

Conclusions for the cooperation of African states with
the international financial institutions and the G 20 mechanism to match
the impact of the global financial crisis (GFC)

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Summary

There is a vast set of publications which reflect the impact of the global financial crisis (GFC) on the world economy, the developed countries and the BRIC. Only a very few papers deal with the impact of the GFC on the African states. Summarizing, it is observed that losses in economic growth and social welfare will be an immediate threat to the African states economic and social development. It is recommended to enlarge the flow of ODA and private investment capital. Reviewing the GFC discussion African States South of the Sahara is well advised to apply the mechanisms being prepared by the G8 and G20. It is described that the instruments being deliberated by the G20 is an appropriate means to reform the banking sector and to mitigate the impact of the financial shock on Africa South of the Sahara. An assessment however shows that although the mechanism may serve as a tool box it has to be recommended that additional actions are undertaken either by technical assistance and/ or by providing financial facilities and measures to stabilise the global economy and to liberalize the trade.

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1. Africa South of the Sahara: the banking sector and the banking policy and the global financial crisis (GFC)

1.1 The impact of the GFC on Africa South of the Sahara

A very few studies are directing our attention for the impact of GFC and subsequent actions in developing countries and especially in Africa South of the Sahara. Summarising it is argued that the economies in these states are severely hurt due to the impact of the GFC on trade flows. (trade shock) Since the GFC has reduced economic growth in the industrialised countries demand for commodities and other products being exported from Africa south of the Sahara has decreased and eroded the economic resources being required to generate investment, employment and social welfare. (Macias, Massa 2009, International Monetary Fund 2009b, Fosu, Naudé 2009, p. 5)

The main literature on the GFC focuses on the impact in developed countries and in those developing countries which are summarised as advanced or rapidly growing economies as Brazil, Russia, China and India. It is widely argued there is a financial shock which is defined by Fosu and Naudé “as the availability of credit declined (the credit crunch) and the cost of international credit increased...” (Fosu and Naudé 2009, p. 5)

1.2 The GFC and the financial sector in Africa South of the Sahara

The subsequent analysis refers exclusively with the financial shock and starts from the analysis of the banking sector and its conclusions when assessing the impact of the GFC and providing recommendations for further actions: “... African banks hardly ever take their loans and then turn them into other instruments, break them into mortgage securities and trade them ...it’s a simpler system and therefore it’s less prone to the particular kind of downfall that the American financial system has been facing.” (Cortez 1999, p. 202; Hanson 2008) It is assumed that these countries which complained in the past an inappropriate inflow of capital are protected in a “shelter” from the inflow of private capital flows from the worldwide financial markets due to the expectation of low returns which are explained among others by the economic limited size as well as by a financial sector being inadequate to participate in the

international financial flows. (International Monetary Fund 2009a, p. 9) Additionally, studies underline that there is an interrelationship between the existing political and social structure, the weak economic performance and the exposure of the banking sector in Africa south of the Sahara. Various research findings stress that in Africa South of the Sahara the banking sector only in a very few countries provides a suitable cooperation potential to participate in the international financial markets due among others to weak supervision and regulation, lack of professionals, inadequate expertise to screen and monitor borrowing, poor loan documentation, poor internal controls and insider lending. (Brinkman 1999, p.222) Also, it is observed that “politicians who were shareholders often received loans in return for deposits from parastatals or other favors.” Furthermore, political power structures enabled “to obtain bank licenses or prevent actions by regulators, reducing constraints to imprudent lending and worsening moral hazard problems.” Capital is not allocated in growth-enhancing manner as in South East Asia. Additionally, the macroeconomic policies being implemented in Africa South of the Sahara did not contribute to the generation of a well functioning financial industry. (Degefe 2009, p. 209)

