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

TOPIC: THE CURRENT GLOBAL FINANCIAL AND ECONOMIC CRISIS AND ITS IMPACTS ON AFRICA.

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The Current Global Financial and Economic Crisis and its Impacts on Africa[1]

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Abstract

This paper is on the current global financial crisis and its impacts on Africa. The author gives an overview of the meaning, nature, causes, impacts and possible solutions for the crisis in Africa in general. Informed mainly by a review of literature and experts and practitioners opinion, it is found that the crisis officially started to manifest itself in September 2008 in the financial markets in the United States of America (USA). Since then it has spread not only to financial but also to the real economy to many parts of the world especially in Europe and Asia where the first round effects are rapidly being experienced. In Africa, the second round effects (bounce-on effects) are increasingly being experienced with a possibility of a third round effect of collapsing financial systems if the crisis continues for long time.

The many direct and indirect, long term and short term impacts are emanating from the global economic recession that is unfolding as a result of the crisis. The impacts in Africa so far include but are not limited to potential and actual reduced economic growth; reduced foreign currency earnings; reduced Official Development Assistance (ODA); reduced domestic economic activities; reduced domestic revenues and many other closely related impacts arising from multiplier effects. Besides the negative impacts however various kinds of opportunities are emerging from the crisis depending on the situation and position of various countries.

Among the policy implications based on the discussions in the paper include the need to be proactive instead of being reactive in addressing the crisis. Among other things, there is a need to be vigilant as the crisis keeps on unfolding. Various strategies are needed to address the crisis, its impacts and preventing a possible one in the future. Country-specific solutions are important as are regional and global solutions to the global challenge.

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1. INTRODUCTION AND BACKGROUND

The current global financial and economic crisis (GFEC) started officially in the United States of America (USA) in September 2008 or so. As a financial crisis, it is generally manifested in the form of inadequate liquidity as a result of credit crunch in the financial markets. The financial crisis gradually but quickly graduated from being a financial crisis to involving the real sectors of the economy thereby being an economic crisis too. As a result of the crisis, a recession is looming across the globe in form of a general, rapid and high decline in economic activities of production, distribution and consumption of goods and services. This form of economic turmoil was last experienced at global level during the Great Depression of the 1930s.

The crisis is increasingly resulting into inter alia, uncertain and hard social and economic times for countries across the globe. Whereas the developed countries started suffering from the first round and direct effects of the crisis, the developing ones are suffering more from the second and indirect effects of the crisis. A possibility of third-round effect in form of financial sector collapse is foreseen should the crisis continue for a long time.

Countries with relatively weak and externally dependent financial structures like most Africa ones, are struggling to recover from the shocks caused by hiking and highly volatile global and local food and fuel prices. The current financial crisis therefore is likely to fuel incidences of poverty and vulnerability in most African countries.

Among other things, the impacts of the crisis will have many far-reaching and profound implications in many spheres of life including social, political and economic ones. There are many unfolding issues, realities and lessons emanating from the crisis. Yet, there are many unknown issues and realities of the crisis. Among these unknown variable in the crisis include its general impacts on Africa in general and countries composing the continent in particular. In this work a discussion of the general impacts of the crisis in Africa is made. The work is supposed to stimulate debates and take discussions and learning on the crisis into higher and newer heights.

2. METHODOLOGY

This work is mainly informed by the review and discussion of the existing and emerging literature on the crisis. It is also informed by opinions of some experts and practitioners on the ground. The literature however, is limited given the relative infancy of the current crisis globally as well as in Africa. It is still a relatively new research area and very few known scientific works have been done on the about one year old crisis[3]. Literature used here therefore include grey one.

3. AN OVERVIEW OF THE CURRENT GLOBAL FINANCIAL AND ECONOMIC CRISIS

In this section, an over of the current global financial and economic crisis (GFEC) is presented. The overview covers inter alia, the meaning, nature, causes, impacts and possible solutions for the crisis in general.

