

**AFRICAN ASSOCIATION FOR PUBLIC ADMINISTRATION
AND MANAGEMENT**

**31ST AAPAM ANNUAL ROUNDTABLE CONFERENCE, KENYA
INSTITUTE OF ADMINISTRATION (KIA), NAIROBI, KENYA**

21ST – 25TH SEPTEMBER 2009

**THEME: THE WORLD ECONOMIC CRISIS: CHALLENGES TO THE AFRICAN PUBLIC
ADMINISTRATION SYSTEMS**



**TOPIC: IMPACT OF THE GLOBAL ECONOMIC CRISIS:
SUSTAINING GROWTH, POVERTY REDUCTION AND HUMAN
SECURITY IN AFRICA**

**PROF. KAREGA MUTAHI
PERMANENT SECRETARY
MINISTRY OF EDUCATION
GOVERNMENT OF KENYA**

Abstract

Until 2009 the growth prospect of Sub-Saharan Africa was very promising. With the exception of China and India, for the first time in two decades, the region was growing at the same rate as the rest of the developing world. Unexpectedly, the global financial meltdown gripped the developed world and consequently unleashed serious ramifications for African economies. Ironically, in response the rich developed world embarked on a rescue strategy for its collapsed economic system by applying the state centric approach it had opposed in Africa in the early 1990s in favour of economic liberalization. As a result of the global economic down, investments and funding levels for Sub-Saharan Africa (SSA) is dwindling due to lack of commitment and unfulfilled promises by the international community and donors. Already this condition is negatively impacting on poor African countries' ability to sustain Millennium Development Goals (MDGs) of reducing poverty, enhancing human security and political stability. These consequences have already been witnessed in the rising incidents of poverty, environmental destruction, demonstrations and conflicts in some countries. In addition, African migrant workers in Europe and the USA have been laid off, causing decreased remittances, declining economic output, decreasing international commodity trade levels and reduction of agricultural and mineral commodities prices, which are the main foreign exchange earners of Africa.

Given such great uncertainty and pessimism, confidence in the economic sector must be restored soon to forestall the credit crunch and avoid depression by boosting public expenditure demand, ensuring adequate representation at the international economic system and integration in the global economy. Spending on infrastructure on the one hand and social safety nets on the other are essential in Africa. In this context, it is possible to set the reform agenda for global and domestic international economic and financial architecture and governance regimes to enhance African efficient utilization of the few resources, restore political stability, poverty, climate change and social security. It is against this background that this paper seeks to broadly examine the challenges and consequences of this crisis and propose ways and strategies for effectively improving Africa's intervention capabilities for sustainable development in the global economy.

1.0. BACKGROUND AND INTRODUCTION

The global economic and financial crisis of 2008-2009 began in July 2007 when a loss of confidence by investors in the value of securitized mortgages and banks in the United States. This has resulted into capital flight and global credit crunch which has led to massive global economic crisis and financial meltdown in both the developed and developing economies. Unfortunately, in the developing world, there has been massive economic breakdown, lower foreign direct investment, environmental (global warming, loss of wilderness and biodiversity); cultural (intolerance, clash of civilizations, western cultural dominance); political (democratic deficit); insecurity (increasing military expenditures, crime and drug related activities), conflicts (increased ethnic and racial tensions and international conflicts), increased poverty, company closures and layoffs unemployment, decline in exports, reduced remittances, dislocation and massive population shifts (African Development Bank Report, 2009; International Monetary Fund (IMF) (2008).

In response governments have come up with rescue packages to bail out their financial systems, witnessed in the substantial injection of capital into financial markets by the United States Federal Reserve, Bank of England and European Central Bank. Concerns have been raised by third world countries including SSA that those responsible for the financial problems are the ones being bailed out, and yet the global financial meltdown will affect the livelihoods of almost everyone in an increasingly inter-rated global economy.

2.0. EFFECTS OF FDI INFLOWS ON ECONOMIC GROWTH AND DEVELOPMENT

Over the past decade, SSA has enjoyed robust growth. Private capital inflows took off, driven by a number of domestic and external factors that contributed towards enhancing the region's attractiveness for foreign investors in search of high yields. Net foreign direct investment (FDI) inflows grew progressively from \$13 billion in 2004 to about \$33 billion in 2007; portfolio equity flows took off, reaching a value of \$15 billion in 2006; bonds flows rapidly increased, by \$7.13 billion from 2006 to 2007; and international banking activity all expanded significantly (Macias

and Massa, 2009). However, the financial turmoil originating in the developed world in 2007 has since spread to developing countries, including Sub-Saharan Africa (SSA).