Financial reforms as outlined in the design of IMF on macroeconomic policies of have gradually proceeded in some countries as in Ghana and Malawi whereas in other countries as in Nigeria there was no progress. Assessing the outcome of these efforts there are recommendations on the appropriate means to strengthen the financial industry. Degefe argues to pursue a strategy being adjusted to the needs of Africa South of the Sahara: “Vulnerability to external shocks, poverty, undeveloped technical capacity and a heavy external debt burden can be easily evoked when characterizing the region. It is precisely these characteristics that need to be faced and addressed in the course of developing a sufficiently robust economic policy. To this end, the current policies need to be revised and a more appropriate and robust strategy put in place. Two basic lessons to be learned from these countries are that there is a need for strong and visionary state and that the market must be assisted in the allocation of the limited resources in the region.” (Degefe 1999, p. 211)

Reviewing the actual situation it may be concluded that there are growth enhancing and poverty removing synergies, when these states foster banking reforms. It may mitigate the impact of GFC, and it is a means to enhance the efficiency of the financial industry. It is argued that the amount of official development assistance will not be enlarged due to the GFC impact on the economy in the industrialised economies and that trade flows will be enlarged

step by step as the economic recovery in the industrialised states slowly proceeds. The price of private capital due to the recapitalization needs of the financial industry in the North as well as in the advanced developing countries will be higher than before the GFC. Observations in the industrialised countries underline that there is danger of a credit crunch which is a barrier to generate a steady upswing of the non-banking sector (Deutsche Bundesbank 2009a, pp. 22, European Central Bank Eurosystem 2009)

1.3 The reforms of the financial industry in Africa South of the Sahara and the GFC

Resuming the assessment of the impact of the GFC on African States South of the Sahara Fosu and Naudé define a set of policies which includes specific measures directed to the financial industry these states to cope with the still ongoing GFC. Propositions include: “
Monitoring the impact of the crisis in a timely fashion;
Restoring confidence in banks, while continuing to monitor and to regulate banks;
Expanding trade (...) and avoiding creeping protectionism;
Expanding trade finance.” (Fosu and Naudé 2009, p. 9)

Nissanke adds further proposals when reviewing the outcome of the financial reforms: these recommendations imply that a successful reform should include a liberalization coupled with an appropriate supervision and regulation of the banking sector. Additionally a high degree of financial discipline, low inflation and macroeconomic stability is an indispensable input to reforms. (Nissanke, pp. 161). Furthermore, it is proposed to enlarge the flow of financial resources to Africa South of the Sahara by the international financial institutions which may compensate losses from reduced trade flows. A global trade liberalization is requested which enables Africa south of the Sahara to improve access to markets in developed countries. Strong efforts of these countries should strengthen the absorptive capacity for commodities and other supplies from Africa south of the Sahara.

2. Core elements of the strategy of the G 20 mechanism relating to GFC

Summarizing, international financial institutions and G20 have agreed on a set of mechanisms to match the GFC which implies mainly:

Rules to reconstruct the capital basis of the banks; and

Instruments to enhance the risk management including the valuation of assets and to provide more transparency.

Furthermore, measures are recommended to foster the stability of the financial industry (macro prudential assessment) as well as to provide an appropriate macroeconomic environment to stabilize the financial industry. (Deutsche Bundesbank 2009b, pp. 70)

Finally, it is intended to enlarge the flow resources, mainly official development assistance, to Africa South of the Sahara as well as trade liberalisation and removing imbalances in the world economic system.

2.1 The enlargement of the capital basis of the banks as a countermeasure after the GFC

Referring to the capital basis of the banks the Pittsburgh Summit defines a comprehensive programme being elaborated and implemented up to the end of 2012. Rules are to be agreed upon which “improve both the quantity and quality of bank capital (...), discourage excessive lending...We welcome the key measures recently agreed by the oversight body of the Basel Committee to strengthen the supervision and regulation of the banking sector. We support the introduction of a leverage ratio as a supplementary measure to the Basel II risk-based framework ...To ensure comparability; the details of the leverage ratio will be harmonized internationally...” (Pittsburgh Summit 2009, paragraph 13). Similarly the G20 Finance Ministers and Central Bank Governors decided on the “Declaration on further steps to strengthen the financial system” in London: “Consistent and coordinated implementation of international standards, including Basel II, to prevent the emergence of new risks and regulatory arbitrage...” (Declaration on further steps to strengthen the financial system 2009, p. 19)