3.1. Meaning, Nature and Causes of the Crisis

"*The current financial crisis is more global than any other period of financial turmoil in the past 60 years***"** (IMF, 2009)

[3] Based on the time when this work was accomplished

The current GFEC crisis is also termed the credit crunch, economic turmoil, economic downswings, global downturn, and financial meltdown. The crisis is termed 'the current' to distinguish it from a similar crisis that was experienced in the 1930s that resulted into the Great Depression. The crisis is manifesting itself in form of severe credit, banking, currency, and trade crisis which emerged in September 2008. Some background financial market events dating from July 2007 however, show that the credit crisis is the result of sub-prime mortgage crisis. It is believed however that there are a number of economic problems during the late 2000s that formed the basis of the current crisis (Ngowi, 2009a).

Akbar (2008) correctly argues that the crisis is an ongoing major financial crisis. It became prominently visible in September 2008 with the failure, merger or conservatorship of several large United States-based financial firms including Goldman Sachs, Morgan Stanley, J.P. Morgan, Bank of America, Merrill Lynch, Citigroup, Wells Fargo, Bank of New York Mellon and State Street.

The underlying causes leading to the crisis had been reported for many months before September 2008, with commentary about the financial stability of leading U.S. and European investment banks, insurance firms and mortgage banks consequent to the sub-prime mortgage crisis. See Akbar (ibid), Evans-Pritchard (2007), The Economist (15^{th} May and 22^{nd} May, 2008). The failures of large financial institutions in the United States rapidly evolved into a global crisis resulting in a number of European bank failures and declines in various stock indexes, and large reductions in the market value of stock (Norris: 2008) and commodities worldwide (Evans-Pritchard, ibid). The collapse of Lehman Brothers in September 2008 when it filed for bankruptcy was a symbol of the global financial crisis. Broadly, it is seen that lack of adequate regulation (laisser-faire) of the financial markets by the appropriate authorities in the US is the major explanation behind this crisis.

3.2. General Impacts of the crisis

The crisis is having many and far-reaching direct and indirect and short-term and long-term impacts across the globe. So far however, given the source and nature of crisis, it is the developed countries that have been more affected than the developing ones. However, the impacts of the crisis are continuously unfolding.

The actual extent of impacts of the crisis will depend on a number of issues. The issues include but are not limited to the degree to which a particular country is integrated into the dynamics of global investment flows, expanded trade, information technology and vibrant financial security arrangements. It will also depend on the extent to which a country is marginalized from the dynamic processes above. The kinds of policies that will be put in place by individual governments independently and in collaboration with the global community to solve and mitigate the impacts of the downturn will determine inter alia, the severity and length of the crisis.

Generally, the crisis has led to a liquidity problem and the de-leveraging of financial institutions especially in the United States and Europe, which further accelerated the liquidity crisis. It is causing fears and declining consumers and investors sentiments in the market. It is ongoing and continues to change, evolving at the close of October 2008 into a currency crisis with investors transferring vast capital resources into stronger currencies such as the yen, the dollar and the Swiss franc. This in turn is leading many emergent economies to seek aid from the International Monetary Fund. (Landler, 2008 and Fackler, 2008, quoted on Ngowi, 2009a).

Other general impacts of the crisis include reduced aggregate demand of goods and services across the globe. This is due to limited liquidity and related problems such as all-times low consumer sentiments that are emanating from the crisis. The reduced aggregate demand in turn is leading to reduced production of goods and services with the necessary result of reducing demand for and employment of factors of production including labour. The implications of reduced employment of factor inputs include reduced incomes to the factors and their owners in general and reduced standard of living and possibility of vulnerability to poverty for labour in particular. In some countries, migrant workers, (foreign labour) are likely to suffer more by being the first to be laid-off. This will have many and far-reaching implications on the countries and individuals dependent on transfers from migrant workers in form of remittances. The crisis is culminating into a worrisome meltdown in the economies of most developed countries.

3.2.1. Impacts on selected countries

Some specific impacts of the crisis in selected countries are presented in the figure below. The main source of the information in the box is grey literature recorded by the author from various sources, mainly CNN and BBC business and economic news.

Figure 1: Some selected impacts of the crisis on selected countries

China has lowered its forecasted economic growth to 8% from the 9% that was achieved in 2008 and double digit figures attained in previous years. Its export in January 2009 declined by 17%, share prices declined by 23% since May 2008.

In Japan, unemployment reached 4% by December 2008 and export declined by 45% while industrial production declined by 10% in January 2009. This is the highest for the past forty (40) years. House holding spending in Japan declined by 4.6% in the last quarter of 2008, share prices declined by 19% since May 2009.