The crisis is threatening to turn back the clock on progress achieved during these decades of reforms that have attracted massive foreign direct investments in Africa. SSA's growth dropped from 6.9% in 2007 to 5.5% in 2008. In May, 2009, the International Monetary Fund (IMF) warned that Africa's economic growth will plummet because of the world economic downturn, predicting that growth in SSA will slow down to 1.5% in 2009, below the rate of the population growth. Private capital inflows to SSA have dropped sharply owing to a reduced capability and propensity to invest on the part of foreign investors (IMF, 2009).

The crisis has triggered depreciation of currencies and major declines in stock market prices with foreign investors in securities and equities selling off large shares of their holdings. The slowdown in private capital flows will adversely affect economies that had been relying on these flows to finance much-needed investment, particularly infrastructure investment. Already South Africa, Africa's largest economy has entered into recession for the first time since 1992, due to a sharp decline in the key manufacturing and mining sectors. Moreover, Ghana, Uganda, Tanzania and Kenya have postponed sovereign bond issues worth about \$800 million; commodity prices are falling, which hurts exporters but helps importers and remittances, which run at about \$15 billion a year to Africa, and foreign aid are already dwindling (IMF, 2009; World Bank, 2009). Portfolio equity flows slowed down in South Africa, Nigeria, Kenya, Mauritius and Côte d'Ivoire. The first signs of contraction of international bank lending began to emerge: banks' total foreign claims on Zambia declined from \$2908 million in June 2008 to \$2607 million in September 2008, and Ghana experienced a similar drop over the same period. South Africa's economy, the continent's biggest, contracted to 1.5 percent in 2009, the biggest decline in almost 25 years (World Bank, 2009).

External resource flows to Africa-Overseas Development Aid (ODA), remittances and foreign direct investments have been declining. Most donor agencies and multilateral financing institutions in the rich North are reducing aid and assistance to African countries preferring to bail out their economies. As such the Millennium Development Goals (MDGs) to address many

concerns such as halving poverty and hunger around the world will be affected. This situation could result into another long cycle of debt for African countries. In April, 2009, G8 leaders pledged to give more money to the IMF for loans during the economic crisis. Unfortunately, these loans carry conditions that are likely to aggravate the crisis.

Crippling third world debt has been hampering development of SSA for decades. Many of these debts were incurred by irresponsible and corrupt Western backed governments. African countries could face increasing pressure for debt repayment as the crisis gets deeper and the international institutions and western banks that have lent money to Africa could demand debt repayment. This could cause further cuts in social services like education, health which have already been reduced due to policies international financial regimes. Despite enormous protest and public pressure for debt relief or write-off, hardly any has occurred, and when it does grand promises of debt relief for poor African countries are never implemented.

3.0. DEFENDING HUMAN SECURITY AND THE CRISIS OF POVERTY

The effects of financial instability and uncertainty in industrialized nations have escalated the rise in food prices, High fuel costs, soaring commodity prices that has subjected more than 53 Million people into poverty in SSA. This crisis threatens the achievement of the UN millennium development goals of having the number living below the poverty line by 2015 especially in SSA:

“As much as this crisis is affecting wealthier nations, the poorest will suffer most in the long run. This crisis raises fundamental questions about globalization, which was supposed to help diffuse risk. Instead it has enabled America’s failure to spread around the world like a contagious disease. Still the worry at Davos was that there would be a retreat from even our flawed globalization, and that poor countries would suffer the most. But the playing field has always been uneven. If developing countries can’t compete with America’s highly subsidized and guarantees, how could any developing country defend to its citizens the idea of opening itself even more to America’s highly subsidized banks? At least for the moment, financial market liberalization seems to be dead” (Stiglitz, February 6, 2009).

According to UNCTAD Report, 2008, the uncertainty and instability in international financial, currency and commodity markets are contributing to a gloomy outlook for the world economy

and could present considerable risks for the Commodity-dependent economies like SSA (UNCTAD Report, 2008). Market liberalization and privatization in the commodity sector have resulted into international commodity price fluctuations on development and macroeconomic stability in the world economy. There is widespread dissatisfaction with the outcomes of unregulated financial and commodity markets which fail to transmit reliable price signals for commodity producers (Kanaga, 2008).