The body to formulate details for further policies to be adopted and implemented is the Financial Stability Forum. Regulatory rules were published in the Guidelines for Computing Capital for Incremental Risk in the Trading Book, which originated from Basel Committee on Banking Supervision and the International Organization of Securities Commission. The Financial Stability Forum also elaborated proposals which set out “capital requirements for re-securitisation and short-term liquidity facilities extended to asset-backed commercial paper (ABCP) conduits.” (Report of the Financial Stability Forum 2008, p.4.)

2.2 Adjusted risk management and improved surveillance of the risk assessment in the financial industry

As far as it refers to avoid a negative impact of lack of risk controlling and inadequate transparency the G 20 Declaration of the Summit on Financial Markets and the World Economy on November 15, 2008 released a comprehensive set of recommendations which should include actions by the member states inclusive the International Monetary Fund and an expanded Financial Stability Forum to strengthen transparency and accountability as well as on regulatory regimes. To quote an example: “guidance for the valuation of securities (...) to address weaknesses in accounting and disclosure standards for off-balance sheet vehicles.” It is recommended to set up a Financial Sector Assessment Program (FASP) report: “The appropriate bodies should review the differentiated nature regulation in the banking, securities, and insurance sectors and provide a report outlining the issue and making recommendations on needed improvements. A review of the scope of financial regulation, with a special emphasis on institutions, instruments, and markets that are currently unregulated, along with ensuring that all systematically-important institutions are appropriately regulated, should also be undertaken.” (Declaration of the Summit on Financial Markets and the World Economy 2008)

The Pittsburgh Summit underlined to improve the transparency of the over-the counter-derivatives (OTC) markets: “All standardized OTC derivative contracts should be traded on exchanges or electronic platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements. We ask the FSB (i.e. Financial Stability Board, K.W.M.) and its relevant members to assess regularly implementation and whether it is sufficient to improve the transparency in the derivatives markets, mitigate systemic risks and protect against abuse.” (Pittsburgh Summit 2009, paragraph 13) Also, the declaration states: “We call on our international accounting bodies to redouble their efforts to achieve a single set of high quality, global accounting standards within the context of the independent standard setting process, and complete their convergence project by June 2011.” (Pittsburgh Summit 2009, paragraph 14) The G20 Finance Ministers and Central Bank Governors have decided on similar proposals and stressed corporate governance reforms. (Declaration on further steps to strengthen the financial system 2009, p. 19)

The Financial Stability Forum announced in 2008 to develop standards for risk assessment according and adapting the Basel II Guidelines and stressed to elaborate an operational infrastructure which is intended to enhance the risk management of over-the-counter derivatives. “A proposed standard of the International Accounting Standards Board (IASB) expected by the year-end (which should be 2008, K.W.M.) will set forth enhancements to required risk disclosures about financial activities. The IASB will finalise in October guidance that will promote sound practices for valuation of financial instruments and related disclosures, emphasizing the need for greater judgment in valuations when markets are inactive. The guidance will converge with similar guidance issued by the US Securities and Exchange Commission (SEC) and the US Accounting Financial Standards Board (FASB) in September and October. ..By year-end, the IASB will propose revised standards for the consolidation of off-balance sheet entities and retained risk exposures.” (Report of the Financial Stability Forum 2008, p. 5)

