

RESPONSES BY AFRICAN GOVERNMENTS TO THE GLOBAL ECONOMIC AND FINANCIAL CRISIS AND LESSONS

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ABSTRACT

The paper focuses on the responses by African governments to the financial crisis and lessons. The authors blame the failure of the neo-liberal (*laissez faire*) policies of the multilateral institutions (World Bank and IMF) and excessive government regulation for the crisis. We also noted that the crisis is taking its toll on the African continent, as many countries continue to experience a decline in their exports and exports revenues, limited inflow of international capital and remittances, widening current account and budget deficits, and companies reporting huge losses and cutting jobs, to mention just few. Although the individual country has taken measures it deemed fit to reduce the impact of the crisis on its economy and people, a lot still has to be done. Thus, we propose, among other things: the government should regulate financial markets in order to prevent or check market failure; governments should employ fiscal stimulus that restores banks capacity to lend in order to enhance production and restore the waning confidence in the banking sector, as well as to invest in public works in order to create employment opportunities for their teeming population; monetary authorities should reduce the cash reserve and liquidity ratios in order to increase liquidity within the systems; the government officials and political office holders should avoid corrupt practices and embrace transparency and accountability in government transactions; African countries should increase trade among themselves and other developing countries in other parts of the world in order to increase trade volume and export revenue; Africa should play an important role in decision-making of the World Bank and IMF, since the decision taken by these institutions have lasting impact on their people; and the development and regional banks

should increase their investment in infrastructure in order to create an enabling environment and attract foreign investment to the continent.

Key Words: Global Economic and financial crisis, Africa Responses, and lessons learnt.

INTRODUCTION

The laissez faire doctrine of the classical school of thought has, once again, been brought under scrutiny as the world faces the worst economic and financial crisis in decades. The crisis has led to the near-collapse of major financial institutions and firms across the globe, including the AIG, Fannie Mae, Freddie Mac, and automobile giants (General Motors) that are now benefiting from the American government's bail-out. For instance, recently, the AIG benefited a bail-out to the tune of US \$152 billion. As the global demand and production continue to fall, the world leading companies are reporting huge losses. Coupled with these, are rising unemployment rates, low savings rates, and falling standard of living expectations of the people. Even though, initially, some countries, like Nigeria, claimed that its financial sector was insulated from the crisis, it is now evident that it was just a matter of time as the Nigerian government, through the Central Bank, recently announced a bail-out of N420 billion to save five commercial banks with huge debt and non-performing loans. In addition, the former managements of the respective banks have been sacked, while new ones have been put in place. The Nigerian textile industry is one industry people had called on the government to bail-out as it has witnessed a near collapse and plays a sensitive role to large employment of rural populace. Earlier on, South Africa, the largest economy in African, had been engulfed by the crisis, while Ghana had also obtained some loans to reduce the negative impact of the crisis on its economy.

The global economic slowdown has contributed to lower demand, which resulted in falling prices of South Africa exports. In the midst of the crisis, the monetary authority employed a restrictive monetary policy that further raised the lending rate, thereby reducing private consumption and investment. The South African economic downturn has spread to other countries, such as Lesotho, Namibia, Swaziland, and Botswana, in the region. Elsewhere, countries like Burkina Faso, Mali, and Guinea experienced good harvest, which has helped them to reduce the impact of the crisis on their economies.

When discussing the cause of the crisis, some economists/analysts point to market failure as a major cause of the crisis, others argued that the interference by the monetary authorities and governments in the developed countries, especially in the United States, is to be blamed for the current economic and financial crisis. For instance, Oluba (2008) pointed out that inadequate, or loose, monetary policy is responsible for previous and present global economic and financial crises. He argued that since financial institutions, particularly banks, have the assurance that the central bank would always make cheap funds available to ensure liquidity in the system and prevent them from collapsing, they do resort to reckless spending and embark on high risk investments without making provision for an efficient and effective risks management mechanism.

On the other hand, in an attempt to prevent the 'so-called' market failure, government regulation sometimes hinders the proper working of the market. The advocates of the free market system argued among others that the market guarantees efficiency in resource allocation, increases productivity, and facilitates the attainment of high standard of living of the citizens of a country. They argued further that the government interference in the market impedes the achievement of the benefits mentioned above.