The raging global financial crisis has dealt a major blow to mining-based African economies which had previously registered some positive growth. The gains made are now being eroded, worsening poverty across the continent. Mining companies in mineral-dependent African economies are scaling down operations, resulting in massive retrenchments and lay-offs. Botswana, South Africa, Zambia, the Democratic Republic of Congo and Zimbabwe are some of the hardest hit countries. These countries have registered significant cuts in their export receipts, severely affecting revenue flows for the governments. In South Africa, Africa's largest economy, diamond mining giant De Beers has implemented an extended leave period for workers as a result of the economic downturn. This has negatively affected the world's biggest diamond producer, Botswana, where the gem accounts for more than one-third of GDP and 70 to 80 percent of export earnings (Pan-African News Wire, January 23, 2009).

The economic downturn experience in Africa has alienated vulnerable communities. The slowdown in growth has deepened the deprivation of the poor and the large number of people clustered just above the poverty line. This is particularly true for African women who for a long time have been the face of poverty in Africa. Many women are already struggling daily against an entrenched patriarchy, enforced through formal and informal social, cultural, political and economic practices. During the African Union Heads of State 13th Ordinary Session in Sirte, Libya, on July 1-3, 2009, the status of gender equality was raised in relation to the theme of the conference: *"Investing in Agriculture for Economic Growth and Food Security"*. According to AU Agricultural Commissioner Rhoda Peace Tumuslime, women in many African countries are responsible for the production of over 80% of the food supply, yet women's decision-making authority and participation in development initiatives have fallen far short of their overall economic contribution to society:

“The women have always been there and they starve in order to feed their husbands. They starve in order to feed their children, and they starve in order to look after the sick, to look out for the HIV people in the hospitals. Without women, I don’t think, we would be anywhere” (Pan-African News Wire, July 5, 2009).

The global economic crisis and donor apathy has contributed to chronic shortage of drugs for aids treatment could cost thousands of lives and reverse the progress made in against the scourge in Africa which accounts for one percent of global health expenditure and 2% of the global health workforce. The countries affected are Malawi, Guinea, Ghana, Congo and South Africa, with the last suffering the highest rate of infection in the world. The Global Fund to Fight Aids, Tuberculosis and Malaria which provides for a quarter of all the international health financing recently announced a shortfall of \$4 billion against \$10.7 billion funding for essential HIV, TB, Malaria services in 2010 (Inter Press Service, May 18, 2009; People Daily, July 20, 2009:8). In Kenya over 100 accountants who were employed at various public hospitals under the Global Fund Programme have been laid off. The fund provided Kenya with an estimated \$100 million (Kshs.7.6 billion) annually and an additional \$200 million (Kshs. 15.2 billion) annually for the President’s Emergency Plan for Aids Relief (Daily Nation, July 15, 2009:65). Dr. Bactrin Killingo, the Chairperson of the Nairobi-based Collaborative Fund for HIV Treatment Preparedness argued:

“If the current cost constraints faced by HIV treatment programmes are not addressed, while the demand for expensive second line treatment increases, we will soon find ourselves in a situation similar to the 1990s, where millions of lives were lost unnecessarily because people could not afford the treatment they needed to stay alive”.

Recent years have seen increasing acknowledgment of the interrelationship between human rights and economic development issues. Long before the global financial crisis took hold, global human rights violation was on the rise according to annual reports from human rights groups. The World Bank (2009) warned of a human catastrophe in the world’s poorest countries unless more is done to tackle the global economic crisis and fears massive social upheaval if more is not done to address the crisis. On the other hand, the current economic crisis has witnessed the escalation of violation of basic human rights across Africa (Amnesty

International Report, May 2009). The World Bank (2009) warned of a human catastrophe in the world's poorest countries unless more is done to tackle the global economic crisis and fears massive social upheaval if more is not done to address the crisis. Many nations have slide into poverty and seen violent protests against economic decline and social conditions which have been met by exploitation, violence, arrests and detention:

"In the Middle East and North Africa, the economic and social insecurity was highlighted by strikes and protests were forcefully repressed with force accompanied with more than 2000 prosecutions of alleged organizers, some culminating in long prisons and sentences (Amnesty International, May 28, 2009).

4.0. AFRICAN INTEGRATION AND PARTICIPATION IN THE INTERNATIONAL POLITICAL ECONOMY

Successful development efforts require appropriate policies at both domestic and international levels. International factors have become proportionately more important in recent years as a result of the globalization process. African countries have generally become more interdependent and integrated in the world economy and thus their development prospects and performance are conditioned by global and financial economic systems. More importantly, many policies that used to be made solely or primarily at the national level nation are now very significantly influenced or shaped at international fora and by international institutions. The "external economic environment", comprising global economic structures, trends and the policies determined or influenced by international agencies such as the IMF, the World Bank, WTO, UN, G20, G8, OECD and bilateral aid agencies have impact tremendously on SSA.