Another means to avert risk-assessment based imbalances in the financing industry permits bonus payments restricted to the medium- and long-term profit within the banks. (Declaration on further steps to strengthen the financial system 2009, p. 19) It was proposed mainly: “(i) avoiding multi-year generated bonuses, (ii) requiring a significant portion of variable compensation to be deferred, tied to performance and subject to appropriate clawback and to be vested in the form of stock-like instruments,...(iii) ensuring that compensation for senior executives and other employees having a material impact on the firm’s risk exposure align with performance and risk; (iv) making firms compensation policies and structures transparent through disclosure requirements; (v) limiting variable compensation as a percentage of total net revenues when it is inconsistent with the maintenance of a sound capital base; and (vi) ensuring that compensation committees overseeing compensation policies are able to act independently. Supervisors should have the responsibility to review firms’ compensation policies and structures with institutional and systemic risk in mind, and if necessary to offset additional risks, apply corrective measures...” (Pittsburgh Summit 2009, paragraph 13)

2.3 International cooperation

The Central Banks and International Financial Institutions at various occasions have underlined the need to reinforce international cooperation, as it is formulated in the

Declaration of the Summit on Financial Markets in the World Economy. (Declaration of the Summit on Financial Markets and the World Economy 2008, paragraph 9) The G20 agreed to enhance international cooperation :”to establish the remaining supervisory colleges for significant cross-border firms by June 2009, building on the 28 already in place; to implement the FSF principles for cross border crisis management immediately, and that home authorities of each major financial institution should ensure that the group of authorities with a common interest in that financial institution meet at least annually; to support continued efforts by the IMF, FSB (Financial Stability Board, K.W.M.), World Bank, and the BCBS (Basel Committee on Banking Supervision, K.W.M) to develop an international framework for cross-border resolution arrangements; the importance of further work and international cooperation on the subject of exit strategies; that the IMF and FSB should together launch an Early Warning System at the 2009 Spring Meeting”. (Declaration on Strengthening the Financial System – London, 2 April 2009, p.2)

The G7 Finance Ministers and Central Bank Governors pledged at various meetings further international actions. It implies a plan “which will ensure a robust and comprehensive framework for global regulation and oversight.” (Declaration on further steps to strengthen the financial system 2009, p.19) Also, the border-crossing financial industry is called upon by the G7 to contribute by appropriate actions: “Systematically important financial firms should develop internationally-consistent firm-specific contingency and resolution plans. Our authorities (central banks and related national regulatory bodies) should establish crisis management groups for the major cross-border firms and a legal framework for crisis intervention as well as to improve information sharing in times of stress. We should develop resolution tools and frameworks for the effective resolution of financial groups to help mitigate the disruption of financial institution failures and reduce moral hazard in the future...” (Pittsburgh Summit 2009, paragraph 13)

2.4 Macro prudential surveillance of the financial industry

As a lesson of the GFC there is a request of central banks and international financial institutions to apply macro prudential surveillance of the financial industry. The scope of supervision focuses on the financial markets which additionally have to be regularly analysed in a complementary manner to the assessment of the economic situation of individual financial institutions. The target is to receive information in advance about bubbles in the

financial markets and to evaluate in time systemic risks originating from the financial markets in the non-banking sector. Central banks are recommended to pursue policies which are not only directed to price stability but also to the stability of the financial industry and to avoid systemic risks. Macro prudential policies have to be designed regarding the ongoing situation as well as the foreseeable development of the banking industry and the macroeconomic processes. (Sachverständigenrat 2009, pp. 140) The macro prudential approach implies studies of the size of the individual banks, of their market potential as compared with the overall markets, of individual banks in terms of being “too big to fail” and the structure of the portfolio in terms of “too many to fail”. (Papademos 2009, p. 11; Tumpel-Gugerell 2009, pp. 10) The IMF is called upon to contribute to macro prudential risk assessment:” The IMF, with its focus on surveillance, and the expanded FSF, with its focus on standard setting, should strengthen their collaboration, enhancing efforts to better integrate regulatory and supervisory responses into the macro-prudential policy framework and conduct early warning exercises. The IMF given the universal membership and core macro-financial expertise, should, in close coordination with the FSF and others, take a leading role in drawing lessons from the current crisis, consistent with its mandate.” ((Declaration of the Summit on Financial Markets and the World Economy 2008, p. 5)