Reacting to the current economic and financial crisis, Dembele (2009) opined that it is the failure of the neo-liberal policies and lack of self-correcting mechanism in most markets that led to the recent crisis that is taking its tolls on the African continent. The author stressed further that, while international institutions, like the International Monetary Fund (IMF) and World Bank, advise African governments, through the introduction of SAP, to reduce: expenditure and subsidies, privatize state owned enterprises, and employ policies of trade liberalization, among others, they supported authorities in United States and Europe to employ expansionary fiscal policy (stimulus) and other assistance to help develop their economies and raise the standard of living of their people. For example, in 2007, these institutions voted US\$4 trillion to assist in reducing the problems of the financial crisis in European countries and the United States. Dembele advised that African governments should reverse the policies of privatization and trade policies, and that the state (government) should assume its role in facilitating economic growth and development.

In his paper titled "Global Financial Crisis: Nature, Origin and Lessons for Nigeria's Monetary Policy", Oluba (2008) stressed that the great depression of 1930s, the United States stock market crash of 1987,

the Japanese asset bubble, which later collapsed, and the Asian financial crisis of 1997, all have their root in unnecessary government interference and cheap/loose monetary policy. For instance, Oluba pointed out that the restrictive monetary policy, employed by the United States Federal Reserve to check the excess liquidity in the system in the face of a stock market boom, led to the slowdown of economic activity and a reversal of the stock market boom at that time, thereby leading to recession. Examining the stock market crash of 1987, Oluba, again, blamed United States cheap monetary policy in the early 1980s. The increased liquidity in the system, consequently, raised the rates of inflation and interest. The higher interest rate soon facilitated the stock market crash.

The current economic and financial crisis cannot be isolated from the reckless policies of the United States government and the Federal Reserve that assured all financial institutions and banks that they would not allow them to fail. Following the announcement, banks and mortgage institutions began to finance high risks investments which, ordinarily, they would not have done. The step taken by banks was not surprising since they were promised a lifeline should they find themselves in liquidity problems. The availability of cheap money only raises the demand and consumption of imports, while production and real savings declined, continuously (Oluba, 2008). Besides, the demand for housing sky-rocketed as those who could not have afforded a house of their own applied for mortgage loans (the case of the US subprime loans). This led to a boom in the housing and real estate sectors of the economy. The boom attracted investment/finance firms who bought shares and securities of these mortgage operators. Given this, the prices of these securities soared and the stock market boom continued. However, borrowers and those who collected mortgage loans defaulted and banks began to experience high illiquidity.

Besides, some banks could no longer meet depositors' demand, as many queue for hours and days. Perceiving dangers, depositors embarked on massive withdrawals, which further increased the liquidity problem within the system. This soon spilled to other sectors, and financial institutions and banks, as well as automobile giants, began to declare huge losses. The crisis spread to other regions, including developed countries in Europe and emerging economies, as well as developing countries, including Africa.

In summary, where monetary policy makes cheap funds available, it raises the rates of inflation and interest, thus promoting and encouraging consumption rather than production. This, among other things,

reduces productivity and employment level, as well as profitability. In order to check the slowdown in the economy, appropriate policies have to be employed. However, experience has shown that, employment of inappropriate monetary and/or fiscal policies to correct and improve the workings of the market would further aggravate economic and financial crisis, and ultimately lead to recession or depression.

This paper is motivated by the need to draw lessons on the responses by some African countries to the global financial and economic crisis that hit the world in 2008. The paper is, therefore, divided into five sections. The sections following are section 2, which covers the projected effects of the economic and financial crisis on the African continent. Section 3, covers the responses, while section 4 contains the lessons learnt and section 5 is looking forward.

THE EFFECTS OF THE ECONOMIC AND FINANCIAL CRISIS

As stated earlier, the economic and financial crisis has reduced world output and demand, and has brought far-reaching severe consequences on the African continent. For instance, the demands for African exports and commodity prices have been falling, while remittances continue to decline. Moreover, foreign investors are becoming risk averse as they are reluctant to invest in Africa and they continue to withdraw their investment, especially in the equity markets. In addition, the increased credit risks and non-performing (loans) assets have led to the weakening of some financial institutions and/or banks. The impact of the crisis is reflected in the economic performance of African economies. For instance, the IMF (2009a) projected that a 1 percentage decline in world growth (trade-weighted by partner countries) causes the growth of GDP to fall by 0.5 percent. The fund also revealed that Sub-Saharan African (SSA) economic growth has declined from about 7.0 percent in 2007 to less than 5.5 percent in 2008. Even though, the African Development Bank (AfDB) (2009b) initially projected Africa's economic growth to be 2.8 percent, it has revised it downward to 2.3 percent. Thus, it is expected that income per capita will reduce in some African countries in 2009.

