1.5 billion emergency liquidity facility to provide fast and exceptional support to eligible countries. It has also set up a $1 billion trade finance facility to improve access to trade finance. Some short-term measures have also been put in place to improve access to finance, including the restructuring of portfolios and pipelines in order to have faster disbursement instruments; seeking of additional funding through co-financing; review of trust funds to direct activities and funds towards countries in need; and

establishment of a catalytic trust fund for African Development Fund countries to supplement their existing resources.

IV. The way forward

30. African countries have taken important steps at the national level to mitigate the impact of the financial crisis on their economies. However, finance constraints limit the range of policy measures that countries in the region could adopt in response to the crisis. In this regard, the international community needs to provide appropriate assistance to the region to prevent the financial crisis from turning into a regional humanitarian crisis. The main areas where international action is needed to help Africa deal with the crisis are outlined below.

Enhancing resource availability

31. Developed countries have adopted fiscal stimulus packages to boost their economies but very little attention has been paid to the need to boost demand in Africa and how to finance it. Africa needs to be fully integrated into the coordinated effort to increase global aggregate demand. The developed countries' fiscal stimulus plans will be much more effective if accompanied by similar fiscal stimulus plans in low-income countries. Sources of generating finance to boost demand and growth in Africa include:

- Rich countries making more effort to meet existing commitments on aid and debt reduction (ECA 2008)
- Accelerating disbursements and improving access to existing finance facilities
- Urging the International Monetary Fund to put in place a new facility with relaxed conditions to support African economies during this crisis
- An early capital increase for the African Development Bank to enable it to scale up its interventions in support of African development
- Sale of International Monetary Fund gold reserves to release additional resources to help developing countries deal with the financial crisis
- Issuance of new special drawing rights.

Reform of the international financial system

32. Africa and developing countries in general have voiced their reservations and criticisms of the existing international financial architecture and aid delivery frameworks used by donors and international financial institutions. These criticisms notwithstanding, the financial architecture has fundamentally remained the same since the Second World War. There are a number of key areas that African countries would like to see changed in the context of the reform of the Bretton Woods institutions and the global financial architecture.

33. <u>Increasing policy space</u>: The imposition and use of policy conditionalities in aid delivery has been a matter of concern to African policymakers. African countries have had their freedom to choose their own policy mix and paths constrained over time. The Country Policy and Institutional Assessment (CPIA) of the World Bank is an example of an aid allocation tool or framework which limits the policy choices available to African Governments. The CPIA gives a disproportionately heavy weighting to policy performance relative to development outcomes. Under the CPIA, countries are ranked according to the quality of their policies and institutional arrangements. This focus on policies rather than outcomes is problematic because there is no

general consensus on what constitutes good policy. African countries would like a redesign of the CPIA to include a category significantly weighted towards country-specific outcomes and the use of African Peer Review Mechanism (APRM) governance indicators to measure progress in governance for African countries.

34. Debt sustainability framework (DSF): African countries are also concerned about the increasing use of the DSF in aid delivery, given the methodological limitations and subjective judgments about what constitutes good policy. The DSF needs to be redesigned to take account of its shortcomings and eliminate the judgmental element of what constitutes good policy and good institutional arrangements.

35. Voice and participation: African countries are concerned that they are not represented in key forums where important decisions that affect their economies are made. The redesign of the financial architecture provides an opportunity to address this issue. Africa would like to participate in the Financial Stability Forum and to have increased representation on the boards of the International Monetary Fund and the World Bank. Africa also needs to have permanent representation in the G-20, because South Africa is a member of the G-20 by virtue of its status as an emerging economy.

36. Promoting trade: Trade is an important source of development finance in Africa. Against the background of creeping economic nationalism underpinning the rescue and stimulus packages mobilized by “advanced countries”, the G-20 must refrain from trade protectionism. In this regard, Africa would like to see a speedy conclusion to the Doha Round with appropriate provisions and emphasis on the development dimensions.

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