Developed countries have different voting powers and the provisions for special majorities for particular categories of decision vary enormously from one international economic organization to another. Comparing the governance structures of a large number of multilateral organizations, the IMF and World Bank performs poorly in their representativeness of the majority of the world's countries and peoples. Developed countries account for 17% of overall votes in the Global Environmental Facility, 24% in WTO, 34% in IFAD, 48% in IDB, 60% in ADB, and 61-62% in World Bank and IMF (UNCTAD Report, 2008). In addition, the G20 which was set up in 1999 in the wake of the financial crisis that hit Asia represents the G8, EU as a bloc and 12 emerging economies: Argentina, Australia, Brazil, Canada, China, France,

Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom and the United States of America. The EU and IMF and World Bank are usually represented as a bloc. Although the G20 comprises 90% of the world's economic output and 80% of the world's population, the poorest 20% (over 160 countries) are not represented in this informal grouping that influences the global economy.

The Bretton Woods system of international finance devised by 44 nations after the Second World War, mostly represented by the IMF, World Bank, was designed to help reconstruct and stabilize a post-war global economy. In the 1970s, the purpose of these international financial institutions (IFIs) shifted towards a neoliberal economic agenda, championed by USA (Washington Consensus). Thereafter, the Bretton Woods Institutions (BWIs) became very asymmetrical organizations dominated and controlled by the minority rich powerful western countries. Their structural adjustment policies prescriptions led to Africa and other developing countries opening markets for western MNCs; worsening poverty and sapped the economic decision making abilities of African countries.

Thus in the context of the MDGs, the extent to which SSA countries will be able to make progress on the goals of eradicating poverty and hunger, health and environmental sustainability depends not only on domestic policy choices, but also on how "friendly" or "hostile" the external economic environment to specific countries. For example, the continuous fall in prices of export commodities has caused tremendous income and foreign exchange losses to many developing countries and is a major cause of increased poverty at local-community level; the financial instability and sharp currency fluctuations caused by large inflows and outflows of external funds have led many of the SSA countries into financial and economic crises, with dramatic and sudden sharp increases in poverty rates; declines in or threats to their industrial jobs and farmers' livelihoods as a result of inappropriate import liberalization policies, partly or mainly due to external policy influences resulting from loan conditionalities or multilateral trade rules; and cutbacks in social-sector expenditure as a result of structural-adjustment policies in the past have been identified as a significant factor for the deterioration of social well-being of vulnerable poor groups in Africa. Moreover, most African

countries have inequitable and inappropriate policies, weak political, economic and social structures that endanger development.

First and foremost, despite major transformation and downturn experiences of the global economy and financial system, the rich developed countries have failed to incorporate third world countries in the structures and decision making levels (World Bank, 2008). The closer integration of the Africa into the world economy pose increased risks and opportunities, not only to them but also to the entire global system. Apart from the fact that the G7 countries represent a small and declining proportion of the world's population, their own economic and political security now rests significantly and increasingly upon events in the rest of the world. The inescapable conclusion is that Africa must find a way not only towards improved management of a newly globalised economic system, but also towards more politically and economically representative, and therefore more legitimate and more effective means of global economic governance.

Secondly, the problems of the international financial system and its interaction with global development present new challenges for financing African development and attracting private capital flows. These include the macroeconomic policies of the major industrial countries, particularly as they affect interest rates, the provision of adequate liquidity and appropriate responses to periodic crises, conditionalities and supervisory roles of the major international financial institutions and regional development banks. Joseph Stiglitz (2008) argues that the failure in the financial markets have come about because of poorly designed incentive structures, resistance, inadequate competition, inadequate transparency by large institutions and developed countries. The rich counties developed using more protectionist policies and moved to free trade once they were industrialized, but they now insist poor African countries must liberalize to serve their interests. If there is to be a useful conference on the financing African development, it must address the structures and operations of the entire international monetary and financial system. The question is: are the current international financial institutions likely to be able to transform themselves, willingly in a reasonable time frame, to address future economic crises especially for the third world?