In terms of exports, AfDB (2009b) projected that the continent's exports revenues will fall by more than \$250 billion in 2009. For major oil producers and exporters, like Nigeria and Angola, it is projected that they will have a combined shortfall in exports revenue to the tune of \$76.8 billion in 2009. Zambia and Democratic Republic of Congo (DRC) was projected to have a combined loss of \$6 billion in exports

revenue. Uganda's export receipts are expected to decline by 34 percent in March 2009 to \$23.9 million from \$36.3 million in 2008. For Nigeria, oil revenue is expected to fall by 34 percent in 2009 compared to 2007 as a result of about 40 percent reduction in OPEC production quota and militancy in the Niger Delta, and 31 percent decline in oil price.

Since economic crisis shrinks the volume of trade, it is expected to have a negative impact on Africa's trade taxes, as the AfDB has projected. For example, in 2009, the continent is expected to lose \$15 billion in trade taxes. This represents the 1 percent of GDP and the 4.6 percent of government revenue, respectively. Unfortunately, oil exporters will be hit hard as both Algeria and Nigeria are expected to have a combined loss of \$4.6 billion in trade tax receipts. Moreover, the group of oil exporters will have a sharp drop in taxes to the tune of \$8.2 billion compared to \$6.8 billion for non-oil exporters.

In the same manner, the financial crisis will have its toll on the flows of international (private) capital to the African continent. Also, because of the lack of confidence in foreign investors in Africa, many markets will contribute, to a large extent, the decline in international capital to the continent. Although the AfDB projected a reduction in private capital in 2009, it is, however, expected to improve in 2010 when the world economy would have gradually moved out of recession (recovery phase). The impact of the crisis on remittances is expected to be less on Sub-Saharan African and North African countries, as it account for a very small fraction of incomes of the two regions. Unfortunately, there appears to be imbalance in the flows of international capital among the various countries in Africa. For example, the AfDB (2009b) reported that only the top 10 countries account for 46 percent of Foreign Direct Investment (FDI), 32 percent of Overseas Development Assistance (ODA), and 34 percent of remittances. The Bank also reported that North African accounts for the largest percentage of remittances, while middle-income and natural resource-rich countries enjoy the highest percentage of FDI.

In some countries, remittances have been shown to contribute meaningfully to the GDP, as it accounts for over 20 percent of GDP of Comoros and Lesotho. However, remittances account for 5 percent of GDP for Nigeria. Overall, remittances accounts for more than 2 percent of the GDP of Sub-Saharan Africa and more than 4 percent of the GDP of North African countries (IMF, 2009a). In a simulation

analysis conducted by the IMF (2009a), it projected an additional 20 percent reduction in foreign direct investment, private transfers, and external grants.

Furthermore, the reduction in trade and commodity prices would have a lasting impact on African countries foreign exchange receipts, as well as foreign exchange reserves. For instance, the foreign exchange reserve of Nigeria has declined from over \$62 billion in 2008 to less than \$45 billion in the first half of 2009. The decline in foreign exchange reserves comes with adverse effect because it reduces the import capacity of the countries concerned, since they will be unable to acquire essential inputs, raw materials, and capital goods needed for expansion of production, employment creation, and accelerating economic growth.

Apart from these problems, Africa faces severe macroeconomic instability, with current account and budget deficits worsening over time. The AfDB (2009b) projected the continent's budget deficits to be 5.4 percent of GDP as compared to 2.8 percent budget surplus of GDP in 2008. In the same fashion, the current account balance is expected to deteriorate from 2.7 percent of GDP in 2008 to a deficit of 4.3 percent and 5.3 percent of GDP for February and May forecast, respectively. In a separate study, IMF (2009a) projected that about 30 percent of Sub-Saharan African countries would experience a decline in overall balance of payments by more than 4 percent of GDP. These tend to limit the capacity of governments to execute their development projects or programs.