2.5 Additional financial facilities to developing countries

The G 20 Declaration of the Summit on Financial Markets and the World Economy proposed in the initial meeting in Washington on November 15, 2008 a widely spread set of actions to be undertaken by the IMF and FSF as support in the surveillance. Regarding developing countries it is announced to provide additional financial facilities: “We should review the adequacy of the resources of the IMF, the World Bank Group and other multilateral development banks and stand ready to increase them where necessary. The IFIs should also continue to review and adapt their lending instruments to adequately meet their members needs and revise their lending role in the light of the ongoing financial crises. We should explore ways to restore emerging and developing countries access to credits and resume private capital flows which are critical for sustainable growth and development, including ongoing infrastructure investment. In cases where severe market disruptions have limited access to the necessary financing for counter-cyclical fiscal policies, multilateral development banks must ensure arrangements are in place to support, as needed, those countries with a good track record and sound policies.” (Declaration of the Summit on Financial Markets and

the World Economy 2008, p. 5) A similar proposal has been also decided at the Pittsburgh Summit which contains a separate part on the reform of the mandate, of the mission and of the governance of the IMF: “We have delivered on our promise to treble resources available to the IMF: We are contributing over \$ 500 billion to a renewed and expanded IMF New Arrangements to Borrow (NAB). The IMF has made Special Drawing Rights (SDR) allocations of \$ 283 billion in total, more than \$ 100 billion of which will supplement emerging market and developing countries’ existing reserve assets. Resources from the agreed sale of IMF gold, consistent with the IMF’s new income model, and funds from internal and other sources will more than double the Fund’s medium-term concessional lending capacity.” Additionally it is promised: “Our collective to the crisis has highlighted both the benefits of international cooperation and the need for a more legitimate and effective IMF. The Fund must play a critical role in promoting global financial stability and rebalancing growth. We welcome the reforms of IMF’s lending facilities, including the creation of the innovative Flexible Credit Line. The IMF should continue to strengthen its capacity to help its members cope with financial volatility, reducing the economic disruption from sudden swings in capital flows and the perceived need for excessive reserve accumulation. As recovery takes hold, we will work together to strengthen the Fund’s ability to provide even-handed, candid and independent surveillance of the risks facing the global economy and the international financial system. We ask the IMF to support our effort under the Framework for Strong, Sustainable and Balanced Growth through its surveillance of our countries’ policies frameworks and their collective implications for financial stability and the level and pattern of global growth.” (Pittsburgh Summit 2009, paragraphs 19 and 20) The IMF announced appropriate actions at various occasions.

2.6 Stabilisation of the global economic system and sound economic policies

Finally, it is intended to strengthen economic policy cooperation as for instance trade liberalisation and removing imbalances in the world economic system. The Managing Director of the International Monetary Fund has taken the opportunity to outline the role of the IMF in coping with the GFC from a future oriented perspective. He argued among others that the IMF should not only be perceived as a global financial regulator, but as agency to support the national and multilateral efforts of economic recovery. It is requested that main reserve issuers should be obliged to stabilise the global economic system by sound economic policies. The current international monetary system has to be stabilised by “durably anchoring

fiscal, monetary and financial regulatory policies of the main reserve issuers...the international monetary system...could be made even more resilient if countries appetite for self-insurance - and hence their demand for reserves – could be reduced. This demand, which is expected to rise further in the wake of the crisis, is at the heart of a recurring source of instability of the international monetary system...sound economic policies clearly can reduce the need for insurance over time as policy credibility is enhanced and confidence in currencies is strengthened. At the global level, we should seek ways to reduce the impact of volatile capital flows and hence their potential to disrupt financial systems. Third-party insurance should in theory be the most efficient alternative, but pricing uncertainties and significant counterparty risks have prevented the emergence of a market for this.”(Strauss-Kahn 2009, p. 10)