Thirdly, African development and participation in the global economy has historically been compromised by its unequal participation in international trading system. This has been due to its heavy dependence on export of raw materials, manufactured products and other commodities whose prices have been declining, WTO rules and unfavourable donor conditionalities. . This situation has led to falling incomes for African governments and farmers and deprived SSA countries of export earnings necessary for debt repayment and alleviating poverty. The rich developed countries have consistently violated the liberalization commitment by not opening up their agricultural and textile industries for African products. African countries have also been affected by costly tariff and non-tariff barriers in the North which have hampered their exports and imports and threatened livelihoods and agricultural productivity:

“Africa and other developing countries have been striving hard, often at considerable cost, to integrate more closely into the world economy. But protectionism in the developed countries has prevented them from fully exploiting their existing or potential competitive advantage” (UNCTAD Report, 2008).

The structural imbalances and weaknesses of the WTO system and agreements have undermined the development strategies and needs of poor African countries efforts for industrialization, food security and fulfillment of health and educational needs. At present, the system of WTO participation is flawed. The so-called consensus system enables the developed countries to pressurize developing countries into asymmetrical engagement. Moreover, non-inclusive and non-transparent processes are used, especially surrounding the Ministerial Conferences during which the key decisions are taken. For example, at the Doha Conference in 2001, the proposals of a majority of developing countries on key subjects were not included in the drafts of the Declaration, despite their objections.

Fourthly, the current model of globalization and liberalization has perpetuated impoverishment of the poor South (SSA) to the benefit of the rich North (OECD). Globalization has distorted African national and local economies, reduced self-sufficiency, expanded unsustainable exploitation and use natural resources, displaced families and communities, and made billions of people dependent on fickle foreign markets. In response, there have been popular movements and protests against globalization and the international economic and financial system.

Unfortunately, the process through which the current international monetary and financial system is attempting to respond to the challenges of the new global economy is severely flawed, unrepresentative, non participatory, slow and overly influenced by the dominant politics of the G-8, OECD, IMF, World Bank, regional development banks, WTO, MNCs and influential Non-Governmental Organizations.

5.0. RETHINKING THE GLOBAL ECONOMIC AND FINANCIAL SYSTEM?

There is an overwhelming case for reforming and strengthening multilateral framework both for the conduct of international finance and for sound global macroeconomic governance in the interest of both stability and development. The crisis presents an opportunity for reforming the governance structure and the rules of the international economy to reflect more accurately and fairly the global membership for the benefit of poor countries and sustainable development of Africa. Much as they try to convey a more attractive image to the world, the World Bank and IMF still disproportionately reflect in their actions and policies the views and interests of a few western major industrialized countries. Decision-making by the IMF board needs greater transparency and accountability by introducing greater democracy in voting and publicly releasing as much information about its operations as feasible.

Accordingly, a more fundamental set of measures needs to be considered in reforming the international financial systems and multilateral institutions such as the IMF and the World Bank. Interestingly and surprisingly, the crisis has seen even powerful countries, who had hitherto opposed this idea contemplate changes that would be more favourable to Africa. The IMF and World Bank have also admitted the failure of their policies and inability to provided clear road-map of ameliorating the problem. For example, back in 2003, they warned that developing countries face an increasing risk of financial crisis with increasing globalization. The "new economic and financial architecture" should provide representation and participation for the African countries in decision making. However, it still remains to be seen how the rich countries will be committed to these reforms and how they will favour or benefit Africa.

6.0. REFORMING INTERNATIONAL TRADE AND THE WTO SYSTEM

There is an urgent need for reforming the WTO system of multilateral rules and decision-making process to enable it effectively play its role in the designing and maintaining fair rules for trade and thus contributing towards a balanced, predictable international trading system that promotes African development. Reforms should be seen as a key component of the international trading system operating, co-existing, complementing and cooperating with African countries and other international actors. This will provide greater trading opportunities for poor African countries leading to increased export earnings, foreign exchange and income for meeting the MDGs and debt repayment.

The following measures are thus proposed for reforming the international trade and the WTO system to cushion Africa against the current economic crisis and for sustainable development:

- ❖ The rich developed countries should commit to meaningfully opening their markets to poor African countries' commodities. These include textiles, agriculture and products processed from raw materials, as well as labour services. A meaningful expansion of market access for African countries will be able to provide large opportunities for earning more revenues required for alleviating poverty and development.
- ❖ African countries should be given adequate flexibility in implementing their obligations in the WTO Agriculture Agreement on the grounds of the need for food security, defence of rural livelihoods and poverty alleviation.
- ❖ The Agreement on Trade-Related Investment Measures (TRIMs), "investment measures" such as the local-content requirement (obliging firms to use at least a specified minimal amount of local inputs) and foreign exchange balancing (limiting the import of inputs by firms to a certain percentage of their exports) which have been prohibited should be amended to provide developing countries the flexibility to continue using such investment measures to meet their development goals.
- ❖ The TRIPS Agreement should be amended to take into account development, social and environmental concerns. For example, amendments are still required to ensure that African member countries can effectively take measures to provide medicines at affordable prices.