MEASURES TAKEN SO FAR BY SOME AFRICAN COUNTRIES TO REDUCE THE IMPACT OF THE GLOBAL FINANCIAL CRISIS

In March 21, 2009, the committee of African Finance Ministers and Central Bank Governors that was established to monitor the crisis came up with its report on the impact of the financial crisis on African economies, as well as measures taken by some countries to reduce the impact of the crisis. Some of the measures employed so far, country-by-country, to mitigate the impact of the crisis on individual economy and its people are highlighted below.

Botswana

The Central Bank of Botswana cuts its interest rate by 50 basis points to 15 percent in December 2008. Given the uncertainty about the foreign exchange reserves to reduce the impact of the crisis on the

economy, the government has made provisions for borrowing when the need arise. Moreover, government recurrent expenditure on items, like personnel emoluments and cost of travel, and expenditure on development projects have been reduced. The Botswana government is tired in designing and implementing any stimulus package because of the uncertainty in the sales of diamonds. Since late 2008, diamond sales have dropped significantly, limiting the capacity of Botswana government to implement any stimulus package. Diamond exports represent two-third of Botswana exports and 40% of government revenues

Cape Verde

The government of Cape Verde has ordered careful management of the interest rates and the budget in order to ameliorate the impact of the crisis on the economy.

Egypt

Egypt has been hurt by the decline in tourism earnings, Suez Canal revenues, and foreign investment. To cushion the effect of the downturn, the Egyptian government planned a stimulus packaged of \$2.7 billion in the 2008/09 budget and had doubled it to \$5.4 billion (which is the same as 30 billion Egyptian pounds). The new spending will be on new infrastructure. In Egypt, the ministry of trade and industry is to promote exports and enhance domestic production with the injection of 7 billion Egyptian pounds. The tourism sector is also being encouraged, among other things, via tax-exemptions on charter flights and free nights in hotels. In order to boost the confidence of depositors, authorities have created the Deposit Insurance Fund. In addition, the parliament has approved integrated supervision of non-bank financial institutions, like capital market, insurance, mortgage, and so on. The central bank has also reduced the overnight deposit rate by 100 basis points to 10.5 percent, while the lending rate has been cut down to 12.5 percent.

Kenya

The Central Bank of Kenya has reduced the threshold for investments in treasury bills (TBs) in the primary market, from 1 million Kenyan shillings to 0.1 million Kenyan shillings, in order to encourage small investors from January 2009. Moreover, the government has issued infrastructure bond to the tune of Kshs18.5billion with a 12 year maturity in early 2009.

Mauritius

In order to mitigate the negative consequences of the global economic crisis, some 200 specific and targeted measures have been announced to achieve the short term priorities of protecting employment and maintaining livelihoods, while keeping a longer term perspective by improving the capacity of the economy to take advantage of the economic rebound when it comes. In May 2008, in anticipation of the consequence of the crisis that was just crippling in, the government used the greater fiscal space from past reforms to set up funds including the MID Fund, Food Security Fund, Human Resources, Knowledge and Arts Development Fund, Local Infrastructure Fund, Social Housing Development Fund, and The Manufacturing Adjustment and SME Development Fund, amounting to Rs 6 billion. In total, the government of Mauritius is to provide a stimulus package worth 10.4 billion rupees (3 percent of the GDP) in order to foster economic growth, create more jobs, as well as enhance the purchasing power of its citizens.

Mauritian Government Interventions could be highlighted as follows:

- Expansionary Budget (May 2009)
 - Creation of 6 funds to the tune of Rs 6 billion
 - Setting up of a contingency fund of Rs 1.8 billion
 - Payment in full of the PRB recommendations costing Rs 5.2 billion
- Additional Stimulus Package of Rs 10.4 billion (December 2008)
 - Bringing forward and increasing public expenditure on infrastructure
 - Supporting enterprises by helping them to re-engineer, providing access to finance, and facilitating debt restructuring
 - Tax concessions to Hotels, Construction, and Freeport operators
 - Removing bottlenecks to accelerate private investment projects and attract foreign investment
 - Increasing training and re-skilling of retrenched workers
- Budget 2009 (May 2009)
 - Planned injection of Rs 14.2 billion over the next 18 months
 - Creation of a Saving Jobs and Recovery Fund to support and modernize SMEs and large enterprises

- Massive investment in infrastructure and boosting up of project realization capacity
- Social measures targeting the poor and vulnerable
- Cost cutting exercise in government
- Flexible Monetary Policy
 - Coordination with the bank of Mauritius to lower interest rate and increase liquidity.