In Korea economic growth is forecasted to be below 1% in 2009.

The US economy contracted by 3.8% in the fourth quarter of 2008, share prices declined by 12% since May 2008.

In Australia mines are closing due to declining prices and reduced demand from it main importer – China.

In United Kingdom the number of people loosing houses due to foreclosures increased by 50% in January 2009.

There are mass jobs cuts, protests and riots in all of these countries as is the case in Russia, Spain, Ireland, Scotland, Iceland and Greece among other countries.

In Nigeria, the Nigerian Stock Exchange (NSE) lost more than 649 billion Naira in November 2008 and decline by 62.11%.

According to Kiptoo (2009: 16), stock markets elsewhere in Africa declined substantially in 2008. The declines in selected countries are as follows: Egypt (64.45%), Mauritius (50.53%), Zambia (43.7%), Kenya (42.28%), Morocco (27.58%), South Africa (27.49%), Botswana (18.32%) and Uganda (17.09%).

Source: Collected by the author from various media

The relatively few and brief impacts listed in the figure above help to elaborate the fact that the crisis is impacting different countries differently. This is also likely to be true for African countries. Different African countries are being and will continue to be affected differently by the crisis. However, there are a number of general issues on the impacts of the crisis on Africa. Some of these are discussed in what follows.

4. IMPACTS OF THE CRISIS ON AFRICA

"*While the developed world was panicking over the crisis, most African countries were like ostriches - burying their heads in the sand - and acting as if the crisis would not reach them, since it was not of their own making*". AAPAM (2009)

Similar to the observation made by AAPAM (ibid), Ngowi (2009a) reports that it has been wrongly argued and expected that Africa's generally weak integration with the rest of the global economy may mean that many of its countries would not be affected by the crisis, at least not initially. The unfolding situation in Africa shows that the continent is already being affected by the crisis and proves the schools of thought excluding Africa from suffering from the crisis wrong.

A number of publications exist on the impacts of the crisis in Africa. These include but are not limited to Biekpe (2009) on the impact of credit crunch on foreign aid in Africa; Myburgh (2009) on correlations between Sub Saharan Africa (SSA) currencies during the 2008 financial crisis; Kiptoo (2009) on the potential impacts of the global financial crisis on African economies and International Monetary Fund – IMF – (2009) on the impacts of the global financial crisis on Africa. Many other works exist on country-specific issues on the crisis. The works include but are not limited to Ngowi (2009a, 2009b, 2009c, 2009d and 2009e).

4.1. Mechanism through which the crisis impacts African countries

There are several mechanisms (also referred to as conduit or channel – see Kiptoo, ibid for example) through which the crisis impacts the African continent. Some of these mechanisms include international capital flow in forms of foreign direct investments (FDIs), portfolio investment and official developing assistance (ODA). See Ngowi (2009b)

It is also spreading through the external sector in forms of declining export volumes and prices, decline in tourist inflows and remittances from Africa's sons and daughters in the Diaspora. Other conduits include declining domestic economic activities resulting into alia, reduced government revenues, unemployment, inability to service loans to financial institution and reduced economic growth. Some of these conduits are discussed in relative detail in what follows.

4.2. Impacts of the crisis on Africa

Some of the general mechanisms through which the crisis affects the African continent are presented and discussed here.

4.2.1. Worsening economic outlook

According to IMF (2009), the downturn in global growth, the decline in most commodity prices and tighter credit have significantly worsened the economic outlook for sub-Saharan Africa. The institution argues that many countries in sub-Saharan Africa enjoyed robust economic growth in recent years. However, the food and fuel price shocks of 2007–08 that preceded the crisis weakened the external position of net importers of food and fuel, caused inflation to accelerate, and dampened growth prospects.

IMF (ibid) correctly points out that in Africa, frontier and emerging markets were the first to be hit by the crisis. By now however, indirect channels are fully at work in all countries. Risks are mounting that other channels may gain in importance, especially in the financial sector.

The frontier and emerging African markets including South Africa, Nigeria, Ghana, and Kenya were first hit through globalization in form of their financial links with other the rest of the world (ROW) especially the developed world. This group of countries, according to IMF (ibid), suffered and suffering from falling equity markets, capital flow reversals, and pressures on exchange rates. Ghana and Kenya for example had to postpone planned borrowing. In South Africa and Nigeria, external financing for corporations and banks is becoming scarce.