Members should also be allowed to prohibit the patenting of life forms, and to protect the traditional knowledge and practices of farmers, indigenous people and local communities. Other amendments are also needed to rebalance the agreement towards the interests of consumers and technology users in Africa.

- ❖ It should be clarified that essential services required by the public, especially by the poor, such as water supply, health care and education, should or can be exempted from the general rules and the specific sectoral schedules of the General Agreement on Trade in Services (GATS).
- ❖ There should be a re-orientation and rebalancing of the primary operational principles, policies, approaches and rules of the WTO trading system towards the development of majority third world member countries in line with the realities of the liberalization and development processes. The re-orientation of the WTO towards this perspective will ensure fair and balanced mutually beneficial multilateral trading system with more benefits rather than costs for African countries.
- ❖ The process of decision-making in WTO must be reformed, democratized, made more transparent and enable the full participation of African countries. All members must be allowed timely and adequate representation, participation and recognition in all the meetings without undue influence or pressure and the practice of late-night exclusive meetings at Ministerial Conferences abolished.
- ❖ A fundamental rethinking of the mandate and scope of the WTO is required to address non-trade issues and the role of other agencies in the context of international trade. There are key issues regarding world trade that the WTO is not seriously concerned with, including low commodity prices that is currently affecting African economies. Further, WTO has become deeply involved in domestic policy issues such as intellectual property laws, domestic investment and subsidy policies. There are also proposals for incorporating labour, human rights, governance, environment standards, investment and competition into WTO system. Indeed, there have been confusion and a misleading equation of WTO with the "multilateral trading system".

7.0. MITIGATING IMPACT OF GLOBAL ECONOMIC AND FINANCIAL CRISIS IN AFRICA

The World Bank is taking key measures to protect developing nations including Africa from the global

crisis. In November 19, 2008, the Bank pledged its commitment to providing the support needed by African countries to minimize the negative impact of the global financial crisis on growth and poverty reduction by reviewing its programmes and projects. (<http://web.worldbank.org>). With donor contributions of \$42 billion over the next three years, the Bank is working with the world's poorest countries to accelerate support. Lending is expected to triple to more than \$35 billion compared to \$13.5 billion in 2008 to meet additional demand from developing country partners. Further, the Bank is ramping up support to the private sector through the launch or expansion of key initiatives totaling around \$30 billion over the next three years through a new Infrastructure Crisis Facility to provide financing for privately funded infrastructure projects (Ibid).

The African Development Bank (AfDB), the African Union (AU) Commission and the Economic Commission for Africa (ECA) convened a meeting of 50 African Ministers of Finance and Planning in Tunis, Tunisia, November, 13-14, 2008 to discuss the global financial crisis and to consider regional and international options for mitigating its likely impact on African economies. The Tunis conference underscored the need for comprehensive reforms at the Bretton Wood Institutions to ensure that they adequately reflect changing economic realities in the global economy and be more responsive to future challenges. To this end, the AfDB Board of Directors on March 4, 2009 in Tunis adopted a policy paper: *"Bank's Response to the Economic Impact of the Financial Crisis"*, comprising four joint initiatives: *An Emergency Liquidity Facility; A Trade Finance Initiative; A Framework for Accelerated Resource Transfer of African Development Fund Resources to eligible countries; and Enhanced Policy Advisory Support* (<http://www.afdb.org/en/topics-sectors/topics/financial-crisis>).