3. The assessment of the proposals of the recommendations of the international financial institutions and the G20 recommendations in African South of the Sahara

3.1 The basic assumptions of the G20 approach

When assessing the G20 and other related recommendations referring to the impact of GFC on African States South of the Sahara it has to be kept in mind that the guiding principle of the G20 focuses on measures which are designed to reinstall an efficient financial industry in developed countries and thereby to remove a wide-spread economic crisis due to imbalances in the credit supply of those countries. The G20 “philosophy” refers to the understanding of the specifics of financial markets and is geared to cope with market failures, moral hazard, and adverse selection strategies self-fulfilling prophecies. (Brinkman 2009, pp. 214) The approach of G20 may be perceived roughly as a policy which has to deal with the collateral impact of deregulation in the banking industry of developed countries which was implemented in recent years to enlarge the capital supply and thereby to provide resources for further growth. It has also to be kept in mind that there is complex and far reaching set of regulations still valid in developing countries. These rules are applied to generate transparency for the supervising agents and to adjust the monetary policy of the central banks. In a simplified manner it may be formulated that the G20 approach should be approved as a means to find a badly needed equilibrium which is defined by a correct proportion between possible distortions of additional bank regulation rules and the expected effects of a continuous liberalization of the finance industry in developed countries. Also, the request of a macro prudential bank regulation implies important and additional corrective actions of the

traditional macroeconomic policies and the monetary policies which may be designed in a way which should start at the ongoing operations of the central banks in the developed countries. The G20 approach also implies the availability of an effective and well-equipped banking industry and assumes that there are positive long-term spill-over effects of a stabilization of the financing industry in developed countries on the economic recovery of developing countries being inflicted by the GFC.

It has to be added that the above mentioned recommendations and proposals have not been yet implemented. In fact there is a wide-spread support within the financial industry and the government of the G20 member countries as well as central bank governors to apply the recommendations which however are not yet elaborated in a manner that the phase of implementation may start. Obviously, the GFC is a phenomenon which needs economic analysis which did not exist up to now, and actions to design the recommendations in detail are time-consuming. Additionally, it is fair to mention that although there is a basically worldwide consensus about the necessity of actions as decided upon, the on going efforts to finish the rules governments and the financial industry have not yet reached a consensus about the further procedure. Main objections arise from the expectation that the efficiency of banks and of the capital market may be reduced to lack of competition which may originate from a worldwide set of rules. Other voices claim that the costs of providing capital by the banks may enlarge fees when granting capital. Finally, it is argued that a set of rules has to be flexible to enable the financial industry to adjust their strategies to the rapidly changing credit markets. (Sachverständigenrat 2009/10, pp. 139)

Considering these caveats, it may be concluded that the financial industry in African States South of the Sahara is not well advised to pursue a policy as designed by the G20. It may be more appropriate to review carefully the further progress and then to adjust policies when necessary. A strategy of this kind may also be felt as more efficient since the results of the expected rules and procedures may be - having in mind that Africa South of the Sahara policies should be shaped by the rule that “one size does not fit for all” - shaped according to the formed referring to the then observable needs in the respective financial industry.

3.2 The G20 approach as a tool box for reforms of the banking industry in Africa South of the Sahara

However there are reasonable arguments to assume that Africa South of the Sahara should carefully review the further G20 decisions and rules to reform the banking sector. The G20 policy recommendations may serve as tool box to strengthen the financial sector in the respective countries and to set up mechanism of an efficient micro- and macro prudential surveillance which avoids distortion either due to lack of regulation or because of excessive control. The adjustment to the G20 approach may help developing countries banking sector to participate in the operations of the international markets and thereby to attract (private) capital. A well functioning financial industry should be perceived as an instrument to offer suitable conditions to capital owners in Africa South of the Sahara and to stop capital flight. In the course of the further globalisation of financial markets the application of the G20 proposals will minimise transaction costs of capital movements between the respective economies south of the Sahara and thereby enable the banks to enhance efficiency which is badly needed to foster the economic growth. In a wider sense, there may be positive spill-over effects when collecting savings and distributing credits in those sectors which up to now are the main field of services of micro credit programmes. Collaboration with the upgraded banking sector implies additional capital being channelled from the informal sector to the banks and in the opposite direction from the financial industry to the informal sector.