4.2.2. Declining Commodity Prices

In all African countries, the crisis has pushed commodity prices down with negative effects on export earnings and the external current account, fiscal revenues, and household incomes. (IMF 2009, Kiptoo, 2009, World Bank, 2008). According to Ngowi (2009b), among the very few commodities whose price has not declined include gold. This is due to the historical position of gold in international financial and monetary and system as detailed in Ngowi (2006).

African commodity exporters face major terms of trade deterioration. IMF (ibid) argues that in the past a 1 percentage point slowdown in global growth has led to an estimated ½ percentage point slowdown in sub-Saharan African countries.

Some selected commodities exported from selected African countries are presented in table number 1 below.

Table 1: Selected major exports of selected African countries

Region	Countries	Major export products
Central	Cameroon	Crude oil and petroleum products, cocoa beans, coffee, cotton
	Congo	Oil, timber, sugar, coffee
	Congo DRC	Diamonds, copper, cobalt, oil
	Rwanda	Coffee, tea, hides, tin ore
East	Ethiopia	Livestock, grain, coffee

	Kenya	Tea, horticultural products, coffee, fish, cement
	Tanzania	Gold, coffee, cashew nuts, cotton, manufactures
	Uganda	Coffee, fish and fish products, tea, gold, cotton, horticultural products
North	Tunisia	Textile, hydrocarbons, mechanical goods
	Egypt	Crude oil and petroleum products, cotton, textile, metal products
	Morocco	Clothing, fish, crude minerals, fertilizers
South	Botswana	Diamonds, copper, nickel, meat, soda ash
	Lesotho	Manufactures (75%), wool, food and live animals
	Malawi	Tobacco (60%), tea, sugar, cotton, wood products, apparel
	South Africa	Gold, diamond, platinum, machinery equipment
	Zambia	Copper (55%), cobalt, electricity, tobacco, flowers, cotton
West	Benin	Cotton, crude oil, palm products
	Gambia	Peanuts products, fish, cotton, bananas, pineapples, fish
	Ghana	Gold, cotton, timber, tuna, bauxite, manganese ore,

		diamonds
	Mali	Cotton, gold, livestock
	Nigeria	Petroleum and petroleum products (95%), cocoa, rubber
	Senegal	Fish, peanuts, petroleum products, phosphate, cotton

Source: Africa Growth (2009: 19)

From the table above and in Ngowi (2006) inter alia, it is revealed that many African countries depend on commodity export as their main sources of foreign currency. With the decline of their prices due to the crisis, these countries in general and producers of the commodities in particular stand to be negatively affected by the crisis.

Raja (2008) argues that market liberalization and privatization in the commodity sector have not resulted in greater stability of international commodity prices. There is widespread dissatisfaction with the outcomes of unregulated financial and commodity markets, which fail to transmit reliable price signals for commodity producers. In recent years, the global economic policy environment seems to have become more favorable to fresh thinking about the need for multilateral actions against the negative impacts of large commodity price fluctuations on development and macroeconomic stability in the world economy.

4.2.3 Impact on financial sector

Financial sectors in sub-Saharan Africa are also vulnerable to several risks that could still unfold from the crisis. Unlike in developed economies, there has been no systemic banking crisis in sub- Saharan Africa. Commercial banks and other financial institutions in this part of the world so far remain largely sound. IMF (ibid) correctly points out that cross-border banking system linkages are minimal; there is less exposure to complex financial products and financial systems are not well integrated with other global financial markets.

However, as the crisis continues, risks could grow because a protracted economic slowdown elevates credit risk. Financial sector is vulnerable to a substantial weakening in client incomes and debt servicing capabilities. Banks could also incur losses on other financial assets, such as deposits with troubled correspondent banks.

Due to declines in the prices of most commodities, major industries, such as timber, mineral and cotton are hard hit. Problems in these sectors could quickly affect the banking sector due to interconnectedness and multiplier effect.