The International Fund for Agricultural Development (IFAD) has bolstered its commitment to alleviating poverty in rural Africa through enhancing food security in the smallholder agricultural sector. Over 45 per cent of all IFAD funding goes to Africa, placing the Fund among the top three multilateral institutions on the continent. According to Mohamed Beavogui, Director of IFAD's Western and Central Africa Division, since 1978, IFAD has invested over US\$11 billion in grants and low-interest loans to developing countries, empowering some 340 million people to break out of poverty

"Agriculture must be kept at the forefront of government investment, because it can keep people in work, feed families, provide a social security net and help African countries save foreign exchange reserves," (IFAD), 04

On June 23, 2009 a UN conference focusing on the global economic crisis and its impact on developing countries outlined some of the measures that should be considered and established a working group to explore the way forward, possibly under the guidance of a newly established expert group. The UN, notwithstanding all of its flaws, is an inclusive international institution which must play a key role in any global negotiations on reforming the global financial and economic system. In fact, the United Nations (June, 2009) advised Africa and other Third World countries affected by economic crises to create "social protection funds" to provide emergency relief to those whose lives are devastated by rising unemployment, growing poverty and a rapid deterioration in health and educational services.¹

The G20 meeting in April, 2009 agreed to use government spending to fight a spreading recession, to tighten lax oversight of markets, to resist protectionism, and to revive stalled negotiations for a new global trade pact. Developing countries also got more assurances about increased say at international financial institutions through promises of reform at the IMF and World Bank. But the meeting outcome was vague without any concrete action. The more democratic alternative, the Doha conference on financing for development meeting at the end of November, 2008 in Doha, Qatar, by the United Nations General Assembly also resulted in weak pledges and disappointment.

8.0. RESPONDING TO THE GLOBAL ECONOMIC AND FINANCIAL CRISIS

In the absence of such international measures and commitment outlined above, African countries still have a role and responsibility both in the functioning of the global economic and financial system and in the stability and integration of its effects upon its development. Effective functioning and stability of the monetary and financial system is now universally seen as a fundamental requisite for

¹. Resolution on the Organization of a United Nations Economic and Social Council (ECOSOC) Conference at the Highest Level on the World Financial and Economic Crisis and Its Impact on Development, June 1-3, 2009, A/RES/63/277.

<http://www.globalpolicy.org/images/pdfs/0507gpfcomment.pdf>

development, and it can only be achieved through effective state action. The ultimate responsibility for national-level development policy-including macroeconomic management, the encouragement and effective deployment of savings and investment, and modes of interaction with the global economy-always rests with national governments. African countries have no choice but to institute the following domestic measures to protect themselves from conditions that can lead to economic and financial crisis and debt-repayment problems:

- ❖ Governments should set up a comprehensive unemployment benefits package, including an expanded unemployment insurance system, a subsidized loan programme for the unemployed and for small scale businesses and public works programmes. Launched a social investment project to provide the poor with comprehensive assistance in the form of creation of unemployment and provision of training as well as capital.
- ❖ They should consider instituting regulatory mechanisms and institutions to protect the social interest and to mediate national interactions with global financial markets. This will control the extent of public and private sector foreign loans; raising capital reserve requirements for banks and reducing leverage used by financial players; and regulating destabilizing speculative investments to limit boom and bust cycles and the severe social and environmental consequences of financial crises.
- ❖ Standard macroeconomic policies aimed at stimulating the economy include: increased borrowing; reduction of interest rates; reduction of taxes; and expenditure on public goods like infrastructure, roads and communication networks; selectively prohibiting manipulation of currencies and stock markets; and reducing military spending to raise more capital for social development. However all these will be reversed as the economies recovers.
- ❖ Local and national regulations and taxes should be structured in such a way so as to encourage local investment and control of local capital. Local education initiatives should also inform citizens on investment and expenditure priorities.
- ❖ Governments should strive to reduce the volatility that has characterized exchange rates since the collapse of the Bretton Woods arrangements in the early 1970s by

maintaining stable exchange rate regimes. This should be strengthened by the existing international regimes to reinforce the ability of national governments to maintain this stability.

- ❖ International bankruptcy mechanism should be established to ensure that financial crises and sovereign debt obligations do not place undue burdens on countries and to prevent a liquidity crisis from becoming a solvency crisis. This will ensure that important social services are not compromised and debt obligations honoured.
- ❖ African countries need more direct aid and stimulus packages from the rich countries to kick start the ailing economies. The IMF has promised more aid to the region, importantly with lesser conditions, which in the past have been very detrimental to Africa. Nevertheless, many are will likely remain skeptical of IMF loans given their past record.
- ❖ African governments should establish Regional Crisis Fund outside IMF control that can respond quickly to economic crises.
- ❖ Providing substantial debt reduction detached from IMF and World Bank Conditions. Currently, debt payments cripple the ability of many African countries to invest in development. Any resolution of this crisis must include an expansion of the resources available and the countries eligible for bilateral and multilateral debt relief. This relief should not be conditioned on IMF and World Bank structural adjustment programs and it should allow countries to dedicate sufficient resources to health care, education, social services and environmental protection.
- ❖ As the world's economies become more interconnected and liberalized, it is becoming more important to have clear rules of operation for corporations. Foreign Direct Investment (FDI) and the operations of Transnational Corporations (TNCs) should serve the needs of people by contributing to sustainable human development. Corporations should abide by core values and standards in line with international treaties and declarations by observing respect for human rights, labour standards, working conditions, equality, environmental and consumer protection, taxation, indigenous and

local community rights, business practices, competition and sovereignty over development strategy. Corporations must be held accountable to these standards through effective binding mechanisms for monitoring and enforcement.