3.3 Additional actions

To make the G20 approach efficient in Africa South of the Sahara additional actions should be undertaken to provide and to enlarge the personal and infrastructural prerequisites. A study presented by ODI states: "In several areas, LICs are likely to need enhanced technical support...The Fund, along with its partners, may need to scale up the provision of technical assistance (TA) to help LICs to address the crisis and continuous moving ahead with broader public and financial sector reforms. Concerning the latter, the Fund could help implement best practices in crisis management, balance sheet risk management. (Hanson 2008, p. 2) There are some indications that the developing countries offer suitable prerequisites to perform such activities, as the ODI has recently observed: "The upcoming FSAPs (Financial Services Assessment Program, IMF, K.W.M.) in the LICs could focus on these areas. Several countries have set up crisis management committees and technical groups, which the Fund can support. TA plays also an important role for members faced with the need to strengthen public expenditure management systems, enhance domestic revenue, and improve debt management." (Macias, Massa 2009, p. 36)

Furthermore, the G20 approach assumes that the macroeconomic prerequisites fit to the policies which are needed to cope with the impact of GFC in Africa South of the Sahara. The analysis of the situation reveals that additional support is required. Mainly it is recommended to create a macroeconomic frame which supports banks to be established and which invites the financial industry to take their part in the overall economic development strategies. Additionally, the banking industry and the political governing structures have to be reorganised in a manner which strengthens the autonomy of the banks and which enforces the related industry to run its business independent from an umbrella provided by politics and government subsidies. The IMF has announced “to continue to provide extensive technical assistance to strengthen public sector capacity in Africa, because over the long term African countries need efficient and careful public management to ensure that their development priorities can be met.” (International Monetary Fund 2009b, p. 10)

Referring to the needed further actions as exemplified among others by Brinkman, the African Department of the International Monetary Fund, Fosu and Naudé the recommendations of the G20 are rather weak and very vague. (Fosu, Naudé 2009, p. 10; International Monetary Fund 2009b, pp. 7) The propositions neither refer to actions being undertaken in the developing nor to policies to be implemented by the developed countries. The reference of a few examples which may be quoted from Fosu and Naudé enables to justify this observation: Expansion of domestic demand in Africa South of the Sahara, expansion of self-employment and production diversification is not elaborated in detail. Furthermore there are no explicit hints to enhance political independence of the financial industry, reforms of public finances and the set up of good governance policies. Commitments of the developed countries in terms of trade liberalization, reduction of protectionism and debt cancellation are only pledged in very vague and in not obligatory pledges. Also, the necessity to proceed in a gradual step-by-step-manner is not stressed, as Brinkman requests. (Brinkman 2009, pp. 239) The G20 approach does not take into consideration measures which compensate the social costs of the proposed reforms. (Cortez 1999, p. 204)

Summarising one may argue as Defege and others when assessing the IMF approach in the current situation in Africa South of the Sahara as not being conducive to the generation of financial stability and economic growth in the course of GFC. (Defege 1999, pp. 210) Critics of the G20 mechanism are correct when requesting that more attention is given to a more

comprehensive approach which implies macroeconomic policies in developing countries and stronger commitments by the developed countries. As Fosu and Naudé recently wrote the up to now short-term view when coping with the GFC impact regarding the situation in Africa South of the Sahara has to be supplemented by a medium and long term policy which provides a mechanism strong enough to avert global financial crises and to strengthen the economic performance not only in developed, but also in developing countries and especially also in Africa South of the Sahara. (Fosu, Naudé 2009, pp. 14)

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