Due to the crisis, parent banks investing in Africa could withdraw funds from subsidiaries and local banks and negatively affect the sector in Africa. Besides the possible withdrawal, there can be stopping of investing local profits in local subsidiaries. This calls for among other things, monitoring of the sector vigilantly in order to minimize vulnerabilities and mitigate risks.

4.2.4. Undermining progress made in Africa

The World Bank (2008) correctly points out that the crisis is undermining the significant progress made by Africa over the last ten years. This partly because the global slowdown has dampened growth prospects for Africa by diminishing trade opportunities, access to finance, migrant remittances and foreign direct investment, among others. The bank argues correctly further that the crisis is threatening to turn back the clock on progress achieved during decades of reforms. The crisis has triggered quick depreciation of currencies and major declines in stock market prices with foreign investors in securities and equities selling off large shares of their holdings.

4.2.5. Slowdown in private capital flows, remittances and aid

As correctly noted by the World Bank (ibid), a 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 Ghana and Kenya have postponed sovereign bond issues worth about $800 million. According to Kiptoo (2009: 16), the sovereign bond for Ghana was to the tunes of $300 and that of Kenya to the tunes of $500. Due to the crisis, Tanzania too has cancelled a planned sovereign bond to finance infrastructure.

Connected to the private capital flow are remittances. The World Bank (2008) reports that remittances flowing to Africa from its sons and daughters in the Diaspora is to the tunes of about $15 billion a year. This will be reduced due to the crisis. Africans in the Diaspora are likely to loose jobs and incomes due to the crisis. Also the flow of migrant workers from Africa and elsewhere to the Diaspora will be substantially reduced by the crisis thank to which labour demand is declining across the globe. There have been protests against employment of foreign labour in such countries as United Kingdom, Spain, Italy and France.

As noted in Ngowi (2009a), Biekpe (2009), World Bank (2008) and Kiptoo (2009), the crisis in likely to lead to reduced foreign aid that flows to the continent in form of Official Development Assistance (ODA). The common arguments among the authors cited here is that donor countries too are affected by the crisis and the countries that depend on ODAs now have increased substantially. This reduces the ability and willingness of donors to keep on giving ODAs.

4.2.6. Increasing Debt and Debt Repayment Pressure

As part of addressing the crisis and its many and far-reaching impacts, African countries are increasingly borrowing from various financial facilities of mainly the IMF, World Bank and Asian countries of China, India and some oil exporting rich countries in the Gulf. The increased borrowing is increasing Africa’s indebtedness and associated challenges including repayment capabilities and quencequenses.

Due to the crisis, 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 need to shore up their reserves more, one way could be to demand debt repayment. This could cause further cuts in social services such as health and education, which have already been reduced by the crisis and policies from previous epochs. The policies include privatization and the associated cost-sharing. Any aggressive demands of debt repayment will make the situation in most African countries all the more worrisome.

4.2.7. Impact on the external sector (Reduced trade)

The crisis is leading into reduced trade by reducing goods and services that are imported from Africa. This is because the crisis had led to declining aggregate demand from across the world, including demand for goods and services from Africa. The leading trade partners of most African countries are likely to be their former colonial masters. These are mainly the United Kingdom and France. These have not been spared by the crisis.

Besides the direct impact described above, there is likely to be indirect impacts of the crisis on trade. The impacts of the crisis on the other continents that Africa deals with, will affect the continent indirectly. For example, African countries that trade with Latin America are likely to be highly affected. This is because much of Latin America depends on trade with the United States (which absorbs half of its exports). As such Latin America will also feel the effect of the US financial crisis and slower growth in Latin America is expected. This will affect the African countries that trade with Latin America. Similar effects will be experienced by countries that trade with Asia. Growth in China for example is not likely to be in the double digit region. This will affect African countries transacting with this hitherto double-digit growing economy.

Generally, the African continent, its countries and people in them will be negatively affected by the crisis through trade in various ways. These ways include reduced export of goods and services including reduced tourism inflows. This will lead to reduced foreign currency scarcity and depreciation of local currencies. The Balance of Payment (BoP) account deficits will increase and countries' foreign reserves will decline. Inter alia, this will lead to a reduced capacity to support imports by these countries.