Morocco

In Morocco, the government has given firms the permission to buy-back their own shares, should their price fall below a certain level. Besides, insurance firms can hold up to 60 percent of their listed shares in order to cover their liabilities, as compared to the previous 50 percent.

Nigeria

The Nigerian government is to use the 2009 budget and the country's foreign exchange reserves, which now stands at less than US \$50 billion, as stimulus package to reduce the impact of the crisis and to promote economic growth. The federal and state governments are expected to borrow N1.6 trillion (stimulus) to meet their expenditure for the 2009 fiscal year. In addition, in January 2009, the government established a presidential committee to develop a framework in response to the impact of the financial and economic crisis. In February 2009, the government proposed an injection of about 70 billion naira into the textile industry to revive ailing companies (the amount has been raised to N100 billion and disbursement started December 2009).

Moreover, Soludo (2009) reported that, in response to the global financial crisis, the monetary authorities have adopted various measures for proper supervision and regulation, as well as ensure soundness of the financial, and banking, system. For instance, in an attempt to manage liquidity within the economy, the Central Bank of Nigeria (CBN) reduced the MPR from 10.25% to 9.75% to 8.0% (below inflation rate), CRR from 4.0% to 2.0% to 1.0%, and the liquidity ratio from 40.0% to 30.0% to 25.0%. The CBN also expanded the discount window, which allows banks to borrow for up to 360 days at an interest rate not exceeding 500 basis points above the MPR. It also suspended the aggressive mop-up of liquidity since late 2008.

Under foreign exchange and exchange rate management, the CBN adopted an exchange rate adjustment that would help to preserve the country's foreign exchange reserves. To this end, it has moved from the Whole Sale Dutch Auction System (WDAS) to Retail Dutch Auction System (RDAS) and to checking the speculative demand for foreign exchange, as well as introducing a band of plus or minus 3% to ensure stability. Also, the CBN has embarked on the restructuring of the Bureaux de Change (BDC) operations by categorizing them into Classes 'A', 'B', and 'C'. In addition, cash foreign exchange would be sold only through bank operated BDC, including continuous revision and enlargement of transactions that are eligible under the RDAS window.

In order to properly regulate and supervise the banks, the CBN has deployed resident examiners to banks with effect from January 2009. There is also 'standby teams' of target examiners that may be deployed to any bank at any time to fish out those that do not observe the code of corporate governance, in order to punish culprits as appropriately. The CBN is rendering advisory service to banks on risk management. This includes extra conservation during the time of the crisis, capital conservation, cost minimization, de-emphasis on size, salaries and/or bonuses, to mention just few. Furthermore, the CBN is also strengthening institutional coordination through the Financial Sector Regulatory Coordinating Committee (FSRCC). The CBN has continued to emphasize the use of e-FASS as a tool for banks' returns analysis for speedy identification of early warning signals. Henceforth, 'Consolidated teams', rather than the current fragmented one, are to examine and supervise the financial sector in 2009. A common accounting year end has been adopted for all banks with effect from end of December 2009. The objective here is to improve data integrity and comparability of the status and soundness of every bank, as well as the adoption of International Financial Reporting Standards (IFRS). Finally, the CBN will continue to review the BOFIA in order to strengthen regulatory capacity.

In an attempt to reduce the pressure on inter-bank rates, the CBN reduced the Expanded Discount Window (EDW) rate to a maximum of 500 basis points above MPR beginning March 16, 2009. This measure is expected to help reduce the problems of banks facing temporary liquidity crisis. Moreover, the bankers' committee has pegged the maximum deposit and lending rates at 15% and 22%, respectively, effective April 1 2009 until the end of 2009, in order to promote the growth of real sectors of the economy. In the area of confidence building, CBN has repeatedly emphasized that the government and the monetary authorities will ensure that all banks remain sound and no bank would be

allowed to fail. In fact, between August and October 2009, the CBN has disbursed over N620 billion to banks facing liquidity problems.