- ❖ In fact, the United Nations (June, 2009) advised African governments should create "social protection funds" to provide emergency relief to those whose lives are devastated by rising unemployment, growing poverty and a rapid deterioration in health and educational services. For example the Kenyan government has introduced the "*Kazi Kwa Vijana* Programme" to provide employment to the unemployed youth.
- ❖ The global economy must strengthen rather than undermine the capacity of democratic governments at every level, from local to multilateral, to meet the needs of the public. International institutions and negotiations must operate transparently with full and fair public participation. All people should have full and meaningful participation in national and international economic decision-making.
- ❖ Good governance and transparency are critical for raising public revenue, ensuring the provision of social services, instilling public accountability and restoring donor confidence.
- ❖ Governments must respect, protect and promote human rights and freedoms to enhance public participation and social service delivery in line with international principles.
- ❖ National policies should reduce inequalities, alleviate poverty, preserve of natural resources and biodiversity, create and sustain livelihoods and enable sustainable human development to improve the quality of life and social cohesion for all.
- ❖ Africa must demand a new international initiative to solve the problem through calls for stronger systems of multinational consultation and surveillance as well as applying ethical dimensions to the global financial system.
- ❖ Tough economic times require resilience, efficiency, diversity and dynamism. The crisis should challenge African countries to diversify their economies and increase internal

efficiency and dynamism. African countries must carefully consider appropriate and pragmatic approaches to globalization and liberalization and to be selective and deliberate in choosing how, when, which sectors and to what extent, to integrate their domestic economy with the global economy to ensure fair global partnership for development.

9.0. CONCLUSION

The economic crisis still represents both a challenge and an opportunity for the African continent and its people. It is clear that reforms are urgently required at both international and national levels, to cushion African countries against the current effects of economic and financial crisis. Prudent macroeconomic reforms and proper adjustment already undertaken by the governments and private sector and debt relief will stimulate African nations back to the path of rapid growth.

REFERENCES

African Development Bank ((AfDB), Report (2009) Impact of the Global Financial and Economic Crisis on Africa, Tunis: African Development Bank.

Amnesty International (2009) "*Economic Crisis Reveals Deeper Human Rights Problems*", May 28, 2009.

Amnesty International (2009) "*Economic Crisis Reveals Deeper Human Rights Problems*", May 28, 2009.

Daily Nation, "*Global Fund Health Staff Laid Off*", July 15, 2009.

International Fund for Agricultural Development (IFAD), 04 Jun 2009, Press Release No.: IFAD/28/09.

International Monetary Fund (IMF) (April, 2009) Regional Economic Outlook: Sub-Saharan Africa, Washington DC: International Monetary Fund.

Inter Press Service, "*Health-Africa: Global Financial Crisis Leads to HIV Budget Cuts*", May 18, 2009.

Kanaga Raja (2008) "Economic Outlook Gloomy, Risks to South, UNCTAD", Third World Network, September 4, 2008.

United Nations Conference on Trade and Development (UNCTAD) (2008) The Least Developed Countries Report: Growth, Poverty And The Terms of Development Partnership, UNCTAD: Geneva.

Macias José Brambila and Massa Isabella (June, 2009) "The Global Financial Crisis and Sub-Saharan Africa: The Effects Of Slowing Private Capital Inflows on Growth", Working Paper 304, Overseas Development Institute: London.

People Daily, "*Aids Drug Shortage Threatens Africa*", July 20, 2009.

Pan-African News Wire, January 23, 2009.

Pan-African News Wire, July 5, 2009.

Stiglitz Joseph, "*Fear and Loathing in Davos*", in Guardian, February 6, 2009.

Stiglitz Joseph, "A Crisis of Confidence", in New York Times, October, 22, 2008.

<http://www.afdb.org/en/topics-sectors/topics/financial-crisis>

<http://www.globalpolicy.org/images/pdfs/0507gpfcomment.pdf>