As a result of reduced exports of goods and services there will be reduced domestic production of the same. This will necessarily lead to reduced employment and remuneration and compensation of such factors of production like labour, land, capital and entrepreneurship. As a result the owners of such factor inputs – especially unskilled, informal, geographically and occupationally immobile labour (especially women and those relatively old) - will be at the verge of being immersed into poverty.

Other general mechanisms through which the African countries in general will be affected by the crisis through the external sector include reduced remittances from migrant workers and other sons and daughters in the Diaspora; reduction in ODA; reduction in investments inflows in general and Foreign Direct Investments (FDIs) and portfolio investments in particular; reduced possible sources of borrowing and possibilities of been obliged to repay external debts and/or lack of or reduced debt cancellations by creditor countries and institutions. These countries may also be negatively impacted by the crisis through higher interest rates and a withdrawal of equity and lending from the private sector.

4.2.8. None economic impacts with economic implications

Other possible impacts of the crisis are essentially none-economic but will have economic implications. These include social and political challenges including protests and clashes; social problems such as marriage crunches and divorces as a result of real and/or potential unemployment; decisions on having or not having children that will affect demographic structures and have social economic impacts in the short and long run including more unemployment in children and related industries. However, unemployment can lead to more children as a result of couples having more time at home that can increase the possibility of more sexual intercourses that may result into more pregnancies and children. This in turn can be good for the economy in general in the long run and for children-driven economic activities in the short run.

4.2.9. Some positive impacts

The crisis is far from being threat and challenge only to Africa. There are a number of potentially positive impacts on Africa that are emerging from the crisis. Among such opportunities include reduced commodity prices, which is an opportunity for the countries that are net importers of such commodities. Other and probably most important opportunities include the need to rethink the way most African countries run their economies.

The crisis is a blessing in a disguise in that African countries have to rethink on a number of polices and practices. The policies and practices include but are not limited to heavy donor dependence in which most African countries become heavily dependent on donors for their budgets. The crisis should be an opportunity to learn that even donors are vulnerable to various shocks as the crisis has revealed. Recognizing the need to be as independent as possible is more important now for African countries than ever.

The crisis is also an opportunity for African countries to reduce dependency on foreign markets especially of unprocessed and none-value added commodities. The crisis had made it difficulty and in some places impossible for most African countries to export a number of produced commodities. If the countries had appropriate and adequate value-adding and processing facilities, the burden associated with the inability to export unprocessed commodities would have been less severe.

5. GENERAL POSSIBLE SOLUTIONS TO THE CRISIS

Generally, the solution to the current global financial and economic crisis should be to address its specific causes in general and reverse its impacts in particular. Among the key to solving the crisis is to address the demand side of the economy. This can be done by various measures to stimulate aggregate demand at national, sub-regions and global level.

Among the strategies towards that end include use of expansionary monetary and fiscal policies in general and appropriate policy tools in particular. Among the appropriate monetary policy instruments that can be employed include appropriately increased money supply and reduced interest rate. Fiscal policy instruments include appropriately reduced tax rates and increased subsidies for both producers and consumers of goods and services. Other similar measures include surplus as opposed to deficit budgets.

Generally therefore more spending at all levels is the key out of the crisis. Among other things, these measures are likely to stimulate the supply side of the economy positively. The challenges in implementing the measures especially for poor developing countries include the availability and accessibility of the huge funds needed to make a real and sustainable positive difference.

Rich governments have designed various bailout and economic stimulus packages either for the whole economy or specific sectors and industries. The sectors and industries include the cash-trapped major banks.

Other measures to solve the crisis in the long term and help to avoid one in the future include effective and comprehensive reform of international banking, financial and monetary systems. Among the measures towards this end include the U.S. to give up its veto power at the International Monetary Fund (IMF) and European countries to give up some more of their voting rights in order to make room for emerging and developing countries. These have been critical voices from some Asian leaders.

Some countries can and indeed are already turning to the IMF for help. As Stiglitz (2008a) notes however, the worry of turning to IMF is that, at least in some cases, the fund will go back to its old failed recipes: fiscal and monetary contraction, which would only increase global inequities. While developed countries engage in stabilizing countercyclical policies, developing countries would be forced into destabilizing policies, driving away capital when they need it most. No wonder then that, according to The Daily News (Friday, November 28th, 2008: 13) Indonesia said no to IMF loans.