South Africa

In South Africa, the government has prepared a stimulus package of R690 billion to be injected into public investment (or projects) over the next three years in order to encourage and sustain public sector employment programs. In addition, the government is to support the financing of industries, as well as give incentives in order to bring back to life distressed companies. Moreover, the government is set to sustain and expand the public sector social expenditure. In an effort to reduce the impact of the crisis, particularly on the middle and lower income earners, the government has given a tax relief of R13.6 billion. On its part, the Federal Reserve Bank of South Africa has cut the interest rate (i.e. the repurchase rate) by 100 basis points to 10.5 percent.

Sudan

In Sudan, the regional government has announced a 10 percent salary reduction for senior government officials. It also attempts to reduce the burden of housing the country's officials in hotels.

Tunisia

The Tunisian government has created a commission to monitor the impact of crisis. In addition, the 2009 budget makes provisions for expansion of public investment, promotion of external competitiveness, as well as creation of employment. Coupled with these is the reduction in money market rate from 5.2 percent in December 2008, to 4.65 percent in January 2009. Lastly, the key interest rate has been cut down from 5.25 percent to 4.50 percent in February 2009.

LESSONS LEARNT

- Contrary to the initial claim that Africa economies are less integrated to the world economy, it is now glaring that the continent is not insulated from developments in the world economies as a result of globalization
- The need for friendlier and less risky business/investment environment. This is because at the wake of the crisis capital was moving away from risky environment to less risky environment

- It was observed that most countries (except Mauritius) did not act very fast to track the impacts of the crisis on their economies. There was limited capacity (fiscal space) for most African economies to implement the pronounced stimulus packages. Government revenues from commodity exports were falling rapidly, especially for the oil and mineral exporting countries
- And in some cases, there were institutional rigidities that prevented the stimulus packages to be implemented quickly. For example, in Nigeria there were legal issues that need to be taken care of to enable the stimulus packages to be implemented

Looking Forward

Given the adverse effects of the global economic and financial crisis, African governments and policy makers need to respond quickly in order to reduce the impact of the crisis on the continent. Thus, we suggest the following measures:

- Since African financial markets are becoming increasingly integrated with world financial markets, there is need for serious oversight and control of the ‘too small to survive’ institutions. Most of these small institutions employ a large portion of the labor force in the developing countries, especially in Africa. African governments should regulate financial markets in order to prevent or check failure associated with the market. Recent experience shows that some correction mechanisms associated with market and the neo-liberal policies (no government intervention) of leading world international institutions, like the International Monetary Fund and World Bank, do not serve the best interest of African people. To this end, various governments should revisit their privatization policies as it relates to some strategic state-owned enterprises. In addition, governments should employ fiscal stimulus that restores banks capacity to lend in order to enhance production, increase employment opportunity, and foster economic growth. Moreover, monetary authorities should employ policies that would restore the proper functioning of the financial markets (systems) in order to restore the waning confidence in the markets. Also, monetary authorities should reduce the cash reserve and liquidity ratios in order to increase liquidity within the systems. This will assist in raising consumption and production. In addition, the adoption of a flexible exchange rate will help African countries to absorb external shocks, thereby reducing the adverse effects of the crisis on their economies. Even though we advocate for government intervention, there should be a timeframe and an exit plan for this. This is very

important because, as mentioned earlier, excessive government interference in the market often distorts and/or hinders the proper workings of the market in terms of efficiency of resource allocation and productivity, which, in turn, may lead to another round of crisis.