In Iceland, where the economy was very dependent on the finance sector, economic problems have hit them hard. The banking system virtually collapsed and the government had to borrow from the IMF and other neighbors to try and rescue the economy. However, Iceland has raised its interest rates to some 18%, partly on advice from the IMF. It would appear to be an example where high interest rates may be inappropriate.

There is a need for fundamental rethinking of the international banking system. There is a need of increasing capital and liquidity requirements at institutions with strong restraints on the build up of risk. The reforms should include but not be limited to increasing the reserves banks must have. Fractional reserve banking works well in good times, but can lead to a crisis through encouraging more loans which get riskier as competition increases.

Financial market liberalization and very rapid growth should be reconsidered and be substituted by more stringent controls, regulations and supervisions. The logic here is that lower but more stable long term growth may be better and sustainable in the long run rather than short bursts of high growth followed by disruptive bursts, some of which can be very violent as the current crisis is showing.

Interpreting Stiglitz (2008b), there is a need for well designed incentive structures, adequate competition, change-minded behaviour, and adequate transparency in the financial sector. Better regulation is required to reign in the financial markets and bring back trust in the system.

Borrowing from AAPAM (2009), Ngowi (2009a, 2009b and 2009c) and Biekpe (2009), it is clear that measures need to be taken and have been taken by various countries across the world to bail out specific sectors, industries and firms. These have included financial institutions, housing and mortgage providers. Other measures have included governments' acquisition of equity and nationalization of private sector institutions. Governments have also examined the efficacy, readiness and appropriateness of their regulatory regimes and institutions especially within the realm of the financial sector. World Bank (2008), IMF (2009) and Kiptoo (2009) among others, share similar views to the above on addressing the crisis and its impacts.

What can be done in the situation that Africa has found itself-in is to mitigate the adverse impacts of the turmoil. Among the available alternatives include various bailout and economic stimulus packages as have been applied in some countries already. Unfortunately and realistically however, Africa may not be able to employ such bailout and stimulus packages. This is because the continent does not have the kind of financial muscles that countries like the USA, EU group of countries, China or even the rich oil exporting Arab states have. The US for example has set aside about 800 billion USD to bail out the economy in general and 77 million USD for the car industry in particular. Ireland has set aside some 7.7 billion USD to bail out its three major banks. Germany has an economic stimulus plan to the tunes of 67 billion USD and Thailand has set aside some 3.3 billion USD as a stimulus package for its education and tourism sector and for job creation in general and Japan has reduced the cost of capital to below 1% and may move to 0%.

China and some oil exporting economies in the Gulf have substantial foreign exchange reserves that they can use to mitigate the impacts of the crisis. Among other things, China is planning to stimulate domestic aggregate demand by offering cheap consumer loans and subsidies even to rural consumers of electronic and electrical appliances produced in China. This has been necessary because China's tremendous recent economic growth has mainly been export- and external consumption driven.

Theoretically, Africa has the above alternatives at its disposal in addressing the current crisis. Various bail-out plans for the whole of the African economy and/or specific sectors and industries should be prepared. Various economic stimuli packages including more government expenditures and measures to stimulate aggregate domestic demand are needed.

The above can be achieved through inter alia, expansionary monetary and fiscal policies by application of appropriate and adequate fiscal and monetary policy instruments. Appropriate fiscal policy instruments include lower tax rates and more government subsidies. Appropriate monetary policy instruments include lower interest rates and more money supply. Deficit surplus budgets as opposed to surplus ones are also among the keys to mitigating the effects of the crisis.

The main challenges and constraints in applying the above alternatives to mitigate the impacts of the crisis in Africa include general poverty and liquidity situation of the continent. With relatively low and limited foreign reserves, Balance of Payment (BoP) deficits, huge national debts, donor-dependent national budgets, crisis-ridden donors, expected economic growth declines, small domestic markets in terms of population size but most importantly in terms of Gross Domestic Products (GDP) per capita, substantial number of people living below the poverty line of 1 dollar a day, unfulfilled election promises and a costs of financing elections among others, it will be extremely difficulty and almost impossible to successfully and sustainably apply the above theoretically available solutions to solve the crisis in Africa.

The resolutions of the 29th November to 1st December 2008 Doha meeting on reducing the adverse effects of the crisis on poor countries like those in Africa may be among the few realistically (?) available safety nets and hope for the continent.

The above challenges and constraints however do not imply that Africa should give up in planning and attempting to mitigate the impacts of the crisis. The plans and attempts should include dedicated, combined and well coordinated efforts of governments, the private sector at large, individuals, knowledge institutions and think tanks, civil society organizations (CSOs) and development partners. Each of these has to play its appropriate roles.

Among other things, knowledge institutions and intellectuals in them should provide knowledge and awareness of the crisis to the general public and give intellectual leadership in finding ways to minimize the impacts of the turmoil. Dedicated and very serious national conferences, seminars, roundtables, debates and even a task forces/working groups on how the continent, sub-regions and countries in them can react to the crisis and most importantly prevent a similar one in future are crucial sooner than later. In fact, such interventions are long overdue as the continent, sun-regions and countries in Africa should have acted proactively rather than reactively as is the case now. But better late than never!

Staying constantly alert, vigilant and involved in all new and unfolding developments and possible solutions out of the crisis at international level is very important. Among such developments include the 15th November 2008 Washing summit of the Group of 20 (G-20). The summit aimed at promoting dialogue between advanced and emerging countries on key issues regarding economic growth and stability of the financial system. Another similar development is the four-day November to December 2008 United Nations (UN) conference in Doha on the global responses to the global crisis. The conference planed a globally coordinated response to the crisis to ensure the well-being of millions worldwide, especially the poor including those in Africa. It also focused on ensuring sufficient financing to meet key development goals amid mounting concern about the impact of the current global economic slowdown on poor nations, African ones included.

The UN meeting among other things recognized the need for a truly global stimulus plan that meets the needs of emerging economies and developing countries. This includes protecting the poorest, and not reneging on commitments regarding ODA, which remains a crucial part of development finance for many countries. It also included ensuring resources to help countries meet the eight Millennium Development Goals (MDGs).

The World Bank has correctly called on developed countries to boost aid to developing countries as one of strategies of global fight against the impacts of the crisis. They have been called upon to meet their previous commitments to debt relief and scaled-up aid.

What is clear from the causes, impacts and needed solutions to the crisis is that there is a need to confront the crisis squarely and decisively. To do so, it is extremely necessary to strengthen public administration and management systems across the globe in general and in Africa in particular.

6. CONCLUSIONS

The major focus of this work has been on the impacts of the current global financial and economic crisis on Africa in general. It is concluded in this work that the crisis is real and relevant for Africa contrary to prior held views. The continent has already felt the indirect impacts of the crisis in its economies in general.

What comes out clearly from the causes, impacts and needed solutions to the crisis is that there is a need to confront the crisis squarely and decisively. To do so inter alia, it is extremely necessary to strengthen public administration and management systems across the globe in general and in Africa and countries in them in particular.

7. POLICY IMPLICATIONS

There are several policy implications that emanate from the discussions made in this paper. These include but are not limited to the need of all stakeholders including various organizations at global, continental, sub-regional and country levels; governments; the donor community and other to strive to address the crisis including its many and far-reaching impacts. There is also a need to tape the various opportunities that emanate from the crisis including but not limited to undertaking fundamental reforms on the way most national economies are operated in general and in dependence on donors and export markets in particular.

There is also a need to be proactive instead of being reactive in addressing the crisis in general and its impacts in the African economies in particular. Among other things, there is a need to be vigilant as the crisis keeps on unfolding and taking measures to reduce its negative impacts. Among the measures at macro-level include expansionary fiscal and monetary policies and cooperation with the global community.

In the context of public administration in Africa and the roles of the same in addressing the crisis, its impacts and preventing a similar one in the future, it is extremely necessary for all countries to strengthen their public administration and management systems and institutions. This because it takes strong public administration and management systems and institutions to address the crisis and most importantly to prevent a similar one in the future. International, regional, sub-regional and country-level organizations and authorities need to facilitate the process of strengthening public administration and management in specific country as per requirements.

8. IMPLICATIONS FOR FURTHER RESEARCH

The crisis is still in its relevancy infancy stage of development. Its impacts are and will still continue to unfold as time passes. There is a need for more detailed, country specific and cross country field-based empirical studies on the crisis, its impacts, solutions and mechanisms to prevent a future one.

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