- There is need for African governments to create an enabling environment where businesses can thrive. This should include, among others: reducing costs of doing business (via improvement and increased provision of infrastructures, like transport, school, hospital, power, information and communication technology, etc.), as well as those factors that impede the profitability of firms. Prior to selection of a project, a careful cost-benefit analysis should be conducted in order to ensure prudent use of declining government's resources. It is also important that public investment is done in a manner that it does not distort or crowd out private (sector) investment. In addition, government officials and political office holders should embrace transparency and accountability in government transactions, as these tend to have lasting impact on private investment. This will help to promote and encourage the inflow of foreign investment to African countries, where the confidence of foreign investors is being eroded away.
- Since trade between Africa and developed countries has declined substantially, African countries should increase trade among themselves, and developing countries in other parts of the world. Trade, in merchandise, has been shown to have increased tremendously between developing economies in the last couple of years, accounting for about 1/5 of total world trade (Neil Balchin, 2009). Thus, trade policies that would facilitate and expand trade between African countries and other developing countries should be encouraged. It is also important that African countries do not embark on aggressive policy of trade protection because it may compel others to retaliate, the consequences of which may not augur well for the continent. To this end, African countries should further open their economies, carefully, in order to reap the benefit of trade, but should take advantage of the special safeguard mechanism under discussion in the Doha Round to make these measures benefit Africans more. It has been reported by OECD (2009) that a 10 percent increase in trade leads to 4 percent increase in per capita income. Moreover, further tariffs liberalization of agricultural and industrial goods may raise world's welfare by \$200 billion. Couple with this, African governments should persuade leaders of developed countries and emerging markets not to increase trade protection further, since foreign demand for the

continent's exports has reduced sharply. In addition, African economies should employ strategies to diversify their production and export base. In fact, they should focus not only on export of primary products, but also on manufactured goods and services because this will help in preventing their economies and people from adverse effects of commodity price volatility and future economic crisis. Also, major exporters of minerals, such as oil or diamonds, like Nigeria, Angola, and South Africa, among others, should manage, properly, their export revenues during the boom in the form of investing in infrastructural development and building up reserves, which they can fall back during depression or downturn.

- Given that there is little prospect for more foreign investment to the continent, regional development banks and the African Development Bank should increase their funding of productive (real) sectors of the economies. In addition, the bank should invest in infrastructural development, like transport, energy, power, communications, schools, and so on. Country members should be made to increase their contribution in order to raise the capital base of both regional and development banks. This will help to increase the funding and financing of strategic and important sectors of the economies, as well as reduce their exposure to bail-out during the recession. Moreover, these banks and various governments should promote and increase funding of small and medium enterprises, as they have been recognized as major employers of labor across the globe.
- The time has come for Africa to play an important role in the decision making and actions of international institutions, like the International Monetary Fund, World Trade Organization, and the World Bank, since decisions made by these bodies usually have lasting effects on the wellbeing of the African people. It is high time the African continent to determine its own destiny and be cautious while accepting and implementing policies of the Bretton woods institutions, since the policies, sometimes, undermine the growth and development of these economies.
- For those countries with huge foreign exchange reserves and are facing limited inflow of international capital, they can draw on their reserves to finance public works or projects that would lead to employment creation and accelerate economic growth. In addition, various

governments should employ fiscal policy of tax reduction and increased expenditure in order to raise both consumption and production. For example, cutting income taxes and raising government expenditure in social or public works would help to insure, and probably increase, the consumption of poor households as well cushion the negative effects of the economic meltdown. These measures would lead to more employment creations as well as facilitate economic growth.

- African governments should employ appropriate labor market policies that would encourage and raise human capital development through training and education of workers. These would, in turn, increase labor productivity and enhance their chances of getting employment as African economies recover from the crisis. Similarly, various governments should provide safety nets for highly vulnerable groups, such as low income earners and the unemployed, in order to ameliorate the impact of the economic crisis. Moreover, since the experience of economic crises tends to last longer in the mind of disadvantaged youth and unemployed people, African governments should continue to invest in a wide range of education and training programs in order to increase opportunities for these groups in finding jobs in the labor markets.
- Also, various governments should help to subsidize the wage bills of firms that experience temporary decline in demand for labor in order to raise the demand for labor in the short-term. Moreover, the impact of depression may reduce the ability of certain firms to recover, as well as increase their demand for labor, even as the labour market recovers from the economic slowdown. To this end, governments should assist such firms through granting of stimulus packages since this would go a long way in preventing them from cutting jobs and probably encourage them in increasing the employment of more workers.
- Finally, Africa countries should embrace the spirit of ‘be your brother’s keeper’, where countries with adequate resources can help those that have been hit hard. For instance, major oil exporters with huge reserves can buy the debt of smaller and/or poorer economies in order to help them raise funds to invest in public works and, ultimately, recover quickly from the crisis. In addition, governments’ efforts should be geared towards monetary stability, fiscal sustainability, and fiscal consolidation. To achieve this, various governments should broaden their tax base in order to increase their revenues and cushion the effects of any downturn or slowdown in the economy.

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